

## Interim report January – September 2013

- **Property holdings totaled 2,811 (1,798) hectares**
- **Total standing timber volume was estimated to be 209,000 (129,000) cubic meters**
- **Revenue for the period amounted to SEK 1,887,000 (408)**
- **Operating profit totaled SEK 89,000 (loss: 641,000)**
- **The loss after financial items was SEK 393,000 (loss: 823,000)**
- **Net asset value was SEK 10.75 (9.60) per share**
- **Four properties, totaling 62 hectares, were divested**
- **Property holdings increased to 2,853 hectares**
- **The standing timber volume increased to 211,000 cubic meters**
- **Harvesting after the end of the period contributed about SEK 950,000 to revenue**
- **Net asset value after the close of the period was estimated to have increased to approximately SEK 11.20 per share**

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

### **This is 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 major property holdings.

Expansion is financed through successive share issues in pace with the acquisition of properties and operational growth. Consequently, via the Latvian Forest Company, shareholders are 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 third quarter of 2013 the Latvian Forest Company had been financed in a total amount of SEK 34.5 M through new share issues. Investments in forest properties have been conducted continuously and holdings at the close of the period amounted to 2,811 (1,798) hectares. Of this total 1,940 (1,197) comprised forest holdings and 668 (501) of agricultural land, with the remainder consisting of other land. At the same time, the total standing timber volume was estimated to be approximately 209,000 (129,000) cubic meters.

Four properties totaling 62 hectares were divested during July. Of this total, 23 hectares consisted of forestland, 34 hectares comprised agricultural land and 5 hectares were other land. The sales were conducted in order to commence the process of reducing the share of agricultural land in the property portfolio. The aim is to separate agricultural land and to undertake more sales in the future. Income from property sales totaled approximately SEK 516,000 and the properties have, during the ownership period, generated total cash flows

of about SEK 675,000 from harvesting. The average return on invested capital that the divested properties generated was about 37 percent.

During the third quarter, approximately SEK 2.0 M was invested in the acquisition of 19 properties with a total area of 223 hectares and a standing timber volume of about 15,700 cubic meters. During the first quarter, investments totaled some SEK 4.3 M and 18 properties were acquired with a total land area of 354 hectares and a standing timber volume of approximately 21,500 cubic meters. During the second quarter, about SEK 4.1 M was invested in the acquisition of 15 properties with a total land area of 229 hectares and a total timber volume of some 20,400 cubic meters. The disposable cash available for acquisitions at the end of the third quarter amounted to about SEK 0.8 M and the number of individual properties totaled 161 (97).

During the first quarter, a total of some 5,200 cubic meters were harvested. No harvesting was conducted during the second and third quarter. The number of current and requested harvesting permits total about 15,000 cubic meters. However, these will only be utilized if market conditions are attractive and if other factors (such as weather conditions) are favorable.

The average acquisition price per cubic meter is approximately SEK 145, if the value agricultural land is assumed to be zero. If the value of agricultural land is also taken into account, the average acquisition price is approximately SEK 118 per cubic meter. The average price per acquired hectare amounted to some SEK 10,400. The average acquisition price in Sweden (in comparable growth zones) was about SEK 530 per cubic meter during the first six months of 2013.

Within the framework of available EU financing, subsidies were granted for the precommercial thinning of some 45 hectares. Precommercial thinning was initiated during the second quarter and 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**

During the first six months no share issues were carried out. A credit line has been agreed with a number of the company's major shareholders as part of efforts to permit acquisitions in the short term if the available funds prove insufficient. 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 objective 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. During the second quarter, an additional loan of SEK 5.0 M was raised. The loan is based on commercial terms and conditions, and unutilized portions of the credit line do not involve costs charged to earnings.

During the third quarter, a new share issue amounting to SEK 2.7 M and a set-off share issue of SEK 2.5 M were undertaken. The share issue price was SEK 6.65 per B share in both issues and the number of B shares issued totaled 787,977. Following the share issues, the total number of shares is 5,473,686, of which 80,000 are A shares. Following the share issues, the share capital totals 5,473,686.

During the third quarter, repayment was also made of the remaining portions of short-term financing in the amount of SEK 2.5 M (meaning the debts that remained after the set-off share issue noted above).

## **Book value of properties**

The book value of the property portfolio, amounting to SEK 29.4 M at the end of the third quarter, refers to the acquisition value. No adjustments of the book value have been made in respect of the net growth attained since acquisitions or value increases as a result of various management measures, such as precommercial thinning, or value increases due to a general rise in the market 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, etc., the net asset value was estimated to be about SEK 10.75 (9.60) at the end of the period. At the close of the preceding quarter, net asset value was estimated to be approximately 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 85 at the end of the period.

