

Approved by  
Decision No. 39 of the Council of  
JSC Latvijas valsts meži of 14.10.2020  
(minutes No. 8/2020; Paragraph 4)



**LATVIJAS VALSTS MEŽI**



**Medium-term strategy of  
the JSC  
Latvijas valsts meži  
SUMMARY**

2020

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# **PREAMBLE**

Joint Stock Company Latvijas valsts meži (hereinafter also referred to as - LVM or the Company) was established in October 1999 in accordance with the order of the Cabinet of Ministers of the Republic of Latvia. The aim of the activities of LVM is to implement the sustainable - economically profitable, environmentally friendly, socially responsible - management of state strategic assets, including state forest property, and the development of the infrastructure, services and knowledge necessary for this.

LVM manages and administers 1.62 million hectares of land in the Republic of Latvia, including 1.59 million hectares of forest land, 1.39 million hectares of which consist of forest. 0.33 million hectares or 20% of the total area of all lands, being in the possession of LVM, are managed for the purpose of nature protection. The forest in nature protection territories consists of 0.24 million hectares, the prohibition of forestry operations and main cuttings for 0.15 million hectares of which, are regulated by regulatory enactments. Commercial activity with a purpose to produce high-quality wood is planned on 1.15 million hectares of forest, 0.19 million hectares of which are managed with additional conditions for environmental protection, recreation and environmental awareness.

The principal activity of LVM is forestry, which is the main source of income of the company - in 2019, 96% or 360.2 million euros were earned from the sale of wood resources - round-wood assortment, growing trees, wood chips. In addition to forestry, LVM provides hunting and recreation services, produces selected seeds and saplings, offers underground resources, as well as geospatial information technology solutions on the market. In 2019, the LVM Subsoil Laboratory was opened in Salaspils with the aim to increase the competitiveness of the company in the field of subsoil, operatively and with its own resources, testing not only mineral materials obtained at mining sites, but also the quality of construction materials used in forest infrastructure construction sites.

The owner of this document is the Council of LVM. Only the Council has the right to translate the medium-term strategy of LVM and interpret certain norms of it in accordance with the will expressed in the document, its aim, meaning and purpose.

# **OVERALL 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.

## **MISSION, VISION AND VALUES OF LVM**

**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 land management.**

Based on LVM values, the basic principles for activities of the employees of LVM are defined - explanation of values of the company - indicators of activities of employees:

1. Pride in our organisation - We maintain a good working environment. We provide a uniform external professional opinion;
2. Honesty - We admit our mistakes. We do not take what is not ours. We do not lie. We do not remain silent and indicate unethical behaviour. We do not engage in intrigue;
3. Competence (professionality) - 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;
4. 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!
5. 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

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

LVM uses the principles of a balanced scorecard to ensure the mutual balance of goals from the point of view of business process management.

