

## Year-end report 2013

- Property holdings totaled 2,962 (2,010) hectares
- Total standing timber volume was estimated at 216,000 (143,000) cubic meters
- Revenue amounted to SEK 3,160,000 (946,000)
- Operating result SEK -74,000 (-730,000)
- Result after financial items was SEK -563,000 (-917,000)
- Adjustments in conjunction with accounting for property sales affected earnings by SEK -486,000
- The estimated net asset value was SEK 11.30 (9.20) per share
- The acquisition of a property package totaling 3,835 hectares was announced
- The accounting currency was changed to Euro at year-end
- Net income from harvesting after the period was approximately EUR 84,000, corresponding to some SEK 745,000
- The estimated net asset value after the period increased to SEK 11.33 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

Investments in forest properties have been conducted continuously and holdings at the close of the period amounted to 2,962 (2,010) hectares. Of this total, 2,034 (1,378) comprised forest holdings and 712 (513) agricultural land, with the remainder consisting of other land. Meanwhile, the total standing timber volume was estimated to be approximately 216,000 (143,000) cubic meters, following harvesting and property sales.

During the period, investments amounted to some SEK 11.5 M and 62 properties with about 987 hectares and a timber standing volume of approximately 68,000 cubic meters were acquired. During the fourth quarter, investments of about SEK 1.6 M in 13 properties with a total area of around 181 hectares and a timber volume of some 11,160 cubic meters were completed.

The disposable cash available for acquisitions at the end of the fourth quarter amounted to about SEK 0.6 M and the number of individual properties was 168 (111). By the close of the fourth quarter of 2013, the Latvian Forest Company had been financed since its inception in a total amount of SEK 34.5 M through new issues.

During the first quarter, a total of some 5,200 cubic meters was harvested. No harvesting took place during the second and third quarters. Harvesting during the fourth quarter covered approximately 3,000 cubic meters. The average net income from harvesting during the year was about SEK 274 per cubic meter.

At the end of the period, current and requested harvesting permits totaled some 10,000 cubic meters. However, these will only be utilized amid attractive market conditions and if other factors (such as weather conditions) are favorable.

During July, four properties with a total acreage of 62 hectares were sold, of which 23 hectares were forest land, 34 hectares agricultural land, and 5 hectares other land. The sales were undertaken so as to commence a process aimed at reducing the proportion of agricultural land in the property portfolio. Sales income from the divested properties totaled about SEK 516,000; and during the holding period, the properties generated total cash flow of some SEK 675,000 from harvesting. In December, another five properties, totaling 30 hectares, were divested, of which 26 hectares were forestland, 3 hectares agricultural land and 1 hectare other land. Sales income amounted to some SEK 235,000. Income deriving from sales was reinvested in new properties.

The average historic acquisition price per cubic meter was some SEK 148 at the end of the period if the value of forest and agricultural land is assumed to be zero. If the value of agricultural land is taken into account, the average historic acquisition price was about SEK 119 per cubic meter. The average price per acquired hectare was some SEK 10,400. The average acquisition price in Sweden (in comparable growth zones) was approximately SEK 530 per cubic meter during the first half of 2013.

Within the framework of available EU financing, subsidies were granted for the precommercial thinning of some 45 hectares. Precommercial thinning started in the second quarter and was completed in the third. Precommercial thinning ensures that future growth and property values increase considerably, and subsidies also provide net income per thinned hectare. Income and costs from 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 viewed as having increased after completion of precommercial thinning.

### **Revenue and profit**

Revenue for the period totaled SEK 3,160,000 (946,000), of which SEK 1,272,000 (538,000) arose in the fourth quarter. Apart from income from property sales, totaling SEK 750,000, income was mostly due to the harvesting of 8,200 cubic meters. Harvesting generated average net income of about SEK 274 per cubic meter.

