JOINT STOCK COMPANY LATVIJAS VALSTS MEŽI

(UNIFIED REGISTRATION NUMBER 40003466281)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2022

(23rd financial year)

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

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2023

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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	Raivis Kronbergs
Board Members	Pēters Putniņš – Chairman of the Board from 02/08/2022 Jānis Lapiņš from 04/09/2019 till 02/05/2023* Jānis Stankevičs from 02/08/2022 till 02/05/2023* Toms Reiziņš from 02/08/2022 till 02/05/2023* Valdis Kalns from 02/05/2023* Māris Kuzmins from 02/05/2023* Dainis Reķelis from 02/05/2023* Ieva Rove from 02/05/2023* * According to the decision of the Council on 02/05/2023. Arnis Melnis – Chairman of the Board from 03/01/2022 till 02/08/2022 Roberts Strīpnieks – Chairman of the Board till 03/01/2022 Edvīns Zakovics till 02/08/2022 Gints Bumbieris till 06/05/2022
Council Members	Zane Driņķe – Chairperson of the Council from 10/03/2023 Mārtiņš Līdums – Deputy Chairman of the Council from 10/03/2023 Sintija Ķikste from 10/03/2023 Edvīns Zakovics from 10/03/2023 Mārtiņš Gaigals from 10/03/2023 Edmunds Beļskis – Chairman of the Council from 24/11/2021 till 07/03/2023 Aivars Tauriņš – Deputy Chairman of the Council from 24/11/2021 till 07/03/2023 Rinalds Muciņš from 24/11/2021 till 07/03/2023 Kaspars Ozoliņš from 24/11/2021 till 07/03/2023
Subsidiary	SIA Jaunmoku pils (100%) Tume parish, Tukums district, Latvia, LV-3139
Associate	SIA Meža un koksnes produktu pētniecības un attīstības institūts (40.21%) Dobeles iela 41, Jelgava, Latvia, LV-3001
Financial year	1 January – 31 December 2022
Auditors	Anna Temerova Allena Latvian Certified Auditor Certificate No 154 SIA Potapoviča un Andersone, License No 99 Ūdens Str. 12-45, Riga Latvia, LV – 1007

Management report

3 May 2023

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 core business activity of the Company is forestry; in parallel, LVM also provides hunting and recreational services, produces bred seeds and seedlings, sells underground natural resources and leases land for the production of underground natural resources, as well as designs geospatial information technologies.

The Company's management bodies are the General Shareholders' Meeting, the Council and committees under the Council's authority, and the Board. The supreme decision-making body is the General Shareholders' Meeting, which represents the shareholder, i. e., the Ministry of Agriculture of the Republic of Latvia.

LVM's Council consisting of four Council members was elected on 16 November 2021 for a period of five years. Subsequent to the end of the reporting year, on 3 March 2023 (decision of the State notary on 10/03/2023), after resignation of all Council members, a temporary Council of the Company consisting of five members was elected with a term of up to one year.

The supreme executive body of LVM is the Board. On 29 July 2022, three Board members, including Chairman of the Board, were elected for the next five years, commencing on 29 July 2022 (decision of the State notary on 02/08/2022). One Board member was elected on 28 August 2019 for a period of five years, with effect from 2 September 2019 (decision of the State notary on 04/09/2019). Please see also information on post-balance sheet events.

Performance for the reporting year

	Actual EUR million	**Budgeted** EUR million
Revenue	**570,4**	**471,6**
From the sale of roundwood assortment	519,1	441,9
From the sale of standing trees	10,7	5,7
From the sale of chips	17,5	7,1
From the sale of forest tree seeds and seedlings	8,1	8,1
From the sale of mineral materials and their mixtures and the lease of non-forest land	8,0	5,9
Other income from operating activities	2,6	2,6
Other revenue	4,4	0,3
Expense	**310,1**	**315,1**
Production costs	289,3	277,8
Other costs of operating activities	17,2	22,5
Real estate tax	3,6	3,8
Donations	-	11,0
Profit before corporate income tax	**260,3**	**156,5**

LVM manages and administers 1.62 million hectares of land of the Republic of Latvia, including 1.60 million hectares of forest land, of which 1.39 million hectares represent forests. LVM manages 20.6% of the total forest area and 24.9% of the total land area (forests, swamps, agricultural land, water bodies) in line with the nature conservation objective. The operating activity aimed at the production of high-quality wood and other products is planned for 1.04 million hectares of forest land, of which 0.21 million hectares are managed subject to additional conditions for environmental protection, recreation and environmental exploration.

The profit before corporate income tax earned by LVM in 2022 is EUR 260.3 million, which exceeds the budgeted figure by EUR 103.8 million. The actual profit level has largely been affected by revenue from the sale of timber, mainly roundwood assortment - although sales of roundwood assortment were less than the target by 0.39 million cubic meters, revenue from roundwood sale was higher by EUR 77.2 million or 17%, thanks to the average selling price of roundwood assortment that grew by EUR 16.04 per m^3. 6.59 million cubic meters of timber were sold in 2022, including 6.39 million cubic meters of roundwood assortment.

Revenue from the sale of chips exceeded the target by EUR 10.36 million, mainly owing to sales that were up by 163 thousand megawatt hours. Chips of 661 thousand megawatt hours were sold during the reporting year.

Management report (cont'd)

Revenue of EUR 10.3 million was derived from the sale of standing trees, exceeding the target by EUR 4.9 million. The revenue was driven as by 22.1 thousand cubic meters increase in standing trees sold volumes, as well as by EUR 21.33 increased average selling price. 194.1 thousand cubic meters of standing trees were sold during 2022.

Other income for 2022 was considerably affected by appreciation of biological assets, penalties received and similar other operating income (see Note 8).

In 2022, LVM has fully met its liabilities towards the shareholder, i. e., the State, by making a payment of EUR 89.2 million (including a payment of EUR 71.4 million for the use of the State capital and corporate income tax of EUR 17.8 million) for the use of the State capital referred to in Article 27 of the 2022 State Budget Law and paying all other taxes attributable to LVM's operations (Note 26).

Company's operations

	Unit of measurement	Planned	Actual
Sale of products			
Sale of roundwood assortment	million m^3	6,78	6,39
Sale of standing trees	million m^3	0,17	0,19
Sale of fuel chips	thousand Mwh	498	661
Sale of seedlings	million pieces	61,9	61,4
including container seedlings and seedlings with an improved root system	*million pieces*	*56,6*	*54,9*
Sale of mineral materials and their mixtures	thousand m^3	853	1 559
Land and forest management			
Reforestation and afforestation	thousand ha	18,0	19,2
including natural regeneration and natural reproduction of plantation forests	*thousand ha*	*4,6*	*5,6*
Young stand tending	thousand ha	35,4	28,6
Cleaning of drainage ditches from obstruction	thousand m^3	550,3	498,7
Cadastral land survey	thousand ha	0,4	0,7
Border restoration	thousand ha	18,3	13,1
Expansion of managed forest areas	ha	800	160,1
Forest infrastructure development			
Construction of forest roads	km	349	339
Reconstruction of forest drainage systems	thousand ha	21,0	17,7

With a view to increasing the value of forest capital and facilitating annual timber growth, 19.2 thousand hectares were reforested and afforested by planting forests or plantation forests, including the reforestation of an area of 13.2 thousand hectares. Young stands were tended in an area of 28.6 thousand hectares.

In 2022, the land area of 658 hectares or 164% of the planned area were surveyed. Areas that had not yet undergone the first registration with the Land Registry by the end of 2022 are 323 hectares or 0.02% from the toal managed area.

In order to increase the managed forest areas, EUR 0.2 million were invested in the acquisition of land in 2022. The Board has accepted acquisition of 8 properties, but has suspended acquisition of 2 properties pending the receipt of the audit opinion on the land acquisition methodology. A total of 231 land acquisition offers with a total area of 3566 hectares were considered. In 2022, a total of 160.1 hectares of acquired land was registered in the Land Register.

In the reporting year, 2249 km of bordered were maintened and 1060 km of forest roads were inventorised. 149 easement contracts for the development and access of forest roads have been concluded. The requests of 547 persons for the implementation of various actions, events and activities in the national forest areas were coordinated, including 252 military exercises. 584 technical regulations have been issued for the implementation of projects of various linear engineering objects, as well as the demolition of 317 buildings and building ruins was done. 40 land units with an area of 193 ha have been taken into possession. 23 land units with an area of 963 ha have been transferred to other owners, including 950 ha to the Ministry of Defense. In total, as at 31 December 2022, there were active land circulation processes in 188 land units.

In 2022, 339 km of forest roads were put into operation (10 km or 3% less than planned), including 87 km of reconstructed roads and 252 km of new ones. The mentioned objects are included in the Company's balance sheet, and EUR 31.9 million have been invested in their construction. During the reporting year, 17.7 thousand hectares of forest drainage systems were restored with an investment of EUR 5.1 million.

Management report (cont'd)

In 2022, 61.4 million forest tree seedlings were sold, of which 28.7 million or 47% were sold to external buyers, including 14.9 million seedlings exported - mainly to Sweden and in small quantities to Estonia. For reforestation, 32.7 million saplings were planted in the areas managed by LVM. Of the total amount of seedlings, 54.9 million or 89% are new technology seedlings - frame seedlings and seedlings with an improved root system. More and more nature-friendly plant protection products are used to protect plants against weevil damage in the forest, thus reducing the use of chemical protection products. Of the forest saplings realized in 2022, 6.7 million were treated with eco wax, 10.1 million - with a mixture of sand and glue, 4.4 million - with a mixture of quartz sand-glue and dye.

