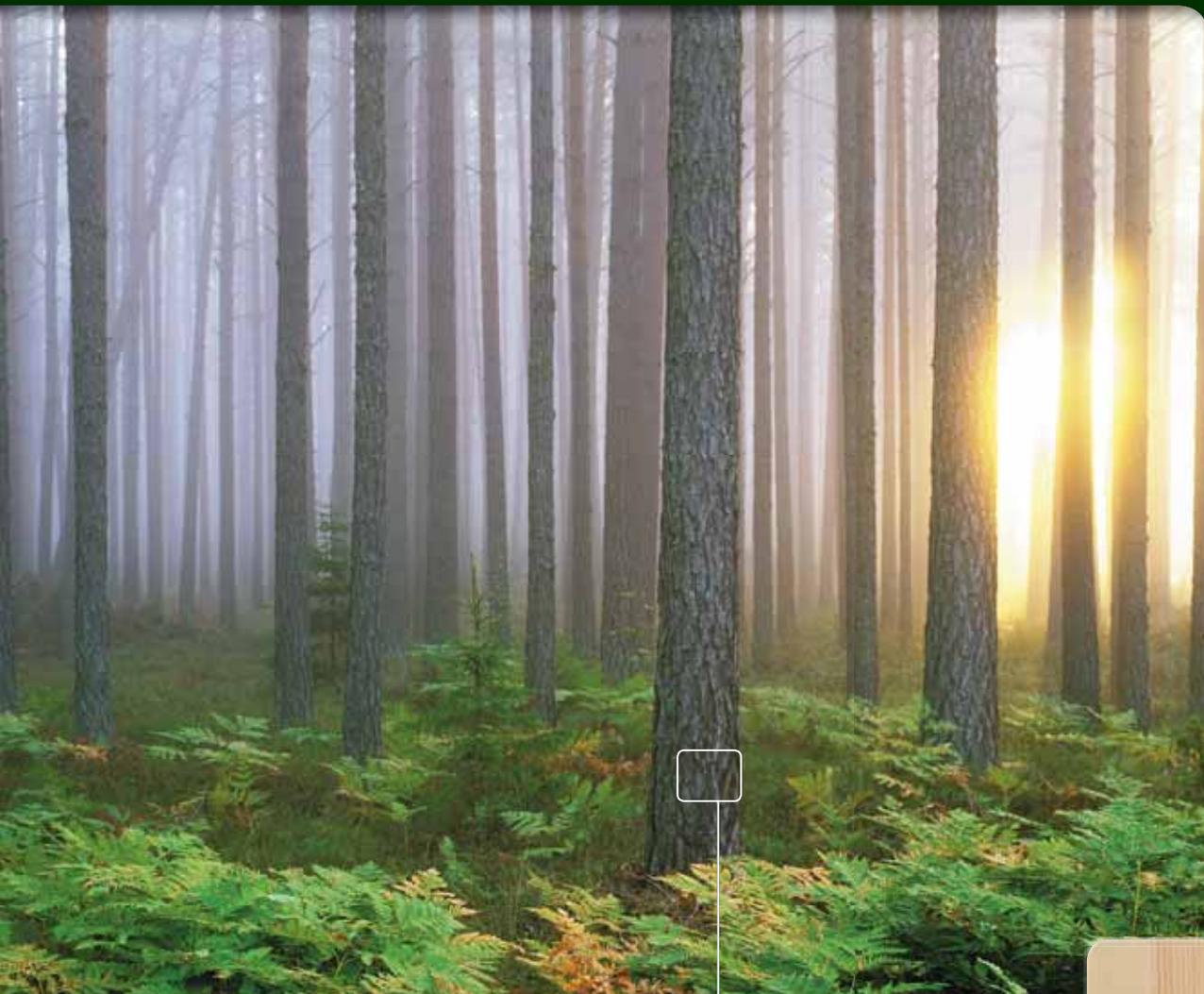


Latvijas valsts meži



*The sun, the earth, the water and
caring hands - it's all that a tree needs.*

Annual report 2007





Contents



Once upon a time there was a forest. Many trees grew in it – leaves were budding in spring, blueberries grew under the trees in summer, mushrooms in autumn, and large snow drifts heaped up in winter. There was no waste in the forest, and plastic had not been invented yet. Occasionally some men appeared and planted trees – for the grandchildren, so to say.



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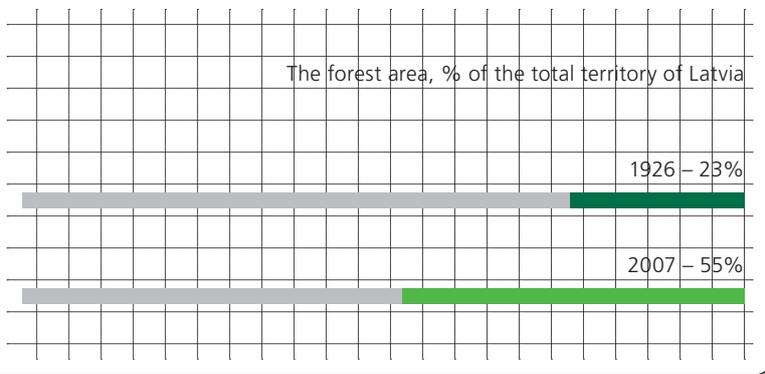
Once upon a time there was a forest...



Facts



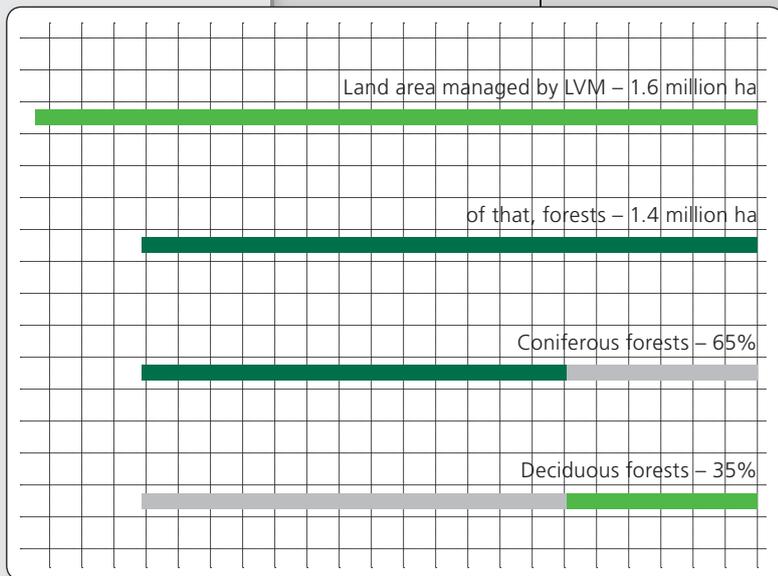
Forests



Many trees grew in it.



