JOINT STOCK COMPANY LATVIJAS VALSTS MEŽI

(UNIFIED REGISTRATION NUMBER 40003466281)

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

(22nd financial year)

PREPARED IN ACCORDANCE WITH

INTERNATIONAL FINANCIAL REPORTING STANDARDS

AS ADOPTED IN THE EUROPEAN UNION

TOGETHER WITH INDEPENDENT AUDITORS' REPORT

Riga, 2022

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General information

Name of the company	Latvijas valsts meži
Legal status of the company	Joint stock company
Unified registration number, place and date of registration	40003466281 Riga, 28 October 1999 Re-registered with the Commercial Register on 1 November 2004
Registered office	Vaiņodes iela 1 Riga, Latvia, LV-1004
Full name and address of the shareholder	Ministry of Agriculture of the Republic of Latvia (100%) Republikas laukums 2 Riga, Latvia, LV-1981
Shareholder's representative	Arvīds Ozols
Responsible representative of the Ministry of Agriculture	Normunds Strūve
Board Members	Roberts Strīpnieks – Chairman of the Board, resigned on 31/12/2021 Arnis Melnis – re-appointed on 06/05/2017 Chairman of the Board, appointed on 01/01/2022 Gints Bumbieris, re-appointed on 06/05/2017 Edvīns Zakovics, re-appointed on 06/05/2017 Jānis Lapiņš, appointed on 02/09/2019
Council Members	Jurģis Jansons – Chairman of the Council, resigned on 15/11/2021 Arnis Muižnieks – Deputy Chairman of the Council, resigned on 15/11/2021 Elmārs Švēde, resigned on 15/11/2021 Irina Pilvere, resigned on 15/11/2021 Mārtiņš Gaigals, resigned on 15/11/2021 Edmunds Beļskis – Chairman of the Council, appointed on 16/11/2021 Aivars Tauriņš – Deputy Chairman of the Council, appointed on 16/11/2021 Rinalds Muciņš, appointed on 16/11/2021 Kaspars Ozoliņš, appointed on 16/11/2021
Subsidiary	SIA Jaunmoku pils (100%) Tume parish, Tukums district, Latvia, LV-3139
Associate	SIA Meža un koksnes produktu pētniecības un attīstības institūts (40%) Dobeles iela 41, Jelgava, Latvia, LV-3001
Financial year	1 January – 31 December 2021
Auditors	Diāna Krišjāne Latvian Certified Auditor Certificate No 124 SIA Ernst & Young Baltic Muitas 1A, Riga Latvia, LV – 1010 License No 17

Management report

26 April 2022

Business profile

The operating aim of the joint stock company Latvijas valsts meži (Latvia's State Forests) (hereinafter also - LVM or the Company) is to implement the sustainable (cost effective, environmentally friendly and socially responsible) management of national strategic assets transferred to its possession, including national forest properties, and the development of any required infrastructure, services and knowledge. The core business activity of the Company is forestry. In parallel, LVM also provides hunting and recreational services, produces bred seeds and seedlings, sells underground natural resources and leases land for the production of underground natural resources, and designs geospatial information technologies.

The Company's management bodies are the General Shareholders' Meeting, the Council and committees under the Council's authority, and the Board. The supreme decision-making body is the General Shareholders' Meeting, which represents the shareholder, i. e., the Ministry of Agriculture of the Republic of Latvia. LVM's Council consisting of four Council members was elected on 16 November 2021 for a period of five years. The supreme executive body of LVM is the Board. LVM's Board consisting of four Board members was elected on 19 April 2017 to remain in office for five years, with effect from 6 May 2017. The fifth Board member was elected on 28 August 2019 for a period of five years, with effect from 2 September 2019. LVM's Board Member Arnis Melnis was elected as Chairman of the Board by LVM's Council on 27 December 2021. LVM's Council decided on the election of the new chairman of the Board after Roberts Strīpnieks had announced his resignation as of 1 January 2022.

Performance for the reporting year

	Budgeted EUR million	**Actual** EUR million
Revenue	**377.60**	**409.36**
from the sale of roundwood assortment	353.22	374.50
from the sale of standing trees	4.26	7.07
from the sale of chips	5.98	7.91
from the sale of forest tree seeds and seedlings	6.65	7.19
from the sale of mineral materials and their mixtures and the lease of non-forest land	4.91	6.14
Other income from economic activities	2.35	2.23
other revenue*	0.24	4.32
Expense	**251.78**	**246.67**
Cost of sales	**186.47**	**177.68**
Forestry expense	172.56	166.19
Production of forest tree seeds and seedlings	8.38	6.05
Preservation of tourist sites	1.73	1.86
Real estate tax	3.80	3.58
Other operating expense	**65.31**	**68.99**
Depreciation of forest infrastructure	**30.92**	**30.82**
Donations	**4.35**	**4.44**
Profit before corporate income tax	**90.55**	**127.43**

**The difference between revenue and expense which is not directly linked to the operating activity of the Company.*

Management report (cont'd)

LVM manages and administers 1.62 million hectares of land of the Republic of Latvia, including 1.60 million hectares of forest land, of which 1.39 million hectares represent forests. LVM manages 18.7% of the total forest area and more than 23.1% of the total land area (forests, swamps, agricultural land, water bodies) in line with the nature conservation objective. Forest in nature protection areas covers 0.26 million hectares, which only partially are subject to bans on forestry and final felling, including clear felling, according to the existing Latvian legislation. The operating activity aimed at the production of high-quality wood and other products is planned for 1.06 million hectares of forest land, of which 0.21 million hectares are managed subject to additional conditions for environmental protection, recreation and environmental exploration.

The profit before corporate income tax earned by LVM in 2021 was EUR 127.4 million, which exceeds the budgeted figure by EUR 36.9 million. The actual profit level has largely been affected by revenue from the sale of timber, chiefly roundwood assortment. Although sales of roundwood assortment were less than the target by 0.2 million cubic meters, revenue from roundwood sale was higher by EUR 21.3 million, or 6%, thanks to the average selling price of roundwood assortment that grew by EUR 4.69 per m^3. In 2021, 6.83 million cubic meters of timber were sold, including 6.64 million cubic meters of roundwood assortment.

Revenue from the sale of chips exceeded the target by EUR 1.9 million, mainly owing to sales that were up by 176.8 thousand megawatt hours. Chips of 591.8 thousand megawatt hours were sold during the reporting year.

Revenue of EUR 7.1 million was derived from the sale of standing trees, exceeding the target figure by EUR 2.8 million. The revenue was driven by an increase in both sales of standing trees by 20.0 thousand cubic meters and the average selling price by EUR 11.65 per m^3. 193.0 thousand cubic meters of standing trees were sold during 2021.

Other income for 2021 was considerably affected by appreciation of biological assets, compensation for the use of land under power lines, penalties received and other operating income (see Note 8).

In 2021, LVM settled all its liabilities towards the shareholder, i. e., the State, by making a payment of EUR 90.5 million (including a payment of EUR 72.4 million for the utilization of the State capital and corporate income tax of EUR 18.1 million) for the utilization of the State capital referred to in Article 34 of the 2021 State Budget Law and paying all other taxes attributable to LVM's operations (see Note 26).

According to the basic principles approved by the Company's shareholder, LVM made donations of EUR 4.44 million in the reporting year. These donations included EUR 2.30 million for sports support, EUR 0.80 million for forestry development, EUR 0.74 million for cultural support and EUR 0.60 million for social projects.

Company's operations

	Unit of measurement	Planned	Actual
Sale of products			
Sale of roundwood assortment	million m^3	6.83	6.64
Sale of standing trees	million m^3	0.17	0.19
Sale of fuel chips	thousand Mwh	415	592
Sale of seedlings	million pieces	54.4	55.3
including container seedlings and seedlings with an improved root system	*million pieces*	*51.0*	*51.5*
Sale of mineral materials and their mixtures	thousand m^3	541	967
including sale of certified mineral materials and their mixtures	*thousand m^3*	*531*	*860*
Land and forest management			
Reforestation and afforestation	thousand ha	17.4	17.8
including natural regeneration and natural reproduction of plantation forests	*thousand ha*	*5.7*	*5.5*
Young stand tending	thousand ha	33.2	31.7
Cleaning of drainage ditches from obstruction	thousand m^3	564.0	588.1
Land registration with the Land Registry	thousand ha	1.8	1.5
Cadastral land survey	thousand ha	2.2	2.1
Border restoration	thousand ha	15.4	14.6
Expansion of managed forest areas	ha	800	342
Forest infrastructure development			
Construction of forest roads	km	338	345
Reconstruction of forest drainage systems	thousand ha	19.2	18.9

Management report (cont'd)

With a view to increasing the value of forest capital and facilitating annual timber growth, 17.8 thousand hectares were reforested and afforested by planting forests or plantation forests, including the reforestation of an area of 12.2 thousand hectares by adding trees. Natural regeneration of forests, including plantation forests, covered an area of 5.5 thousand hectares. Young stands were tended in an area of 31.7 thousand hectares.

In 2021, the land area of 2.1 thousand hectares, which is 94% of the target figure, was surveyed, while State-owned forest land of 1.5 thousand hectares representing 88% of the target area was registered with the Land Registry. Areas that had not yet undergone the first registration with the Land Registry by the end of 2021 were 346.0 hectares.

Investments made in land acquisition during 2021 to expand managed forest areas amounted to EUR 0.7 million. The General Shareholders' Meeting decided to acquire 29 properties with an area of 190.3 hectares. A total of 342.2 hectares of acquired land were registered with the Land Registry in 2021.

In 2021, forest roads with the total length of 345 km were put into service (exceeding the target by 7 km, or 2%), of which 111 km were reconstructed and 234 km were new roads. These roads are reported on the Company's balance sheet, and the amount of EUR 29.2 million was invested in the construction. In 2021, forest drainage systems in an area covering 18.9 thousand hectares were reconstructed, for which purpose investments of EUR 4.6 million were made.

