



CONTENTS

Introductory Remarks	2
Highlights of the Year	4
Corporate Profile	5
Organizational Structure	6
Corporate Governance	11
Trends in Core Indicators	14
Report on Company Business Activities and Assets	15
Contractual Relations in Forestry Activities	20
Commercial Activity – Sales of Timber and Logging Residues	22
Forest Management	24
Working in the Public Interest	40
Capital Construction	44
Water Management	48
Restoration of Ownership and User Relations, Contractual Transfers	54
Human Resources	57
Communicating with the Public	59
Report on the Provision of Information Pursuant to Act no. 106/1999 Coll., on free Access to Information, as Subsequently Amended	62
FINANCIAL SECTION	
Independent Auditor's Report on the Financial Statements	64
Financial Statements	66
Notes to the Annual Financial Statements	70
Management Statement	88
Auditor's Opinion on the Annual Report	89
Terms and Abbreviations	90
Die hauptsächlichen Ereignisse des Jahres	92
Hechos destacados del año	93

INTRODUCTORY REMARKS



Solid returns in 2012 enabled us once again to cover operating costs from our own resources, including costs for the necessary care of forests and streams, flood and disaster clean-up, and development of the publicly beneficial use of forests.

Following the resignation of the former CEO, I was entrusted by the Ministry of Agriculture to perform the duties of the CEO as of 1 December. In 2013, we are faced with a number of urgent issues, such as church restitution, tenders for forestry activities and the lease of our hunting grounds, or the corrective measures imposed upon us by the government based on the findings of the Supreme Audit Office (NKÚ). We are more than ready to successfully meet these tasks.

Michal Gaube

Chief Financial Officer and
acting Chief Executive Officer

2012 was a challenging period for the company, which had to face difficult tasks and react to a number of changes. Nevertheless, the company finished 2012 with an excellent profit of 5.4 billion crowns before taxes. I would like to take this opportunity to thank all company employees for their dedication and hard work which made this outstanding result possible.

Over 90% of revenue was generated by our core activity, forest management. Other activities made minor contributions. We were also able to increase the amount of disposable funds, a considerable portion of which Lesy CR is prepared to transfer to the national budget if the current amendment to the State Enterprise Act is passed.



HIGHLIGHTS OF THE YEAR

2012 was the most successful year for the state-owned enterprise Lesy České republiky (Forests of the Czech Republic, "LCR") in its history to date. Ninety per cent of its profits were sales from forest management. LCR has exclusively remained a forestry company, with its main task being the due care of forests.

The record-breaking profit was mostly owed to very good prices of timber, but also to favourable prices that the Company paid for carrying out forestry activities. For several years now, public tenders have helped create a strongly competitive environment, enabling the Company to achieve stable and excellent economic results.

In line with valid legislation and approved forest management plans, the Company has continued to provide for high-quality performance of all activities related to due care of forests and succeeded in retaining the PEFC certificate in 2012 for another three-year period. This prestigious PEFC certificate is proof of sustainable management of the territories administered by LCR.

2012 may also be viewed favourably with respect to the minimal impact of natural disasters, which remained under 10% of total timber production. In the crucial area of protecting woods against bark beetles, the Company was able, despite unfavourable weather conditions, to keep the volume of felling due to bark beetles at a level comparable to that of the previous two years.

At the end of March, the Company announced an open tender for forestry work on one-fifth of the managed area for a period of one to five years from 2013. Contracts were concluded with the winners of the tender between October and November.

Between May 25 and 28, the forest stand between Bzenec, Strážnice and Ratíškovice in the Hodonín area was hit by fire, which damaged 165 hectares of woods. It was the largest forest fire of the past decade.

In early July, strong winds, storms and torrential rains around Hradec Králové caused local windbreaks.

On 1 October, the Regional Court in Prague initiated insolvency proceedings with respect to the debtor LESS & FOREST s.r.o., a company that had been carrying out forestry activities for LCR at 32 Contract Territorial Units (CTU) as its contractual partner. That same month, the Company rescinded the contracts with this contractual partner in all CTUs.

As of 30 November, Svatopluk Sýkora resigned from the office of Chief Executive Officer. Michal Gaube, Chief Financial Officer of LCR, was then put in charge of the Company's management.

Over the course of 2012, the Company organized more than 800 awareness-raising events for the general public about forests and forestry, be they in the form of lectures, discussions, outings or, most frequently, events such as "A Day with LCR." These events took place gradually in all regions of the Czech Republic and attracted nearly 100,000 visitors.

LCR concluded the year 2012 with a before tax profit of 5.478 billion CZK. Total timber production was 7.84 million m³; the Company succeeded in regenerating 13,100 hectares of forest, with the share of soil-improving and strengthening tree species in the first regeneration being 42.7%, and urgent tending of timber stands under 40 years of age was carried out on 36,400 hectares of forests.

Basic provisions

1. Legal form

Lesy České republiky, s.p. ("Lesy ČR", "LCR") was founded by Memorandum of Association of the Ministry of Agriculture of the Czech Republic No. 6677/91-100 of 11 December 1991 as a state enterprise under Act No 111/1990 on state enterprises. On 12 August 1997, this memorandum was adapted to Act No. 77/1997 on state enterprises, as amended, by Decision of the Ministry of Agriculture of the Czech Republic No 3217/97-1000.

Company management is also governed by a charter published by the Ministry of Agriculture of the Czech Republic under number 25330/2008-10000 on 7 August 2008. Lesy České republiky, s.p., a state enterprise, was incorporated on 1 January 1992 by entry in the Commercial Register kept by the Regional Court in Hradec Králové under Section A XII, Entry 540, with registration number 42196451 and VAT number CZ42196451.

2. Registered office

Hradec Králové, Přemyslova 1106, PSČ 501 68

3. Primary business activity

Direct management by the company or via select business partners ensuring the optimal performance and function of forests and forestry activities:

- the exercise of all ownership rights attached to state assets which the company is entitled to manage, subject to the founder's consent to legal acts associated with specified property
- exercise of the right to manage state-owned forests as granted to Lesy České republiky by the state;
- exercise of the right to manage other state-owned movable and immovable assets entrusted to the company to carry out its tasks, and the right to engage in non-business activities with state property in the company's own name at its own responsibility;

- the exercise of the rights and obligations of a forest owner under the Forest Act in relation to state-owned forests which the company is entitled to manage;
- professional forest management;
- protective forest services.

4. Other areas of business

The company's other business activities are listed in the Commercial Register kept by the Regional Court in Hradec Králové (a full list of the company's business activities can be found in Section A XII, Entry 540).

5. Business principles

Lesy ČR plans and carries out forestry work with a view to optimizing all functions of the forests it manages with a view to the demands of the market.

In pursuing this goal, the company applies principles of sustainable forest management, which is a prerequisite for the sustainable production of quality timber, while respecting and developing all other forest functions (especially the non-productive role of forests).

The aim of forestry work planning and implementation is to establish harmony between the need for, creation of and use of the company's own funds and to seek the most economical use of effective appropriations from the national budget and other sources. The specific elements of Lesy ČR's business activities and its organizational structure are constantly adapted to these basic principles.

ORGANIZATIONAL STRUCTURE

1. Chief Executive Officer

The company is headed by the Chief Executive Officer, who is responsible for the company's activities and acts on its behalf in all matters. The Chief Executive Officer is the company's "governing body" and is described as such in the Commercial Registry.

The Chief Executive Officer is appointed and removed from office by the Minister for Agriculture. The Chief Executive Officer appoints and removes his deputies (heads of various departments), who, in his absence, represent him to the full extent of his rights and obligations. The chief officers, as deputies and representatives of the governing body, are listed in the Commercial Register. The Chief Executive Officer sets the order in which his deputies represent him.

The Chief Executive Officer appoints and removes other senior staff as managers of the company's organizational units:

- unit manager,
- regional head office manager,
- forest manager,
- water manager.

2. Company Management as of 31 December 2012

The company's management consists of the Chief Executive Officer and the heads of various sections i.e.:

- Chief Financial Officer,
- Chief Human Resources Officer
- Chief Operations Officer
- Chief Commercial Officer

3. Decision Making

The Chief Executive Officer decides on all matters not placed by law within the competence of the founder. The Chief Executive Officer makes decisions on matters defined by the State Enterprises Act and the company charter after the founder and the Supervisory Board have expressed their views or given consent.

4. Structure

Lesy ČR is broken down into a Central Head Office and organizational units (forestry units, a seed unit, water management units and regional head offices). Regional head offices are in charge of forest management units.

Number of Organizational Units

Year	2008	2009	2010	2011	2012
RHO	13	13	13	13	13
FMU	77	77	77	77	77
FU, SU	6	6	6	6	6
WMU	7	6	6	6	6

Central Head Office

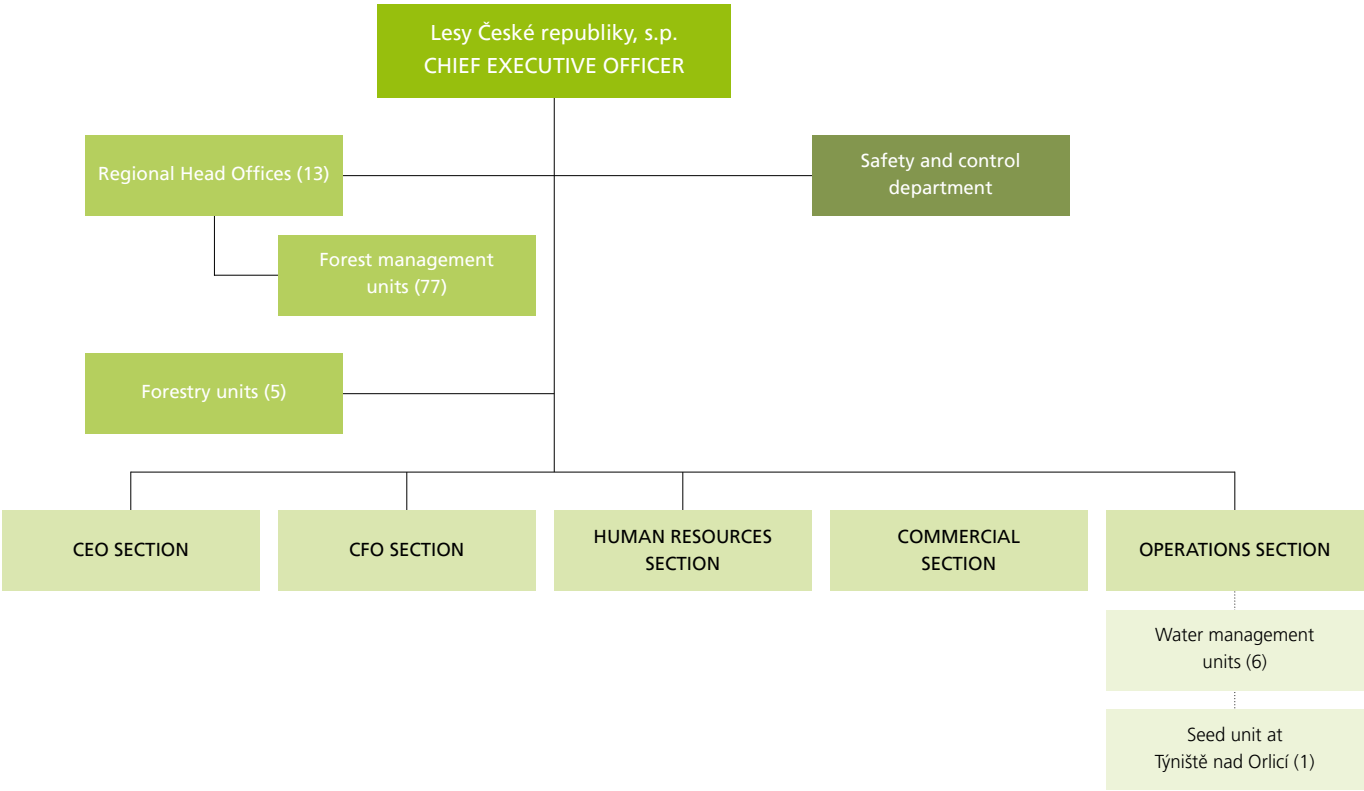
The Central Head Office oversees matters associated with the company's legal status and strategic management and is responsible for ensuring uniform forest, commercial, financial and human resources management.

Sections and Departments at the Central Head Office

Specialized tasks at the Central Head Office are performed by individual sections – which as of 31 December 2012 consisted of the financial, human resources, operations, and commercial sections. Sections are divided into departments, which may be further divided into units. All sections and departments, within the scope of their competence, work together to perform the company's tasks and pursue its mission.

The Central Head Office directly manages 13 regional head offices, 5 forest units, 1 seed unit and 6 water management units. The regional head offices directly manage 77 forest management units. The sections and departments guide the organizational units within the spheres of their expertise.

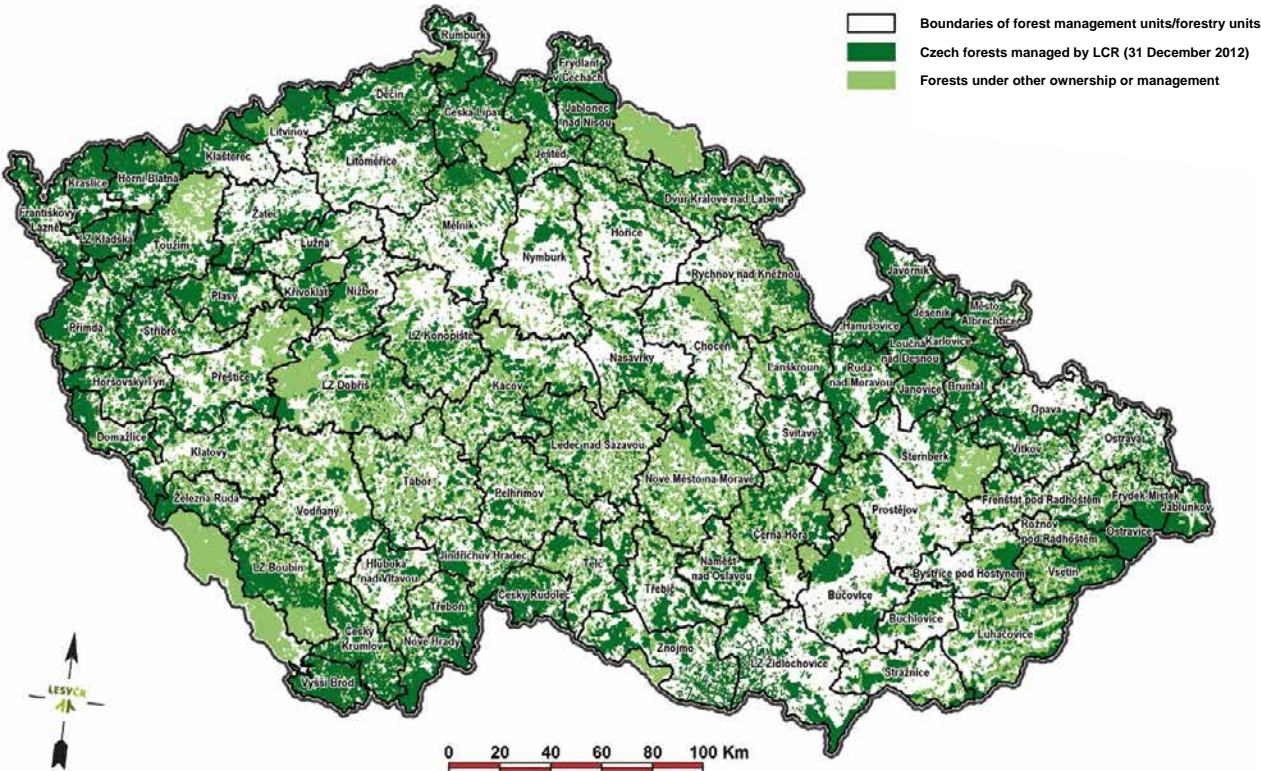
Basic organizational structure as of 31 December 2012



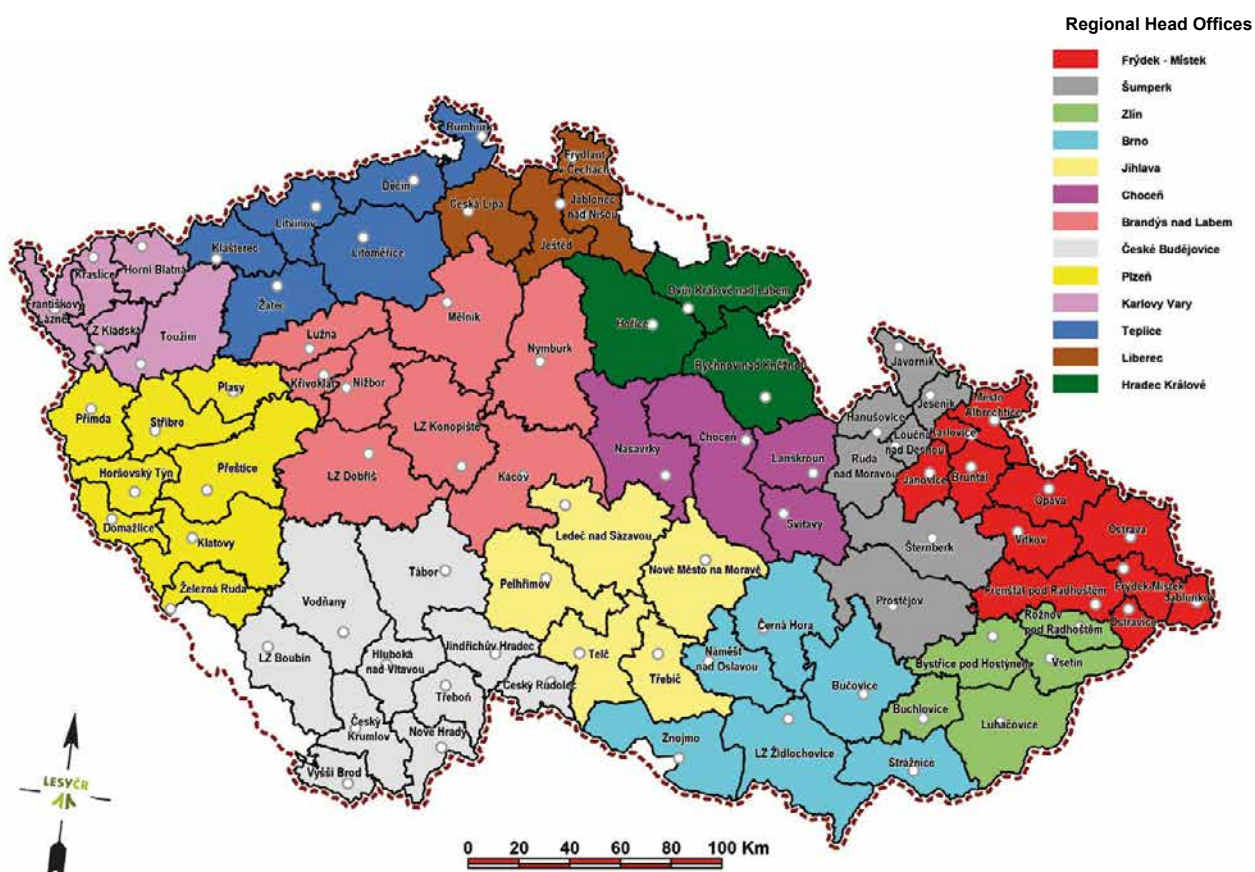
Organizational structure of regional head offices (RHO) as of 31 December 2012



Overview of Assets Managed by LCR



Organizational Map of Lesy ČR



Governing body and its representatives as of 31 December 2012

Michal Gaube
Chief Financial Officer,
acting Chief Executive Officer

Zdeněk Sýkora
Chief Commercial Officer

As of 3 January 2012 there was a change in the order of representation of the governing body (1. Chief Financial Officer Michal Gaube, 2. Chief Human Resources Officer Jitka Věková, 3. Chief Operations Officer Vladimír Krchov, 4. Chief Commercial Officer Zdeněk Sýkora, 5. Chief Administrative Officer Pavel Škvára).

On 13 April 2012 Pavel Škvára – resigned as Chief Administrative Officer.

On 30 November 2012, Svatopluk Sýkora resigned as Chief Executive Officer.

On the same day of 30 November 2012, Jitka Věková resigned as Chief Human resources Officer and Vladimír Krchov, resigned as Chief Operations Officer

Management of Organizational Units as of 31 December 2012

Regional Head Offices

Jiří Makovec, Regional Head Office Director in
Brandýs nad Labem

Vladimír Jandásek, Regional Head Office Director in Brno

Karel Trůbl, Regional Head Office Director in
České Budějovice

Jiří Silvestr, Regional Head Office Director in Frýdek – Místek

Daniel Vlkánova, Regional Head Office Director in
Hradec Králové

Roman Vohradský, Regional Head Office Director in Choceň

Jan Sovák, Regional Head Office Director in Jihlava

Vladimír Rozner, Regional Head Office Director in
Karlovy Vary

Ludvík Řiřář, Regional Head Office Director in Liberec

Ivan Klik, Regional Head Office Director in Plzeň

Zdeněk Horák, Regional Head Office Director in Šumperk

Zdeněk Růžek, Regional Head Office Director in Teplice

Martin Pavlíček, Regional Head Office Director in Zlín

Forest Units

Jaromír Kříha, Forest Unit Director in Boubín

Zdeněk Mařík, Forest Unit Director in Dobříš
- resigned position as of 31 December 2012

Jan Němický, Forest Unit Director in Kladská

Miroslav Jankovský, Forest Unit Director in Konopiště

Miroslav Svoboda, Forest Unit Director in Židlochovice

Seed Unit

Zuzana Neznajová, Seed Unit Director at Týniště nad Orlicí

From 1 January 2013 to 30 April 2013, there were personnel changes in the following positions:

On 1 April 2013, Pavel Indra was appointed new Director of Forest and Water Management.

On 5 April 2013, Jiří Červenka was appointed new Chief Operations Officer.

On 31 March 2013 the Commercial Section was dissolved and as of 1 April 2013 the new position of Chief Production Officer was created and filled by Zdeněk Sýkora, effective as of 5 April 2013.

Supervisory Board as of 31 December 2012:

Miroslav Zámečník – Chairman

Jaromír Kříha – Vice-Chairman

Radek Braum

Miroslav Jankovský

Robert Knobloch

Jiří Liška

Libor Lukáš

Karel Trůbl

Radek Vonka

Six members of the Supervisory Board are appointed by the founder – The Ministry of Agriculture of the CR, while three are elected by company employees.

Personnel changes on the Supervisory Board from 1 January 2012 to 30 April 2013:

On 28 November 2012, the ruling of the Regional Court in Hradec Králové took effect regarding the removal of members from the Supervisory Board:

Roman Boček (resignation from position)

Miloš Pochobradský (termination of employment).

On 15 November 2012, Radek Braum was appointed to the Supervisory Board

On 28 November 2012, Karel Trůbl was entered into the Commercial Register as an elected candidate next in line for the Supervisory Board.



TRENDS IN CORE INDICATORS

Year		2008	2009	2010	2011	2012
Area of forestland	in thousands of ha	1,351	1,345	1,343	1,342	1,338
Surface area of stands	in thousands of ha	1,310	1,308	1,306	1,306	1,300
Logging	in thousands of m ³	8,252	7,723	8,052	8,024	7,844
Logging per ha of stand area	m ³	6	6	6	6	6
Reforestation	ha	11,311	12,839	13,657	13,731	13,100
Tending of young forest stands	ha	36,783	41,562	43,792	45,823	40,152
Total revenue	in millions of CZK	10,867	9,135	11,288	13,261	13,138
Revenue from operations	in millions of CZK	9,059	8,437	10,818	12,832	12,281
Total costs	in millions of CZK	10,406	8,553	8,730	9,036	8,730
Operational costs	in millions of CZK	8,326	7,940	7,925	7,778	7,188
Staff costs	in millions of CZK	1,553	1,584	1,496	1,505	1,601
Value added	in millions of CZK	2,789	2,359	4,268	7,070	7,356
Profit (loss) after tax	in millions of CZK	461	582	2,558	4,225	4,408
Total assets	in millions of CZK	69,242	69,714	72,470	78,222	81,830
Fixed assets	in millions of CZK	62,419	62,117	62,984	65,597	69,352
Current assets	in millions of CZK	6,763	7,516	9,452	12,519	12,392
Equity	in millions of CZK	64,682	65,167	67,576	72,642	76,964
Liabilities (debt)	in millions of CZK	4,489	4,467	4,819	5,505	4,780
Cash flow from operations	in millions of CZK	874	1,725	840	4,106	1,712
Cash flow from investments	in millions of CZK	(926)	(490)	(472)	(447)	(1,048)
Number of employees	persons	3,666	3,547	3,242	3,177	3,213

REPORT ON COMPANY BUSINESS ACTIVITIES AND ASSETS

Property

As of 31 December 2012, the company had assets, including forestland, with a net worth of 81.8 bil. CZK. Fixed assets amounted to 69.4 bil. CZK, with the value of land, primarily forestland, accounting for 53.2 bil. CZK. The value of all land declined by 89 mil. CZK, and its share in the total assets fell to 65.1 % as of 31 December 2012 (68.2% in 2011, 86.4 % in 1995). The decline can be attributed to the increasing share of financial assets due to the gains achieved in recent years. The company's total assets increased by 3.608 bil. CZK (i.e. by 4.6%); total assets adjusted for the value of forestland in 2012 increased by 3.714 bil. CZK, i.e. 14.0 %.

