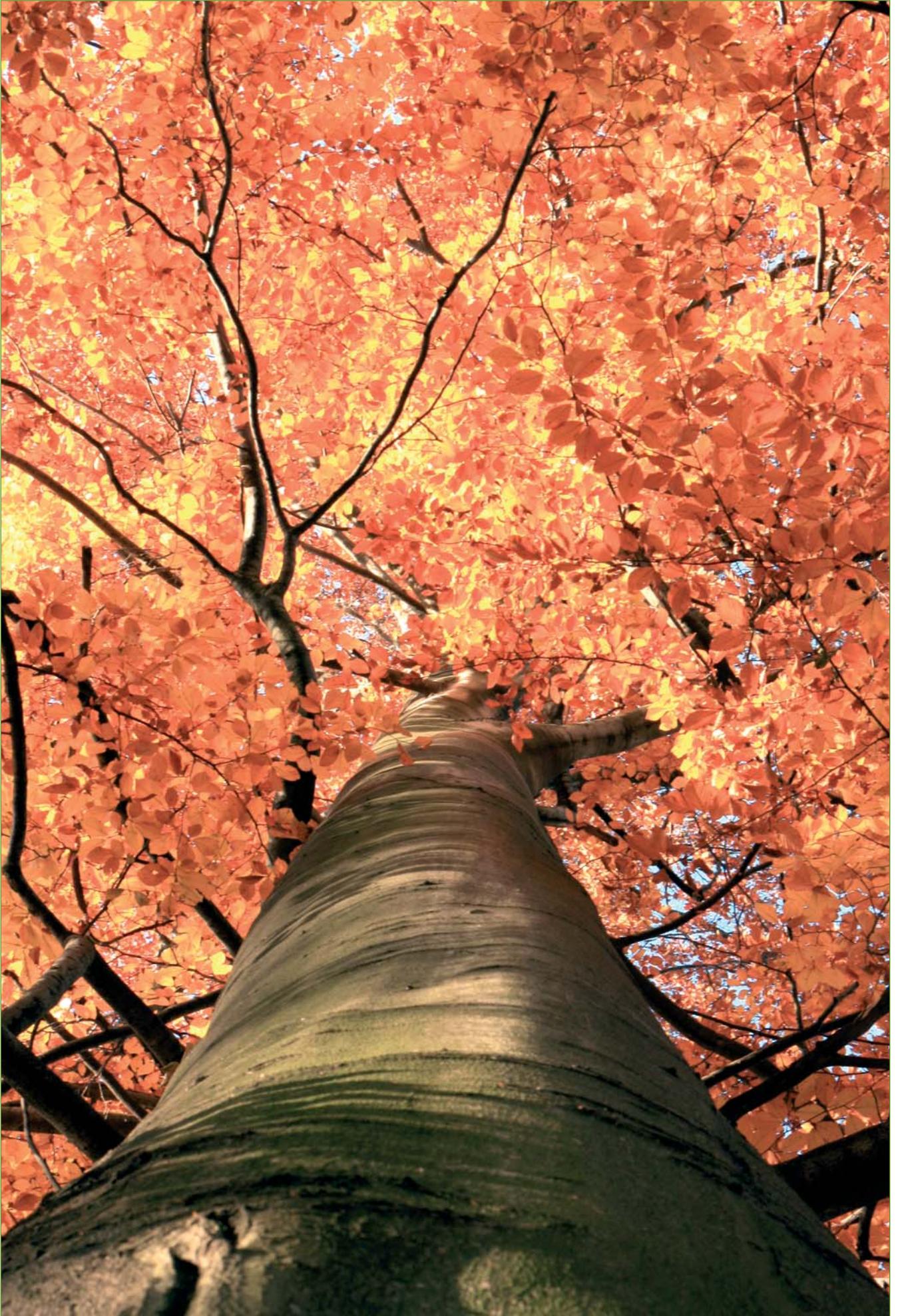


**STRATEGIC DEVELOPMENT  
CONCEPT OF  
LESY ČESKÉ REPUBLIKY, S. P.  
2015–2019**



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# 1 INTRODUCTION

The legal entity bearing the business name of Lesy České republiky, s. p., with registered office address Hradec Králové 8, Přemyslova č. 1106, Post Code 501 68, Czech Republic, was established by Foundation Charter 6677/91-100 of 11 December 1991, issued by the Ministry of Agriculture of the Czech Republic, as a State-owned company as defined by Act 11/1990 Sb., on State Enterprises.

The Foundation Charter of Lesy České republiky was amended by Decision 3217/97-1000 of the founder, the Ministry of Agriculture of the Czech Republic, on 12 August 1997, in accordance with Section 20 par. 1 of Act 77/1997 Sb., on State Enterprises; the change was entered in the Commercial Register on 22 September 1997.

The State Enterprise Lesy České republiky (hereinafter referred to as "LČR") is entered in the Commercial Register administered by the Regional Court in Hradec Králové in Section A XII, Inset 540, under identification number (Company ID) 42196451; date of entry: 1 January 1992, Taxpayer ID: CZ42196451.





## 1.1 MAJOR ACTIVITIES COVERED BY LČR

- Exercising the right to manage the forests owned by the Czech Republic that LČR has been authorised to manage;
- Exercising the right to manage other State-owned movable and immovable property which had been entrusted for the execution of the assigned tasks;
- Running State-owned property for non-entrepreneurial purposes under its own name and on its own responsibility;
- Exercising all proprietary rights with regard to the property that the State Enterprise has been authorised to manage with the exception of legal action concerning designated property for which the founder's consent is required;
- Performing the tasks and responsibilities of a professional forest manager;
- Performing forest protection services;
- Providing for the execution by contracted business entities or by own resources of activities ensuring the best possible fulfilment of all the functions of the forest;
- Exercising all forest owner rights and obligations as set forth by the Forest Act and applying to State-owned forests and the forests which LČR has been authorised to manage.

LČR manages approx. 1.3m hectares of State-owned forest estates (almost 86% of all State-owned forest estates) and almost 40,000 km of waterways and swift creeks. In normal years the annual harvest of wood ranges between 7m–8m m<sup>3</sup>, i.e. approx. 72% of the total average increment.

The forest area data quoted herein reflects the situation prior to the settlement of claims arising from the restitution of Church property applying to some 140 thousand hectares of forests. The final settlement of the restitution claims of compensation beneficiaries will result in the reduction of the forest area managed by LČR to less than 1.3m hectares, i.e. approx. 45% of all Czech forests.

## 1.2 REASONS FOR THE SUBMISSION OF THIS DOCUMENT

In its Resolution 84 of 2 February 2001, the Czech Government acknowledges the “Concept of the Ministry of Agriculture of the Economic Policy of Lesy České republiky, s. p. from 2012” (hereinafter referred to as the “Concept”).

Sufficient time has passed since the Concept was discussed by the Czech Government to allow an assessment of its benefits and drawbacks. LČR is hereby submitting an updated Concept in compliance with the State Enterprises Act (Art. 12.1) and Order 5/2011 of the Minister of Agriculture including the Annex (Methodological Guidelines 45389/2013-MZE-12142) issued with the aim of achieving satisfactory implementation of Chapter 3.9 of the Policy Statement of the Government of the Czech Republic of February 2014.

## 1.3 THE BASIS OF THE POLICY PAPER OF THE MINISTRY OF AGRICULTURE ON THE ECONOMIC POLICY OF LESY ČESKÉ REPUBLIKY, S. P. FROM 2012

The Government, at its session on 2 February 2012, acknowledged the receipt of the document containing the following basic parameters:

### Measure 1:

- Starting from 2012, LČR will administer State-owned forests and, with the exception of directly managed units, will not engage itself in any business activities and will outsource planting and tending and harvesting activities. According to the Decision of the Office for the Protection of Competition of 2006, LČR is a public contracting authority. Thus all tenders must comply with Act 137/2006 Sb., on public procurement, as amended.
- **Updated Concept - LČR proposal:** LČR respects this principle in order to maintain the stability of forestry and of the wood-processing sector and the transparency principle. However, it is necessary to foster commercial relations, especially with regard to social aspects and support of local timber processing.

### Measure 2:

- Starting from 2012, the economic policy of LČR will respect the option of church restitutions carried out on the basis of a political decision.

- **Updated Concept - LČR proposal:** LČR will approach the issue of church restitutions in accordance with Act 428/2012 Sb., on property settlement with churches and religious societies, as amended, and will be pro-active in its effort to conduct a fair and speedy process.

### Measure 3:

- The tending and harvesting of forests as well as the sale of timber will be combined under comprehensive contracts for which public tenders will be announced in compliance with the rules stipulated by the Public Procurement Act, hence allowing the participation of private contractors.
- **Updated Concept - LČR proposal:** LČR will prepare separate tenders for tending and harvesting activities with the aim of opening up opportunities for the participation of small enterprises in the tendering process. LČR will test this option and, depending on the results of the test, incorporate separate tenders into forestry contracts.

### Measure 4:

- Public tenders will be announced for contractual units corresponding with the forest management units for which forest management plans have been drafted. In 2011, tenders for 117 contractual units (forest management units) will be declared for the period starting 2012.
- **Updated Concept - LČR proposal:** LČR shall not strictly observe the principle of one contractual unit corresponding exactly to one forest management unit (FMU). LČR will increase the number of tender units by at least 50%, which actually means that it will create a tender unit network allowing a larger number of participants in the public bidding process (incl. small business entities that will not be excluded from the bidding process e.g. because of the high collateral required from larger bidders).

### Measure 5:

- In 2011, one comprehensive tender for 117 contractual units will be opened for the period starting from 2012, with the partial payment limit for any of those contractual units. Each consecutive year, the comprehensive tender will be declared only for 20% of the contractual units, namely for those where the contract ended by the lapse of the entire term or half of the term of the forest management plan (“senate system”).
- **Updated Concept - LČR proposal:** LČR will apply the “senate system” to forestry contracts. This will provide an option to compete regularly for approx. 20% of the contracts.

## Measure 6:

- LČR will market harvested timber sold from the stand to contractual partners. LČR will also allow access to standing timber sold via public tender; up to 10% of timber sold at individual contractual units will be sold as standing timber.
- **Updated Concept - LČR proposal:** LČR will run open and transparent tenders to select its business partners and set prices in order to allow a wide range of enterprises and entities to take part in the tender. In parallel, it will strive to ensure that the business partners are professionally qualified and that they practice a fair approach to social issues in labour relations. The management units will sell harvested timber from the stand; as for directly-managed units, timber will be sold from the roadside once processed into individual assortments.

LČR will regularly assess and compare both sales variants from the economic, organisational, social, and other aspects. The results of such assessment will be reported to the Supervisory Board on a regular basis.

LČR will also introduce the mandatory sale of parts of the produced final assortments under tenders for the sale of harvested timber from the forest stand in order to increase the availability of final raw timber assortments to regional processing companies.

Timber auctions are a significant part of LČR business policy as they provide a continuous opportunity for business cooperation with a wide range of interested parties. LČR will increase the share of timber included in continuous auctions (in weekly periods and in volumes exceeding 100 m<sup>3</sup>) to double the amounts anticipated by the former Concept (to 20% of timber harvested by individual management units, i.e. a total of 1.4m m<sup>3</sup>).

## Measure 7:

- Pricing will be based on quarterly indexation according to reference price indicators published by the Czech Statistical Office.
- **Updated Concept - LČR proposal:** LČR will continue to develop further the transparency of the method of updating the setting of prices in business relations in response to the objective development of the market situation. LČR will prepare and implement a mathematically more accurate calculation of price indicators and will continue to cooperate with the Czech Statistical Office and the professional forester community to improve the purity of the collection and assessment of data for the purpose of monitoring market trends.

## Measure 8:

- LČR will strengthen emphasis on checks performed by own employees; besides this, external inspections will be conducted by an engineering organisation founded by the Ministry of Agriculture or, possibly, by other external entities. In special cases, the external inspection will be carried out by an auditor of international standing. The Ministry of Agriculture will invite an independent organisation. e.g. Transparency International, to attend the preparation of public tenders.
- **Updated Concept - LČR proposal:** LČR will develop further the transparency principles applicable to all its activities. This means that LČR will observe the rules defined by the Ministry of Agriculture and applying to cooperation among organisations falling under this Department. LČR will continue to emphasise meaningful inspection activities.

**Note:** This chapter contains only the basic theses and deviations from the 2012+ Concept. More detailed specifications of individual Concept principles are listed in the following text, including a whole range of measures leading to the strategic development of LČR in 2015 to 2019.



## 2. LONG TERM VISION AND OBJECTIVES OF THE CONCEPT

*The long term vision of LČR is to be a model manager of State-owned property, who observes the principles of sustainable forest management and administration, and that with regard to the economic, environmental, social and legal context.*

*The objective of the Concept is to define the principles of the implementation of the long term vision and of the adoption of measures for the achievement of mid-term goals.*



# BASIC OBJECTIVES OF LČR FOR THE 2015 TO 2019 PERIOD (IN THE MAIN AREAS):

## 1. Property administration and forest management

The objective is to continuously increase the value of State-owned property.

- 1.1 Ensuring the management of forest estates in accordance with the principles of sustainability;
- 1.2 Management of small water streams;
- 1.3 Preparation and implementation of the forest estate unification programme;
- 1.4 Adoption of a policy of development and maintenance of the infrastructure required by forest management;
- 1.5 Application of rules of investment activities leading to higher quality and meaningful investment;
- 1.6 Definition and application of game keeping management principles.

## 2. Economy

The aim is the achievement of reasonable financial rent of forest assets and its payment into the founder's budget.