The cost of goods sold, amounting to SEK 1,689,000, includes, for example costs for divested properties in the amount of SEK 1,136,000. In conjunction with the preparation of the year-end report, the result was adjusted for a property sale completed during the third quarter. With this, earnings in relation to the latest report presented were negatively affected in an amount of SEK -486,000. As a result, the difference between the market value and the book value of tangible fixed assets increased by SEK 682,000.

Otherwise, operating costs progressed as planned. The operating loss was SEK -74,000 (-730,000). Changes in exchange rates vis-à-vis the Euro (to which the Latvian Lat was pegged) resulted in unrealized currency effects and translation differences that affected earnings by SEK -150,000 (-131,000) in the form of financial expenses. The result after financial items for the period totaled SEK -649,000 (-917,000).

In other respects, the item includes costs for pre-commercial thinning, property-related costs and new tax assessments, inventories and marking of stands prior to harvesting, as well as certain costs associated with harvesting, and purchasing costs for properties sold.

External costs consist largely of other purchased consulting services such as bookkeeping, auditing, legal advice, travel, rent, and transport, etc. Variable costs due to 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 pre-commercial thinning, are booked under external costs.

Earnings for the period were charged with tax in the amount of SEK 86,000. This arises when the company's reported profit/loss and non-deductible interest expenses reversed for taxation in the subsidiary exceed zero.

### **Financing**

No share issues were conducted in the first half of the year. 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 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 loans were 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 targeted 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. After the share issues, the share capital totals SEK 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). An additional loan of SEK 1 M was raised during the fourth quarter.

### **Book value of properties**

The book value of the property portfolio, amounting to SEK 31.1 M at the end of the fourth 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 pre-commercial 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 11.30 (9.20). At the end of the preceding quarter, net asset value was estimated to be about SEK 10.75. At a share price of SEK 8.00, and assuming similar land values as those used in calculating the net asset value, each cubic meter was valued at approximately SEK 103 at the end of the period.

### **The share**

At the end of the period, share capital amounted to SEK 5,473,686, distributed among 80,000 A shares and 5,393,686 B shares. Each A share represents ten votes and B shares one vote each. At the close of the period, the five largest shareholders controlled 26.0 percent of the capital and 34.6 percent of the votes.

### **The market**

No major changes were noted in market conditions for the Latvian Forest Co since the previous report, and the impression is that prices for forest and agricultural properties continue to rise in Latvia, although prices have leveled out in Sweden, for example. Higher economic activity, superior access to local capital and increased institutional interest in this type of asset are viewed as factors 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 both forest and agricultural land.

The local sawlog market continues to show relative strength, and rising economic activity in Latvia is reflected in prices offered by local players in conjunction with harvesting. This is confirmed, for example, by 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, which is more international, is expected to remain comparatively 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.

### **Acquisitions announced**

In December, the Latvian Forest Company AB signed two Letters of Intent covering the acquisition of a total of 3,835 hectares of forestland and agricultural land in Latvia with a standing timber volume of some 290,000 cubic meters. Following the acquisitions, aggregate holdings are expected to amount to 6,688 hectares, with the standing timber volume totaling approximately 501,000 cubic meters.

The acquisitions more than double the Latvian Forest Company's combined land holdings and standing timber volume. It is expected that cash flows will be strengthened and considerable economies of scale in management can be attained. The property portfolio's new composition and age structure also create potential for sharp volume growth in the time ahead. The acquisitions are part of the explicit strategy of participating in structural deals in which payment in the form of shares represents part of the financing.

One Letter of Intent has been concluded with Bockasjõ Skogar AB regarding an acquisition of Forest Holding Baltic AB encompassing a total of 2,885 hectares of forest and agricultural land, with a standing timber volume of some 205,000 cubic meters. The purchase price is estimated at about 41.5 M.

The second agreement was reached with Zaveria Lettland AB covering the acquisition of the Latvian company SIA Zaveria, whose holding amounts to 950 hectares, with a standing timber volume of about 85,000 cubic meters. The purchase price is estimated at approximately SEK 12.4 M.