### **Revenue and profit**

Revenue for the first six months totaled SEK 1,887,000 (408,000), of which SEK 1,230,000 (408,000) arose during the first quarter. Income was mainly attributable to the harvesting of 5,200 cubic meters, which generated an average net income of some SEK 230 per cubic meter.

Property sales of a total of 62 hectares during July generated sales income of about SEK 516,000, and during the holding period the properties generated a total cash flow of approximately SEK 675,000 from harvesting. The average return on invested capital that property sales have so far generated is about 37 percent.

Operating costs continued to progress as planned. Operating profit amounted to SEK 89,000 (loss: 641,000). Changes in exchange rates vis-à-vis the Euro (to which the Latvian Laten is pegged) resulted in unrealized currency effects and translation differences that resulted in unrealized currency effects that negatively impacted on profit in the amount of SEK 147,000 (negative: 193,000) in the form of financial expenses. The loss after financial items amounted to SEK 393,000 (loss: 823,000).

The cost of goods sold, amounting to SEK 714,000, include, for example, costs for divested properties in the amount of SEK 475,000. In other respects the item includes costs arising from precommercial thinning, property-related costs such as new tax assessments, inventories and the marking of stands prior to harvesting, as well property-related costs and certain costs relating to harvesting and purchasing costs for properties. External costs consist largely of other purchased consulting services such as bookkeeping, auditing, legal advice, travel, rent and transport, etc. Variable costs for purchasing commissions and so forth were to a certain extent reported as part of the acquisition cost for individual properties and, thus, were not charged to earnings. Other variable remuneration, for example for management and precommercial thinning are booked under external costs.

### **The share**

At the end of the second quarter, share capital amounted to SEK 5,473,686, distributed among 80,000 A shares and 5,393,686 B shares. A shares represent ten votes and B shares one vote each. At the end of the period, the five largest shareholders represented 26.0 % of the capital and 34.6 % of the votes.

### **The market**

The general assessment is that price levels for forest and agricultural holdings continue to rise in Latvia, although prices in Sweden, for example, have leveled out. Increased economic activity, better access to local capital and greater institutional interest in this type of asset are regarded as contributing to price increases. The new EU budget and expectations of rising subsidies, notably in the agricultural sector, have led to rising demand and prices 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.

The local sawlog market continues to show relative strength, and rising economic activity in Latvia is reflected in prices offered from local players in conjunction with harvesting. This is reflected, for example, in the prices that the Latvian Forest Company recently received for standing forest timber for sale. However, the international market remains sluggish, with the poor trend in the European construction market as one of the factors.

The market for pulpwood is more international and is expected to remain relatively weak although price levels are relatively favorable from an historical perspective.

Rising domestic and international demand for biomass for energy purposes is increasingly noted as a driving force underlying the higher 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 and other transactions conducted on the local property market.

### **Significant events after the end of the period**

An additional four property acquisitions, comprising a total of 42 hectares, were conducted at the beginning of the fourth quarter of 2013, and total holdings on the date of this report were 2,853 hectares, of which 1,956 comprised forestland and the remainder agricultural and other land.

During October, SEK 1.0 M of the credit line at the disposal of the company was utilized. The loan is subject to commercial terms and conditions and repayment or conversion will be conducted before the end of February.

Harvesting of a total of 3,000 cubic meters was completed during October and November. The average net income per cubic meter was about SEK 315. After harvesting, the disposable cash for investments amounted to approximately SEK 2.1 M.

After the completion of harvesting, the total timber volume was estimated to be some 211,000 cubic meters. The estimated net asset value amounts to SEK 11.20 per share. At a share price of SEK 7.00 and the assumption of the same land values as used in calculating the net asset value, each cubic meter is valued at approximately SEK 76.

### **Next report**

The year-end report for 2013 is scheduled to be published on February 21, 2014.