- 2.1 Rationalisation and efficiency (efficient organisational structure, appropriate staff motivation, etc.).
- 2.2 Corporate business policy aimed at stabilising the forestry and wood processing industry and at improving the business environment with regard to social co-responsibility;
- 2.3 The draft and application of a financial assets management strategy (incl. setting the annual rent to be paid to the Government);
- 2.4 Consideration of possible development of LČR business activities in the field of wood processing.

## 3. Environmental aspect

The objective is to consistently apply the environment-friendly principles of forest management anchored in effective legislation and in the National Forestry Programme.

- 3.1 Training of employees in the application of nature and landscape conservation measures in forest management;
- 3.2 Cooperation with nature conservation authorities, state administration bodies and the Czech Environmental Inspectorate;
- 3.3 Support of non-commercial forest functions (mainly water and soil protection).

## 4. Social aspect

The aim is to improve the social situation in the country.

- 4.1 Cooperation with business partners who practice a fair employment policy and are aware of their social responsibility;
- 4.2 Application of the principles of socially responsible awarding of public contracts during investment actions;
- 4.3 Promotion of socially significant (highly regarded) forest functions (mainly recreational functions);
- 4.4 Support of vocational forestry education;
- 4.5 Support of science and research;
- 4.6 Support of public benefit activities;
- 4.7 Support of other activities.



## 5. Transparency

The aim is to restore the trust of the public in the activities of the company.

- 5.1 Meaningfulness and sustainability of all actions taken by LČR and its employees;
- 5.2 Application of open competition for the selection of business partners for all contracts (forestry-related contracts, construction, purchase of services, etc.);
- 5.3 Open approach to technical debates;
- 5.4 Adoption and application of anti-corruption measures;
- 5.5 Adoption and observation of clearly defined principles of evaluation of applications for sponsorship and of proposals for advertising cooperation.

### **3. PROPERTY ADMINISTRATION AND FOREST MANAGEMENT**

The aim is continuous enhancement of the value  
of the property value.



## 3.1 MANAGEMENT OF FOREST ESTATES ACCORDING TO PRINCIPLES OF SUSTAINABILITY

LČR administration of forest estates is based on the principles of sustainable forest management, i.e. balanced support of environmental, economic and social aspects.

**Further improvement of management is based especially on:**

- permanent development of the relevant professional skills of employees (systematic training, field trips, professional forest manager exams, promotion of best practice and proven management methods);
- periodical verification of forest management practices (forest audit /every 5 years/, external audits of management practices as part of PEFC certification, operational checks).

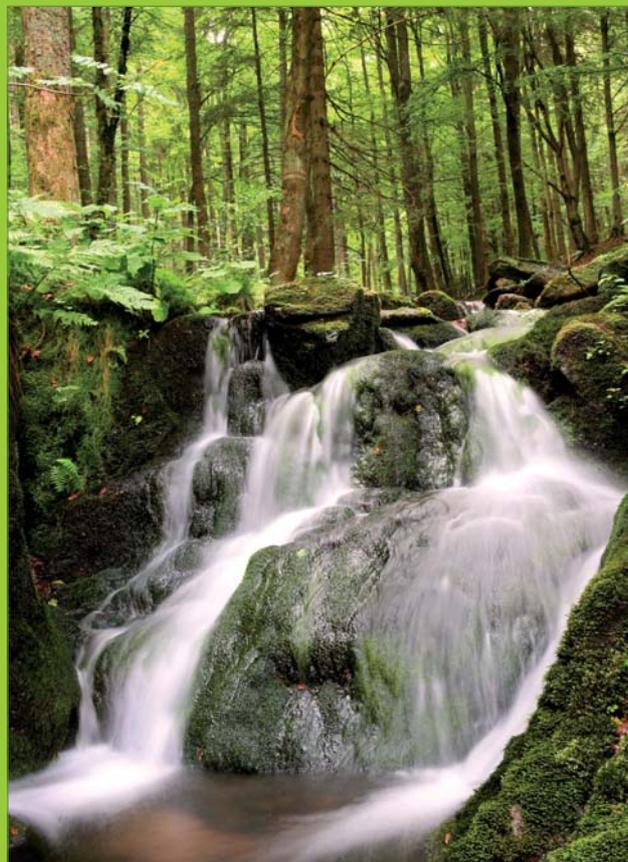
**Follow-up support will focus on:**

- support of tree species diversity, leading to target tree species composition while maintaining the production potential of forests and ensuring wood self-sufficiency in the Czech Republic;
- support of natural forest regeneration as the precondition for future stable forests;
- utilisation of suitable technologies – projects and contractual arrangements will support technologies that are friendly to forest ecosystems and the environment.

**The key tasks in the coming period are connected to the necessary revitalisation of damaged forest stands. This will involve especially:**

- reconstruction of blue spruce stands in the Ore Mountains;
- dealing with the withering of European ash mainly in South Moravia;
- dealing with the situation caused by the May beetle in the “Moravian Sahara”;
- withering of spruce stands caused by bark beetles and climate change;
- revitalisation of stands suffering from disrupted nutrition in areas influenced by high atmospheric deposition (mainly of nitrogen) and by the occurrence of “new weather” incl. measures in spruce stands jeopardized by drought (located mainly in forest vegetation zones 4 and 5).

The quality of forest property is affected significantly by damage inflicted by game. Consistent game management is thus absolutely crucial to achieve a reduction in the damage caused by game in forest stands and allow natural regeneration of target tree species without their necessary protection against such effects.



## 3.2 MANAGEMENT OF SMALL WATER STREAMS

LČR also manages small water streams, water bodies and reservoirs in the total length of 35 thousand km. Water economy management is executed by operational organisational units and especially regional watercourse administrators structured according to individual catchment areas. The main remit of LČR in this area is the implementation of preventive measures on watercourses and the removal of flood.

**Such measures include:**

- construction, maintenance and repair of torrent control facilities;
- development and support of retention capacity and space;
- stabilisation of longitudinal inclination of torrents;
- improvement of torrent capacities.

The company is financing these activities from its own budget and dedicated public programmes financed by the Czech Republic or the EU. The average annual costs of watercourse management amount to CZK 350 million.

### 3.3. CONSOLIDATION OF FOREST ESTATES (ARONDATION)

The aim is to optimise forest estates ownership in order to achieve maximum effectiveness in the management of the property. The importance of consolidation of forest estates has increased also in the context of church restitutions. In order to define the best possible spatial model for forest management, we recommend the involvement of the Forest Management Institute (FMI) in the process, to make a study of the implementation of potential purchases, sales or exchanges of the forests in question.

The basic principles of disposal and managing of forests are set forth in Act 289/1995 Sb., on Forests, Act 77/1997 Sb., on State Enterprises, in the Statutes of the LČR State Enterprise, and in the internal Consolidation Programme.

LČR intends to manage the designated State-owned property, i.e. land designated to fulfil forest functions, in accordance with the above-listed regulations in the following manner:

**Land purchase:** When purchasing forest estates, LČR will strive to acquire estates with a real potential for effective forest management.

Estates smaller than 10 hectares will be purchased provided they are adjacent to forest complexes administered LČR; estates larger than 10 hectares will be purchased with regard to consolidation of land and economic return of investment within 50 years. The stand parameter limits applying to purchase of forests are: average stand density of at least 0.8, medium age of purchased forests more than 20 years, maximum clear-cut share not more than 20%, and maximum share of unestablished plantations not more than 50%. Exceptions may be possible only in the presence of significant reasons for purchase of the land. Exceptions may apply for example to the purchase of forests that enable access to LČR managed forests, forests with roads providing access to vast State-owned forest complexes, settlement of co-ownership where the major share is owned by the State, etc.

**Land sale:** We do not expect to sell land above mineral deposits or land otherwise attractive (e.g. ski slopes). The land being sold must comply with the criteria of the LČR Consolidation (Arondation) Programme such as isolation as set forth in Section 4 par. 4 of Act 289/1995 Sb. Land covered by forests older than 80 years and complying with the criteria defined in LČR Consolidation Programme will not be sold. These limiting provisions will not apply to complex sales of land under holiday cottages (cabins) in recreational settlements and fragmented stands between individual cabins. Forest land will be sold for the highest offered price in accordance with Art. 5 par. 5.6 of the LČR Statute.

**Land exchange:** Similar criteria as in the case of land sale shall apply to land exchange. We do not expect to exchange land above mineral deposits, land otherwise attractive (e.g. ski slopes) or land covered with forests older than 80 years (forests older than 80 years may be exchanged only for other forests also older than 80 years to straighten the boundaries of State-owned property or to consolidate ownership). Limiting parameters and properties of the stands to be acquired by exchange, such as average stand density of at least 0.8, medium age of purchased forests more than 20 years, and maximum clear-cut share of 20% of the exchanged land, must be observed. The common price in the given place and at the time of the exchange and the official price will be set and the forest land will be exchanged against payment of the difference which is most favourable for LČR (Art 5 par. 5.6 of the LČR Statute).

The General Manager of LČR may approve an exception from the rules above in justified and extraordinary cases.

### 3.4 DEVELOPMENT AND INFRASTRUCTURE MAINTENANCE POLICY

LČR will take stock of the infrastructure and, in general, of the property. LČR will continue to cooperate with an independent body, namely the Forest Management Institute, in carrying out the stock-taking of the forest road network. The aim is to review the categorization of all the property and stipulate the manner in which it is to be managed in the future.

A key task is to draft a partial policy of management of strategic property with view to its future development. The expected average annual maintenance and repair costs in 2015 to 2019 are expected to be at least CZK 800m (from own budget).

#### Repairs and Maintenance – 2020 Programme not included (mCZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Own budget	801	774	1,019	762	800	830	830	830	830
Subvention	59	46	38	18	23	20	20	20	20
Total	860	820	1,057	780	823	850	850	850	850

## 3.5 INVESTMENTS RULES

The aim is to enhance the quality of investment activity as such, especially however of construction contracts. To achieve this, a multiannual regime of investment open-end plans will be designed and implemented to allow better timing of individual contracts. The system is based on an investment action database prepared in advance to improve readiness of projects. The right timing of individual project phases would lead both to an improvement of qualitative investment parameters and to cost savings.

The expected average annual investment costs in 2015 to 2019 are expected to be at least CZK 1.1bn (own budget), while investment into repair of roads and slope roads will be implemented in an amount corresponding to at least double the amount of current annual write-offs for forest and slope roads (without limitation of the operational costs of non-investment repairs and maintenance).

Planning of construction work and related services (project documentation incl. author supervision, engineering, developer's building supervision, etc.) shall be governed by a LČR internal regulation. The purpose of this regulation is the unified definition of the basic rules applying to the planning of construction investment, repair and maintenance, investment and the 2020 Programme, and that with the option of a 4-year outlook (the subsequent year + 3 years). The internal regulation provides a unified procedure and explains the terms used in the context of the planning of the above.

Ground documents for planning are compiled by the organisational units; they are subsequently reviewed by specialists at LČR headquarters and then submitted for top management approval (and, as a Financial Plan item, to the Supervisory Board). An internet module that helps set up and maintain common rules is used for planning, preparation, publication, administration and recording public procurements. The respective organisational units are responsible for providing the correct data on individual constructions. The common and the assumed prices are indicated for each planned construction. The common

price of a project is based on actual experience and is provided by the organisational unit. The common price is used to stipulate the financial volumes of the individual plans of construction investment, repair and maintenance, investment and 2020 Programme items.

The assumed price is the base for the determination of the value of the public contract for construction work within the intention of Section 16 of the Act and thus for the selection of the appropriate type of tender. The assumed price calculation must be based on complete project documentation or valuated bill of quantities (the bill of quantities for mandatory tenders must always be drafted by a qualified person – budget expert). The competent expert guarantor from LČR Headquarters will approve the assumed price on the basis of the documents provided by organisational units and after being finally checked.

### Approval of individual investments requires the following competences:

- The top management of the company approves all plans for the construction of new office buildings.
- The Administration Director approves all construction plans where the common price exceeds CZK 1m, including office buildings, plants, residential buildings, game keeping plants and 2020 Programme type developments.
- Other investment plans are approved by a competent specialist of the Construction Investment and Maintenance Dept. or by the Head of the Water Management Dept.

The compliance check of planned investments is continuous and is performed by competent LČR headquarters staff and includes the involvement of internal inspection bodies.

The planning of all construction investments, maintenance, investments and action under the 2020 Programme is executed in a manner enabling the approval of individual events for the following years by the end of the year preceding their implementation.

### Investments – 2020 Programme not included (mCZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Own budget	980	1,011	984	1,269	1,315	1,160	1,140	1,140	1,140
Subvention	180	258	143	75	80	100	120	120	120
Total	1,160	1,269	1,127	1,344	1,395	1,260	1,260	1,260	1,260

### Programme 2020 (mCZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Investment	34	32	43	43	44	45	46	47	47
Costs	22	23	27	29	30	32	34	35	37
Total	56	55	70	72	74	77	79	82	84

The objective is to have all tenders closed before the beginning of the building season, thus allowing sufficient time for the implementation proper of the planned investments and repairs (incl. the execution of the relevant inspections). The preparation of investment action and

repair projects relating to the individual items in the open-end database of mid-term plans is continuous in order to develop an environment for the selection of suitable actions best adapted to LČR needs and possibilities.