AS "Latvijas valsts meži" plans and controls business processes in accordance with the requirements of responsible and sustainable forest management standards (more about certification on the Company's website: https://www.lvm.lv/biznesa-partneriem/profesionaliem/sertifikacija). In order to maintain the issued forest management and wood supply chain certificates, 18 certification audits (13 monitoring and 5 re-certification audits) were conducted in the Company in 2022 by independent, accredited certification organizations. As part of the forest management audits, the auditors had the opportunity to see and evaluate all the works of the forestry cycle, starting with soil preparation, forest restoration and the care of young trees, up to logging and the construction of forest roads, paying attention to various social issues, as well as environmental management and compliance with labor protection requirements, etc. essential aspects of the standards. As part of the audits of the wood supply chain, the compliance of the LVM wood supply chain with the requirements of international standards was checked, including various processes related to the preparation and delivery of wood products, incl. logging, logistics, sales, etc. As a result of the audits, no significant, systematic inconsistencies were found and it was concluded that the forest management and wood supply chain processes meet the requirements of the binding standards.

In 2022, 1559 thousand cubic meters of mineral materials and their mixtures were realized (97% certified), including 4% or 64 thousand cubic meters - for the Company's internal deliveries to LVM Meža infrastructure. A certificate is maintained at LVM's mineral extraction sites, which confirms that the controlled production process of mineral materials and their mixtures meets internationally recognized standards and provides the cooperation partners of the Company's with valuable and high-quality mineral materials and their mixtures.

The accreditation of LVM Earth Mineral Materials Testing and Research Laboratory has been maintained in accordance with the standard ISO/IEC 17025:2017 "General requirements for the competence of testing and calibration laboratories". During 2022 the laboratory received in total 3.2 thousand samples of mineral materials and performed 4.8 thousand tests.

In accordance with the LVS EN ISO 9001:2015 standard, the quality management certificate for plant production and sales processes is maintained.

Milestone public relations projects and events of LVM in 2022

- With the aim of educating young people about sustainable forest management, LVM invited 6th grade students to go on exploratory hikes - LVM Forest Expeditions for the sixth year. It is an environmental education program that is organized as part of the LVM Forest Days. In 2022, 6291 students and teachers, as well as 169 LVM employees, participated in the expeditions.
- In 2022, 23566 students and 759 teachers participated in LVM's environmental education programs. Preschool, primary and secondary school students, as well as students and teachers, have gone to the forest. The largest number of participants has traditionally been in the groups of the youngest children - 8600 children from 294 groups participated in the LVM eco-program "Cūkmena detektīvi", while 7477 students from 147 classes participated in the primary school program "Mammadaba meistarklase". 5990 students went on LVM Meža expeditions in September. The other educational programs - LVM Forest Olympiad, School of Bioeconomics and sticker competition "Skābeklis" - gathered passionate students who created creative works about the forest. In 2022, there was a lot of interest in "Mežotājs" - the digital game of forest cognition for students of 8.-9. grades, in which 722 students from 189 classes competed last year.
- In order to promote understanding among students about forests as Latvia's largest renewable resource, which is constantly growing, already for the sixth year LVM, in cooperation with the Latvian Academy of Arts, held the competition "Latvian state forest scholarship in art". The participants of the competition had to create associations about the interaction of art with the sustainable development of the environment and connect creativity with the growing role of forests in the national economy of Latvia.
- In order to promote forest research in general education schools in Latvia, LVM, together with the Interdisciplinary Education Innovation Center of the University of Warsaw, organized face-to-face courses for geography and biology teachers in September. Course participants learned the new topic of "School 2030" "Research in the forest" in nature, as part of which they took measurements in the sample plots prepared by LVM.
- LVM, in cooperation with the Latvian Olympic Committee, invited primary schools to participate in the Forest Olympiad this academic year in order to promote the health of students and the understanding of the forest as a source of oxygen. Students in grades 1-9 are encouraged to increase oxygen throughout the school year by exercising and learning outside, as well as by planting and caring for trees. The LVM Forest Olympiad has a long tradition, it has been organized since 2005 with the aim of bringing the learning process of general education schools closer to nature.

Management report (cont'd)

Company and environment

LVM manages nature and environmental protection areas defined by the State, such as nature conservation areas, nature parks, protected landscape areas, natural monuments, biosphere reserve, microreserves for protected species and habitats, forest buffers next to water bodies (rivers, lakes, sea) and swamps, around towns and cities, around cultural monuments, etc. In order to conserve natural assets and reduce the environmental impact produced by forestry activities, LVM identifies protected species, habitats of European interest and nesting grounds of protected birds across forest areas every year before planning any operations. In 2022, environmental assets were surveyed within an area of 12.5 thousand hectares.

In 2021, LVM's database was supplemented with 4440 new, rare and especially protected plants, mushrooms, lichens and invertebrate species[1], and Company's environmental experts have already recorded 38.8 thousand encounters with rare and protected species.

At present, LVM's database contains information about habitats of European interest over an area of 115.5 thousand ha, representing more than 30 types of habitats of European interest (forest, wetland, grassland, coastal dune, freshwater and other habitats), of which 3.2 thousand hectares were identified or revalued in 2022. The largest share represented forest habitats, of which predominant types were old or natural boreal forests, swampy forests and deciduous swamp forests. Coastal, freshwater, grassland and wetland habitats had a relatively smaller share.

Environmental monitoring, such as nest success of protected birds, vitality of protected plant species, environmental quality and number of visitors of recreational areas, etc., is carried out in the territories held by LVM each year. For example, in 2022 nest success was estimated for more than 500 nesting grounds of protected birds, nearly 100 wood grouse mating places. Monitoring results are used in planning measures aimed at reducing the environmental impact produced by the operating activities, including the planning of nature conservation areas, and in introducing fixed-term forestry restrictions.

Nests of protected bird species which have not been identified previously are found each year when verifying potential operating sites. In 2022, LVM's database was supplemented with more than 470 new nests of especially protected bird species, which had not been identified before. LVM's database has information about a total of more than 6750 big nests, of which 2660 are nesting grounds of protected bird species, including information about artificial nest platforms built by ornithologists, which are willingly used for nesting by not only fish hawks, which is a protected species, but also black storks. All inhabited nests are provided with protection that is appropriate for relevant species biology.

In order to improve the quality of surface waters of water bodies at risk in Latvia, LVM is implementing activities under the *LIFE IP* project "Implementation of Latvia's river basin management plans towards good surface water status" (2020-2027) as a project partner across lands transferred to LVM's possession. These activities are aimed at designing new solutions and setting up demonstration facilities for minimizing the impact of forestry operations on the quality of waters.

The project "Implementation of management measures for improving the conservation status of habitats and species in special areas of conservation and microreserves" (2021-2023), which is financed by the Cohesion Fund, was started jointly with the Nature Conservation Authority in 2021. Under the project, biotechnical measures will be performed in 14 special areas of conservation covering an area of nearly 800 ha in 5 LVM's regions.

Activities under the *LIFE* project "Optimizing the governance and management of the Natura 2000 protected areas" (2021-2028) were started jointly with the Nature Conservation Authority, eight public and non-governmental organizations and higher education institutions.

LVM's contribution to climate change mitigation

Carbon footprint is a carbon dioxide measure that shows the impact of the Company's operations. During 2022, LVM's operations produced a total of 134 280 tonnes of CO_2. The total CO_2 emitted during LVM's operations fell by 10 049 tonnes from the year 2021, which was predominantly driven by a decrease in the construction of forest roads and forest drainage systems, as well as smaller volumes of roundwood assortment. LVM's own footprint is relatively small, forming approximately 5% of total footprint (6575 tonnes of CO_2), while the remaining 95% (127 705 tonnes of CO_2) are produced by external service providers involved by the Company.

	2021	**2022**
Emitted CO_2, tonnes	144 329	134 280

[1] Since the concept of deposit cannot be precisely defined, as it can be interpreted differently for different species, in this document the term is used in a general sense and refers to the number of registrations or records in the LVM information system GEO.

Management report (cont'd)

Planning and development of the Company

Following the increase in demand for framework plants and bare-root plants with an improved root system in Latvia and Scandinavia, the creation of the Mežvidu tree nursery near Jaunkalsnava has been commenced - in 2022 the air heating system for the greenhouse was put into operation and two irrigation systems with the long night system were installed.

In accordance with the scientific research priorities defined in the LVM strategy, LVM has conducted the following studies:

- Impact of climate change on forestry and its risks;
- Carbon circulation in the forest ecosystem;
- Impact of forestry on forest and related ecosystem services;
- New work methods and technologies for the restoration, planting, care and protection of forest stands;
- Improvement of birch growing practices;
- Reducing the risks of damage to the root system and its impact;
- Future phytopathological risks;
- Forest tree breeding program and research to support seed production of forest tree species;
- Assessing the interaction of the growth of individual trees and their groups;
- Determining the impact of forest reclamation works on the hydrological regime of adjacent territories;
- Use of wooden piles in the construction of forest roads for crossing peat inclusions;
- Dynamics of epiphyte metapopulations in boreonemoral forest landscape;
- Production of a new assortment with improved physical properties and chemical composition of wood;
- Feasibility study for the use of reduced GHG emissions, as well as emission-free trucks in the transportation of round timber and chips;
- Research to support seed production of forest tree species.

