JOINT STOCK COMPANY LATVIJAS VALSTS MEŽI

(UNIFIED REGISTRATION NUMBER 40003466281)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2020

(21st financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ADOPTED IN THE EUROPEAN UNION

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2021

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General information

Name of the company	Latvijas valsts meži
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003466281 Riga, 28 October 1999 Re-registered with the Commercial Register on 1 November 2004
Registered office	Vaiņodes iela 1 Riga, Latvia, LV-1004
Full name and address of the shareholder	Ministry of Agriculture of the Republic of Latvia (100%) Republikas laukums 2 Riga, Latvia, LV-1981
Shareholder's representative	Ozols Arvīds
Responsible representative of the Ministry of Agriculture	Normunds Strūve
Board Members	Strīpnieks Roberts – Chairman of the Board, re-appointed on 06/05/2017 Bumbieris Gints, re-appointed on 06/05/2017 Melnis Arnis, re-appointed on 06/05/2017 Zakovics Edvīns, re-appointed on 06/05/2017 Jānis Lapiņš, appointed on 02/09/2019
Council Members	Jurģis Jansons – Chairman of the Council, appointed on 11/07/2016 Arnis Muižnieks – Deputy Chairman of the Council, appointed on 11/07/2016 Elmārs Švēde, appointed on 11/07/2016 Irina Pilvere, appointed on 11/07/2016 Mārtiņš Gaigals, appointed on 11/07/2016
Subsidiary	SIA Jaunmoku pils (100%) Tume pagasts, Tukums district, Latvia, LV-3139
Associate	SIA Meža un koksnes produktu pētniecības un attīstības institūts (40%) Dobeles iela 41, Jelgava, Latvia, LV-3001
Financial year	1 January – 31 December 2020
Auditors	Iveta Vimba Latvian Certified Auditor Certificate No 153 SIA Ernst & Young Baltic Muitas 1A, Riga Latvia, LV – 1010 License No 17

Management report

27 April 2021

Business profile

The operating aim of the joint stock company Latvijas valsts meži (Latvia's State Forests) (hereinafter also - LVM or the Company) is to implement the sustainable (cost effective, environmentally friendly and socially responsible) management of national strategic assets transferred to its possession, including national forest properties, and the development of any required infrastructure, services and knowledge.

The shareholder of LVM is the State represented by the Ministry of Agriculture of the Republic of Latvia. The Company's management bodies are the general shareholders' meeting, the Council and committees under the Council's authority, and the Board. The supreme decision-making body is the general shareholders' meeting that represents the shareholder, i. e., the Ministry of Agriculture of the Republic of Latvia. The Council consisting of five Council members was elected on 11 July 2016. The supreme executive body of LVM is the Board, which consists of the chairman of the Board and four Board members.

LVM manages and administers 1.62 million hectares of land of the Republic of Latvia, including 1.60 million hectares of forest land, of which 1.39 million hectares represent forests. LVM manages 17.8% of the total forest area and more than 21% of the total land area (forests, swamps, agricultural land, water bodies) following nature conservation objectives. Forest in nature protection areas covers 0.25 million hectares, where territories of only 0.18 million hectares are subject to bans on forestry and final felling, including clear felling, according to the existing Latvian legislation. The operating activity aimed at the production of high-quality wood and other products is planned for 1.14 million hectares of forest land, of which 0.22 million hectares are managed subject to additional conditions for environmental protection, recreation and environmental exploration.

Performance for the reporting year

	Budgeted EUR million	**Actual** EUR million
Revenue	**333.65**	**351.13**
from the sale of roundwood assortment	305.43	320.76
from the sale of standing trees	7.00	7.93
from the sale of forest tree seeds and seedlings	6.64	5.66
from the sale of chips	7.28	7.54
from the sale of mineral materials and their mixtures and the lease of non-forest land	4.87	5.45
from recreational and hunting services	1.04	0.98
from the lease of hunting rights	0.61	0.61
from business system solutions	0.32	0.50
other revenue*	0.47	1.71
Expense	**256.30**	**241.10**
Cost of sales	**198.61**	**187.66**
Forestry expense	179.44	171.92
Production of forest tree seeds and seedlings	8.58	5.69
Supply of recreational and hunting services	0.29	0.28
Management of underground natural resources	1.95	1.78
Real estate management	0.86	0.57
Land survey and border restoration	1.76	1.86
Preservation of tourist sites	1.78	1.85
Real estate tax	3.80	3.58
Administrative and centralized costs	**57.69**	**53.44**
Depreciation of forest infrastructure	**29.62**	**29.62**
Donations	**4.20**	**4.35**
Profit before corporate income tax	**43.54**	**76.07**

*The difference between revenue and expense which is not directly linked to the operating activity of the Company.

Management report (cont'd)

The profit before corporate income tax earned by LVM in 2020 was EUR 76.1 million, which exceeds the budgeted figure by EUR 32.5 million. The actual profit has largely been affected by revenue from the sale of timber, chiefly roundwood assortment: EUR 320.8 million in 2020, which is above the budgeted revenue by 5%, or EUR 15.3 million. The revenue target has been surpassed owing to both higher sales of roundwood assortment and higher selling prices of sawlogs. In 2020, 7.52 million cubic meters of timber were sold, including 7.23 million cubic meters of roundwood, thereby exceeding the budgeted sales by 2%.

Meanwhile, revenue from the sale of chips was EUR 1.6 million below the target, which is due to both a smaller average selling price and lower sales. The beginning of the reporting year saw unusually warm weather in Latvia, which drove down the demand for chips in heat production. In addition, chips originating from Belarus were available on the market at lower prices. Also, an agreement on the exportation of 60 thousand bulk cubic meters was not signed as expected in the last quarter of the reporting year.

Revenue for 2020 was also affected by penalties received (see Note 8).

In 2020, the joint stock company Latvijas valsts meži fully settled its liabilities towards the shareholder, i. e., the State, by making a payment of EUR 76.1 million (including a payment of EUR 60.9 million for the utilization of the State capital and corporate income tax of EUR 15.2 million) for the utilization of the State capital referred to in Article 34 of the 2020 State Budget Law and paying all taxes attributable to LVM's operations (EUR 20.2 million).

According to the basic principles approved by the Company's shareholder, LVM made donations of EUR 4.35 million in the reporting year. These donations included EUR 2.2 million for sports support, EUR 0.8 million for forestry development, EUR 0.75 million for cultural support and EUR 0.6 million for social projects.

Company's operations

	Unit of measurement	Planned	Actual
Sale of products			
Sale of roundwood assortment	million m^3	7.10	7.23
Sale of standing trees	million m^3	0.28	0.29
Sale of fuel chips	thousand Mwh	498	404
Sale of seedlings	million pieces	53.3	56.4
including container seedlings and seedlings with improved root system	*million pieces*	*50.4*	*53.5*
Sale of mineral materials and their mixtures	thousand m^3	474	520
including sale of certified mineral materials and their mixtures	*thousand m^3*	*466*	*493*
Land and forest management			
Forest regeneration (including plantations)	thousand ha	15.8	16.4
including natural regeneration	*thousand ha*	*5.5*	*5.6*
Forest (young stand) tending	thousand ha	31.0	31.4
Cleaning of drainage ditches from obstruction	thousand m^3	476.9	489.9
Land registration with the Land Registry	thousand ha	7.1	7.9
Cadastral land survey	thousand ha	7.1	8.6
Border restoration	thousand ha	21.0	17.4
Expansion of managed forest areas	ha	1200	500
Forest infrastructure development			
Construction of forest roads	km	348	352
Reconstruction of forest drainage systems	thousand ha	22.8	21.6

In 2020, forest was regenerated and established over an area of 10.7 thousand hectares using tree species and regeneration technologies referred to in LVM's strategic forestry plan, based on actually required volumes. Meanwhile, natural forest regeneration or afforestation was observed over an area of 5.6 thousand hectares.

Management report (cont'd)

In 2020, the land area of 8.6 thousand hectares, which is 120% of the target figure, was surveyed, while State-owned forest land of 7.9 thousand hectares representing 112% of the target area was registered with the Land Registry. This over-execution results from the hand-over of areas that remained outstanding in 2019 and extremely favorable weather conditions for survey activities, which enabled earlier completion of works planned for 2020, including also the surveying of taken-over and acquired land. A total of 1.61 million hectares, which forms 99.87% of the State-owned land managed by LVM, had been registered with the Land Registry by the end of 2020.

Investments made in land acquisition during 2020 to expand managed forest areas amounted to EUR 1.2 million. Sale agreements, by which 500.4 hectares were acquired, forming 42% of the initial target, were signed in 59 cases out of 595 offers received.

In 2020, forest roads with the total length of 352 km were put into service (1% above the target), of which 116 km were reconstructed and 237 km were new roads. In addition, four projects of 14 km have been constructed and put into service in 2021. These roads are reported on the Company's balance sheet, and the amount of EUR 34.5 million was invested in the construction. In 2020, forest drainage systems in an area covering 21.6 thousand hectares were reconstructed.

In 2020, sales of forest tree seedlings reached 56.4 million, of which 49% (27.8 million) were sold to external customers, including 13.1 million seedlings exported mainly to Sweden and, in small volumes, also to Estonia and Lithuania. 28.6 million seedlings were planted for ensuring forest regeneration in the areas managed by LVM. 53.5 million seedlings, which accounted for 95% of the total seedling amount (a record high figure), were grown according to innovative technologies (container seedlings and seedlings with improved root system). During 2020, great care was also taken to minimize the use of chemical plant protection products by nurseries, for which purpose the practice of coating seedlings with wax and a sand-glue mixture against weevil damage was developed and expanded. In 2020, 14.9 million seedlings underwent mechanized treatment, of which 7.7 million seedlings were exported.

During the year 2020, 18 PEFC™ and FSC® certification audits were conducted, including two audits of the timber supply chain. Audits were partly remote due to COVID-19 restrictions. Following epidemiological safety measures, auditors were able to see and evaluate all stages of the forest management cycle from soil preparation, forest regeneration and young stand tending to logging and forest road construction. In addition, the auditors examined social responsibility, environmental management, compliance with occupational safety requirements and other key aspects of standards. The timber supply chain audits dealt with conformity of LVM's timber supply chain with requirements of international standards, including various processes relating to the preparation and delivery of timber products, such as logging, logistics, sale, etc. The audits did not reveal any significant systemic deficiencies.

LVM's laboratory for the testing of mineral materials has 10 testing methods accredited. The laboratory conducted 4.2 thousand tests for nearly 2.7 thousand samples for internal production purposes. In 2020, 520 thousand cubic meters of mineral materials and their mixtures were sold, of which 95% were certified.

In autumn 2020, LVM's *Zemes dzīles* jointly with independent certification organization SIA Bureau Veritas Latvia conducted a re-certification audit in respect of the production control for mineral materials at 50 mining sites. The certificate of conformity of production control is valid for three years, and it confirms that the highest quality assessment principles and requirements set out in standards are observed in controlling the production of mineral materials and their mixtures at the audited mining sites.