### Basic investment action in the near future

Code Unit	Name of unit	Name of construction	Assum. total costs (k CZK)	Start of construction	End of construction
1	2	3	4	5	6
4	MU Židlochovice	Repair of roof of Židlochovice Castle	18,000	2014	2015
4	MU Židlochovice	Forest Nursery Velké Němčice	15,900	2015	2016
9	MU Kladská	Info Centre – Rota cabin	2,500	2015	2015
99	LČR Headquarters	Modification of main storage facility - archive	11,000	2016	2016
99	LČR Headquarters	Modification of main office building – add-on and insulation	25,000	2016	2017
911	RD Frýdek-Místek	Office building – MU Ostrava	15,000	2016	2017
911	RD Frýdek-Místek	Plant – Víno Game Preserve (MU Lesy Albrechtice)	11,000	2014	2015
911	RD Frýdek-Místek	Rearing building for capercaillie (MU Frýdek-Místek)	13,500	2014	2015
913	RD Šumperk	Reconstruction of building located at Velká Morava 67 (MU Hanušovice)	4,500	2014	2015
913	RD Šumperk	Reconstruction of Zadní Aloisov recreational cabin (MU Hanušovice)	3,500	2016	2016
916	RD Brno	Wood bridge below Vlčí kopec (MU Náměšť nad Oslavou)	2,600	2015	2016
921	RD Brandýs n. L.	Reconstruction of Týřov castle ruins (MU Křivoklát)	6,000	2015	2016
930	RD Plzeň	Můstek Observation Tower (MU Železná Ruda)	3,700	2015	2016
932	RD Karlovy Vary	Office building for MU Horní Blatná (Pernink)	20,000	2015	2016
933	RD Teplice	Reconstruction of office building for RD Teplice	25,000	2015	2016
936	RD Liberec	Office building for MU Hořice	15,000	2015	2016
936	RD Liberec	Bedřichov Info centre (MU Jablonec nad Nisou)	21,500	2016	2017

**Note:** Over 80% of the planned maintenance costs and 75% of planned investments for 2015 will be spent on the forest road network (FRN).

## 3.6 GAME MANAGEMENT PRINCIPLES

The aim of LČR is to manage game responsibly and in accordance with high professional standards.

LČR is actively supporting the conservation of rare and endangered species bound to forest ecosystems (e.g. rearing capercaillie, creating suitable biotopes for black grouse). LČR is the holder and user of its own hunting areas as well as the representative of the grounds owner in rented hunting areas and will strive for a reasonable maximum population of suitable game species in balance with the possibilities of the forest, in order to maintain endemic cloven-hoofed game species, to improve their populations and minimise damage inflicted by game. Therefore, it is necessary to plan game management carefully and manage game strictly in order to keep (or reduce) their populations at reasonable levels that ensure minimisation of damage inflicted by game in forests and the cultivation of target tree species without having

to protect them. Game management and culling plans must therefore be strictly adhered to in LČR hunting areas; at the same time, it is of key importance to check provable compliance with the plans in rented hunting areas.

If it is found that the maximum population has been exceeded or that game species not approved by the management plan occur in the hunting areas, the company will deal with the situation together with the game management state administration in a conclusive manner (this would apply to all types of hunting areas), whereas all remedies must be adopted on time and must be effective.

As for the process of creating hunting areas, LČR shall be proactive in its efforts to arrive at a situation that allows the enforcement of the above objectives.

In the case of rented hunting areas, LČR will follow the principles of transparent public competition, where besides the economic aspects of contracts the fulfilment of game keeping purposes is taken into account while observing high standards of game care and hunting ethics.



## 4. ECONOMY

The objective is efficient management of State-owned property in order to produce adequate rent, i.e. to create free cash flow that would be transferred continuously to the founder's budget. A side effect is LČR financial independence of the State Budget as well as the potential for supporting activities that are in public interest. Hence, the priority is to set and maintain a justified financial reserve, specified further in the Concept and serving to maintain LČR independence of the State Budget and to bridge any adverse circumstances that could affect the company economy and thus LČR financial stability.



## 4.1 RATIONALISATION AND PERFORMANCE

Rationalisation and performance require a review of the organisational structure and of the individual activities to allow a re-assessment of their meaningfulness, function and effectiveness. The fundamental principle is a responsible approach to the entrusted property and the practice of due diligence.

### Partial measures leading to the implementation of these principles include:

- introduction of planning and assessment process vs. motivation policy to achieve results;
- creation of suitable labour conditions for the fulfilment of planned tasks;
- optimisation of processes and property – cost rationalisation (outsourcing vs. in house);
- investment activity – formalisation of procedures vs. inspection activities;
- application of public tender principles in order to achieve the most advantageous market conditions possible;
- implementation of economy of scale and synergic effects within the sector enterprises (IT licences; centralized purchase, fuel and energy purchase);
- review of the need of tangible and intangible assets – consideration of their sale;
- seeking options of participation in departmental and government programmes when implementing ICT projects and shopping systems;
- targeting investment and financial participation primarily on LČR core business;

- seeking new investment opportunities for long-term stabilisation of the standing of the company.

### Modernisation of company management including rationalisation of its activities and procedures and economical use of assets is governed by the following principles:

- draft and enforcement of strategic documents relating to emergencies (e.g. natural disasters);
- draft of shared vision and its break-down into strategic projects and strategies in individual function areas;
- improvement of planning and control mechanisms of the company (planning procedures, controlling systems, deviation control, timely provision of information);
- more pronounced move towards company process management, characterised mainly by:
  - standardisation of procedures across the entire company (moving from function-oriented documentation and defined responsibilities to process management documentation);
  - subjecting information flow and IT architecture to processes (process automation, approval workflow, etc.);
  - organisational structure update (due to the changes necessitated by church restitutions as well with view to company performance);
- wider use of modern (mobile) technologies during field work to enhance effectiveness (data collection, online checks, etc.).

Thanks to effective management, LČR expects to achieve sound economic results within a range from CZK 3.5bn to 4.5bn in the future. The expected development of the company economy and the basic prerequisites for these economic results are shown in the tables below:

### Important Profit and Loss items (million CZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Sales of goods and service	11,757	11,612	11,537	12,258	11,399	11,194	10,983	10,781	10,517
thereof timber sales	10,875	10,723	10,596	11,309	10,465	10,270	10,060	9,857	9,593
Added value	7,070	7,356	6,842	7,867	7,120	7,007	6,841	6,653	6,391
HR costs	1,505	1,601	1,656	1,766	1,804	1,832	1,889	1,930	1,968
Write-offs	662	688	720	687	706	720	728	731	731
Result from sale of long-term assets	597	190	209	100	108	156	168	168	168
Operating result	5,054	5,093	4,599	5,417	4,662	4,555	4,335	4,103	3,803
Financial result	221	385	357	260	104	100	62	60	58
Economic result before tax	5,275	5,478	4,957	5,677	4,766	4,655	4,397	4,163	3,861
Economic result after tax*	4,225	4,408	3,990	4,601	3,854	3,764	3,556	3,366	3,122

\* not accounting for impact of reserve dissolution

Reduced yields due to restitution of church property to entitled claimants in accordance with Act 428/2012 Sb. will have a negative impact on future economic results; future yields are expected to be approx. 500,000 m<sup>3</sup> less than in recent years.

### Harvest (in thousands m<sup>3</sup>)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2 018	2 019
Harvested timber sold from stand	7,154	6,054	6,119	6,139	5,561	5,385	5,098	4,967	4,899
Harvested timber sold at road side	584	640	478	478	510	510	510	510	510
Auction of standing trees	0	891	1,175	1,118	1,189	1,365	1,652	1,783	1,851
Retail and harvested timber left in stands	286	259	268	282	240	240	240	240	240
<b>Total</b>	<b>8,024</b>	<b>7,844</b>	<b>8,040</b>	<b>8,017</b>	<b>7,500</b>	<b>7,500</b>	<b>7,500</b>	<b>7,500</b>	<b>7,500</b>

The assumed costs of planting and tending young forest stands in the monitored period:

### Assumed cost of planting and tending young forest stands (mCZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Regeneration	627	593	656	635	610	600	600	600	600
Brushwood	190	129	141	157	150	140	140	140	140
Protection against game	334	314	356	360	360	350	350	350	350
Protection against insects	64	66	76	104	120	80	80	80	80
Other protection (mainly against weeds)	301	303	343	374	330	340	340	340	340
Juvenile thinning and others	237	224	238	250	250	230	230	230	230
<b>Planting and tending young forest stands in total</b>	<b>1,753</b>	<b>1,629</b>	<b>1,810</b>	<b>1,880</b>	<b>1,820</b>	<b>1,740</b>	<b>1,740</b>	<b>1,740</b>	<b>1,740</b>

Another important parameter influencing the expected economic result is the development of timber prices (see table below):

### Earnings (CZK/m<sup>3</sup>)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Sales of harvested timber sold from stand	1,372	1,405	1,347	1,434	1,431	1,420	1,410	1,388	1,349
Sales of harvested timber at road side	1,557	1,625	1,702	1,792	1,740	1,690	1,650	1,630	1,620
Auction of standing trees	1,545	1,284	1,297	1,492	1,356	1,287	1,225	1,192	1,160
Retail	216	245	244	232	250	250	250	250	250
<b>Average price CZK/m<sup>3</sup></b>	<b>1,344</b>	<b>1,371</b>	<b>1,324</b>	<b>1,419</b>	<b>1,402</b>	<b>1,376</b>	<b>1,348</b>	<b>1,321</b>	<b>1,286</b>



In LČR, the price development depends mainly on the results of public forest procurements, i.e. timber sales. LČR analysed the price levels resulting from public tenders in individual years; these price levels will also enter market relations in the coming period and the result of the analysis has been projected into the forecast. The price calculation is shown below:

### Calculation of assumed revenue from comprehensive contracts; harvested timber sold from the stand

Contract type	Volume					Average sales				
	2015	2016	2017	2018	2019	2015	2016	2017	2018	2019
Close tender 2012+	1,343,609	749,498				1,480	1,513			
Open tender 2012+	551,048	309,794				1,423	1,338			
Close tender 2013+	1,064,450	1,030,777	975,801			1,392	1,350	1,359		
Open tender 2013+	655,088	185,325	11,659			1,343	1,312	1,179		
Open tender 2014+	1,131,704	1,095,904	1,037,454	1,010,849		1,470	1,426	1,435	1,399	
Open tender 2015+	815,385	757,786	717,369	698,972	689,308	1,422	1,497	1,507	1,469	1,459
Open tender 2016+		1,256,276	1,189,273	1,158,774	1,142,752		1,406	1,405	1,369	1,324
Open tender 2017+			1,166,577	1,136,660	1,120,944			1,377	1,342	1,298
Open tender 2018+				962,137	948,834				1,395	1,349
Open tender 2019+					996,873					1,358
<b>Total</b>	<b>5,561,284</b>	<b>5,385,361</b>	<b>5,098,133</b>	<b>4,967,392</b>	<b>4,898,711</b>	<b>1,431</b>	<b>1,420</b>	<b>1,410</b>	<b>1,388</b>	<b>1,349</b>

The volumes (m<sup>3</sup>) are for known periods according to concluded contracts, minus church restitutions; revenue is calculated on the basis of signed 5-year contracts and forecasts for the coming period, taking into account:

- assumed development of salvage felling
- assumed growing share of deferred felling (pine, broad-leaved timber)
- all prices in the calculation are current prices (contractual prices from previous years are recalculated with indexation according to contractual terms and conditions, future prices are without estimated indexation)

LČR believes that it makes sense to observe principles of social responsibility in its activities. The objective is to support public benefit projects focused on improving the social situation in the country, especially in the area of employment and quality of life. Support of the activities mentioned above (and detailed further in this document) will have a negative impact on future economic results.

On the other hand, LČR will proceed with the implementation of rationalisation measures and enhancement of the performance of the company, which will have a positive impact on its economy due to the reduction of operational costs.

### Development of costs in selected areas – saving measures (mCZK)

Period	2011	2012	2013	2014 (F)	2015	2016	2017	2018	2019
Marketing	77	78	54	50	70	50	50	50	50
Legal service	165	157	113	55	45	35	35	35	35
IT costs	313	353	212	173	168	158	150	145	140
<b>Total</b>	<b>555</b>	<b>588</b>	<b>379</b>	<b>278</b>	<b>283</b>	<b>243</b>	<b>235</b>	<b>230</b>	<b>225</b>

## 4.2 BUSINESS POLICY

After settling church restitution claims, LČR will manage approx. 45% of the Czech forest land areas. Although LČR is not in a dominant position, the company can still be considered a major factor on the forestry and wood-based market.

**The basic business policy principles applying to public procurement in forestry are:**

**The stabilisation of the forestry and wood-based sector** – this is characterised especially by adherence to the business model selected after the transformation of forest management and developed over the last 20 years. The aim is to promote the development of the business environment on the basis of fair cooperation with business partners.