Total Assets (mil. CZK)

Year	2010	2011	2012
Total assets	72,470	78,222	81,830
Value of forestland	51,682	51,700	51,594
Total assets not including forestland	20,788	26,522	30,236

Assets

There were no significant changes in the asset structure in 2012. There was an absolute increase in the value of long-term investment (up by 3.586 bil. CZK), and short-term financial assets (up by 382 mil. CZK), due to the record profit achieved with relatively minor changes to other items. Total financial assets grew by 3.968 bil. CZK (i.e. 30.3 %). Receivables fell by 24.7 % to 1.564 bil. CZK (thanks to the year over year decline in the number of standing timber sales, where advance deposits are used extensively), while inventories grew by only 1.6% to 194 mil. CZK.

Asset Structure Not Including Forestland (mil. CZK)

Year	2010	2011	2012
Total assets	20,788	26,522	30,236
Fixed assets	11,302	13,897	17,758
Inventories	273	191	194
Receivables	2,167	2,076	1,564
Short-term financial assets	7,012	10,252	10,634
Accruals	34	106	86

Liabilities

Equity increased by 4.322 bil. CZK, primarily due to the profit of 4.408 bil. CZK. The 2011 profit of 4.204 bil. CZK was not transferred to reserve funds, but was left as retained earnings. Capital funds were reduced by 106 mil. CZK. Registered capital was increased by 332 mil. CZK, with 313 mil CZK coming from the investment development fund. Provisions declined by 64 mil. CZK, due to provisioning for the replanting of Krušné hory forestland. Liabilities decreased by 661 mil. CZK, especially liabilities to the state (balance sheet liability item B.III.7), which declined by 371 mil. CZK due to lower advance tax payments on income from 2011 compared to the corporate income tax due. Trade payables declined by 230 mil. CZK. Year over year, profits climbed by 4.3 % (or 183 mil. CZK).

Structure of Liabilities Not Including Forestland (mil. CZK)

Year	2010	2011	2012
Total liabilities and equity	20,788	26,522	30,236
Registered capital	10,278	11,373	11,705
Capital funds	(79)	(134)	(134)
Funds created from profit, retained earnings	5,695	9,703	13,798
Provisions	3,111	3,496	3,432
Payables	1,708	2,009	1,348
Deferrals	75	75	87

Total assets (mil. CZK)

Year	2010	2011	2012	12-11	%
Total assets	72,470	78,222	81,830	3,608	4.6
Fixed assets	62,984	65,597	69,352	3,755	5.7
Intangible fixed assets – net	409	509	542	33	6.5
Tangible fixed assets – net	61,240	62,225	62,361	136	0.2
– of which land	53,027	53,331	53,242	(89)	(0.2)
Financial investments	1,335	2,863	6,449	3,586	125.3
Current assets	9,452	12,519	12,392	(127)	(1.0)
Inventories	273	191	194	3	1.6
Long-term receivables	1	7	6	(1)	(14.3)
Short-term receivables	2,166	2,069	1,558	(511)	(24.7)
Short-term financial assets	7,012	10,252	10,634	382	3.7
Accruals	34	106	86	(20)	(18.9)

Total Liabilities and Equity (mil. CZK)

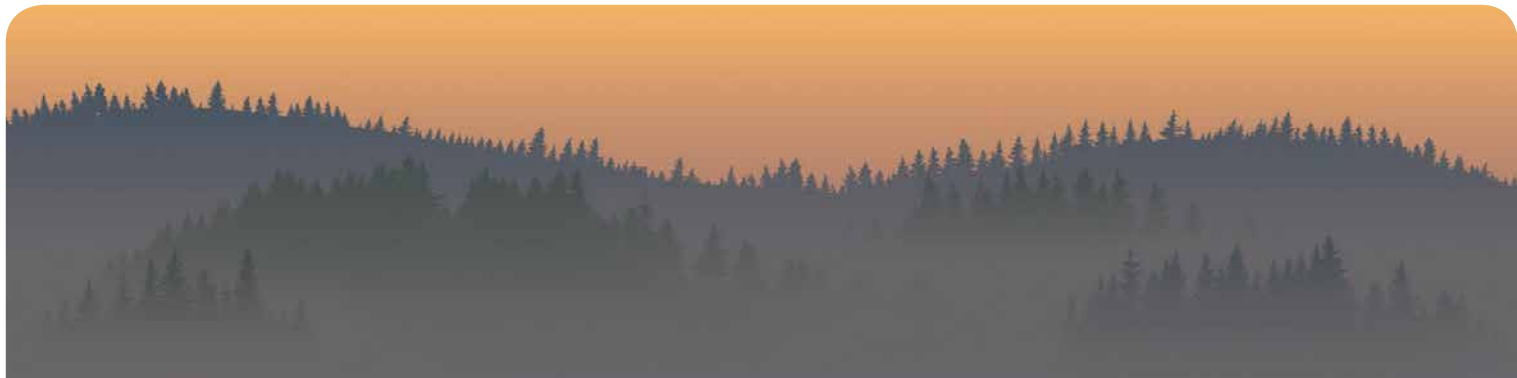
Year	2010	2011	2012	12-11	%
Total liabilities and equity	72,470	78,222	81,830	3,608	4.6
Equity	67,576	72,642	76,964	4,322	5.9
Registered capital	10,278	11,373	11,705	332	2.9
Capital funds	51,603	51,566	51,460	(106)	(0.2)
Funds created from profit	3,137	5,478	5,187	(291)	(5.3)
Retained earnings	0	0	4,204	4,204	0.0
Profit for the current period	2,558	4,225	4,408	183	4.3
Liabilities (debt)	4,819	5,505	4,780	(725)	(13.2)
Provisions	3,111	3,496	3,432	(64)	(1.8)
Payables	1,708	2,009	1,348	(661)	(32.9)
Deferrals	75	75	86	11	14.7

Costs

In 2012 there was a slight decline in total costs (by 3.4%). The cost of sales dropped by 364 mil. CZK (7.8 %), which was due primarily to an increase in the use of standing timber sales, lower total volume of logging, and lower costs for planting activities. Another factor resulting in lower costs was the lower volume of assets sold, and thus a reduction in the book value of fixed assets sold by 132 mil. CZK. The increase in depreciation by 3.9% is due to new investment into forest infrastructure, especially forest roads and water management construction. Staff costs increased by 6.4%, mostly due to an increase in average wages as required by collective labour agreements and an increased number of operational inspectors. The record profit was also reflected in a year-over-year increase in corporate income tax by 20 mil. CZK. Reserves and provisions declined by 181 mil. CZK. New provisions were created primarily for LESS&FOREST, s.r.o., which entered bankruptcy. Costs for financial activities increased by 264 mil. CZK because of the greater volume of securities purchased and sold.

Total Costs (mil. CZK)

Year	2010	2011	2012	12-11	%
Total costs	8,730	9,036	8,730	(306)	(3.4)
Costs of operations	7,925	7,778	7,188	(590)	(7.6)
Costs of goods sold	3	3	3	0	0.0
Cost of sales	5,471	4,645	4,281	(364)	(7.8)
Staff costs	1,496	1,505	1,601	96	6.4
Taxes and charges	168	161	163	2	1.2
Depreciation	522	662	688	26	3.9
Net book value of fixed assets and raw material sold	155	177	45	(132)	(74.6)
Change in reserves and provisions	25	505	324	(181)	(35.8)
Other operating expenses	85	120	83	(37)	(30.8)
Cost of financing activities	204	208	472	264	126.9
Income tax	601	1,050	1,070	20	1.9



Full Internal Costs

Year	Total in mil. CZK			CZK per ha of forestland		
	2010	2011	2012	2010	2011	2012
Logging costs	3,689	2,742	2,880	2,747	2,044	2,153
Cultivation	2,575	2,421	2,353	1,917	1,804	1,759
Road and slope-road repairs	562	829	854	418	618	638
Increase in provisions	25	385	(64)	19	287	(48)
Maintenance of fixed assets	315	341	316	235	254	236
Hunting	182	171	186	136	127	139
Government contracts	135	121	79	101	90	59
Seed production	68	98	65	51	73	49
Timber production	42	46	48	31	34	36
Timber purchases	12	3	3	9	2	2

Direct Cultivation Costs

Year	Total in mil. CZK			CZK per ha of forestland		
	2010	2011	2012	2010	2011	2012
Total	1,870	1,753	1,629	1,392	1,307	1,218
Reforestation	654	627	593	487	467	443
Care of young plantations	632	639	623	471	476	466
Cleaning (juvenile thinning)	130	139	131	97	104	98
Forest protection	116	59	60	86	44	45
Fertilization and liming	7	8	5	5	6	4
Other cultivation care	331	281	217	246	209	162

Revenue

In 2012 there was a slight decline in total revenue (by 0.9%). With respect to operating revenue, there was particularly a decline in revenue from the sale of fixed assets, by 539 mil. CZK. Revenue from financial activity nearly doubled over the previous year to 857 mil. CZK. This growth was due to a greater volume of securities sold and interest earned by financial assets.

Total Revenue (mil. CZK)

Year	2010	2011	2012	12-11	%
Total revenue	11,288	13,261	13,138	(123)	(0.9)
Revenue from operations	10,818	12,832	12,281	(551)	(4.3)
Sales of goods	3	4	4	0	0.0
Production	9,738	11,714	11,637	(77)	(0.7)
Revenue from the sale of fixed assets and material	756	775	236	(539)	(69.5)
Other operating revenue	321	339	404	65	19.2
Revenue from financial activity	470	429	857	428	99.8
Revenue from the sale of securities	129	123	422	299	243.1
Interest revenue	64	102	188	86	84.3
Other financial revenue	277	204	247	43	21.1

Earnings

Profit after tax rose 183 mil. CZK year over year.

The increase in profit was mainly due to growing revenue from financial operations along with a slight increase in operating revenue.

Operating profit in 2012 was 5.093 bil. CZK, which represents a slight increase over 2011 of 39 mil. CZK. The lower volume lumber sales was compensated for by higher lumber prices and lower logging costs.

Financial profit increased by 164 mil. CZK year over year reaching 385 mil. CZK in 2012.

Earnings for the Accounting Period (mil. CZK)

Year	2010	2011	2012	12-11	%
Net profit (loss) for the period	2,558	4,225	4,408	183	4.3
Profit (loss) before tax	3,160	5,275	5,478	203	3.8
Operating profit (loss)	2,893	5,054	5,093	39	0.8
Financial profit (loss)	267	221	385	164	74.2

CONTRACTUAL RELATIONS IN FORESTRY ACTIVITIES

Forestry activities comprise planting and harvesting operations and timber sales. Income from these activities is crucial to the economic standing of LCR.

In 8 % of the forests managed, forestry activities are carried out largely by 5 directly managed forest units, while for the remaining 92 % of land (77 forest management units) private companies are contracted to carry out forestry work, with the contracts awarded through public tenders.

Based upon the strategy adopted by the Ministry of Agriculture for the business policy of LCR (the Concept) new tenders were prepared for contracts from 2012-2016 and on 2 May 2011 the public tender announcement was made for "Conducting forestry activities with standing timber sales – 2012+" on a total of 117 contractual territorial units (CTUs) with standing timber sales. The tender was held in two rounds (including a restricted round) with the length of individual contracts varying from 1 to 5 years depending on the forest management plan.

Through this tender, contracts were concluded for a total of 94 out of 117 contractual territorial units, with 49 contracts going to the top rated bidder, 37 to the second, and 8 to the third. Because of less than optimal conditions, no contract was concluded with the second or third rated bidders for 23 CTUs, and it was decided to hold a new open tender for these areas with contracts running from 1 July 2012. Up until 1 July 2012, necessary activities were carried out based on closed procedure contracts for which at least seven potential candidates were approached and the company selected in the previous tender which refused to sign a contract was not approached.

Contracts running from 1 July 2012 from the open tender were concluded for all 23 CTUs, 18 of which were concluded with the top rated bidder, 4 with the second and 1 with the third.

During the "round table" meetings of representatives of the Ministry of Agriculture, LCR and forestry and lumber organizations, modifications of the Concept were worked into the preparations for a new open tender for 31 CTUs with contracts running from 1 January 2013. This tender was announced on 28 March 2012. Contracts for 30 CTUs were successfully signed during October and November of 2012, with 26 going to the top ranked bidder, 3 to the second and 1 to the third. The tender for one CTU was cancelled after the selected bidder refused to sign. This CTU was again tendered with a contract valid as of 1 June 2013.

At the beginning of October, bankruptcy was declared on LESS & FOREST s.r.o. As a result, all work was suspended in the affected CTUs and contractual relations with LESS & FOREST s.r.o. were terminated. It was decided to hold a new open tender, which was announced on 17 December 2012 with contracts running from 1 June 2013. Up until that time, all necessary activities would be carried out based on closed procedure contracts for which at least seven potential candidates would be approached which took part in the tender for these CTUs in 2012. These closed procedure contracts were successfully concluded in November 2012.

From 1 July 2012 tendered activities also commenced at the new "Research" CTU (123 ha of land was awarded to LCR by the courts) and in September a tender was announced for the "Velká Chmelištná" CTU (purchase of 117 ha) with contracts running from 1 January 2013.

Type of tender	announced	signed
2012 Restricted tender from 1 January 2012	117	94
2012 Open tender from 1 July 2012	24	24
2013 Restricted tender from 1 January 2013	31	30
2013 Open tender from 1 June 2013	32	ongoing

year	2012				2013		2014	2015	2016	2017
month	1-2	3-6	7-9	10-12	1-5	6-12				
		RT 2012+ (94°)		(60°)		(43°)	(30°)	(24°)	(12°)	
		CPC (23°) OT (24°)		(21°)		(16°)	(13°)	(9°)	(6°)	
					CPC (29°)	OT 2013 (32°)	(23°)	(16°)	(6°)	(1°)
					CPC (3°)					
						RT 2013+ (30°)				
						OT (1° Velká Chmelištná)				
							RT 2014+ (31°)			
								RT 2015+ (22°)		
total	117		118		122		128	133		

tendered contracts ongoing tenders (°) number of CTU projected

OT – open tender

COMMERCIAL ACTIVITY – SALES OF TIMBER AND LOGGING RESIDUES

In 2012, the sale of timber continued in a similar manner to previous years.

The bulk of the wood from forest management units (FMU) was sold as standing timber (6,054,000 m³). Compared to the previous year, there was an increase in electronic auction sales of standing timber (956,000 m³).

The roadside type model of sales was mainly applied to forest unit land, with the exception of the sale of a limited volume of inventory taken over by forest management for contractual units abandoned by one of our major contractual partners.

During 2012, wood from forest unit sources (573,000 m³) was supplied to the market through the following sales channels:

- Commodity exchange 332,000 m³
- Electronic auctions 152,000 m³
- Other (direct sales, own production, fuel, etc.) 89,000 m³

Logging Residues

During the course of 2012 there was further growth in demand for biomass (logging residues) – with a total volume of 1,304,000 m³ sold. There was also a slight increase in the selling price (by 3 CZK/m³ compared to 2011). LCR held a public tender and concluded eight new framework agreements.

Logging residues were sold during 2012 through three sales channels:

- Framework purchasing agreements (860,000 m³),
- Electronic auctions (360,000 m³),
- Other sales (84,000 m³).

Standing timber auctions

During 2012, Lesy ČR fully implemented the sale of standing timber through public online auctions. During the period more than 4,000 auctions were held offering 1,911,000 m³ of standing timber. Sales were made in 1,743 auctions for 956,000 m³ of timber.



FOREST MANAGEMENT

Gene Pool of Forest Tree Species

The preservation and regeneration of the gene pool of forest tree species, combined with greater forest diversity are important priorities in the sustainable management policy of LCR.

Status of Genetic Resources Managed by LCR in 2012

Genetic resources	Number (pcs)	Area (ha)
Genetic bases	155	76,454
Selected resources (A, B)	–	54,669
Identified resources (C)	–	56,004
Seed plantations	91	213
Clone mixes	15	9
Parent trees, clones	3,478	–

Operating Stock of Raw Materials and Seeds as of 31 December 2012

Tree species	raw material	of seeds
	Quantity (kg)	Quantity (kg)
SM	0	2,534
BO	4,588	1,514
MD	0	188
JD	0	158
DB	0	2,458
DBZ	0	178
BK	0	2,670

The seed stock at the Gene Bank of Regional Tree Species was not replenished in 2012.

Forest Seed Bank, Stocks as of 31 December 2012 LCR

Tree species	Number of sections	Quantity in kg
SM	47	240
BO	28	45
MD	1	2

The seed yield in 2012 was significantly affected by spring frosts (late frost lasting for several days in May). There was no beech crop at all, spruce did not produce, and there was also a poorer pine harvest than in other years. The fir harvest was only adequate in isolated places, pedunculate oak produced adequately, while the sessile oak harvest was poorer, especially in the Carpathian areas. The spring frosts particularly affected deciduous trees which flower in May (cherry, pear, apple, rowan).

To process smaller groups of materials (such as spruce, pine and oak) which are prepared to ensure the broadest spectrum of reproductive material, a new BCC line with a chamber dryer and drum husker was brought into service in 2012

Forest Nurseries

The company purchases nursery stock from contractors based on Cultivation Agreements. This planting stock continues to be cultivated by LCR's authorized growers, with whom the company has concluded Contracts on Compliance with Conditions of Cultivating Nursery Stock for forests managed by LCR. These contracts enable the company to check on the origins and quality of reproductive material.

Silviculture

The cultivation of company-managed forests remained steeped in the principles of sustainable forest management coupled with respect for all statutory provisions and the rules laid down by the PEFC forest certification system.

Non-stocked Land Compared to Timber Land

Year	2008	2009	2010	2011	2012
Area of timber land (thousands of ha)	1,310	1,308	1,306	1,306	1,300
Non-stocked land as of 31 December (ha)	13,614	13,894	13,697	13,224	13,631
Non-stocked land as of 31 December (%)	1.00	1.06	1.05	1.01	1.05

Share of Conifers and Deciduous Trees in Artificial Reforestation

Year	2008	2009	2010	2011	2012
Conifers (ha)	5,647	6,071	6,135	6,511	5,826
– fir trees (ha)	574	621	664	575	464
Fir trees – % of artificial regeneration	6.07	6.03	6.11	5.26	4.72
Deciduous (ha)	3,804	4,226	4,724	4,422	4,002
Deciduous – % of artificial regeneration	40.24	41.04	43.50	40.44	40.72
Deciduous and firs (%)	46.32	47.07	49.62	45.70	45.44

As in previous years, in 2012 the share of deciduous trees as firs (used as soil-improving and strengthening species in most habitats in accordance with the Forest Act) was significantly higher than required by law. In initial rounds of regeneration in 2012, 42.7 % of the trees LCR planted were soil-improving and strengthening species, which again significantly exceeds the annual requirement for soil-improving and strengthening trees according to current forest management plans. Gradual changes in the species composition of forest stands have made them more resistant in recent years to negative influences such as extreme temperature fluctuations, natural disasters, and pests.

In 2012, a total of 56,596,000 seedlings were planted.

Share of Natural Regeneration in Initial Regeneration

Year	2008	2009	2010	2011	2012
Total initial regeneration (artificial and natural) (ha)	9,644	11,437	11,981	11,996	11,364
Natural regeneration (ha)	1,860	2,500	2,798	2,797	3,201
Natural regeneration (%)	19.28	21.85	23.35	23.32	28.17

The share of natural forest regeneration in 2012 was 5% higher than the previous year. The increased share of natural regeneration is related to the significant decline in salvage felling, where principal felling was carried out freeing up natural regeneration.



Selected Management Indicators

Year	2008	2009	2010	2011	2012
Non-stocked land as of 31 December (ha)	13,614	13,894	13,697	13,224	13,631
Clearings from logging (ha)	8,602	9,047	10,130	9,882	9,847
Artificial (first and repeated) regeneration (ha)	9,451	10,339	10,859	10,934	9,899
Natural regeneration (ha)	1,860	2,500	2,798	2,797	3,201
Total regeneration (ha)	11,311	12,839	13,657	13,731	13,100
Cleaning (ha)	19,979	19,881	21,057	22,458	20,670
Thinning (ha)	31,757	42,662	43,792	51,619	42,911
Logging (thousands of m ³) on land managed by LCR	8,252	7,723	8,052	8,024	7,836
– salvage felling (thousands of m ³)	5,282	3,093	2,934	1,769	1,521
Share of salvage felling (%)	64.02	40.06	36.44	22.05	19.42
Logging (m ³) per ha of timber land	6.25	5.90	6.17	6.14	6.03

Considering that in 2012 the share of salvage felling was minimal, it was possible to carry out the majority of planned logging, particularly of undergrowth to promote natural regeneration. The annual plan to balance stands under and over 40 years old was maintained in 2012. There was logging on 39,700 hectares of young stands up to 40 years old, while 36,400 hectares of stands up to 40 years old were cleaned and thinned. Salvage felling accounted for 19.4% of total logging. Of this salvage felling, nearly 46% was necessitated by natural factors (mostly wind damage). Total logging on LCR land in 2012 did not reach the annual limits set by the forest management plans, thus maintaining the long-term goal of LCR not to overburden forest stands.

Select Management Indicators per 1,000 ha of Forest

Year	2008	2009	2010	2011	2012
Non-stocked land as of 31 December (ha)	10.39	10.62	10.49	10.13	10.48
Clearings from logging (ha)	6.52	6.94	7.76	7.57	7.57
Artificial regeneration (ha)	7.16	7.90	8.31	8.37	7.56
Natural regeneration (ha)	1.41	1.91	2.14	2.14	2.46
Total regeneration (ha)	8.57	9.81	10.46	10.51	10.02
Failed restocking (ha)	0.96	1.07	1.28	1.33	1.34
Cleaning (ha)	15.14	15.20	16.12	17.20	15.90
Thinning (ha)	24.06	32.62	33.53	39.61	33.01
Logging (m ³)	6,251	5,904	6,165	6,144	6,027
– of which: intermediate (m ³)	681	1,066	1,130	1,469	1,414
principal (m ³)	1,569	2,473	2,788	3,320	3,442
salvage (m ³)	4,001	2,365	2,246	1,354	1,170
Principal felling (m ³)/ha of non-stocked land	150	232	265	328	328



Forest Protection

With respect to climatic parameters, 2012 was not extreme in any way, with temperatures slightly above average and average precipitation.

The greatest damage from abiotic factors was caused by wind (540,100 m³), snow (103,600 m³), drought (70,800 m³) and frost (21,000 m³). Logging of pollution-weakened stands was carried out over 7,600 m³ while salvage logging due to other abiotic causes amounted to 9,800 m³. On the afternoon of 24 May an extensive forest fire broke out in pine stands of Bzenecká doubrava which took 7 days to put out. This affected a total of roughly 160 ha of forestland, 141 ha of which was destroyed requiring immediate salvage logging totalling 26,600 m³.

In 2012, a total of 237,700 m³ of standing spruce trees infested with bark beetles were cleared, along with 7,100 m³ secondarily affected by natural disasters, which represents an increase of approximately 128% from the previous year. The increase in damage is located in the eastern half of the country with a clear correlation to weather patterns. In the western territory there continued to be a decline in the population density of bark beetles, so with few exceptions the situation here is in keeping with the guidelines set forth in Ministry of Agriculture Decree no. 101/1996 Coll. The most significant species remains the European spruce bark beetle, although the share of stands infected with the northern bark beetle increased to 33%, and in the hardest hit regions of Moravia-Silesia and South-Moravia, it may be the primary pest.