The Company has a valid LVS EN ISO 9001:2015 quality management certificate for seedling production and sale.

Milestone public relations projects and events of LVM in 2020

A working group has been set up for managing the risk of Covid-19 spread, and it is monitoring the situation both in the country and at LVM, formulating recommendations for curbing the spread of the Covid-19 infection at LVM and informing employees about safety principles and restrictions to be observed.

During 2020, LVM's nature parks were visited by 175.6 thousand people, including 158.5 thousand visitors of LVM's Nature Park in Tērvete, which was one of the most popular and family-friendly nature tourism sites in Latvia in 2020. While foreign tourists accounted for 30% to 35% of visitors in previous years, their share was only 14% in 2020, which means that the park was visited by a record number of local people, namely 86% of all visitors. Two new parks for those preferring active leisure – Tērvete Tarzan Park and Tērvete Net Park – were opened at the end of May in the new part of LVM's Tērvete Nature Park, near the bike park *Kurbada zemē*.

The increasing number of visitors has exacerbated the problem of forest pollution. The total quantity of waste collected in forests reached 2 543 m^3, up 15% from 2019. A campaign *Piemēslot nav māksla* (*Dirty is not an art*) was organized together with the Latvian National Museum of Art to increase society's sensitivity to these environmental issues.

In 2020, projects to supplement fish stocks were implemented jointly with local municipalities: 30 thousand baby pikes were released into Lakes Kaņieris and Lielauce. Fish resources were also supplemented in Tērvete by releasing 1 200 kilograms of carps into the local pond.

Management report (cont'd)

In order to raise awareness about the increasing importance of forest resources in the solution of environmental issues, a scholarship contest for secondary school pupils – LVM School of Bioeconomics – was organized for the fifth consecutive year jointly with association Zaļās mājas, AS Latvijas Finieris, SIA Rīgas meži and the National Center for Education. Young people explored, studied in the field and solved matters of the innovative bioeconomics area in three phases. In autumn 2020, with a view to ensuring the growth of pupils and raising their awareness about the forestry sector, LVM announced a scholarship contest also in the following areas: forest ecology, forest management, environmental education, the use of forest biomass for innovative products and the management of underground natural resources.

LVM offered pupils to take part in study trips in the open air – LVM Forest Expeditions – in conformity with gathering restrictions introduced over Covid-19. Meanwhile, pupils in grades 7 to 9 were invited to take part in LVM Forest Olympics, a contest of ideas for outdoor educational games. Following the annual tradition, a sticker design contest named LVM Forest Days for everyone aged between 5 and 25 was also held.

As part of the project *Skola 2030* (*School 2030*), two new innovative study topics were introduced and 12-hour further training courses for teachers *Pētījums mežā 8. – 9. klasēm* (*Research in Forest for Grades 8-9*) and *Koksnes biorafinēšana 11. klasēm* (*Wood Biorefinery for the 11th Grade*) were held jointly by specialists of LVM, the Interdisciplinary Center for Educational Innovation of the University of Latvia and the Institute of Wood Chemistry. The wood biorefining study process combines chemistry, physics, technology and economy, and it has been designed as an interdisciplinary theme within the framework of the new study content to implement a competence-based approach in education.

To strengthen cooperation with the Faculty of Pedagogy, Psychology and Art of the University of Latvia, LVM's specialists took part in intensive summer training for young teachers, presenting an interdisciplinary approach to competence-based forest education. The participants had a task to evaluate the economic, social and ecological value of trees in nature, measure wood stock and create sample plots on tree trunks to determine air pollution.

Company and environment

LVM manages nature and environmental protection areas defined by the State, such as nature conservation areas, nature parks, protected landscape areas, natural monuments, biosphere reserve, microreserves for protected species and habitats, forest buffers next to water bodies (rivers, lakes, sea) and swamps, around towns and cities, around cultural monuments, etc. In order to conserve natural assets and reduce the environmental impact produced by forestry activities, LVM identifies protected species, habitats of European interest and nesting grounds of protected birds across forest areas every year before planning any operations. In 2020, environmental surveys covered an area of 14.9 thousand hectares, which is by 2.3 thousand hectares more than in 2019.

In 2020, LVM's database was supplemented with 4 600 new, rare and especially protected plants, mushrooms, lichens and invertebrate species, and Company's environmental experts have already recorded a total of more than 30 thousand encounters with rare and protected species.

At present, LVM's database contains information about habitats of European interest over an area of 109 thousand ha, representing more than 30 types of habitats of European interest (forest, wetland, grassland, coastal dune, freshwater and other habitats), of which 8.5 thousand hectares were identified or revalued in 2020. The largest share represented forest habitats, of which predominant types were old or natural boreal forests, swampy forests and deciduous swamp forests. Coastal, freshwater, grassland and wetland habitats had a relatively smaller share.

The environmental monitoring is carried out in the territories held by LVM each year: the quality monitoring of protected birds and plant species and habitats of European interest. For example, in 2020 nest success was estimated for more than 500 nesting grounds of protected birds, nearly 100 wood grouse mating places, etc. Monitoring results are used in planning measures aimed at reducing the environmental impact produced by the operating activities, including the planning of nature conservation areas, and in introducing fixed-term forestry restrictions.

Nests of protected bird species which have not been identified previously are found each year when verifying potential operating sites. In 2020, LVM's database was supplemented with more than 500 new nests of especially protected bird species, which had not been identified before. LVM's database has information about a total of more than 5 700 big nests, of which 2 360 are nesting grounds of protected bird species, including information about artificial nest platforms built by ornithologists, which are willingly used for nesting by not only fish hawks, which is a protected species, but also black storks. All inhabited nests are provided with appropriate protection.

During 2020, forest and grassland habitats were managed over an area of 116 ha, while the quality of wild grouse mating areas was improved over 80 ha and forest glade maintenance covered 338 ha.

In order to improve the quality of surface waters of high-risk water bodies in Latvia, a LIFE IP project "Implementation of Latvia's river basin management plans to reach good surface waters" for the years 2020-2027 was launched.

In 2020, a cooperation agreement was signed with the Nature Conservation Authority for financing from the Cohesion Fund, and the project "Management measures for improving the conservation status of habitats and species in special areas of conservation and

Management report (cont'd)

microreserves" for 2021-2023 was started. Under the project, LVM is operating in 14 special areas of conservation covering an area of nearly 800 ha in 5 regions.

The project "Optimizing the governance and management of the Natura 2000 protected areas network in Latvia" for the years 2021-2028 was started jointly with the Nature Conservation Authority, eight public and non-governmental organizations and four higher education institutions.

LVM's contribution to climate change mitigation

Carbon footprint is a carbon dioxide measure that shows the impact of the Company's operations. During 2020, LVM's operations produced a total of 168 114 tonnes of CO_2. The total CO_2 emitted during LVM's operations grew by 12 017 tonnes from the year 2019, which was predominantly affected by the increased production of roundwood assortment and seedlings. LVM's own footprint is relatively small, forming approximately 4% of total footprint (5 925 tonnes of CO_2), while the remaining 96% (162 189 tonnes of CO_2) are produced by external service providers involved by LVM.

	2019	2020
Emitted CO_2, tonnes	156 098	168 114

Planning and development of the Company

The construction of a Mežvidi nursery near Jaunkalsnava was started in response to the growing demand for container seedlings and bare-root seedlings with improved root system in Latvia and Scandinavia: the water-supply system, internal roads and four planting sites were constructed in 2020. The Mežvidi nursery is expected to start the production of seedlings in the second quarter of 2021.

According to scientific research priorities defined in LVM's strategy, LVM has carried out the following studies:

- Possibilities of increasing the productivity of forest stands by using wood ash and fertilizers;
- Forest tree breeding research for the selection of forest reproductive material of high genetic quality;
- Project concerning forest-based biofuel and the mechanization of forest operations;
- Forest ecosystem services;
- Forecasts of changes in forest management risks and their mitigation;
- Production of cellulose-based textile fibers;
- Research of factors limiting the spread of root rot;
- Greenhouse gas emission and CO_2 sequestration assessment for aged forest stands;
- Stabilizing role of broad-leaved tree stands for sustainable forest management in Latvia;
- Forest regeneration, afforestation and woody plantations;
- Improvement of growing process patterns;
- Identifying the risks of proliferation of insect pests in trunks in Lubāna sector and Stiklu mire burn;
- Improvement of the birch growing practice;
- Assessment of the effectiveness of spiral tree wraps, examination of the material;
- Rationale for the choice of the wood pulp production technology;
- Telemetric study of environmental factors that are significant for wood grouse protection.

Financial risk management

LVM organizes its operations according to the strategy approved by the shareholder. According to the strategy, the Company must ensure stable profits and positive cash flows from its operations. Financial management of the Company is carried out in a centralized manner, and its liquidity position enables the Company to fulfil all of its obligations as they fall due, both to its cooperation partners and the State.

LVM's performance may be affected by financial risks, which are however managed and mitigated on a regular basis. Accordingly, the probability that financial risks will cause material adverse impacts on the Company's business or performance is rather low. In the course of business, LVM may be exposed to the following financial risks: foreign currency risk, liquidity risk, receivables risk, market risk and the risk of a rapid decrease in revenue.

Fluctuations in currency exchange rates do not directly affect LVM's costs because settlements with suppliers and prices of services are in the euro. However, there exists a risk that may indirectly affect the cost of LVM's products – changes in the exchange rates of the euro to other currencies, such as the US dollar, may lead to a rise in diesel fuel prices.

In order to prevent liquidity risk, LVM is planning cash flows carefully and maintains liquid assets on a sufficient scale (to the extent of 15-30 days' payments) to be able to settle current liabilities. LVM is analyzing potential development scenarios for events that may considerably affect the Company's liquidity position.

LVM ensures regular debtor control to reduce its exposure to receivables risk.

Management report (cont'd)

Multiple causes, such as natural disasters or changes in the selling prices of timber, may lead to a significant and rapid plunge in sales. The risk of a fast market and revenue decline has a medium or low probability, although its impact should be regarded as significant. To minimize consequences of risks of a rapid decrease in revenue and a rise in costs, LVM is analyzing its current financial performance monthly, ensuring constant stock control and modelling potential scenarios of future development. Market prices of timber are an external factor that is beyond LVM's control – prudent price forecasts are made to minimize potential risks to the Company's business in the event of price drops.

Events after the reporting period

As of the last day of the reporting year until the date of signing these financial statements there have been no significant events that could produce a material impact on the Company's financial position as at 31 December 2020.

