

Interim report, January – June 2013

- Property holdings at the end of the period totaled 2,643 (1,413) hectares
- Total standing timber volume was estimated at 193,222 (102,000) cubic meters
- Revenue for the period amounted to SEK 1,358,000 (413,000)
- Operating profit amounted to SEK 434,000 (loss: 336,000)
- Profit after financial items totaled 136,000 (loss: 380,000)
- Net asset value was estimated at SEK 10.80 (9.20) per share
- Property holdings after the close of the period increased to 2,680 hectares
- The total standing timber volume increased to 199,000 cubic meters
- Four properties, totaling 62 hectares, were divested after the end of the period
- Net asset value after the close of the period was estimated to have increased to SEK 11.00 per share

(Information in parentheses refers to the year-earlier period)

This is the Latvian Forest Company

The Latvian Forest Company AB (publ) offers the potential to invest in favorably valued forest holdings in Latvia via a Swedish listed company. In addition to forestland being an attractive real asset that grows naturally, the three core foundations for operations are:

- An anticipated price increase for Latvian forest and agricultural holdings,
- Creation of value through active forest management,
- Creation of value via the consolidation of larger property holdings.

Expansion is financed through successive share issues in pace with the acquisition of properties and operational growth. Consequently shareholders become part owners in many properties rather than in a single plot of land – thereby gaining favorable risk diversification.

Status & property holdings

At the end of the second quarter of 2013, the Latvian Forest Company had been financed in a total of SEK 29.3 M via new share issues and SEK 5.0 M in short-term loan investments. Investments in forest holdings have been conducted continuously and total holdings at the end of the period amounted to 2,643 (1,413) hectares. Of this total, 1,813 (870) comprised forest land and 656 (481) agricultural land, with the remainder consisting of other land. Meanwhile, the standing timber volume was estimated to be approximately 193,000 (102,000) cubic meters.

The book value of the property portfolio at the end of the second quarter was SEK 27.9 M. The disposable cash available for acquisitions at the end of the period totaled some SEK 2.9 M, with the number of individual properties amounting to 145 (69). During the first quarter, investments totaled some SEK 4.3 M, involving the acquisition of 18 properties with a total land area of approximately 354 hectares and a timber volume of some 21,500 cubic meters. During the second quarter, approximately SEK 4.1 M was invested, involving the

acquisition of 15 properties with a total land area of about 229 hectares and a timber volume of about 20,400 cubic meters.

During the first quarter, a total of some 5,200 cubic meters were harvested. No harvesting was conducted during the second quarter. At the end of the period under review, current harvesting permits covered a total volume of some 15,000 cubic meters. However, these will only be utilized amid attractive market conditions and if other factors (such as weather conditions) are favorable.

The average historic acquisition price per cubic meter is about SEK 151. If the value of agricultural land is also taken into account, the average acquisition price is approximately SEK 121 per cubic meter. The average price per hectare acquired was about SEK 10,700. The average acquisition price in Sweden (in comparable zones) was about SEK 540 per cubic meter during 2012.

Within the framework of available EU financing, subsidies were granted for the precommercial thinning of some 45 hectares. Precommercial thinning was initiated and conducted during the period and will be completed during the third quarter. Precommercial thinning ensures that the future growth and value of the properties increase considerably, while the subsidies also provide a net income per thinned hectare. Income and costs involved in precommercial thinning are reported directly via the income statement and thus the book value of the property is not directly affected, even though the market value is generally regarded as having increased following the completion of precommercial thinning.

Financing

No share issues were undertaken during the first quarter. A credit line totaling approximately SEK 10 M in short-term financing has been agreed with a number of the company's major shareholders as part of efforts to permit substantial acquisitions in the short term. If the credit line is utilized, the intention is to conduct new share issues in order to repay all or part of the credit. The goal is to maintain a high equity/assets ratio and low borrowings. During the first quarter, the entire loan of SEK 5.0 M utilized during 2012 was repaid. The loan is based on commercial terms and conditions, and unutilized portions of the credit line do not involve costs charged to earnings.

Book value of properties

The book value of properties is the price at which they were purchased. No adjustments of the book value have been made in respect of the net growth attained since acquisitions, value increases as a result of various management measures, such as precommercial thinning, or value increases due to a general rise in the price of forest and agricultural holdings in Latvia.

Estimated net asset value

Based on the acquisitions conducted, plus estimates of standing timber volume and market prices for timber and land, the net asset value was estimated to be about SEK 10.80 (9.20) at the end of the period. At the close of the previous period, the net asset value was estimated to be some SEK 9.75. With a share price of SEK 7.00, and based on the assumption of a similar land price as used in the calculation of the net asset value, each cubic meter was valued at some SEK 89 at the end of the period.

