

**ANNUAL REPORT 2011**  
**LESY ČESKÉ REPUBLIKY, S.P.**

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# FORESTS FOR THE FUTURE

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# PROTECTION OF THE FOREST ECOSYSTEM



## Foreword by the CEO

Last year, 2011, was the third year of my tenure as CEO. In those three years, through the consistent application of standard management mechanisms, Lesy ČR has managed to transform itself into a stable, smoothly running and economically very successful company with record-breaking earnings of CZK 5.275 billion, the highest profit ever reported by the enterprise.

These results are no miracle. They are the fruit of dedicated work by all employees, backed by executive experience in the management of the company geared towards ensuring that earnings from operations remain where they were first generated – within the enterprise. Our economic results have not been achieved at the expense of impaired care for forests or by the sale of redundant assets, as has been claimed in certain quarters. In fact, 85% of earnings are underpinned by income from our core business, forest management. The main contributors to the economic results have been judiciously selected specifications of forestry contracts, with the bid price used as the sole evaluation criterion, the transition to a unified model of timber sales, and the direct selling of wood, cutting out the middleman. The company's economic situation has also been affected by many other "curative" measures, including reduced administration, cost management and optimization, central procurement, central planning and controlling, and the introduction of functional control mechanisms.

In 2011, we held a call for tenders for one-year forestry contracts based on a uniform standing timber sales model, entailing the introduction of a standard market environment in timber trade and the establishment of transparent conditions and a level playing field for all tenderers. This model and the established tender parameters proved successful in 2011 and formed the basis for a medium-term forestry tender due to start in 2012 and continue for a period of between one and five years. In addition, in 2011 we introduced a public timber sales channel, which took the form of standing wood auctions. Starting in 2012, these will be used concurrently with the sale of timber in forestry tenders.

Our sound financial management enabled us to cover all operating costs from our own resources, increase the funding channelled "back" into the woods to an all-time high of CZK 4 billion, use our own funds to cover the cost of removing the consequences of floods and disasters, invest in the development of the forest functions beneficial to the broader community, and manage state assets efficiently without having to rely on the national budget. What is more, our record earnings meant that we were able to generate more than CZK 13 billion in disposable funds for the needs of the national budget and assume a significant portion of the cost of operating the Agricultural and Water Management Authority, formerly also financed from the national budget.

I am keen to draw attention to the fact that the same company that initially reported profits running into hundreds of millions of crowns now boasts earnings of billions of crowns, yet the same capacity and the amount of extraction remains the same as in previous years.

We will continue the positive trend established in forest management and other business developments, and we will strive to consolidate the position of Lesy ČR, as the state forest manager, among prosperous companies so that, in the future, we are able to maintain the high quality of forest management and care for the water flows entrusted to us, thus constantly creating "free" money for the needs of the national budget.

To close, I would just like to note that few companies have achieved positive changes on the same scale as those at Lesy ČR in the space of three years, and I am confident that the measures and mechanisms we have implemented will pave the way for similar economic prosperity, which should become the norm, in the coming years.

**Svatopluk Sýkora**  
Chief Executive Officer

## Highlights of the Year

Economically, 2011 was the most successful period ever in the history of Lesy ČR, with profits amounting to CZK 5.275 billion. Of that, 85% came from the company's core business of forest management.

This exceptional result was achieved mainly due to the correctly set parameters of the comprehensive forestry contracting procedure and the creation of a competitive environment among those interested in the contracts. Tenderers put forward bid prices for both services and timber that were favourable for the company in a transparent and open public competition. In keeping with current legislation and the approved forest management plans, there was a consistently high level of all activity associated with the proper care of forests; once again, Lesy ČR was awarded a PEFC sustainable forest management certificate for the whole of the area under its management in 2011.

Last year was also very kind to us in that natural calamities were kept to a minimum. In forest protection, an important area of activity, our defensive action against bark beetles in 2011 helped to reduce damage further; the volume of bark beetle wood processed was down by 40% on 2010.

Following a decision by the Minister for Agriculture, Lesy ČR took over part of the Agricultural and Water Management Authority (AWMA), along with all related activities and costs, in January 2011. During the year, the company physically took over 14,000 km of minor watercourses and related assets with a total value exceeding CZK 2.4 billion. By incorporating the AWMA into Lesy ČR, the company assumed central government costs associated with the operation of the AWMA, although this had no negative impact on the company's financial management.

In late April, Lesy ČR held a call for tenders for forestry work as of 2012, with contracts to run from between one year and five years. The forestry tender was announced in accordance with the Ministry of Agriculture Strategy on the Economic Policy of Lesy ČR, s.p. as of 2012, known as the "Wooden Book". The tender was prepared in consultation with the Office for the Protection of Competition and the non-profit organization Transparency International.

The second round of the tender was announced in August. In October, the Office for the Protection of Competition (OPC) initiated administrative proceedings and issued an interim measure prohibiting the conclusion of contracts in this procurement procedure. In December, the Office completed the administrative proceedings and set aside the interim measure, noting that the investigation into the procurement procedure found no non-compliance with the law or reasons to impose corrective measures or penalties, and that the tender was entirely lawful, non-discriminatory and transparent. Lesy ČR then immediately started the contracting process. Although the OPC's investigation delayed the contracting, thus putting back the start of work in the forests and creating the risk of negative timber market impacts at the beginning of the year, the company adopted a number of operational measures to mitigate the adverse effects on timber market supply.

As June gave way to July, floods hit the Zlín Region. Timely intervention by Lesy ČR and the progressive preventive opening-up of watercourses minimized the damage, which still amounted to CZK 40 million. Throughout the year, work continued on the clean-up of flood damage from the years 2009 and 2010. At the same time, flood control measures on the watercourses managed by the company were prepared and put in place.



In August 2011, Lesy ČR introduced a public paper entitled "Agenda 2020 – Guaranteeing the Public Interest at LČR". This scheme aims to support and develop community projects in the next 10 years. It is intended to finance specific investment and non-investment projects for the rehabilitation and maintenance of hiking trails, nature trails, recreational sites, fountains, monuments, measures to protect biodiversity and many other activities in the forests managed by Lesy ČR. In the next 10 years, Lesy ČR plans to make ongoing investments under Agenda 2020 that will amount to at least CZK 600 million.

The United Nations (UN) declared 2011 the International Year of Forests. Lesy ČR was actively involved in this project. Throughout 2011, the company organized dozens of educational events for the general public about forests and forestry in the form of lectures, talks, walks, and, in particular, events such as "A Day with LČR". These events were staggered to take place in all the regions.

Lesy ČR closed 2011 with a pre-tax profit of CZK 5.275 billion. Total logging stood at 8.02 million m<sup>3</sup> of timber; the company restored 13,700 hectares of forestland (of which there was a 43% share of soil-improving and strengthening species in the initial restoration procedure) and tended 41,000 hectares of stands younger than 40 years.



# Corporate Profile

## Basic Provisions

### 1. Legal Form

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

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

### 2. Registered Office

Hradec Králové, Přemyslova 1106, 501 68

### 3. Principal Objects of Business

The performance of activities ensuring the optimal all-round functioning of forests via selected business entities or on the company's own account:

- the exercise of all ownership rights attached to state assets which the company is entitled to manage, subject to the founder's consent to legal acts associated with specified property;
- exercise of the right to manage state-owned forests as granted to Lesy České republiky by the state;
- exercise of the right to manage other state-owned movable and immovable assets entrusted to the company to carry out its tasks, and the right to engage in non-business activities with state property in the company's own name and own responsibility;
- the exercise of the rights and obligations of a forest owner under the Forest Act in relation to state-owned forests which the company is entitled to manage;
- professional forest management;
- protective forest services.

### 4. Other Objects of Business

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

### 5. Principles of Economic Activity

Lesy ČR plans and carries out forestry work with a view to bridging the gap between the smooth all-round functioning of the forests under its management and the backdrop of a market economy. In its pursuit of this goal, the company applies principles of sustainable forest management, which is a prerequisite for the sustainable production of quality timber, while respecting and developing all other forest functions (especially the non-productive role of forests).

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



# Organizational Structure

## 1. Chief Executive Officer

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

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

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

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

## 2. Management

The company's management consists of the Chief Executive Officer and chief officers in charge of sections, i.e.:

- Chief Human Resources Officer;
- Chief Financial Officer;
- Chief Commercial Officer;
- Chief Operations Officer;
- Chief Administration Officer.

## 3. Decision-taking

The Chief Executive Officer decides on all company matters not placed by law within the competence of the founder.

The Chief Executive Officer takes decisions on matters defined by the State Enterprises Act and the company charter after the founder and Supervisory Board have expressed their views or given consent.

## 4. Structure

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

### Number of Organizational Units

| Year   | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------|------|------|------|------|------|
| RHO    | 13   | 13   | 13   | 13   | 13   |
| FMU    | 78   | 77   | 77   | 77   | 77   |
| FU, SU | 6    | 6    | 6    | 6    | 6    |
| WMU    | 7    | 7    | 6    | 6    | 6    |

### Central Head Office

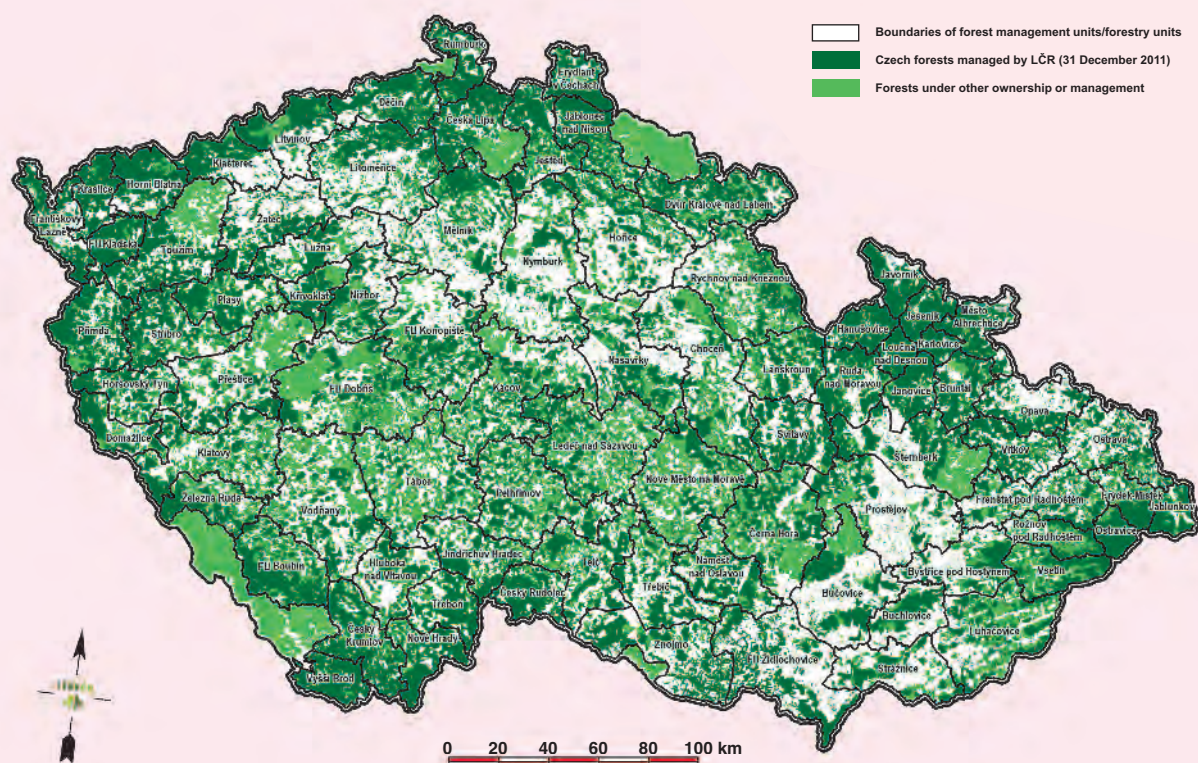
The Central Head Office oversees matters associated with the company's legal personality and strategic management and is responsible for ensuring uniform forest, commercial, financial and human resources management.

### Sections and Departments at the Central Head Office

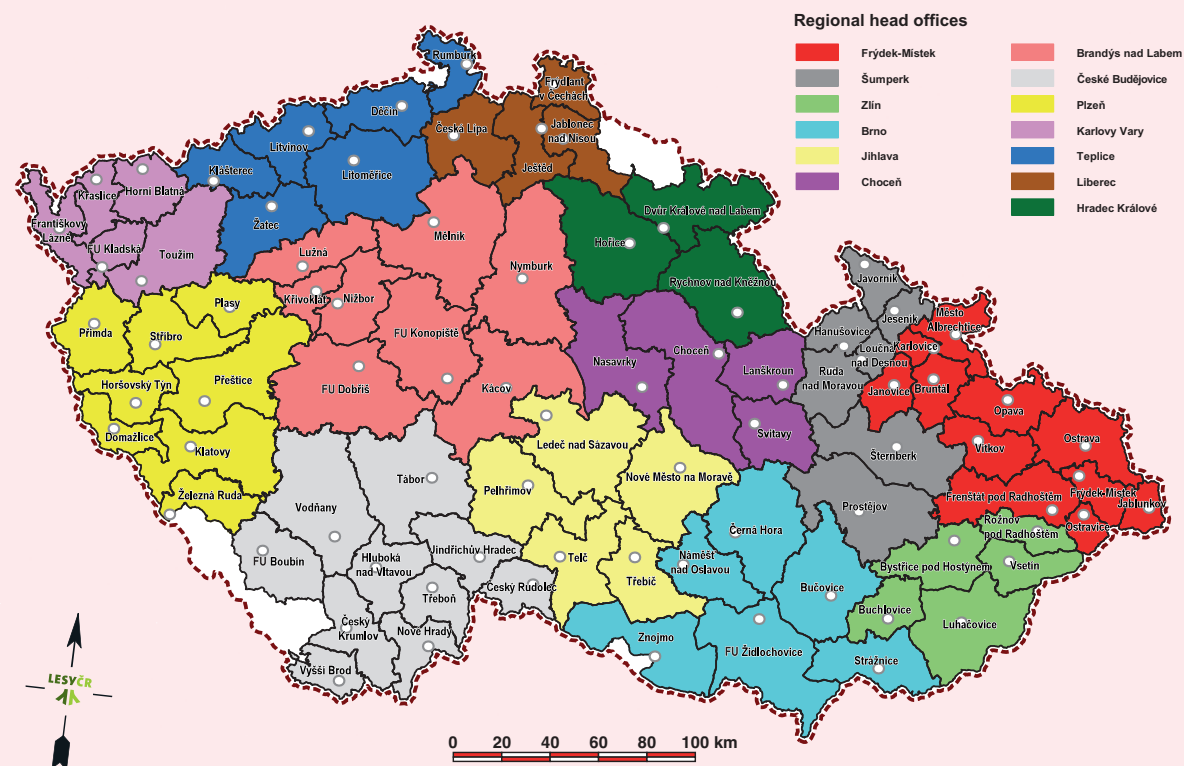
Specialist sections – the human resources, operations, financial, commercial and administration sections – play specific roles at the Central Head Office. Sections are divided into departments, which may be further divided into units. All sections and departments, within the scope of their competence, work together to perform the company's tasks and pursue its mission.

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

## Overview of Assets Managed by Lesy ČR



## Organizational Map of Lesy ČR





## Basic Organizational Structure at 31 December 2011

### Lesy ČR

| CHIEF EXECUTIVE OFFICER   |                            |                   |                           |                   |                          |                      |   |                             |                           |                              |                          |                               |
|---|----------------------------|-------------------|---------------------------|-------------------|--------------------------|----------------------|---|-----------------------------|---------------------------|------------------------------|--------------------------|-------------------------------|
| Regional head offices (13)  |                            |                   |                           |                   |                          |                      | CHIEF EXECUTIVE OFFICER'S SECTION   |                             |                           |                              |                          |                               |
| Forest management units (77)<br><br>Forestry units (5)<br>Safety and Control Department |                            |                   |                           |                   |                          |                      | Department of the CEO's Office<br>Marketing and Communication Department<br>Property Department |                             |                           |                              |                          |                               |
| HUMAN RESOURCES SECTION   |                            | FINANCIAL SECTION |                           |                   | COMMERCIAL SECTION       |                      | OPERATIONS SECTION  |                             |                           | ADMINISTRATION SECTION       |                          |                               |
|   |                            |                   |                           |                   |                          |                      | Seed unit (1)   |                             |                           | Water management units (6)   |                          |                               |
| CHIEF EXECUTIVE OFFICER   |                            |                   |                           |                   |                          |                      |   |                             |                           |                              |                          |                               |
| RHO<br>Brandýs nad Labem  | RHO<br>Hradec Králové      | RHO<br>Choceň     | RHO<br>Liberec            | RHO<br>Teplice    | RHO<br>Karlovy Vary      | RHO<br>Plzeň         | RHO<br>České Budějovice   | RHO<br>Jihlava              | RHO<br>Brno               | RHO<br>Zlín                  | RHO<br>Šumperk           | RHO<br>Frýdek-Místek          |
| FMU<br>Nymburk  | FMU<br>Rychnov nad Kněžnou | FMU<br>Nasavrky   | FMU<br>Česká Lípa         | FMU<br>Žatec      | FMU<br>Toužim            | FMU<br>Železná Ruda  | FMU<br>Český Rudolec  | FMU<br>Třebíč               | FMU<br>Strážnice          | FMU<br>Rožnov pod Radhoštěm  | FMU<br>Javorník          | FMU<br>Město Albrechtice      |
| FMU<br>Mělník   | FMU<br>Hořice              | FMU<br>Svitavy    | FMU<br>Ještěd             | FMU<br>Klášterec  | FMU<br>Františkovy Lázně | FMU<br>Přeštice      | FMU<br>Jindřichův Hradec  | FMU<br>Telč                 | FMU<br>Bučovice           | FMU<br>Vsetín                | FMU<br>Jeseník           | FMU<br>Karlovice              |
| FMU<br>Lužná  | FMU<br>Dvůr Králové        | FMU<br>Lanškroun  | FMU<br>Jablonec nad Nisou | FMU<br>Litvínov   | FMU<br>Kraslice          | FMU<br>Plasy         | FMU<br>Třeboň   | FMU<br>Nové Město na Moravě | FMU<br>Černá Hora         | FMU<br>Bystřice pod Hostýnem | FMU<br>Loučná nad Desnou | FMU<br>Bruntál                |
| FMU<br>Křivoklát  |                            | FMU<br>Choceň     | FMU<br>Frýdlant v Čechách | FMU<br>Litoměřice | FMU<br>Horní Blatná      | FMU<br>Stříbro       | FMU<br>Tábor  | FMU<br>Ledeč nad Sázavou    | FMU<br>Náměšť nad Oslavou | FMU<br>Luhačovice            | FMU<br>Hanušovice        | FMU<br>Janovice               |
| FMU<br>Nižbor   |                            |                   |                           | FMU<br>Děčín      |                          | FMU<br>Klatovy       | FMU<br>Vodňany  | FMU<br>Pelhřimov            | FMU<br>Znojmo             | FMU<br>Buchovice             | FMU<br>Ruda nad Moravou  | FMU<br>Vítkov                 |
| FMU<br>Kácov  |                            |                   |                           | FMU<br>Rumburk    |                          | FMU<br>Domažlice     | FMU<br>Český Krumlov  |                             |                           |                              | FMU<br>Šternberk         | FMU<br>Opava                  |
|   |                            |                   |                           |                   |                          | FMU<br>Horšovský Týn | FMU<br>Vyšší Brod   |                             |                           |                              | FMU<br>Prostějov         | FMU<br>Ostrava                |
|   |                            |                   |                           |                   |                          | FMU<br>Přimda        | FMU<br>Hluboká nad Vltavou  |                             |                           |                              |                          | FMU<br>Frýdek-Místek          |
|   |                            |                   |                           |                   |                          |                      | FMU<br>Nové Hradky  |                             |                           |                              |                          | FMU<br>Jablunkov              |
|   |                            |                   |                           |                   |                          |                      |   |                             |                           |                              |                          | FMU<br>Ostravice              |
|   |                            |                   |                           |                   |                          |                      |   |                             |                           |                              |                          | FMU<br>Frenštát pod Radhoštěm |

## Corporate Governance

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**Svatopluk Sýkora**  
Chief Executive Officer



**Jitka Věková**  
Chief Human Resources  
Officer



**Michal Gaube**  
Chief Financial Officer



**Zdeněk Sýkora**  
Chief Commercial Officer



**Vladimír Krchov**  
Chief Operations Officer



## Governing Body and Deputies at 31 December 2011

**Svatopluk Sýkora**  
Chief Executive Officer

**Jitka Věková**  
Chief Human Resources Officer

**Michal Gaube**  
Chief Financial Officer

**Zdeněk Sýkora**  
Chief Commercial Officer

**Vladimír Krchov**  
Chief Operations Officer

**Pavel Škvára**  
Chief Administration Officer  
from 5 December 2011 to 13 April 2012

## Management of Organizational Units as at 31 December 2011

### Regional Head Offices

**Jiří Silvestr**, Director, Frýdek-Místek Regional Head Office  
**Pavel Indra**, Director, Šumperk Regional Head Office  
**Martin Pavlíček**, Director, Zlín Regional Head Office  
**Miroslav Svoboda**, Director, Brno Regional Head Office  
**Jan Sovák**, Director, Jihlava Regional Head Office  
**Roman Vohradský**, Director, Choceň Regional Head Office  
**Jiří Makovec**, Director, Brandýs nad Labem Regional Head Office  
**Karel Trůbl**, Director, České Budějovice Regional Head Office  
**Ivan Klik**, Director, Plzeň Regional Head Office  
**Barbora Klempířová**, Director, Karlovy Vary Regional Head Office  
**vacant**, Director, Teplice Regional Head Office  
**Ludvík Řižář**, Director, Liberec Regional Head Office  
**Daniel Vlkánova**, Director, Hradec Králové Regional Head Office

### Forestry Units

**Tomáš Blaha**, Manager, Židlochovice Forestry Unit  
**Jaromír Kříha**, Manager, Boubín Forestry Unit  
**Miroslav Jankovský**, Manager, Konopiště Forestry Unit  
**Jan Němický**, Manager, Kladská Forestry Unit  
**Zdeněk Mařík**, Manager, Dobříš Forestry Unit

### Seed Unit

**Zuzana Neznajová**, Manager, Týniště nad Orlicí Seed Unit

The following personnel changes were made  
between 1 January 2012 and 1 May 2012:

**Zdeněk Růžek**, Director, Teplice Regional Head Office  
**Zdeněk Horák**, Director, Šumperk Regional Head Office  
**Vladimír Jandásek**, Director, Brno Regional Head Office  
**Miroslav Rozner**, Director, Karlovy Vary Regional Head Office  
**Miroslav Svoboda**, Manager, Židlochovice, Forestry Unit

## Supervisory Board as at 31 December 2011

**Miroslav Zámečník**, Chairman  
**Jaromír Kříha**, Vice-Chairman  
**Roman Boček**  
**Miroslav Jankovský**  
**Robert Knobloch**  
**Jiří Liška**  
**Libor Lukáš**  
**Miloš Pochobradský**  
**Radek Vonka**

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

### Supervisory Board personnel changes between 1 January 2011 and 1 May 2012:

The following members of the Supervisory Board were appointed with effect as of 6 January 2011:  
**Robert Knobloch** and **Jiří Liška**.  
**Miroslav Zámečník** was elected as Chairman of the Supervisory Board with effect as of 3 February 2011.