leaves were budding
in spring, blueberries
grew under the trees
in summer, mushrooms
in autumn



The annual growth in LVM managed forest –
12,21 million cubic metres





Economic activities

	2000	2001	2002	2003	2004	2005	2006	2007
Annual timber sales	million m ³							
	3.72	3.80	3.82	4.18	3.86	4.78	4.57	4.63
Incl. roundwood assortments	million m ³							
	–	–	0.01	0.34	0.73	1.40	1.90	1.83
Area reforested	thousand ha							
	12.9	8.4	9.4	10.8	10.9	11.2	10.6	10.1
Young stands tended	thousand ha							
	25.2	23.0	22.5	27.0	29.4	30.1	29.9	26.8
Construction of forest roads	km							
	–	191	340	383	520	617	554	534
Net sales	million LVL							
	16.8	22.2	27.7	45.9	65.3	68.8	100.1	162.4
Profit after taxes	million LVL							
	0.3	1.0	5.2	13.7	33.8	22.9	44.3	92.7
Investments	million LVL							
	2.3	0.7	4.9	6.5	11.4	17.1	25.2	29.2
Contribution to state and municipal budgets	million LVL							
	13.1	13.2	13.7	18.5	20.6	21.6	26.4	38.7



and large snow drifts heaped up in winter.



Facts



LVM structure



Intensive cultivation of forests decreases the global warming.



Number of employees

Number of employees – 746, excluding seasonally employed



Corporate Management	64	8%
LVM Roundwood Supply	92	12%
LVM Forest	371	48%
LVM Seeds and Plants	121	16%
LVM Hunting and Recreation	36	5%
LVM Real Estate	29	4%
LVM Forest Infrastructure	56	7%

Education



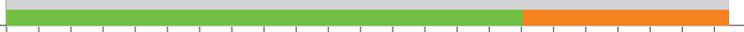
University	536	70%
Secondary	222	29%
Basic	11	1%

Age



To age 30	151	20%
From 31 – 40	215	28%
From 41 – 50	256	33%
From 51 – 60	113	15%
Over 61	34	4%

Gender



Male	514	67%
Female	255	33%





*Occasionally some men appeared and planted trees -
for the grandchildren, so to say.*

Development through change



The world is changing. We are a forestry company and we feel the impact of global warming upon nature. Similarly, the climate changes have a growing influence upon our work. It was felt very acutely in 2007, when there was no winter in the Eastern Europe. Almost the whole region had to interrupt or significantly reduce the volumes of harvesting. Thus the greatest benefit from the forest roads that we have constructed was the fact that, irrespectively of nature conditions, we have been able to ensure an uninterrupted flow of timber from our forests. Timber from state forests, with guaranteed stable deliveries has turned into a much demanded commodity. In the future we have to expect more of such warm and wet winters, thus the forest road development program has a growing and strategic importance for the competitiveness of Latvia's forest sector in general.



Roberts Strīpnieks,
Chairman of the Board
JSC "Latvijas valsts meži".

More and more people are becoming aware that something is not quite right. The storm that swept over Latvia at the beginning of 2007 and caused much damage to Latvia's forests is an abnormal phenomenon. The end of autumn, November has been the traditional season of storms in Latvia, not January. This testifies to something else. Something has changed. It is causing anxiety to people all over the world, including politicians. Therefore an increasingly greater attention is paid to forest. Why? Because one of the factors causing climate changes is the elevated concentration of carbon dioxide in the atmosphere, which has been caused by human activities. The forest acts in the opposite direction. It absorbs carbon dioxide. In order for one cubic metre of timber to grow it has to bind from the atmosphere one tonne of carbon dioxide (CO₂) and emit in the atmosphere more than 700 kg oxygen. It is more important that this absorbed carbon dioxide in the form of timber reaches people and serves them, replacing many non-renewable materials and fossil fuel that causes climate change.

This is the reason why intensive forestry is regarded as an important aspect for environment protection in the future. In 2007 the EU policy makers understood at last the potential of timber biomass in energy production. Thus the decisions that were adopted and the aims that were set envisage considerable increase of the share of renewables in energy consumption. For us, the largest producer of energy biomass in Latvia, this sets new, challenging aims and confirms that by developing the wood chips business we have chosen the right direction. In future this business is going to develop very rapidly and in the nearest future the company will have to decide on the future line of action to take. Do we want to remain only a supplier of raw materials, or do we have much larger ambitions and wish to become the developers of the green energy sector in Latvia? In any case for the company this will mean intensive forest growing and production of more timber, both for traditional kinds of usage and as an energy resource.

For the joint stock company "Latvijas valsts meži" (LVM) 2007 has been the most successful year since the establishment of the company. All factors needed to implement all plans coincided. In 2007 with the decrease of the flow of round timber from the East the heavy-weights of European timber market started intense competition for Latvia's timber, which drove the prices to unprecedented heights. Thus the company had met its financial targets already by the end of the 3rd quarter. The favourable situation allowed the company to focus upon the future development. Changes were necessary, because with the growing labour costs, which in 2007 in the public sector increased even by 40%, Latvia as to the costs has become equal to other EU states. Therefore in 2007 the preparatory work to introduce changes in the business processes of the joint stock company "Latvijas valsts meži" was successfully completed. For example, improvements to the planning system in the structural unit "LVM Forest" were prepared. This work was completed without negative impact on the production objectives of the company. It is an outstanding achievement. Major or minor organisational changes have been successfully implemented also in other structural units. Thus we might say that we have made good use of the time allocated to us. We are going to enjoy the fruits of these changes for many years to come. The world is changing, and the joint stock company "Latvijas valsts meži" tries to keep up with these changes.



One of the current LVM tasks is to research the possibilities for maximum use of timber.

Events



The traditional prize for achievements in the forest sector acquires a new name – “The Golden Cone”. Ēriks Stendzenieks, author of the idea, explains: “The cone is an embodiment of the simplicity, openness and the beauty of Latvian forests – with a simple soul and sophisticated form, open as the Sun, warm as the blessing of the house and tenacious as a Latvian.” Andris Jurevskis, a LVM employee of many years, was awarded the prize “For the Contribution of a Life-Time”.

A satisfaction study among employees of the LVM was performed at the beginning of 2007, and it demonstrated the importance of various aspects of the work – the contents and the conditions of a job, the image of the company, the line manager, the colleagues, the issue of remuneration, the career opportunities and the flow of information.

On January 13 and 14 a strong storm swept over Latvia, falling down approximately 200 000 m³ of timber. The damage caused by this storm cannot be compared to the catastrophe of 2005, when approximately 3 million m³ of standing timber was felled in LVM forests, and yet the total damage is substantial and estimated as worth of several million lats. In January strong storms happened also in other places, causing major damage to European forests.

“Latvijas valsts meži” in cooperation with the Forest Development Fund donates to Latvian schools the methodological aid “Explore the Forest”, which will be of use to all primary school teachers willing to bring their pupils in closer contact with the forest and the environment. “Explore the Forest” covers three dimensions – environment, economy and the social sphere, thus this book will serve as a support to teachers in developing educational activities.

