JOINT STOCK COMPANY LATVIJAS VALSTS MEŽI

(UNIFIED REGISTRATION NUMBER 40003466281)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

(20th financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED IN THE EUROPEAN UNION
TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2020

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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	Arvīds Ozols
Responsible representative of the Ministry of Agriculture	Normunds Strūve
Board Members	Roberts Strīpnieks – Chairman of the Board, re-appointed on 06/05/2017 Gints Bumbieris, re-appointed on 06/05/2017 Arnis Melnis, re-appointed on 06/05/2017 Edvīns Zakovics, 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 2019
Auditors	Iveta Vimba Latvian Certified Auditor Certificate No 153 SIA Ernst & Young Baltic Muitas 1A, Riga Latvia, LV – 1010 License No 17

Management report

28 April 2020

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 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 a total of 1.62 million hectares of land of the Republic of Latvia, including 1.59 million hectares of forest land, of which 1.39 million hectares represent forests. LVM manages 16.8% of the total forest area and more than 20% of the total land area (forests, swamps, agricultural land, water bodies) following nature conservation objectives. Forest in nature protection areas covers 0.24 million hectares, where territories of 0.15 million hectares are subject to statutory bans on forestry and final felling. The operating activity aimed at the manufacturing of high-quality wood is planned for 1.15 million hectares of forest land, of which 0.19 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	**352.52**	**379.63**
Incl. from the sale of roundwood assortment	325.60	345.24
from the sale of standing trees	7.31	7.60
from the sale of forest tree seeds and seedlings	6.29	7.22
from the sale of chips	5.69	7.32
from the sale of underground natural resources and the lease of non-forest land	5.16	5.51
from recreational and hunting services	1.14	1.08
from the lease of hunting rights	0.59	0.59
from business system solutions	0.23	0.30
other revenue*	0.51	4.77
Expense	**227.90**	**228.13**
Cost of sales	**173.13**	**181.74**
Forestry expense	151.95	162.75
Production of forest tree seeds and seedlings	10.01	8.83
Supply of recreational and hunting services	0.76	0.91
Management of underground natural resources	2.01	1.45
Real estate management	0.64	0.37
Land survey and border restoration	1.45	1.29
Business system solutions	0.21	0.14
Forest Days in Tērvete	0.11	0.11
Preservation of sites of public significance and tourist sites	2.19	2.28
Real estate tax	3.80	3.61
Administrative and centralized costs	**54.78**	**46.57**
Depreciation of forest infrastructure	**26.80**	**27.60**
Donations	**4.70**	**5.50**
Profit before corporate income tax	**93.12**	**118.22**
Income tax expense	4.21	13.2
Net profit for the year	**88.90**	**105.02**

*The difference between revenue and expense which is not directly linked to the operating activity of the Company, including appreciation of biological assets

Management report (cont'd)

The profit before corporate income tax earned by LVM in 2019 was EUR 118.22 million, which exceeds the budgeted figure by EUR 25.1 million. The performance has been largely affected by revenue from the sale of timber, chiefly roundwood assortment: EUR 345.24 million in 2019, which is above the budgeted revenue by 6%, or EUR 19.64 million. The revenue target has been surpassed owing to higher sales of roundwood assortment: 6.51 million cubic meters sold in 2019, which is by 0.51 million cubic meters more than budgeted initially for the year. Meanwhile, the average selling price of roundwood assortment for the year was below the budgeted figure: it plunged in the second half of 2019 because customers had much less opportunities for selling finished goods on the market in the second quarter of the year. During 2019, sales of chips from logging residues were up and the selling price of chips was higher than budgeted.

Revenue from the sale of forest tree seedlings surpassed the target because sales for the year 2019 were up by 4 million seedlings, and sales of seedlings grown according to innovative technologies hit a record high. The Company started collecting fir cones and processing seeds of the harvest for 2019. Kalsnava Arboretum had 28.1 thousand visitors in 2019.

In 2019, revenue from the management of underground natural resources grew by EUR 1.1 million year-on-year. In the reporting year, LVM started the mobile production of mixtures of mineral materials using its own equipment and outsourcing of laboratory services.

With a view to ensuring effective forest management, LVM is developing geospatial information technologies for internal needs, offering also related products and services to external customers. Revenue derived in 2019 from the supply of business system solutions to external and internal customers totaled EUR 1.6 million.

During 2019, LVM's Nature Park in Tērvete was visited by 159 thousand tourists, which is the highest ever number in the park's history. Meanwhile, LVM's Pokaiņi Forest was visited by a total of 12.6 thousand people in 2019 based on the number of sold tickets, up 7% from the previous year. A project of the Fish Fund was implemented jointly with Auce Municipality: 24 thousand baby pikes were released into Lake Lielauce. Fish resources were also supplemented in Tērvete by releasing 1 200 kilograms of carps into the local pond.

In 2019, revenue was affected by the appreciation of biological assets (see Notes 8 and 15) and penalties received (see Note 8).

During the year 2019, 16 PEFC and FSC certification audits were conducted. 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, social responsibility, environmental management, compliance with occupational safety requirements and other key aspects of standards were brought to the attention of the auditors. The audits did not reveal any significant systemic deficiencies.

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

In 2019, the joint stock company Latvijas valsts meži fully settled its liabilities towards the shareholder, i. e., the State, by making a payment of EUR 77.2 million (including a payment of EUR 61.76 million for the utilization of the State capital and corporate income tax of EUR 15.44 million) for the utilization of the State capital referred to in Article 46 of the 2019 State Budget Law (dividends for 2018) and paying all taxes attributable to LVM's operations (EUR 34.7 million).

According to the basic principles approved by the Company's shareholder, LVM donated a total of EUR 5.5 million in the reporting year. These donations included EUR 2.0 million for sports support, EUR 0.8 million for forestry development, EUR 0.6 million for cultural support and EUR 2.1 million for social projects. A new donation project was implemented in 2019 in the social area: LVM granted EUR 1.5 million to the municipalities of Jelgava, Valmiera and Rēzekne (EUR 0.5 million to each municipality) for the construction of sports and exploratory recreational areas for children and families in towns.

Management report (cont'd)

Company's operations

	Unit of measurement	Planned	Actual
Sale of products			
Sale of roundwood assortment	million m^3	6.00	6.51
Sale of standing trees	million m^3	0.24	0.23
Sale of fuel chips	thousand Mwh	400	481
Sale of seedlings	million pieces	52.0	56.3
including container seedlings and seedlings with improved root system	*million pieces*	*49.7*	*52.4*
Sale of underground natural resources	thousand m^3	610	860
including sale of certified underground natural resources	*thousand m^3*	*404*	*789*
Land and forest management			
Forest regeneration	thousand ha	15.0	15.1
including natural regeneration	*thousand ha*	*5.9*	*5.8*
Forest (young stand) tending	thousand ha	30.3	31.2
Cleaning of drainage ditches from obstruction	thousand m^3	463.9	479.2
Land registration with the Land Registry	thousand ha	53.0	43.2
Cadastral land survey	thousand ha	24.7	22.0
Border restoration	thousand ha	22.8	19.2
Expansion of managed forest areas	ha	1200	543
Forest infrastructure development			
Construction of forest roads	km	383	389
Reconstruction of forest drainage systems	thousand ha	18.1	23.1

In 2019, forest was regenerated over an area of 9.3 thousand hectares by using tree species and regeneration technologies referred to in LVM's strategic forestry plan, based on actually required volumes. Meanwhile, natural forest regeneration was observed over an area of 5.8 thousand hectares.

