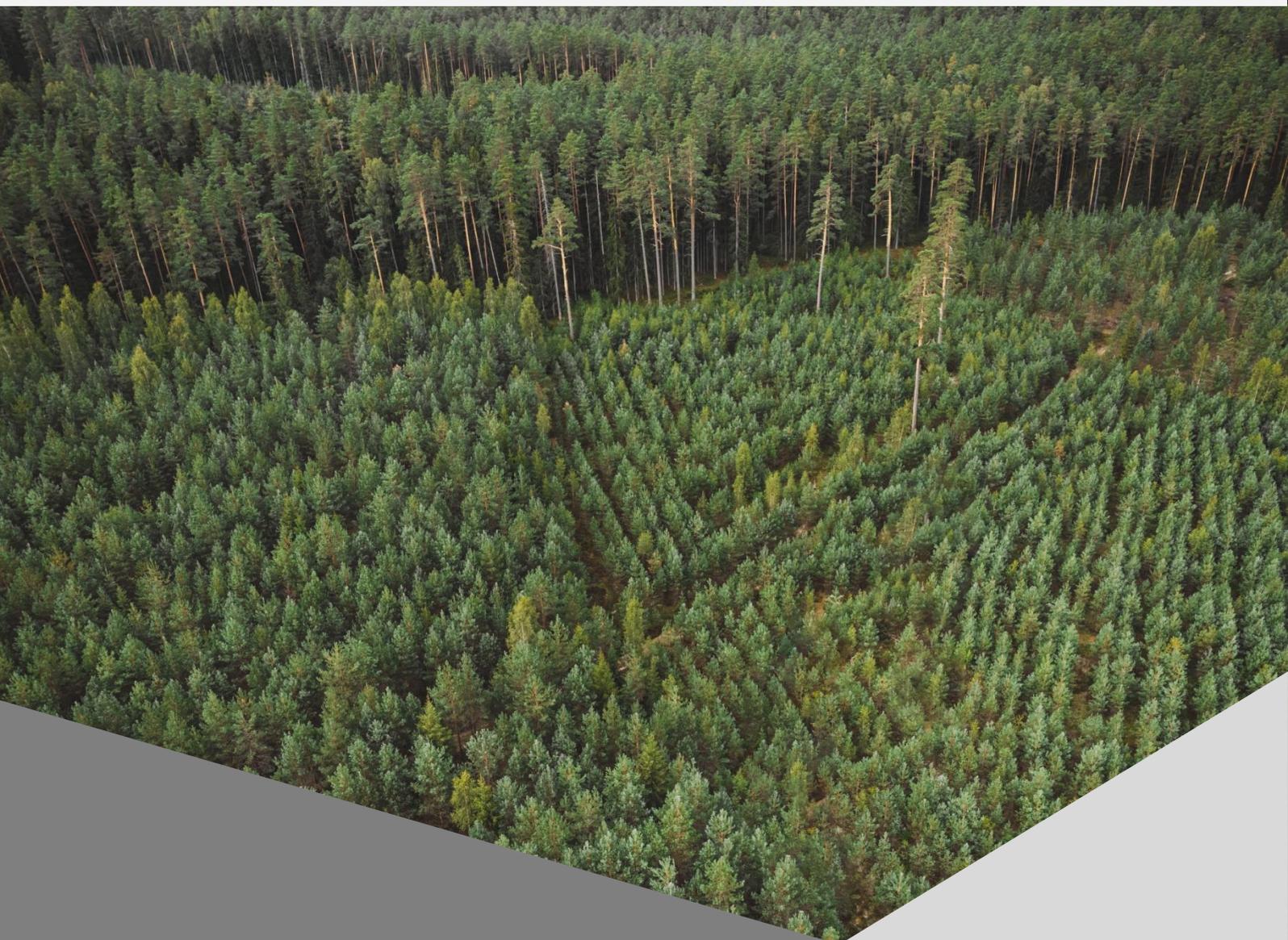


JSC “LATVIA’S STATE FORESTS” SUSTAINABILITY REPORT (non-financial statement)

for the year 2021



REPORT INFORMATION

Reporting period	1 January 2021-31 December 2021
Publication date	7 June 2022
Reporting cycle	Once a year, the first report prepared for 2019
<i>Global Reporting Initiative (GRI)</i>	The sustainability report for the year 2021 has been prepared in accordance with the core level requirements of the sustainability reporting standards issued by the <i>Global Reporting Initiative (GRI)</i> .
Principles of creating the report content	The report contains information on aspects and indicators of relevance to the operation and sustainability of the company. In accordance with the requirements of the GRI core level, information of 35 indicators of general standards and information of indicators of 30 specific standards according to the importance of the aspects is fully included (see the table of contents of GRI indicators on page 81). The report preparation process is described in the section “Principles of report preparation” on page 34.
Data collection methods and scope of the report	The report was prepared using the information provided by business lines and structural units of JSC “Latvia’s State Forests” (hereinafter also referred to as “LVM”), as well as data on the operation of the company. Only reliable and valid data are used in the report. If specific data on a significant impact field of the company are not collected and analysed, this is indicated in the Sustainability Report. The sustainability report does not include information on the operations of LVM’s subsidiary SIA “Jaunmoku pils”, which is included in the company’s consolidated financial statements.
Restatements of information	In the section “Direct greenhouse gas emissions and their intensity” of the report, the table “CO ₂ emissions caused by LVM’s economic activity” specifies data for 2020 (CO ₂ emissions of service providers and the total emissions).
Period for comparative data	2017-2021 (previous five years) or 2020 only
Changes in the reporting practices compared to the previous reporting period	None
Independent auditor’s limited review report	The 2021 Sustainability Report is accompanied by a limited review report by independent auditors on page 85 for the 2021 data contained in this report. The verification of the Sustainability Report in accordance with the International Standard on Assurance Engagements 3000 issued by the International Auditing and Assurance Standards Board was carried out by SIA “KPMG Baltics”. The examiner was selected as a result of market research.
Report availability and format	The report is available electronically on the website of JSC “Latvia’s State Forests” https://www.lvm.lv/par-mums/skaitli-un-finanses/finanses .
Contact information	E-mail address for suggestions and enquiries about the Sustainability Report: lvm@lvm.lv
Period of the previous sustainability report, date of publication	For 2020, published on 18 May 2021
Responsibility for preparing and approving the report	The responsibility for preparing the report lies with the Management Board of JSC “Latvia’s State Forests”, which certifies that the information contained in the report is true and provides a reliable and clear picture of the company’s operations in 2021. The report is approved by the Supervisory Board of JSC “Latvia’s State Forests” before its publication.



CONTENTS

- ABOUT THE COMPANY 6**
 - MANAGEMENT MODEL..... 6
 - STRATEGY..... 9
 - BUSINESS DIRECTIONS..... 12
 - MAIN INDICATORS OF ECONOMIC ACTIVITY 22
 - NUMBER OF EMPLOYEES AND COLLECTIVE AGREEMENTS..... 25
 - AWARDS, ACKNOWLEDGMENTS..... 27
 - REPRESENTATION IN UNIONS, ORGANISATIONS, ASSOCIATIONS 29
- STAKEHOLDERS..... 32**
 - COOPERATION WITH STAKEHOLDERS 32
- PRINCIPLES OF REPORT PREPARATION 34**
 - SURVEY RESULTS..... 35
- ECONOMIC ASPECTS..... 36**
 - MANAGEMENT APPROACH 36
 - PERFORMANCE INDICATORS 38
- ENVIRONMENTAL ASPECTS 50**
 - MANAGEMENT APPROACH 50
 - PERFORMANCE INDICATORS 51
- ASPECTS OF THE SOCIAL FIELD..... 68**
 - MANAGEMENT APPROACH 68
 - PERFORMANCE INDICATORS 74
- TABLE OF CONTENTS OF GRI INDICATORS 81**



Message from the management

Despite the various challenges, we consider the past year to be successful overall – the company closed the year with a net turnover of EUR 405.3 million and a profit before tax of EUR 127.4 million, exceeding the initially set target levels by EUR 27.9 million or 7% and EUR 36.9 million or 41%, respectively.

In 2021, LVM supplied customers with an assortment of 6.64 million cubic metres of roundwood. The substantial demand for wood products in Europe and the world in 2021 significantly increased wood sales prices, including in Latvia. With the rapid increase in the demand for building construction materials, processing companies raised their purchase prices with the purpose of sourcing resources, until in the summer of 2021, the prices of thick-sized softwood logs significantly exceeded the historically high level of 2018. The trend of industries towards sustainable use of resources has also given an additional impetus to the increase in wood prices.

LVM's forestry activity was also greatly affected by weather conditions in the past year. We were already used to being able to go to the forest and carry out forest management work twelve months a year, but this year was different – we were deprived of about two and a half months of 2021 due to the winter with a thick cover of snow both at the beginning and at the end of the year. However, despite the rather difficult conditions, forest restoration and plantation forest growing or reforestation were carried out in 17.8 thousand hectares, including 12.2 thousand hectares that were replanted, while the nurtured young stands reached 31.7 thousand hectares. Most of the forest management work is done by hand, which cannot be replaced by machines, and we already feel that there are fewer and fewer people who want to work in the forest, so we need to help our cooperation partners and think about how to attract additional labour force. Some forestry work cannot be replaced by machines, but some can, so we are working seriously in this direction – for example, last year we planted more than 900 hectares of forest by machine, and the use of drones also helps reduce the involvement of human physical work.

In 2021, LVM sold 55.3 million forest tree seedlings, slightly behind the 2020 level (56.4 million seedlings). Last year, in 2021, the high-value seedlings were mainly used for the restoration of state forests – 30.2 million or 55%, while the rest were sold on the foreign market: 12.2 million seedlings or 22% went to the properties of private forest managers in Latvia, while 12.9 million or 23% were exported. Due to the significant increase in demand for forest tree seedlings grown in Latvia, in 2019 LVM started a project to increase the production capacity of seedlings, which is expected to increase the volume of sold seedlings to 68 million per year by 2024. As part of the project, in 2022, the construction of a seedling sorting and storage complex is planned at the "Mežvidi" tree nursery, as well as the construction of seedling freezers at the "Pope" and "Valmiera" tree nurseries.

In order to meet the requirements of the building products market, LVM started the production process of certified mineral materials in 2018, as a result of which the sales volume of certified subsoil products increased from 0.219 million cubic metres in 2018 to 0.860 million cubic metres in 2021. In addition, in accordance with the requirements of regulatory acts, LVM has ensured a gradual indexation of land rent for the extraction of minerals (peat), reaching the market rent over time. As a result of both processes, the income from LVM's subsoil business direction has also significantly increased, reaching EUR 5.7 million from the rental of mineral deposits and the sale of subsoil resources and products.

LVM's recreation and hunting business line was hit strongest by the pandemic, because just like in 2020, the events planned last year were cancelled both in the Latvian state forest nature park in Tērvete and in Pokaiņu forest, as well as in the recreation and tourism centres "Ezernieki" and "Spāre". Due to the imposed restrictions, several planned hunting groups did not arrive.

The geospatial information technology platform LVM GEO developed by LVM has become an important geospatial solution in the country since 2012 – with the support of the platform, 1.9 million hectares of forest areas are managed throughout Latvia, and it is successfully used in other sectors as well.

In 2021, the potential impact of the European Union's Green Deal on Latvia's national economy has also become clearer. The impact of the set goals will largely depend on the ability to qualitatively discuss and agree on the long-term land use policy of Latvia. There is still a risk that the Latvian forest industry may lose a significant part of the available wood resources due to bad-informed decision-making, thus also bringing large changes to the forest industry as a whole. Science-based conclusions about how we should manage to balance environmental, economic and social needs will be of great importance in this regard. Likewise, the peat industry has come to the forefront of the battle-field and there is still no complete clarity about the possibilities of using peat in the future. One thing is clear – the Green



Deal will affect many people both in Latvia and in Europe in the coming years. We are aware that we are facing big changes.

On 24 February of this year, Russia took a step that has significantly changed the usual order of things in Europe and the world. Ukraine's fight against the war initiated by Russia is also our fight for freedom and a democratic society. The situation is difficult, unpredictable and complicated. It is still too early to assess the consequences of the hostilities on the forest industry in Latvia, but one thing is clear – the war in Ukraine affects us all. We, too, are looking for ways to help Ukraine and its people as far as we can. Currently, in cooperation with the Samaritans Association of Latvia, two loads of donations have been delivered to Ukrainian foresters. A decision has been made on free tickets for Ukrainian civilians to four tourist facilities managed by JSC "Latvia's State Forests" and Jaunmoku Castle, as well as opportunities to offer work to people fleeing the horrors of war are being considered. Also, the heads of structural units have been asked to evaluate the contractual requirements for cooperation partners, which could be eased so that they could hire Ukrainian civilians.

On 14 October 2020, the Supervisory Board of LVM approved the company's medium-term operational strategy for the period until 2025. In 2022, LVM plans to achieve the economic, environmental and social goals set in the medium-term operational strategy, despite the unstable and difficult-to-predict situation in Latvia, Europe and the world.

Thank you for your cooperation! Creating a prosperous Latvia!

Arnis Melnis

Chairman of the Management Board



ABOUT THE COMPANY

GRI 102-3 GRI 102-5 GRI 102-7

Joint Stock Company “Latvia’s State Forests” was established in October 1999 by an order of the Cabinet of Ministers (CM) of the Republic of Latvia. The holder of 100% of the shares is the state in the person of the Ministry of Agriculture of the Republic of Latvia.

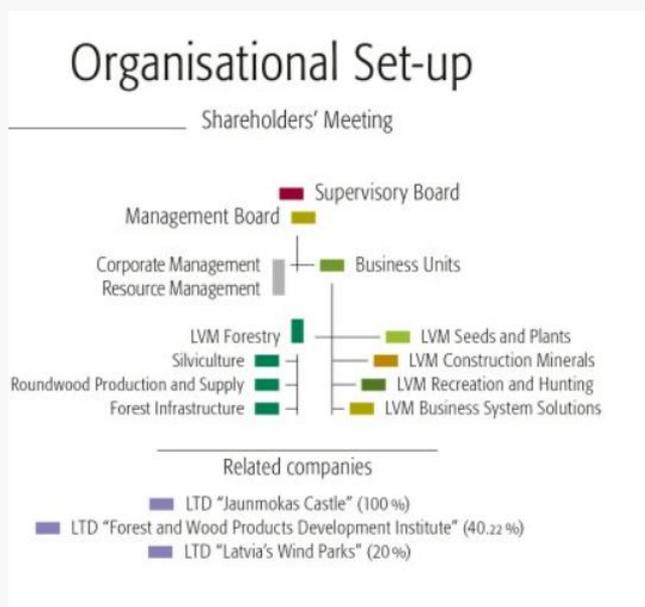
The basic activity of the company is forestry, and in addition to this, LVM provides hunting and recreation services, produces selected seeds and seedlings, offers subsoil resources and land lease for mining subsoil resources on the market, as well as provides geospatial information technology development services.

The company’s economic activity covers the whole of Latvia. For the purposes of forestry planning, the managed territory is divided into eight regions: East Vidzeme, South Kurzeme, South Latgale, West Vidzeme, Vidusdaugava, Zemgale, North Kurzeme, North Latgale. The central customer service centre is located in Riga, at Vaiņodes iela 1. Information about the company’s regions and customer centres is available on the company’s website: <https://www.lvm.lv/kontakti/regioni>.

Information on the products and services offered by the company can be found in the “Business directions” section (page 12), information on the number of employees – in the “Number of employees and collective agreements” section (page 25), information on the net turnover – in “The direct economic value generated and distributed by the company” (page 39).

GRI 102-18 GRI 102-45

MANAGEMENT MODEL



Corporate management, resource management in LVM also includes internal audit and risk management functions. LVM has established the Audit Department which is independent from the other structural units and whose work is functionally supervised by the LVM Supervisory Board.



Shareholders' Meeting

Shareholders' Meeting is the most superior decision-making body of LVM. Its main duties are to:

- approve the annual report and decide on the use of the last year's profit;
- elect and recall Supervisory Board members, set their remuneration;
- elect an auditor and set his remuneration.

In 2021, 5 shareholder meetings were held. The most important decisions made in the past year are related to the approval of the 2020 annual report, the payment of dividends and the election of the Supervisory Board.

Supervisory Board and its Committees

On 16 November 2021, the Shareholders' Meeting elected the Supervisory Board of LVM for a five-year term, consisting of four Supervisory Board members.

Supervisory Board members:	Edmunds Beļskis – Chairman of the Supervisory Board from 16.11.2021.
	Aivars Tauriņš – Deputy Chairman of the Supervisory Board from 16.11.2021.
	Rinalds Muciņš, from 16.11.2021.
	Kaspars Ozoliņš, from 16.11.2021.

The Supervisory Board is a supervisory body that represents the shareholders' interests between meetings and oversees the Management Board's activities. The main duties of the Supervisory Board are to:

- approve the company's medium-term operating strategy and budget;
- constantly supervise the operation of the Management Board;
- elect and recall Management Board members, set their remuneration.

In 2021, 14 Supervisory Board meetings were held, during which 64 decisions were made. All members of the Supervisory Board have participated in all meetings of 2021 of the Supervisory Board. In the past year, the Supervisory Board has carried out the annual assessment of the work of the Management Board for the year 2020.

On 26 February 2020, the LVM Supervisory Board established four committees: the Strategy, Human Resource, Investment and Risk Management Committees, while on 3 December 2021, the Supervisory Board decided to establish three further Supervisory Board committees: Human Resource, Internal Control and Audit, as well as Strategy and Investment Committees.

In 2021, six meetings of the Strategy Committee were held, within the framework of which the members of the Supervisory Board participated in the process of evaluating the need to update LVM's medium-term operational strategy, as well as in updating the strategy.

In 2021, six meetings of the Human Resource Committee were organised, which discussed issues related to the annual evaluation of the work of the Supervisory Board, the individual work performance indicators of the Chairman of the Management Board and members of the Management Board, the evaluation of the performance of the Chairman of the Management Board and members of the Management Board in the previous period, as well as proposals were made to the Supervisory Board about the Chairman of the Management Board and evaluation of the performance results of the Management Board members in 2020, payment of bonuses, monthly remuneration and remuneration for performing the duties of another paid position in the same capital company. At the end of 2021, the Human Resource Committee took note of the notice by Roberts Strīpnieks about his resignation from the position of the chairman of the Management Board of LVM and his release from the position of chairman starting as from 1 January 2022. The Human Resource Committee proposed, after evaluating the professional experience, education and competences of the existing Management Board members, to recommend the advancement of the Management Board Member Arnis



Melnis to the position of Chairman of the LVM Management Board for the duration of his current term as a member of the Management Board.

In 2021, three meetings of the Investment Committee took place, during which issues were discussed regarding investments for the purchase of machinery and equipment for measuring and calculating the volume of subsoil resources and their products, updating the investment project for increasing the volume of forest tree seedlings, as well as developing a business plan for the production of furfural from the narrow-dimension technological wood of deciduous trees.

In 2021, seven Risk Management Committee meetings were held, where the internal audit annual plan was reviewed, strategic risks were reviewed and updated, and an external audit was coordinated on the timber surveying process and its quality control. At the end of the year, work assignments for several external audits were evaluated: assessment of corporate governance, internal audit functions and assessment of the quality of the risk management process.

Management Board

The Management Board is the executive body of LVM management, which represents the company and oversees and manages its activities. On 19 April 2017, the LVM Management Board of four members was elected for the next five-year mandate, starting from 6 May 2017. On 28 August 2019, the fifth member of the Management Board was elected for five years from 2 September 2019.

Management Board members:	Roberts Strīpnieks – Chairman of the Management Board until 31.12.2021.
	Arnis Melnis – Chairman of the Management Board from 01.01.2022, re-elected from 06.05.2017.
	Gints Bumbieris, re-elected from 06.05.2017.
	Edvīns Zakovics, re-elected from 06.05.2017.
	Jānis Lapiņš from 02.09.2019.

In 2021, 51 Management Board meetings were held, during which 247 decisions were made. On 27 December 2021, LVM Supervisory Board elected the current LVM Management Board Member Arnis Melnis as the new Chairman of the company's Management Board. The Supervisory Board of LVM decided to elect a new chairman of the Management Board following the decision of the long-time head of the company, Roberts Strīpnieks, to leave his position as of 1 January 2022 (the last day of his term of office was 31 December 2021).

Affiliated companies

SIA "Jaunmoku pils" is a historical hunting castle that has been under the supervision of the forest industry for more than half a century. The strategic goal of its establishment was to ensure sustainable management of the Jaunmoku Castle complex and the Forest Museum. Currently, it is a subsidiary of LVM, in which LVM owns 100% of the capital shares.

LVM's participation in SIA "Meža un koksnes produktu pētniecības un attīstības institūts" (Research and Development Institute of Forest and Wood Processing) constitutes 40% of the capital. The Research and Development Institute of Forest and Wood Processing provides services in the field of testing and applied research, further education, professional up-skilling, as well as develops research and development projects. The main place of business of this company is Latvia.

LVM is the holder of JSC "Latvijas Finieris" shares with the right to increase the shareholding to 10% in accordance with Order No. 265 of the CM of 26 June 2011 and Order No. 393 of the CM of 15 August 2012 "On increasing Participation". LVM owns 0.988% of the shares of JSC "Latvijas Finieris".



STRATEGY

In 2020, LVM's medium-term operational strategy for 2021-2025 was updated. The Supervisory Board of LVM approved the strategy on 14 October 2020.

According to the developed LVM operational planning system, the work on the planning of the strategy takes place in several steps. Monitoring the implementation of the strategy requires evaluating the achieved results every year; therefore, by its very nature, it is a continuous process in which goals are set and performance results are evaluated. The strategy is updated based on current data and by observing the following principles: data must be updated if the deviation is significant; both goals and their performance indicators should be updated. The planning of the strategy follows the precautionary principle. Considering the structure of LVM's earnings before interest, taxes, depreciation and amortisation (EBITDA), in which the share of depreciation is relatively small and costs have a large impact, which in turn depends on the influence of external factors, even insignificant changes in costs or revenues (up to 15%) can produce significant changes in profits.



Overarching goal of LVM

To implement the sustainable (economically profitable, environmentally friendly, socially responsible) management of the state strategic assets, including state forest property, and the development of the infrastructure, services and knowledge necessary for this.

In order to achieve LVM's overarching goal and the goals set in the medium-term operational strategy, LVM acts in accordance with the following operating principles:

- resource sustainability;
- conservation of biological diversity;
- recreational opportunities in nature;
- public participation in forest management;
- adaptation of forestry to mitigate global climate change;
- leadership and personnel management;
- social responsibility.

A detailed description of the measures is included in the current year's budget with a reflection of planning levels, indicators, responsibilities and deadlines.

Mission and vision

Creating a prosperous Latvia!

We are a considerable, careful, gentle and caring owner of the Latvian state forest, and a leader in the Baltic Sea region in efficient and innovative forest management.





DECENT

We must work so that today's actions do not reduce tomorrow's options



CAREFUL

We must do our work qualitatively, competently and innovatively



CONSIDERATE

We must not forget about the nature we live in



NURTURING

We must take care of the people around us, our employees, by fostering competence, loyalty and passion

Based on LVM's values, basic principles of employee behaviour have been defined, which are also included in LVM's Code of Ethics. These are LVM employees' standards of behaviour and beliefs about how to act correctly or refrain from unwanted behaviour.

- Pride in our organisation – We maintain a good working environment. We provide a uniform external professional opinion.
- Honesty – We admit our mistakes. We do not take what is not ours. We do not lie. We do not remain silent and highlight unethical behaviour. We do not engage in intrigue.
- Competence (professionalism) – We come up with solutions. We show our opinion briefly and in Latvian (without foreign words, jargon). We speak in a language understandable to the audience. We do by thinking.
- Cooperation, friendliness and joy of life – We support colleagues. We are positive. We keep our promises. We do not deny other views and work, and if we criticise, then we do so respectfully. We listen and do not interrupt; if necessary, we ask questions. We are open, polite and kind. We greet!
- Achievements and work results – We put common goals above individual ones. We take the initiative. We value performance rather than the person. We do the work on time.

Strategic goals

- To increase long-term profit and ensure a positive cash flow from the commercial activity
- To increase the value of assets and stands to be managed by the company
- To be a stable and predictable partner for our customers, suppliers and service providers, to develop a customer-orientated attitude
- To promote and develop high value-added products, services, and knowledge
- To develop a work environment that increases employee loyalty and unleashes self-motivation
- To promote public participation and cooperation in forest management
- To be a responsible and reliable member of society
- To create a considerate attitude of society towards the forest environment
- To increase the contribution of forests to be managed to mitigate global climate change and increase the use of renewable resources
- To provide nature diversity and recreation services from the forest ecosystem

● Economic goals

● Social goals

● Environmental goals



From the point of view of business process management, LVM applies the Balanced Scorecard principles to ensure the mutual balance of the goals. By defining the strategic goals of the company according to a common form and terminology, the goals are understandable and describe a common level of planning. One of the most important requirements of the Balanced Scorecard is that the goals are measurable and thus it is possible to control the level of progress towards the goal. In order for the progress of the company towards the mission and vision to be steady and include the essential dimensions of the development of the company, the goals are balanced in four dimensions:

- customer;
- finance;
- processes;
- development.

The Balanced Scorecard approach states that goals are relevant and mutually subordinate, making it easy to plan down to the lowest level.

By setting goals and indicators, LVM balances the goals of all sustainability areas – economic, environmental and social – in order to ensure the implementation of various interests. When implementing the strategy, LVM strives for such medium-term results that will bring returns on the scale of the company, regions of Latvia, and the entire national economy.

Evaluating the performance indicators of the goals set in the operational strategy for 2021, it can be concluded that the set goals have been achieved in general; the results correspond to and exceed those planned at the beginning of the period. The most significant factor that affected the indicators achieved last year is the market demand and the resulting price fluctuations. LVM closed the year 2021 with a profit of EUR 165.5 million before deductions of interest, corporate income tax, depreciation and amortisation, exceeding the planned level by EUR 37.3 million or 29%. The increase of the EBITDA indicator compared to the planned (EUR 128.3 million) was influenced by both the increase in total income and the decrease in total costs in the reporting year. In the EBITDA growth structure, the revenue increase is EUR 31.8 million, while the total cost reduction is EUR 5.5 million. Every year, LVM publishes a report on the implementation of the strategy on the company's website. Reports are available at:

<https://www.lvm.lv/par-mums/skaitli-un-finanses/finanses>.

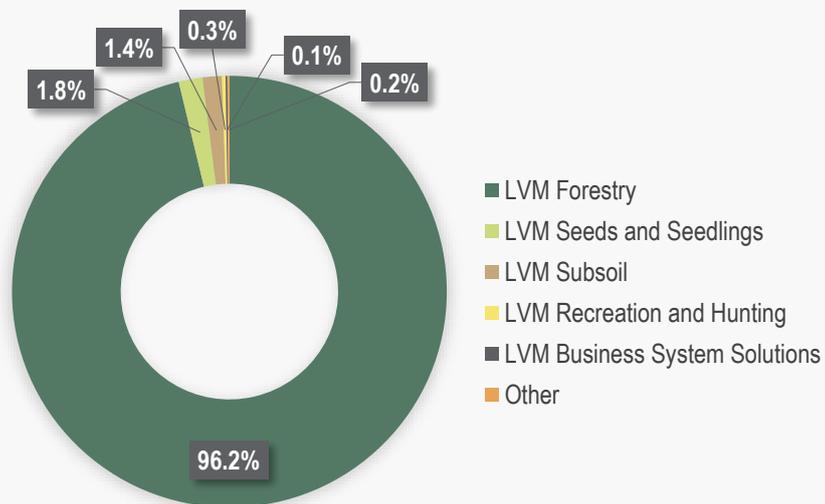


BUSINESS DIRECTIONS



LVM's economic activity is carried out in Latvia and covers five business directions.