Revenue and profit

Revenue for the period totaled SEK 1,358,000 (413,000), of which SEK 1,230,000 (408,000) arose during the first quarter, and was mainly attributable to the harvesting of some 5,200 cubic meters under that quarter. These generated average revenue of approximately SEK 230 per cubic meter.

Operating costs continued to progress as planned. Operating profit amounted to SEK 434,000 (loss: 336,000). Changes in exchange rates vis-à-vis the Euro (to which the Latvian Lat is pegged) resulted in unrealized currency effects and translation differences that negatively affected profit in the amount of SEK

142,000 (negative: 55,000) in financial expenses. Profit after financial items for the period was SEK 136,000 (loss: 380,000).

The cost of goods sold includes the costs arising from precommercial thinning, property-related expenses, such as new tax assessments (meaning the taking of inventory of stands before harvesting, etc.) certain costs relating to harvesting and purchasing costs for properties sold. External costs consist mainly of other purchased consulting services such as accounting, auditing, legal advice, travel, rents and transport, etc. Variable costs for purchasing commissions and so forth have to a certain extent been reported as part of the acquisition cost for the individual properties and were thus not charged to earnings. Other variable remuneration, for example for management and precommercial thinning, is booked under external costs.

The share

At the end of the second quarter, the share capital totaled SEK 4,685,709, distributed among 80,000 A shares and 4,605,709 B shares. A shares represent ten votes each and B shares one vote each. At the end of the period, the five largest owners in terms of votes controlled 21.3 % of the capital and 31.8 % of the votes.

The market

The general assessment is that price levels for forest and agricultural holdings, especially at auctions, continue to rise continually. The new EU budget and expectations of rising subsidies, notably in the agricultural sector, have led to rising demand for agricultural land. This factor is also reflected in the price of forest holdings, since most of the properties for sale include forest and agricultural land. In addition, rising domestic and international demand for biomass for energy purposes is frequently noted as a driving factor underlying the increased demand for forest and agricultural land.

Thanks to its well-established local network, the Latvian Forest Company has continued to perform well in acquiring properties at favorable prices, which are occasionally considerably below what would be the result at public auctions.

The market for pulpwood continued to remain relatively weak at the beginning of the year. Local sawlog prices remain stable and the local timber market continues to show relative strength.

Significant events after the end of the period

An additional seven property acquisitions, totaling 91 hectares, were completed at the beginning of the third quarter 2013, and the total holdings amounted on the date of this report to 2,681 hectares, of which 1,848 comprised forestland, and the remainder agricultural and other land. The total timber volume was estimated at some 199,000 cubic meters. Net asset value was estimated at SEK 11.00 per share. With a share price of SEK 7.00, and based on the assumption of a similar land price as in conjunction with the calculation of the net asset value, each cubic meter was valued at approximately SEK 80 on the same date.

Also, during July four properties comprising a total of 62 hectares were divested. Of this total, 23 hectares were forestland, with 34 hectares agricultural land and 5 hectares of other land. The sales were conducted as part of efforts to commence the process of reducing the percentage of agricultural land in the property portfolio. The aim is to conduct more land partitioning and sales in the future.

Sales income for the divested properties amounted to approximately SEK 516,000 and, during the period the properties were held, they generated a combined cash flow of some SEK 675,000 from harvesting. The average return on invested capital that the divested properties generated to date was about 37 percent.

At the beginning of the third quarter, a targeted new share issue was conducted covering about SEK 2.7 M aimed at a limited circle of investors who had previously notified their interest in participating in targeted issues. Following the share issue, disposable cash amounted to some SEK 4.6 M. The share issue price was SEK 6.65 per B share, based on a weighted average closing share price over the two months prior to the share issue plus a certain discount. The number of B shares issued was 412,037, and the total number of shares following

August 23, 2013



the registration of the share issue was 5,097,746, of which 80,000 are A shares. As a result of the share issue, share capital increased by SEK 412,037 to 5,097,746.

In addition, an agreement was concluded covering the implementation of a set-off share issue covering SEK 2.5 M of the loans raised during the second quarter, which will be conducted on the same terms and conditions of the targeted share issue. The set-off encompasses 375,940 new B shares, and the total number of shares following the registration of the set-off share issue will amount to 5,473,686, of which 80,000 are A shares. Following the registration of the set-off share issue, share capital will increase by SEK 375,940 and amount to SEK 5,473,686.

Next report

The interim report for the period Jan. – Sept. will be published on November 22, 2013.

Accounting principles

This interim report was prepared in accordance with the Swedish Annual Accounts Act and the general recommendations of the Swedish Accounting Standards Board. Unless otherwise stated, the principles are similar to those applied in the latest Annual Report.