Financial risk management

Within JSC Latvijas Valsts meži, risk management is implemented by applying the Risk Management Policy, the current version of which, approved in the second half of 2022, is published on the Company's website. The principles of risk management contained in the policy are complemented by the Risk Management Procedure, which includes the basic risk management steps and those responsible for them, and the Risk Management Methodology, which outlines LVM's risk management approach as a whole, namely risk identification, assessment, implementation and monitoring of risk mitigation measures, the stated conditions.

LVM risks are identified and managed at several levels: strategic risks, operational/tactical level risks of structural units, as well as, if necessary, the risks of individual projects are identified (for example, implementation of a system or legal requirements). During the reporting period, several significant improvements in LVM's risk management and internal control system have been implemented. The risk management procedure was linked to the Risk Management Methodology, which is included as an appendix to the mentioned procedure. Additions have been made regarding risk register formats, risk reporting, identification of significant risks by their characteristics and criteria. It is expected that the reports to the board and the council in certain cases must include risk analysis in order to timely evaluate and identify possible risks in the company's transactions.

In connection with the prosecutor's warning received by LVM at the end of 2022 regarding the conversion process of long-term logging contracts (LLC), LVM's board has started a comprehensive audit of LLC and the conversion process of LLC. Also, the board has conducted an independent prima facie legal evaluation of the LLC management process. The Board expects that the in-depth study will provide answers to the risks identified in the prosecutor's warning right at the initial stages of the LLC transformation process and does not expect any negative consequences.

Circumstances and events after the end of the reporting year

As previously indicated in the management report, after the resignation of all LVM Council members, in March 2023, the shareholders' meeting approved the Company's temporary Council consisting of five members with a term of up to one year.

On 2 May 2023 the temporary Council of LVM recalled all members of the Board, except for the Chairman of the Board. Valdis Kalns, Māris Kuzmins, Dainis Reķelis and Ieva Rove were elected as temporary Board members from the Company's employees. Members of the temporary Board are elected for an indefinite period until the nomination process of the new LVM Board is completed, but for no longer than one year.

On 11 April 2023, the shareholders decided to increase the Company's share capital by EUR 87 037 753. The increase is paid by transfer of EUR 28 787 537 reserves to the share capital and by EUR 58 250 216 of the retained earnings of previous years. The increased share capital was registered in the Enterprise Register of the Republic of Latvia on 21 April 2023.

In the time period from the last day of the reporting period to the signing of this report, there have been no other significant events that would significantly affect the Company's financial position as at 31 December 2022 or that should be additionally explained in the notes to the financial report.

Management report (cont'd)

Non-financial statement

A description of LVM's areas of corporate social responsibility and non-financial indicators are presented in LVM's Sustainability Report 2022, which is publicly available on the Company's website www.lvm.lv. The sustainability report has been drawn up in accordance with *Global Reporting Initiative* Core Sustainability Reporting Standards. The sustainability report deals with various matters such as corporate social responsibility, economic responsibility, product responsibility, society, staff and working environment, environmental protection and other non-financial indicators.

Key business targets for 2023

Operating plan:

Sale of products		
Sale of roundwood assortment	million m^3	6,97
Contractual sale of standing trees	million m^3	0,17
Supply of fuel chips	thousand Mwh	664
Sale of seedlings	million pieces	61,9
including container seedlings and seedlings with an improved root system	*million pieces*	*58,9*
Sale of mineral materials and their mixtures	thousand m^3	980
Land and forest management		
Reforestation and afforestation	thousand ha	18,3
including natural regeneration and natural reproduction of plantation forests	*thousand ha*	*5,0*
Young stand tending	thousand ha	35,3
Cleaning of drainage ditches from obstruction	thousand m^3	438,5
Cadastral land survey	thousand ha	3,3
Border restoration	thousand ha	17,5
Expansion of managed forest areas	ha	800
Forest infrastructure development		
Construction of forest roads	km	313
Reconstruction of forest drainage systems	thousand ha	18,2

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

- Impact of forestry on ecosystem services;
- Improvement of birch growing practices;
- Study of the use of wooden piles in the construction of forest roads for crossing peat inclusions;
- Reducing the risks of damage to the root system and studying its effects;
- Use of ash in forest roads;
- Research to support seed production of forest tree species;
- Impact of climate change on forestry;
- Research of future phytopathological risks;
- Dynamics of epiphyte metapopulations in boreonemoral forest landscape;
- Interaction of the growth of trees and their groups;
- Carbon circulation in the forest ecosystem;
- Production of a new assortment with improved physical properties and chemical composition of wood;
- Calculation of CO2 emissions for the chip production process;
- Monitoring of the impact of forest fertilization.

For the second time in the last 15 years, a state of emergency has been declared in some parts of Latvia from 1 April to 30 June 2023 for the control of the dangerous spruce eight-toothed bark beetle. In the parishes where a state of emergency has been declared, the amount of valuable spruce stands in the territory managed by LVM is slightly over 50 thousand ha. Due to the established restrictions, a drop in production volume by 100 thousand m3 is forecasted as well as an increase in forest production costs.

The war in Ukraine does not directly affect the Company's operations and financial position. The rise in oil prices as a result of the hostilities, as well as changes in global supply chains, are expected to continue to significantly increase costs, which will be reflected in the results of 2023, however, the fulfillment of the key performance indicators is still achievable.

Management report (cont'd)

Profit distribution suggested by the Board

	EUR
Portion of profit available for distribution	242 192 980
Suggested profit distribution:	
dividends to the shareholder, including	203 137 601
payment to the shareholder	*162 510 081*
corporate income tax	*40 627 520*
retained earnings	39 055 379

The Board has suggested that the retained earnings of EUR 39 055 379 should be used for increasing the share capital in line with the Company's strategy.

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš,
Chairman of the Board

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Statement of comprehensive income

	Notes	2022 EUR	2021 EUR
Revenue from contracts with customers	4	566 612 297	405 290 626
Cost of sales	5	(300 208 269)	(266 956 222)
Gross profit		**266 404 028**	**138 334 404**
Distribution costs	6	(441 141)	(2 161 866)
Administrative expense	7	(8 240 233)	(7 052 269)
Other operating income	8	3 836 266	4 065 422
Other operating expense	9	(753 411)	(5 247 570)
Interest and similar expense	13	(500 057)	(503 416)
Operating profit		**260 305 452**	**127 434 705**
Interest income		-	-
Profit before corporate income tax		**260 305 452**	**127 434 705**
Corporate income tax on dividends		(17 845 074)	(18 098 800)
Income tax expense		(267 398)	2 195 806
Net profit for the year		**242 192 980**	**111 531 711**
Total comprehensive income:		**242 192 980**	**111 531 711**

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš
Chairman of the Board

Gunta Vilciņa
Head of the Financial and
Accounting Department

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Statement of financial position

ASSETS

	Notes	31/12/2022 EUR	31/12/2021 EUR
NON-CURRENT ASSETS			
Intangible assets			
Licenses and software	11	2 761 656	2 591 796
TOTAL		**2 761 656**	**2 591 796**
Property, plant and equipment			
Land, buildings and constructions		293 050 366	291 002 738
Equipment and machinery		6 599 138	5 380 288
Other fixtures and fittings, tools and equipment		10 085 378	9 327 227
Construction in progress		13 193 104	10 442 413
Prepayments for property, plant and equipment		362 629	919 137
TOTAL	12	**323 290 615**	**317 071 803**
Right-of-use assets	13	**15 981 441**	**17 159 868**
Biological assets	15	**33 674 176**	**31 755 286**
Non-current financial assets			
Investments in subsidaries	16	1 620 936	1 620 936
Investments in associates	16	966 872	566 872
Other securities	20	880 000	880 000
TOTAL		**3 467 808**	**3 067 808**
TOTAL NON-CURRENT ASSETS		**379 175 696**	**371 646 561**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		2 619 251	2 511 524
Finished goods and goods for sale	17	44 544 926	38 853 433
Prepayments for goods		2 918	14 414
TOTAL		**47 167 095**	**41 379 371**
Receivables and prepayments			
Trade receivables	18	53 649 068	34 123 574
Overpayment of taxes	26	33 441 348	19 308 858
Prepayments for services	19	1 031 970	929 964
Other receivables		416 374	12 441
TOTAL		**88 538 760**	**54 374 837**
Prepaid expense		**1 187 736**	**1 194 614**
Cash and cash equivalents	21	**241 359 155**	**112 899 745**
TOTAL CURRENT ASSETS		**378 252 746**	**209 848 567**
TOTAL ASSETS		**757 428 442**	**581 495 128**

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

Statement of financial position

EQUITY AND LIABILITIES

EQUITY	Notes	31/12/2022 EUR	31/12/2021 EUR
Share capital	22	355 728 573	355 728 573
Reserves		28 787 537	28 787 537
Retained earnings:		300 443 196	129 630 511
brought forward		58 250 216	18 098 800
for the period		242 192 980	111 531 711
TOTAL EQUITY		**684 959 306**	**514 146 621**
LIABILITIES			
Non-current liabilities			
Other provisions	23	12 953 775	14 539 993
Non-current lease liabilities	13	15 485 290	16 463 707
Other liabilities		53 149	17 264
TOTAL		**28 492 214**	**31 020 964**
Current liabilities			
Prepayments received from customers		52 325	1 126 376
Trade payables		8 646 306	6 392 065
Payables to related companies	27	-	1 433
Payables to associates	27	-	44 216
Taxes payable	26	1 565 211	2 390 277
Other provisions	23	15 833 519	13 314 355
Other liabilities	24	4 200 031	1 657 861
Accrued liabilities	25	12 448 267	10 156 183
Current lease liabilities	13	1 231 263	1 244 777
TOTAL		**43 976 922**	**36 327 543**
TOTAL LIABILITIES		**72 469 136**	**67 348 507**
TOTAL EQUITY AND LIABILITIES		**757 428 442**	**581 495 128**