In 2019, the land area of 22.0 thousand hectares, which is 89% of the target figure, was surveyed, while State-owned forest land of 43.2 thousand hectares representing 82% of the target area was registered with the Land Registry. The target set for first-time survey and land registration with the Land Registry was not achieved on account of the absence of qualified workforce in the industry, which hindered the boundary demarcation process. A total of 1.6 million hectares, which forms 99.4% of the State-owned land managed by LVM, had been registered with the Land Registry by the end of 2019. LVM will proceed with the official land registration also next year, considering pending litigations, border disputes and defaults on contractual obligations; it is planned to register nearly 6 thousand hectares of State-owned land managed by LVM in 2020.

Investments made in land acquisition to expand managed forest areas achieved 65.6% of the target in 2019 because the demand for forest land substantially exceeded supply on the market. Sale agreements, by which a total of 543.2 hectares were acquired, were signed in 53 cases out of 653 offers received.

In 2019, 389 km of forest roads were put into service (2% above the target), of which 114 km were reconstructed and 275 km were new roads. In addition, six projects of 9 km have been constructed and will be put into service in 2020. All these roads are reported on the Company's balance sheet, and the amount of EUR 40.2 million was invested in the construction. In 2019, forest drainage systems in an area covering 23.1 thousand hectares were reconstructed, which is 128% of the target. A relatively large number of contracts is due to projects in progress since 2018.

In 2019, sales of forest tree seedlings reached 56.3 million, of which 53% (29.8 million) were sold to external customers, including 13.9 million seedlings exported mainly to Sweden and, in small volumes, also to Estonia and Lithuania. 26.5 million seedlings were planted in the areas managed by LVM. 52.4 million seedlings, which accounted for 93% of the total seedling amount, were grown according to innovative technologies (container seedlings and seedlings with improved root system). 12.8 million seedlings underwent special mechanized processing against weevil damage, of which 7.8 million seedlings were exported.

Management report (cont'd)

During 2019, 60 land lease agreements were signed for the purposes of mining over a total area of 16.8 thousand hectares. Mining activities were carried out in a total of 115 quarries. LVM's laboratory for the testing of mineral materials has 11 testing methods accredited, including 2 new methods, and 8 experts in the application of the standardized sampling method. The laboratory conducted 3.3 thousand tests for nearly 2 thousand samples for internal production purposes.

Milestone public relations projects and events of LVM in 2019

The 14th European Forest Pedagogics Congress was organized in Latvia jointly with the National Center for Education and Riga Technical University, and it was attended by more than 120 participants from different European countries.

Forest industry's event Latvian Forest Days (*Latvijas Meža dienas*) was repeatedly conducted in LVM's Nature Park in Tērvete, bringing together 100 various forest management, woodworking and environmental organizations. This two-day event was attended by 13.5 thousand children and adults interested in the industry, who were able to take an active part in forest exploration workshops and various educational activities together with dwarfs, the Pigman and competent industry professionals.

During this school year, the Mother Nature Master Class (*Mammadaba meistarklase*), which is an LVM's environmental education program for primary schools, was completed by nearly 4 thousand primary school pupils from all over Latvia. Nearly 4 thousand children from 129 Latvia's pre-school educational establishments completed the eco-program Pigman's detectives (*Cūkmena detektīvi*).

LVM's forest expeditions for the 6th form covered all LVM's regions – a total of 40 days in 8 regions, 325 expedition groups and nearly 7 thousand children.

In 2019, LVM organized a training day for teachers of educational establishments of the forestry sector, during which colleagues from different LVM's bodies shared their knowledge and work experience with teachers of various Latvia's educational establishments.

Training seminars "Forest regeneration, young stand tending and protection" in Zemgale region and "The importance of forest science for forestry development in Latvia" at the Latvian State Forest Research Institute Silava and LVM's *Zemes dzīles* laboratory were organized for LVM award holders.

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 EU interest and nesting grounds of protected birds across forest areas every year before planning any operations. For example, nest success was estimated for nesting grounds of at least 500 protected birds.

LIFE18 IPE/LV/000014 - LIFE GOODWATER, which is an integrated project to run from 2020 to 2027, was approved in December 2019. The aim of the project is to improve the status of water bodies at risk in Latvia by means of the implementation of measures laid down in the Daugava, Gauja, Lielupe and Venta River basin management plans. The project involves 18 partners, including LVM, whose activities will be related to the assessment of the impact of forest drainage systems on water bodies.

In 2019, LVM's database was supplemented with nearly 3 thousand new, rare and especially protected plants, mushrooms, lichens and invertebrate species, and experts have already recorded a total of more than 26 thousand encounters with rare and especially protected species.

To date, 104.7 thousand hectares of habitats of EU interest were identified in LVM's territories, representing more than 30 types of habitats, of which 5 thousand hectares were recognized in 2019. The largest share consisted of forests and marsh habitats, of which predominant types of forest habitats were old or natural boreal forests and swampy forests.

Nests of protected bird species which have not been identified previously are found each year when verifying potential operating sites. In 2019, LVM's database was supplemented with more than 700 protected bird nests, which had not been identified before. LVM's database has information about more than 5 100 big nests, of which 2 350 are nesting grounds of protected bird species, including information about artificial nest platforms built by ornithologists, which are willingly used for nesting by various birds, for example fish hawks. All inhabited nests are provided with appropriate protection.

The monitoring of protected species and habitats is carried out in the territories held by LVM each year. Monitoring results are used in the planning of measures aimed at reducing the environmental impact produced by the operating activities. For instance, in the spring and summer period forestry activities are banned within a radius of 1 000 m from 276 mating places of the wood grouse (over an area of 91.6 thousand hectares), regardless of the official protection status of relevant territories.

Management report (cont'd)

LVM's contribution to climate change mitigation

Carbon footprint is a carbon dioxide measure that shows the impact of the Company's operations. During 2019, LVM's operations produced a total of 156 098 tonnes of CO_2. The total CO_2 emitted during LVM's operations grew by 26 446 tonnes from the year 2018, which was predominantly affected by the increased production of roundwood assortment, seedlings and underground natural resources. LVM's own footprint is relatively small, forming approximately 4% of total footprint (5 566 tonnes of CO_2), while the remaining 96% (150 531 tonnes of CO_2) are produced by external service providers involved by LVM.

	2018	2019
Emitted CO_2, tonnes	129 652	156 098

In 2019, carbon sequestered by timber products supplied by LVM was 5.8 million tonnes, which exceeds the target by 5% due to higher-than-planned wood production volumes (sawlogs, veneer logs). Sawlogs and veneer logs are used in the construction industry or the production of durable goods, which allows long-term carbon sequestration, while burning firewood releases carbon sequestered by growing trees into the atmosphere in the form of carbon dioxide gas. The amount of carbon sequestered by timber products supplied by LVM is calculated by applying ratios referred to in the research "Development of a model for the calculation of reference levels for carbon (CO_2) sequestration and greenhouse gas (GHG) emissions resulting from forestry activities in Latvia's forests" by the Latvian State Forest Research Institute Silava.