# RESPECT FOR THE ABUNDANCE OF NATURE



## Trends in Core Indicators

| Year                                |                          | 2007   | 2008   | 2009   | 2010   | 2011   |
|-------------------------------------|--------------------------|--------|--------|--------|--------|--------|
| Area of forestland                  | ha thousands             | 1,348  | 1,351  | 1,345  | 1,343  | 1,342  |
| Surface area of stands              | ha thousands             | 1,315  | 1,310  | 1,308  | 1,306  | 1,306  |
| Logging                             | m <sup>3</sup> thousands | 8,882  | 8,252  | 7,723  | 8,052  | 8,024  |
| Logging per ha of stand area        | m <sup>3</sup>           | 7      | 6      | 6      | 6      | 6      |
| Reforestation                       | ha                       | 10,772 | 11,311 | 12,839 | 13,657 | 13,731 |
| Tending of young forest stands      | ha                       | 29,703 | 36,783 | 41,562 | 43,792 | 45,823 |
| Total revenues                      | CZK millions             | 12,041 | 10,867 | 9,135  | 11,288 | 13,261 |
| Revenues from operations            | CZK millions             | 10,769 | 9,059  | 8,437  | 10,818 | 12,832 |
| Total costs                         | CZK millions             | 11,757 | 10,406 | 8,553  | 8,730  | 9,036  |
| Cost of operations                  | CZK millions             | 10,461 | 8,326  | 7,940  | 7,925  | 7,778  |
| Staff costs                         | CZK millions             | 1,407  | 1,553  | 1,584  | 1,496  | 1,505  |
| Value added                         | CZK millions             | 2,248  | 2,789  | 2,359  | 4,268  | 7,070  |
| Profit (loss) after tax             | CZK millions             | 284    | 461    | 582    | 2,558  | 4,225  |
| Total assets                        | CZK millions             | 69,183 | 69,242 | 69,714 | 72,470 | 78,222 |
| Fixed assets                        | CZK millions             | 61,979 | 62,419 | 62,117 | 62,984 | 65,597 |
| Current assets                      | CZK millions             | 7,171  | 6,763  | 7,516  | 9,452  | 12,519 |
| Equity                              | CZK millions             | 64,433 | 64,682 | 65,167 | 67,576 | 72,642 |
| Liabilities (debt)                  | CZK millions             | 4,647  | 4,489  | 4,467  | 4,819  | 5,505  |
| Cash flow from operating activities | CZK millions             | 550    | 874    | 1,725  | 840    | 4,106  |
| Cash flow from investing activities | CZK millions             | (745)  | (926)  | (490)  | (472)  | (447)  |
| Number of employees                 | persons                  | 3,560  | 3,666  | 3,547  | 3,242  | 3,177  |

# Report on Company Business Activities and Assets

## Property

As at 31 December 2011, the company had assets, including forestland, with a net worth of CZK 78.2 billion. Fixed assets amounted to CZK 65.6 billion, of which CZK 53.3 billion comprised the value of land (mostly forestland). The value of all land climbed by CZK 304 million, while the share of land in total assets fell to stand at 68.2% at 31 December 2011 (2010: 73.2%; 1995: 86.4%). The decline can be attributed to the increasing share of financial assets due to the gains achieved in recent years. The company's total assets increased by CZK 5,752 million (or 8.0%); total assets adjusted for the value of forestland in 2011 went up by CZK 5,734 million (or 28%).

### Total Assets (CZK millions)

| Year                           | 2009   | 2010   | 2011   |
|--------------------------------|--------|--------|--------|
| Total assets                   | 69,714 | 72,470 | 78,222 |
| Value of forestland            | 51,659 | 51,682 | 51,700 |
| Total assets net of forestland | 18,055 | 20,788 | 26,522 |

## Assets

There were no significant changes in the asset structure in 2011. The absolute worth of financial investments (up by CZK 1,528 million) and short-term financial assets (up by CZK 3,240 million) rose following a record profit achieved with relatively minor changes to other items. Total financial assets grew by CZK 4,768 million (or 57%). Receivables fell by 4% to a final CZK 2,076 million, while inventories declined by 30% to CZK 191 million.

### Asset Structure Net of Forestland (CZK millions)

| Year                        | 2009   | 2010   | 2011   |
|-----------------------------|--------|--------|--------|
| Total assets                | 18,055 | 20,788 | 26,522 |
| Fixed assets                | 10,458 | 11,302 | 13,897 |
| Inventories                 | 352    | 273    | 191    |
| Receivables                 | 1,945  | 2,167  | 2,076  |
| Short-term financial assets | 5,219  | 7,012  | 10,252 |
| Accruals                    | 81     | 34     | 106    |



## Liabilities and Equity

Equity increased by CZK 5,066 million, primarily due to the profit of CZK 4,225 million. In 2011, there was a reduction in capital funds by CZK 37 million and an increase in funds from profit by CZK 2,341 million. The registered capital was increased by CZK 1,095 million, most of which was derived from the takeover of AWMA assets worth CZK 896 million from the Ministry of Agriculture. Provisions were increased by a total of CZK 385 million, mainly due to provisioning for the indexation of prices for timber sales (see below). Liabilities increased by CZK 301 million, primarily on account of current corporate income tax (liabilities to the state, the balance sheet liability item B.III.7., went up by CZK 266 million). Profit climbed by 65% (CZK 1,667 million) year on year.

### Liability Structure Net of Forestland (CZK millions)

| Year   | 2009   | 2010   | 2011   |
|--|--------|--------|--------|
| Total liabilities and equity                 | 18,055 | 20,788 | 26,522 |
| Registered capital                           | 9,893  | 10,278 | 11,373 |
| Capital funds                                | 56     | (79)   | (134)  |
| Funds created from profit, retained earnings | 3,559  | 5,695  | 9,703  |
| Provisions                                   | 3,105  | 3,111  | 3,496  |
| Payables                                     | 1,362  | 1,708  | 2,009  |
| Deferrals                                    | 80     | 75     | 75     |

### Total Assets (CZK millions)

| Year                          | 2009   | 2010   | 2011   | 11 - 10 | %      |
|-------------------------------|--------|--------|--------|---------|--------|
| Total assets                  | 69,714 | 72,470 | 78,222 | 5,752   | 7.9    |
| Fixed assets                  | 62,117 | 62,984 | 65,597 | 2,613   | 4.1    |
| Intangible fixed assets – net | 257    | 409    | 509    | 100     | 24.4   |
| Tangible fixed assets – net   | 61,187 | 61,240 | 62,225 | 985     | 1.6    |
| – of which land               | 52,992 | 53,027 | 53,331 | 304     | 0.6    |
| Financial investments         | 673    | 1,335  | 2,863  | 1,528   | 114.5  |
| Current assets                | 7,516  | 9,452  | 12,519 | 3,067   | 32.4   |
| Inventories                   | 352    | 273    | 191    | (82)    | (30.0) |
| Long-term receivables         | 25     | 1      | 7      | 6       | 600.0  |
| Short-term receivables        | 1,920  | 2,166  | 2,069  | (97)    | (4.5)  |
| Short-term financial assets   | 5,219  | 7,012  | 10,252 | 3,240   | 46.2   |
| Accruals                      | 81     | 34     | 106    | 72      | 211.8  |

## Total Liabilities and Equity (CZK millions)

| Year                          | 2009   | 2010   | 2011   | 11 - 10 | %     |
|-------------------------------|--------|--------|--------|---------|-------|
| Total liabilities and equity  | 69,714 | 72,470 | 78,222 | 5,752   | 7.9   |
| Equity                        | 65,167 | 67,576 | 72,642 | 5,066   | 7.5   |
| Registered capital            | 9,893  | 10,278 | 11,373 | 1,095   | 10.7  |
| Capital funds                 | 51,715 | 51,603 | 51,566 | (37)    | (0.1) |
| Funds created from profit     | 2,977  | 3,137  | 5,478  | 2,341   | 74.6  |
| Retained earnings             | 0      | 0      | 0      | 0       | 0.0   |
| Profit for the current period | 582    | 2,558  | 4,225  | 1,667   | 65.2  |
| Liabilities (debt)            | 4,467  | 4,819  | 5,505  | 686     | 14.2  |
| Provisions                    | 3,105  | 3,111  | 3,496  | 385     | 12.4  |
| Payables                      | 1,362  | 1,708  | 2,009  | 301     | 17.6  |
| Deferrals                     | 80     | 75     | 75     | 0       | 0.0   |

## Costs

In 2011, the structure of costs changed. There were two particular reasons for this. The significant 15.1% reduction in the cost of sales can be attributed primarily to a change in the method for the production and sale of timber from the roadside model to the standing timber model at forest management units. The significant year-on-year growth in the change in provisions and adjustments by CZK 480 million is mainly due to provisioning for the indexation of prices for timber sales in the second to fourth quarters to address the risk of existing and potential litigation in response to the procedure applied in the indexation of prices for sales under public contracts in 2011. The high profit also pushed up corporate income tax by CZK 449 million. Net of income tax, total costs fell by CZK 143 million (i.e. by 1.8%). The 26.8% increase in depreciation was prompted by new investments, mainly in forest roads, and the takeover of AWMA assets from the Ministry of Agriculture. Staff costs increased by only 0.6%, despite including the cost of the AWMA workers taken over.

## Total Costs (CZK millions)

| Year  | 2009  | 2010  | 2011  | 11 - 10 | %       |
|---|-------|-------|-------|---------|---------|
| Total costs   | 8,553 | 8,730 | 9,036 | 306     | 3.5     |
| Cost of operations                                    | 7,940 | 7,925 | 7,778 | (147)   | (1.9)   |
| Cost of goods sold                                    | 4     | 3     | 3     | 0       | 0.0     |
| Cost of sales   | 5,287 | 5,471 | 4,645 | (826)   | (15.1)  |
| Staff costs   | 1,584 | 1,496 | 1,505 | 9       | 0.6     |
| Taxes and charges                                     | 154   | 168   | 161   | (7)     | (4.2)   |
| Depreciation  | 498   | 522   | 662   | 140     | 26.8    |
| Net book value of fixed assets and raw materials sold | 100   | 155   | 177   | 22      | 14.2    |
| Change in provisions and adjustments                  | 229   | 25    | 505   | 480     | 1,920.0 |
| Other operating expenses                              | 84    | 85    | 120   | 35      | 41.2    |
| Cost of financing activities                          | 411   | 204   | 208   | 4       | 2.0     |
| Income tax  | 202   | 601   | 1,050 | 449     | 74.7    |

## Full internal costs

| Year                        | Total (CZK millions) |       |       | CZK per ha of forestland |       |       |
|-----------------------------|----------------------|-------|-------|--------------------------|-------|-------|
|                             | 2009                 | 2010  | 2011  | 2009                     | 2010  | 2011  |
| Logging costs               | 3,629                | 3,689 | 2,742 | 2,698                    | 2,747 | 2,044 |
| Cultivation                 | 2,583                | 2,575 | 2,421 | 1,920                    | 1,917 | 1,804 |
| Road and slope-road repairs | 562                  | 562   | 829   | 418                      | 418   | 618   |
| Increase in provisions      | 61                   | 25    | 385   | 45                       | 19    | 287   |
| Maintenance of fixed assets | 277                  | 315   | 341   | 206                      | 235   | 254   |
| Hunting                     | 209                  | 182   | 171   | 155                      | 136   | 127   |
| Government contracts        | 32                   | 135   | 121   | 24                       | 101   | 90    |
| Seed production             | 90                   | 68    | 98    | 67                       | 51    | 73    |
| Timber production           | 58                   | 42    | 46    | 43                       | 31    | 34    |
| Timber purchasing           | 4                    | 12    | 3     | 3                        | 9     | 2     |

## Direct Costs of Cultivation (growing activity)

| Year                         | Total (CZK millions) |       |       | CZK per ha of forestland |       |       |
|------------------------------|----------------------|-------|-------|--------------------------|-------|-------|
|                              | 2009                 | 2010  | 2011  | 2009                     | 2010  | 2011  |
| Total                        | 1,846                | 1,870 | 1,753 | 1,372                    | 1,392 | 1,307 |
| Reforestation                | 610                  | 654   | 627   | 453                      | 487   | 467   |
| Care of young plantations    | 598                  | 632   | 639   | 445                      | 471   | 476   |
| Cleaning (juvenile thinning) | 126                  | 130   | 139   | 94                       | 97    | 104   |
| Forest protection            | 156                  | 116   | 59    | 116                      | 86    | 44    |
| Fertilization and liming     | 8                    | 7     | 8     | 6                        | 5     | 6     |
| Other cultivation care       | 348                  | 331   | 281   | 259                      | 246   | 209   |

## Revenue

In 2011, there was an increase in total revenues (by 17.5%). Of operating revenue, there was an increase in lumber sales in particular, which rose by CZK 1,987 million as a result of higher wood prices. Income from financing activities decreased by 8.7% due to lower revenues from financial assets and lower revenue from dividends disbursed by entities in which the company holds equity participations.

### Total Revenues (CZK millions)

| Year  | 2009  | 2010   | 2011   | 11 - 10 | %      |
|---|-------|--------|--------|---------|--------|
| Total revenues                              | 9,135 | 11,288 | 13,261 | 1,973   | 17.5   |
| Revenues from operations                    | 8,437 | 10,818 | 12,832 | 2,014   | 18.6   |
| Sales of goods                              | 5     | 3      | 4      | 1       | 33.3   |
| Production                                  | 7,645 | 9,738  | 11,714 | 1,976   | 20.3   |
| Disposals of fixed assets and raw materials | 623   | 756    | 775    | 19      | 2.5    |
| Other operating revenue                     | 164   | 321    | 339    | 18      | 5.6    |
| Revenues from financing activities          | 698   | 470    | 429    | (41)    | (8.7)  |
| Disposals of securities                     | 402   | 129    | 123    | (6)     | (4.7)  |
| Interest revenue                            | 71    | 64     | 102    | 38      | 59.4   |
| Other financial revenue                     | 225   | 277    | 204    | (73)    | (26.4) |

## Earnings

The profit after tax rose by CZK 1,667 million year on year.

The higher profit was made mainly by substantially increased revenues from sales of wood (an increase by CZK 1,987 million) and by cost savings (a reduction in total costs net of income tax by 1.8%).

The operating profit in 2010 was CZK 5,054 million, an increase by CZK 2,161 million on 2010. The lion's share of the increase in operating profit can be attributed to the facts stated in the previous paragraph, i.e. significantly higher revenues from the sale of timber and operating cost savings.

The financial profit in 2011 was CZK 221 million.

### Earnings for the Accounting Period (CZK millions)

| Year                             | 2009 | 2010  | 2011  | 11 - 10 | %      |
|----------------------------------|------|-------|-------|---------|--------|
| Net profit (loss) for the period | 582  | 2,558 | 4,225 | 1,667   | 65.2   |
| Profit (loss) before tax         | 784  | 3,160 | 5,275 | 2,115   | 66.9   |
| Operating profit (loss)          | 497  | 2,893 | 5,054 | 2,161   | 74.7   |
| Financial profit (loss)          | 287  | 267   | 221   | (46)    | (17.2) |





# THE ENDEAVOUR TO CONSERVE NATURE AND THE LANDSCAPE

# Contractual Relations in Forestry Activities

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

In 92% of the forests entrusted to it (77 forest management units) the company contracted private businesses to carry out forestry work supplied on the basis of contracts awarded in tendering procedure. The remaining 8% of the area was covered by five directly managed forestry units, generally working on their own account.

In previous periods (2008–2010), the company employed two key types of contracts for “comprehensive” forestry services at its forest management units:

- a) roadside forestry contracts,
- b) standing timber forestry contracts (standing timber at the stump or at the trunk).

Based on the parallel operation and subsequent economic evaluation of these two types of contracts, it was decided that for 2011 and the years thereafter forestry activities would be carried out under standing timber contracts. This decision was also embodied in the Ministry of Agriculture (MoA) strategy paper on Lesy ČR economic policy, generally known as the “Wooden Book”. The sole evaluation criterion for standing timber contracts was the price. Therefore, the company focuses on the balance between the timber sold and the costs incurred by forestry, harvesting and silvicultural work. Lesy ČR sells wood to the forestry company after the trees have been felled, precisely measured and classified by quality, followed by the delivery of registration documents. The forestry company, on its own account, transfers the timber to the roadside, classifies it by commercial range, transports it and then sells it. Under projects drawn up by Lesy ČR, the forestry company is responsible for afforestation and related cultivation activities.

Lesy ČR enters into commercial agreements with contractors for the comprehensive supply of forestry activities in specific areas – CTUs (contractual territorial units). The annual logging and the scope of cultivation tasks are different for each CTU. In order to interconnect and enhance the transparency of checks on FMPs and the actual performance of forestry activities in a CTU, the CTU borders were aligned with current forest management facilities (FMFs) for which FMPs have been prepared.

On 20 September 2010, open tendering procedure (OP) was announced for “Forestry activities with standing timber sales – 2011”, with contract duration anticipated to be one year. Based on the results of the procurement procedure, contracts were duly concluded for 104 CTUs. For four CTUs, a contract was not signed with any of the candidates approached; therefore, negotiated procedure without publication (NPwP) was declared for the first half of 2011. As of 1 July 2011, contracts concluded under the new OP entered into force at these CTUs.

The validity of the above contractual relations came to an end by 31 December 2011. Contracts for 2011 were concluded with a total of 29 businesses, of which 15 were joint-stock companies, 13 limited liability companies and 1 natural person.

On 2 May 2011, tendering procedure was announced for “Forestry activities with standing timber sales – 2012+”. This public tender was announced for 117 CTUs identified with FMFs and FMPs. The expected validity of the contracts is one to five years, depending on the length of the forest management plan.



# SUPPORT FOR RARE ORGANISMS

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## Commercial Activity – Sales of Timber and Logging Residues

### Timber

After three years of a memorandum between the Ministry of Agriculture and Forestry and the Confederation of Forestry and Woodworking Unions (2008–2010), there was a significant change in the way the woods entrusted to Lesy ČR were managed. The standing timber model was applied to all administrative territorial units (7,154,000 m<sup>3</sup>).

The roadside type model was applied only to the areas covered by forestry units.

Timber from FU sources (535,000 m<sup>3</sup>) was marketed through the following sales channels in the course of 2011:

| Sales channel                                     | Volume of timber (m <sup>3</sup> thousands) | Percentage share (%) |
|---|---|----------------------|
| Commodity exchange                                | 302   | 56                   |
| Electronic timber auction                         | 154   | 29                   |
| Other (direct sales, self-production, fuel, etc.) | 79  | 15                   |

### Logging Residues

In 2011, there was further growth in demand for biomass (logging residues), which drove selling prices up. Logging residues were sold via three sales channels in 2011:

- framework purchasing agreements (750,000 m<sup>3</sup>),
- electronic auctions (300,000 m<sup>3</sup>),
- other sales (70,000 m<sup>3</sup>).

Given the growth in demand for logging residues, in the second half of the year the company held a public tender for long-term framework sales of this commodity.

Sales of logging residues through electronic auctions remained at an almost unchanged volume. In financial terms, however, the growing demand almost doubled the income.

### Standing Timber Auctions

At the end of 2011, Lesy ČR began to sell standing timber via public online auctions. During November and December 2011, there were more than 600 auctions of standing timber with a volume of almost 300,000 m<sup>3</sup>, with a sale success rate of 63.5%.

# Forest Management

## Gene Pool of Forest Tree Species

The preservation and regeneration of the gene pool of forest tree species, combined with the greater species diversity of forestland, are an important priority in the sustainable management policy of Lesy ČR. In 2011, in keeping with the "LČR Concept for the Preservation and Regeneration of the Gene Pool of Forest Tree Species 2010–2019", a detailed review of the seed plantation situation was launched. This will continue in 2012.

The current status of genetic resources managed by the company in 2011 is set out in the table below.

### Status of Genetic Resources Managed by the Company in 2011

| Genetic resources         | Number (pcs) | Area (ha) |
|---------------------------|--------------|-----------|
| Genetic bases             | 164          | 78,542    |
| Selected resources (A, B) | –            | 60,723    |
| Identified resources (C)  | –            | 58,472    |
| Seed plantations          | 102          | 235       |
| Clone mixes               | 15           | 9         |
| Parent trees, clones      | 4,530        | –         |

### Operating Stock of Base Materials and Seeds at 31 December 2011

| Tree species | Quantity of raw material (kg) | Quantity of seeds (kg) |
|--------------|-------------------------------|------------------------|
| SM           | 8,190                         | 2,756                  |
| BO           | 12,520                        | 1,529                  |
| MD           | 0                             | 323                    |
| JD           | 72                            | 586                    |
| BK           | 2,073                         | 9,515                  |

Seed stocks at the Bank of Regional Forest Tree Species Populations were not replenished in 2011. The stocks of tree seeds stored in the LČR Forest Seed Bank as at 31 December 2011 are set out in the table.

### Forest Seed Bank, Stocks at 31 December 2011

| Tree species | Number of sections | Quantity (kg) |
|--------------|--------------------|---------------|
| SM           | 47                 | 243           |
| BO           | 28                 | 45            |
| MD           | 1                  | 2             |

The seed yield in 2011 was not significantly affected by spring frosts. The beech, pedunculate oak and sessile oak crop was sufficient enough to satisfy demand among growers of forest reproductive material. The spruce and pine harvest was good in most areas. The yields of other species, such as Douglas fir, elm, wild service and rowan, were also plentiful. The spruce harvest was poor; pest infestations resulted in a lower seed count.

## Forest Nurseries

The company purchases nursery stock from contractors under a Contract on Forestry Operations. Planting stock continues to be grown by Lesy ČR's authorized farmers, with whom the company has entered into a Contract on Compliance with Conditions in the Cultivation of Nursery Stock for forests managed by the company. This contract provides the company with a means to check on the origin, cultivation and quality of reproductive material. The number of contracts concluded as at 31 December 2011 is 158, of which 68 contracts were concluded in a new version.

## Silviculture

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

### Non-stocked Land Compared to Timber Land

| Year                                    | 2007   | 2008   | 2009   | 2010   | 2011   |
|---|--------|--------|--------|--------|--------|
| Area of timber land (ha thousands)      | 1,316  | 1,310  | 1,308  | 1,306  | 1,306  |
| Non-stocked land as at 31 December (ha) | 12,566 | 13,614 | 13,894 | 13,697 | 13,224 |
| Non-stocked land as at 31 December (%)  | 0.96   | 1.00   | 1.06   | 1.05   | 1.01   |

### Proportion of Needle-leaved Trees and Broadleaves in Artificial Reforestation

| Year   | 2007  | 2008  | 2009  | 2010  | 2011  |
|--|-------|-------|-------|-------|-------|
| Needle-leaved trees (ha)                     | 5,621 | 5,647 | 6,071 | 6,135 | 6,511 |
| – of which fir trees (ha)                    | 441   | 574   | 621   | 664   | 575   |
| Fir trees – % from artificial regeneration   | 4.92  | 6.07  | 6.03  | 6.11  | 5.26  |
| Broadleaves (ha)                             | 3,350 | 3,804 | 4,226 | 4,724 | 4,422 |
| Broadleaves – % from artificial regeneration | 37.34 | 40.24 | 41.04 | 43.50 | 40.44 |
| Broadleaves and fir trees (%)                | 42.26 | 46.32 | 47.07 | 49.62 | 45.70 |

In 2011, as in previous years, the proportion of broadleaved trees and fir trees (used as soil-improving and strengthening species in most habitats in accordance with the Forest Act) in artificial forest regeneration was much higher than the level prescribed by relevant legislation. In its initial round of artificial regeneration in 2011, soil-improving and strengthening tree species accounted for 43% of planting by Lesy ČR. As a result, every year the company significantly exceeds the annual share of soil-improving and strengthening species stipulated to ensure the annually balanced framework set under applicable forest management plans. Gradual changes in the species composition have made forest stands more resistant to negative influences, such as extreme temperature fluctuations, the ravages of nature and pests, in recent years.

In 2011, 62,244,000 seedlings were planted.

### Proportion of Natural Regeneration in Initial Regeneration Wave

| Year   | 2007  | 2008  | 2009   | 2010   | 2011   |
|--|-------|-------|--------|--------|--------|
| Overall initial regeneration (artificial and natural) (ha) | 9,220 | 9,644 | 11,437 | 11,981 | 11,996 |
| Natural regeneration (ha)                                  | 1,802 | 1,860 | 2,500  | 2,798  | 2,797  |
| Natural regeneration (%)                                   | 19.54 | 19.28 | 21.85  | 23.35  | 23.32  |

The proportion of natural regeneration in 2011 was similar to the previous year. The proportion of natural regeneration in the overall initial regeneration wave is related to the decrease in salvage felling, where it was possible to carry out the principal felling of mature trees in line with the more relaxed natural regeneration.