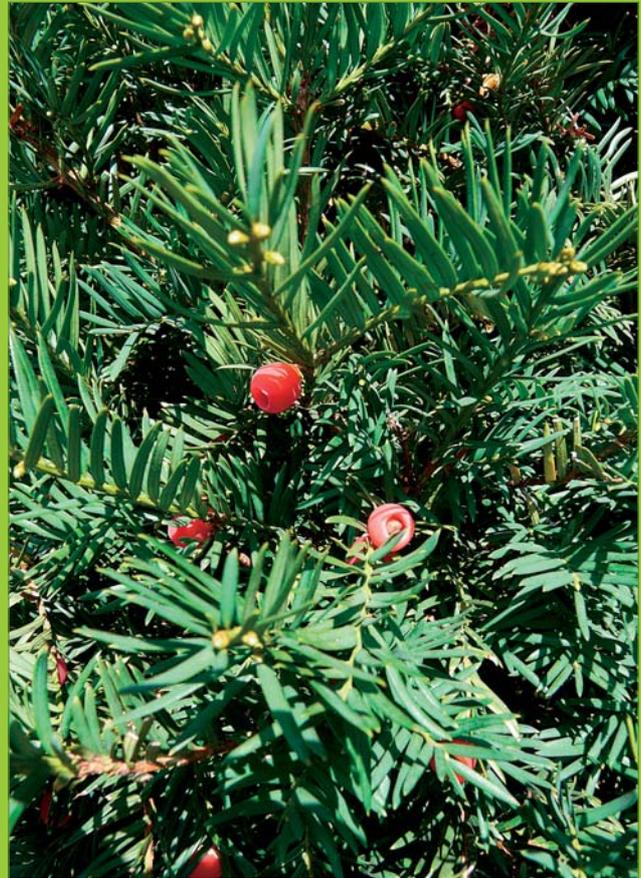
**The basic parameters of the business model comprise:**

- contractual territorial units (the size of these units has changed over time) as the procuring party.
- comprehensive procurement – the consolidation of all forestry work at the contractual units appears to be the most advantageous solution from the point of view of practical operations. This assumption must be verified by suitable tests and assessed with regard to small enterprises participating in LČR forest procurements.
- sale of harvested timber from forest stands – a historical comparison has been carried out of two business models: sale of harvested timber from stands and sale of produced assortments from road side; the result clearly showed that selling harvested timber from stands was better suited to LČR economy. The key benefits of this variant can be seen mainly in its economic convenience, transparency and anti-corruption nature, easier control of timber flow and the connected simpler storage of timber (smaller risk of theft etc.).

As for directly-managed operations, timber will be sold as finished assortments from road side. LČR will assess both sales variants on a continuous basis and compare them from the economic, organisational, social and other points of view. The Supervisory Board will be informed regularly of the results of the comparisons in order to be able to update business model implementation strategies as needed.

- Application of the “senate system” based on the regular rotation of approx. 20% of forestry procurements in tenders. This principle has a relatively stabilising effect as the tenders do not run for all forest procurements in parallel and, at the same time, the period during which the contract is in effect is long enough to provide reasonable guarantees for the investment and HR development of the contractual party.

**Transparency** – the basic principle is adherence to applicable legislation, thus setting the basic prerequisites for the



unambiguousness and clarity of action by the company and for the exclusion of any corruptive conduct.

- Public competition – open and transparent competition is the prerequisite for the prevention of any corruptive conduct, prohibited discrimination or bias in favour of competitors. This means transparent selection of suitable business partners, which at the same time uses the price as the key parameter of a contractual relationship. The binding legal norm for organising public tenders is Act 137/2006 Sb., on Public Procurements.
- Prevention of the possibility of ceding offers in public tenders (this occurs when companies allow winners to withdraw from the competition and allow the competitor in the second place to be addressed). This principle should help to prevent submission of speculative offers.
- Simplification of offer pricelists – the aim is to limit the possibility of creation of speculative offer pricelists. For this purpose, LČR, after exchanging views with business partners concerning tender documentation, created cumulative pricelist codes that will be gradually implemented and used in forestry tenders in the next years.
- Clear rules of contractual relations – these are given especially by open and pro-active cooperation with the professional forester concerning the contractual

framework with the aim of achieving a balanced contractual relationship.

### **Opening the opportunity to participate in public procurements to a wide range of entrepreneurs**

- This is to be achieved by increasing the number of tender units (with an impact on bank guarantees). The aim is to propose and implement an adjustment of the size of tender units to make them more feasible for a wide range of entrepreneurs and, consequently, avoid the exclusion of desirable competition (e.g. because of unacceptably high bank guarantees required in order to be able to participate). Tender units must take into account regional and operational aspects.
- Establishment of partial tender units (separately for planting and tending young stands and for harvesting stands – 2015 pilot project phases) - the aim is to verify whether the separation of harvesting tenders from tenders for planting and tending young stands has a real impact on the profitability of the offer and on the competition itself (especially from the perspective of the potential participation and chance of success of small regional entrepreneurs). The quality of provided service is also one of the key criteria. Pilot units will be assessed accordingly and the results of the assessment will be used when drafting future tendering strategies.
- Timber auctions – this is an important add-on to the company's business policy; by implementing this tool, LČR provide a continuous opportunity to a wide range of entities to bid for cooperation with LČR (incl. small regional enterprises and competitors that have not succeeded in the comprehensive tenders). This is an absolutely transparent manner of selling timber providing a large amount of information about the current market situation. Through this system, LČR expects to sell annually approx. 20 % of the timber harvested by individual management units per year in auctions. Auctions allow the company to react directly to the market situation in timber supply and demand, including their regulation. In 2014, LČR carried out successful tests of both electronic and personally attended variants of timber auctions and intends to develop both in the future.

**Support of social responsibility in public procurement** – LČR, as a State-owned enterprise, is aware of its co-responsibility in dealing with social issues in the Czech Republic. With this in mind, LČR will apply the principles of socially responsible public procurement, especially by stipulating that our contractual partners employ a reasonable number of qualified staff and comply with transparency requirements and legitimate forms of labour relations.

- The principle of social responsibility will be one of the criteria applied in awarding construction and water management contracts and assessment of tenders in accordance with Act 137/2006 Sb., on Public Procurement, as amended.

LČR shall strive to develop cooperation with controlling bodies, such as the Labour Office, the Ministry of Labour and Social Affairs, the Foreigners Police Department, and Labour Inspectorates in order to recruit work force registered with Labour Offices.

The company will facilitate access to timber for small regional businesses by introducing and developing alternative methods of sale, implemented in practice through comprehensive procurement. These methods comprise the development of public auctions (both electronic and personally attended) organised throughout the year for small timber volumes of 100 m<sup>3</sup>. Starting from 2015 LČR is introducing the obligation for winners of tenders to sell via the auction portal used by the company 7% of spruce timber as sawmill round wood. The expected distribution of the offer into individual quarters of the year will be 30/20/20/30%; the distribution may be modified by agreement to correspond in the best possible way with the market demand and the operational reality. The failure to comply with this obligation constitutes one of the reasons for which a contract may be terminated.

**Sale of raw timber assortments** – LČR produces approx. 500,000 m<sup>3</sup> of raw timber assortments through directly managed operations. During the sale of these assortments LČR will use open and transparent forms of selecting suitable partners and defining the price. Especially the use of electronic auctions appears to be a promising tool allowing the participation of a wide range of competitors and sufficient flexibility without any additional fees.

**Support of domestic timber processing** - LČR has a pragmatic interest in a domestic wood-processing industry that is balanced when it comes to capacity, competitiveness and stability. LČR will therefore support activities leading to the emergence of new meaningful domestic wood-processing facilities, as well as efforts to enhance the competitiveness of existing operations. The aim is especially to prepare and support projects focused on increasing wood consumption in the Czech Republic and to achieve long-term stabilisation of the sector.

**Indexation of the prices of timber** – this is a tool for the incorporation of the current market situation, specifically on the raw timber market. Price indices will be evaluated on a quarterly basis and the results will then be used to review the prices of forestry procurement. LČR are cooperating with the Czech Statistical Office and representatives of its business partners in drafting rules of data collection and evaluation.

LČR undertakes to use for purposes of prices indexation exclusively the official outputs of the Czech Statistical Office as the guarantor of fair data collection and assessment.



## 4.3 FINANCIAL ASSETS MANAGEMENT STRATEGY

The long term financial assets management strategy of LČR is based on the following assumptions:

- the company is not primarily planning to use external resources for the financing of its operational activities and investments;
- the company must have a long-term adequate reserve of financial resources to support the operational and development programme of the company with the aim of ensuring sustainable growth of the company economy, management of emergencies (e.g. natural disasters) and maximising the value of company assets;
- financial assets exceeding the amount of defined adequate reserves will be transferred to the State Budget via the founder's budget, unless decided otherwise by the founder or the Government;

- financial assets will be managed by LČR with emphasis on limitation of risk and simultaneous effort to achieve an effective economic result.

**The necessity of stipulating the adequate reserve amount is of key importance for setting the strategy (the speed and amount) for transferring funds to the founder's budget. The amount of the adequate reserve is based on the potential real need of the company to cover:**

- potential risks relating to the core business (natural disasters, litigation);
- operational needs for ensuring sustainable management (especially forest regeneration and reconstruction of property);
- potential opportunities – investments – focused on enhancing company performance development of further business.

The overview below illustrates the proposed basic structure of reserve resources:

### Basic structure of reserve resources

Reserve/fund	Covered risks	Reserve (CZK)
Mandatory Reserve Fund	Natural disasters, drop in economic results	1.2bn
Reconstruction and Development Fund	Additional reconstructions after natural disasters and options to increase company's value	0.8bn
Investment Development Fund	Investments	1.4bn
Litigation Reserve	Vague litigation	0.5bn
Operating capital	Temporary limitations and deviations	0.25bn

**The management of financial assets is concerned especially with the distribution of reserves into investment instruments. The basic principles for the selection of the right strategy are:**

- low risk rate of the individual instruments;
- business conditions generally (especially liquidity and exit rules);
- economic parameters (interest rate and appreciation).

**The rules of future financial assets management are:**

- active approach to the implementation of contributions to the founder's budget on condition of preserving the above-mentioned minimum reserve resources;

- safe deposition of reserves in investment instruments and transparent access to their withdrawal;
- purchase and ownership of governmental bonds in the amount of at least 50% of the minimum financial reserve (CZK 2bn);
- setting an objective property rent which will be the subject of regular transfers to the founder's budget in the future.

The expected development of the financial assets and their structure are shown below:

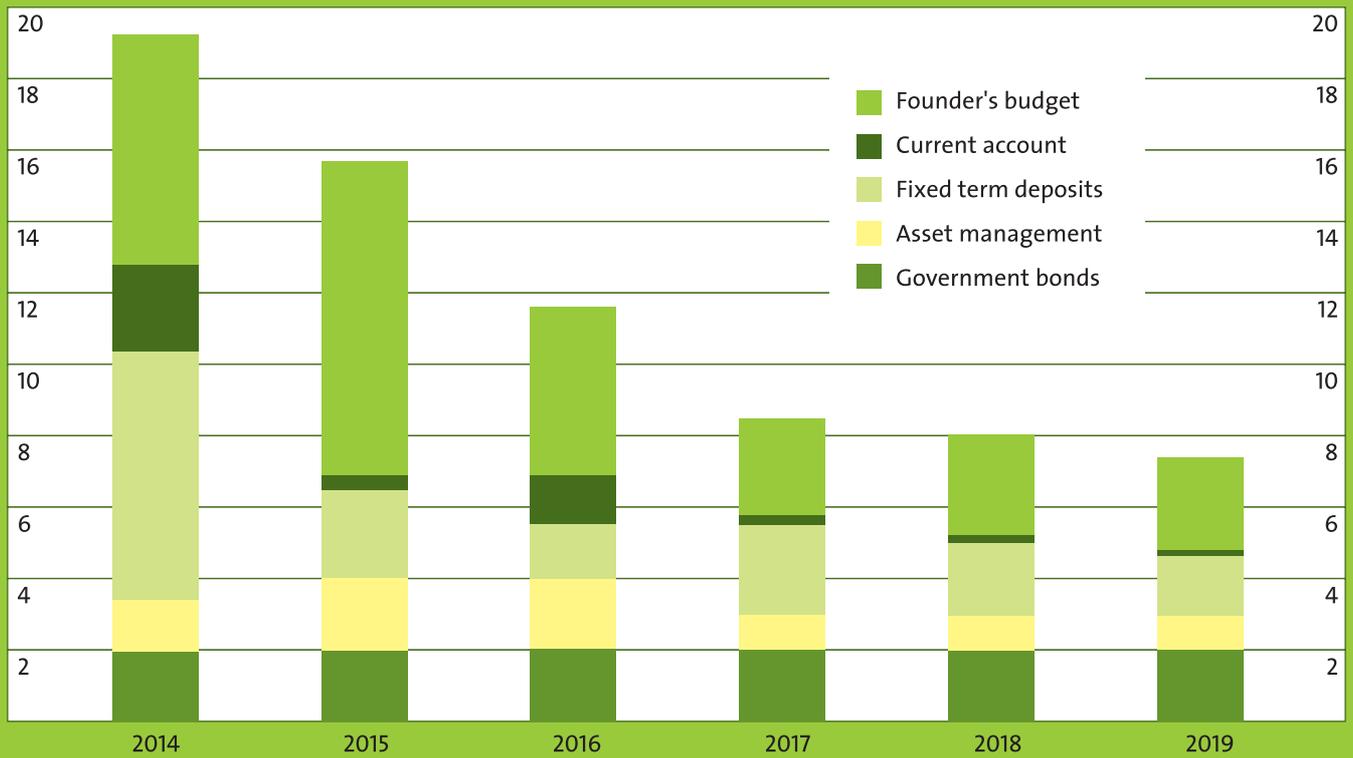
### Financial Assets (mCZK)

		2013	2014	2015	2016	2017	2018	2019
Financial assets at year start			14,641	12,742	6,996	6,160	5,966	5,582
<b>RESERVES AND FUNDS</b>								
Mandatory Reserve Fund	year start		1,251	1,251	1,251	1,251	1,251	1,251
	allocation		0	0	0	0	0	0
	use		0	0	0	0	0	0
<b>Mandatory Reserve Fund</b>	year end	1,251	1,251	1,251	1,251	1,251	1,251	1,251
Reconstruction and Development Fund	year start		0	0	800	800	800	800
	allocation		0	800	0	0	0	0
	use		0	0	0	0	0	0
<b>Reconstruction and Development Fund</b>	year end		0	800	800	800	800	800
<b>Social funds (Social and cultural fund + housing policy)</b>	year end	96	96	96	96	96	96	96
Investment Development Fund	year end cumul.	3,610	0	0	0	500	1,000	1,390
Indexation reserve	year start		529	529	529	529	529	529
	allocation		0	0	0	0	0	0
	use		0	0	0	0	0	0
<b>Indexation reserve</b>	year end	529	529	529	529	529	529	529
Reserve for planting and tending young stands	year start		3,042	1,142	642	342	142	0
	allocation		0	0	0	0	0	0
	use		1,900	500	300	200	142	
<b>Reserve for planting and tending young stands</b>	year end	3,042	1,142	642	342	142	0	0
Founder's budget	year start		0	0	0	0	0	0
	allocation		6,500	8,800	4,600	2,750	2,750	2,600
	use		0	0	0	0	0	0
<b>Founder's budget</b>	year end	6,000	6,500	8,800	4,600	2,750	2,750	2,600
Management result after tax*			4,601	3,854	3,764	3,556	3,366	3,122
Acc. Management result after tax			6,501	4,354	4,064	3,756	3,508	3,122
Financial assets at year end			12,742	6,996	6,160	5,966	5,582	5,214

\*not accounting for the impact of reserve dissolution

Increments of financial assets do not include income from potential sale of shares in companies (approx. 100 m). Free financial assets at year end should equal at least the amount of necessary operating capital.