- **LVM Forestry** provides forest management, production and delivery of wood products, construction and maintenance of forest infrastructure facilities.
- High-quality forest tree seedlings and seeds are grown in the **LVM Seeds and Seedlings** nurseries, which not only meet LVM's needs, but are also offered in Latvian and export markets – mainly in Sweden, in small quantities also in Estonia, Lithuania and Finland. Ornamental plants are also grown in tree nurseries and offered on the market.
- **LVM Subsoil** offers certified mineral materials and their mixtures, land lease for mining, as well as mineral materials testing services in an accredited laboratory.
- **LVM Recreation and Hunting** provides recreation and hunting services, including excursions to recreational facilities, accommodation, rental of recreational equipment, licensed fishing in lakes managed by LVM, as well as organisation of hunting. This structural unit also manages the LVM nature park in Tērvete and the Pokaiņi forest.
- **LVM Business System Solutions** provides geospatial information system solutions both to support LVM's economic activity and to any company or institution.



LVM net turnover structure in 2021, %



LVM FORESTRY

Production and supply of wood products

LVM is one of the most important suppliers of wood products in Latvia. According to forest statistics data (2016-2020), the current average growth of the total stock of growing trees in the forests managed by LVM is 11.7 million m³ per year. In 2017, LVM sold 5.7 million m³ of roundwood assortment and growing trees, in 2018 – 6.0 million m³, in 2019 – 6.7 million m³, in 2020 – 7.5 million m³, in 2021 – 6.8 million m³. The average annual felling volume is less than the natural average growth of the stock, so the forestry operations of the company can be described as sustainable.



In order to ensure the volumes of wood sales deliveries, LVM needs to receive the services of 155 to 170 logging trucks and 25 to 30 chip trucks every year.

In 2021, 6.64 million cubic metres of round timber and 592 thousand MWh of fuel chips were sold.

In 2021, LVM sold wood products in the following ways:

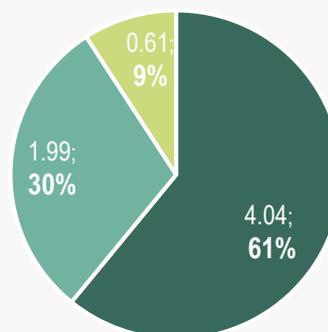
- within the sales programmes STABILITY, GROWTH, OPPORTUNITIES AND CATALOGUE;
- in the form of sales offers for longer term cooperation;
- in the form of active selling, applied in conditions of insufficient or low demand.

LVM's wood product sales and cooperation offer is appropriate and supports various customer needs, as well as the strategic goals set by LVM, and ensures continuity, stability and predictability of cooperation over a longer period of time for customers and contributes to a synergistic increase in overall competitiveness in the supply chain by developing the production of high added value products.

LVM's target customer is the next stage of the supply chain – a partner for whom the product offered by LVM is usable and suitable in the production (processing) or for consumption and creates value and benefits from its purchase. Buyers of wood products are subject to criteria that include conditions and principles appropriate to the specific type of sale, product and cooperation period. Buyers are informed about the criteria and the documents required to certify them in the terms of cooperation, and/or they are available on LVM's website: <https://www.lvm.lv/biznesa-partneriem/produkti/koksnes-produkti>.

At the end of 2021, the five-year cycle of the current cooperation period ended. Approaching the end of the cooperation period, in the spring of 2021, LVM started a review of the principles of selling wood products with the aim of aligning LVM's business interests with the needs of the market (buyers) in terms of products, services and cooperation terms. As a result of the revision of the sales principles, the sales concept for wood products was prepared, which was approved by the LVM Supervisory Board on 18 August 2021. The concept in the broadest sense consists of the principles of selling wood products, which include and describe components of the sales offer such as the product offer, volume division by types of sales offers, customer description, cooperation models and terms offered, sales types, and principles of price setting and review.

STRUCTURE OF THE ROUNDWOOD ASSORTMENT SOLD in 2021, million m³ and %



- Saw logs and birch veneer and sawlogs
- Technological wood and products comparable to its quality
- Firewood



After approving the concept of selling wood products in October 2021, LVM started the process of selling wood products, offering buyers two models of cooperation: short-term cooperation by concluding supply contracts with a term of up to 6 months, longer-term cooperation by concluding supply contracts with a term of 3 years. With the introduction of the concept, the range and importance of services offered by LVM has increased, and the introduction of the concept has contributed to the development of e-commerce and its application in the sales process.

Supply chain of wood products

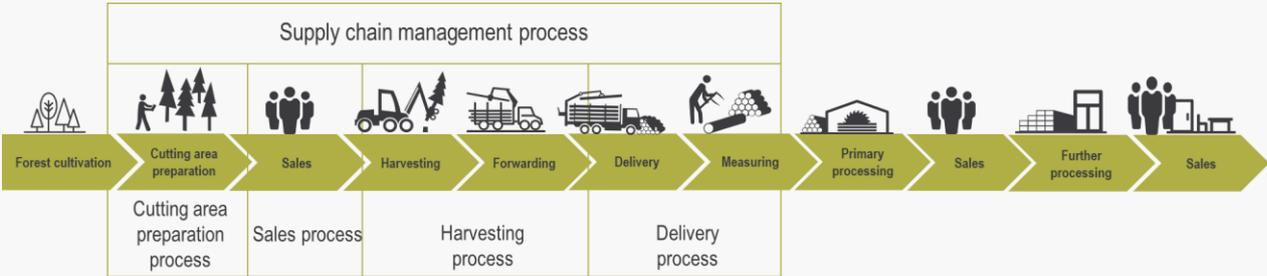
The purpose of the supply chain management process is to reduce the company's costs, increase profits and increase the level of customer satisfaction by coordinating the felling planning, sales, production and delivery processes, while promoting the efficiency of LVM processes, including reducing the environmental impact caused by the product delivery process. To achieve this goal, the main tasks of supply chain management are responding to demand, increasing customer satisfaction by accurately executing contracts and customer orders, increasing the level of customer service, managing inventories and reducing fluctuations in the supply chain processes involved.



Supply chain management performs centralised management and coordination of information and material flows at all stages of product production and movement, starting from felling planning to the delivery of finished products to the final consumer. The efficiency of the supply chain depends both on the cooperation partners involved in the production process. i.e., service providers, and on the efficiency of LVM processes.

As illustrated in the diagram below, LVM's centralised wood products supply chain management process combines felling planning, sales, production and delivery processes. The production process includes logging: timber harvesting and forwarding. The delivery process includes the delivery of timber to customers and measuring. The final stage of the supply chain are the customers – processing companies: sawmills, plywood factories, board factories, pellet factories, energy production plants, etc.

Supply chain management process



LVM's wood supply chain is certified according to the standard requirements of the two world-leading forest certification systems – PEFC™ and FSC® (trademark licence code FSC-C021123), thus giving customers the opportunity to choose to sell their products as PEFC certified and/or FSC certified. More information about the international certificates issued to the company is available on LVM's website: <https://www.lvm.lv/biznesa-partneriem/profesionaliemp/sertifikacija>.



The executors of the felling planning and sales process are mainly LVM employees. Service providers – logging and timber transport companies – are involved in the production and delivery processes as executors. LVM participates in the cooperation of timber buyers and sellers implemented in Latvia to use the services of a jointly managed timber surveyor with the aim of easily and quickly obtaining reliable and cost-effective results.



During the reporting year, there were no significant changes in the company's supply chain structure and cooperation with suppliers, service providers or customers – buyers of wood products.

Forest management

The objective of forest management is to ensure the cultivation of high-quality, productive and vital forest stands. The scope of work includes the daily maintenance of forest regeneration, maintenance, protection, fire protection and forest amelioration systems, which is carried out by applying the quality, nature and labour protection requirements set by LVM. Forest regeneration is a set of measures to create high-value and high-quality forest stands. The principles of forest management activities, the planned volumes and their location are included in a forest management plan, which is partly publicly available on the company's website: <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/meza-apsaimniekosanas-plani>.



In 2021, by planting and sowing, the forest was regenerated or grown in an area of 12.2 thousand hectares (69% of the total amount of reforestation) using the tree species provided for in the LVM strategic plan, reforestation technologies and according to the volumes required by nature, while in 5.5 thousand hectares (31% of the total volume) the forest regenerated naturally. The choice of the tree species to be restored and the type of restoration (planting or natural) is determined by the local conditions (soil, hydrology, etc.), as well as the requirements of the regulatory acts of the Republic of Latvia. In 2021, soil preparation was carried out on 12.1 thousand hectares, the largest volume –9.4 thousand hectares – was prepared in strips with a disc plough, while the remaining volume was prepared by creating elevations in wet mineral soils and peat soils.

In order for the new forest to grow resistant to climatic conditions, it must be taken care of from the moment the trees are planted, providing them with the most favourable growing conditions possible. In 2021, agrotechnical maintenance, which is implemented shortly after planting a forest, was carried out on 32.2 thousand hectares. The young stands are cared for as necessary on 4- to 20-year-old stands, which are divided into degrees of difficulty in performing the work according to the height and diameter of the competing trees. In 2021, young stands were cared for on 31.7 thousand hectares.



As part of forest protection, forest damage caused by wind, fire, water, forest diseases, pests, cloven-hoofed animals and other factors is identified, their development is predicted and works are planned to limit or prevent damage. According to the risk of damage, a survey of forest stands is carried out in order to detect damage that has occurred or to plan preventive measures to reduce the risk of damage. For example, the prevention of forest pest damage in most cases involves cutting down trees by removing damaged and newly infested trees from forest stands, so that they do not contribute to the deterioration of the sanitary condition of the stand. In cases where

damage caused by pests can be limited, plant protection products – insecticides – are used. In 2021, forest damage



was detected in an area of 7.2 thousand hectares, including 5.9 thousand hectares or 82% of cases where the damage was caused by forest animals. In 2021, works on the protection of young stands were carried out on an area of 4.9 thousand hectares, which, compared to 2020, is 0.1 thousand hectares or 3% more.

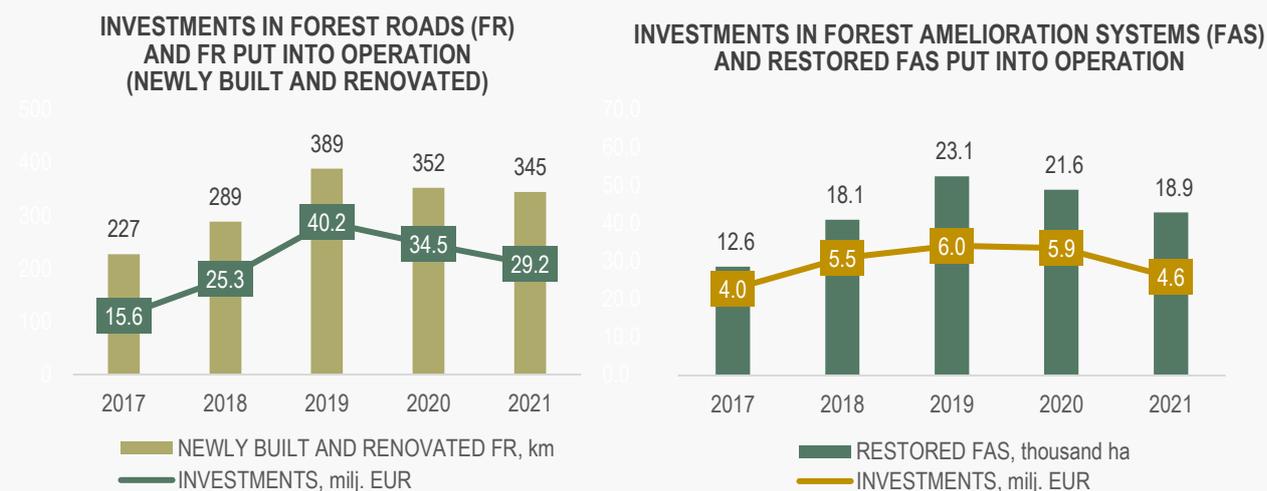
Forest infrastructure

The main purpose of forest infrastructure facilities is to provide quality conditions for the growth of forest stands and their management. The main tasks of LVM Forestry, Forest Infrastructure activity direction are:

- construction and maintenance of forest roads;
- restoration of forest amelioration systems;
- supervision and maintenance of other infrastructure objects – bridges, railway crossings, water extraction sites and others.



The network of forest roads enables access to forest stands and forest management, as well as prompt access to the scene of an accident in the event of a fire. Proximity to roads makes it possible to reduce logging costs and environmental impact (in terms of CO₂ emissions) due to a shorter distance of timber from the felling site to the road. In addition to the above, forest roads provide an opportunity for any resident of Latvia to access forest areas. On the other hand, the restoration of forest amelioration systems improves the conditions for tree growth, increasing the productivity of the forest stand and the annual growth of wood, thus also the value of the forest capital, as well as increasing the CO₂ removal capacity of the forest stand.



As illustrated above, 345 kilometres of forest roads were put into operation in 2021, of which 111 kilometres of roads were rebuilt and 234 kilometres were newly-built. Investments in forest roads were made in the amount of EUR 29.2 million.



In 2021, it was planned to invest EUR 6.9 million in forest amelioration systems, renovating facilities on an area of 19.2 thousand hectares. In fact, in 2021, forest amelioration systems have been restored on 18.9 thousand hectares (99% of the planned volume), with a total investment of EUR 4.6 million (66% of the planned volume). The market situation with substantially lower construction prices than planned, as well as the postponement of the implementation of three forest amelioration objects to 2022, resulted in investment savings. The three mentioned objects will be renovated in 2022.

LVM SEEDS AND SEEDLINGS

LVM Seeds and Seedlings business direction manages modern tree nurseries, where high-quality young seedlings are grown from specially selected seeds, with which the forests of Latvia and neighbouring countries – Sweden, Estonia, Lithuania, Finland – are restored.

This business line of LVM produces forest tree seeds and also maintains seed reserves in the warehouse. 92% of the seeds are used for internal consumption in the company’s tree nurseries for growing new forest seedlings. In 2021, a total of 1,109 kg of seeds were sold. Every year, about 70 kg of seeds are also purchased by private nurseries in Latvia.

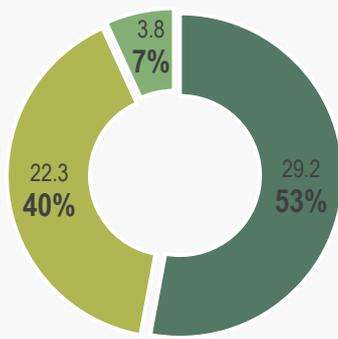


Seeds sold in 2021

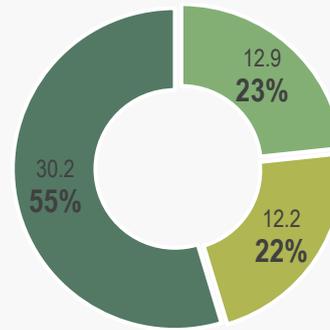


The company pays great attention to the selection of forest tree species by setting up new forest tree seed plantations with a higher genetic value. In the following years, according to the investments in forest breeding research, it is planned to increase the genetic value of the seeds of the main tree species – pine, spruce, birch and black alder – as well as, under the influence of changing climatic conditions, start breeding research to create and strengthen the seed base of oak, linden, beech and lodgepole pine. In 2019, for the first time in Latvia, birch catkin of the “superior” category was collected, which provides a seed reserve for more than two years. Their sowing in greenhouses started in 2020, and the new birch saplings will be suitable for reforestation in the spring of 2022. The seeds of forest seedlings with the highest value category “improved” and “superior” are obtained from seed plantations, “family parents”, clones, mixtures of clones or from proven forest stands. The “superior” category is determined in comparative plantings or after genetic evaluation of the components of the extraction source.





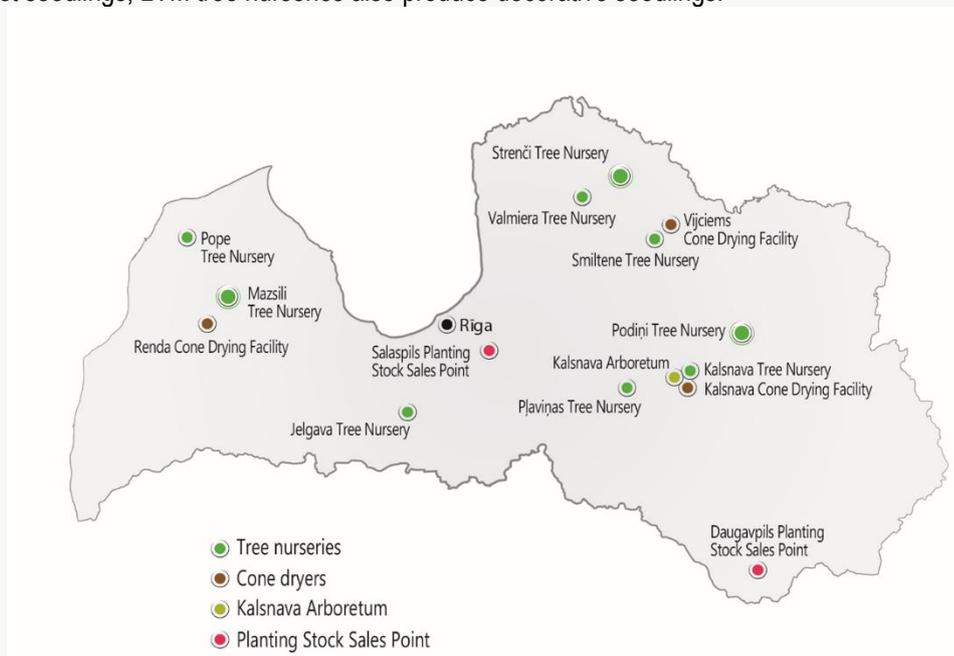
- Container plants, million pcs
- Plants with an improved root system, million pcs
- Bareroots, million pcs



- Export, million pcs
- LVM, million pcs
- Others, million pcs

In 2021, 55.3 million forest tree seedlings were sold (in 2020 – 56.4 million). More and more nature-friendly plant protection products are used to protect seedlings against weevil damage in the forest, thus reducing the use of chemical plant protection products. In 2021, 5.0 million seedlings treated with wax, 9.4 million seedlings treated with a sand-glue mixture and 3.4 million seedlings treated with a mixture of quartz sand, glue and dye were sold. Alternative processing promotes the use of environmentally and human-friendly technology in the company's production processes.

Along with forest seedlings, LVM tree nurseries also produce decorative seedlings.



Location of tree nurseries in the territory of the country

The construction of LVM's tenth tree nursery "Mežvidi" near Jaunkalsnava continues while implementing an investment project to increase the production capacity of forest seedlings. Initially, it is planned to grow 12.5 million frame seedlings per year in the nursery, increasing its capacity to 15 million high-quality seedlings per year in the future.

The process of production and sale of forest seedlings is certified according to the requirements of the international standard ISO 9001:2015. The certificate confirms that the company's quality management system, developed and improved over the years, meets internationally recognised quality standards, which provide the company's customers with access to high-value and high-quality services. In October 2021, an external monitoring audit of ISO quality management was conducted; no nonconformities were found.



LVM RECREATION AND HUNTING

LVM Recreation and Hunting offers recreation and hunting services, including excursions to recreational facilities, accommodation, rental of recreational equipment, licensed fishing in lakes managed by the company, as well as the organisation of hunting. This structural unit also manages the Latvia's State Forests nature park in Tērvete and the Pokaiņi forest. Recreation in the open air has a positive effect on a person's physical health, but also on well-being, which is essential for maintaining and increasing the quality of life. LVM ensures the accessibility of forests to the public and, when planning felling areas, takes care of ecological diversity and the landscape, preserving ecological trees.



The Latvia's State Forests nature park in Tērvete covers an area of more than 1,200 hectares and is one of the most popular tourist attractions in Latvia and the Baltics. Every year, the company performs infrastructure maintenance and improvement works in the nature park. In 2021, 138.8 thousand people visited the LVM nature park in Tērvete, which is 19.7 thousand visitors less than in 2020. Due to the restrictions imposed due to the Covid-19 pandemic, the planned events – the visitors' favourite event of the year “Mysteries of Walpurgis Night” and “Latvian Forest Days” – did not take place.

The LVM nature park in Tērvete has been offering various educational classes, hikes and creative workshops for groups of pre-school students and school children for several years as part of the “Discover the forest” environmental education programme. Active recreation in nature is combined with educational excursions in the Green Classroom, activities in forest expeditions, exploratory hikes and summer camps.



Hunting today is a hobby and active outdoor recreation. When offering hunting opportunities, the company simultaneously thinks about and cares for the preservation of natural resources – the hunters' duty is to ensure the economically acceptable number of animals and the preservation of the environment necessary for hunting animals. LVM Forestry Forest Management administers the hunting lease process – leases hunting rights in the lands possessed and owned by the company, as well as evaluates these hunting areas, calculates the hunting rights lease fee in accordance with the regulations of the CM of the Republic of Latvia, concludes and administers contracts for the lease of hunting rights.



LVM SUBSOIL

In 2017, the LVM Subsoil business direction was established with the aim of managing subsoil resources, developing new products and increasing the company's profit from the sustainable and responsible management of subsoil resources. Before extracting minerals, the economic return is determined for each mining site, as well as an environmental impact assessment is carried out.



LVM Subsoil ensures the rational and legally justified management of mineral extraction sites in the possession and ownership of the company, offering on the market:

- construction products – mineral materials and their mixtures;
- raw materials for construction products – boulders, sand, sand-gravel, siltstone and clay;
- lease of peat extraction sites.

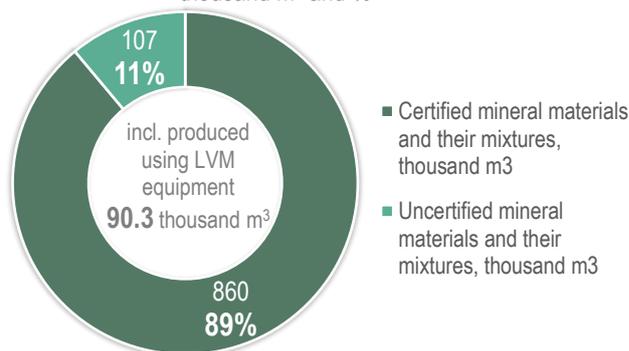
Buyers of subsoil resource products and cooperation partners in the field of mineral materials are road construction companies and manufacturers of building materials, natural and legal persons who purchase materials for the construction of state, municipal and commercial roads, as well as for the construction of residential access roads and the implementation of various area improvement projects. Cooperation partners of LVM are also municipalities that purchase building materials with the aim of implementing various projects related to the provision of municipal functions. LVM's cooperation partners for land lease for peat extraction are developers of peat resources in the territories of peat extraction sites managed by LVM, which are peat extraction and processing companies registered in Latvia or structural units of foreign peat processing companies registered in the territory of Latvia, or their related companies.

With the aim to increase the competitiveness of the company in the field of subsoil, in 2019 the LVM Subsoil Laboratory was established which operatively and with its own resources tests not only mineral materials obtained at mining sites, but also the quality of construction materials used in forest infrastructure construction sites.

In 2021, mineral materials and their mixtures were produced with LVM equipment by 6.1 thousand cubic metres, or 7% more than in 2020.



MINERAL MATERIALS SOLD IN 2021,
thousand m³ and %



In 2021, fifty LVM-managed mineral extraction sites, or 42% of all mineral extraction sites, underwent a monitoring audit of the control of the production process of mineral materials and were accordingly issued a production process control compliance certificate, which certifies that certain quality assessment principles according to the Assessment and Verification of Constancy of Performance (AVCP) system “2+” have been followed during the control of the production process of mineral materials and their mixtures at these mineral sites managed by LVM and that the



requirements which are defined in the following harmonised standards have been met: EN 13242:2002+A1:2007 “Aggregates for unbound and hydraulically bound materials for use in civil engineering work and road construction”, EN 13043:2002, EN 13043/AC:2004 “Aggregates for bituminous mixtures and surface treatments for roads, airfields and other trafficked areas” and EN 12620:2002+A1:2008 “Aggregates for concrete”. In the other mineral extraction sites managed by LVM, the production process is ensured according to the “4” system.

In December 2020, the state agency “National Accreditation Bureau of Latvia” carried out the monitoring of the accreditation of LVM Subsoil mineral materials testing and research laboratory and the updating of the accredited sphere. As a result of the assessment, it was concluded that LVM’s Subsoil laboratory complies with Regulations No. 1059 of the CM of 16 December 2008 “Regulations Regarding the Assessment, Accreditation, and Supervision of Conformity Assessment Bodies” and the requirements of the LVS EN ISO/IEC 17025:2017 standard “General requirements for the competence of testing and calibration laboratories”.

LVM BUSINESS SYSTEM SOLUTIONS

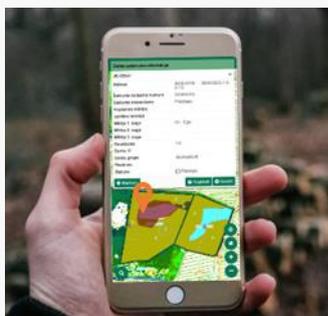
Since 2012, when the company decided to completely abandon the outsourcing of geospatial information systems development, it has not only managed to fulfil all the company’s internal development plans in this area, but also to create a large set of products and services “LVM GEO”, which is currently also provided to external customers. The LVM GEO platform is designed for storage, viewing, processing, analysis, reflection and transfer of various types of geospatial data. In order to ensure high quality and sustainability of services, a separate business line – LVM Business System Solutions – was created, where professionals of the field work, i.e., geospatial solution developers, analysts and consultants, spatial modelling experts and remote sensing specialists. LVM Business System Solutions offers geospatial information technology development and maintenance services to other companies and organisations that need to use geospatial data for resource management.



LVM GEO’s set of products and services currently includes:

- development of geographic information systems;
- model development for spatial planning optimisation;
- geospatial information technology consulting and project management;
- geospatial information technology data processing and analysis services;
- remote sensing data processing and provision of data services.

In the company, with the help of LVM GEO, planning of the full management cycle of forest and non-forest lands, planning and control of daily maintenance, reconstruction and construction of forest roads, forest amelioration systems, bridges and culverts is carried out. Also, LVM GEO provides support for the subsoil resource management process and functionality for timber transportation planning and execution. Information technologies make the work of forest



managers more economical in terms of time, while improving the quality of data and increasing the efficiency of the work process, for example, carrying out planning works remotely (using cameras) reduces transport costs, fuel consumption and the related amount of CO₂ emissions.

In the LVM GEO free access map browser, services from geospatial data creators and holders in the country, including LVM, can be found together. The map browser is available to any user of geospatial technologies and is intended for browsing



publicly available services, searching for information and preparing prints: <https://lvmgeo.lvm.lv> and the mobile app LVM GEO Mobile.