## Selected Management Indicators

| Year  | 2007   | 2008   | 2009   | 2010   | 2011   |
|---|--------|--------|--------|--------|--------|
| Non-stocked land as at 31 December (ha)               | 12,566 | 13,614 | 13,894 | 13,697 | 13,224 |
| Clearings created by logging (ha)                     | 5,853  | 8,602  | 9,047  | 10,130 | 9,882  |
| Natural (initial and repeated) regeneration (ha)      | 8,970  | 9,451  | 10,339 | 10,859 | 10,934 |
| Natural regeneration (ha)                             | 1,802  | 1,860  | 2,500  | 2,798  | 2,797  |
| Total regeneration (ha)                               | 10,772 | 11,311 | 12,839 | 13,657 | 13,731 |
| Cleaning (ha)   | 17,712 | 19,979 | 19,881 | 21,057 | 22,458 |
| Thinning (ha)   | 23,087 | 31,757 | 42,662 | 43,792 | 51,619 |
| Logging (m <sup>3</sup> thousands)                    | 8,882  | 8,252  | 7,723  | 8,052  | 8,024  |
| – of which salvage felling (m <sup>3</sup> thousands) | 7,326  | 5,282  | 3,093  | 2,934  | 1,769  |
| Proportion of salvage felling (%)                     | 82.49  | 64.02  | 40.06  | 36.44  | 22.05  |
| Logging (m <sup>3</sup> ) per ha of timber land       | 6.75   | 6.25   | 5.90   | 6.17   | 6.14   |

In 2011, the scope of artificial regeneration was at its highest for the past five years. Because, in 2011, the proportion of salvage felling was minimal, it was possible to carry out most of the planned principal felling while respecting the prescribed annual balancing of the surface area of nursing in forest stands up to 40 years of age. In 2011, the share of nursing measures (cleaning and thinning), by area, was at its highest level in five years; the intensity of these measures was optimal. Salvage felling accounted for 22% of total logging. Of this salvage felling, almost 59% was necessitated by natural factors (mainly wind damage). Despite such intervention, in 2011 there were no significant gales of a calamitous nature. Total logging in 2011 fell short of the annual level established by forest management plans; therefore, no excessive burden was placed on forest stands.

## Selected Management Indicators per 1,000 ha of Forest

| Year                               |  | 2007  | 2008  | 2009  | 2010  | 2011  |
|------------------------------------|--|-------|-------|-------|-------|-------|
| Non-stocked land as at 31 December | ha   | 9.55  | 10.39 | 10.62 | 10.49 | 10.13 |
| Clearings created by logging       | ha   | 4.45  | 6.52  | 6.94  | 7.76  | 7.57  |
| Artificial regeneration            | ha   | 6.82  | 7.16  | 7.90  | 8.31  | 8.37  |
| Natural regeneration               | ha   | 1.37  | 1.41  | 1.91  | 2.14  | 2.14  |
| Total regeneration                 | ha   | 8.19  | 8.57  | 9.81  | 10.46 | 10.51 |
| Failed restocking                  | ha   | 1.14  | 0.96  | 1.07  | 1.28  | 1.33  |
| Cleaning (juvenile thinning)       | ha   | 13.47 | 15.14 | 15.20 | 16.12 | 17.20 |
| Thinning                           | ha   | 17.55 | 24.06 | 32.62 | 33.53 | 39.61 |
| Logging                            | m <sup>3</sup>                                 | 6,752 | 6,251 | 5,904 | 6,165 | 6,144 |
| – of which: intermediate           | m <sup>3</sup>                                 | 487   | 681   | 1,066 | 1,130 | 1,469 |
| principal                          | m <sup>3</sup>                                 | 695   | 1,569 | 2,473 | 2,788 | 3,320 |
| salvage                            | m <sup>3</sup>                                 | 5,570 | 4,001 | 2,365 | 2,246 | 1,354 |
| Principal felling                  | m <sup>3</sup> per hectare of non-stocked land | 156   | 150   | 232   | 265   | 328   |

## Forest Protection

In terms of climatic parameters, 2011 can generally be assessed as a year of normal temperature and precipitation. It is worth mentioning the historically exceptional several-day period of freezing weather and snowfalls in early May, which resulted in damage blanket damage to budding hardwood stands in all age categories. At the turn of June and July, there were a few weeks that of relative coolness combined with well-above-average precipitation; in late summer and early autumn, precipitation and temperature were within normal limits. In November, another extraordinary climatic phenomenon was recorded when, although temperatures were normal, precipitation stood at only 1–2% of long-term average rainfall. Precipitation in December was again above normal; it was extremely warm, especially in the first half. Temperatures did not approach normal levels until the year was coming to a close. The height of snow cover was below average at the beginning of winter, but this changed in early 2012.

In the spring, the weather was to blame for the much poorer physiological condition of stands compared to the rather more favourable situation in 2010. At the beginning of the second half of the year, this adverse situation was counterbalanced by several precipitation-rich weeks, when the intense storms characteristic for this period were accompanied by more moderate but longer-lasting rainfall. This helped to replenish soil moisture to optimal levels and to improve the vitality of the stands. The rather unfavourable autumn had no negative impact on the condition of the stands as the growing season was coming to an end.

Of the abiotic agents, the greatest damage was caused by wind (733,600 m<sup>3</sup>), followed by snow (238,800 m<sup>3</sup>), drought (64,100 m<sup>3</sup>) and frost (45,300 m<sup>3</sup>). Air pollution accounted for 7,100 m<sup>3</sup> of felling, while salvage felling due to other abiotic causes encompassed 11,000 m<sup>3</sup>. Fires destroyed 15.7 hectares of forest stands.

In 2011, 181,600 m<sup>3</sup> of standing spruce trees infested by the bark beetle were cleared, along with 5,200 m<sup>3</sup> secondarily affected by natural disasters; this was approximately 73% of the level in the previous year. As insect outbreaks were down throughout the territory, there are now few areas where there is still a high threat to spruce stands (Oderské vrchy, Nízký Jeseník, and Pošumaví). The most significant species remains the European spruce bark beetle; however, the share of standing timber infested by the northern bark beetle increased to 29% and it may even be the primary pest in the worst affected regions (especially Moravia-Silesia).

Defensive measures comprised 183,200 classic trap trees and 26,700 standing trap trees (a total mass of 245,500 m<sup>3</sup>); in addition, 34,200 traps and 3,800 poison traps were installed. Of the infested trees, 11,400 m<sup>3</sup> were stripped of their bark and 38,700 m<sup>3</sup> were chemically decontaminated; the rest was cleared and transported away.

These values confirm the continuing positive trend which first emerged in 2009. Potential bark-beetle threats to spruce stands are lower in 2012 compared to previous years. Over much of the land managed by the company, the population density of bark beetles is in keeping with the population characteristics set out in Decree of the Ministry of Agriculture No 101/1996.

Pests found under the bark of other tree species did not cause significant damage; the most common incidence of such pests was bark beetles on pine trees (the larger pine-shoot beetle, the lesser pine-shoot beetle, the large pine bark beetle, the engraver beetle, and the steelblue jewel beetle), which altogether infested 1,700 m<sup>3</sup> of wood.

In 2011, leaf-eating pests caused significant economic damage. Pests capable of mass outbreaks, such as the nun moth, the larch bud moth and the false spruce webworm, were in low numbers; monitoring indicates that a similar situation is likely in 2012.

Nor was any damage by the gypsy moth or other defoliators of oakwood (the winter moth, the mottled umber, or the oak leaf roller moth) recorded. Damage by the gregarious spruce sawfly was kept to a minimum (2.0 hectares). Compared to previous years, there was a reduction in the scale of attack by the horse-chestnut leaf miner (20.0 ha; 6 ha treated by air, 1 ha on the ground); the local outbreak of larch casebearer in the Krušnohoří region continued (51.0 ha). In 2011, the area of coniferous crops damaged by the pine weevil was comparable to levels reported in recent years, with 509.4 hectares of recorded damage. As expected, the swarming of adults led to a reduction in the scale of damage caused by cockchafer grubs; in the traditional breeding grounds damage was found on an area of 11.4 hectares.

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

There was a sharp rise in damage caused by small rodents, which was detected on an area of 513.2 hectares. Most of this damage was concentrated in the Ore Mountains (Krušné hory); the stands of substitute species that were being converted here were particularly affected, which severely hampered their successful development.

Damage caused by the main fungal pathogens was somewhat lower than the previous year because the weather was not so moist. An exception was damage caused by acute attacks of the honey mushroom (*Armillaria ostoyae*), with an increase in recorded felling to 99,900 m<sup>3</sup>; following the temporary reduction in 2010, this was a return to the normal levels recorded in previous years. As in past years, the focal point was in Moravia-Silesia. The pine needle-cast fungus caused recorded damage over 951.8 ha, with oak mildew attacking 395.3 hectares. A high incidence of *Cucurbitaria piceae*, invading blue spruces especially in stands of substitute tree species in the higher areas of the eastern Krušnohoří region, was recorded over an area of 620 hectares. Therefore, there was no substantial increase in the dynamics of damage compared to previous years. It is unclear what will happen to the affected stands; the stands most affected are regularly assigned to projects for the transformation of substitute tree stands. A major problem especially in the lowlands in the east of the Czech Republic (Břeclav, Olomouc, Přerov, Prostějov, Šumperk, Kroměříž), remains ash dieback caused by the fungus *Chalara fraxinea*, which was recorded over an area of 999.5 hectares, mainly in younger stands.

Stands remain susceptible to yellowing as a result of nutritional disorders, with major indications of damage recorded over a total area of 24,500 hectares in 2011. The only action taken to combat this in 2011 was the experimental aerial application of Vermaktiv Stimul, the organo-mineral stimulating fertilizer, in two doses over a total area of 188 hectares in the Klášterec nad Ohří FMU. This treatment was funded by the Ministry of Agriculture.

Stand fertilization in 2011 only took the form of the top-dressing of seedlings, after planting, with slow-release fertilizer tablets over a total area of 617.7 hectares.

### Forest Certification

As in previous years, the operations of Lesy ČR were subjected to internal and external surveillance audits of forest certification via the PEFC system. All the company's forest management facilities assessed in these forest management quality audits were given the all-clear. Lesy ČR therefore retained its Certificate of Participation in Regional PEFC Forest Certification for the entire area of forestland under its management.

This certificate is proof that the forest management facilities managed by Lesy ČR are part of the certified region of the Czech Republic and that they are managed by the company in accordance with approved standards of sustainable forest management. The standard of management in the forests managed by Lesy ČR remains subject to annual surveillance audits by an external certification body and internal audits carried out by a competent entity (the FMI).

### Professional Forest Management

As at 31 December 2011, Lesy ČR provided professional forest management to other owners over a total area of 284,476 ha, of which 272,272 ha for 207,716 owners as required by law (Section 37(6) of the Forest Act) and 12,204 ha for 460 owners contractually (Section 37(3) of the Forest Act).



## Pollution

### Air Pollution Hazard Zones as at 31 December 2011

| Surface area of stands | A      | B      | C       | D       |
|------------------------|--------|--------|---------|---------|
| 1,304,717 ha           | 16,922 | 52,227 | 290,683 | 944,885 |
| %                      | 1.3    | 4      | 22.3    | 72.4    |

### Air Pollution Damage Grades as at 31 December 2011

| Wooded land  | 0         | 0/I    | I      | II     | IIIA  | IIIB | IV  |
|--------------|-----------|--------|--------|--------|-------|------|-----|
| 1,329,821 ha | 1,173,786 | 75,280 | 66,340 | 12,467 | 1,709 | 127  | 112 |
| %            | 88.3      | 5.7    | 5      | 0.9    | 0.1   | 0    | 0   |

### Quantified Air Pollution Damage (CZK millions)

| Year   | 2006 | 2007 | 2008 | 2009 | 2010 |
|--------|------|------|------|------|------|
| Damage | 63   | 65   | 72   | 70   | 61   |

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

### Felling Due to Air Pollution (m<sup>3</sup> thousands)

| Year                     | 2007 | 2008 | 2009 | 2010 | 2011 |
|--------------------------|------|------|------|------|------|
| m <sup>3</sup> thousands | 28   | 25   | 17   | 11   | 7    |

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

## Hunting

In the 2011/2012 hunting year, the company operated 126 hunting grounds at its own expense in the areas of its organizational units as at 31 March 2012. Of these, 91 hunting grounds were used by forest management units and 35 by forestry units.

The hunting plan in hunting grounds was met for all selected ungulate game to an overall level of 108.7% in the reporting period. Particularly good results were achieved in the hunting of sika deer, where the set hunting plan has been exceeded significantly for several consecutive years.

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

### Planned

| Species of game | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Index 2011/12 |
|-----------------|---------|---------|---------|---------|---------|---------------|
| Red deer        | 2,618   | 2,576   | 2,429   | 1,813   | 1,859   | 1.025         |
| Sika deer       | 426     | 391     | 358     | 364     | 301     | 0.827         |
| Mouflon         | 1,088   | 1,230   | 1,162   | 991     | 976     | 0.985         |
| Fallow deer     | 1,137   | 1,212   | 1,377   | 1,303   | 1,354   | 1.039         |
| Roebuck         | 2,581   | 3,043   | 2,648   | 2,384   | 2,212   | 0.928         |
| Chamois         | 5       | 5       | 5       | 2       | 0       | 0.000         |

### Fact

| Species of game | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 | Index 2011/12 |
|-----------------|---------|---------|---------|---------|---------|---------------|
| Red deer        | 2,793   | 2,875   | 2,539   | 1,932   | 1,946   | 1.007         |
| Sika deer       | 606     | 628     | 472     | 480     | 447     | 0.931         |
| Mouflon         | 1,097   | 1,410   | 1,272   | 1,107   | 1,094   | 0.988         |
| Fallow deer     | 1,333   | 1,428   | 1,491   | 1,490   | 1,472   | 0.988         |
| Roebuck         | 2,792   | 3,360   | 2,911   | 2,503   | 2,325   | 0.929         |
| Chamois         | 7       | 6       | 7       | 6       | 2       | 0.333         |

### Fulfilment of the Hunting Plan (%) by Individual Selected Species of Ungulated Game

| 2011/12 | Red deer | Sika deer | Mouflon | Fallow deer | Roebuck | Chamois | Total |
|---------|----------|-----------|---------|-------------|---------|---------|-------|
| Planned | 1,859    | 301       | 976     | 1,354       | 2,212   | 0       | 6,702 |
| Fact    | 1,946    | 447       | 1,094   | 1,472       | 2,325   | 2       | 7,286 |
| %       | 104.7    | 148.5     | 112.1   | 108.7       | 105.1   | –       | 108.7 |

### Damage Caused by Game

Forest damage caused by game is monitored and quantified for all forestland which Lesy ČR has the right to manage. In financial terms, there was a year-on-year increase in the amount of damage by CZK 769,000; expressed as a percentage, this is a rise of more than 4.7%. There was a decrease in the destruction of forest cover by CZK 472,000, an increase in over-browsing by CZK 619,000, and a rise in bark scaling and browsing by CZK 665,000. There was a reduction in emergency spending by CZK 43,000.

Of the overall calculation of forest damage caused by game, i.e. CZK 17.159 million, company-operated hunting grounds account for CZK 2.657 million (a year-on-year decrease by CZK 245,000), hired-out company hunting grounds account for CZK 9.523 million (a year-on-year increase by CZK 942,000) and other hunting grounds formed by the lands of multiple owners account for CZK 4.979 million (a year-on-year increase by CZK 72,000).

| 1 July to 30 June | Total<br>(CZK millions) | Destroyed | Browsing<br>damage | Bark scaling<br>and browsing<br>damage | Emergency<br>measures |
|-------------------|-------------------------|-----------|--------------------|--|-----------------------|
| 2010/11           | 17.159                  | 2.932     | 8.337              | 5.489                                  | 401                   |
| 2009/10           | 16.390                  | 3.404     | 7.718              | 4.824                                  | 444                   |
| 2008/09           | 20.576                  | 2.675     | 10.864             | 6.603                                  | 434                   |
| 2007/08           | 13.757                  | 2.136     | 7.480              | 3.838                                  | 303                   |
| 2006/07           | 9.082                   | 1.500     | 4.494              | 2.766                                  | 322                   |

## Grant Service

Between 2002, when the Lesy ČR Grant Service was established, and the end of 2011, 44 research projects were adopted with total funding of CZK 54.793 million. Of these, the research work under 39 projects has been completed, four projects are still in progress, and the research under one project was cancelled. In 2011, no new research projects were taken on and five were completed.

Grant Service projects received funding of CZK 3.926 million in 2011.

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

## Projects completed in 2011

(the number cited is from the project list on the Lesy ČR website)

- 29) "The impact of crushing brushwood on the soil and on the growth of spruce, fir and beech seedlings at Ledeč FMU". Research by the Forestry and Game Management Research Institute, Strnady. Total financial volume: CZK 1,635,000, of which CZK 503,000 disbursed in 2011.
- 31) "Use of microsatellite analyses in the breeding of the wild goat population in the Žižkův Vrch game park at the Česká Lípa Forest Management Unit". Research by Mendel University, Brno. Total financial volume: CZK 496,000, of which CZK 152,000 disbursed in 2011.
- 37) "Use of microsatellite analyses in the monitoring of the population and cross-border migration of elk in area of the Vyšší Brod FMU". Research by Mendel University, Brno. Total financial volume: CZK 488,000, of which CZK 152,000 disbursed in 2011.
- 39) "Ecosystem in the upper forest boundary and the effect of dwarf pine stands on the mountain landscape in Hrubý Jeseník". Research by Mendel University, Brno. Total financial volume: CZK 980,000, of which CZK 394,000 disbursed in 2011.
- 42) "Verification of genetically conditioned characteristics of the vegetative progeny of resistant variants of Norway spruce in selected sites in the Ore Mountains". Research by the Forestry and Game Management Research Institute, Strnady. Total financial volume: CZK 1,571,000, of which CZK 857,000 disbursed in 2011.

## Projects under which research is still in progress

- 27) "Hluboká nad Vltavou and Ždírec nad Doubravou wet log yards. Evaluation of operation and draft storage principles" and "Evaluation of the method for storing wood under sheets with regard to the quality of wood" Research by Mendel University, Brno. Total financial volume of the additional follow-up survey: CZK 100,000; no disbursement in 2011.
- 40) "Soil environment, nutritional status and a set of measures leading to optimized reforestation at the seventh and eighth levels of forest altitudinal zonation in the Hrubý Jeseník Natural Forest Area". Research by Mendel University, Brno. Total financial volume: CZK 1,013,000, of which CZK 283,000 disbursed in 2011.
- 41) "Diapause in the spruce bark beetle – a possible means of increasing the effectiveness of protective action". Research by the Biology Centre, Academy of Sciences of the Czech Republic, České Budějovice. Total financial volume: CZK 2,249,000, of which CZK 333,000 disbursed in 2011.
- 43) "Forestry adaptation strategy for the changing environmental conditions in the Moravian-Silesian Beskids". Research by IFER – Ústav pro výzkum lesních ekosystémů, s.r.o. (Forest Ecosystems Research Institute), Strašice. Total financial volume: CZK 8,260,000, of which CZK 1,250,000 disbursed in 2011.

## Support from European Union Funds – Use of Support

Lesy ČR draws on EU support through the structural and other funds in the 2007–2013 programming period, mainly to implement projects highly relevant to society.

### Rural Development Programme

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

In 2011, CZK 69.891 million was released from the RDP (CZK 68.290 million under Sub-measure II.2.4.1 and CZK 1.601 million under Sub-measure II.2.1; no payments were made under Sub-measure II.2.4.2).

### Single Area Payment System

On the basis of a single application under the Single Area Payment Scheme, a payment of CZK 9.212 million (net of the national top-up payment) was received in 2011 for agricultural land cultivated by the company and listed in the Land Parcel Identification System (LPIS).

### Environment Operational Programme

A further vehicle that can be used in support of forestry, water management and landscape projects and projects that contribute to the improvement of waste management is the Environment Operational Programme (EOP), which is financed from the Cohesion Fund (CF) and the European Regional Development Fund (ERDF). The company is eligible to participate in Priority Axis 1 "Improving water infrastructure and reducing the risk of flooding", Axis 4 "Improving waste management and eliminating old ecological hazards" and Axis 6 "Improving the state of nature and the landscape". There are seven areas of support in which Lesy ČR has the opportunity to draw on EOP aid in the form of grants: 1.3.2 "Eliminating flood flows through a system of flood control measures close to nature", 4.1 "Improving waste management" (the removal of illegal dumps in particularly protected sites, sites of Community importance and special protected areas), 4.2 "Removing old ecological hazards" (research work, risk analyses of specific sites and problem areas with more than one contaminated site), 6.2 "Promoting biodiversity", 6.3 "Restoring landscape structures", 6.4 "Optimizing the landscape water regime", and 6.5 "Promoting the regeneration of the urbanized landscape". Actual grant support in 2011 amounted to CZK 53.537 million, of which CZK 53.201 million under Axis 6 (area of support 6.3 – CZK 24.343 million; area of support 6.4 – CZK 11.335 million; area of support 6.5 – CZK 17.523 million) and CZK 0.336 million under Axis 4.

### Cross-border Cooperation Operational Programme

In 2011, Lesy ČR was involved in Cross-border Cooperation Operational Programmes 2007–2013, namely: the Czech Republic/Poland CCOP – in area of support 2.2.2 "Promoting tourism development", and the Free State of Saxony/Czech Republic CCOP – Objective 3, Priority Axis 3 (Improving the situation of nature and the environment), area of support 2 "Measures for flood control, water management and hydraulic works, protection of the waterways". Both EU grant schemes are funded by the European Regional Development Fund (ERDF). In 2011, interim payments amounting to EUR 161,048 (Czech Republic/Poland – EUR 131,306; Free State of Saxony/Czech Republic CCOP – EUR 29,243) were made.

Grants are drawn from EU funds, along with any national top-up payments, under contracts, agreements and decisions via accredited agencies designated by the managing authorities. Actual drawdown takes place on project completion or progressively after the implementation of particular parts of the project on the basis of financial payment schedules.

A list of projects financed and co-financed from EU funds can be found on the company's website (the industry professionals section on the page "Financial support from the EU").

### Forest Management

In 2011, the drafting of forest management plans (FMPs) was completed with effect as of 1 January 2011. They encompassed 18 forest management facilities (FMFs) at 15 organizational units of Lesy ČR. The total area of land designated as forestland was 147,764 hectares. The authority responsible for state forest administration approved all 15 FMPs. All 15 FMPs were prepared in accordance with the applicable forest management information standard and were delivered to the Forest Management Institute information data centre in Brandýs nad Labem. Lesy ČR spent CZK 65,070,747 exclusive of VAT for this year's FMPs, which works out at CZK 436 per hectare. In 2011, Lesy ČR submitted an application for a state subsidy of CZK 44,329,200 (CZK 300 per hectare) for the preparation of FMPs in digital form. Due to the modified conditions for the provision of contributions (the introduction of the "de minimis" rule), the applications were rejected and the company has received no subsidization.

In 2011, outdoor work under FMPs with effect from 1 January 2012 was completed. This encompassed 16 forest management facilities at 13 organizational units of Lesy ČR. The total area was 148,689 ha.

Since the forest management plan effective as of 1 January 1998, the task of renewing the FMPs has been placed in the hands of external business entities. In 2011, in accordance with the Public Procurement Act Lesy ČR once again invited tenders for the preparation of the FMPs which will be valid as of 1 January 2013. As in previous years, the full scope of annual FMPs was included in a single public contract which was divided into 12 separate parts, each representing an organizational unit affected by FMP renewal. The tendering procedure thus encompassed 13 FMFs at 12 organizational units covering a preliminary area of 135,351 ha.

Fourteen entities expressed an interest in the preparation of FMPs with effect from 1 January 2013, of which three were first-time candidates for the production of FMPs for Lesy ČR. The average price (the arithmetic mean weighted by the preliminary area of each FMF) under the concluded works contracts amounted to CZK 427 per ha, exclusive of VAT. The price change index for the FMPs in 2011 versus 2010 was 91.8.

Overall, in 2010 FMP renewal took place, at various stages of completion, for 431,804 ha in 47 FMFs at 40 organizational units.

A detailed list of FMPs renewed in 2011, by individual FMF, is shown in the table and in the clearly laid-out map of FMPs renewed in 2011 – see page 32.