In 2021, sales of forest tree seedlings reached 55.3 million, of which 25.1 million (45%) were sold to external customers, including 12.9 million seedlings exported – mainly to Sweden and in small volumes also to Estonia and Lithuania. 30.2 million seedlings were planted for ensuring reforestation in the areas managed by LVM. 51.5 million seedlings, which accounted for 93% of the total seedling amount, were grown according to innovative technologies (container seedlings and seedlings with an improved root system). Environmentally friendly anti-weevil products are being increasingly used in forests, thereby minimizing the use of plant protection chemicals. Of seedlings sold in 2021, 5.0 million seedlings were coated with Ecovax, 9.4 million – with a sand-glue mixture, 3.4 million – with a mixture of quartz sand, glue and coloring matter.

LVM maintains its forest management and timber supply chain management system in accordance with the requirements of standards of two world's leading forest certification systems – FSC and PEFC, which integrate social, economic and environmental conditions in addition to legislative requirements. In order to keep the existing certificates in force, 18 certification audits (12 re-certification audits and 6 surveillance audits) were conducted in 2021. Following epidemiological safety measures, auditors were able to see and evaluate all works of the forest management cycle from soil preparation, reforestation and young stand tending to logging and forest road construction, focusing on various social matters, environmental management, compliance with occupational safety requirements and other key aspects of standards. The timber supply chain audits dealt with conformity of LVM's timber supply chain with requirements of international standards, including various processes relating to the preparation and delivery of timber products, such as logging, logistics, sale, etc. The audits did not reveal any significant systemic deficiencies.

In 2021, 967 thousand cubic meters of mineral materials and their mixtures were sold (89% were certified), of which 95%, or 915 thousand cubic meters, were sold to external customers. During 2021, LVM's laboratory for the testing of mineral materials received 2.8 thousand samples and conducted a total of 4.3 thousand tests.

In autumn 2021, LVM's *Zemes dzīles* jointly with independent certification organization SIA Bureau Veritas Latvia conducted a re-certification audit in respect of the production control for mineral materials at 50 mining sites. The audit revealed no instances of non-conformity. The certificate confirms that the highest quality assessment principles and requirements set out in standards are observed in controlling the production of mineral materials and their mixtures at the audited mining sites.

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

Milestone public relations projects and events of LVM in 2021

A working group set up by LVM for managing the risk of Covid-19 spread continued monitoring the situation at the Company and formulating recommendations for curbing the spread of the infection, and kept employees informed about safety principles and restrictions. National laws dealing with the spread of the infection were also followed, integrating their requirements into LVM's operations and internal regulations.

During 2021, LVM's nature parks were visited by 152.4 thousand people, of whom 138.8 thousand visited LVM's Nature Park in Tērvete and 13.6 thousand visited Pokaiņi Forest, down by 12.5% and 21% respectively from the year 2020. Environmental story days were developed and held by LVM's Nature Park in Tērvete all through the year, with a special topic selected for each month in order to continue educating and entertaining park's visitors. Lake boat centers were visited by 19.5 thousand people, down by 2 thousand from the previous year. Fish resources were supplemented by releasing 1 200 kilograms of carps into the local pond in Tērvete.

In 2021, there were organized an information campaign *Nemēslo mežā* (*Don't litter the forest*) and a fire prevention campaign, inviting people to be careful with fire in the forest and not to drive motor vehicles off forest roads. These campaigns included various public relations activities performed together with the State Forest Service.

Management report (cont'd)

The year 2021 was active for LVM's three major environmental education projects – LVM's Nature Park in Tērvete, LVM's Kalsnava Arboretum and Vijciems Cone-drying Kiln, which provided educational activities for a total of 5 446 school students in 2021. Following safety measures adopted in the country, forest lessons were organized both in person (outdoors) and remotely (online), with the participation of 193 teachers from various schools of Latvia. As part of the project *Skola 2030* (*School 2030*), further education courses were organized for teachers, where they learned a new LVM's teaching tool *Meža izziņas mugursoma* (*Forest Education Backpack*) for grades 5-6 concerning the forest management cycle. A project of the European Social Fund was completed, and a new digital teaching and methodological tool *Mežotājs* (*Forester*) on sustainable forestry was developed under *Skola 2030* (*School 2030*) for grades 8-9. A new teaching guide *Skolas mežs* (*School Forest*) was developed jointly with the Interdisciplinary Center for Educational Innovation of the University of Latvia and Jelgava Spīdola State Gymnasium as a platform for long-term cooperation between schools and LVM.

In view of gathering restrictions introduced over Covid-19, LVM offered sixth-grade students to take part in study trips in the open air – LVM Forest Expeditions – across all 8 LVM's regions and 3 permanent facilities, thus bringing together 6 thousand students and teachers. Meanwhile, students in grades 7 to 9 were invited to take part in LVM Forest Olympics, a contest of ideas for outdoor educational games. LVM's educational program for preschoolers was provided remotely due to the Covid-19 restrictions, and 6.9 thousand children graduated from this program in 2021.

Company and environment

LVM manages nature and environmental protection areas defined by the State, such as nature conservation areas, nature parks, protected landscape areas, natural monuments, biosphere reserve, microreserves for protected species and habitats, forest buffers next to water bodies (rivers, lakes, sea) and swamps, around towns and cities, around cultural monuments, etc. In order to conserve natural assets and reduce the environmental impact produced by forestry activities, LVM identifies protected species, habitats of European interest and nesting grounds of protected birds across forest areas every year before planning any operations. In 2021, environmental assets were surveyed within an area of 12.2 thousand hectares.

In 2021, LVM's database was supplemented with 4 700 new, rare and especially protected plants, mushrooms, lichens and invertebrate species, and Company's environmental experts have already recorded nearly 35 thousand encounters with rare and protected species.

At present, LVM's database contains information about habitats of European interest over an area of 113 thousand ha, representing more than 30 types of habitats of European interest (forest, wetland, grassland, coastal dune, freshwater and other habitats), of which 3.9 thousand hectares were identified or revalued in 2021. The largest share represented forest habitats, of which predominant types were old or natural boreal forests, swampy forests and deciduous swamp forests. Coastal, freshwater, grassland and wetland habitats had a relatively smaller share.

Environmental monitoring, such as nest success of protected birds, vitality of protected plant species, environmental quality and number of visitors of recreational areas, etc., is carried out in the territories held by LVM each year. For example, in 2021 nest success was estimated for more than 500 nesting grounds of protected birds, nearly 100 wood grouse mating places. Monitoring results are used in planning measures aimed at reducing the environmental impact produced by the operating activities, including the planning of nature conservation areas, and in introducing fixed-term forestry restrictions.

Nests of protected bird species which have not been identified previously are found each year when verifying potential operating sites. In 2021, LVM's database was supplemented with more than 587 new nests of especially protected bird species, which had not been identified before. LVM's database has information about a total of more than 6 250 big nests, of which 2 487 are nesting grounds of protected bird species, including information about artificial nest platforms built by ornithologists, which are willingly used for nesting by not only fish hawks, which is a protected species, but also black storks. All inhabited nests are provided with protection that is appropriate for relevant species biology.

During 2021, forest, grassland and other habitats were managed over an area of 200 ha, while forest glade maintenance covered 336 ha.

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

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

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

Management report (cont'd)

LVM's contribution to climate change mitigation

Carbon footprint is a carbon dioxide measure that shows the impact of the Company's operations. During 2021, LVM's operations produced a total of 144 329 tonnes of CO_2. The total CO_2 emitted during LVM's operations fell by 23 975 tonnes from the year 2020, which was predominantly driven by a decrease in the construction of forest roads and smaller volumes of roundwood assortment produced and delivered to customers. LVM's own footprint is relatively small, forming approximately 3% of total footprint (4 909 tonnes of CO_2), while the remaining 97% (139 420 tonnes of CO_2) are produced by external service providers involved by the Company.

	2020	**2021**
Emitted CO_2, tonnes	168 304	144 329

Planning and development of the Company

The construction of a Mežvidi nursery near Jaunkalsnava was begun in response to the growing demand for container seedlings and bare-root seedlings with an improved root system in Latvia and Scandinavia: in 2021, 5 glasshouses, 6 planting sites, pumping stations and a water-supply system were put into operation, a fence enclosing the nursery's territory was constructed, 8 watering bars for the planting sites and 5 watering bars for the glasshouses were supplied, and a filling and sowing line was set up. Detail designs for plant freezers were drawn up for Pope and Valmiera nurseries.

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

- Impact of climate changes on forest cultivation and related risks;
- Carbon changes in forest ecosystem;
- Impact of forestry activities on forest and related ecosystem services;
- Research program 2016-2021 on the improvement of growing conditions for trees;
- New working methods and techniques for reforestation, afforestation, forest tending and protection;
- Improvement of the birch growing practice;
- Mitigation of risks of root rot damage and its impacts;
- Future phytopathological risks;
- Forest tree breeding program and research supporting seed breeding for forest tree species;
- Assessment of the interaction of the growth of individual trees and groups of trees;
- Identifying the impacts of forest drainage operations on the hydrologic regime in adjacent territories;
- Research of the use of timber piles in forest road construction for crossing peat inclusions;
- Epiphyte metapopulation dynamics in boreo-nemoral forest landscape;
- Significance of forest birds for the study of environmental factors;
- Assessment of the population status of matchstick flapwort *(Odontoschisma denudatum (Nees) Dum*.) in Northern Kurzeme and land managed by LVM;
- Scientific assessment of the selected territory and drawing-up of a management plan for a forest genetic resource Kaives egle (Kaive fir);
- Studies of the environment affected by mire burns and intensity of mire recovery;
- Production of a new assortment with improved physical qualities and chemical composition of timber;
- In-depth research for the production of a cellulose fiber – lyocell.

Financial risk management

LVM organizes its operations according to the medium-term business strategy approved by the shareholder. According to the strategy, the Company must ensure stable profits and positive cash flows from its operations. Financial management of the Company is carried out in a centralized manner, and its liquidity position enables the Company to fulfil all of its obligations as they fall due, both to its cooperation partners and the State.

LVM's performance may be affected by financial risks, which are however managed and mitigated on a regular basis. Accordingly, the probability that financial risks will cause material adverse impacts on the Company's business or performance is rather low. In the course of business, LVM may be exposed to the following financial risks: foreign currency risk, liquidity risk, receivables risk, market risk and the risk of a rapid decrease in revenue.