### **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, November 22, 2013  
*Board of Directors*

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

	Jan-Sep 2013	Jan-Sep 2012	Jul-Sep 2013	Jul-Sep 2012	Jan-Dec 2012
Net revenue	1 887,2	408,2	529,4	-5,0	972,0
Costs of goods sold (incl. costs for properties sold)	-713,5	-132,0	-504,8	-8,8	-297,3
Other external costs	-556,1	-442,9	-191,6	-137,1	-662,3
Personnel costs	-498,5	-446,6	-167,8	-144,8	-617,7
Depreciation	-30,0	-27,5	-10,0	-9,1	-37,6
Total operating expenses	-1 798,1	-1 049,0	-874,2	-299,8	-1 614,9
Operating profit/loss	89,1	-640,8	-344,8	-304,8	-642,9
Result from financial items					
Financial income	2,3	11,1	2,3	7,9	19,3
Financial costs	-484,1	-193,1	-185,9	-146,0	-228,4
Net financial income	-481,8	-182,0	-183,6	-138,1	-209,1
Profit/loss after financial items	-392,7	-822,8	-528,4	-442,9	-852,0
Tax	-	-	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-392,7</b>	<b>-822,8</b>	<b>-528,4</b>	<b>-442,9</b>	<b>-852,0</b>

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

	Share capital	Share premium reserve	Profit/loss incl. Period result	Total
<b>Shareholders' equity January 1, 2012</b>	<b>2 744,1</b>	<b>12 493,5</b>	<b>-1 317,8</b>	<b>13 919,8</b>
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
<b>Shareholders' equity december 31, 2012</b>	<b>3 143,1</b>	<b>24 446,6</b>	<b>-2 166,5</b>	<b>25 423,2</b>
<b>Shareholders' equity January 1, 2013</b>	<b>3 143,1</b>	<b>24 446,6</b>	<b>-2 166,5</b>	<b>25 423,2</b>
Profit/loss	-	-	-400,0	-400,0
Translation differences foreign subsidiary	-	-	7,3	7,3
Total revenue and expenses for the period	-	-	-392,7	-392,7
New share issues	2 330,6	2 909,4	-	5 240,0
New share issue in progress	-	-	-	-
Capital acquisition costs	-	-104,8	-	-104,8
<b>Shareholders' equity June 30, 2013</b>	<b>5 473,7</b>	<b>27 251,2</b>	<b>-2 559,2</b>	<b>30 165,7</b>

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

	2013-09-30	2012-09-30	2012-12-31	2011-12-31
<b>ASSETS</b>				
Properties	29 438,9	17 385,2	19 612,9	11 017,5
Equipment	128,9	152,4	158,9	179,9
Financial assets	-	-	-	-
<b>Total fixed assets</b>	<b>29 567,8</b>	<b>17 537,6</b>	<b>19 771,8</b>	<b>11 197,4</b>
Accounts receivable - trade	30,3	30,0	164,8	30,0
Short-term receivables	260,1	222,3	11 592,4	289,9
Cash and bank balances	787,4	1 951,3	677,7	2 686,5
<b>Total current assets</b>	<b>1 077,8</b>	<b>2 203,6</b>	<b>12 434,9</b>	<b>3 006,4</b>
<b>TOTAL ASSETS</b>	<b>30 645,6</b>	<b>19 741,2</b>	<b>32 206,7</b>	<b>14 203,8</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Equity	30 165,7	15 897,9	25 423,2	13 905,5
Long-term liabilities	63,4	89,2	84,0	114,0
Short-term liabilities	25,6	3 524,1	5 026,0	25,6
Other debt	235,7	86,2	1 368,4	50,3
accrued expenses	155,2	143,8	305,1	108,4
<b>Total liabilities</b>	<b>479,9</b>	<b>3 843,3</b>	<b>6 783,5</b>	<b>298,3</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>30 645,6</b>	<b>19 741,2</b>	<b>32 206,7</b>	<b>14 203,8</b>
Equity/assets ratio	98,4%	80,5%	78,9%	97,9%
General collateral in assets	-	3 500,0	5 000,0	-
Net indebtness	pos.	pos.	pos.	pos.