MAIN INDICATORS OF ECONOMIC ACTIVITY

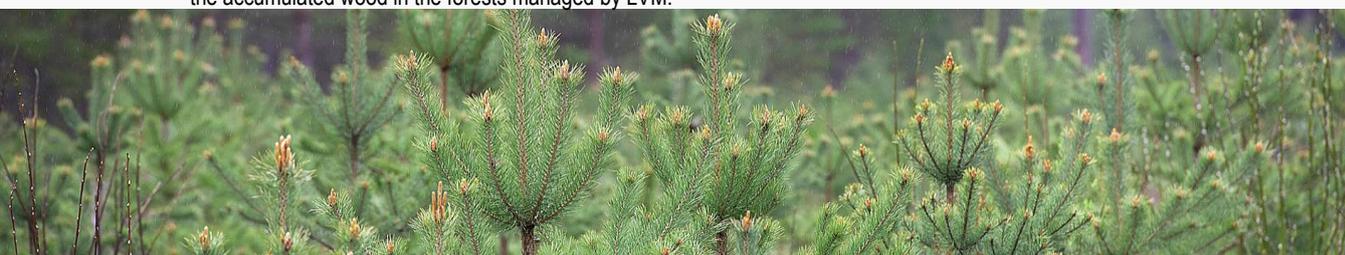
FINANCIAL INDICATORS	2017	2018	2019	2020	2021
Forest capital value (according to the methodology used by LVM), million EUR**	2,608	2,608	2,608	2,608	2,878
Net turnover, million EUR	275.8	333.2	375.1	349.7	405.3
Profit before CIT, million EUR	69.1	110.2	118.2	76.1	127.4
Earnings before interest, taxes, depreciation and amortisation (EBITDA), million EUR	100.1	141.1	152.1	112.3	165.5
Profit to be paid out in dividends, %	70%	59%	70%	72%	145%
Balance sheet total, million EUR	387.1	466.1	534.4	536.3	581.5
Incl. balance value of forest infrastructure (roads, bridges, amelioration systems), million EUR	223.1	223.7	244.1	254.8	257.4
Equity, million EUR	357.6	429.2	474.1	475.4	514.1
Return on equity (ROE), %	19%	28%	23%	13%	23%
Total liquidity ratio	4.11	5.69	5.72	5.14	5.78
Liabilities to equity, %	7%	9%	13%	13%	13%
Execution of operating net cash flow, million EUR	90.9	126.7	135.9	99.6	131.5
Implementation of the investment plan, million EUR	29.7	39.4	57.7	53.8	44.6
Dividends paid into the state budget during the reporting period, million EUR	35.2	38.2	61.8	60.9	72.4

PERFORMANCE INDICATORS	2017	2018	2019	2020	2021
Forestry					
Sale of wood, million m ³	5.73	6.02	6.74	7.52	6.83
Incl. deliveries of roundwood assortments, million m ³	5.45	5.75	6.51	7.23	6.64
Incl. sale of growing trees, million m ³	0.28	0.27	0.23	0.29	0.19
Average annual volume of the most important wood products over a 20-year cycle:					
- softwood saw logs, million m ³	2.91	2.96	3.40	3.78	3.25
- birch veneer logs, million m ³	0.33	0.36	0.38	0.37	0.34
Deliveries of fuel wood chips, thous. MWh	418	408	481	404	592
Forest areas intended for timber production are located on average not further than a certain distance from LVM, the municipal or state road, m	n/a	n/a	375	352	347
Forest plots (incl. in specially protective nature territories) are located no further than 800 m from the LVM, municipal or state road used for fire-fighting, percentage (%)	n/a	n/a	92.9%	93.4%	93.7%
Availability of wood product warehouses for at least 11 months a year, percentage (%)	n/a	n/a	44.8%	45.5%	48.9
Increase of managed forest areas, ha	1,634	996	543	500	342
Forest area for timber production and acquisition, share of forest, %	83%	83%	83%	82%	81%
Forest and forest land area for nature protection:					
- from the forest, %	17.4%	16.8%	16.8%	17.8%	18.7%
- from forest land, %	20%	20%	20%	22%	23%



PERFORMANCE INDICATORS	2017	2018	2019	2020	2021
Reforestation, thousand ha	15.7	15.3	15.1	16.3	17.8
Proportion of forest planting with selected reproductive materials in a 5-year period, %	46%	47%	51%	55%	60%
Care of young stands, thousand ha	27.2	29.1	31.2	31.4	31.7
Construction of forest roads, km	227	289	389	352	345
Restoration and reconstruction of forest amelioration systems, thousand ha	12.6	18.1	23.1	21.6	18.9
Forest amelioration systems restored and reconstructed (total volume), thousand ha	183.2	201.2	224.4	245.9	264.9
PERFORMANCE INDICATORS	2017	2018	2019	2020	2021
Construction of forest roads, km	227	289	389	352	345
Restoration and reconstruction of forest amelioration systems, thousand ha	12.6	18.1	23.1	21.6	18.9
Forest amelioration systems restored and reconstructed (total volume), thousand ha	183.2	201.2	224.4	245.9	264.9
CO ₂ removal from forest growth (according to LVM methodology ¹), million CO ₂ t	9.5	9.5	11.0	11.0	11.1
Removed CO ₂ in wood products supplied by LVM (according to LVM methodology), million CO ₂ t	5.0	5.1	5.8	6.4	6.0
Subsoil					
Sales of mineral materials and their mixtures, thousand m ³	567	592	860	520	967
Valid certificate confirming compliance of the control of the production process of building materials with quality standards	yes	yes	yes	yes	yes
Accredited mineral materials testing and research laboratory	yes	yes	yes	yes	yes
Business System Solutions					
Revenues from external developments and services, thous. EUR	100.9	243.4	300.8	501.7	522.3
Recreation and Hunting					
Number of visitors, thousands of persons	187.6	196.7	199.9	204.3	178.7
Seeds and Seedlings					
Sales of forest tree seedlings, million pcs.	50.8	52.4	56.3	56.4	55.3
Incl. balled trees and seedlings with an improved root system, million pcs.	46.6	49.3	52.4	53.5	51.5
Valid certificate certifying activity in accordance with the quality standard ISO 9001:2015 in the field of activity "Production and sale of forest tree seedlings"	yes	yes	yes	yes	yes
Other corporate indicators					
Restoration of borders, thousand ha	28.6	13.9	19.2	17.4	14.6
Financing of research and innovation study, share in the average net turnover of the previous 5 reporting years, %	0.4%	0.5%	0.4%	0.4%	0.5%
Measurement of involvement of employees of LVM (employees participating in the LVM involvement study), %	79%	n/a	87%	n/a	87%
Investment in public participation and information on sustainable forestry, share of annual turnover, %	0.1%	0.2%	0.1%	0.2%	0.1%
Membership fees in non-governmental organisations for ensuring the interests of the Company, share of annual turnover, %	0.07%	0.05%	0.03%	0.04%	0.04%
Number of educated teachers on sustainable forest management	272	462	540	438	487

¹ The calculation calculates the accumulated carbon in the roots, trunk and branches of tree plants. Calculations for each tree are applied to the accumulated wood in the forests managed by LVM.



PERFORMANCE INDICATORS	2017	2018	2019	2020	2021
Number of educated children and youth on sustainable forest management	7,689	9,430	21,016	19,398	11,113
LVM reputation indicator, index points	22.7	22.7	23.4	21.5	22.3
Donated funds, share of the average profit before corporate income tax planned for a period of 5 years, %	6%	5%	9%	9%	5%
The target audience reached by the campaign "Don't dirty the forest", thousands of persons	521	520	540	540	540
Funds invested in the social infrastructure, share of annual turnover, %	0.7%	0.8%	0.7%	0.6%	0.7%
Incl. Jaunmoku Castle, %	0.2%	0.2%	0.2%	0.2%	0.2%

* n/a – not calculated in the relevant period

** is assessed every five years, see GRI 201-1, pages 36 and 39.

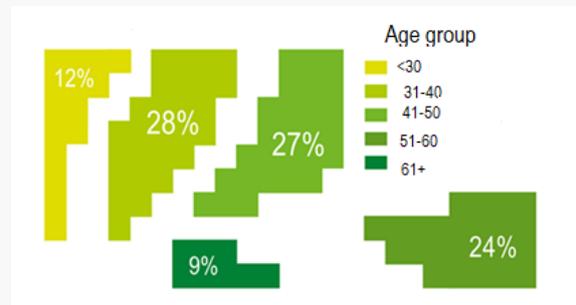
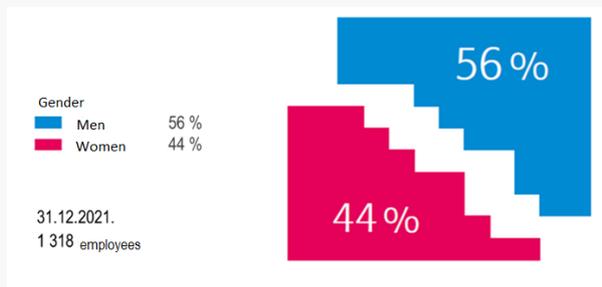


NUMBER OF EMPLOYEES AND COLLECTIVE AGREEMENTS

According to the data of LVM's Personnel Management Department, on 31 December 2021, LVM had employment legal relations with 1,318 employees (in 2020 – 1,305); 27% or 352 of all employees are employed in Riga. The majority of employment contracts are open-ended and for a full workload.

The number of employees according to the employment contract by region

Region	Open-ended	Fixed	In total	Proportion, %
Riga	338	14	352	27%
Kurzeme	255	12	267	20%
Zemgale	188	7	195	15%
Vidzeme	303	48	351	27%
Latgale	148	5	153	12%
In total	1,232	88	1,318	100%

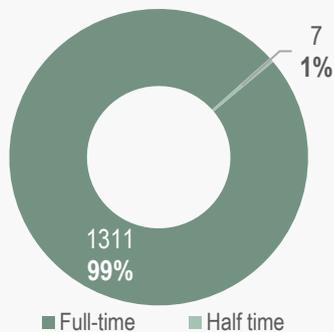


During the spring, summer and autumn period, LVM Seeds and Seedlings and LVM Recreation and Hunting business lines employ additional seasonal employees for a certain period of time.

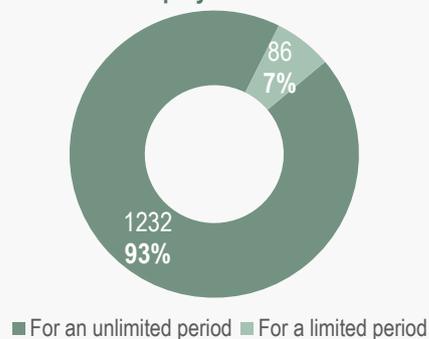
According to the Labour Law and good practice, a collective agreement is proposed to be concluded by the representatives of the employees. LVM has not received such initiatives, therefore no collective agreements have been concluded with LVM employees.

The aim of LVM is to be a socially responsible employer, striving to maintain the best practices in the field of labour law and labour protection. Developing a work environment that increases employee loyalty and unlocks self-motivation is one of the company's strategic goals in the field of personnel management.

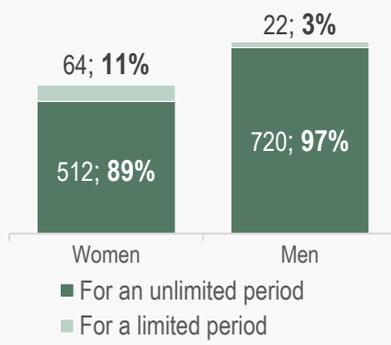
Number of employees by type of work load



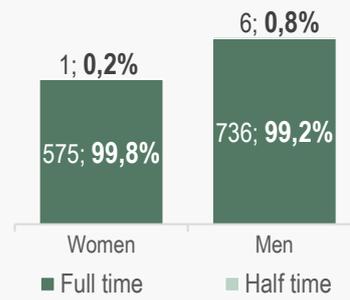
Number of employees by type of employment contract



Number of employees by type of employment contract and by sex



Number of employees by type of work load and by sex



AWARDS, ACKNOWLEDGMENTS

Received in 2017-2021

The best employer

- In 2017, JSC “Latvia’s State Forests” received the Employers’ Confederation of Latvia (LDDK) award “**Best employer in Latvia**”.
- In 2020, in the Baltic Brand Ranking, where the Baltic’s strongest and popular brands that have successfully addressed also the challenges of the global pandemic are awarded, JSC “Latvia’s State Forests” received the highest rating in three categories of seven, i.e., as the **greenest, most humane and best employer**.
- In 2021, JSC “Latvia’s State Forests” received the highest rating in two categories – as the **greenest and the most humane brand**, in the Baltic Brand Ranking.



JSC “Latvia’s State Forests” – a company- innovation leader

- JSC “Latvia’s State Forests” has received the information and communication technology (ICT) award “**Platinum Mouse 2017**” for the product “LVM GEO Mobile”, as well as the “LVM GEO” platform won second place in the competition “**Export and Innovation Award 2017**”. The Latvian ICT award “Platinum Mouse 2007” was awarded to JSC “Latvia’s State Forests” for the portal mammadaba.lv.

Recognition for socially responsible business

- JSC “Latvia’s State Forests” was recognised as the **fairest payer** in 2021 in the group of large companies in the annual research conducted by the personnel selection, development and remuneration research company “Fontes”.
- In order to encourage employers to take care of their employees and to honour the most family-friendly employers, a new initiative “**Family-Friendly Workplace**” has been introduced. JSC “Latvia’s State Forests” is one of the cooperation partners of the initiative and also one of the winners of the family-friendly workplace status. On 3 June 2021, at the opening event of the initiative in the LVM nature park in Tērvete, the first 50 companies that obtained the certificate of a family-friendly workplace were announced.

Successful and profitable taxpayer

- JSC “Latvia’s State Forests” has been recognised as the second most valuable company in Latvia according to the top of the most valuable companies in Latvia for 2020 compiled by “Nasdaq Riga” and “Prudentia”.



Developer of a stable, open and fair business environment

- The Investment and Development Agency of Latvia awarded to JSC “Latvia’s State Forests” the award “**Best reputation** in the Timber and Wood Products industry” in 2017.
- In 2018, JSC “Latvia’s State Forests” received the annual award of the Latvian Open Technologies Association in the “**Most Open Institution**” category for providing open and accessible geospatial data and services.
- In 2019, the Employers’ Confederation of Latvia presented a special award to JSC “Latvia’s State Forests” for **transparent, planned and innovative business**, which strengthens and promotes the development of a fair business environment in Latvia.
- LVM leisure and tourism centre “Ezernieki” received the “Traveller Review Award 2021”, which means that “Ezernieki” received mostly only excellent visitor ratings in 2021, obtaining a particularly high overall rating (9.6) on the international accommodation booking website www.booking.com.

An example of sustainable use of renewable resources

- In the 2018 nationwide exhibition “**The Best Building of the Year in Latvia**” organised by the Latvian Builders Association and the Latvian Construction Engineers Union, JSC “Latvia’s State Forests” received one of the big awards of the year for its customer centre building in Dundaga, which is constructed of wood. JSC “Latvia’s State Forests” also received the award for the River Menčupīte bridge, the reconstruction of which preserved historical values and used glued wooden structures.
- In the evaluation of buildings whose designs include features of sustainability, the newly opened customer centre of the Zemgale region of JSC “Latvia’s State Forests” won first place in the competition “Sustainability in Architecture, Construction and Design 2021” among ten objects in the nomination “**The Most Sustainable Project in Latvia 2021**”.



REPRESENTATION IN UNIONS, ORGANISATIONS, ASSOCIATIONS

In the democratic form of state administration that exists in Latvia, the public, as well as the non-governmental sector, which unites and involves civil society in processes important to the state in various unions, organisations, associations and other organisational forms, is very important. In order to successfully ensure the implementation of LVM's strategic goals and daily operations in almost a quarter of the territory of Latvia, it is very important to ensure the company's representation and participation in governmental and non-governmental processes that represent areas essential to LVM's operation. LVM is also a member of the associations of national level listed below.

The Association "**Latvian Forest Certification Council**" (**LMSP**) was established with the aim of maintaining among the Latvian society the understanding of sustainable forestry, which is economically sound, environmentally friendly and socially responsible. In order to achieve the goals, the LMSP actively works in the processes related to forest certification, including the development of national certification standards, the development processes of international certification documents, public education and other areas of activity. In 2021, the LMSP actively participated in the development process of the FSC temporary national draft standard, as well as maintained regular communication with FSC International to ensure the advocacy of national-level interests. The LMSP also participated in the Latvian National PEFC Forest Management Standard Review Working Group.

The association "PEFC Latvian Council" was founded with the aim of developing and maintaining Latvia's national PEFC certification system and documentation, as well as representing Latvia's interests in the international PEFC (*Programme for the Endorsement of Forest Certification*) umbrella organisation. PEFC is the leader of certified forest areas in the world – more than 330² million hectares of forests are certified. In 2021, LVM actively participated in the Latvian National PEFC Forest Management Standard Review Working Group, the main aim of which was to evaluate the requirements of the existing standard, adapting them to the updated international PEFC forest management standard and forestry challenges.

A municipality is an administration that, through the elected representation of citizens – a city council and institutions and bodies established by it – ensures the performance of the functions prescribed by law, as well as the voluntary initiatives of the municipality, respecting the interests of the citizens of the state and the relevant administrative territory. LVM, as a member of the **Latvian Local Government Training Centre (LPMC)**, provides various training courses or consultations on sustainable forest management issues to employees of all levels of Latvian local governments and their structural units upon request. In 2021, LVM developed an in-depth programme related to forest management planning, within the framework of which, after the municipal elections, the training of the responsible employees of the new county municipalities has been started.

The Association of Latvian Timber Sellers was established with the aim of uniting the common interests of timber buyers and sellers in order to reduce disunity in the timber surveying environment. In 2021, LVM, as a member of the Association of Latvian Timber Sellers, participated in the evaluation of the timber accounting development guidelines and the medium-term strategy of SIA "VMF LATVIA", in the preparation of the project for the restructuring of the timber surveying service payment concept and in the evaluation of the implementation of the prepared concept.

The **Association "Latvian Chamber of Commerce and Industry" (LTRK)** unites small, medium-sized and large undertakings, associations, city business clubs and other business associations of all regions and sectors. The association represents the interests of 2,500 members, and also provides services to ensure that Latvia has excellent companies which operate in an excellent business environment. Its main areas of activity are business environment, promotion of business competitiveness and export. LTRK organises its work in councils, which ensure the monitoring of the current affairs of various industries and fields of activity and the representation of interests. LVM's main goal in

²Source: <http://www.pefc.org>, viewed on 06.01.2022



participating in this organisation is to express its opinion, defend its interests, and jointly achieve favourable amendments to regulatory acts on sustainable forest management issues. In 2021, LVM joined the Land Use Working Group, preparing proposals for the National Energy and Climate Council in connection with the goals set by the European Union's Green Deal and their implementation in Latvia in the coming years.

The **Association "Employers' Confederation of Latvia" (LDDK)** is the largest and most influential organisation representing employers in Latvia. LDDK is one of the most influential partners of the government, which helps employers in the industry to make a more constructive dialogue on various issues. LVM cooperates with specialists, consultants and organisations from various industries, both from Latvia and abroad, to implement its goals. LDDK members are constantly informed about forest management issues and challenges. LVM participates in the development of Latvian and international regulatory acts related to sustainable forest management, thereby supporting and promoting the creation and maintenance of a fair, publicly transparent and business-friendly environment in the Latvian forest sector. In 2021, work continued on the implementation of the requirements of the European Union Taxonomy Regulation to ensure the removal of emissions in land use, land use change and forestry sector, aligning it with the interests of the industries within the LDDK and at the same time looking for opportunities to reduce CO₂ emissions and achieve the set targets of a climate-neutral economy.

The **Association of Latvian Forest Owners (MĪB)** was established with the aim of promoting the development of sustainable and economically justified forestry in Latvia, encouraging the review and improvement of regulatory acts and other documents binding on the industry, which prevent forest owners from making economically sound forestry decisions. In 2021, together with MĪB experts, proposals were prepared for representing the views of forest owners and managers in the further development of the results of the census of natural values carried out from 2015 to 2020. Proposals and options for the purchase of seedlings for 2022 have been prepared and examined by MĪB to meet the needs of private forest owners regarding seedlings grown in LVM tree nurseries.

The **Latvian Hunters' Association (LATMA) and the Latvian Hunters' Union (LMS)** were established with the aim of developing the hunting industry in accordance with the preservation of the diversity of wild animals and their habitat and the sustainable use of hunting resources, as well as to unite hunters for joint organised action and representation on a local, national and international scale. In 2021, the working group, which was established with the aim of balancing the interests of forestry, agriculture and hunting farms, developed draft amendments to the regulatory acts governing hunting with the aim of facilitating the organisation of the hunting process and thus promoting better management of the game animal population.

The **Association of Building Materials Manufacturers (BRA)** was established to improve the regulation of building materials production, to support Latvian building materials manufacturers, to promote the development of the industry by researching the building materials market and developing recommendations, to collect and publish the business experience and results of manufacturers, thus improving the quality of building materials production and the general situation in the building materials market, to develop a code of ethics, thus improving the quality of services provided by merchants working in the building materials industry and the quality standard of building materials, and the introduction of quality marks, generally promoting healthy competition. In 2021, LVM participated in a study commissioned by BRA, conducted by researchers of the non-governmental organisation *Business Against Shadow Economy*. Within the framework of the study, the factors of the shadow economy in the production of building materials in the mining and further processing of minerals were analysed, including the production of minerals and their mixtures, cement and concrete products.

LVM actively operates and is a member of various international organisations:

The aim of the **European State Forest Association (EUSTAFOR)** is to unite the forest managers of European countries, as well as to represent their interests in various processes at the international level. It has 36 members from 25 countries³. LVM participates in working groups related to bioeconomy and circular economy, climate change,

³ <https://eustafor.eu/about-eustafor/> , viewed on 15.02.2022.



renewable energy issues, dealing with environmental protection issues, for example Natura 2000 forest management, management of biotopes of European Union significance. In 2021, work continued on the preparation of proposals for forest and biodiversity strategies to be developed within the framework of the European Union's Green Deal. Special attention was paid to cooperation with state forest managers of the Baltic Sea region, who implement forestry in similar climatic conditions and with similar methods as in Latvia.

The **Forest Stewardship Council**® (FSC) is an organisation that brings together forest owners, entrepreneurs, non-governmental organisations, indigenous groups and other stakeholders to promote responsible forest management and business. All members are included in one of three sections – environmental, social or economic. In accordance with the organisation's statutes, LVM represents its interests in the economic section. There are currently 230 million hectares of forest certified in the FSC system in the world⁴. Due to the pandemic caused by the Covid-19 virus, the 2021 FSC General Assembly was held remotely. In the course of it, the FSC strategy and the main tasks for achieving the goals were discussed.

At the national level, there is still no clarity about the future of FSC in Latvia. Most countries have already adapted their national standards to the requirements of the International Generic Indicators (FSC-STD-60-004 V2-0 EN). Whereas in Latvia, in April 2019, the work on the development of the Latvian FSC National Forest Management Draft Standard was terminated, because the members of the working group, who represented the environmental section, refused to continue the further development of the standard, although the social and economic sections supported the continuation of the development process of the Latvian FSC National Forest Management Standard project. In 2021, LVM prepared and submitted an opinion on the draft of the provisional FSC national standard, which was developed by FSC International. All interested parties were invited to submit their proposals and comments. After the conclusion of the public consultation, FSC International updated the draft standard and conducted testing of the standard in one of the LVM's regions (North Latgale region) and in one of the private forest management companies.

⁴ <https://fsc.org/en/facts-figures>, viewed 06.01.2022.



STAKEHOLDERS

GRI 102-40 GRI 102-42 GRI 102-43 GRI 102-44

COOPERATION WITH STAKEHOLDERS

When starting work on the development of the first LVM sustainability report, the company conducted a stakeholder survey in early 2020 to identify the essential aspects to be included in the content of the sustainability report. Stakeholders were determined in a survey of LVM's business line and top-level managers, evaluating the parties who influence LVM's economic activity and who could be affected in the conduct of LVM's economic activity. Stakeholders were identified, evaluated and grouped.

LVM evaluates the social, environmental and economic impact of its activities and involves stakeholders in solving mutually important issues. Through LVM's medium-term operational strategy and forest management plan (FMP), stakeholders are informed about the company's planned economic activity in the LVM Forestry business direction, while through publicly available performance reports, stakeholders are informed about the company's actual activity.

With the public part of the FMP, stakeholders (local community and interest groups) are informed about the planned forest management. The FMP contains information on the forest resources managed by LVM, the objectives and basic principles of the LVM strategy, the scope and location of the planned forest management activities, measures for the conservation of environmental values, the scope of forest management activities performed in the previous period, and other information which is important to stakeholders. Stakeholders are provided with the opportunity to make proposals for forest management, especially in areas important to the local community. All proposals received are evaluated and answered. The public part of LVM's forest management plan (FMP) is updated not less than once every 5 years or whenever the level of forest management, forest management basic principles or regulatory enactments in forest management is significantly changed. Every year by 31 March, the volumes of forest management in differently managed territories, information on forest management in the previous period and an environmental report are updated. At the beginning of April, they are published on the LVM website. Annually, proposals from stakeholders can be submitted to the customer centre of the relevant region or sent electronically to the forest management planning manager of the relevant region. Within a month after publication, the submitted proposals are evaluated and, if necessary, changes are made to the forest management plan. Proposals that are sent later than one month after the publication of the public part of the FMP are evaluated; however, if changes are required in the public part of the FMP, they are made at the same time as the next update. In addition, LVM may, in consultation with the local community and other stakeholders, develop individual management plans for any of the territories, which are a part of the LVM forest management plan; however, as a result of public consultation, the individual plan for the territory may include some different conditions, for example, different economic activity restrictions set, update procedure, etc. In all other cases, management activities are carried out in accordance with the conditions of the LVM forest management plan.

The public part of LVM FMP is prepared based on CM Regulation No. 67 4 February 2014 "Regulations on the Forest Management Plan" and the PEFC forest management certification standard for Latvia and the requirements of other binding certification standards. The public part of the FMP is available on the company's website: <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/meza-apsaimniekosanas-plani>.

In 2021, stakeholders were also involved in the following way:

- the draft of the wood products sales concept for 2022-2024 was submitted for public evaluation. LVM invited every buyer to provide suggestions and evaluation.
- Stakeholders in LVM Subsoil processes are involved primarily within the framework of the environmental impact assessment (hereinafter referred to as the "EIA") procedure, which is carried out in order to prepare the mineral extraction site for mining, also evaluating the opinion of the public. An EIA is organised taking into account the requirements of regulatory enactments and is applied to deposits of mineral materials with an area of more than 25 ha, peat deposits with an area of more than 150 ha and in cases where the Regional



Environmental Board of the State Environmental Service, as part of the preliminary environmental impact assessment, takes a decision on the application of the EIA to extract minerals from the deposit in question. In 2021, an online public consultation was organised on the environmental impact assessment of the planned activity “Extraction of minerals (peat) in the peat deposit “Skudru purvs” in Kuldīga Municipality”.

- In order to share the knowledge gained by scientists and stakeholders about the risk of damage by deer and its mitigation to young stands, an online meeting on damage caused by game animals, economic activity and cooperation with hunters was held in May. Representatives of the Ministry of Agriculture, the State Forest Service, the Latvian State Forest Research Institute “Silava”, the Latvian Hunters’ Union of the Latvian Forest Owners Association and the Latgale Hunters and Fishermen’s Association took part in it.
- Within the framework of the announced tenders “Provision of forest restoration, care and protection services in 2022-2024” and “Mechanised forest seeding in 2022-2025”, LVM invited potential service providers to join informative online meetings to explain the rules of the tender, provide support in the preparation of offers and answer questions.
- In order to promote the cooperation between LVM and the National Cultural Heritage Administration, both parties met in nature, in the environment of archaeological monuments, in early October to discuss current issues in the protection of cultural monuments and to look for solutions for a more efficient and high-quality exchange of information.
- Representatives of LVM and Saulkrasti Municipality met to identify and discuss issues relevant to Saulkrasti residents regarding state forest management. During the meeting, solutions were sought on how to align recreation opportunities for local residents in the vicinity of Saulkrasti with sustainable and responsible management of the state forest.
- The chairman of the Supervisory Board and representatives of the Latvian Wood Industry Federation met in December to discuss the topicalities of the forest industry and the goals of the concluded memorandum of cooperation, i.e., to increase the role of renewable resources and bioeconomy in the Latvian national economy.

