

## Interim report, January-March 2014

- Property holdings totaled 3,013 (2,363) hectares
- Total standing timber was estimated at 216,500 (161,000) cubic meters
- Revenue amounted to EUR 177,000 (137,800)
- Operating profit amounted to EUR 66,700 (90,100)
- Earnings after financial items amounted to EUR 59,000 (70,400)
- The estimated net asset value was EUR 1.28 (1.08) per share
- The purchase of two property portfolios, totaling 3,835 hectares was announced
- New share issues of EUR 5.64 million were conducted during the period
- A bank loan of EUR 1.7 million was raised after the period
- Acquisitions completed after the period after which property holdings amount to 6,909 hectares
- After acquisitions, total standing volume is estimated to be 517,000 cubic meters
- The estimated net value after the period amounts to EUR 1.25 per share

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

### This is Latvian Forest Company

The Latvian Forest Company AB (publ) offers the possibility 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 become part owners in many properties rather than in a single plot of land – thereby gaining favorable risk diversification.

### Status & property holdings

In conjunction of the year, the Latvian Forest Company AB changed its accounting currency to EUR. All future reports will be presented in EUR. Trading in the shares 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 3,013 (2,363) hectares. Of this total 2,081 (1,590) comprised forest holdings and 705 (604) agricultural land, with the remainder consisting of other land. Meanwhile, the standing timber volume was estimated to be approximately 216,500 (161,000) cubic meters following harvesting and property.

A total of some EUR 55,000 was invested and about 100 hectares acquired with a standing timber volume of about 6,100 cubic meters.

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The disposable cash available for acquisitions at the end of the fourth amounted to approximately EUR 175,000 and the number of individual properties was 173. By the close of the first quarter of 2014, the Latvian Forest Company had been financed in a total of EUR 3.88 M by means new shares since its inception.

During the period, about 7,500 cubic meters were harvested. The average net income from harvesting during the year was about EUR 21.9 per cubic meter. The highest net income received was some EUR 40 per cubic meter while the lowest at about EUR 15 Euro.

At the end of the period, current and requested harvesting permits amounted to a total 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 was about EUR 17 (SEK 153) 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 was about EUR 13.3 (SEK 120) per cubic meter. The average per acquired hectare was about EUR 1.155 Euro (SEK 10,400). The average acquisition price in Sweden (in comparable growth zones) was SEK 520 per cubic meter during 2013.

### **Acquisitions announced**

In December, 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 a standing timber volume of some 290,000 cubic meters.

The acquisitions are expected to more than double the Latvian Forest Co's combined land holdings and timber volume. The assessment is that 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 substantial volume growth in the future. The deal is part of the expressed strategy of participating in structural deals and in which in shares represent part of the financing.

One of the Letters of Intent was concluded with Bockasjö Skogar AB regarding the acquisition of Forest Holding Latvia AB, covering a total of 2,885 hectares of forestland and EUR 4.66 M (SEK 41.5 M).

The other agreement was completed with Zaveria Lettland AB covering the acquisition of the Latvian company SIA Zaveria, whose holding amounts to 950 hectares with an estimated standing timber volume of some 85,000 cubic meter. The purchase was estimated to be about EUR 1.39 M (SEK 12.4 M).

The acquisitions and financing were completed after the end of the period.

### **Revenue and profit**

Revenue for period amounted to EUR 177.0 M (SEK 137.8). Aside from income from property sales of about EUR 15,000, income derived mainly from the harvesting of a total of 7,5000 cubic meters. Harvesting generated an average net income of about EUR 21.9 per cubic meter. The costs of goods sold, amounting to EUR 70,300, include costs associated with property sales in the amount EUR 13,000 The sales primarily involved separated agricultural land.

Otherwise, operating costs have continued to progress in a satisfactory manner. Operating earnings amounted EUR 66,700 (90,100) Earnings after financial items for the period totaled EUR 59,000 (70,400).

In other respects, the item include the costs for pre-commercial thinning, property-related costs such as new tax assessments, inventories, the marking of stands ahead of 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

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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 preferential rights issue totaling EUR 1.7 M (SEK 15.3 M), which 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 amounts to a total about EUR 7.27 M (SEK 65.5 M) and consists of a bank loan in the amount of EUR 1.7 M, a preferential rights issue of EUR 1.7 M and targeted share issues of EUR 3.87 M. The total number of shares following the completion of all issues is expected to amount to 12,744,609, of which 80,000 are A-shares.

During the first quarter, additional loans totaling EUR 55,000 (SEK 500,000) were raised as in the form of short-term financing. Meanwhile, two loans totaling EUR 194,000 (SEK 1.75 M) were raised that are to be converted to new shares within the framework of the financing structure outlined above. The terms and conditions underlying the loans are commercial.

### **Book value of properties**

The book value of the property portfolio of EUR 3.46 M at the beginning of the period refers to the acquisition value. No adjustments in book value have been made in terms of book value as a result of the net growth that has occurred since acquisitions, value growth due to such forest management actions such as pre-commercial trimming, for example, or value growth due to a general increase in market prices for forest land or agricultural land in Latvia.

