

STATE JOINT STOCK COMPANY "LATVIJAS VALSTS MEŽI"

ANNUAL REPORT 2000

Type of operations

The purpose of operations carried out by the state joint stock company "Latvijas valsts meži" (hereafter referred to as ("LVM")) is to realise the interests of the Latvian State regarding preservation, renewal and stewardship of state-owned forests in an effective and efficient manner within the whole cycle of forestry business, ensuring sustainable stewardship of state-owned forests.

1.65 million ha of land in the Republic of Latvia is in possession and stewardship of LVM, including 1.37 million ha of forest areas.

The shareholder of LVM is the Latvian State in the person of the Republic of Latvia Ministry of Agriculture. The executive institutions of the Company are the General Meeting, Council and Board. The supreme decision-making body is the General Meeting representing the shareholder, i.e. the Ministry of Agriculture. The Council of LVM represents the interests of the shareholder in the time between general meetings and exercises control over the activities of the Board, whereas the Board is the chief executive body within the Administration of LVM.

The Board of LVM is composed of 5 board members: Chairman of the Board – President of LVM, his Deputy, who is also Vice president of LVM, and 3 board members, who perform also the functions of company directors, i.e. those of finance director, director for legal matters and director for forestry. President is the chief administrator of LVM. Executive directors of the Company's organisational structures are directly reporting to President, whilst the managers of forest ranges are directly reporting to executive directors.

The organisational structure of LVM is composed of 3 tiers. These are: central administration, 10 structural units (8 forestry businesses, covering the territory of Latvia on a regional basis, Jaunmoku Palace and the tree reproductive nursery “Sēklas un stādi”, where the production of seed and seedlings is concentrated, irrespective of the principle of territorial location) and 97 forestry ranges located on a territorial basis, covering the whole area of state-owned forests under the stewardship of LVM.

Performance of the Company during the year

2000 was the first year of the Company in operation, since it was set up in October 1999 and took over the stewardship function of state-owned forests from the State Forestry Service on 1 January 2000. In 2000, the principal activities of LVM involved the following:

forest management,

operation of hunting business,

production of reproductive materials,

rendering recreational services,

stewardship of real estate assets.

The implementation of the budget and action plan for 2000 was successful, as the Company's income exceeded the target figure, reaching LVL 16.86 million or 103.5% as compared to the planned one.

Income from the sale of growing trees (the main type of the Company's income, constitutes 91.5% of total income) reached LVL 15.70 million, which is 101.9% against the target figure, whilst other types of operations yielded LVL 1.16 million or 164.9% against the target figure. Growing trees principally were sold by two methods: sale of 2.54 million cubic metres of timber or 67% of total realised volume of timber under the provisions of long-term logging contracts (hereafter referred to as “LTLC”) and sale of growing trees via conduct of felling area auctions (1.26 million cubic metres of timber or 33% of total realised volume of timber).

Taken into account the importance of long-term logging contracts for the balanced development of the forestry industry and for business carried on by LVM, in the year 2000 changes were proposed for the administration of LTLC via liquidation of existing barter relationships between contracting parties and introduction of expressly defined relationships built on goods-for-cash-basis for sale of growing trees and those for carrying out forestry works build on services-for-cash-basis instead.

Other significant income was earned from the following operations: rental of hunting grounds – LVL 0.41 million; services associated with the renewal of forests – LVL 0.33 million; sale of seed and seedlings – LVL 0.23 million.

During 2000, the planned forestry works were successfully completed and in a number of significant areas the performance results exceeded the target figures (such as renewal of forests, preparation/tilling of soil, cultivation of young trees), ensuring both replenishment of forest resources handed over to the Company for stewardship purposes, as well as retention of qualitative indicators. The value of forests is characterised not only by qualitative indicators but also by the condition of infrastructure within the forestry industry. With a view to finding out the total length of roads and their condition in the forest areas placed in possession of LVM, in 2000 an inventory of forest roads was taken. The results show that currently the total length of forest roads is 0.65 km per 100 ha of forest land, which is by far below the relevant indicator in Germany (3.6 km), that of Northern Europe (3 km) or Canada (2 km).

The analysis of the inventory results shows that in future an effort should be made to attract investments for forest road building. In 2000, the focus was on the retention of the existing forest infrastructure network. This is characterised by the volume of road maintenance work performed on 10,579 km of forest roads (130% against the target figure) and proves that each single km of forest roads in possession of LVM has been maintained and machined with a grader 1.5 times.