As preventative measures, 130,300 classic trap trees and 26,700 standing trap trees (a total mass of 189,800 m³) were set up, and 26,400 traps and 13,500 poison traps were deployed. 12,500 m³ of infected trees were stripped of their bark and 97,100 m³ were chemically treated. The rest were removed.

These values confirm the rising threat in 2013 to spruce stands from bark beetles in the eastern territories, both in areas with traditionally weakened spruce stands as well as areas yet to be hard hit by bark beetles.

Pests found under the bark of other tree species did not cause significant damage; the most common incidence of such pests was bark beetles on pine trees (the larger pine shoot beetle, the lesser pine shoot beetle, the large pine bark beetle, the engraver beetle, and the steelblue jewel beetle), which altogether infested 2,200 m³ of wood.

In 2012, leaf-eating pests did not cause significant economic damage. Pests capable of mass outbreaks, such as the nun moth, the larch bud moth, and the false spruce webworm, were in low numbers; monitoring indicates that a similar situation is likely in 2013.

There was also no sign of damage by the gypsy moth or other oak defoliators (the winter moth, the mottled umber, or the oak leaf roller moth). Damage by the gregarious spruce sawfly was kept to a minimum (3.5 ha). The extent of damage done by the horse-chestnut leaf miner was average (50.0 ha, 7 ha treated by air), in the Krušné hory region, the local outbreak of larch casebearer continued (70.0 ha). In 2012, the area of coniferous crops damaged by the pine weevil was slightly higher than in recent years, with 647.9 ha recording damage. The extent of damage caused by cockchafer grubs was average, and in traditional breeding grounds caused damage to 9.6 ha.

The cost of aerial biotic pest control was funded by the Ministry of Agriculture.

After a sharp increase last year, damage caused by small rodents declined more than 50%, affecting 221.7 ha, which is slightly higher than the long-term average. The damage was spread fairly evenly, so there was no repeat of last year's concentrated damage of stands of substitute species in the Ore Mountains (Krušné hory).

The extent of damage caused by main fungal pathogens increased significantly from last year. Most damage continues to be caused by acute attacks of the honey mushroom (*Armillaria ostoyae*) which occurred during the second half of the year when it was dry and warm and felling increased to 165,300 m³, one of the highest values recorded. As in past years, the area most affected was Moravia-Silesia. Damage caused by pine needle cast was recorded in 823.7 ha while oak mildew attacked 654.2 ha. The extent of damage caused by infectious *Curcubitaria piceae* in blue spruces, especially in stands of substitute tree species in the higher areas of the eastern Krušné hory area and accompanied by fungal pathogens, increased to 1,202 ha, which represents a dynamic increase from past years. The prognosis is unclear for further development of affected stands, which are regularly assigned to projects for the transformation of substitute tree stands. A major problem especially in the lowlands in the east of the Czech Republic (Břeclav, Přerov, Karviná, Ostrava, Frýdek-Místek, Kroměříž, Hodonín) continues to be ash dieback caused by the fungus *Chalara fraxinea*, which was recorded over an area of 1,204.6 ha of primarily younger stands. During the year, 1,600 m³ of oak with signs of tracheomycosis were also logged.

Stands remain susceptible to yellowing as a result of nutritional disorders. In 2012, significant signs of damage appeared over 28,500 ha, but no corrective measures such as lime or similar applications were taken. The only kind of stand fertilization in 2012 was the top-dressing of seedlings after planting with slow-release fertilizer tablets used over a total area of 359.6 ha.

Forest Certification

In 2012, the forests managed by LCR were recertified via the PEFC system (Program for the Endorsement of Forest Certification Schemes). Thus, 130 forest management facilities covering a total area of 1,317,312 ha of forests were certified. Throughout the year, the forest management quality of select LCR forest management facilities was verified through external audits carried out by 3EC International, s.r.o., an independent certification authority, as well as internal audits carried out by the Institute of Forest Management. All facilities passed these audits.

This certificate is proof that the forest management facilities managed by LCR are part of the certified region of the Czech Republic and that they are managed by the company in accordance with approved standards of sustainable forest management in the spirit of the Ministerial conference on the protection of forests in Helsinki (1993).

Professional Forest Management

As of 31 December 2012, LCR provided professional forest management to other owners over a total area of 284,263 ha, of which 271,576 ha were managed for 213,604 owners pursuant to Section 37 par. 6 of the Forest Act, while 12,687 ha were managed contractually for 490 owners according to Section 37, par. 3 of the Forest Act.

Pollution

Air Pollution Hazard Zones as of 31 December 2012

Surface area of stands	A	B	C	D
1,299,648 ha	16,841	52,177	292,637	937,993
%	1.3	4	22.5	72.2

Air Pollution Damage Grades as of 31 December 2012

Wooded land	0	0/I	I	II	IIIA	IIIB	IV
1,324,081 ha	1,175,491	77,703	58,023	10,921	1,758	165	20
%	88.8	5.9	4.4	0.8	0.1	0	0

Quantified Air Pollution Damage in mil. CZK

Year	2007	2008	2009	2010	2011
Amount of damage	65	72	70	61	61

The level of air pollution is monitored and quantified in accordance with Ministry of Agriculture Decree no. 55/1999 Coll. on the means of calculating the extent of loss or damage caused to forests.



Felling Due to Air Pollution in thousands of m³

Year	2008	2009	2010	2011	2012
thousands of m ³	25	17	11	7	8

Most air pollution can be consistently found in those area where most harmful substances are emitted or deposited, i.e. the Ore Mountains (Krušné hory) and Jizera Mountains (Jizerské hory).

Hunting

During the 2012/2013 hunting year, the company operated a total of 126 hunting grounds at its own expense in the areas of its organizational units as of 31 March 2013. 91 hunting grounds were used by the forest management units and 35 by forestry units. Hunting management also serves to monitor the populations of primarily hoofed animals in the given areas. Particularly good results have been achieved in the hunting of sika deer and mouflon, where the set hunting plan has been exceeded significantly for several consecutive years.

The hunting plan for LCR hunting grounds for all types of hoofed animals was met for individual animal species and met as a whole by 119%.

Fulfilment of the Plan for the Hunting of Selected Species of Hoofed Game in Hunting Grounds Operated by the Company

Plan

Species of game	2008/09	2009/10	2010/11	2011/12	2012/13	index 2012/13
Red deer	2,576	2,429	1,813	1,859	1,732	0.932
Sika deer	391	358	364	301	341	1.133
Mouflon	1,230	1,162	991	976	906	0.928
Fallow deer	1,212	1,377	1,303	1,354	1,292	0.954
Roe deer	3,043	2,648	2,384	2,212	2,075	0.938
Chamois	5	5	2	0	0	0.000

Actual figures

Species of game	2008/09	2009/10	2010/11	2011/12	2012/13	index 2012/13
Red deer	2,875	2,539	1,932	1,946	1,907	0.980
Sika deer	628	472	480	447	569	1.273
Mouflon	1,410	1,272	1,107	1,094	1,262	1.154
Fallow deer	1,428	1,491	1,490	1,472	1,507	1.024
Roe deer	3,360	2,911	2,503	2,325	2,283	0.982
Chamois	6	7	6	2	0	0.000

Fulfilment of the Hunting Plan in % by Individual Select Species of Hoofed Game

2012/13	Red deer	Sika	Mouflon	Fallow deer	Roe deer	Chamois	TOTAL
Plan	1,732	341	906	1,292	2,075	0	6,346
Actual figures	1,907	569	1,262	1,507	2,283	0	7,528
%	110	167	139	117	110	-	119

Damage Caused by Game

Forest damage caused by game is monitored and quantified for all forestland which LCR has the right to manage. In financial terms, there was a year-over-year decrease of 1,272,000 CZK in damage caused by game, representing a 7.4% decline. Practically all damage was caused by browsing. Other types of damage remained at levels comparable to the previous monitored period.

Company-operated hunting grounds accounted for 1,864,000 CZK of forest damage caused by game (a year-over-year decline of 793,000 CZK), leased company hunting grounds accounted for 9,340,000 CZK (a year-over-year decline of 183,000 CZK) and other hunting grounds (association-owned) accounted for 4,683,000 CZK (a year-over-year decline of 296,000 CZK).

1 July to 30 June	Total (mil. CZK)	Destroyed	Browsing damage	Bark scaling and browsing	Emergency measures
2011/12	15.887	2.993	7.009	5.510	375
2010/11	17.159	2.932	8.337	5.489	401
2009/10	16.390	3.404	7.718	4.824	444
2008/09	20.576	2.675	10.864	6.603	434
2007/08	13.757	2.136	7.480	3.838	303

Grant Service

Since 2002, when the LCR Grant Service was established, 44 research projects have been adopted with a total funding of 54,793,000 CZK. The research work under 41 projects has been completed, 2 projects are still underway, and one project was cancelled. In 2012, no new research projects were taken on and two projects were completed.

LCR Grant Service projects received a total of 1,659,000 CZK of funding in 2012.

A limited number of final research reports are printed for the requirements of the units concerned, forest owners and the company library. Summary results of all Grant Service projects are published on the LCR website. In addition, project outputs are available on CD for anyone interested.

Projects Completed in 2012:

(the number cited is from the project list on the LCR website)

- no.27) "Wet Storage of Logs at Hluboká nad Vltavou and Ždírec nad Doubravou. Assessment of Operations and Proposed Storage Guidelines" or "Assessment of Methods for Storing Wood under Foil with Respect to Wood Quality". The project is being carried out by Mendel University in Brno. Total funding of 100,000 CZK for follow-up, 58,000 CZK of which was disbursed in 2012.
- no.40) "Soil Conditions, Nutrients and Measures Leading to Optimal Forest Regeneration at LVS PLO 7 and 8 in Hrubý Jeseníky". The project is being carried out by Mendel University in Brno. Total funding of 1,013,000 CZK, 351,000 CZK of which was disbursed in 2012.

Ongoing Projects:

- no.41) "Diapause in the Spruce Bark Beetle – Possible Means of Increasing the Effectiveness of Preventative Measures". Research is being carried out by the Biology Centre, Academy of Science of the Czech Republic, České Budějovice. Total financial volume: 2,249,000 CZK, no disbursements in 2012.
- no.43) "Forestry Adaptation Strategy for the Changing Environmental Conditions in the Moravian-Silesian Beskids". Research by IFER – Ústav pro výzkum lesních ekosystémů, s.r.o. (Institute of Forest Ecosystem Research), Strašice. Total financial volume 8,260,000 CZK, 1,250,000 CZK of which was disbursed in 2012.

Amounts are listed without VAT.

Support through European Union Funds – Use of Support

During the 2007–2013 programme period, LCR used EU support from structural and other funds primarily for projects with high society-wide impact.

Rural Development Programme

The company is a potential applicant and beneficiary of aid from the European Agricultural Fund for Rural Development (EAFRD), via the Czech Republic's Rural Development Programme (RDP), Measure II.2.4 "Post-disaster restoration of forestry potential and support of public use of forests" and Measure II.2.1 "Forestation of agricultural land".

In 2012, RDP paid out 62,822,000 CZK: 26,329,000 CZK for Sub-measure II.2.4.1 objective a) "Post-disaster restoration of forestry potential", 29,435,000 CZK for Sub-measure II.2.4.1 objective b) "Introduction of preventative measures in forests and elimination of flood damage", 6,370,000 CZK for Sub-measure II.2.4.2 "Non-productive forest investments" and 688,000 CZK for Sub-measure II.2.1.1 "Initial forestation of agricultural land".

Single Area Payment System

A payment based on the Single Area Payment Scheme for agricultural land cultivated by the company listed in the Land Parcel Identification System (LPIS) was made at the beginning of 2013.

Environmental Operational Programme

A further vehicle that can be used in support of forestry, water management and landscape projects and projects that contribute to the improvement of waste management is the Environmental Operational Programme (EOP), which is financed from the Cohesion Fund (CF) and the European Regional Development Fund (ERDF). There are seven areas in which LCR may draw EOP support. The company is eligible to participate in 5 grants under Priority Axis 6 "Improving the State of Nature and the Landscape", two under Priority Axis 4 "Improving Waste Management and Eliminating Old Ecological Hazards", and one under Priority Axis 1 "Improving Water Infrastructure and Reducing Flood Risk".

Grants received in 2012 included 29,914,000 for Axis 6 "Improving the State of Nature and the Landscape" (area 6.3 "Landscape renewal" - 24,368,000 CZK, 6.4 "Optimizing

the landscape water regime" - 4,046,000 CZK, and 6.5 "Promoting the regeneration of the urbanized landscape -1,500,000 CZK).

Cross-border Cooperation Operational Programmes

In 2012, LCR was involved in two Cross-border Operational Programmes for 2007-2013, namely: the Czech Republic/ Poland CCOP – in area of support 2.2.2 "Promoting tourism development", and the Free State of Saxony/Czech Republic CCOP – Objective 3, Priority Axis 3 (Improving the situation of nature and the environment), area of support 2 "Measures for flood control, water management and hydraulic works, protection of the waterways". Both EU grant schemes are funded by the European Regional Development Fund (ERDF). In 2012, interim CCOP payments of 292,073,000 EUR were made (177,077,000 EUR Czech Republic/Poland CCOP – grant 2.2.2.; and 114,303,000 EUR for Free State of Saxony/ Czech Republic CCOP – Objective 3, Priority Axis 3, grant 2).

The drawing of grants from European Union funds takes place based upon contracts and agreements with accredited agencies designated by the managing authorities of operational programmes. The actual drawdown takes place in two manners, either in an ongoing fashion following completion of project stages according to financial payment schedules, or after project completion. A list of projects financed and co-financed from EU funds can be found on the company's website (the industry professionals section on the page "Financial support from the EU").

Forest Management

In 2012, the drafting of forest management plans (FMPs) was completed effective as of 1 January 2012. This encompassed 16 forest management facilities (FMFs) at 13 organization units of LCR. The total area of land designated as forestland was 148,695 ha. The authority responsible for state forest management only approved 13 FMPs. The Rájec, Tišnov and Research FMPs were not approved due to objections by environmental agencies. LCR has submitted objections to the failure to approve these FMPs.

All 16 FMPs were prepared in accordance with applicable forest management information standards, and the data of the 13 approved FMPs was entered into the information database of the Forest Management Institute in Brandýs nad Labem. The company spent a total of 69,143,175 CZK without VAT on this year's FMPs, which works out to 465 CZK per ha. In 2012, LCR was not eligible to request a subsidy for the preparation of FMPs due to a change in the rules for providing financial support for forestry in 2012.

In 2012, outdoor work under FMPs was completed effective as of 1 January 2013. This concerned 20 FMPs at 12 organizational units. The total area was 134,101 ha.

Since 1 January 1998, the task of renewing the FMPs has been placed in the hands of external businesses. In 2012, in accordance with the Public Procurement Act, LCR once again announced a tender for the preparation of FMPs, effective as of 1 January 2014. As in previous years, the full scope of annual FMPs was included in a single public contract which was divided into 11 separate parts, each representing an organizational unit affected by FMP renewal. The tender thus encompassed 19 FMPs in 11 organizational units covering a preliminary area of 134,519 ha.

A total of seventeen entities expressed interest in preparing FMPs effective as of 1 January 2014, 2 of which were first-time candidates for preparing FMPs for LCR. The average price (the arithmetic mean weighted by the preliminary area of each FMF) under the concluded work contracts amounted to 247 CZK/ha without VAT. The price change index for FMPs in 2012 compared to 2011 was 57.8. This was the steepest year-over-year drop in FMP price per ha since LCR began tendering the preparation of FMPs.

Total renewal of FMPs in various stages of completion took place in 2012 for 417,315 ha in 55 FMFs at 36 organizational units.


A detailed list of FMPs renewed in 2012 is shown by individual FMF in the table and in the illustrative map of FMPs renewed in 2012 – see pg. 36.



Overview of FMPs in Progress in 2012

(preliminary areas of FMPs not yet approved are given in italics; FMFs in bold have a varying degree of state co-ownership)

Organizational unit	FMF name	FMP valid as of	Area of designated forestland (ha)
Bruntál	Bruntál	1. 1. 2012	14,799
Bystřice pod Hostýnem	Bystřice pod Hostýnem	1. 1. 2012	12,403
Černá Hora	Rájec	1. 1. 2012	11,105
Černá Hora	Tišnov	1. 1. 2012	9,721
Dvůr Králové nad Labem	Podkrkonoší	1. 1. 2012	9,863
Frýdlant v Čechách	Frýdlant	1. 1. 2012	17,948
Horní Blatná	Plešivec	1. 1. 2012	15,464
Horní Blatná	Nejdek	1. 1. 2012	9,709
Jablonec nad Nisou, Ještěd	Pojizeří	1. 1. 2012	3,073
Ještěd	Klokočka	1. 1. 2012	4,178
Konopiště	Konopiště	1. 1. 2012	14,913
Mělník	Doksy	1. 1. 2012	4,340
Mělník	Újezd	1. 1. 2012	1,061
Město Albrechtice	Město Albrechtice	1. 1. 2012	17,378
Nymburk	Žehrov	1. 1. 2012	2,617
Strážnice	Výzkum	1. 1. 2012	123
Sum for FMPs as of 1 January 2012			148,695
Choceň	Choceň	1. 1. 2013	8,521
Choceň	Polička	1. 1. 2013	5,949
Jablonec nad Nisou	Jablonec nad Nisou	1. 1. 2013	9,286
Jablonec nad Nisou	Tanvald	1. 1. 2013	9,462
Ještěd	Ještěd	1. 1. 2013	8,821
Ještěd	Podještědí	1. 1. 2013	2,662
Kladská	Cihelny	1. 1. 2013	1,584
Lužná	Lužná	1. 1. 2013	5,997
Lužná	Milý	1. 1. 2013	3,102
Náměšť nad Oslavou	Náměšť nad Oslavou	1. 1. 2013	8,346
Náměšť nad Oslavou	Rosice	1. 1. 2013	9,522
Přeštice	Přeštice	1. 1. 2013	7,167
Přeštice	Dobřany	1. 1. 2013	4,056
Ruda nad Moravou	Ruda nad Moravou	1. 1. 2013	9,038
Stříbro	Plzeň	1. 1. 2013	1,979
Třeboň	Třeboň	1. 1. 2013	9,713
Třeboň	Domanín	1. 1. 2013	6,515
Toužim	Žlutice	1. 1. 2013	5,049
Toužim	Bečov	1. 1. 2013	5,990
Vítkov	Vítkov	1. 1. 2013	11,342
Sum for FMPs as of 1 January 2013			134,101



Český Krumlov	Kaplice	1. 1. 2014	6,659
Česká Lípa	Česká Lípa	1. 1. 2014	10,900
Česká Lípa	Cvikov	1. 1. 2014	8,445
Frenštát pod Radhoštěm	Frenštát pod Radhoštěm	1. 1. 2014	9,493
Frenštát pod Radhoštěm	Hranice	1. 1. 2014	3,395
Dobříš	Višňová	1. 1. 2014	2,953
Karlovice ve Slezsku	Karlovice ve Slezsku	1. 1. 2014	12,427
Kladská	Kladská	1. 1. 2014	14,925
Klatovy	Klatovy	1. 1. 2014	1,969
Klatovy	Nýrsko	1. 1. 2014	7,893
Klatovy	Chudenice	1. 1. 2014	2,311
Ledeč nad Sázavou	Ledeč nad Sázavou	1. 1. 2014	5,273
Ledeč nad Sázavou	Humpolec	1. 1. 2014	5,268
Luhačovice	Luhačovice	1. 1. 2014	6,503
Luhačovice	Vizovice	1. 1. 2014	3,172
Luhačovice	Starý Hrozenkov	1. 1. 2014	438
Nové Hradky	Horní Hvozd	1. 1. 2014	11,600
Nové Hradky	Dolní Hvozd	1. 1. 2014	8,400
Železná Ruda	Železná Ruda	1. 1. 2014	7,816
Železná Ruda	Sušice	1. 1. 2014	4,679
Sum for FMPs as of 1 January 2014			134,519
Total			417,315

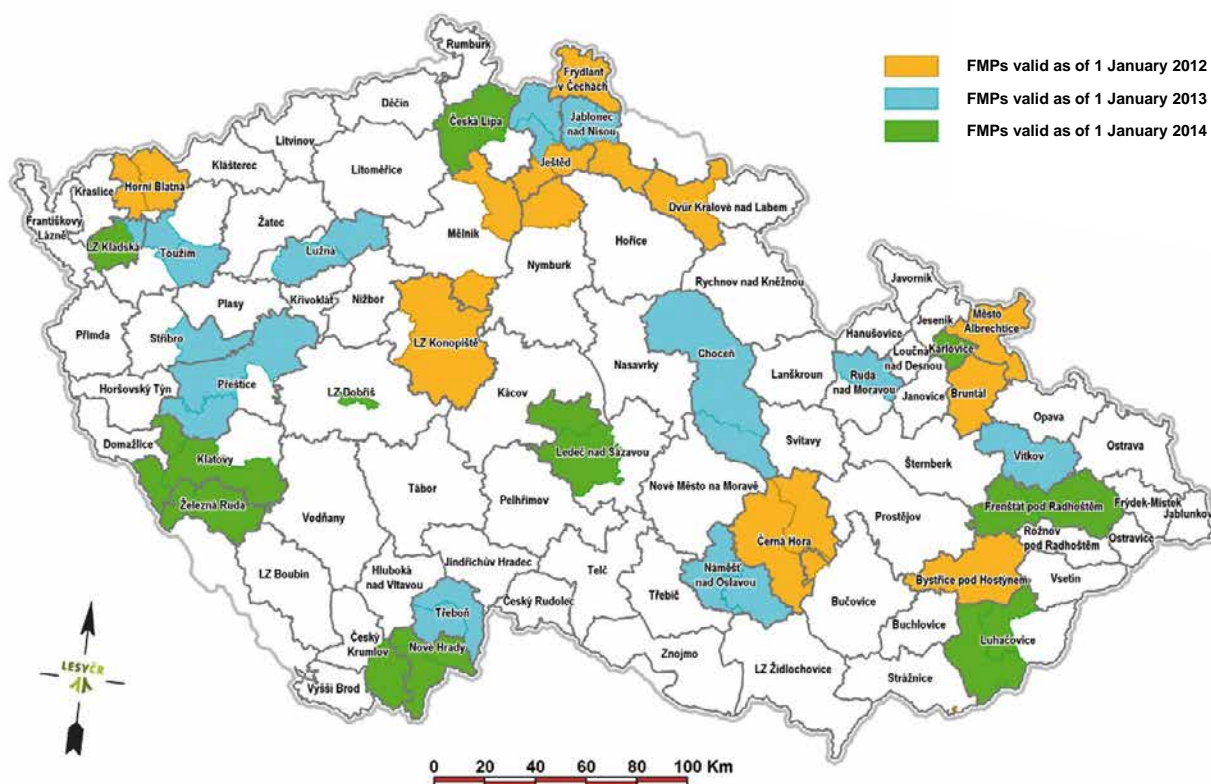
In 2012, LCR registered 137 FMFs with valid FMPs. Of these, 5 were listed as co-ownership with a certain share held by the state, 9 were placed in the management of the company as part of asset purchases, and two were created over leased assets, with all activity provided by forestry units.

As in 2011, the Forest Management Institute in Brandýs nad Labem conducted external quality control of LCR FMPs at two FMFs: FMF Bruntál and FMF Frýdlant v Čechách. The inspections did not find any serious systematic errors. External inspections will continue in 2013.

As in previous years, LCR arranged for the digitized boundaries of organizational units to be updated. This resulted in a clear map of the organizational structure – see pg. 10. The Graphics Data Warehouse (GrDW) was used to create a map depicting the current status of property managed by LCR as of 31 December 2012 – see pg. 9.

In 2012, LCR concluded a framework agreement with the winning bidder in the tender for the purchase of GPS equipment. Pilot testing for the applicability of GPS technology under LCR conditions was completed at 4 organizational units.

FMP Renewal 2012



In 2012, the company significantly modified the conditions for providing data from its FMPs. The company is now responsible for issuing all data from its FMPs itself.

