

Interim report, January-June 2014

- Property holdings totaled 7,017 (2,643) hectares
- Total standing timber volume was estimated at 536,000 (193,000) cubic meters
- Revenue amounted to EUR 215,300 (159,300)
- Operating profit amounted to EUR 18,300 (50,900)
- The loss after financial items amounted to EUR 28,000 (15,900)
- The estimated net asset value was EUR 1.25 (1.21) per share
- The acquisition of two property portfolios, totaling 3,835 hectares, was completed
- New share issues of EUR 5.64 M were finalized
- A bank loan of EUR 1.7 M was raised
- Property holdings after the period increased to 7,128 hectares
- After the period, the total standing timber volume is estimated to amount to 542,000 cubic meters
- The estimated net asset value amounts to EUR 1.26 per share

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

This is Latvian Forest Company

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 greater value through active forest management,
- creation of greater 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

In conjunction with the year-end, the Latvian Forest Company AB changed its accounting currency to EUR. All future reports will be presented in EUR. Trading in the share will continue to take place in Swedish kronor (SEK).

Investments in forest properties have been conducted continuously and holdings at the close of the period amounted to a total of 7,017 (2,643) hectares. Of this total, 4,880 (1,813) comprised forest holdings and 1,639 (656) were agricultural land, with the remainder consisting of other land. Meanwhile, the total standing timber volume was estimated to be approximately 536,000 (193,000) cubic meters after the completion of harvesting and property sales.

During the period, a total of EUR 6,147,000 was invested and some 4,094 hectares, with a standing timber volume of some 318,000 cubic meters, were acquired.

The disposable cash available for acquisitions amounted at the end of the second quarter to approximately EUR 749,000. At the end of the second quarter of 2014, the Latvian Forest Company had been financed in a total of EUR 9.45 M through new share issues since its inception.

During the first six months, approximately 8,730 cubic meters were harvested. The average net income from harvesting during the year was about EUR 24.17 per cubic meter. The highest net income received was about EUR 40 per cubic meter and the lowest was approximately EUR 15 per cubic meter.

At the end of the period, current and requested harvesting permits totaled 15,000 cubic meters.

The average historical acquisition price per cubic meter was about EUR 19 (SEK 167) at the end of the period if the value of the forestland and agricultural land is assumed to be zero. If the value of agricultural land is taken into account, the average historical acquisition price was about EUR 15.7 (SEK 141) per cubic meter. The average price per acquired hectare was some EUR 1,373 (SEK 12,290). The average acquisition price in Sweden (in comparable growth zones) was about SEK 520 per cubic meter during 2013. The increase in the average historical acquisition price compared with the preceding quarter is entirely attributable to the two major property portfolios acquired during the period.

Acquisition of property portfolios finalized

In December 2013, the Latvian Forest Company AB signed two Letters of Intent regarding the acquisition of a total of 3,835 hectares of forest and agricultural land in Lithuania with an estimated standing timber volume of some 290,000 cubic meters.

The acquisitions have more than doubled the Latvian Forest Co's combined land holdings and timber stock. The assessment is that future cash flows will be strengthened and that major economies of scale in management can be attained. At the same time, the new composition of the property portfolio and its age structure create potential for sharp growth in the years ahead. The deal is of part of the expressed strategy of participating in structural affairs and in which shares represent part of the financing.

One of the acquisitions involved Forest Holding Latvia AB and its Lithuanian subsidiary SIA Baltic Forest I,II and III, covering a total of 2,885 hectares of forest and agricultural land with an estimate in December 2013 of a timber stock of about 205,000 cubic meters at year-end. The purchase price was EUR 4.66 M (SEK 41.5 M).

The other acquisition involved the Lithuanian company SIA Zaveria, whose holding totals 950 hectares, with an estimated timber stock of some 85.000 cubic meters at year-end. The purchase price amounted to EUR 1.39 M (SEK 12.4 M). Following the acquisition, SIA Zaveria changed its corporate identity to Baltic Forest IV.