About this report

This interim report was not the subject of a special review by the company's auditor.

Stockholm, August 23, 2013

Board of Directors

For further information, contact

Fredrik Zetterström, CEO

+46 735 44 97 30

info@latvianforest.se

Or visit our website: www.latvianforest.se

CONSOLIDATED**INCOME STATEMENT (SEK 000s)**

	Jan-Jun 2013	Jan-Jun 2012	Apr-Jun 2013	Apr-Jun 2012	Jan-Dec 2012
Net revenue	1 357,8	413,2	127,4	5,5	972,0
Costs of goods sold (incl. costs for properties sold)	-208,7	-123,2	-105,8	-50,6	-297,3
Other external costs	-364,5	-305,8	-211,8	-186,1	-662,3
Personnel costs	-330,7	-301,8	-169,9	-150,6	-617,7
Depreciation	-20,0	-18,4	-10,0	-12,0	-37,6
Total operating expenses	-923,9	-749,2	-497,5	-399,3	-1 614,9
Operating profit/loss	433,9	-336,0	-370,1	-393,8	-642,9
Result from financial items					
Financial income	-	3,2	-	107,5	19,3
Financial costs	-298,2	-47,1	-122,9	-1,3	-228,4
Net financial income	-298,2	-43,9	-122,9	106,2	-209,1
Profit/loss after financial items	135,7	-379,9	-493,0	-287,6	-852,0
Tax	-	-	-	-	-
NET PROFIT/LOSS FOR THE PERIOD	135,7	-379,9	-493,0	-287,6	-852,0

CONSOLIDATED CHANGES**IN SHAREHOLDERS' EQUITY (SEK 000s)**

	Share capital	Share premium reserve	Profit/loss incl. Period result	Total
Shareholders' equity January 1, 2012	2 744,1	12 493,5	-1 317,8	13 919,8
Profit/loss	-	-	-936,8	-936,8
Translation differences foreign subsidiary	-	-	88,1	88,1
Total revenue and expenses for the period	-	-	-848,7	-848,7
New share issues	399,0	2 593,9	-	2 992,9
New share issue in progress	-	10 798,1	-	10 798,1
Capital acquisition costs	-	-1 438,9	-	-1 438,9
Shareholders' equity december 31, 2012	3 143,1	24 446,6	-2 166,5	25 423,2
Shareholders' equity January 1, 2013	3 143,1	24 446,6	-2 166,5	25 423,2
Profit/loss	-	-	126,9	126,9
Translation differences foreign subsidiary	-	-	8,8	8,8
Total revenue and expenses for the period	-	-	135,7	135,7
New share issues	1 542,6	9 255,5	-	10 798,1
New share issue in progress	-	-10 798,1	-	-10 798,1
Capital acquisition costs	-	-69,8	-	-69,8
Shareholders' equity June 30, 2013	4 685,7	22 834,2	-2 030,8	25 489,1

**CONSOLIDATED
BALANCE SHEET (SEK 000s)**

	2013-06-30	2012-06-30	2012-12-31	2011-12-31
ASSETS				
Properties	23 833,2	12 377,3	19 612,9	11 017,5
Equipment	148,9	373,6	158,9	179,9
Financial assets	-	-	-	-
Total fixed assets	23 982,1	12 750,9	19 771,8	11 197,4
Accounts receivable - trade	41,5	30,0	164,8	30,0
Short-term receivables	305,9	164,3	11 592,4	289,9
Cash and bank balances	2 219,6	2 323,6	677,7	2 686,5
Total current assets	2 567,0	2 517,9	12 434,9	3 006,4
TOTAL ASSETS	26 549,1	15 268,8	32 206,7	14 203,8

SHAREHOLDERS' EQUITY AND LIABILITIES

Equity	26 014,7	14 957,4	25 423,2	13 905,5
Long-term liabilities	75,0	109,7	84,0	114,0
Short-term liabilities	25,1	22,0	5 026,0	25,6
Other debt	181,0	84,1	1 368,4	50,3
accrued expenses	253,3	95,6	305,1	108,4
Total liabilities	534,4	311,4	6 783,5	298,3
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	26 549,1	15 268,8	32 206,7	14 203,8
Equity/assets ratio	98,0%	98,0%	78,9%	97,9%
General collateral in assets	-	-	5 000,0	-
Net indebtness	pos.	pos.	pos.	pos.