When planning its activities, LVM is aware that every step is a responsibility towards the stakeholders; therefore, cooperation with stakeholders takes place at different levels: consultations – clarifying current issues; negotiations – collective consultation; involvement – exchange of opinions without joint decision-making and cooperation; partnership – joint decision-making and cooperation.

Stakeholder	Level of cooperation	Engagement frequency
Owner (shareholder)	Partnership	Constantly
Supervisory Board, Management Board, senior managers of LVM	Partnership	Constantly
Employees	Negotiations and consultations	Constantly
Customers	Engagement through membership in associations and societies	Where necessary, not less than once every six months
Suppliers and service providers	Engagement through membership in associations and societies	Where necessary, not less than once every six months
Professional societies, organisations, associations	Consultation, engagement and partnership	Where necessary, not less than once a year
Higher educational and scientific institutions	Partnership	Where necessary, not less than once a year
Ministries, public authorities	Consultation and engagement	When necessary
Supervisory authorities	Consultations	When necessary
Other state capital companies	Consultation and engagement	When necessary
Non-governmental organisations	Consultations	Where necessary, not less than once a year
Local community	Consultations, engagement, including through non-governmental organisations	Where necessary, not less than once a year



PRINCIPLES OF REPORT PREPARATION

GRI 102-11 GRI 102-46 GRI 102-47

The content of LVM's sustainability report is created taking into account internationally recognised GRI standards (<https://www.globalreporting.org/standards>), as well as economic, environmental and social aspects relevant to the company and its stakeholders. The sustainability report does not include information about LVM's sole subsidiary SIA "Jaunmoku pils", which is included in LVM's consolidated annual report.

The process of preparing the sustainability report is divided into several stages.

Stage 1

A working group was established to prepare the sustainability report. According to the assessment of the working group, a list of potentially significant aspects (corresponding to individual GRI indicators) was prepared, which initially included those aspects that are important to the company and could be relevant to stakeholders as well. Stakeholders of LVM were determined in the managers' survey and evaluated in the working group, as mentioned in the *Stakeholders* section.

Stage 2

When preparing the first sustainability report for the year 2019, LVM collected opinions of stakeholders in the form of an electronic survey to find out the opinion of the representatives on the areas that are essential for LVM's sustainable development and should be included in the report. Each aspect raised was evaluated on a scale from "not relevant" to "very relevant". Survey participants were invited to share additional suggestions and ideas to ensure sustainability in the most relevant aspects.

The stakeholder survey was conducted in February 2020 and involved a total of 351 respondents, including 193 LVM employees.

Stage 3

At this stage, the results of the stakeholder and working group survey were collected, as well as a matrix of the relevance of sustainability aspects was created. LVM representatives evaluated the results of the surveys, the best international experience in companies of a similar profile, as well as how the indicators cover the most relevant aspects of LVM's operations and characterise the company's impact on society, the environment and the economy, and selected the most relevant indicators for inclusion in the sustainability report.

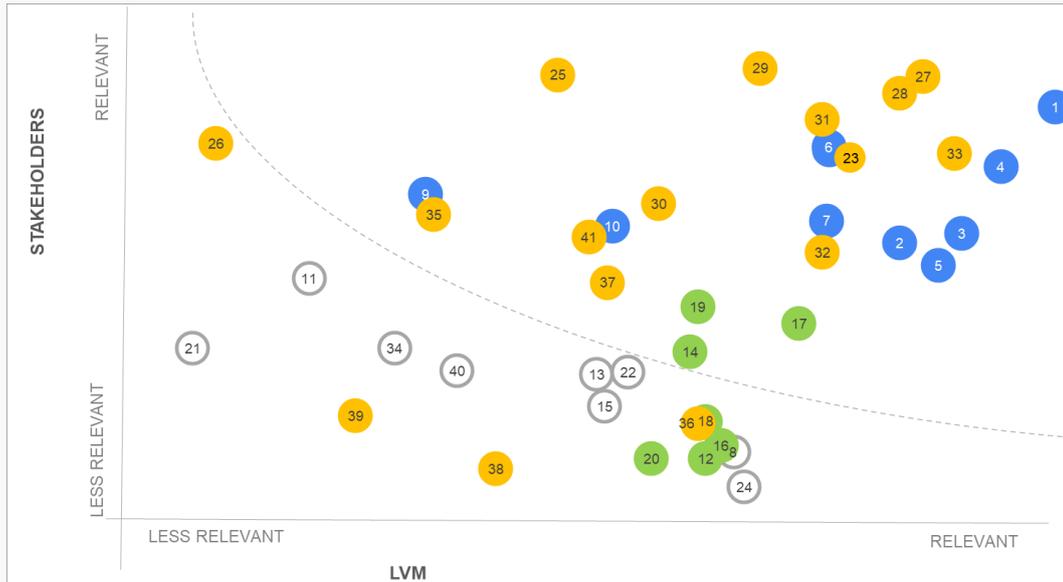
Stage 4

LVM's sustainability report fully reflects 35 generic standard information indicators on LVM's operation, as well as provides information on 30 relevant specific aspects in the economic, environmental and social fields. In the sustainability report, the GRI standard indicators are noted in the corresponding sections. The principle of prudence has been followed in the preparation of the report.

The sustainability report contains information on all relevant and very relevant indicators (separated in a matrix in the upper right corner, see figure "Survey results" on page 35). In addition, LVM experts and the working group evaluated the results of the survey, the best international experience in companies of a similar profile, as well as how the indicators cover the most relevant aspects of LVM's operations and characterise the company's impact on society, the environment and the economy, and selected indicators for inclusion in the sustainability report, also from moderately relevant and less relevant aspects (separated in a matrix in the lower left corner). Indicators selected and included in the report are marked as shaded circles.



SURVEY RESULTS



ECONOMIC ASPECTS

1	The direct economic value generated and distributed by the company: revenue, expenditure, profits (GRI 201-1)
2	Financial implications and other risks and opportunities due to climate change (GRI 201-2)
3	Infrastructure investments and services supported (GRI 203-1)
4	Indirect economic impact of the company: contribution to the promotion of employment in the forest and related sectors (GRI 203-2)
5	Proportion of spending on local suppliers (GRI 204-1)
6	Maintaining a competitive level of remuneration: basic wages compared to average wages in the region (GRI 202-1)
7	Corruption risk is assessed and managed (GRI 205-1)
9	In the event of a confirmed case of corruption, actions are taken to prevent further cases of corruption (GRI 205-3)
10	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices (GRI 206-1)

ENVIRONMENTAL ASPECTS

11	Share of renewable and non-renewable materials in LVM's economic activity (GRI 301-1)
12	Energy consumption within the organisation (GRI 302-1)
13	Energy consumption intensity: energy consumption in relation to the volume of output produced (GRI 302-3)
14	Reducing the energy required for production (GRI 302-4, 302-5)
15	Interaction with water as a shared resource: water extraction, consumption and wastewater (GRI 303-1)
16	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas (GRI 304-1)
17	Significant impacts of activities, products, and services on biodiversity (GRI 304-2)
18	Habitats protected or restored (GRI 304-3)
19	IUCN Red List species and national conservation list species with habitats in areas affected by operations (GRI 304-4)
20	Generated direct greenhouse gas emissions (GRI 305-1)
21	Volume, type and methods of management of waste generated (GRI 306-2)
22	Screening of suppliers and service providers according to environmental criteria (GRI 308-1)

SOCIAL ASPECTS

23	New employees are recruited in accordance with the laws and regulations of the Republic of Latvia and good practice (GRI 401-1)
24	Benefits (allowances, compensations, etc.) provided to full-time employees are not granted to seasonal workers (GRI 401-2)
25	Every employee has the right to parental leave due to the birth or adoption of a child (GRI 401-3)
26	The statutory deadline for changes in labour relations is observed (GRI 402-1)
27	Labour protection system has been introduced (GRI 403-1)
28	Accident threat identification, risk assessment and investigation of accidents at work are carried out (GRI 403-2)
29	Risks of the work environment are assessed, work protection measures are planned, briefing and training of employees is carried out, as well as mandatory health checks are provided (GRI 403-3)
30	The employee has access to information about the assessment of risks of his/her work environment and the intended work protection measures (GRI 403-4)
31	Support is provided for the promotion of employee health (GRI 403-6)
32	Risks are identified and preventive measures are taken to comply with the labour protection requirements of cooperation partners (GRI 403-7)
33	Employee training is conducted to improve work performance and increase efficiency (GRI 404-1)
34	Employees regularly receive evaluations on their work performance and career development (GRI 404-3)
35	There is no difference in the amount and procedure of payment of women's and men's basic salary and remuneration (GRI 405-2)
36	Operations with local community engagement are identified, their impact assessments are provided, and development programmes are prepared (GRI 413-D)
37	Operations with significant negative impacts on the public are identified (GRI 413-2)
38	Suppliers and service providers are screened according to the social field criteria (GRI 414-1)
39	Negative social impact in the product supply chain is identified and actions are taken to prevent it (GRI 414-2)
40	Assessment of the impact of products and services on health and safety is carried out and possible cases of non-compliance are evaluated (GRI 416-1, 416-2)
41	Requirements in the field of customer privacy and data security are observed (GRI 418-1)



ECONOMIC ASPECTS

GRI-103

MANAGEMENT APPROACH

The direct economic value generated and distributed by the company (GRI 201-1)

The economic value generated and distributed by company directly depends on the results of the company's economic activity. One of LVM's strategic aims is to increase long-term profit and ensure a positive cash flow from the commercial activity. By reducing the forest area allocated for wood production (growing) by one thousand hectares (for example, by increasing the protected areas at the national level), the sustainable amount of wood harvesting is reduced by almost 10 thousand m³ per year. The mentioned circumstance can significantly affect the company's financial indicators – turnover and profit.

The value of forest capital is calculated according to the methodology developed by LVM. The value of forest capital consists of the market value of wood assortments produced in forest stands and forest management costs. The state, as the owner of this capital, has two main interests:

- the value of the capital must not decrease, it should preferably increase;
- the owner (state) wants to make a profit on the capital.

With targeted and responsible economic activity, the capital value of forests managed by LVM has increased by EUR 1,114 million or 63% in comparable prices since 2000. The total area of forests managed by LVM has increased from 1.36 million to 1.39 million hectares, and the total growing stock has increased from 255.8 million to 319.3 million cubic metres over the last twenty years.

Year	Net present value, million EUR	
	In comparable prices	In actual prices
2000	1,763.78	590.90
2021	2,877.78	2,877.78
Increase	1,114.00	2,286.88

The payment of LVM dividends is regulated by the laws of the Republic of Latvia on the state budget. The state of Latvia, as the sole owner of the company's capital, has the right to make decisions related to the increase, decrease of the company's capital, payment of dividends or diversion thereof for the development of the company. Every year, the Shareholders' Meeting makes a decision on the amount and procedure of payment of dividends. In 2021, LVM paid out EUR 90.5 million in dividends for the 2020 reporting year (including corporate income tax, which results from the amount of dividends and is determined by law). In the period from 2000 to 2021, the state as the owner received a total of EUR 1.5 billion in dividends and tax payments from LVM.

Risks and opportunities caused by climate change (GRI 201-2)

LVM risks are identified and managed at two levels: strategic risks and operational or tactical level risks of LVM structural units. The consequences of climate change are classified as a physical strategic risk, because its impact is essential for the company's stability and the achievement of strategic goals, and it also has a difficult to predict impact and potential outcome (including financial impact). As the temperature range and precipitation or drought periods change as a result of climate change, the probability of forest fires increases. In order to prevent or minimise this risk, LVM develops a network of forest roads and carries out preventive measures, such as maintenance of fire safety roads,



installation and maintenance of mineralised strips that prevent the spread of fire, as well as placement of informational signs and installation of water supply points. In the event of occurrence of a risk, after the localisation of the fire by the State Forest Service, LVM carries out fire elimination and monitoring works.

Maintaining a competitive level of remuneration (GRI 202-1)

LVM constantly takes care to ensure that the components of the remuneration system and the level of wages in the company as a whole are competitive in the labour market. Salary is compared with other labour market participants and is considered competitive if the average basic salary in LVM is within the labour market median. For highly paid IT positions in the labour market, the amount of the basic salary is determined equivalent to the family of IT positions in other IT commercial companies in Latvia.

Investments in infrastructure and development (GRI 203-1)

In its operation, LVM has set the aim of promoting and developing high value-added timber products, services, and knowledge. LVM develops innovative products and technologies in cooperation with business and innovation organisations, including Latvian and international scientific institutions, research organisations, merchants, non-governmental organisations and other state capital companies. In order to strengthen the development of the industry, the results of research financed by LVM are publicly available. LVM's research and development work is organised in five directions, the work is structured in development programmes, which are expanded in topics. The following goals to be achieved for the next five years are defined for each of the directions:

- forest cultivation – to increase the yield, quality and vitality of tree stands;
- environmental protection and recreation – to study the forest as an ecosystem and the impact of forestry on it and the services provided by related ecosystems;
- forest management planning – to increase the correlation and efficiency of forest management planning processes;
- production of technology – to increase the efficiency of forestry and wood production processes by approving new technologies available on the market that have not been used so far in the company;
- innovative products – to identify, evaluate and introduce innovative products with high added value and their production technologies from forest biomass (including from its processing residues), subsoil and crops cultivated in ecosystems transformed by human economic activity.

The proportion of the development goal funding is set within the range of 0.6% to 1.2% of the average net turnover of the previous five reporting years.

For additional information on investments in forests and related infrastructure, see the section “Business directions – Forestry”.

Indirect economic value of the company (GRI 203-2)

Forests cover more than half of Latvia's territory, so the forest sector in Latvia has historically and traditionally been one of the most important sectors of the national economy. More than 40 thousand citizens of the country are directly employed in the forest sector in Latvia. In addition, the majority of forestry and woodworking jobs are located in the regions of Latvia, and often forest industry companies are the most important or even the only employers in the vicinity. LVM is one of the largest taxpayers in the country. Therefore, the company takes great responsibility for preserving the contribution of the forest industry and its positive effects – provision of jobs in the forest and related sectors, tax contribution to the national and local government budgets – to increase the national economy.

LVM makes a significant contribution to the promotion of employment: more than 1,300 companies are involved in forestry, logging, forest infrastructure construction works, timber transportation and other economic activity processes of the company every year. When outsourcing, LVM ensures not only the development of the forestry industry in Latvia, but also makes a direct and indirect contribution to the development of other sectors and the national economy of the entire country.



Proportion of spending on local suppliers (GRI 204-1)

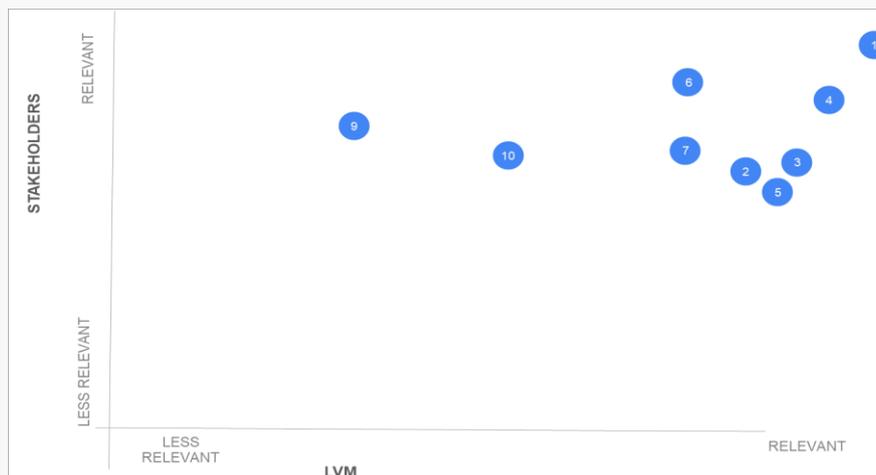
The company purchases the products and services necessary for economic activity from companies operating on the free market in accordance with the requirements of the Public Procurement Law and other laws in force in Latvia. All cooperation partners are registered in Latvia.

Corruption risk management and risk of anti-competitive behaviour or abuse of dominant position (GRI 205-1; GRI 205-3; GRI 206-1)

The purpose of LVM is to promote economic activity based on honest principles, compliance with ethical norms, and also takes actions to prevent fraud and corruption risks in all areas of LVM's activity. In accordance with good corporate governance practices, LVM implements internal control system measures to mitigate and prevent adverse risks in order to promote the company's sustainability, operational transparency and reliability, as well as to create an internal culture based on zero tolerance for violations in accordance with the LVM Code of Ethics, company employee values and basic principles of conduct.

Fraud risks in LVM structural units are identified and updated once a year, also summarising existing controls and additional risk mitigation measures to be implemented. The company has developed a procedure for reporting cases of fraud, corruption, conflict of interest and other violations. Public procurement is carried out by LVM, taking into account the legislation existing in the Republic of Latvia.

PERFORMANCE INDICATORS



ECONOMIC ASPECTS	
1	The direct economic value generated and distributed by the company: revenue, expenditure, profits (GRI 201-1)
2	Financial implications and other risks and opportunities due to climate change (GRI 201-2)
3	Investments in infrastructure and supported services (GRI 203-1)
4	Indirect economic impact of the company: contribution to the promotion of employment in the forest and related sectors (GRI 203-2)
5	Proportion of spending on local suppliers (GRI 204-1)
6	Maintaining a competitive level of remuneration: basic wages compared to average wages in the region (GRI 202-1).
7	The risk of corruption is assessed and managed (GRI 205-1)
9	In the event of a confirmed case of corruption, actions are taken to prevent further cases of corruption (GRI 205-3)
10	Legal actions for anti-competitive behavior, anti-trust, and monopoly practices (GRI 206-1)



THE DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED BY THE COMPANY

The economic value generated and distributed by company is directly related to the financial results of the company. In 2021, LVM's profit before corporate income tax was EUR 127.4 million, or 168% of the 2020 profit, exceeding it by EUR 51.4 million. The increase in the profit level was mainly influenced by higher revenues – in 2021 they were EUR 409.4 million, which is EUR 58.2 million more than in 2020.

	Unit of measurement	2017	2018	2019	2020	2021
Generated economic value	million EUR	281.0	339.4	379.6	351.1	409.4
Turnover	million EUR	275.8	333.2	375.1	349.7	405.3
Incl. income from wood* sales	million EUR	264.4	319.9	360.2	334.3	389.5
Other income	million EUR	2.1	1.6	3.4	1.4	2.3
Increase in value of biological assets	million EUR	3.0	4.6	1.1	-	1.7
Distributed economic value	million EUR	216.1	235.5	305.3	315.4	334.8
Cost of services and materials	million EUR	141.2	155.3	182.1	192.0	194.4
Incl. assortment production costs	million EUR	93.3	105.1	128.4	137.0	124.4
Workers remuneration	million EUR	31.8	34.2	36.9	39.4	41.9
Immovable property tax	million EUR	3.6	3.6	3.6	3.6	3.6
Donations	million EUR	4.2	4.1	5.5	4.4	4.4
Compensation for the use of state capital	million EUR	35.2	38.2	77.2	76.1	90.5
Retained economic value	million EUR	64.9	103.9	74.3	35.7	74.5
Depreciation and amortisation	million EUR	31.0	31.9	33.3	35.7	37.6
Inventories and reserves	million EUR	33.9	72.0	41.0	-	36.9

* revenues from the sale of roundwood assortments, growing trees and wood chips

The **generated economic value** of LVM in 2021, compared to 2020, increased by 17%, mainly due to the increase in revenues from the sale of wood resources. The sale of wood constitutes a significant part of LVM's revenues – 95% of the generated economic value. The increase in revenue was mainly influenced by the significantly higher average selling price of assortments, which in 2021 was EUR 12.05/m³ higher than a year earlier. In total, 6.8 million cubic metres of wood were sold in 2021, of which 6.6 million cubic metres were roundwood assortments. During the reporting period, the amount of roundwood sold was 92% of the amount that was sold in 2020. Whereas, the amount of wood chips sold in 2021 was 591.8 thousand megawatt hours, or 146% of the 2020 sales amount.

The **distributed economic value** in 2021 reached 82% of the generated economic value and increased by 6% compared to 2020. The increase in the distributed economic value was mainly influenced by the compensation for the use of state capital, which in 2021 was EUR 14.4 million more than the previous year. In accordance with Section 34 of the Law "On the State Budget for 2021", the company has fully fulfilled its obligations to the owner in 2021, i.e., the state, by paying EUR 90.5 million in dividends (including corporate income tax, which results from the amount of dividends and is determined by law). Whereas, the largest item of the distributed economic value is made up of the costs of logging and transportation of assortments – in 2021, they were 37% of the distributed value. In the reporting year, they were EUR 12.5 million less than in 2020, or 91% of the amount of the corresponding costs in 2020, because the volume of the produced assortments was smaller. In accordance with the basic principles approved by the owner of the company, LVM donated EUR 4.4 million in the reporting year, including EUR 2.3 million to sports support, EUR 0.8 million to forest industry development support, EUR 0.7 million to cultural support and EUR 0.6 million to social projects.



The **retained economic value** in 2021 was 18% of the generated economic value, and it was 209% higher than the year before. This significant increase was mainly influenced by the higher average sale price of roundwood, smaller volume of produced assortments, as well as the volume of dividends paid.

GRI 201-2

FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES DUE TO CLIMATE CHANGE

In recent years, the economic activity of the company has been affected by both warm winters, dry and hot periods in summer, and excessive precipitation. The general trends of climate change make logging processes increasingly difficult and increase costs, so alternative technologies, additional investments in forest infrastructure, as well as increasing the efficiency of the company's operations should be considered. More and more felling areas have to be worked on in adverse weather conditions, which requires additional resources, and more and more forest stands are located on hard-to-cultivate soils. Prolonged adverse weather conditions also affect forestry processes, forest damage prevention options and increase the resources needed for forestry. In addition, it may negatively affect the quality of assortments and LVM's ability to fulfil its obligations to customers. Climate change also has a negative impact on the creation and maintenance of forest infrastructure objects, as well as on the quality of young stands. During periods of drought and intense heat, the risk of fires increases significantly, which can cause not only economic losses, but also lead to the release of large carbon reserves into the atmosphere.

In order to mitigate the risks of long-term adverse weather conditions and the impact of climate change, it is essential to adjust the process of felling planning and logging works. When planning the economic activity of the company, the experience of previous years is taken into account showing that we can no longer count on typical winter weather conditions in Latvia; therefore, we have to look for ways to continue operations in winter, without reducing production and supplies, while also complying with forest management requirements, as well as increasing logging in summer and during the autumn period. Identification of areas of increased risk, development of forest infrastructure and timely forest maintenance work are just some of the ways in which LVM, using the available knowledge and information, reduces the likelihood of fires, thus confirming the growing importance of sustainable forest management in preventing forest fire accidents.

LVM mitigates part of the risks of the impact of natural disasters by monitoring climate change and implementing preventive measures based on research results with the aim of adapting forestry processes to climate change.

1. In reforestation, more resistant species which are less endangered in a given place are selected.
2. The forest management regime is changed (early care, low-intensity thinning, avoiding late care) and forest cultivation processes are adjusted.
3. Spatial planning is used (sequencing of felling areas, creation of forest edges).
4. Selected forest seedlings are used in reforestation.

In order to mitigate climate change, LVM acts both in relation to the carbon cycle and the preservation of biological diversity within the framework of the policies and legislation implemented by the state.

The risk of the impact of climate change is considered one of the most important strategic risks of LVM and its impact in material terms is assessed as very high, i.e., over EUR 10 million, which includes both potential lost revenue and additional costs and material losses.

LVM in cooperation with Latvian State Forest Research Institute "SILAVA" conducts the study "Climate change impact on forestry and its risks". The study is intended to assess future forest management risks and develop recommendations for risk reduction. The main directions of the study are related to the examination of tree growth and the development of pests in accordance with the future climate, the accumulation of experience in the cultivation of natural and rare tree species in Latvia, the conditions of stand mixture for stable and persistent forest stands, the



examination of models for predicting the effects of storms. In 2021, EUR 129.3 thousand has been allocated for this study.

GRI 202-1

MAINTAINING A COMPETITIVE LEVEL OF REMUNERATION

According to the data of the Central Statistical Bureau, in 2021 the average monthly gross salary in the country for full-time work was EUR 1,277⁵. The average basic salary of LVM employees in 2021 was EUR 1,739, while the increase in basic salaries in 2021 was 2.1% (basic salaries were revised for 67% of employees), while in 2020 – 4.2% (basic salaries were revised for 73% of employees).

According to the LVM Salary Determination Guidelines, the salary in the company is fair – the competences required for the performance of job functions are evaluated equally, and there is no gender pay gap.

Internal equity is ensured by the job evaluation system, within which the relative importance of positions in the company is determined. The relative value of the position is determined by summing the ratings of all factors and obtaining the sum of the points. As a result of position evaluation, a position group is assigned to the position. A basic salary range is defined for each position group. External equity is achieved through regular participation in the overall pay survey.

GRI 203-1

INVESTMENTS IN INFRASTRUCTURE AND DEVELOPMENT

Forest roads are used in forest management, ensuring the transport of timber and other products offered by the company, as well as carrying out forest management, security and protection works. In 2021, the total investments in forest infrastructure – for the design, construction and construction supervision of forest roads, forest amelioration systems and bridges, as well as the creation of wooden shield roadways – reached EUR 33.8 million (not including the internal costs of LVM in the amount of EUR 0.3 million attributable to forest road investments), which is 17% less than in 2020.

	Unit of measurement	2020	2021
Investments in forest infrastructure	million EUR	40.8	33.8
Investments in the purchase of land to increase managed forest areas	million EUR	1.2	0.7
TOTAL	million EUR	42.0	34.4

In 2021, EUR 0.7 million has been invested in increasing the managed forest areas. The most land areas were purchased in the South Latgale and West Vidzeme regions. The company purchases land with the aim of not reducing wood-producing areas, as well as providing access to managed areas, which have not had access so far and the landowners have refused to sign easement contracts. 342 hectares of land were registered in the Land Register in 2021.

Forest infrastructure and its use ensure not only the development of the forestry sector in Latvia, but also indirectly contribute to the development of other sectors, such as transport, recreation and tourism. In 2021, 345 km of forest roads were commissioned, which is 2% less than in 2020. At the same time, forest amelioration systems were renovated in the area of 18.9 thousand ha, making up 88% of the 2020 volume. Restoration of amelioration systems is an investment-intensive long-term investment in increasing the value of the forest.

⁵ Source: [monthly average and median wages of workers \(EUR; changes compared to the previous period \(%\)\) | Official statistics portal](#), viewed on 11.03.2022.



Forest roads and amelioration systems are an important indicator of the competitiveness of forest management, which affects forest productivity, the availability of forests for recreation and fire protection. A higher density of forest roads reduces the distance of timber delivery to the warehouse, reducing soil compaction and air pollution resulting from economic activity, and greenhouse gas emissions, as well as reducing the cost price of forest products. Ensuring access to the forest areas managed by LVM is an important factor that allows the successful implementation of economic activity, ensuring a stable flow of wood to customers.

Whereas, by renovating and reconstructing amelioration systems in forest lands, soil fertility is improved, the balanced use and preservation of land, forest and water resources is promoted, as a result of which the growth of wood increases, and forest stands are able to remove more carbon dioxide.