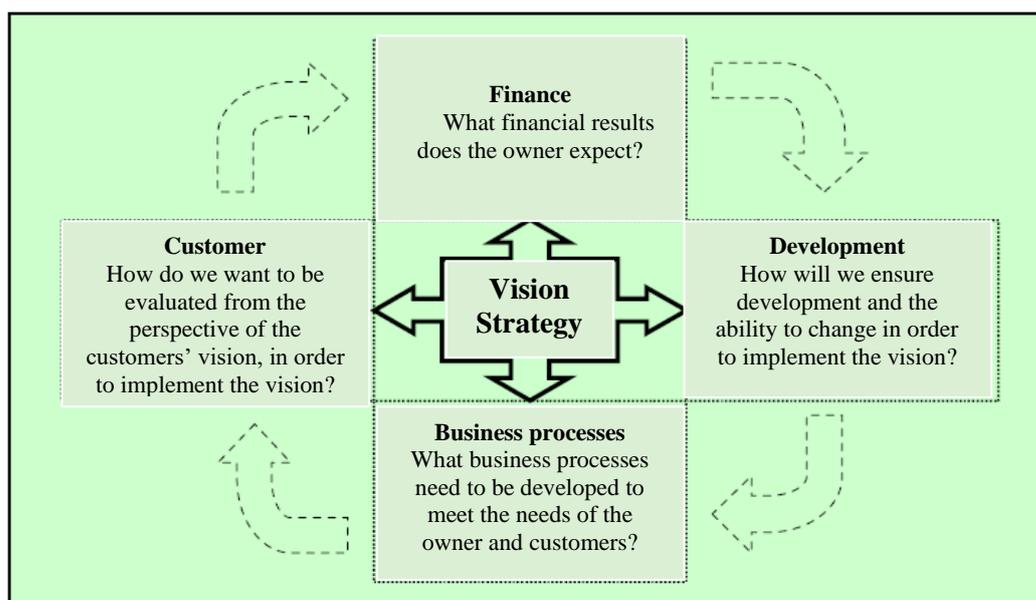


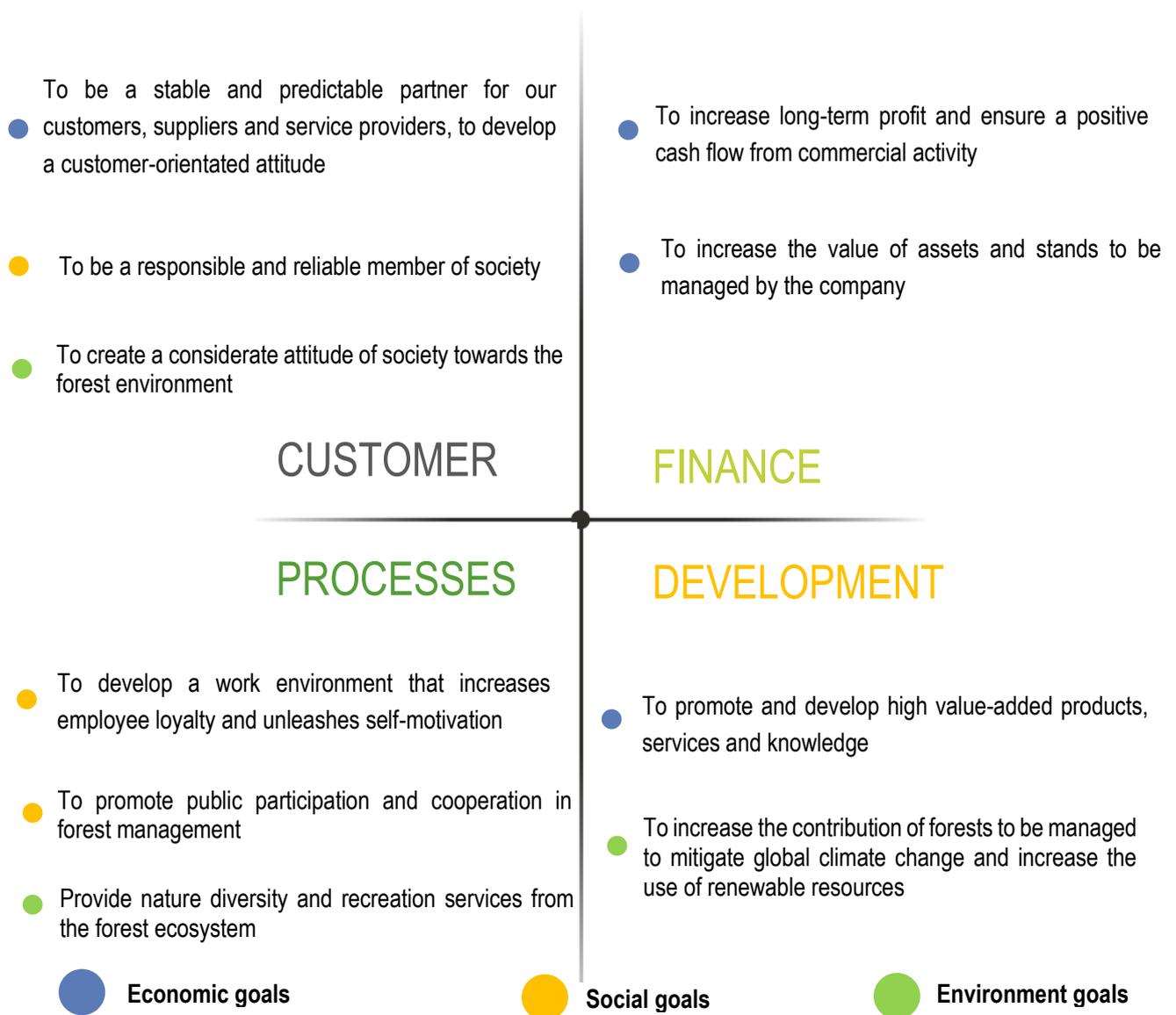
image 1. **Balanced Scorecard** (adaptation from *The Balanced Scorecard* by Kaplan & Norton)

The Company uses the Balanced Scorecard methodology due to several considerations. 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 LMK - 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.



Distribution of objectives according to Helsinki Resolution H1.

# INDICATORS DESCRIBING OBJECTIVES

The text of the strategy includes the most important indicators that LVM uses to monitor the implementation of strategic goals, measure performance and provide an overview of its operations both inside and outside LVM. Instead of describing a comprehensive and detailed system of operational and performance indicators, the text of the strategy only includes those indicators that process owners of LVM have considered particularly important to reflect the progress towards the set development vision for the period up to 2025 in each section of the strategic objectives.