Key business targets for 2021

Operating plan:

Sale of products		
Sale of roundwood assortment	million m^3	6.83
Contractual sale of standing trees	million m^3	0.17
Supply of fuel chips	thousand Mwh	415
Seedlings for sale	million pieces	54.4
including container seedlings and seedlings with improved root system	*million pieces*	*51.0*
Sale of mineral materials and their mixtures	thousand m^3	541
including sale of certified mineral materials and their mixtures	*thousand m^3*	*401*
Land and forest management		
Forest regeneration	thousand ha	17.4
including natural regeneration	*thousand ha*	*5.7*
Forest (young stand) tending	thousand ha	33.2
Cleaning of drainage ditches from obstruction	thousand m^3	564.0
Land registration with the Land Registry	thousand ha	1.8
Cadastral land survey	thousand ha	2.2
Border restoration	thousand ha	15.4
Expansion of managed forest areas	ha	800
Forest infrastructure development		
Construction of forest roads	km	338
Reconstruction of forest drainage systems	thousand ha	19.2

To continue and initiate research according to scientific research priorities defined in LVM's strategy, including the following:

- Possibilities of increasing the productivity of forest stands by using wood ash and fertilizers;
- Impact of forestry activities on forest and related ecosystem services;
- Carbon changes in forest ecosystem;
- Impact of climate changes on forest cultivation and related risks;
- Significance of forest birds for the study of environmental factors;
- Mitigation of risks of root rot damage and the analysis of its impacts;
- Analysis of future phytopathological risks;
- Identifying the impacts of LVM's operations on the water regime in adjacent territories;
- Assessment of the interaction of the growth of individual trees and groups of trees;
- Research of the use of timber piles in forest road construction for crossing peat inclusions;
- Improvement of the birch growing practice;
- Studies of the environment affected by mire burns and intensity of mire recovery;
- Epiphyte metapopulation dynamics in boreo-nemoral forest landscape;
- Forest tree breeding research for the selection of forest reproductive material of high genetic quality.

Management report (cont'd)

Profit distribution suggested by the Board

	EUR
Portion of profit available for distribution	62 285 706
Retained earnings brought forward	30 653 100
Suggested profit distribution:	
dividends to the shareholder, including	90 494 000
payment to the shareholder	*72 395 200*
corporate income tax	*18 098 800*
retained earnings	2 444 806

The Board has suggested that the retained earnings of EUR 2 444 806 should be used for increasing the share capital in line with the Company's strategy.

Roberts Strīpnieks,
Chairman of the Board

27 April 2021

Financial statements

Statement of comprehensive income

	Notes	2020 EUR	2019 EUR
Revenue from contracts with customers	4	349 692 869	375 131 051
Cost of sales	5	(260 242 351)	(245 410 995)
Gross profit		**89 450 518**	**129 720 056**
Distribution costs	6	(2 340 802)	(1 784 715)
Administrative expense	7	(7 385 179)	(7 981 309)
Other operating income	8	1 437 799	4 500 395
Other operating expense	9	(4 564 207)	(5 673 994)
Interest and similar expense	13	(532 006)	(565 501)
Operating profit		**76 066 123**	**118 214 932**
Interest income		-	15
Profit before corporate income tax		**76 066 123**	**118 214 947**
Corporate income tax on dividends		(15 213 100)	(15 440 000)
Income tax expense		1 432 683	2 242 190
Net profit for the year		**62 285 706**	**105 017 137**
Total comprehensive income:		**62 285 706**	**105 017 137**

The accompanying notes form an integral part of these financial statements.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

27 April 2021

Statement of financial position

ASSETS

	Notes	31/12/2020 EUR	31/12/2019 EUR
NON-CURRENT ASSETS			
Intangible assets			
Licenses and software	11	2 207 610	2 098 583
TOTAL		**2 207 610**	**2 098 583**
Property, plant and equipment			
Land, buildings and constructions	12	282 088 093	271 547 920
Equipment and machinery	12	4 928 774	5 090 031
Other fixtures and fittings, tools and equipment	12	7 432 888	6 777 839
Construction in progress	12	16 887 351	10 435 422
Prepayments for property, plant and equipment	12	460 343	673 662
TOTAL		**311 797 449**	**294 524 874**
Right-of-use assets	13	**18 316 903**	**19 778 298**
Investment properties	14	**-**	**1 377 882**
Biological assets	15	**29 278 446**	**27 656 731**
Non-current financial assets			
Investments in subsidaries	16	1 620 936	1 620 936
Investments in associates	16	566 872	566 872
Other securities	20	880 000	880 000
TOTAL		**3 067 808**	**3 067 808**
TOTAL NON-CURRENT ASSETS		**364 668 216**	**348 504 176**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		2 128 558	1 164 089
Finished goods and goods for sale	17	39 338 032	33 192 543
Prepayments for goods		3 798	5 491
TOTAL		**41 470 388**	**34 362 123**
Receivables and prepayments			
Trade receivables	18	25 951 761	27 553 237
Receivables from related companies	27	-	51
Overpayment of corporate income tax	26	2 508 463	6 641 239
Overpayment of value added tax	26	934 202	1 336 126
Prepayments for services	19	574 490	649 554
Other receivables		11 490	2 291
TOTAL		**29 980 406**	**36 182 498**
Prepaid expense		**1 091 931**	**688 549**
Cash and cash equivalents	21	**99 108 142**	**114 710 183**
TOTAL CURRENT ASSETS		**171 650 867**	**185 943 353**
TOTAL ASSETS		**536 319 083**	**534 447 529**

The accompanying notes form an integral part of these financial statements.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

27 April 2021

Statement of financial position

EQUITY AND LIABILITIES

	Notes	31/12/2020 EUR	31/12/2019 EUR
EQUITY			
Share capital	22	353 647 767	353 647 767
Reserves		28 787 537	-
Retained earnings:		92 938 806	120 457 137
brought forward		30 653 100	15 440 000
for the period		62 285 706	105 017 137
TOTAL EQUITY		**475 374 110**	**474 104 904**
LIABILITIES			
Non-current liabilities			
Other provisions	23	9 999 198	9 114 200
Non-current lease liabilities	13	17 496 218	18 673 240
Other liabilities		18 551	24 668
TOTAL		**27 513 967**	**27 812 108**
Current liabilities			
Prepayments received from customers		933 083	716 116
Trade payables		7 337 621	8 606 555
Payables to related companies	27	62 498	498
Payables to associates	27	-	33 818
Taxes payable	26	1 263 187	1 123 934
Other provisions	23	11 337 158	10 451 177
Other liabilities	24	1 519 520	1 305 946
Accrued liabilities	25	9 794 496	9 021 485
Current lease liabilities	13	1 183 443	1 270 988
TOTAL		**33 431 006**	**32 530 517**
TOTAL LIABILITIES		**60 944 973**	**60 342 625**
TOTAL EQUITY AND LIABILITIES		**536 319 083**	**534 447 529**

The accompanying notes form an integral part of these financial statements.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

27 April 2021

Statement of cash flows

		2020 EUR	2019 EUR
Cash flows to/from operating activities			
Profit before corporate income tax		**76 066 123**	**118 214 947**
Adjustments for:			
depreciation of property, plant and equipment	12	34 668 914	32 456 222
impairment of property, plant and equipment and intangible assets	11,12	1 757 948	1 518 260
amortization	11	1 040 497	857 459
depreciation of right-of-use assets	13	1 467 816	1 467 829
increase in the value of biological assets	15	(889 773)	(1 845 413)
change in provisions, except for allowances for doubtful receivables	23	1 770 979	3 117 955
income from investments in other companies	8	(26 464)	(26 464)
interest income		-	(15)
lease interest income	13	532 006	565 501
other (gain on disposal of property, plant and equipment, etc.)		(107 169)	(804 868)
Profit before adjustments for the effect of changes in current assets and current liabilities		**116 280 877**	**155 521 413**
(increase)/decrease in receivables		1 813 769	2 770 018
(increase)/decrease in inventories		(7 108 265)	(7 272 740)
increase/(decrease) in trade and other payables		(1 707 058)	306 621
Cash generated from operations		**109 279 323**	**151 325 312**
Corporate income tax paid	26	(9 647 641)	(15 440 000)
Net cash flows to/from operating activities		**99 631 682**	**135 885 312**
Cash flows to/from investing activities			
Purchase of property, plant and equipment and intangible assets	11,12	(53 766 749)	(57 741 823)
Proceeds from sale of property, plant and equipment and intangible assets		90 904	23 390
Change in the value of biological assets	15	(731 942)	(200 975)
Interest received		-	15
Dividends received	8	26 464	26 464
Net cash flows to/from investing activities		**(54 381 323)**	**(57 892 929)**
Cash flows to/from financing activities			
Dividends paid	22	(60 852 400)	(61 760 000)
Net cash flows to/from financing activities		**(60 852 400)**	**(61 760 000)**
Net cash flow for the year		**(15 602 041)**	**16 232 383**
Cash at the beginning of the year		**114 710 183**	**98 477 800**
Cash at the end of the year	21	**99 108 142**	**114 710 183**

The accompanying notes form an integral part of these financial statements.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

27 April 2021

Statement of changes in equity

	Share capital	Retained earnings	Reserves	**Total**
Balance as at 1 January 2019	**307 863 146**	**109 832 621**	**11 500 000**	**429 195 767**
Dividends paid	-	(61 760 000)	-	**(61 760 000)**
Increase in share capital	32 632 621	(32 632 621)	-	**-**
Reserves	11 500 000	-	(11 500 000)	**-**
Property investment	1 652 000	-	-	**1 652 000**
Total shareholders' contributions and profit distributions recognized under equity	**45 784 621**	**(94 392 621)**	**(11 500 000)**	**(60 108 000)**
Profit for the reporting year	-	105 017 137	-	**105 017 137**
Total comprehensive income recognized in the reporting year	**-**	**105 017 137**	**-**	**105 017 137**
Balance as at 31 December 2019	**353 647 767**	**120 457 137**	**-**	**474 104 904**
Dividends paid	-	(60 852 400)	-	**(60 852 400)**
Reserves	-	(28 787 537)	28 787 537	**-**
Other profit transfers	-	(164 100)	-	**(164 100)**
Total shareholders' contributions and profit distributions recognized under equity	**-**	**(89 639 937)**	**28 787 537**	**(60 852 400)**
Profit for the reporting year	-	62 285 706	-	**62 285 706**
Total comprehensive income recognized in the reporting year	**-**	**62 285 706**	**-**	**62 285 706**
Balance as at 31 December 2020	**353 647 767**	**92 938 806**	**28 787 537**	**475 374 110**

The accompanying notes form an integral part of these financial statements.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

27 April 2021

Notes to the financial statements

1. Corporate information

AS Latvijas valsts meži (hereinafter – the Company) was registered with the Republic of Latvia Enterprise Register on 28 October 1999 and re-registered with the Republic of Latvia Commercial Register on 1 November 2004.

The core business activity of the Company is the production of roundwood assortment, forest regeneration, afforestation, forest tending and forest inventory, the construction, repair and maintenance of forest roads, and real estate management.