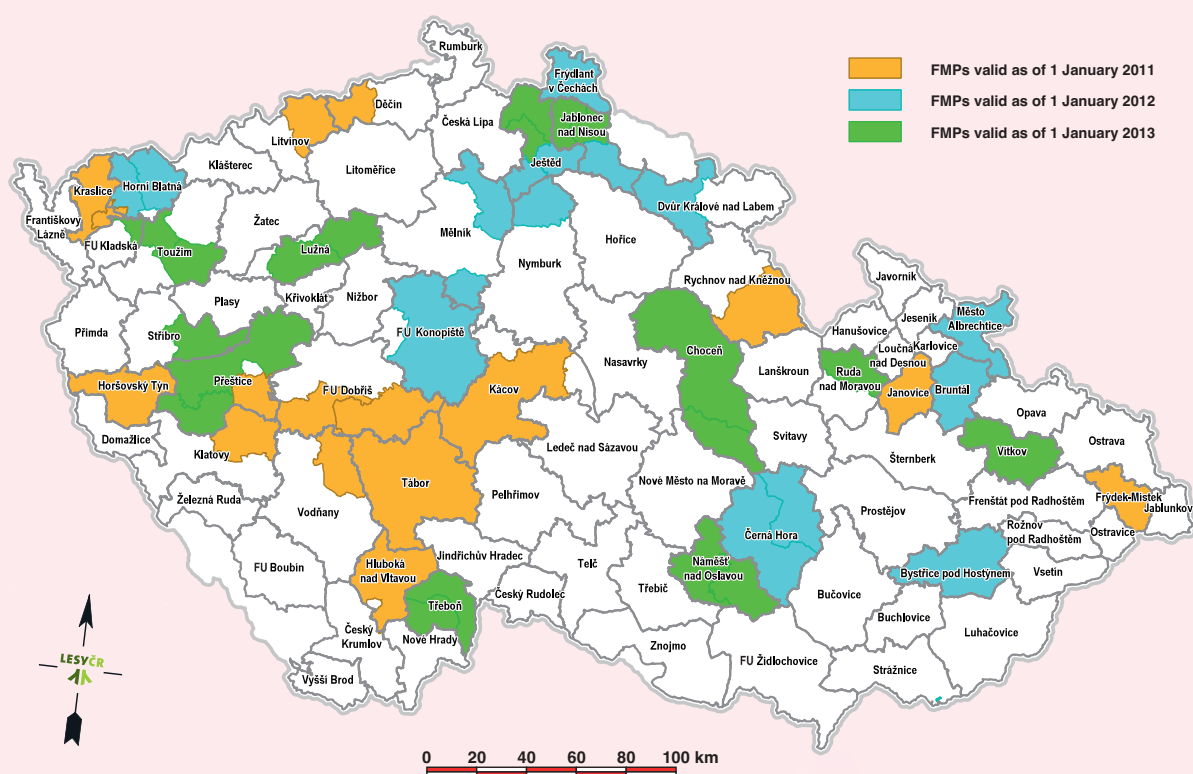


### Overview of FMPs in Progress in 2011

(the indicative areas of forest management plans not yet approved are in italics; FMPs in bold have a varying state co-ownership share)

| Organizational unit                      | FMP name              | FMP valid as of   | Area of land designated as forestland (ha) |
|--|-----------------------|-------------------|--|
| Český Krumlov                            | Římov                 | 1. 1. 2011        | 43   |
| Děčín                                    | Telnice               | 1. 1. 2011        | 6,355                                      |
| Dobříš                                   | Rožmitál              | 1. 1. 2011        | 5,631                                      |
| Dobříš                                   | Sedlčany              | 1. 1. 2011        | 2,107                                      |
| Frýdek-Místek                            | Frýdek-Místek         | 1. 1. 2011        | 12,107                                     |
| Hluboká nad Vltavou                      | Hluboká nad Vltavou   | 1. 1. 2011        | 11,401                                     |
| Horšovský Týn                            | Horšovský Týn         | 1. 1. 2011        | 12,417                                     |
| <b>Horšovský Týn</b>                     | <b>Vrhavěč</b>        | <b>1. 1. 2011</b> | <b>30</b>                                  |
| Janovice                                 | Janovice              | 1. 1. 2011        | 17,460                                     |
| Kácov                                    | Kácov                 | 1. 1. 2011        | 13,897                                     |
| Klatovy                                  | Nepomuk               | 1. 1. 2011        | 4,812                                      |
| Kraslice                                 | Kraslice              | 1. 1. 2011        | 19,385                                     |
| Kraslice                                 | Sokolov               | 1. 1. 2011        | 619  |
| Litvínov                                 | Litvínov              | 1. 1. 2011        | 14,319                                     |
| Přeštice                                 | Spálené Poříčí        | 1. 1. 2011        | 6,856                                      |
| Rychnov nad Kněžnou                      | Rychnov               | 1. 1. 2011        | 8,113                                      |
| Tábor                                    | Tábor                 | 1. 1. 2011        | 9,638                                      |
| Vodňany                                  | Čížová                | 1. 1. 2011        | 2,574                                      |
| <b>Sum for FMPs as of 1 January 2011</b> |                       |                   | <b>147,764</b>                             |
| Bruntál                                  | Bruntál               | 1. 1. 2012        | 14,799                                     |
| Bystřice pod Hostýnem                    | Bystřice pod Hostýnem | 1. 1. 2012        | 12,403                                     |
| Černá Hora                               | Rájec                 | 1. 1. 2012        | 11,105                                     |
| Černá Hora                               | Tišnov                | 1. 1. 2012        | 9,721                                      |
| Dvůr Králové nad Labem                   | Podkrkonoší           | 1. 1. 2012        | 9,863                                      |
| Frýdlant v Čechách                       | Frýdlant              | 1. 1. 2012        | 17,945                                     |
| Horní Blatná                             | Plešivec              | 1. 1. 2012        | 15,464                                     |
| Horní Blatná                             | Nejdek                | 1. 1. 2012        | 9,709                                      |
| Jablonec nad Nisou, Ještěd               | Pojizeří              | 1. 1. 2012        | 3,073                                      |
| Ještěd                                   | Klokočka              | 1. 1. 2012        | 4,178                                      |
| Konopiště                                | Konopiště             | 1. 1. 2012        | 14,913                                     |
| Mělník                                   | Doksy                 | 1. 1. 2012        | 4,340                                      |
| Mělník                                   | Újezd                 | 1. 1. 2012        | 1,058                                      |
| Město Albrechtice                        | Město Albrechtice     | 1. 1. 2012        | 17,378                                     |
| Nymburk                                  | Žehrov                | 1. 1. 2012        | 2,617                                      |
| Strážnice                                | Research              | 1. 1. 2012        | 123  |
| <b>Sum for FMPs as of 1 January 2012</b> |                       |                   | <b>148,689</b>                             |
| Choceň                                   | Choceň                | 1. 1. 2013        | 8,587                                      |
| Choceň                                   | Polička               | 1. 1. 2013        | 5,952                                      |
| Jablonec nad Nisou                       | Jablonec nad Nisou    | 1. 1. 2013        | 18,658                                     |
| Ještěd                                   | Ještěd                | 1. 1. 2013        | 11,548                                     |
| Kladská                                  | Cihelny               | 1. 1. 2013        | 1,883                                      |
| Lužná                                    | Lužná                 | 1. 1. 2013        | 9,033                                      |
| Náměšť nad Oslavou                       | Náměšť nad Oslavou    | 1. 1. 2013        | 18,079                                     |
| Přeštice                                 | Přeštice              | 1. 1. 2013        | 11,229                                     |
| Ruda nad Moravou                         | Ruda nad Moravou      | 1. 1. 2013        | 8,658                                      |
| Stříbro                                  | Plzeň                 | 1. 1. 2013        | 2,050                                      |
| Třeboň                                   | Třeboň                | 1. 1. 2013        | 16,672                                     |
| Toužim                                   | Žlutice               | 1. 1. 2013        | 11,559                                     |
| Vítkov                                   | Vítkov                | 1. 1. 2013        | 11,443                                     |
| <b>Sum for FMPs as of 1 January 2013</b> |                       |                   | <b>135,351</b>                             |
| <b>Total</b>                             |                       |                   | <b>431,804</b>                             |

### Forest Management Facilities Affected by FMP Renewal



In 2011, Lesy ČR registered 135 FMFs with a valid FMP, of which six were recorded as co-ownership with a certain share held by the state, seven were placed in the management of the company as part of asset purchases, and two were created over leased assets, with all activity provided by forestry units.

The most significant change in the production of FMPs in 2011 was the preparation of a map of subsets of forest types as part of the renewal of FMPs valid as of 1 January 2011.

As in 2010, the Forest Management Institute in Brandýs nad Labem conducted external quality control of Lesy ČR FMPs at three FMFs: Hluboká FMF, the Kácov FMF and Podkrkonoší FMF. The check at one of the FMFs revealed serious systematic errors that were corrected before the draft FMP was submitted to the approval authority of the Forestry State Administration. External checks will be continued in 2012.

As in previous years, Lesy ČR arranged for the digitized boundaries of organizational units to be updated. This resulted in a well-arranged map of the organizational structure – see page 8. A map showing the current status of property managed by Lesy ČR as at 31 December 2011 is confirmation that the Graphics Data Warehouse GrDW is duly functional (see page 8).

Based on results of pilot testing of the usability of GPS technology in 2010, the company held tendering procedure in 2011 for the purchase of GPS devices and the production of utility software.

## Forestry Inspection

In 2007, Lesy ČR introduced periodic surveys of the condition of forestland (forest ecosystems) and long-term profits in the form of reviews of long-term operations. These activities are carried out by staff from the Forestry Inspection Department (FID).

The results of these observations are used mainly in the mediation of feedback on the effectiveness and consequences of management processes and in the provision of direct information from regional head offices and the Operations Section regarding specific results of forest management by individual organizational units compared with the Lesy ČR standard.

Reviews of long-term results in the care of forestland, together with tests of professional forest management, are an important element in the system for sustaining the company's professional level of forest management. They help to prevent risks arising from non-compliance with legislation, contribute to the uniform, standard procedure followed by Lesy ČR employees in relation to bodies of state forestry administration, and thus help to maintain the prestige of forest management in state forests.

During the period from 2007 to 2011, forestry inspections were conducted at 70 FMFs and their parts, i.e. more than 50% of the current total number of FMFs managed by Lesy ČR. In all, this encompassed 457 districts and field inspections of 12,321 "units of forest spatial division".

The evaluation results are published on the company website at [www.lesycr.cz](http://www.lesycr.cz).

## Overview of the Average Forestry Inspection Results by RHO (FU) 2007–2011

| RHO/FU No | RHO/FU name       | Average | Office | Outdoor | Number of districts | Number of FMPs |
|-----------|-------------------|---------|--------|---------|---------------------|----------------|
| 913       | Šumperk           | 1.60    | 1.63   | 1.56    | 54                  | 6              |
| 911       | Frydek-Místek     | 1.61    | 1.53   | 1.71    | 43                  | 5              |
| 918       | Jihlava           | 1.63    | 1.68   | 1.59    | 40                  | 8              |
| 915       | Zlín              | 1.67    | 1.73   | 1.61    | 17                  | 3              |
| 006       | Konopiště FU      | 1.79    | 2.01   | 1.55    | 1                   | 1              |
| 928       | České Budějovice  | 1.83    | 1.89   | 1.76    | 49                  | 8              |
| 009       | Kladská FU        | 1.86    | 1.87   | 1.85    | 2                   | 1              |
| 916       | Brno              | 1.87    | 1.92   | 1.83    | 10                  | 1              |
| 937       | Hradec Králové    | 1.89    | 2.01   | 1.74    | 31                  | 3              |
| 011       | Dobříš FU         | 1.91    | 2.01   | 1.81    | 13                  | 4              |
| 919       | Choceň            | 1.92    | 2.05   | 1.76    | 28                  | 4              |
| 932       | Karlovy Vary      | 1.92    | 1.95   | 1.87    | 30                  | 4              |
| 921       | Brandýs nad Labem | 1.93    | 1.94   | 1.93    | 32                  | 6              |
| 930       | Plzeň             | 1.95    | 1.96   | 1.91    | 51                  | 7              |
| 004       | Židlochovice FU   | 2.03    | 2.30   | 1.73    | 8                   | 2              |
| 933       | Teplíc            | 2.28    | 2.53   | 1.96    | 48                  | 7              |
|           |                   | 1.85    | 1.92   | 1.77    | 457                 | 70             |

## Results of Administrative Reviews of Forestry Inspections by RHO (FU) 2007–2011

| No       | Area/RHO-FU  | Weighting | 911<br>Frydek-<br>Místek | 913<br>Šumperk | 918<br>Jihlava | 915<br>Zlín | 009<br>Kladská | 928<br>České<br>Budějovice | 916<br>Brno | 921<br>Brandýs<br>nad Labem | 932<br>Karlovy<br>Vary | 930<br>Plzeň | 011<br>Dobříš | 937<br>Hradec<br>Králové | 006<br>Konopiště | 919<br>Choceň | 004<br>Židlochovice | 933<br>Teplíc | FMP<br>ave-<br>ra-<br>ge |
|----------|--|-----------|--------------------------|----------------|----------------|-------------|----------------|----------------------------|-------------|-----------------------------|------------------------|--------------|---------------|--------------------------|------------------|---------------|---------------------|---------------|--------------------------|
| 4.1.2.1  | MCVT   | 3         | 1.00                     | 1.00           | 1.00           | 1.00        | 1.00           | 1.00                       | 1.00        | 1.00                        | 1.00                   | 1.00         | 1.00          | 1.00                     | 1.00             | 1.00          | 1.00                | 1.00          | 1.00                     |
| 4.1.3.8  | Realization of logging potential   | 2         | 1.00                     |                |                |             |                | 1.00                       |             | 1.00                        | 2.00                   | 1.00         | 1.50          | 1.00                     |                  |               |                     | 1.00          | 1.12                     |
| 4.1.3.6  | Compliance with the regeneration period and rotation                           | 1         | 1.60                     | 1.50           | 1.25           | 1.33        | 1.00           | 1.57                       | 1.00        | 1.50                        | 1.75                   | 1.71         | 1.25          | 1.33                     | 1.00             | 1.25          | 3.50                | 1.57          | 1.52                     |
| 4.1.1.4  | Record-keeping on forest protection, hunting                                   | 1         | 1.40                     | 1.17           | 1.38           | 1.00        | 1.00           | 1.38                       | 2.50        | 1.50                        | 1.25                   | 2.00         | 1.75          | 1.83                     | 1.00             | 2.38          | 2.00                | 1.86          | 1.58                     |
| 4.1.3.4  | Principal felling in stands up 80 years old                                    | 1         | 1.60                     | 1.00           | 1.38           | 2.00        | 1.00           | 1.00                       | 1.00        | 2.00                        | 1.00                   | 1.86         | 1.00          | 3.00                     | 1.00             | 3.25          | 1.00                | 3.14          | 1.73                     |
| 4.3      | Selected economic indicators   | 2         | 1.63                     | 1.51           | 1.62           | 1.50        |                | 1.88                       | 1.99        | 1.72                        | 1.89                   | 2.12         | 1.92          | 1.94                     | 1.67             | 1.91          | 1.50                | 2.00          | 1.80                     |
| 4.1.1.3  | The management of land designated as forestland                                | 2         | 1.20                     | 1.17           | 1.56           | 2.00        | 3.00           | 1.63                       | 2.50        | 1.83                        | 1.63                   | 1.79         | 2.50          | 1.50                     | 1.00             | 2.38          | 1.50                | 2.71          | 1.81                     |
| 4.1.3.7  | Area of initial restoration  | 1         | 1.60                     | 2.25           | 1.50           | 1.33        | 2.00           | 2.00                       | 1.00        | 1.67                        | 1.75                   | 2.21         | 1.50          | 2.67                     | 4.00             | 1.38          | 2.50                | 2.00          | 1.88                     |
| 4.1.2.2. | Minimum surface area of nursing measures in stands up 40 years old             | 3         | 1.00                     | 1.00           | 1.75           | 2.50        | 1.00           | 1.88                       | 3.25        | 2.50                        | 1.00                   | 1.64         | 1.00          | 3.00                     | 4.00             | 1.75          | 4.00                | 2.71          | 1.90                     |
| 4.1.1.2  | ERM management   | 1         | 2.30                     | 1.83           | 2.00           | 1.67        | 2.00           | 2.13                       | 1.00        | 1.83                        | 2.00                   | 2.50         | 2.75          | 1.67                     | 2.00             | 2.50          | 2.00                | 2.29          | 2.11                     |
| 4.1.3.1  | Proportion of natural regeneration   | 2         | 1.50                     | 2.00           | 1.94           | 1.00        | 1.00           | 2.63                       | 2.50        | 2.42                        | 2.25                   | 2.07         | 3.50          | 1.83                     | 3.00             | 2.00          | 1.50                | 3.00          | 2.22                     |
| 4.1.3.3  | Harnessing of genetic base   | 1         | 1.40                     | 1.67           | 1.80           | 2.67        |                | 2.17                       | 1.00        | 3.67                        | 2.50                   | 3.00         | 2.00          | 2.00                     |                  | 1.33          | 2.00                | 3.00          | 2.24                     |
| 4.1.3.2  | Failed restocking  | 2         | 2.00                     | 2.25           | 2.44           | 1.33        | 1.00           | 2.00                       | 2.50        | 2.58                        | 1.75                   | 1.64         | 3.25          | 1.67                     | 3.00             | 1.88          | 3.00                | 3.29          | 2.26                     |
| 4.1.2.3  | Minimum proportion of soil improving and reinforcement species in regeneration | 3         | 2.20                     | 2.25           | 1.50           | 1.50        | 4.00           | 2.50                       | 1.00        | 1.75                        | 4.00                   | 2.29         | 1.75          | 2.00                     | 1.00             | 2.13          | 2.50                | 3.57          | 2.30                     |
| 4.1.1.1  | Keeping of forest management register  | 2         | 2.00                     | 1.92           | 1.88           | 2.17        | 2.00           | 2.13                       | 1.75        | 2.25                        | 1.88                   | 2.57         | 2.75          | 2.67                     | 2.00             | 3.13          | 2.50                | 3.00          | 2.32                     |
| 4.1.3.5  | Limits on restricted logging   | 1         | 1.00                     | 2.50           | 2.88           | 4.00        | 4.00           | 3.57                       | 4.00        | 2.25                        | 4.00                   | 4.00         | 3.25          | 4.00                     |                  | 4.00          | 4.00                | 3.14          | 3.18                     |
|          | Office   |           | 1.53                     | 1.63           | 1.68           | 1.73        | 1.87           | 1.89                       | 1.92        | 1.94                        | 1.95                   | 1.96         | 2.01          | 2.01                     | 2.01             | 2.05          | 2.30                | 2.53          | 1.92                     |



## Results of Outdoor Reviews of Forestry Inspections by RHO (FU) 2007–2011

| No    | Area/RHO-FU                                       | Weighting | 006<br>Konopiště | 913<br>Šumperk | 918<br>Jihlava | 915<br>Zlín | 911<br>Frýdek-<br>-Místek | 004<br>Židlochovice | 937<br>Hradec<br>Králové | 928<br>České<br>Budějovice | 919<br>Choceň | 011<br>Dobruška | 916<br>Brno | 009<br>Kladská | 932<br>Karlovy<br>Vary | 930<br>Plzeň | 921<br>Brandýs<br>nad Labem | 933<br>Teplice | FMP<br>ave-<br>ra-<br>ge |
|-------|---|-----------|------------------|----------------|----------------|-------------|---------------------------|---------------------|--------------------------|----------------------------|---------------|-----------------|-------------|----------------|------------------------|--------------|-----------------------------|----------------|--------------------------|
| 4.2.4 | Regeneration procedures                           | 2         | 1.33             | 1.24           | 1.32           | 1.38        | 1.35                      | 1.21                | 1.25                     | 1.37                       | 1.25          | 1.51            | 1.56        | 1.56           | 1.42                   | 1.37         | 1.48                        | 1.40           | 1.36                     |
| 4.2.8 | Keeping of operational records                    | 2         | 1.75             | 1.21           | 1.68           | 1.31        | 1.37                      | 1.62                | 1.50                     | 1.52                       | 1.54          | 1.64            |             | 2.00           | 1.39                   | 1.55         | 1.81                        | 1.45           | 1.53                     |
| 4.2.3 | Nursing of stands for intermediate felling 40+    | 2         | 1.30             | 1.48           | 1.46           | 1.38        | 1.57                      | 1.74                | 1.47                     | 1.60                       | 1.63          | 1.67            | 1.67        | 1.59           | 1.74                   | 1.66         | 1.86                        | 1.90           | 1.63                     |
| 4.2.5 | Forest protection                                 | 3         | 1.17             | 1.61           | 1.46           | 1.54        | 1.71                      | 1.55                | 1.68                     | 1.58                       | 1.69          | 1.60            | 1.95        | 1.78           | 2.03                   | 1.82         | 1.77                        | 1.84           | 1.68                     |
| 4.2.1 | Regeneration and reforestation                    | 3         | 1.33             | 1.59           | 1.50           | 1.41        | 1.54                      | 1.77                | 1.68                     | 1.71                       | 1.69          | 1.78            | 1.75        | 1.95           | 1.88                   | 1.95         | 1.99                        | 2.10           | 1.75                     |
| 4.2.7 | Condition and maintenance of transport network    | 1         | 1.33             | 1.59           | 1.87           | 1.90        | 1.88                      | 2.02                | 1.89                     | 1.76                       | 1.95          | 1.89            | 2.20        | 1.75           | 1.80                   | 1.89         | 2.00                        | 1.92           | 1.86                     |
| 4.2.2 | Establishment of forest stands                    | 3         | 1.70             | 1.72           | 1.48           | 1.38        | 2.05                      | 1.58                | 1.77                     | 2.09                       | 1.77          | 1.82            | 1.63        | 1.58           | 2.09                   | 1.96         | 1.97                        | 2.28           | 1.87                     |
| 4.2.3 | Nursing – cleaning                                | 3         | 1.80             | 1.70           | 1.79           | 1.95        | 1.84                      | 1.95                | 1.82                     | 1.88                       | 1.91          | 2.07            | 1.79        | 2.09           | 1.95                   | 2.16         | 2.03                        | 2.23           | 1.95                     |
| 4.2.3 | Nursing of stands for intermediate felling -40    | 3         | 1.70             | 1.67           | 1.87           | 1.80        | 1.77                      | 1.96                | 2.00                     | 2.06                       | 2.01          | 2.01            | 1.86        | 2.09           | 2.04                   | 2.36         | 2.12                        | 2.06           | 1.99                     |
| 4.2.6 | Condition and maintenance of distribution network | 1         | 2.50             | 1.56           | 1.61           | 2.46        | 1.95                      | 2.17                | 2.74                     | 1.77                       | 2.49          | 2.35            | 2.65        | 2.00           | 2.11                   | 1.92         | 2.26                        | 1.82           | 2.01                     |
|       | <b>Outdoor</b>                                    |           | <b>1.55</b>      | <b>1.56</b>    | <b>1.59</b>    | <b>1.61</b> | <b>1.71</b>               | <b>1.73</b>         | <b>1.74</b>              | <b>1.76</b>                | <b>1.76</b>   | <b>1.81</b>     | <b>1.83</b> | <b>1.85</b>    | <b>1.87</b>            | <b>1.91</b>  | <b>1.93</b>                 | <b>1.96</b>    | <b>1.77</b>              |



A photograph of two deer running away from the camera in a snowy field. The deer in the foreground is on the left, and the one in the background is on the right. Both are captured in motion, with their legs extended. The background is a soft, out-of-focus white, suggesting a snowy landscape. The text is overlaid on the lower right portion of the image.

# THE HARMONY OF ALL ROLES PLAYED BY FORESTLAND

## Working in the Public Interest

As part of its work in the public interest, the company has steadily drawn up and approved several policy documents, which are gradually updated and implemented. The Sustainable Forest Management Programme (1997, 2000) relates in particular to the actual existence of forests and improvements in their condition. The "LČR Concept for the Preservation and Regeneration of the Gene Pool of Forest Tree Species 2010–2019", as its name indicates, is used to protect the gene pool of forest tree species. This is the third policy paper in a series on this theme.

In 2011, Agenda 2020 – Guaranteeing the Public Interest at LČR was published; this document is an update of the original Agenda 2000. The updated document is published online and gives the general public the opportunity to become involved in gathering ideas that can be implemented under this programme.