By setting goals and indicators, LVM balances the goals of all areas - economic, environmental and social - in order to ensure the implementation of various interests. One of the annexes is a financial plan, which provides a detailed picture of any financial indicators by using this information. At present, EBITDA most closely corresponds to the description of the tasks to be achieved in the planning period. Changes of this indicator will also affect changes of any other indicator. The inclusion of objectives related to natural resources in the medium-term strategy of LVM will be carried out after approval of the guidelines for the sustainable use of peat by the Cabinet of Ministers, which is being prepared by the Ministry of Environmental Protection and Regional Development.

In the case of LVM, for example, the use of a net profit and capital return ratio for comparison with similar companies or companies operating in the industry would not be possible due to a number of reasons. The main asset of LVM is land and forest stands, being in the possession and not the ownership; therefore, they do not appear in the balance sheet of the company. The second important factor is depreciation. Traditionally, in manufacturing companies, depreciation constitutes a significant amount of costs of the company. In the case of LVM, the establishment of fixed assets (roads, drainage systems, tree-nurseries) was only commenced after the commencement of operations of the company. At the beginning, almost fully depreciated fixed assets, still created during Soviet times, were used, or invested at zero value as forest infrastructure. Currently, the work is continued on the implementation of the investment programme, expecting that it will take another 10 years to reach the desired level. Therefore, depreciation is much lower than what is actually needed. This is why it is proposed to measure EBITDA.

Table 1. *Performance indicators of the capital company*

Strategic goals	Characteristic indicators of the strategic goal	Unit of measurement	Actual performance 2019	Plan 2020	Plan 2021	Plan 2022	Plan 2023	Plan 2024	Plan 2025	Financial impact of the indicator on average per year, million EUR
<b>Financial indicators</b>										
1. To increase long-term profit and ensure a positive cash flow from commercial activity	Earnings before deductions of interest, taxes, depreciation and amortisation (EBITDA) from operating activities	million EUR	152.1	79.5	71.2	91.1	92.1	93.3	94.2	-
	Profit to be paid out in dividends <sup>1</sup>	%	70%	≥80%	≥80%	≥80%	≥80%	≥80%	≥80%	-
2. To increase the value of assets and stands to be managed by the company	Balance value of forest infrastructure (roads, bridges, drainage systems)	million EUR	244.1	257.7	267.0	276.4	284.1	293.5	297.2	-
	Forest capital value (according to the methodology used by LVM) <sup>2</sup>	million EUR	2 608	2 608	2 608	2 608	2 608	2 608	2 608	-
<b>Non-financial indicators</b>										
1. To increase long-term profit and ensure a positive cash flow from commercial activity	Forest areas intended for timber production are located on average not further than a certain distance from LVM, the municipal or state road	Metres	375	365	354	344	333	326	318	11.7
2. To increase the value of assets and stands to be managed by the company	Forest area for timber production and acquisition, share of forest	%	83%	>84%	>84%	>84%	>84%	>84%	>84%	n/a

Strategic goals	Characteristic indicators of the strategic goal	Unit of measurement	Actual performance 2019	Plan 2020	Plan 2021	Plan 2022	Plan 2023	Plan 2024	Plan 2025	Financial impact of the indicator on average per year, million EUR
	Proportion of forest planting with selected reproductive materials in a 5-year period	%	51%	≥55%	≥55%	≥55%	≥55%	≥55%	≥55%	9.3
	Renovated and rebuilt forest drainage systems (total volume)	thousand ha	224.4	247.2	266.4	288.3	308.3	328.3	348.3	7.5
	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	Proportion%	92.9%	93.1%	93.3%	93.5%	93.7%	94.3%	94.8%	14.7
3. To be a stable and predictable partner for our customers, suppliers and service providers, to develop a customer-orientated attitude	Average annual volume of the most important wood products over a 20-year cycle:									
	- softwood saw logs at least	million m <sup>3</sup>	3.40	3.64	3.11	3.28	3.28	3.28	3.28	193.7
	- birch veneer logs at least	million m <sup>3</sup>	0.38	0.36	0.36	0.34	0.34	0.34	0.34	23.7
	Availability of wood product warehouses for at least 11 months a year	Proportion%	44.8%	45.3%	45.8%	46.2%	46.7%	47.2%	47.8%	5.0
4th To promote and develop high value-added products, services and knowledge	Financing of research and innovation orders for external service providers, share in the average net turnover of the previous 5 reporting years	%	0.4%	0.6% - 1.2%	0.6% - 1.2%	0.6% - 1.2%	0.6% - 1.2%	0.6% - 1.2%	0.6% - 1.2%	2.0 – 4.0
5. To develop a work environment that increases employee loyalty and unleashes self-motivation	Measurement of involvement of employees of LVM (employees participating in the LVM involvement study)	%	87%	≥70%	≥70%	≥70%	≥70%	≥70%	≥70%	n/a