With the aim to support the development of research and education of specialists, as well as to attract young specialists to LVM, the company started paying grants to students of Latvian Universities. The grants are awarded from March, 2007 to June, 2008. The amount of the monthly grant varies in the range from 70 to 130 LVL, depending on the year in which the grant holder studies. In general the grants will be awarded to 4 students of the second year, 2 students of the fourth year, 2 students of the master course.

“LVM Seeds and Plants”, the structural unit of LVM has started large scale production of hybrid aspen tree seedlings. In the spring of 2007, 50 thousand seedlings were grown, of which 18 thousand seedlings were exported to Lithuania. It is planned to grow annually at least 500 thousand of hybrid aspen tree seedlings, which would allow planting 450 ha of forest-plantations annually. To reach this aim in 2007 a modern industrial crop lab was commissioned.





Cūkmens, the leading character of "Latvijas valsts meži" campaign "Don't Litter in the Forest!" regularly participates in the stages of LMT car races. Cūkmens is not aiming at obtaining the status of an official participant, but has decided to draw the attention of the participants and the audience to the environment issues at the sites where the event is held.

To draw the public attention to the environment pollution caused by air traffic, the airplane ticket portal Lidot.lv in cooperation with LVM organised a campaign "Thinking of Flying? Plant a Tree!". As part of the project all visitors of the portal, when purchasing a plane ticket in the portal, could also buy and plant a tree, which by growing up would absorb the pollution caused by the plane. 300 people responded to this Internet offer, and 90 of them participated in the final planting activity, planting a birch tree with special planting tubes in a specially prepared soil. The tree planting campaign was also supported by the company "Amadeus", the provider of IT technologies to tourism industry and the airline SAS.

On May 18 at Kalsnava arboretum the new information centre was opened. Kalsnava arboretum (dendrarium) has the largest collection of ornamental trees and bushes in the Eastern part of Latvia. 2249 various ligneous plants – 420 coniferous and 1829 broad-leaved trees grow there. As to the diversity Kalsnava arboretum has the second largest collection of ligneous plants in Latvia.

The forest is good.

This year LVM started a large-scale campaign "Mammadaba It means Mother Nature. And it's true", urging people to spend their leisure time in forests, in nature. This spring all the lovers of active recreation and nature received one more present – tourism and recreation centres "Ezernieki" and "Spāre". These are surrounded by state owned forests, offering excellent possibilities for recreation, angling, boating, observing nature, birds and animals, and most of all – getting away from the city noises and daily hustle, forgetting about supermarkets and numerous obligations and enjoying what has been granted by nature.



Events



The joint stock company "Latvijas valsts meži" already for the second season is offering to all interested parties to catch crayfish in Tērvete water basin and the Lielaucē Lake managed by the company. All 1000 licences granted for the season were sold out within less than a month. Many have said that the crayfish found in the water basins managed by LVM are among the largest in Latvia.



At the beginning of June the annual conference of the managers of the state owned forests was held in Scotland, the representatives of "Latvijas valsts meži" were among the participants. The main topics that the conference dealt with this year were the role of forests in reducing the global climate changes and the production of renewable energy from wood. As part of the conference the board meeting of EUSTAFOR was held, Roberts Strīpnieks, the Chairman of LVM Board was repeatedly elected to it.

From July 27–29 the traditional LVM forest games were held in Madona region with the aim of facilitating sports activities, ingenuity and erudition of the company employees. Many employees as part of the "Forest Sports" team participate in the European Foresters' Nordic Skiing and (EFNS) and Orienteering Championship (EFOL).



On September 15 in Tome, Ogre region, the Latvian Championship in Mushroom Picking took place; it was supported also by the joint stock company "Latvijas valsts meži". Roberts Strīpnieks, the Chairman of the Board, emphasizes that it would be worth it to develop mushroom picking as a kind of sports, considering the optimum forest climate conditions of the country and the numerous fans of mushroom picking, willing to dedicate their spare time both to their hobby and to nature.



Fossil resources
are not renewable.



In 2007 "Latvijas valsts meži" started offering a new service to the visitors – a ride on the Fairy Tale Train. The train consisting of one locomotive and two carriages with the seating capacity of 40 park visitors offers the possibility to visit the most popular tourist sites within a short period of time. The mini train is the only train of this kind in Latvia, giving joy of new adventures to the tourists. It was awarded the prize of "The Most Successful New Tourism Product" at the competition organised by the Agency for the Development of Tourism.

On November 1, at "Mazsili" nursery of "LVM Seeds and Plants", the new line for sorting and packing saplings was launched. Similar lines are functioning at Strenči and Podiņi nurseries. These were custom developed for LVM by the Swedish company of seedling production technologies "BCC AB" and Latvian limited liability company "Peruza".