## Development and expected structure of financial assets (bCZK)



## 4.4 LČR BUSINESS DEVELOPMENT OPTIONS

LČR must consider potential business development options especially from the perspective of:

- their pertinence or relation to core business of the company;
- the economic potential of the investment (especially ROI);
- support of domestic processing of timber in order to limit export of the raw material (i.e. increasing added value of domestic products), job creation etc.;
- public interest (social projects, social responsibility etc.).

LČR has started to systematically assess development of potential business activities and the return on investment.

**For example, in 2015 it will start to operate an agricultural business on State-owned arable land entrusted to LČR, specifically at the Židlochovice forestry enterprise. The expected effect is the following:**

- economy: return of initial investment of approx. 15m within 8 years;
- strategy: support of core business, as the greater part of the production gained from this investment will be used by the Company for its own game management instead of purchasing products from external suppliers;
- operations: enhanced flexibility of fodder supplies and smaller dependence on current suppliers;
- social sphere: increasing employment – recruitment of agricultural specialists.

The pilot agricultural project will start on approx. 700 hectares of farm land, which is expected to be extended significantly in the future.



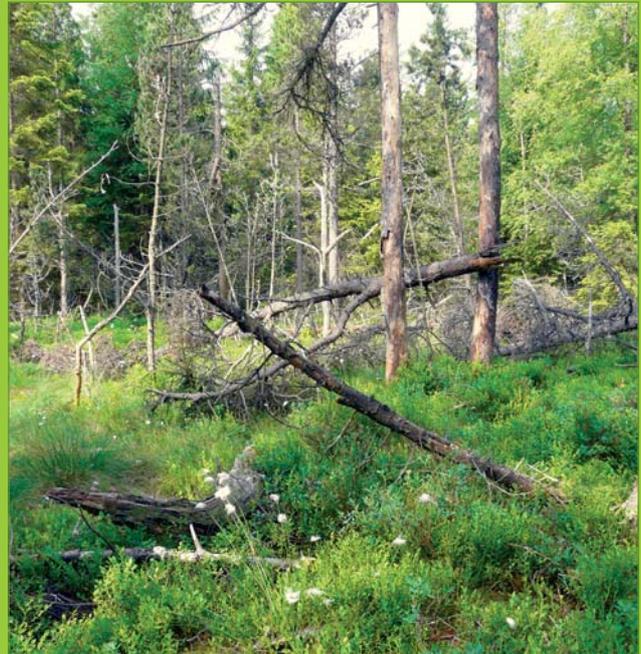
## 5. ENVIRONMENTAL ASPECT

Forests in the Czech Republic are considered by law as significant landscape feature and must be approached as such. In its economic activities LČR will continue to support and promote environment-friendly approaches, including to the non-commercial aspect of the forest.



**The observed fundamental principles include:**

- sustainable timber production – timber is one of the few renewable raw material and resources in the Czech Republic;
- adherence to PEFC certification as well as CoC requirements, also in a scope exceeding current legislation;
- development of internal procedures and controlling mechanisms of application management practice that respects nature (through an internal “Forest Audit”, which will evaluate annually at least 10% of the forest management units);
- use of technologies that are friendly to forest stands and soil (drafting technological cards of preferred technologies – especially as regards pressure on soil, use of biological oils etc.);
- use of environment-friendly products and materials in forests (with the lowest possible impact on the environment) – adherence to the list of chemicals allowed to be used in forest management and active involvement in drafting such lists;
- development of the 2020 Programme, especially:
  - forest management in specially protected areas and Natura 2000 areas in line with the requirements of nature conservation bodies;
  - regard for nature protection also outside of the specially protected areas and Natura 2000 areas during all the activities of the company;
  - protection of special forest biotopes (wetlands, moors, tarns, etc.);
  - protection and care of cultural heritage, springs and other forest features;
  - targeted protection and support of birdlife in forests – biological forest protection
- development of recreational forest functions (support of tourist attractions, building infrastructure, etc.);
- soil and water protection forest functions (suitable tree species composition of renewed stands, forest sustainability in general etc.);
- preservation of the retention function of the forest function by selecting appropriate management procedures and tree species composition of stands;
- care of entrusted small streams, especially for their flood prevention function;
- support and development of unique forest areas by declaring them forestry parks and development of model reserves;



- demonstration of forestry procedures in unique areas developed thanks to active forester care, where current nature conservation is adequate for the development of required forest functions, with the aim of manifesting unequivocally the appropriateness of the currently sufficient level of nature conservation;
- management of entrusted small streams, especially with view to their flood prevention function.

LČR shall further enhance the skills of its employees in management techniques that respect nature. Currently 45% of the forest area administered by LČR is under some form of protection. It is therefore vital for cooperation between LČR staff and relevant bodies (State Forest Administration, Czech Environmental Inspectorate, Ministry of Environment, Administration of Protected Areas, etc.) to be on the mark. LČR will strive to set up and implement meaningful collaboration during the draft of spatial plans (i.e. the mandatory part -the Territorial System of Ecological Stability of the Landscape) as well as of forest management plans (during the approval process).

In view of the situation so far and the growing tendency towards restriction of forest management due to nature and landscape conservation requirements (i.e. tolerance of various forms of detriment), LČR will continue to calculate the financial effect of such measures also in the subsequent periods. The intention is to become acquainted with their real impact on economic results. The estimated impact of the currently suffered detriments amounts to approx. CZK 200m annually. LČR continues to hold the view that the suffered detriment should be rightly not only calculated, but also claimed from the nature conservation bodies that enforced them. LČR has no intention to hold such proceeds and proposes the transfer of their full amount to the budget of the founder, who will stipulate the manner in which they are to be used.

## 6. SOCIAL ASPECT

LČR accepts its co-responsibility for finding solutions to important national social issues. This means that LČR is ready to promote public interest and the priorities stipulated by the founder and anchored in the Programme Declaration of the Government of the Czech Republic of February 2014, Section 3.9.



## 6.1 SOCIAL RESPONSIBILITY IN THE AWARD OF PUBLIC CONTRACTS

See Chapter 4.2 Business Policy.

## 6.2 SUPPORT OF SOCIALLY SIGNIFICANT (VALUED) FOREST FUNCTIONS

This intention is partly described under Chapter 5, Environmental Aspect. LČR intends to further develop the 2020 Programme and thus strengthen the recreational function of the forest with an impact on the quality of leisure time spent in forests. For this purpose, LČR will create the conditions for project management of this activity.

## 6.3 SUPPORT OF FORESTRY VOCATIONAL SCHOOLS

LČR considers the quality of forestry vocational education a key prerequisite for the development of skilled and competent staff. The main goal of LČR in relation to forestry education is to contribute to the stabilisation and rationalisation of schools focusing on forestry, environmental studies and nature conservation and to influence instruction to make it comply with the current work environment requirements of forestry graduates and to raise awareness of belonging to the forestry profession.

**LČR sees the following areas as basic fields of cooperation:**

- consulting, advising and lecturing, evaluation commission, participation in scientific councils, participating in drafting curriculums;
- appointment of professional guarantors cooperating actively to ensure the scope and quality of cooperation with individual schools (participating in study commissions etc.);
- organising practical training, excursions, study visits for teachers of forestry-related subjects;
- participation in publication of technical forestry literature with the possibility of making the books available to LČR employees;
- call for submission of competing project themes for secondary schools and tertiary education institutions providing forestry instruction;
- opportunities to use education and accommodation facilities for organising own events, use the help of students in establishing nature trails, organising Days with LČR, activities of information centres, forest pedagogic, etc.;
- promoting subscription of forestry-related magazines;
- motivation programmes for selected students (“trainee programmes” – e.g. subsidised traineeships for the best students);
- using student help at LČR festive events (buglers etc.).

## 6.4 SUPPORT OF SCIENCE AND RESEARCH

LČR shall actively support forestry-related science and research by providing the amount of at least CZK 10m annually. In the middle of 2014, LČR restored grant service and the intention is to proceed with this activity also in the future. The aim of the grant service is to support directly technological development and efforts in the search for solutions to new forest management issues. Themes of research projects will thus be announced for every year.

**The main reasons for establishing the grant service and its specifications are:**

- the need for a unified approach to the announcement, assessment and implementation of projects through a professionally competent commission;
- the subject of implementation is especially projects overlapping into forestry, water management and game management sectors (not only for the needs of LČR);
- draft projects are based especially on the proposals from LČR organisational units, but topics proposed by other entities can be included if they comply with the above criteria;
- the costs of individual projects and the maximum duration of a project does not exceed CZK 1m and 5 years, respectively;
- the expected scope of project costs after the run-up phase will be at least CZK 10m;
- all research topics will be publicly announced on the LČR web page at: <http://www.lesy.cz/odborne-rady/granty-a-dotace/Stranky/default.aspx>

Due to the need to merge funds to be able to implement larger projects, the LČR Grant Service is simultaneously collecting and assessing the proposals of research tasks submitted by individual research centres, which are

expected to be financed from other sources with the financial or material participation of LČR. The proposed research topics are collected in this case with view to later submission of applications following the subsequent announcements of grants by grant agencies or other research project-funding entities. The implementation of cooperation in recommended projects depends on the allocation of the grant by the relevant agency. LČR participation is limited by the sum of CZK 1m incl. any additional work executed during implementation. The

assumed sum total of CZK 10 (-30) million depends on the offer (quality) of the project prepared by the applicants and on the scope of grants allocated by the external entities.

LČR does not rule out other forms of cooperation, especially in the field of specific long term applied forestry research. The decision whether or not to participate in a project is primarily based on the quality of the project as such and on its potential benefit for the company or forest management in general.

## 6.5 SUPPORT OF ACTIVITIES IN PUBLIC INTEREST

Care of State-owned property may always be considered a public benefit activity. In terms of social responsibility, this is public benefit activity going beyond the framework of commonly planned tasks. The aim is to enhance employment opportunities especially for less-qualified workers who find it hard to succeed on the job market.

### We see opportunities especially in the following areas:

- regionally important events of a larger scope (the Ore Mountains, situated in a socially weak region yet providing many useful job opportunities, are a typical example). These activities will be focused mainly on rural areas;

- blanket employment of small teams (of approx. 3 persons) at organisational units. The dominant occupation of these teams would be collecting litter in forests and surroundings, removal of illegal dumps, maintenance of infrastructure (cleaning ditches and drainage of forest roads), minor forest road repairs, cleaning and maintenance of small water streams, performance of certain forest protection tasks and planting and tending of young forests, etc.

The list of public benefit activities and assumed costs in relation to the number of people employed under this regime is shown below:

### Core business unrelated activities

Assumed costs of activities in public interest (mCZK)	2015	2016	2017	2018	2019
Water management (tasks in public interest)	340	340	340	340	340
2020 Programme (for activities in public interest)	74	77	79	82	84
Activities in public interest	83	114	145	157	169
Forest pedagogy	6	7	9	10	12
Grant service (science and research support)	10	10	10	10	10
Support of forestry schools	5	5	5	5	5
Removing ammunition from formal military areas	14	14	14	14	14
<b>Total</b>	<b>532</b>	<b>567</b>	<b>602</b>	<b>618</b>	<b>635</b>

### Impact of planned activities on increased employment (mCZK)

Assumed employment increase and its impacts (mCZK / number of employees)		2015	2016	2017	2018	2019
Recruitment of junior foresters at MU	Number of employees	25	50	75	100	125
	HR costs incl. overheads	9	17	26	34	43
Activities in public interest	Number of employees	178	285	391	426	461
	Number of employees (recalculated)	148	237	326	355	384
	HR costs incl. overheads	50	79	108	118	128
Total impact on number of employees and cost growth	Growth of number of employees	203	335	466	526	586
	Cost growth incl. overheads	58	96	134	152	170



## 6.6 OTHER SUPPORT

Providing donations and LČR sponsoring are important company communication tools and also an expression of the State-owned company's co-responsibility for the state of civil society. LČR considers social responsibility an inherent component in its activities.