Fluctuations in currency exchange rates do not directly affect LVM's costs because settlements with suppliers and prices of services are in the euro. However, there exists a risk that may indirectly affect the cost of LVM's products – changes in the exchange rates of the euro to other currencies, such as the US dollar, may lead to a rise in diesel fuel prices.

In order to prevent liquidity risk, LVM makes careful cash flow planning and maintains liquid assets on a sufficient scale (to the extent of ≥30 days' payments) to be able to settle current liabilities. LVM analyzes potential development scenarios for events that may considerably affect the Company's liquidity position.

LVM ensures regular debtor control to reduce its exposure to receivables risk.

Management report (cont'd)

Multiple causes, such as natural disasters or changes in the selling prices of timber, may lead to a significant and rapid plunge in sales. The risk of a fast market and revenue decline has a medium or low probability, although its impact should be regarded as significant. To minimize consequences of risks of a rapid decrease in revenue and a rise in costs, LVM analyzes its current financial performance monthly, ensuring constant stock control and modelling potential scenarios of future development. Market prices of timber are an external factor that is beyond LVM's control – prudent price forecasts are made to minimize potential risks to the Company's business in the event of price drops.

Non-financial statement

A description of LVM's areas of corporate social responsibility and non-financial indicators are presented in LVM's Sustainability Report 2021, which is publicly available on the Company's website www.lvm.lv. The sustainability report has been drawn up in accordance with *Global Reporting Initiative* (GRI) Core Sustainability Reporting Standards. The sustainability report deals with various matters such as corporate social responsibility, economic responsibility, product responsibility, society, staff and working environment, environmental protection and other non-financial indicators.

Events after the reporting period

As of the last day of the reporting year until the date of signing these financial statements there have been no significant events that could produce a material impact on the Company's financial position as at 31 December 2021. The war in Ukraine is not impacting directly on the Company's operations and financial position. A substantial rise in oil prices will lead to extra cost growth in 2022; however, no large impact on 2022 performance has been identified as at the date of signing these financial statements.

Key business targets for 2022

Operating plan:

Sale of products		
Sale of roundwood assortment	million m³	6.78
Contractual sale of standing trees	million m³	0.17
Supply of fuel chips	thousand Mwh	498
Sale of seedlings	million pieces	61.9
including container seedlings and seedlings with an improved root system	*million pieces*	*56.6*
Sale of mineral materials and their mixtures	thousand m³	853
including sale of certified mineral materials and their mixtures	*thousand m³*	*853*
Land and forest management		
Reforestation and afforestation	thousand ha	18.0
including natural regeneration and natural reproduction of plantation forests	*thousand ha*	*4.6*
Young stand tending	thousand ha	35.4
Cleaning of drainage ditches from obstruction	thousand m³	550.3
Cadastral land survey	thousand ha	0.4
Border restoration	thousand ha	18.3
Expansion of managed forest areas	ha	800
Forest infrastructure development		
Construction of forest roads	km	349
Reconstruction of forest drainage systems	thousand ha	21.0

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

- Impact of forestry activities on forest and related ecosystem services;
- Research of the use of timber piles in forest road construction for crossing peat inclusions;
- Identifying the impacts of LVM's operations on the water regime in adjacent territories;
- Carbon changes in forest ecosystem;
- Impact of climate changes on forest cultivation and related risks;
- Mitigation of risks of root rot damage and the analysis of its impacts;
- Analysis of future phytopathological risks;
- Assessment of the interaction of the growth of individual trees and groups of trees;
- Epiphyte metapopulation dynamics in boreo-nemoral forest landscape;
- Replanting and reintroduction of especially protected vascular plant species;
- Improvement of the birch growing practice;
- Study of environmental factors that are significant for wood grouse protection;
- Using ash for forest roads;
- Production of a new assortment with improved physical qualities and chemical composition of timber;
- Calculation of CO_2 emissions for the chip production process;
- Forest tree breeding research for the selection of forest reproductive material of high genetic quality.

Management report (cont'd)

Profit distribution suggested by the Board

	EUR
Portion of profit available for distribution	111 531 711
Suggested profit distribution:	
dividends to the shareholder, including	89 225 369
payment to the shareholder	*71 380 295*
corporate income tax	*17 845 074*
retained earnings	22 306 342

The Board has suggested that the retained earnings of EUR 22 306 342 should be used for increasing the share capital in line with the Company's strategy.

Arnis Melnis,
Chairman of the Board

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Statement of comprehensive income

	Notes	2021 EUR	2020 EUR
Revenue from contracts with customers	4	405 290 626	349 692 869
Cost of sales	5	(266 956 222)	(260 242 351)
Gross profit		**138 334 404**	**89 450 518**
Distribution costs	6	(2 161 866)	(2 340 802)
Administrative expense	7	(7 052 269)	(6 634 335)
Other operating income	8	4 065 422	1 437 799
Other operating expense	9	(5 247 570)	(5 315 051)
Interest and similar expense	13	(503 416)	(532 006)
Operating profit		**127 434 705**	**76 066 123**
Interest income		-	-
Profit before corporate income tax		**127 434 705**	**76 066 123**
Corporate income tax on dividends		(18 098 800)	(15 213 100)
Income tax expense		2 195 806	1 432 683
Net profit for the year		**111 531 711**	**62 285 706**
Total comprehensive income:		**111 531 711**	**62 285 706**

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

Arnis Melnis
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

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Statement of financial position

ASSETS

NON-CURRENT ASSETS	Notes	31/12/2021 EUR	31/12/2020 EUR
Intangible assets			
Licenses and software	11	2 591 796	2 207 610
TOTAL		**2 591 796**	**2 207 610**
Property, plant and equipment			
Land, buildings and constructions	12	291 002 738	282 088 093
Equipment and machinery	12	5 380 288	4 928 774
Other fixtures and fittings, tools and equipment	12	9 327 227	7 432 888
Construction in progress	12	10 442 413	16 887 351
Prepayments for property, plant and equipment	12	919 137	460 343
TOTAL		**317 071 803**	**311 797 449**
Right-of-use assets	13	**17 159 868**	**18 316 903**
Investment properties	14	**-**	**-**
Biological assets	15	**31 755 286**	**29 278 446**
Non-current financial assets			
Investments in subsidaries	16	1 620 936	1 620 936
Investments in associates	16	566 872	566 872
Other securities	20	880 000	880 000
TOTAL		**3 067 808**	**3 067 808**
TOTAL NON-CURRENT ASSETS		**371 646 561**	**364 668 216**
CURRENT ASSETS			
Inventories			
Raw materials and consumables		2 511 524	2 128 558
Finished goods and goods for sale	17	38 853 433	39 338 032
Prepayments for goods		14 414	3 798
TOTAL		**41 379 371**	**41 470 388**
Receivables and prepayments			
Trade receivables	18	34 123 574	25 951 761
Overpayment of taxes	26	19 308 858	3 442 665
Prepayments for services	19	929 964	574 490
Other receivables		12 441	11 490
TOTAL		**54 374 837**	**29 980 406**
Prepaid expense		**1 194 614**	**1 091 931**
Cash and cash equivalents	21	**112 899 745**	**99 108 142**
TOTAL CURRENT ASSETS		**209 848 567**	**171 650 867**
TOTAL ASSETS		**581 495 128**	**536 319 083**

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

Arnis Melnis
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

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Statement of financial position

EQUITY AND LIABILITIES

	Notes	31/12/2021	31/12/2020
EQUITY		**EUR**	**EUR**
Share capital	22	355 728 573	353 647 767
Reserves		28 787 537	28 787 537
Retained earnings:		129 630 511	92 938 806
brought forward		18 098 800	30 653 100
for the period		111 531 711	62 285 706
TOTAL EQUITY		**514 146 621**	**475 374 110**
LIABILITIES			
Non-current liabilities			
Other provisions	23	14 539 993	9 999 198
Non-current lease liabilities	13	16 463 707	17 496 218
Other liabilities		17 264	18 551
TOTAL		**31 020 964**	**27 513 967**
Current liabilities			
Prepayments received from customers		1 126 376	933 083
Trade payables		6 392 065	7 337 621
Payables to related companies	27	1 433	62 498
Payables to associates	27	44 216	-
Taxes payable	26	2 390 277	1 263 187
Other provisions	23	13 314 355	11 337 158
Other liabilities	24	1 657 861	1 519 520
Accrued liabilities	25	10 156 183	9 794 496
Current lease liabilities	13	1 244 777	1 183 443
TOTAL		**36 327 543**	**33 431 006**
TOTAL LIABILITIES		**67 348 507**	**60 944 973**
TOTAL EQUITY AND LIABILITIES		**581 495 128**	**536 319 083**

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

Arnis Melnis
Chairman of the Board

Gunta Vilciņa
Head of the Financial and Accounting Department

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Statement of cash flows

	Note	2021 EUR	2020 EUR
Cash flows to/from operating activities			
Profit before corporate income tax		**127 434 705**	**76 066 123**
Adjustments for:			
depreciation of property, plant and equipment	12	36 476 890	34 668 914
impairment of property, plant and equipment and intangible assets	11,12	1 156 753	1 757 948
amortization	11	1 101 204	1 040 497
depreciation of right-of-use assets	13	1 438 831	1 467 816
increase in the value of biological assets	15	(1 724 362)	(889 773)
change in provisions, except for allowances for doubtful receivables	23	6 517 992	1 770 979
income from investments in other companies	8	(26 464)	(26 464)
lease interest income	13	503 416	532 006
other (gain on disposal of property, plant and equipment, etc.)		(36 067)	(107 169)
Profit before adjustments for the effect of changes in current assets and current liabilities		**172 842 898**	**116 280 877**
(increase)/decrease in receivables		(9 599 830)	1 813 769
(increase)/decrease in inventories		91 017	(7 108 265)
increase/(decrease) in trade and other payables		(2 030 857)	(1 707 058)
Cash generated from operations		**161 303 228**	**109 279 323**
Corporate income tax paid	26	(29 831 122)	(9 647 641)
Net cash flows to/from operating activities		**131 472 106**	**99 631 682**
Cash flows to/from investing activities			
Purchase of property, plant and equipment and intangible assets	11,12	(44 594 984)	(53 766 749)
Proceeds from sale of property, plant and equipment and intangible assets		35 695	90 904
Change in the value of biological assets	15	(752 478)	(731 942)
Dividends received	8	26 464	26 464
Net cash flows to/from investing activities		**(45 285 303)**	**(54 381 323)**
Cash flows to/from financing activities			
Dividends paid	22	(72 395 200)	(60 852 400)
Net cash flows to/from financing activities		**(72 395 200)**	**(60 852 400)**
Net cash flow for the year		**13 791 603**	**(15 602 041)**
Cash at the beginning of the year		**99 108 142**	**114 710 183**
Cash at the end of the year	21	**112 899 745**	**99 108 142**

