JOINT STOCK COMPANY LATVIJAS VALSTS MEŽI

(UNIFIED REGISTRATION NUMBER 40003466281)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2017

(18^{th} financial year)

PREPARED IN ACCORDANCE WITH
INTERNATIONAL FINANCIAL REPORTING STANDARDS
AS ADOPTED IN THE EUROPEAN UNION

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2018

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General information

Name of the company	Latvijas valsts meži
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003466281 Riga, 28 October 1999 Re-registered with the Commercial Register on 1 November 2004
Registered office	Vaiņodes iela 1 Riga, Latvia, LV-1004
Full name and address of the shareholder	Ministry of Agriculture of the Republic of Latvia (100%) Republikas laukums 2 Riga, Latvia, LV-1981
Shareholder's representative	Ozols Arvīds
Responsible representative of the Ministry of Agriculture	Birģelis Jānis
Board Members	Strīpnieks Roberts – Chairman of the Board, appointed on 06/05/2017 Bumbieris Gints, appointed on 06/05/2017 Melnis Arnis, appointed on 06/05/2017 Zakovics Edvīns, appointed on 06/05/2017
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 2017
Auditors	Iveta Vimba Latvian Certified Auditor Certificate No 153 SIA Ernst & Young Baltic Muitas 1A, Riga Latvia, LV – 1010 License No 17

Management report

24 April 2018

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 four members: the chairman of the Board and three Board members.

LVM manages and administers a total of 1.63 million hectares of land of the Republic of Latvia, including 1.60 million hectares of forest land, of which 1.39 million hectares represent forests. The Company manages 0.33 million hectares, i.e., 20% of the total land area in the possession of LVM, 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	**265.59**	**280.98**
Incl. from the sale of roundwood assortment	242.61	252.56
from the sale of standing trees	8.01	7.31
from the sale of chips	4.35	4.55
from the sale of forest tree seeds and seedlings	5.21	5.78
from the sale of underground natural resources and the lease of non-forest land	3.48	3.47
from recreational and hunting services	1.05	1.03
from the lease of hunting rights	0.59	0.59
from business system solutions	0.10	0.10
other revenue*	0.18	5.58
Expense	**193.02**	**182.67**
Cost of sales	**143.78**	**135.22**
Forestry expense	126.72	119.47
Production of forest tree seeds and seedlings	6.40	7.01
Supply of recreational and hunting services	0.29	0.32
Management of underground natural resources	1.64	0.86
Real estate management	0.31	0.21
Land survey and border restoration	2.58	1.47
Preservation of sites of public significance	2.30	2.28
Real estate tax	3.54	3.61
Administrative centralized costs	**49.24**	**47.45**
Depreciation of forest infrastructure	**25.15**	**25.04**
Donations	**4.00**	**4.20**
Profit before corporate income tax	**43.42**	**69.07**
Income tax expense	5.21	3.86
Net profit for the year	**38.21**	**65.21**

* 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)

In 2017, the total revenue of LVM exceeded the budgeted figure by EUR 15 million, where sales of roundwood assortment were above the target by EUR 10 million or 4%. This result was achieved owing to the average assortment selling price that was higher than budgeted in the reporting period, which was mainly affected by higher selling prices of conifer roundwood. The budgeted sales of roundwood assortment were generally achieved: 5.45 million m^3 of roundwood were sold in 2017. In the reporting period, sales of standing trees were lower than the target because counterparties under long-term felling contracts did not acquire the offered amount of timber due to wet weather. In 2017, revenue was also affected by the appreciation of biological assets (see Notes 8 and 16) and penalties received (see Note 8).

Total expense was lower than the budgeted figure, primarily owing to lower prices of short log operations and transportation services. In addition, the average distance to transport products was lower than the budgeted figure. Costs of port services were below the budget in 2017 because of reduced pulpwood exports, while local sales of industrial timber and pulpwood grew.

In 2017, the joint stock company Latvijas Valsts meži fully settled its liabilities towards the shareholder, i.e., the State, by making a payment of EUR 35.2 million (70% of the profit earned in 2016) according to Cabinet Regulation No 1471 on the Procedure for the Determination and Transfer into the State Budget of the Profit Share to be Disbursed for the Use of the State Capital and all taxes attributable to LVM (EUR 56.1 million).

According to the basic principles approved by the Company's shareholder, LVM donated a total of EUR 4.2 million in the reporting year. These donations included EUR 2.2 million for sports support, EUR 0.8 million for forestry development, EUR 0.6 million for cultural support and EUR 0.6 million for social projects.

Action plan	Unit of measurement	Planned	Actual
Forest areas for timber production, share of forests	%	≥83.80%	82.7%
Forest areas acquired	ha	2 400	1 618
Artificial forest regeneration using forest reproductive material, share during a five-year period	%	55%	55%
Renovated and reconstructed forest drainage systems (total amount)	thousand ha	188.7	183.2
LVM's road density for timber transportation	km/100 ha of production forest	1.0	1.0

In 2017, forest was artificially regenerated over an area of 7.9 thousand hectares by using tree species and regeneration technologies referred to in the LVM's strategic forestry plan, based on the actually required volumes. Meanwhile, natural forest regeneration was observed over an area of 7.8 thousand hectares.

In 2017, 100.5 thousand hectares representing 138% of the planned hectares of land were registered with the Land Registry. The over-execution for the year 2017 has been caused by the registration of properties, where land survey was completed at the end of 2016. Land of 146.6 thousand hectares is to be registered with the Land Registry in the subsequent period. The scope of cadastral land survey and border restoration was reduced due to wet weather.

In 2017, the construction of 245 km of forest roads was completed and 227 km of forest roads were put into service in the reporting year, of which 129 km were reconstructed and 99 km were new roads. These roads are reported on the Company's balance sheet, and the amount of EUR 15.6 million was invested in the construction. Due to the effects of autumn rains and floods, 18 km of forest roads that were constructed in 2017 were put into service as late as the first quarter of 2018.

In 2017, sales of forest seedlings reached 50.8 million, including 46.5 million seedlings grown according to innovative technologies. In the reporting period, 27.6 million seedlings of the total amount were sold to external customers. Export sales of seedlings remained on a growth path, reaching 14.9 million seedlings exported in 2017, including 4.6 million waxed seedlings (against weevil damage). For forest regeneration purposes, 23.2 million seedlings were planted in the areas managed by LVM. An LVM's embassy (store) was opened in summer 2017 in Riga Customer Center.

During the year 2017, 18 forest management and wood supply chain certification audits were conducted, including 16 audits carried out to assess conformity of forest management practices with certification standards and 2 audits performed to assess conformity with the requirements set out in international wood supply chain standards. The audits did not reveal any significant systemic deficiencies.

Management report (cont'd)

In 2017, conformity of the production control with respect to mineral materials was also audited at 23 mining sites in order to assess whether the constancy of performance and quality control of mineral materials and their mixtures conform to certification standards. The audit did not reveal any significant systemic deficiencies.

The LVS EN ISO 9001:2015 quality management certificate for seedling production and sale will be in force until September 2018.

Milestone public relations projects and events of LVM in 2017

In the school year 2017/2018, nearly 2.5 thousand young Pigman's detectives ("*Cūkmena detektīvi*") will be involved in the environmental education program designed for preschoolers, while the relevant school program will cover more than 11 thousand schoolchildren.