Donations and sponsorship have their clients and consumers. The clients are the entities with whom the donation or sponsorship agreements are signed. The consumers are the natural persons who are the final benefactors of these agreements by receiving a public service, vocational education, information about forestry and related sectors, improvement of living conditions of socially disadvantaged persons, reducing hardship, etc.

**Assessors of donation and sponsorship applications will prioritise projects with lower cost per consumer and those meeting more of the following requirements:**

- the widest possible target group - LČR manages State-owned forest for the benefit of the citizens of the Czech Republic. The intent of the company is to support activities and projects beneficial for the largest number of citizens or consumers, or for society as a whole;

- support of socially disadvantaged and physically or otherwise disabled persons – donation or sponsoring will significantly improve the quality of life of socially or physically disabled or similarly jeopardised persons.

**LČR prefers to provide donations and sponsorship in the areas listed below. Projects relating more closely to the areas listed below will have a greater chance during the assessment process:**

- awareness and promotion of the provider's core activities, focusing mainly on the public at large incl. children and teenagers;
- education – especially vocational education, reimbursement of teaching aids, textbooks, technology, support of disabled pupils and students, language courses, contribution for exchange study stays, etc. Contribution for leisure time activities connected with spending time outdoors and healthy life style;
- support of timber consumption and promotion of wood as a renewable source while observing the rules of sustainable forest management;
- activities improving the environment, shaping the landscape, conserving nature, and similarly focused awareness programmes;
- support of mass sports, especially sporting youth, with focus on sports taking place in forests and forest- and landscape- friendly, such as walking, biking, cross country skiing, etc.;
- significant social and cultural events (significant cultural projects; projects selected for donations must be recommended by the Ministry of Culture);
- support of physically and otherwise disabled persons, especially projects with a favourable impact on their health and the quality of their lives;
- support of fire prevention activities (e.g. voluntary fire brigade, fire monitoring service);
- support of breeding cold-blooded horses and their use in forestry.

Individual applications (projects) for financial support or sponsorship proposals will be assessed quarterly by independent commissions and donations and large sponsorship contracts will have to be approved by the Supervisory Board. The rules for granting financial support will be available to the public on the LČR web pages.

## 7. TRANSPARENCY

The LČR objective is to restore public trust in steps taken by its management and employees and in the procedures and positions adopted by the management. The fundamental principle is observation of the rules applying to the administration of entrusted assets and the management of processes with due care. The key precondition of success is the ability to reasonably explain and defend all measures taken and decisions adopted.

LČR will adhere to its statutes and discuss all important steps at Supervisory Board meetings; it also pledges to cooperate closely with its founder (especially concerning the implementation of common strategies e.g. in ICT, organisation of joint purchases, etc.).



## 7.1 ANTI-CORRUPTION MEASURES

LČR, driven by its effort to suppress corruptive conduct and join the fight against corruption, joins in similar efforts of the Czech Government and the Ministry of Agriculture; it is now in the process of developing an anti-corruption programme aimed at setting up transparent and standardised processes and defining roles in combating corruption.

Corruption can be described as the abuse of power for personal benefit or as accepting or providing inappropriate advantage in one's own or somebody else's benefit for the purpose of personal enrichment. A promise, offer, bribe or any other unjustified advantage given with the aim of influencing somebody's actions or decisions is considered to be corruption. Asking for, or accepting a bribe is also corruption. A bribe can be tangible or intangible and it can involve, besides money, also objects, services and information.

The aim of this programme is to eradicate or limit to the greatest possible degree conditions favourable to corruption, and that by defining risk sites, positions or activities where corruption could occur. The definition of corruption risk is then followed by the definition of systemic procedures and measures for the eradication of corruption.

### Implementation and awareness of the anti-corruption programme

Information about the anti-corruption programme shall always be available to LČR employees and third parties. The anti-corruption programme is annexed to the LČR Conditions of Employment.

### Promotion of the anti-corruption stance of LČR management

The anti-corruption programme and the fight against corruption have the explicit support of the company management, reflected in efforts to strengthen ethical conduct and in open expression of views by employees and third parties who bring non-ethical conduct to notice.

The management is aware of the consequences of any failure to deal with the threat of corruption and in this context lays extraordinary emphasis on the protection of the property of the State-owned company - i.e. of the State, on adherence to the highest ethical standards, legal and internal company regulations and support of reporting, made in good will, of suspected corruptive conduct.

The company management also declares that it will not tolerate any corruption, both inside and outside the company, and that it will use all available legal instruments to fight corruption. It also declares that it will not tolerate and will fight any retaliation against persons reporting corruption.

Especially company management staff is responsible in the first place for creating a workplace environment that prevents any possible development of corruption; should corruption still occur in spite of this, management staff should either report such conduct themselves or facilitate its reporting by others to enable investigation.

### Code of Ethics

The management adopted the Code of Ethics of LČR employees, which is annexed to the Conditions of Employment and stipulates the basic rules of staff conduct. The conduct of LČR employees must always be legal, ethical, transparent and in compliance with the legal code of the Czech Republic and the values of a State-owned enterprise. All employees of the State-owned company are obliged to observe the Code of Ethics.

### Introduction to anti-corruption programme

Each and every new employee will become acquainted with the internal regulations including the Code of Ethics and this anti-corruption programme, which is available also on the LČR webpage. New employees are informed about the anti-corruption programme as part of their initiation course, which they must attend no later than the last day of the quarter of the calendar year in which they joined the company.

The basic principles of this training include emphasis on the necessity of employees' adherence to the Code of Ethics, raising awareness of the specific aspects of employment with a State-owned enterprise and the adoption of principled ethical attitudes in situations staff members may encounter during their time in office.

### Disclosing information

Information disclosure aims to discourage all types of corruption by increasing the probability of its exposure or by preventing its possible occurrence. The State-owned enterprise is a transparent entity, whose transparency will be further developed towards actively making available information about processes and public funds, and by a discussion about the content of the selected strategic documents.

#### Information disclosed by LČR involves especially the following areas:

- rules and procedures applying to the allocation of financial support or cooperation;
- details of long-term controls carried out in accordance with a special act;
- mandatory information on public procurement;
- details of financial assets management;

- all public contracts of a value exceeding CZK 300,000;
- list of advisers to the general manager and to the directors of the State-owned company,
- names of consultants providing services on the basis of a contract of mandate;
- names of attorneys and law offices including contracted rates per hour;
- up-to-date information on LČR activities and processes in the form of press releases;
- information disclosed upon request pursuant to Act 106/199 Sb., on Free Access to Information, including disclosure of the request for the information and the answer;
- long-term Concept of the State-owned company.

## Public consultation

The State-owned company cooperates in the field of strategic procurement with the public and NGOs operating in the respective sectors or associated with the respective sectors during the draft of the tender and contractual documentation, which is then submitted to be widely discussed, unless this is in conflict with legal regulations.

## Disclosure of anti-corruption activities

The requirement for openness and transparency is also met by the current modification of the LČR webpage to provide all the relevant data referring to anti-corruption measures adopted by the company.

## Stated procedure in the case of suspected corruption

The specific goal in this respect is to set up effective controlling mechanisms and ensure effective exposure of corruptive conduct. The company management has set up an independent three-member ethical committee to assess and deal with corruption impulses and risks and will actively control and identify areas of increased corruption potential according to their frequency and severity.

## System for reporting suspected corruption

Suspicion of any corruptive conduct by employees of the State-owned company can be reported electronically at: **korupce@lesycr.cz**, or in writing, or in person to the LČR Internal Audit Department at: **Lesy České republiky, s.p., Odbor Interního auditu, Přemyslova 1106, 501 68 Hradec Králové, Czech Republic.**

Any suspected fraud or other serious irregularity that could have an unfavourable impact on EU funds, be it income, expenditure or assets owned by EU bodies, or suspicion of severe violation of obligations by employees of EU bodies and institutions, can be reported anonymously, using the online form available at the European Anti-Fraud Office (OLAF) webpage at: [http://ec.europa.eu/anti\\_fraud/investigations/report-fraud/index\\_cs.htm](http://ec.europa.eu/anti_fraud/investigations/report-fraud/index_cs.htm)

## Protection of individuals who report corruption

The management states that any reporting done in accordance with the preceding paragraph and which is not deceptive and is made in good faith, shall not be sanctioned, and that not even indirectly.

## Establishing an ethical committee

The company management has established an independent three-member ethical committee to assess investigations of all reported cases of corruption after the submission of the complaints report by the Internal Audit Department and to identify areas presenting increased corruption potential.

The purpose of the investigations carried out by the Internal Audit Department and subsequently by the ethical committee is to collect the details needed for the assessment of the alleged violation of the law or of internal regulations and, possibly, specify follow-up measures, especially in the personnel department, propose ways of dealing with the damage that has occurred to the damages committee of the State-owned company and in the extreme case resort to the relevant legal procedure.

## Assessment of the anti-corruption programme and of corruption risks

The assessment of the anti-corruption programme and of corruption risks will be carried out by the ethical committee in cooperation with the Internal Audit Department on a continuous basis. By 30 April of every year, the ethical committee will submit a report on its activities to the company management and, subsequently, at the nearest meeting of the Supervisory Board. Once discussed by the Supervisory Board, the report will be made public on the LČR webpage. The report of the ethical committee will include the following:

- description of the number of reported cases,
- qualification of the areas and processes in which corruption has occurred,
- state of implementation of anti-corruption measures,
- information on the standard of anti-corruption training,
- basic summary of adopted measures and identification of risks,

- evaluation of the effectiveness of the anti-corruption programme and updated proposals.

The State-owned company is obliged to evaluate and update its anti-corruption programme as of 30 December of every year.

## 7.2 MAIN PRINCIPLES GOVERNING THE EVALUATION OF DONATION REQUESTS AND SPONSORSHIP APPLICATIONS

Each application will be assessed from the point of view of how well the project documentation is processed, of its readiness and feasibility, of how effectively the funds intend to be used, of the applicant's references and any favourable past experience. During the assessment of applications for donations or sponsorship preference will be given to applicants who can document by presenting accounting records that they operate efficiently and with low operational costs.

### The assessment of applications for donations and sponsorship is governed by the following ethical rules:

- External: It is inadmissible to apply for a donation or sponsorship for the same purpose to more than one LČR organisational units simultaneously, and it is possible to apply only once a year. Failure to observe this rule will result in the rejection of the application.
- Internal: Decisions on donations and sponsorship applications may not allow for the private interests of competent LČR employees to be taken into account. Failure to observe this rule will be considered a serious breach of work discipline.

The financial limits for the possible extension of support in the form of donations provided by individual organisational units will be set for separate periods in the financial plan approved by the Supervisory Board and the founder. The administration of individual applications will be executed in accordance with set rules and with the assistance of an appointed independent assessment committee. The administration of applications for donations and major sponsorship deals will also require the approval of the Supervisory Board.



## 8. PERSONNEL POLICY

Personnel policy has an essential impact on all the results and activities of the company. The objective is to have a stabilised labour force, which is motivated in the best possible way and has the necessary knowledge, skills, experience and personality traits; employees who know what LČR expects of them and what they, on the other hand, can expect from the company and under what kind of conditions. This is the context for increasing the effectiveness and rationality of the social programme to make it support in the best possible way the stabilisation and welfare of the employees and simultaneously support the goals listed above.





To achieve these goals it is necessary to set clear rules that offer employees the prospect of professional, forestry-related and personal growth, and to stipulate transparent criteria of evaluation of their work on the basis of their qualifications, expertise, performance, experience and the role played in LČR.

**In its effort to enhance the quality of its staff and develop their motivation, LČR will focus its efforts especially on the following areas:**

- review of the staffing of individual organisational units including competences and responsibilities; the objective is to establish an effective organisational structure capable of economically fulfilling tasks,
- development of a system of care of key employees, substitutability and personnel replacement;
- development and training system (forestry-related training, best practice, development of a “forestry academy”, professional forest manager, etc.),
- project management of new tasks,
- revision of remuneration system, especially with view to motivating employees to meet company’s expectations,
- efforts to adopt the principles of a shared vision and responsibility (e.g. involvement of suitably selected internal advisory teams into the company decision making processes, holding employee polls on important topics, etc.).

During the review of the organisational set up and effectiveness of the individual positions LČR will focus on assessing the work load of forest wardens during their management of forest operations. If it is proved that employees in these positions are overloaded and unable to meet the expectations of their work performance to a high standard, LČR will deal with the situation by hiring a sufficient number of qualified staff with preference for fresh graduates to work as junior foresters.