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Statement of changes in equity

	Share capital	Retained earnings	Reserves	**Total**
Balance as at 1 January 2020	**353 647 767**	**120 457 137**		**474 104 904**
Dividends paid	-	(60 852 400)	-	**(60 852 400)**
Increase in share capital		(28 787 537)	28 787 537	**-**
Reserves		-		**-**
Other profit transfers		(164 100)	-	**(164 100)**
Total shareholders' contributions and profit distributions recognized under equity	**-**	**(89 804 037)**	**28 787 537**	**(61 016 500)**
Profit for the reporting year	-	62 285 706	-	**62 285 706**
Total comprehensive income recognized in the reporting year	**-**	**62 285 706**	**-**	**62 285 706**
Balance as at 31 December 2020	**353 647 767**	**92 938 806**	**28 787 537**	**475 374 110**
Dividends paid	-	(72 395 200)	-	**(72 395 200)**
Increase in share capital	2 080 806	(2 080 806)		**-**
Reserves	-			**-**
Other profit transfers	-	(364 000)		**(364 000)**
Total shareholders' contributions and profit distributions recognized under equity	**2 080 806**	**(74 840 006)**		**(72 759 200)**
Profit for the reporting year	-	111 531 711	-	**111 531 711**
Total comprehensive income recognized in the reporting year	**-**	**111 531 711**	**-**	**111 531 711**
Balance as at 31 December 2021	**355 728 573**	**129 630 511**	**28 787 537**	**514 146 621**

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

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Notes to the financial statements

1. Corporate information

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

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

The annual report of the Company was approved by a resolution of the Company's Board on 26 April 2022. The Company's shareholder has the power to amend the financial statements after issue.

2. Summary of significant accounting policies

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

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

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

Starting from the year 2016, the Company has prepared its financial statements in accordance with International Financial Reporting Standards as adopted in the European Union.

Basis of preparation

The financial statements of AS Latvijas valsts meži have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted in the European Union (EU). The Company also prepares group's consolidated financial statements, which were approved on 26 April 2022. Due to the European Union's endorsement procedure, the standards and interpretations not yet approved for use in the European Union are also presented in this note as they may have an impact on the financial statements in the following periods, if endorsed.

The financial statements are prepared on a historical cost basis, as modified for the measurement of biological assets at fair value.

The monetary unit used in the financial statements is the euro (EUR). The financial statements cover the period 1 January 2021 through 31 December 2021.

The preparation of financial statements in conformity with IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingencies and income and expense for the reporting period.

Impact of COVID-19

During 2021, the coronavirus disease (COVID-19) pandemic still dragged on, causing disruption in several industries, health care and everyday life. In parallel, governments, including the Republic of Latvia, maintained various support schemes in response to the economic impacts of the COVID-19 coronavirus pandemic. The Company has not applied for such assistance.

The management has considered the unique circumstances and the risk exposures of the Company and has concluded that there is no significant impact on the Company's profitability position. COVID-19 did not have an immediate material impact on the business operations.

The Company's management believes that it is taking all the necessary measures to maintain the viability of the Company and ensure the Company's operations owing to new measures aimed at keeping the Company's business smooth.

The management will continue to monitor the situation closely and will assess the need for new measures for securing smooth operations of the Company in case the period of disruption becomes prolonged.

Foreign currency translation

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

Fair value measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

IFRS 15 *Revenue from Contracts with Customers*
IFRS 15 establishes a five-step model that will apply to revenue earned from a contract with a customer (with limited exceptions), regardless of the type of revenue transaction or the industry. The standard's requirements will also apply to the recognition and measurement of gains and losses on the sale of some non-financial assets that are not an output of the entity's ordinary activities (e.g., sales of property, plant and equipment or intangibles). Extensive disclosures will be required, including disaggregation of total revenue; information about performance obligations; changes in contract asset and liability account balances between periods and key judgments and estimates. The management believes that the implementation of this standard will not have any impact because the Company has no contracts that would provide for separately identifiable goods or services under the performance obligation.

The Company has applied IFRS 15 with the initial application date of 1 January 2018 using the modified retrospective method of adoption. Under the modified retrospective method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company has elected to apply the standard to all contracts existing as at 1 January 2018.

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

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

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

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

If the statement of financial position and the statement of comprehensive income were prepared according to the previous IFRSs (IAS 2 and IAS 18), the financial information would be the same as disclosed in the financial statements.

Contract assets
A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration. The Company had no such assets as at 31 December 2020 and 2021.

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

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

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

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

Intangible assets

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

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

The useful life of intangible assets is 34 months.

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

Property, plant and equipment

Property, plant and equipment are recognized if:

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

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

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

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

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

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

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

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

Leases (Company as a lessee)

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

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

Determining the lease term of contracts with renewal and termination options

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

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

Right-of-use assets

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

- Buildings over 2 to 15 years

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

Lease liabilities

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

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

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

Investment properties

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at historical cost less accumulated depreciation and impairment.

Investment properties are derecognized either when they have been disposed of or when no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

Transfers are made to investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the carrying value at the date of the change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of the change in use.

Biological assets

Biological assets are regenerative assets whose value is subject to change through growth. Forest stands whose value is changing through growth and which are held by the Company to obtain raw materials for production and sale are treated as biological assets.

Forest stands are initially recognized at cost and subsequently, after initial recognition, are restated at fair value at the year end. Fair value is determined according to a method whereby the present value of net cash flows from biological assets is calculated by applying a discount rate. The difference between the carrying value and the revalued amount is recognized as income or expense for the period depending on whether the value is increased or decreased as a result of the revaluation.

Investments in subsidiaries and associates

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

IFRS 9 *Financial Instruments*

Classification and measurement

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

Financial liabilities are classified as follows:
a) financial liabilities measured at amortized cost; and
b) financial liabilities at fair value through profit or loss.

Financial assets at amortized cost
Financial assets (with the exception of trade receivables) are measured at amortized cost if both of the following conditions are met and assets are not classified as financial assets at fair value through profit or loss:
a) the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

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

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

Classification and measurement (cont'd)

Equity instruments at fair value through other comprehensive income

Upon initial recognition, the Company can elect to classify irrevocably its equity investments as equity instruments designated at fair value through other comprehensive income when they:
(a) meet the definition of equity instruments under IAS 32 *Financial Instruments: Disclosure and Presentation*, and
(b) are not held for trading.
The classification is determined on an instrument-by-instrument basis. These instruments are recognized initially at fair value plus transaction costs that are directly attributable to their acquisition. Subsequent to initial recognition, they are measured at fair value. Dividends are recognized in the statement of profit or loss. Other net gains and losses are taken to comprehensive income and are never recycled to profit or loss.

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

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

Initial recognition of assets

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

Initial recognition of liabilities

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

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

The assessment of the Company's business model was made as of the date of initial application of IFRS 9, 1 January 2018. The assessment of whether contractual cash flows are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

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

Cash and cash equivalents

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

Derecognition

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

Inventories

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

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

Provisions

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

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

Provisions for reforestation costs are made on the basis of the actual area to be reforested at the beginning of 2021 and planned reforestation costs, which consist of labor and plant costs, considering the actual reforestation costs incurred in the reporting year. Subsequent changes in the provisions are taken to the statement of profit or loss.

Provisions for bonuses were made on the basis of the results of 2021 and the Procedure for Calculation and Allocation of Bonuses.

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

Other securities

The Company's shares are stated at fair value.

The Company has selected the discounted cash flow method, which is based on financial forecasts for the following five years, as the most suitable method for determining the market value of its shares because the Company's shares are not quoted in an active market.

Corporate income tax

Corporate income tax for the year 2021 is calculated according to the Corporate Income Tax Law, which has been in force as of 1 January 2018.

Legal entities have not been required to pay income tax on earned profits starting from 1 January 2018 in accordance with the Corporate Income Tax Law of the Republic of Latvia. Corporate income tax is paid on distributed profits and deemed profit distributions. Both distributed profits and deemed profit distributions are subject to the tax rate of 20 per cent of their gross amount, or 20/80 of net expense. Corporate income tax on dividends is recognized in the statement of profit or loss as expense in the reporting period when respective dividends are declared, while, as regards other deemed profit items, at the time when expense is incurred in the reporting year.

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

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

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the reporting date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Significant accounting estimates and judgements

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expense, and disclosure of contingencies. Future events occur which cause the assumptions used in arriving at the estimates to change. The effect of any changes in estimates will be recorded in the financial statements, when determinable. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Estimates concerning property, plant and equipment

Useful lives of property, plant and equipment

The Company makes estimates concerning the useful lives and residual values of property, plant and equipment. These estimates are reviewed at the end of each reporting period and are based on the past experience and industry practice. Previous experience has shown that the actual useful lives have sometimes been longer than the estimates.

Recoverable amount of property, plant and equipment

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

Recurring fair value measurement of biological assets

Revaluation of biological assets is performed according to the following principles:

1. The dominant species which will be forested in accordance with the LVM forest planting practices are as follows: pine plantations – 50%, fir plantations – 40%, birch plantations – 8% and black alder plantations – 2% of the total area.
2. The following assumptions are used in calculations for forest stands:
    a. costs are calculated by estimating average costs for the last five years (2017-2021) of forestry works (soil preparation, planting and sawing, daily maintenance of forest infrastructure, tending of young stands), materials, administrative expense and real estate tax for the reporting year;
    b. revenues are calculated using the price of round timber at the place of consumption less transport and harvesting costs to obtain the price of growing timber.

