

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 2022 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 2022 is to be evaluated as corresponding to the goals and objectives of the Company's strategy and the Company's operational plan and budget for 2022 supervised by the Council. In 2022, the company, together with the industry, has continued to adapt its operations to the conditions when, on February 24, 2022, the Russian invasion of Ukraine took place and the war in Europe began. Russia and Belarus have received sanctions of an unprecedented scale from the world, resulting in market and economic turbulence effectively making any forecast impossible, as well as the global crisis of *the COVID-19* pandemic. During the reporting period, the development of a reliable, fast and convenient service in the interests of clients has been continued 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 2022 have been achieved - the systematic deviation and standard deviation of timber volume determination, the speed and quality of preparation of testing reports. Among them, the goals of the systematic deviation of the total volume ($\pm 3.0\%$) set by the *Joint Advisory Council* have been achieved in the planned 90% of the total number of automated measurement devices (individually): 98%;
- In 2022, compared to 2021, total productivity (excluding stack measurement with automated measuring devices) has increased by 5.3% [Page 4 of the Management Report of the Annual Report], mainly due to stack measurement in inland and port terminals, and stack measurement with photo processing technology. In the same time:
 - In 2022, a total of 18% of timber has been measured by the stack measuring using technologies, including 1.85 million m³, which is 13.9% of the total volume measured in 2022, using photo processing technology (*Mobile Photo Web*). Productivity, compared to 2021, has been increased by 4.2%;
 - In 2022, stack measurement in inland and port terminals increased by 16.1% compared to 2021. The main reason being - increased measured volume by 5.7%, while the volume of ordered working hours decreased by 8.6%;
 - In 2022, productivity has been reduced by 2.9% when measured individually with automated measuring devices, compared to 2021. The main reason being – decreased measured volume while ordered working hours decreased not to the same extent.
- 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.
- Since the end of 2022, VMF LATVIA has used the ILAC (International Laboratory Accreditation Cooperation) mark in its testing reports, which gives the Company confidence in the safety of the service, compliance with international and national requirements, thus confirming its compliance with the requirements and certified international recognition of competence.
- 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 [Page 4 of the Management Report of the Annual Report]. In 2022, the preparation of processes and infrastructure for the measurement of timber with an automated imaging device has continued for the authorization of the Swedish company Biometria in the first half of 2023.

- In 2022, the improvement of all data acquisition information systems has to a large extent been completed, so that – by adding timber delivery data – the preparation of testing reports from digitized timber measurement data flow in all measurement methods and types will be automated as much as possible. In 2022, the number of testing reports prepared by using the automated flow of timber supply data remained consistently high.
- In 2022, the direct employee remuneration has been increased by 2-6% [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. It was not possible to develop and introduce a new employee remuneration procedure by 2022, including the bonus and motivation section;
- Especially in the conditions of a changing environment, the client evaluation index remained at the level of 4.3 points [Page 4 of the Management Report of the Annual Report]. The company has developed and implemented client communications process;
- With the delegation of the *Joint Advisory Council*, funds from European Union have been mobilized for the implementation of the development projects of the industry and VMF LATVIA, including €7,860 received in 2022 [Page 15 of the Annual report, Note No. 5] in the projects started in previous years, which is 21,992 € less than in 2021, because in 2022 all projects started in previous years were concluded;
- In 2021, the company has organized an assessment of whether the timber measurement and accounting system created 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. The assessment was carried out by *KPMG Baltics*. The assessment confirms the provision of high-quality services to system participants and all service recipients now and their future availability, service tariffs that correspond to changes in productivity, development in the direction of increasing efficiency and quality. In accordance with the conclusions and proposals of the assessment, in 2022 - according to the time schedule - the implementation plan of the recommendations has been put into effect, which mainly includes:
 - development of proposals for the improvement of the regulatory framework;
 - mitigating risks regarding the exchange of sensitive information and increasing information security - in this sense, information systems are being improved and new systems are being introduced;
 - implementation of tariffs for services that reduce the risk of cross-subsidization of different services. With this goal, in agreement with clients, the tariff for services of individual measurement with automated devices in stationary locations has been changed as of July 1, 2022.
- A transition has been implemented to the business model developed in cooperation with clients, in which the contractual relationship of timber measurement service is only with timber buyers, according to VMF LATVIA "*Technical regulations of Measurement service*" VMF DK 03;
- The company has organized and supported industry communication events, delegated representatives to support the activities of the *Faculty of Forestry at LBTU*, for example, the Councilors' convention and the State Examinations Commission;
- In 2022, compared to 2021, the amount of measured timber has been increased by 3.6% and is 13.35 million m³ [Page 4 of the Management Report of the Annual Report], thus maintaining the amount of measured timber planned in the strategy. Accordingly, the average number of persons employed in the Company has increased by 2.8% [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 career aspirations and remuneration amount: 11.8% on average per year.

The Company has provided services to 195 companies, therefore the number of VMF LATVIA clients in 2022 has increased by 2.9% compared to 2021 [Page 4 of the Management Report of the Annual Report].

Compared to the previous 2021 year, the turnover of the company has increased by 0.58% and the number of paid hours has decreased by 2.9% [Page 4 of the Management Report of the Annual Report]. The result of the company's economic activity in 2022 is a profit of €4,261 [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, 2022, 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 2022. Reserves for unused vacations as of December 31, 2022 are €313,107 [Page 20 of the Annual report, Note No. 18]. Compared to 2021, these obligations have increased by 1.8% [Page 20 of the Annual report, Note No. 18].

Based on VMF LATVIA's strategy and the established main goals, the Company's 2023 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 clients, continue to implement plans to increase productivity for all measurement services, including the introduction of e-waybills, automation of existing processes and introduction of new technologies;
- prepare processes and infrastructure together with clients until 2024, in order to start measuring timber with automated imaging equipment in at least one project;
- improve and implement the risk management plan, especially protecting sensitive information and certify the Company's information security management according to *ISO/IEC 27001* in 2023;
- complete the development of work planning information systems *VITA* and *VITA Web* and integrate them into the existing accounting system, including improving data analysis capabilities;
- continue research and development projects, including the improvement of *Mobile Photo Web* for the automation of data entry and measurement works;
- continue to participate in education and communication activities of Latvian society related to the development of the industry.

On March 28, 2023, the Government decree approved the order of the Ministry of Agriculture in 32 counties in Latvia from April 1 to June 30 (with the possibility of extension) to declare an emergency situation for spruce forests to limit the very dangerous spruce eight-toothed bark beetle, which can significantly affect the previously prepared 2023 annual budget and operational plan.

During the 2022, 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 - five 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 2022 can be evaluated positively.

Council members of SIA "VMF LATVIA":

Claes Anders Rixon

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Andris Balodis

Inesis Ārgalis

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