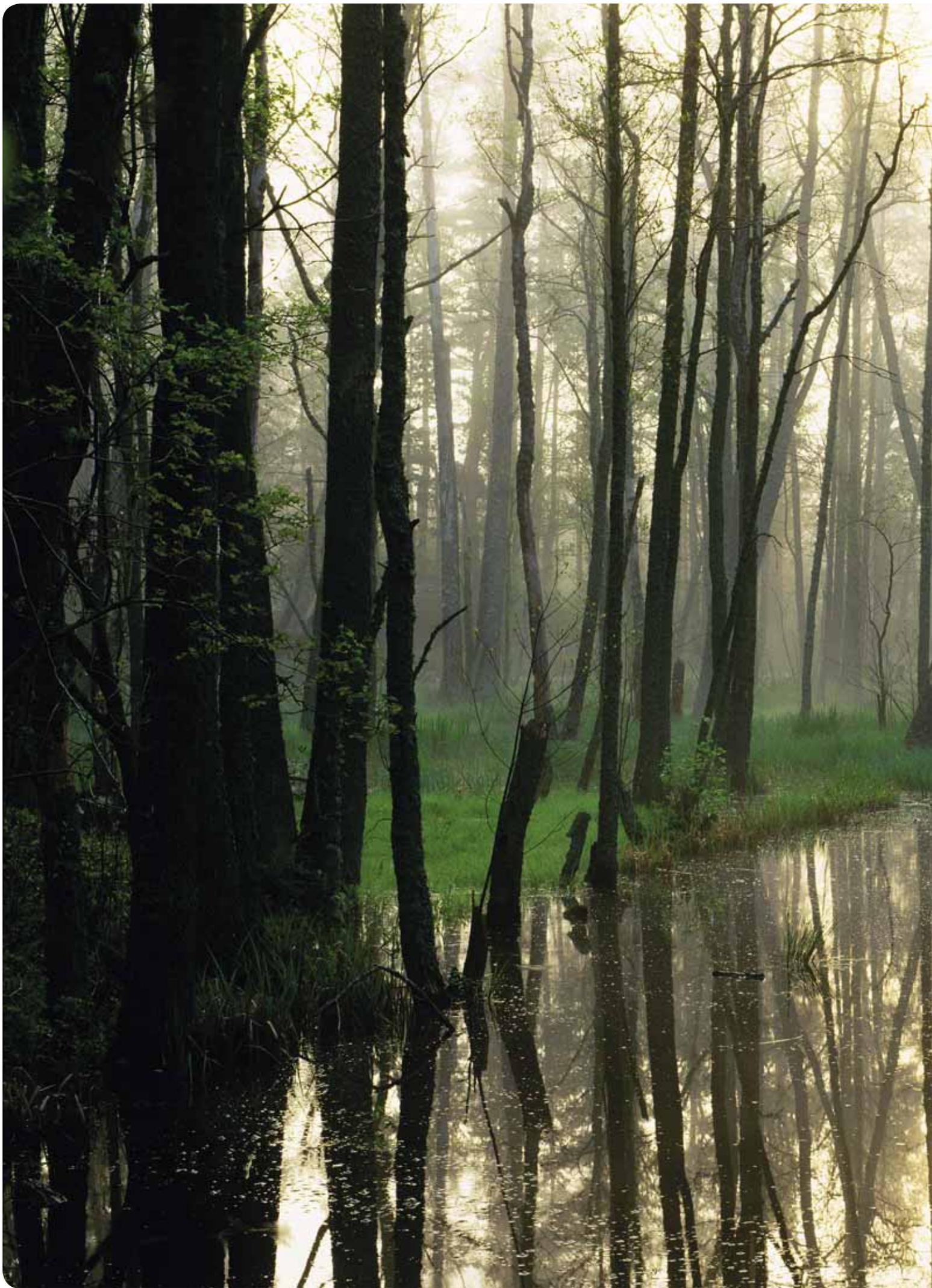
To embody the corporate values and to take into consideration the opinion and the wishes of the staff, LVM in 2007 organised corporate training for its employees, with the main aim of team building and developing effective cooperation, emphasising friendliness and joy of living. A survey of the employees was performed after the training, the general results were very positive – the employees wish to participate in similar training also in the future, they emphasize the significance of the training, the fact that it made cooperation with colleagues from other structural units easier; it was now simpler to approach them and find a common language. The positive and friendly atmosphere of the training was also acknowledged.

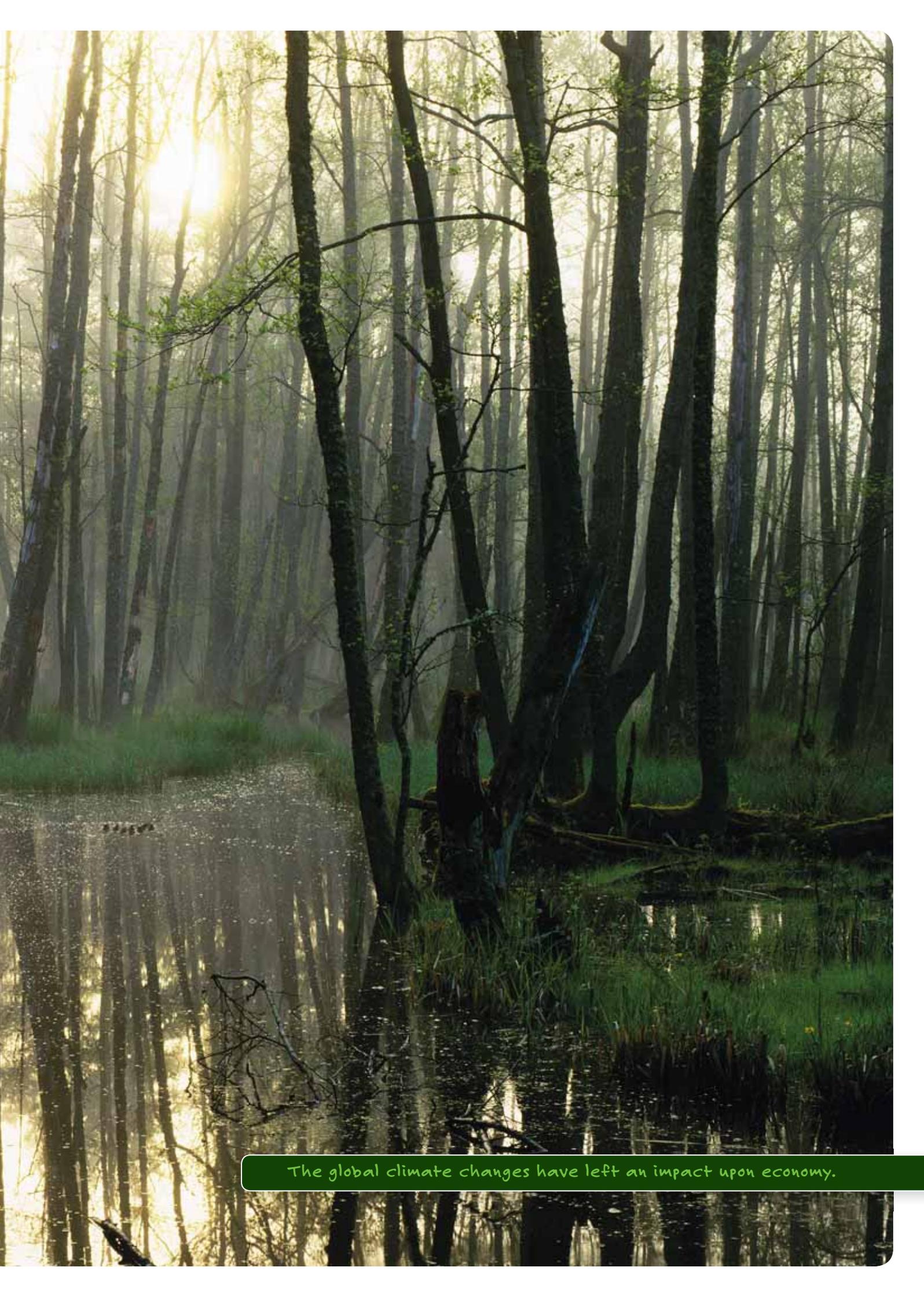
On November 30 and December 1 of this year an international conference "Forest Sector – the Safeguard of the European Economic Stability" was held in Latvia. It was organised by Latvian Federation of Timber Industry and the Association of Forest Owners in cooperation with the Ministry of Agriculture with the aim of raising the public awareness of the forest sector's role in the economy and the necessity to implement measures promoting the development of the sector in conformity with the market situation and social responsibility requirements.

Wood is
renewable!

The Ministry of Children and Family Affairs granted the status of "A Family Friendly Company" to LVM. The status is granted for the period of two years, after which reassessment takes place. This is not the only award characterising the family friendly policy of the company. Tērvete Nature Park, managed by the share company "Latvijas valsts meži" already received an award as "The Most Family-Friendly Site in Latvia".