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

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

Recognition and measurement of provisions

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

Provisions for reforestation

As at 31 December 2021, the Company established provisions for reforestation of EUR 23 975 645. The amount and timing of these obligations are uncertain. To determine the present value of these provisions, certain assumptions and estimates have been used, including the amount of future expenditure, inflation rates and the timing of settlement of the expenditure. The actual expenditure may differ from the provisions recognized as a result of possible legislative changes, technology available in the future to eliminate environmental damages and expenditure covered by third parties. The Company estimates that the costs would be realized in six years' time and calculates the provision using the DCF method based on the following assumptions:

- the estimated range of cost per hectare (ha) includes labor and material (plant) costs;
- 66% of forest clearings will be replenished artificially by forest plantations and seeding of forests;
- 34% of forest clearings will be regenerated naturally, and natural regeneration will be facilitated for 2% of these areas;
- 10% of regenerated areas will require additional replenishment of tree plantations;
- material (plant) costs are calculated by taking into account seed consumption rates per ha and nursery/seed production costs.

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

3.1. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year except for the following amended IFRSs which have been adopted by the Company as of 1 January 2021:

- **Interest Rate Benchmark Reform – Phase 2 – IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)**
  In August 2020, the IASB published Interest Rate Benchmark Reform – Phase 2, Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16, completing its work in response to the IBOR reform. The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). In particular, the amendments provide for a practical expedient when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, to require the effective interest rate to be adjusted, equivalent to a movement in a market rate of interest.
  Also, the amendments introduce reliefs from discontinuing hedge relationships including a temporary relief from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.
  There are also amendments to IFRS 7 Financial Instruments: Disclosures to enable users of financial statements to understand the effect of the interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021, with earlier application permitted. The amendments had no material impact on the Company's financial statements.

- **IFRS 16: Leases – Covid-19-Related Rent Concessions (Amendment)**
  The amendment applies retrospectively to annual reporting periods beginning on or after 1 June 2020. Earlier application is permitted, including in financial statements not yet authorized for issue at 28 May 2020. The IASB amended the standard to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. The amendment provides a practical expedient for the lessee to account for any change in lease payments resulting from the Covid-19-related rent concession the same way it would account for the change under IFRS 16, if the change was not a lease modification, only if all of the following conditions are met:
  - The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change.
  - Any reduction in lease payments affects only payments originally due on or before 30 June 2021.
  - There is no substantive change to other terms and conditions of the lease.

  The amendment had no material impact on the Company's financial statements.

3.1. Changes in accounting policy (cont'd)

3.2. Standards issued but not yet effective and not early adopted

- **IFRS 17: Insurance Contracts**
  The standard is effective for annual periods beginning on or after 1 January 2021, with earlier application permitted if both IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments have also been applied. In its March 2020 meeting the Board decided to defer the effective date to 2023. IFRS 17 Insurance Contracts establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. The objective is to ensure that entities provide relevant information in a way that faithfully represents those contracts. This information gives a basis for users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IFRS 17: Insurance Contracts (Amendments)**
  The amendments to IFRS 17 are effective retrospectively for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments aim at helping companies implement the standard. In particular, the amendments are designed to reduce costs by simplifying some requirements in the standard, make financial performance easier to explain and ease transition by deferring the effective date of the standard to 2023 and by providing additional relief to reduce the effort required when applying IFRS 17 for the first time. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IFRS 17: Insurance Contracts – Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments)**
  The amendment is effective for annual reporting periods beginning on or after 1 January 2023, with early application permitted respectively with IFRS 17. For entities that first apply IFRS 17 and IFRS 9 at the same time, the amendment adds a transition option for a "classification overlay", relating to comparative information of financial assets. An entity applying the classification overlay to a financial asset shall present comparative information as if the classification and measurement requirements of IFRS 9 had been applied to that financial asset. Also, in applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of IFRS 9. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements. These amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

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

- **Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**
  The amendments address an acknowledged inconsistency between the requirements in IFRS 10 and those in IAS 28, in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognized when a transaction involves a business (whether it is housed in a subsidiary or not). A partial gain or loss is recognized when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. In December 2015, the IASB postponed the effective date of this amendment indefinitely pending the outcome of its research project on the equity method of accounting. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current (Amendments)**
  The amendments were initially effective for annual reporting periods beginning on or after 1 January 2022, with earlier application permitted. However, in response to the Covid-19 pandemic, the Board has deferred the effective date by one year, i.e. 1 January 2023, to provide companies with more time to implement any classification changes resulting from the amendments. The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current or non-current. The amendments affect the presentation of liabilities in the statement of financial position and do not change existing requirements around measurement or timing of recognition of any asset, liability, income or expenses, nor the information that entities disclose about those items. Also, the amendments clarify the classification requirements for debt which may be settled by the company issuing own equity instruments.
  In November 2021, the Board issued an exposure draft (ED), which clarifies how to treat liabilities that are subject to covenants to be complied with, at a date subsequent to the reporting period. In particular, the Board proposes narrow-scope amendments to IAS 1 which effectively reverse the 2020 amendments requiring entities to classify as current, liabilities subject to covenants that must only be complied with within the next twelve months after the reporting period, if those covenants are not met at the end of the reporting period. Instead, the proposals would require entities to present separately all non-current liabilities subject to covenants to be complied with only within twelve months after the reporting period. Furthermore, if entities do not comply with such future covenants at the end of the reporting period, additional disclosures will be required. The proposals will become effective for annual reporting periods beginning on or after 1 January 2024 and will need to be applied retrospectively in accordance with IAS 8, while early adoption is permitted. The Board has also proposed to delay the effective date of the 2020 amendments accordingly, such that entities will not be required to change current practice before the proposed amendments come into effect. These amendments, including ED proposals, have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets as well as Annual Improvements 2018-2020 (Amendments)**
  The amendments are effective for annual periods beginning on or after 1 January 2022, with earlier application permitted. The IASB has issued narrow-scope amendments to the IFRS Standards as follows:
  - **IFRS 3 Business Combinations (Amendments)** update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.
  - **IAS 16 Property, Plant and Equipment (Amendments)** prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.
  - **IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendments)** specify which costs a company includes in determining the cost of fulfilling a contract for the purpose of assessing whether a contract is onerous.
  - **Annual Improvements 2018-2020** make minor amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IAS 41 Agriculture and the Illustrative Examples accompanying IFRS 16 Leases.

  The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

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

- **IFRS 16 Leases – Covid-19-Related Rent Concessions beyond 30 June 2021 (Amendment)**
  The amendment applies to annual reporting periods beginning on or after 1 April 2021, with earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued. In March 2021, the Board amended the conditions of the practical expedient in IFRS 16 that provides relief to lessees from applying the IFRS 16 guidance on lease modifications to rent concessions arising as a direct consequence of the Covid-19 pandemic.
  Following the amendment, the practical expedient now applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2: Disclosure of Accounting Policies (Amendments):**
  The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. The amendments provide guidance on the application of materiality judgements to accounting policy disclosures. In particular, the amendments to IAS 1 replace the requirement to disclose 'significant' accounting policies with a requirement to disclose 'material' accounting policies. Also, guidance and illustrative examples are added in the Practice Statement to assist in the application of the materiality concept when making judgements about accounting policy disclosures. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors: Definition of Accounting Estimates (Amendments):**
  The amendments become effective for annual reporting periods beginning on or after 1 January 2023, with earlier application permitted, and apply to changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. The amendments introduce a new definition of accounting estimates, defined as monetary amounts in financial statements that are subject to measurement uncertainty. Also, the amendments clarify what changes in accounting estimates are and how these differ from changes in accounting policies and corrections of errors. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

- **IAS 12 Income Taxes: Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments):**
  The amendments are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted. In May 2021, the Board issued amendments to IAS 12, which narrow the scope of the initial recognition exception under IAS 12 and specify how companies should account for deferred tax on transactions such as leases and decommissioning obligations. Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal. The amendments have not yet been endorsed by the EU. The management has made an assessment of the impact of this standard and considers that these amendments will not have any significant impact on the Company's financial statements.

4. Revenue/revenue from contracts with customers

By business segments	2021	2020
Sale of roundwood assortment	374 492 902	320 757 267
Sale of chips	7 912 287	5 655 897
Sale of seedlings	7 117 296	7 482 680
Sale of standing trees	7 065 573	7 931 705
Land lease	3 776 828	3 571 026
Sale of mineral resources	2 395 698	1 881 091
Hunting and recreational services	1 090 608	979 971
Lease of hunting areas	619 905	608 446
Sale of forest seeds	70 881	52 697
Other income	748 648	772 089
TOTAL:	**405 290 626**	**349 692 869**

5. Cost of sales

	2021	2020
Works and services costs, including:	161 190 760	172 397 520
Production of roundwood assortment, including:	124 429 037	136 967 664
Preparation of roundwood assortment	*49 254 987*	*54 604 225*
Transportation of roundwood assortment	*39 697 295*	*43 940 449*
Forwarding of roundwood assortment	*34 466 922*	*37 629 343*
Maintenance and repair of forest roads	8 725 339	8 348 654
Tending of young stands	5 963 114	5 423 253
Agrotechnical tending of forest areas	5 191 758	4 708 774
Production of chips	4 667 278	5 262 415
Forest protection	2 456 318	2 225 983
Soil preparation	2 341 513	1 890 557
Forestation	2 286 261	1 689 419
Registration of land properties	1 447 894	1 910 789
Management of underground natural resources	1 142 123	1 538 004
Maintenance of land drainage systems	986 021	885 861
Production of forest reproductive material	699 911	773 933
Expansion of reforested areas	275 203	287 503
Preservation of heritage sites and sites of public significance	194 744	211 705
Fire safety of forests	147 063	73 412
Hunting costs	134 407	83 376
Forest inventory	99 849	107 492
Pruning of standing trees	2 927	8 726