The intention is that the acquisitions will be financed through a combination of bank financing, targeted new share issues and a rights issue. On the date of the announcement, preliminary subscription commitments totaling approximately SEK 17 M had been received, of which the sellers have pledged to subscribe for shares corresponding to 10.5 M. The definitive purchase price will be determined in conjunction with the taking of possession, which is planned to be completed at the end of March 2014.

The aim is that the details surrounding the final financing structure and terms and conditions of the share issues will be announced as soon as these are deemed sufficiently secure and approved by the parties involved.

### **Legislation**

A public debate is in progress in Latvia concerning the passing of new land purchase legislation that would curtail the possibility to acquire or sell agricultural land freely. If and when any legislation is passed and how it would be configured in such event is not clear, but the assessment – on the basis of available information – is that it would entail a limited impact on the Latvian Forest Company's operations and its continuing expansion, since the regulations focus primarily on properties containing more than 50 percent agricultural land.

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

In conjunction with year-end, the Latvian Forest Company AB changed its accounting currency to the Euro. All reporting in the future will be in Euro. Trading in the share on the Aktietorget exchange will continue to be denominated in Swedish kronor (SEK). The exchange rate was set at SEK 8.9283 per Euro.

An additional property acquisition involving a total of 15.3 hectares was conducted early in the first quarter of 2014 and total holdings were 2,977 hectares on the date of this report, of which 2,041 was forestland and the remainder agricultural land and other land. The limited number of acquisitions early in the period was largely attributable to the deployment of a large share of available personnel resources in studies of planned acquisitions. Thus, a return to a more normal expansion pace can be expected in the future.

During January SEK 0.5 M was utilized of the credit line at the disposal of the company. 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 January. Total net income amounted to some EUR 84,000 (approx. SEK 750,000), corresponding to an average net income per cubic meter of about EUR 28 (approx. SEK 250). After harvesting, funds available for investments amounted to about EUR 1.2 M .

The estimated total standing timber volume was some 215,000 cubic meters after the completion of harvesting. The calculated net asset value was SEK 11.35 per share. Meanwhile, at a share price of SEK 8.00 and assuming similar land values as used in calculating the net asset value, each cubic meter is valued at SEK 103.

### **Dividend**

The Board of Directors and Chief Executive Officer propose that no dividend be paid for the 2013 financial year.

### **Annual Report and Annual General Meeting**

The Annual Report and the Annual General Meeting (AGM) of shareholders for the 2013 financial year are planned to be announced in the customary manner at the end of May or early June 2014. The Annual Report will be kept available at the Company's office and website, as well as being available on Aktietorget's website. It is planned to hold the AGM in Stockholm in June 2013. The exact date for publicizing the Annual Report and time and place of the AGM will be presented no later than in conjunction with the summons to the AGM.

### **Next report**

The interim report for the period January – March 2014 is planned to be released on May 22, 2014.

### **Accounting principles**

This interim report was prepared pursuant to 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, February 21, 2014  
*Board of Directors*