### Agenda 2020

#### Expenditure on the Implementation of Agenda 2000 in 2007–2011

| Year                              | 2007   | 2008   | 2009   | 2010   | 2011   |
|-----------------------------------|--------|--------|--------|--------|--------|
| Total expenditure (CZK thousands) | 23,838 | 58,530 | 60,857 | 33,493 | 55,601 |

#### Expenditure on the Implementation of Agenda 2020 by Type of Activity

| Types of activities   | CZK thousands | %          |
|---|---------------|------------|
| Forest arboreta and protected trees                                   | 0             | 0.0        |
| Well-building   | 1,305         | 2.3        |
| Maintenance of protected buildings and structures                     | 1,421         | 2.6        |
| Relaxation and sightseeing facilities for the public                  | 11,596        | 20.9       |
| Information systems for the public                                    | 3,138         | 5.6        |
| Construction and repair of roads, trails and car parks for the public | 11,941        | 21.5       |
| Aesthetic treatment of forests, parks and the countryside             | 1,748         | 3.1        |
| Management of water resources   | 5,292         | 9.5        |
| Management of forest and landscape biodiversity                       | 1,832         | 3.3        |
| Management of small structures for the public                         | 7,065         | 12.7       |
| Suppression of invasive plant species                                 | 1,031         | 1.9        |
| Special programmes for the public                                     | 722           | 1.3        |
| Other public events   | 8,510         | 15.3       |
| <b>Agenda 2020, total</b>   | <b>55,601</b> | <b>100</b> |

In 2011, the company spent most funds on the construction and maintenance of recreational and sightseeing facilities and other small structures for the public (CZK 18,661,000) and on building and repairing roads, trails, car parks and public information systems (CZK 15,079,000). Other significant company activities in the implementation of the Agenda included the management of water resources and wells (CZK 6,597,000), management of forest and landscape biodiversity (CZK 1,832,000), the aesthetic treatment of forests, parks and the countryside (CZK 1,748,000) and maintenance of protected buildings and structures in forests and the countryside (CZK 1,421,000).

In 2011, the company spent a total of CZK 55,601,000 on all types of activities for the public under Agenda 2020.

## Cooperation with NGOs

### Czech Tourist Club

In 1998, Lesy ČR signed a contract with the Czech Tourist Club (KČT) that governs the relationship between the two entities and declares the educational activities of the two organizations intended for forest visitors with a view to promoting a respectful relationship with nature and cooperation in meeting the recreational role of forestland. In 2011, both parties undertook to continue cooperation in the form of support for the marking of trails, thus making Lesy ČR a long-term contributor to the development of tourism in the Czech Republic.

### Czech Union for Nature Conservation

In cooperation with the Czech Union for Nature Conservation (ČSOP), dozens of specific projects for the protection of biodiversity in forests are implemented each year (e.g. measures to protect endangered species of forest trees, herbs, songbirds, predators and owls, bats, the mapping of valuable forest wetlands and watercourses), along with projects in support of rescue stations for injured and disabled animals and projects aimed at environmental awareness, education and training. In 2011, Lesy ČR contributed CZK 3.8 million in support of the ČSOP's activities.

### Czech Society for Ornithology

In 2011, Lesy ČR worked with branches of the Czech Society for Ornithology, providing financial support of CZK 100,000.

### Dolní Morava Biosphere Reserve

In 2011, the company supported the activities of Dolní Morava Biosphere Reserve, a public benefit company of which it is the founder, with a total amount of CZK 400,000.

In 2011, Lesy ČR co-founded the public benefit company Křivoklátsko Forest Park, which takes care of a forest park with the same name set up in 2010. On 11 May 2011, the company was involved in the establishment of another forest park – Bezděz.

## Nature and Landscape Protection

Lesy ČR is the largest manager of protected sites in the Czech Republic. The company manages sites with a high conservation interest with due regard for the individual categories of land protection, and the presence of especially protected species, valuable habitats and other significant natural and cultural phenomena. More than 30% of the land which the company is entitled to manage is incorporated into protected landscape areas (PLAs). Another 3% of the area is located in small specially protected sites, i.e. in national nature reserves, national natural monuments, nature reserves and natural monuments.

In the Natura 2000 system of significant European sites, set up in all EU Member States, of the land the company is entitled to manage, special protection areas (under the Birds Directive) encompass nearly 230,000 hectares, while sites of Community importance (under the Habitats Directive) cover more than 260,000 hectares of land. Although some of this land overlaps, the overall share of specially protected sites and Natura 2000 sites on the land which Lesy ČR is entitled to manage is nearly 45%.

Protective conditions for specially protected areas and special protection areas necessitate a permanent reduction in the productive role of forestland. Despite this, the company is not entitled to receive any management subsidies for such areas. The company has also long been involved in the rescue and support of selected groups of organisms, especially naturally rare species of trees, birds of prey and owls, grouse, forest songbirds, etc., both inside and outside specially protected areas.

### Non-interference Zones and Monitoring Thereof

In 2011, the performance of the contract between Lesy ČR and the Agency for Nature Conservation and Landscape Protection of the Czech Republic on cooperation in the definition of non-interference zones in forests and their monitoring continued. Preliminary discussions regarding potential new sites were held. An overview of non-interference zones established as at 31 December 2011 and the results of initial monitoring can be found on the company's website.



## Support of the Non-productive Roles of Forests – External Resources

In 2011, the Ministry of the Environment released funds under the Landscape Management Programme for measures in specially protected sites, SPAs and SCIs to the competent conservation bodies which had entered into works contracts with the relevant owners on concrete action to promote biodiversity in these zones. Measures on land which Lesy ČR is entitled to manage were granted a total of CZK 2.170 million. In 2011, CZK 529,000 was disbursed under the “Programme to Restore Natural Landscape Functions”, operated by the Ministry of Environment.

The company received direct subsidies under the Landscape Management Programme totalling CZK 287,000 for measures in sites outside these zones.

## Protection of Water Sources

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

Protected areas of natural water accumulation – 500,156 hectares, of which 480,360 ha of stand land (36.8% of the stand area of land managed by Lesy ČR).

The buffer zones of water resources (net of the buffer zones of water reservoirs) occupy a total area of 144,000 hectares (11% of the stand area of land managed by Lesy ČR), of which first-level buffer zones account for 5,800 hectares.

The buffer zones of natural medicinal resources and mineral water sources cover more than 63,000 hectares (4.8% of the stand area of land managed by Lesy ČR), of which first-level buffer zones account for 2,800 hectares.

## Quantification of the Average Socio-economic Value of Forest Functions

The average socio-economic value of forest functions, as examined under the current National Agricultural Research Agency Project No QH 71296 (Šišák et al., 2008), can be quantified as follows:

- The lumber-producing role of forests is worth CZK 7,800 per ha per year and CZK 389,850 per ha overall (reflecting a 2% interest rate for the capitalized forest value), with potential for more detailed differentiation depending on the specific forest environment.
- The forest functions of game breeding and hunting in open hunting grounds (i.e. not the intensified role in preserves and pheasantries) are valued at CZK 170 per ha per year and CZK 8,500 per ha of forestland overall.
- The production of forest crops (a “non-lumber-producing role”) is valued at CZK 1,315 per ha per year and CZK 65,750 per ha overall, differentiated by forest crop (the average values in blueberry and cranberry forest environments are CZK 4,944 per ha per year and CZK 247,200 per ha in total).
- The role of forests in carbon sequestration is worth CZK 1,000 per ha of forestland dedicated to timber production for social consumption and CZK 50,000 per ha overall.
- Hydric forest functions where the maximum flow rates are reduced are worth CZK 480 to CZK 1,360 per ha annually and CZK 23,800 to CZK 67,800 ha overall (depending on geomorphological conditions, replacement ground cover and social urgency). Where the minimum flow rates are increased, the values are between CZK 540 and CZK 4,180 per ha annually and between CZK 26,900 and CZK 209,000 per ha overall (depending on replacement ground cover and social urgency). In the case of water quality, values range (depending on the replacement ground cover) from base levels to CZK 9,300 per ha per year and CZK 465,000 per ha overall (in buffer zones for sources of drinking water and the accumulation of groundwater – with a high social urgency).
- The value of the soil conservation functions of forests is CZK 150,000 to CZK 250,000 per ha overall in the case of intro-skeletal erosion; in cases where waterways and reservoirs are silted, the worth of these functions varies from base values to CZK 36,420 per ha per year and CZK 1,818,600 per ha overall, depending on the ground cover, precipitation and soil conditions.
- The medical and health functions of forests are valued at CZK 2,570 per ha per year and CZK 128,650 per ha overall, differentiated by traffic levels (suburban forests, forests with increased medical and recreational features, spa forests, and forests around hiking trails are worth CZK 7,520 per ha per year and CZK 376,050 per ha overall).
- The base value of the cultural and educational functions of forests is CZK 2,180 per ha per year and CZK 109,150 per ha overall for production forests; however, in the NNR, the value of these functions is CZK 7,095 per ha per year and CZK 354,750 per ha overall at an average degree of forest cover naturalness.

Source: ŠIŠÁK, L. et al. *Výroční zpráva 2008: Projekt NAZV č. QH71296 „Systém hodnocení společenské sociálně-ekonomické významnosti funkcí lesů včetně kritérií a indikátorů polyfunkčního obhospodařování lesů“*. First edition. Prague: Czech University of Life Sciences, Prague, Forestry and Wood Sciences Faculty, 2008. 94 pp. ISBN not given



# MANAGEMENT OF MINOR WATERCOURSES

# Capital Construction

## Investing Activities in 2011

The total volume of capital funds invested in 2011 came to CZK 1,194,137,000, which is 91% of the planned volume of CZK 1,315,000,000. The company's own resources in this respect stood at CZK 942,130,000 (i.e. 78.9%), subsidies and public funding were CZK 180,237,000 (i.e. 15.1%), Agenda 2020 investment projects received CZK 34,165,000 (2.9%) and other resources amounted to CZK 37,605,000 (3.1%) of total investment funds.

### Investments in 2011 by Source of Funding (Actual)

| Source of funding        | CZK millions     | %          |
|--------------------------|------------------|------------|
| Own resources            | 942.130          | 78.9       |
| Subsidies, public budget | 180.237          | 15.1       |
| Own resources – Agenda   | 34.165           | 2.9        |
| Other sources            | 37.605           | 3.1        |
| <b>Total</b>             | <b>1,194.137</b> | <b>100</b> |

### Investments in Intangible and Tangible Assets

| Overview by asset type         | CZK millions     | %          |
|--------------------------------|------------------|------------|
| Intangible assets              | 202.711          | 17.0       |
| – of which: FMP                | 73.246           | 6.1        |
| SW                             | 114.133          | 9.6        |
| other intangibles              | 13.280           | 1.1        |
| area studies                   | 2.052            | 0.2        |
| Tangible assets                | 991.427          | 83.0       |
| – of which: construction works | 859.622          | 72.0       |
| machinery and equipment        | 68.582           | 5.7        |
| land                           | 59.041           | 4.9        |
| other                          | 4.181            | 0.4        |
| <b>Total</b>                   | <b>1,194.137</b> | <b>100</b> |

Investments in intangible assets amounted to CZK 202,711,000 (i.e. 17.0% of total investments), most of which was invested in the purchase of enterprise software – CZK 114,133,000.

CZK 991,427,000 was invested in tangible assets (i.e. 83.0% of total investments). Of this, CZK 859,622,000 was invested in construction work, CZK 68,582,000 in machinery and equipment, and CZK 59,041,000 in land purchases and other matters related to capital construction or the consolidation of forestland.

### Capital Construction by Statistical Classification

| Capital construction classification                                       | CZK millions   | %          |
|---|----------------|------------|
| Torrent control project documentation                                     | 9.880          | 1.2        |
| Other project documentation   | 0.963          | 0.1        |
| Forest road project documentation   | 20.807         | 2.4        |
| Forest nursery project documentation                                      | 0              | 0          |
| Handling warehouse project documentation                                  | 0              | 0          |
| Warehouse and workshop project documentation                              | 0.001          | 0.0        |
| Reservoir project documentation   | 2.290          | 0.3        |
| Housing project documentation   | 0.109          | 0.0        |
| AB project documentation  | 0.607          | 0.1        |
| Flood damage project documentation – torrent control                      | 17.699         | 2.1        |
| Flood damage project documentation – other                                | 0.010          | 0.0        |
| Flood damage project documentation – forest roads                         | 2.222          | 0.3        |
| Flood damage project documentation – housing                              | 0              | 0          |
| Flood damage project documentation – AB                                   | 0              | 0          |
| Project documentation – EU projects                                       | 8.788          | 1.0        |
| Forest roads  | 416.807        | 48.4       |
| Forest nurseries  | 0.324          | 0.0        |
| Handling warehouses   | 0              | 0          |
| Warehouses and workshops  | 0.616          | 0.1        |
| Technical forest reclamation + torrent control ... torrent control        | 132.409        | 15.4       |
| Technical forest reclamation + torrent control ... reclamation            | 0              | 0          |
| Technical forest reclamation + torrent control ... gullies and sanitation | 4.816          | 0.6        |
| Reservoirs  | 31.944         | 3.7        |
| Housing, districts  | 4.380          | 0.5        |
| Administrative buildings  | 10.746         | 1.3        |
| Other structures, including borrow pits                                   | 10.781         | 1.3        |
| Programme 2020  | 34.165         | 4.0        |
| Flood damage – torrent control  | 96.427         | 11.2       |
| Flood damage – other structures   | 1.314          | 0.2        |
| Flood damage – forest roads   | 30.522         | 3.5        |
| Flood damage – housing  | 0              | 0          |
| Flood damage – administrative buildings                                   | 0              | 0          |
| EU projects – implementation  | 20.994         | 2.3        |
| <b>Total capital construction</b>   | <b>859.622</b> | <b>100</b> |

## Capital Construction by Type for Forest Management

| Construction works                    | CZK millions   | %          |
|---------------------------------------|----------------|------------|
| Forest roads, including documentation | 470.358        | 54.7       |
| Housing construction                  | 4.489          | 0.5        |
| Service buildings and structures      | 12.294         | 1.4        |
| Water Management                      | 295.465        | 34.4       |
| EU projects                           | 29.782         | 3.5        |
| Agenda 2020                           | 34.165         | 4.0        |
| Other structures                      | 13.069         | 1.5        |
| <b>Total</b>                          | <b>859.622</b> | <b>100</b> |

CZK 859,622,000 was invested in surface structures and utilities, most of which (CZK 470,358,000, i.e. 54.7%) was invested in the construction and upgrading of forest roads. The second largest volume, CZK 295,465,000 (i.e. 34.4%), was invested in hydraulic works to enhance the flood protection and to prevent and eliminate flood damage. More than 80% of funding was therefore invested in structures constructed primarily in the public interest.

## Investments in Machinery and Equipment by Statistical Classification

| Plant and equipment                             | CZK millions  | %           |
|---|---------------|-------------|
| Logging truck-and-trailer units                 | 0             | 0           |
| Lorries   | 1.407         | 1.9         |
| Other vehicles (off-road)                       | 5.462         | 7.4         |
| Other vehicles (not off-road)                   | 39.645        | 54.5        |
| Special forestry machinery                      | 0.167         | 0.2         |
| Tractors, including forestry trucks             | 4.636         | 6.4         |
| Trailers and semi-trailers                      | 0.766         | 1.1         |
| Farming and nursery machinery                   | 0.280         | 0.4         |
| Loaders   | 0.378         | 0.5         |
| Computer technology, including printers         | 2.302         | 3.2         |
| Copiers   | 0.040         | 0.1         |
| Telecommunications technology                   | 0.799         | 1.1         |
| Electronic security of structures               | 0.328         | 0.5         |
| Metalworking machinery                          | 0             | 0           |
| Woodworking machinery                           | 0.800         | 1.1         |
| Cross-cutting and sorting lines, dispatch lines | 0.876         | 1.2         |
| Televisions and cameras                         | 0.055         | 0.1         |
| Freezer technology                              | 0             | 0           |
| Other machinery nec                             | 10.641        | 14.5        |
| <b>Total machinery</b>                          | <b>68.582</b> | <b>94.2</b> |
| Other equipment and tangible fixed assets       | 4.185         | 5.8         |
| <b>Total machinery and equipment</b>            | <b>72.767</b> | <b>100</b>  |

Machinery investments, including investments in other equipment, amounted to CZK 72,767,000 in 2011. The largest volume of funds, amounting to CZK 39,645,000 (i.e. 54.5%), was invested in the purchase of cars.

## Agenda 2020 – Investment Projects

| Types of activities                         | CZK millions  | %          |
|---|---------------|------------|
| Forest arboreta                             | 0.000         | 0          |
| Protected, ornamental and other trees       | 0.001         | 0          |
| Alterations to streams, reservoirs          | 2.743         | 8.0        |
| Small wells (springs)                       | 1.305         | 3.8        |
| Support for endangered species              | 0.008         | 0.0        |
| Protected buildings and structures          | 1.421         | 4.2        |
| Landscaping                                 | 0.000         | 0          |
| Relaxation and sightseeing facilities       | 11.596        | 33.9       |
| Building of camping grounds for the public  | 0.000         | 0          |
| Removal of invasive plants                  | 0.000         | 0          |
| Establishment of public information systems | 1.846         | 5.4        |
| Roads, trails, car parks                    | 7.172         | 21.1       |
| Other nec                                   | 8.073         | 23.6       |
| <b>Total</b>                                | <b>34.165</b> | <b>100</b> |

In 2011, CZK 55,601,000 was spent on public-interest forest projects under Agenda 2020, CZK 34,165,000 of which was channelled into projects of an investment nature.

Capital construction in 2011 included the construction of small wooden structures to serve the public staying in forests managed by Lesy ČR. The largest volume of investment funds was used in the construction of recreational and sightseeing facilities and in the building of trails, paths and car parks, including the establishment of public information systems.



## Investments in Property Managed by Lesy ČR, by Region (CZK millions)

| Region          | Total            | Plant<br>and equipment | Buildings      | Of which forest<br>roads |
|-----------------|------------------|------------------------|----------------|--------------------------|
| Moravia-Silesia | 184.808          | 8.019                  | 145.165        | 80.897                   |
| Olomouc         | 104.207          | 5.225                  | 72.158         | 34.261                   |
| Zlín            | 113.808          | 5.063                  | 91.109         | 28.794                   |
| South Moravia   | 80.260           | 7.559                  | 54.915         | 29.526                   |
| Vysočina        | 67.542           | 3.669                  | 51.130         | 27.435                   |
| Pardubice       | 51.442           | 2.896                  | 36.219         | 24.845                   |
| Central Bohemia | 85.563           | 8.080                  | 52.782         | 33.746                   |
| South Bohemia   | 127.614          | 8.505                  | 92.003         | 82.659                   |
| Plzeň           | 57.242           | 3.648                  | 35.521         | 20.878                   |
| Karlovy Vary    | 68.380           | 8.770                  | 36.331         | 20.657                   |
| Ústí nad Labem  | 82.755           | 3.021                  | 65.535         | 31.519                   |
| Liberec         | 108.447          | 2.790                  | 85.368         | 38.487                   |
| Hradec Králové  | 62.070           | 5.524                  | 41.389         | 16.653                   |
| <b>Total</b>    | <b>1,194.137</b> | <b>72.767</b>          | <b>859.622</b> | <b>470.358</b>           |



# Water Management

Lesy ČR manages designated small streams and creeks as a non-productive forest function. As at 31 December 2011, it was managing more than 39,000 km of watercourses and 678 small reservoirs with a total flooded area of over 580 ha. The transformation of the Agricultural and Water Management Authority (AWMA) resulted in a significant increase in the length of watercourses and the number of reservoirs compared to 2010.

Watercourse care at Lesy ČR comprises the management of watercourse-related assets with an acquisition cost of CZK 5.2 billion (in particular watercourses, torrent and gully control structures, flood control, and reservoirs). The increase in the value of assets compared to 2010 was caused by the transformation of AWMA. Watercourse management was carried out by six water management units with geographical competence determined by the river basins methodically managed by the Water Management Department at the LČR Central Head Office.

In 2011, water management activities at Lesy ČR focused on:

- processes associated with the transformation of AWMA (i.e. the takeover of the management of watercourses, water management, operational and other assets and land),
- addressing the flood situation in 2011,
- removing flood damage from previous years (2009 and 2010),
- implementing investment and non-investment projects aimed at flood protection, erosion control measures and public interest activities in accordance with Section 35 of the Forest Act,
- other activities aimed at the construction and restoration of reservoirs, caring for riparian vegetation, the restoration of previously poorly controlled watercourses, non-productive forest functions, support of endangered species, the removal of invasive alien plant species, etc.

The decision to transform the AWMA was taken under Order of the Minister for Agriculture No 27/2010. That decision saw Lesy ČR take over the management of more than 14,000 km of watercourses and the related waterways property from the AWMA. As part of the parallel refinement of the Central Register of Waterways, the length of company-managed watercourses rose overall to 39,000 km. As of early 2011, on the basis of a "Contract on the Gratuitous Transfer of Competence to Manage Assets, Rights and Liabilities and Acceptance of the Right of Management Thereof", AWMA and Lesy ČR started the process of gradually transferring AWMA assets, as recorded in accompanying reports. On 30 December 2011, a final Summary Report was drawn up and signed which contained a list of all the reports and was annexed to the above contract. The total acquisition value of the assets taken over is more than CZK 2.4 billion (of which a substantial part comprises "water management assets" worth CZK 2.2 billion).

The management of watercourses and the measures taken (repairs, upgrading and investment) were mainly financed by the company's own resources and from subsidies. Grants were awarded for action taken in the public interest in accordance with Section 35 of the Forest Act, and included funding from the national budget for the Ministry of Agriculture programmes "Flood Prevention Support II" ("FPS") and "Support for the Elimination of Flood Damage to State Water Management Assets" in accordance with Section 102 of the Water Act. The EU-funded Environment Operational Programme and the Rural Development Programme were also sourced. In certain specific cases, the regions also contribute to work on minor watercourses. Watercourse management is non-commercial and generates virtually no profit on the overall spending in this area. Revenues received from the payment to cover Lesy ČR watercourse management amounted to almost CZK 13 million.

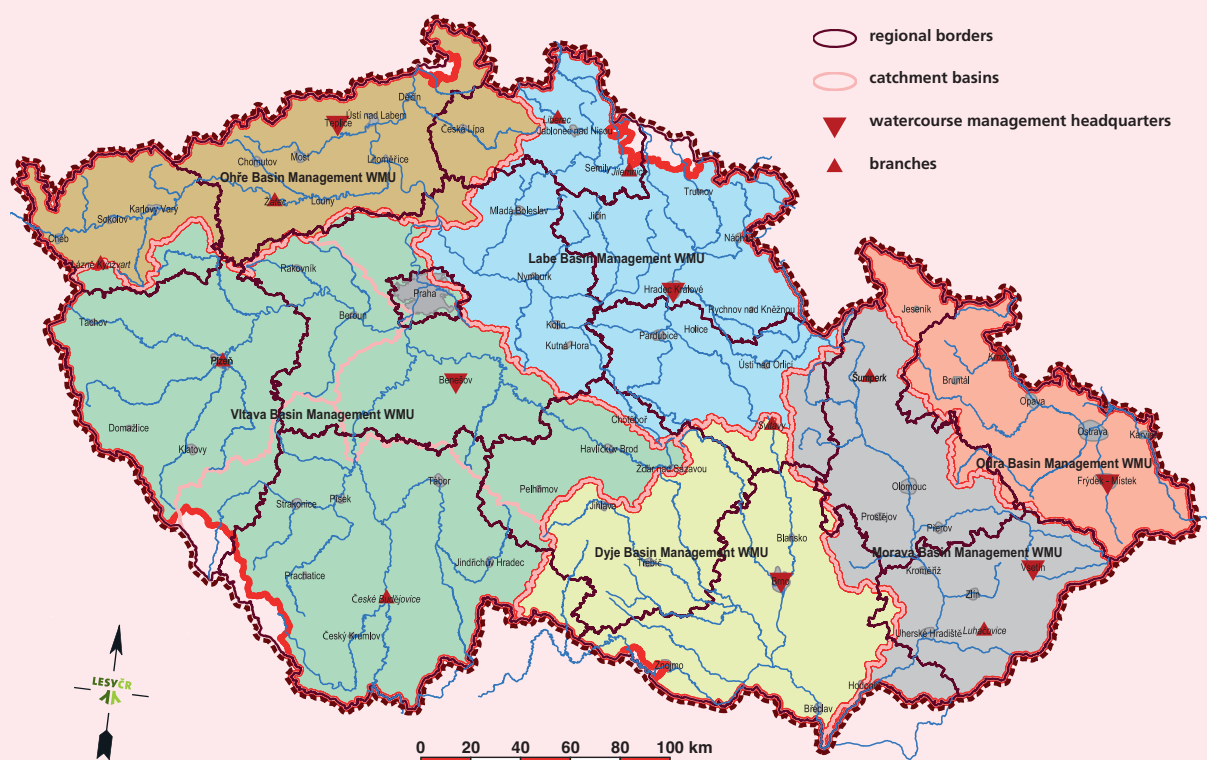
The company spent CZK 723.2 million on activities related to watercourse and water management, of which CZK 318.2 million was channelled into investment. Of this capital expenditure, CZK 165.4 million was from the company's own funds. CZK 405 million (of which CZK 366 million from the company's own funds) was spent on watercourse and riparian vegetation management and on the repair and maintenance of basic torrent control facilities. CZK 252.3 million (of which CZK 183.8 million from the company's own funds) was used to eliminate flood damage. These amounts include all costs associated with watercourse management.