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

Statement of cash flows

		2022 EUR	2021 EUR
Cash flows to/from operating activities			
Profit before corporate income tax		**260 305 452**	**127 434 705**
Adjustments for:			
depreciation of property, plant and equipment	12	37 632 869	36 476 890
net loss in disposal of fixed assets	11,12	1 093 305	1 156 753
amortization of intangible assets	11	1 324 540	1 101 204
depreciation of right-of-use assets	13	1 429 892	1 438 831
increase in the value of biological assets	15	(1 650 250)	(1 724 362)
change in provisions, except for allowances for doubtful receivabl	23	932 946	6 517 992
income from investments in other companies	8	(50 664)	(26 464)
lease interest income	13	500 057	503 416
other adjustments		-	(36 067)
Profit before adjustments for the effect of changes in current assets and current liabilities		**301 518 147**	**172 842 898**
(increase)/decrease in receivables		(33 262 540)	(27 177 608)
(increase)/decrease in inventories		(5 787 724)	91 017
increase/(decrease) in trade and other payables		5 155 840	(264 468)
Cash generated from operations		**267 623 723**	**145 491 839**
Interest paid		(500 057)	(503 416)
Corporate income tax paid	26	(19 219 885)	(12 263 344)
Net cash flows to/from operating activities		**247 903 781**	**132 725 079**
Cash flows to/from investing activities			
Acquisition of tangible and intangible assets	11,12	(46 285 750)	(44 594 984)
Proceeds from sale of tangible and intangible assets		117 938	35 695
Acquisition of biological assets	15	(268 640)	(752 478)
Investments into associate	16	(400 000)	-
Dividends received	8	50 664	26 464
Net cash flows to/from investing activities		**(46 785 788)**	**(45 285 303)**
Cash flows to/from financing activities			
Lease payments		(1 278 288)	(1 252 973)
Dividends paid	22	(71 380 295)	(72 395 200)
Net cash flows to/from financing activities		**(72 658 583)**	**(73 648 173)**
Net cash flow for the year		**128 459 410**	**13 791 603**
Cash at the beginning of the year		**112 899 745**	**99 108 142**
Cash at the end of the year	21	**241 359 155**	**112 899 745**

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš
Chairman of the Board

Gunta Vilciņa
Head of the Financial and
Accounting Department

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

Statement of changes in equity

	Share capital	Retained earnings	Reserve	**Total**
As at 1 January 2021	**353 647 767**	**92 938 806**	**28 787 537**	**475 374 110**
Dividends paid	-	(72 395 200)	-	**(72 395 200)**
Increase in share capital	2 080 806	(2 080 806)	-	**-**
Other profit distributions	-	(364 000)	-	**(364 000)**
Total shareholders' contributions and profit distributions recognized under equity	**2 080 806**	**(74 840 006)**	**-**	**(72 759 200)**
Profit for the reporting year	-	111 531 711	-	**111 531 711**
Total comprehensive income for the reporting year	**-**	**111 531 711**	**-**	**111 531 711**
As at 31 December 2021	**355 728 573**	**129 630 511**	**28 787 537**	**514 146 621**
Dividends paid	-	(71 380 295)	-	**(71 380 295)**
Total shareholders' contributions and profit distributions recognized under equity	**-**	**(71 380 295)**		**(71 380 295)**
Profit for the reporting year	-	242 192 980	-	**242 192 980**
Total comprehensive income for the reporting year	**-**	**242 192 980**	**-**	**242 192 980**
As at 31 December 2022	**355 728 573**	**300 443 196**	**28 787 537**	**684 959 306**

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš
Chairman of the Board

Gunta Vilciņa
Head of the Financial and
Accounting Department

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Notes to the financial statements

1. Corporate information

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

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

The annual report of the Company was approved by a resolution of the Company's Board on 3 May 2023. The Company's shareholder has the power to amend the financial statements after issue.

Additionally general information about the Company is disclosed separately in page 3.

2. Summary of significant accounting policies

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

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

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

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 3 May 2023. 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 less cost to sell.

The monetary unit used in the financial statements is the euro (EUR). The financial statements cover the period 1 January 2022 through 31 December 2022.

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. For detailed information on significant accounting estimates and judgements please refer to Note 3.

Foreign currency translation

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

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

Fair value measurement

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 from contracts with customers

Revenues

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

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

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

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

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

***Revenue from contracts with customers** (cont'd)*

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration. The Company had no such assets as at 31 December 2021 and 2022.

Receivables

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

Contract liabilities

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

Investments

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

Investments in subsidiaries and associates

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

Other securities

Other securities hold by the Company's are stated at fair value. The Company has selected the discounted cash flow method, which is based on financial forecasts for the following five years, as the most suitable method for determining the market value of other securities because the shares owned by the Company are not quoted in an active market.

Intangible assets

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

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

The useful life of intangible assets is 34 months.

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

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

Property, plant and equipment

Property, plant and equipment are recognized if:

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

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

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

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

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

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

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

Leases (Company as a lessee)

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

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

Determining the lease term of contracts with renewal and termination options

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

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

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

Leases (Company as a lessee) (cont'd)

Right-of-use assets

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

- Buildings over 2 to 15 years

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

Lease liabilities

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

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

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 less cost to sell at each 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.

For details on fair value assessment of the biological assets please refer to Note 3.

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

Cash and cash equivalents

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

Inventories

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

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

Provisions

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

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

Provisions for reforestation costs are made on the basis of the actual area to be reforested at the beginning of 2023 and planned reforestation costs, which consist of labor and plant costs, considering the actual reforestation costs incurred in the reporting year. Subsequent changes in the provisions are taken to the statement of profit or loss.

Provisions for bonuses were made on the basis of the results of 2022 and the Procedure for Calculation and Allocation of Bonuses.

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

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.

Corporate income tax

Corporate income tax for the year 2022 is calculated according to the Corporate Income Tax Law.

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

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

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

Financial Instruments

Classification and measurement

Financial assets are classified as follows:

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

Financial liabilities are classified as follows:

a) financial liabilities measured at amortized cost; and
b) financial liabilities at fair value through profit or loss.

Financial assets at amortized cost

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

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

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

Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they are not held for trading.
The classification is determined on an instrument-by-instrument basis. These instruments are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, they are measured at fair value. Dividends are recognized in the statement of profit or loss. Other net gains and losses are taken to comprehensive income and are never recycled to profit or loss.

Financial assets at fair value through profit or loss

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

Financial liabilities at amortized cost

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

Initial recognition of assets

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

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

Financial Instruments *(cont'd)*

Classification and measurement *(cont'd)*

Initial recognition of liabilities

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

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

Derecognition

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

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 may be longer than the estimates.

Recoverable amount of property, plant and equipment

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

As at the end of 2021 and 2022, the management of the Company has not identified events which might indicate potential impairment of property, plant and equipment value.

Recurring fair value measurement of biological assets

Valuation of biological assets at fair value less cost to sell is performed according to the following principles:

1. The dominant species which will be forested in accordance with the LVM forest planting practices are as follows: pine plantations – 50%, fir plantations – 40%, birch plantations – 8% and black alder plantations – 2% 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 (2018-2022) of forestry works (soil preparation, planting and sawing, daily maintenance of forest infrastructure, tending of young stands), materials, timber measurement costs, administrative expense and real estate tax for the reporting year;
    b. revenues are calculated using the price of round timber at the place of consumption less transport and harvesting costs to obtain the price of growing timber.
3. The period covered by the calculations is 120 year which is the period set as the life-cycle of the forest, as set by the management of the Company.

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

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

Recognition and measurement of provisions

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

Provisions for reforestation

As at 31 December 2022, the Company established provisions for reforestation of EUR 23 479 247. 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 includes labor and material (plant) costs;
- 68% of forest clearings will be replenished artificially by forest plantations and seeding of forests;
- 32% of forest clearings will be regenerated naturally, and natural regeneration will be facilitated for 2% of these areas;
- 14% of regenerated areas will require additional replenishment of tree plantations;
- material (plant) costs are calculated based on seed consumption rates per hectar and nursery/seed production costs;
- a discount rate of 4.7% is used in the calculations.

For more details about provisions for reforestation, see Note 23.

3.1. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company during the reporting year. Adoption of the said changes and improvements have had no material impact on the Company's financial statements.

- **Covid-19-Related Rent Concessions – Amendments to IFRS 16** (effective for annual periods beginning on or after 1 April 2021). In May 2020 an amendment to IFRS 16 was issued that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19, resulting in a reduction in lease payments due on or before 30 June 2021, was a lease modification. An amendment issued on 31 March 2021 extended the date of the practical expedient from 30 June 2021 to 30 June 2022.

- **Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS9, IFRS16 and IAS 41** (effective for annual periods beginning on or after 1 January 2022).

  The amendment to IAS 16 prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. The proceeds from selling such items, together with the costs of producing them, are now recognised in profit or loss. An entity has to use IAS 2 to measure the cost of those items. Cost does not include depreciation of the asset being tested because it is not yet ready for its intended use. The amendment to IAS 16 also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. An asset might therefore be capable of operating as intended by management and subject to depreciation before it has achieved the level of operating performance expected by management.