Further education courses "Improvement of Teachers' Professional Competence in Environmental Education concerning Sustainable Forest Management" of 12 hours were organized for teachers jointly with the Latvian State Forest Research Institute Silava and the Forest and Wood Products Research and Development Institute (SIA Meža un koksnes produktu pētniecības un attīstības institūts). The courses were held in the LVM's Nature Park in Tērvete and were attended by 100 teachers from all over Latvia.

The LVM's Forest Expedition Procedure and the new LVM's Forest Days Agenda were drawn up and submitted for approval. The expedition procedure foresees long-term cooperation with the National Center for Education to implement the natural sciences standard being developed for the 6th form and offer participation in LVM's forest expeditions as part of the school curriculum.

A new project "Forest Career Day" ("*Meža karjeras diena*") of the forest education program designed for schoolchildren of 8th to 12th forms was launched, and 160 Latvia's schools applied for participation.

An LVM's forest expedition in the English language was held for attendees of the international summer school "Lifecycle – from Forest till High Ecological Value Wood Products" organized by the Lifelong Education Center of Latvia University of Agriculture. The summer school was attended by students and specialists of forest and other industries from Colombia, Uzbekistan, Mexico, Slovakia and China.

In September, local and foreign birdwatchers took part in the race "Latvia's State Forests Bird Rally 2017".

Company and environment

The mapping and quality control of habitats of EU interest and the mapping of rare and especially protected species are carried out each year in the LVM's lands which are located outside of natural territories protected by law as part of the assessment of the effects produced by the operating activities on the environment. This information about protected species and habitats is used by all LVM's employees who are involved in the planning and implementation of forest management.

In 2017, the 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 21 thousand encounters with rare and especially protected species.

During seven seasons, 40 thousand hectares of natural forests and at least 60 thousand hectares of habitats of EU interest were mapped in the LVM's territories, including more than 30 types of protected habitats, of which 6 thousand hectares were recognized in 2017. Forests and marsh habitats formed the largest share.

Each year, when verifying potential operating sites, LVM's employees find new nests of protected bird species. The LVM's database has information about nearly 3 000 big nests, of which at least 1 500 are nesting grounds of protected bird species, including information about artificial nests. All inhabited nests are provided with appropriate protection. In 2017, the LVM's database was supplemented with more than 1 500 new protected bird nests, which had not been identified before.

The quality monitoring of protected birds, plant species and habitats is carried out in the territories held by LVM each year. Monitoring results are used in the planning of additional protection measures aimed at reducing the impact produced by the operating activities on the environment. For instance, in the areas surrounding nests of black storks and other protected birds, regardless of their legal protection status, a prohibition within a radius of 500 m from the nest is imposed on forestry activities during the nesting season. Furthermore, in the spring and summer period forestry activities are banned within a radius of 1 000 m from 270 mating places of the wood grouse (over an area of 89.6 thousand hectares).

Management report (cont'd)

LVM's contribution to climate change mitigation

Carbon footprint is a carbon dioxide measure that shows impact of the Company's operations. LVM has set a goal to reduce CO_2 emissions also from its processes.

The total CO_2 emitted during the LVM's operations fell by 3 196 tonnes from the year 2016 owing to the outsourcing practice. The LVM's own footprint is relatively small, forming approximately 6% of total footprint (6 994 tonnes of CO_2). The remaining 94% (114 742 tonnes of CO_2) are produced by external service providers involved by LVM. The emissions caused by LVM individually dropped by 81 tonnes or 1% against the year 2016, which is mainly owing to smaller CFC consumption by LVM's Seeds and Plants nurseries.

	2016	2017
Emitted CO_2, tonnes	125 013	121 736

Planning and development of the Company

The LVM's strategy was approved on 31 August 2017.

There were two LVM's Nature Days organized to introduce hobby groups to the LVM's Forest Management and Environment Report 2016, explain the introduction of ecological landscape planning processes in forest management planning and demonstrate the possibilities of forest regeneration after final felling.

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

- Possibilities of increasing the productivity of forest stands by using wood ash and fertilizers
- Forest ecosystem services
- Forest-based biofuel and the mechanization of forest operations
- Research of factors limiting the spread of root rot
- Application of remote sensing methods in the planning of forest management activities
- Forecasts of changes in forest management risks and their mitigation
- Investigation of possibilities for optimizing land use in the context of Latvia's climate policy
- Forest regeneration, afforestation and woody plantations
- Research of important environmental factors for wood grouse protection
- Greenhouse gas emission and CO_2 sequestration assessment for aged forest stands
- Evaluation of broad-leaved tree forest distribution, structure and dynamics and biodiversity capacity
- Improvement of growing process patterns
- Use of ash for forest roads
- Formulation of a method to assess bio-oil quality under field conditions
- Problems associated with the growing of young birch stands and planting material

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 enables the Company to fulfil all of its obligations as they fall due, both to its cooperation partners and the State.

Events after reporting date

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 2017.

Management report (cont'd)

Key business targets for 2018

Operating plan:

Sale of products		
Sale of roundwood assortment	million m^3	5.83
Contractual sale of standing trees	million m^3	0.25
Supply of fuel chips	thousand Mwh	400
Seedlings for sale	million pieces	50.0
including container seedlings and seedlings with improved root system	*million pieces*	*46.9*
Sale of underground natural resources (sand, sand and gravel)	thousand m^3	609
including sale of certified underground natural resources (sand, sand and gravel)	*thousand m^3*	*170*
Land and forest management		
Forest regeneration	thousand ha	15.3
including natural regeneration	thousand *ha*	*6.6*
Agrotechnical tending of regenerated forest areas	thousand ha	29.0
Forest (young stand) tending	thousand ha	27.6
Cleaning of drainage ditches from obstruction	thousand m^3	433.0
Land registration with the Land Registry	thousand ha	96.0
Cadastral land survey	thousand ha	41.5
Border restoration	thousand ha	27.7
Expansion of managed forest areas	ha	2000
Forest infrastructure development		
Construction of forest roads	km	264
Reconstruction of forest drainage systems	thousand ha	18.5

To continue and initiate research according to the scientific research priorities defined in the 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
- Forest biomass – new products and technologies
- Forecasts of changes in forest management risks and their mitigation
- Research of factors limiting the spread of root rot
- Greenhouse gas emission and CO_2 sequestration assessment for aged forest stands
- Innovative products from the earth
- Research of important environmental factors for wood grouse protection
- Forest regeneration, afforestation and woody plantations
- Evaluation of broad-leaved tree forest distribution, structure and dynamics and biodiversity capacity
- Birch growing research program
- Investigation of possibilities for optimizing land use in the context of Latvia's climate policy
- Improvement of growing process patterns
- Potential uses of sand, sand and gravel and dolomite in the production of building materials
- Use of ash for forest roads
- Research of web-spinning sawfly damage and formulation of recommendations

Management report (cont'd)

Profit distribution suggested by the Board

	EUR
Portion of profit available for distribution	65 208 538
Suggested profit distribution:	
dividends to the shareholder	38 220 000
retained earnings	15 488 538
reserves	11 500 000

The Board has suggested that the retained earnings of EUR 15 488 538 should be used to increase the share capital according to the Company's strategy.