The acquisitions had been finalized in their entirety by the end of the period.

The focus is now on integrating the management of the acquired holdings into the existing organization in order to utilize the economies of scale offered by the management of a larger property portfolio. The acquired holdings have a younger, average age profile than the previous ones, a factor that is expected to contribute to strong volume growth in the future.

Revenue and profit

Revenue for the period amounted to EUR 215,300 (159,000). In addition, to income from property sales in the amount of some EUR 37,000, income is largely attributable to harvesting involving a total of some 8,730 cubic meters. Harvesting generated an average net income of some EUR 24.17 per cubic meter. The cost of goods sold includes costs associated with property sales in the amount of KEUR 32,800. The sales primarily involved agricultural land.

Otherwise, operating costs continued to progress in a satisfactory manner, while external expenses rose slightly more than planned in connection with the acquisitions conducted during the period. Operating profit amounted to EUR 18,300 (50,900). The loss after financial items for the period totaled EUR 28,000 (15,900).

In other respects, earnings were affected by normal operating costs associated with pre-commercial thinning, property-related costs such as new tax assessments, inventories, the marking of stands ahead of harvesting and certain expenses incurred in connection with harvesting.

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.

Financing

No new share issues were completed during the first quarter. However, a decision was made regarding a rights issue and work on the rights issue, totaling EUR 1.7 M (SEK 15.3 M) commenced and the issue was fully subscribed and finalized at the end of the period. The rights issue was part of the financing structure established in conjunction with agreements to acquire two large properties that were agreed and signed for in February.

The financing structure amounted to some EUR 7.27 M (SEK 65.5 M) and consisted of a bank loan of EUR 1.7 M, a rights issue of EUR 1.7 M and targeted share issues of EUR 3.87 M. The total number of shares after the completion of share issues amounts to 12,685,443, of which 80,000 are A-shares.

During the first quarter, additional loans totaling EUR 55,000 (SEK 500,000) were raised in the form of short-term financing. Meanwhile, two loans totaling EUR 194,000 (SEK 1.75 M) for the purpose of offsetting the amount outstanding for new shares within the framework of the financing structure outlined above. The terms and conditions underlying the loans were commercial.

Book value of properties

The book value of the property portfolio of EUR 9.55 M at the end of the period refers to the acquisition value. No adjustments of the book value have been made as a result of the net growth that occurred since acquisitions, value growth due to various management measures, such as pre-commercial thinning or value growth due to general increases in the market price for forest and agricultural land in Lithuania.

Estimated net asset value

Based on the acquisitions completed, estimates of the acquisitions of the timber stock, market prices for timber and land, etc., the net asset value per share was estimated to be about EUR 1.25 (1.21) at the end of the period. At the end of the preceding quarter, the net asset value was estimated to be about EUR 1.28. At a share price of SEK 7.00 (EUR 0.76) and assuming the same land values as those used in the calculation of net asset value, each cubic meter was valued at approximately EUR 9.48 (SEK 87.5) at the end of the period.

The share

At the end of the period, share capital totaled EUR 1,399,519.26 distributed among 80,000 A-shares and 12,450,334 B-shares. After the end of the period, registration of the share issues in conjunction with acquisitions was completed, and the share capital subsequently amounted to EUR 1,420,811.03 distributed among 80,000 A-shares and 12,605,434 B-shares. A-shares represent ten voting rights and B-shares one each. At the close of the period, the five largest shareholders controlled 28.9 percent of the capital and 27.4 percent of the voting rights.

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 factors viewed 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 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 properties.

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 outcome at public auctions and other transactions conducted on the local property market.

Significant events after the end of the period

Additional acquisitions of 112 hectares have been conducted and aggregate holdings amount to 7,129 hectares, of which 4,967 are forestland, 1,659 hectares are agricultural land and the remainder consists of other land. After harvesting and growth, the overall timber volume is estimated to amount to approximately 542,000 cubic meters. The estimated net asset value is estimated to amount to EUR 1.26 per share after the completion of shares issues and acquisitions.