In 2012, operation was begun of a portal where registered users are given free access to select geographic data of the company's FMPs.

Forestry Inspection

Since 2007, the company has conducted periodic surveys of forest conditions (forest ecosystems) and reviews of long-term operations.

These activities are carried out by staff from the Forestry Inspection Department (FID).

The results of these reviews are used mainly to mediate feedback on the effectiveness and results of management processes and to provide direct information from regional head offices and the operations section regarding specific results of forest management by individual organizational units compared with LCR standards.

Reviews of the long-term results in the care of forestland, together with tests of professional forest management, are an important element in the system for maintaining the company's professional level of forest management.

The results of forestry inspections help ensure compliance with legislative changes and contribute to the uniform, standard procedure of LCR employees in relations to bodies of state forestry administration.

They also help maintain the prestige and good reputation of forest management in state forests.

During the period from 2007 to 2012, forestry inspections have been conducted at 86 FMFs and their parts i.e. more than 60 % of the current total number of FMFs managed by LCR. In all, this encompassed 557 districts and field inspections of 15,132 "units of forest spatial division".

The evaluation results are published on the company website.

Overview of Average Forestry Inspection Results by RHO (FU) 2007 - 2012

RHO no.	Name of RHO	Average	Office	Outdoor	Number of districts	Number of FMFs
13	Šumperk	1.60	1.63	1.56	54	6
11	Frydek-Místek	1.63	1.52	1.76	67	7
18	Jihlava	1.63	1.68	1.59	40	8
15	Zlín	1.68	1.72	1.63	26	4
28	České Budějovice	1.83	1.89	1.76	49	8
FU	Forest units	1.89	2.02	1.74	30	9
21	Brandýs nad Labem	1.91	1.90	1.91	39	9
16	Brno	1.91	1.99	1.83	28	3
19	Choceň	1.92	2.05	1.76	28	4
37	Hradec Králové	1.94	2.06	1.80	36	4
32	Karlovy Vary	1.95	1.93	1.96	44	6
36	Liberec	1.95	1.97	1.93	17	4
30	Plzeň	1.95	1.96	1.91	51	7
33	Teplice	2.28	2.53	1.96	48	7
		1.86	1.91	1.79	557	86



Results of Administrative Reviews 2007 - 2012

Number	Area/RHO	Weight	11 Frydek- Místek	13 Šumperk	18 Jihlava	15 Zlín	28 České Budějovice	21 Brandýs n. L.	32 Karlovy Vary	30 Plzeň	36 Liberec	16 Brno	LZ Lesní závody	19 Choceň	37 Hradec Králové	33 Teplice	FMP average
4.1.2.1	Maximum total amount of logging	3	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
4.1.3.8	Use of logging potential	1	1.25			1.00	1.00	1.40	1.67	1.00	2.00	3.00	1.67		1.00	1.00	1.45
4.1.1.4	Record keeping on forest protection, hunting	1	1.29	1.17	1.38	1.00	1.38	1.44	1.50	2.00	1.25	1.83	1.56	2.38	2.13	1.86	1.55
4.1.3.6	Compliance with regeneration period and rotation	1	1.71	1.50	1.25	1.50	1.57	1.44	1.83	1.71	2.25	1.33	1.78	1.25	1.75	1.57	1.60
4.1.2.2	Minimum area of nursing measures in stands up to 40 years old	3	1.00	1.00	1.75	2.13	1.88	2.00	1.00	1.64	1.00	1.75	2.00	1.75	2.50	2.71	1.74
4.1.3.4	Principal felling in stands up to 80 years old	1	1.43	1.00	1.38	2.50	1.00	2.33	1.00	1.86	1.75	2.00	1.00	3.25	2.50	3.14	1.77
4.3	Select economic indicators	2	1.74	1.51	1.62	1.54	1.88	1.70	2.06	2.12	1.75	2.00	1.75	1.91	1.96	2.00	1.81
4.1.3.7	Area of initial restoration	1	1.43	2.25	1.50	1.25	2.00	1.56	1.83	2.21	1.50	1.67	2.22	1.38	2.25	2.00	1.82
4.1.1.3	Management of designated forestland	2	1.14	1.17	1.56	2.00	1.63	1.89	1.42	1.79	2.50	2.17	2.00	2.38	1.88	2.71	1.83
4.1.1.2	ERM management	1	2.07	1.83	2.00	2.00	2.13	1.89	2.00	2.50	2.00	2.33	2.33	2.50	1.50	2.29	2.10
4.1.3.2	Failed restocking	2	2.00	2.25	2.44	1.50	2.00	2.61	1.50	1.64	1.00	2.83	2.89	1.88	1.50	3.29	2.19
4.1.1.1	Keeping of forest management register	2	1.71	1.92	1.88	2.13	2.13	2.17	1.58	2.57	2.50	2.58	2.44	3.13	2.75	3.00	2.27
4.1.3.1	Share of natural regeneration	2	1.83	2.00	1.94	1.25	2.63	2.39	2.33	2.07	2.75	2.50	2.78	2.00	2.13	3.00	2.30
4.1.3.3	Use of genetic bases	1	1.43	1.67	1.80	3.00	2.17	3.00	3.00	3.00	3.00	2.33	2.00	1.33	2.33	3.00	2.31
4.1.3.5	Limits on restricted logging	1	1.00	2.50	2.88	3.25	3.57	2.83	4.00	4.00	3.25	4.00	3.25	4.00	4.00	3.14	3.16
	Office		1.52	1.63	1.68	1.72	1.89	1.90	1.93	1.96	1.97	1.99	2.02	2.05	2.06	2.53	1.91



Results of Outdoor Reviews 2007 - 2012

Number	Area/RHO	Weight	13 Šumperk	18 Jihlava	15 Zlín	LZ Lesní závody	11 Frydek- -Místek	28 České Budějovice	19 Choceň	37 Hradec Králové	16 Brno	30 Plzeň	21 Brandýs n. L.	36 Liberec	32 Karlovy Vary	33 Teplice	FMP average
4.2.4	Regeneration procedures	2	1.24	1.32	1.39	1.43	1.38	1.37	1.25	1.30	1.45	1.37	1.44	1.56	1.41	1.40	1.38
4.2.8	Keeping of operational records	2	1.21	1.68	1.35	1.67	1.39	1.52	1.54	1.52	1.67	1.55	1.75	1.41	1.51	1.45	1.53
4.2.3	Nursing of stands for intermediate felling 40+	2	1.48	1.46	1.43	1.60	1.60	1.60	1.63	1.50	1.73	1.66	1.75	1.66	1.77	1.90	1.63
4.2.5	Forest protection	3	1.61	1.46	1.51	1.56	1.71	1.58	1.69	1.66	1.69	1.82	1.71	1.59	1.98	1.84	1.67
4.2.1	Regeneration and reforestation	3	1.59	1.50	1.45	1.69	1.65	1.71	1.69	1.76	1.82	1.95	1.91	1.99	1.96	2.10	1.77
4.2.7	Condition and maintenance of transport network	1	1.59	1.87	1.92	1.82	1.88	1.76	1.95	1.94	2.06	1.89	2.00	1.95	1.87	1.92	1.87
4.2.2	Establishment of forest stands	3	1.72	1.48	1.47	1.72	2.12	2.09	1.77	1.90	1.82	1.96	2.16	2.46	2.29	2.28	1.95
4.2.3	Nursing of stands for intermediate felling -40	3	1.67	1.87	1.82	1.94	1.84	2.06	2.01	2.07	2.01	2.36	2.01	1.92	2.18	2.06	1.99
4.2.6	Condition and maintenance of distribution network	1	1.56	1.61	2.35	2.19	1.82	1.77	2.49	2.55	2.22	1.92	2.18	2.03	2.08	1.82	1.99
4.2.3	Nursing- cleaning	3	1.70	1.79	2.01	1.99	1.96	1.88	1.91	2.01	2.00	2.16	2.14	2.41	2.17	2.23	2.02
	Outdoor		1.56	1.59	1.63	1.74	1.76	1.76	1.76	1.80	1.83	1.91	1.91	1.93	1.96	1.96	1.79

WORKING IN THE PUBLIC INTEREST

LCR was founded in accordance with Act no. 77/1997 Coll., on state enterprises, as currently amended, to “perform important social and strategic work in the public interest”.

For this purpose, the company has gradually drafted and approved several conceptual documents, which are gradually being carried out.

The Sustainable Forest Management program (1997, 2000) pertains in particular to the existence of forests and improvement of their condition. The Concept for the Preservation and Regeneration of the Gene Pool of Forest Tree Species 2010-2019 is, as its name indicates, a plan to protect the gene pool of forest tree species.

Agenda 2020 – Guaranteeing Public Interest at LCR deals with the public use of forests and defines gradual steps to preserve and possibly support this role. An updated version of the document is available online. The general public is also invited to make specific proposals in this regard.

Agenda 2020

Costs for Carrying Out Agenda 2020 for 2008 – 2012

Year	2008	2009	2010	2011	2012
Total costs (thousands of CZK)	58,530	60,857	33,493	55,601	54,428

Costs for Carrying Out Agenda 2020 by Individual Type of Activity

Types of activity	thousands of CZK	%
Forest arboretums and protected trees	145	0.3
Well building	1,161	2.1
Maintenance of protected buildings and structures	3,933	7.2
Recreational and sightseeing facilities for the public	8,301	15.3
Information systems for the public	4,041	7.4
Construction and repair of roads, trains and parking for the public	15,928	29.3
Aesthetic treatment of forests, parks and countryside	2,602	4.8
Management of water resources	4,887	8.9
Biodiversity management of forests and countryside	2,330	4.3
Management of minor structures for the public	4,876	8.9
Suppression of invasive plant species	1,333	2.5
Special programs for the public	650	1.2
Other events for the public	4,241	7.8
Agenda 2020 total	54,428	100

In 2012 the company spent most funds on the construction and maintenance of roads, trails, parking lots and public information systems (19,969,000 CZK) and the construction and maintenance of recreational and sightseeing facilities and other minor structures for the public (13,177,000 CZK).

Other major company activities carried out as part of the Agenda included management of water resources and wells (6,048,000 CZK), maintenance of historical buildings and structures in forests and countryside (3,933,000 CZK), aesthetic treatment of forests, parks and the countryside (2,602,000 CZK) and biodiversity management of forests and countryside (2,330,000 CZK).

In 2012, the company spent a total of 54,428,000 CZK on all types of activities for the public under Agenda 2020.

Cooperation with NGOs

Czech Tourist Club

The relationship between LCR and the Czech Tourist Club (KČT) is governed by the agreement from 1998. In 2011, both parties agreed to continue their cooperation in marking hiking trails. In this manner, Lesy České Republiky contributes to the recreational function of forests.

Czech Union for Nature Conservation

In cooperation with the Czech Union for Nature Conservation (ČSOP), dozens of specific projects for the protection of biodiversity in forests are implemented each year (e.g. measures to protect endangered species of forest trees, herbs, songbirds, predators and owls, bats, the mapping of valuable forest wetlands and watercourses), along with projects in support of rescue stations for injured and disabled animals and projects aimed at environmental awareness, education and training. In 2012, the company contributed 3.8 million CZK to support ČSOP activities.

Dolní Morava Biosphere Reserve

In 2012, LCR donated a total of 400,000 CZK to support the activities of the Dolní Morava Biosphere Reserve, a public interest company which it founded.

Křivoklátsko Forest Park

In 2012, LCR increased its support to care for this forest park and forestry management in the Křivoklátsko area.



Nature and Landscape Protection

LCR is the largest manager of protected sites in the Czech Republic. The company manages sites with a high conservation interest with due regard for the individual categories of land protection, and particularly the presence of protected species, valuable habitats and other significant natural and cultural phenomena.

More than 30% of the land which the company is entitled to manage is incorporated into protected landscape areas (PLAs). Another 3% of the area is located in small specially protected sites, i.e. in national nature reserves, national natural monuments, nature reserves and natural monuments.

In the Natura 2000 system of significant European sites established in all EU Member States, 230,000 hectares of the company's land qualifies as bird sanctuaries (under the Birds Directive), while more than 260,000 hectares of land are areas of European significance (under the Habitats Directive). Although some of this land overlaps, the overall share of specially protected sites and Natura 2000 sites on the land which Lesy ČR is entitled to manage is nearly 45%.

Protective conditions for specially protected areas and special protection areas necessitate a permanent reduction in the productive role of forestland. Despite this, the company is not entitled to receive any management subsidies for such areas.

The company has also long been involved in the rescue and support of selected groups of organisms, especially rare species of trees, birds of prey and owls, grouse, forest songbirds, etc., both inside and outside specially protected areas.

Non-interference Zones and Monitoring There of

In 2012, cooperation continued between LCR and the Agency for Nature Conservation and Landscape Protection of the CR in establishing and monitoring non-interference zones in forests. A review of current locations was conducted. An overview of non-interference zones as of 31 December 2012 and the results of recent monitoring of individual locations is published on the company's website.



Support of Non-productive Roles of Forests – External Resources

In 2012, the Ministry of the Environment released funds under the Landscape Management Program for measures in specially protected areas, bird sanctuaries, and areas of European significance, to environmental protection groups which have concluded agreements with land owners to promote biodiversity in these areas. Measures on land which LCR is entitled to manage were granted a total of 1.876 mil. CZK, in cooperation with the relevant organizational units. As part of the Ministry of the Environment's "Program to Restore Natural Landscape Functions", a total of 1.153 mil. CZK was drawn in 2012.

The company received direct subsidies under the Landscape Management Program in 2012 totalling 41,000 CZK for measures in sites outside these zones.

Protection of Water Sources

Based on an analysis of geographic data concerning declared protected areas of natural water accumulation in accordance with Section 28 of Act No 254/2001 on water (Natural Water Accumulation Protected Areas, TGM WRI, 2010), buffer zones of water resources – except the buffer zones of water reservoirs – according to Section 30(1) of Act No 254/2001 on water (Water Resource Buffer Zones, TGM WRI, 2010), and the buffer zones of natural medicinal resources and mineral water sources in accordance with Act No 164/2001 (Ministry of Health, 2011) in relation to the data of forest management plans in the company's graphics data warehouse, it was found that the following forestland which LCR is entitled to manage was affected:

Protected areas of natural water accumulation – 500,156 ha, of which 480,360 ha is forestland.

The buffer zones of water resources (without the buffer zones of water reservoirs) measure a total of 144,000 hectares, which first-level buffer zones account for 5,800 hectares.

The buffer zones of natural medicinal resources and mineral water sources cover more than 63,000 hectares, of which first-level buffer zones account for 2,800 hectares.

CAPITAL CONSTRUCTION

Investment Activities in 2012

The total volume of capital funds invested in 2012 came to 1,300,722,000 CZK, which amounts to 79 % of the planned volume of 1.65 billion CZK. Company funding amounted to 981,737,000 CZK (i.e. 75.5 %), while public funding accounted for 257,734,000 CZK (i.e. 19.8 %). Agenda 2020 projects received 31,849,000 CZK (2.4%) while other sources accounted for 29,402,000 CZK (i.e. 2.3 %) of total funds invested.

Investments in 2012 by Source of Funding – Actual

Source of financing	mil. CZK	%
Own resources	981.737	75.5
Subsidies, public budget	257.734	19.8
Own resources - Agenda 2020	31.849	2.4
Other resources	29.402	2.3
Total	1,300.722	100

Investments in Intangible and Tangible Assets

Overview by asset type	mil. CZK	%
Intangible assets	187.951	14.4
- FMP	57.726	4.4
- SW	94.580	7.3
- other intangibles	34.719	2.7
- area studies	0.926	0
Tangible assets	1,112.771	85.6
- construction works	993.615	76.4
- machinery and equipment	64.056	4.9
- land	53.068	4.1
- other	2.032	0.2
Total	1,300.722	100

Investments in intangible assets totalled 187.951 mil. CZK (i.e. 14.4 % of total investments), most of which was invested in the purchase of company software for 94.580 mil. CZK.

A total of 1,112.771 mil. CZK was invested in tangible assets (i.e. 85.6 % of total investment volume). Of this, 993.615 mil. CZK was invested in construction work, 66.088 mil. CZK in machinery and equipment, while investment in land purchases

and other matters related to capital construction or forestland consolidation amounted to 53.068 mil. CZK.

Capital Construction by Statistical Classification

Capital construction classification	mil. CZK	%
Torrent control project documentation	8.467	0.8
Other project documentation	0.087	0
Forest road project documentation	21.666	2.2
Forest nursery project documentation	0	0
Handling warehouse project documentation	0.085	0
Warehouse and workshop project documentation	0.180	0
Reservoir project documentation	1.215	0.1
Housing project documentation	0.046	0
AB project documentation	0.934	0.1
Flood damage project documentation – torrent control	2.063	0.2
Flood damage project documentation – other	0.064	0.0
Flood damage project documentation – forest roads	0.707	0.1
Flood damage project documentation – housing	0	0
Flood damage project documentation – AB	0	0
Project documentation – EU projects	3.414	0.3
Forest roads	496.158	49.9
Forest nurseries	0.559	0.1
Handling warehouses	1.504	0.2
Warehouses and workshops	1.452	0.1
Technical forest reclamation + torrent control ... torrent control	145.680	14.7
Technical forest reclamation + torrent control ... reclamation	0.079	0
Technical forest reclamation + torrent control ... gullies and sanitation	2.677	0.3
Reservoirs	25.538	2.6
Housing, districts	3.034	0.3
Administrative buildings	11.328	1.1
Other structures, including borrow pits	14.440	1.5
Agenda 2020	31.849	3.2
Flood damage – torrent control	180.751	18.2
Flood damage – other structures	0.276	0
Flood damage – forest roads	11.655	1.2
Flood damage – housing	0	0
Flood damage – administrative buildings	0	0
EU projects – implementation	27.708	2.8
Total capital construction	993.615	100

Capital Construction by Type for Forest Management

Construction work	mil. CZK	%
Forest roads, including documentation	530.186	53.4
Housing construction	3.080	0.3
Service buildings and structures	16.041	1.6
Water management	366.897	36.9
EU projects	31.123	3.1
Agenda 2020	31.849	3.2
Other structures	14.439	1.5
Total	993.615	100

993.615 mil. CZK was invested in surface structures and utilities, most of which (530.186 mil. CZK, i.e. 53.4 %) was invested in the construction and upgrading of forest roads. The second largest volume of 366.897 mil. CZK (or 36.9%), was invested in hydraulic works to enhance flood protection and to prevent and eliminate flood damage. More than 80% of funding was therefore invested in structures constructed primarily in the public interest.



Investments in Machinery and Equipment by Statistical Classification

Machinery and equipment	mil. CZK	%
Logging truck-and-trailer units	8.257	12.5
Lorries	0	0
Other vehicles (off-road)	6.261	9.5
Other vehicles (not off-road)	23.745	35.9
Special forestry machinery	0.109	0.2
Tractors, including forestry trucks	3.379	5.1
Trailers and semi-trailers	0.071	0.1
Farming and nursery machinery	0.431	0.7
Loaders	4.780	7.2
Computer technology, including printers	5.800	8.8
Copiers	0.023	0
Telecommunications technology	0	0
Electronic security of structures	0.913	1.4
Metalworking machinery	0	0
Woodworking machinery	0	0
Cross-cutting and sorting lines, dispatch lines	0.019	0
Televisions and cameras	0.422	0.6
Freezer technology	0	0
Other machinery nec	9.846	14.9
Total machinery	64.056	96.9
Other equipment and tangible fixed assets	2.032	3.1
Total machinery and equipment	66.088	100

A total of 66.088 mil. CZK was spent on machinery and other equipment in 2012. The largest outlay of 23.745 mil. CZK (i.e. 35.9 %) was for the purchase of cars.

Agenda 2020 – Investment Projects

Types of activities	mil. CZK	%
Forest arboretums	0	0
Protected, ornamental and other trees	0.145	0.5
Alterations to streams, reservoirs	3.098	9.7
Wells	1.161	3.6
Support for endangered species	0.033	0.1
Historical buildings and structures	1.701	5.3
Landscaping	0	0
Recreational and sightseeing facilities	8.301	26.1
Building of public campgrounds	0	0
Removal of invasive plants	0	0
Building of public information systems	3.228	10.1
Roads, trails, parking lots	10.177	32.0
Other	4.005	12.6
Total	31.849	100

In 2012, 54.428 mil. CZK was spent on public-interest forest projects under Agenda 2020, 31.849 mil. CZK of which was channelled into investment projects.

Capital construction in 2012 included hiking trails and small structures to serve public visitors to forests managed by Lesy ČR. The largest volume of investment funds was used to construct walking paths, trails, and parking lots, including the building of public information systems and the construction of recreational and sightseeing facilities.

Overview of Investment into Assets Managed by LCR by region (mil. CZK)

Region	Total	Machinery and equipment	Buildings	forest roads
Moravia-Silesia	201.219	2.460	184.446	100.893
Olomouc	55.773	0.968	46.721	40.187
Zlín	160.939	1.226	155.024	40.600
South Moravia	100.780	4.121	86.099	29.492
Vysočina	37.871	2.871	31.296	27.382
Pardubice	40.466	3.741	31.166	24.421
Central Bohemia	121.771	16.384	85.775	42.732
South Bohemia	117.963	9.636	96.210	87.664
Plzeň	34.684	3.547	24.750	19.491
Karlovy Vary	42.990	3.245	34.657	30.937
Ústí nad Labem	76.802	3.338	68.212	34.574
Liberec	64.738	4.222	45.926	31.524
Hradec Králové	244.726	10.329	103.333	20.289
Total	1,300.722	66.088	993.615	530.186



WATER MANAGEMENT



LCR manages designated small streams and creeks as a non-productive forest function. As of 31 December 2012, it was managing more than 39,000 km of watercourses and over 680 small reservoirs.

Care for watercourses by LCR involves the management of watercourse-related assets valued at 5.38 bil. CZK (especially watercourse modification, torrent and gully control structures, flood control, and reservoirs). Watercourse management was carried out by six water management units with geographical competence determined by the river basins methodically managed by the Water Management Department at the LCR Central Head Office.

In 2012, water management activities at LCR focused on:

- removing flood damage from previous years (especially 2010),
- implementing investment and non-investment projects aimed at flood protection, erosion control measures and public interest activities pursuant to Section 35 of the Forest Act,
- completing processes associated with the transformation of the Agricultural Water Management Administration (AWMA) – taking over the management of watercourses

- and water assets, operational assets and land,
- other activities aimed at the construction and restoration of reservoirs, caring for riparian vegetation, the restoration of previously poorly controlled watercourses, non-productive forest functions, support of endangered species, the removal of invasive alien plant species, etc.,
- keeping Central Records of watercourses according to instructions from the Ministry of the Agriculture.

The management of watercourses and the measures taken (repairs, upgrading and investment) were mainly financed from the company's own resources and from subsidies. Grants were awarded for action taken in the public interest in accordance with Section 35 of the Forest Act, and included funding from the national budget for the Ministry of Agriculture programs "Flood Prevention Support II" ("FPS") and "Support for the Elimination of Flood Damage to State Water Management Assets" in accordance with Section 102 of the Water Act. EU funds were also drawn from the Environmental Operational Program and the Rural Development Program. In certain specific cases, the regions also contributed to work on minor watercourses. Watercourse management is non-commercial and with respect to overall spending in this area generates virtually no profit. In 2012 there was no major flood damage to managed assets.