A research of the impact produced by forestry activities on greenhouse gas emissions and carbon sequestration was started in 2011. The research was conducted jointly with the Latvian State Forest Research Institute Silava and completed in 2015. Based on LVM's methodology, carbon sequestered by growing trees in forest areas managed by the Company reached 11 million tonnes in 2019.

Development of the Company and public participation

The construction of a new nursery near Jaunkalsnava has been started in response to the growing demand for container seedlings and bare-root seedlings with improved root system in Latvia and Scandinavia.

LVM has organized two open Forest Days events in every region of Latvia, except for western Vidzeme, where only one event has been held in Dižozols and nobody has applied for participation in the second event.

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

- Research of factors limiting the spread of root rot
- Impact of forestry activities on forest and related ecosystem services
- Greenhouse gas emission and CO_2 sequestration assessment for aged forest stands
- Forest regeneration, afforestation and tending program for 2016-2020
- Forecasts of changes in forest management risks and their mitigation
- Improvement of growing process patterns
- Research program on the improvement of growing conditions for 2016-2021
- Stabilizing role of broad-leaved tree stands for sustainable forest management in Latvia
- Research program on the mechanization of forest operations and forest-based biofuel for 2016-2020
- Forest tree breeding research for the selection of forest reproductive material of high genetic quality
- Improvement of the birch growing practice
- Production of hardwood pulp
- Litter carbon changes in forests with organic soils
- Spiral tree wraps for the protection of trunks
- Studies of the environmental impact of wetland fires and intensity of wetland recovery

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. The 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.

Management report (cont'd)

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 2019.

Subsequent to the year end, in the Republic of Latvia as well as in many other countries in March 2020 there came into effect restrictions to limit the coronavirus spread leading to a considerable economic slowdown in Latvia and all over the world. Further events cannot be predicted, therefore, there is uncertainty as to the economic development. The Company's management is constantly monitoring the situation. 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 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.

Key business targets for 2020

Operating plan:

Sale of products		
Sale of roundwood assortment	million m^3	7.10
Contractual sale of standing trees	million m^3	0.28
Supply of fuel chips	thousand Mwh	498
Seedlings for sale	million pieces	53.3
including container seedlings and seedlings with improved root system	*million pieces*	*50.4*
Sale of underground natural resources (sand, sand and gravel)	thousand m^3	687
including sale of certified underground natural resources	*thousand m^3*	*669*
Land and forest management		
Forest regeneration	thousand ha	15.8
including natural regeneration	*thousand ha*	*5.5*
Forest (young stand) tending	thousand ha	31.0
Cleaning of drainage ditches from obstruction	thousand m^3	476.9
Land registration with the Land Registry	thousand ha	7.1
Cadastral land survey	thousand ha	7.1
Border restoration	thousand ha	21.0
Expansion of managed forest areas	ha	1 200
Forest infrastructure development		
Construction of forest roads	km	348
Reconstruction of forest drainage systems	thousand ha	22.8

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
- Forest ecosystem services
- Research of forest-based biofuel and the mechanization of forest operations
- Forecasts of changes in forest management risks and their mitigation
- Assessment of the effectiveness of spiral tree wraps, examination of the material
- Research of factors limiting the spread of root rot
- Greenhouse gas emission and CO_2 sequestration assessment for aged forest
- Forest regeneration, afforestation and woody plantations
- Broad-leaved tree forests
- Improvement of the birch growing practice
- Studies of the environmental impact of wetland fires and intensity of wetland recovery
- Improvement of growing process patterns
- Impact of cervid damage on forestry – loss calculation methodology
- Production of cellulose-based textile fibers
- Breeding of future tree species

Management report (cont'd)

Profit distribution suggested by the Board

	EUR
Portion of profit available for distribution	105 017 137
Suggested profit distribution:	
dividends to the shareholder, *including*	76 065 500
payment to the shareholder	*60 852 400*
corporate income tax	*15 213 100*
retained earnings	28 951 637

The Board has suggested that the retained earnings of EUR 28 951 637 should be transferred to reserves.

Roberts Strīpnieks,
Chairman of the Board

28 April 2020

Financial statements

Statement of comprehensive income

	Notes	2019 EUR	2018 EUR
Revenue	4	375 131 051	333 200 869
Cost of sales	5	(245 410 995)	(212 294 432)
Gross profit		**129 720 056**	**120 906 437**
Distribution costs	6	(1 784 715)	(1 791 258)
Administrative expense	7	(7 981 309)	(10 882 486)
Other operating income	8	4 500 395	6 177 128
Other operating expense	9	(5 673 994)	(4 196 003)
Interest and similar expense	13	(565 501)	-
Operating profit		**118 214 932**	**110 213 818**
Interest income		15	27
Profit before corporate income tax		**118 214 947**	**110 213 845**
Income tax expense		(13 197 810)	(381 224)
Net profit for the year		**105 017 137**	**109 832 621**
Total comprehensive income:		**105 017 137**	**109 832 621**

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

Roberts Stripnieks
Chairman of the Board

Gunta Vīciņa
Head of the Financial and Accounting Department

28 April 2020

Statement of financial position

ASSETS

	Notes	31/12/2019 EUR	31/12/2018 EUR
NON-CURRENT ASSETS			
Intangible assets			
Licenses and software	11	2 098 583	1 363 395
TOTAL		**2 098 583**	**1 363 395**
Property, plant and equipment			
Land, buildings and constructions	12	271 547 920	248 495 515
Equipment and machinery	12	5 090 031	4 456 324
Other fixtures and fittings, tools and equipment	12	6 777 839	5 330 436
Construction in progress	12	10 435 422	13 474 990
Prepayments for property, plant and equipment	12	673 662	250 347
TOTAL		**294 524 874**	**272 007 612**
Right-of-use assets (IFRS 16)	13	**19 778 298**	**-**
Investment properties	14	**1 377 882**	**1 377 882**
Biological assets	15	**27 656 731**	**25 610 343**
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	441 090
TOTAL		**3 067 808**	**2 628 898**
TOTAL NON-CURRENT ASSETS		**348 504 176**	**302 988 130**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		1 164 089	1 062 938
Finished goods and goods for sale	17	33 192 543	26 019 649
Prepayments for goods		5 491	6 796
TOTAL		**34 362 123**	**27 089 383**
Receivables and prepayments			
Trade receivables	18	27 553 237	30 420 589
Receivables from related companies	27	51	24 155
Overpayment of corporate income tax	26	6 641 239	4 399 049
Overpayment of value added tax	26	1 336 126	1 241 887
Prepayments for services	19	649 554	627 569
Other receivables		2 291	7 002
TOTAL		**36 182 498**	**36 720 251**
Prepaid expense		**688 549**	**851 002**
Cash and cash equivalents	21	**114 710 183**	**98 477 800**
TOTAL CURRENT ASSETS		**185 943 353**	**163 138 436**
TOTAL ASSETS		**534 447 529**	**466 126 566**