The annual report of the Company was approved by a resolution of the Company's Board on 27 April 2021. The Company's shareholder has the power to amend the financial statements after issue.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. The financial statements present fairly the Company's financial position, financial performance and cash flows. For the purposes of fair presentation, faithful information is provided concerning the effects of transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, income and expense. In order to achieve a true and fair view ('fair presentation'), the Company has complied with International Financial Reporting Standards, which comprise the following:

- International Accounting Standards (IAS);
- International Financial Reporting Standards (IFRS);
- interpretations issued by the International Financial Reporting Interpretations Committee; and
- Framework for the Preparation and Presentation of Financial Statements.

These policies have been consistently applied to all the years presented, unless otherwise stated. Where necessary, comparatives are reclassified.

Starting from the year 2016, the Company has prepared its financial statements in accordance with International Financial Reporting Standards as adopted in the European Union.

Basis of preparation

The financial statements of AS Latvijas valsts meži have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU). The Company also prepares group's consolidated financial statements, which were approved on 27 April 2021. Due to the European Union's endorsement procedure, the standards and interpretations not yet approved for use in the European Union are also presented in this note as they may have an impact on the financial statements in the following periods, if endorsed.

The financial statements are prepared on a historical cost basis, as modified for the measurement of biological assets at fair value.

The monetary unit used in the financial statements is the euro (EUR). The financial statements cover the period 1 January 2020 through 31 December 2020.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and income and expense for the reporting period.

Impact of COVID-19

With the recent and rapid development of the coronavirus disease (COVID-19) pandemic the world economy entered a period of unprecedented health care crisis that has caused considerable global disruption in business activities and everyday life.

In the Republic of Latvia as well as in many other countries starting March 2020 different restrictions to limit the COVID-19 spread came into effect leading to a considerable economic slowdown. The objective of these public policy measures was and is to contain the spread of COVID-19 outbreak, and they have resulted in operational disruptions.

In parallel, governments, including the Republic of Latvia, introduced various financial support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such government assistance.

The financial effect of the current crisis on the global economy and overall business activities cannot be estimated with reasonable certainty though, due to the pace at which the outbreak expands and the high level of uncertainties arising from the inability to reliably predict the outcome. The management's current expectations and estimates could differ from actual results.

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

The management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no significant impact on the Company's profitability position. COVID-19 did not have an immediate material impact on the business operations.

The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and the development of its business in the current business and economic environment.

The management will continue to monitor the situation closely and will assess the need for new measures for securing smooth operations of the Company in case the period of disruption becomes prolonged.

Foreign currency translation

The functional and presentation currency of the Company is the euro (EUR). Transactions in foreign currencies are translated into the euro at the official exchange rate established by the European Central Bank at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the euro applying the official exchange rate established by the European Central Bank at the last day of the reporting year. The differences arising on settlements of transactions or on reporting foreign currency transactions at rates different from those at which these transactions have originally been recorded are netted in the statement of profit or loss.

Fair value measurement

The Company measures financial assets, such as biological assets, at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability; or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or most advantageous market must be accessible by the Company.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company's management determines the policies and procedures for both recurring fair value measurement, such as biological assets, and for non-recurring measurement.

At each reporting date, the Company's management analyzes the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Company's accounting policies. For this analysis, the Company's management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy, as explained above.

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

IFRS 15 *Revenue from Contracts with Customers*

IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management believes that the implementation of this standard will not have any impact because the Company has no contracts that would provide for separately identifiable goods or services under the performance obligation.

The Company has applied IFRS 15 with the initial application date of 1 January 2018 using the modified retrospective method of adoption. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company has elected to apply the standard to all contracts existing as at 1 January 2018.

Revenue from contracts with customers

AS Latvijas valsts meži is engaged in the sustainable management of national strategic assets transferred to its possession, including national forest properties. The Company earns revenue predominantly from the sale of roundwood assortment and standing trees. Revenue from contracts with customers is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Sale of products and services. Revenue from the sale of products and services is recognized at the point in time when control of the asset is transferred to the customer. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, less value added tax and sales-related discounts.

Significant financing component. Generally, the Company receives short-term advances from its customers (from contracts with customers). Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Where this period exceeds one year, the transaction price for such contracts is discounted, using the rate that would be reflected in a separate financing transaction between the Company and its customers at contract inception, to take into consideration the significant financing component.

If the statement of financial position and the statement of comprehensive income were prepared according to the previous IFRSs (IAS 2 and IAS 18), the financial information would be the same as disclosed in the financial statements.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration. The Company had no such assets as at 31 December 2019 and 2020.

Receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Such receivables are recognized in the Company's statement of financial position as trade receivables.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract. Such contract liabilities are recognized in the Company's statement of financial position as prepayments received from customers.

Investments

Revenue from investments (dividends) is recognized when the right of payment has been established.

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

Intangible assets

Intangible non-current assets are stated at cost and amortized over their estimated useful lives on a straight-line basis. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. Losses from impairment are recognized where the carrying value of intangible non-current assets exceeds their recoverable amount.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally generated intangibles, excluding capitalized development costs, are not capitalized and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful life of intangible assets is 34 months.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of profit or loss when the asset is derecognized.

Property, plant and equipment

Property, plant and equipment are recognized if:

- it is probable that future economic benefits associated with the item will flow to the entity;
- the cost of the item can be measured reliably.

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value. Land is not depreciated. If there is a forest stand on a land plot acquired, the land plot is carried at its cadastral value, while the balance of the purchase price is recognized as the acquisition cost of biological assets (the forest stand). Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Buildings	over 10 to 20 years
Roads	over 15 years
Equipment and machinery	over 5 to 10 years
Computers and communication devices	over 2.85 years (34 months)
Other property, plant and equipment	over 5 years

Depreciation is calculated starting with the following month after the asset is put into operation or engaged in commercial activity. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. To the extent that the Company depreciates separately some parts of property, plant and equipment, it also depreciates separately the remainder of the item. The remainder consists of the parts that are individually insignificant. The depreciation for the remainder is determined using approximation techniques to faithfully represent its useful life.

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

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

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

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

Leases (Company as a lessee)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Determining the lease term of contracts with renewal and termination options

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

Right-of-use assets

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Buildings over 2 to 15 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

Lease liabilities

At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses publicly available statistical data on interest rates published by the Bank of Latvia, i.e., interest rates applied to loans issued to domestic undertakings and private individuals, in respect of all lease liabilities. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at historical cost less accumulated depreciation and impairment.

Investment properties are derecognized either when they have been disposed of or when no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of the change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of the change in use.

Biological assets

Biological assets are regenerative assets whose value is subject to change through growth. Forest stands whose value is changing through growth and which are held by the Company to obtain raw materials for production and sale are treated as biological assets.

Forest stands are initially recognized at cost and subsequently, after initial recognition, are restated at fair value at the year end. Fair value is determined according to a method whereby the present value of net cash flows from biological assets is calculated by applying a discount rate. The difference between the carrying value and the revalued amount is recognized as income or expense for the period depending on whether the value is increased or decreased as a result of the revaluation.

Investments in subsidiaries and associates

Investments in subsidiaries (i.e. where the Company holds more than 50% interest of the share capital or otherwise controls the company) and associates (i.e. where the Company has significant influence, but less than a controlling interest, which is presumed to exist with 20 to 50% interest of the share capital of the entity) are stated in accordance with the cost method. Following initial recognition, investments in subsidiaries and associates are carried at cost less any accumulated impairment losses. The carrying values of investments in subsidiaries and associates are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

IFRS 9 *Financial Instruments*

Classification and measurement

Financial assets are classified as follows:
a) financial assets measured at amortized cost;
b) equity instruments at fair value through other comprehensive income;
c) financial assets at fair value through profit or loss; and
d) debt instruments at fair value through other comprehensive income.

Financial liabilities are classified as follows:
a) financial liabilities measured at amortized cost; and
b) financial liabilities at fair value through profit or loss.

Financial assets at amortized cost
Financial assets (with the exception of trade receivables) are measured at amortized cost if both of the following conditions are met and assets are not classified as financial assets at fair value through profit or loss:

a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

These assets are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition. Assets are subsequently measured at amortized cost using the effective interest method. Amortized cost is decreased by an impairment loss. Foreign exchange revaluation, impairment and interest income are recognized in the statement of profit or loss. Any gains or losses on derecognition of financial assets are taken to the statement of profit or loss.

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

Classification and measurement (cont'd)

Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they:
(a) meet the definition of equity instruments under IAS 32 *Financial Instruments: Disclosure and Presentation*, and
(b) are not held for trading.

The classification is determined on an instrument-by-instrument basis. These instruments are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, they are measured at fair value. Dividends are recognized in the statement of profit or loss. Other net gains and losses are taken to comprehensive income and are never recycled to profit or loss.

Financial assets at fair value through profit or loss
These financial instruments include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial instruments are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Financial instruments with contractual cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss. Directly attributable transaction costs for these instruments are recognized in the statement of profit or loss when incurred. Subsequent to initial recognition, they are measured at fair value. Net value changes are recognized in the statement of profit or loss.

Financial liabilities at amortized cost
Financial liabilities are measured at amortized cost if they are not held for trading and are not designated upon initial recognition as held for trading. These financial liabilities are recognized initially at fair value net of directly attributable transaction costs. These financial liabilities are subsequently measured at amortized cost using the effective interest method.

Initial recognition of assets

In accordance with the new approach, financial assets are classified as measured at amortized cost, fair value through other comprehensive income, and fair value through profit or loss. Financial assets are measured at amortized cost if both of the following conditions are met:
(1) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
(2) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Initial recognition of liabilities

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company classifies all financial liabilities at amortized cost, except for certain financial liabilities at fair value through profit or loss.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The assessment of the Company's business model was made as of the date of initial application of IFRS 9, 1 January 2018. The assessment of whether contractual cash flows are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above.

Derecognition

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

Inventories

Inventories are valued at the lower of cost and net realizable value. All inventories are measured on a first-in, first-out (FIFO) basis.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. When the net realizable value of inventories is lower than their cost, allowances are established to write down the value of the inventories to their net realizable value.

Provisions

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

The Company must carry out restocking of forests that have been felled as part of its operations. Forests must be restocked within three to five years after final felling. During that period, the Company faces an outflow of actual economic benefits, and respective provisions are established for forest regeneration.

Provisions for forest regeneration costs are made on the basis of the actual area to be regenerated at the beginning of 2021 and planned regeneration costs, which consist of labor and plant costs, considering the actual regeneration costs incurred in the reporting year. Subsequent changes in the provisions are taken to the statement of profit or loss.

Provisions for bonuses were made on the basis of the results of 2020 and the Procedure for Calculation and Allocation of Bonuses.

Provisions for quarry rehabilitation are established for quarries to be rehabilitated during the subsequent 10 years, based on the actual expenditure incurred over the last three years.

