

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 2024 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 operations in 2024 are assessed as being in line with the goals and objectives of the company's strategy and the company's operating plan and budget for 2024 supervised by the Council. In 2024, the Company, together with the forest sector and timber industry, continued to adapt its operations to the conditions in which Russia has been invading Ukraine since the beginning of 2022, and Russia and Belarus have received unprecedented Western sanctions, as a result of which market and economic uncertainty continues to affect the markets, as well as the stagnation of construction activities in the main export end markets of Latvia. The volume of measured timber is 15.2% higher than a year earlier [annual report management report, page 4]. During the reporting period, it has continued to develop a reliable, fast and convenient service in the interests of customers in accordance with the *Joint Development Strategy* of the *Latvian Timber Buyers and Sellers Associations* for measuring and accounting of timber for timber sellers and buyers, updated in 2024.

- The target values planned by VMF LATVIA for the main basic performance indicators set for 2024 have been achieved - systematic deviation and standard deviation of timber volume determination, speed and quality of preparation of testing reports. A summary of the service accuracy report is published every month: <https://www.vmf.lv/vietne/lv/pakalpojumi/32> . The objectives of the systematic deviation of the total volume ( $\pm 3.0\%$ ) have been achieved in at least 90% of the total number of automated measurement lines (individually): 96%;
- In 2024, more actively than in 2023, the total average productivity of the service time available to VMF LATVIA has increased by 18.0% [page 4 of the annual report management report], due to the increase in the volume of measured timber in group measurement in ports and stationary locations:
  - In 2024, in group measurement, 57% of timber has been measured by using modern technologies, including 2.72 million m<sup>3</sup> measured with the photo processing technology *Mobile Foto Web*, which is 18.7% of the entire volume measured in 2024. The productivity of this service has increased by + 6.4%, leading work organization and the use of e-waybills;
  - In 2024, measured as a group, productivity in ports and inland terminals has increased by +35.5% compared to 2023, due to more appropriate customer service time requirements and due to greater timber flows;
  - In 2024, productivity has been maintained for each customer of service measurement individually with automatic measurement devices: a minor decrease of -1.0%.
- One of the important steps in the digitalization of the industrial timber flow and increasing productivity is the introduction of e-waybills, which in 2024 has made significant progress at the end of the year. By 2025, SSC *Latvijas valsts meži*, which is a significant supplier of timber in the Latvian market, uses e-waybills only. VMF LATVIA is ready to both use e-waybills and offer customers e-testing reports in the form of *papiNet* data standard .xml files;
- In 2024, within the framework of the *Forest Competence Center* with co-financing from the European Union, the planned work in the research and development project "*Determination of the quality of round timber using machine*

*learning algorithms, measured individually with an automatic measuring device*" has been completed 248 121 euros, including public funding received 69 876 euros. The project is planned to be fully completed in 2025;

- Two development projects have been prepared and approved with the co-financing of the European Union with the aim of developing timber measurement and accounting information systems and services:
  - in co-operation with *Koksnes plūsmas datu centrs* Ltd. at the *Forest Competence Center* the project "*Automation of round timber volume determination and quality assessment*" and its implementation has been initiated,
  - in co-operation with *Koksnes plūsmas datu centrs* Ltd. and *Latvijas kokmateriālu uzmērīšanas un uzskaites vadība* Ltd. at the responsible state agency the project "*Implementation of the Deforestation Regulation and StanForD2010 forest machine standard for more efficient, climate-neutral and more fair forestry in Latvia*";
- 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 LVS 82:2024*) 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. Latvian national standard LVS 82:2024 for round timber measurement is mandatory for all transactions with 2025.
- 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 start wood measurement with the automated imaging device *KpDC FRAME* and obtain *BIOMETRIA* authorization, but it was possible to start providing automated wood chip measurement services in the amount of 17.75 thousand m3 (solid).
- In 2024, the Company began providing timber inventory services with drones in the amount of 572.17 thousand m3, as well as started offering automatic determination of logs' curvity with automatic measurement lines, and two clients are already using this service.
- In 2024, the number of testing reports prepared by the automated flow of timber supply data has remained consistently high (in 94.9% of cases), and they have been prepared within at least 3 minutes (on average 1.16 minutes);
- In 2024, the direct employee remuneration has been increased by 1,4% [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 2,5% of personnel costs [Page 14: Notes 3;4 of the Annual Report]]. The amount of accumulative insurance contributions depends on the length of service of employees at VMF LATVIA. In 2024, the payment procedure was improved, including the bonus and motivation part, which is based on the organization of job families, assessment of job competencies, and understandable and fair determination of permanent and variable remuneration;
- VMF LATVIA has organized and supported industry communication events, delegated representatives to support the activities of the *Faculty of Forestry*, for example, to the *Councilors' Convention* and the *State Examination Commission*, as well as participated in events organized by the Latvian forest industry to educate the public in Tērvete, Jelgava, and Sarkanākalns;
- The average number of employees in the company has decreased by -4.2% [annual report management report page 4]. The company still has a relatively high employee turnover, mainly due to other professional challenges and remuneration: 18% on average per year, which is even 1.0 percentage point higher than in 2023.

The company has provided services to 206 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 2023 year, the turnover of the company has increased by +0.7% and the number of paid hours has decreased by -2,3% [Page 4 of the Management Report of the Annual Report]. The result of the company's economic activity in 2024 is a profit of € 94 326 [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 2024. Reserves for unused vacations as of December 31, 2024 are € 267 200 [Page 21 of the Annual report, Note No. 19]. Compared to 2023, these obligations have decreased by 5.1% [Page 21 of the Annual report, Note No. 19].

Based on the *Joint Development Strategy* of the *Latvian Timber Buyers and Sellers Associations* <https://www.lkuuv.lv/wp-content/uploads/2024/12/Biedribu-pamatnostadnes-2025-1.pdf> , which were updated in 2024, the VMF LATVIA strategy and main goals, the Company's 2025 budget and action plan were prepared and started to be implemented in conditions of still high market uncertainty in order to implement the plans in the following directions:

- Service quality (**accuracy**) in accordance with State regulations and Company's technical regulations;
- Service **tariffs** support sustainable accessibility and profitability;
- Increase in **productivity**, based on process improvement and automation;
- Competitive **remuneration** in accordance with industry trends;
- Positive economic performance (**profit**);
- Launched and approved development projects (**automation** and **digitalization**);
- Participation in achieving **customer value** goals;
- Participation in the development of **data flow** in cooperation with customers and in accordance with regulations;
- **Risk management** for stable service availability, security and fair competition.

In order to reduce the use of resources for administering service contracts and continue to improve the availability and predictability of services, in 2025, it has been started to offer customers to agree to annual changes in VMF LATVIA service tariffs and their timely notification.

During the 2024, 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 2024 can be evaluated positively.

Council members of SIA "VMF LATVIA":

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