

Operation of SIA VMF LATVIA (VMF LATVIA) Council has been carried out in accordance with the Council's resolution regarding the areas of responsibility of five Council members in the management of the Company: **Claes Anders Rixon** - Chairman of the Council, **Aldis Strankaļs** - responsible for budget planning and control principles, **Inesis Ārgalis** - personnel policy, motivation and remuneration issues, **Mārtiņš Gaigals** – strategy and development planning and monitoring of its implementation, **Andris Balodis** – risk management and internal control, process audits. All members of the Board and the Council have confirmed to perform their duties in accordance with the management documents – the *Board Rules of Procedure*, the *Council Rules of Procedure* and the *Rules of Information Circulation*.

The Council of VMF LATVIA has acquainted themselves with the 2023 Annual report prepared by the Company's Board, which consists of the management report, financial reports, the Board's proposal on profit and the report of independent auditors, and the Council supports the approval of the Annual report at the shareholder's meeting. In the preparation of this report of the Council, in addition to the Annual report, other information from the Board, which the Council has obtained in the process of monitoring the work of the Board, has been used.

In the opinion of the Council, the Company's operation in 2023 is to be evaluated as corresponding to the goals and tasks of the company's strategy and the company's operational plan and budget for 2023 supervised by the Council. The company, along with the industry, in 2023 has continued to adapt its operations to the conditions of the Russian invasion of Ukraine since the beginning of 2022, and Russia and Belarus receiving West sanctions of an unprecedented scale, as a result of which the market and economic turbulence effectively made any predictions impossible, as well as construction activities for a significant drop in the main export markets of Latvia. On March 28th, 2023, the Government decree approved the order of the Ministry of Agriculture in 32 regions in Latvia from April 1st to June 30th (with the possibility of extension) to declare an emergency situation for the control of the spruce bark beetle (*Ips typographus*), which is dangerous for spruce forests. The amount of measured timber is 5.5% less than a year ago [Page 4 of the Management Report of the Annual Report]. During the reporting period, it has continued to develop a reliable, fast and convenient service in the interests of customers in accordance with the common guidelines for the development of timber accounting for timber sellers and buyers and the medium-term (2021-2023) strategy of VMF LATVIA:

- the target values planned by VMF LATVIA for the main basic performance indicators set for 2023 have been achieved - systematic deviation and standard deviation of timber volume determination, speed and quality of preparation of testing reports. A summary of the survey accuracy report is published every month: <https://www.vmf.lv/vietne/lv/pakalpojumi/32> . The objectives of the systematic deviation of the total volume ($\pm 3.0\%$) set by the *Joint Advisory Council* have been achieved in at least 90% of the total number of automated survey lines (individually): 91%;
- In 2023, compared to 2022, the total productivity of VMF LATVIA available service time (excluding stack measurement with automated measuring devices) has decreased by -2.0% [Page 4 of the Management Report of the Annual Report], mainly due to the decrease in the amount of timber to be measured in individually with automated measuring devices and group surveying in stationary locations. In the same time:
 - In 2023, a total of 53% of timber has been measured by the stack measuring using technologies, including 2.26 million m³, which is 18% of the total volume measured in 2023, using photo processing technology (*Mobile Photo Web*). Productivity, compared to 2022, has been increased by +8.6%;
 - In 2023, stack measurement in inland terminals decreased by -5.4% compared to 2022, which was also due to a decrease in the volume of timber flow, at the same time in port terminals, as customers demanded more adequate service time, productivity continued to increase by + 4.7%;
 - In 2023, a significant productivity increase of +7.8 percentage points has been achieved in the scalers' direct activities by measuring individually with automatic measuring devices.
- One of the most important steps in digitizing the industry's wood flow and increasing productivity is the introduction of e-waybills, which - thanks to the successful results of the forest industry sector's pilot project - has shown significant progress in 2023. VMF LATVIA is ready to use e-waybills and offers e-testing reports to customers in *papiNet* data standard .xml files;
- In 2023, in co-operation with the *Forest Competence Center*, with the co-financing of the European Union, the research and development project "*Determining the quality of round timber using a machine learning algorithm, measuring individually with an automatic measuring device*" has been launched. The end of the project is planned for 2025;