**LČR plans to maintain the three-level management system of their organisational structure. At the same time, the powers and remit of the individual levels will be revised. The individual management levels are:**

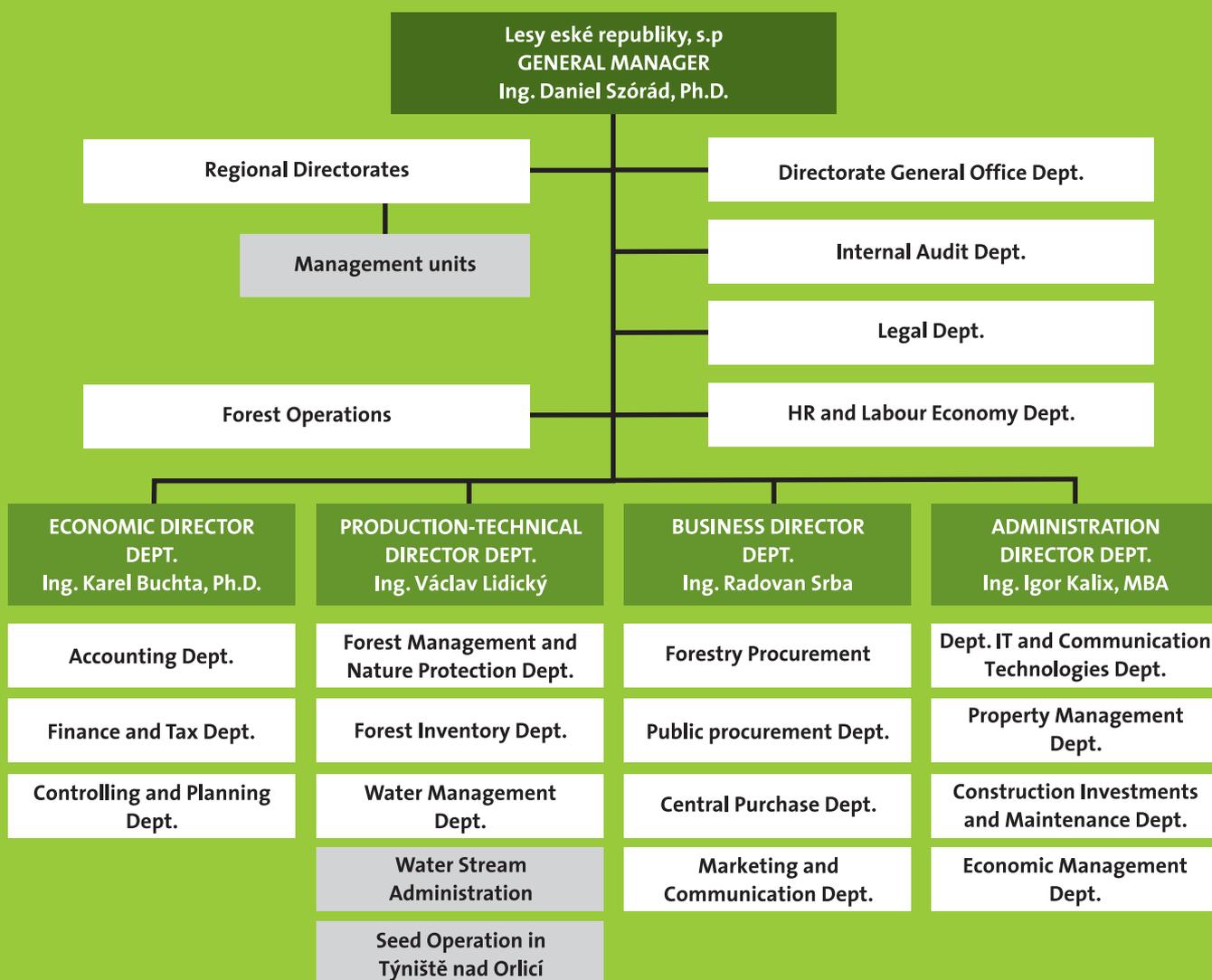
- headquarters with registered office in Hradec Králové – strategic management role and methodological management;
- regional directorates – regional controlling activities; provision of services to subordinate organisational

units, especially in negotiating contracts with business partners, legal services, etc.

- forest administration units and regional water management units – responsible for the specific performance of forest management and of operational steps arising from contracts, i.e. water stream management (preventive anti-flood measures, cleaning stream beds, managing river bank stands, etc.)

Directly-managed forest operations are special LČR organisational units. They comprise: Židlochovice, Konopiště, Boubín and Kladská. These units are in exceptional natural locations and, besides an important referential role, they have a representative role. The intention of LČR is to preserve them namely because of their specific features and, simultaneously, implement effective and model forestry management there.

**The current LČR organisational structure is shown in the chart below:**





## **9. MAJOR SHORT TERM TASKS**

**(ON TOP OF COMMON OPERATIONS)**





## Administration and Organisation

- **Finalisation of church restitutions process** – the goal of LČR is to satisfy all unequivocally provable claims by the end of 2014. Where LČR has reasonable doubt concerning a claim, the case will be forwarded for administrative proceedings (taking place under the supervision of the Czech Land Office) for independent weighing of the case and either confirmation or rejection of doubt.

Experience with earlier restitution claims gives LČR reason to believe that it will be a long time before a court ruling becomes effective. LČR has proposed a solution to the situation, that is to agree rules of management of the estates at issue with the entitled entity and to record the costs and yields in a “transparent controlled account”. The purpose of this measure is to limit potential risk and the negative effects of the “non-management” of property. In the view of LČR:

- the obligation to manage the property with due care as set forth by the Forest Act and the State Enterprise Act is in conflict with the provisions of the Property Settlement with Churches Act, which imposes the obligation to hand over the property in the condition as of the date when the claim was filed,
- there is a risk of reduction of the value of the property (risk of permanent loss of yield from property) due to the ageing of forest stands that have exceeded the economical rotation age; loss of continuity in forest regeneration, etc.,
- the social consequences of long term loss of jobs.

The intention of LČR is to reach a mutual agreement that would both allow due care of the property during the interim period, and give the entitled entity the certainty that there would be no unjustifiable enrichment of LČR - this is ensured by the principle of crediting management results to an account which, if ordered by a higher authority, would be transferred to the entitled entity together with the forest property.

LČR will therefore draft and implement a methodology for recording management activities at the individual estates claimed under the Act on Property Settlement with Churches. LČR will also strive for agreement with entitled entities on the above principles.

- Optimisation of the organisational structure of the company (also as a consequence of settlement of restitution claims) – revision of responsibilities and competences; optimisation of work tasks, etc. including the necessity of revising and standardising management processes across the company;
- Resolution of the property share of LČR in its subsidiaries HLDS and H.F.C. in order to gain full control over the shares (i.e. over the activities of the subsidiaries) or, on the contrary, with the aim of achieving financial profit from the sale of the shares;
- Increasing the capacity and competences of the internal legal department and finding a suitable partner for dealing with strategic legal disputes;
- Execution of an update of property passportisation and adoption of a comprehensive approach to immovable property according to the results of the passportisation;
- Processing of a record of all mineral deposits (lessees, types and volume of mined material, rent) and optimisation of the the management of such property to the benefit of LČR;
- Support of ICT development.





## Production

- Search for and implementation of a suitable method for determining the amount of timber harvested and sold from the forest stand;
- Development of function control mechanisms, especially in the field of forestry production, but also in all LČR activities;
- Definition and implementation of game management procedures to reduce damage caused by game;
- Enhancement of the quality of forestry operation planning with an impact on annual project planning.

## Business

- Application of social responsibility principles in procurement;
- Development of transparent ways of selling timber and implementation of effective price control and quality of the cross-cutting of commercial assortments;
- Draft of rules for assessing contractual partners;
- Preparation of a register of fines on forestry and other orders imposed on partners.

## Human resources

- Maintenance of a system supporting development of employee qualifications (maintenance, development, requalification, assessment, verification of qualification)
- Draft of career development rules for employees;
- Optimisation of employee performance based on the Collective Agreement, including an employee benefits system, to meet the requirement of meaningful motivation of employees to fulfil the tasks expected of them.

## Economy

- Application of the principles of economy across the company (e.g. introduction of intra-company economy at forest operations etc.)
- Enhancement of the effectiveness of planning, result assessment and continuous control;
- Optimisation of LČR financial assets management;
- Revision of LČR property insurance policy;
- Revision of LČR management documents.





## 10. KEY MID-TERM TASKS





### Key mid-term tasks:

- Continuous search for opportunities to consolidate property in order to increase its value and strengthen the pre-requisites for an effective economy;
- Support of nature friendly management techniques and their promotion through Forest Parks and model forests;
- Development of LČR public benefit activities;
- Development of natural disaster planning strategies;
- Development of mid-term forest regeneration policy;
- Improvement of forest management planning processes;
- Development of forest fire prevention policy;
- Review of LČR property insurance;
- Identification of new business and entrepreneurial opportunities to strengthen the market position of LČR and to increase the appreciation of timber – acquisition, investment plans;
- Increasing employee awareness of the developed standards of conduct;
- Preparing a strategy of implementation of investments, repairs and maintenance of property;
- Strive to create a favourable image of LČR through public presentation events – opening educational trails, Days with LČR;
- Mapping interesting sites, significant buildings and natural phenomena in the Czech Republic and the creation of a database of the objects in a popular educational context - implementation of educational projects on nature and forest life for the public;
- Support of other forestry-related activities (museum; breeding of draught horses, etc.).

## 11. CONCLUSION

The draft of the document titled Strategic Development Concept of Lesy České republiky, s. p. for 2015 to 2019 has been assigned by the Minister of Agriculture Ing. Marián Jurečka and is now being presented by the General Manager of LČR, Ing. Daniel Szórád, Ph.D.

The major part of the Concept is the outcome of a professional discussion with forestry and wood-based industry authorities. The Concept also draws on the perception of a State-owned company and its role in the social context.

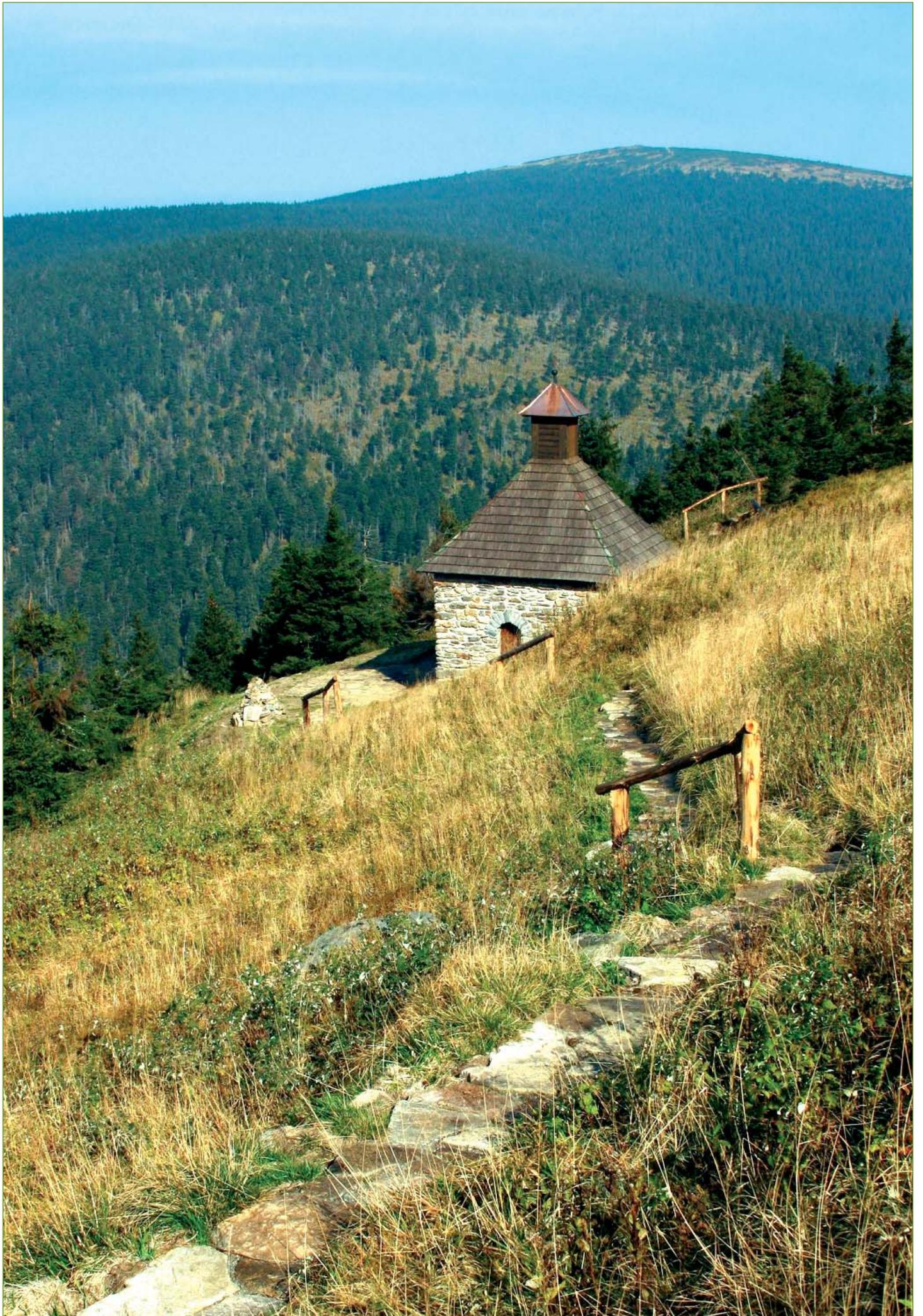
This document was drafted by the company management and is ready to be submitted to the professional as well as lay public. We expect a constructive discussion of this document with the aim of getting the most favourable reception from the majority of stakeholders.

Hradec Králové, December 2014



**Ing. Daniel Szórád, Ph.D.**  
General Manager





# LIST OF ABBREVIATIONS AND TERMS AND DEFINITIONS

## **SFM – Sustainable forest management**

The objective of sustainable forest management is to create a stable, high quality forest with mixed species and spatial and age groups distribution. Sustainable forest management as set forth under Section 1 of the Forestry Act means management that allows forests to fulfil all their commercial and non-commercial functions (Section 2 (b) of the Forestry Act) including the production of high quality timber. The application of sustainable forest management principles thus means using forests in a manner and scope that allow the permanent maintenance of stability, species diversity, production ability, regeneration capacity, vitality and capacity to fulfil all useful forest functions. The SFM programme applying to forests stipulates management principles based on three pillars: economic, environmental and social, equally implemented and complementing each other as much as possible.