Roberts Strīpnieks,
Chairman of the Board

24 April 2018

Financial statements

Statement of comprehensive income

	Notes	2017 EUR	2016 EUR
Revenue	4	275 829 752	256 870 417
Cost of sales	5	(195 929 527)	(186 028 791)
Gross profit		**79 900 225**	**70 841 626**
Distribution costs	6	(1 799 545)	(1 544 827)
Administrative expense	7	(9 931 842)	(9 256 355)
Other operating income	8	5 145 629	2 227 682
Other operating expense	9	(4 246 360)	(4 001 528)
Operating profit		**69 068 107**	**58 266 598**
Interest income	10	305	4 448
Profit before corporate income tax		**69 068 412**	**58 271 046**
Income tax expense	11	(3 859 874)	(7 657 282)
Net profit for the year		**65 208 538**	**50 613 764**
Other comprehensive income		-	-
Total comprehensive income:		**65 208 538**	**50 613 764**

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

24 April 2018

Statement of financial position

ASSETS

	Notes	31/12/2017 EUR	31/12/2016 EUR
NON-CURRENT ASSETS			
Intangible assets			
Licenses and software	13	1 023 027	703 304
TOTAL		**1 023 027**	**703 304**
Property, plant and equipment			
Land, buildings and constructions	14	248 938 080	254 835 529
Equipment and machinery	14	4 358 930	4 809 799
Other fixtures and fittings, tools and equipment	14	4 760 921	3 621 750
Construction in progress	14	7 775 159	7 857 580
Prepayments for property, plant and equipment	14	484 979	340 927
TOTAL		**266 318 069**	**271 465 585**
Investment properties	15	**1 474 482**	**1 378 593**
Biological assets	16	**20 033 309**	**14 967 155**
Non-current financial assets			
Investments in subsidaries	17	1 620 936	1 620 936
Investments in associates	17	566 872	566 872
Other securities	21	441 090	441 090
TOTAL		**2 628 898**	**2 628 898**
TOTAL NON-CURRENT ASSETS		**291 477 785**	**291 143 535**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		1 136 799	1 301 334
Finished goods and goods for sale	18	21 457 840	22 241 752
Prepayments for goods		15 517	37 933
TOTAL		**22 610 156**	**23 581 019**
Receivables and prepayments			
Trade receivables	19	20 226 469	16 075 836
Receivables from related companies	28	36 117	51 376
Overpayment of corporate income tax	27	510 306	3 634 582
Overpayment of value added tax	27	1 337 265	1 188 788
Prepayments for services	20	644 516	527 802
Other receivables		5 064	5 599
TOTAL		**22 759 737**	**21 483 983**
Prepaid expense		**809 330**	**739 825**
Cash and cash equivalents	22	**49 430 201**	**23 425 399**
TOTAL CURRENT ASSETS		**95 609 424**	**69 230 226**
TOTAL ASSETS		**387 087 209**	**360 373 761**

The accompanying notes form an integral part of these financial statements. For more details, see also Note 2.

Roberts Strīpnieks
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

24 April 2018

EQUITY AND LIABILITIES

EQUITY	Notes	31/12/2017 EUR	31/12/2016 EUR
Share capital	23	292 374 608	276 955 844
Retained earnings		65 208 538	50 613 764
TOTAL EQUITY		**357 583 146**	**327 569 608**
LIABILITIES			
Non-current liabilities			
Deferred tax liabilities	11	-	5 130 425
Other provisions	24	6 122 216	6 801 592
Other liabilities		83 378	95 310
TOTAL		**6 205 594**	**12 027 327**
Current liabilities			
Prepayments received from customers		604 972	363 128
Trade payables		7 315 428	7 184 685
Payables to related companies	28	422	417
Payables to associates	28	13 987	25 986
Taxes payable	27	996 788	1 004 241
Other provisions	24	6 933 483	6 210 850
Other liabilities	25	1 056 933	924 012
Accrued liabilities	26	6 376 456	5 063 507
TOTAL		**23 298 469**	**20 776 826**
TOTAL LIABILITIES		**29 504 063**	**32 804 153**
TOTAL EQUITY AND LIABILITIES		**387 087 209**	**360 373 761**

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

Roberts Strīpnieks
Chairman of the Board

Gunta Vilčiņa
Head of the Financial and Accounting Department

24 April 2018

Statement of cash flows

	Note	2017 EUR	2016 EUR
Cash flows to/ from operating activities			
Profit before corporate income tax		**69 068 412**	**58 271 046**
Adjustments for:			
depreciation	14	30 419 482	28 929 037
increase/decrease in the value of property, plant and equipment and intangible assets	13, 14	2 291 509	1 503 868
amortization	13	621 897	841 888
increase in the value of biological assets	16	(3 348 201)	(1 324 802)
change in provisions, except for allowances for doubtful receivables		43 257	(311 404)
income from investments in other companies		(22 053)	(22 053)
interest income	9	(305)	(4 448)
other (gain on disposal of property, plant and equipment, etc.)		(563 849)	(270 812)
Profit before adjustments for the effect of changes in current assets and current liabilities		**98 510 149**	**87 612 320**
(increase)/ decrease in receivables		(4 469 535)	(934 732)
(increase)/ decrease in inventories		970 863	477 831
increase/ (decrease) in trade and other payables		1 787 078	2 478 488
Cash generated from operations		**96 798 555**	**89 633 907**
Corporate income tax paid	27	(5 866 023)	(4 649 466)
Net cash flows to/ from operating activities		**90 932 532**	**84 984 441**
Cash flows to/ from investing activities			
Purchase of property, plant and equipment and intangible assets	13, 14	(28 115 235)	(34 075 758)
Proceeds from sale of property, plant and equipment and intangible assets		78 100	21 789
Acquisition of biological assets	16	(2 031 628)	(1 024 354)
Development of biological assets	16	313 675	248 206
Interest received		305	4 587
Dividends received	8	22 053	22 053
Net cash flows to/ from investing activities		**(29 732 730)**	**(34 803 477)**
Cash flows to/ from financing activities			
Dividends paid	23	(35 195 000)	(52 614 921)
Net cash flows to/ from financing activities		**(35 195 000)**	**(52 614 921)**
Net cash flow for the year		**26 004 802**	**(2 433 957)**
Cash at the beginning of the year		**23 425 399**	**25 859 356**
Cash at the end of the year		**49 430 201**	**23 425 399**

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

24 April 2018

Statement of changes in equity

	Share capital	Retained earnings	Total
Balance as at 1 January 2016	**270 270 640**	**59 300 125**	**329 570 765**
Dividends paid	-	(52 614 921)	**(52 614 921)**
Transfer of prior year result	-	-	-
Increase in share capital	6 685 204	(6 685 204)	-
Total shareholders' contributions and profit distributions recognized under equity	**6 685 204**	**(59 300 125)**	**(52 614 921)**
Profit for the reporting year	-	50 613 764	**50 613 764**
Total comprehensive income recognized in the reporting year	-	**50 613 764**	**50 613 764**
Balance as at 31 December 2016	**276 955 844**	**50 613 764**	**327 569 608**
Dividends paid	-	(35 195 000)	**(35 195 000)**
Increase in share capital	15 418 764	(15 418 764)	-
Total shareholders' contributions and profit distributions recognized under equity	**15 418 764**	**(50 613 764)**	**(35 195 000)**
Profit for the reporting year	-	65 208 538	**65 208 538**
Total comprehensive income recognized in the reporting year	-	**65 208 538**	**65 208 538**
Balance as at 31 December 2017	**292 374 608**	**65 208 538**	**357 583 146**

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

24 April 2018

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 financial statements of the Company for the year ended 31 December 2017 were approved by a resolution of the Company's Board on 24 April 2018. 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, as adopted by the EU, 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 24 April 2018. 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 2017 through 31 December 2017.

