

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 – the Chairman of the Council, Aldis Strankāls – 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 familiarized itself with the annual report for 2019 prepared by the Board, consisting of the management report, financial statements, the Board's proposal for covering losses 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 2019 can be assessed in conformity with the Company's strategy and basically with the Company's business plan for 2019 monitored by the Council. 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 strategy of VMF LATVIA:

- the target values for the main indicators of operation established by VMF LATVIA for 2019 - systematic deviation and standard deviation for determination of timber volume and 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 80% of the total number of automated measurement lines (individually) have been achieved.
- VMF LATVIA is accredited and is competent to perform testing in accordance with the LVS EN ISO / IEC 17025: 2017 standard and the Cabinet Regulation No. 744 on *Wood and Round Timber Accounting* in the regulated area: round timber measuring (LVS 82: 2003) and in accordance with the requirements of the LVS EN ISO / IEC 17025: 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). Registration No. LATAK-T-296-16-2006 of the *LATAK* company. VMF LATVIA has been authorized by *Swedish Timber Measurement Council* to conduct timber measurement and accounting. [Page 4 of the Management Report of the Annual Report];
- In 2019, VMF LATVIA developed and implemented a risk management policy, establishing requirements for the functioning of the risk management system. The risk management plan for 2019 was developed in accordance with the policy [Page 4 of the Management Report of the Annual Report];
- In 2019, monthly contributions to employees for the formation of accumulative insurance were started. The amount of contributions depends on the length of service of employees with VMF LATVIA;
- In 2019, the section on bonuses and motivation for experts has not been changed, as in the reporting year only 25% of all automated measuring devices were connected to a direct data flow. This is not enough to develop a single bonus and motivation section for all employees regarding the work efficiency;
- changes in the employees' remuneration in 2019 compared to the previous year are +6% [Page 4 of the Management Report of the Annual Report];
- in the conditions of a rapidly changing environment, the constantly high client evaluation index of 4.2 points has been maintained since 2017 (the target set in the strategy for 2019 was by 0.2 points higher) [Page 4 of the Management Report of the Annual Report];
- as of 1 July 2019, for clients whose timber is measured individually by means of automated devices, a new *Cooperation* tariff has been introduced with the discounts, which are applied if the client ensures a stable shift schedule (discount of EUR 2.00/hour); VMF LATVIA measures all timber and the client accepts the connection to a direct data flow (discount of EUR 2.27/hour);
- Financial resources of the European Union funds have been attracted under the delegation of the Joint Advisory Council for the implementation of the development projects of the sector and VMF LATVIA, including EUR 72,400 were received in 2019 [Note 5 on Page 15 of the Annual Report], including in the projects:
 - o *Development of a unified timber flow and management support system for more efficient forestry development in Latvia* EUR 21,634;
 - o *Automated measuring data management system for round timber* EUR 31,276;
 - o *Study of bark equations included in automated measuring devices and harvester software* EUR 17,955;
 - o *Opportunities for group measuring automation* EUR 1,535



To ensure effective and sustainable timber measurement service and its sustainable availability at the level of aims jointly defined by the timber purchasers and the sellers



To persistently increase credibility of the timber measurement and accounting services by improving protection of information and maintaining high loyalty requirements for the staff

- In order to organize preparation of the test reports more rationally and support faster IT development in the timber supply chain, the Company started reorganization process at the end of 2019, which was completed on 2 April 2020. As a result of the reorganization, the information technology functions, infrastructure and assets of VMF LATVIA were transferred to *SIA Koksnes plūsmas datu centrs*.
- In 2019, productivity was increased by 7.4% compared to 2018 [Page 4 of the Management Report of the Annual Report], including:
 - o the Company has started offering the method of group measuring of round timber by using photo processing technologies, which was used by 16 clients in 2019, or 9% of the total number of clients, and 0.32% of the total annual volume of timber has been measured;
 - o a group measuring service with an automated device has been started. Thus, in 2019, 1.8% of the total annual volume of timber has been measured;
 - o the maturity of both mentioned new services in 2019 allowed to reach 7% proportion in measuring round timber in the first two months of 2020, compared to 0% proportion in a similar period a year ago;
 - o increase of the labour productivity and introduction of technologies allowed reducing the average number of persons employed in the Company by 7% in 2019. [Page 4 of the Management Report of the Annual Report]
- from 1 January 2019, VMF LATVIA carries out all financial and personnel accounting by using the Resource Management Information System *HORIZON*. An employee self-service system *HoP* has also been introduced for information on pay slips and available vacation days, as well as applications for vacations and other absence;
- In order to increase client confidence in independent and impartial results of timber measuring and appraisal, *the Round Timber Automated Measuring Data Management System* project has been implemented and a reorganization of information systems is being carried out, as a result of which seven clients (305 thousand m³) in 2019 were provided with testing reports in the *papiNet* data format. Starting 1 April 2020, all clients can receive the test reports in the *papiNet* data standard, in cooperation with *SIA Koksnes plūsmas datu centrs*;
- The company has organized and supported industry communication events:
 - o participated in the *Meža ABC* event to promote the forestry and woodworking sector among schoolchildren and young people in order to show future career opportunities in the sector;
 - o participated in *the Participation of students of vocational education institutions in the work-based learning and internships in companies* project together with the *Ogre Technical School*;
 - o The company has made a donation to the Association *Zaļās mājas* to promote sustainable construction that respects ecological constraints and is socially and financially beneficial;
 - o The Company has also supported various public informational and education activities;
 - o Competences of the Company are constantly used for the work of the Joint Advisory Council and its task groups. In 2019, an updated round timber measuring standard LVS 82:2003 was prepared for approval.
- In 2019, the volume of timber measured in the previous year was maintained at level of 12.3 million m³ [Page 4 of the Management Report of the Annual Report], thus maintaining the growth rate of timber measured, planned in the strategy. In 2019, the Company provided services to 172 companies, thus the number of VMF LATVIA clients in 2019 has increased by 8% compared to 2018. [Page 4 of the Management Report of the Annual Report]