The water management financing structure in 2011 was as follows:

#### Comprehensive Water Management Costs in 2011 (CZK millions)

| Lesy ČR        | Total own resources | Total subsidies | Of which flood damage Own resources | Subsidies   |
|----------------|---------------------|-----------------|-------------------------------------|-------------|
| Investment     | 165.4               | 152.8           | 75.9                                | 39.2        |
| Non-investment | 366.0               | 39.0            | 107.9                               | 29.3        |
| <b>Total</b>   | <b>531.4</b>        | <b>191.8</b>    | <b>183.8</b>                        | <b>68.5</b> |

#### Geographical Scope of Lesy ČR's Watercourse Management





### Measures Taken in Individual Catchment Basins:

In 2011, the main activity at **Odra Basin Management**, headquartered in Frýdek-Místek, remained recovery from the floods which struck in June 2009 and, more forcefully, in May 2010. The largest projects completed in the Jesenice area included the watercourses Lánský potok (at the 11.600–12.177 km point), Priessnitzův potok (at the 0.200–0.800 km point), Červený potok (at the 2.000–5.186 km point), Stage I, Stříbrný potok (at the 0.000–1.800 km point), Stage I, and Levostranný přítok Bělé [Left Tributary of the Bělá] (at the 21.2 km point). The main projects completed in the Nový Jičín area included the watercourses Jičinka (at the 20.500–23.550 and 10.400–12.900 km points) and Zrzávka (at the 1,500–4,200 km point). The main projects completed in the Frýdek-Místek area adjustments to the Satina at the 3.350 km point, and the repair of five stone steps on the Čeladenka.

In addition to the above work on removing flood damage, Odra Basin Management also carried out a number of comprehensive flood prevention measures, the most significant of which included work on the watercourses Zrzávka, Jičinka, Skorošický, Vojtovický and Čeladenka. During 2011, projects were completed on the Čeladenka at the 3.057–3.942 km point and the Říčka v Janovicích at the 0.500–1.710 km point. The implementation of these measures has greatly enhanced the safety of the public and property in flood conditions.

Eight public-interest construction projects as defined in Section 35 of the Forest Act were implemented (e.g. on the watercourses Podolský, Kopytnice a Hrozský).

In the area covered by **Dyje [Thaya] Basin Management**, headquartered in Brno, local flooding occurred in 2011 in parts of South Moravia (Letovice and Podhradí nad Dyjí), Vysočina (Trnava) and the Pardubice Region (Svojanov). However, the increased flow rates did not cause significant damage, and any that did occur was subsequently repaired.

Six projects co-financed under the “Flood Prevention Support [FPS], Stage II” programme were completed in 2011; the most significant of these were the polder Březinka na Třebíčsku (in Trnava) and adjustments to the watercourse Korouhevský potok (in Korouhev, situated in the Pardubice Region). Another nine construction projects co-financed under the FPS programme remained unfinished and have continued in 2012. Preparations are also continuing or have been commenced for projects taken over as part of the transformation of the AWMA. The most important of these projects are the construction of dry reservoirs (polders) in the village of Čeložnice flow and an increase in the flow capacity of the Hodonínka in the market-town of Olešnice.

Two projects subsidized by the Rural Development Programme were successfully completed. In the area covered by Dyje Basin Management, three projects were completed and construction work on another five projects classified as public-interest measures under Section 35 of the Forest Act were commenced.

**Labe [Elbe] Basin Management**, headquartered in Hradec Králové, worked on the removal of damage in Liberec and Frýdlant caused by flooding in August 2010. In Bílý Potok pod Smrkem, the projects “Černý balvanitý potok” and “Velká rybí voda” were completed, the “Hájený potok” project is still in progress. Other projects in progress include Sloupský, Malý Sloupský and Černý potok in the village of Hejnice, Kunratický potok in the town of Kunratice u Frýdlantu, and building work on the tributaries of the Lužická Nisa in Bílý Kostel nad Nisou.

Work started on tackling damage in the Liberec and Rychnov areas caused by flooding in July and September 2011. The costs of safety work and repairs, amounting to approximately CZK 3 million, were covered internally. The worst affected sites were on the tributaries of the Jeřice in the Liberec area and, in the Rychnov area, on the Rybenský potok in Rybná nad Zdobnicí.

The following projects subsidized by the programme “Flood Prevention Support, Stage II” were also completed: Bartošovický potok and Liberský potok – Langerova pila (in the Rychnov area), Lovětínský potok (Čáslav) and FPS Krouna (near Hlinsko, in the Vysočina Region).

Funds from the Environment Operational Programme were used to complete the restoration of the Jindřichovický potok tributary in the Liberec area, which had been inappropriately modified in the past. A further four new applications for aid from the State Environment Fund (SEF) were also submitted and accepted under this programme.

Lesy ČR's own resources, investment resources and non-investment funds were used to implement further projects, including the small Třídomí reservoir, modifications to the watercourses Zlatnice, Veselka, Staroveský, Lhotecký and Odolenovický potok in Podkrkonoší (the foothills of the Giant Mountains), the retention basins Od Vlčích jam and Rizengrunt in the Liberec area, and Ležák and the Vchýnice Barrier in the Pardubice area. Projects in the Eagle Mountains [Orlické hory] included the watercourse Helvíkovický potok and the securing of the ravine Šerlišský mlýn.

Under Agenda 2020, Labe Basin Management continued the reintroduction of the fathead minnow and brown trout into the Jizerské hory PLA, accompanied by the removal of non-native plant species alongside the watercourses (knotweed, impatiens) and the construction of information and recreational facilities for the public (gazebos and information boards).

**Vltava Basin Management**, headquartered in Benešov, also recorded increased flood flows in streams in 2011, especially on the tributaries in the Berounka basin. Safety work was carried out under 21 projects funded from non-investment resources, five of which have been continued in 2012. One project financed by capital funds has been carried forward into 2012.



In 2011, several important structures on watercourses, co-financed under grant schemes, were completed. One of the most significant construction projects completed under the programme “Flood Prevention Support, Stage II” was the modification of Třebanický potok in Hostomice. The FPS Podvecký potok was also launched, and has been continued in 2012. Work also continued on the projects Býkov Reservoir and Capacity Increase of Pivoňka (in Poběžovice), which were taken over by Lesy ČR as part of the transformation of the AWMA.

Other important activities include the completion of the investment project “Vltava Tributary from Rožmberk II” (in the České Budějovice area) and the project “Reconstruction of the U Fialky Reservoir” (in the Plzeň area), implemented in the public interest in accordance with Section 35 of the Forest Act. Other projects launched and continued in 2012 were “Reconstruction of the Raška I Retention Basin” in the Plzeň area and the small Sepekov reservoir in the Tábor area.

Two projects to clear up flood damage, taken over from the AWMA, were also commenced. These projects entail the repair of flood damage on Kojetický potok in the Domažlice area, and on the Krásotínský potok (a tributary stream) in the Český Krumlov area.

The area covered by **Ohře [Eger] Basin Management**, headquartered in Teplice, has been hit by flooding several times in the past. For this reason, in 2011 the majority of investment and non-investment work focused on the removal of flood damage.

Work on repairing 2009 flood damage on Folgenský potok, Dobrný potok, Folknářský potok and Lužický potok in the Děčín area was completed.

In 2011, work was also carried out to repair 2010 flood damage on Jakubský potok, Studený potok and Ludvíkovický potok in the Děčín area, and on Průčelský potok, Pekelský potok and Luční potok in the district of Ústí nad Labem. In addition the Přerov 1 and Přerov 2 projects to remove flood damage on unnamed tributaries of the Labe were implemented.

Work was launched on the repair of flood damage on Veleňský potok and Těchlovický potok in the Děčín area, on Zdislavský potok in the Liberec area, on Kněžický potok in the Česká Lípa area, and Kojetický potok in the district of Ústí nad Labem. These projects are due for completion in 2012.

Under the programme to promote forestland protection, a tributary of Lesní potok in Šluknov was modified, and work continued on the construction of the retention basins Černý rybník and Bílý potok – Nové Hamry in the Karlovy Vary Region, the completion of which is planned for early 2012.

In 2011, funds from the European Union’s “Objective 3” programme to promote cross-border cooperation between the Czech Republic and the Free State of Saxony in 2007–2013 were used to build a retaining dam on the Rašeliník watercourse above the Fláje reservoir as part of a project to study the potential removal of humic substances washed up from the peaty upland parts of the Ore Mountains in drinking water.

At the turn of June and July 2011, **Morava Basin Management**, headquartered in Vsetín, was faced with local flooding (especially in the Hostýnské vrch area), with maximum flow rates reported at Q100 and above. Adjustments made to the watercourse beds were devastated and the level at the bottom was deepened. During the floods, action was taken to open up the flow of the watercourses and as soon as the water subsided the worst of the damage was immediately cleaned up as part of the safety work (especially in the villages of Rusava, Všemina, Brusné and Chomýž). In 2011, the repair of other damage reached the stage where project documentation was drawn up and included in the plan of construction projects for 2012 and 2013.

Work also continued on removing flood damage from 2009 and 2010 in the Rožnovská Bečva basin. Work was completed on Hodorfský, Krhovský, Čertoryjský, Činovský, and Zašovský potok and on the Ludina in Hranice. Further damage was removed on the Vranča and Velká Hanzlůvka watercourses in the Vsetín area.

Six projects co-financed under the “Flood Prevention Support, Stage II” programme were structurally completed in 2011; the most significant of these was the project Tok Branínek at the 0.300–1.600 km point, implemented in the village of Nová Hradečná in the Uničov area. The subject of the project was the modification of the bed and banks over a length of 1.3 km. Another project was a change in the flow of the Vidovka in Želechovice, in the Zlín area, entailing an increase in the capacity of the bed in the built-up part of the village over a distance of 0.8 kilometres.

Two projects implemented under the Rural Development Programme in the villages of Hanušovice and Nový Malín in the Šumperk area were also completed. They involved repairs to the existing walls of the watercourses.

Several projects were successfully implemented in the Zlín Region and Olomouc Region in accordance with Section 35 of the Forest Act (public interest). Two of them required the construction of new retention structures. The Rákoš I project was implemented in the Uherské Hradiště area and the Levobřežní přítok Oskavy [Left Bank Tributary of the Oskava] project in the Uničov area. Other activities were mainly focused on torrent control repair and flow stabilization.

The most important of these include the Velká Hanzlůvka project in the Vsetín area and the Pravostranný přítok Rokytenky [Right Tributary of the Rokytenka] project in Rokytná u Slavičína.

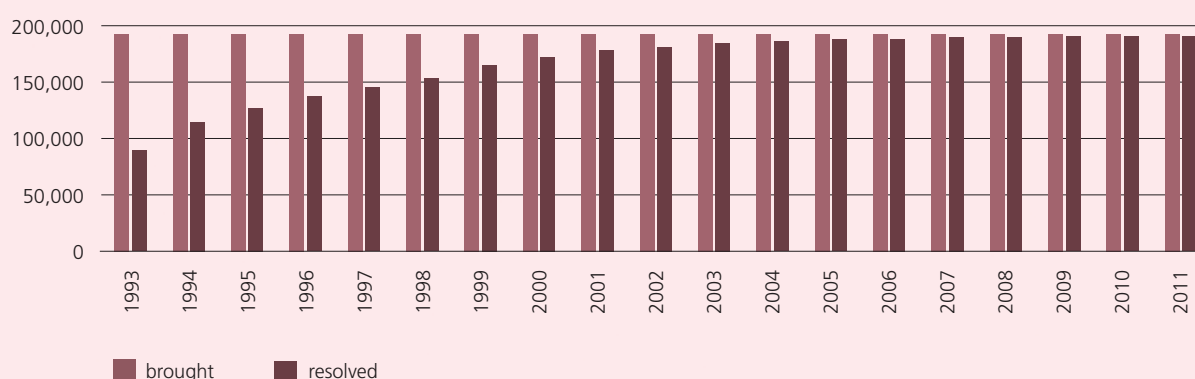
# Restoration of Ownership and User Relations, Contractual Transfers

## Progress in the Restoration of Ownership and User Relations as at 31 December 2011

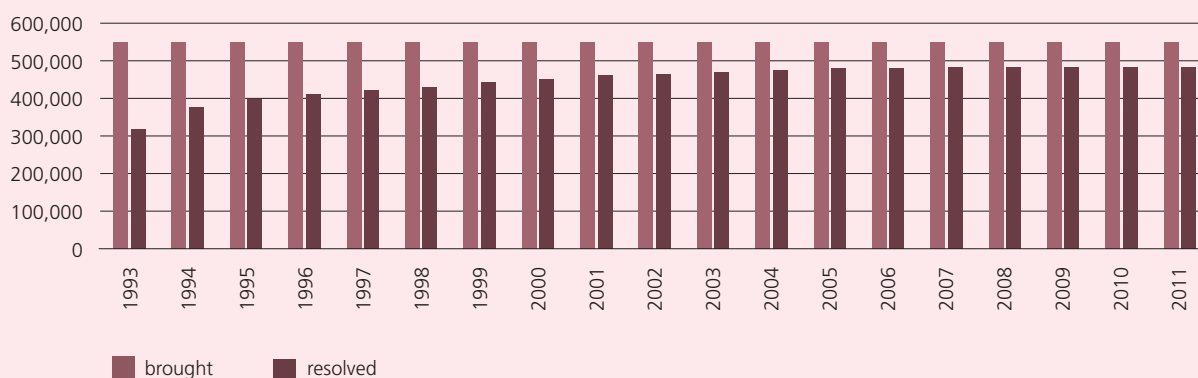
| Year | Requests handled | Land transferred (ha) |
|------|------------------|-----------------------|
| 1993 | 89,230           | 318,395               |
| 1994 | 114,556          | 375,894               |
| 1995 | 126,886          | 397,673               |
| 1996 | 137,264          | 411,207     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

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

## Progress in the Restoration of Ownership and User Relations as at 31 December 2011 (number of cases)



### Progress in the restoration of Ownership and User Relations as at 31 December 2011 (ha)



### Progress in the Physical Handover of Forest Resources to Municipalities

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

### Contractual Transfers in 2011

#### Land (purchase, sale, exchange)

| Sale, exchange (including the paid transfer of the right to manage the land) | Total       | Of which forestland |
|--|-------------|---------------------|
| Area (ha)  | 371.8273    | 195.9198            |
| Price (CZK)  | 207,802,524 | 63,032,861          |

| Purchase, exchange (including the paid transfer of the right to manage the land) | Total      | Of which forestland |
|--|------------|---------------------|
| Area (ha)  | 280.5402   | 212.8523            |
| Price (CZK)  | 59,836,037 | 33,214,431          |

#### Buildings (sale)

| Sales (including the paid transfer of the right to manage the land) |             |
|---|-------------|
| Number of buildings   | 479         |
| Price (CZK)   | 522,569,351 |

## Human Resources

In 2011, the following changes took place in the positions of senior staff:

| Organizational unit     | Position       | Newly appointed | Replacing         | Date of change   |
|-------------------------|----------------|-----------------|-------------------|------------------|
| Vodňany FMU             | forest manager | Radovan Nůsek   | Víktor Blaščák    | 1 January 2011   |
| Znojmo FMU              | forest manager | Roman Křivánek  | Petr Hurych       | 1 January 2011   |
| Morava Basin Management | water manager  | Pavel Pernica   | Alena Janišová    | 15 January 2011  |
| Křivoklát FMU           | forest manager | Pavel Rus       | Vojtěch Pátek     | 1 February 2011  |
| Ledeč nad Sázavou FMU   | forest manager | Pavel Maleček   | Vlastimil Brukner | 1 April 2011     |
| Jablonec nad Nisou FMU  | forest manager | Michal Hovorka  | Miroslav Kortan   | 1 April 2011     |
| Lužná FMU               | forest manager | Pavel Vomastek  | Jiří Šebek        | 9 May 2011       |
| Horšovský Týn FMU       | forest manager | Přemysl Randa   | Karel Příbáň      | 1 June 2011      |
| Jihlava RHO             | RHO director   | Jan Sovák       | Václav Šebek      | 1 July 2011      |
| Vítkov FMU              | forest manager | Jiří Groda      | Miroslav Dušek    | 1 August 2011    |
| Jindřichův Hradec FMU   | forest manager | Václav Markes   | Milan Duben       | 1 August 2011    |
| Klatovy FMU             | forest manager | Libor Hanzlík   | Jaroslav Benda    | 1 September 2011 |
| Teplice RHO             | RHO director   | vacant          | Radek Braum       | 18 December 2011 |

### Average Number of Employees (FTE)

| Year                            | 2007         | 2008         | 2009         | 2010         | 2011         |
|---------------------------------|--------------|--------------|--------------|--------------|--------------|
| FMU, BM, RHO, CHO LČR           | 2,299        | 2,402        | 2,319        | 2,133        | 2,112        |
| FU, SU                          | 1,261        | 1,264        | 1,228        | 1,109        | 1,065        |
| <b>Total</b>                    | <b>3,560</b> | <b>3,666</b> | <b>3,547</b> | <b>3,242</b> | <b>3,177</b> |
| – of which white-collar workers |              |              |              |              |              |
| FMU, BM, RHO, CHO LČR           | 2,112        | 2,182        | 2,146        | 2,036        | 2,037        |
| FU, SU                          | 351          | 375          | 345          | 331          | 309          |
| <b>Total</b>                    | <b>2,463</b> | <b>2,557</b> | <b>2,491</b> | <b>2,367</b> | <b>2,346</b> |
| – of which blue-collar workers  |              |              |              |              |              |
| <b>Number</b>                   | <b>1,097</b> | <b>1,109</b> | <b>1,056</b> | <b>875</b>   | <b>832</b>   |

On 1 January 2011, Lesy ČR took over 115 employees of the Agricultural and Water Management Authority following the transfer of rights and obligations arising from their employment relationships. The average FTE number of employees fell by 2% compared to 2010.

### Average Earnings

| Year                  | 2007          | 2008          | 2009          | 2010          | 2011          |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| FMU, BM, RHO, CHO LČR | 24,274        | 26,446        | 27,732        | 29,476        | 30,559        |
| FU, SU                | 19,858        | 20,600        | 21,524        | 22,449        | 23,366        |
| <b>Total</b>          | <b>22,710</b> | <b>24,430</b> | <b>25,582</b> | <b>27,071</b> | <b>28,147</b> |

The total average earnings rose by 3.7% compared to 2010. The commitment to make a year-on-year increase, as negotiated in the Company Collective Agreement, was met.

### Employee Education Structure (%)

| Year   | 2007 | 2008 | 2009 | 2010 | 2011 |
|--|------|------|------|------|------|
| Higher   | 39.5 | 37.7 | 39.1 | 43.3 | 42.1 |
| Complete vocational secondary with school-leaving exam | 52.3 | 55.6 | 53.9 | 55.5 | 56.4 |
| Vocational + primary                                   | 8.2  | 6.7  | 7.0  | 1.2  | 1.5  |

The employee education structure did not change significantly compared to the previous year.

### Trade Unions

Active unions at the company are the LČR Association of Grassroots Organizations (13) of the Woodworking, Forestry and Water Management Trade Union, and one Independent Trade Union at Židlochovice FU; These unions enter into Company Collective Agreements with the company. Under the Company Collective Agreement, employees receive benefits and other consideration in excess of generally applicable laws.



# Communicating with the Public

Good-quality, transparent communications strengthen the company's corporate image. In 2011, communication with the general public and industry professionals focused on the promotion of the company as a profitable, competitive and stable enterprise in all areas of interest (economics, environmental protection, and the social aspect). The main communication tools include the website, contributions to periodicals and other printed materials widely available.

Another means of communication offering major potential in relation to both the general public and professionals is exhibitions on forestry and hunting. In 2011, one such exhibition was the traditional Natura Viva exhibition in Lysá nad Labem. The exhibition presented the themes hunting, nature conservation and forestry education.

## 1. Journalists

The Press Section of the company's Central Head Office provides an information service for the media. Last year, as in previous years, the contact person for media representatives was the press officer. Individual themes were explained in detail to journalists, mainly through press releases, press conferences and moderated seminars with journalists. In 2011, Lesy ČR issued more than 160 press releases and statements and organized four press conferences focusing on national issues. The company held another dozen smaller press conferences through its regional head offices marking the completion of investment projects in the regions or explaining local matters of interest concerning forests, forestry or water management.

Lesy ČR and the state enterprise Vojenské lesy a statky ČR held a joint press conference to draw attention to the establishment of Bezděz Forest Park. Other joint events for the press took place in cooperation with the Czech Union for Nature Conservation.

Throughout the year, the company's Press Section also responded to more than 600 individual media enquiries.

The company's media output in 2011 can roughly be divided into the following basic topics:

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

## 2. Children and Young People

Environmental education and awareness among the younger generation is one of the priorities pervading the whole of the Lesy ČR communication strategy and is of great importance for the non-productive functions of forests. These activities are carried out through a series of communication tools, the most important of which are set out below:

- A traditional activity supported by the company is the nationwide educational project for schools entitled "Forests in Schools, Schools in Forests", created in collaboration with the TEREZA Association. The company contributes to this project by providing forestry educators, who help students to carry out expert tasks referred to in teaching materials, which often require them to go into the forest and verify their findings on the spot.
- Organizational units hosted 75 Days with LČR in 2011. These events combine sport and education and are an opportunity to strengthen the company's relationship with the public in the regions.

Besides the above activities, the company also focuses on forest pedagogy. Every year, numerous employees are trained to be forest educators who can share their knowledge of forestry in an understandable and entertaining way with children and young people, people with disabilities, people from disadvantaged backgrounds, and seniors. In 2011, the company had 192 forestry educators who held nearly 770 events for more than 79,000 participants.

The United Nations (UN) named 2011 the International Year of Forests in order to remind the public of the importance of forests and forestry to society. Throughout 2011, Lesy ČR organized many educational events for the general public about forests and forestry in the form of exhibitions, seminars, lectures, talks, walks, and, in particular, events such as "A Day with LČR", which focused on forest management. Children and adults alike had the opportunity to learn more about the work of foresters, lumberjacks (felling trees) and those responsible for nurturing new trees (planting). To mark the International Year of Forests, 39 Days with LČR were held, which attracted more than 29,000 participants.

Besides the events above, the company also organized a number of art competitions, which met with great public success. The main theme was nature and the forests around us. More than 800 works were entered in the art competitions; some of them are exhibited in the National Agricultural Museum in Prague.

Overall, the International Year of Forests was celebrated with 44 events with more than 30,000 participants.

The International Year of Forests 2011 was seen as an opportunity for foresters to draw attention to the importance of forestry and forest management in all its breadth. The primary aim and purpose of all the events was to showcase the benefits of forestland for the community and familiarize the public with the basic task of forestry, i.e. to preserve forests for future generations.

## 3. Internal Communication

Given the company's nature, size and the scope of its activities, the intranet and the online magazine Long Live the Forests (Lesu zdar) are fundamental pillars in internal communication. The main aim of internal communication is to strengthen corporate culture and foster employee loyalty.

## 4. Sponsorship

In 2011, the company provided sponsorship of almost CZK 18 million, available to NGOs engaged in charity work, environmental protection, health, culture and education. Applicants submitted projects not only to the company's central head office, but also to regional head offices, which were given the opportunity to support local operators up to a certain limit.