Currently, certification of forest management is typical both in Europe and worldwide. A certificate attests to the fact that a forest is being stewarded in

a sustainable and economically, ecologically and socially balanced manner. For the purpose of gaining international recognition of the high quality of management regarding state-owned forests in Latvia, during 2000 LVM commenced making preparations to undergo the certification of forest stewardship in accordance with the requirements set out in the principles and criteria of the Forest Stewardship Council (hereafter referred to as "FSC"). It was decided that by 2002 at least 50% of the forests placed in possession of LVM should have accomplished the certification process, and the remainder of the forests should be certified in possibly shorter terms. Based on a decision by the Board of LVM, in May 2000, a forest certification project was established whose chief purpose was to prepare LVM for certification of forest management in accordance with internationally recognised principles and criteria of FSC setting out environmental, social and economical requirements for sustainable forest management.

In 2000, the state joint stock company "Latvijas valsts meži" fully met its obligations towards the owner of forests, i.e. the Latvian State by paying into the budget the projected fixed amount of LVL 7.7 million and all taxes applicable to LVM.

Most important business projections for year 2001

No significant changes in the income structure of LVM for 2001 are projected. Like in the previous reporting period, LVM income is projected to be derived mainly from the sale of growing trees, and its portion in 2001 will increase by 94.5 %. The total amount of income projected by LVM in 2001 is 19.7 Lats.

In accordance with "Sale Concept for Growing Trees in 2001 – 2003" developed by LVM and approved by Forest Consulting Council, strengthening of long-term relations with timber processing companies will be continued. In 2001 it is envisaged to develop procedures for novation of the existing LTLC and executing of new LTLC agreements as well as to commence the process of novation and concluding new agreements.

In 2001 it is planned to complete the development of the concept for

disclosing the value of the fixed assets in possession of LVM (buildings, roads and constructions, and forestlands). The goal of the concept is to get a clear understanding of the change of the value of state-owned forests and other fixed assets in a longer period and evaluate the operations of LVM related to the increasing of the value of state-owned forests. It is planned to undertake the process of valuation of the fixed assets in possession of LVM.

Certification of forests in possession of LVM will be proceeded in 2001 in accordance with FSC principles and criteria. It is planned that based on these arrangements for forest stewardship four LVM forestry businesses, viz. Austrumvidzeme, Ziemeļlatgale, Dienvidkurzeme and Vidusdaugava will be valuated.

One of the most important tasks for year 2001 is the preparation of the company strategic development plan, which will determine the priorities and goals for LVM development. This plan will be an effective tool for management of the Company as it will identify specifically the results to be achieved.

In 2001 it is planned to continue the inventory of forests in Vidusdaugava and Ziemeļlatgale forestry businesses. In addition to this, it is planned to undertake forest inventory also in Dienvidlatgale forestry business.

Profit and loss account for the year ended 31 December 2000

		For the period
		from 28.10.1999. to
		31.12.2000.
		Ls

1. Net sales	16,856,182
2. Cost of sales	(13,509,961)
3. Gross profit	3,346,221
4. Selling expenses	(134,810)
5. Administrative expenses	(1,059,173)
6. Other operating income	18,674
7. Interest income and similar income	114,323
8. Interest expenses and similar expenses	(2,903)
16. Profit and loss before taxes	2,282,332
17. Corporate income tax for the reporting year	(130,293)
18. Other taxes	(1,841,104)
19. Current year's profit and loss	310,935

BALANCE SHEET AS AT 31 DECEMBER 2000	
ASSETS	31.12.2000. Ls
Long-term investments:	
Intangible long-term assets	45,283
Fixed assets	2,665,909
Total long-term investments:	2,711,192
Current assets	
Stock	381,651
Debtors	127,881
Securities and participating interest	634,488
Cash and bank	1,360,271
Total current assets:	2,504,291
Total ASSETS	5,215,483

LIABILITIES	31.12.2000. Ls
Shareholders' funds:	
Share capital	1,000,000
Retained earnings a) current year's profit	310,935
Total shareholders' funds:	1,310,935
Provisions	909,705
Creditors:	
Long-term creditors	33,845
Short-term creditors	2,960,998
Total creditors:	2,994,843
Total LIABILITIES	5,215,483