5. Cost of sales (cont'd)

Depreciation and amortization	37 317 711	35 453 178
Staff costs, including:	37 770 641	35 467 399
Basic salaries	*23 826 224*	*22 351 927*
Statutory social insurance contributions	*7 112 770*	*6 821 684*
Bonuses	*4 916 468*	*4 560 704*
Benefits and compensations	*1 915 179*	*1 733 084*
Acquisition of other materials	4 932 475	3 901 576
Real estate tax	3 581 890	3 575 032
Insurance	2 940 076	2 743 387
Low-value inventory	2 161 743	1 416 072
Maintenance of offices of production bodies	2 119 421	1 845 274
Scientific research and consultations	1 676 426	1 291 580
Fuel	1 637 645	1 467 410
Depreciation of right-of-use assets	1 097 093	1 126 078
Vehicle maintenance	674 505	626 837
Changes in stocks of finished goods*	484 599	(6 145 489)
Communications services	439 285	445 599
Natural resource tax	372 800	253 146
State charges	278 209	197 273
Legal fees	33 859	24 778
Other cost of sales, including:	8 247 084	4 155 701
Changes in provisions, net, of which:	6 112 908	1 919 811
*Reforestation***	*6 081 191*	*1 628 755*
Bonuses	*(140 421)*	*211 633*
Quarry rehabilitation	*310 632*	*(19 699)*
Doubtful receivables	*474*	*(19 669)*
Vacation pay reserve	*(138 968)*	*118 791*
	266 956 222	**260 242 351**

* Changes in stocks of finished products were affected by favorable weather conditions for the removal of timber assortments from the forest, the fulfillment of contracts for the sale of wood chips in excess of production, and the start-up of the new forest nursery "Meževidi".

** Increase in the reforestation because of increase in planned reforestationed area, the increase in the costs of labor and planting material.

6. Distribution costs

	2021	2020
Timber measurement	2 161 866	2 340 802
TOTAL:	**2 161 866**	**2 340 802**

7. Administrative expense

	2021	2020
Staff costs, including:	4 145 337	3 973 882
Basic salaries	*2 646 813*	*2 566 805*
Statutory social insurance contributions	*809 050*	*781 111*
Bonuses	*548 837*	*500 900*
Benefits and compensations	*140 637*	*125 066*
Insurance	360 646	345 115
Depreciation of right-of-use assets	341 738	341 738
Information system maintenance and database subscription	333 269	298 137
Depreciation and amortization	260 383	256 233
Staff development costs	174 676	149 229
Advertising and advertisements	168 535	198 697
Communications expense	62 380	62 949
Office maintenance	56 015	50 161
Legal fees	53 446	104 755
Representation expense	51 291	40 544
Consulting and other research	48 853	53 191
Fuel	43 863	41 989
Transport expense	26 826	39 015
Low-value inventory	21 162	14 771
Fees paid to Latvian firms of certified auditors*	19 916	18 791
Business trips	1 310	6 518
Other management and administrative expense, including:	882 623	638 620
Changes in provisions, net, of which:	*267 023*	*(17 638)*
Bonuses	*266 590*	*(49 710)*
Vacation pay reserve	*433*	*32 072*
TOTAL:	**7 052 269**	**6 634 335**

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

	2021	2020
Statutory annual audit (review)	19 750	18 660
Other specialist's tasks	166	131
TOTAL:	**19 916**	**18 791**

8. Other operating income

	2021	2020
Appreciation of biological assets, net (see Note 15)	1 724 362	-
Compensation for the use of land under power lines	891 376	313 865
Gain on disposal of property, plant and equipment and current assets, net	400 146	107 169
Penalties received	344 118	439 194
Other income	304 705	331 861
Dividends	26 464	26 464
Other operating income	374 251	219 246
TOTAL:	**4 065 422**	**1 437 799**

9. Other operating expense

	2021	2020
Donations, including;	4 435 000	4 350 000
for sport support	*2 300 000*	*2 200 000*
for forestry development	*800 000*	*800 000*
for cultural support	*735 000*	*750 000*
for social projects	*600 000*	*600 000*
Preservation of a cultural and historical object*	769 560	750 844
Impairment of biological assets, net (see Note 15)	-	228 727
Allowances for doubtful receivables	(1 314)	(24 011)
Other operating expense	44 324	9 491
TOTAL:	**5 247 570**	**5 315 051**

* changes have been made in the cost classification, specifying costs according to the economic nature - by transferring the cost item 'Museum expenses' from the administrative costs to other operating costs as the cost item 'Maintenance of a cultural and historical object'.

10. Staff costs and number of employees

	2021	2020
Wages and salaries	33 994 158	31 838 486
Statutory social insurance contributions	7 921 820	7 602 795
Changes in provisions for bonuses	126 169	161 923
Changes in vacation pay reserve	(138 535)	150 863
TOTAL:	**41 903 612**	**39 754 067**

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

	2021	2020
Cost of sales	37 491 252	35 797 823
Administrative expense	4 412 360	3 956 244
TOTAL:	**41 903 612**	**39 754 067**

Key management personnel compensation:

Council Members	2021	2020
Wages and salaries	162 215	166 212
Statutory social insurance contributions	37 156	39 136
TOTAL:	**199 371**	**205 348**

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

Board Members		2021	2020
Wages and salaries		662 104	634 528
Statutory social insurance contributions		156 190	152 858
	TOTAL:	**818 294**	**787 386**

		2021	2020
Average number of Board Members during the reporting year		5	5
Average number of employees during the reporting year		1 427	1 392
	TOTAL:	**1 432**	**1 397**

11. Intangible assets

	Software	Programming in progress	TOTAL
Cost or revalued amount			
As at 1 January 2020	**9 466 703**	**-**	**9 466 703**
Additions	1 089 246	60 278	1 149 524
Reclassification	60 278	(60 278)	-
Disposals	(68 377)	-	(68 377)
As at 31 December 2020	**10 547 850**	**-**	**10 547 850**
Additions	1 096 426	388 964	1 485 390
Reclassification	388 964	(388 964)	-
Disposals	(146 662)	-	(146 662)
As at 31 December 2021	**11 886 578**	**-**	**11 886 578**
Amortization and impairment			
As at 1 January 2020	**7 368 120**	-	**7 368 120**
Amortization charge	1 040 497	-	1 040 497
Disposals	(68 377)	-	(68 377)
As at 31 December 2020	**8 340 240**	-	**8 340 240**
Amortization charge	1 101 204	-	1 101 204
Disposals	(146 662)	-	(146 662)
As at 31 December 2021	**9 294 782**	**-**	**9 294 782**
Net carrying amount			
As at 31 December 2020	**2 207 610**	**-**	**2 207 610**
As at 31 December 2021	**2 591 796**	**-**	**2 591 796**

Fully amortized assets

A number of intangible assets that have fully been amortized are still in active use. The total cost value of these intangible assets as at the end of the year was EUR 3 252 171 (2020: EUR 2 863 517).

Amortization

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

		2021	2020
Cost of sales		980 968	913 406
Administrative expense		120 236	127 091
	TOTAL:	**1 101 204**	**1 040 497**

12. Property, plant and equipment

	Land	Buildings	Roads	Equipment and machinery	Computers	Other fixtures and fittings, tools and equipment	Construction in progress	Prepayments	TOTAL
Cost or revalued amount									
As at 1 January 2020	5 173 133	**91 287 171**	**423 315 595**	**14 685 046**	**5 137 030**	**17 307 218**	**10 435 422**	**673 662**	**568 014 277**
Additions		69 020	-	895 186	411 852	1 228 540	48 414 594	1 658 546	52 677 738
Reclassification	448 810	7 106 212	34 595 492	(9 898)		887 049	(41 157 538)	(1 871 865)	(1 738)
Disposals	-	(27 430)	-	(725 729)	(107 436)	(267 377)	(805 127)	-	(1 933 099)
As at 31 December 2020	**5 621 943**	**98 434 973**	**457 911 087**	**14 844 605**	**5 441 446**	**19 155 430**	**16 887 351**	**460 343**	**618 757 178**
Additions	-	238 211	-	1 489 391	824 490	1 377 762	37 882 362	1 095 409	42 907 625
Reclassification	149 734	13 093 992	28 538 964	73 760	-	1 850 412	(43 364 468)	(636 606)	(294 212)
Disposals	-	(112 340)	-	(786 586)	(10 377)	(268 197)	(962 832)	(9)	(2 140 341)
As at 31 December 2021	**5 771 677**	**111 654 836**	**486 450 051**	**15 621 170**	**6 255 559**	**22 115 407**	**10 442 413**	**919 137**	**659 230 250**
Depreciation and impairment									
As at 1 January 2020	**-**	**31 450 278**	**216 777 701**	**9 595 015**	**4 149 315**	**11 517 094**	**-**	**-**	**273 489 403**
Depreciation charge	-	4 661 266	27 073 581	1 020 411	598 007	1 315 649	-	-	34 668 914
Reclassification	-	-	(59 725)	(9 898)	-	(46 002)	-	-	(115 625)
Disposals	-	(23 191)	-	(689 697)	(107 157)	(262 918)	-	-	(1 082 963)
As at 31 December 2020	**-**	**36 088 353**	**243 791 557**	**9 915 831**	**4 640 165**	**12 523 823**	**-**	**-**	**306 959 729**
Depreciation charge	-	5 245 118	**28 002 126**	1 073 594	585 738	1 570 314	-	-	36 476 890
Reclassification	-	-	(150 130)		-		-	-	(150 130)
Disposals	-	(103 198)	-	(748 543)	(9 864)	(266 437)	-	-	(1 128 042)
As at 31 December 2021	**-**	**41 230 273**	**271 643 553**	**10 240 882**	**5 216 039**	**13 827 700**	**-**	**-**	**342 158 447**
Net carrying amount									
As at 1 January 2020	**5 173 133**	**59 836 893**	**206 537 894**	**5 090 031**	**987 715**	**5 790 124**	**10 435 422**	**673 662**	**294 524 874**
As at 31 December 2020	**5 621 943**	**62 346 620**	**214 119 530**	**4 928 774**	**801 281**	**6 631 607**	**16 887 351**	**460 343**	**311 797 449**
As at 31 December 2021	**5 771 677**	**70 424 563**	**214 806 498**	**5 380 288**	**1 039 520**	**8 287 707**	**10 442 413**	**919 137**	**317 071 803**

The Company is managing real estate whose value is EUR 3 468 975 (2020: EUR 2 809 337) and which has been taken over from the State Forest Service and other institutions, is not regarded as an item of property, plant and equipment and is recognized as an off-balance sheet item (see Note 29).