# FINANCIAL SECTION

## INDEPENDENT AUDITOR'S REPORT

for the founder and Director General of the state-owned enterprise  
on an audit of the standard end-of-year financial statements to 31.12.2011 of the state-owned  
enterprise  
Lesy České republiky, s.p., with registered seat in Hradci Králové, company no. 42196451.

We have audited the accompanying financial statements to 31.12.2011 of the state-owned enterprise Lesy České republiky, s.p., namely Balance Sheet to 31.12.2011, Profit & Loss Statement from 1.1.2011 to 31.12.2011, and Notes to Financial Statements including a description of the relevant accounting policies used. The particulars of the state-owned enterprise Lesy České republiky, s.p. are indicated in article 1 of the Notes to Financial Statements.

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

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

### ***Auditor's Responsibility***

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

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

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




## UNQUALIFIED OPINION

**In our opinion, the financial statements give a true and fair view of the assets, liabilities and financial position of the state-owned enterprise Lesy České republiky, s.p., to 31.12.2011, and likewise its costs, revenues and financial performance in 2011 in conformity with the Czech accounting regulations.**

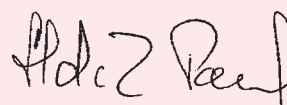
Without expressing our statement with reservation, we, the auditors, consider inevitable to pinpoint the facts which can be important for assessment of property and financial standing of the state enterprise Lesy České republiky, s.p. on 31.12. 2011 shown in item 10 of the Supplement to the annual financial statements, in particular:

The actions for alleged indemnity, following from invalidity of the contracts arisen from the tender procedures invited in 2004 and 2005 for deliveries of complex forestry activities, have been brought against the state enterprise Lesy České republiky, s.p. On the date of elaboration of the annual financial statements 2011 no specific amount of indemnity determined by the court was known. The final result of these litigations cannot be estimated on the day of completion of the audit and no provision was created for possible obligations and payables following from them in the annual financial statements on 31.12. 2011.

In Brno, on 30.4.2012

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



  
Ing. Pavel Studnička  
Auditor, license no. 1702

**Attachments:** Balance Sheet to 31.12.2011, Profit & Loss Statement to 31.12.2011, Notes to Financial Statements 2011

# Financial Statements

## Balance Sheet as at 31 December 2011 (CZK thousands)

|        | Name  | Gross      | Adjustment   | Net current | Net previous |
|--------|---|------------|--------------|-------------|--------------|
|        | TOTAL ASSETS  | 92,370,727 | (14,148,406) | 78,222,321  | 72,470,086   |
| B.     | Fixed assets  | 79,069,866 | (13,472,506) | 65,597,360  | 62,984,141   |
| B.I.   | Intangible fixed assets                                       | 879,276    | (369,606)    | 509,670     | 409,238      |
| B.I.   | 3. Software   | 402,725    | (216,943)    | 185,782     | 136,383      |
|        | 4. Royalties  | 39,165     | (24,115)     | 15,050      | 19,558       |
|        | 6. Other intangible fixed assets                              | 278,459    | (128,548)    | 149,911     | 99,198       |
|        | 7. Intangible fixed assets under construction                 | 149,059    | 0            | 149,059     | 154,099      |
|        | 8. Advance payments for intangible fixed assets               | 9,868      | 0            | 9,868       | 0            |
| B.II.  | Tangible fixed assets   | 75,318,157 | (13,093,416) | 62,224,741  | 61,239,634   |
| B.II.  | 1. Land   | 53,330,717 | 0            | 53,330,717  | 53,027,011   |
|        | 2. Buildings  | 20,103,910 | (11,894,171) | 8,209,739   | 7,551,508    |
|        | 3. Plant and equipment  | 1,463,036  | (1,199,162)  | 263,874     | 324,713      |
|        | 4. Perennial crops  | 30         | (30)         | 0           | 0            |
|        | 5. Adult animals  | 53         | (53)         | 0           | 0            |
|        | 6. Other tangible fixed assets                                | 1,936      | 0            | 1,936       | 1,936        |
|        | 7. Tangible fixed assets under construction                   | 407,480    | 0            | 407,480     | 334,445      |
|        | 8. Advance payments for tangible fixed assets                 | 10,995     | 0            | 10,995      | 21           |
| B.III. | Financial investments   | 2,872,433  | (9,484)      | 2,862,949   | 1,335,269    |
|        | 2. Investments in associated companies                        | 101,153    | (9,484)      | 91,669      | 91,669       |
|        | 3. Other securities and investments                           | 371,280    | 0            | 371,280     | 386,165      |
|        | 5. Other long-term investments                                | 2,400,000  | 0            | 2,400,000   | 857,435      |
| C.     | Current assets  | 13,194,880 | (675,900)    | 12,518,980  | 9,451,733    |
| C.I.   | Inventories   | 193,493    | (2,923)      | 190,570     | 272,773      |
| C.I.   | 1. Raw materials  | 54,118     | 0            | 54,118      | 61,417       |
|        | 2. Work-in-progress and semi-finished products                | 104,303    | 0            | 104,303     | 178,287      |
|        | 3. Finished products  | 33,084     | (2,712)      | 30,372      | 31,044       |
|        | 4. Young animals  | 271        | 0            | 271         | 270          |
|        | 5. Goods  | 1,717      | (211)        | 1,506       | 1,755        |
| C.II.  | Long-term receivables   | 7,328      | 0            | 7,328       | 745          |
|        | 5. Long-term advances paid                                    | 7,328      | 0            | 7,328       | 745          |
| C.III. | Short-term receivables  | 2,741,919  | (672,977)    | 2,068,942   | 2,165,973    |
| C.III. | 1. Trade receivables  | 2,251,208  | (361,431)    | 1,889,777   | 1,813,772    |
|        | 3. Receivables – associated companies                         | 0          | 0            | 0           | 2,062        |
|        | 4. Receivables from shareholders/owners and alliance partners | 162        | 0            | 162         | 26           |
|        | 6. State – tax receivables                                    | 196,716    | (149,681)    | 47,035      | 92,131       |
|        | 7. Short-term advances paid                                   | 21,336     | (117)        | 21,219      | 52,257       |
|        | 8. Estimated receivables                                      | 58,591     | 0            | 58,591      | 77,882       |
|        | 9. Other receivables  | 213,906    | (161,748)    | 52,158      | 127,843      |
| C.IV.  | Financial assets  | 10,252,140 | 0            | 10,252,140  | 7,012,242    |
| C.IV.  | 1. Cash in hand   | 3,185      | 0            | 3,185       | 3,422        |
|        | 2. Cash at bank   | 6,069,088  | 0            | 6,069,088   | 2,465,102    |
|        | 3. Short-term securities and ownership interests              | 4,179,867  | 0            | 4,179,867   | 4,543,718    |
| D.I.   | Accruals  | 105,981    | 0            | 105,981     | 34,212       |
| D.I.   | 1. Prepaid expenses   | 31,491     | 0            | 31,491      | 23,531       |
|        | 3. Accrued revenues   | 15,529     |              | 15,529      | 10,681       |
|        | 3. VAT to be applied in January 2012                          | 58,961     | 0            | 58,961      | 0            |

|                              |  | current    | Period<br>prior |
|------------------------------|--|------------|-----------------|
| TOTAL LIABILITIES AND EQUITY |  | 78,222,321 | 72,470,086      |
| A.                           | Equity   | 72,642,692 | 67,576,027      |
| A.I.                         | Registered capital                                       | 11,372,613 | 10,278,069      |
| A.I.                         | 1. Registered capital                                    | 11,372,613 | 10,278,069      |
|                              | 1. Capital stock – registered                            | 5,818,759  | 5,818,759       |
|                              | 1. Capital stock – unregistered                          | 5,553,854  | 4,459,310       |
| A.II.                        | Capital funds  | 51,566,410 | 51,602,606      |
|                              | 2. Other capital funds                                   | 51,608,258 | 51,629,570      |
|                              | 3. Gain or loss on revaluation of assets and liabilities | (41,848)   | (26,964)        |
| A.III.                       | Reserve funds and other funds created from profit        | 5,478,410  | 3,137,058       |
| A.III.                       | 1. Statutory reserve fund                                | 1,251,283  | 1,251,283       |
|                              | 2. Statutory and other funds                             | 4,227,127  | 1,885,775       |
| A.IV.                        | Retained earnings/accumulated losses                     | 0          | 0               |
| A.IV.                        | 1. Retained earnings                                     | 0          | 0               |
| A.V.                         | Profit (loss) for the current period (+/-)               | 4,225,259  | 2,558,294       |
| B.                           | Liabilities (debt)                                       | 5,504,789  | 4,819,068       |
| B.I.                         | Provisions   | 3,495,749  | 3,110,742       |
| B.I.                         | 1. Tax-deductible provisions                             | 61,521     | 93,419          |
|                              | 4. Other provisions                                      | 3,434,228  | 3,017,323       |
| B.II.                        | Long-term payables                                       | 125,932    | 146,203         |
|                              | 10. Deferred tax liability                               | 125,932    | 146,203         |
| B.III.                       | Short-term payables                                      | 1,883,108  | 1,562,123       |
| B.III.                       | 1. Trade payables  | 894,554    | 794,425         |
|                              | 4. Payables to members                                   | 427        | 477             |
|                              | 5. Payables to employees                                 | 78,585     | 214,592         |
|                              | 6. Payables to social security and health insurance      | 44,658     | 43,845          |
|                              | 7. State – tax liabilities and subsidies                 | 689,135    | 423,147         |
|                              | 8. Short-term advances received                          | 155,666    | 42,545          |
|                              | 10. Estimated payables                                   | 13,687     | 41,821          |
|                              | 11. Other payables                                       | 6,396      | 1,271           |
| C.I.                         | Deferrals  | 74,840     | 74,991          |
| C.I.                         | 1. Accrued expenses                                      | 26,804     | 26,219          |
|                              | 2. Deferred income                                       | 48,036     | 48,772          |

**Profit and Loss Account as at 31 December 2011 (CZK thousands)**

|        | Name  | Current period | Prior period |
|--------|---|----------------|--------------|
| I.     | Revenue from sales of goods   | 3,585          | 3,279        |
| A.     | Cost of goods sold  | 3,061          | 3,049        |
| +      | Gross margin  | 524            | 230          |
| II.    | Revenue from production   | 11,714,522     | 9,737,936    |
| II. 1. | Revenue from own products and services                              | 11,756,687     | 9,774,466    |
| II. 2. | Change in inventory of own production                               | (73,062)       | (54,694)     |
| II. 3. | Capitalization  | 30,897         | 18,164       |
| B.     | Cost of sales   | 4,645,438      | 5,470,589    |
| B.1.   | Raw materials and consumables                                       | 332,910        | 337,712      |
| B.2.   | Services  | 4,312,528      | 5,132,877    |
| +      | Value added   | 7,069,608      | 4,267,577    |
| C.     | Staff costs   | 1,505,389      | 1,496,405    |
| C.1.   | Wages and salaries  | 1,086,251      | 1,078,702    |
| C.2.   | Remuneration of board members                                       | 140            | 95           |
| C.3.   | Social security and health insurance costs                          | 367,551        | 366,537      |
| C.4.   | Social costs  | 51,447         | 51,071       |
| D.     | Taxes and charges   | 160,798        | 168,053      |
| E.     | Depreciation of intangible and tangible fixed assets                | 661,551        | 521,890      |
| III.   | Disposals of fixed assets and raw materials                         | 775,173        | 755,706      |
| III.1. | Proceeds from disposals of fixed assets                             | 768,136        | 749,298      |
| III.2. | Proceeds from disposals of raw material                             | 7,037          | 6,408        |
| F.     | Net book value of fixed assets and materials sold                   | 176,653        | 154,400      |
| F.1.   | Net book value of fixed assets sold                                 | 171,045        | 149,206      |
| F.2.   | Raw materials sold  | 5,608          | 5,194        |
| G.     | Change in provisions and adjustments relating to operating activity | 504,683        | 25,095       |
| G.1.   | Changes in provisions for operating activity                        | 385,007        | 5,824        |
| G.2.   | Changes in adjustments for operating activity                       | 119,676        | 19,271       |
| IV.    | Other operating revenue   | 338,971        | 321,069      |
| H.     | Other operating expenses  | 120,543        | 85,424       |
| *      | Operating profit (loss)   | 5,054,135      | 2,893,085    |

|        | Name  | Current period | Prior period |
|--------|---|----------------|--------------|
| VI.    | Proceeds from sale of securities and ownership interests            | 122,797        | 129,547      |
| J.     | Securities and ownership interests sold                             | 123,530        | 165,441      |
| VII.   | Revenue from long-term investments                                  | 6,998          | 55,018       |
| VII.1. | Revenue from investments in subsidiaries and associated companies   | 42             | 26,475       |
| VII.2. | Revenue from other long-term securities and ownership interests     | 6,956          | 28,543       |
| VIII.  | Revenue from current financial assets                               | 182,770        | 175,977      |
| K.     | Financial asset expenses  | 5,675          | 3,673        |
| IX.    | Gain on revaluation of securities and derivatives                   | 7,779          | 41,355       |
| L.     | Loss on revaluation of securities and derivatives                   | 60,445         | 2,747        |
| M.     | Change in provisions and adjustments relating to financial activity | 0              | 0            |
| X.     | Interest revenue  | 102,019        | 63,653       |
| N.     | Interest expense  | 1,312          | 4,242        |
| XI.    | Other financial revenue   | 6,425          | 4,701        |
| O.     | Other financial expenses  | 16,766         | 27,579       |
| *      | Financial profit (loss)   | 221,060        | 266,569      |
| Q.     | Income tax on ordinary activities                                   | 1,049,936      | 601,360      |
| Q.1.   | – due   | 1,070,206      | 588,038      |
| Q.2.   | – deferred  | (20,270)       | 13,322       |
| **     | Profit (loss) on ordinary activities                                | 4,225,259      | 2,558,294    |
| XIII.  | Extraordinary revenues  | 0              | 0            |
| R.     | Extraordinary expenses  | 0              | 0            |
| S.     | Tax on extraordinary profit (loss)                                  | 0              | 0            |
| S.1.   | – due   | 0              | 0            |
| *      | Extraordinary profit (loss)   | 0              | 0            |
| ***    | Net profit (loss) for the period                                    | 4,225,259      | 2,558,294    |
| ****   | Profit (loss) before tax  | 5,275,195      | 3,159,654    |



# Notes to the Annual Financial Statements

## 1.

### **Lesy České republiky, s.p.**

Hradec Králové 8, Přemyslova 1106, 501 68

Registration number: 42196451

**Legal form:** state enterprise (státní podnik)

### **Principal activities (according to the current memorandum of association)**

Exercise of the right to manage state-owned forests as granted to the company by the state; exercise of the right to manage other state-owned movable and immovable assets entrusted to the company to carry out its tasks, and the right to engage in non-business activities with state property in the company's own name and own responsibility; the exercise of all ownership rights attached to state assets which the company is entitled to manage, subject to the founder's consent to legal acts associated with specified property and the Supervisory Board's consent, to the scope set by the founder in the rules of procedure of the Supervisory Board for other assets; professional forest management; protective forest services.

Other business activities are listed in the publicly available Commercial Register on the website [www.justice.cz](http://www.justice.cz). Likewise, all changes and additions made during the 2010 and 2011 reporting periods can be found here.

### **Incorporation**

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

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

### **Governing body as at 31 December 2011**

Svatopluk Sýkora

Chief Executive Officer

### **Governing body's deputies as at 31 December 2011 (order of deputies valid as at the balance sheet date)**

Jitka Věková

1. Chief Human Resources Officer

Michal Gaube

2. Chief Financial Officer

Zdeněk Sýkora

3. Chief Commercial Officer

Vladimír Krchov

4. Chief Operations Officer

Pavel Škvára was appointed as Chief Administration Officer with effect as of 5 December 2011. With effect as of 3 January 2012, a decision of the Chief Executive Office appointed him the fifth deputy of the governing body, and changes were also made in the existing order of deputies (1. Chief Financial Officer Michal Gaube, 2. Chief Human Resources Officer Jitka Věková, 3. Chief Operations Officer Vladimír Krchov, 4. Chief Commercial Officer Zdeněk Sýkora, 5. Chief Administration Officer Pavel Škvára). As at the date of preparation of the financial statements, the Chief Administration Officer was no longer an employee of LČR, his employment having ended on 13 April 2012. The position of Chief Administration Officer remains vacant.

### **Supervisory Board as at 31 December 2011**

|                    |                                       |
|--------------------|---------------------------------------|
| Miroslav Zámečník  | Chairman (elected on 3 February 2011) |
| Jaromír Kříha      | Vice-Chairman                         |
| Roman Boček        |                                       |
| Miroslav Jankovský |                                       |
| Robert Knobloch    |                                       |
| Jiří Liška         |                                       |
| Libor Lukáš        |                                       |
| Miloš Pochobradský |                                       |
| Radek Vonka        |                                       |

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

### **Supervisory Board personnel changes between 1 January 2011 and 30 April 2012:**

The following members of the Supervisory Board were appointed with effect as of 6 January 2011: Robert Knobloch and Jiří Liška.

Miroslav Zámečník was elected as Chairman of the Supervisory Board with effect as of 3 February 2011.

Radek Vonka's term of office as a member of the Supervisory Board ended with effect as of 14 February 2011.

Radek Vonka's was appointed as a member of the Supervisory Board with effect as of 2 May 2011.

### **Company organizational structure as at 31 December 2011**

#### **Internal entities:**

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

In addition, the company's Central Head Office directly manages 13 regional head offices, which in turn are in charge of 77 forest management units throughout the Czech Republic. Regional head offices are not autonomous internal entities. The small watercourse and torrent management unit at the level of Dyje, Labe, Morava, Odra, Ohře and Vltava Basin Management is an autonomous internal entity.

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

## **2.**

### **As at 31 December 2011, Lesy ČR held interests and controlling influences in the following companies:**

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

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

Equity: 2010: CZK +193,683,000; 2011: not known at the balance sheet date.

Earnings: 2010: CZK +10,085,000; 2011: not known at the balance sheet date.

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

The preliminary results for 2011 do not indicate the need to adjust the value of the equity interest in this company.

#### **H.F.C. a.s.**

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

Equity: 2010: CZK +110,011,000; 2011: not known at the balance sheet date.

Earnings: 2010: CZK +207,000; 2011: not known at the balance sheet date.

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

The preliminary results for 2011 do not indicate the need to adjust the value of the equity interest in this company.

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

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

Stake held by Lesy ČR in the share capital: 30.6% stock and influence; no controlling agreements or profit transfer agreements have been made.

As at 31 December 2004, shares in KOMAS a.s. were considered unmarketable, and therefore an adjustment amounting to 100% of the book value was created; as at 31 December 2011, the grounds for creating the adjustment remained in place (Balance Sheet, assets, line B.III.2. adjustment).

As at 31 December 2011, LČR held long-term equity securities with an acquisition cost of CZK 101,153,000 (Balance Sheet, Assets, line B.III.2. gross).

| Company                                    | Number of securities | Nominal value  |
|--|----------------------|----------------|
| Hradecká dřevařská a lesní společnost a.s. | 552                  | CZK 40,500,000 |
| H.F.C. a.s.                                | 83                   | CZK 51,284,000 |
| KOMAS a.s.                                 | 270                  | CZK 11,151,000 |

**3.**

|  | 2010      | 2011      |
|--|-----------|-----------|
| Average annual number of employees (FTE)                                     | 3,242     | 3,177     |
| Registered number of employees at 31 December                                | 3,143     | 3,116     |
| Wages and salaries (CZK thousands)   | 1,078,702 | 1,086,251 |
| Social security costs (CZK thousands)  | 366,537   | 367,551   |
| Social costs (CZK thousands)   | 51,071    | 51,447    |
| Personnel expenses (CZK thousands)   | 1,496,310 | 1,505,249 |
| Number of employees in decision-making bodies                                | 18        | 19        |
| Wages and salaries of employees in decision-making bodies (CZK thousands)    | 39,143    | 42,808    |
| Social security costs of employees in decision-making bodies (CZK thousands) | 14,029    | 15,342    |

Employees in decision-making bodies are head office staff in positions of directors and heads of department. Persons who are a governing body and members of governing or other management and supervisory bodies received no benefits beyond the scope of generally applicable internal guidelines. In 2011, Supervisory Board member remuneration totalling CZK 140,000 was recognized. All members of staff in management bodies, in accordance with applicable legal standards and internal guidelines, have use of a company car for their private needs.

In 2011, there was a change in the accounting of annual bonuses via estimated items – with regard to the specific conditions of eligibility for employee bonuses, where the entitlement to an annual bonus at LČR is tied not only to the company's economic performance, but also to other conditions precedent, such as a superior's approval and approval of the audited results of operations, a bonus is not, at the balance sheet date, an entitlement component of wages, and therefore such annual bonuses are not placed to account via estimated payables (in 2010, the company accounted for estimated payables in respect of payroll costs resulting from 2010 annual bonuses, paid in 2011, amounting to CZK 17,207,000 and costs of social security and health insurance in the amount of CZK 6,000,000). Annual bonuses are now charged to the period in which they are approved and paid. The contingent liability for unpaid annual bonuses for results reported in 2011 is CZK 13,880,000 (wages and salaries of CZK 10,358,000 and social security and health insurance costs of CZK 3,522,000). Persons who are a governing body and members of governing or other management and supervisory bodies, including former members of these bodies, received no other consideration in cash or in kind.

Until 30 April 2011, LČR operated an in-house savings bank. The in-house savings bank collected employees' funds and enabled staff to make cashless transactions and cash withdrawals. Participation in the in-house savings bank was voluntary; as at 31 December 2010, the bank had 767 clients. The maximum level of funds deposited per employee account was CZK 1 million. These funds earned 3% interest. As at 31 December 2010, the total balance of cash in the in-house savings bank account was CZK 136,092,000; this was reported in the Balance Sheet under liabilities, line B.III.5. At 30 April 2011, the in-house savings bank was closed and all funds were transferred to employees; the company management decided to close the bank following a change in the regulatory requirements governing its activities.

Receivables from employees (Balance Sheet, assets, C.III.9) were CZK 9,127,000 at 31 December 2011 (CZK 12,028,000 at 31 December 2010). The amount for 2011 includes repayments of loans maturing in 2013 and, in the amount of CZK 5,493,000, those that are due with immediate effect if employment is severed.

## 4.

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

In 2010 and 2011, LČR applied accounting practices, principles, methods and valuation methods in accordance with the current wording of Act No 563/1991 on Accounting and Decree No 500/2002.

#### a) Valuation of tangible and intangible fixed assets developed internally

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

#### b) Depreciation schedule for fixed assets

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

Openings of new quarries, sand pits, borrow pits, clay pits and temporary structures are depreciated on a straight-line basis in accordance with Act No 586/92. Annual tax depreciation is calculated as a proportion of the input price and the fixed duration. Useful life is derived from the building permit proceedings (the building permit or notification of a small structure). Temporary structures, the opening of new quarries, sand pits, borrow pits and clay pits, and fixed-asset leases are depreciated monthly according to the principles laid down for tax depreciation.

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

The depreciation schedule is expressed by the book depreciation table TAB81M, used throughout the company for purposes of fixed assets and is compiled according to the principles above. The fixed-asset depreciation schedule is designed to be a fixed constant and no changes were reported in 2010 and 2011.

#### c) Valuation of securities and other equity participations

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

#### d) Valuation of inventories purchased and developed internally

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

#### e) Use of replacement cost

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

#### f) Changes in valuation methods and use of accounting methods

In 2010 and 2011, there was no change in valuation or depreciation methods and no other significant change in accounting practices.

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

##### **a) Deviations from accounting methods**

In 2010 and 2011, LČR reported no deviations from the methods prescribed by Act No 563/1991 on accounting.

##### **b) Method for determining adjustments and accumulated depreciation of assets**

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

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

An adjustment to goods of CZK 116,000, created at Týniště nad Orlicí SU as the difference between the stock price and sales price of goods at 31 December 2010, was increased to CZK 211,000 on 31 December 2011. On the same principle, an adjustment to finished products of CZK 1,818,000 was created at Týniště nad Orlicí SU at 31 December 2010, and was increased to CZK 2,712,000 at 31 December 2011. Adjustments and accumulated depreciation other than those above were not created.