- VMF LATVIA is accredited and is competent to perform testing in accordance with *the LVS EN ISO/IEC 17025:2017* standard and Cabinet of Ministers regulations No. 744 "*Wood and Round Timber Accounting*" in the regulated area: measurement of round timber (*LVS 82:2020*) and in accordance with *LVS EN ISO/IEC 17025:2017* standard requirements in the non-regulated area: solid biofuel sampling and physical testing (*LVS EN ISO 18135:2017; LVS EN ISO 18134-2:2017*). Company *LATAK* registration No. *LATAK-T-296*. VMF LATVIA uses the *ILAC (International Laboratory Accreditation Cooperation)* mark in its testing reports, which strengthens confidence in the market about the safety of the service and compliance with international and national requirements;
- Since 2003, by the decision of the Swedish *Wood Measurement and Accounting Council (VMR, now Biometria)*, the company has been authorized to carry out wood measurement and accounting in accordance with the Swedish pulpwood timber measurement regulations. In the reporting year, it was not possible to initiate the authorization of the *Biometria* for the measurement of timber with an automated image device (*KPDC FRAME*) and also to start the measurement service with such a device;
- In 2023, the number of test reports prepared for the automated flow of timber supply data, prepared within 3 minutes, has been kept consistently high;
- In 2022, the direct employee remuneration has been increased by 3-10% [Page 4 of the Management Report of the Annual Report] and monthly contributions to the accumulative insurance for employees have been continued at the level of the previous year. Cumulative insurance and health insurance contributions together make up 2.7% of personnel costs [Page 14 - Prime cost (3) section of the Annual Report]]. The amount of accumulative insurance contributions depends on the length of service of employees at VMF LATVIA. In 2023, an improved payment procedure for employees has been introduced, including the bonuses and motivation;
- Taking into account the *KPMG Baltics* assessment - whether the timber measurement and accounting system established and managed by Latvian timber buyers and sellers (*the Association of Latvian Timber Sellers and Latvian Timber Buyers, SIA VMF LATVIA, SIA Wood Flow Data Center and SIA Management of Latvian Timber Measurement and Accounting*) is objective, fair, legal, transparent, reliable and cost-effective, and the recommendations provided, their implementation in VMF LATVIA has been completed:
 - Assessed and carried out risk mitigation measures regarding the exchange of sensitive information and increasing information security - improvement of information systems and introduction of new systems development of proposals for the improvement of the regulatory framework;
 - Implemented, audited and certified information security management system in accordance with the information security management system standard *ISO/IEC 27001:2022* in the frame of "timber measurement, solid biofuel sampling and physical testing";
 - The implementation of service tariffs that reduce the risk of cross-subsidization of different services has been prevented. With this aim, the tariff for services in stack measurement has been changed accordingly, in agreement with the customers.
- The company has organized and supported forest and timber industry sector's communication events, delegated representatives to support the activities of the *Faculty of Forestry*, for example, the Councilors' convention and the State Examinations Commission, and also donated € 800 to the Latvian Forest Certification Council for organizing a visit of the Ukrainian forest management industry group to Latvia;
- The average change in the number of persons employed in the Company is +2.7% [Page 4 of the Management Report of the Annual Report]. There is still a relatively high turnover of employees in the company mainly due to other professional challenges and salaries: 17% on average per year, which is, however, 5.2 percentage points more than in 2022.

The company has provided services to 192 companies [Page 4 of the Management Report of the Annual Report], and the number of clients of VMF LATVIA is stable.

Compared to the previous 2022 year, the turnover of the company has increased by +7.1% and the number of paid hours has decreased by -9.9% [Page 4 of the Management Report of the Annual Report]. The result of the company's economic activity in 2023 is a profit of €18 578 [Page 6 of the Annual statement of Profit or Loss], which should be included in the retained earnings of the previous year.

VMF LATVIA has created social security reserves with the aim of keeping employees' jobs and compensating for the reduction in wages if there is a significant and long-term reduction in the Company's workload due to economic conditions or unavoidable events. As of December 31, 2023, this provision is € 717,629 [Page 19 of the Annual report, Note No. 15]. When evaluating the provision, it was assessed as sufficient and the provision was not increased in 2023. Reserves for unused vacations as of December 31, 2023 are € 281,760 [Page 20 of the Annual report, Note No. 19]. Compared to 2022, these obligations have decreased by 10% [Page 20 of the Annual report, Note No. 19].

Based on VMF LATVIA's strategy and the established main goals, the Company's 2024 budget and operational plan were prepared and started to be executed in order to - in conditions of high market uncertainty - implement the plans in the following directions:

- to maintain a qualified workforce even in case of prolonged downtime. VMF LATVIA has the opportunity to use the created savings for unused vacations and social security savings, which have been created with the goal of keeping employees' jobs and compensating for the reduction in wages, if due to economic conditions or unavoidable events, a significant and long-term reduction in the Company's operating workload occurs;
- together with the clients, continue to increase productivity for all measurement services, including the introduction of e-waybills, the automation of existing processes and the implementation of new technologies;
- continue research and development projects, including:
 - o improvement of *MobFotoWeb* for automating data entry and measurement service activities;
 - o the project "*Determining the quality of round timber using machine learning algorithms by measuring individually with an automatic measuring device*";
 - o use of drones in measuring service;
- In cooperation with *Wood flow data center*, prepare and submit research and development project applications to the *Forest Competence Center* with co-financing from the European Union with the aim of developing timber measurement information systems and services - *MobFotoWeb*, *KPDC FRAME*, individual measurement with hand measuring instruments, including measurement service planning.
- start providing new services - with *KPDC FRAME* and with drones.
- continue to participate in education and communication activities of Latvian society related to the development of the industry.

In 2024 high risks will remain due to the spread and damage of the spruce bark beetle. To prevent the threat of disaster with the *State Forest Service* 09.01.24. Order No. 1. in Latvia, a situation of mass reproduction of the spruce bark beetle in the forest has been announced from the entry into force of this order until December 31, 2024.

During the 2023, the Council of the Company fulfilled its duties in accordance with the regulatory enactments, reviewed the financial reports and supervised the work of the Board - four meetings of the Council were held. During the sessions, issues regarding the Company's strategy, budget and economic activity plan, their implementation, system assessment tasks, results and the corresponding action plan and other reports of the Board were considered. Taking into account all of the above as a whole, the activity of the Company's Board in 2023 can be evaluated positively.

Council members of SIA "VMF LATVIA":

Claes Anders Rixon

Aldis Strankaļš

Andris Balodis

Inesis Ārgalis

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