### **Increased net asset value**

Based on the acquisitions conducted, estimated of the standing timber volume, market prices for timber, land and so forth, the net asset value per share has been estimated at approximately EUR 1.28 (1.08) at the close of the period. At the end of the previous period, net asset value was estimated at some EUR 1.26. Thus, with a share price of SEK 7.50 and, assuming the same land value as in the calculation of net asset value, each cubic meter is valued at EUR 9.63 (SEK 87.5) at the end of the period.

### **The share**

At the end of the period, share capital amounted EUR 613,069,25, distributed among 80,000 A-shares and 5,393,686 B-shares. One A-share represents ten voting rights, while B shares carry one voting right each. At the close of the period, the five largest shareholders controlled 26.0 percent of the capital and 34.6 % 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 saw log 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

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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.

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

Following the close of the period, previously announced acquisitions and share issues have been conducted. Overall share issues for EUR 5.46 M (SEK 49.2 M) have been decided and carried out. An additional EUR 0.194 M (SEK 1.75 M) in the form of offset issues will be conducted shortly. Following the final registration of all share issues relating to acquisitions and the financial structure, the total number of shares is expected to amount to 12,744,609, of which 80,000 are A-shares. The share capital is estimated to amount to EUR 1,427,434,44.

Following acquisitions, total property holdings amount to 6,909 hectares, of which 4,781 are forestland, 1,626 are agricultural land, with 482 consisting of other land. After harvesting and new growth, the overall timber volume is expected to amount to some 517,000 cubic meters. The estimated net asset value is calculated to be EUR 1.25 per share following the completion of share issues and acquisitions. The relative large disposable cash volume of about EUR 780,000 (SEK 7.0 M) after completed share issues influenced the calculation of net asset value. Since available funds are invested in new properties, net asset value is expected to rise again.

Following acquisitions, the average historical acquisition per cubic meter was EUR 18.8 (SEK 169) and the value of forestland and agricultural land is assumed to be zero. If the value of agricultural land is taken into account, the average historical purchase price acquisition is EUR 15.7 (SEK 141) per cubic meter. The average price per acquired hectare was thus EUR 1,384 (SEK 12.5).

### **Next report**

The interim report for the period January-June 2014 is planned for publication on August 27, 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, May 22,  
*Board of Directors*

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

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
Net revenue	177,0	137,8	353,8
Costs of goods sold (incl. costs for properties sold)	-70,3	-11,5	-189,0
Other external costs	-18,5	-17,1	-91,8
Personnel costs	-20,6	-18,0	-76,8
Depreciation	-0,9	-1,1	-4,5
<b>Total operating expenses</b>	<b>-110,3</b>	<b>-47,8</b>	<b>-362,1</b>
<b>Operating profit/loss</b>	<b>66,7</b>	<b>90,1</b>	<b>-8,3</b>
Result from financial items			
Financial income	1,0	-	1,2
Financial costs	-8,7	-19,6	-56,2
<b>Net financial income</b>	<b>-7,7</b>	<b>-19,6</b>	<b>-55,0</b>
<b>Profit/loss after financial items</b>	<b>59,0</b>	<b>70,4</b>	<b>-63,3</b>
Tax	-	-	-9,6
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>59,0</b>	<b>70,4</b>	<b>-72,9</b>

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

	Share capital	Share premium reserve	Profit/loss incl. Period result	Total
<b>Shareholders' equity January 1, 2012</b>	<b>352,0</b>	<b>2 738,1</b>	<b>-242,7</b>	<b>2 847,5</b>
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
<b>Shareholders' equity december 31, 2012</b>	<b>613,0</b>	<b>3 040,8</b>	<b>-315,6</b>	<b>3 338,2</b>
<b>Shareholders' equity January 1, 2013</b>	<b>613,0</b>	<b>3 040,8</b>	<b>-315,6</b>	<b>3 338,2</b>
Profit/loss	0,0	0,0	59,0	59,0
Translation differences foreign subsidiary	0,0	0,0	0,0	0,0
Total revenue and expenses for the period	0,0	0,0	59,0	59,0
New share issues	0,0	0,0	0,0	0,0
New share issue in progress	2 259,8	0,0	0,0	2 259,8
Capital acquisition costs	0,0	-25,0	0,0	-25,0
<b>Shareholders' equity December 31, 2013</b>	<b>2 872,8</b>	<b>3 015,8</b>	<b>-256,6</b>	<b>5 632,0</b>

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

	2014-03-31	2013-03-21	2013-12-31
<b>ASSETS</b>			
Properties	3 460,6	2 669,3	3 405,6
Equipment	12,4	16,7	13,3
Financial assets	-	-	-
<b>Total fixed assets</b>	<b>3 473,0</b>	<b>2 686,0</b>	<b>3 418,9</b>
Accounts receivable - trade	24,2	4,6	9,9
Short-term receivables	2 287,3	34,3	14,3
Cash and bank balances	305,2	248,6	86,8
<b>Total current assets</b>	<b>2 616,7</b>	<b>287,5</b>	<b>111,1</b>
<b>TOTAL ASSETS</b>	<b>6 089,7</b>	<b>2 973,5</b>	<b>3 530,0</b>

**SHAREHOLDERS' EQUITY AND LIABILITIES**

Equity	5 632,0	2 913,6	3 338,3
Long-term liabilities	5,7	8,4	6,5
Short-term liabilities	374,5	2,8	115,2
Other debt	37,5	20,3	42,6
accrued expenses	40,0	28,4	27,4
<b>Total liabilities</b>	<b>457,7</b>	<b>59,9</b>	<b>191,7</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>6 089,7</b>	<b>2 973,5</b>	<b>3 530,0</b>
General collateral in assets	127,1	-	118,0
Net indebtness	94,6%	98,0%	94,6%
Equity/assets ratio	pos.	pos.	pos.