For additional information on investments in forests and related infrastructure, see the section “Business directions – Forestry”.

The total funding for innovation and company development in 2021 was EUR 6.3 million, which is 15% more than in 2020, including EUR 2.4 million invested in IT infrastructure (EUR 2.0 million in 2020).

	Unit of measurement	2020	2021
Funding	million EUR	5.5	6.3
Incl. for forest tree breeding studies for the selection of genetically high-value forest reproductive material	million EUR	0.2	0.3

In 2021, LVM worked on various research and technology transfer projects.

- **Reducing the risks of damage caused by root rot and studying its effects** . Purpose – (1) to supplement the existing knowledge about the occurrence of root rot-causing fungi in spruce and pine forests; (2) to develop a biological preparation – an alternative to the Finnish Rotstop preparation used in Latvian forestry practice up to now; (3) to assess the susceptibility of high-yielding introduced tree species suitable for local conditions to infections by pathogenic fungi; (4) to provide in-depth knowledge about the resistance mechanisms of tree plants, the application of biological and chemical protection agents; develop recommendations for reducing losses caused by root fungus. The study is carried out in cooperation with the Latvian State Forest Research Institute “SILAVA”.
- **Impact of forestry on forest and related ecosystem services**. The goal is to assess the short-term and long-term effects of forestry on the quality of forest and related ecosystem services at the landscape scale. The study is carried out in cooperation with the Latvian State Forest Research Institute “SILAVA”.
- **New work methods and technologies for the restoration, planting, care and protection of forest stands**. The goal is to search for and approve new work methods and technologies for increasing the efficiency of reforestation , maintenance and protection of young stands. The study is carried out in cooperation with the Latvian State Forest Research Institute “SILAVA”.
- **Evaluation of the interaction between the growth of individual trees and their groups**. The goal is to determine and evaluate tree growth course in different management regimes and their interactions. The study is carried out in cooperation with the Latvian State Forest Research Institute “SILAVA”.
- **Wood Growth Conditions Improvement Research Programme 2016-2021**. The goal is to ensure the maximum economic effect by restoring the practice of forest soil improvement measures in Latvian forestry, to assess the economic effect and impact of forest soil improvement measures on the environment, as well as to develop conditions for mitigating the possible negative impact on the environment if forest soil



improvement measures are carried out. The study is carried out in cooperation with the Latvian State Forest Research Institute "SILAVA".

- **Forest tree breeding studies for the selection of genetically high-value forest reproductive material.** As part of the project, breeding works are carried out in accordance with the "Economically important tree species (common pine, common fir, Silver birch) and aspen breeding work programme for JSC "Latvia's State Forests" for 30 years", which was started in 2008. The purpose of the breeding programme is to ensure systematic, planned breeding work, coordinating individual topics to achieve a common goal and thus ensuring that the invested resources provide the maximum return in the development of the seed farming industry and increasing the value of forest capital; to guarantee the continuity of work and to ensure compliance with all aspects of sustainable development: maximum return (breeding effect) from investments made, while preserving genetic diversity and flexibility (the ability to adapt to climate changes, changing breeding goals and methods), as well as increasing the recreational value of economic forests. The study is carried out in cooperation with the Latvian State Forest Research Institute "SILAVA".
- **Improvement of birch growing practices.** The goal – to increase knowledge about the possibilities of birch cultivation in difficult growing conditions, to conduct research on the improvement of outdoor birch planting technologies, including increasing the economic efficiency of its cultivation, to monitor the growth and vitality of birch planting material of various origins, as well as to carry out research on birch genetics, selecting the most vital clones for further birch breeding work. The study is carried out in cooperation with the Latvian State Forest Research Institute "SILAVA".
- **Studies on the regeneration intensity of the environment affected by swamp fires and of the swamp.** The goal is to ensure cooperation between the structures involved in swamp management for the rational, sustainable and responsible use of swamp and peat resources, as well as to study the changes in properties in the peat layers affected by burning as a determining factor for assessing the self-renewal capacity of the swamp and for choosing the most suitable and scientifically based management measures. The study was conducted in cooperation with the University of Latvia. Project partners – Nature Conservation Agency, JSC "Latvia's State Forests", Latvian Peat Association.
- **Impact of climate change on forest growing and its risks.** The goal is to describe the biotic and abiotic risks associated with climate change for economically important tree species and alternative tree species to be grown in the future climate. The study is carried out in cooperation with the Latvian State Forest Research Institute "SILAVA".
- **Carbon cycle in the forest ecosystem .** The goal is to reduce the uncertainty of carbon stock change and greenhouse gas emission calculations using periodically obtained forest inventory data. The study is carried out in cooperation with the Latvian State Forest Research Institute "SILAVA".
- **Future phytopathological risks.** The goal is to identify the spread of invasive organisms and their impact on the vitality of trees in Latvia, as well as to generally identify the occurrence of pathogenic fungi in stands (especially in young stands) and to evaluate their impact in relation to future climate changes.
- **Determining the impact of forest amelioration works on the hydrological regime of adjacent territories.** The goal is to strengthen the competence of LVM employees and the support of information systems for determining the impact of forest amelioration works on the hydrology of adjacent territories.
- **The use of wooden piles in the construction of forest roads for crossing peat inclusions.** The goal is to perform monitoring on a 500-metre long road section to determine how durable the developed wooden pile solution is for overcoming the relatively deep peat layer (3.10-4.80 metres), as well as to record the potential compaction dynamics of the peat section of the constructed forest road.
- **The importance of forest birds in the study of environmental factors.** The goal is to develop a methodology for characterising the qualitative and quantitative composition of forest bird communities, for the processing and analysis of long-term monitoring data of forest bird populations, and for the development of spatial distribution models of bird species populations.
- **Dynamics of epiphyte metapopulations in a boreonemoral forest landscape.**



- **Assessment of the state of population of matchstick flapwort *Odontoschisma denudatum* (Nees) Dum. in Northern Kurzeme and on the lands in the possession of LVM.** The goal is to obtain scientifically based information for decision-making on the planning of appropriate nature protection measures and the extent of protection. Comprehensive and structured data have not been available in Latvia, not only for this particular species, but also for other specially protected species of vascular plants, mosses, lichens and other groups of organisms, for which micro-reserves can be created in accordance with the current regulatory enactments.
- **Scientific assessment of the selected territory and development of a management plan for the forest stand of genetic resources (FSGR) unit “Kaives egle”.** The goal is to evaluate the feasibility of the establishment of a spruce FSGR unit, in accordance with the principles and guidelines for the conservation and management of forest tree genetic resources developed by EUFORGEN (*European Forest Genetic Resources Programme*).
- **Production of a new assortment with improved physical properties and chemical composition of wood.** The goal is to prepare a “new assortment”, obtained in an environmentally friendly way, with high density and dryness indicators, moisture-resistant, rot and fungus-resistant wood, the longevity of which is greater compared to the wood prepared in classical logging, judging by the production cost indicators.
- **In-depth research into the possibility of producing wood textile fibre – lyocell.** The goal is to prepare information based on well-founded facts, arguments and calculations, so that LVM can make a reasoned and justified decision on the further development of the project for the construction of a wood fibre mass production plant: the establishment of a wood fibre mass production plant or the termination of the project.
- **Implementation of Latvian river basin management plans to achieve good surface water status for 2020-2027.** The goal is to improve the water quality of approximately 30% of water bodies at risk in the long term by developing, adapting to Latvian conditions and implementing various innovative management and management measures. As part of the LVM project, a pilot territory will be created in the Aģe river basin, implementing and demonstrating the possibilities of improving water quality in the forest environment. An irregularly shaped sedimentation basin, as well as a maximum water flow control dam will be installed, and the functionality of the green infrastructure will be improved by diversifying the homogeneous spruce stands on the banks of the River Tora in a total length of 2 km. The project was jointly initiated by 19 organisations with the financial support of the European Union Programme for the Environment and Climate Action (LIFE) and the State Regional Development Agency; the leading partner of the project is the Latvian Environment, Geology and Meteorology Centre.
- **Implementation of management measures in specially protected natural areas and micro-reserves to improve the state of biotopes and species protection in 2021-2023.** The goal is to promote the achievement of a favourable protection status of biotopes and habitats of species of European Union significance in 30 specially protected natural areas. As part of the project, LVM works in 5 regions in 14 specially protected natural areas with an area of almost 800 ha. In 2020, a cooperation agreement was signed with the Nature Conservation Agency to attract funding from the Cohesion Fund, and the implementation of the project began.
- **Optimisation of management and management of Natura 2000 protected areas in 2021-2028.** The goal is to improve the administrative, strategic and ecological management of the nature protection system in Latvia. Within the framework of the project, LVM will create pilot areas in forest biotopes of European Union significance in specially protected natural areas that depend on natural disturbances, where methods of improving forest structures and functions will be tested. A nature protection plan will be developed for the mentioned biotopes of European Union significance. Within the framework of the project, it is planned to develop a methodology for the use of remote sensing in the monitoring of forest biotopes and to test it in the created pilot areas. In addition, it is planned to participate in measures to limit invasive plant species and their assessment in coastal areas. The project was started in cooperation with the Nature Conservation Agency, eight public and non-public sector organisations, as well as four higher education institutions.



INDIRECT ECONOMIC VALUE OF THE COMPANY

In 2021, LVM's contribution to other sectors after the purchase of services necessary for economic activity (including timber cargo transport services, preparation and delivery of timber to the forest, forestry services, forest infrastructure maintenance, communication services, legal services, etc.) amounted to EUR 207.4 million, which is 7.7% less than in 2020.

	Unit of measurement	2020	2021
Value of purchased services	million EUR	224.8	207.4
Incl. Investments in forest infrastructure*	million EUR	40.8	33.8

*external costs

Social infrastructure in a broader sense is a part of the territorial structure of the national economy, which consists of educational, scientific, health and social care, public administration, public service, cultural and recreational facilities.

Social infrastructure facilities are not directly related to the economic activity of LVM; however, investments in the maintenance and development of social infrastructure benefit the entire society, providing opportunities for rest and recreation, contribute to museum services and the preservation of cultural and historical values.

	Unit of measurement	2020	2021
Investments in social infrastructure	million EUR	2.2	2.7

During the reporting year, investments were made in the following facilities or works:

- Jaunmoku Castle Museum and nature park,
- Vijciems Cone Kiln,
- LVM Kalsnava Arboretum,
- LVM nature park in Tērvete,
- free tourist spots throughout Latvia,
- waste collection in the forest.

In 2021, EUR 0.8 million was invested in the management of the Jaunmoku Castle Museum and nature park. The building of the Jaunmoku Castle manor with a park is included on the list of architectural monuments of national importance. The museum's collection is a historically formed scientifically based set of objects that reflect the traditions of forest management in Latvia, as well as the destinies of the Jaunmoku manor complex, related environmental, cultural-historical developments and people. Taking the various interests of society into account, the management of the complex is planned in such a way so as to ensure the highest possible cultural and historical value of Jaunmoku Castle and the free availability of these values to the public at present and in the future.

In 2021, EUR 0.3 million was invested in the renovation, improvement and development of the infrastructure of the LVM nature park in Tērvete. In LVM's nature park in Tērvete for socially vulnerable persons – children, students, families with children, etc. – discounts are applied on the full ticket price (compensation for lost income from tickets in 2021 totalled EUR 0.3 million). EUR 0.4 million has been allocated for the maintenance of the Tērvete information centre in 2021, excluding depreciation costs. The largest part, or 59%, of these costs is staff costs.

In the reporting year, EUR 0.4 million was allocated to the maintenance of the Vijciems Cone Kiln and LVM Kalsnava Arboretum, excluding depreciation costs. The Vijciems Cone Kiln is included on the list of protected cultural monuments of the State and is a unique cultural and historical object, which, along with the work process, also functions as a museum and is offered to tourists as a sight, where one can learn and see in nature how seed extraction took place in



the past. Last year, 0.4 thousand visitors visited the Vijciems Cone Kiln, while a total of 15.9 thousand visitors visited the LVM Kalsnava Arboretum.

In the reporting year, LVM invested EUR 0.2 million in the development of Kalsnava Arboretum. In 2021, the nature protection plan for 2021-2032 of the specially protected natural area – the natural monument “Kalsnava Arboretum” was approved.

LVM creates, improves and maintains recreation areas, trails and parks, improving opportunities to relax in managed state forests. Landscaping may include works such as clearing the area, levelling the land and shaping the terrain, laying lawn, laying paths/pavements, installing tables and benches, canopies, installing water bridges, strengthening the shore of a lake or river, placing waste containers, creating a fire place, etc. In total, EUR 0.2 million has been invested in free tourist sites in 2021, while for their maintenance (for example, repairs of benches, tables and information boards, rubbish collection, lawn mowing) and a total of EUR 0.4 million was used for the collection of illegally discarded waste in the forest.

GRI 204-1

PROPORTION OF SPENDING ON LOCAL SUPPLIERS

The proportion of net turnover of LVM's forestry business line is 96.2% (in 2021) of LVM's total turnover. The company purchases services from companies operating on the free market for the purposes of felling area development and the supply of wood products, taking into account the requirements of the Public Procurement Law. Pursuant to Section 1, Paragraph 23 of the Public Procurement Law, the procurements announced by LVM are published in the Electronic Tendering System and are available on the company's website. Forestry work – logging and transportation of wood products – services are provided to LVM only by local suppliers, namely, economic operators and cooperation partners established in Latvia.

Logging services are sourced according to forestry goals: improving the conditions for tree growth, the timely processing of damaged trees, as well as wood harvesting. The implementation of these goals at LVM is based on the principles of sustainability: LVM's goal is to build cooperation with service providers so that LVM receives service in the required volume and quality, while service providers have the opportunity to develop their business by investing in employees, equipment and work organisation, as well as to create stable jobs in the long term. LVM aims to establish five-year contractual relations with logging service providers, leaving a smaller amount for shorter-term contracts. In 2021, LVM cooperated with 120 logging service providers and 38 timber transportation service providers in Latvia.

In 2021, round timber was sold and delivered to 279 customers. Most of LVM's customers are manufacturing companies registered in Latvia. In insignificant quantities, LVM supplies are also provided to households, municipal authorities and other organisations that use timber, mainly firewood, for self-consumption.

GRI 102-11 GRI 102-17 GRI 102-30 GRI 205-1 GRI 205-2 GRI 205-3

CORRUPTION RISK ASSESSMENT AND INTERNAL CONTROL SYSTEM

In February 2020, LVM established a Risk Management Committee of the Supervisory Board with the aim of ensuring the high-quality consideration of LVM risk management issues within the competence of the Supervisory Board. At the end of 2020, the Risk Management Policy was approved and published on the LVM website. In December 2021, the Risk Management Committee was transformed into an Internal Control and Audit Committee.

LVM has developed a Risk Management Methodology, Risk Management Procedure and Fraud Risk Identification Guidelines. The Risk Management Methodology describes LVM's risk management approach as a whole, i.e., risk identification, assessment, implementation and monitoring of risk mitigation measures. It determines the basic



principles of risk, including fraud risk, identification and assessment, parties involved in risk management, as well as risk mitigation measures.

At LVM, risks are identified and managed at different 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).

Once a year, the risks of all structural units are summarised, analysing common risk topics, general trends, the status of risk mitigation measures and their impact on risks, as well as a comparison with strategic risks. The summary is presented to the LVM management team. In addition, in accordance with LVM's Information Security Policy, information security risks are evaluated using the approach described in this methodology. The Risk Management Methodology is also applied to fraud risk management, and there is a separate Fraud Risk Identification Methodology. Likewise, the Risk Management Methodology is used to assess tax risks.

Internal corruption and fraud risks are assessed in all LVM structural units and the company as a whole. In general, LVM's fraud risks are assessed as low and mostly acceptable, with some additional risk mitigation measures to be implemented. The identified fraud risks cover the following topics:

- conflict of interest and combination of positions;
- inappropriate acceptance of work by service providers;
- use of material or information resources for one's own benefit, appropriation;
- insufficient division of responsibility for processes, single-person decision-making;
- information leakage;
- insufficient market analysis for partner selection for sub-threshold procurement.

Fraud Risk Identification Guidelines describe fraud risk, including corruption risk, management system, risk examples, potential risk conditions, signs, identification and assessment steps.

Measures implemented in the company to reduce the risk of fraud and corruption:

- once a year, fraud risk, including corruption risk, assessment and planning of risk mitigating measures are carried out, as well as quarterly control of the implementation status of risk mitigating measures and residual risk assessment is carried out;
- under the Code of Ethics and the Rules of Procedure, employees are obliged and given the opportunity to report possible violations, including possible corrupt activities in the company, using various reporting methods, including the anonymous reporting channel on the LVM Intranet;
- e-training for employees on the requirements of the Code of Ethics is regularly held, including issues on the signs, examples, identification and appropriate actions of potential risks of fraud and corruption. There is a requirement for employees to coordinate other workplaces, which is also included in the employment contract, about which new employees are informed and current employees are regularly reminded;
- process checks in nature are implemented which are carried out by the Security and Control Department, evaluating both LVM employees and external service providers;
- there is a random follow-up inspection of the work performed and accepted by the service providers;
- clearly defined material circulation procedures, involving various processes and positions;
- the decisions made in the processes are monitored by various structural units;
- the documentation of the decisions made and the activities performed is made, which is available for process monitoring, etc.

During the reporting period, e-training and a test on the requirements of the Code of Ethics were organised for 100% of all LVM employees in all structural units, and at the end of 2020, LVM employees acquired the continuing education



programme of the Corruption Prevention and Combatting Bureau. Information about employees is contained in the section “Number of employees and collective agreements” of the report.

According to the results of LVM's risk assessment and management, the risk of fraud and corruption is managed appropriately in the company.

All the most important service and supply contracts are concluded within the framework of previously organised public procurement procedures. Decisions on awarding procurement contracts are made collectively in procurement commissions in accordance with the procedures set out in the Public Procurement Law. Both within the framework of the approval of procurement commissions and in the operation of the procurement commission, the restrictions and regulations regarding decision-making set out in the Public Procurement Law and the Law “On Prevention of Conflict of Interest in Activities of Public Officials” are observed. Any member of the procurement commission declares their disinterestedness and objectivity in the decision-making process during a procurement.

The transparency and traceability of any decision made within the framework of public procurement is ensured by publishing the decision in the Electronic Tendering System, where it is available to any interested party.

A procedure has been introduced, within the framework of which the market research is documented in service and goods supply contracts, which are concluded without a public procurement procedure, and at the same time as the contract, the justification for the choice of the contractual partner is preserved. Therefore, also in sub-threshold requests, the traceability of the decisions is ensured, thus significantly reducing the risks of corruption and conflict of interest.

At the same time, decisions related to the right to purchase LVM products are made collectively, transparently and in a traceable way, thus reducing the possibility of corrupt activities in the relevant sales processes.

In 2021, LVM did not identify any internal cases related to fraud or corruption. In the work with cooperation partners who provide services to the company, no cases related to fraud or corruption were detected.

Other important elements of the internal control system in LVM are as follows:

- LVM's Internal Audit Department, which performs independent and objective assurance audits, the purpose of which is to increase LVM's value, improve the company's operations, as well as help achieve its goals by evaluating and improving the effectiveness of management, risk management and control processes;
- the Security and Control Department, which performs inspections and supervision at the places of economic activity;
- the operation of LVM is regulated by a range of policies, procedures and other regulations established in the company, which, among other functions, also ensure the mitigation and prevention of LVM's risks;
- external audit of financial statements and accounting;
- inspections and supervision of external controlling, certification and other institutions on the most important processes of LVM's economic activity;
- monitoring the requirements of external regulatory enactments, including monitoring changes in external regulatory enactments and their impact on LVM's economic activity;
- the goals and tasks of LVM's economic activity are determined at the strategic, tactical and operational levels. Tasks and their execution are monitored at the level of structural units and the company's Management Board, and there is also a performance management system that evaluates the performance of employees' tasks;
- internal and external risk assessments and tests of information technology and information systems;
- personal data protection officer who monitors the fulfilment of personal data protection requirements, as well as internal and external analysis of compliance with the requirements of the General Data Protection Regulation at LVM is carried out;



- information published in the media that may affect LVM's reputation is constantly monitored.

The most important risk topics for LVM are as follows:

Reputational and communication risks	The reputation of the forest industry has a direct impact on the environment and results of LVM's economic activity. Reputational risk has several aspects: the reputation of the industry, the company's image and communication with the public groups that influence decisions affecting the company's operations.
Policies implemented by the owner (state) and the European Union	EU and national legislation governing the norms and assumptions which affect the development opportunities of the forestry sector and the methodological approaches used.
Climate change impact	Changes in climatic conditions caused by global climate change may have a negative impact on the condition of forest stands, the performance of forestry work and the supply of wood products.
Operational risks	Risks related to the sufficiency and capacity of internal resources (including personnel risks in the company and the industry as a whole), as well as the effective and appropriate implementation of internal processes.
Financial risks	LVM's results may be affected by financial risks, but the likelihood that these will have a material adverse effect on the company's operations or results is relatively small.

GRI 206-1

RISK OF ANTI-COMPETITIVE BEHAVIOUR AND ABUSE OF DOMINANT POSITION

During the reporting period, the number of completed or ongoing legal proceedings related to anti-competitive activities and violations of monopoly legislation, in which LVM is identified as a participant, is zero. Since the end of 2020, the Competition Council has been requesting information about LVM Business System Solutions' LVM GEO service provision, based on a complaint from private individuals about distortion of competition. The reply to the Competition Council's last information request was signed on 6 October 2021. No substantive reply has been received from the Competition Council to the assessment provided by LVM regarding the absence of a negative impact on the market and the additional information provided.



ENVIRONMENTAL ASPECTS

GRI-103

MANAGEMENT APPROACH

Energy consumption within the organisation (GRI 302-1; GRI 302-5)

In order to achieve energy efficiency goals and plans, the company maintains and regularly improves the energy management system. LVM constantly monitors the indicators of energy resource use to promote both economic and ecological activity in accordance with the instruction “Efficient management of energy resources”. When making new business decisions, as well as in order to implement purchases and projects that improve energy indicators, the company evaluates their impact on energy efficiency and energy performance, supporting the purchase of energy-efficient products and services.

Environmental protection (GRI 304-1; GRI 304-2; GRI 304-3; GRI 304-4)

LVM is aware of the role of nature protection in the sustainable development of the company; therefore, it plans its activities taking into account the basic principles of sustainable development and the environmental protection requirements set out in laws of the European Union, the Republic of Latvia and LVM’s internal legal acts. Issues related to environmental protection are equally important in the operation of LVM as economic and social issues. By successfully combining the efficiency of economic activity with the implementation of environmental goals, prerequisites for sustainable forest management are created. Preservation of natural diversity and reduction of the environmental impact of activities related to forest management is an integral part of forest management planning and the organisation of daily forest work. Whereas, regular monitoring of selected indicators of the state of the environment provides basic information that allows one to follow whether the set environmental goals are being achieved and, if necessary, justify the necessary changes in forest management practices in order to reduce the environmental impact. Monitoring results since 2011 have been compiled in the annual LVM Environmental Report, which is publicly available on the LVM website⁶.

Generated CO₂ emissions (GRI 305-1)

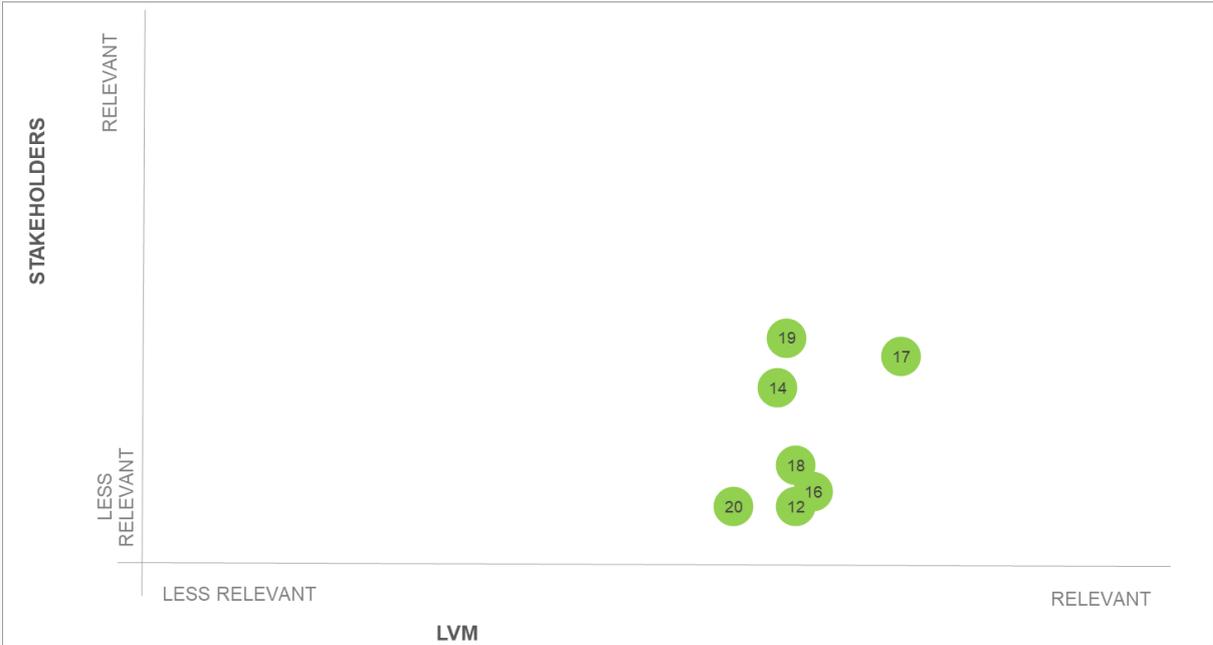
The methodological approach described in the Corporate Standard of the Greenhouse Gas Protocol⁷ is used to determine CO₂ emissions generated by LVM, adapting it to the specifics of the company. The annual calculation evaluates the CO₂ emissions generated during the company’s economic activity, as well as sets goals and certain activities for the further reduction of CO₂ emissions per unit produced.

⁶ Data source: <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/vides-parskats>.

⁷ Data source: *The Greenhouse Gas Protocol. A Corporate Accounting and Reporting Standard. World Resources Institute and World Business Council for Sustainable Development. March 2004.*



PERFORMANCE INDICATORS



ENVIRONMENTAL ASPECTS	
12	Energy consumption within the organisation (GRI 302-1)
14	Reducing the energy required for production (GRI 302-4, 302-5)
16	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas (GRI 304-1)
17	Significant impacts of activities, products, and services on biodiversity (GRI 304-2)
18	Protected and managed habitats, their extent (GRI 304-3)
19	IUCN Red List species and national conservation list species with habitats in areas affected by operations (GRI 304-4)
20	Generated direct greenhouse gas emissions (GRI 305-1)

GRI 302 -1 GRI 302-5

ENERGY CONSUMPTION WITHIN THE ORGANISATION AND REDUCTIONS IN ENERGY REQUIREMENTS OF PRODUCTS AND SERVICES

The company has implemented an energy management system that complies with the ISO 50001 standard. On 10 April 2017, LVM received a certificate and re-certified in 2020.