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.

Standards issued but not yet effective

The Company has not applied the following IFRS and IFRIC interpretations that have been issued as of the date of authorization of these financial statements for issue, but which are not yet effective:

IFRS 9 Financial Instruments: *Classification and Measurement*
The standard is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. 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 made an assessment of the impact of the implementation of IFRS 9. As a result of the adoption of the collective assessment of receivables, when receivables will be assessed as assets collectively, instead of the individual assessment method, the effect of the reclassification would be the decrease in receivables by nearly EUR 24 thousand.

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

IFRS 15 *Revenue from Contracts with Customers*
The standard is effective for annual periods beginning on or after 1 January 2018. 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. Management believes that the implementation of this standard will not have any impact.

IFRS 15: *Revenue from Contracts with Customers (Clarifications)*
The clarifications apply for annual periods beginning on or after 1 January 2018, with earlier application permitted. The objective of the clarifications is to clarify the IASB's intentions when developing the requirements in IFRS 15 Revenue from Contracts with Customers, particularly the accounting for identifying performance obligations, amending the wording of the "separately identifiable" principle, of principal versus agent considerations, including the assessment of whether an entity is a principal or an agent, as well as applications of the control principle and of licensing providing additional guidance for accounting for intellectual property and royalties. The clarifications also provide additional practical expedients for entities that either apply IFRS 15 fully retrospectively or that elect to apply the modified retrospective approach. Management believes that the implementation of these clarifications will not have any impact.

IFRS 16: *Leases*
The standard is effective for annual periods beginning on or after 1 January 2019. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases for both parties to a contract, i.e. the customer ('lessee') and the supplier ('lessor'). The new standard requires lessees to recognize most leases on their financial statements. Lessees will have a single accounting model for all leases, with certain exemptions. Lessor accounting is substantially unchanged. The management has concluded that the standard changes will affect the financial statements, and will continue to be evaluated in 2018.

IAS 40: *Transfers to Investment Property (Amendments)*
The amendments are effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. Management has assessed these amendments and believes that they will not have any impact on the Company's financial statements at present. Management will re-assess the impact of these amendments, should the Company engage in such transactions.

IFRIC INTERPRETATION 22: *Foreign Currency Transactions and Advance Consideration*
The interpretation is effective for annual periods beginning on or after 1 January 2018, with earlier application permitted. The interpretation clarifies the accounting for transactions that include the receipt or payment of advance consideration in a foreign currency. The interpretation covers foreign currency transactions when an entity recognizes a non-monetary asset or a non-monetary liability arising from the payment or receipt of advance consideration before the entity recognizes the related asset, expense or income. The interpretation states that the date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Management has assessed the impact of this interpretation and believes that it will not have any considerable impact on the Company's financial statements because of a small number and amount of transactions in foreign currencies. Management will re-assess the impact of this interpretation in the event of a significant increase in the number of such transactions.

- **The IASB has issued the Annual Improvements to IFRSs 2014 – 2016 Cycle**, which is a collection of amendments to IFRSs. The amendments are effective for annual periods beginning on or after 1 January 2018 for IFRS 1 *First-time Adoption of International Financial Reporting Standards* and for IAS 28 *Investments in Associates and Joint Ventures*. Earlier application is permitted for IAS 28 *Investments in Associates and Joint Ventures*. These annual improvements have not yet been endorsed by the EU.
  - **IFRS 1 *First-time Adoption of International Financial Reporting Standards*:** This improvement deletes the short-term exemptions regarding disclosures about financial instruments, employee benefits and investment entities, applicable for first time adopters.
  - **IFRS 12 *Disclosure of Interests in Other Entities*:** The amendments clarify that the disclosure requirements in IFRS 12, other than those of summarized financial information for subsidiaries, joint ventures and associates, apply to an entity's interest in a subsidiary, a joint venture or an associate that is classified as held for sale, as held for distribution, or as discontinued operations in accordance with IFRS 5.

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

The Company plans to adopt the above mentioned standards and interpretations on their effectiveness date provided they are endorsed by the EU.

Foreign currency translation

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

Revenue

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. The following specific recognition criteria must also be met before revenue is recognized:

- Sale of goods
    - Revenue 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.
- Rendering of services
    - Revenue is recognized in the period when the services are rendered.

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

- Penalties and late payment fees
  - Revenue is recognized when penalties and late payment fees are received.
- Lease income
  - Revenue from operating leases is recognized on a straight-line basis over the lease term and is taken to income in the period when the leased item is in use.
- Dividends
  - Revenue is recognized when the Company's right to receive the payment is established, which is generally when shareholders approve the dividend.

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 three years.

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

Property, plant and equipment

Property, plant and equipment are recognized if:

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

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

Buildings	- over 10 to 20 years
Roads	- over 15 years
Equipment and machinery	- over 5 to 10 years
Computers and communication devices	- over 2.85 years
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.

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

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

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Company as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalized at the commencement of the lease at the fair value of the leased property at the inception date or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognized as an operating expense in the statement of profit or loss on a straight-line basis over the lease term.

Company as a lessor

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.

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

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

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.

Financial instruments – initial recognition, subsequent measurement and derecognition

Financial assets

Initial recognition and measurement

Financial assets are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. The Company determines the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

The Company's financial assets include loans and receivables and available-for-sale financial assets.

Subsequent measurement

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in the statement of profit or loss when loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition, available-for-sale financial assets are measured at fair value with gains and losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of profit or loss. Investments in equity instruments which have no price quotations available on the active market and whose fair value cannot be determined reliably are stated at cost.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

1) the rights to receive cash flows from the asset have expired;
2) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets

The Company assesses, at each reporting date, whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that has occurred since the initial recognition of the asset (an incurred 'loss event') has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Company first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR.

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognized in the statement of profit or loss. Loans, together with the associated allowance, are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

Trade and other receivables

Receivables are stated in the statement of financial position at amortized cost less impairment allowances. An allowance for impairment is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. The amount of the allowance is the difference between the amortized cost and the recoverable amount of a receivable. The recoverable amount of receivables is the present value of future cash flows.

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Company determines the classification of its financial liabilities at initial recognition.

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

The Company's financial liabilities include trade and other payables, loans and borrowings.

Loans and borrowings

All loans and borrowings are initially recognized at cost, being the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, loans and borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognized in the statement of profit or loss as interest income/ expense when the liabilities are derecognized through the amortization process.

Trade and other payables

The Company's payables are initially recognized at fair value and are subsequently measured at amortized cost using the effective interest rate method.

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 reforestation of forests that have been cleared as part of its operations. Forests must be regenerated within three to five years after having been cleared. During that period, the Company faces an outflow of actual economic benefits, and respective provisions are established for forest regeneration.

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

Provisions for forest regeneration costs are made on the basis of the actually cleared areas at the beginning of 2017 and planned regeneration 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.

Corporate income tax

Corporate income tax includes current and deferred taxes. Current corporate income tax is applied at the rate of 15% on taxable income generated by the Company during the taxation period.

Legal entities will not be 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 will be paid on distributed profits and deemed profit distributions. Consequently, current and deferred tax assets and liabilities are measured at the tax rate applicable to undistributed profits. Starting from 1 January 2018, both distributed profits and deemed profit distributions will be 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.