Other securities

The Company's shares are stated at fair value.

The Company has selected the discounted cash flow method, which is based on financial forecasts for the following five years, as the most suitable method for determining the market value of its shares because the Company's shares are not quoted in an active market.

Corporate income tax

Corporate income tax for the year 2020 is calculated according to the Corporate Income Tax Law, which has been in force as of 1 January 2018.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with amendments made to the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

No provision is recognized for income tax payable on a dividend distribution before dividends are declared.

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

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimates concerning property, plant and equipment

Useful lives of property, plant and equipment

The Company makes estimates concerning the useful lives and residual values of property, plant and equipment. These estimates are reviewed at the end of each reporting period and are based on the past experience and industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates.

Recoverable amount of property, plant and equipment

When events and circumstances indicate a potential impairment, the Company performs impairment tests for items of property, plant and equipment. According to these tests, assets are written down to their recoverable amounts, if necessary. For the purposes of impairment testing, management uses various estimates of cash flows arising from the use, sale, maintenance and repairs of assets, as well as in respect of inflation and interest rate growth.

Recurring fair value measurement of biological assets

Revaluation of biological assets is performed according to the following principles:

1. The dominant species which will be forested in accordance with the LVM forest planting practices are as follows: pine plantations - 29%, birch plantations - 68% and aspen plantations - 3% of the total area.
2. The following assumptions are used in calculations for forest stands:
    a. costs are calculated by estimating average costs for the last five years (2016-2020) of forestry works (soil preparation, planting and sawing, daily maintenance of forest infrastructure, tending of young stands), materials, administrative expense and real estate tax for the reporting year;
    b. revenues are calculated using the price of round timber at the place of consumption less transport and harvesting costs to obtain the price of growing timber.

Calculations are discounted. Key assumptions are disclosed in Note 15.

3. Significant accounting estimates and judgements (cont'd)

Recognition and measurement of provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of provisions to be reimbursed (for example, annual production bonuses), the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

Provisions for forest regeneration

As at 31 December 2020, the Company established provisions for forest regeneration of EUR 17 894 454. The amount and timing of these obligations are uncertain. To determine the present value of these provisions, certain assumptions and estimates have been used, including the amount of future expenditure, inflation rates and the timing of settlement of the expenditure. The actual expenditure may differ from the provisions recognized as a result of possible legislative changes, technology available in the future to eliminate environmental damages and expenditure covered by third parties. The Company estimates that the costs would be realized in six years' time and calculates the provision using the DCF method based on the following assumptions:

- the estimated range of cost per hectare (ha) includes labor and material (plant) costs;
- 55% of forest clearings will be replenished artificially by forest plantations and seeding of forests;
- 45% of forest clearings will be regenerated naturally, and natural regeneration will be facilitated for 19% of these areas;
- 20% of regenerated areas will require additional replenishment of tree plantations;
- material (plant) costs are calculated by taking into account seed consumption rates per ha and nursery/seed production costs.

For more details about provisions for forest regeneration, see Note 23.

3.1. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2020:

Conceptual Framework in IFRS standards

The IASB issued the revised Conceptual Framework for Financial Reporting on 29 March 2018. The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards. The IASB also issued a separate accompanying document, Amendments to References to the Conceptual Framework in IFRS Standards, which sets out the amendments to affected standards in order to update references to the revised Conceptual Framework. Its objective is to support transition to the revised Conceptual Framework for companies that develop accounting policies using the Conceptual Framework when no IFRS standard applies to a particular transaction. For preparers who develop accounting policies based on the Conceptual Framework, it is effective for annual periods beginning on or after 1 January 2020. The management has made an assessment of the framework and considers that the amendments will not have any significant impact on the Company's financial statements.

IFRS 3: Business Combinations (Amendments)

The IASB issued amendments in Definition of a Business (Amendments to IFRS 3) aimed at resolving the difficulties that arise when an entity determines whether it has acquired a business or a group of assets. The amendments are effective for business combinations for which the acquisition date is in the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period, with earlier application permitted. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of 'material' (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. The amendments clarify the definition of 'material' and how it should be applied. The new definition states that 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity'. In addition, the explanations accompanying the definition have been improved. The amendments also ensure that the definition of 'material' is consistent across all IFRS standards. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

3.1. Changes in accounting policy (cont'd)

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (Amendments)
In September 2019, the IASB issued amendments to IFRS 9, IAS 39 and IFRS 7, which concludes phase one of its work to respond to the effects of the Interbank Offered Rates (IBOR) reform on financial reporting. The amendments published deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative interest rate and address the implications for specific hedge accounting requirements in IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement, which require forward-looking analysis. The amendments provide temporary reliefs, applicable to all hedging relationships that are directly affected by the interest rate benchmark reform, which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark with an alternative nearly risk-free interest rate. There are also amendments to IFRS 7 Financial Instruments: Disclosures regarding additional disclosures around uncertainty arising from the interest rate benchmark reform. The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Phase two (ED) focuses on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

3.2. Standards issued but not yet effective and not early adopted

IFRS 17: Insurance Contracts
The standard is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the IASB decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The standard has not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IFRS 17: Insurance Contracts (Amendments), IFRS 4: Insurance Contracts (Amendments)
The amendments to IFRS 17 are effective retrospectively for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the standard, make financial performance easier to explain and ease transition by deferring the effective date of the standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time.
The amendments to IFRS 4 change the fixed expiry date for the temporary exemption in IFRS 4 Insurance Contracts from applying IFRS 9 Financial Instruments, so that entities would be required to apply IFRS 9 for annual periods beginning on or after 1 January 2023.
The amendments to IFRS 17 have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

3.2. Standards issued but not yet effective and not early adopted (cont'd)

IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)

The amendments are effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. However, in response to the Covid-19 pandemic, the IASB has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments. These amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)

The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS standards as follows:

- **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
- **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
- **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
- **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IFRS 16 Leases – COVID-19-Related Rent Concessions (Amendment)

The amendment applies retrospectively to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. The IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
- Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
- There is no substantive change to other terms and conditions of the lease.

In February 2021, the IASB issued a proposal to extend the relief period by another year, i.e. to apply the practical expedient for annual periods beginning on or after 1 April 2021 and on rent concessions to a change in lease payments originally due in or before June 2022. The amendment is effective for annual periods beginning on or after 1 April 2021, with earlier application permitted.

The management has made an assessment of the impact of this standard and considers that this amendment will not have any significant impact on the Company's financial statements.

3.2. Standards issued but not yet effective and not early adopted (cont'd)

Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)
In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to the IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest. Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component. Furthermore, the amendments to IFRS 4 are designed to allow insurers who are still applying IAS 39 to obtain the same reliefs as those provided by the amendments made to IFRS 9. There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of the interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. While application is retrospective, an entity is not required to restate prior periods. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments):
The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IAS 8 Accounting policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):
The amendments become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

4. Revenue/revenue from contracts with customers

By business segments	2020	2019
Sale of roundwood assortment	320 757 267	345 238 598
Sale of standing trees	7 931 705	7 603 422
Sale of nursery plants	7 482 680	7 181 615
Sale of chips	5 655 897	7 315 612
Land lease	3 571 026	3 290 487
Sale of mineral resources	1 881 091	2 217 113
Hunting and recreational services	979 971	1 077 537
Lease of hunting areas	608 446	588 213
Sale of forest seeds	52 697	39 694
Other income	772 089	578 760
TOTAL:	**349 692 869**	**375 131 051**

5. Cost of sales

	2020	2019
Works and services costs, including:	172 397 520	162 167 200
Production of roundwood assortment, including:	136 967 664	128 438 894
Preparation of roundwood assortment	*54 604 225*	*49 266 669*
Transportation of roundwood assortment	*43 940 449*	*42 768 984*
Forwarding of roundwood assortment	*37 629 343*	*35 518 002*
Maintenance and repair of forest roads	8 348 654	9 727 059
Tending of young stands	5 423 253	5 012 263
Production of chips	5 262 415	5 297 323
Agrotechnical tending of forest areas	4 708 774	3 692 772
Forest protection	2 225 983	1 699 903
Registration of land properties	1 910 789	1 302 869
Soil preparation	1 890 557	1 725 096
Forestation	1 689 419	1 317 523
Management of underground natural resources	1 538 004	1 284 858
Maintenance of land drainage systems	885 861	1 022 528
Production of forest reproductive material	773 933	754 587
Expansion of reforested areas	287 503	314 675
Preservation of heritage sites and sites of public significance	211 705	250 622
Forest inventory	107 492	103 783
Hunting costs	83 376	120 326
Fire safety of forests	73 412	93 645
Pruning of standing trees	8 726	8 474

5. Cost of sales (cont'd)

Depreciation and amortization	35 453 178	33 096 909
Staff costs, including:	35 467 399	32 397 922
Basic salaries	*22 351 927*	*20 322 554*
Statutory social insurance contributions	*6 821 684*	*6 290 681*
Bonuses	*4 560 704*	*4 101 273*
Benefits and compensations	*1 733 084*	*1 683 414*
Acquisition of other materials	3 901 576	4 457 538
Real estate tax	3 575 032	3 607 808
Insurance	2 743 387	2 563 735
Maintenance of offices of production bodies	1 845 274	1 971 454
Fuel	1 467 410	1 683 007
Low-value inventory	1 416 072	1 084 321
Scientific research and consultations	1 291 580	1 244 472
Depreciation of right-of-use assets	1 126 078	1 126 091
Vehicle maintenance	626 837	770 851
Communications services	445 599	460 734
Natural resource tax	253 146	243 725
State charges	197 273	146 286
Legal fees	24 778	34 553
Changes in stocks of finished goods	(6 145 489)	(7 172 894)
Other cost of sales, including:	4 155 701	5 527 283
Changes in provisions, net, of which:	1 919 811	3 089 215
Forest regeneration	*1 628 755*	*2 491 227*
Bonuses	*211 633*	*235 441*
Quarry rehabilitation	*(19 699)*	*190 169*
Doubtful receivables	*(19 669)*	*172 378*
Vacation pay reserve	*118 791*	*78 846*
	260 242 351	**245 410 995**

6. Distribution costs

	2020	2019
Timber measurement	2 340 802	1 784 715
TOTAL:	**2 340 802**	**1 784 715**