The global climate changes have left an impact upon economy.



To reach long-term goals of environment protection LVM is not planning any kind of economic activities or the main fell in more than 10% of the forests, in addition to that 6% of the forests are managed only with selective cutting. During the breeding season of birds – from April 15 to June 30 the young stands are not thinned, but from March 1 to August 31 no harvesting takes place in the buffer zones of micro reserves of protected birds.

In 2007 LVM was involved in a number of international environment projects: projects financed by the European Commission LIFE-Nature program – “Implementation of Mire Habitat Management Plan for Latvia”, “Protection and management of the Northern Gauja valley”, “Pape Lake – conservation, preservation and evolution”, “Improvement of habitats management of Natura-2000 site – Vestiena”, as well as in the project funded by the United Nations Development Program and the Global Environment Facility “Biodiversity Protection in North Vidzeme Biosphere Reserve” and the project financed by INTERREG “Development of bicycle routes in the Baltic Country of Lakes”.

Since 2003 LVM in cooperation with Latvian Ornithology Society (LOS) has been monitoring the nesting sites of the black storks (*Ciconia nigra*). As part of the monitoring in 2007 all historically known (in accordance with the information at the disposal of LOS) potential nesting sites of the black stork in the territory under the management of LVM (268 objects, including 208 nests of the black stork) were surveyed. Ornithologist Maris Strazds reports that this year the largest number of black stork nesting sites have been surveyed out of all monitoring performed within one year. 68 employees of LVM were involved in the project; 1230 hours (153 human days) were allocated for this work. LVM employees gained experience and knowledge about the status of black stork population in Latvia, the factor influencing it and the methods of assessment.

The forest
is beautiful.

Almost 80% of Latvia's black stork population live in LVM forests. More than 90% of the micro reserves established in Latvia for black stork, lesser spotted eagle (*Aquila pomarina*) and capercaillie (*Tetrao urogallus*) are found in the state owned forests.

The internal regulations provide that with regard to all planned LVM activities the environment impact assessment has to be performed. With regard to those that might have a significant impact (forest infrastructure development and maintenance works) written statements are prepared, inter alia, also about measures to decrease the impact upon environment. In 2007 more than 230 statements were prepared.

LVM in cooperation with the experts from the University of Latvia have developed the basic principles for planning the design of cutting areas in "visually sensitive" locations and demonstration sites have been set up. LVM have participated in the development of landscape ecological plan (LEP) of Ziemeļvidzeme biosphere reserve, cooperation continues in the implementation of LEP in the territory managed by LVM.

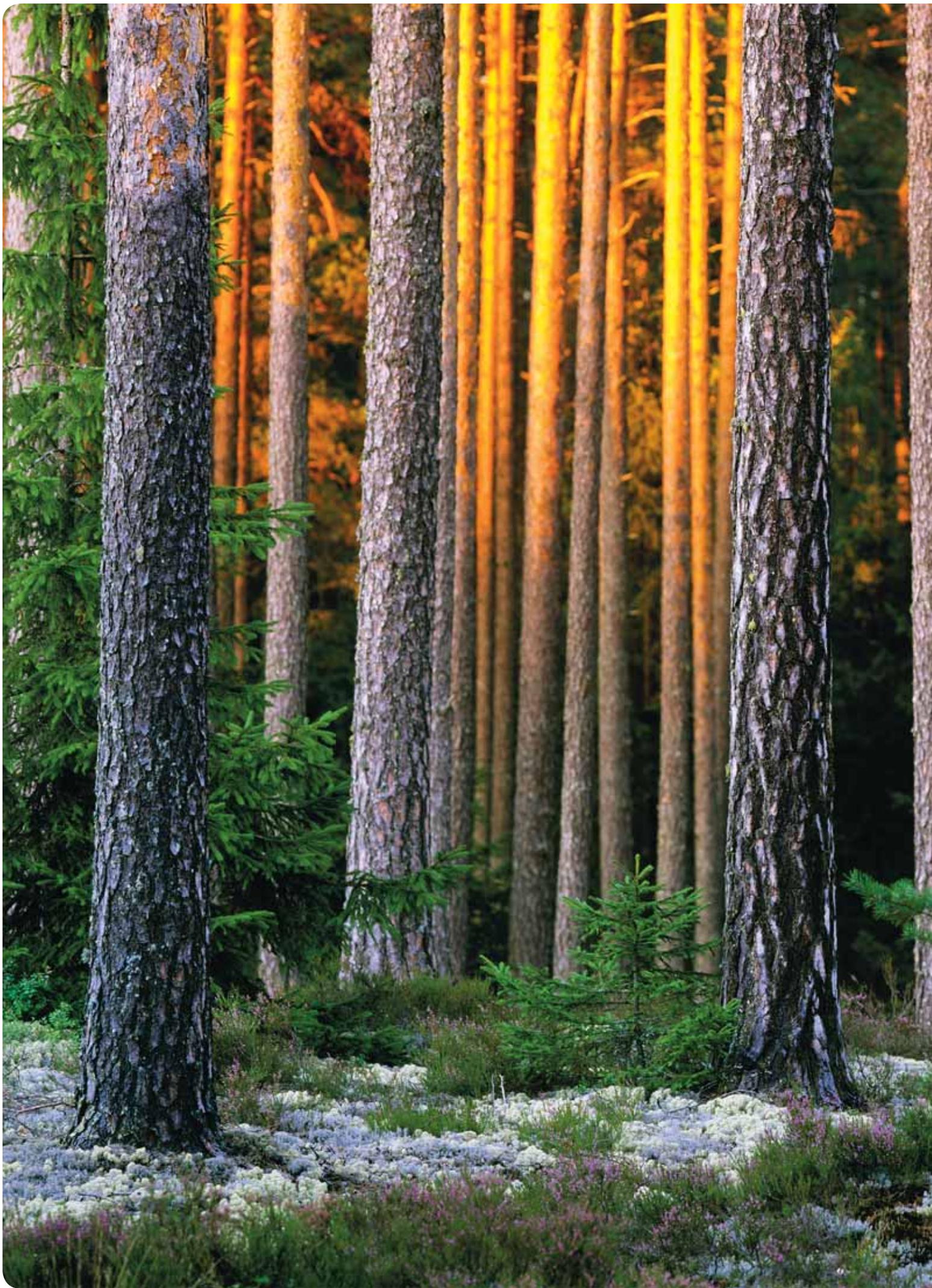
From 2002 to 2007 LVM has funded the development of almost 60 nature conservation plans (NCP) for the specially protected nature territories (SPNT) and the work to implement the approved plans continues. In 2007, 3 NCP were developed and the planned nature conservation measures were implemented in more than 10 SPNT: management of protected forest and meadow habitats, capercaillie leks, nature trails were set and information boards placed, foot-bridges in wetlands, observation towers were constructed, recreational sites equipped, other works were done.