Deferred tax assets and liabilities

Until 31 December 2017, given that the Company is a group's parent company and prepares consolidated annual reports in accordance with International Accounting Standards, the Company had chosen to apply Article 13(5)(2) of the Law on Annual Reports and Consolidated Annual Reports and recognized and measured deferred tax assets and deferred tax liabilities, as well as provided explanatory information under the captions "Deferred tax assets", "Deferred tax liabilities" and "Income or expense from changes in deferred tax assets or deferred tax liabilities" in accordance with IAS 12 "Income Taxes". Deferred tax was provided using the liability method for all temporary differences arising between the tax bases of assets and liabilities and their carrying value for accounting purposes. Deferred tax assets and liabilities were measured at the tax rates that were expected to apply to the period when the asset was realized or the liability was settled, based on tax rates that had been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not recognized for the year 2017 in accordance with amendments to the legislation of the Republic of Latvia, which entered into force on 1 January 2018. Accordingly, deferred tax liabilities which were calculated and recognized in previous reporting periods have been reversed through the current statement of profit or loss or reserves, depending on whether deferred tax liabilities or assets were recognized initially in the statement of profit or loss or reserves, in the financial statements for the year ended 31 December 2017; according to the International Accounting Standard, changes in the tax legislation must be presented in financial statements in the period when they are adopted.

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

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

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.

Recoverable amount of trade receivables

The estimated recoverable amount of receivables is determined on the basis of the ageing analysis according to management's estimates. In case individual assessment is not possible due to the large number of individual balances, receivables are classified into groups of similar credit risk characteristics and are collectively assessed for impairment, using historical loss experience. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The circumstances indicating an impairment loss may include initiated insolvency of the debtor and inability to meet payment terms. The methodology and estimates used for defining future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss incurred.

Recurring fair value measurement of biological assets

Revaluation of biological assets is performed according to 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 (2012-2016) 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 period;
    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 5.31%.

Key assumptions are disclosed in Note 16.

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 2017, the Company established provisions for forest regeneration of EUR 10 423 420. 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 for 19% of these areas natural regeneration will be facilitated;
- 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 24.

4. Revenue

By business segments	2017	2016
Sale of roundwood assortment	252 557 366	228 224 813
Sale of standing trees	7 308 172	13 940 295
Sale of nursery plants	5 754 013	4 917 763
Sale of chips	4 550 267	3 885 335
Land lease	2 025 462	1 869 684
Sale of mineral resources	1 447 628	1 468 755
Hunting and recreational services	1 030 628	1 118 389
Lease of hunting areas	590 649	607 601
Sale of forest seeds	30 148	35 091
Other income	535 419	802 691
TOTAL:	**275 829 752**	**256 870 417**

5. Cost of sales

	2017	2016
Works and services costs, including:	118 795 629	112 284 086
Production of roundwood assortment, including:	93 328 891	86 487 938
Preparation of roundwood assortment	34 900 274	32 462 245
Transportation of roundwood assortment	30 370 944	27 594 836
Forwarding of roundwood assortment	25 875 797	24 033 808
Maintenance and repair of forest roads	9 359 343	9 504 575
Production of chips	3 618 258	3 176 990
Tending of young stands	3 275 398	3 667 868
Agrotechnical tending of forest areas	2 644 379	2 260 392
Registration of land properties	1 512 446	2 283 568
Management of underground natural resources	846 084	1 098 620
Soil preparation	889 918	820 378
Forestation	792 935	754 127
Forest protection	808 883	601 850
Maintenance of land drainage systems	612 721	598 119
Production of forest reproductive material	436 067	304 323
Preservation of heritage sites and sites of public significance	221 543	216 066
Expansion of reforested areas	137 480	140 904
Hunting costs	133 257	177 847
Forest inventory	95 087	94 876
Fire safety of forests	68 337	78 606
Pruning of standing trees	14 602	17 039

5. Cost of sales (cont'd)

Depreciation and amortization	30 359 045	29 024 760
Staff costs, including:	26 981 773	25 679 098
Basic salaries	17 111 848	16 262 492
Statutory social insurance contributions	5 155 582	4 889 957
Bonuses	3 367 975	3 182 163
Benefits and compensations	1 346 368	1 344 486
Real estate tax	3 606 447	3 441 566
Acquisition of other materials	3 679 618	2 979 359
Maintenance of offices of production bodies	2 197 639	2 213 340
Insurance	2 273 765	2 202 978
Low value inventory	741 380	1 922 391
Fuel	1 404 375	1 317 196
Scientific research and consultations	1 248 502	1 270 614
Vehicle maintenance	712 854	684 187
Communications services	467 360	456 787
Changes in stocks of finished goods	783 912	430 362
Natural resource tax	139 365	215 733
State charges	89 855	87 386
Legal fees	21 996	15 734
Other cost of sales, including:	2 426 012	1 803 214
Changes in provisions, net, of which:	*73 273*	*(425 473)*
Forest regeneration	*(278 744)*	*(456 693)*
Bonuses	*263 595*	*44 318*
Vacation pay reserve	*88 422*	*(13 098)*
	195 929 527	**186 028 791**

6. Distribution costs

		2017	2016
Timber measurement		1 799 545	1 544 827
	TOTAL:	**1 799 545**	**1 544 827**

7. Administrative expense

	2017	2016
Staff costs, including:	4 860 781	4 213 936
Basic salaries	3 073 607	2 634 774
Statutory social insurance contributions	920 172	808 182
Bonuses	656 900	498 538
Benefits and compensations	210 102	272 442
Information system maintenance and database subscription	1 722 306	1 568 426
Depreciation and amortization	682 334	746 165
Museum services	548 713	532 732
Insurance	411 558	373 521
Advertising and advertisements	247 062	302 475
Staff development costs	264 718	214 925
Fuel	114 593	106 222
Business trips	114 589	77 838
Low value inventory	70 819	69 029
Consulting and other research	60 299	50 903
Transport expense	50 452	51 476
Legal fees	35 103	43 540
Office maintenance	39 696	35 707
Representation expense	58 261	36 092
Communications expense	28 163	22 733
Fees paid to Latvian firms of certified auditors*	24 744	36 082
Other management and administrative expense, including:	597 651	774 553
Changes in provisions, net, of which:	*64 65*	*84 958*
Bonuses	*58 406*	*100 971*
Vacation pay reserve	*12 854*	*(16 013)*
TOTAL:	**9 931 842**	**9 256 355**

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

	2017	2016
Statutory annual audit (review)	16 000	24 750
Tax consulting	-	2 532
Other specialist's tasks	8 744	8 800
TOTAL:	**24 744**	**36 082**

8. Other operating income

	2017	2016
Appreciation of biological assets (see also Note 16)	3 034 526	1 076 596
Gain on disposal of property, plant and equipment and current assets, net	563 889	270 812
Penalties received	343 227	482 138
Dividends	22 053	22 053
Other income	296 616	88 318
Other operating income	885 318	287 765
TOTAL:	**5 145 629**	**2 227 682**

9. Other operating expense

	2017	2016
Allowances for doubtful receivables	45 332	(31 486)
Donations, including;	4 200 000	4 020 000
for sport support	2 200 000	2 000 000
for forestry development	800 000	800 000
for cultural support	600 000	600 000
for social projects	600 000	620 000
Other operating expense	1 028	13 014
TOTAL:	**4 246 360**	**4 001 528**