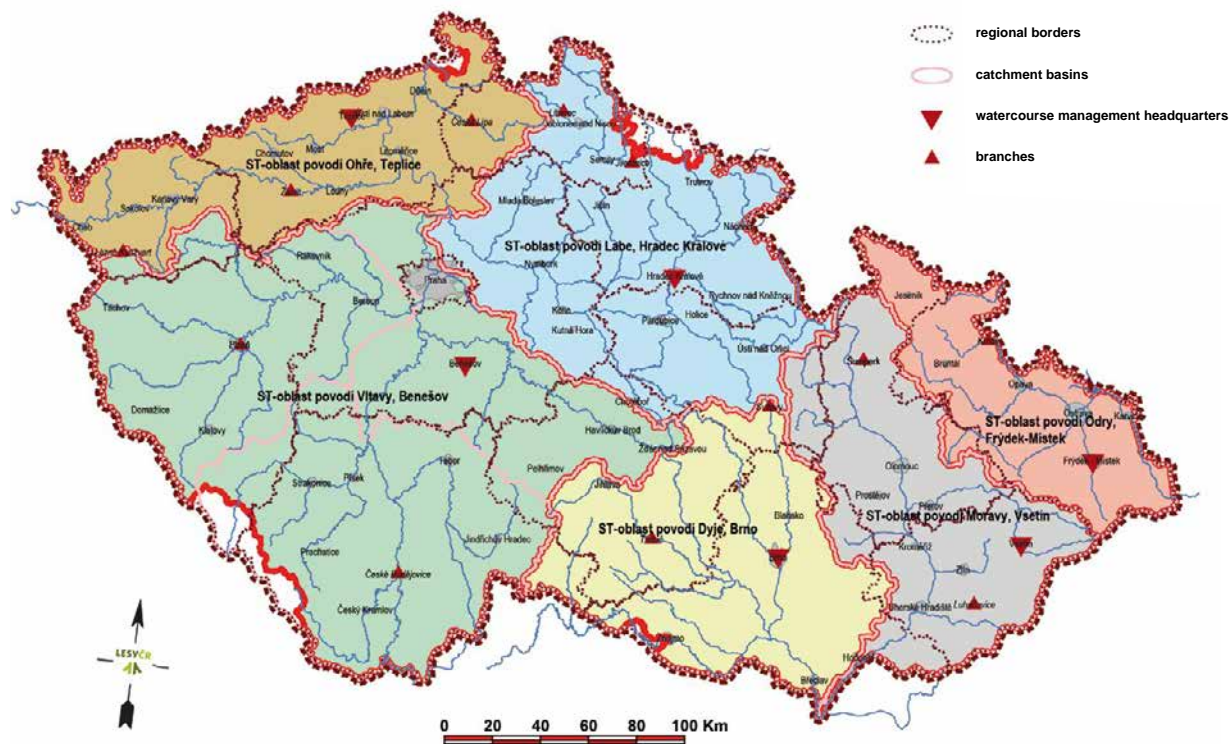
Through its organizational units, LCR spent a total of 777.9 mil. CZK on watercourse management, with 394.1 mil. CZK going to investment. Of this capital expenditure, 159.2 mil. CZK came from the company's own funds. 383.8 mil. CZK went to the management, repair and maintenance of basic torrent control, 333.7 mil. CZK of which came from the company's own funds. 302 mil. CZK was spent on removing flood damage, with 163.3 mil. CZK from the company's own funds. These amounts include all costs associated with watercourse management. Revenue obtained from purchases of surface water totalled 13.7 mil. CZK and was used to cover watercourse management.

The water management financing structure in 2012 is given in the following table:

Comprehensive Water Management Costs in 2012 in mil. CZK

	Own sources	Subsidies	Flood damage	
	total	total	Own sources	Subsidies
Investment	159.2	234.9	81.6	101.6
Non-investment	333.7	50.1	81.7	37.1
Total	492.9	285.0	163.3	138.7

Geographical Scope of Lesy ČR's Watercourse Management





Measures Taken in Individual Catchment Basins:

In 2012 at **Odra Basin Management**, the main activity was the removal of damage from the flood of May 2010, especially in the Beskid area. Some of the more extensive work completed included the Čeladenka section (km 3.048-5.060) in the town of Čeladná, Bystrý potok (km 3.250-7.000 and km 7.200-8.400) in Janovice and in Lubna, the Lomná (km 4.000-6.400) in Trojanovice, Bystrý potok (km 0.000-4.200) in Frenštát pod Radhoštěm and in Trojanovice, the Mionší (km 1.100-1.400) and Kamenitý (km 0.000-0.500) in Dolní Lomna, Vlašský potok (km 0.000-1.700) and Velký Lipový (km 0.000-1.000) in the town of Morávka, and the Hlučová (km 0.300-4.200) in Bystřice nad Olší.

For watercourses taken over from AWMA, work was completed on the Čermná at km 8.500-9.700 in the town of Vítkov, Stříbrný potok (km 0.000-1.113) in the town of Fulnek, and the Rovňa (km 1.220-1.320) in the town of Oldřichovice.

Under the FPS program, flood damage from 2009 was removed from the following watercourses in the Jeseník and Nový Jičín areas: Vojtovický potok (km 13.900-15.050) and its tributary at km 15.01 in the town of Vlčice, Červený potok from km 7.800-11.200 in Stará Červená Voda, the Zrzávka (km 0.000-0.700) in Nový Jičín, the Jičínská (km 23.550-24.240) in Veřovice, Stříbrný potok (km 0.000-1.800) in Žulová and Skorošický potok in the towns of Skorošice and Žulová.

Other important flood protection work was completed on Bučací potok (km 0.000-0.200) in Ostravice, the Sedlinka (km 1.450-1.813) in Štítín, the Lomná (km 0.000-1.150) in Frenštát pod Radhoštěm, the Mušlov (km 5.900-7.545) in Třemešné and the Rohovec (km 0.607-1.260) in the town of Návší.

Public-interest construction projects as defined in Section 35 of the Forest Act were completed on the Vilčok and

tributary, the Lipňok and the Říčka in the town of Staré Hamry, and the Vysutý and Ježanský potok in Morávka.

In the area covered by the Dyje (Thaya) Basin Management headquartered in Brno, 8 projects partially funded by the FPS program were completed, the largest of which were the reconstruction and relaying of pipes on the Tresný potok in the town of Rovečné, and work on the Hodonínka above the town of Štěpánov nad Svratkou. Preparatory work continues for flood prevention projects taken over as part of the transformation of AWMA. The largest of these are the construction of a dry reservoir in the town of Čeložnice and increased flow capacity for the Hodonínka in the township of Olešnice.

Two projects partially subsidized by the Rural Development Program were completed. These concerned a tributary of the Jihlava at km 100.100 in the town of Třebíč and the Bělinský potok in the town of Číkov.

Within the managed region, five public-interest projects were completed as defined by Section 35 of the Forest Act. The most significant of these were the tributary of the Račický potok above the town of Račice and the Čermákovice retention reservoir for the Znojmo area. Construction on three other projects was also begun under this program.

As far as the removal of flood damage from 2010, repairs were made to the Kameňák dry reservoir for the Hodonínka and work was begun to repair 2010 flood damage on the Hvězdlička in the town of Milonice. The company's own funds were used to remove 2010 flood damage on two other watercourses.

In the Dyje Basin there was sporadic flooding in the South Moravian region in 2012 in the Kyjov area and around Bílovice nad Svitavou and Podhradí nad Dyjí. However, the increased flow rates did not cause excessive damage and were eliminated.



In the Labe [Elbe] Basin, headquartered in Hradec Králové, 2012 saw the completion of the majority of projects to remove flood damage around Liberec. This concerned construction on Sloupský and Malý Sloupský potok in the town of Hejnice, Černý potok in the town of Bílý Potok p. S., Kunratický potok in Kunratice u Frýdlantu, and tributaries of the Lužická Nisa in the town of Bílý Kostel nad Nisou.

Projects were completed from the FPS program “Městský potok II” in Vojnuv Městec and Žernovník nad Železným Brodem.

Work was begun on projects with financial support from EU funds. This included the revitalization of Stříbrný potok in Malšová Lhota, Koutský potok in Osečnice in the Eagle Mountains (Orlický hory), revitalization of Černý potok in Hejnice and Tichá říčka in Janova nad Nisou.

Measures pursuant to Section 35 of the Forest Act were completed for Přítok Vošmenda in Bozkova and repairs were begun on Knapovecký potok in Knapovec and Lubenský potok in Horní Újezd.

The company's own funds were used to carry out major work on the Bělídlo in the town of Olešnice in the Eagle Mountains, Honkův potok in Rybnice, Kopaňský potok in Loužnice, Dolenský and Loukotnický potok in Brandýs nad Orlicí, Prosečský potok in Proseč, Ruprechtický potok in Ruprechtice and Rybenský potok in Rybná n. Zd.

Funds from Agenda 2020 – securing public interest objectives at LCR were used to continue the reintroduction of minnows and brown trout, to monitor fish ladders in PLA Jizerské hory, reintroduce crayfish in PLA Broumovsko, to eliminate non-native plant species (knotweed, impatiens) and the construction of information and recreational facilities for the public (gazebos and information boards).

Among the largest construction works in the **Vltava Basin** in 2012 was the reconstruction of the 1.8 km long historical Schwarzenberk canal from EU funds and the reconstruction of part of the stream bed of Budňanský potok in the township of Karlštejn.

Under the FPS program, construction was completed for several projects including Podvecký potok in the town of Soběšín, the Pivoňka in Poběžovice to increase flow capacity, the Býkov reservoir in the town of Hromnice and Farský potok in Záblatí. Other major projects included the completion of the Raška I retention reservoir in the town of Kladruby and repair of flood damage from Štěpánek in Strážkovice carried out in the public interest pursuant to Section 35 of the Forest Act.

Projects for removing flood damage were completed on Kojetický potok in Kdyně and on the tributary of Krásetínský potok in Holubova. Due to increased flow on watercourses in South and Central Bohemia, more than 20 minor projects were carried out to secure these watercourses. EU funds were drawn to begin repairing the stream bed of Městský potok in the town of Městečko.

Additional basin management activities were focused on taking inventory of and making repairs to assets in association with the transformation of AWMA.

In 2012 in the **Ohře Basin**, all work was completed for removing flood damage from 2010.

Repairs were completed on Těchlovický potok in Těchlovice and Veleňský potok in Malá Veleň in the Děčín area, on Kněžický potok around Česká lipa and on Kojetický potok in Olšinky na Ústecku, while work continued on Zdislavský potok near Liberec. Work was begun on the final and most extensive repairs on Rychnovský potok in Těchlovice and Homolský potok in Velký Březno near Ústí and on Luční potok around Litoměřice.

Additionally, work was completed under the FPS subsidy program on Žalanský potok in Rtyna n. B. and Družcovský potok near Liberec, while new flow controls were put into place on the Bouřňák in the town of Hrob, and for Donínský and Hradišský potok in the Žatec area.

Funds for carrying out public-interest work pursuant to Section 35 of the Forest Act were used to complete the stabilization of forest streams Bílý potok in Nové Hamry and the construction of the Černý rybník retention reservoir.

EU subsidies were used to begin repairs on the headwaters of Chodovský potok and its flood plain around Karlový Vary, the goal of which is to renew the natural function of peat bogs damaged by the drainage of land and deepening of the stream bed in the past.

LCR's own resources were used for numerous repairs and maintenance of watercourses, especially those taken over from the former AWMA.

Last year in the **Morava Basin**, 9 projects co-financed from the FPS program were completed, the largest of which was the Seninka project (km 2.660-2.980) in the district of Vsetín. There were also projects taken over from AWMA such as Klepáčovský potok in the district of Šumperk, Bendův rybník in the district of Ústí nad Orlicí and FPS in the town of Loučka (km 2.46- 2.893) in the Zlín area. Other repairs from this program included the Bílá Voda construction (km 2.570- 3.260 in the town of Červená Voda, FPS for Bzovský potok (km 4.810-5.070) in the town of Bzová and the Pod Komoncem retention structure above the town of Pozlovice.

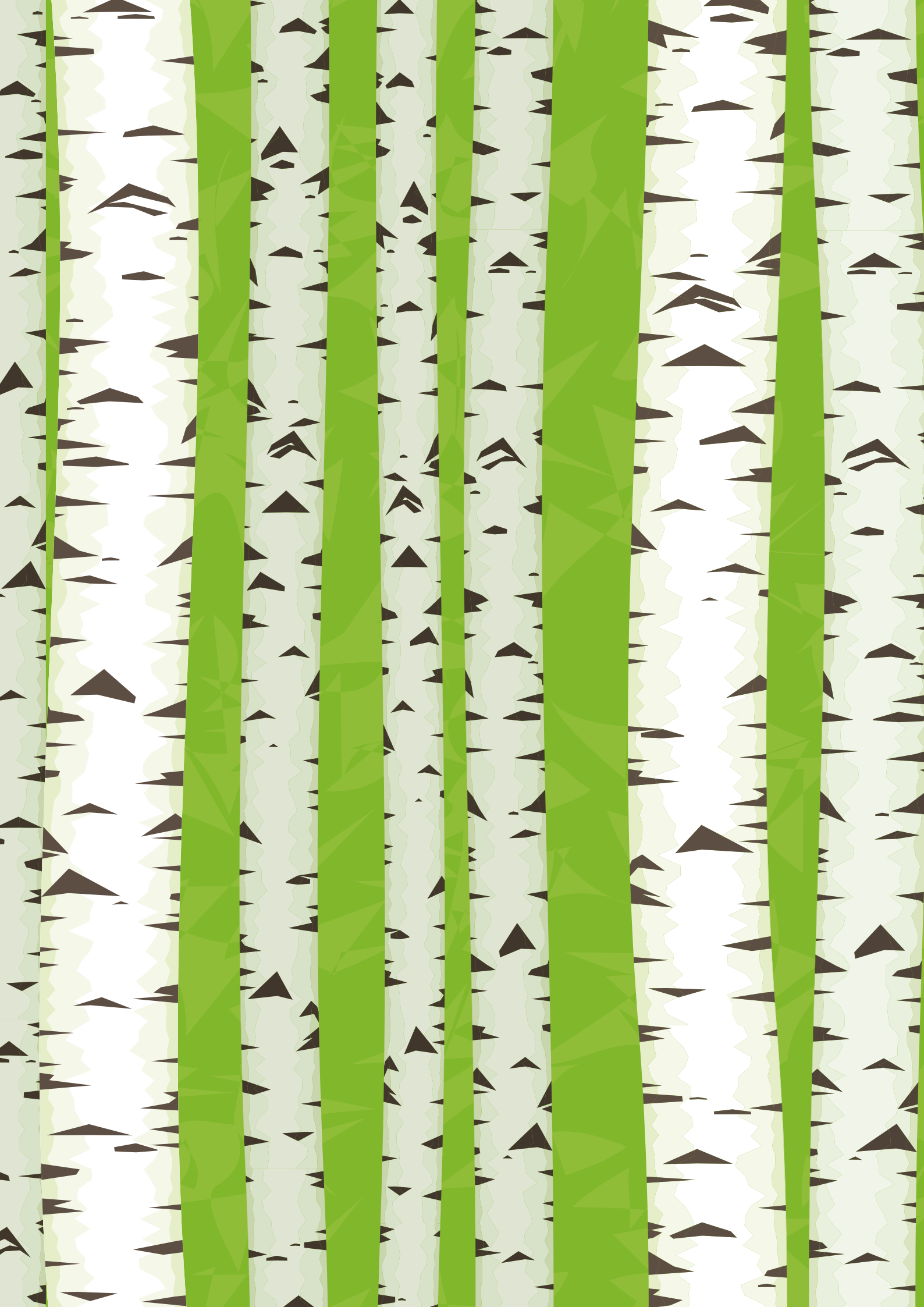
EU funds were used to repair Černý potok in the town of Hřivínův Újezd.

Pursuant to Section 35 of the Forest Act, a total of 8 flow control projects were carried out, the largest of which were in the Šumperk area where Jelení potok was dammed and investments made on Chudobský potok, and around Zlín

with construction on the Rákoš u Velehradu. Major work was also carried out on the Rokytenka in Šanova (km 5.83-6.81), where flow capacity was increased and the stream bed stabilized.

Work continued to remove flood damage from 2010. In cooperation with PLA Beskydy it was possible to use environmentally friendly measures to repair and modify watercourses around Velké Meziříčí and Rožnov, particularly Maretkový, Sladský, Starozuberský and Zašovský potok. Major work was also carried out on the Kněhyně and Kněhyňka, which will also continue in 2013. In the Hodonín district, extensive repairs of flood damage were carried out on watercourses taken over from AWMA, particularly the Svodnice in the town of Blatnička.

LCR regularly issues press releases to inform the public of completed works.



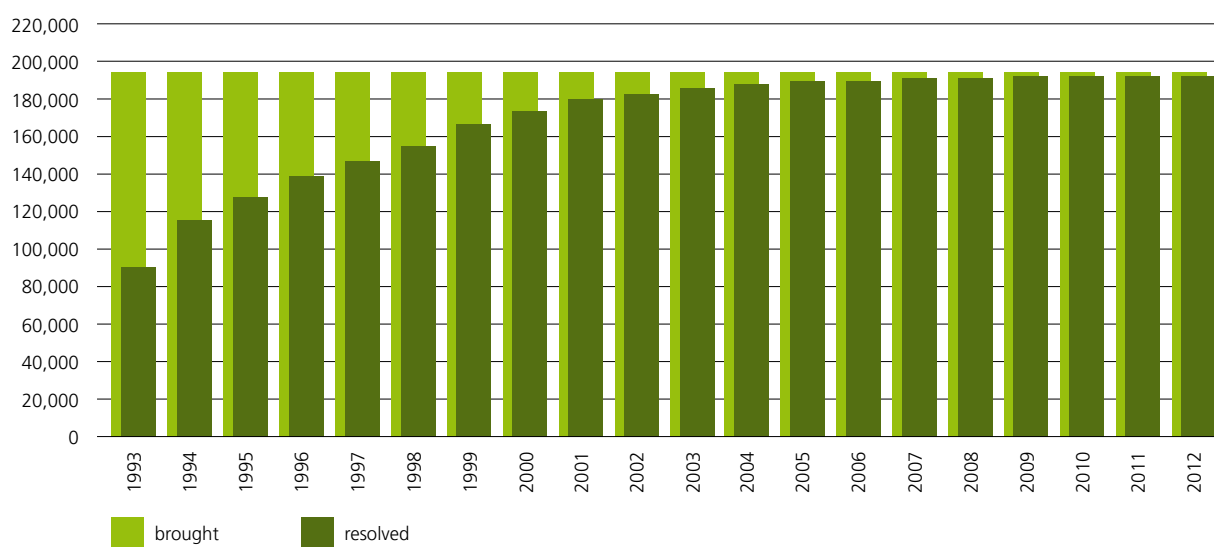
RESTORATION OF OWNERSHIP AND USER RELATIONS, CONTACTUAL TRANSFERS

Progress in the Restoration of Ownership and User Relations as of 31 December 2012

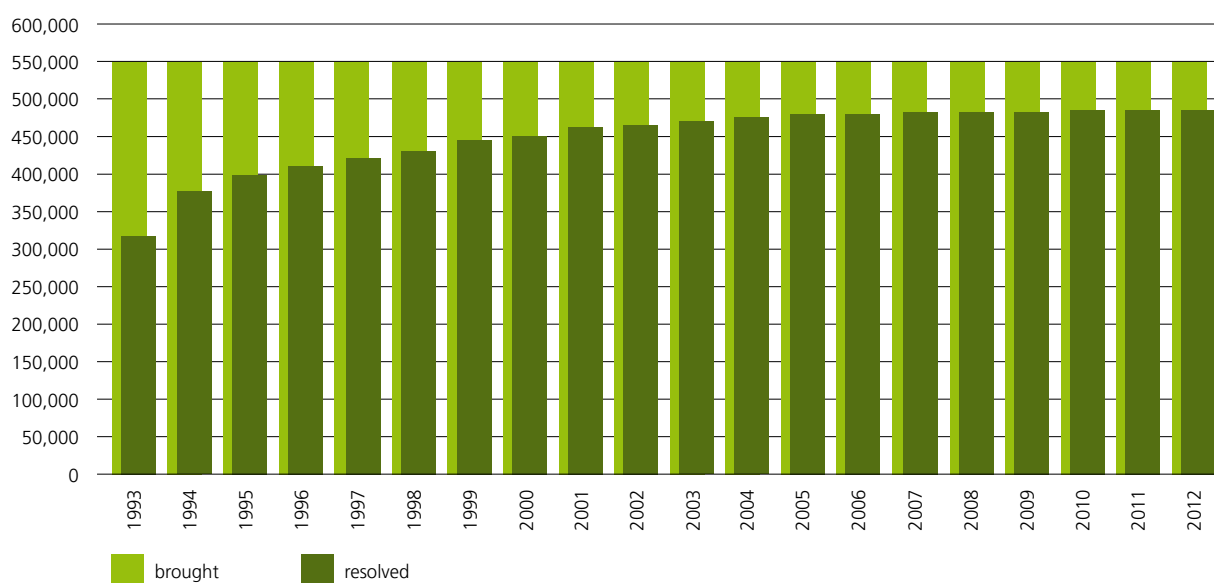
Year	Requests handled	Land transferred (ha)
1993	89,230	318,395
1994	114,556	375,894
1995	126,886	397,673
1996	137,264	411,207
1997	145,073	421,082
1998	153,291	430,659
1999	165,217	444,259
2000	172,337	450,099
2001	178,378	461,344
2002	181,303	464,946
2003	184,484	469,960
2004	185,886	475,360
2005	187,799	479,434
2006	188,386	480,337
2007	189,888	481,700
2008	190,111	482,795
2009	190,295	483,102
2010	190,407	483,627
2011	190,570	483,736
2012	190,679	484,046

The data used in the table are the sum of all cases handled in accordance with Act No 229/1991, as amended (the "Act"), i.e. they cover the restoration of ownership rights under Part Two of the Act and the restoration of user rights under Section 22 of the Act, as well as several cases involving declaratory actions to determine ownership on grounds of the invalidity or illegality of confiscation following the Second World War, brought outside statutory time limits. The annual increase in the area of land being reclaimed, and the number of applications brought, can be explained by the fact that people often failed to submit requests for the relinquishment of property on time and, on numerous occasions, we have subsequently learned of restitution claims only after proceedings have taken place and the land office has issued a decision in accordance with Section 9(4) of the Act, or by the gradual presentation of proof of individuals' ownership of land following the restoration of user rights in accordance with Section 22(1)(c) of the Act. There are even cases where such owners of forestland do not come to light until after the renewal of cadastral records when geodetic information from the property register is digitized.

Progress in the Restoration of Ownership and User Relations as of 31 December 2012 (number of cases)



Progress in the Restoration of Ownership and User Relations as of 31 December 2012 (area in ha)



Progress in the Physical Handover of Forest Resources to Municipalities

Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Cases	5,298	5,607	5,850	6,018	6,125	6,253	6,395	6,564	6,717	6,814	6,923	6,998	7,108
ha	358,853	379,843	390,981	397,400	399,471	402,151	404,361	406,760	407,712	409,439	410,640	411,646	415,121

Contractual Transfers in 2012

Land (purchase, sale , exchange)

Sale (including paid transfer of the right to manage the land)	Total	Forestland
Area in ha	324.7539	234.4641
Purchase price in CZK	138,383,524	62,423,420

Sale (including paid transfer of the right to manage the land)	Total	Forestland
Area in ha	306.8773	262.6213
Purchase price in CZK	52,727,225	37,770,953

Buildings (sale)

Sale (including paid transfer of the right to manage the land)	
Number of buildings	71
Purchase price in CZK	83,616,957

In 2012, the following changes took place in senior staff positions:

Organizational unit	Function	Newly appointed	Replacing	Date of change
FMU Vsetín	forest manager	Vrážel Michal, Ing.	Dobeš Josef	1 January 2012
RHO Teplice	RHO director	Růžek Zdeněk, Ing.	not filled	1 February 2012
FMU Loučná nad Desnou	forest manager	Jonák Pavel, Ing.	Pospíšil Tomáš, Ing.	1 February 2012
FMU Ledec nad Sázavou	forest manager	Holenka František, Ing.	Maleček Pavel, Ing.	1 March 2012
FU Židlochovice	forest unit director	Svoboda Miroslav, Ing.	Blaha Tomáš, Ing.	1 April 2012
FMU Toužim	forest manager	Krejzek Rostislav, Ing.	Procházka Milan, Ing.	1 May 2012
RHO Karlovy Vary	RHO director	Rozner Miroslav, Ing.	Klempířová Barbora, Ing. until 31 January 2012	1 May 2012
FMU Česká Lípa	forest manager	Slánský Miloslav, Ing.	Junek Jaroslav, Ing.	1 May 2012
RHO Brno	RHO director	Jandásek Vladimír, Ing.	Svoboda Miroslav, Ing.	1 May 2012
RHO Šumperk	RHO director	Horák Zdeněk JUDr., MBA	Indra Pavel, Ing.	1 May 2012
FMU Nasavrky	forest manager	Neznaj František, Ing.	Svatoň Zbyněk, Ing.	1 June 2012
FMU Třeboň	forest manager	Hanuš Stanislav, Ing.	Slanec Jaroslav, Ing.	1 July 2012
FMU Frenštát pod Radhoštěm	forest manager	Štefek Jaroslav, Ing.	Pavel Vojtěch, Ing.	1 December 2012

Average Number of Employees

Year	2008	2009	2010	2011	2012
FMU,BM,RHO, CHO LCR	2,402	2,319	2,133	2,112	2,125
FU, SU	1,264	1,228	1,109	1,065	1,088
Total	3,666	3,547	3,242	3,177	3,213
– white collar workers					
FMU,BM,RHO, CHO LCR	2,182	2,146	2,036	2,037	2,041
FU, SU	375	345	331	309	309
Total	2,557	2,491	2,367	2,346	2,350
– labourers					
number	1,109	1,056	875	832	863

The average number of employees in 2012 did not change significantly compared to 2011.