The works to equip sites of public importance were carried out not only within protected territories, but also outside them. In general 290 out of 400 sites to be equipped by LVM (recreational sites, nature trails, etc.) were set up during the year. 20 of these are managed in cooperation with the local governments.

To reduce the amount of litter in forests LVM not only organizes public campaigns and volunteer clean-ups, but makes annual financial investments to collect litter from forests. In 2007 more than 3.2 thousand m³ litter were collected in the forests.



Zemgale Forest region of LVM received Culture Heritage Annual Prize awarded by the State Inspection for the Protection of Culture Monuments "The Best Owner of Culture Monuments" for the management of culture monuments in Jelgava region. Four objects managed by LVM (Skrīverī Dendrarium, Koknese Park, Dundaga Castle Park, Zaļenieku Manor House Park) in 2007 represented LVM at the Days of European Culture Heritage, dedicated to historical gardens and parks.





While growing one cubic meter of timber binds a whole ton of CO₂ and produces 727 kilograms oxygen.



The 1st of May is the comeback date of the LVM campaign "Don't Litter in the Forest!", the launch of the new season of fighting against litter in forests. In May Cūkmens embarked on an ambitious tour "The Coastal Blast" through the coastal schools from Nīca to Ainaži!

On May 19th, during the Museum Night Cūkmens together with the TV character Dullais Didzis was conducting experiments with plastic in the yard of the Latvian Nature Museum. Plastic, especially polyethylene shopping bags have turned into a symbol of consumption and pollution, and large quantities of them are found also in the forests. Plastic is the main problem on which LVM anti-littering campaign was focusing attention this year.

On May 23 the great volunteer clean-up was held in Lilaste, everybody was invited to participate. During the clean-up on the shore of the Lilaste Lake the first collection point of plastic bottles was opened – as a call to set up already this year a system for collecting plastic bottles for a refund. During the clean-up it was possible to deliver PET bottles, receiving pink candies in exchange for them. The plans for the future are to implement a system when for each delivered bottle a refund in the amount of several santims would be provided.



This is the right moment for reassessing the forest's place in the contemporary world.



On July 18 in Tērvete Nature Park the first final contest of Forest Olympic Games in Latvia was held. The best nine teams of primary schools from all over Latvia gathered for it. To select the participants of these Olympic Games the joint stock company "Latvijas valsts meži" during the school year 2006/2007 announced the first two rounds of the Forest Olympic Games, selecting 18 best final contestants. In difference to the traditional contests in school subjects these are held outdoors – in the forest. The main prize is a trip abroad to explore nature. The winners of 2007 Forest Olympic Games went to the largest Forest Museum in Finland – "Lusto".

On August 13 as part of the campaign "Don't Litter in the Forest" the TOP 10 most littered roadsides were selected. With this the Ministry of Transportation, "Latvijas valsts ceļi" (Latvian State Roads) and "Latvijas valsts meži" launched a campaign against the widespread phenomenon – littering the roadsides. During the previous year the drivers were targeted with the call "Don't litter on the roadsides", however, the situation in many sites still shows that it is necessary to place warning road signs "Beware of Swine!"



In the middle of summer LVM, jointly with specialists from the forestry and education sectors organised two environment education camps for pupils at Tērvete Nature Park on sustainable forestry. From August 13 to 17 young nature explorers aged 6–10 combined leisure and research activities in nature. Children went on exploration trips: visited protected nature sites, as well as tree nurseries and saw-mills.



Society

To plant wisely,
to tend wisely,
to harvest wisely.



On August 23 LVM in co-operation with the Eco School Movement organised an educational seminar for teachers "Explore the Forest". During the seminar the teachers were informed about the activities in the field of forest education implemented by the State Forest Service, the Ministry of Agriculture, World Wildlife Fund, "Stora Enso", Ltd. and the joint stock company "Latvijas valsts meži". A special educational trip to Tērvete Nature Park was organised for the teachers, where they opened the new forest education trails.



On September 1 two new forest education trails started functioning at Tērvete Nature Park: the Trail of Mother Nature and the Wetlands Trail, in future experienced teachers of natural sciences – specialists in environment education – will be the guides of these trails.

On September 18 during the Cabinet of Ministers meeting the draft law, prepared by the Ministry of Environment – "Amendments to the Law on Nature Resources Tax" – was approved. Prior to taking the vote the ministers were addressed by Cūkmens himself, he invited the ministers to fight against the pinnacle of swinishness. Cūkmens presented to all ministers paper bags, which are not hazardous to the environment.





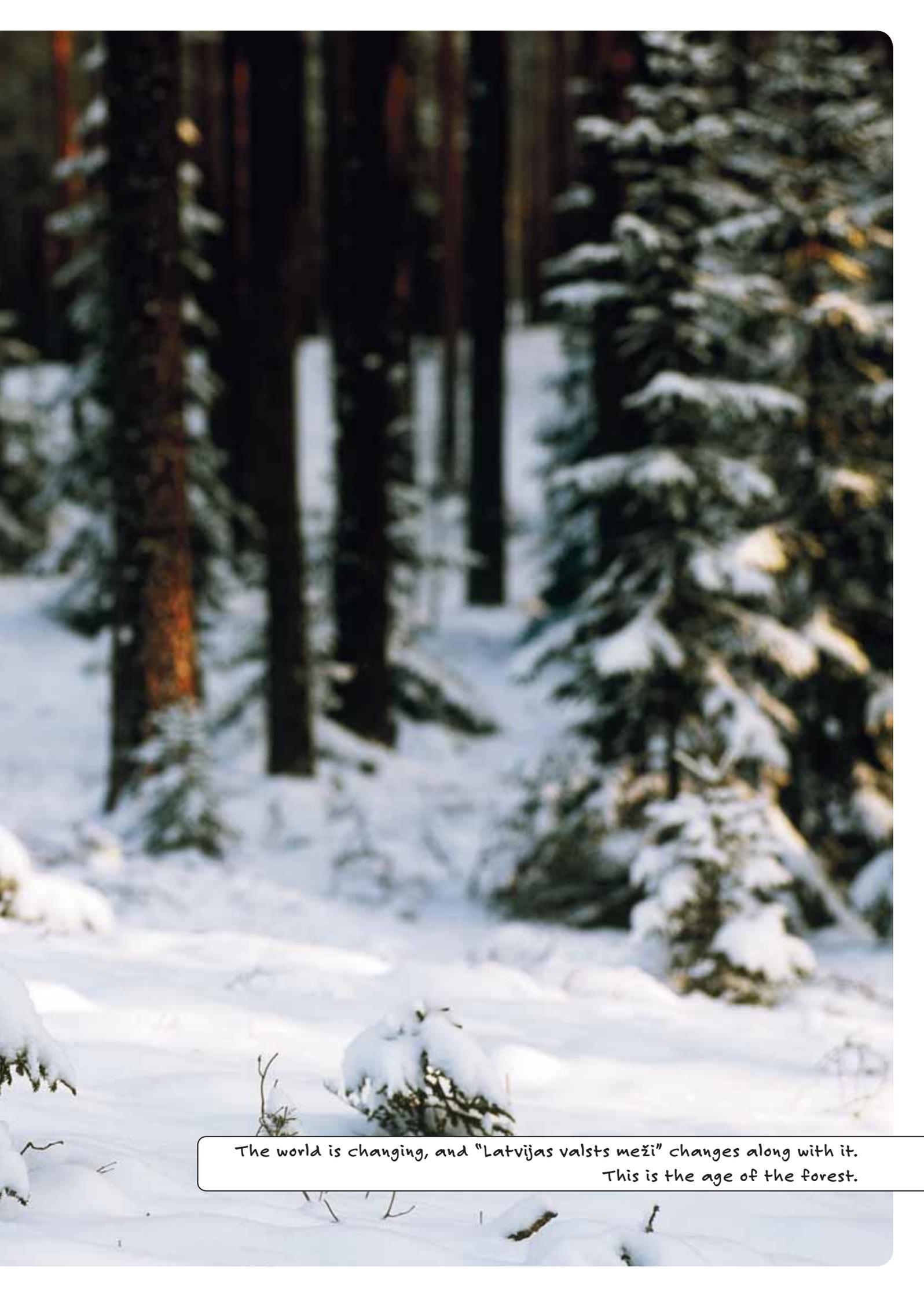
On October 5 in 25 places the longest volunteer clean-up for tidying up the coast in the history of Latvia takes place. The clean-up was organized by "Latvijas valsts meži", the group of likeminded people "Clean Forests", the local governments of Latvian Coastal regions and the Association of Latvian Local Governments. In each place where the clean-up was held the participants gained not only satisfaction for the tidied up place and a job well-done, but also prizes from DnB NORD Bank. Apart from the practical significance of the clean-up – cleaner forest, gathered litter – the clean-up "From Rucava to Ainaži" is essential in showing that tidying up the forests is turning into a meaningful movement.