10. Interest income

	2017	2016
Interest income	305	4 448
TOTAL:	**305**	**4 448**

11. Income tax expense

	2017	2016
Current corporate income tax charge for the reporting year	8.990 299	7 552 525
Deferred corporate income tax due to changes in temporary differences	(9 540)	104 757
Reversal of deferred tax	(5 120 885)	
Total corporate income tax:	**3 859 874**	**7 657 282**

Deferred corporate income tax:

	Statement of financial position 31/12/2017	Statement of financial position 31/12/2016	Statement of profit or loss 2017	Statement of profit or loss 2016
Deferred corporate income tax liabilities				
Accelerated depreciation for tax purposes	5 615 112	6 073 343	(458 231)	(282 117)
Fair value of biological assets (see also Note 16)	1 464 128	1 008 949	455 179	161 489
Gross deferred corporate income tax liabilities	**7 079 240**	**7 082 292**	**(3 052)**	**(120 628)**
Deferred corporate income tax assets				
Provisions for bonuses	(394 842)	(346 542)	(48 300)	156 881
Provisions for forest regeneration (temporary difference)	(1 563 513)	(1 605 325)	41 812	68 504
Gross deferred corporate income tax assets	**(1 958 355)**	**(1 951 867)**	**(6 488)**	**225 385**
Net deferred corporate income tax liabilities prior to the reversal of deferred tax	**5 120 885**	**5 130 425**	**(9 540)**	**104 757**
Reversal of deferred tax through the statement of comprehensive income*	(5 120 885)		(5 120 885)	
Net deferred corporate income tax expense/ (benefit)	**-**	**5 130 425**	**(5 130 425)**	**104 757**

*The new Corporate Income Tax Law was adopted on 28 July 2017 and entered into force on 1 January 2018. This law revises the corporate income tax regulation, with the result that temporary differences between the carrying values of assets and liabilities and their tax base will no longer exist. Therefore, there will be no grounds for accounting for deferred tax, which is derecognized. The derecognized deferred corporate income tax liabilities are taken to the statement of comprehensive income.

Actual corporate income tax charge for the reporting year, if compared with theoretical calculations:

	2017	2016
Profit before tax	69 068 412	58 271 046
Tax at the applicable tax rate of 15%	10 360 262	8 740 657
Permanent differences:		
Non-operating expense	795 188	759 488
Other	82 424	45 268
Tax rebate on donations	(2 247 575)	(1 888 131)
Actual corporate income tax for the reporting year:	**8 980 759**	**7 657 282**
Reversal of deferred tax*	**(5 120 885)**	**-**
Corporate income tax charged to the statement of comprehensive income	**3 859 874**	**7 657 282**

12. Staff costs and number of employees

	2017	2016
Wages and salaries	25 766 800	24 194 895
Statutory social insurance contributions	6 075 754	5 698 139
Changes in provisions for bonuses	322 001	145 289
Changes in vacation pay reserve	101 276	(29 111)
TOTAL:	**32 265 831**	**30 009 212**

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

	2017	2016
Cost of sales	27 333 790	25 710 318
Administrative expense	4 932 041	4 298 894
TOTAL:	**32 265 831**	**30 009 212**

Key management personnel compensation:

Council Members	2017	2016*
Wages and salaries	151 335	64 491
Statutory social insurance contributions	35 700	15 214
TOTAL:	**187 035**	**79 705**

* The Council Members were appointed and started working in 2016.

Board Members	2017	2016
Wages and salaries	437 594	356 160
Statutory social insurance contributions	103 228	84 018
TOTAL:	**540 822**	**440 178**

	2017	2016
Average number of employees during the reporting year	1 298	1 267
TOTAL:	**1 298**	**1 267**

13. Intangible assets

	Software	Programming in progress	TOTAL
Cost or revalued amount			
As at 1 January 2016	**5 388 554**	**-**	**5 388 554**
Additions	594 748	239 787	834 535
Reclassification	239 787	(239 787)	-
Disposals		-	-
As at 31 December 2016	**6 223 089**	**-**	**6 223 089**
Additions	711 072	230 548	941 620
Reclassification	230 548	(230 548)	-
As at 31 December 2017	**7 164 709**	**-**	**7 164 709**
Amortization and impairment			
As at 1 January 2016	**4 677 897**	-	**4 677 897**
Amortization charge	841 888	-	841 888
As at 31 December 2016	**5 519 785**	-	**5 519 785**
Amortization charge	621 897	-	621 897
As at 31 December 2017	**6 141 682**	-	**6 141 682**
Net carrying amount			
As at 1 January 2016	**710 657**	**-**	**710 657**
As at 31 December 2016	**703 304**	**-**	**703 304**
As at 31 December 2017	**1 023 027**	**-**	**1 023 027**

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 2 370 844 (2016: EUR 1 891 264).

Amortization

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

	2017	2016
Cost of sales	325 735	521 372
Administrative expense	296 162	320 516
TOTAL:	**621 897**	**841 888**

14. Property, plant and equipment

	Land	Buildings	Roads	Equipment and machinery	Computers	Other fixtures and fittings, tools and equipment	Construction in progress	Prepayments for property, plant and equipment	TOTAL
Cost or revalued amount									
As at 1 January 2016	**2 105 007**	**62 235 852**	**326 573 486**	**13 491 905**	**3 382 699**	**11 128 609**	**6 834 774**	**467 670**	**426 220 002**
Additions	-	113 224	-	1 515 116	782 517	419 233	29 267 279	1 538 493	33 635 862
Reclassification	337 465	8 120 008	19 729 090	470		195 924	(26 752 903)	(1 659 001)	(28 947)
Disposals	-	(134 213)	-	(1 241 962)	(472 575)	(245 718)	(1 491 570)	(6 235)	(3 592 273)
As at 31 December 2016	**2 442 472**	**70 334 871**	**346 302 576**	**13 765 529**	**3 692 641**	**11 498 048**	**7 857 580**	**340 927**	**456 234 644**
Additions	-	147 513	-	1 254 699	344 856	938 797	23 855 350	1 233 146	27 774 361
Reclassification	613 080	5 721 221	14 368 458	205 788	(10 857)	1 456 721	(21 632 313)	(1 083 548)	(361 450)
Disposals	(11 006)	(37 103)	-	(1 311 558)	(86 593)	(303 870)	(2 305 458)	(5 546)	(4 061 134)
As at 31 December 2017	**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**
Depreciation and impairment									
As at 1 January 2016	**-**	**17 183 701**	**121 991 430**	**7 972 552**	**2 815 572**	**7 847 791**	**-**	**-**	**157 811 046**
Depreciation charge	-	3 207 944	21 983 894	2 117 210	499 348	1 120 641	-	-	28 929 037
Reclassification		(27 746)							(27 746)
Disposals	-	(94 833)	-	(1 134 032)	(472 513)	(241 900)	-	-	(1 943 278)
As at 31 December 2016	**-**	**20 269 066**	**143 975 324**	**8 955 730**	**2 842 407**	**8 726 532**	**-**	**-**	**184 769 059**
Depreciation charge	-	3 638 388	23 257 184	1 904 935	506 788	1 112 187	-	-	30 419 482
Reclassification	-	(160 181)	-	(41 244)	(10 858)	(20 962)	-	-	(233 245)
Disposals	-	(35 779)	-	(1 263 893)	(84 380)	(302 892)	-	-	(1 686 944)
As at 31 December 2017	**-**	**23 711 494**	**167 232 508**	**9 555 528**	**3 253 957**	**9 514 865**	**-**	**-**	**213 268 352**
Net carrying amount									
As at 1 January 2016	**2 105 007**	**45 052 151**	**204 582 056**	**5 519 353**	**567 127**	**3 280 818**	**6 834 774**	**467 670**	**268 408 956**
As at 31 December 2016	**2 442 472**	**50 065 805**	**202 327 252**	**4 809 799**	**850 234**	**2 771 516**	**7 857 580**	**340 927**	**271 465 585**
As at 31 December 2017	**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**

The Company is managing real estate whose value is EUR 1 594 989 (2016: EUR 1 932 299) 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 also Note 30).

