

Riga, 27 April 2022

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** – human resource policy, motivation and remuneration issues, **Mārtiņš Gaigals** – planning of strategy and development and monitoring of its implementation, **Andris Balodis** – risk management and internal control, process audits. All the Board and Council members have confirmed that they will 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 2021 Annual report prepared by the Board, consisting of the management report, financial statements, the Board's proposal on profit and a report by independent auditors, and the Council supports the approval of the Annual report at the shareholders' meeting. In addition to the annual report, other information from the Board obtained by the Council in the process of monitoring the work of the Board has been used in the preparation of this Council Report.

In the opinion of the Council, the Company's operation in 2021 can be assessed in conformity with the Company's strategic goals and objectives and with the Company's business plan and budget for 2021 monitored by the Council. Together with the industry, in 2021 the company adapted its operations to the global Covid-19 pandemic crisis, mainly operating in Latvia in the conditions of emergency situation. The development of a credible, quick and convenient service in the interest of clients was continued in the reporting period in line with the joint timber accounting development guidelines of sellers and purchasers of timber and the medium-term (2021.-2023.) strategy of VMF LATVIA:

- The target values for the main indicators of operation established by VMF LATVIA for 2021 - systematic deviation and standard deviation for the determination of timber volume, and the test report preparation speed and quality have been reached. Among them, the new systematic deviation targets ($\pm 3.0\%$) set by the *Joint Advisory Council* in the planned 90% of the total number of automated measurement lines (individually) have been achieved: 94%;
- In 2021, productivity was decreased by 4% compared to 2020 [Page 4 of the Management Report of the Annual Report] mainly due to group measurement with manual instruments. In the same time:
 - In 2021, in the group survey using technologies, a total of 15% of timber has been measured, including with the photo processing technology *MobFotoWeb* 1.25 million m³ has been measured, which is a 9.8 % of the total amount measured in 2021. Productivity of *MobFotoWeb* has increased by 18.3% compared to 2020;
 - In 2021, productivity has been increased by +1.5% compared to 2020, measured individually with automated measuring devices;
- VMF LATVIA is accredited and is competent to perform testing in accordance with the *LVS EN ISO/IEC17025:2017* standard and Cabinet Regulation No. 744 "Wood and Round Timber Accounting" in the regulated area: round timber measuring (*LVS 82:2003 un LVS 82:2020*) and in accordance with the requirements of the *LVS EN ISO/IEC17025:2017* standard in the non-regulated area: sampling and physical testing of solid biofuels (*LVS EN ISO 18135:2017; LVS EN ISO 18134- 2:2017*). Company *LATAK* registration No. *LATAK-T-296-17-2006*. As of 21 August 2003, by the decision of the *VMK Wood Measurement and Accounting Council* (Sweden), VMF LATVIA is authorised to perform wood measurement and accounting [Page 4 of the Management Report of the Annual Report].

- In 2021, direct remuneration has been increased by 2-3% [Page 4 of the Management Report of the Annual Report] and monthly contributions to employees in the formation of accumulative insurance have been continued at the level of the previous year. Accumulative insurance and health insurance contributions together account for 2.8% of staff costs [Page 14 of the Annual Report cost (3)]. The amount of accumulative insurance contributions depends on the length of service of employees with VMF LATVIA. It has not been possible to develop a new payment procedure for employees, including a section of additional payments and motivation;
- Especially in the conditions of a changing environment, the customer evaluation index has been updated at a high level of 4.3 points [Page 4 of the Management Report of the Annual Report].
- With the delegation of the *Joint Advisory Council*, European Union funds have been attracted for the implementation of development projects of the sector and VMF LATVIA, including EUR 29 852 [Page 15, Note 5 of the Annual Report] have been received in 2021 in the projects started in previous years.
- In 2021, the Company has organized an assessment whether the measurement and accounting system of timber established and managed by Latvian timber sellers and buyers (*operated by Timber seller association of Latvia and Timber buyer association of Latvia, SIA VMF LATVIA, SIA Wood flow data centre and SIA Management of Latvian timber measurement and accounting*) is objective, fair, lawful, transparent, reliable and cost-effective. The assessment was performed by *KPMG Baltics*. The assessment essentially confirms the provision of high quality services to system participants and all service users now and availability in the future, at a price that complies with changes in productivity, development in the direction of increasing the efficiency and quality. In line with the conclusions and recommendations of the assessment, an appropriate plan has been created and launched, which mainly includes the development of existing recommendations for the improvement of regulatory framework, as well as the reduction of risks regarding the exchange of sensitive information and the improvement of information security;
- In 2021, in cooperation with clients a transition to a business model was prepared and implemented, in which the contractual relations for the timber measurement service is only with the buyers of timber. This transition is supported by VMF LATVIA "*Technical regulations of measurement services*" VMF DK03 developed and published in 2021;
- The company has organized and supported industry communication activities, delegated representatives to support the activities of the *Faculty of Forestry of the Latvia University of Life Sciences and Technologies*, such as the Councillors' Convent and the State Examination Commission;
- In 2021 the volume of measured timber was increased by +1.5% and was 12.9 million m³ [Page 4 of the Management Report of the Annual Report], thus maintaining the growth rate of timber measured, planned in the strategy. Accordingly the average number of persons employed by the Company was increased by +1.4 %. [Page 4 of the Management Report of the Annual Report]