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

	Jan-Dec 2013	Jan-Dec 2012	Okt-Dec 2013	Okt-Dec 2012	Jan-Dec 2011
Net revenue	3 159,5	946,4	1 272,3	538,2	337,7
Costs of goods sold (incl. costs for properties sold)	-1 688,9	-386,8	-975,4	-254,8	-119,5
Other external costs	-818,7	-634,4	-262,6	-191,5	-641,5
Personnel costs	-686,1	-617,7	-187,6	-171,1	-398,0
Depreciation	-40,1	-37,6	-10,1	-10,1	-3,8
Total operating expenses	-3 233,8	-1 676,5	-1 435,7	-627,5	-1 162,8
Operating profit/loss	-74,3	-730,1	-163,4	-89,3	-825,1
Result from financial items					
Financial income	10,8	19,3	8,5	8,2	14,5
Financial costs	-499,3	-205,9	-15,2	-12,8	-43,1
Net financial income	-488,5	-186,6	-6,7	-4,6	-28,6
Profit/loss after financial items	-562,8	-916,7	-170,1	-93,9	-853,7
Tax	-86,0	-	-86,0	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-648,8</b>	<b>-916,7</b>	<b>-256,1</b>	<b>-93,9</b>	<b>-853,7</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	-	-	-669,1	-669,1
Translation differences foreign subsidiary	-	-	20,3	20,3
Total revenue and expenses for the period	-	-	-648,8	-648,8
New share issues	2 330,6	2 909,4	-	5 240,0
New share issue in progress	-	-	-	0,0
Capital acquisition costs	-	-206,7	-	-206,7
<b>Shareholders' equity December 31, 2013</b>	<b>5 473,7</b>	<b>27 149,3</b>	<b>-2 815,3</b>	<b>29 807,7</b>

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

	2013-12-31	2012-12-31	2011-12-31	2010-12-31
<b>ASSETS</b>				
Properties	30 409,3	19 612,9	11 017,5	3 490,9
Equipment	118,9	158,9	179,9	-
Financial assets	-	-	-	-
<b>Total fixed assets</b>	<b>30 528,2</b>	<b>19 771,8</b>	<b>11 197,4</b>	<b>3 490,9</b>
Accounts receivable - trade	88,4	164,8	30,0	-
Short-term receivables	126,9	11 592,4	289,9	48,7
Cash and bank balances	775,5	677,7	2 686,5	3 640,5
<b>Total current assets</b>	<b>990,8</b>	<b>12 434,9</b>	<b>3 006,4</b>	<b>3 689,2</b>
<b>TOTAL ASSETS</b>	<b>31 519,0</b>	<b>32 206,7</b>	<b>14 203,8</b>	<b>7 180,1</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Equity	29 807,7	25 423,2	13 905,5	7 080,7
Long-term liabilities	57,8	84,0	114,0	-
Short-term liabilities	1 027,7	5 026,0	25,6	-
Other debt	381,0	1 358,9	50,3	64,4
accrued expenses	244,8	314,6	108,4	35,0
<b>Total liabilities</b>	<b>1 711,3</b>	<b>6 783,5</b>	<b>298,3</b>	<b>99,4</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>31 519,0</b>	<b>32 206,7</b>	<b>14 203,8</b>	<b>7 180,1</b>
Equity/assets ratio	94,6%	78,9%	97,9%	98,6%
General collateral in assets	1 135,5	5 160,0	Inga	Inga
Net indebtness	pos.	pos.	pos.	pos.