Cadastral value of real estate

The cadastral value of the Company's land as at 31 December 2021 was EUR 3 472 421 (2020: EUR 3 445 558). The cadastral value of buildings was EUR 1 777 233 (2020: EUR 2 049 979).

Fully depreciated assets

A number of assets that have fully been depreciated are still in active use. The total cost value of these assets as at the end of the year was EUR 80 694 402 (2020: EUR 58 178 885).

Depreciation

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

	2021	2020
Cost of sales	36 336 743	34 539 772
Administrative expense	140 147	129 142
TOTAL:	**36 476 890**	**34 668 914**

13. Leases

The Company applies IFRS 16 *Leases* and recognizes right-of-use assets and lease liabilities as a lessee in its financial statements. According to IFRS 16, the Company measures right-of-use assets, non-cancellable lease terms and lease payments for identifiable assets. The Company applies a single accounting approach for all leases. According to IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In 2021, there were no significant modifications in the Company's leases that should be disclosed in the financial statements.

Right-of-use assets	Buildings	Land	Total
Cost			
As at 1 January 2020	**21 246 127**	**-**	**21 246 127**
Additions	6 421	-	6 421
As at 31 December 2020	**21 252 548**	**-**	**21 252 548**
Additions	192 895	88 901	281 796
Disposals	(143 296)		(143 296)
As at 31 December 2021	**21 302 147**	**88 901**	**21 391 048**
Depreciation and impairment			
As at 1 January 2020	**1 467 829**		**1 467 829**
Depreciation charge	1 467 816		1 467 816
As at 31 December 2020	**2 935 645**		**2 935 645**
Depreciation charge	1 429 306	9 525	1 438 831
Disposals	(143 296)	-	(143 296)
As at 31 December 2021	**4 221 655**	**9 525**	**4 231 180**
Net carrying amount			
As at 1 January 2020	**19 778 298**		**19 778 298**
As at 31 December 2020	**18 316 903**		**18 316 903**
As at 31 December 2021	**17 080 492**	**79 376**	**17 159 868**

Lease liabilities	31/12/2021	31/12/2020
At the beginning of the reporting year	**18 679 661**	**19 944 228**
Recognized increase in lease liabilities	281 796	6 421
Recognized decrease in lease liabilities	(1 756 389)	(1 802 994)
Lease interest expense	503 416	532 006
At the end of the reporting year*	**17 708 484**	**18 679 661**
including non-current lease liabilities	*16 463 707*	*17 496 218*
current lease liabilities	*1 244 777*	*1 183 443*

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

	2021 EUR	2020 EUR
Depreciation expense of right-of-use assets	(1 438 831)	(1 467 816)
Interest expense on lease liabilities	503 416	532 006
Expense relating to leases of low-value assets (included in cost of sales)	(7 058)	(4 453)
Total amount recognized in profit or loss	**(942 473)**	**(940 263)**

The Company had total cash outflows for leases of EUR 1 746 314 in 2021 (2020: EUR 1 772 686).

14. Investment properties

	Investment properties	TOTAL
Cost		
As at 1 January 2020	**1 377 882**	**1 377 882**
Reclassification*	(1 377 882)	(1 377 882)
Revaluation	-	-
Disposals	-	-
As at 31 December 2020	**-**	**-**
Revaluation	514 130	514 130
Reclassification	(514 130)	(514 130)
As at 31 December 2021	**-**	**-**
Depreciation and impairment		
As at 1 January 2020	**-**	**-**
Reclassification	2 021	**2 021**
Disposals	(2 021)	(2 021)
As at 31 December 2020	**-**	**-**
Reclassification	150 130	150 130
Disposals	(150 130)	(150 130)
As at 31 December 2021	**-**	**-**
Net carrying amount		
As at 31 December 2020	**-**	**-**
As at 31 December 2021	**-**	**-**

15. Biological assets

	31/12/2021	31/12/2020
At the beginning of the reporting year	29 278 446	27 656 731
Reclassification*	-	1 118 500
Additions	752 478	731 942
Development	(904 015)	(751 534)
Increase in fair value**	2 628 377	522 807
TOTAL:	**31 755 286**	**29 278 446**

In 2021, all factors affecting the discount rate were assessed and, as a result, the discount rate has been kept as 4.70%.

The discount rate is calculated as the weighted average cost of capital. The rate has not been revised for several years, and indicators affecting the rate have changed.

* Investment properties have been reclassified as property, plant and equipment (land) and biological assets (forest stands) due to a change in the purpose of their use (the Company has started using properties for business purposes).

** The value of biological assets changed in 2021 due to an increase in selling prices of wood assortment by EUR 9.88, which is by 18%, on average. Reforestation was carried out in areas of 208.5 ha, including 169.1 ha reforested by planting bred planting material. The value of forests grew owing to tending activities, when the existing tree species were replaced with more valuable species.

15. Biological assets (cont'd)

Sensitivity of key assumptions

Assumption	Change in wood assortment prices in the place of production +/- 10%	Change in the discount rate +/- 1%
Fair value of biological assets, %	+/- 13.3%	+/- 17.6%

Biological assets as at 31 December 2021 comprised mature stands of 1 491 ha (12.8%) (31 December 2020: 1 294 ha (12.3%)), while the remaining part of biological assets had not yet reached the felling age.

16. Investments in subsidiaries and associates

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

On 18 October 2005, the Company acquired 38% of shares in SIA Meža un koksnes produktu pētniecības un attīstības institūts. The shareholders decided to increase the share capital on 7 May 2009; as a result, the Company owned 40% of shares in SIA Meža un koksnes produktu pētniecības un attīstības institūts as at 31 December 2012. SIA Meža un koksnes produktu pētniecības un attīstības institūts supplies services related to testing and applied research and the development of continuing and vocational education and prepares research and development projects. The principal place of business is Latvia. This investment is classified as an associate.

	Investment type	31/12/2021	31/12/2020
SIA Jaunmoku pils	Subsidiary	1 620 936	1 620 936
SIA Meža un koksnes produktu pētniecības un attīstības institūts	Associate	566 872	566 872
	TOTAL:	**2 187 808**	**2 187 808**

Information about subsidiaries and associates:

Company	Equity		Profit for the year	
	31/12/2021	31/12/2020	2021	2020
SIA Jaunmoku pils	1 686 615	1 638 215	48 400	99 752
SIA Meža un koksnes produktu pētniecības un attīstības institūts	853 719	784 519	69 200	1 137
TOTAL:	**2 540 334**	**2 422 734**	**117 600**	**100 889**

17. Finished goods and goods for sale

	31/12/2021	31/12/2020
Seedlings	15 774 816	13 786 970
Forest seeds	6 872 266	6 947 456
Chips	5 529 879	6 457 085
Roundwood assortment at roadside sites and in ports	5 195 412	8 224 799
Ornamental plants	4 475 234	2 940 105
Mixtures of mineral materials	1 003 103	978 119
Ornamental seeds	2 723	3 498
TOTAL:	**38 853 433**	**39 338 032**

18. Trade receivables

	31/12/2021	31/12/2020
Trade receivables	34 276 757	26 104 470
Allowances for expected credit losses	(153 183)	(152 709)
TOTAL:	**34 123 574**	**25 951 761**

Trade receivables are non-interest bearing and are generally on 30-90 days' terms.

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

			Past due but not impaired, days			
	TOTAL	**Neither past due nor impaired**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0.01%	0.17%	15%	25%	75%
	26 104 470	**24 668 170**	**1 093 859**	**110 896**	**83 820**	**147 725**
Balance as at 31 December 2020	**26 104 470**	**24 668 170**	**1 093 859**	**110 896**	**83 820**	**147 725**
Impairment	**152 709**	2 467	1 860	16 634	20 955	110 793

			Past due days			
	TOTAL	**Not past due**	***<45***	***46-90***	***91-180***	***>180***
Expected credit losses		0.01%	0.17%	15%	25%	75%
	34 276 757	**33 597 491**	**397 729**	**91 171**	**14 605**	**175 761**
Balance as at 31 December 2021	**34 276 757**	33 597 491	397 729	91 171	14 605	175 761
Impairment	**153 183**	3 360	676	13 675	3 651	131 821

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

19. Prepayments for services

	31/12/2021	31/12/2020
Prepayments for services	929 964	574 490
TOTAL:	**929 964**	**574 490**

20. Other securities

	31/12/2021		31/12/2020	
Type of securities	Number	Amount, EUR	Number	Amount, EUR
Shares of AS Latvijas finieris*	62	880 000	62	880 000
Total non-current:		**880 000**		**880 000**

*As at 31 December 2021, the Company owned 62 shares in AS Latvijas finieris, which was 0.98804% of this entity's share capital. LF is a closed joint stock company. Based on the methodology employed by AS Latvijas finieris for calculating the share value, the available information shows that there were no changes in factors affecting the value and assumptions underlying the calculation; therefore, the share value did not change as at 31 December 2021.

21. Cash and cash equivalents

	31/12/2021	31/12/2020
Cash on hand	820	1 042
Cash at bank	112 898 925	99 107 100
TOTAL:	**112 899 745**	**99 108 142**

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

22. Share capital

As at 31 December 2021, the registered share capital of the Company was EUR 355 728 573 (31 December 2020: EUR 353 647 767). The fully paid share capital was EUR 355 728 573 (31 December 2020: EUR 353 647 767) and consisted of 355 728 573 ordinary shares, each having the par value of EUR 1 (31 December 2020: 353 647 767 ordinary shares, each having the par value of EUR 1).