Average Earnings

Year	2008	2009	2010	2011	2012
FMU,BM,RHO, CHO LCR	26,446	27,732	29,476	30,559	31,475
FU, SU	20,600	21,524	22,449	23,366	24,337
Total	24,430	25,582	27,071	28,147	29,057

Total average earnings increased by 3.23% compared to 2011. An annual increase of earnings of 3.3% was applied to categories of employees without a contractual wage as stipulated by the company's collective agreement.

Employee Education (%)

Year	2008	2009	2010	2011	2012
Higher	37.7	39.1	43.3	42.1	45.6
Complete vocational secondary, graduate	55.6	53.9	55.5	56.4	53.1
Vocational + primary	6.7	7.0	1.2	1.5	1.3

The employee education structure showed a positive trend compared to the previous year with an increase in employees with higher education.

Trade Unions

There are 13 local trade union chapters active at LCR associated under the Woodworking, Forestry and Water Management Trade Union of the Czech Republic, Lesů České republiky, s.p. headquartered Přemyslova 1106, 501 68 Hradec Králové and one Independent Trade Union headquartered at Tyršova 1, 667 01 Židlochovice FU; These unions enter into Collective Agreements with the company. Under the company's Collective Agreement, employees receive benefits and other consideration in excess of generally applicable laws.

COMMUNICATING WITH THE PUBLIC

The company has long been solidifying its position as an economically strong and stable organization. Uniformity, the use of modern management tools, and operational efficiency are among the basic priorities of company management. In 2012, communication with the general public and industry professionals focused on the promotion of the company as a profitable, competitive and stable enterprise in all areas of interest, i.e. in terms of economics, environmental protection, and social programs.

The goal of the company is to have high-quality, transparent communication to strengthen the company's corporate image. This was in large part planned through the company's website, which enables modern and flexible communication with the public.

The company is also presented to the public through printed materials which Lesy ČR regularly publishes and distributes.

Another important means for communicating with the general and professional public are exhibitions focusing on forestry and hunting. Two such exhibitions took place in the spring, the Silva Regina Exhibition at the Brno Exhibition Grounds (111,000 visitors) and Natura Viva 2012 at the Exhibition Grounds in Lysá nad Labem. The company's booth was one of the most visited due to the educational components of our exhibit.

1. Journalists

Information for journalists is provided by the company's spokesperson, who, as in previous years, was also the contact person for representatives of the media.

Individual topics were explained in detail to journalists, mainly through press releases, press conferences, and moderated seminars with journalists.

In 2012, Lesy ČR issued more than 170 press releases and held 5 press conferences focusing on national issues. A dozen smaller press conferences were organized by the company through its regional offices, marking the completion of investment projects in the regions or explaining local matters of interest concerning forests, forestry or water management.

During the year, the company spokesperson responded to more than 650 individual questions from the media.

The company's media output in 2012 can be roughly divided into the following basic topics:

- tenders – forestry work,
- charity work
- the management of Lesy ČR
- press responses to current events
- Agenda 2020 – support for the publicly beneficial functions of forests – nature trails, observation towers, gazebos, single tracks for mountain biking,
- forest management – growing activities, bark beetle control, new planting, the harvesting of the fruits of deciduous trees,
- ecology – nature conservation: forest parks, joint press releases with the Czech Union for Nature Conservation (ČSOP),
- awareness – forest-based education, Days with LCR.

2. Children and Youth

At the present time when environmental issues are become ever more important, great emphasis is placed on environmental education and awareness.

These educational activities are carried out through a series of communication tools, including forest-based education, Days with LCR, and the Křivoklátská Information and Education Centre. Through forest-based education, children and youth learn about the forest ecosystem and become more interested in nature, forests, and environmental protection. These activities are aimed primarily at kindergarten and elementary school students, as well as teachers, the general public, high

school and university students, seniors, handicapped and socially disadvantaged persons. Forest educators organize educational programs for groups of children and other groups throughout the Czech Republic, and these are usually held right in the forest.

Highly popular and sought after activities include walks in the woods with forestry experts and forest educators, who have prepared a wide range of educational and interactive programs for students. Forest-based education also includes contests, lectures, and field trips. A great favourite among visitors are the many forestry and hunting celebrations, such as Hubertské mše.

Other popular and highly attended events include the various Days with LCR. These educational events incorporate sports and are an opportunity to strengthen the relationship between the state enterprise and the public at a regional level. In 2012, the organizational units held 110 Days with LCR, which is 35 more than the previous year.

In 2012, LCR worked with 213 trained forest educators, who held nearly 830 events attended by nearly 98,400 people. During the year, there were also a number of art contests held, which were extremely well received.

Year	No. of event participants	No. of events	No. of forest educators
2008	35,461	612	108
2009	54,327	760	147
2010	78,021	689	174
2011	81,045	770	192
2012	98,385	827	213

Tab. Statistical data on forest-based education from 2008 - 2012

3. LCR Website

The LCR website is one of the most important company marketing and commercial tools. Considering the steady growth of users and the quick development of web technologies, the company's presence on the internet is an essential means of strategic presentation and communication.

In 2012, the company launched a new website. The corporate web presentation of the company has always been rated highly by independent experts and has received several awards in the prestigious Web Top 100 contest. Based on knowledge acquired from managing the website and some expert recommendations, we designed a new navigational structure and added new attractive services. The new design not only makes it easy to find information by user group, but also divides the website into segments according to the most important company products. Users can also easily find important, logically arranged commercial information in a single place.

The new company website significantly expands the provision of information regarding public use and public interest projects, i.e. information intended for the general public.

The company intends to continue developing its website to ensure it remains up to date and in depth.

4. Sponsorship

In 2012, the company made donations of nearly 12 mil. CZK to 143 applicants. These funds were available to non-profit organizations engaged in charity work, environmental protection, health, culture, and education. Applicants submitted projects not only to the company's central head office, but also to the regional head offices, which were given the opportunity to support local entities in their area.



REPORT ON THE PROVISION OF INFORMATION PURSUANT TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION, AS SUBSEQUENTLY AMENDED

State enterprise Lesy České republiky, s.p., (hereinafter also LCR), as stipulated by Act no. 106/1999 Coll., on the free access to information, as subsequently amended (hereinafter the "Freedom of Information Act" or "FIA"), hereby, in accordance with Section 18 FIA issues this report on activities regarding the provision of information according to FIA in 2012:

1. Number of requests for information:

In 2012, there were a total of 36 written requests for the provision of information according to FIA.

2. Number of requests fully or partially denied:

In 2012, 3 FIA requests for information were denied.

3. Number of appeals submitted because of denied requests:

In 2012, 2 appeals were submitted against FIA decisions.

4. Transcript of the relevant parts of court rulings regarding the legality of the LCR decision to deny information requests:

In 2012 there were no court rulings regarding the legality of LCR decisions to deny FIA information requests.

5. Overview of LCR expenditures related to court proceedings on FIA rights and obligations:

In 2012, LCR was not party to any court proceedings regarding FIA rights and obligations.

6. Exclusive licensing:

In 2012, LCR did not provide any exclusive licensing.

7. Complaints about the procedure for handling information requests (Section 16a FIA), reasons for submitting complaints and a brief description of handling them:

In 2012 there were 3 complaints about LCR's process in handling information requests according to Section 16a FIA.

In complaint no. 1, the complaining party objected that LCR handled the FIA request incorrectly by only providing part of the requested information without denying the rest of the request (which the party subjectively believes was not approved, as the requested information was not provided). As the highest authority, the LCR CEO examined the process and confirmed it to be legitimate.

Complaint no. 2 was not sufficiently justified, in spite of subsequent requests by LCR (particularly by describing the specific error which the complaining party saw in LCR's process), although it did contain numerous references to various FIA provisions generally concerning reasons for complaints. As the highest authority, the LCR CEO examined the process and confirmed it to be legitimate.

In complaint no. 3, the complaining party debated the proper or improper application of various FIA provisions, especially with analogous application of related judicature for which the applicant was not to be provided the information requested. As the highest authority, the LCR CEO examined the process and confirmed it to be legitimate.

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

for the founder and Director General of the state-owned enterprise
on an audit of the standard end-of-year financial statements to 31.12.2012 of the state-owned
enterprise
Lesy České republiky, s.p., with registered seat in Hradci Králové, company no. 42196451.

We have audited the accompanying financial statements to 31.12.2012 of the state-owned enterprise Lesy České republiky, s.p., namely Balance Sheet to 31.12.2012, Profit & Loss Statement from 1.1.2012 to 31.12.2012, and Notes to Financial Statements including a description of the relevant accounting policies used. The particulars of the state-owned enterprise Lesy České republiky, s.p. are indicated in article 1 of the Notes to Financial Statements.

Responsibility of the Statutory Body of the Accounting Unit for the Financial Statements

The Director General of the state-owned enterprise is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

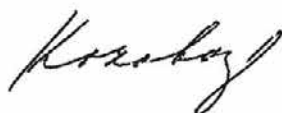
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

UNQUALIFIED OPINION

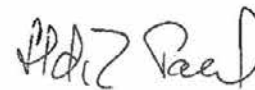
In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the state-owned enterprise Lesy České republiky, s.p., to 31.12.2012, and likewise its costs, revenues and financial performance in 2012 in conformity with the Czech accounting regulations.

As auditors we consider it necessary to draw attention to the fact that could be important for the assessment of property and financial situation of the state-owned Lesy České republiky, s.p. referred to in section 10 to Notes to Financial Statements 2012.

In Brno, on 22.4.2013



A&CE Audit, s. r. o.
Ptašínského 4, 602 00 Brno
License of the Czech Chamber of Auditors no. 007
Ing. Martin Kozohorský, Chief Executive



Ing. Pavel Studnička
Auditor, license no. 1702

Attachments: Balance Sheet to 31.12.2012, Profit & Loss Statement to 31.12.2012, Notes to Financial Statements 2012

FINANCIAL STATEMENTS

Balance Sheet as of 31 December 2012 (in thousands of CZK)

Item	Gross	Adjustment	Net current	Net previous
TOTAL ASSETS	97,002,421	(15,172,145)	81,830,276	78,222,321
B. Fixed assets	83,459,834	(14,107,991)	69,351,843	65,597,360
B.I. Intangible fixed assets	1,028,346	(486,374)	541,972	509,670
B.I. 3. Software	528,701	(312,072)	216,629	185,782
4. Royalties	38,865	(29,879)	8,986	15,050
6. Other intangible fixed assets	344,797	(144,423)	200,374	149,911
7. Intangible fixed assets under construction	115,983	0	115,983	149,059
8. Advance payments for intangible fixed assets	0	0	0	9,868
B.II. Tangible fixed assets	75,938,425	(13,577,571)	62,360,854	62,224,741
B.II. 1. Land	53,241,719	0	53,241,719	53,330,717
2. Buildings	20,822,324	(12,288,766)	8,533,558	8,209,739
3. Plant and equipment	1,497,956	(1,288,722)	209,234	263,874
4. Perennial crops	30	(30)	0	0
5. Adult animals	53	(53)	0	0
6. Other tangible fixed assets	1,938	0	1,938	1,936
7. Tangible fixed assets under construction	374,393	0	374,393	407,480
8. Advance payments for tangible fixed assets	12	0	12	10,995
B.III. Financial investments	6,493,063	(44,046)	6,449,017	2,862,949
2. Investments in associated companies	101,153	(44,046)	57,107	91,669
3. Other securities and investments	1,391,910	0	1,391,910	371,280
5. Other long-term investments	5,000,000	0	5,000,000	2,400,000
C. Current assets	13,456,960	(1,064,154)	12,392,806	12,518,980
C.I. Inventories	195,821	(1,779)	194,042	190,570
C.I. 1. Raw materials	52,217	0	52,217	54,118
2. Work in progress and semi-finished goods	118,978	0	118,978	104,303
3. Finished products	22,363	(1,558)	20,805	30,372
4. Young animals	246	0	246	271
5. Goods	2,017	(221)	1,796	1,506
C.II. Long-term receivables	6,075	0	6,075	7,328
5. Long-term advances paid	6,075	0	6,075	7,328
C.III. Short-term receivables	2,620,714	(1,062,375)	1,558,339	2,068,942
C.III. 1. Trade receivables	2,063,885	(645,007)	1,418,878	1,889,777
3. Receivables – associated companies	213	0	213	0
4. Receivables from shareholders, co-op and association members	247	0	247	162
6. State- tax receivables	273,522	(247,982)	25,540	47,035
7. Short-term advances paid	16,497	(364)	16,133	21,219
8. Estimated receivables	39,892	0	39,892	58,591
9. Other receivables	226,458	(169,022)	57,436	52,158
C.IV. Financial assets	10,634,350	0	10,634,350	10,252,140
C.IV. 1. Cash in hand	2,889	0	2,889	3,185
2. Cash at bank	6,745,951	0	6,745,951	6,069,088
3. Short-term securities and ownership shares	3,885,510	0	3,885,510	4,179,867
D.I. Accruals	85,627	0	85,627	105,981
D.I. 1. Prepaid expenses	28,494	0	28,494	31,491
3. Accrued revenues	27,691	0	27,691	15,529
3. VAT to be applied in January 2013	29,442	0	29,442	58,961

		Period	
		current	prior
TOTAL LIABILITIES AND EQUITY		81,830,276	78,222,321
A.	Equity	76,963,813	72,642,692
A.I.	Registered capital	11,704,670	11,372,613
A.I. 1.	Registered capital	11,704,670	11,372,613
1.	Capital stock - registered	5,818,759	5,818,759
1.	Capital stock – unregistered	5,885,911	5,553,854
A.II.	Capital funds	51,460,663	51,566,410
2.	Other capital funds	51,469,390	51,608,258
3.	Gain or loss on revaluation of assets and liabilities	(8,727)	(41,848)
A.III.	Reserve funds and other funds created from profit	5,186,678	5,478,410
A.III. 1.	Statutory reserve fund	1,251,283	1,251,283
2.	Statutory and other funds	3,935,395	4,227,127
A.IV.	Retained earnings/accumulated losses	4,203,792	0
A.IV. 1.	Retained earnings	4,203,792	0
A.V.	Profit (loss) for the current period (+/-)	4,408,010	4,225,259
B.	Liabilities (debt)	4,779,778	5,504,789
B.I.	Provisions	3,431,712	3,495,749
B.I. 1.	Tax deductible provisions	0	61,521
4.	Other provisions	3,431,712	3,434,228
B.II.	Long-term payables	141,216	125,932
10.	Deferred tax liability	141,216	125,932
B.III.	Short-term payables	1,206,850	1,883,108
B.III. 1.	Trade payables	664,661	894,554
4.	Payables to shareholders, co-op and association members	224	427
5.	Payables to employees	91,915	78,585
6.	Payables to social security and health insurance	49,834	44,658
7.	State – tax liabilities and subsidies	318,122	689,135
8.	Short-term advances received	62,352	155,666
10.	Estimated payables	14,291	13,687
11.	Other payables	5,451	6,396
C.I.	Deferrals	86,685	74,840
C.I. 1.	Accrued expenses	37,538	26,804
2.	Deferred income	49,147	48,036

Profit and Loss Statement as of 31 December 2012 (in thousands of CZK)

Item	Current period	Prior period
I. Revenue from sales of goods	3,907	3,585
A. Costs of goods sold	3,289	3,061
+ Gross margin	618	524
II. Revenue from production	11,636,861	11,714,522
II. 1. Revenue from own products and services	11,611,774	11,756,687
II. 2. Change in inventory of own production	4,525	(73,062)
II. 3. Capitalization	20,562	30,897
B. Cost of sales	4,281,207	4,645,438
B.1. Raw materials and consumables	309,296	332,910
B.2. Services	3,971,911	4,312,528
+ Value added	7,356,272	7,069,608
C. Staff costs	1,600,631	1,505,389
C.1. Wages and salaries	1,156,771	1,086,251
C.2. Remuneration of board members	110	140
C.3. Social security and health insurance costs	388,044	367,551
C.4. Social costs	55,706	51,447
D. Taxes and charges	162,481	160,798
E. Depreciation of intangible and tangible fixed assets	688,264	661,551
III. Disposals of fixed assets and raw material	235,916	775,173
III. 1. Proceeds from disposals of fixed assets	231,869	768,136
III. 2. Proceeds from disposals of raw material	4,047	7,037
F. Net book value of fixed assets and materials sold	44,766	176,653
F.1. Net book value of fixed assets sold	41,825	171,045
F.2. Raw materials sold	2,941	5,608
G. Change in provisions and adjustments relating to operating activity	324,217	504,683
G.1. Changes in provisions for operating activity	(64,037)	385,007
G.2. Changes in adjustments for operating activity	388,254	119,676
IV. Other operating revenue	404,300	338,971
H. Other operating expenses	82,726	120,543
* Operating profit (loss)	5,093,403	5,054,135

	Item	Current period	Prior period
VI.	Proceeds from sale of securities and ownership shares	422,181	122,797
J.	Securities and ownership shares sold	403,239	123,530
VII.	Revenue from long-term investments	7,520	6,998
VII.1.	Revenue from investments in subsidiaries and associated companies	276	42
VII.2.	Revenue from other long-term securities and ownership interests	7,244	6,956
VIII.	Revenue from current financial assets	203,079	182,770
K.	Financial asset expense	2,068	5,675
IX.	Gain on revaluation of securities and derivatives	33,302	7,779
L.	Loss on revaluation of securities and derivatives	8,676	60,445
M.	Change in provisions and adjustments relating to financial activity	34,562	0
X.	Interest revenue	187,767	102,019
N.	Interest expense	19	1,312
XI.	Other financial revenue	3,260	6,425
O.	Other financial expense	23,648	16,766
*	Financial profit (loss)	384,897	221,060
Q.	Income tax on ordinary activities	1,070,290	1,049,936
Q.1. – due		1,055,006	1,070,206
Q.2. – deferred		15,284	(20,270)
**	Profit (loss) on ordinary activities	4,408,010	4,225,259
XIII.	Extraordinary revenues	0	0
R.	Extraordinary expenses	0	0
S.	Tax on extraordinary profit (loss)	0	0
S.1. – due		0	0
*	Extraordinary profit (loss)	0	0
***	Net profit (loss) for the period	4,408,010	4,225,259
****	Profit (loss) before tax	5,478,300	5,275,195

NOTES TO THE ANNUAL FINANCIAL STATEMENTS

1.

Lesy České republiky, s.p.

Hradec Králové 8, Přemyslova 1106, PSČ 501 68

Registration number: 42196451

Legal form: state enterprise (státní podnik)

Principal activities (according to the current memorandum of association)

Activities conducted by itself or through select commercial subjects to ensure the optimal function of forests in all respects; exercise of all ownership rights to state assets which the company is entitled to manage, subject to the founder's consent to legal acts associated with specified property; exercise of the right to manage state-owned forests as granted to the company by the state; exercise of the right to manage other state-owned movable and immovable assets entrusted to the company to carry out its tasks, and the right to engage in non-business activities with state property in the company's own name and own responsibility; exercise of the rights and obligations of forest owner according to the Forest Act for forests owned by the state to which it is entitled to manage; professional forest management; protective forest services.

Other business activities are listed in the publicly available Commercial Register on the website www.justice.cz. Likewise, all changes and additions made during the 2011 and 2012 reporting periods can be found here.

Incorporation

The company was established by Memorandum of Association of the Ministry of Agriculture of the Czech Republic Ref. 6677/91-100 of 11 December 1991 effective from 1 January 1992. On 12 August 1997, this memorandum was adapted to Act No 77/1997 on state enterprises by Decision of the Ministry of Agriculture of the Czech Republic No 3217/97-1000 effective as of 22 September 1997.

The company is incorporated in the Commercial Register kept by the Regional Court in Hradec Kralove in Section A XII, Entry 540. The value of capital stock entered in the Commercial Register as at 31 December 2011 was 5,818,758,987.42 CZK. The annual accounts for 2012 were compiled as of 31 December 2012

Governing body as of 31 December 2012: not filled

Representatives of the Governing body as of 31 December 2012:

Michal Gaube	Chief Financial Officer, entrusted with the duties of Chief Executive Officer
Zdeněk Sýkora	Chief Commercial Officer

Changes in Statutory Bodies from 1 January 2012 to 22 April 2013:

On 3 January there were changes in the order of representation of the governing body (1st Chief Financial Officer Michal Gaube, 2nd Chief Human Resources Officer Jitka Věková, 3rd Chief Operations Officer Vladimír Krchov, 4th Chief Commercial Officer Zdeněk Sýkora, 5th Administrative Director Pavel Škvára. On 13 April 2012 Pavel Škvára concluded his employment as Administrative Director. On 30 November 2012, Svatopluk Sýkora stepped down as Chief Executive Officer; on the same day, Chief Human

Resources Officer Jitka Věková and Chief Operations Officer Vladimír Krchov resigned their functions as representatives of the governing body. At the time of writing, these changes have not been entered into the Commercial Registry.

On 1 April 2013, Pavel Indra was appointed to the newly created post of Director of Forest and Water management; on 5 April 2013, Jiří Červenka was appointed to the newly created post of Administrative Director; on 31 March 2013 the Commercial Section was eliminated and effective as of 5 April 2013, Zdeněk Sýkora was appointed to the newly created post of Director of Production. At the time of writing, these changes have not been entered into the Commercial Registry.

Supervisory Board as of 31 December 2012:

Miroslav Zámečník - Chairman SB
Jaromír Kříha - Vice-Chairman SB
Radek Braum
Miroslav Jankovský
Robert Knobloch
Jiří Liška
Libor Lukáš
Karel Trůbl
Radek Vonka

Six members of the Supervisory Board are appointed by the founder (the Ministry of Agriculture); three are elected from among the company's employees.

Personnel changes on the Supervisory Board from 1 January 2012 to 22 April 2013:

On 28 November 2012 the ruling of the District Court in HK took effect regarding the removal of members Roman Boček (resignation from position) and Miloš Pochobradský (termination of employment). On 15 November 2012, Radek Braum was appointed to the Supervisory Board and on 28 November 2012, Karel Trůbl was entered into the Commercial Registry as a member of Supervisory Board as the elected candidate next-in-line.

Organizational Structure of the Company as of 31 December 2012:

Internal entities:

The company's Central Head Office manages six directly controlled units – the Boubín, Dobříš, Kladská, Konopiště, and Židlochovice Forestry Units and the Týniště nad Orlicí Seed Unit.

In addition, the company's Central Head Office directly manages 13 regional head offices, which in turn are in charge of 77 forest management units throughout the Czech Republic. Regional head offices are not autonomous internal entities.

The small watercourse and torrent management unit at the level of Dyje, Labe, Morava, Odra, Ohře and Vltava Basin Management is an autonomous internal entity.

Client Asset Management is an autonomous internal entity responsible for monitoring returns on disposable funds in separate portfolios.

2.

As of 31 December 2012 Lesy České republiky, s.p. held shares and controlling influences in the following companies:

- **Hradecká lesní a dřevařská společnost a.s.**

Registered office: Malé náměstí 111, 502 00 Hradec Králové, registration number: 60913827

Equity: 2011: CZK +195,068,000; 2012: not known at the balance sheet date.

Earnings: 2011: CZK +1,158,000; 2012: not known at the balance sheet date.

Stake held by Lesy ČR in the share capital: 50% stock and influence; no controlling agreements or profit transfer agreements have been made.

The preliminary results for 2012 do not indicate the need to adjust the value of the equity interest in this company.

- **H.F.C. a.s.**

Registered office: Dřevařská 904, 500 03 Hradec Králové, registration number: 25939181

Equity: 2011: CZK +111,863,000; 2012: not known at the balance sheet date.