**SHARE DATA**

	2014-03-31	2013-03-21	2013-12-31
Average number of issued shares	5 473 686	4 651 429	4 692 043
Number of issued shares	5 473 686	4 685 709	5 473 686
Result per share, SEK (before and after dilution)	0,01	0,02	-0,02
Shareholders' equity per share, SEK	1,03	0,62	0,61
Cash flow from operating activities per share, SEK	0,04	0,04	0,20

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

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
<b>Operating activities</b>			
Result after financial items	59,0	70,4	-63,0
Adjustments for non-cash items			
- Unrealized translation differences foreign currency	-1,0	6,5	16,8
- Depreciation of fixed assets	0,9	1,1	4,5
- Translation difference for profit/loss in foreign currency	-	-	-2,3
<b>Cash flow from operating activities before changes in working capital</b>	<b>63,5</b>	<b>78,1</b>	<b>-44,1</b>
Cash flow from changes in working capital	-23,6	1 132,6	983,2
<b>Cash flow from operating activities</b>	<b>39,9</b>	<b>1 210,7</b>	<b>939,2</b>
<b>Investing activities</b>			
Deposits made	0,0	0,0	0,0
Investments in property	-55,0	-472,7	-1 209,2
<b>Cash flow from investing activities</b>	<b>-55,0</b>	<b>-472,7</b>	<b>-1 209,2</b>
<b>Financing operations</b>			
New share issues	-	-	306,9
New share issue in progress	-	-	-
Costs of capital raising	-25,0	-4,2	-23,2
Changes in borrowings	258,5	561,1	-2,7
<b>Cash flow from financing operations</b>	<b>233,5</b>	<b>-565,3</b>	<b>281,0</b>
<b>PERIOD CASH FLOW</b>	<b>218,4</b>	<b>172,7</b>	<b>11,0</b>
Cash and cash equivalents at period beginning	86,8	75,8	75,8
Period cash flow, as above	218,4	172,7	11,0
<b>Cash and cash equivalents at period end</b>	<b>305,2</b>	<b>248,6</b>	<b>86,8</b>

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

	Jan-Mar 2014	Jan-Mar 2013	Jan-Dec 2013
Net revenue	0,8	-	9,7
Costs of goods sold (incl. costs for properties sold)	-	-	-1,9
Other external costs	-11,7	-12,0	-67,3
Personnel costs	-13,8	-12,5	-52,5
Depreciation	-	-	-
<b>Total operating expenses</b>	<b>-25,5</b>	<b>-24,5</b>	<b>-121,7</b>
<b>Operating profit/loss</b>	<b>-24,7</b>	<b>-24,5</b>	<b>-112,0</b>
<b>Result from financial items</b>			
Financial income	17,9	28,4	133,2
Financial costs	-8,7	-98,5	-42,9
Net financial income	9,2	-70,1	90,3
<b>Profit/loss after financial items</b>	<b>-15,5</b>	<b>-94,6</b>	<b>-21,7</b>
Tax	-	-	-
<b>NET PROFIT/LOSS FOR THE PERIOD</b>	<b>-15,5</b>	<b>-94,6</b>	<b>-21,7</b>

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

	2014-03-31	2013-03-21	2013-12-31
<b>ASSETS</b>			
Shares in subsidiaries	203,1	203,1	203,1
<b>Total fixed asstes</b>	<b>203,1</b>	<b>203,1</b>	<b>203,1</b>
Receivables group companies	3 483,7	2 439,4	3 346,9
Short-term receivables	2 266,7	13,4	4,7
Cash and bank balances	157,5	211,7	78,2
<b>Total current assets</b>	<b>5 907,9</b>	<b>2 664,4</b>	<b>82,9</b>
<b>TOTAL ASSETS</b>	<b>6 111,0</b>	<b>2 867,5</b>	<b>3 632,9</b>
<b>SHAREHOLDERS' EQUITY AND LIABILITIES</b>			
Equity	5 702,0	2 841,9	3 482,7
Other liabilities	385,0	13,4	126,1
Accrued expenses	24,0	12,2	24,0
<b>Total liabilities</b>	<b>409,0</b>	<b>25,6</b>	<b>150,2</b>
<b>TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES</b>	<b>6 111,0</b>	<b>2 867,5</b>	<b>3 632,9</b>
Equity/assets ratio	93,3%	99,1%	95,9%