On 28 May 2020, the general shareholders' meeting decided to transfer part of the profit earned for 2019 amounting to EUR 28 787 537 to reserves. Considering the unpredictable market situation and a potential plunge in profits, reserves have been established to secure settlement of liabilities to the State in the years to come according to long-term planning documents.

Dividends paid in 2021 and 2020 were EUR 72 395 200 (EUR 0.20 per share) and EUR 60 852 400 (EUR 0.17 per share) respectively.

23. Other provisions

	Provisions for reforestation	Provisions for bonuses	Provisions for quarry rehabilitation	TOTAL
As at 31/12/2020	**17 894 454**	**3 271 432**	**170 470**	**21 336 356**
Utilized	(8 035 131)	(3 271 432)	(32 162)	(11 338 725)
Established	14 116 322	3 397 601	342 794	17 856 717
As at 31/12/2021	**23 975 645**	**3 397 601**	**481 102**	**27 854 348**
including non-current	14 111 233	-	428 760	14 539 993
current	9 864 412	3 397 601	52 342	13 314 355

Provisions for reforestation: provisions have been established for the regeneration and renewal of cleared forest areas. According to law, provisions must be used within six years but, as a rule, it takes one to two years. Provisions for reforestation increased due to higher planned costs and larger areas to be regenerated artificially.

Provisions for bonuses: provisions have been made for staff bonuses calculated for the attainment of fourth quarter and annual targets. Provisions will be used within one year.

Provisions for quarry rehabilitation: provisions have been established for quarry rehabilitation within one to ten years after quarrying has been completed.

24. Other liabilities

	31/12/2021	31/12/2020
Salaries	1 403 174	1 362 932
Other liabilities	254 687	156 588
TOTAL:	**1 657 861**	**1 519 520**

25. Accrued liabilities

	31/12/2021	31/12/2020
Vacation pay reserve	1 421 164	1 559 699
Other accrued liabilities*	8 735 019	8 234 797
TOTAL:	**10 156 183**	**9 794 496**

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

26. Taxes payable

	31/12/2021	Refunded(+)	Calculated	Paid	31/12/2020
Statutory social insurance contributions	774 471	-	11 453 722	(11 491 330)	812 079
Personal income tax	371 977	-	5 805 606	(5 812 053)	378 424
Corporate income tax	1 131 187	-	15 902 994	(12 263 344)	(2 508 463)
Value added tax	(1 741 080)	6 783 963	(7 590 841)	-	(934 202)
Real estate tax	1 903		3 581 890	(3 582 931)	2 944
Natural resource tax	110 258	-	372 800	(331 806)	69 264
Unemployment risk duty	481	-	6 165	(6 160)	476
SRS's single tax account*	(17 567 778)*			(17 567 778)*	
TOTAL:	**(16 918 581)**	**6 783 963**	**29 532 336**	**(51 055 402)**	**(2 179 478)**
Total payable:	**2 390 277**				**1 263 187**
Total receivable:	**(19 308 858)**				**(3 442 665)**

*Overpayments on the state budget's single tax account chiefly represent corporate income tax paid for dividends due in 2021 and other tax liabilities.

27. Related party disclosures

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

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

Related party		Sales to related parties	Purchases from related parties	Amounts owed by related parties as at 31 December	Amounts owed to related parties as at 31 December
SIA Jaunmoku pils	2021	897	841 733	-	1 433
	2020	1 051	699 069	-	62 498
SIA Meža un koksnes produktu pētniecības un attīstības institūts	2021	-	197 599	-	44 216
	2020	-	538 621	-	-
Total for 2021:		**897**	**1 039 332**	**-**	**45 649**
Total for 2020:		**1 051**	**1 237 690**	**-**	**62 498**

28. Long-term contracts

At the year end, the Company had several long-term contracts on the construction of forest roads. The total value of these contracts as at 31 December 2021 was EUR 25 763 299 (of which EUR 846 146 represented projects in progress under contracts signed in 2020), 31 December 2020: EUR 21 067 991, where the works completed as at 31 December 2021 amounted to EUR 4 586 918 (of which EUR 603 173 represented projects in progress of previous years), 31 December 2020: EUR 4 114 613.

At the year end, the Company had several long-term contracts on the reconstruction of forest drainage systems. The total value of these contracts as at 31 December 2021 was EUR 2 524 101 (of which EUR 74 295 represented projects in progress under contracts signed in 2020), where the works completed as at 31 December 2021 amounted to EUR 444 502 (of which EUR 68 246 represented projects in progress of previous years).

At the year end, the Company had several contracts on forest road surface maintenance. The total value of these contracts as at 31 December 2021 was EUR 2 254 527, where the works completed as at 31 December 2021 amounted to EUR 958 971. At the year end, the Company had several long-term contracts on the cutting of grass and shoots. The total value of these contracts as at 31 December 2021 was EUR 1 550 514, where the works completed as at 31 December 2021 amounted to EUR 723 860. At the year end, the Company had several long-term contracts on routine winter maintenance (snow clearing, site clearing, forest road grooving). The total value of these contracts as at 31 December 2021 was EUR 1 926 725, where the completed works amounted to EUR 589 658.

29. Off-balance sheet assets

In accordance with the Forest Law, the Company manages and administers 1.61 million hectares of the land owned by the Republic of Latvia, whose cadastral value is EUR **321.74** million, including 1.33 million hectares of forest areas, whose stands amount to EUR **1 198.06** million and subsoil assets are EUR 15.67 million (including those amounting to EUR 13.33 million and EUR 2.34 million for the extraction of peat and mineral materials respectively). The Company has reported 13 233 ha of forest areas on its statement of financial position. Land having the area of 1.61 million ha of all the land plots managed and administered by the Company has been surveyed and registered with the Land Registry (100%).

30. Financial risk management

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

Financial assets by categories

	Notes	**Loans, receivables and other securities**
Financial assets as at 31 December 2021		
Other securities and investments	20	880 000
Trade receivables, net	18	34 276 757
Other receivables		12 441
Cash and cash equivalents	21	112 899 745
Total		**148 068 943**
Financial assets as at 31 December 2020		
Other securities and investments	20	880 000
Trade receivables, net	18	26 104 470
Other receivables		11 490
Cash and cash equivalents	21	99 108 142
Total		**126 104 102**

30. Financial risk management (cont'd)

Financial liabilities by categories

	Notes	Liabilities at amortized cost
Financial liabilities as at 31 December 2021		
Trade payables		6 392 065
Payables to related companies	27	1 433
Payables to associates	27	44 216
Total		**6 437 714**
Financial liabilities as at 31 December 2020		
Trade payables		7 337 621
Payables to related companies	27	62 498
Payables to associates	27	-
Total		**7 400 119**

Market risks

I) Foreign currency risk

Foreign currency risk arises when future transactions or assets or liabilities are denominated in a currency other than the Company's functional currency. In 2021, the Company had no capital expenditure or investment projects whose expected transactions would lead to any significant exposure to foreign currency risk.

II) Cash flow and fair value interest rate risk

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

III) Price risk

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

Credit risk

Credit risk mainly arises from cash and cash equivalents, significant trade receivables and bank deposits. Credit risk is managed at the Company level. The Company manages its credit risk by continuously assessing the credit history of customers and assigning credit terms on an individual basis. For the estimation of the credit quality of fully performing receivables, the following rating categories are used:

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

Credit quality is monitored and reviewed on a regular basis.

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

Credit risk related to cash and short-term bank deposits is managed by balancing the placement of financial assets and instruments in order to maintain the possibility of choosing the best offers and reduce the probability of loss.

Cash at the year end is disclosed in Note 21.

Liquidity risk

Liquidity risk is associated with the Company's ability to settle liabilities as they fall due. For the purposes of liquidity risk management, the Company employs cash flow planning tools covering various periods. The management is monitoring rolling forecasts of the Company's cash flow and liquidity reserve, which comprises undrawn borrowing facilities, cash and cash equivalents.

30. Financial risk management (cont'd)

Liquidity risk (cont'd)
Liquidity analysis (contractual undiscounted cash flows)

	31/12/2021	**31/12/2020**
	EUR	EUR
Trade payables	6 392 065	7 337 621
Payables to related companies	1 433	62 498
Payables to associates	44 216	
Total	**6 437 714**	**7 400 119**

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

Year ended 31 December 2021	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	6 392 065	-	-	-	6 392 065
Payables to related companies	-	1 433	-	-	-	1 433
Payables to associates	-	44 216	-	-	-	44 216
Total	**-**	**6 437 714**	**-**	**-**	**-**	**6 437 714**

Year ended 31 December 2020	**On demand**	**< 3 months**	**3 to 12 months**	**1 to 5 years**	**> 5 years**	**TOTAL**
	EUR	EUR	EUR	EUR	EUR	EUR
Trade payables	-	7 337 621	-	-	-	7 337 621
Payables to related companies	-	62 498	-	-	-	62 498
Payables to associates	-		-	-	-	
Total	**-**	**7 400 119**	**-**	**-**	**-**	**7 400 119**

Capital risk management

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

The objective of capital management is to ensure that the Company is able to continue its operations and bring returns on capital defined by the general shareholders' meeting. The equity ratio is calculated by dividing equity by total assets. The equity ratio is as follows:

	31/12/2021	**31/12/2020**
	EUR	EUR
Equity, total	514 146 621	475 374 110
Assets, total	581 495 128	536 319 083
Equity ratio	**88%**	**89%**

The government of Latvia as the sole shareholder of the Company may adopt decisions related to an increase or decrease in the Company's capital, payment of dividends or their use for development of the Company.

31. Fair value measurement

Fair value hierarchy:

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

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

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

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

Biological assets

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

Other securities

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

Trade receivables

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

Trade payables

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

Investment properties

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

32. Events after the reporting period

As of the last day of the reporting year until the date of signing these financial statements there have been no significant events that could produce a material impact on the Company's financial position as at 31 December 2021. The war in Ukraine is not impacting directly on the Company's operations and financial position. A substantial rise in oil prices will lead to extra cost growth in 2022; however, no large impact on 2022 performance has been identified as at the date of signing these financial statements.

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

Arnis Melnis Chairman of the Board	Gunta Vilciņa Head of the Financial and Accounting Department

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

Independent auditors' report