## **Nature friendly economy**

Nature friendly forest economy is a form of sustainable forest management which uses natural processes and the creative power of nature to the greatest possible degree for the fulfilment of its objectives

**LČR** – Lesy České republiky, s.p. (Czech State Forests)

**PEFC** – certification system of forest estates (Programme for the Endorsement of Forest Certification schemes) – this process leads to the implementation of sustainable management in Czech forests and strives for the improvement of forest functions for the sake of the betterment of the environment.

**C-o-C** – Chain of custody – wood consumer chain (this is a certification of companies entering the certified material processing chain and the monitoring of the flow of the material from the forest to the final product)

**Professional forest manager** – a person who has passed an internal exam confirming his professional skills

**Forest vegetation zone** – this defines the sequence of changes in the species composition of biota in dependence on the climate as it changes with rising elevation and slope exposition

**(F)** forecast

**CEO** Chief Executive Officer

**AD** Administration Director

**ED** Economic Director

**PTD** Production-Technical Director

**BD** Business Director

**MU** Management Unit

**RD** Regional Directorate

## Annex 1 – Simplified profit and loss statement as at 31 December xxxx (kCZK)

Ref.	Text	I.	Reality	(F)	Concept				
			2013	2014	2015	2016	2017	2018	2019
I.	Sales of goods	1	3,628	3,096	3,096	3,096	3,096	3,096	3,096
A.	Costs goods sold	2	3,190	2,496	2,496	2,496	2,496	2,496	2,496
+	Gross profit	3	438	600	600	600	600	600	600
II.	Sales of production	4	11,518,133	12,280,830	11,414,924	11,210,121	10,999,550	10,797,288	10,532,896
II.1.	Sales of own goods and service	5	11,537,080	12,257,624	11,398,719	11,193,916	10,983,345	10,781,083	10,516,691
II.2.	Change in inv. of fin. products and work in progress	6	-31,605	750	0	0	0	0	0
II.3.	Capitalisation	7	12,658	22,456	16,205	16,205	16,205	16,205	16,205
B.	Cost of sales	8	4,676,514	4,414,452	4,295,168	4,203,386	4,159,221	4,145,149	4,142,650
B.1.	Material and energy consumed	9	324,297	372,505	322,505	322,505	322,505	322,505	322,505
B.2.	Services	10	4,352,217	4,041,947	3,972,663	3,880,881	3,836,716	3,822,644	3,820,145
+	Added value	11	6,842,057	7,866,978	7,120,357	7,007,335	6,840,929	6,652,739	6,390,846
C.	Staff costs	12	1,656,230	1,765,980	1,804,118	1,832,093	1,888,984	1,930,146	1,967,877
C.1.	Wages and salaries	13	1,190,770	1,275,900	1,302,548	1,324,138	1,364,833	1,395,116	1,423,644
C.2.	Emoluments of board members (comp. and coop.)	14	70	100	200	200	200	200	200
C.3.	Social security and health insurance costs	15	402,219	426,980	437,559	443,132	458,412	469,179	478,356
C.4.	Other social costs	16	63,171	63,000	63,811	64,623	65,539	65,651	65,677
D.	Taxes and charges	17	161,079	158,400	158,400	158,400	158,400	158,400	158,400
E.	Depreciations exp. of tang. and intang. fix. assets	18	719,551	687,431	706,431	720,431	728,431	731,431	731,431
III.	Revenues from sales of tang. fix. assets and material	19	264,514	124,500	139,600	199,600	214,600	214,600	214,600
III.1.	Revenues from fixed assets	20	260,492	119,900	135,000	195,000	210,000	210,000	210,000
III.2.	Revenues from material	21	4,022	4,600	4,600	4,600	4,600	4,600	4,600
F.	Net book value of disposed fix. assets and material	22	54,844	23,800	30,800	42,800	45,800	45,800	45,800
F.1.	Net book value of disposed fixed assets	23	51,698	20,000	27,000	39,000	42,000	42,000	42,000
F.2.	Disposed material	24	3,146	3,800	3,800	3,800	3,800	3,800	3,800
G.	Change in operating provisions and adjustments	25	179,697	40,000	0	0	0	0	0
G.1.	Change in operating provisions	26	139,768	0	0	0	0	0	0
G.2.	Change in operating adjustments	27	39,929	40,000	0	0	0	0	0
IV.	Other operating revenue	28	357,428	173,900	173,900	173,900	173,900	173,900	173,900
H.	Other operating expenses	29	93,414	72,500	72,500	72,500	72,500	72,500	72,500
*	Operating profit and loss for the period	30	4,599,184	5,417,267	4,661,608	4,554,611	4,335,314	4,102,962	3,803,338
VI.	Revenues sales of shares and ownership interests	31	1,443,610	1,115,000	1,186,000	920,000	50,000	50,000	50,000
J.	Shares and ownership interests sold	32	1,478,618	1,116,000	1,186,000	920,000	50,000	50,000	50,000
VII.	Income from long term financial assets	33	39,785	40,136	40,000	37,000	24,500	24,500	24,500
VII.1.	Revenues from own. interests in subsid. and assoc.	34	136	0	0	0	0	0	0
VII.2.	Revenues from shares and ownership interests	35	39,649	40,136	40,000	37,000	24,500	24,500	24,500
VII.3.	Revenues from other long-term financial assets	36							
VIII.	Revenues from other short-term financial assets	37	194,869	98,000	36,500	33,500	21,000	21,000	21,000
K.	Costs of financial assets	38	2,103	60	60	60	60	60	60
IX.	Revenues from revaluation of securities and deriv.	39	1,545	2,000	2,000	2,000	2,000	2,000	2,000
L.	Costs of from revaluat. of securities and derivate	40	26,314	5,000	5,000	5,000	5,000	5,000	5,000
M.	Change in financial provisions and adjustments	41	0	0	0	0	0	0	0
X.	Interest income	42	190,109	135,000	39,636	41,636	28,636	26,636	24,636
N.	Interest expenses	43	7	5	5	5	5	5	5
XI.	Other financial revenues	44	17,295	1,100	1,100	1,100	1,100	1,100	1,100
O.	Other financial expenses	45	22,697	10,171	10,171	10,171	10,171	10,171	10,171
*	Financial profit and loss for the period	48	357,474	260,000	104,000	100,000	62,000	60,000	58,000
Q.	Tax on profit or loss on ordinary activities	49	967,116	1,076,586	912,101	890,857	841,612	796,759	739,031
Q.1.	- current	50	952,032	1,086,586	912,101	890,857	841,612	796,759	739,031
Q.2.	- deferred	51	15,084	-10,000	0	0	0	0	0
**	Profit or loss for ordinary activities	52	3,989,542	4,600,681	3,853,506	3,763,754	3,555,701	3,366,203	3,122,307
XIII.	Extraordinary income	53	0	0	0	0	0	0	0
R.	Extraordinary costs	54	0	0	0	0	0	0	0
S.	Tax on profit or loss on extraordinary activities	55	0	0	0	0	0	0	0
S.1.	- current	56	0	0	0	0	0	0	0
S.2.	- deferred	57	0	0	0	0	0	0	0
*	Profit or loss for extraordinary activities	58	0	0	0	0	0	0	0
T.	Transfer of profit or loss to partners (+/-)	59	0	0	0	0	0	0	0
***	Net profit and loss for the period (+/-)	60	3,989,542	4,600,681	3,853,506	3,763,754	3,555,701	3,366,203	3,122,307
****	Profit and loss before tax (+/-)	61	4,956,658	5,677,267	4,765,608	4,654,611	4,397,314	4,162,962	3,861,338

## Annex 2 – Abbreviated balance sheet for CF prediction 2014–2019 (mCZK)

	2013	2014	2015	2016	2017	2018	2019
<b>Total assets</b>	<b>79,853</b>	<b>76,566</b>	<b>70,325</b>	<b>69,489</b>	<b>70,795</b>	<b>71,911</b>	<b>72,823</b>
<b>Fixed assets</b>	<b>67,680</b>	<b>65,152</b>	<b>63,757</b>	<b>64,257</b>	<b>64,757</b>	<b>65,257</b>	<b>65,757</b>
Intangible fixed assets	424	424	424	424	424	424	424
tangible fixed assets	62,623	61,928	61,333	61,833	62,333	62,833	63,333
– increase		600	700	500	500	500	500
– decrease		1,295	1,295				
Long-term financial assets	4,633	2,800	2,000	2,000	2,000	2,000	2,000
<b>Current assets</b>	<b>12,056</b>	<b>11,414</b>	<b>6,568</b>	<b>5,232</b>	<b>6,038</b>	<b>6,654</b>	<b>7,066</b>
Stocks	160	160	160	160	160	160	160
Long-term receivables	-	-	-	-	-	-	-
Short-term receivables	1,828	1,828	1,828	1,828	1,828	1,828	1,828
Short-term financial assets	10,068	9,426	4,580	3,244	4,050	4,666	5,078
Accruals and deferrals	117						

<b>Total liabilities and equity</b>	<b>79,853</b>	<b>76,566</b>	<b>70,325</b>	<b>69,489</b>	<b>70,795</b>	<b>71,911</b>	<b>72,823</b>
<b>Equity</b>	<b>74,804</b>	<b>73,510</b>	<b>67,769</b>	<b>67,233</b>	<b>68,739</b>	<b>69,997</b>	<b>70,909</b>
Share capital	11,970	11,980	12,080	12,080	13,080	14,080	14,970
Capital contributions	51,321	50,026	48,731	48,731	48,731	48,731	48,731
Reserves from profit	4,957	1,447	2,147	2,147	2,647	3,147	3,537
retained earnings	2,566	3,556	457	211	525	531	549
Profit and loss	3,990	6,501	4,354	4,064	3,756	3,508	3,122
<b>Liabilities</b>	<b>4,956</b>	<b>3,056</b>	<b>2,556</b>	<b>2,256</b>	<b>2,056</b>	<b>1,914</b>	<b>1,914</b>
Provisions	3,571	1,671	1,171	871	671	529	529
Payables	1,385	1,385	1,385	1,385	1,385	1,385	1,385
Accruals and deferrals	93						

## Annex 3 – Time line for meeting significant short-term objectives

Cat.	Objective	Time	Resp. Dept.
Administration and Organisation	Finalisation of church restitutions process	Q2 2015	AD
	Optimisation of the organisational structure of the company	ongoing	CEO
	Resolution of the property share of LČR in its subsidiaries HLDS and H.F.C.	2015	CEO
	Increasing the capacity and competences of the internal legal department	ASAP	CEO
	Execution of an update of property passportisation	Q1 2015	AD
	Processing of a record of all mineral deposits	Q1 2015	AD
	Support of ICT development	ongoing	AD
Production	Search for and implementation of a suitable method for determining the amount of timber harvested and sold from the forest stand	Q2 2015	PTD
	Development of function control mechanisms, especially in the field of forestry production, but also in all LČR activities	ongoing	CEO
	Definition and implementation of game management procedures to reduce damage caused by game	ongoing	PTD
	Enhancement of the quality of forestry operation planning with an impact on annual project planning	2015	PTD
Business	Application of social responsibility principles in procurement	ASAP	BD
	Development of transparent ways of selling timber and implementation of effective price control and quality of the cross-cutting of commercial assortments in Forest Operations	ongoing	BD
	Draft of rules for assessing contractual partners	Q1 2015	BD/AD
	Preparation of a register of fines on forestry and other orders imposed on partners	2015	BD/AD
Human resources	Maintenance of a system supporting development of employee qualifications (maintenance, development, requalification, assessment, verification of qualification)	ongoing	CEO
	Draft of career development rules for employees	Q1 2015	CEO
	Optimisation of employee performance based on the Collective Agreement	2015	CEO
Economy	Application of the principles of economy across the company	ongoing	ED
	Enhancement of the effectiveness of planning, result assessment and continuous control	Q1 2015	ED
	Optimisation of LČR financial assets management	ongoing	ED
	Revision of LČR property insurance policy	Q1 2015	ED
	Revision of LČR management documents	Q1 2015	ED

## Annex 4 – Time line for meeting key mid-term objectives

Objective	Time	Responsible Dept.
Continuous search for opportunities to consolidate property in order to increase its value and strengthen the pre-requisites for an effective economy	ongoing	management
Support of nature friendly management techniques and their promotion through Forest Parks and model forests	ongoing	management
Development of LČR public benefit activities	ongoing	management
Development of natural disaster planning strategies	Q2 2015	CEO / PTD
Development of mid-term forest regeneration policy	Q2 2015	CEO / PTD
Improvement of forest management planning processes	ongoing	PTD
Development of forest fire prevention policy	Q2 2015	PTD / AD
Review of LČR property insurance	Q1 2015	ED
Identification of new business and entrepreneurial opportunities to strengthen the market position of LČR and to increase the appreciation of timber – acquisition, investment plans	ongoing	all
Increasing employee awareness of the developed standards of conduct	ongoing	all
Preparing a strategy of implementation of investments, repairs and maintenance of property	Q4 2014	AD
Strive to create a favourable image of LČR through public presentation events	ongoing	all
Mapping interesting sites, significant buildings and natural phenomena in the Czech Republic and the creation of a database of the objects in a popular educational context - implementation of educational projects on nature and forest life for the public	Q2 2015 / ongoing	PTD
Support of other forestry-related activities (museum; breeding of draught horses, etc.)	ongoing	management

**Note:** The time line for meeting the objectives of social programme and business policy is apparent from the overviews herein.