Next report

The interim report for the period January-September is planned for publication on October 28, 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, August 27 2014
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** (Eur 000s)

	Jan-Jun 2014	Jan-Jun 2013	Maj-Jun 2014	Maj-Jun 2013	Jan-Dec 2013
Net revenue	215,3	159,3	38,3	14,6	353,8
Costs of goods sold (incl. costs for properties sold)	-72,6	-24,5	-2,3	-12,4	-189,0
Other external costs	-83,2	-42,8	-64,7	-24,8	-91,8
Personnel costs	-39,5	-38,8	-18,9	-19,9	-76,8
Depreciation	-1,7	-2,3	-0,8	-1,2	-4,5
Total operating expenses	-197,0	-108,4	-86,7	-58,2	-362,1
Operating profit/loss	18,3	50,9	-48,4	-43,7	-8,3
Result from financial items					
Financial income	-	-	-1,0	-	1,2
Financial costs	-46,3	-35,0	-37,6	-14,4	-56,2
Net financial income	-46,3	-35,0	-38,6	-14,4	-55,0
Profit/loss after financial items	-28,0	15,9	-87,0	-58,0	-63,3
Tax	-	-	-	-	-9,6
NET PROFIT/LOSS FOR THE PERIOD	-28,0	15,9	-87,0	-58,0	-72,9

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

	Share capital	Share premium reserve	Profit/loss incl. Period result	Total
Shareholders' equity January 1, 2013	352,0	2 738,1	-242,7	2 847,5
Profit/loss	0,0	0,0	-72,9	-72,9
Translation differences foreign subsidiary	88,2	479,6	0,0	567,8
Total revenue and expenses for the period	88,2	479,6	-72,9	494,9
New share issues	172,8	1 036,6	0,0	1 209,4
New share issue in progress	0,0	-1 209,4	0,0	-1 209,4
Capital acquisition costs	0,0	-4,2	0,0	-4,2
Shareholders' equity december 31, 2013	613,0	3 040,8	-315,6	3 338,2
Shareholders' equity January 1, 2014	613,0	3 040,8	-315,6	3 338,2
Profit/loss	0,0	0,0	-28,0	-28,0
Translation differences foreign subsidiary	0,0	0,0	0,0	0,0
Total revenue and expenses for the period	0,0	0,0	-28,0	-28,0
New share issues	786,5	4 659,0	0,0	5 445,5
New share issue in progress	21,3	124,1	0,0	145,4
Capital acquisition costs	0,0	-388,7	0,0	-388,7
Shareholders' equity June 30, 2014	1 420,8	7 435,2	-343,6	8 512,4

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

	2014-06-30	2013-06-30	2013-12-31
ASSETS			
Properties	9 552,6	3 207,0	3 405,6
Equipment	11,6	15,9	13,3
Total fixed assets	9 564,2	3 222,9	3 418,9
Accounts receivable - trade	11,9	6,5	9,9
Short-term receivables	104,0	25,2	14,3
Cash and bank balances	749,1	334,0	86,8
Total current assets	865,0	365,7	111,1
TOTAL ASSETS	10 429,2	3 588,7	3 530,0

SHAREHOLDERS' EQUITY AND LIABILITIES

Equity	8 512,4	2 926,1	3 338,3
Long-term liabilities	1 752,6	7,9	6,5
Short-term liabilities	89,7	577,0	115,2
Other debt	45,1	63,7	42,6
accrued expenses	29,4	13,9	27,4
Total liabilities	1 916,8	662,5	191,7
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	10 429,2	3 588,7	3 530,0
General collateral in assets	1 300,5	574,0	118,0
Net indebtedness	81,6%	81,5%	94,6%
Equity/assets ratio	1 051,8	pos.	pos.