SHARE DATA

	2013-06-30	2012-06-30	2012-12-31	2011-12-31
Average number of issued shares	4 668 758	2 861 236	3 002 450	2 066 868
Number of issued shares	4 685 709	3 140 125	3 143 125	2 744 065
Resultat per share, SEK (before and after dilution)	0,03	-0,13	-0,31	-0,41
Shareholders' equity per share, SEK	5,44	5,20	8,07*	5,07
Cash flow from operating activities per share, SEK	1,96	-0,08	0,03	-0,45

* Including the after 2012 registered shares in a during December 2012 on-going share issue, the shareholders' equity per share was 5,41 SEK.

**CONSOLIDATED CASH FLOW
STATEMENT (SEK 000s)**

	Jan-Jun 2013	Jan-Jun 2012	Jan-Dec 2012	Jan-Dec 2011
Operating activities				
Result after financial items	135,7	-379,9	-852,0	-853,7
Adjustments for non-cash items				
- Unrealized translation differences foreign currency	141,8	55,2	130,9	43,1
- Depreciation of fixed assets	20,0	18,4	37,6	3,8
- Translation difference for profit/loss in foreign currency	-8,8	-9,4	-20,1	1,8
Cash flow from operating activities before changes in working capital	288,7	-315,7	-703,6	-805,0
Cash flow from changes in working capital	8 850,4	79,8	-10 015,7	-128,3
Cash flow from operating activities	9 139,1	-235,9	-10 719,3	-933,3
Investing activities				
Deposits made	-	-	-	-88,1
Investments in equipment and machinery	-	-	-16,6	-183,7
Investments in property	-8 322,6	-2 503,0	-8 595,4	-7 567,0
Cash flow from investing activities	-8 322,6	-2 503,0	-8 612,0	-7 838,8
Financing operations				
New share issues	-	2 970,4	2 992,9	7 868,9
New share issue in progress	-	-	10 798,1	-
Costs of capital raising	-69,8	-152,0	-1 438,9	-190,4
Changes in borrowings	1 484,9	-14,9	4 970,4	139,6
Cash flow from financing operations	1 415,1	2 803,5	17 322,5	7 818,1
PERIOD CASH FLOW	2 231,6	64,6	-2 008,8	-954,0
Cash and cash equivalents at period beginning	677,7	2 686,5	2 686,5	3 640,5
Period cash flow, as above	2 231,6	64,6	-2 008,8	-954,0
Cash and cash equivalents at period end	2 909,3	2 751,1	677,7	2 686,5

**PARENT COMPANY
INCOME STATEMENT (SEK 000s)**

	Jan-Jun 2013	Jan-Jun 2012	Apr-Jun 2013	Apr-Jun 2012	Jan-Dec 2012
Net revenue	36,1	-	36,1	-	-
Costs of goods sold (incl. costs for properties sold)	-	-	-	-	-
Other external costs	-262,6	-208,7	-155,2	-183,3	-445,8
Personnel costs	-230,0	-197,6	-118,3	-98,6	-394,7
Depreciation	-	-	-	-	-
Total operating expenses	-492,6	-406,3	-273,5	-281,9	-840,5
Operating profit/loss	-456,5	-406,3	-237,4	-281,9	-840,5
Result from financial items					
Financial income	550,9	325,8	757,6	172,3	779,6
Financial costs	-477,2	-297,1	-58,3	-295,9	-655,7
Net financial income	73,7	28,7	699,3	-123,6	123,9
Profit/loss after financial items	-382,8	-377,6	461,9	-405,5	-716,6
Tax	-	-	-	-	-
NET PROFIT/LOSS FOR THE PERIOD	-382,8	-377,6	461,9	-405,5	-716,6

**PARENT COMPANY
BALANCE SHEET (SEK 000s)**

	2013-06-30	2012-06-30	2012-12-31	2011-12-31
ASSETS				
Shares in subsidiaries	1 813,3	28,3	28,3	28,3
Total fixed asstes	1 813,3	28,3	28,3	28,3
Receivables group companies	26 421,3	8 746,1	21 056,4	12 441,0
Short-term receivables	131,8	83,4	11 169,5	72,2
Cash and bank balances	2 611,9	5 759,6	573,0	2 162,5
Total current assets	29 165,0	14 589,1	32 798,9	14 675,7
TOTAL ASSETS	30 978,3	14 617,4	32 827,2	14 704,0
SHAREHOLDERS' EQUITY AND LIABILITIES				
Equity	25 802,9	14 580,7	26 255,5	14 619,9
Other liabilities	5 077,1	25,4	6 339,1	41,5
Accrued expenses	98,3	11,3	232,6	42,6
Total liabilities	5 175,4	36,7	6 571,7	84,1
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	30 978,3	14 617,4	32 827,2	14 704,0
Equity/assets ratio	83,3%	99,7%	80,0%	99,4%