  The amendment to IAS 37 clarifies the meaning of 'costs to fulfil a contract'. The amendment explains that the direct cost of fulfilling a contract comprises the incremental costs of fulfilling that contract; and an allocation of other costs that relate directly to fulfilling. The amendment also clarifies that, before a separate provision for an onerous contract is established, an entity recognises any impairment loss that has occurred on assets used in fulfilling the contract, rather than on assets dedicated to that contract.

  IFRS 3 was amended to refer to the 2018 Conceptual Framework for Financial Reporting, in order to determine what constitutes an asset or a liability in a business combination. Prior to the amendment, IFRS 3 referred to the 2001 Conceptual Framework for Financial Reporting. In addition, a new exception in IFRS 3 was added for liabilities and contingent liabilities. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37 or IFRIC 21, rather than the 2018 Conceptual Framework. Without this new exception, an entity would have recognised some liabilities in a business combination that it would not recognise under IAS 37. Therefore, immediately after the acquisition, the entity would have had to derecognise such liabilities and recognise a gain that did not depict an economic gain. It was also clarified that the acquirer should not recognise contingent assets, as defined in IAS 37, at the acquisition date.

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

3.1. Changes in accounting policy (cont'd)

The amendment to IFRS 9 addresses which fees should be included in the 10% test for derecognition of financial liabilities. Costs or fees could be paid to either third parties or the lender. Under the amendment, costs or fees paid to third parties will not be included in the 10% test.

Illustrative Example 13 that accompanies IFRS 16 was amended to remove the illustration of payments from the lessor relating to leasehold improvements. The reason for the amendment is to remove any potential confusion about the treatment of lease incentives.

IFRS 1 allows an exemption if a subsidiary adopts IFRS at a later date than its parent. The subsidiary can measure its assets and liabilities at the carrying amounts that would be included in its parent's consolidated financial statements, based on the parent's date of transition to IFRS, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. IFRS 1 was amended to allow entities that have taken this IFRS 1 exemption to also measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to IFRS. The amendment to IFRS 1 extends the above exemption to cumulative translation differences, in order to reduce costs for first-time adopters. This amendment will also apply to associates and joint ventures that have taken the same IFRS 1 exemption.

- The requirement for entities to exclude cash flows for taxation when measuring fair value under IAS 41 was removed. This amendment is intended to align with the requirement in the standard to discount cash flows on a post-tax basis.

As a result of these amendments, the Company will clarify the methodology for determining the fair value of biological assets in 2023. The Company's management believes that the clarification of the methodology will not have a significant impact on the Company's financial statements.

3.2. Standards and interpretations effective for the first time for the annual periods beginning after 1 January 2023 or not yet endorsed by the EU

The amendments described below are effective for reporting periods beginning on or after January 1, 2023. Management has evaluated the impact of each of these standards and believes that none of the changes described will have a material impact on the Company's financial statements.

- **Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies** (effective for annual periods beginning on or after 1 January 2023). IAS 1 was amended to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment provided the definition of material accounting policy information. The amendment also clarified that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. The amendment provided illustrative examples of accounting policy information that is likely to be considered material to the entity's financial statements. Further, the amendment to IAS 1 clarified that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, IFRS Practice Statement 2, 'Making Materiality Judgements' was also amended to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments)** effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors.

- **IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments)** effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.

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

3.2. Standards and interpretations effective for the first time for the annual periods beginning after 1 January 2023 or not yet endorsed by the EU (cont'd)

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

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

  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow-scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required.

  The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect.

- **Amendments to IFRS 16 Leases: Lease Liability in a Sale and Leaseback** (effective for annual periods beginning on or after 1 January 2024, not yet endorsed by the EU). The amendments relate to the sale and leaseback transactions that satisfy the requirements in IFRS 15 to be accounted for as a sale. The amendments require the seller-lessee to subsequently measure liabilities arising from the transaction and in a way that it does not recognise any gain or loss related to the right of use that it retained. This means deferral of such a gain even if the obligation is to make variable payments that do not depend on an index or a rate.

4. Revenue / revenue from contracts with customers

By business segments	2022	2021
Sale of roundwood assortment	519 116 255	374 492 902
Sale of chips	17 493 308	7 912 287
Sale of standing trees	10 708 084	7 065 573
Sale of seedlings	8 100 543	7 117 296
Sale of mineral resources	4 002 601	2 395 698
Land lease	3 978 717	3 776 828
Hunting and recreational services	1 355 843	1 090 608
Lease of hunting areas	609 538	619 905
Sale of forest seeds	57 054	70 881
Other income	1 190 354	748 648
TOTAL:	**566 612 297**	**405 290 626**

5. Cost of sales

	2022	2021
Works and services costs, including:	200 481 769	161 190 760
Production of roundwood assortment, including:	156 181 901	124 429 037
Preparation of roundwood assortment	*60 376 108*	*49 254 987*
Transportation of roundwood assortment	*50 928 843*	*39 697 295*
Forwarding of roundwood assortment	*44 317 228*	*34 466 922*
Maintenance and repair of forest roads	9 743 172	8 725 339
Production of chips	7 936 987	4 667 278
Tending of young stands	6 467 354	5 963 114
Agrotechnical tending of forest areas	5 860 118	5 191 758
Soil preparation	3 104 258	2 341 513
Forest protection	2 854 963	2 456 318
Forestation	2 784 012	2 286 261
Registration of land properties	1 412 256	1 447 894
Management of underground natural resources	1 340 301	1 142 123
Maintenance of land drainage systems	1 206 433	986 021
Production of forest reproductive material	658 476	699 911
Expansion of reforested areas	263 859	275 203
Preservation of heritage sites and sites of public significance	232 132	194 744
Hunting costs	184 616	134 407
Fire safety of forests	146 402	147 063
Forest inventory	103 839	99 849
Pruning of standing trees	690	2 927

5. Cost of sales (cont'd)

	2022	2021
Staff costs, including:	40 132 507	37 770 641
Basic salaries	*25 277 275*	*23 826 224*
Statutory social insurance contributions	*7 631 702*	*7 112 770*
Bonuses	*5 089 054*	*4 916 468*
Benefits and compensations	*2 134 476*	*1 915 179*
Depreciation and amortization	38 623 831	37 317 711
Acquisition of other materials	5 772 537	4 932 475
Real estate tax	3 566 040	3 581 890
Fuel	2 533 041	1 637 645
Insurance	2 477 396	2 940 076
Maintenance of offices of production bodies	2 129 667	2 119 421
Scientific research and consultations	1 312 008	1 676 426
Low-value inventory	1 087 859	2 161 743
Depreciation of right-of-use assets	1 082 655	1 097 093
Vehicle maintenance	723 374	674 505
Natural resource tax	574 122	372 800
Communications services	448 372	439 285
State charges	318 257	278 209
Legal fees	16 393	33 859
Changes in stocks of finished goods*	(5 690 358)	484 599
Other cost of sales, including:	4 618 799	8 247 084
Changes in provisions, net, of which:	1 144 495	6 112 908
*Reforestation***	*(496 398)*	*6 081 191*
Bonuses	*795 781*	*(140 421)*
Quarry rehabilitation	*818 090*	*310 632*
Doubtful receivables	*-*	*474*
Vacation pay reserve	*27 022*	*(138 968)*
	300 208 269	**266 956 222**

* The changes in stocks of finished goods were influenced by the increase in the production costs of round timber and wood chips and the increase in the sales volume of wood chips, the increase in production costs in the production of forest seedlings and seeds, and the development of the new tree nursery "Meždvidi".

** The reason for the decrease in the provision for reforestation – planned reforestation in a smaller area, reduction of labor costs due to the introduction of mechanized forest seeding.

6. Distribution costs

		2022	2021
Timber measurement		441 141	2 161 866
	TOTAL:	**441 141**	**2 161 866**

During the reporting year, the terms of cooperation changed and measurement costs are mainly paid by buyers.

7. Administrative expense

	2022	2021
Staff costs, including:	4 976 856	4 145 337
Basic salaries	*3 290 896*	*2 646 813*
Statutory social insurance contributions	*889 343*	*809 050*
Bonuses	*620 277*	*548 837*
Benefits and compensations	*176 340*	*140 637*
Information system maintenance and database subscription	488 479	333 269
Depreciation of right-of-use assets	347 237	341 738
Depreciation and amortization	333 578	260 383
Insurance	302 622	360 646
Staff development costs	230 616	174 676
Advertising and advertisements	227 116	168 535
Legal fees	94 351	53 446
Fuel	89 068	43 863
Consulting and other research	77 164	48 853
Office maintenance	67 434	56 015
Business trips	55 134	1 310
Transport expense	54 675	26 826
Communications expense	47 285	62 380
Representation expense	34 633	51 291
Low-value inventory	26 687	21 162
Fees paid to Latvian firms of certified auditors*	19 862	19 916
Other management and administrative expense, including:	767 436	882 623
Changes in provisions, net, of which:	*(204 325)*	*267 023*
Bonuses	*(184 527)*	*266 590*
Vacation pay reserve	*(19 798)*	*433*
TOTAL:	**8 240 233**	**7 052 269**

* Total fees charged by certified auditors broken down by the types of services:

	2022	2021
Statutory audit services	19 675	19 750
Other assurance services	187	166
TOTAL:	**19 862**	**19 916**

8. Other operating income

	2022	2021
Appreciation of biological assets, net (see Note 15)	1 650 250	1 724 362
Penalties received	544 797	344 118
Participation in projects	460 986	-
Other income	367 544	304 705
Gain on disposal of property, plant and equipment and current assets, net	274 215	400 146
Dividends	50 664	26 464
Compensation for the use of land under power lines	36 440	891 376
Other operating income	451 370	374 251
TOTAL:	**3 836 266**	**4 065 422**