The main goals of LVM energy management are:

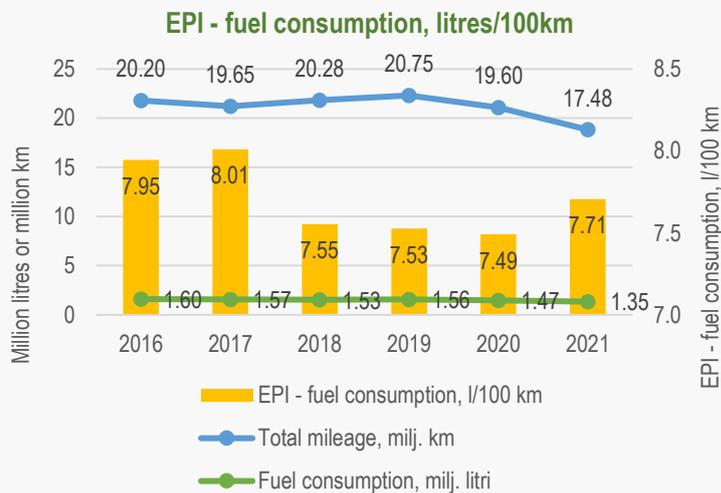
- to reduce fuel consumption per kilometre driven (l/100km) by 0.5% per year;
- to improve energy performance for electricity consumption – reduce electricity consumption in customer centres and other important buildings per 1 m² by 0.2 kWh/m² per year;
- to maintain a comfortable microclimate in the premises, using thermal energy economically, making constant measurements and avoiding energy wastage.

The application and creation of energy performance indicators (EPIs) is reviewed when new measuring devices or energy meters are installed. When installing new meters, they are adapted to the applicable variable characteristic that affects energy consumption. The EPIs are determined for the most important type of energy and for the essential processes and systems.



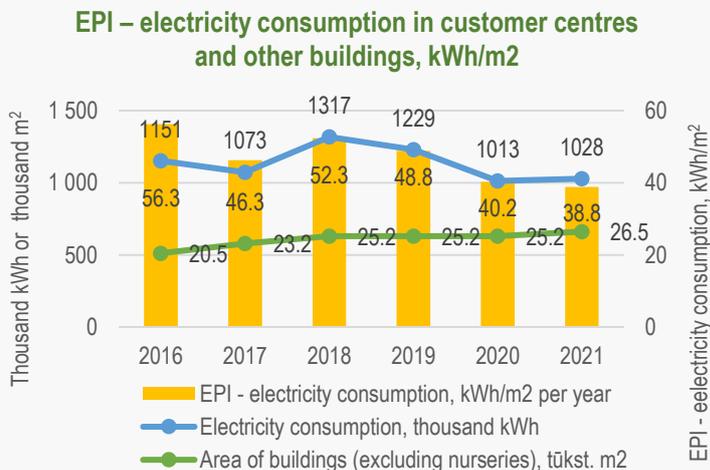
The company has chosen and determined the following EPIs, which are suitable for the monitoring and data collection capabilities of the company at the moment:

- fuel consumption in litres per 100 km;
- consumed thermal energy in kilowatt-hours (kWh) per square metre (m²);
- consumed electricity in kilowatt-hours (kWh) per square metre (m²);
- consumed electricity in kilowatt hours (kWh) per thousand seedlings sold.



The energy target for 2021 of reducing fuel consumption per kilometre driven (l/100km) by 0.5% per year has not been achieved. The target volume is 7.44 l/100 km, while the actual consumption is 7.71 l/100 km. The target was not achieved mainly as a result of the influence of climatic conditions – the lower the air temperature, the higher the fuel consumption. In January, February and December 2021, the average air temperature was lower than that observed in the corresponding months in 2020. According to the data of the Latvian Environment, Geology and Meteorology Centre, as well as using the information

available on the official statistical portal of the Central Statistical Bureau, it can be concluded that the average temperature in 2021 was lower than the indicator of 2020 – the actual average air temperature in Riga in 2020 was 9.8 °C; in 2021 – 8.1 °C.



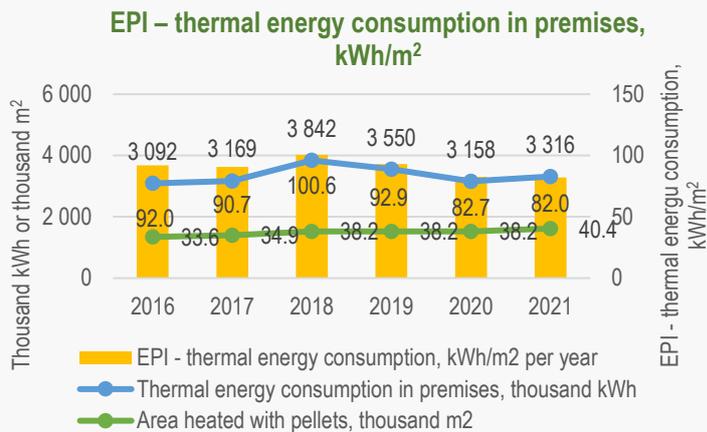
The energy target for 2021 of improving energy performance for electricity consumption – reduce electricity consumption in customer centres and other important buildings by 0.2 kWh/m² per 1 m² per year has been achieved – there has been a reduction by 12.9 kWh/m² as compared to the target consumption of 51.7 kWh/m². The decrease can be explained by the fact that the global COVID-19 pandemic introduced adjustments to the organisation of work and one of the essential methods of reducing the spread of infection was the restriction of

gatherings indoors, so LVM provided and continues to provide remote work opportunities for positions for which this is possible. In 2021, a reduction in electricity consumption has been recorded in customer centres. The work regime of energy-intensive devices (heat pumps, duct and surface heaters, ventilation equipment, common office devices, lighting) is constantly monitored and corrective actions are taken according to the work load and climatic conditions at the customer centre.

In the calculations for 2016-2020, the requirements of Cabinet of Ministers Regulation No. 348 “Methodology for calculating the energy performance of buildings” regarding the inclusion of the influence of degree days in the

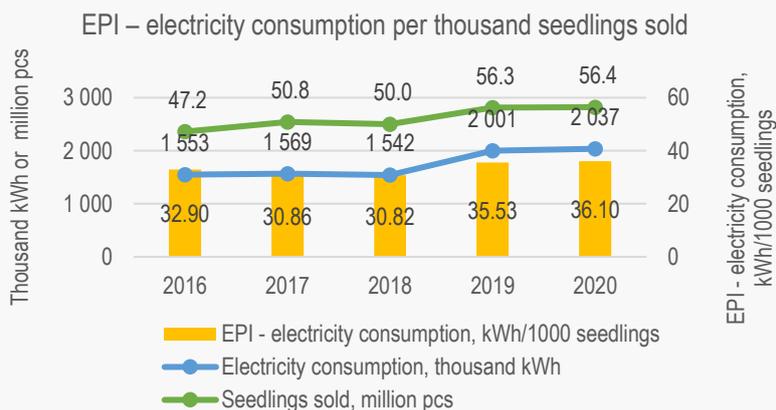


calculations were observed, but during the 2021 audit, according to the instructions of the auditors of *BM TRADA Latvija*, this method is not applicable to electricity consumption and is no longer applied in the 2021 calculations.



The energy target for 2021 of maintaining a comfortable microclimate in the premises, using thermal energy economically, making constant measurements and avoiding energy wastage has been achieved. The EPI of 2021 – thermal energy consumption in premises, which is 82.0 kWh/m², – is 18.0 kWh/m² lower than the corresponding target indicator of 100.0 kWh/m². The actual (adjusted according to the appropriate methodology) indicator marks stable consumption when evaluated and compared to the 2020 result of 82.7 kWh/m². The

successful achievement of the target can be explained by the setting of an optimal microclimate in the buildings, mostly in customer centres, where due to remote work there was less in-person attendance, as well as these buildings were closed to external customers. In the calculations, the requirements of Cabinet of Ministers Regulation No. 348 “Methodology for calculating the energy performance of buildings” regarding the inclusion of the influence of degree days in the calculations were observed.



The EPI for 2021 “Consumed electricity in kilowatt hours (kWh) per thousand seedlings sold” has increased from 36.10 kWh/1,000 seedlings in 2020 to 38.57 kWh/1,000 seedlings in 2021, exceeding the target indicator by 2.75 kWh/1,000 seedlings. The main reason for such an increase in the indicator is the use of strategic nurseries’ freezers until the month of July, because in the Forestry process, the volume of mechanised planting increases every year, for which the storage and gradual

tempering of seedlings must be carried out over a longer period of time and even after the end of the active artificial reforestation season.

LVM has prepared a detailed energy management action plan, or programme, which provides for measures to improve the company’s overall energy performance. Resources are available for the planned measures, a work plan has been drawn up and work performance determination methods have been developed, summarising such in the energy management activity plan. The main priorities are:

- to improve and develop the established energy management system;
- to perform monitoring audits of the energy management system in facilities;
- to make calculations to justify the use of solar collectors in large tree nurseries and install test equipment in one of them to reduce heat energy consumption by preparing hot water in the spring/summer/autumn seasons;
- to continue to collect and publish information on the internal intranet about the most economical drivers;
- to prepare training material on the basic principles of economic driving and train employees using an e-learning tool;



- to conduct employee briefings/training on the measures to be taken;
- to perform daily microclimate monitoring in office premises;
- to improve the system for monitoring energy consumption, setting and fulfilling the targets.

Additionally, the following activities are planned:

- to apply EPIs to individual facilities and compare them with each other (customer centres);
- to carry out permanent internal training of employees on the economical use of energy resources, incl. the energy management system, its importance;
- to take measures for saving/efficient use of energy resources;
- to develop a system for employees to submit their proposals on the possibilities for saving energy resources or to discover places where energy resources are excessively used.

Consumption of energy obtained from renewable energy resources at LVM 2017-2021, TJ

	2017	2018	2019	2020	2021
Wood pellets	10.3	12.0	11.1	8.2	11.7
Fuel chips	0.2	-	-	-	-
Total:	10.5	12.0	11.1	8.2	11.7

Renewable energy resources are used by LVM for heat supply; therefore, the consumption of energy obtained from renewable energy resources directly depends on the annual average air temperature – the average air temperature in 2021 was the lowest in the last four years.

GRI 304-1

PROTECTED NATURAL AREAS AND PLACES ESSENTIAL FOR NATURAL DIVERSITY OUTSIDE PROTECTED NATURAL AREAS, THEIR EXTENT, PROPORTION

LVM manages specially protected natural areas designated by the state, most of them also belong to the network of protected natural areas of European importance (*Natura 2000*). LVM manages the following categories of protected areas: nature reserves, nature parks, areas of protected landscapes, natural monuments, a biosphere reserve, as well as micro-reserves, which are created especially for the protection of protected species and biotopes, their buffer zones.

For the protection of the environment and natural resources, protective zones are defined around objects and territories that are significant from the point of view of the protection of the environment and natural resources. Their main task is to reduce or eliminate the impact of anthropogenic negative effects on objects for which protective zones have been determined. LVM manages forests in protective zones along waters (rivers, lakes, the Baltic Sea), swamps, around cities, around cultural monuments, etc.

The borders and management conditions of these areas are determined by the valid regulatory acts of the Republic of Latvia.

Information about the location of these areas is publicly available on the LVM website on the interactive map <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/meza-apsaimniekosanas-planu-interaktiva-karte>, as well as <https://www.lvmgeo.lv/cards>.

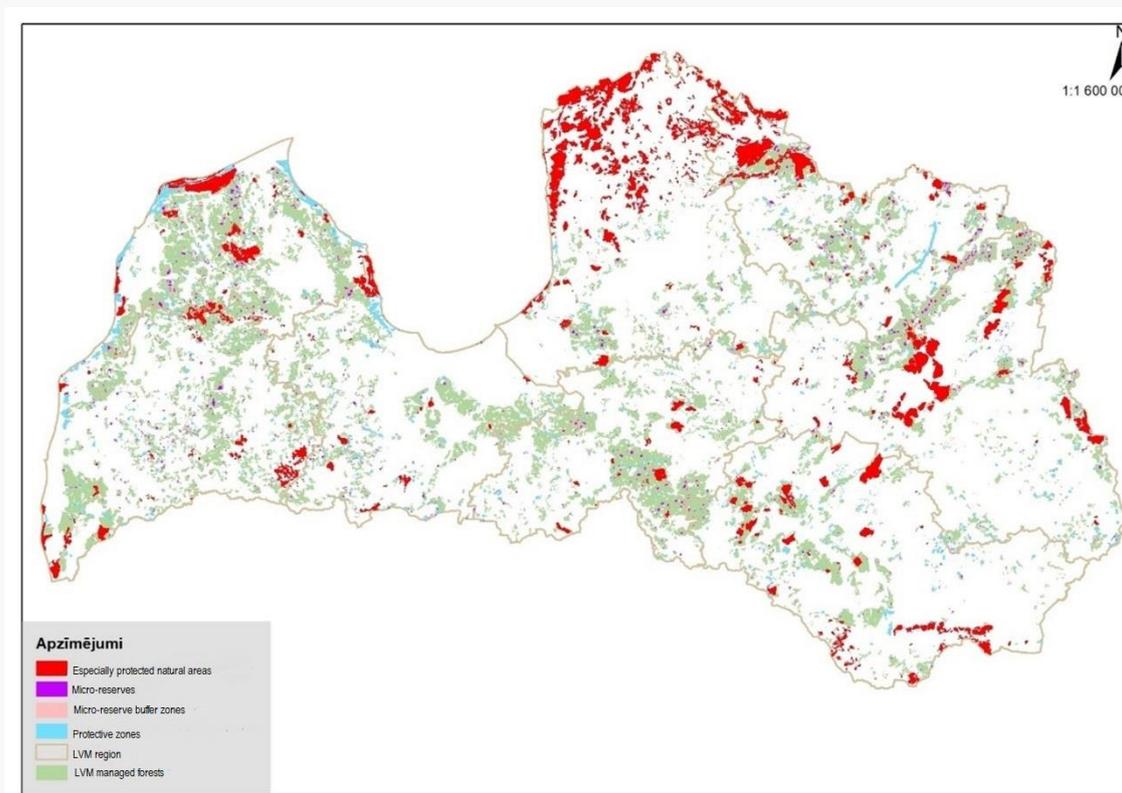


The area and proportion* of the lands owned by LVM of the environmental protection areas determined by the current regulatory enactments of the Republic of Latvia

Data source: LVM GEO

Type of protected area	Area, thousand ha		Proportion, %	
	all lands	incl. forest	of all lands	of the forest
Especially protected natural areas (incl. Natura 2000):				
Nature reserves	151	84	9.3	6.0
Nature parks	35	30	2.1	2.1
Protected landscape areas	33	31	2.0	2.0
Biosphere reserves	124	104	7.6	7.4
Natural monuments	1	1	0.1	0.1
Protective zones (for the protection of the environment and natural resources):				
Protective zone around swamps	22	22	1.4	1.6
Protective zone of surface water objects	26	22	1.6	1.6
Protective coastal zone of the Baltic Sea and the Gulf of Riga:				
protective coastal dune zone	6	5	0.4	0.3
belt of restricted economic activity	48	43	2.9	3.1
Forest protective zone around cities	7	7	0.4	0.5
Protective zone of cultural monuments	18	17	1.1	1.2
Micro-reserves:				
Protected animal (bird, mammal, amphibian, invertebrate)	37	35	2.2	2.4
Protected plant (vascular or pteridophytes, moss, lichen, mushroom)	1	1	0.1	0.1
Protected biotope	3	3	0.2	0.2
Bird species micro-reserve buffer zones	49	47	3.0	3.4
Specially protected forest compartments	11	10	0.7	0.7

*Protected areas may overlap



Location of the natural/environmental protection areas determined by the current regulatory enactments of the Republic of Latvia on the lands in the possession of LVM

Data source: LVM GEO, DDPS OZOLS



In order to preserve the natural values outside the existing protected natural areas and to reduce the negative impact of forest management works on the environment, LVM annually conducts the identification of habitats of specially protected species, biotopes of European Union significance and places of nesting of protected birds, incl. identification of wood-grouse mating-places, in forest areas before planning forestry activities, and, in accordance with the internal regulatory acts of LVM, plans nature protection measures that meet the requirements of the species.

Area of natural values and their share** in the lands in possession of LVM

Data source: LVM GEO

Name	Area, thousand ha		Proportion, %		Number, thousand pcs.
	all lands	incl. forest	of all lands	of the forest	
Specially protected biotopes of EU significance, incl. in Latvia	113	102	6.9	7.3	-
Deposits of especially protected plants, invertebrates and other species					34.6
Nesting places of specially protected birds	5.6	5.5	0.3	0.3	-
Wood-grouse mating:					
Mating places	10.8	9.9	0.7	0.7	0.4
Mating areas	95.6	86.2	5.9	6.2	0.3

** Territories may overlap with each other and with nature/environmental protection areas defined in the laws and regulations of the Republic of Latvia

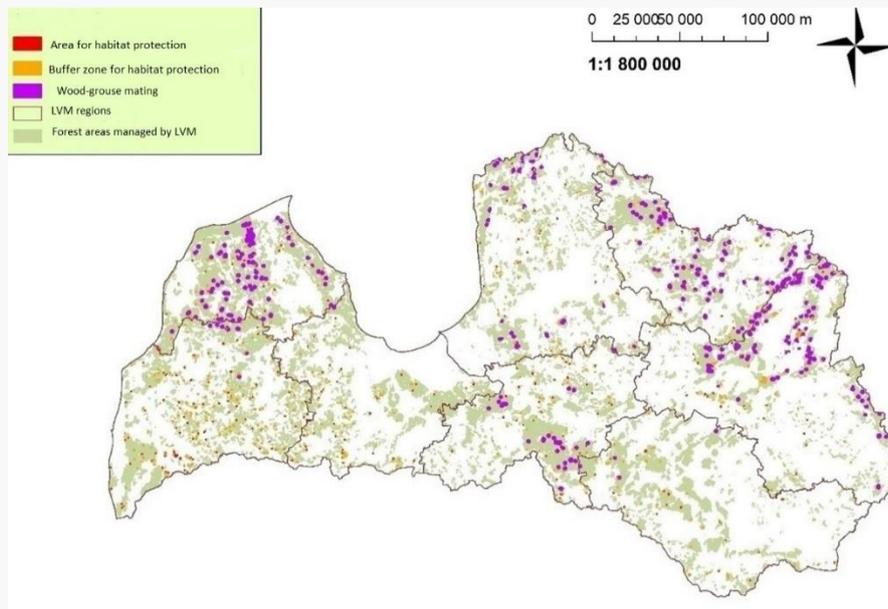
In 2021, the LVM database was supplemented with 4,700 new, rare and specially protected plant, mushroom, lichen, invertebrate species deposits, and the company's environmental experts have already counted more than 34,600 thousand rare and protected species deposits.

In 2021, the LVM database was supplemented with more than 587 new nesting sites, including 277 previously unknown, of specially protected bird species. In total, more than 6,250 large nests are registered in the LVM database, of which 2,487 are nesting places of protected bird species, including information about the bases of artificial nests built by experts – ornithologists, which are often used for nesting, for example, not only by a protected species such as the osprey, but also the black stork. In order to protect the nesting sites of protected bird species, LVM encourages the creation of new micro-reserves in accordance with the regulations, as well as creates areas determined by LVM for the protection of habitats, and buffer zones around them, in which time limits for forestry work during the nesting period are ensured.

Nature protection areas (both established on the basis of the valid regulatory enactments of the Republic of Latvia and determined in accordance with the internal regulatory enactments of the LVM) may overlap and have different protection goals and restrictions on economic activity, as the limitations set in the regulatory enactments are not always sufficient to ensure protection of the protected species and biotopes found there.

One quarter of the total LVM nature protection areas are made up of the territories that are defined by LVM. In order to ensure compliance with the mentioned management conditions, taking into account all the information at LVM's disposal and the company's strategy, each area of the managed land is assigned an appropriate management goal – nature protection or production of wood and other products. Information about the division of LVM's forests by management goals is publicly available on the LVM website on the interactive map <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/meza-apsaimniekosanas-planu/interaktiva-karte>.





Location of nature protection areas determined by LVM in LVM lands

Data source: LVM GEO

GRI 304-2

IMPACTS OF ACTIVITIES, PRODUCTS AND SERVICES ON BIODIVERSITY

In order to reduce the impact of the company's activities on biodiversity, types of activities are identified that can have a significant impact. These are activities related to the construction of forest roads, restoration of existing amelioration systems, mining, tree felling. When planning the listed activities, in accordance with the current regulatory enactments and the company's internal regulations, the natural values found in the territory of the planned activity are identified (particularly protected species of vascular plants, mosses, lichens, mushrooms, invertebrates, birds (GRI 304-4), biotopes of European Union significance (GRI 304-3) etc.), their appropriate protection is planned and the possible impact of the planned activities on them is assessed, and measures are planned for reducing the possible negative impact at each forest work site; forest management activities are excluded or re-planned in places where they may have a significant impact.

A significant part, or 18.71% (0.26 million ha) of the total area of LVM forests and more than 23.1% (0.38 million ha) of the total area of all lands (forests, swamps, agricultural lands, waters) in LVM in 2021 was managed with the aim of protecting nature. This means that forestry or other types of economic activity are not planned in these areas or are planned to an insignificant extent, which ensures appropriate conditions for such species and biotopes that can only exist in areas little affected by human activity. In only 0.18 million hectares prohibitions of forestry operations and main felling operations, incl. clear-felling, are determined by the valid regulatory acts of the Republic of Latvia, while the other nature conservation areas are protected based on the internal legal acts of LVM.

Economic activity with the aim of producing high-quality wood and other products is planned in 1.06 million hectares of forest, or 76.5% of the total area of LVM forests. These areas are managed in accordance with the general requirements of nature and environmental protection set out in the regulatory acts of the Republic of Latvia and the legal acts of the LVM, incl. the conditions of the binding forest management certification standards, but 0.21 million hectares of them are managed with additional conditions for ensuring environmental protection, recreation or environment exploration. In 2021, 4.8% (0.07 million ha) of the total area of forests were areas where additional evaluation or information is required for making a decision on the purpose of forest management, incl. forest stands, where biotopes of EU significance have been identified, for which detailed information was not yet available.



The company has developed a range of internal environmental regulatory acts, which are binding on both LVM employees and service providers, and are publicly available at:

<https://www.lvm.lv/biznesa-partneriem/iepirkumi/liguma-pielikumi/contractadd/19?start=20>.

Identification of natural values and planning of measures to reduce environmental impact is an integral part of forest management and takes place in accordance with the procedures developed by the company. For example, LVM employees, while checking the areas intended for economic activity, annually find hitherto unidentified large nests (usually larger than ½ m in diameter), which are made by black storks, eagles of all species, Common buzzard, honey-buzzard, Northern goshawk, kites, ravens. More than 300 LVM employees involved in various production processes have been involved and trained in the process, who add nest information to the LVM GEO database and report to LVM's bird experts. The experts survey the nests, determine the species and plan protection that meets the species' requirements, add information about economic activity restrictions to the LVM GEO database, if necessary, in addition to the designated area for habitat protection, and plan a buffer zone with forest work term limits during the bird nesting season. Until the expert's opinion is received, a 500 m protection zone and a ban on forestry activities are established for all newly found nests, according to the principle of maximum precaution. A similar system has been created for the identification of wood-grouse mating places and planning of protection. In wood-grouse mating places (covering 95.6 thousand hectares), forestry activities do not take place within a radius of 1,000 m around the centre of the mating place in spring and summer, regardless of the formal protection status of the territory.

Taking the limitations of the period of forest works set in the laws and regulations of the Republic of Latvia and the internal legal acts of LVM into account, more than 30% of the total area of forest lands managed by LVM is limited to cutting trees in the spring-summer period during bird nesting. Whereas, the areas where forestry activities take place in the spring-summer period are small compared to the total area of forests, and they make up less than 1% of LVM forests. During the year, various economic activities are carried out in areas that make up 4-5% of the forest lands possessed by LVM.

Environmental monitoring is carried out every year in the territory in the possession of LVM – monitoring of the protected birds, plant species and quality of biotopes of European Union significance. For example, in 2021, the success of nesting was assessed in more than 500 nesting areas of protected birds, in almost 100 wood-grouse mating places, etc. The company uses the results of the monitoring when planning measures to reduce the impact of economic activity on the environment, including the planning of nature protection areas, and determining time limits for forest works.

Every year, the company collects the information obtained as part of environmental monitoring, preparing a publicly available Environmental Report <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/vides-parskats>.

In order to acquire new knowledge and improve forest management planning with the aim of reducing the impact of forest operations on ecosystem services, including the provision of biological diversity, the company finances scientific research (GRI 203-1), such as: "Investigation of environmental factors important for the protection of wood-grouse", "Forestry impact on forest and related ecosystem services", etc. https://www.lvm.lv/petijumi-un-publikacijas#research_filter.



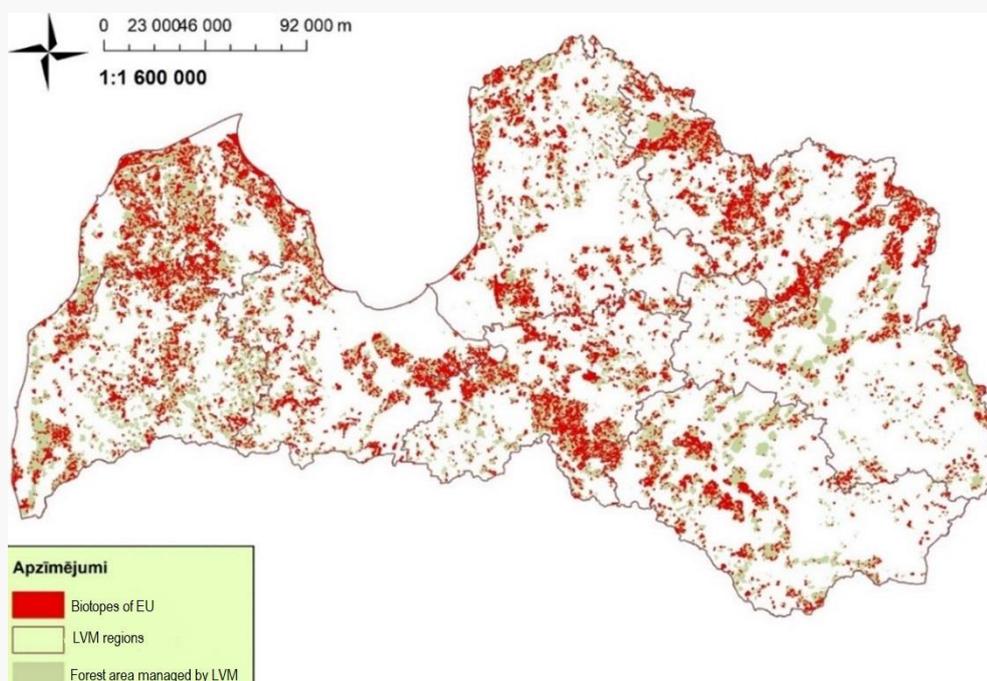
PROTECTED AND MANAGED BIOTOPES OF EUROPEAN UNION SIGNIFICANCE, THEIR EXTENT

Since 2011, mapping of Latvian specially protected biotopes and biotopes of European Union (EU) significance was resumed in the lands possessed by LVM, mainly outside the specially protected natural areas defined by the current laws of the Republic of Latvia. Biotopes of EU significance are mapped by certified nature experts, mainly in the field of forests and heaths, determining the type, variant and quality of the biotope of EU significance according to the methodology approved in the country. During the eleven active vegetation seasons in the territory of LVM, in addition to the previously registered (2001-2006) and protected natural forest biotopes (~50,000 ha), which are reassessed as part of the mapping of biotopes of EU significance, so far unknown biotope polygons of EU significance in the area of approximately 4,000-10,000 ha were mapped annually.