7. Administrative expense

	2020	2019
Staff costs, including:	3 973 882	4 462 882
Basic salaries	*2 566 805*	*2 853 705*
Statutory social insurance contributions	*781 111*	*847 726*
Bonuses	*500 900*	*570 075*
Benefits and compensations	*125 066*	*191 376*
Museum services	750 844	752 844
Insurance	345 115	350 954
Depreciation of right-of-use assets	341 738	341 738
Information system maintenance and database subscription	298 137	333 488
Depreciation and amortization	256 233	216 772
Advertising and advertisements	198 697	265 789
Staff development costs	149 229	270 968
Legal fees	104 755	11 609
Communications expense	62 949	68 184
Consulting and other research	53 191	22 205
Office maintenance	50 161	78 255
Fuel	41 989	76 395
Representation expense	40 544	111 252
Transport expense	39 015	59 307
Fees paid to Latvian firms of certified auditors*	18 791	20 102
Low-value inventory	14 771	22 788
Business trips	6 518	46 629
Other management and administrative expense, including:	638 620	469 148
Changes in provisions, net, of which:	*(17 638)*	*20 782*
Bonuses	*(49 710)*	*28 740*
Vacation pay reserve	*32 072*	*(7 958)*
TOTAL:	**7 385 179**	**7 981 309**

* The total fee paid to the firm of certified auditors broken down by types of audit services provided:

	2020	2019
Statutory annual audit (review)	18 660	18 700
Other specialist's tasks	131	1 402
TOTAL:	**18 791**	**20 102**

8. Other operating income

	2020	2019
Penalties received	439 194	754 271
Other income	331 861	368 397
Compensation for the use of land under power lines	313 865	1 314 391
Gain on disposal of property, plant and equipment and current assets, net	107 169	351 716
Dividends	26 464	465 374
Appreciation of biological assets, net (see Note 15)	-	1 139 649
Other operating income	219 246	106 597
TOTAL:	**1 437 799**	**4 500 395**

9. Other operating expense

	2020	2019
Impairment of biological assets, net (see Note 15)	228 727	0
Allowances for doubtful receivables	(24 011)	171 799
Donations, including;	4 350 000	5 500 000
for sport support	*2 200 000*	*2 000 000*
for the construction of sports and exploratory recreational areas for children and families	*-*	*1 500 000*
for forestry development	*800 000*	*800 000*
for cultural support	*750 000*	*600 000*
for social projects	*600 000*	*600 000*
Other operating expense	9 491	2 195
TOTAL:	**4 564 207**	**5 673 994**

10. Staff costs and number of employees

	2020	2019
Wages and salaries	31 838 486	29 722 397
Statutory social insurance contributions	7 602 795	7 138 407
Changes in provisions for bonuses	161 923	264 181
Changes in vacation pay reserve	150 863	70 888
TOTAL:	**39 754 067**	**37 195 873**

The total staff costs are included in the following captions of the statement of profit or loss:

	2020	2019
Cost of sales	35 797 823	32 712 209
Administrative expense	3 956 244	4 483 664
TOTAL:	**39 754 067**	**37 195 873**

Key management personnel compensation:

Council Members	2020	2019
Wages and salaries	166 212	170 552
Statutory social insurance contributions	39 136	40 860
TOTAL:	**205 348**	**211 412**

10. Staff costs and number of employees (cont'd)

Board Members	2020	2019
Wages and salaries	634 528	527 750
Statutory social insurance contributions	152 858	127 135
TOTAL:	**787 386**	**654 885**

	2020	2019
Average number of Board Members during the reporting year	5	4
Average number of employees during the reporting year	1 392	1 354
TOTAL:	**1 397**	**1 358**

11. Intangible assets

	Software	Programming in progress	TOTAL
Cost or revalued amount			
As at 1 January 2019	**7 922 137**	**-**	**7 922 137**
Additions	1 107 731	486 865	1 594 596
Reclassification	486 865	(486 865)	-
Disposals	(50 030)	-	(50 030)
As at 31 December 2019	**9 466 703**	-	**9 466 703**
Additions	1 089 246	60 278	1 149 524
Reclassification	60 278	(60 278)	-
Disposals	(68 377)	-	(68 377)
As at 31 December 2020	**10 547 850**	**-**	**10 547 850**
Amortization and impairment			
As at 1 January 2019	**6 558 742**	-	**6 558 742**
Amortization charge	857 459	-	857 459
Disposals	(48 081)	-	(48 081)
As at 31 December 2019	**7 368 120**	-	**7 368 120**
Amortization charge	1 040 497	-	1 040 497
Disposals	(68 377)	-	(68 377)
As at 31 December 2020	**8 340 240**	**-**	**8 340 240**
Net carrying amount			
As at 31 December 2019	**2 098 583**	**-**	**2 098 583**
As at 31 December 2020	**2 207 610**	**-**	**2 207 610**

Fully amortized assets

A number of intangible assets that have been fully amortized are still in active use. The total cost value of these intangible assets as at the end of the year was EUR 2 863 517 (2019: EUR 2 265 634).

Amortization

The total amortization costs are included in the following captions of the statement of profit or loss:

	2020	2019
Cost of sales	913 406	710 039
Administrative expense	127 091	147 420
TOTAL:	**1 040 497**	**857 459**

12. Property, plant and equipment

	Land	Buildings	Roads	Equipment and machinery	Computers	Other fixtures and fittings, tools and equipment	Construction in progress	Prepayments	TOTAL
Cost or revalued amount									
As at 1 January 2019	3 337 166	**80 719 818**	**383 075 866**	**14 108 971**	**4 522 668**	**14 979 736**	**13 474 990**	**250 347**	**514 469 562**
Additions	1 578 000	192 298	-	1 509 906	656 349	1 769 017	49 305 170	1 479 054	56 489 794
Reclassification	257 967	10 428 563	40 239 729	268 316	183	698 258	(50 841 675)	(1 055 739)	(4 398)
Disposals	-	(53 508)	-	(1 202 147)	(42 170)	(139 793)	(1 503 063)	-	(2 940 681)
As at 31 December 2019	**5 173 133**	**91 287 171**	**423 315 595**	**14 685 046**	**5 137 030**	**17 307 218**	**10 435 422**	**673 662**	**568 014 277**
Additions	-	69 020	-	895 186	411 852	1 228 540	48 414 594	1 658 546	52 677 738
Reclassification	448 810	7 106 212	34 595 492	(9 898)	-	887 049	(41 157 538)	(1 871 865)	(1 738)
Disposals	-	(27 430)	-	(725 729)	(107 436)	(267 377)	(805 127)	-	(1 933 099)
As at 31 December 2020	**5 621 943**	**98 434 973**	**457 911 087**	**14 844 605**	**5 441 446**	**19 155 430**	**16 887 351**	**460 343**	**618 757 178**
Depreciation and impairment									
As at 1 January 2019	**-**	**27 231 401**	**191 405 933**	**9 652 647**	**3 686 958**	**10 485 011**	**-**	**-**	**242 461 950**
Depreciation charge	-	4 265 413	25 371 768	1 144 515	504 294	1 170 232	-	-	32 456 222
Reclassification	-	-	-	-	-	(2 021)	-	-	(2 021)
Disposals	-	(46 536)	-	(1 202 147)	(41 937)	(136 128)	-	-	(1 426 748)
As at 31 December 2019	**-**	**31 450 278**	**216 777 701**	**9 595 015**	**4 149 315**	**11 517 094**	**-**	**-**	**273 489 403**
Depreciation charge	-	4 661 266	**27 073 581**	1 020 411	598 007	1 315 649	-	-	34 668 914
Reclassification	-	-	(59 725)	(9 898)	-	(46 002)	-	-	(115 625)
Disposals	-	(23 191)	-	(689 697)	(107 157)	(262 918)	-	-	(1 082 963)
As at 31 December 2020	**-**	**36 088 353**	**243 791 557**	**9 915 831**	**4 640 165**	**12 523 823**	**-**	**-**	**306 959 729**
Net carrying amount									
As at 1 January 2019	**3 337 166**	**53 488 417**	**191 669 933**	**4 456 324**	**835 710**	**4 494 725**	**13 474 990**	**250 347**	**272 007 612**
As at 31 December 2019	**5 173 133**	**59 836 893**	**206 537 894**	**5 090 031**	**987 715**	**5 790 124**	**10 435 422**	**673 662**	**294 524 874**
As at 31 December 2020	**5 621 943**	**62 346 620**	**214 119 530**	**4 928 774**	**801 281**	**6 631 607**	**16 887 351**	**460 343**	**311 797 449**

The Company is managing real estate whose value is EUR 2 809 337 (2019: EUR 2 191 140) and which has been taken over from the State Forest Service and other institutions, is not regarded as an item of property, plant and equipment and is recognized as an off-balance sheet item (see Note 29).

Cadastral value of real estate

The cadastral value of the Company's land as at 31 December 2020 was EUR 3 445 558 (2019: EUR 3 305 566). The cadastral value of buildings was EUR 2 049 979 (2019: EUR 2 000 000).

Fully depreciated assets

A number of assets that have been fully depreciated are still in active use. The total cost value of these assets as at the end of the year was EUR 58 178 885 (2019: EUR 40 157 397).

Depreciation

The total depreciation costs are included in the following captions of the statement of profit or loss:

	2020	2019
Cost of sales	34 539 772	32 386 870
Administrative expense	129 142	69 352
TOTAL:	**34 668 914**	**32 456 222**

13. Leases

The Company applies IFRS 16 *Leases* and recognizes right-of-use assets and lease liabilities as a lessee in its financial statements. According to IFRS 16, the Company measures right-of-use assets, non-cancellable lease terms and lease payments for identifiable assets. The Company applies a single accounting approach for all leases. According to IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In 2020, there were no significant modifications in the Company's leases that should be disclosed in the financial statements.

Right-of-use assets	Buildings	Total
Cost		
As at 1 January 2019	**21 246 127**	**21 246 127**
Additions	-	-
As at 31 December 2019	**21 246 127**	**21 246 127**
Additions	6 421	6 421
As at 31 December 2020	**21 252 548**	**21 252 548**
Depreciation and impairment		
As at 1 January 2019	-	-
Depreciation charge	1 467 829	1 467 829
As at 31 December 2019	**1 467 829**	**1 467 829**
Depreciation charge	1 467 816	1 467 816
As at 31 December 2020	**2 935 645**	**2 935 645**
Net carrying amount		
As at 1 January 2019	**21 246 127**	**21 246 127**
As at 31 December 2019	**19 778 298**	**19 778 298**
As at 31 December 2020	**18 316 903**	**18 316 903**

Lease liabilities	31/12/2020	31/12/2019
At the beginning of the reporting year	**19 944 228**	**21 112 200**
Recognized increase in lease liabilities	6 421	-
Recognized decrease in lease liabilities	(1 802 994)	(1 733 473)
Lease interest expense	532 006	565 501
At the end of the reporting year*	**18 679 661**	**19 944 228**
including non-current lease liabilities	*17 496 218*	*18 673 240*
current lease liabilities	*1 183 443*	*1 270 988*

The following are the amounts recognized in the statement of comprehensive income:

	2020	**2019**
	EUR	**EUR**
Depreciation expense of right-of-use assets	(1 467 816)	(1 467 829)
Interest expense on lease liabilities	532 006	565 501
Expense relating to leases of low-value assets (included in cost of sales)	(4 453)	(10 967)
Total amount recognized in profit or loss	**(940 263)**	**(913 295)**

The Company had total cash outflows for leases of EUR 1 772 686 in 2020 (2019: EUR 1 779 200).