9. Other operating expense

	2022	2021
Preservation of a cultural and historical object*	847 000	769 560
Donations, including;	(39 203)	4 435 000
for sport support	*(25 794)*	*2 300 000*
for forestry development	*-*	*800 000*
for cultural support	*(13 409)*	*735 000*
for social projects	*-*	*600 000*
Allowances for doubtful receivables	(79 484)	(1 314)
Other operating expense	25 098	44 324
TOTAL:	**753 411**	**5 247 570**

10. Staff costs and number of employees

	2022	2021
Wages and salaries	36 588 318	33 994 158
Statutory social insurance contributions	8 521 045	7 921 820
Changes in provisions for bonuses	611 254	126 169
Changes in vacation pay reserve	7 224	(138 535)
TOTAL:	**45 727 841**	**41 903 612**

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

	2022	2021
Cost of sales	40 955 310	37 491 252
Administrative expense	4 772 531	4 412 360
TOTAL:	**45 727 841**	**41 903 612**

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

Key management personnel compensation:

Council Members		2022	2021
Wages and salaries		133 656	162 215
Statutory social insurance contributions		30 613	37 156
	TOTAL:	**164 269**	**199 371**

Board Members		2022	2021
Wages and salaries		523 348	662 104
Statutory social insurance contributions		123 459	156 190
	TOTAL:	**646 807**	**818 294**

		2022	2021
Average number of Board Members during the reporting year		4	5
Average number of employees during the reporting year		1 432	1 427
	TOTAL:	**1 436**	**1 432**

11. Intangible assets

	Software	Programming under development	TOTAL
Acquisition cost			
1 January 2021	**10 547 850**	**-**	**10 547 850**
Acquisition	1 096 426	388 964	1 485 390
Reclassification	388 964	(388 964)	-
Disposal	(146 662)	-	(146 662)
31 December 2021	**11 886 578**	-	**11 886 578**
Acquisition	1 021 438	472 962	1 494 400
Reclassification	472 962	(472 962)	-
31 December 2022	**13 380 978**	**-**	**13 380 978**
Amortisation			
1 January 2021	**8 340 240**	-	**8 340 240**
Amortisation	1 101 204	-	1 101 204
Disposal	(146 662)	-	(146 662)
31 December 2021	**9 294 782**	-	**9 294 782**
Amortisation	1 324 540	-	1 324 540
31 December 2022	**10 619 322**	**-**	**10 619 322**
Carrying balance sheet value			
31 December 2021	**2 591 796**	**-**	**2 591 796**
31 December 2022	**2 761 656**	**-**	**2 761 656**

Fully amortized assets

A number of intangible assets that have fully been amortized are still in active use. The total acquisition cost of these intangible assets as at the end of the year was EUR 3 847 282 (31/12/2021.: EUR 3 252 171).

Amortization

Total amortization costs are included in the following income statement captions:		2022	2021
Cost of sales		1 144 862	980 968
Administrative expense		179 678	120 236
	TOTAL:	**1 324 540**	**1 101 204**

12. Property, plant and equipment

	Land	Buildings	Roads	Equipment and machinery	Computers	Other fixed assets	Construction in progress	Prepayments	TOTAL
Acquisition cost									
As at 1 January 2021	**5 621 943**	**98 434 973**	**457 911 087**	**14 844 605**	**5 441 446**	**19 155 430**	**16 887 351**	**460 343**	**618 757 178**
Additions	-	238 211	-	1 489 391	824 490	1 377 762	37 882 362	1 095 409	42 907 625
Reclassification	149 734	13 093 992	28 538 964	73 760	-	1 850 412	(43 364 468)	(636 606)	(294 212)
Disposals	-	(112 340)	-	(786 586)	(10 377)	(268 197)	(962 832)	(9)	(2 140 341)
As at 31 December 2021	**5 771 677**	**111 654 836**	**486 450 051**	**15 621 170**	**6 255 559**	**22 115 407**	**10 442 413**	**919 137**	**659 230 250**
Additions	-	177 517	-	2 335 378	660 131	1 386 322	39 853 073	615 611	45 028 032
Reclassification	93 837	5 489 270	30 440 511	20 335	-	1 394 655	(36 266 489)	(1 172 119)	-
Disposals	-	(94 191)	-	(1 421 968)	(357 256)	(1 260 112)	(835 893)	-	(3 969 420)
As at 31 December 2022	**5 865 514**	**117 227 432**	**516 890 562**	**16 554 915**	**6 558 434**	**23 636 272**	**13 193 104**	**362 629**	**700 288 862**
Depreciation									
As at 1 January 2021	**-**	**36 088 353**	**243 791 557**	**9 915 831**	**4 640 165**	**12 523 823**	**-**	**-**	**306 959 729**
Depreciation charge	-	5 245 118	**28 002 126**	1 073 594	585 738	1 570 314	-	-	36 476 890
Reclassification	-	-	(150 130)	-	-	-	-	-	(150 130)
Disposals	-	(103 198)	-	(748 543)	(9 864)	(266 437)	-	-	(1 128 042)
As at 31 December 2021	**-**	**41 230 273**	**271 643 553**	**10 240 882**	**5 216 039**	**13 827 700**	**-**	**-**	**342 158 447**
Depreciation charge	-	5 726 132	28 412 984	1 055 264	615 185	1 823 304	-	-	37 632 869
Disposals	-	(79 800)	-	(1 340 369)	(321 188)	(1 051 712)	-	-	(2 793 069)
As at 31 December 2022	**-**	**46 876 605**	**300 056 537**	**9 955 777**	**5 510 036**	**14 599 292**	**-**	**-**	**376 998 247**
Net carrying amount									
As at 31 December 2021	**5 771 677**	**70 424 563**	**214 806 498**	**5 380 288**	**1 039 520**	**8 287 707**	**10 442 413**	**919 137**	**317 071 803**
As at 31 December 2022	**5 865 514**	**70 350 827**	**216 834 025**	**6 599 138**	**1 048 398**	**9 036 980**	**13 193 104**	**362 629**	**323 290 615**

The Company is managing real estate whose value is EUR 3 810 032 (31/12/2021: EUR 3 468 975) and which has been taken over from the State Forest Service and other institutions. The said property is not recognized as an item of property, plant and equipment and is disclosed as an off-balance sheet item (see Note 29).

Cadastral value of real estate

The cadastral value of the Company's land as at 31 December 2022 is EUR 3 517 771 (31/12/2021: EUR 3 472 421). The cadastral value of buildings is EUR 1 764 641 (31/12/2021: EUR 1 777 233).

Fully depreciated assets

A number of assets that have fully been depreciated are still in active use. The total acquisition cost of these assets as at the end of the year was EUR 105 108 006 (31/12/2021: EUR 80 694 402).

Depreciation

The total depreciation costs are included in the following income statement captions:

		2022	2021
Cost of sales		37 478 969	36 336 743
Administrative expense		153 900	140 147
	TOTAL:	**37 632 869**	**36 476 890**

13. Leases

The Company applies IFRS 16 *Leases* and recognizes right-of-use assets and lease liabilities as a lessee in its financial statements. According to IFRS 16, the Company measures right-of-use assets, non-cancellable lease terms and lease payments for identifiable assets. The Company applies a single accounting approach for all leases. According to IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In 2022, there were no significant modifications in the Company's leases that should be disclosed in the financial statements.

Right-of-use assets	Buildings	Land	Total
Cost			
As at 1 January 2021	**21 252 548**	**-**	**21 252 548**
Additions	192 895	88 901	281 796
Disposals	(143 296)	-	(143 296)
As at 31 December 2021	**21 302 147**	**88 901**	**21 391 048**
Additions	286 357	-	286 357
Disposals	(333 642)	-	(333 642)
As at 31 December 2022	**21 254 862**	**88 901**	**21 343 763**
Depreciation			
As at 1 January 2021	**2 935 645**	-	**2 935 645**
Depreciation charge	1 429 306	9 525	1 438 831
Disposals	(143 296)	-	(143 296)
As at 31 December 2021	**4 221 655**	**9 525**	**4 231 180**
Depreciation charge	1 420 367	9 525	1 429 892
Disposals	(298 750)	-	(298 750)
As at 31 December 2022	**5 343 272**	**19 050**	**5 362 322**
Net carrying amount			
As at 31 December 2021	**17 080 492**	**79 376**	**17 159 868**
As at 31 December 2022	**15 911 590**	**69 851**	**15 981 441**

Lease liabilities	2022	2021
At the beginning of the reporting year	**17 708 484**	**18 679 661**
Recognized increase in lease liabilities	286 357	281 796
Recognized decrease in lease liabilities	(1 778 345)	(1 756 389)
Lease interest expense	500 057	503 416
At the end of the reporting year	**16 716 553**	**17 708 484**
including non-current lease liabilities	*15 485 290*	*16 463 707*
current lease liabilities	*1 231 263*	*1 244 777*

Future interest	31/12/2022	31/12/2021
Within one year	607 106	471 390
Within one to five years	1 954 619	1 543 907
After 5 years	1 403 133	1 285 620
Undiscounted lease payments		
Within one year	1 838 369	1 716 167
Within one to five years	7 068 175	6 576 423
After 5 years	11 774 867	12 716 811
TOTAL undiscounted lease payments:	**20 681 411**	**21 009 401**

13. Leases (cont'd)

Amounts recognized in the statement of comprehensive income:	2022	2021
Depreciation of right-of-use assets	(1 429 892)	(1 438 831)
Interest expense on lease liabilities	500 057	503 416
Leases of low-value assets (included in cost of sales)	(9 258)	(7 058)
Total amount recognized in profit or loss:	**(939 093)**	**(942 473)**

The Company had total cash outflows for leases of EUR 1 752 821 in 2022 (2021: EUR 1 746 314).