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

28 April 2020

Statement of financial position

EQUITY AND LIABILITIES

	Notes	31/12/2019 EUR	31/12/2018 EUR
EQUITY			
Share capital	22	353 647 767	307 863 146
Reserves		-	11 500 000
Retained earnings:		120 457 137	109 832 621
brought forward		15 440 000	-
for the period		105 017 137	109 832 621
TOTAL EQUITY		**474 104 904**	**429 195 767**
LIABILITIES			
Non-current liabilities			
Other provisions	23	9 114 200	8 224 984
Non-current lease liabilities	13	18 673 240	
Other liabilities		24 668	36 963
TOTAL		**27 812 108**	**8 261 947**
Current liabilities			
Prepayments received from customers		716 116	760 227
Trade payables		8 606 555	9 005 354
Payables to related companies	27	498	416
Payables to associates	27	33 818	33 345
Taxes payable	26	1 123 934	1 011 393
Other provisions	23	10 451 177	8 394 816
Other liabilities	24	1 305 946	1 159 247
Accrued liabilities	25	9 021 485	8 304 054
Current lease liabilities	13	1 270 988	
TOTAL		**32 530 517**	**28 668 852**
TOTAL LIABILITIES		**60 342 625**	**36 930 799**
TOTAL EQUITY AND LIABILITIES		**534 447 529**	**466 126 566**

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

Roberts Strīpnieks
Chairman of the Board

Gunta Vīlciņa
Head of the Financial and Accounting Department

28 April 2020

Statement of cash flows

		2019 EUR	2018 EUR
Cash flows to/from operating activities			
Profit before corporate income tax		**118 214 947**	**110 213 845**
Adjustments for:			
depreciation of property, plant and equipment	12	32 456 222	31 286 517
impairment of property, plant and equipment and intangible assets	11,12	1 518 260	1 536 982
amortization	11	857 459	646 243
depreciation of right-of-use assets	13	1 467 829	
increase in the value of biological assets	15	(1 845 413)	(5 202 104)
change in provisions, except for allowances for doubtful receivables	23	2 945 577	3 564 101
income from investments in other companies	8	(26 464)	(22 053)
interest income		(15)	(27)
lease interest income	13	565 501	
other (gain on disposal of property, plant and equipment, etc.)		(804 868)	(307 833)
Profit before adjustments for the effect of changes in current assets and current liabilities		**155 349 035**	**141 715 671**
increase in receivables		2 942 396	(10 113 443)
(increase)/decrease in inventories		(7 272 740)	(4 479 227)
increase in trade and other payables		306 621	3 862 635
Cash generated from operations		**151 325 312**	**130 985 636**
Corporate income tax paid	26	(15 440 000)	(4 269 967)
Net cash flows to/from operating activities		**135 885 312**	**126 715 669**
Cash flows to/from investing activities			
Purchase of property, plant and equipment and intangible assets	11,12	(57 741 823)	(39 213 913)
Proceeds from sale of property, plant and equipment and intangible assets		23 390	118 693
Change in value of biological assets	15	(200 975)	(374 930)
Interest received		15	27
Dividends received	8	26 464	22 053
Net cash flows to/from investing activities		**(57 892 929)**	**(39 448 070)**
Cash flows to/from financing activities			
Dividends paid	22	(61 760 000)	(38 220 000)
Net cash flows to/from financing activities		**(61 760 000)**	**(38 220 000)**
Net cash flow for the year		**16 232 383**	**49 047 599**
Cash at the beginning of the year		**98 477 800**	**49 430 201**
Cash at the end of the year	21	**114 710 183**	**98 477 800**

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

28 April 2020

Statement of changes in equity

	Share capital	Retained earnings	Reserves	Total
Balance as at 1 January 2018	**292 374 608**	**65 208 538**	**-**	**357 583 146**
Dividends paid	-	(38 220 000)	-	**(38 220 000)**
Increase in share capital	15 488 538	(15 488 538)	-	**-**
Reserves	-	(11 500 000)	11 500 000	**-**
Total shareholders' contributions and profit distributions recognized under equity	**15 488 538**	**(65 208 538)**	**11 500 000**	**(38 220 000)**
Profit for the reporting year	-	109 832 621	-	**109 832 621**
Total comprehensive income recognized in the reporting year	**-**	**109 832 621**	**-**	**109 832 621**
Balance as at 31 December 2018	**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**

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

Roberts Strīpnieks
Chairman of the Board

Gunta Vīlciņa
Head of the Financial and
Accounting Department

28 April 2020

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 comprises 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 28 April 2020. 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.

For all periods up to and including the year ended 31 December 2015, the Company prepared its financial statements in accordance with local generally accepted accounting principles (local GAAP). Starting from the year 2016, the Company has prepared its financial statements in accordance with IFRS.

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 28 April 2020. 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 2019 through 31 December 2019.

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.

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.

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

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.

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.

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

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.

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.

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.

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

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
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.

Leases (Company as a lessee)

Accounting policy applied starting from 1 January 2019

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.

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

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.

Accounting policy applied before 1 January 2019

In the comparative period, the Company as a lessee classified leases that transfer substantially all of the risks and rewards of ownership as finance leases and all other leases as operating leases. In case of finance leases, upon initial recognition the leased assets were measured at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequently, the assets were accounted for in accordance with the accounting policy applicable to that asset. Assets held under operating leases were not recognized in the Company's statement of financial position. Instead, payments made under such leases were recognized in profit or loss on a straight-line basis over the term of the lease.

Leases (Company as a lessee)

Leases in which the Company does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are recognized as a separate asset and taken to expense over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

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*

The final version of IFRS 9 *Financial Instruments* reflects all phases of the financial instruments project and replaces IAS 39 *Financial Instruments: Recognition and Measurement* and all previous versions of IFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Company has applied IFRS 9 prospectively, as of 1 January 2018. The Company has not restated the comparative information, which continues to be reported under IAS 39. There are no significant differences in the items of financial statements that would arise from the adoption of IFRS 9.

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.

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

Classification and measurement (cont'd)

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.

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.

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

Classification and measurement (cont'd)

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.

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 2020 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 2019 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

As at 31 December 2019, the Company owned a total of 62 shares in AS Latvijas finieris with nominal value of 14 193.55 EUR (As at 31 December 2018: 62 shares with nominal value of 7 114.35 EUR). Historically, these shares were carried at cost. As of 1 January 2018, the Company has applied IFRS 9 prospectively.

AS Latvijas valsts meži (LVM) owns 0.98804% of shares in AS Latvijas finieris (hereinafter - LF). LF is a closed joint stock company.

Based on paragraph 9 of the International Financial Reporting Standard, an entity's assets, including shares, must be stated at fair value.

LVM has selected the discounted cash flow method as the most suitable method for the determination of the market value of LF's equity. This method is based on financial forecasts provided by LF for the following 5 years.

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

Corporate income tax

Corporate income tax for the year 2019 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.

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.

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

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 (2015-2019) of forestry works (soil preparation, planting and sowing, 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 using a discount rate of 4.58%. Key assumptions are disclosed in Note 15.