Currently, the LVM database contains information on biotopes of EU significance in an area of 113 thousand ha, which is more than 30 types of biotopes of EU significance (forest, swamps, grasslands, dunes, freshwater, etc.), of which 3.9 thousand hectares were identified or reassessed in 2021. The largest share is made up of types of forest biotopes, of which the most frequently found are old or natural boreal forests, swamp forests and bogs. Sea coast, freshwater, grassland and swamp biotopes are registered in a relatively smaller amount.

Between 2017 and 2021, using funding from the Cohesion Fund, the Nature Conservation Agency organised the mapping of biotopes of EU significance across the country as part of the "Nature Census" project, selecting the areas to be mapped according to uniform principles. According to the preliminary information of the project, so far different types of biotopes of EU significance in the area of approximately 350 thousand ha have been detected on LVM lands. The Ministry of Environmental Protection and Regional Development is preparing an Informative Report on the project results and a position regarding the implementation of the project results.

Additional information about biotopes of EU significance and other natural values on LVM lands is publicly available in the nature data management system "Ozols" of the Nature Conservation Agency – <https://ozols.gov.lv/pub>.



Location of the registered biotopes of EU significance on LVM lands

Data source: LVM GEO, DDPS OZOLS



The area of biotopes of EU significance registered in the LVM database

Data source: LVM GEO

Code of biotope of EU significance	Name of biotope of EU significance	EU biotopes, ha	
		2021	In total
2110-2140*	Various coastal primary and secondary dune biotopes		17
2,180	Wooded seaside dunes	259	4,683
2,190	Wet interdune depressions	4	8
3,130-3,160	Different biotopes of stagnant freshwater – lakes	6	262
3,260	River rapids and natural river sections	12	78
4,010, 4,030	Wet and dry heaths		9
5,130	Juniper groves in grasslands and heaths		4
6,120*-6,530*	Various grassland biotopes	27	258
7,110*	Active high swamps	420	7,949
7,120	Degraded high swamps where natural regeneration is possible or underway	78	2,756
7,140	Transitional swamps and bogs	9	328
7,160	Mineral-rich springs and spring fens	8	189
7,230	Calcareous grass swamps		11
9,010*	Old or natural boreal forests	1,321	35,744
9,020*	Old mixed broad-leaved forests	238	13,661
9,060	Coniferous forests on loop-shaped relief forms	22	580
9,080*	Bog forests	187	16,143
9,160	Oak forests	29	644
9,180*	Forests with slopes and ravines	14	720
91D0*	Swamp forests	732	21,291
91E0*	Alluvial coastal and flood-land forests	193	3,616
91F0	Mixed oak, ash, elm forests along large rivers		13
9,050	Spruce forests rich in herbs	200	1,914
91T0	Pine forests rich in lichen	154	2,149
TOTAL		3,913	113,027

* EU priority biotope (habitat) – a type of natural habitat that is under risk of extinction and for which the EU is particularly responsible for its preservation, taking into account the proportion of the natural distribution range of these habitats in the EU territory

The protection of biotopes of EU significance in accordance with the approach of EU Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora (Habitats Directive) is basically ensured through the terrestrial network of *Natura 2000* or protected natural areas of European Union significance in the relevant biogeographical regions⁸ and the EU as a whole. In accordance with this approach, the basic protection of biotopes of EU significance in Latvia is ensured by the specially protected natural areas included in the *Natura 2000* network. In the ideal case, the protection of biotopes of EU significance on a national scale is provided by significance of EU significance included in *Natura 2000* areas and specially protected species of EU significance. If necessary, each EU member state determines the principles and scopes for the protection of biotopes of EU significance outside the designated *Natura 2000* areas, which has not been done in Latvia so far. In reality, in Latvia, including in the territories in the possession of LVM, biotopes of EU significance have also been found to a significant extent outside specially protected natural areas (*Natura 2000*).

The network of *Natura 2000* territories created by Latvia is regularly evaluated by the European Commission (EC). Already in 2005, it was concluded that the formal protection of 9 types of biotopes in Latvia was not provided to a sufficient extent, and in 2019 the EC initiated infringement procedure 2019/2304 against Latvia, indicating that 5

⁸ Latvia is located in the Boreal or Northern biogeographical region, in its southern part.



types of terrestrial biotopes and individual species (including forest biotopes: bog forests, alluvial forests) were still not provided with sufficient formal protection.

It should be noted that in Latvia, in accordance with the current regulatory enactments, a polygon that meets the characteristics of specially protected forest, scrub and swamp habitats defined in the regulatory enactments, or a biotope that is located in a specially protected natural area, is considered to be a specially protected polygon of forest and swamp biotope.

In order to ensure the implementation of the Habitats Directive, and knowing that the existing *Natura 2000* terrestrial network cannot be considered as fully achieving the nature protection objectives, as evidenced by the actual data of mapping of biotopes of EU significance, LVM, in order to:

- protect the most significant concentrations of biotopes of EU significance found outside *Natura 2000* sites;
- avoid possible polarisation when protection is concentrated in specially protected natural areas and micro-reserves only, thus losing interconnection between habitats of EU importance,

within the framework of the company's development project "Implementation of the landscape ecological planning approach in forest management planning", is working on a solution that would ensure ecological connectivity between polygons of biotopes of EU significance, applying a landscape ecological approach. As part of the project, an ecological network of landscape level has been prepared, identifying areas of concentration of natural values. The area included in the landscape ecological network is visualised on the map – <https://gis2.lvm.lv/map/>.

In order to ensure a favourable state of protection for forest biotopes of EU significance, determined, registered and verified according to the methodology currently in force in the country, the internal regulations of LVM have been developed and are followed, which determine the following:

- polygons of the more common types of forest biotopes of EU significance, which meet the criteria of good and excellent biotope quality, are included in nature protection areas determined by LVM;
- forest and swamp biotopes of EU significance (9160, 9180*, 91F0, 7160, 7210*, 7220*, 7230), which are rarely found in the country, regardless of their quality, are also included in nature protection areas throughout the LVM territory; *[these biotopes are classified as rare because the basic structures forming them – geological forms, groundwater discharge points, chemical composition of the discharged groundwater, rare plant communities in the country, primarily formed forest biotopes – are justifiably few, not forming the typical situation in the country];*
- the purpose of nature protection, regardless of the quality of biotopes of EU significance and the occurrence of the type of biotope, is also assigned to those biotopes of EU significance located in *Natura 2000* territories, which in accordance with the regulatory enactments have been created to ensure a favourable protection status of biotopes of EU significance, but where the current regulatory enactments do not set significant restrictions on forestry activities;
- the purpose of nature protection, regardless of the quality of biotopes of EU significance and the occurrence of biotope type, is also assigned to those biotopes of EU significance located in the areas of concentration of natural values determined by LVM;
- when planning forest management, including the location of the amount of wood harvesting at the level of woodlands, LVM ensures that in coniferous woodlands the proportion of stands older than 70 years is at least 30% of the total stand area, and in deciduous forest stands – 20% and more of the total area of the woodland, which promotes the ecological interrelationship of biologically valuable forest stands and the presence of biologically valuable forest stands on the landscape scale in the long term.

According to this approach, currently more than 70% of all biotope polygons of EU significance found on LVM lands are included in nature protection areas determined by law or LVM. The guidelines of the European Commission of



18 November 1997 stipulate that the network of Natura 2000 territories should include at least 60% of the total area of each particular priority* biotope and at least 20% of the total area of other biotopes.

In addition to the above and taking into account the initial results of the “Nature Census” project, in 2021 LVM specialists together with the specialists of the Nature Conservation Agency evaluated the areas of concentration of biotopes and species deposits of EU significance on the lands under LVM’s possession, in order to find the most suitable places where new protected natural areas or micro-reserves could be created or the existing ones could be expanded, to be additionally included in the Natura 2000 network of protected areas of European significance. The potential extensions of the new protected areas on the lands managed by LVM amount to 57 thousand ha. Until the establishment of new micro-reserves or specially protected areas or the expansion of existing ones in accordance with the procedures set out in the regulatory acts, LVM will cancel such forestry works that have not been started in these areas, which could significantly affect the quality of nature protection in potential Natura 2000 areas, and will not plan new works. Protection measures for the other biotopes of EU significance outside the nature protection areas defined by the existing ĪADT, ML and LVM will be determined after the Ministry of Environmental Protection and Regional Development’s Information Report on the results of the “Nature Census” and their implementation will be reviewed by the Cabinet of Ministers.

Every year, biotechnical measures are also carried out in areas where it is necessary to maintain, improve and/or restore the quality of biotopes of EU significance. In 2021, management of forest and grassland biotopes was carried out on an area of 200 ha.

A summary of management measures for important species habitats and biotopes of EU significance implemented by LVM is prepared and publicly available: <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/vides-parskats>. Part of these measures were implemented within the framework of LVM’s participation in international externally-funded environmental projects: <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/vides-projekti>.



NUMBER OF SPECIES FOUND ON LVM LANDS, WHICH ARE INCLUDED IN ANNEXES TO THE INTERNATIONAL UNION FOR THE CONSERVATION OF NATURE (IUCN) RED LIST OF THREATENED SPECIES AND THE NATIONAL LIST OF SPECIALLY PROTECTED SPECIES⁹ AND EU HABITATS¹⁰ AND BIRDS¹¹ DIRECTIVES

Every year, in the environmental report, the company collects information on species and groups of species registered in the LVM database, which are found in the territory under its possession, both in protected natural areas and in economic forests.

Specially protected species

Data source: LVM GEO

Group of species	Number of species
Amphibians	5
Algae	1
Invertebrates	56
Lichens	29*
Birds	42
Reptiles	2
Mushrooms	22
Moss	55
Vascular plants	117*
Mammals	8*
In total	338

* The indicated number is 3 (lichen species) and 4 (vascular plant species) less than in the report for 2020, because the total number in this report does not include taxa determined to the genus level only, and taxonomic affiliation is clarified for some species. For mammals, in the previous report, 1 species (ermine) was erroneously added to the specially protected species.

Number of species listed in annexes to the Birds¹² and Habitats¹³ Directives

Data source: LVM GEO

Groups of species	Annex 1 ¹⁴	Annex 2 ¹⁵	Annex 4 ¹⁶	Annex 5 ¹⁷
Amphibians	-	2	5	1
Algae	-	-	-	-
Invertebrates	-	11	7	1
Lichens	-	-	-	2
Birds	36	-	-	-
Reptiles	-	1	1	-
Mushrooms	-	-	-	-

⁹ Cabinet of Ministers Regulation No. 396

¹⁰ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora

¹¹ Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds

¹² Directive 2009/147/EC of the European Parliament and of the Council of 30 November 2009 on the conservation of wild birds

¹³ Council Directive 92/43/EEC of 21 May 1992 on the conservation of natural habitats and of wild fauna and flora

¹⁴ Annex 1 – Bird species that should be subject of special conservation measures concerning their habitat in order to ensure their survival and reproduction in their area of distribution

¹⁵ Annex 2 – ANIMAL AND PLANT SPECIES OF COMMUNITY INTEREST WHOSE CONSERVATION REQUIRES THE DESIGNATION OF SPECIAL AREAS OF CONSERVATION

¹⁶ Annex 4 – ANIMAL AND PLANT SPECIES OF COMMUNITY INTEREST IN NEED OF STRICT PROTECTION

¹⁷ Annex 5** – ANIMAL AND PLANT SPECIES OF COMMUNITY INTEREST, THE TAKING OF WHICH IN THE WILD AND EXPLOITATION MAY BE SUBJECT TO MANAGEMENT MEASURES



Groups of species	Annex 1 ¹⁴	Annex 2 ¹⁵	Annex 4 ¹⁶	Annex 5 ¹⁷
Moss	-	3	-	1
Vascular plants	-	10	-	8
Mammals	-	7	-	-
In total	36	34	13	912

The number of species determined by the International Union for Conservation of Nature (IUCN) according to the international threat category

Data source: LVM GEO

Group of species	CR	EN	VU	NT	LC	DD
Amphibians	-	-	-	-	7	-
Algae	-	-	-	-	1	-
Invertebrates	1	2	6	10	41	-
Lichens	-	-	-	-	-	-
Birds	-	-	3	2	40	-
Reptiles	-	-	-	-	2	-
Mushrooms	-	1	1	1	1	-
Moss	-	-	3	15	82	-
Vascular plants	-	-	1	8	62	4
Mammals	-	-	-	1	6	1
In total	1	3	14	37	241	5

IUCN categories: LC - Least Concern, NT – Near Threatened, VU – Vulnerable, EN – Endangered, CR – Critically Endangered, DD – Data Deficient

GRI 305-1

DIRECT GREENHOUSE GAS EMISSIONS AND THEIR INTENSITY

Greenhouse gas emissions contribute to the acceleration of climate change. Most or 80%¹⁸ of the world’s air polluting emissions are carbon dioxide (CO₂) emissions, a significant amount of which is generated in industrial production processes.

The CO₂ footprint is a measure of carbon dioxide emissions that reflects the impact of a company’s economic activity. LVM has been calculating its CO₂ footprint since 2011 according to the methodology developed by the company “Methodology for evaluating carbon dioxide emitted in production processes”, which was developed on the basis of the methodological approach described in the Corporate Standard of the Greenhouse Gas Protocol¹⁹, adapting it to the specifics of the company. The Corporate Standard of the Greenhouse Gas Protocol distinguishes three spheres of CO₂ emission calculations:

- Level 1:
 - Fuel consumed in the company;
 - Gas emissions in the company.
- Level 2:
 - Consumed electricity, heat in the company.
- Level 3:
 - Employee business trips;

¹⁸ According to the data of the UN Framework Convention on Climate Change,

<https://www.europarl.europa.eu/news/lv/headlines/society/20180301STO98928/siltumnicefekta-gazu-emisijas-valstu-un-sektoru-dalijuma-infografika>

¹⁹ The Greenhouse Gas Protocol. A Corporate Accounting and Reporting Standard. World Resources Institute and World Business Council for Sustainable Development. Available at: <https://ghgprotocol.org/corporate-standard>



- Transport used by service providers;
- Emissions generated in the process of receiving services;
- Emissions from the production process of purchased materials;
- Emissions of generated waste.

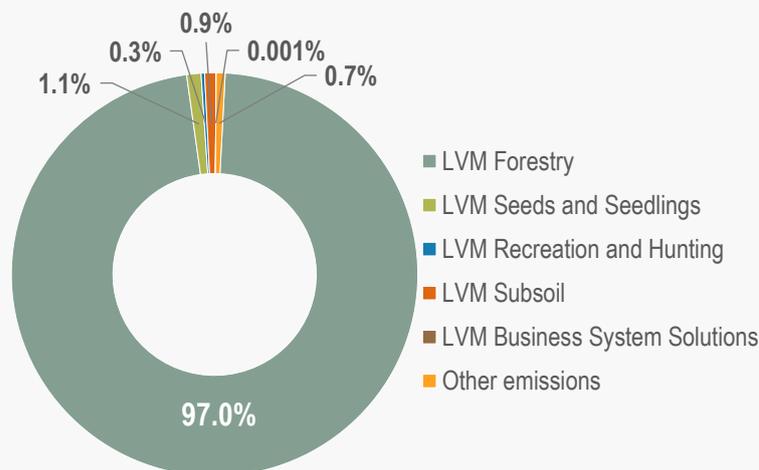
LVM's CO₂ emission calculations fully cover levels 1 and 2, as well as partially level 3 (employee business trips, transport used by service providers and emissions generated in the process of receiving services).

In 2021, a total of 144,329 tonnes of CO₂ were generated under the influence of LVM's economic activities. Compared to 2020, the total amount of CO₂ emitted during LVM's economic activity decreased by 23,975 tonnes, which was mainly affected by the decrease in the volume of forest road construction, as well as the smaller amount of roundwood assortments produced and delivered to customers.

CO₂ emissions generated under the influence of LVM's economic activities

Data source: LVM's internal calculation

	2017	2018	2019	2020	2021
Total CO₂ emissions, tonnes	121,735	129,652	156,098	168,304	144,329
Incl. LVM, tonnes	6,994	5,292	5,566	5,925	4,909
Incl. service providers, tonnes	114,742	124,360	150,531	162,379	139,420

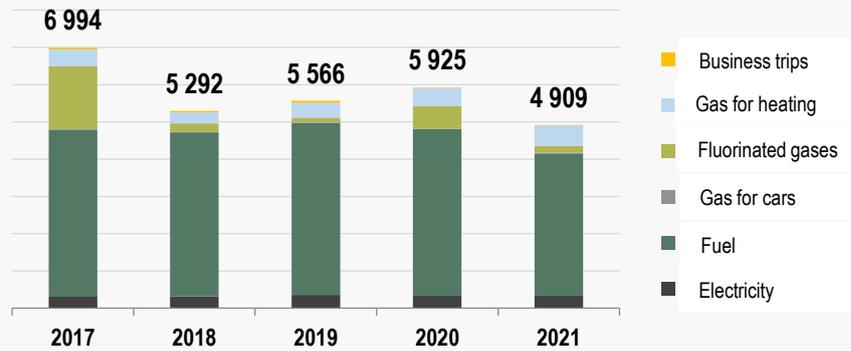


CO₂ emissions generated in LVM's economic activity, broken down by business directions, in 2021, %

The ecological footprint of the LVM company itself is relatively small; it only constitutes 3% of the total footprint created as a result of LVM's economic activity (4,909 tonnes of CO₂), with the remaining 97% (139,420 tonnes of CO₂) being created by the cooperation partners engaged by the company – outsourcers.

As illustrated in the figure, the largest volume of LVM's own CO₂ emissions is fuel consumption.





Emissions generated by LVM 2017-2021, tonnes of CO₂

Whereas, in outsourcing, the largest amount of CO₂ emissions is generated during the production and transportation of roundwood assortments: in 2021, 59% of the total emissions were generated during outsourcing works.

CO₂ emissions generated during the production and transportation of roundwood assortments

Data source: LVM's internal calculation

	2017	2018	2019	2020	2021
CO ₂ emissions generated in the production of roundwood assortments, tonnes	31,969	32,111	37,776	40,823	41,717
CO ₂ emissions generated in the transportation of wood, tonnes	36,542	39,409	41,341	46,542	40,872
Total CO₂ tonnes	68,511	71,520	79,117	87,365	82,590
Sales volume of roundwood assortments, thousand m ³	5,454	5,750	6,509	7,233	6,641
CO₂ emissions per 1 m³ sold, kg CO₂ /m³	12.56	12.44	12.16	12.08	12.44

LVM annually carries out activities to increase the efficiency of the production process, so both the increase in labour productivity of logging service providers and the decrease in the average distance of wood transportation have contributed to the reduction of CO₂ emissions per 1 m³ of roundwood sold, compared to 2017. Thanks to the use of wood production, delivery and transport planning tools, LVM managed to reduce the amount of CO₂ emissions generated by the transport involved in the transportation of timber by 1%.

Since 2017, LVM has managed to reduce the number of kilometres travelled in one trip by 10 kilometres – the average distance travelled in one trip when transporting timber has decreased from 149 km in 2017 to 139 km in 2021:

	2017	2018	2019	2020	2021
Average transportation distance, km	149	151	139	138	139

Forestry works are planned in one place to reduce unnecessary trips, and also the transport routing programme used by the company, which allows one to optimise wood transport routes, helps to reduce the amount of CO₂ emissions.

In the process of growing seedlings, electricity is consumed, gas is used for heating the greenhouses, and in the autumn season, the seedlings are sorted and placed in freezers, the operation of which uses fluorinated gases. Compared to 2020, to produce 1 thousand seedlings, in the reporting year, the amount of CO₂ emissions decreased by 6.29 kg, because as a result of technical maintenance, additional freon refills were required in a smaller amount for the refrigeration equipment.



CO₂ emissions generated during the process of growing seedlings

Data source: LVM's internal calculation

	2017	2018	2019	2020	2021
CO ₂ emissions generated by heating greenhouses, tonnes	450	301	408	471	517
CO ₂ emissions caused by electricity consumption, tonnes	180	183	219	223	219
CO ₂ emissions generated in the use of fluorinated gases, tonnes	1,685	223	131	608	192
Forest tree seedlings sold, million pcs.	50.8	52.4	56.3	56.4	55.3
Kg CO₂/1,000 seedlings	45.53	13.50	13.45	23.07	16.78



ASPECTS OF THE SOCIAL FIELD

GRI-103

MANAGEMENT APPROACH

The aim of LVM is to be a socially responsible employer by maintaining the best practices in the field of labour law and labour protection. One of the company's strategic goals is to develop a work environment that increases employee loyalty and unlocks self-motivation.

Values

Personnel management determines the principles of building employer-employee relations in accordance with LVM values – fairness, achievements and work results, competence, cooperation, friendliness and joy of life, pride in one's organisation. The goal of **fairness** as a corporate value is to achieve the maximum responsible and fair use of resources and work powers assigned to each employee on a daily basis.

The goal of **achievements** and **work results** as a corporate value is to create a strong sense of purpose and desire in every employee to achieve the planned work results within the set quality and quantity standards, as well as within the deadlines.

The purpose of **competence** as a corporate value is to encourage a genuine desire in each employee to perform their daily work duties as well and professionally as possible, as well as to be interested in learning new things and trying innovative work techniques and methods. By competence we understand the whole set of knowledge, skills and abilities that we need on a daily basis for the good and excellent performance of our work duties.

The goal of **cooperation**, **friendliness** and **joy of life** as a corporate value is to maximally develop a positive attitude towards each other in each of our employees, the ability to provide mutual support and to feel true satisfaction with their work process.

The purpose of **pride** in one's organisation as a corporate value is to create the desire in each of our employees to take care of LVM's good reputation and develop loyalty to their organisation. Our goal is for each of us to individually and all together hold the honour of the company high – to honestly and professionally implement the functions of the forest owner in the management and protection of the state's forests.

Wellbeing

In 2021, in the context of LVM's work environment, the concept of employee wellbeing was defined and brought to life, the dimensions of wellbeing were determined and the principles and activities existing in the company that strengthen employee wellbeing were systematised. The wellbeing of LVM is the ability and opportunity of employees to feel good and be productive. It is the cooperation between the employee, manager and employer, creating an environment and exercising the ability to notice and create positive emotions, to be involved, to be in good relationships and to value them, to find meaning and significance, to celebrate and share achievements. The wide range of aspects of wellbeing plays an essential role in maintaining the quality of life of employees; therefore, the company has started and will continue targeted work on this matter.

Remuneration system

The remuneration system is an important set of management tools that contribute to the achievement of the company's strategic goals and contribute to the further development of the company. LVM has developed a uniform remuneration system based on the following principles:



- satisfaction of socio-economic needs of employees;
- wage consistency and fairness;
- compliance of the salary with the employee's contribution;
- transparency of wage elements and their allocation criteria;
- maintaining a competitive level of remuneration;
- ensuring a favourable working environment.

According to LVM Wage Determination Guidelines, employees may be paid a variable portion of wages that depends on the employee's work performance. Its purpose is to maintain a work environment that promotes the quantitative and qualitative performance of results, and to accordingly reward contribution to the achievement of results. The purpose of other elements of the variable remuneration system is to provide social guarantees by supporting the widest possible range of employees, taking into account the age of the employee, the risks of the work environment and ensuring the balance of personal life and work life.

In-company benefits are focused on ensuring employee engagement and wellbeing. To maintain an employee's life-work balance – benefits to evaluate the employee's contribution to the operation of LVM – additional holidays to take care of the health of employees and promote the availability of medical services – insurance. In order to provide additional social guarantees and increase the motivation of employees for the sustainable development of the company, as well as to build a stable team of employees, contributions are made to pension funds and life insurance with savings.

Employee engagement

It is important for LVM to find out the employees' opinion about the company's performance and the binding elements of the work environment, which promote the attraction of employees to the company and promote the attitude of employees to work with full dedication. An engagement study has been organised every other year since 2003. The purpose of the study is to identify strengths and areas for improvement, as well as to determine priorities to work on to improve the company's efficiency. In 2021, 87% of employees participated in the study, which is a high indicator and indicates not only the representativeness of the study results, but also the high engagement of employees in the company's ongoing processes. Managers purposefully work with study results, analyse them, provide feedback to employees and take actions together with their teams to improve them.

In 2021, the study was conducted using the High Performance Organisation model (HiPO), which examines four basic areas – engagement, leadership, goals and strategy, organisational performance. *TRI*^M* Employee Commitment Index questions were additionally added to the survey questionnaire to ensure continuity (comparison with previous periods) of the basic indicator (index) of employee engagement.

The LVM HiPO index is 89 points, which is 16 index points higher than the average indicators of Northern European companies, so it is significantly higher. Based on this result, it can be concluded that LVM is a successful, business success and growth orientated company that has competitive advantages both at the Northern European and European level.

Analysing the basic areas (pillars) of the HiPO index, it can be concluded that the average indicators of all basic areas of LVM are very high in LVM – they vary from 87 to 91 index points.

As a result of research, a deeper understanding of the work environment and the involvement of employees in it is regularly obtained, clarifying the opinion not only about the content of the work, but also other current issues in the field of the work environment. The 2021 study also included questions about the level of employee wellbeing and the factors affecting it. Employees in general rate their level of wellbeing in LVM with 4 (average rating on a scale from 1 to 5, where 5 is the highest rating). Considering the impact of the pandemic on everyone's daily life, as well as the challenges of reconciling work and private life, this assessment can be considered as good. As the most important aspects



affecting wellbeing, employees mention: responsive and supportive colleagues, open and friendly work atmosphere, responsive and supportive line manager, interesting and diverse work, openness and clear rules.

Socially relevant and educational projects

LVM annually provides support to Latvian sports, culture, education and environmental organisations, as well as other projects important to society. In 2021, EUR 4.4 million have been allocated for donations. EUR 2.3 million were allocated to sports support, EUR 0.8 million to forest industry development support, EUR 0.7 million to cultural support, EUR 0.6 million to social goals. LVM's shareholder – the Ministry of Agriculture – has developed the basic principles of gifting (donation), the purpose of which is to create a systemic, company-based gifting (donation) policy that is in line with society's wishes, in accordance with the gifting (donation) areas defined in the laws and regulations of the Republic of Latvia, setting priorities, as well as criteria applicable to the evaluation of various projects. LVM is bound by the Law on the Prevention of Squandering of the Financial Resources and Property of a Public Person; therefore, when making a gift (donation), the procedure established by the law is taken into account. The principles of distribution of gifts (donations) are described in Annex 6 to LVM's medium-term operational strategy, which is publicly available on the company's website: <https://www.lvm.lv/par-mums/sociala-atbildiba/ziedojumi>. Forests managed by LVM are freely accessible to everyone; therefore, LVM launched the "Let's go to the forest!" movement in 2019 as part of its 20th anniversary. The aim of the movement is to encourage the citizens of Latvia to use the wide availability of forests and invite them to spend their free time in a healthy and active manner outdoors.

LVM also promotes and supports public environmental awareness and environmental education, as well as educates the public about the possibilities of using wood products. The company develops, improves and maintains recreation areas, trails and parks, improving opportunities to relax in the state forests. LVM manages more than 300 tourist sites: recreation areas, nature trails, attractions, observation towers.

For many years now, the company has been purposefully educating children and young people about sustainable forest management in the "Discover the Forest" programme. In total, more than 11 thousand children and young people have been educated in 2021. The target audience reached by the campaign "Don't dirty the forest" in 2021 reached 540 thousand persons.

LVM has developed and placed in the *Google Play* and *iTunes* stores, the forest map application "LVM Forest Maps" for all Android and iOS devices, which is freely available to anyone interested. The LVM forest map app offers the opportunity to view the maps online or download them to a device; in addition, using GPS, one can precisely track their location in the Latvian state forests.

In December, every resident of Latvia has the opportunity to cut down one Christmas tree in the forests managed by LVM for free.