**SHARE DATA**

	2013-12-31	2012-12-31	2011-12-31
Average number of issued shares	4 962 043	3 002 450	2 066 868
Number of issued shares	5 473 686	3 143 125	2 744 065
Result per share, SEK (before and after dilution)	-0,13	-0,31	-0,41
Shareholders' equity per share, SEK	5,45	8,07*	5,07
Cash flow from operating activities per share, SEK	1,69	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-Dec 2013	Jan-Dec 2012	Jan-Dec 2011	15 mån 2010
<b>Operating activities</b>				
Result after financial items	-562,8	-852,0	-853,7	-481,3
Adjustments for non-cash items				
- Unrealized translation differences foreign currency	149,7	130,9	43,1	247,9
- Depreciation of fixed assets	40,1	37,6	3,8	-
- Translation difference for profit/loss in foreign currency	-20,3	-20,1	1,8	2,9
<b>Cash flow from operating activities before changes in working capital</b>	<b>-393,3</b>	<b>-703,6</b>	<b>-805,0</b>	<b>-230,5</b>
Cash flow from changes in working capital	8 778,7	-10 015,7	-128,3	-197,2
<b>Cash flow from operating activities</b>	<b>8 385,4</b>	<b>-10 719,3</b>	<b>-933,3</b>	<b>-427,7</b>
<b>Investing activities</b>				
Deposits made	-	-	-88,1	-40,4
Investments in equipment and machinery	-	-16,6	-183,7	-
Investments in property	-10 796,4	-8 595,4	-7 567,0	-3 450,5
<b>Cash flow from investing activities</b>	<b>-10 796,4</b>	<b>-8 612,0</b>	<b>-7 838,8</b>	<b>-3 490,9</b>
<b>Financing operations</b>				
New share issues	2 740,0	2 992,9	7 868,9	5 878,4
New share issue in progress	-	10 798,1	-	1 680,7
Costs of capital raising	-206,7	-1 438,9	-190,4	-
Changes in borrowings	-24,5	4 970,4	139,6	-
<b>Cash flow from financing operations</b>	<b>2 508,8</b>	<b>17 322,5</b>	<b>7 818,1</b>	<b>7 559,1</b>
<b>PERIOD CASH FLOW</b>	<b>97,8</b>	<b>-2 008,8</b>	<b>-954,0</b>	<b>3 640,5</b>
Cash and cash equivalents at period beginning	677,7	2 686,5	3 640,5	-
Period cash flow, as above	97,8	-2 008,8	-954,0	3 640,5
<b>Cash and cash equivalents at period end</b>	<b>775,5</b>	<b>677,7</b>	<b>2 686,5</b>	<b>3 640,5</b>



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

	Jan-Dec 2013	Jan-Dec 2012	Okt-Dec 2013	Okt-Dec 2012	Jan-Dec 2011
Net revenue	87,0	-	43,5	12,0	93,6
Costs of goods sold (incl. costs for properties sold)	-17,4	-	-17,4	-	-
Other external costs	-601,0	-445,8	-199,2	-130,5	-405,2
Personnel costs	-468,4	-394,7	-119,8	-98,6	-328,6
Depreciation	-	-	-	-	-
Total operating expenses	-1 086,8	-840,5	-336,4	-229,1	-733,8
<b>Operating profit/loss</b>	<b>-999,8</b>	<b>-816,5</b>	<b>-292,9</b>	<b>-217,1</b>	<b>-640,2</b>
<b>Result from financial items</b>					
Financial income	1 189,0	779,6	776,2	252,7	478,2
Financial costs	-383,2	-655,7	-29,6	409,8	-27,1
Net financial income	805,8	123,9	746,6	662,5	451,1
<b>Profit/loss after financial items</b>	<b>-194,0</b>	<b>-716,6</b>	<b>453,7</b>	<b>445,4</b>	<b>-189,1</b>
Tax	-	-	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-194,0</b>	<b>-716,6</b>	<b>453,7</b>	<b>445,4</b>	<b>-189,1</b>

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

	2013-12-31	2012-12-31	2011-12-31	2010-12-31
<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	29 882,4	21 056,4	12 441,0	3 855,7
Short-term receivables	42,0	11 169,5	72,2	48,7
Cash and bank balances	697,8	573,0	2 162,5	3 279,5
<b>Total current assets</b>	<b>30 622,2</b>	<b>32 798,9</b>	<b>14 675,7</b>	<b>7 183,9</b>
<b>TOTAL ASSETS</b>	<b>32 435,5</b>	<b>32 827,2</b>	<b>14 704,0</b>	<b>7 212,2</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>				
Equity	31 094,8	26 255,5	14 619,9	7 130,5
Other liabilities	1 126,1	6 339,1	41,5	46,7
Accrued expenses	214,6	232,6	42,6	35,0
<b>Total liabilities</b>	<b>1 340,7</b>	<b>6 571,7</b>	<b>84,1</b>	<b>81,7</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>32 435,5</b>	<b>32 827,2</b>	<b>14 704,0</b>	<b>7 212,2</b>
Equity/assets ratio	95,9%	80,1%	99,4%	98,8%