14. Investment properties

	2022	2021
At the beginning of the reporting year	-	-
Reclassified cost	-	294 212
Reclassified depreciation	-	(150 130)
Revaluation	-	219 918
Disposal of cost	-	(514 130)
Dsiposal of depreciation	-	150 130
TOTAL:	**-**	**-**

15. Biological assets

	2022	2021
At the beginning of the reporting year	31 755 286	29 278 446
Additions	268 640	752 478
Development	(734 351)	(904 015)
Increase in fair value	2 384 601	2 628 377
TOTAL:	**33 674 176**	**31 755 286**

The value of biological assets is determined as fair value less costs to sell. The calculation uses the discounted cash flow method, covering a period of 120 years. The most important components of the calculation are the types and age of tree plantations, expected revenues, costs and discount rate.

The changes in fair value recognized in the reporting year were influenced by the following factors:

- on 31 December 2022, biological assets include 2 366.5 ha (20.1%) of mature stands (31/12/2021: 1 491 ha (12.8%)); the rest of the biological assets have not yet reached development age.

- in the reporting year, the forest was restored on an area of 253.13 ha, including 198.0 ha, by planting selected planting material. As a result of forest management, the forest has become more valuable by replacing the existing tree species with more valuable species.

- Changes in the value of biological assets in 2022 were affected by the increase in sales prices of wood assortments. Due to market fluctuations, in 2022, sales prices of wood assortments have increased by 43.2% on average compared to 2021. The average prices of the last 5 closed years were used in the assessment of biological assets, excluding the highest and lowest price of each wood assortment during this period (2018-2022). The selling prices of wood assortments used in the 2022 calculation are on average 5.3% higher than the prices used in the 2021 calculation.

- The discount rate is calculated as the weighted average cost of capital. In 2022, after evaluating all the factors affecting the discount rate, it is kept at the level of the previous year, that is, 4.70%.

Sensitivity of key assumptions	Change in wood assortment prices in production +/- 10%	Change in discount rate +/- 1%
Fair value of biological assets, %	+/- 13,3%	+/- 17,6%

16. Investments in subsidiaries and associates

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

On 18 October 2005, the Company acquired 38% of the capital shares of SIA "Forest and Wood Products Research and Development Institute". On 7 May 2009, the shareholders decided to increase the share capital, and on 31 December 2012, the Company owned 40.21% of the capital shares of SIA "Meža und koksne produktu ryoška and dinstitus institutus". SIA "Forest and Wood Products Research and Development Institute" provides services in the field of testing and applied research, further education, improvement of professional education, as well as develops research and development projects. The main place of business of this company is Latvia. This investment is classified as an associate.

On 22 July 2022, the Company acquired 20% of the capital shares of SIA "Latvijas vēja parki". The task of SIA "Latvijas vēja parki" is to build high-power wind farms with a total capacity of at least 800 megawatts (MW) by 2030, while reducing GHG emissions, preserving natural diversity and developing a circular economy. This investment is classified as an associate.

	Investment type	31/12/2022	31/12/2021
SIA Jaunmoku pils	Subsidiary	1 620 936	1 620 936
SIA Meža un koksnes produktu pētniecības un attīstības institūts	Associate	566 872	566 872
SIA Latvijas vēja parki	Associate	400 000	-
	TOTAL:	**2 587 808**	**2 187 808**

Information about subsidiaries and associates:

Company	Equity		Profit / (loss) for the year	
	31/12/2022	31/12/2021	2022	2021
SIA Jaunmoku pils	1 686 615	1 638 215	48 400	99 752
SIA Meža un koksnes produktu pētniecības un attīstības institūts	853 719	784 519	69 200	1 137
SIA Latvijas vēja parki	1 809 389	-	(190 611)	-

17. Finished goods and goods for sale

	31/12/2022	31/12/2021
Seedlings	17 423 770	15 774 816
Forest seeds	8 443 063	6 872 266
Chips	7 178 315	5 529 879
Roundwood assortment at roadside sites and in ports	6 447 340	5 195 412
Ornamental plants	3 912 825	4 475 234
Mixtures of mineral materials	1 133 214	1 003 103
Ornamental seeds	6 399	2 723
TOTAL:	**44 544 926**	**38 853 433**

18. Trade receivables

	31/12/2022	31/12/2021
Trade receivables	53 724 815	34 276 757
Allowances for expected credit losses	(75 747)	(153 183)
TOTAL:	**53 649 068**	**34 123 574**

Trade receivables are non-interest bearing and are generally repayable within 30-90 days.

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

			Past due, days			
31.12.2021.	**TOTAL**	**Not due**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0,01%	0,17%	15%	25%	75%
	34 276 757	**33 597 491**	**397 729**	**91 171**	**14 605**	**175 761**
Receivables gross	**34 276 757**	33 597 491	397 729	91 171	14 605	175 761
Impairment	**153 183**	3 360	676	13 675	3 651	131 821

			Past due, days			
31.12.2022.	**TOTAL**	**Not due**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0,01%	0,17%	15%	25%	75%
	53 724 815	**52 866 741**	**759 300**	**6 385**	**2 161**	**90 228**
Receivables gross	**53 724 815**	52 866 741	759 300	6 385	2 161	90 228
Impairment	**75 747**	5 287	1 291	958	540	67 671

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

On 31 December 2022, the Company's credit risk concentration on the 15 largest cooperation partners was 30 011 549 EUR or 56% of the total trade receivables (31/12/2021: 21 236 381 EUR or 62%).

19. Prepayments for services

	31/12/2022	31/12/2021
Prepayments for services	1 031 970	929 964
TOTAL:	**1 031 970**	**929 964**

20. Other securities

	31/12/2022	31/12/2021
AS “Latvijas Finieris” shares, non-current	880 000	880 000
TOTAL:	**880 000**	**880 000**

As at 31 December 2022, the Company owned 62 shares in AS Latvijas finieris, which was 0.99526% of this entity’s share capital. AS Latvijas finieris is a closed joint stock company. Based on the methodology for calculating the share value, the available information shows that there were no changes in factors affecting the value and assumptions underlying the calculation; therefore, the share value did not change as at 31 December 2022.

21. Cash and cash equivalents

		31/12/2022	31/12/2021
Cash on hand		293	820
Cash at bank		141 358 862	112 898 925
Short term bank deposits		100 000 000	-
	TOTAL:	**241 359 155**	**112 899 745**

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

Credit rating of the financial institutions holding cash and cash equivalents:		31/12/2022	31/12/2021
A3 (Moody)		133 120 311	112 607 171
Baa (Moody)		23 683 803	291 754
Not assigned		84 554 748	-
	TOTAL:	**241 358 862**	**112 898 925**

22. Share capital

As at 31 December 2022 and 2021, the Company's registered and fully paid share capital is EUR 355 728 573 and it consists of 355 728 573 ordinary shares with a nominal value of EUR 1 each.

Dividends paid in 2022 and 2021 were EUR 71 380 295 (EUR 0.20 per share) and EUR 72 395 200 (EUR 0.20 per share), respectively. On 26 May 2022, the shareholders' meeting decided to leave the 2021 profit of EUR 22 306 342 undistributed.

In 2023, the shareholders' meeting made a decision to increase the Company's share capital. Please see Note 32.

23. Other provisions

Provision for:	Reforestation	Bonuses	Recultivation of quarry	**TOTAL**
31 December 2021	**23 975 645**	**3 397 601**	**481 102**	**27 854 348**
Utilised	(9 864 412)	(3 397 601)	(52 342)	(13 314 355)
Established	9 368 014	4 008 855	870 432	14 247 301
31 December 2022	**23 479 247**	**4 008 855**	**1 299 192**	**28 787 294**
incl. Non-current	11 864 810	-	1 088 965	12 953 775
Current	11 614 437	4 008 855	210 227	15 833 519

Provision for reforestation is established for the regeneration and renewal of cleared forest areas. According to law, provisions must be utilized within six years but, usually, it is used within one to two years. During the reporting year, provision for reforestation has slightly decreased since reforestation is planned in for a smaller area and labor costs are expected to decrease due to the introduced use of mechanized forest seeding.

Provision for bonuses is made for staff bonuses calculated for the attainment of fourth quarter and annual targets. Provision will be used within one year.

Provision for quarry rehabilitation is established for quarry recultivation within one to ten years after quarrying has been completed.

24. Other liabilities

		31/12/2022	31/12/2021
Salaries		1 644 631	1 403 174
Security deposit for procurements		2 528 564	-
Other liabilities		26 836	254 687
	TOTAL:	**4 200 031**	**1 657 861**

25. Accrued liabilities

	31/12/2022	31/12/2021
Vacation pay reserve	1 428 388	1 421 164
Other accrued liabilities	11 019 879	8 735 019
TOTAL:	**12 448 267**	**10 156 183**

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

26. Taxes payable

	31/12/2022	Refunded (+)	Calculated	Paid	31/12/2021
Statutory social insurance contributions	938 146	-	12 426 558	(12 262 883)	774 471
Personal income tax	462 666	-	6 368 689	(6 278 000)	371 977
Corporate income tax	23 774	-	18 112 472	(19 219 885)	1 131 187
Value added tax	(2 016 366)	8 172 967	(8 448 253)	-	(1 741 080)
Real estate tax	2 415		3 567 862	(3 567 350)	1 903
Natural resource tax	137 708	-	574 122	(546 672)	110 258
Unemployment risk duty	502	-	6 284	(6 263)	481
SRS's single tax account*	(31 424 982)	-	-	(13 857 204)	(17 567 778)
TOTAL:	**(31 876 137)**	**8 172 967**	**32 607 734**	**(55 738 257)**	**(16 918 581)**
Total payable:	**1 565 211**				**2 390 277**
Total receivable:	**(33 441 348)**				**(19 308 858)**

* Overpayments on the state budget's single tax account mainly represent corporate income tax paid for dividends and corporate income tax liabilities.