In 2021 the Company provided services to 182 companies, thus the number of VMF LATVIA clients in 2021 has increased by 3,4% compared to 2020. [Page 4 of the Management Report of the Annual Report].

Compared to 2020, the Company's turnover has increased by +3.5% and the number of paid hours has increased by +3.3% [Page 4 of the Management Report of the Annual Report]. The result of the Company's economic activity in 2021 is a profit of EUR 220 042 [Page 6 of the Annual Profit and Loss Statement], which is basically useful to be included in the retained earnings of previous years. In 2021 EUR 80 000 were paid as dividends with the approval of the Council.

VMF LATVIA has created social security provisions with the goal of saving jobs for employees and compensating for a reduction of remuneration, in the case of the substantial and lasting reduction of operational capacity due to economic conditions or inevitable events. As of 31 December 2021, these provisions consisted of EUR 740 737 [Page 19, Note 15 of the Annual Report]. In 2021, the provisions were not increased. Provisions for unused leave as at 31 December 2021 amount to EUR 307 343

[Page 20, Note 18 of the Annual Report] .Compared to 2020, these liabilities have increased by 2.5% [Page 20, Note 18 of the Annual Report].

Based on the VMF LATVIA strategy and the established main goals, the Company's budget and action plan for 2022 was prepared and started to be carried out in order in the face of high market insecurity to implement the intentions in the following directions:

- retain a skilled workforce, even in the event of prolonged downtime; VMF LATVIA has an opportunity to use the created provisions for unused holiday and social security provisions created with the goal of saving jobs for employees and compensating for a reduction of remuneration, in the case of a substantial and lasting reduction of operational capacity due to economic conditions or inevitable events;
- ensure that all restrictions and epidemiological requirements amongst the Company's staff are complied with in order to prevent the spread of the disease and, if necessary, to increase the number of staff ensuring the availability of a timber measurement service;
- continue to pursue productivity enhancing intentions together with clients for all measurement services, including a new approach and tariff for services of the individual timber measurement from 1 July with automated measuring equipment;
- together with clients to prepare processes and infrastructure by 2023 in order to start timber measurement with automated imaging equipment in at least one project.
- improve and implement the risk management plan, especially protecting sensitive information, and in 2022 prepare the Company's information security management for *ISO 27001* certification;
- complete the development of work planning information systems in *VITA* and *VITA Web* and integrate them into the existing accounting system, including by improving data analysis capabilities;
- continue research and development projects, including *MobFotoWeb*;
- continue participating in the Latvian public education and communication activities related to the development of the sector.

On 24 February 2022, Russia invaded Ukraine and a war broke out in Europe. Russia and Belarus have received unprecedented sanctions from around the world, as a result the current market and economic turbulence makes it virtually impossible to establish any forecasts, though at the moment of approval of this report the Company continues to work with the previously prepared 2022 budget.

During 2021, the Council of the Company has fulfilled its duties in accordance with the laws and regulations, as well as has reviewed financial reports and supervised the work of the Board. There were five Council meetings held in 2021. The topics related to the strategy, budget and business plan, their fulfilment, system assessment work task, results and corresponding action plan and other reports from the Board were reviewed at the meetings. In light of the above in general, the activities of the Board of the Company in 2021 are considered to be positive.

SIA VMF LATVIA Council Members:

Claes Anders Rixon

Aldis Strankaļš

Andris Balodis

Inesis Ārgalis

Mārtiņš Gaigals