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 2019, the Company established provisions for forest regeneration of EUR 16 265 699. 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 2019:

IFRS 16 *Leases*

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases in the financial statements. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Company is the lessor.

The Company has adopted IFRS 16 using the modified retrospective approach of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard is recognized in retained earnings at the date of initial application and comparative information is not restated.

3.1. Changes in accounting policy (cont'd)

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is, as follows:

	EUR thousand
Assets	
Right-of-use assets	21 246 127
Prepaid expense	(133 927)
Total assets	**21 112 200**
Liabilities	
Lease liabilities	21 112 200
Total liabilities	**21 112 200**

Before the adoption of IFRS 16, the Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. Refer to Note 2 "Leases" for the accounting policy prior to 1 January 2019.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 2 "Leases" for the accounting policy beginning 1 January 2019. The standard provides specific transition requirements and practical expedients, which have been applied by the Company.

Leases previously classified as finance leases

The Company did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019.

Leases previously classified as operating leases

The Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rate at the date of initial application, i.e., 1 January 2019. The right-of-use assets were measured either at:

- their carrying amount as if IFRS 16 had always been applied, using the lessee's incremental borrowing rate at the date of initial application – the Company applied this approach to most of its property leases, or
- an amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized – the Company applied this approach to all other leases.

The Company also applied the available practical expedients wherein it:

- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.

Based on the above, as at 1 January 2019:

- right-of-use assets of EUR 21 246 127 were recognized and presented separately in the statement of financial position;
- additional lease liabilities of EUR 21 112 200 (included in interest-bearing loans and borrowings) were recognized.

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018, as follows:

	EUR'000
Operating lease commitments as at 31 December 2018	25 993 954
Weighted average incremental borrowing rate as at 1 January 2019	2.75%
Discounted operating lease commitments as at 1 January 2019	21 112 200
Lease liabilities as at 1 January 2019	**21 112 200**

Determining the lease term of contracts with renewal and termination options – Company as lessee

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.

3.1. Changes in accounting policy (cont'd)

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).

Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay'.

The Company estimates the IBR using observable inputs (such as market interest rates).

IFRS 9: *Prepayment features with negative compensation* (amendment)

The amendment is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract (so that, from the perspective of the holder of the asset there may be 'negative compensation'), to be measured at amortized cost or at fair value through other comprehensive income. The management has made an assessment of the impact of the standard and considers that this amendment will not have any significant impact on the Company's financial statements.

IAS 28: *Long-term Interests in Associates and Joint Ventures* (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The amendments relate to whether the measurement, in particular impairment requirements, of long-term interests in associates and joint ventures that, in substance, form part of the 'net investment' in the associate or joint venture should be governed by IFRS 9, IAS 28 or a combination of both. The amendments clarify that an entity applies IFRS 9 *Financial Instruments*, before it applies IAS 28, to such long-term interests for which the equity method is not applied. In applying IFRS 9, the entity does not take account of any adjustments to the carrying amount of long-term interests that arise from applying IAS 28. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of the standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IFRIC Interpretation 23: *Uncertainty over Income Tax Treatments*

The interpretation is effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12. The interpretation provides guidance on considering uncertain tax treatments separately or together, examination by tax authorities, the appropriate method to reflect uncertainty and accounting for changes in facts and circumstances. The management has made an assessment of the impact of the standard and considers that these amendments will not have any significant impact on the Company's financial statements.

IAS 19: *Plan Amendment, Curtailment or Settlement* (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted The amendments require entities to use updated actuarial assumptions to determine current service cost and net interest for the remainder of the annual reporting period after a plan amendment, curtailment or settlement has occurred. The amendments also clarify how the accounting for a plan amendment, curtailment or settlement affects applying the asset ceiling requirements. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of the 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)

The IASB has issued the Annual Improvements to IFRSs 2015–2017 Cycle, which is a collection of amendments to IFRSs. These amendments are effective for annual periods beginning on or after 1 January 2019, with earlier application permitted. These annual improvements have not yet been endorsed by the EU. The management has made an assessment of the impact of the standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: The amendments to IFRS 3 clarify that when an entity obtains control of a business that is a joint operation, it remeasures previously held interests in that business. The amendments to IFRS 11 clarify that when an entity obtains joint control of a business that is a joint operation, the entity does not remeasure previously held interests in that business.
- IAS 12 *Income Taxes*: The amendments clarify that the income tax consequences of payments on financial instruments classified as equity should be recognized according to where the past transactions or events that generated distributable profits has been recognized.
- IAS 23 *Borrowing Costs*: The amendments clarify paragraph 14 of the standard that, when a qualifying asset is ready for its intended use or sale, and some of the specific borrowing related to that qualifying asset remains outstanding at that point, that borrowing is to be included in the funds that an entity borrows generally.

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. 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 considers that the standard will not have any impact on the Company's financial statements because the Company does not issue insurance contracts.

Amendment in 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 the standard and considers that these amendments will not have any significant impact on the Company's financial statements.

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.

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

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

Interest Rate Benchmark Reform - IFRS 9, IAS 39 and IFRS 7 (amendments)

The amendments are effective for annual periods beginning on or after 1 January 2020 and must be applied retrospectively. Earlier application is permitted. 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 Interbank Offered Rates (IBOR) reform on financial reporting. Phase two will focus on issues that could affect financial reporting when an existing interest rate benchmark is replaced with a risk-free interest rate (an RFR). 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 F*inancial Instruments* and IAS 39 *Financial Instruments: Recognition and Measurement*, which require forward-looking analysis. The amendments provided 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 management has made an assessment of the impact of the standard and considers that these amendments will not have any significant impact on the Company's financial statements.

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. 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 the 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		2019	2018
Sale of roundwood assortment		345 238 598	305 662 748
Sale of standing trees		7 603 422	9 080 986
Sale of chips		7 315 612	5 183 305
Sale of nursery plants		7 181 615	6 227 259
Land lease		3 290 487	2 706 432
Sale of mineral resources		2 217 113	1 715 066
Hunting and recreational services		1 077 537	1 106 147
Lease of hunting areas		588 213	587 511
Sale of forest seeds		39 694	29 501
Other income		578 760	901 914
	TOTAL:	**375 131 051**	**333 200 869**

5. Cost of sales

	2019	2018
Works and services costs, including:	162 167 200	132 601 898
Production of roundwood assortment, including:	128 438 894	105 143 627
Preparation of roundwood assortment	*49 266 669*	*39 671 136*
Transportation of roundwood assortment	*42 768 984*	*36 091 587*
Forwarding of roundwood assortment	*35 518 002*	*28 596 793*
Maintenance and repair of forest roads	9 727 059	9 267 954
Production of chips	5 297 323	4 305 479
Tending of young stands	5 012 263	2 846 020
Agrotechnical tending of forest areas	3 692 772	2 952 349
Soil preparation	1 725 096	1 252 387
Forest protection	1 699 903	1 131 059
Forestation	1 317 523	979 677
Registration of land properties	1 302 869	1 359 404
Management of underground natural resources	1 284 858	1 088 882
Maintenance of land drainage systems	1 022 528	815 748
Production of forest reproductive material	754 587	699 143
Expansion of reforested areas	314 675	181 989
Preservation of heritage sites and sites of public significance	250 622	204 185
Hunting costs	120 326	149 457
Forest inventory	103 783	107 176
Fire safety of forests	93 645	102 084
Pruning of standing trees	8 474	15 278