Section Fairy Tales of the Forest was set up with the support of LVM in the new fairy-tales portal www.pasakas.net, where fairy tales dedicated to the beauty of forests and aiming to stop littering in the forests can be read and listened to. A contest of forest fairy tales was announced in cooperation with portal www.satori.lv and the best works were selected that would promote the joy of reading among children and would urge them to think about the miracles of nature.

In December LVM with the support of the Forest Development Fund published a new book on safety and behaviour in nature environment. The book was donated to all schools in Latvia with the aim to encourage young people to visit forest, feel the forest, live in the forest.







The world is changing, and "Latvijas valsts meži" changes along with it.
This is the age of the forest.

Management Report

Operations

The joint stock company "Latvijas valsts meži" (Latvia's State Forests – LVM) administers and manages state-owned forests in a way that ensures the preservation and increase of their value, as well as revenue to the forest owner – the state. The sole shareholder of LVM is the state through the Ministry of Agriculture of the Republic of Latvia. The company's institutions of governance are the General Meeting, the Supervisory Board and the Management Board. The highest decision making authority is the General Meeting, which represents the interests of the shareholder, the Ministry of Agriculture. The LVM Supervisory Board, in the interests of the shareholder, oversees the work of the Management Board, the highest executive body of the company between General Meetings. On December 31, 2007, the LVM Management Board consisted of 7 members, the chairman of the Board and six Board members.

Activities during the reporting period

LVM governs and manages 1.62 million ha of the land of the Republic of Latvia, including 1.59 million ha forest lands, of which 1.40 million ha are under forests. The territories with the main goals of producing high-quality timber comprise 71% (1.136 million hectares) of the land under the jurisdiction of LVM. Between 2000 and 2007, the increase of land with various levels of necessity for preservation has been noticeable: from 13% (6.21 million hectares) to 28.7% (464.6 thousand hectares). One of the long-term goals of the Enterprise is to increase the amount of managed land, and so, in the year of this review, 415 hectares (1/3 of that planned in this period) have been acquired, and at the end of the year in review the Enterprise has a balance of 2868 hectares of forestland. The 2007 budget and the business activities plan were achieved, and the revenue of the company significantly exceeded the planned, reaching 167.81 million lats or 162% of the planned in the budget.

* the difference between various revenues and costs that are not directly linked to the company's business activities.

	Actual
	Million LVL
Revenue, of which from:	167.81
Round wood assortment sales	81.14
Standing sales	78.36
Sales of chips for energy production	0.25
Sales of seeds and planting stock of forest trees	1.14
Land lease and sales of the entrails of the earth	0.37
Lease of hunting grounds	0.44
Recreation and hunting services	0.51
other revenue*	1.32
interest revenue	4.28
Total costs	57.97
production costs	55.71
administration costs	2.26
Real estate tax	2.04
Profit before company income tax	107.80
Company income tax	15.13
Profit after taxes	92.67

The joint stock company "Latvijas valsts meži" in 2007 has fully met its commitments vis-à-vis the forest owner, i.e., the state, by making the payment envisaged by "Law on 2007 Budget" – dividends (16.7 million lats) and all taxes applicable to LVM (17.5 million lats).

In accordance with the deductions allowed under the Law "On Corporate Income Tax", LVM contributed LVL 1.7 million to charitable organizations during the reporting period.

In the year 2007, the activities carried out in order to increase the value of forest capital assets and to fulfill the commercial operations plan conform to the planned. In accordance to the methodology submitted to the shareholder (phase 1 the Long-Term Plan for the Management of Forest Capital), the calculated value of forest capital administrated by LVM increased by LVL 27 million as a result of forest regeneration and tending.

An average target model included in the plan was used and work (forest regeneration and tending) was done accordingly. In 2007 10 110 hectares of forest were regenerated with the tree species, regeneration methods and technologies foreseen by the plan. 47 470 hectares of forest were tended (tending of young stands and thinning) in accordance with the frequency and intensity set forth in the aforementioned plan.

To increase total length of the company's truck-accessible roads 534 kilometers of forest roads were built in 2007, at an investment of LVL 22.4 million and added to company's assets.

The most important LVM community relations projects in 2007:

- Don't Litter in the Forest, targeted against polluting forests with litter;
- Campaign to promote the Mother Nature brand;
- Project targeted at young audiences "Explore the Forest" with the conclusion of the Forest Olympic Games at Tērvete Nature Park.