Fully depreciated assets

A number of assets have been fully depreciated and are still in active use. The total cost value of these assets as at the end of the year was EUR 14 486 718 (2016: EUR 12 655 786).

Depreciation

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

	2017	2016
Cost of sales	30 033 310	28 503 388
Administrative expense	386 172	425 649
TOTAL:	**30 419 482**	**28 929 037**

15. Investment properties

	Investment properties	TOTAL
Cost		
As at 1 January 2016	**1 377 882**	**1 377 882**
Additions	-	-
Reclassification	28 947	28 947
Disposals	(490)	(490)
As at 31 December 2016	**1 406 339**	**1 406 339**
Additions	-	-
Reclassification	361 450	361 450
Disposals	(218 429)	(218 429)
As at 31 December 2017	**1 549 360**	**1 549 360**
Depreciation and impairment		
As at 1 January 2016		
Reclassified depreciation	27 746	27 746
As at 31 December 2016	**27 746**	**27 746**
Reclassified depreciation	**233 245**	**233 245**
Disposals	(186 113)	(186 113)
As at 31 December 2017	**74 878**	**74 878**
Net carrying amount		
As at 1 January 2016	**1 377 882**	**1 377 882**
As at 31 December 2016	**1 378 593**	**1 378 593**
As at 31 December 2017	**1 474 482**	**1 474 482**

16. Biological assets

	31/12/2017	31/12/2016
At the beginning of the reporting year	14 967 155	12 866 205
Additions	2 031 628	1 024 354
Development	(313 675)	(248 206)
Increase in fair value*	3 348 201	1 324 802
TOTAL:	**20 033 309**	**14 967 155**

Income earned in the reporting year from the sale of biological assets having the area of 31.22 ha amounted to EUR 313 675 (31 December 2016: 20.74 ha, EUR 248 206).

In 2017, the discount rate was recalculated pursuant to the WACC (weighted average cost of capital) method, where the required assumptions were based on values that could be objectively determined on a free market, in a similar business and for a similar undertaking, thereby arriving at the discount rate of 5.31% (previously: 5.31%). The following assumptions were used for the purposes of the calculations:

- the average interest rate of short-term (six-month) US government bonds for the period from 1958 to January 2017 was accepted as the risk-free rate;
- the equity risk premium was updated on the basis of the average return on equity of similar forestry undertakings of Northern Europe for the period from 2009 to 2015;
- the country risk rate was based on the average difference between interest rates of short-term US government bonds and those of short-term Latvian government bonds for the period from February 1997 to 2014.

* The value of biological assets grew in 2017 owing to a decrease in the costs of logging and timber transportation by 11% and 4% respectively; reforestation of areas of 244.8 ha; tending activities, when the existing tree species were replaced with more valuable species, which resulted in a higher value of forests.

16. Biological assets (cont'd)

Sensitivity of key assumptions to +/-10% movement

Assumptions	Changes in the wood assortment price in the place of production +/- 10%	Change in discount rate +/- 10%
Fair value of biological assets, %	+/- 13.3%	+/- 0.5%

Biological assets as at 31 December 2017 comprised mature stands of 1 094.7 ha (12.2%), while the remaining part of biological assets had not yet reached the felling age.

17. Investments in subsidiaries and associates

On 16 February 2004, the Company acquired 100% 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% 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% 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.

	31/12/2017	01/12/2016
SIA Jaunmoku pils	1 620 936	1 620 936
SIA Meža un koksnes produktu pētniecības un attīstības institūts	566 872	566 872
TOTAL:	**2 187 808**	**2 187 808**

Information about subsidiaries and associates:

Company	Equity		Profit/ (loss) for the year	
	31/12/2017	31/12/2016	2017	2016
SIA Jaunmoku pils	1 318 430	1 224 929	93 501	(3 533)
SIA Meža un koksnes produktu pētniecības un attīstības institūts	781 253	665 151	116 102	(16 623)
TOTAL:	**2 099 683**	**1 890 080**	**209 603**	**(20 156)**

18. Finished goods and goods for sale

	31/12/2017	31/12/2016
Nursery plants	8 642 036	8 202 747
Roundwood assortment at roadside sites and in ports	3 031 098	3 445 958
Ornamental plants	1 861 989	2 065 571
Chips	3 667 584	3 356 731
Forest seeds	4 079 700	5 168 306
Mixtures of mineral materials	172 777	-
Ornamental seeds	2 656	2 439
TOTAL:	**21 457 840**	**22 241 752**

In 2017, the amount of EUR 13 733 745 (2016: EUR 18 319 020) was recognized as net realizable value and included in the cost of sales as the cost of goods or services provided.

19. Trade receivables

	31/12/2017	31/12/2016
Trade receivables	20 320 130	16 101 436
Allowances for doubtful receivables	(93 661)	(25 600)
TOTAL:	**20 226 469**	**16 075 836**

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***
Balance as at 31 December 2016	**16 075 836**	14 763 965	1 176 614	42 748	47 280	45 229
Balance as at 31 December 2017	**20 226 469**	18 051 756	2 029 892	47 499	30 987	66 335

	Individually impaired **EUR**	Collectively impaired **EUR**	**TOTAL EUR**
Balance as at 31 December 2016	25 600	-	25 600
Charge for the year	93 563	-	93 563
Utilized	(25 502)	-	(25 502)
Balance as at 31 December 2017	**93 661**	-	**93 661**

All allowances are assessed individually. No collective assessment has been done.

20. Prepayments for services

	31/12/2017	31/12/2016
Prepayments for services	644 516	527 802
TOTAL:	**644 516**	**527 802**

21. Other securities

	31/12/2017		31/12/2016	
Type of securities	Number	Amount, EUR	Number	Amount, EUR
Shares of AS Latvijas finieris*	31	441 090	31	441 090
Total non-current:		**441 090**		**441 090**

The fair value of other securities as at 31 December 2017 was EUR 649 853. The fair value was defined on the basis of Level 3.

22. Cash and cash equivalents

	31/12/2017	31/12/2016
Cash on hand	1 035	561
Cash at bank	49 429 166	23 424 670
Short-term deposits with credit institutions (savings account)*		168
TOTAL:	**49 430 201**	**23 425 399**

* Short-term deposits with credit institutions represent term deposits placed with Latvian commercial banks. These deposits have maturities of up to three months.

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.

23. Share capital

As at 31 December 2017, the registered share capital of the Company was EUR 292 374 608 (31 December 2016: EUR 276 955 844). The fully paid share capital was EUR 292 374 608 (31 December 2016: EUR 276 955 844) and consisted of 292 374 608 ordinary shares, each having the par value of EUR 1 (31 December 2016: 276 955 844 ordinary shares, each having the par value of EUR 1).