5. Cost of sales (cont'd)

Depreciation and amortization		33 096 909	31 174 354
Staff costs, including:		32 397 922	28 863 331
Basic salaries		*20 322 554*	*18 260 674*
Statutory social insurance contributions		*6 290 681*	*5 596 437*
Bonuses		*4 101 273*	*3 595 839*
Benefits and compensations		*1 683 414*	*1 410 381*
Acquisition of other materials		4 457 538	3 859 905
Real estate tax		3 607 808	3 630 972
Insurance		2 563 735	2 325 075
Maintenance of offices of production bodies		1 971 454	2 217 035
Fuel		1 683 007	1 545 627
Scientific research and consultations		1 244 472	1 221 777
Depreciation of right-of-use assets		1 126 091	-
Low-value inventory		1 084 321	1 035 664
Vehicle maintenance		770 851	676 560
Communications services		460 734	459 647
Natural resource tax		243 725	172 001
State charges		146 286	95 856
Legal fees		34 553	21 260
Changes in stocks of finished goods		(7 172 894)	(4 561 809)
Other cost of sales, including:		5 527 283	6 955 279
Changes in provisions, net, of which:		3 089 215	3 594 573
Forest regeneration		*2 491 227*	*3 351 052*
Bonuses		*235 441*	*167 351*
Quarry rehabilitation		*190 169*	-
Doubtful receivables		*172 378*	-
Vacation pay reserve		*78 846*	*76 170*
	TOTAL:	**245 410 995**	**212 294 432**

6. Distribution costs

		2019	2018
Timber measurement		1 784 715	1 791 258
	TOTAL:	**1 784 715**	**1 791 258**

7. Administrative expense

	2019	2018
Staff costs, including:	4 462 882	5 320 016
Basic salaries	*2 853 705*	*3 353 819*
Statutory social insurance contributions	*847 726*	*1 033 632*
Bonuses	*570 075*	*708 049*
Benefits and compensations	*191 376*	*224 516*
Museum services	752 844	580 800
Insurance	350 954	433 631
Depreciation of right-of-use assets	341 738	-
Information system maintenance and database subscription	333 488	1 831 637
Staff development costs	270 968	260 810
Advertising and advertisements	265 789	286 509
Depreciation and amortization	216 772	758 406
Representation expense	111 252	54 113
Office maintenance	78 255	47 118
Fuel	76 395	128 952
Communications expense	68 184	30 416
Transport expense	59 307	53 313
Business trips	46 629	69 610
Low-value inventory	22 788	64 436
Consulting and other research	22 205	156 199
Fees paid to Latvian firms of certified auditors*	20 102	20 356
Legal fees	11 609	79 725
Other management and administrative expense, including:	469 148	706 439
Changes in provisions, net, of which:	*20 782*	*42 314*
Bonuses	*28 740*	*43 868*
Vacation pay reserve	*(7 958)*	*(1 554)*
TOTAL:	**7 981 309**	**10 882 486**

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

	2019	2018
Statutory annual audit (review)	18 700	19 450
Other specialist's tasks	1 402	906
TOTAL:	**20 102**	**20 356**

8. Other operating income

	2019	2018
Compensation for the use of land under power lines	1 314 391	152 224
Appreciation of biological assets, net (see Note 16)	1 139 649	4 592 777
Penalties received	754 271	551 857
Dividends	465 374	22 053
Other income	368 397	358 114
Gain on disposal of property, plant and equipment and current assets, net	351 716	336 222
Other operating income	106 597	163 881
TOTAL:	**4 500 395**	**6 177 128**

9. Other operating expense

	2019	2018
Allowances for doubtful receivables	171 799	90 668
Donations, including;	5 500 000	4 100 000
for sport support	*2 000 000*	*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	*600 000*	*700 000*
for social projects	*600 000*	*600 000*
Other operating expense	2 195	5 335
TOTAL:	**5 673 994**	**4 196 003**

10. Staff costs and number of employees

	2019	2018
Wages and salaries	29 722 397	27 553 278
Statutory social insurance contributions	7 138 407	6 630 069
Changes in provisions for bonuses	264 181	213 049
Changes in vacation pay reserve	70 888	74 616
TOTAL:	**37 195 873**	**34 471 012**

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

	2019	2018
Cost of sales	32 712 209	29 106 852
Administrative expense	4 483 664	5 364 160
TOTAL:	**37 195 873**	**34 471 012**

Key management personnel compensation:

Council Members	2019	2018
Wages and salaries	170 552	156 341
Statutory social insurance contributions	40 860	37 663
TOTAL:	**211 412**	**194 4**

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

Board Members	2019	2018
Wages and salaries	527 750	450 674
Statutory social insurance contributions	127 135	108 567
TOTAL:	**654 885**	**559 241**

	2019	2018
Average number of Board Members during the reporting year	4	4
Average number of employees during the reporting year	1 354	1 317
TOTAL:	**1 358**	**1 321**

11. Intangible assets

	Software	Programming in progress	TOTAL
Cost or revalued amount			
As at 1 January 2018	**7 164 709**	**-**	**7 164 709**
Additions	661 453	325 158	986 611
Reclassification	325 158	(325 158)	-
Disposals	(229 183)	-	(229 183)
As at 31 December 2018	**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**
Amortization and impairment			
As at 1 January 2018	**6 141 682**	-	**6 141 682**
Amortization charge	646 243	-	646 243
Disposals	(229 183)	-	(229 183)
As at 31 December 2018	**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**
Net carrying amount			
As at 31 December 2018	**1 363 395**	**-**	**1 363 395**
As at 31 December 2019	**2 098 583**	**-**	**2 098 583**

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 2 265 634 (2018: EUR 2 132 324).

Amortization

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

	2019	2018
Cost of sales	710 039	288 140
Administrative expense	147 420	358 103
TOTAL:	**857 459**	**646 243**

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 2018	3 044 546	**76 166 502**	**360 671 034**	**13 914 458**	**3 940 047**	**13 589 696**	**7 775 159**	**484 979**	**479 586 421**
Additions	-	108 595	-	1 295 888	688 670	1 361 448	34 029 503	1 136 973	38 621 077
Reclassification	292 620	4 992 036	22 404 832	387 497	22 422	180 432	(26 988 912)	(1 368 042)	(77 115)
Disposals	-	(547 315)	-	(1 488 872)	(128 471)	(151 840)	(1 340 760)	(3 563)	(3 660 821)
As at 31 December 2018	**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	56 489 795
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)	-	(2 940 682)
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**
Depreciation and impairment									
As at 1 January 2018	-	**23 711 494**	**167 232 508**	**9 555 528**	**3 253 957**	**9 514 865**	-	-	**213 268 352**
Depreciation charge	-	3 881 025	24 173 425	1 552 736	560 980	1 118 351	-	-	31 286 517
Disposals	-	(361 118)	-	(1 455 617)	(127 979)	(148 205)	-	-	(2 092 919)
As at 31 December 2018	-	**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	-	(46 535)	-	(1 202 147)	(41 937)	(136 128)	-	-	(1 426 748)
As at 31 December 2019	-	**31 450 279**	**216 777 701**	**9 595 015**	**4 149 315**	**11 517 094**	-	-	**273 489 403**
Net carrying amount									
As at 1 January 2018	3 044 546	52 455 008	193 438 526	4 358 930	686 090	4 074 831	7 775 159	484 979	266 318 069
As at 31 December 2018	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

The Company is managing real estate whose value is EUR 2 191 140 (2018: EUR 2 286 332) 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 2019 was EUR 3 305 566 (2018: EUR 3 030 696). The cadastral value of buildings was EUR 2 000 000 (2018: EUR 1 537 439).