SHARE DATA

	2014-06-30	2013-06-30	2013-12-31
Average number of issued shares	6 893 457	4 651 429	4 692 043
Number of issued shares	12 495 334	4 685 709	5 473 686
Result per share, SEK (before and after dilution)	0,00	0,00	-0,02
Shareholders' equity per share, SEK	0,67	0,62	0,61
Cash flow from operating activities per share, SEK	-0,02	0,23	0,20

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

	2014-06-30	2013-06-30	2013-12-31
Operating activities			
Result after financial items	-28,0	15,6	-63,0
Adjustments for non-cash items			
- Unrealized translation differences foreign currency	20,8	16,3	16,8
- Depreciation of fixed assets	1,7	2,3	4,5
- Translation difference for profit/loss in foreign currency	-	-1,0	-2,3
Cash flow from operating activities before changes in working capital	-5,5	33,1	-44,1
Cash flow from changes in working capital	-108,0	1 016,0	983,2
Förändring av kortfristiga fordringar	-91,6	1 318,0	1 292,7
Förändring av kortfristiga skulder	-16,4	-301,9	-309,5
Deposits made	-	-	-
Investments in property	-6 147,0	-955,4	-1 209,2
Cash flow from investing activities	-6 147,0	-955,4	-1 209,2
Financing operations			
New share issues	5 445,4	-	306,9
New share issue in progress	145,4	-	-
Costs of capital raising	-388,7	-8,0	-23,2
Changes in borrowings	1 720,7	170,5	-2,7
Cash flow from financing operations	6 922,8	162,5	281,0
PERIOD CASH FLOW	662,3	256,2	11,0
Cash and cash equivalents at period beginning	86,8	77,8	75,8
Period cash flow, as above	662,3	256,2	11,0
Cash and cash equivalents at period end	749,1	334,0	86,8

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

	Jan-Jun 2014	Jan-Jun 2013	Maj-Jun 2014	Maj-Jun 2013	Jan-Dec 2013
Net revenue	1,0	4,2	0,2	4,2	9,7
Costs of goods sold (incl. costs for properties sold)	0,0	0,0	0,0	0,0	-1,9
Other external costs	-36,6	-30,8	-24,9	-18,2	-67,3
Personnel costs	-27,0	-27,0	-13,2	-13,9	-52,5
Depreciation	0,0	0,0	0,0	0,0	0,0
Total operating expenses	-63,6	-57,8	-38,1	-32,1	-121,7
Operating profit/loss	-62,6	-53,5	-37,9	-27,8	-112,0
Result from financial items					
Financial income	30,9	64,6	13,0	88,9	133,2
Financial costs	-34,6	-56,0	-25,9	-6,8	-42,9
Net financial income	-3,7	8,6	-12,9	82,0	90,3
Profit/loss after financial items	-66,3	-44,9	-50,8	54,2	-21,7
Tax	0,0	0,0	0,0	0,0	0,0
NET PROFIT/LOSS FOR THE PERIOD	-66,3	-44,9	-50,8	54,2	-21,7

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

	2014-06-30	2013-06-30	2013-12-31
ASSETS			
Shares in subsidiaries	2 071,5	203,1	203,1
Total fixed asstes	2 071,5	203,1	203,1
Receivables group companies	6 185,6	2 959,3	3 346,9
Short-term receivables	55,4	14,8	4,7
Cash and bank balances	427,0	292,5	78,2
Total current assets	6 668,0	3 266,6	82,9
TOTAL ASSETS	8 739,5	3 469,7	3 632,9
SHAREHOLDERS' EQUITY AND LIABILITIES			
Equity	8 618,5	2 890,0	3 482,7
Other liabilities	97,6	568,7	126,1
Accrued expenses	23,4	11,0	24,0
Total liabilities	121,0	579,7	150,2
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES	8 739,5	3 469,7	3 632,9
Equity/assets ratio	98,6%	83,3%	95,9%