27. Related party transactions

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

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

Related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties as at 31 December	Amounts owed to related parties as at 31 December
SIA Jaunmoku pils	2022	2 594	874 795	-	-
	2021	897	841 733	-	1 433
SIA Meža un koksnes produktu pētniecības un attīstības institūts	2022	-	108 592	-	-
	2021	-	197 599	-	44 216
Total for 2022:		**2 594**	**983 387**	**-**	**-**
Total for 2021:		**897**	**1 039 332**	**-**	**45 649**

28. Long-term contracts

At the end of the reporting year, the Company had concluded several long-term contracts for the following works:

	Procured works			
Subject of contract	31/12/2022	Incl from 2021	31/12/2021	Incl from 2020
Construction of forest roads	18 349 130	3 375 945	25 763 299	846 146
Out of which completed	*6 485 448*	*2 306 313*	*4 586 918*	*603 173*
Reconstruction of forest drainage systems	2 616 807	189 616	2 524 101	74 295
Out of which completed	*487 791*	*185 559*	*444 502*	*68 246*
Maintanance of forest roads	2 006 700	-	2 254 527	-
Out of which completed	*837 530*	-	*958 971*	-
Cutting of grass and shoots	1 932 587	-	1 550 514	-
Out of which completed	*793 803*	-	*723 860*	-
Routine maintanance works	2 807 015	-	1 926 725	-
Out of which completed	*896 513*	-	*589 658*	-
TOTAL procured works:	**27 712 239**	**3 565 561**	**34 019 166**	**920 441**
Out of which TOTAL completed works:	*9 501 085*	*2 491 872*	*7 303 909*	*671 419*

29. Off-balance sheet assets

In accordance with the Forest Law, the Company manages and administers 1.61 million hectares of the land owned by the Republic of Latvia, whose cadastral value is EUR 321.81 million, including 1.33 million hectares of forest areas, whose stands amount to EUR 1 212.05 million and subsoil assets are EUR 18.03 million (including those amounting to EUR 15.86 million and EUR 2.17 million for the extraction of peat and mineral materials respectively). Land having the area of 1.61 million ha of all the land plots managed and administered by the Company has been surveyed and registered with the Land Registry (100%).

30. Financial risk management

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

		31/12/2022	31/12/2021
Financial assets by categories	Note	**Loans, receibables and other securities**	
Other securities and investments	20	880 000	880 000
Trade receivables, net	18	53 649 068	34 123 574
Other receivables		416 374	12 441
Cash and cash equivalents	21	241 359 155	112 899 745
	TOTAL:	**296 304 597**	**147 915 760**

Financial liabilities by categories		**Liabilities at amortised cost**	
Trade payables		8 646 306	6 392 065
Payables to related entities	27	-	1 433
Payables to associated entities	27	-	44 216
	TOTAL:	**8 646 306**	**6 437 714**

30. Financial risk management (cont'd)

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 2022, the Company had no capital expenditure or investment projects whose expected transactions would lead to any significant exposure to foreign currency risk.

II) Cash flow and fair value interest rate risk

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

III) Price risk

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

Credit risk

Credit risk mainly arises from cash and cash equivalents, significant trade receivables and bank deposits. Credit risk is managed at the Company level. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis.

For the estimation of the credit quality of fully performing receivables, the following rating categories are used:

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

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

Credit risk related to cash and short-term deposits in banks is managed by balancing the placement of financial assets and instruments in order to simultaneously maintain the opportunity to choose the most advantageous offers and reduce the possibility of financial asset loss. Although cash and cash equivalents are also subject to the requirements of IFRS 9 regarding the recognition of expected credit losses, the identified expected credit losses were immaterial, given the fact that virtually all cash and cash equivalents are held in financial institutions that themselves or their parent banks have an investment grade credit rating (mainly 'A' credit rating level). The cash balance at the end of the reporting year is disclosed in Note 21.

Liquidity risk

Liquidity risk is related to the Company's ability to settle liabilities as they fall due. For liquidity risk management, the Company uses cash flow planning tools covering various periods. The Company's management develops continuous forecasts of cash flows and liquidity reserves, which include available borrowings, cash and cash equivalents.

The Company has no obligations for borrowings or credit lines.

The Company's lease obligations are disclosed in Note 13.

All trade payables of the Company, as well as payables to related and associated companies in the total amount of EUR 8 646 306 (31/12/2021: EUR 6 437 714) are payable within 3 months.

Capital risk management

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

The Company's capital management objective is to ensure the Company's ability to continue its operations and to provide a return on capital determined by the relevant Company's shareholders' meeting. The government of Latvia, being the sole owner of the Company's capital, has the right to make decisions related to the increase, decrease, payment of dividends or diversion of the Company's capital in the development of the Company.

The equity ratio is calculated by dividing equity by total assets. The equity ratio is as follows:

	31/12/2022	31/12/2021
Total equity	684 959 306	514 146 621
Total assets	757 428 442	581 495 128
Equity ratio	**90%**	**88%**

31. Fair value measurement

Fair value hierarchy:

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

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

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

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

Biological assets

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

Other securities

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

Trade receivables

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

Trade payables

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

Investment properties

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

32. Events after the reporting period

After the resignation of all LVM Council members, in March 2023 the shareholders' meeting approved the Company's temporary council consisting of five members with a term of up to one year.

On 2 May 2023 the temporary Council of LVM recalled all members of the Board, except for the Chairman of the Board. Valdis Kalns, Māris Kuzmins, Dainis Reķelis and Ieva Rove were elected as temporary Board members from the Company's employees. Members of the temporary Board are elected for an indefinite period until the nomination process of the new LVM Board is completed, but for no longer than one year.

On 11 April 2023, the shareholders decided to increase the Company's share capital by EUR 87 037 753. The increase is paid by transfer of EUR 28 787 537 reserves to the share capital and by EUR 58 250 216 of the retained earnings of previous years. The increased share capital was registered in the Enterprise Register of the Republic of Latvia on 21 April 2023.

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

On behalf of the Board on the basis of a power of attorney from 03/05/2023:

Pēters Putniņš Chairman of the Board	Gunta Vilciņa Head of the Financial and Accounting Department

THIS DOCUMENT IS SIGNED ELECTRONICALLY WITH A SAFE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP

ELECTRONIC SIGNATURE OF THE BOARD MEMBER RELATES TO THE ANNUAL REPORT AS A SINGLE DOCUMENT FROM PAGE 1 TO 41.

ELECTRONIC SIGNATURE OF THE PERSON RESPONSIBLE FOR ACCOUNTING RELATES TO THE FINANCIAL STATEMENTS ON PAGE 3 AND FROM PAGE 11 TO 41.

POTAPOVIČA
ANDERSONE

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Independent Auditor's Report

To the shareholder of AS Latvijas valsts meži

Our Opinion on the Financial Statements

We have audited the accompanying financial statements of AS Latvijas valsts meži ("the Company") set out on pages 11 to 41 of the accompanying annual report, which comprise:

- the statement of financial position as at 31 December, 2022,
- the statement of comprehensive income for the year then ended,
- the statement of changes in equity for the year then ended,
- statement of cash flows for the year then ended, and
- the notes to the financial statements, which include 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 2022, 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 (IFRS).

Basis for Opinion

In accordance with the Law on Audit Services of the Republic of Latvia 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 International Code of Ethics for Professional Accountants (including International Independence Standards) and independence requirements included in the Law on Audit Services of the Republic of Latvia that are relevant to our audit of the financial statements in the Republic of Latvia. We have also fulfilled our other professional ethics responsibilities and objectivity requirements in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) and Law on Audit Services of the Republic of Latvia.

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 Company management is responsible for the other information. The other information is the Management Report, as set out on pages 4 to 10 of the accompanying Annual Report.

Our opinion on the financial statements does not cover the other information included in the Annual Report, 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

In addition, in accordance with the Law on Audit Services of the Republic of Latvia with respect to the Management Report, our responsibility is to consider whether the Management Report is prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

Based solely on the work required to be undertaken in the course of our audit, in our opinion:

- the information given in the Management Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Management Report has been prepared in accordance with the requirements of the 'Law On the Annual Reports and Consolidated Annual Reports' of the Republic of Latvia.

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

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a 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.

On behalf of
SIA Potapoviča un Andersone,
Ūdens street 12-45, Riga, LV-1007
Certified Auditors Company licence No. 99

____
Anna Temerova-Allena
Responsible Certified Auditor
Certificate No. 154
Member of the Board

ELECTRONIC SIGNATURE OF THE AUDITOR RELATES TO THE AUDITOR'S REPORT ENCLOSED WITH THE ANNUAL REPORT ON PAGES 42 TO 43

THE DOCUMENT IS SIGNED WITH SECURE ELECTRONIC SIGNATURE AND CONTAINS A TIME STAMP.