To use profit from timber measurement and accounting services to strengthen their availability in long-term perspective and investment in development



To increase the volume of timber measurement services in the Baltic region

During the reporting period, the Council of the Company has also been well informed about the challenges and plans, and progress for overcoming them, and as a result of which not all the ideas have been fully implemented. Performance of these tasks is included in the action plan for 2020. In 2019, the result of operation was a loss of EUR 110,703 [Page 6 of the Income Statement of the Annual Report]. The main factors influencing losses are related to a very rapid increase in the quality of service and labour productivity, with a stable amount of timber measured, and basically maintaining the principle of the payment tariff - fee for time unit - hours:

- o rapidly changing timber market conditions;
- o revenue:
 - a reduction in total paid hours by 6.9%;
 - reduction in service turnover by 3.9%;
 - client responsiveness for receipt of service tariff discounts for cooperation in work and data flow organization;
- o expenses:
 - in the rapid and extensive increase of the service quality by improving the opportunity of using information technologies for clients EUR 29,651;
 - support the long-term availability of the service and internal communication in the sector in measuring and accounting of timber, including a donation to Association *Zaļās mājas* EUR 1,700;
 - for legal services related to reorganization EUR 3,970;
 - for recruitment services of qualified staff EUR 8,500.

VMF LATVIA has created social security provisions with the goal of saving jobs for employees and compensating for a reduction of remuneration, in case of a substantial and lasting reduction of operational capacity due to economic conditions or inevitable events. As of 31 December 2019, these provisions consisted of EUR 740,963 [Note 16 on Page 19 of the Annual Report.]. In 2019, the provisions were not increased.

Provisions for unused vacations as of 31 December 2019 were EUR 260,888 [Note 19 on Page 20 of the Annual Report]. Compared to 2018, these liabilities have reduced by EUR 1,771 or 0.7%. [Note 19 on Page 20 of the Annual Report].

In 2019, dividends of EUR 152,000 have been paid to the owner from the retained earnings of previous years [Page 9 of Cash flow statement and page 10 Statement of changes in equity of the Annual Report.]. Taking into account the losses in 2019, based on the proposal of the Board [Page 5 of the Management Report of the Annual Report], the Council recommends to cover the losses of the reporting year from retained earnings of previous years and not to plan the payment of dividends in 2020.

Based on the VMF LATVIA strategy and the established main goals, the Company's budget and action plan for 2020 was prepared and started to be carried out in order to implement the intentions in the following directions:

- attain the objectives of determining the accuracy of timber volume jointly defined by the purchasers and sellers of timber products, pursuant to the principles supported by *the Joint Advisory Council*, in cooperation with the clients;
- continue offering to clients the testing reports in the *papiNet* data standard, in cooperation with *SIA Koksnes plūsmas datu centrs*;
- complete the organising of a safe and fast data flow from all automated measuring devices to timber purchasers that are ready for such cooperation;
- maintain the volume of measured timber to 12.5 million m³;
- continue increasing productivity of the services together with the clients, including continue developing provision of service, determining the volume of timber in terms of group by means of automated measuring devices or image technologies;
- further improve the methodology of preparation of the risk management plan with the goal of coordinating the plan to a greater extent with the tasks and goals set for the respective managers to reach the Company's strategic goals;
- integrate the resource management information system with other information systems in order to improve the planning, organization of work and circulation of the information necessary for it;
- develop a new payment procedure for employees, including a section of additional payments and motivation, by incorporating the work productivity criteria;
- implement development projects with the co-financing of the ES funds within the planned timeframe and in the planned amount.

As a result of the emergency announced due to the *COVID-19* pandemic, the management of VMF LATVIA is aware that it may significantly reduce the demand for the service and also affect the availability of the Company's work resources. Consequently, the impact on the development and economic operation of the Company is very large, and the consequences for the time being are unpredictable. One of the most important tasks of VMF LATVIA will be to retain a skilled workforce in event of a major and prolonged idle time, in order to be able to provide services when the demand for the service is resumed. VMF LATVIA has an opportunity to use the created provisions for unused vacations and social security provisions created with the goal of saving jobs for employees and compensating for a reduction of remuneration, in case of a substantial and lasting reduction of operational capacity due to economic conditions or inevitable events.

During 2019, the Council of the Company has fulfilled its duties in accordance with the laws and regulations, has reviewed financial reports and supervised the work of the Board. There were five Council meetings held in 2019. The meetings addressed the issues of Company strategy, budget, execution thereof and other reports of the Board. In light of the above in general, the activities of the Board of the Company in 2019 are considered to be positive.

SIA VMF LATVIA Council Members:

Claes Anders Rixon

Aldis Strankaļs

Andris Balodis

Inesis Ārgalis

Mārtiņš Gaigals