On 29 May 2017, the general shareholders' meeting decided to increase the Company's share capital by investing therein the profit of EUR 15 418 764 earned in 2016. These changes were registered with the Commercial Register on 5 June 2017.

Dividends paid in 2017 and 2016 were EUR 35 195 000 (EUR 0.12 per share) and EUR 52 614 921 (EUR 0.19 per share) respectively.

24. Other provisions

		Provisions for forest regeneration	Provisions for bonuses	TOTAL
As at 31 December 2016		**10 702 164**	**2 310 278**	**13 012 442**
Utilized		(3 925 969)	(2 310 278)	(6 236 247)
Established		3 647 225	2 632 279	6 279 504
As at 31 December 2017		**10 423 420**	**2 632 279**	**13 055 699**
including	non-current	6 122 216		6 122 216
	current	4 301 204	263 279	6 933 483

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 decreased due to lower planned costs. The value of money has a material effect; therefore, provisions must be equal to the present value of expenditure required to settle the obligation. To comply with this requirement, provisions for forest regeneration are discounted at the rate of 5.31%.

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.

25. Other liabilities

	31/12/2017	31/12/2016
Salaries	1 007 478	924 012
Other liabilities	49 455	
TOTAL:	**1 056 933**	**924 012**

26. Accrued liabilities

	31/12/2017	31/12/2016
Vacation pay reserve	1 263 331	1 162 056
Other accrued liabilities*	5 113 124	3 901 451
TOTAL:	**6 376 456**	**5 063 507**

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

27. Taxes payable

	31/12/2017	Refunded(+)	Calculated	Paid	31/12/2016
Statutory social insurance contributions	630 100	-	8 819 573	(8 794 717)	605 244
Personal income tax	324 776	-	4 794 844	(4 782 348)	312 280
Corporate income tax	(510 306)	-	8 990 299	(5 866 023)	(3 634 582)
Value added tax	(1 337 265)	6 053 185	26 707 523	(32 909 185)	(1 188 788)
Real estate tax	3 074		3 606 447	(3 608 221)	4 848
Natural resource tax	38 387	-	139 365	(182 402)	81 424
Unemployment risk duty	451	-	5 603	(5 597)	445
TOTAL:	**(850 783)**	**6 053 185**	**53 063 654**	**(56 148 493)**	**(3 819 129)**
Total payable:	**996 788**				**1 004 241**
Total receivable:	**(1 847 571)**				**(4 823 370)**

28. 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 Republic of Latvia Ministry of Agriculture, 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 Republic of Latvia Ministry of Agriculture, 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 December 31st	Amounts owed to related parties as at December 31st
Republic of Latvia Ministry of Agriculture	2017	-	-	-	-
	2016	-	-	-	-
SIA Jaunmoku pils	2017	1 045	578 924	36 117	422
	2016	869	562 731	51 376	417
SIA Meža un koksnes produktu pētniecības un attīstības institūts	2017	-	851 054	-	13 987
	2016	110	817 538	-	25 986
TOTAL for 2017:		**1 045**	**1 429 978**	**36 117**	**14 409**
TOTAL for 2016:		**979**	**1 380 269**	**51 376**	**26 403**

29. 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 2017 was EUR 15 934 259 (of which EUR 774 655 represented projects in progress under contracts signed in 2016) (31 December 2016: EUR 10 875 386), where the works completed as at 31 December 2017 amounted to EUR 3 069 972 (of which EUR 373 166 represented projects in progress of previous years) (31 December 2016: EUR 2 163 055).

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 2017 was EUR 1 926 327, where the works completed as at 31 December 2017 amounted to EUR 932 534.

At the year end, the Company had several contracts on forest road surface maintenance. The total value of these contracts as at 31 December 2017 was EUR 1 617 489, where the works completed as at 31 December 2017 amounted to EUR 581 689.

29 Long-term contracts (cont'd)

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 2017 was EUR 1 327 096, where the works completed as at 31 December 2017 amounted to EUR 623 293.

At the year end, the Company had several long-term contracts on routine winter maintenance (snow clearing and clearing of sites of forest roads). The total value of these contracts as at 31 December 2017 was EUR 1 445 914, where the works completed as at 31 December 2017 amounted to EUR 221 227.

30. 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 325.0 million, including 1.33 million hectares of forest areas, whose stands amount to EUR 1 113.80 million. The Company has reported 10 618 hectares of forest areas in its statement of financial position. Land having the area of 1.47 million hectares of all the land plots managed and administered by the Company has been surveyed and registered with the Land Registry.

31. 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 2017		
Other securities and investments	21	**441 090**
Trade receivables, net	19	20 226 469
Receivables from related companies	28	36 117
Other receivables		5 064
Cash and cash equivalents	22	49 430 201
Total		**70 138 941**
Financial assets as at 31 December 2016		
Other securities and investments	21	441 090
Trade receivables, net	19	16 075 836
Receivables from related companies	28	51 376
Other receivables		5 599
Cash and cash equivalents	22	23 425 399
Total		**39 999 300**

31 Financial risk management (cont'd)

Financial liabilities by categories

	Notes	Liabilities at amortized cost
Financial liabilities as at 31 December 2017		
Trade payables		7 315 428
Payables to related companies	28	422
Payables to associates	28	13 987
Total		**7 329 837**
Financial liabilities as at 31 December 2016		
Trade payables		7 184 685
Payables to related companies	28	417
Payables to associates	28	25 986
Total		**7 211 088**

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 2017, 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 a 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 and short-term deposits at the year end are disclosed in Note 22.

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.

31. Financial risk management (cont'd)

Liquidity analysis (contractual undiscounted cash flows)

	31/12/2017	31/12/2016
	EUR	EUR
Trade payables	7 315 428	7 184 685
Payables to related companies	422	417
Payables to associates	13 987	25 986
Total	**7 329 837**	**7 211 088**

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

Year ended 31 December 2017	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	7 315 249	-	-	-	7 315 249
Payables to related companies	-	422	-	-	-	422
Payables to associates	-	13 987	-	-	-	13 987
Total	-	**7 329 658**	-	-	-	**7 329 658**

Year ended 31 December 2016	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	7 184 685	-	-	-	7 184 685
Payables to related companies	-	417	-	-	-	417
Payables to associates	-	25 986	-	-	-	25 986
Total	-	**7 211 088**	-	-	-	**7 211 088**

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:

		31/12/2017	31/12/2016
		EUR	EUR
Equity, total		357 583 146	327 569 608
Assets, total		387 087 209	360 373 761
Equity ratio		**92%**	**91%**

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.

32 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 the 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.

Loans to related companies

Loans to related companies comprise loans issued to the subsidiary. The loans are classified as Level 2.

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 value of trade receivables approximates to their fair value.

Trade payables

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

Investment properties

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

33 Events after reporting date

As of the last day of the reporting year until the date of signing these financial statements there have been no 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

24 April 2018

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INDEPENDENT AUDITORS' REPORT

To the shareholder of AS Latvijas valsts meži

Opinion

We have audited the accompanying financial statements of AS Latvijas valsts meži (the Company) set out on pages 10 to 41 of the accompanying annual report, which comprise the statement of financial position as at 31 December 2017, 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 AS Latvijas valsts meži as at 31 December 2017, 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 Financial Statements* section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the independence requirements included in the Law of the Republic of Latvia on Audit Services 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 of the Republic of Latvia on Audit Services 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 9 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, 24 April 2018