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 40 157 397 (2018: EUR 22 037 561).

Depreciation

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

	2019	2018
Cost of sales	32 386 870	30 886 214
Administrative expense	69 352	400 303
TOTAL:	**32 456 222**	**31 286 517**

13. Leases

The Company has adopted IFRS 16 *Leases* as of 1 January 2019 and as a lessee recognized right-of-use assets and lease liabilities in its financial statements. Upon adoption of IFRS 16, the Company measured right-of-use assets, non-cancellable lease terms and lease payments for identifiable assets. The Company applied 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.

Right-of-use assets

	Buildings	Total
Carrying amount at the beginning of the reporting year	-	-
Initial recognized value as at 1 January 2019*	21 246 127	21 246 127
Depreciation expense	(1 467 829)	(1 467 829)
Carrying amount at the end of the reporting year	**19 778 298**	**19 778 298**

Lease liabilities

	Total
Carrying amount at the beginning of the reporting year	-
Initial recognized value as at 1 January 2019*	21 112 200
Recognized decrease in lease liabilities	(1 733 473)
Lease interest expense	565 501
Carrying amount at the end of the reporting year	**19 944 228**
including non-current lease liabilities	*18 673 240*
current lease liabilities	*1 270 988*

* The difference between the initially recognized value of right-of-use assets and lease liabilities is taken to "2419" – EUR 133 927.

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

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

The Company's lease expense reached EUR 1 779 200 in 2019.

14. Investment properties

	Investment properties	TOTAL
Cost		
As at 1 January 2018	**1 549 360**	**1 549 360**
Reclassification	77 115	77 115
Revaluation	(28 115)	(28 115)
Disposals	(220 478)	(220 478)
As at 31 December 2018	**1 377 882**	**1 377 882**
Reclassification	4 398	4 398
Disposals	(4 398)	(4 398)
As at 31 December 2019	**1 377 882**	**1 377 882**
Depreciation and impairment		
As at 1 January 2018	**74 878**	**74 878**
Reclassification		
Disposals	(74 878)	(74 878)
As at 31 December 2018	**-**	**-**
Reclassification	2 021	2 021
Disposals	(2 021)	(2 021)
As at 31 December 2019	**-**	**-**
Net carrying amount		
As at 31 December 2018	**1 377 882**	**1 377 882**
As at 31 December 2019	**1 377 882**	**1 377 882**

15. Biological assets

	31/12/2019	31/12/2018
At the beginning of the reporting year	25 610 343	20 033 309
Additions	906 740	984 257
Development	(705 765)	(609 327)
Increase in fair value*	1 845 413	5 202 104
TOTAL:	**27 656 731**	**25 610 343**

Income earned in the reporting year from the sale of biological assets having the area of 81 ha amounted to EUR 705 765 (31 December 2018: 39.93 ha, EUR 609 327).

In 2019, all factors affecting the discount rate were assessed and, as a result, no re-calculation was performed and the previous discount rate of 4.58% remained in effect.

* The value of biological assets grew in 2019 due to an increase in selling prices of wood assortment by 3.5%; reforestation of areas of 254.7 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 2019 comprised mature stands of 1 257 ha (10.4%) (31 December 2018: 1 200.9 ha (12.5%)), 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	31/12/2019	01/12/2018
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 31/12/2019	Equity 31/12/2018	Profit for the year 2019	Profit for the year 2018
SIA Jaunmoku pils	1 538 463	1 376 590	161 875	58 160
SIA Meža un koksnes produktu pētniecības un attīstības institūts	783 382	781 909	1 473	656
TOTAL:	**2 321 845**	**2 158 499**	**163 348**	**58 816**

17. Finished goods and goods for sale

	31/12/2019	31/12/2018
Nursery plants	13 040 390	10 921 851
Roundwood assortment at roadside sites and in ports	6 939 403	4 113 932
Chips	5 300 716	4 113 748
Forest seeds	4 554 407	4 314 306
Ornamental plants	2 638 896	2 250 914
Mixtures of mineral materials	716 917	302 621
Ornamental seeds	1 814	2 277
TOTAL:	**33 192 543**	**26 019 649**

In 2019, the amount of EUR 15 751 610 (2018: EUR 16 546 574) was recognized as net realizable value and included in the cost of sales as the cost of goods or services provided.

18. Trade receivables

	31/12/2019	31/12/2018
Trade receivables	27 725 666	30 522 077
Allowances for expected credit losses	(172 378)	(101 488)
TOTAL:	**27 553 288**	**30 420 589**

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:

	TOTAL	Neither past due nor impaired	Past due but not impaired, days *<45*	*46-90*	*91-180*	*>180*
Expected credit losses		0.01%	0.17%	15%	25%	50%
	30 420 589	**28 744 311**	**1 462 548**	**131 456**	**14 082**	**68 192**
Balance as at 31 December 2018	**30 522 077**	**28 747 186**	**1 465 066**	**154 656**	**18 782**	**136 387**
Impairment	**(101 488)**	(2 875)	(2 518)	**(23 200)**	**(4 700)**	(68 195)

	TOTAL	Not past due	Past due days *<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

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

19. Prepayments for services

	31/12/2019	31/12/2018
Prepayments for services	649 554	627 569
TOTAL:	**649 554**	**627 569**

20. Other securities

	31/12/2019		31/12/2018	
Type of securities	Number	Amount, EUR	Number	Amount, EUR
Shares of AS Latvijas finieris	62	880 000	62	441 090
Total non-current:		**880 000**		**441 090**

21. Cash and cash equivalents

		31/12/2019	31/12/2018
Cash on hand		535	1 289
Cash at bank		114 709 648	98 476 511
	TOTAL:	**114 710 183**	**98 477 800**

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 2019, the registered share capital of the Company was EUR 353 647 767 (31 December 2018: EUR 307 863 146). The fully paid share capital was EUR 353 647 767 (31 December 2018: EUR 307 863 146) and consisted of 353 647 767 ordinary shares, each having the par value of EUR 1 (31 December 2018: 307 863 146 ordinary shares, each having the par value of EUR 1).

On 15 April 2019, the general shareholders' meeting decided to increase the Company's share capital by investing State's real estate in amount of 1 652 000 EUR. These changes were registered with the Commercial Register on 24 April 2019.

On 30 May 2019, the general shareholders' meeting decided to increase the Company's share capital by investing therein the profit of EUR 32 632 621 earned in 2018. These changes were registered with the Commercial Register on 6 June 2019.