Strategic goals	Characteristic indicators of the strategic goal	Unit of measurement	Actual performance 2019	Plan 2020	Plan 2021	Plan 2022	Plan 2023	Plan 2024	Plan 2025	Financial impact of the indicator on average per year, million EUR
6. To promote public participation and cooperation in forest management	Investment in public participation and information on sustainable forestry, share from annual turnover	%	0.1%	0.4% - 0.5%	0.4% - 0.5%	0.4% - 0.5%	0.4% - 0.5%	0.4% - 0.5%	0.4% - 0.5%	1.4 – 1.7
	Membership fees in non-governmental organisations for ensuring the interests of the Company, share of the annual turnover	%	0.03%	0.08% - 0.12%	0.08% - 0.12%	0.08% - 0.12%	0.08% - 0.12%	0.08% - 0.12%	0.08% - 0.12%	0.3 – 0.4
	Number of educated teachers on sustainable forest management	number	540	≥300	≥300	≥300	≥300	≥300	≥300	0.01
	Number of educated children and youth on sustainable forest management	number	21 016*	≥8 000	≥8 000	≥8 000	≥8 000	≥8 200	≥8 200	0.07
7. To be a responsible and reliable member of society	LVM reputation indicator <sup>3</sup>	Index points	23.4*	≥20	≥20	≥20	≥20	≥20	≥20	n/a
	Donated funds, share of the average annual profit before corporate income tax planned for a period of 5 years	%	9%	5% - 10%	5% - 10%	5% - 10%	5% - 10%	5% - 10%	5% - 10%	2.5 - 5.0
8. To create a considerate attitude of society towards the forest environment	The target audience reached by the campaign “Don't dirty the forest” at least	thousand pers.	540	540	540	550	550	550	550	0.1
9 To increase the contribution of forests to be managed to mitigate global climate change and increase the use of renewable resources	CO <sub>2</sub> referencing from forest growth (according to LVM methodology) <sup>4</sup>	million CO <sub>2</sub> t	11.0	11.0	11.1	11.2	11.3	11.4	11.5	n/a
	Attracted CO <sub>2</sub> in wood products supplied by LVM (according to LVM methodology) <sup>5</sup>	million CO <sub>2</sub> t	5.8	6.3	6.0	5.9	5.9	5.9	5.9	n/a
10 Provide nature diversity and recreation	Forest and forest land area for nature protection, not more than:									

Strategic goals	Characteristic indicators of the strategic goal	Unit of measurement	Actual performance 2019	Plan 2020	Plan 2021	Plan 2022	Plan 2023	Plan 2024	Plan 2025	Financial impact of the indicator on average per year, million EUR
services from the forest ecosystem	- from the forest <sup>6</sup>	%	16.8%	16.0% <sup>7</sup>	16.0%	16.0%	16.0%	16.0%	16.0%	30
	- from forest land	%	20%	20%	20%	20%	20%	20%	20%	
	Funds invested in the social infrastructure, share of annual turnover	%	0.7%	0.5% - 1.0%	0.5% - 1.0%	0.5% - 1.0%	0.5% - 1.0%	0.5% - 1.0%	0.5% - 1.0%	1.7 - 3.5
	- incl. Jaunmoku Castle	%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.7

<sup>1</sup>Historically is paid according to the law on the annual state budget.

<sup>2</sup>On 27 February 2018, in accordance with the updated methodology, the discount rate was approved - 4.58% (previously - 5.31%).

<sup>3</sup>Assessment of LVM reputation in the group of opinion leaders, which includes representatives of industry associations, leading lecturers of higher education institutions, representatives of the political elite, heads of local governments, public administration employees and leaders in journalism.

<sup>4</sup>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.

<sup>5</sup>Calculated by using coefficients specified in page 21-22 of the study "Development of a model for the calculation of the reference level of carbon dioxide (CO<sub>2</sub>) sequestration and greenhouse gas (GHG) emissions caused by Latvian forest management" of the Latvian State Forest Research Institute "Silava". Coefficients used: amount of carbon accumulated in deciduous industrial timber 0.34 GgC/1000 m<sup>3</sup>, in conifer industrial timber 0.23 GgC/1000 m<sup>3</sup>. Transition coefficient from carbon to CO<sub>2</sub> - 3.67.

<sup>6</sup>Areas where the main purpose of management is nature protection. Non-acquired wood is recalculated into cash. Nature protection territories include areas with a ban on forestry activities and main felling, which is determined in accordance with the regulatory enactments of the Republic of Latvia, as well as areas that are protected on the basis of the initiative of LVM.

<sup>7</sup>Objective and indicator in accordance with the performance indicator indicated in "Guidelines for the Development of Forestry and Related Sectors for 2015-2020" - the areas available for timber cultivation and production is not decreasing