14. Investment properties

	Investment properties	TOTAL
Cost		
As at 1 January 2019	**1 377 882**	**1 377 882**
Reclassification	4 398	4 398
Revaluation	-	-
Disposals	(4 398)	(4 398)
As at 31 December 2019	**1 377 882**	**1 377 882**
Reclassification*	(1 377 882)	(1 377 882)
As at 31 December 2020	**-**	**-**
Depreciation and impairment		
As at 1 January 2019	**2 021**	**2 021**
Reclassification		
Disposals	(2 021)	(2 021)
As at 31 December 2019	**-**	**-**
Reclassification	2 021	2 021
Disposals	(2 021)	(2 021)
As at 31 December 2020	**-**	**-**
Net carrying amount		
As at 31 December 2019	**1 377 882**	**1 377 882**
As at 31 December 2020	**-**	**-**

* Investment properties have been reclassified as property, plant and equipment (land) and biological assets (forest stands) due to a change in the purpose of their use (the Company has started using properties for business purposes).

15. Biological assets

	31/12/2020	31/12/2019
At the beginning of the reporting year	27 656 731	25 610 343
Reclassification*	1 118 500	-
Additions	731 942	906 740
Development	(751 534)	(705 765)
Increase in fair value**	522 807	1 845 413
TOTAL:	**29 278 446**	**27 656 731**

In 2020, all factors affecting the discount rate were assessed and, as a result, the discount rate has been reset as 4.70%.

The discount rate is calculated as the weighted average cost of capital. The rate has not been revised for several years, and indicators affecting the rate have changed.

* Investment properties have been reclassified as property, plant and equipment (land) and biological assets (forest stands) due to a change in the purpose of their use (the Company has started using properties for business purposes).

** The value of biological assets changed in 2020 due to a decrease in selling prices of wood assortment by 16.0%; reforestation of areas of 298.36 ha; tending activities, when the existing tree species were replaced with more valuable species, which resulted in a higher value of forests.

15. Biological assets (cont'd)

Sensitivity of key assumptions

Assumption	Change in wood assortment prices in the place of production +/- 10%	Change in the discount rate +/- 1%
Fair value of biological assets, %	+/- 13.3%	+/- 17.6%

Biological assets as at 31 December 2020 comprised mature stands of 1 294 ha (12.3%) (31 December 2019: 1 257 ha (10.4%)), while the remaining part of biological assets had not yet reached the felling age.

16. Investments in subsidiaries and associates

On 16 February 2004, the Company acquired 100% of shares in SIA Jaunmoku pils, which provides hotel, restaurant, entertainment and recreational and museum services. This investment is classified as a subsidiary.

On 18 October 2005, the Company acquired 38% of shares in SIA Meža un koksnes produktu pētniecības un attīstības institūts. The shareholders decided to increase the share capital on 7 May 2009; as a result, the Company owned 40% of shares in SIA Meža un koksnes produktu pētniecības un attīstības institūts as at 31 December 2012. SIA Meža un koksnes produktu pētniecības un attīstības institūts supplies services related to testing and applied research and the development of continuing and professional education and prepares research and development projects. The principal place of business is Latvia. This investment is classified as an associate.

	Investment type	31/12/2020	01/12/2019
SIA Jaunmoku pils	Subsidiary	1 620 936	1 620 936
SIA Meža un koksnes produktu pētniecības un attīstības institūts	Associate	566 872	566 872
	TOTAL:	**2 187 808**	**2 187 808**

Information about subsidiaries and associates:

Company	Equity 31/12/2020	Equity 31/12/2019	Profit for the year 2020	Profit for the year 2019
SIA Jaunmoku pils	1 638 215	1 538 463	99 752	161 875
SIA Meža un koksnes produktu pētniecības un attīstības institūts	784 519	783 382	455	1 473
TOTAL:	**2 422 734**	**2 321 845**	**100 207**	**163 348**

17. Finished goods and goods for sale

	31/12/2020	31/12/2019
Nursery plants	13 786 970	13 040 390
Roundwood assortment at roadside sites and in ports	8 224 799	6 939 403
Chips	6 457 085	5 300 716
Forest seeds	6 947 456	4 554 407
Ornamental plants	2 940 105	2 638 896
Mixtures of mineral materials	978 119	716 917
Ornamental seeds	3 498	1 814
TOTAL:	**39 338 032**	**33 192 543**

18. Trade receivables

	31/12/2020	31/12/2019
Trade receivables	26 104 470	27 725 666
Allowances for expected credit losses	(152 709)	(172 378)
TOTAL:	**25 951 761**	**27 553 288**

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

As at 31 December, the ageing analysis of trade receivables is as follows:

			Past due but not impaired, days			
	TOTAL	**Neither past due nor impaired**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0.01%	0.17%	15%	25%	75%
	27 725 666	**24 891 657**	**2 482 198**	**134 096**	**35 463**	**182 252**
Balance as at 31 December 2019	**27 725 666**	**24 891 657**	**2 482 198**	**134 096**	**35 463**	**182 252**
Impairment	**172 378**	2 489	4 220	20 114	8 866	136 689

			Past due days			
	TOTAL	**Not past due**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0.01%	0.17%	15%	25%	75%
	26 104 470	**24 668 170**	**1 093 859**	**110896**	**83 820**	**147 725**
Balance as at 31 December 2020	**26 104 470**	24 668 170	1 093 859	110 896	83 820	147 725
Impairment	**152 709**	2 467	1 860	16 634	20 955	110 793

All allowances are assessed on the basis of the ageing analysis of receivables for the entire category of assets.

19. Prepayments for services

	31/12/2020	31/12/2019
Prepayments for services	574 490	649 554
TOTAL:	**574 490**	**649 554**

20. Other securities

	31/12/2020		31/12/2019	
Type of securities	Number	Amount, EUR	Number	Amount , EUR
Shares of AS Latvijas finieris*	62	880 000	62	880 000
Total non-current:		**880 000**		**880 000**

* As at 31 December 2020, the Company owned 62 shares in AS Latvijas finieris, which was 0.98804% of this entity's share capital. LF is a closed joint stock company. Based on the methodology employed by AS Latvijas finieris for calculating the share value, the available information shows that there were no changes in factors affecting the value and assumptions underlying the calculation; therefore, the share value did not change as at 31 December 2020.

21. Cash and cash equivalents

	31/12/2020	31/12/2019
Cash on hand	1 042	535
Cash at bank	99 107 100	114 709 648
TOTAL:	**99 108 142**	**114 710 183**

The carrying amount of cash and cash equivalents approximates to their fair value. All the Company's cash and cash equivalents are denominated in the euro.

22. Share capital

As at 31 December 2020, the registered share capital of the Company was EUR 353 647 767 (31 December 2019: EUR 353 647 767). The fully paid share capital was EUR 353 647 767 (31 December 2019: EUR 353 647 767) and consisted of 353 647 767 ordinary shares, each having the par value of EUR 1 (31 December 2019: 353 647 767 ordinary shares, each having the par value of EUR 1).

On 28 May 2020, the general shareholders' meeting decided to transfer part of the profit earned for 2019 amounting to EUR 28 787 537 to reserves. Considering the unpredictable market situation and a potential plunge in profits, reserves have been established to secure settlement of liabilities to the State in the years to come according to long-term planning documents.

Dividends paid in 2020 and 2019 were EUR 60 852 400 (EUR 0.17 per share) and EUR 61 760 00 (EUR 0.17 per share) respectively.

23. Other provisions

	Provisions for forest regeneration	Provisions for bonuses	Provisions for quarry rehabilitation	**TOTAL**
As at 31/12/2019	**16 265 699**	**3 109 509**	**190 169**	**19 565 377**
Utilized	(7 313 093)	(3 109 509)	(28 575)	(10 451 177)
Established	8 941 848	3 271 432	8 876	12 222 156
As at 31/12/2020	**17 894 454**	**3 271 432**	**170 470**	**21 336 356**
including non-current	9 859 323	-	139 875	9 999 198
current	8 035 131	3 271 432	30 595	11 337 158

Provisions for forest regeneration: provisions have been established for the regeneration and renewal of cleared forest areas. According to law, provisions must be used within six years but, as a rule, it takes one to two years. Provisions for forest regeneration increased due to higher planned costs and larger areas to be regenerated artificially.

Provisions for bonuses: provisions have been made for staff bonuses calculated for the attainment of fourth quarter and annual targets. Provisions will be used within one year.

Provisions for quarry rehabilitation: provisions have been established for quarry rehabilitation within one to ten years after quarrying is completed.

24. Other liabilities

	31/12/2020	31/12/2019
Salaries	1 362 932	1 219 068
Other liabilities	156 588	86 878
TOTAL:	**1 519 520**	**1 305 946**

25. Accrued liabilities

	31/12/2020	31/12/2019
Vacation pay reserve	1 559 699	1 408 836
Other accrued liabilities*	8 234 797	7 612 649
TOTAL:	**9 794 496**	**9 021 485**

* Other accrued liabilities represent provisions for costs incurred in the reporting period but invoiced after the year end.

26. Taxes payable

	31/12/2020	Refunded(+)	Calculated	Paid	31/12/2019
Statutory social insurance contributions	812 079	-	11 078 163	(10 987 552)	721 468
Personal income tax	378 424	-	5 407 182	(5 358 727)	329 969
Corporate income tax	(2 508 463)	-	13 780 417	(9 647 641)	(6 641 239)
Value added tax	(934 202))	7 288 138	(6 881 812)	(4 402)	(1 336 126)
Real estate tax	2 944		3 575 032	(3 574 340)	2 252
Natural resource tax	69 264	-	253 146	(253 656)	69 774
Unemployment risk duty	476	-	6 012	(6 007)	471
TOTAL:	**(2 179 478)**	**7 288 138**	**27 218 140**	**(29 832 325)**	**(6 853 431)**
Total payable:	**1 263 187**				**1 123 934**
Total receivable:	**(3 442 665)**				**(7 977 365)**

27. Related party disclosures

Related parties are defined as subsidiaries and associates of the Company, the shareholder, members of the key management personnel of the Company or the Ministry of Agriculture of the Republic of Latvia, close members of the families of any individual referred to previously, and entities controlled by these persons. The pricing policy applied in transactions with related parties is the same as the standard pricing policy adopted by the Company for its transactions with independent parties.

The Company is controlled by the Ministry of Agriculture of the Republic of Latvia, which owns 100% of the Company's shares.