	Actual
Standing sales, million m ³	2.80
Round wood assortment sales, million m ³	1.83
Sales of energy chips, million loose m ³	0.07
Forest regeneration, thousand ha	10.1
Forest (young stand) tending, thousand ha	26.8
Renovation of forest drainage systems, thousand ha	14.8
Forest inventory, thousand ha	98.8
Registration of land in the Land Register, thousand ha	42.3

The total planned volume was offered for long-term contracting of forest harvesting and by 5% more than planned in the auctions, however, the partners of cooperation had less interest in standing timber sales and thus the total sales volumes reached 91% of the planned. The failure to meet the planned sales volumes with regard to fuel chips was caused by many factors, predominantly linked to LVM and the service providers' lack of experience.

In 2007 land surveying and registering into the Land Register was completed in the area of 42.3 thousand ha. Thus the total surveyed and registered area under the company's management is 314 thousand ha.

Management Report

The Development of the Company

To improve the planning process and forest management, the substantiation and plan to optimise the LVM structure was developed, it has been implemented, as the result of which starting with January 1, 2008 the planning has been separated from the function of production and was centralised.

To improve planning within the company the project "Improving the Planning" was implemented, resulting in the adoption of a uniform and centralised planning process in LVM, and the implementation of the action plan to introduce this process has started. The improved planning has improved the process of corporate management, the responsibility for the planning process on various levels has been defined, and the planning process within the company is organised on the basis of strategic planning.

To increase the efficiency of forest infrastructure maintenance, a concept for transferring this function from the structural unit LVM Forest to the structural unit LVM Forest Infrastructure starting with January 1, 2008 was prepared and implemented.

To develop the use of wood for energy, work with the potential partners continues with regard to cooperation possibilities in using timber biomass in Latvia. To support the development of synergy in concerted research, LVM participated in the development of the strategy for the Competence Centre of the Forest Sector.

In accordance with the lines of research defined by the corporate strategy of the company, research contracts for one year and longer periods have been concluded with regard to the following lines of research:

- improvement forest tree species productivity by breeding methods and evaluation of wood quality
- possibilities for reducing phyto- and entomological risks
- methods for determining the value of forest capital and the development of value-enhancing models for forest management
- monitoring the condition of natural resources and methods for their management
- use of forest resources for energy production, increased efficiency of forest harvesting technologies and support for timber delivery logistics

Financial Risk Management

LVM ensures its commercial operations in accordance with a long-term development plan by using financial resources at the disposal of the company. Financial management is conducted centrally within the company, and the level of liquidity fully ensures a timely meeting of all liabilities toward commercial partners and the state. Since almost all revenues, in view of the market where sales occur (more than 99% are in Latvian lats), the exchange rate risk to the financial indicators of the company is minimal. During the reporting period there has been a significant rise in accounts receivable, but this has not had an effect on the financial stability of the company, since the majority of receivables are short-term. The company's accumulated cash resources are placed in low risk short-term financial instruments by buying liquid securities and investment in bank deposits with the aim of stable return.

International participation

Attendance of the annual conference of the managers of state owned forests. The main topics of the conference this year were the role of forests in mitigation of the global climate changes and the production of energy from renewable resources – timber biomass. In the framework of the conference, the Board meeting of EUSTAFOR (European State Forest Association) took place, during which the members agreed upon the strategic aims and the mission of the organisation – to provide professional and high quality opinions to the decision makers on the issues of forest management.

Conditions and developments after the end of the accounting year

In the time between the last day of the reporting period and the signing date of this Report there have been no noteworthy developments that could significantly affect the operations of the company.

Main targets for 2008:

- Organize forest tending-fells in all areas not covered by long-term harvesting agreements, using the capacity of LVM Roundwood Supply.
- Implement the pilot project for the tree extraction in felling sites with the aim to increase the amount of wood-waste available for the production of chips.
- To perform forest inventory in Dienvidkurzeme Forest Region using new technology – aerial laser scanning.
- Start treating the stumps of coniferous trees with a fungicide of biological origin in order to curb the spread of root rot in the stands of coniferous trees.

Profit and Loss Account

	2007	2006
	LVL	LVL
Net sales	162 354 057	100 109 019
Cost of sales	(52 029 942)	(43 167 607)
Gross profit	110 324 115	56 941 412
Selling expenses	(508 759)	(408 307)
Administrative expenses	(5 433 694)	(4 040 403)
Other operating income	923 324	154 309
Other interest income and similar income	4 555 118	1 094 585
Interest expenses and similar expenses	(16 521)	(4 031)
Profit before taxes	109 843 583	53 737 565
Corporate income tax for the reporting period	(14 892 863)	(6 580 273)
Change in deferred tax	(237 837)	(300 230)
Other taxes	(2 044 586)	(2 584 391)
Net profit for the year	92 668 297	44 272 671

Finance report

Balance sheet

	31.12.2007.	31.12.2006.
	LVL	LVL
Assets		
Long-term investments		
Intangible long-term assets	203 103	183 441
Fixed assets	81 252 313	56 968 660
Biological assets	3 430 154	2 266 046
Long-term financial investments	1 443 320	1 413 320
Total long-term investments	86 328 890	60 831 467
Current assets		
Stock	5 249 399	3 765 642
Debtors	7 719 117	4 605 402
Securities and participating interest	78 960 064	24 283 926
Cash	8 789 895	8 168 883
Total current assets	100 718 475	40 823 853
Total assets	187 047 365	101 655 320
Equity and liabilities		
Equity		
Share capital	71 132 127	43 616 347
Profit for the previous period	995 592	933 459
Profit for the reporting period	92 668 297	44 272 671
Total equity	164 796 016	88 822 477
Provisions	5 316 576	3 067 191
Liabilities		
Long-term liabilities	942 638	704 801
Current liabilities	15 992 135	9 060 851
Total creditors	16 934 773	9 765 652
Total equity and liabilities	187 047 365	101 655 320

Roberts Strīpnieks,
LVM Chairman of the Board

INDEPENDENT AUDITORS' REPORT

To the shareholders of
of VAS Latvijas valsts meži

We have audited the financial statements of VAS Latvijas valsts meži for the year ended 31 December 2007, from which the condensed financial statements of VAS Latvijas valsts meži were derived, in accordance with International Standards on Auditing issued by the International Federation of Accountants. In our report dated 22 April 2008 we expressed an unqualified opinion on the financial statements of VAS Latvijas valsts meži for the year ended 31 December 2007, from which the condensed financial statements were derived.

In our opinion, the accompanying condensed financial statements are consistent, in all material respects, with the financial statements of VAS Latvijas valsts meži for the year ended 31 December 2007 from which they were derived.

For a better understanding of VAS Latvijas valsts meži financial position as of 31 December 2007 and the results of its operations for the year then ended and of the scope of our audit, the accompanying condensed financial statements should be read in conjunction with the financial statements of VAS Latvijas valsts meži for the year ended 31 December 2007, from which the condensed financial statements were derived, and our audit report thereon.

SIA Ernst & Young Baltic
Licence No. 17



Iveta Vimba
Personal ID code: 210275-12309
Member of the Board
Latvian Sworn Auditor
Certificate No. 153

Rīga, 14 May 2008

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And wisdom.