Earnings: 2011: CZK +1,949,000; 2012: not known at the balance sheet date.

Stake held by Lesy ČR in the share capital: 50% stock and influence; no controlling agreements or profit transfer agreements have been made. During the course of 2012, LCR had its stake in H.F.C. a.s. appraised. The appraisal established a significantly lower market value than the purchase price. Therefore, when compiling statements for 2012, provisions amounting to 34,562,000 CZK were created (Balance Sheet, assets, line B.III.2. adjustment), which adjusted the value of the stake in H.F.C. to 15,438,000 CZK, which corresponds to the minimal market value of the stake appraised.

- **KOMAS a.s. (the company entered liquidation proceedings on 1 January 2006)**

Registered office: Horova 388, Štětí, registration number: 00380172

Stake held by Lesy ČR in the share capital: 30.6% stock and influence; no controlling agreements or profit transfer agreements have been made. As of 31 December 2004, shares in KOMAS a.s. were considered unmarketable, and therefore an adjustment amounting to 100% of the book value was created; as of 31 December 2012, the grounds for creating the adjustment remained in place (Balance Sheet, assets, line B.III.2. adjustment).

As at 31 December 2012, LCR held long-term equity securities with an acquisition cost of 101,153,000 CZK (Balance Sheet, Assets, line B.III.2. gross).

Company	Number of securities	Nominal value (thou. CZK)	Purchase price (thou. CZK)	Provisions (thou. CZK)
Hradecká dřevařská a lesní společnost, a.s.	552	40,500	41,670	--
H.F.C. a.s.	83	51,284	49,999	34,562
Komas a.s.	270	11,151	9,484	9,484

3.

	2011	2012
Average annual number of employees (FTE)	3,177	3,213
Registered number of employees as of 31 December	3,116	3,185
Wages and salaries (thou. CZK)	1,086,251	1,156,771
Social security costs (thou. CZK)	367,551	388,044
Social costs (thou. CZK)	51,447	55,706
Personnel expenses (thou. CZK)	1,505,249	1,600,521
Number of employees in decision-making bodies	19	21
Wages and salaries of employees in decision-making bodies (thou. CZK)	42,808	44,488
Social security costs of employees in decision-making bodies (thou. CZK)	15,342	15,500

Employees in decision-making bodies are head office staff in positions of directors and heads of department. Persons who are a governing body and members of governing or other management and supervisory bodies received no benefits beyond the scope of generally applicable internal guidelines. In 2012, Supervisory Board member remuneration totalling 110,000 CZK was recognized. All members of staff in management bodies, in accordance with applicable legal standards and internal guidelines, have use of a company car for their private needs.

Annual bonuses at LCR are tied not only to the company's economic performance, but also to other conditions precedent, such as a superior's approval and approval of the audited results of operations, a bonus is not, at the balance sheet date, an entitlement component of wages, and therefore such annual bonuses are now charged to the period in which they are approved and paid. The contingent liability for unpaid annual bonuses for results reported in 2012 is 13,330,000 CZK (wages and salaries of 9,888,000 CZK and social security and health insurance costs of 3,445,000 CZK); in 2011 these liabilities amounted to a total of 13,880,000 CZK (wages and salaries of 10,358,000 CZK and social security and health insurance costs of 3,522,000 CZK).

Persons who are a governing body and members of governing or other management and supervisory bodies, including former members of these bodies, received no other consideration in cash or in kind.

Receivables from employees (Balance Sheet, assets, C.III.9) were 7,019,000 CZK as of 31 December 2012 (9,127,000 CZK as of 31 December 2011). The amount for 2012 includes repayments of loans maturing in 2014, including 3,471,000 CZK that are due with immediate effect if employment is severed.

4.

4.1. General accounting principles, accounting methods, methods of valuation and depreciation

In 2011 and 2012 LCR applied accounting practices, principles, methods and valuation methods in accordance with the current wording of Act No 563/1991 on Accounting and Decree No 500/2002.

a) Valuation of tangible and intangible fixed assets developed internally

Work related to the acquisition of tangible and intangible assets is valued at the internal cost of production, i.e. actual direct costs and the budgeted share of production overheads. Construction investment and engineering production exceeding a construction period of one year is valued at full cost.

b) Depreciation schedule for fixed assets

The book depreciation of fixed assets is straight-line and charged per month, derived from annual rates set for each asset group by a general book depreciation table. The use of a different depreciation rate for specific fixed assets is possible only with the consent of the Chief Executive Officer. Tangible fixed assets are depreciated for tax purposes by means of accelerated depreciation in accordance with Section 32 of Act No 586/1992 on income tax.

Openings of new quarries, sand pits, borrow pits, clay pits and temporary structures are depreciated monthly according to the principles laid down for tax depreciation. Annual tax depreciation is calculated as a proportion of the input price and the fixed duration. Useful life is derived from the building permit proceedings (the building permit or notification of a small structure).

Low-value tangible fixed assets are depreciated upon inclusion in the records of non-current assets maintained for fixed assets in the first year at 50% of the input price. The remaining 50% is depreciated in the next year of use.

The depreciation schedule is expressed by the book depreciation table TAB81M, used throughout the company for purposes of fixed assets and is compiled according to the principles above. The fixed-asset depreciation schedule is designed to be a fixed constant and no changes were reported in 2011 and 2012.

c) Valuation of securities and other equity participations

Securities and equity investments are valued at cost on acquisition; as at the balance sheet date, securities and equity investments for which this valuation is set under Section 27 of the Accounting Act are fair-valued.

d) Valuation of inventories purchased and developed internally

Inventory purchases are valued in the accounts at cost, i.e. the purchase price and other costs attributable to the acquisition (shipping, customs duty, insurance, commission, etc.). During the reporting period, the components of the cost are charged directly to account 111 – Acquisition of materials, or account 131 – Acquisition of goods. The transfer to inventories in stock is carried out by members of staff responsible for inventories so that the stock prices are derived from the cost. Differences arising in accounts 111 and 131 are dissolved into the stock price at the budgeted amount by means of a fixed percentage.

Products developed internally are valued in the basic accounts at cost, i.e. direct costs and a proportion of production overheads at a level set in accordance with the operational calculation.

e) Use of replacement cost

The replacement cost of assets valued at that cost is determined by current price lists or on the basis of an expert opinion.

f) Changes in valuation methods and use of accounting methods

In 2011 and 2012, there was no change in valuation or depreciation methods and no other significant change in accounting practices.

4.2. Deviations from accounting methods, the method of determining adjustments and accumulated depreciation for assets, the method for the translation of foreign currency, the method of determining fair value and fair-value changes**a) Deviations from accounting methods**

In 2011 and 2012, LCR reported no deviations from the methods prescribed by Act No 563/1991 on accounting.

b) Method for determining adjustments and accumulated depreciation of assets

Adjustments to receivables are created for claims where payment is more than six months past due. For these receivables, an adjustment at 100% of the nominal value is created on default. A 100% adjustment is created for receivables from debtors in insolvency proceedings and for receivables from the Agency for Nature Conservation and Landscape Protection of the Czech Republic (ANCLP and note 6.c.) regardless of the length of the delay in payment. Tax-purpose adjustments to receivables are created in keeping with Act No 593/1992 on provisions in order to determine the income tax base.

Adjustments to long-term investments are described in Part 2.

An adjustment to goods of 211,000 CZK, created at Týniště nad Orlicí SU as the difference between the stock price and sales price of goods as of 31 December 2011, was increased to 221,000 CZK on 31 December 2012. By the same principle, an adjustment to finished products of 2,712,000 CZK was created at Týniště nad Orlicí SU at 31 December 2011, and was increased to 1,558,000 CZK as of 31 December 2012. Adjustments and accumulated depreciation other than those above were not created.

c) Foreign currency translation

For the conversion of assets and liabilities denominated in foreign currencies, the foreign exchange market exchange rate announced by the Czech National Bank at the date of the transaction was applied. Other methods for the conversion of assets and liabilities denominated in foreign currencies were not used in 2011 and 2012.

d) Method for determining fair value

Assets fair-valued in 2011 and 2012 were valued at their market price determined on the public market or at their market price determined by the status of a security.

e) Change in fair value

Long-term investments and short-term financial assets were fair-valued in 2011 and 2012. These were the stock units of investment funds, debt securities and promissory notes. A change in the fair value of long-term stock units is charged against the Balance Sheet item "Liabilities, A.II.3 Gain or loss on revaluation of assets and liabilities"; a change in the fair value of short-term shares and stock units is charged individually for each title held – an increase compared to the Profit and Loss Account item "IX. Gain on revaluation of securities and derivatives", and a reduction compared to "L. Loss on revaluation of securities and derivatives". A change in the fair value of bonds and notes is charged for each title held – an increase compared to the Profit and Loss Account item "VIII. Revenue from current financial assets", and a reduction compared to "K. Expenses of financial assets".

Changes in fair value in account 414 – Gain or loss on revaluation of assets (CZK thousands)

Balance Sheet, liabilities, line A.II.3.

Year	Reduction in fair value in	Increase in fair value in	Account 414 balance as of 31 December
2011	14,884	--	(41,848)
2012	--	33,121	(8,727)

5.

Breakdown of Significant Balance Sheet Items

(others are referred to in Notes 6 to 8)

a) Breakdown of intangible fixed assets

thou. CZK	2011		2012		Change in
	Cost	Accumulated amortization	Cost	Accumulated amortization	net book value 2012
Software	402,725	216,943	528,701	312,072	30,847
Forest management plans	239,225	99,786	285,350	112,003	33,908

b) Breakdown in significant additions to tangible fixed assets in terms of funds invested:

Cost in thou. CZK	2011	2012
Buildings and structures	859,622	993,615
- of which: housing construction, forester lodges	4,489	3,080
administrative and service buildings	89,310	78,430
forest roads	470,358	530,186
torrent control and forestland drainage	295,465	381,919
Machinery and equipment	72,767	66,089
- of which: forestry machinery	7,903	8,699
trucks	1,407	8,258
passenger cars	45,107	30,006
computers and other devices	18,350	19,126

Major disposals of tangible fixed assets were as follows:

Price in thou. CZK	2011	2012
Non-residential buildings and structures	106,526	52,844
- of which: structures	57,279	37,421
– sold	38,036	7,159
– handed over (restitution)	8,722	25,665
– demolished due to wear or accident	10,521	4,597
buildings	49,247	15,423
– sold	48,153	11,684
– handed over (restitution)	22	45
– demolished due to wear or accident	1,072	3,694
Machinery and equipment	13,897	20,389
- of which: trucks	5,420	8,369
passenger cars	8,477	12,020

c) Breakdown of separate movables and sets of movable assets:

thou. CZK	2011		2012		Change in net book value 2012
	Cost	Accumulated depreciation	Cost	Accumulated depreciation	
Plant and equipment	1,345,480	1,088,151	1,375,150	1,170,928	(53,107)
Low-value tangible assets	117,556	111,011	122,806	117,794	(1,533)

d) Land was the largest and most important asset item. The following changes occurred in 2012:

2012	Forestland		Other land		Total	
	thou. CZK	thou. m ²	thou. CZK	thou. m ²	thou. CZK	thou. m ²
Situation as of 1. January	51,699,896	13,457,361	1,630,906	270,505	53,330,802	13,727,866
Total additions	693,945	174,223	74,760	12,138	768,705	186,361
– Transfer of management right	25,948	5,823	21,531	2,210	47,479	8,033
– Purchase (exchange)	37,519	2,597	13,807	417	51,326	3,014
– Other	630,478	165,803	39,422	9,511	669,900	175,314
Total disposals	800,037	207,314	57,665	10,028	857,702	217,342
– Restitution	144,635	38,280	1,401	365	146,036	38,645
– Sale (exchange)	8,586	2,281	9,639	876	18,225	3,157
– Other	646,816	166,753	46,625	8,787	693,441	175,540
Balance as of 31 December	51,593,804	13,424,270	1,648,001	272,615	53,241,805	13,696,885

The tables also include other land acquired in 2000 in the amount of 11,340 CZK and forestland acquired in 2002 in the amount of 74,252 CZK with a 100% subsidy (this land is reported off balance sheet).

Comparative data regarding changes in land in 2011 is given in the following table:

2011	Forestland		Other land		Total	
	thou. CZK	thou. m ²	thou. CZK	thou. m ²	thou. CZK	thou. m ²
Situation as of 1 January	51,681,840	13,459,753	1,345,257	261,159	53,027,097	13,720,912
Total additions	804,869	200,684	380,672	24,489	1,185,541	225,173
– Transfer of management right	23,381	5,242	311,969	14,232	335,350	19,474
– Purchase (exchange)	33,108	2,080	25,933	635	59,041	2,715
– Other	748,380	193,362	42,770	9,622	791,150	202,984
Total disposals	786,813	203,076	95,023	15,143	881,836	218,219
– Restitution	74,217	19,557	2,522	507	76,739	20,064
– Sale (exchange)	7,023	1,903	40,724	1,695	47,747	3,598
– Other	705,573	181,616	51,777	12,941	757,350	194,557
Situation as of 31 December	51,699,896	13,457,361	1,630,906	270,505	53,330,802	13,727,866

Lesy České republiky, s.p. monitors forest stand valuations at market value while quantifying the official price according to pricing rules. As this involves a complex, difficult conversion process, quantification is not carried out every year. The last quantification of forest land values was carried out in 2008. The official price was quantified in accordance with Decree of the Ministry of Finance No 3/2008. The market price of forest stands is carried out by reference to the yield value in accordance with LCR methodology based on average linear surveys of forests managed by LCR.

The valuation of forest stands is expressed in the following table:

in mil. CZK	Price per 1 m ² in CZK	2011	2012
Market value according to LCR method	11.30	152,068.2	151,694.3
Official price under MoF Decree 3/2008	25.52	343,431.9	342,587.4
Price under MoF Decree 500/2002	57.00	767,069.6	765,183.4

e) In accordance with Act No 586/1992 on income tax, and the nature of production, fencing for purposes of forest production and game-keeping is funded from operating resources. As of 31 December 2012, the total length of fencing was 16,595 km.

km	2011	2012
Fencing	16,236	16,595

f) Other long-term investment titles

As of 31 December 2012, five long-term time deposits were recorded in the accounts with a total value of 5,000,000,000 CZK (reported in the Balance Sheet, assets, line B.III.5.).

g) Lesy České republiky, s.p. makes returns on the majority of available funds through the professional management of client assets (asset management). All these securities are measured at fair value and the market price of these securities is fully recognized in the accounts in the Balance Sheet, assets, lines B.III.3. – Long-term, and C.IV.3. – Short-term.

6.

Additional Information on the Balance Sheet and Profit and Loss Account

a) In 2011 and 2012, there were no significant adjustments to current income tax for previous reporting periods.

b) Deferred tax is measured only as the difference between the tax and book depreciation of fixed assets. The difference arising from the different accounting and tax perspective in relation to the accounting provision for cultivation activities at LCR is not regarded as realistic in the medium term, and therefore, in terms of prudence, a deferred tax asset in respect of this accounting provision has not been considered.

Nor is deferred tax calculated for the possible tax impacts of accounting provisions on price indexation and ANCLP payments (for more details see note 6.c.). The difference arising from the different accounting and tax perspective in respect of both LCR provisions is not regarded as realistic in the medium term, mainly because the probability of final court rulings is uncertain in the medium term. As no return or release of such accounting provisions can be expected in the medium-term, for reasons of prudence LCR is inclined not to include these differences in the calculation of deferred taxes. The creation of deferred taxes in relation to both provisions would be reflected as a deferred tax asset amounting to 107,125,000 CZK, which would mean a reduction in the below-mentioned and reported deferred tax liability (and deferred tax) to 34,091,000 CZK.

Other temporary differences (e.g. accounting adjustments to receivables and inventories) were not used to ascertain deferred taxes.

Calculation (breakdown) of deferred tax:

in thou. CZK	2011	2012
Difference between the book and tax value of fixed assets	(662,801)	(743,245)
Basis for the calculation of deferred tax	(662,801)	(743,245)
Tax rate in the next period	19 %	19 %
Total tax asset (liability)	(125,932)	(141,216)

c) Breakdown and description of provisions for 2011 and 2012

thou. CZK	Provision for growing activity	Provision for reconstruction of stands in Krušné hory	Provision for leave untaken	Provision for price indexing	Provision for ANCLP payments
31 December 2012	2,867,896	0	0	529,394	34,422
Additions 2012	1,720,041	0	0	0	0
Released 2012	1,722,557	61,521	0	0	0
31 December 2011	2,870,412	61,521	0	529,394	34,422
Additions 2011	1,684,292	0	0	529,394	34,422
Released 2011	1,802,208	31,898	28,995	0	0
31 December 2010	2,988,328	93,419	28,995	0	0

The provision for growing activity has been created to cover the cost of growing work over the period that the stand is secured.

Until 2005, it was created in accordance with Sections 9 and 10a of Act No 593/1992 on provisions to determine the income tax base, as amended (Balance Sheet, liabilities, B.I.1.); in 2005 to 2012, it was created according to the same rules as in previous years (the method and means of creating and releasing the provision did not change), but the creation of the provision is not reported as a tax-deductible expense and an accounting provision is created (Balance Sheet, liabilities, B.I.4.). As of 31 December 2012, only an accounting provision is established for growing activity. The provision for the reconstruction of stands in Krušné hory was created in 2004 in accordance with Sections 9 and 10a of Act No 593/1992 (point 15 of the Annex to Act No 593/1992) to cover costs related to the replacement of stands with inappropriate or substitute species composition in Krušné hory. The provision is intended to cover costs associated with the reconstruction of stands between 2006 and 2012 which are not included in the provision for growing activity. In 2012, provisions were drawn completely or cancelled.

In 2010, a provision was created for untaken leave of 28,995,000 CZK (21,503,000 CZK in wages and salaries, 7,492,000 CZK in social security costs). The provision was created for costs that, in the future, will become increased personnel expenses if leave is paid but not taken. In 2011, the effectiveness of the existence of the provision was reviewed and the possibility of significant utilization of the provision was found to be minimal; the provision was therefore cancelled.

In 2011, a provision was created for the indexation of prices for timber sales in the second to fourth quarters of 2011 amounting to 529,394,000 CZK. LCR identified the risk of actual and potential actions brought before a court against the process in the indexing of prices for timber sales in public procurement procedure in 2011. The value of the provision was calculated as the difference in prices between the indexed prices invoiced by LCR to contracting partners, and the prices claimed by contracting partners to be "correct", i.e. non-indexed prices based on the prices bid in tendering procedures. As of 31 December 2012, inventory was taken justifying the continued creation of these provisions for the given amounts.

In 2011, a provision for ANCLP payments was created in the amount of the action brought by ANCLP, which is suing LCR for the return of compensation paid, as ANCLP argues that LCR does not have the standing to claim an entitlement to financial compensation for loss arising from aggravated forest management. The provision applies to all non-state-barred payments received by LCR from ANCLP. In accordance with the action and the risk of non-payment of existing receivables, LCR has also created a 100% adjustment to all receivables from ANCLP (see note 4.2.b.). As of 31 December 2012, inventory was taken justifying the continued creation of these provisions for the given amounts.

d) As of the balance-sheet date, LCR reported due liabilities of social security contributions and the state employment policy contribution resulting from salary payments in December of the current period (in thou. CZK):

	2011	2012
	31,246	34,736

e) As of the balance-sheet date, LCR reported the due liability of public health insurance contributions resulting from salary payments in December of the current period (in thou. CZK):

	2011	2012
	13,413	15,098

f) As at the balance-sheet date, LCR reports no tax arrears at the competent local tax authorities. Any tax adjustments are regularly paid by statutory deadlines.

g) LCR, in view of its wide range of business activities, receives various subsidies for capital and operating purposes. The table below provides an overview of the most significant subsidies. The term "subsidy" is used within the meaning of Section 47(4) of Decree No 500/2002.

thou. CZK	2011	2012
Subsidies for the acquisition of forest management plans	0	0
Subsidies for the acquisition of tangible fixed assets (total)	180,237	257,735
– of which compensation in the public interest related to watercourse management (especially flood control measures)	159,020	224,099
Subsidies to cover operating costs (total)	195,184	175,316
– of which compensation under Section 24 of Act no. 289/1995 on forests	12,573	11,174
– of which compensation under Section 35 of Act no. 289/1995 on forests	7,871	6,323
– of which compensation under Section 46 of Act no. 289/1995	3,200	2,816
– of which subsidies from the Ministry of Agriculture for water management	34,772	43,772
– of which EU subsidies	64,993	22,122

h) Information on statutory audit costs

The costs of the statutory audit of the accounts in 2012 totalled 1,572,000 CZK (1,716,000 CZK in 2011). The statutory auditor provides no services other than the auditing of financial statements.

i) Disposals of fixed assets and raw materials

The Profit and Loss Account includes the items III.1. Proceeds from disposals of fixed assets, and F.1. Net book value of fixed assets sold. These items also show the values of assets exchanged because, according to Czech accounting and tax rules, exchanges are treated as buying and selling. In this respect, we clarify the “real” value of fixed assets sold as recognized in the profit and loss account:

thou. CZK	2011			2012		
	Total account	Fixed assets sold	Fixed assets exchanged	Total account	Fixed assets sold	Fixed assets exchanged
Item III.1. Proceeds from disposals of fixed assets	768,136	719,871	48,265	231,869	194,743	37,126
Item F.1. Net book value of fixed assets	171,045	165,602	5,443	41,825	33,544	8,281
Difference	597,091	554,269	42,822	190,044	161,199	28,845

j) Takeover of fixed assets from the wound-up AWMA

In 2011, LCR took over from the Agricultural and Water Management Authority (“AWMA”), as part of the winding-up of the AWMA, fixed assets with a book value of 896,154,000 CZK and forestland worth 15,000 CZK. In 2012, the takeover of assets amounting to 7,495,000 CZK was completed. The method provided for by Czech Accounting Standard No 13 (paragraph 3.6) was applied in the measurement of the value of the assets taken over.

k) Balance-sheet line “D.I.3. VAT to be applied in January 2013” shows the input VAT quantified in tax documents received in January 2013 and charged in 2012, for the amount of 29,442,000 CZK (in 2011 it was 58,961,000 CZK). This VAT is claimed in full in the VAT return for January 2013.

7.

a) Receivables as of 31 December

thou. CZK	2011	2012
Total short-term trade receivables (gross); Assets, line C.III.1	2,251,208	2,063,885
– of which total receivables due	1,745,321	1,358,824
– of which total receivables past due	505,887	705,061
– of which total receivables more than 180 days past due	377,794	447,262
– of which total receivables with maturity of more than 5 years	0	0
– of which receivables subject to enforcement	83,792	136,759
– of which claims in insolvency, bankruptcy and settlement proceedings	270,896	479,678
Receivables denominated in foreign currencies	2,151	6,604

In 2012 there was a drop in the overall level of trade receivables. At the same time there was an increase in receivables past due and the value of receivables in insolvency, bankruptcy and settlement proceedings (both roughly by 200 mil. CZK) – this negative shift was caused by the entry of LESS&FOREST s.r.o. into insolvency (as of 31 December 2012 the receivables from LESS&FOREST s.r.o. are recorded in LCR accounts for the amount of 217.4 mil. CZK.).

Receivables from companies within the group from ordinary trade totalled 3,391,000 CZK as of 31 December 2012. These are receivables from HLDS, a.s. As in previous years, all these receivables are not yet due.

thou. CZK	2011	2012
Intra-group trade receivables	609	3,391

Receivables from companies within the group from distributed profits are listed by LCR as of 31 December 2012 to be 213,000 CZK, from H.F.C. a.s. (Balance Sheet, Assets, line C.III.3).

b) Payables as of 31 December

thou. CZK	2011	2012
Payables more than 180 days past due	0	0
Payables with a maturity of more than 5 years	0	0
Payables tied to the fulfilment of conditions by suppliers	5,677	8,937

Where liabilities are overdue, these are trade payables arising from relations with business partners which had not been offset as at the balance sheet date. All overdue liabilities are covered by receivables from business partners.

Advances received for property sales, where an application was submitted for entry in the property register in 2012, amounted to 10,911,000 CZK (2,809,000 CZK in 2011). This amount was also recorded, in accordance with valid methodology, in account 385 – Accrued revenues, because no entry had been made in the property register as at 31 December 2012 (or 2011). The amount of 10,911,000 CZK is reported in the Balance Sheet in both line D.I.3. (assets) and line B.III.8. (liabilities).