Related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties as at 31 December	Amounts owed to related parties as at 31 December
Ministry of Agriculture of the Republic of Latvia *	2020	-	-	-	-
	2019	-	-	-	-
SIA Jaunmoku pils **	2020	1 051	699 069	-	62 498
	2019	2 211	768 098	51	498
SIA Meža un koksnes produktu pētniecības un attīstības institūts	2020	-	538 621	-	-
	2019	45	582 711	-	33 818
Total for 2020:		**1 051**	**1 237 690**	**-**	**62 498**
Total for 2019:		**2 256**	**1 350 809**	**51**	**34 316**

28. Long-term contracts

At the year end, the Company had several long-term contracts on the construction of forest roads. The total value of these contracts as at 31 December 2020 was EUR 21 067 991 (of which EUR 877 652 represented projects in progress under contracts signed in 2019), 31 December 2019: EUR 24 664 609, where the works completed as at 31 December 2020 amounted to EUR 4 114 613 (of which EUR 489 683 represented projects in progress of previous years), 31 December 2019: EUR 4 407 585.

At the year end, the Company had several long-term contracts on the renovation of forest drainage systems. The total value of these contracts as at 31 December 2020 was EUR 1 969 332 (of which EUR 161 416 represented projects in progress under contracts signed in 2019), where the works completed as at 31 December 2020 amounted to EUR 569 730 (of which EUR 140 410 represented projects in progress of previous years).

At the year end, the Company had several contracts on forest road surface maintenance. The total value of these contracts as at 31 December 2020 was EUR 2 007 340, where the works completed as at 31 December 2020 amounted to EUR 795 584. At the year end, the Company had several long-term contracts on the cutting of grass and shoots. The total value of these contracts as at 31 December 2020 was EUR 1 320 049, where the works completed as at 31 December 2020 amounted to EUR 602 191. At the year end, the Company had several long-term contracts on routine winter maintenance (snow clearing, site clearing, forest road grooving). The total value of these contracts as at 31 December 2020 was EUR 2 017 524, where the completed works amounted to EUR 147 866.

29. Off-balance sheet assets

In accordance with the Forest Law, the Company manages and administers 1.61 million hectares of the land owned by the Republic of Latvia, whose cadastral value is EUR 322.15 million, including 1.33 million hectares of forest areas, whose stands amount to EUR 1 183.88 million and subsoil assets are EUR 14.12 million (including those amounting to EUR 11.65 million and EUR 2.47 million for the extraction of peat and mineral materials respectively). The Company has reported 13 233 hectares of forest areas on its statement of financial position. Land having the area of 1.61 million hectares of all the land plots managed and administered by the Company has been surveyed and registered with the Land Registry (100%).

30. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (including foreign currency risk, fair value and cash flow interest rate risk), credit risk, price risk and liquidity risk. The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company's financial performance. Financial risk management is carried out by the Company's executive management. The Company's executive management identifies and assesses financial risks in close co-operation with the Company's business units. The Company's strategy sets out principles for overall financial and liquidity risk management. The Company's management has also established procedures for investing of financial resources. Price risk management is performed by the Company's business unit managers in accordance with the Company's long-term planning strategy.

Financial assets by categories

	Notes	Loans, receivables and other securities
Financial assets as at 31 December 2020		
Other securities and investments	20	880 000
Trade receivables, net	18	26 104 470
Receivables from related companies	27	-
Other receivables		11 490
Cash and cash equivalents	21	99 108 142
Total		**126 104 102**
Financial assets as at 31 December 2019		
Other securities and investments	20	880 000
Trade receivables, net	18	27 725 615
Receivables from related companies	27	51
Other receivables		2 291
Cash and cash equivalents	21	114 710 183
Total		**143 318 140**

30. Financial risk management (cont'd)

Financial liabilities by categories

	Notes	Liabilities at amortized cost
Financial liabilities as at 31 December 2020		
Trade payables		7 337 621
Payables to related companies	27	62 498
Payables to associates	27	-
Total		**7 400 119**
Financial liabilities as at 31 December 2019		
Trade payables		8 606 555
Payables to related companies	27	498
Payables to associates	27	33 818
Total		**8 640 871**

Market risks

I) Foreign currency risk

Foreign currency risk arises when future transactions or assets or liabilities are denominated in a currency other than the Company's functional currency. In 2020, the Company had no capital expenditure or investment projects whose expected transactions would lead to any significant exposure to foreign currency risk.

II) Cash flow and fair value interest rate risk

The Company has no assets and liabilities exposed to interest rate risk; therefore, the Company's income and operating cash flows are not dependent on changes in market interest rates.

III) Price risk

Price risk is the risk that the fair value and cash flows of financial instruments will fluctuate in the future for reasons other than changes resulting from interest rate risk or foreign currency risk. Price risk affects the purchases and sales of goods produced and services provided by the Company under free market conditions, as well as the purchases of resources and services used in production. The most significant price risk is related to changes in fuel prices, which, in turn, affect the prices of services, as well as changes in the overall economic situation, which affect the demand for wood (construction, manufacturing and pulp production).

Credit risk

Credit risk mainly arises from cash and cash equivalents, significant trade receivables and bank deposits. Credit risk is managed at the Company level. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. For the estimation of the credit quality of fully performing receivables, the following rating categories are used:

- customers with no overdue receivables,
- customers with overdue receivables.

Credit quality is monitored and reviewed on a regular basis.

In addition, receivable balances are monitored on an ongoing basis to ensure that the Company's exposure to bad debts is minimized.

Credit risk related to cash and short-term bank deposits is managed by balancing the placement of financial assets and instruments in order to maintain the possibility of choosing the best offers and reduce the probability of loss.

Cash at the year end is disclosed in Note 21.

Liquidity risk

Liquidity risk is associated with the Company's ability to settle liabilities as they fall due. For the purposes of liquidity risk management, the Company employs cash flow planning tools covering various periods. The management is monitoring rolling forecasts of the Company's cash flow and liquidity reserve, which comprises undrawn borrowing facilities, cash and cash equivalents.

30. Financial risk management (cont'd)

Liquidity risk (cont'd)
Liquidity analysis (contractual undiscounted cash flows)

	31/12/2020	31/12/2019
	EUR	EUR
Trade payables	7 337 621	8 572 239
Payables to related companies	62 498	498
Payables to associates	-	33 818
Total	**7 400 119**	**8 606 555**

The table below summarizes the maturity profile of the Company's financial liabilities based on contractual undiscounted payments:

Year ended 31 December 2020	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	7 337 621	-	-	-	7 337 621
Payables to related companies	-	62 498	-	-	-	62 498
Payables to associates	-	-	-	-	-	-
Total	**-**	**7 400 119**	**-**	**-**	**-**	**7 400 119**

Year ended 31 December 2019	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	8 572 239	-	-	-	8 572 239
Payables to related companies	-	498	-	-	-	498
Payables to associates	-	33 818	-	-	-	33 818
Total	**-**	**8 606 555**	**-**	**-**	**-**	**8 606 555**

Capital risk management

The government of Latvia owns 100% of the Company's shares.

The objective of capital management is to ensure that the Company is able to continue its operations and bring returns on capital defined by the general shareholders' meeting. The equity ratio is calculated by dividing equity by total assets. The equity ratio is as follows:

	31/12/2020	31/12/2019
	EUR	EUR
Equity, total	475 374 110	474 104 904
Assets, total	536 319 083	534 447 529
Equity ratio	**89%**	**89%**

The government of Latvia as the sole shareholder of the Company may adopt decisions related to an increase or decrease in the Company's capital, payment of dividends or their use for development of the Company.

31. Fair value measurement

Fair value hierarchy:

The Company uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;

Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;

Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Biological assets

The valuation of forest assets is based on discounted cash flow models, whereby the fair value of biological assets is calculated using cash flows from continuous operations, that is, based on sustainable forest management plans, taking into account growth potential. The valuation of biological assets requires the application of significant unobservable inputs; as a result, biological assets are classified as Level 3.

Other securities

Other securities comprise available-for-sale securities and short-term bank deposits. Other securities are classified as Level 2.

Trade receivables

Owing to short maturities, the carrying amount of trade receivables approximates to their fair value.

Trade payables

Owing to short maturities, the carrying amount of trade payables approximates to their fair value.

Investment properties

The carrying amount of investment properties approximates to their fair value. Investment properties have been acquired from independent third parties.

32. Events after the reporting period

The full impact of the COVID-19 pandemic on economic activity is still unknown and the situation is still developing. The Company's management believes that COVID-19 will not have material impact on the business operations after the reporting date. However, this assumption is based on the information available at the time of signing these financial statements and the impact of future events on the Company's ability to continue as a going concern may differ from the management's assessment.

At present, the Company continues operating according to its initial annual budget, meanwhile maintaining close contacts with customers and focusing on market developments, to be in a position to respond to all changes as they occur. The Company's management believes that the Company will be able to overcome the emergency situation by conducting risk assessments and designing targeted risk mitigation scenarios, which include the adaptation of the core business to market requirements, the revision of costs and investments depending on the current situation and the obtaining of all necessary resources in line with forecasted developments. However, this conjecture is based on the information available at the time of signing these financial statements and the impact of future events on the Company's ability to continue as a going concern may differ from the management's assessment.

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

Roberts Strīpnieks Chairman of the Board	Gunta Vilciņa Head of the Financial and Accounting Department

27 April 2021

Independent auditors' report

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To the Management of Latvijas valsts meži AS

Ernst & Young Baltic SIA has performed an audit of the financial statements of Latvijas valsts meži AS (the Company) for the year ended 31 December 2020 prepared in the Latvian language. The accompanying set of financial statements is the translation into the English language and below is presented a translation of our auditor's report from the original, which was issued in the Latvian language and was signed electronically with secure electronic signature and time-stamped on 27 April 2021.

The Management of the Company is responsible for the translation of the financial statements. All possible care has been taken to ensure that the translation of the auditor's report and the accompanying financial statements is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of the auditor's report takes precedence over this translation.

"INDEPENDENT AUDITORS' REPORT

DOCUMENT DATE IS THE TIME OF ITS ELECTRONIC SIGNATURE

To the shareholders of Latvijas valsts meži AS
Opinion

We have audited the accompanying financial statements of Latvijas valsts meži AS set out on pages 11 to 44 of the accompanying Annual Report, which comprise the statements of financial position as at 31 December 2020 and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of AS Latvijas valsts meži as at 31 December 2020, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards as adopted by the European Union (the IFRS).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing adopted in the Republic of Latvia (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code) together with the independence requirements included in the Law on Audit Services of Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have fulfilled our other ethical responsibilities in accordance with the Law on Audit Services of Republic of Latvia and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Reporting on other information

Management is responsible for the other information. The other information comprises:

- the General information about the Company as set out on page 3 of the accompanying Annual Report;
- the Management Report as set out on pages 4 to 10 of the accompanying Annual Report;

Other information does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information 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 financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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 Company 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

We have other reporting responsibilities in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report. These additional reporting responsibilities are beyond those required under the ISAs.

Our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports 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 given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the Law on Annual Reports and Consolidated Annual Reports of the Republic of Latvia.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with the International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's 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 financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment 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 Company'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

Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

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