Dividends paid in 2019 and 2018 were EUR 61 760 000 (EUR 0.17 per share) and EUR 38 220 000 (EUR 0.12 per share) respectively.

23. Other provisions

	Provisions for forest regeneration	Provisions for bonuses	Provisions for quarry rehabilitation	TOTAL
As at 31/12/2018	**13 774 472**	**2 845 328**	**-**	**16 619 800**
Utilized	(5 549 488)	(2 845 328)	-	(8 394 816)
Established	8 040 715	3 109 509	190 169	11 340 393
As at 31/12/2019	**16 265 699**	**3 109 509**	**190 169**	**19 565 377**
including non-current	8 952 606	-	161 594	9 114 200
current	7 313 093	3 109 509	28 575	10 451 177

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

		31/12/2019	31/12/2018
Salaries		1 219 068	1 137 312
Other liabilities		86 878	21 935
	TOTAL:	**1 305 946**	**1 159 247**

25. Accrued liabilities

	31/12/2019	31/12/2018
Vacation pay reserve	1 408 836	1 337 948
Other accrued liabilities*	7 612 649	6 966 106
TOTAL:	**9 021 485**	**8 304 054**

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

26. Taxes payable

	31/12/2019	Refunded(+)	Calculated	Paid	31/12/2018
Statutory social insurance contributions	721 468	-	10 402 645	(10 338 766)	657 589
Personal income tax	329 969	-	5 070 172	(5 046 476)	306 273
Corporate income tax	(6 641 239)	-	13 197 810	(15 440 000)	(4 399 049)
Value added tax	(1 336 126)	6 648 534	(6 742 773)	-	(1 241 887)
Real estate tax	2 252	-	3 607 808	(3 606 194)	638
Natural resource tax	69 774	-	243 725	(220 386)	46 435
Unemployment risk duty	471	-	5 864	(5 852)	459
TOTAL:	**(6 853 431)**	**6 648 534**	**25 785 251**	**(34 657 674)**	**(4 629 542)**
Total payable:	**1 123 934**				**1 011 394**
Total receivable:	**(7 977 365)**				**(5 640 936)**

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 *	2019	-	-	-	-
	2018	-	-	-	-
SIA Jaunmoku pils **	2019	2 211	768 098	51	498
	2018	3 754	608 221	24 155	416
SIA Meža un koksnes produktu pētniecības un attīstības institūts	2019	45	582 711	-	33 818
	2018	36	514 578	-	33 345
Total for 2019:		**2 256**	**1 350 809**	**51**	**34 316**
Total for 2018:		**3 790**	**1 122 799**	**24 155**	**33 761**

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 2019 was EUR 24 664 609 (of which EUR 299 147 represented projects in progress under contracts signed in 2018), 31 December 2018: EUR 28 790 343, where the works completed as at 31 December 2019 amounted to EUR 4 407 585 (of which EUR 115 521 represented projects in progress of previous years), 31 December 2018: EUR 5 376 586.

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 2019 was EUR 2 591 340 (of which EUR 268 694 represented projects in progress under contracts signed in 2018), where the works completed as at 31 December 2019 amounted to EUR 325 237 (of which EUR 147 769 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 2019 was EUR 1 557 491, where the works completed as at 31 December 2019 amounted to EUR 677 218. 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 2019 was EUR 1 147 334, where the works completed as at 31 December 2019 amounted to EUR 526 274. 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 2019 was EUR 1 879 614.

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 323.02 million, including 1.33 million hectares of forest areas, whose stands amount to EUR 1 164.91 million and subsoil assets are EUR 14.39 million (including those amounting to EUR 11.86 million and EUR 2.54 million for the extraction of peat and mineral materials respectively). The Company has reported 12 084 hectares of forest areas on its statement of financial position. Land having the area of 1.60 million hectares of all the land plots managed and administered by the Company has been surveyed and registered with the Land Registry.

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 operating units. The Company's strategy sets out principles for overall financial and liquidity risk management. The Company's management has 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 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		**142 438 140**
Financial assets as at 31 December 2018		
Other securities and investments	20	**441 090**
Trade receivables, net	18	30 420 589
Receivables from related companies	27	24 155
Other receivables		7 002
Cash and cash equivalents	21	98 477 800
Total		**129 370 636**

30. Financial risk management (cont'd)

Financial liabilities by categories

	Notes	Liabilities at amortized cost
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**
Financial liabilities as at 31 December 2018		
Trade payables		9 005 354
Payables to related companies	27	416
Payables to associates	27	33 345
Total		**9 039 115**

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 2019, 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 that 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)

	31/12/2019	31/12/2018
	EUR	EUR
Trade payables	8 606 555	9 005 354
Payables to related companies	498	416
Payables to associates	33 818	33 345
Total	**8 606 555**	**9 039 115**

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

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**

Year ended 31 December 2018	On demand	< 3 months	3 to 12 months	1 to 5 years	> 5 years	TOTAL
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	9 005 354	-	-	-	9 005 354
Payables to related companies	-	416	-	-	-	416
Payables to associates	-	33 345	-	-	-	33 345
Total	**-**	**9 039 115**	**-**	**-**	**-**	**9 039 115**

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:

		31/12/2019	31/12/2018
		EUR	EUR
Equity, total		474 295 073	429 195 767
Assets, total		534 619 907	466 126 566
Equity ratio		**89%**	**92%**

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

Subsequent to the year end, in the Republic of Latvia as well as in many other countries in March 2020 there came into effect restrictions to limit the coronavirus spread leading to a considerable economic slowdown in Latvia and all over the world. Further events cannot be predicted, therefore, there is uncertainty as to the economic development. The Company's management is constantly monitoring the situation.

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 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

28 April 2020

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SIA "Ernst & Young Baltic"
Muitas iela 1A
Rīga, LV-1010
Latvija
Tālr.: +371 6704 3801
Fakss: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reģ. Nr. 40003593454
PVN maksātāja Nr. LV40003593454

SIA Ernst & Young Baltic
Muitas iela 1A
Riga, LV-1010
Latvia
Tel.: +371 6704 3801
Fax: +371 6704 3802
riga@lv.ey.com
www.ey.com/lv

Reg. No: 40003593454
VAT payer code: LV40003593454

Translation form Latvia

INDEPENDENT AUDITORS' REPORT

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 45 of the accompanying annual report, which comprise the statement of financial position as at 31 December 2019, and the statement of comprehensive income, statement of changes in equity and statement 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 Latvijas Valsts Meži AS as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

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 Consolidated 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

The other information comprises the Management Report as set out on pages 4 to 10 of the accompanying annual report, but does not include the financial statements and our auditors' report thereon. Management is responsible for the other information.

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 entity 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 of the Republic of Latvia on Audit Services 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 of the Republic of Latvia on Annual Reports and Consolidated Annual Reports.

Based solely on the work 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 of the Republic of Latvia on Annual Reports and Consolidated Annual Reports.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the 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 auditors' 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 auditors' 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.

ERNST & YOUNG BALTIC SIA
License No. 17

Iveta Vimba
Member of the Board
Latvian Certified Auditor
Certificate No. 153

Riga, 28 April 2020