Minimum notice period for changes in employment relations (GRI 402-1)

The company complies with the deadlines and procedures for amending or terminating employment relationships set by the Labour Law. Amendments to the employment contract are made on the basis of mutual agreement between the employer and the employee. The company has developed internal legal acts to ensure labour legal relations.

Labour protection (GRI 403-1; GRI 403-2; GRI 403-3; GRI 403-4)

LVM records and presents information about employees who have an employment relationship with LVM. In LVM's opinion, LVM does not control other employees (i.e., does not manage employees in the sense of the GRI 403 standard) who are not in an employment relationship with LVM.

LVM's labour protection system for all employees has been established and is maintained in accordance with the requirements of the laws and regulations binding in the Republic of Latvia and good practices in the field of labour protection. When consulting with employees, work environment risks are assessed, work protection measures are



planned, and various internal communication channels are used for communication. In addition, employees have access to information about the risks of the work environment and the intended work protection measures.

In improving the working environment, emphasis is placed on the involvement of employees and accessibility of events, using all available technological solutions as much as possible.

Assessment of the risks of the working environment at LVM is carried out in accordance with the requirements of the regulatory acts of the Republic of Latvia. Work environment risk management and accident investigations are carried out by labour protection specialists with qualifications obtained in second-level professional higher education programmes. Occupational safety specialists are trained in accordance with Cabinet of Ministers Regulation No. 749 "Regulations Regarding Training in Labour Protection Matters". The assessment of the most important risk factors of the work environment is carried out by an accredited laboratory.

The safety of the working environment at LVM is constantly assessed, measured and, if necessary, improved, with the main goal of zero accidents occurring at the workplace while performing work duties.

Promotion of worker health (GRI 403-6)

LVM provides labour protection training for the management of work environment risks: recognition and prevention of psycho-emotional work environment factors, prevention of sedentary work, consultations on healthy nutrition. The company provides:

- on-boarding training;
- briefing at the workplace for all employees at least once a year;
- prepared e-learning material with a knowledge test;
- thematic training, for example: work at height, work with plant protection products, work with a chainsaw, etc. in accordance with the duties of the position and the assessment of the risks of the work environment;
- practical training for action in the case of fire and training in first aid.

The company has an approved procedure for applying for employee-initiated sports events and team sports classes, according to which employees can apply for the need to rent a suitable room for collective sports classes, as well as employees have the opportunity to receive financial and technical support from the company for employee-initiated collective sports events. After evaluating the compliance of the applications with the criteria established in the procedure, the company allocates funding for the relevant sports activities of the employees.

In accordance with legislative requirements, job duties and the results of the work environment risk assessment, training is included in the work protection measures plan and training plan.

Prevention and mitigation of occupational health and safety impacts directly linked by business relationships (GRI 403-7)

LVM has a described monitoring process of contractual partners, defined labour protection requirements and established monitoring system for contractual partners. Regular training of contractual partners and control of compliance with requirements are carried out at work execution sites, which are carried out by employees assigned by business structures and labour protection specialists. Inspections are carried out at a certain intensity, detected deficiencies are recorded and the elimination of deficiencies is ensured; the results of the inspections are documented.

Average hours of training per year per employee (GRI 404-1)

In order to implement effective personnel management, training and development of personnel is defined as one of the essential processes of personnel management, which, when implemented, educates employees, raises their qualifications and improves work efficiency with the help of various training and development methods – both in terms of work experience (new job duties, involvement in projects and working groups, substitution), as well as in the formal learning process (courses, seminars, e-learning, professional literature).



Long-term training planning of employees is based on strategic goals, tactical plan and long-term business process competences important for the company. Training needs for a given year are determined in the training planning process, which takes place based on the company's goals, the results of the competency assessment and the results of the managers' survey.

Evaluation of employees of service providers according to the social field criteria (GRI 414-1)

When evaluating contractors within the framework of service procurement, LVM relies on the criteria set out in Section 42 of the Public Procurement Law; additional criteria are not evaluated. During the execution of the service contract, the performance of the contractors is regularly checked and discrepancies are registered in the work performance inspection documents. In addition, the contracts with the contractors stipulate a requirement to control their own work. The criteria to be checked cover environmental protection, labour protection, including legal employment, economic requirements of LVM, coordination of work with interested parties and control of forestry work ban deadlines.

Negative social impacts in the supply chain and actions taken (GRI 414-2)

LVM's core activity is forestry, so the supply chain of wood products is the most important. According to the timber transportation contract, the employees of the contractual partners must be provided with a fair wage, which corresponds to the wage of an equivalent profession in a given region of the country. Upon starting the performance of the contract, LVM conducts training for the personnel involved in the performance of the contract. Once a year, training is organised for all employees involved in the execution of contracts, that is, approximately 550 drivers of logging trucks per year.

In the course of the execution of the contract, the fulfilment of the specified obligations is monitored, including the observance of various socially responsible norms, for example, the observance of the work and rest times of the drivers of logging trucks in accordance with Regulation (EC) No. 561/2006 of the European Parliament and of the Council of 15 March 2006 on the harmonisation of certain social legislation relating to road transport and amending Council Regulation (EEC) No. 3821/85 and (EC) No. 2135/98 and repealing Council Regulation (EEC) No. 3820/85. This is critically important both for the safety of the driver of the logging truck and for other members of society – traffic participants.

In order to motivate to improve the efficiency of performance of the works specified in the contract, long-term contracts include a bonus for providing a high-quality service. The amount of the bonus depends on the fulfilment of certain quality criteria in certain periods. Regular training of personnel involved in the performance of the contract is also defined as quality criteria.

Local community (GRI 413-1; GRI 413-2)

In order to find out the potentially negative impact of LVM's forestry activities on the local community and to reduce it, LVM annually monitors the social impact, identifies the interested groups of the local community (municipalities, associations), and annually informs them about the planned forest management. Upon receiving suggestions from the local municipality or community groups about important forest values (ecosystem services) in a certain forest area, individual forest management plans are prepared with the involvement of the local community.

LVM annually monitors the social impact of the total volume of forestry activities (potentially the largest impact) and its location, which also includes areas important to the local community – recreation opportunities, volume of non-timber forest products, landscape quality, etc.

The assessment of the social impact of forestry activities is prepared every year and published on the LVM website: (<https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/vides-parskats>). The assessment is used to supplement forest management tasks and guidelines in order to already reduce possible negative social impacts at the initial stage of planning.



Requirements in the field of privacy and data security (GRI 418-1)

LVM takes into account the requirements of both internal and external regulatory acts, for example, Regulation (EU) 2016/679 of the European Parliament and of the Council on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, the Law on the Processing of Personal Data and Cabinet of Ministers Regulation No. 442 “Procedures for the Ensuring Conformity of Information and Communication Technologies Systems to Minimum Security Requirements”.



PERFORMANCE INDICATORS



SOCIAL ASPECTS	
23	New employees are recruited in accordance with the laws and regulations of the Republic of Latvia and good practice (GRI 401-1)
25	Every employee has the right to parental leave due to the birth or adoption of a child (GRI 401-3)
26	The statutory deadline for changes in labour relations is observed (GRI 402-1)
27	Labour protection system has been introduced (GRI 403-1)
28	Accident threat identification, risk assessment and investigation of accidents at work are carried out (GRI 403-2)
29	Risks of the work environment are assessed, work protection measures are planned, briefing and training of employees is carried out, as well as mandatory health checks are provided (GRI 403-3)
30	The employee has access to information about the assessment of risks of his/her work environment and the intended work protection measures (GRI 403-4)
31	Support is provided for the promotion of employee health (GRI 403-6)

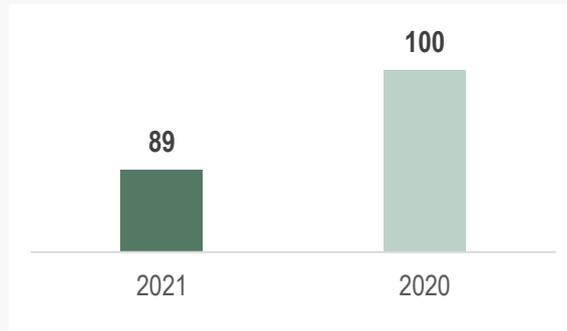
SOCIAL ASPECTS	
32	Risks are identified and preventive measures are taken to comply with the labour protection requirements of cooperation partners (GRI 403-7)
33	Employee training is conducted to improve work performance and increase efficiency (GRI 404-1)
35	There is no difference in the amount and procedure of payment of women's and men's basic salary and remuneration (GRI 405-2)
36	Operations with local community engagement are identified, their impact assessments are provided, and development programmes are prepared (GRI 413-1)
37	Operations with significant negative impacts on the public are identified (GRI 413-2)
38	Suppliers and service providers are screened according to the social field criteria (GRI 414-1)
39	Negative social impact in the product supply chain is identified and actions are taken to prevent it (GRI 414-2)
41	Requirements in the field of customer privacy and data security are observed (GRI 418-1)

Although GRI 401-1 (No. 23), GRI 401-3 (No. 25) and GRI 405-2 (No. 35) are important indicators according to the results of the survey; the 2021 sustainability report does not provide more detailed information about them. When establishing employment legal relations, LVM takes into account the legislation existing in the Republic of Latvia: requirements of the Labour Law and other related regulatory acts. The Labour Law also stipulates that every employee has the right to parental leave due to the birth or adoption of a child. The assessment of the position on the value scale is taken into account when determining the salary of the employees.



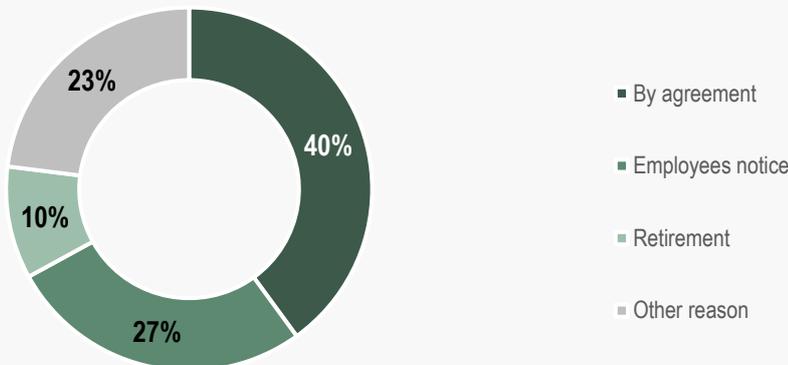
MINIMUM NOTICE PERIOD FOR CHANGES IN EMPLOYMENT RELATIONS

On average, 1,427 employees worked in the company in 2021 (1,392 employees in 2020).



Employees hired by LVM, number

In 2021, employment legal relations with 73 employees working in permanent positions were terminated (in 2020 – 49 employees).



Reason for the termination of employment legal relations at LVM in 2021, %

The staff turnover rate in 2021 was 12.7% (in 2020 – 12.1%), the staff renewal rate – 7% (in 2020 – 8.2%), while the staff departure rate – 5.7% (in 2020 – 4%). The differences compared to the previous period are not significant, but it must be taken into account that according to the legislation in force in the country, only those employees who held a valid COVID-19 vaccination certificate could continue their employment relationship.

LABOUR PROTECTION SYSTEM

LVM's work environment is adapted to the employee's needs in the field of labour protection, inter alia by individually evaluating and determining the most suitable measures for a safe and healthy working environment. Among other labour protection measures, welfare measures, i.e., support measures for certain groups of employees (for example, employees with children), measures to promote the mental and physical health of employees (activities to promote health, educational measures), work environmental ergonomics, as well as providing employees with comfortable and functional personal protective equipment, can also be mentioned as important directions of development of the work environment.

In 2021, in connection with the spread of the COVID-19 infection, it was necessary to create and maintain a system for limiting the spread of infection in the work environment. In order to manage the risk, the following was performed:



- a Risk Management Group for the spread of COVID-19 infection was established;
- a crisis action plan was prepared for cases of illness, determining additional precautionary measures, such as promptly identifying employees who have been in contact with the sick person, requiring them to self-isolate, performing additional room disinfection, limiting access to premises or buildings, or even restricting production processes;
- an action policy has been developed, by determining preventive measures and restrictions in an emergency situation that must be observed in the work environment;
- a range of informative materials was prepared and employees were informed about the measures to reduce the spread of COVID-19.

GRI 403-2 GRI 403-3 GRI 403-4

HAZARD IDENTIFICATION, RISK ASSESSMENT AND INCIDENT INVESTIGATION

The company has described labour protection processes, including the process of investigating and recording accidents and internal monitoring of the working environment, setting goals, responsibilities of employees in their implementation, deadlines and quality records.

Taking the results of the work environment risk assessment into account, work protection measures are planned, including a work protection measures plan is prepared every year, health promotion measures and training in the field of work protection are organised. Each employee has access to information about the assessment of risks of his/her work environment and the intended work protection measures. The employee participates in the work environment risk assessment process. Necessary improvements in the work environment can be identified during the work negotiation process between the employee and the manager. The main labour protection requirements for specific work are described in the labour protection instructions.

Every employee has the opportunity to report dangerous situations. Any employee may refuse to perform work if it threatens his/her health or safety, by notifying the immediate supervisor and/or occupational safety specialist of the reasons. The work procedure rules and occupational safety instructions stipulate that the employee must immediately report to the line manager and the occupational safety specialist about the accident at work or conditions that may create a dangerous situation and threaten his/her health or safety.

All accidents at work are thoroughly investigated and registered, taking the requirements of the regulatory acts of the Republic of Latvia into account. All employees have access to information about the causes of accidents, and measures are planned and taken to prevent similar accidents. In 2021, eight accidents at work were investigated and registered, including one accident with serious consequences. To compare, in 2020, six accidents at work were registered, one of them with serious consequences. During the investigation of accidents at work, the responsibility of the employer has not been established. All accidents are investigated and registered according to the established procedure.

Employees are informed about accidents and their causes in labour protection briefings, as well as information about accidents and their causes is available to all employees on the *Intranet*.

GRI 403-6

PROMOTION OF WORKER HEALTH

A health promotion plan has been prepared in 2021, which includes measures for collective and individual physical activities outside working hours, health and accident insurance, health prevention measures such as vaccination and health check-up, training of employees on healthy lifestyle and preventive health measures.



According to the plan, financial and technical support of the company for collective sports events initiated by employees is possible. In 2021, the planned employee-initiated collective sports activities and the rental of sports facilities, which were intended for employees' collective physical activities, did not take place in full due to restrictions related to measures to reduce the spread of the COVID-19 infectious disease.

Employees are provided with occupational safety training on the management of risks in the work environment: psycho-emotional factors of the work environment, prevention of tick-borne infectious diseases, measures to reduce the spread of the COVID-19 infection, consultations on setting up an ergonomic workplace when working remotely.

GRI 403-7

PREVENTION AND MITIGATION OF OCCUPATIONAL HEALTH AND SAFETY IMPACTS DIRECTLY LINKED BY BUSINESS RELATIONSHIPS

In LVM, regular training of contractual partners is performed and compliance with requirements is monitored at work execution sites; detected deficiencies are recorded and deficiencies are eliminated.

Most of the violations are related to not using personal protective equipment and using unsafe work equipment. In certain situations, when there is a threat to the health or safety of the contractual partners, the works are suspended until the defects are eliminated. Contractual penalties are applied in accordance with the established procedure. In accordance with the requirements of FSC and PEFC certification, accidents at work of contractual partners' employees are recorded. In 2021, due to the non-observance of the requirements for the use of personal protective equipment and work safety, one serious accident at work was registered for a contract partner – when trying to knock out the damaged pin of the discharge bucket using a rod and a hammer, at the moment of the impact, a fragment separated from the rod and hit the victim in the eye.

GRI 404-1

AVERAGE HOURS OF TRAINING PER YEAR PER EMPLOYEE

Using the resources of LVM's internal trainers, 77% of employees were trained in 2021 (including 54% in the form of e-learning); using external resources, 23% of employees were trained. The largest external training sessions were educational lectures organised for the promotion of wellbeing, which took place remotely. On average, each LVM employee trained 5.4 times or in more than five different programmes in 2021 and spent an average of 2.1 working days or 17 hours on training. Broken down by gender, women underwent training for an average of 2.0 working days or 16 hours per year, men – 2.2 working days or 17 hours.



The average time spent on training by LVM employees in 2021 by job category, days



GRI 414-1

EVALUATION OF EMPLOYEES OF SERVICE PROVIDERS ACCORDING TO THE SOCIAL FIELD CRITERIA

LVM evaluates the social performance of all contractors, including 100% of new contractors. Evaluation of employees of service providers according to the social field criteria is a continuous process. The evaluation includes two stages: (1) evaluation within the scope of service procurement; (2) evaluation during contract execution.

The contractor is excluded from the procurement procedure if its tax debt exceeds EUR 150 or its activity does not meet other criteria defined in the Public Procurement Law. An identical requirement in procurement and contract performance applies to subcontractors engaged by the contractor, who perform more than 10% of the total amount of the contract. LVM controls compliance with the social protection and labour protection requirements by service providers' employees during the execution of works. When violations of social requirements are detected at the service provider's workplace, all found significant (non-compliant) violations are registered, and work is stopped until the violation is eliminated.

In order to reduce inconsistencies and improve skills, training sessions are organised for contractors' employees. In 2021, the training sessions were organised to the extent permitted by the regulations limiting the spread of COVID-19.

GRI 414-2

NEGATIVE SOCIAL IMPACTS IN THE SUPPLY CHAIN AND ACTIONS TAKEN

In 2021, 563 drivers of logging trucks participated in the training organised by LVM as employees of contractual partners involved in the execution of contracts.

In logging service contracts, in order to promote the training of the contractors' employees, one of the criteria for the variable part of the service price is the training of the personnel involved in the execution of the contract works. The fulfilment of the criterion is assessed once every three months. The contractor receives a bonus in the variable part of the price if it has carried out training for its employees in the given period.

In order for the dynamics of wage changes to have a positive effect on the contractors' financial ability to execute long-term logging service contracts, a price indexation mechanism has been incorporated into contracts concluded within the framework of the procurement "Round timber production services in 2019-2023", based on the wage changes of forest machine operators.

GRI 413-1 GRI 413-2

LOCAL COMMUNITY

The proportion of the net turnover of LVM's forestry business line in 2021 was 96%, and its impact on the local community, taking into account the fact that the activities throughout the country are carried out according to the same approach and to the same extent without significant regional differences, is evaluated in the company as a whole. For types of forestry work with the potentially greatest negative social impact, i.e., logging, construction of forest roads, etc. it is assessed for each place of operation before the start of work and instructions are prepared for mitigating the impact, including on the local community.



Local community groups: municipalities, local population associations, etc. which are or may be interested in LVM forest management, are identified within the framework of forest management planning. They are included in the Register of Interested Parties, which is updated regularly and is publicly available on the LVM website <https://www.lvm.lv/sabiedribai/meza-apsaimniekosana/meza-apsaimniekosanas-plani>.

In the consultation process, no vulnerable groups of local population, as well as gender-specific impacts of forestry activities on the local community have been identified.

The public part of the FMP is updated whenever the level of forest management, forest management basic principles or regulatory enactments in forest management is significantly changed, but not less than once every five years. Each year, by 31 March, the scope of forest management in differently managed territories, including territories for which proposals from the local community have been received and individual management planning has been carried out, information on forest management in the previous period and the environmental report are updated.

After updating, the FMP is published on the LVM website. Submitted proposals are evaluated and, if necessary, changes are made to the FMP. Proposals from the local community can be submitted to the respective customer centre of the region or sent electronically to the forest management planning manager of the relevant region. All submitted proposals are collected, evaluated and published on the website.

The public part of LVM FMP is prepared taking into account the requirements of Cabinet of Ministers Regulation No. 67 “Regulations on the Forest Management Plan” and the PEFC forest management certification standard for Latvia and other binding certification standards.

Since 2005, LVM, together with its cooperation partners, has been implementing environmental education programmes for all groups of learners and educators in accordance with the national education standard within the framework of the international environmental education programme “*Learning about Forest*” (see more at <https://www.lvm.lv/sabiedribai/skolam>).

Free tourist places and *mammadaba* destinations throughout Latvia have been created and developed for environmental awareness and active outdoor recreation of all groups of society, the most important of which are:

- LVM nature park in Tērvete;
- LVM recreation and tourism centre “Spāre”;
- LVM Kalsnava Arboretum;
- LVM recreation and tourism centre “Ezernieki”;
- LVM Jaunmoku Castle.

For further information about investments in social infrastructure, see the “Indirect economic impact of the company” section of this document (GRI 203-2).

Indicators of social impact of forest management

Impact indicator	Unit of measurement	2017	2018	2019	2020	2021
The extent of the territories whose planning takes place at the suggestion of the local community, the proportion of the forest area	%	2.4	2.4	2.4	2.4	2.4
Recreational and environment exploration (tourism) sites frequently used by local population	number	366	366	319	314	307
Areas important for the growth and collection of non-wood products (berries, mushrooms, birch sap)*	thousand ha	2,436.7	2,427.0	2,403.0	2,389.8	2,377.7
Lease areas for hunting rights	thousand ha	1,613	1,610	1,608	1,610	1,610



Impact indicator	Unit of measurement	2017	2018	2019	2020	2021
Proportion of old conifer stands (<70 years) in conifer areas (<10 thousand ha)	%	47.2	46.4	46.8	47.2	47.1
Proportion of old deciduous stands (<70 years) in deciduous areas (<10 thousand ha)	%	31.9	30.3	30.5	31.4	31.3

* one area may be relevant for several non-wood products
n/a – was not recorded

In addition to the above, within the framework of LVM's internal legislation, residents of nearby houses are informed during felling planning before logging and transporting wood products, in order to change the shape and area of the felling if necessary, as well as to limit the duration of activities, for example, stopping operations during the night.

In order to acquire new knowledge and improve forest management planning with the aim of reducing the impact of forest operations on ecosystem services, including those of relevance to the local community, the company finances scientific research: "Forestry impact on forest and related ecosystem services", etc. https://www.lvm.lv/petijumi-un-publikacijas#research_filter.

GRI 418-1

REQUIREMENTS IN THE FIELD OF PRIVACY AND DATA SECURITY

In total, 66 information security incidents were registered by LVM in 2021, including those with a possible impact on data security. Incidents involve data managed by LVM or data received from third parties. The incidents have not identified an impact on the security (confidentiality, integrity) of LVM customer data. An assessment of the impact on personal data was carried out for two incidents, as a possible impact on personal data was initially detected in them. Incidents were managed in accordance with LVM's information security incident management procedure, ensuring:

- assessment of incidents (impact, scope), informing and involving LVM responsible specialists in incident prevention;
- limiting and prevention of incidents;
- in cases where personal data were involved, an assessment of the impact on personal data has been carried out;
- communication with the Information Technology Security Incident Response Institution (CERT.lv);
- informing the involved parties (companies, persons) about the incident;
- evaluating incidents, determining additional controls and changes (in cases where existing information security controls were insufficient or a repeated information security incident was probable).



TABLE OF CONTENTS OF GRI INDICATORS

General standards information

GRI standard	GRI indicator	Page	Exceptions*
102: General Disclosures 2016	Organisational profile		
	102-1 Name of the organisation	1	
	102-2 Activities, brands, products and services	12	
	102-3 Location of headquarters	6	
	102-4 Places of operations	12	
	102-5 Ownership and legal form	6	
	102-6 Markets served	12	
	102-7 Scale of the organisation	6, 12, 25, 39	
	102-8 Information on employees and other workers	12, 25	
	102-9 Supply chain	12	
	102-10 Significant changes to the organisation and its supply chain	12	
	102-11 Precautionary Principle or approach	34, 46	
	102-12 External initiatives	12, 29	
	102-13 Membership of associations	29	
	Strategy		
	102-14 Statement from senior decision-maker	4	
	Ethics and integrity		
	102-16 Values, principles, standards, and norms of behaviour	9	
	102-17 Mechanisms for advice and concerns about ethics	46	
	Governance		
	102-18 Governance structure	6	
	102-30 Effectiveness of risk management processes	46	
	Stakeholder engagement		
	102-40 List of stakeholder groups	32	
	102-41 Collective bargaining agreements	25	
	102-42 Identifying and selecting stakeholders	32	
	102-43 Approach to stakeholder engagement	32	
	102-44 Key topics and concerns raised	32	
	Reporting practice		
	102-45 Entities included in the consolidated financial statements	2, 6	
	102-46 Defining report content and topic boundaries	34	
	102-47 List of material topics	34	
102-48 Restatements of information	2		
102-49 Changes in reporting	2		
102-50 Reporting period	2		
102-51 Date of most recent report	2		
102-52 Reporting cycle	2		
102-53 Contact point for questions regarding the report	2		
102-54 Claims of reporting in accordance with the Standards	2		
102-55 Table of contents of GRI indicators	79		
102-56 External assurance	85		



Specific standards information

Economics

GRI standard	GRI indicator	Page	Exceptions*
103: management approach 2016	103 Management approach	36	
201: economic activity 2016	201-1 Direct economic value generated and distributed by the company	39	
	201-2 Financial implications and other risks and opportunities due to climate change	40	
202: market presence in 2016	202-1 Maintaining a competitive level of remuneration	41	
203: indirect economic impacts 2016	203-1 Infrastructure investments and services supported	41	
	203-2 Significant indirect economic impacts	45	
204: Procurement practices 2016	204-1 Proportion of spending on local suppliers	46	
205: anti-corruption 2016	205-1 Operations assessed for risks related to corruption	46	
	205-2 Communication and training about anti-corruption policies and procedures	46	
	205-3 Confirmed incidents of corruption and actions taken	46	
206: Anti-competitive behaviour and monopoly practices 2016	206-1 Legal actions for anti-competitive behavior, anti-trust, and monopoly practices	49	



Environment

GRI standard	GRI indicator	Page	Exceptions*
103: management approach 2016	103 Management approach	50	
302: energy consumption within the organisation 2016	302-1 Energy consumption within the organisation	51	
	302-5 Reductions in energy requirements of products and services	51	
304: biodiversity 2016	304-1 Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	54	
	304-2 Significant impacts of activities, products, and services on biodiversity	57	
	304-3 Habitats protected or restored	59	
	304-4 IUCN Red List species and national conservation list species with habitats in areas affected by operations	63	
305: Emissions 2016	305-1 Direct greenhouse gas emissions	64	



Social field

GRI standard	GRI indicator	Page	Exceptions*
103: management approach 2016	103 Management approach	68	
402: labour relations 2016	402-1 Minimum notice period for changes in employment relations	75	
403: occupational safety and health 2018	403-1 Labour protection system has been introduced	75	GRI 403-2 (b), (c)
	403-2 Hazard identification, risk assessment and incident investigation	76	
	403-3 Risks of the work environment are assessed, work protection measures are planned, briefing and training of employees is carried out, as well as mandatory health checks are provided	76	
	403-4 The employee has access to information about the assessment of risks of his/her work environment and the intended work protection measures.	76	
	403-6 Promotion of worker health	76	
	403-7 Prevention and mitigation of occupational health and safety impacts directly linked by business relationships	77	
404: training and education 2016	404-1 Average hours of training per year per employee	77	
413: local communities 2016	413-1 Operations with local community engagement, impact assessments, and development programmes	78	GRI 413-1 (a) (vii)
	413-2 Operations with significant negative impacts on local communities	78	
414: supplier social assessment 2016	414-1 Evaluation of contractors according to the social field criteria	78	GRI 414-2 (a), (b), (c), (d), (e)
	414-2 Negative social impacts in the supply chain and actions taken	78	
418: customer privacy 2016	418-1 Requirements in the field of customer privacy and data security are observed	80	

* non-disclosed GRI indicators