**SHARE DATA**

	2013-09-30	2012-09-30	2012-12-31	2011-12-31
Average number of issued shares	4 789 621	2 955 217	3 002 450	2 066 868
Number of issued shares	5 473 686	3 143 125	3 143 125	2 744 065
Resultat per share, SEK (before and after dilution)	-0,08	-0,28	-0,31	-0,41
Shareholders' equity per share, SEK	5,51	5,06	8,07*	5,07
Cash flow from operating activities per share, SEK	1,74	-0,22	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-Sep 2013	Jan-Sep 2012	Jan-Dec 2012	Jan-Dec 2011
<b>Operating activities</b>				
Result after financial items	-392,7	-822,8	-852,0	-853,7
Adjustments for non-cash items				
- Unrealized translation differences foreign currency	154,4	194,3	130,9	43,1
- Depreciation of fixed assets	30,0	27,5	37,6	3,8
- Translation difference for profit/loss in foreign currency	-7,3	-26,8	-20,1	1,8
<b>Cash flow from operating activities before changes in working capital</b>	<b>-215,6</b>	<b>-627,8</b>	<b>-703,6</b>	<b>-805,0</b>
Cash flow from changes in working capital	8 537,1	-28,6	-10 015,7	-128,3
<b>Cash flow from operating activities</b>	<b>8 321,5</b>	<b>-656,4</b>	<b>-10 719,3</b>	<b>-933,3</b>
<b>Investing activities</b>				
Deposits made	-	-	-	-88,1
Investments in equipment and machinery	-	-	-16,6	-183,7
Investments in property	-9 826,0	-6 367,7	-8 595,4	-7 567,0
<b>Cash flow from investing activities</b>	<b>-9 826,0</b>	<b>-6 367,7</b>	<b>-8 612,0</b>	<b>-7 838,8</b>
<b>Financing operations</b>				
New share issues	2 740,0	2 992,9	2 992,9	7 868,9
New share issue in progress	-	-	10 798,1	-
Costs of capital raising	-104,8	-177,7	-1 438,9	-190,4
Changes in borrowings	-1 021,0	3 473,7	4 970,4	139,6
<b>Cash flow from financing operations</b>	<b>1 614,2</b>	<b>6 288,9</b>	<b>17 322,5</b>	<b>7 818,1</b>
<b>PERIOD CASH FLOW</b>	<b>109,7</b>	<b>-735,2</b>	<b>-2 008,8</b>	<b>-954,0</b>
Cash and cash equivalents at period beginning	677,7	2 686,5	2 686,5	3 640,5
Period cash flow, as above	109,7	-735,2	-2 008,8	-954,0
<b>Cash and cash equivalents at period end</b>	<b>787,4</b>	<b>1 951,3</b>	<b>677,7</b>	<b>2 686,5</b>

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

	Jan-Sep 2013	Jan-Sep 2012	Jul-Sep 2013	Jul-Sep 2012	Jan-Dec 2012
Net revenue	43,5	-	7,4	0,0	0,0
Costs of goods sold (incl. costs for properties sold)	-	-	-	-	-
Other external costs	-401,8	-303,3	-139,2	-94,6	-445,8
Personnel costs	-348,6	-296,1	-118,6	-98,5	-394,7
Depreciation	-	-	-	-	-
Total operating expenses	-750,4	-599,4	-257,8	-193,1	-840,5
<b>Operating profit/loss</b>	<b>-706,9</b>	<b>-599,4</b>	<b>-250,4</b>	<b>-193,1</b>	<b>-840,5</b>
<b>Result from financial items</b>					
Financial income	872,9	526,9	782,1	201,1	779,6
Financial costs	-813,7	-1 065,5	-796,6	-768,4	-655,7
Net financial income	59,2	-538,6	-14,5	-567,3	123,9
<b>Profit/loss after financial items</b>	<b>-647,7</b>	<b>-1 138,0</b>	<b>-264,9</b>	<b>-760,4</b>	<b>-716,6</b>
Tax	-	-	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-647,7</b>	<b>-1 138,0</b>	<b>-264,9</b>	<b>-760,4</b>	<b>-716,6</b>

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

	2013-09-30	2012-09-30	2012-12-31	2011-12-31
<b>ASSETS</b>				
Shares in subsidiaries	1 813,3	28,3	28,3	28,3
<b>Total fixed asstes</b>	<b>1 813,3</b>	<b>28,3</b>	<b>28,3</b>	<b>28,3</b>
Receivables group companies	28 465,3	18 807,7	21 056,4	12 441,0
Short-term receivables	132,0	102,2	11 169,5	72,2
Cash and bank balances	575,4	1 009,0	573,0	2 162,5
<b>Total current assets</b>	<b>29 172,7</b>	<b>19 918,9</b>	<b>32 798,9</b>	<b>14 675,7</b>
<b>TOTAL ASSETS</b>	<b>30 986,0</b>	<b>19 947,2</b>	<b>32 827,2</b>	<b>14 704,0</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Equity	30 743,0	16 297,3	26 255,5	14 619,9
Other liabilities	103,0	3 572,9	6 339,1	41,5
Accrued expenses	140,0	77,0	232,6	42,6
<b>Total liabilities</b>	<b>243,0</b>	<b>3 649,9</b>	<b>6 571,7</b>	<b>84,1</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>30 986,0</b>	<b>19 947,2</b>	<b>32 827,2</b>	<b>14 704,0</b>
Equity/assets ratio	99,2%	81,7%	80,0%	99,4%