Trade payables to group companies are 3,120,00 CZK (5,655,000 CZK in 2011). All these payables are to HLDS, a.s. and are not yet due.

c) Finance leases as of 31 December

In 2011 and 2012, the company had no assets acquired under finance leases.

d) Leased fixed assets monitored off balance sheet are valued as follows as of 31 December in thou. CZK:

thou. CZK	2011	2012
Leased fixed assets	604	671

e) The company has no tangible assets encumbered by liens. Easements are recorded in operational records for specific assets. The company has records of tens of thousands of easements, especially related to land (overground lines, underground utilities, permission to enter and transit land, structures, etc.). No easements are fixed assets by nature. The effect of easements on the management of company property as a whole is insignificant.

f) Aggregate amount of low-value tangible assets not disclosed in the balance sheet as of 31 December in thou. CZK:

thou. CZK	2011	2012
Low-value tangible assets not reported in the balance sheet	267,182	270,088

g) The aggregate amount of fixed assets acquired with 100% subsidies and kept of balance sheet as of 31 December was (in thou. CZK):

thou. CZK	2011	2012
Fixed assets acquired with 100% subsidies	174,293	175,154

h) The total amount of liabilities is disclosed in the balance sheet

i) Between the balance sheet date and the date of preparation of the financial statements, there were no significant events, except those reported in Note 10 in particular, which could change the view of a true and fair view of the annual financial statements for 2012.

8.

Description of changes in equity during the reporting period

Lesy České republiky, s.p., is a liable party in relation to restitution and in the return of assets in accordance with applicable statutory provisions. In addition, assets are received and relinquished in connection with the decisions by the Czech Government and the Ministry of Agriculture, or transferred under applicable laws. Therefore, in addition to normal movements, the distribution of profit and the disbursement of funds, there are constantly changes in equity.

The company reports changes in capital stock in the Balance Sheet, liabilities, line A.I.1. Registered capital. This item includes the amount of capital stock entered in the Commercial Register and the amount of capital stock not entered in the Commercial Register as of 31 December 2012. The statutory reserve fund complies with the threshold established by the Decision of the Ministry of Agriculture on the adaptation of the founding memorandum of 12 August 1997, i.e. a compulsory minimum threshold of CZK 1.2 billion.

The company has created a Development Investment Fund (DIF) formed from profit for the acquisition of fixed assets where the value of the fixed assets acquired from LCR's own resources exceeds the resources generated by the depreciation of fixed assets and the net book value of fixed assets sold. Use of the DIF requires the allocation of profit-generated funds (profit distribution) to capital stock.

Statement of changes in equity for 2011 and 2012 (the header contains the relevant Balance Sheet liability lines):

thou. CZK	Capital stock	Changes in registered capital	Capital funds	Gain or loss on revaluation	Statutory reserve fund	Other funds from profit
	(A.I.1.)	(A.I.1.)	(A.II.2.)	(A.II.3.)	(A.III.1.)	(A.III.2.)
31 December 2012	5,818,759	5,885,911	51,469,390	(8,727)	1,251,283	3,935,395
Balance of changes 2012	0	+332,057	(138,868)	+33,121	0	(291,732)
Increase 2012	0	+368,850	+520,481	+33,121	0	+63,078
Reduction 2012	0	(36,793)	(659,349)	0	0	(354,810)
31 December 2011	5,818,759	5,553,854	51,608,258	(41,848)	1,251,283	4,227,127
Balance of changes 2011	0	+1,094,544	(21,312)	(14,884)	0	+2,341,352
Increase 2011	0	+1,117,037	+ 521,424	0	0	+2,600,041
Reduction 2011	0	(22,493)	(542,736)	(14,884)	0	(258,689)
31 December 2010	5,818,759	4,459,310	51,629,570	(26,964)	1,251,283	1,885,775

Breakdown of changes in capital stock:

thou. CZK	2011	2012
Balance of changes – of which:	+1,094,544	+332,057
– delimitation changes	+19,537	+13,066
– restitution-based disposals	(2,522)	(1,401)
– use of the Development Investment Fund	+181,375	+312,898
– transfer of assets from AWMA	+896,154	+7,495

Breakdown of changes in capital funds:

thou. CZK	2011	2012
Balance of changes – of which:	(21,312)	138,868
– delimitation changes	+22,352	(19,920)
– restitution-based handover of forestland	(74,217)	(144,635)
– gifts, awards, free transfers	+30,553	+25,687

The distribution of profit from 2010 and 2011 was cleared in 2011 and 2012, always at the discretion of the founder, who approved a proposal by the Supervisory Board:

thou. CZK	2011	2012
Profit for the period allocated to:	2,558,294	4,225,259
– the welfare fund	21,066	21,467
– the housing policy fund	2,537,228	0
– the Development Investment Fund	0	4,203,792

9.

Revenues from ordinary activities

thou. CZK	2011	2012
Revenues from ordinary activities	13,261,039	13,138,094
– revenues from operations	12,832,251	12,280,985
– financial activities	428,788	857,109
Proceeds from the disposal of internally developed products	10,952,507	9,579,599

Business activities with foreign countries are insignificant

10.

Other

Suits have been brought against LCR for compensation of alleged damages due to the invalidity of contracts tendered by LCR in 2004 and 2005 where LCR was respecting the opinion of the Office for the Protection of Competition (OPC) that LCR was not a contracting authority under Act No 40/2004 on public procurement, as subsequently amended. However, the OPC then changed its position. These suits have been gradually filed by various subjects at the local courts of jurisdiction. As of the 2012 balance sheet date, these suits have gradually been dismissed, either directly or by rejection of an appeal to the Supreme Court or by being dropped by the plaintiffs themselves. In court cases which are not yet closed, LCR is confident of a successful outcome, considering the rulings which have already been made on the matter. Therefore, costs related to the possible results of future litigation are not reflected in the balance as of 31 December 2012.

In 2004, CE WOOD, a.s. brought an action for damages and reasonable satisfaction for a total amount of more than 3.7 billion CZK, which has yet to be decided. In 2008, the company received an invoice from CE WOOD, a.s. for approximately 4.869 billion CZK for alleged damage caused in the handling of forestry contracts. LCR considers this invoice to be entirely unsubstantiated and sent it back to the company on the date of delivery as unwarranted. During the ongoing court proceedings in 2012, CE WOOD unsuccessfully attempted to suspend the proceedings stating the need to submit certain preliminary questions to the European Court of Justice. The court proceedings are still underway, but LCR expects the suit to be dismissed.

By ruling of the OPC on 10 December 2009, LCR was fined 1,000,000 CZK in relation to information and communication technology contracts and services concluded in 2007. Despite an appeal, this decision was upheld in a decision of 20 April 2010 and thus became final. This amount paid is currently the subject of a suit against the competent former employee. There are also criminal proceedings in this matter involving former employees. By ruling of the OPC on 21 October 2010 concerning the delivery of office supplies, LCR was fined 300,000 CZK. An appeal was lodged against this decision, but was rejected in 2011, and the decision thus became final. An administrative action was filed against the OPC chairman's decision. The court proceedings are still pending. The OPC ruling on 24 September 2012 imposed a preliminary fine on LCR of 1,000,000 CZK concerning the issue of personal protective equipment. LCR appealed the decision and the OPC Chairman upheld the appeal and annulled the decision. New proceedings have now been brought in the matter to impose a fine in the first instance.

With regard to the ongoing insolvency proceedings for LESS&FOREST s.r.o., on 26 February 2013 a suit was filed against LCR by this debtor and the insolvency administrator to invalidate the Contracts for Providing Comprehensive Forestry Activities and related contracts for the period of 2012+, and to surrender unjust enrichment totalling 6.36 bil. CZK. LCR rejects these claims completely, considers them entirely unfounded and frivolous, and lacking any legal justification. At the present time, the company is preparing its position in this matter.

In relation to the ongoing investigation of suspected criminal offense in the tendering of public contracts for the supply of IT services since 2008, LCR management has announced a public contract to prepare an expert assessment of select public tenders of LCR, s. p. in the ICT area.

On 1 January 2013, the Church Restitution Act, no. 428/2012 on property settlement with churches and religious organizations and the change of certain laws, went into effect. According to the provisions of this Act, LCR is an entity which is obliged to hand over to entitled subjects property owned by the state which originally belonged to such entitled subjects and which constitutes a deprivation of property and injustice to these entitled subjects. According to the Act, LCR is planning on relinquishing 142,000 ha of land.

Besides the matters above, no other facts were identified which could lead to significant future potential losses, and no adjustments or provisions were made for them in the accounts. No other circumstances were discovered which could significantly influence the financial, property and income situation of the company between the balance sheet date and the date as at which the financial statements were prepared.

11.

Cash flow statement

The cash flow statement is prepared in accordance with Decree No 500/2002. The most liquid financial resources are regarded as cash or cash equivalents, i.e. cash in hand and cash deposited in current bank accounts – financial assets recognized in the Balance Sheet under assets on lines C.IV.1. and C.IV.2.

Cash flow statement for 2011 and 2012 (in thou. CZK)

Designation	Text	Line	2012	2011
P.	Cash and cash equivalents, beginning of year	01	6,072,273	2,468,524
	CASH FLOWS FROM MAIN EARNING ACTIVITY (ORDINARY ACTIVITIES)			
Z.	Accounting profit (loss) from ordinary activities before tax	02	5,478,300	5,275,195
A. 1.	Non-cash adjustments	03	659,915	497,070
A. 1.1.	Depreciation of fixed assets, less residual values of fixed assets sold, etc.	04	688,264	661,551
A. 1.2.	Changes in adjustments and provisions	05	358,780	504,682
A. 1.3.	Gain (loss) on sale of fixed assets	06	(190,043)	(597,091)
A. 1.4.	Proceeds from dividends and shares of profit (except investment companies and funds)	07	(276)	(42)
A. 1.5.	Interest expense (less capitalized interest) and income	08	(187,748)	(100,707)
A. 1.6.	Adjustments for other non-cash transactions	09	(9,062)	28,677
A. *	Net cash flow from ordinary activities before tax and changes	10	6,138,215	5,772,265
A. 2.	Changes in non-cash items of working capital	11	(3,559,301)	(696,377)
A. 2.1.	Change in receivables from operating activities and deferrals .	12	(3,119,398)	(1,499,890)
A. 2.2.	Change in payables, subsidies, deferrals and estimated items from operating activities	13	(731,932)	358,448
A. 2.3.	Change in inventories	14	(2,328)	81,214
A. 2.4.	Change in short-term financial assets, other than cash and cash equivalents	15	294,357	363,851
A. **	Net cash flow from ordinary activities before tax and extraordinary items	16	2,578,914	5,075,888
A. 3.	Interest paid, excluding amounts capitalized	17	(19)	(1,312)
A. 4.	Interest received	18	187,767	102,019
A. 5.	Income tax paid on ordinary activities and additional tax from previous periods	19	(1,055,006)	(1,070,206)
A. 6.	Receipts and disbursements from extraordinary items – extraordinary profit (loss)	20	0	0
A. 7.	Dividends and profit shares received	21	276	42
A. ***	Net cash flow from ordinary activities	22	1,711,932	4,106,431
	CASH FLOWS FROM INVESTING ACTIVITIES			
B. 1.	Acquisition of property, plant and equipment	23	(1,279,871)	(1,214,980)
B. 2.	Proceeds from the sale of fixed assets	24	231,869	768,136
B. 3.	Loans and credit to related entities	25	0	0
B. ***	Net cash flow from investing activities	26	(1,048,002)	(446,844)
	CASH FLOW FROM FINANCIAL ACTIVITIES			
C. 1.	Effects of changes in long-term and current payables	27	15,284	(20,271)
C. 2.	Increase and decrease in equity from specified transactions	28	(2,647)	(35,567)
C. 2.1.	Increase in cash and cash equivalents due to an increase in registered capital	29	(2,346)	0
C. 2.2.	Equity paid to shareholders	30	0	0
C. 2.3.	Other contributions by shareholders	31	0	0
C. 2.4.	Loss settlement by shareholders	32	0	0
C. 2.5.	Direct payments debited to equity funds	33	(301)	(35,567)
C. 2.6.	Dividends paid and profit shares including paid withholding tax	34	0	0
C. ***	Net cash flow from financial activities	35	12,637	(55,838)
F.	Net increase/decrease in cash and cash equivalents	36	676,567	3,603,749
R.	Cash and cash equivalents, end of year	37	6,748,840	6,072,273
S.	Actual balance of cash and cash equivalents, end of year	38	6,748,840	6,072,273
R.-S.	Difference (calculated - actual)	39	0	0

Date of preparation of financial statements 22 April 2013

MANAGEMENT STATEMENT

The governing body of Lesy České republiky, s.p., under Resolution No 686/2004 adopted at its meeting on 27 January 2004, ruled that the company would not produce a report on relations between the controlling and controlled entities and relations between the controlled entity and other entities controlled by the same controlling entity (a "Report on Related Parties").

In the opinion of the governing body of Lesy České republiky, s.p., if no controlling agreement is executed, the obligation to produce a Report on Related Parties within three months of the end of the reporting period applies only to the governing bodies of controlled entities within a group where relations are subjected to uniform management. The Report on Related Parties then encompasses all relations within the group to which the controlled entity which is the subject of the report is party.

Where the Czech Republic has the status of a controlling entity, this is not a group, because a group consists of only a controlling entity and controlled entities, whose companies are group companies. A company means a set of tangible, personal and intangible business elements.

A company comprises items, rights and other assets which belong to an enterprise and are used to operate the company.

In the period between the preparation of the financial statements (22 April 2013) and the preparation of the Annual Report (30 April 2013), there were no significant events having a bearing on the disclosures herein. The company has no organizational units abroad.

AUDITOR'S OPINION ON THE ANNUAL REPORT

A&CE
living for consulting

INDEPENDENT AUDITOR'S REPORT

for the founder and Director General on an audit of the Annual Report to 31.12.2012
state-owned enterprise Lesy České republiky, s.p., with registered seat in Hradec Králové,
company no. 42196451.

We have audited the Annual Report of the state-owned enterprise Lesy České republiky, s.p. for consistency with the financial statements for the year ended 31.12.2012 which are included in this Annual Report. The correctness of the Annual Report is the responsibility of the statutory body of the state-owned enterprise Lesy České republiky, s.p. Our responsibility is to express an opinion on the consistency of the Annual Report and the financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing and the related application guidelines issued by the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the Annual Report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.


In our opinion, the information included in the Annual Report of the state-owned enterprise Lesy České republiky, s.p. for the year ended 31.12.2012 is consistent, in all material respects, with the financial statements referred to above.

In Brno, date July 17, 2013


A&CE Audit, s.r.o.

Ptašinského 4, 602 00 Brno
License of the Czech Chamber of Auditors no. 007
Ing. Martin Kozohorský, Executive





Ing. Pavel Studnička
Auditor, license no. 1702

Attachments: Annual Report to 31.12.2012

TERMS AND ABBREVIATIONS

BK	beech
BO	pine
BRP	birch parity
CHO LCR	Central Head Office of Lesy České republiky, s.p.
ČMKBK	Bohemian-Moravian Commodity Exchange, Kladno
ČSOP	Czech Union for Nature Conservation
DIF	Development Investment Fund
EU	European Union
FMF	forest management facility
FMI	Forest Management Institute
FMP	forest management plans
FMU	forest management unit
FU	forestry unit
GA	growing area
GIS	geographic information systems
GrDW	Graphics data warehouse
HB	torrent control
HLDS	Hradecká lesní a dřevařská společnost a.s.
HÚL	forest management arrangements
JD	fir
KN	property register
LCR	Lesy České republiky, s.p.
Lesy ČR	Lesy České republiky, s.p.
LHE	forest management register
LT	left tributary
LTM	technical forest reclamation
LVS	forest altitudinal zoning
MD	larch
MoA	Ministry of Agriculture of the Czech Republic
MoE	Ministry of the Environment of the Czech Republic
MZD	soil improving and reinforcement species
NNR	National nature reserve
NR	nature reserve
OLH	forest manager
OMK	Marketing and Communication Department

OPC	Office for the Protection of Competition
OPŠ	flood damage removal
OVS	public tendering procedure
PEFC	Programme for the Endorsement of Forest Certification schemes
PLA	protected landscape area
PŠ	flood damage
PUPFL	land designated as forestland
RHO	regional head office
RŘS	revitalization of river systems
RS	roadside
RT	right tributary
SLT	set of forest types
SM	spruce
SU	Seed Unit
WMU	Water management unit

DIE HAUPTSÄCHLICHEN EREIGNISSE DES JAHRES

Das Jahr 2012 war für Lesy ČR das erfolgreichste in der ganzen Unternehmensgeschichte. Das erreichte wirtschaftliche Ergebnis wurde dabei zu 90 % aus der Waldbewirtschaftung gebildet und LČR bleibt somit weiterhin ausschließlich ein auf Forstwirtschaft orientiertes Unternehmen.

Das erreichte wirtschaftliche Rekordergebnis beruht vor allem auf sehr günstigen Holzpreisen. Doch auch auf Preisen, die das Unternehmen für durchgeführte forstliche Tätigkeiten bezahlt. Seit mehreren Jahren zeigt sich, dass durch öffentliche Aufträge ein stark konkurrenzfähiges Wettbewerbsumfeld geschaffen und so stabile und gute ökonomische Ergebnisse erreicht werden können.

Im Einklang mit gültiger Legislative und verabschiedeten Waldwirtschaftsplänen wurden kontinuierlich und auf hohem Niveau sämtliche Aktivitäten, die mit ordentlicher Waldpflege zusammenhängen, abgesichert. Folglich konnte das Unternehmen auch im Jahr 2012 erfolgreich das Zertifikat PEFC auf weitere drei Jahre verteidigen. Das prestigeträchtige Zertifikat PEFC ist ein Beleg für eine dauerhaft nachhaltige Bewirtschaftung auf dem vom LČR verwalteten Gebiet.

Das Jahr 2011 lässt sich als sehr günstig auch hinsichtlich des minimalen Auftretens von Naturkatastrophen, derer Anteil sich unter 10% der gesamten Holznutzung hielt, bezeichnen. Im wichtigen Bereich des Waldschutzes gegen den Borkenkäfer gelang es trotz ungünstigen Wetters das Volumen des verarbeiteten Borkenkäferholz auf vergleichbaren Stand mit den letzten zwei Jahren zu halten.

Ende März schrieb LČR eine öffentliche Ausschreibung für Forstarbeiten ab 2013 für den Zeitraum von einem bis zu fünf Jahren aus, und zwar auf ein Fünftel des bewirtschafteten Gebietes. Die Verträge wurden mit den Gewinnern im Oktober und November unterschrieben.

Am 25. – 28. Mai wurde das Gebiet zwischen Bzenec, Strážnice und Ratíškovice im Bezirk Hodonín von einem Waldbrand, der eine Waldfläche von 165 ha beschädigte, heimgesucht. Es handelte sich somit um den größten Waldbrand des letzten Jahrzehntes. Anfang Juli verursachten rund um Hradec Králové starker Wind, Stürme und heftige Regen etliche lokale Baumbrüche.

Am 1. Oktober gab das Kreisgericht in Prag die Eröffnung des Insolvenzverfahrens gegen den Schuldner LESS & FOREST s.r.o., den Vertragspartner von LČR, der forstliche Tätigkeiten auf 32 SÚJ ausübte, bekannt. Noch im gleichen Monat trat das Unternehmen vom Vertrag mit diesem Vertragspartner ab, und zwar auf allen SÚJ.

Zum 30. November dankte der Generaldirektor Ing. Svatopluk Sýkora ab. Mit der Leitung des Unternehmens wurde Ing. Michal Gaube, ökonomischer Direktor von LČR, beauftragt.

Das ganze Jahr 2012 durch organisierte LČR mehr als 800 kulturelle Veranstaltungen für breite Öffentlichkeit mit dem Thema Wald und Forstwirtschaft. Diese hatten u.a. die Form von Vorlesungen, Gesprächen, Wanderungen, aber vor allem das Format „Ein Tag mit LČR“. Diese Veranstaltungen fanden schrittweise in allen Regionen statt und wurden von beinahe 100 Tausend Besuchern heimgesucht.

LČR beendeten das Jahr 2012 mit einem wirtschaftlichen Ergebnis in Höhe von 5,478 Mrd. CZK. Der Gesamteinschlag an Holz erreichte 7,84 Mio. m³, es gelang 13,1 Tsd. ha Wald zu erneuern, davon betrug der Anteil an wasserregulierenden und verfestigenden Gehölzen bei der Ersterneuerung 42,7 % und dringende Züchtung von Beständen bis zu einem Alter von 40 Jahren wurde auf 36,4 Tsd. ha Wald durchgeführt.

HECHOS DESTACADOS DEL AÑO

El año 2012 fue el período del mayor éxito en toda la historia de la empresa nacional Lesy České republiky (LČR). La entrada obtenida de la economía forestal representa el 90% del resultado económico alcanzado. LČR, desde luego, sigue siendo una empresa exclusivamente forestal cuya tarea principal consiste en cuidar debidamente el bosque.

El resultado económico extremadamente bueno fue alcanzado especialmente gracias a los precios de la madera que son muy buenos, tal y como los precios que la empresa pagará por los trabajos forestales realizados. Varios años se ha podido confirmar que un concurso público logra crear un fuerte entorno competitivo y alcanzar, de esta manera, resultados económicos estables y muy buenos.

En conformidad con la legislación vigente y los planes económicos forestales autorizados se han podido asegurar, de modo permanente y con alto nivel, todas las actividades relacionadas con el cuidado correcto del bosque. En 2012 la empresa defendió con éxitos la certificación PEFC para el siguiente período de tres años. El certificado prestigioso PEFC es muestra de la situación económica estable en el territorio administrado por LČR.

El año 2012 se puede considerar como muy favorable también del punto de vista de la cantidad mínima de calamidades naturales cuya parte se ha mantenido debajo del límite de 10% del beneficio total de la explotación. Gracias a la importantísima protección del bosque contra bostrigos se ha podido lograr, a pesar de que el tiempo a veces es desfavorable, conservar el total de madera atacada por bostrigo a un nivel que sea similar a los últimos dos años.

Al final del mes de marzo la empresa anunció el proceso de encargos de trabajos forestales, a partir del 2013, por el tiempo de uno a cinco años, para 1/5 parte del territorio administrado. Los contratos se han ido formalizando con los ganadores del concurso desde octubre hasta noviembre.

En el período de 25 a 28 de mayo hubo un incendio en los bosques entre Bzenec, Strážnice y Ratíškovice en la región de Hodonín. Este incendio dañó 165 hectáreas de la superficie foreste. Fue el incendio forestal de mayor envergadura en la última década.

A principios del mes de julio cerca de Hradec Králové hubo un viento fuerte y las lluvias intensas quebraron árboles (un problema local).

El 1ro de octubre el Tribunal Provincial de Praga inició el proceso de insolvencia contra el deudor LESS & FOREST s.r.o. (S.L.) – socio contractual de la empresa LČR que ejercía trabajos forestales en 32 SÚJ. Ese mismo mes la empresa renunció a los contratos formalizados con este socio contractual, en todas las SÚJ.

Ing. Svatopluk Sýkora resignó al cargo de director general el 30 de noviembre. La dirección de la empresa fue encomendada a Ing. Michal Gaube quién fue asignado al cargo de director económico de la empresa LČR.

Por todo el año 2012 la empresa organizó más de 800 eventos educativos para la población acerca del bosque y el sector forestal, todos en forma de conferencias, debates, visitas, especialmente eventos de tipo “un día con LČR”. En estos eventos participaron casi 100 mil visitantes, llegaron a efectuarse consecutivamente en todas las regiones de la República Checa.

El año 2012 de la empresa LČR terminó con un resultado económico antes de aplicar el impuesto que ascendió a 5,478 mil millones de coronas checas. El beneficio total de la explotación ascendió a 7,84 millones de m³ de madera, se ha logrado restablecer el 13,1 mil hectáreas de bosque, de ello la parte de los maderables de melioración y refuerzo, en el primer restablecimiento, llegó a formar el 42,7 % y la educación intensa de las vegetaciones de hasta 40 años de edad fue efectuada en 36,4 miles de hectáreas de bosque.

NOTES



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Lesy České republiky, s.p.

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