##### **c) Foreign currency translation**

For the conversion of assets and liabilities denominated in foreign currencies, the foreign exchange market exchange rate announced by the Czech National Bank at the date of the transaction was applied. Other methods for the conversion of assets and liabilities denominated in foreign currencies were not used in 2010 and 2011.

##### **d) Method for determining fair value**

Assets fair-valued in 2010 and 2011 were valued at their market price determined on the public market or at their market price determined by the status of a security.

##### **e) Change in fair value**

Long-term investments and short-term financial assets were fair-valued in 2010 and 2011. These were the stock units of investment funds, debt securities and promissory notes. A change in the fair value of long-term stock units is charged against the Balance Sheet item "Liabilities, A.II.3 Gain or loss on revaluation of assets and liabilities"; a change in the fair value of short-term shares and stock units is charged individually for each title held – an increase compared to the Profit and Loss Account item "IX. Gain on revaluation of securities and derivatives", and a reduction compared to "L. Loss on revaluation of securities and derivatives". A change in the fair value of bonds and notes is charged for each title held – an increase compared to the Profit and Loss Account item "VIII. Revenue from current financial assets", and a reduction compared to "K. Expenses of financial assets".

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

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

| Year | Reduction<br>in fair value in | Increase<br>in fair value in | Account 414 balance<br>at 31 December |
|------|-------------------------------|------------------------------|---------------------------------------|
| 2010 | –                             | 22,434                       | (26,964)                              |
| 2011 | 14,884                        | –                            | (41,848)                              |



## 5.

### Breakdown of significant Balance Sheet items

(others are referred to in Notes 6 to 8)

#### a) Breakdown of intangible fixed assets:

| CZK thousands           | Cost    | 2010<br>Accumulated<br>amortization | Cost    | 2011<br>Accumulated<br>amortization | Change<br>in net book<br>value 2011 |
|-------------------------|---------|-------------------------------------|---------|-------------------------------------|-------------------------------------|
| Software                | 279,631 | 143,248                             | 402,725 | 216,943                             | 49,399                              |
| Forest management plans | 178,535 | 95,623                              | 239,225 | 99,786                              | 56,527                              |

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

| Cost (CZK thousands)                              | 2010    | 2011    |
|---|---------|---------|
| Buildings and structures                          | 631,933 | 859,622 |
| – of which: housing construction, forester lodges | 8,483   | 4,489   |
| administrative and service buildings              | 111,978 | 89,310  |
| forest roads                                      | 280,343 | 470,358 |
| torrent control and forestland drainage           | 231,129 | 295,465 |
| Machinery and equipment                           | 122,193 | 72,767  |
| – of which: forestry machinery                    | 11,587  | 7,903   |
| lorries   | 10,343  | 1,407   |
| passenger cars                                    | 27,727  | 45,107  |
| computers and other devices                       | 72,536  | 18,350  |

Major disposals of tangible fixed assets were as follows:

| Cost (CZK thousands)                     | 2010    | 2011    |
|--|---------|---------|
| Non-residential buildings and structures | 101,031 | 106,526 |
| – of which: structures                   | 62,519  | 57,279  |
| – sold                                   | 14,617  | 38,036  |
| – relinquished (restitution)             | 44,184  | 8,722   |
| – demolished due to wear or accident     | 3,718   | 10,521  |
| buildings                                | 38,512  | 49,247  |
| – sold                                   | 37,793  | 48,153  |
| – relinquished (restitution)             | 7       | 22      |
| – demolished due to wear or accident     | 712     | 1,072   |
| Machinery and equipment                  | 46,407  | 13,897  |
| – of which: lorries                      | 18,293  | 5,420   |
| passenger cars                           | 28,114  | 8,477   |

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

| CZK thousands                   | Cost      | 2010<br>Accumulated<br>depreciation | Cost      | 2011<br>Accumulated<br>depreciation | Change<br>in net book<br>value 2011 |
|---------------------------------|-----------|-------------------------------------|-----------|-------------------------------------|-------------------------------------|
| Plant and equipment             | 1,298,452 | 987,134                             | 1,345,480 | 1,088,151                           | (53,989)                            |
| Low-value tangible fixed assets | 106,853   | 93,458                              | 117,556   | 111,011                             | (6,850)                             |

d) Land was the largest and most important asset item. The following changes occurred in 2011:

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

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

Comparatives regarding changes in land in 2010 were as follows:

| 2010                           | Forestland    |                          | Other land    |                          | Total         |                          |
|--------------------------------|---------------|--------------------------|---------------|--------------------------|---------------|--------------------------|
|                                | CZK thousands | m <sup>2</sup> thousands | CZK thousands | m <sup>2</sup> thousands | CZK thousands | m <sup>2</sup> thousands |
| Situation as at 1. 1.          | 51,659,012    | 13,485,000               | 1,333,067     | 260,583                  | 52,992,079    | 13,745,583               |
| Total additions                | 932,053       | 202,799                  | 145,559       | 34,970                   | 1,077,612     | 237,769                  |
| – Transfer of management right | 25,538        | 6,579                    | 29,952        | 2,951                    | 55,490        | 9,530                    |
| – Purchase (exchange)          | 218,963       | 19,831                   | 19,472        | 1,059                    | 238,435       | 20,890                   |
| – Other                        | 687,552       | 176,389                  | 96,135        | 30,960                   | 783,687       | 207,349                  |
| Total disposals                | 909,225       | 228,046                  | 133,369       | 34,394                   | 1,042,594     | 262,440                  |
| – Restitution                  | 81,278        | 21,365                   | 3,858         | 991                      | 85,136        | 22,356                   |
| – Sale (exchange)              | 58,437        | 15,473                   | 21,247        | 2,272                    | 79,684        | 17,745                   |
| – Other                        | 769,510       | 191,208                  | 108,264       | 31,131                   | 877,774       | 222,339                  |
| Balance at 31 December         | 51,681,840    | 13,459,753               | 1,345,257     | 261,159                  | 53,027,097    | 13,720,912               |

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

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

| CZK millions                           | Price per m <sup>2</sup> (CZK) | 2010      | 2011      |
|--|--------------------------------|-----------|-----------|
| Market value according to LČR method   | 11.30                          | 152,095.2 | 152,068.2 |
| Official price under MoF Decree 3/2008 | 25.52                          | 343,492.9 | 343,431.9 |
| Price under MoF Decree 500/2002        | 57.00                          | 767,205.9 | 767,069.6 |

- e) In accordance with Act No 586/1992 on income tax, and the nature of production, fencing for purposes of forest production and game-keeping is funded from operating resources. As at 31 December 2011, the total length of fencing was 16,236 km.

| km      | 2010   | 2011   |
|---------|--------|--------|
| Fencing | 15,478 | 16,236 |

#### f) Other long-term investment titles

As at 31 December 2011, five long-term time deposits were recorded in the accounts with a total value of CZK 2,400,000,000 (reported in the Balance Sheet, assets, line B.III.5.).

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

## 6.

### Additional information on the Balance Sheet and Profit and Loss Account

- a) In 2010 and 2011, there were no significant adjustments to current income tax for previous reporting periods.

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

Nor is deferred tax calculated for the possible tax impacts of accounting provisions on price indexation and ANCLP payments (for more details see note 6.c.). The difference arising from the different accounting and tax perspective in respect of both LČR provisions is not regarded as realistic in the medium term, mainly because the probability of final court rulings is uncertain in the medium term. As no return or release of such accounting provisions can be expected in the medium-term, for reasons of prudence LČR is inclined not to include these differences in the calculation of deferred taxes. The creation of deferred taxes in relation to both provisions would be reflected as a deferred tax asset amounting to CZK 107,125,000, which would mean a reduction in the below-mentioned and reported deferred tax liability (and deferred tax) to CZK 18,807,000. Other temporary differences (e.g. accounting adjustments to receivables and inventories) were not used to ascertain deferred taxes.

#### Calculation (breakdown) of deferred tax:

| CZK thousands   | 2010      | 2011      |
|---|-----------|-----------|
| Difference between the book and tax value of fixed assets | (769,487) | (662,801) |
| Basis for the calculation of deferred tax                 | (769,487) | (662,801) |
| Tax rate in the next period                               | 19%       | 19%       |
| Total tax asset (liability)                               | (146,203) | (125,932) |

c) Breakdown and description of provisions for 2010 and 2011:

| CZK thousands    | Provision for growing activity | Provision for reconstruction of stands in Krušné hory | Provision for leave untaken | Provision for price indexation | Responsibility for ANCLP payments |
|------------------|--------------------------------|---|-----------------------------|--------------------------------|-----------------------------------|
| 31 December 2011 | 2,870,412                      | 61,521  | 0                           | 529,394                        | 34,422                            |
| Additions 2011   | 1,684,292                      | 0   | 0                           | 529,394                        | 34,422                            |
| Released 2011    | 1,802,208                      | 31,898  | 28,995                      | 0                              | 0                                 |
| 31 December 2010 | 2,988,328                      | 93,419  | 28,995                      | 0                              | 0                                 |
| Additions 2010   | 1,828,704                      | 0   | 28,995                      | 0                              | 0                                 |
| Released 2010    | 1,786,791                      | 41,576  | 23,508                      | 0                              | 0                                 |
| 31 December 2009 | 2,946,415                      | 134,995   | 23,508                      | 0                              | 0                                 |

The provision for growing activity has been created to cover the cost of growing work over the period that the stand is secured. Until 2005, it was created in accordance with Sections 9 and 10a of Act No 593/1992 on provisions to determine the income tax base, as amended (Balance Sheet, liabilities, B.I.1.); in 2005 to 2011, it was created according to the same rules as in previous years (the method and means of creating and releasing the provision did not change), but the creation of the provision is not reported as a tax-deductible expense and an accounting provision is created (Balance Sheet, liabilities, B.I.4.). As at 31 December 2011, only an accounting provision is established for growing activity. The provision for the reconstruction of stands in Krušné hory was created in 2004 in accordance with Sections 9 and 10a of Act No 593/1992 (point 15 of the Annex to Act No 593/1992 ) to cover costs related to the replacement of stands with inappropriate or substitute species composition in Krušné hory. The provision is intended to cover costs associated with the reconstruction of stands between 2006 and 2012 which are not included in the provision for growing activity.

In 2010, a provision was created for untaken leave of CZK 28,995,000 (CZK 21,503,000 in wages and salaries, CZK 7,492,000 in social security costs). The provision was created for costs that, in the future, will become increased personnel expenses if leave is paid but not taken. In 2011, the effectiveness of the existence of the provision was reviewed and the possibility of significant utilization of the provision was found to be minimal; the provision was therefore cancelled. In 2011, a provision was created for the indexation of prices for timber sales in the second to fourth quarters of 2011 amounting to CZK 529,394,000. LČR identified the risk of actual and potential actions brought before a court against the process in the indexing of prices for timber sales in public procurement procedure in 2011. The value of the provision was calculated as the difference in prices between the indexed prices invoiced by LČR to contracting partners, and the prices claimed by contracting partners to be "correct", i.e. non-indexed prices based on the prices bid in tendering procedure. In 2011, a provision for ANCLP payments was created in the amount of the action brought by ANCLP, which is suing LČR for the return of compensation paid, as ANCLP argues that LČR does not have the standing to claim an entitlement to financial compensation for loss arising from aggravated forest management. The provision applies to all non-state-barred payments received by LČR from ANCLP. In accordance with the action and the risk of non-payment of existing receivables, LČR has also created a 100% adjustment to all receivables from ANCLP (see note 4.2.b.).

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

|  | 2010   | 2011   |
|--|--------|--------|
|  | 30,643 | 31,246 |

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

|  | 2010   | 2011   |
|--|--------|--------|
|  | 13,202 | 13,413 |

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

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

| CZK thousands  | 2010    | 2011    |
|--|---------|---------|
| Subsidies for the acquisition of forest management plans   | 30,070  | 0       |
| Subsidies for the acquisition of tangible fixed assets (total)   | 175,744 | 180,237 |
| – of which compensation in the public interest related to watercourse management (especially flood control measures) | 138,452 | 159,020 |
| Subsidies to cover operating costs (total)   | 218,664 | 195,184 |
| – of which compensation under Section 24 of Act No 289/1995, on forests  | 13,465  | 12,573  |
| – of which compensation under Section 35 of Act No 289/1995, on forests  | 13,268  | 7,871   |
| – of which compensation under Section 46 of Act No 289/1995  | 4,425   | 3,200   |
| – of which subsidies from the Ministry of Agriculture for water management   | 21,706  | 34,772  |
| – of which EU subsidies  | 95,295  | 64,993  |

#### h) Information on statutory audit costs

The costs of the statutory audit of the accounts in 2011 totalled CZK 1,716,000 (2010: CZK 1,354,000). The statutory auditor provides no services other than the auditing of the financial statements.

#### i) Disposals of fixed assets and raw materials

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

| CZK thousands                                       | Total account | 2010 Fixed assets sold | Fixed assets exchanged | Total account | 2011 Fixed assets sold | Fixed assets exchanged |
|---|---------------|------------------------|------------------------|---------------|------------------------|------------------------|
| Item III.1. Proceeds from disposals of fixed assets | 749,298       | 507,060                | 242,238                | 768,136       | 719,871                | 48,265                 |
| Item F.1. Net book value of fixed assets            | 149,206       | 90,552                 | 58,654                 | 171,045       | 165,602                | 5,443                  |
| Difference  | 600,092       | 416,508                | 183,584                | 597,091       | 554,269                | 42,822                 |

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

In 2011, LČR took over from the Agricultural and Water Management Authority (“AWMA”), as part of the winding-up of the AWMA, fixed assets with a book value of CZK 896,154,000 and forestland worth CZK 15,000. The method provided for by Czech Accounting Standard No 13 (paragraph 3.6) was applied in the measurement of the value of the assets taken over. The book value of the fixed assets taken over, amounting to CZK 896,154,000, is contained in Liabilities line A.I.1. Unregistered changes in capital stock (see Note 8 – the table “Breakdown of changes in capital stock”). The classification of fixed assets under Assets in the Balance Sheet is expressed by the following table (CZK thousands):

| Line    | Line content                             | Gross assets     | Adjusted assets  | Net assets     |
|---------|--|------------------|------------------|----------------|
| B.II.1. | Land                                     | 298,598          |                  | 298,598        |
| B.II.2. | Buildings                                | 2,123,503        | (1,544,330)      | 579,173        |
| B.II.3. | Plant and equipment                      | 9,062            | (8,019)          | 1,043          |
| B.II.7. | Tangible fixed assets under construction | 17,340           | 0                | 17,340         |
|         | <b>Total</b>                             | <b>2,448,503</b> | <b>1,552,349</b> | <b>896,154</b> |

k) Balance-sheet line “D.I.3. VAT to be applied in January 2012” shows the input VAT quantified in tax documents received in January 2012 and charged in 2011. This VAT is claimed in full in the VAT return for January 2012.



## 7.

### a) Receivables at 31 December:

| CZK thousands   | 2010      | 2011      |
|---|-----------|-----------|
| Total short-term trade receivables (gross); Assets, line C.III.1        | 2,226,703 | 2,251,208 |
| – of which total receivables due  | 1,769,695 | 1,745,321 |
| – of which total receivables past due                                   | 457,008   | 505,887   |
| – of which total receivables more than 180 days past due                | 424,140   | 377,794   |
| – of which total receivables with maturity of more than 5 years         | 0         | 0         |
| – of which receivables subject to enforcement                           | 103,573   | 83,792    |
| – of which claims in insolvency, bankruptcy and composition proceedings | 118,798   | 270,896   |
| Receivables denominated in foreign currency                             | 5,585     | 2,151     |

In 2011, there were no significant changes in respect of receivables, including in relation to the increased sales in 2011 (see note 9). Receivables from group companies on an arm's-length basis as at 31 December 2011 amounted to CZK 609,000. These are receivables from HLDS, a.s. As in previous years, all these receivables are not yet due.

| CZK thousands                 | 2010      | 2011 |
|-------------------------------|-----------|------|
| Intra-group trade receivables | 1,059,065 | 609  |

### b) Payables as at 31 December:

| CZK thousands  | 2010  | 2011  |
|--|-------|-------|
| Payables more than 180 days past due                       | 0     | 0     |
| Payables with a maturity of more than 5 years              | 0     | 0     |
| Payables tied to the fulfilment of conditions by suppliers | 3,414 | 5,677 |

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

Advances received for property sales, where an application was submitted for entry in the property register in 2011, amounted to CZK 2,809,000 (CZK 3,760,000 in 2010). This amount was also recorded, in accordance with valid methodology, in account 385 – Accrued revenues, because no entry had been made in the property register as at 31 December 2011 (or 2010). The amount of CZK 2,809,000 is reported in the Balance Sheet in both line D.I.3. (assets) and line B.III.8. (liabilities).

Trade payables to group companies are CZK 5,655,000 (2010: CZK 2,000). All these payables are to HLDS, a.s. and are not yet due.

### c) Finance leases at 31 December

In 2010 and 2011, the company had no assets acquired under finance leases.

d) Leased fixed assets monitored off balance sheet are valued as follows at 31 December (CZK thousands):

| CZK thousands       | 2010 | 2011 |
|---------------------|------|------|
| Leased fixed assets | 680  | 604  |

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

f) Aggregate amount of low-value tangible assets not disclosed in the balance sheet at 31 December (CZK thousands):

| CZK thousands   | 2010    | 2011    |
|---|---------|---------|
| Low-value tangible assets not reported in the balance sheet | 263,227 | 267,182 |

g) The aggregate amount of fixed assets acquired with 100% subsidies and kept off balance sheet at 31 December was (CZK thousands):

| CZK thousands                             | 2010    | 2011    |
|---|---------|---------|
| Fixed assets acquired with 100% subsidies | 180,441 | 174,293 |

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

i) Between the balance sheet date and the date of preparation of the financial statements, there were no significant events, except those reported in Note 10 in particular, which could change the view of a true and fair view of the annual financial statements for 2011.

## 8.

### Description of changes in equity during the reporting period

Lesy České republiky, s.p., is a liable party in relation to restitution and in the return of assets in accordance with applicable statutory provisions. In addition, assets are received and relinquished in connection with the decisions by the Czech Government and the Ministry of Agriculture, or transferred under applicable laws. Therefore, in addition to normal movements, the distribution of profit and the disbursement of funds, there are constantly changes in equity. The company reports changes in capital stock in the Balance Sheet, liabilities, line A.I.1. Registered capital. This item includes the amount of capital stock entered in the Commercial Register and the amount of capital stock not entered in the Commercial Register as at 31 December 2011. The statutory reserve fund complies with the threshold established by the Decision of the Ministry of Agriculture on the adaptation of the founding memorandum of 12 August 1997, i.e. a compulsory minimum threshold of CZK 1.2 billion.

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

Statement of changes in equity for 2010 and 2011 (the header contains the relevant Balance Sheet liability lines):

| CZK thousands           | Capital stock<br>(A.I.1.) | Changes in registered capital<br>(A.I.1.) | Capital funds<br>(A.II.2.) | Gain or loss on revaluation<br>(A.II.3.) | Statutory reserve fund<br>(A.III.1.) | Other funds from profit<br>(A.III.2.) |
|-------------------------|---------------------------|---|----------------------------|--|--------------------------------------|---------------------------------------|
| <b>31 December 2011</b> | <b>5,818,759</b>          | <b>5,553,854</b>                          | <b>51,608,258</b>          | <b>(41,848)</b>                          | <b>1,251,283</b>                     | <b>4,227,127</b>                      |
| Balance of changes 2011 | 0                         | +1,094,544                                | (21,312)                   | (14,884)                                 | 0                                    | +2,341,352                            |
| Increase 2011           | 0                         | +1,117,037                                | +521,424                   | 0  | 0                                    | +2,600,041                            |
| Reduction 2011          | 0                         | (22,493)                                  | (542,736)                  | (14,884)                                 | 0                                    | (258,689)                             |
| <b>31 December 2010</b> | <b>5,818,759</b>          | <b>4,459,310</b>                          | <b>51,629,570</b>          | <b>(26,964)</b>                          | <b>1,251,283</b>                     | <b>1,885,775</b>                      |
| Balance of changes 2010 | 0                         | +384,947                                  | (134,656)                  | +22,434                                  | 0                                    | +160,694                              |
| Increase 2010           | 0                         | +437,917                                  | +448,814                   | +22,434                                  | 0                                    | +621,733                              |
| Reduction 2010          | 0                         | (52,970)                                  | (583,470)                  | 0  | 0                                    | (461,039)                             |
| <b>31 December 2009</b> | <b>5,818,759</b>          | <b>4,074,363</b>                          | <b>51,764,226</b>          | <b>(49,398)</b>                          | <b>1,251,283</b>                     | <b>1,725,081</b>                      |

Breakdown of changes in capital stock:

| CZK thousands                            | 2010     | 2011       |
|--|----------|------------|
| Balance of changes – of which:           | +384,947 | +1,094,544 |
| – delimitation changes                   | +5,748   | +19,537    |
| – restitution-based disposals            | (3,858)  | (2,522)    |
| – use of the Development Investment Fund | +383,057 | +181,375   |
| – transfer of assets from the AWMA       | 0        | +896,154   |

Breakdown of changes in capital funds:

| CZK thousands                                    | 2010      | 2011     |
|--|-----------|----------|
| Balance of changes – of which:                   | (134,656) | (21,312) |
| – delimitation changes                           | (89,417)  | +22,352  |
| – restitution-based relinquishment of forestland | (81,278)  | (74,217) |
| – gifts, awards, free transfers                  | +36,039   | +30,553  |

The distribution of profit from 2009 and 2010 was cleared in 2010 and 2011, always at the discretion of the founder, who decided on a proposal by the Supervisory Board:

| CZK thousands                       | 2010    | 2011      |
|-------------------------------------|---------|-----------|
| Profit for the period allocated to: | 582,297 | 2,558,294 |
| – the welfare fund                  | 21,779  | 21,066    |
| – the housing policy fund           | 20,000  | 0         |
| – the Development Investment Fund   | 540,518 | 2,537,228 |

## 9.

### Revenues from ordinary activities

| CZK thousands   | 2010       | 2011       |
|---|------------|------------|
| Revenues from ordinary activities                           | 11,288,241 | 13,261,039 |
| – revenues from operations                                  | 10,817,990 | 12,832,251 |
| – financial activities                                      | 470,251    | 428,788    |
| Proceeds from the disposal of internally developed products | 8,961,983  | 10,952,507 |

Business activities with foreign countries are insignificant.

## 10.

### Other

As in previous years, in 2011 a current issue was the previous approach applied by LČR to tendering procedure, when LČR respected an opinion of the Office for the Protection of Competition (OPC) that LČR was not a contracting authority under Act No 40/2004 on public procurement, as amended. However, the OPC subsequently changed its mind. LČR in turn respected this change of opinion, as a result of which numerous actions were brought against LČR; judgments in this litigation concerning tendering from 2004 and 2005 have become final. Actions in which the applicant sought the determination of contractual relations established by contracts arising from tendering procedures in 2004 and 2005 were dismissed. Only a minority of applicants submitted extraordinary appeals (appeals on a point of law), but these were dismissed on grounds of the absence of legal interest.

Actions were brought against LČR for alleged damage, with reference to the voidness of contracts arising from the above-mentioned tendering procedures from 2004 and 2005, caused by LČR as the contracting authority, which allegedly should not have proceeded in procurement procedures in accordance with the then applicable law. These actions were gradually brought by various entities and filed with locally competent courts. The outcome of individual disputes cannot be anticipated at this time. Only a court has the jurisdiction to reach a final decision on any claims for damages connected with any violation of legal provisions. As at the date of the 2011 financial statements, LČR did not know the specific amount of damages legally determined by the courts. Therefore, costs related to the possible results of future litigation are not reflected in the balance as at 31 December 2011.

In 2004, CE WOOD, a.s. brought an action for damages and reasonable satisfaction for a total amount of more than CZK 3.7 billion, which has yet to be decided. In 2008, the company received an invoice from CE WOOD, a.s. for approximately CZK 4.869 billion for alleged damage caused in the handling of forestry contracts. LČR considers this invoice to be entirely unsubstantiated and sent it back to the company on the date of service as unwarranted. CE WOOD, a.s. was then meant to have "cancelled" this invoice.

Contractual relations entered into for three years on the basis of medium-term tenders (2008–2010) were terminated in some contracted territorial units mainly because of the inability of contractors to comply with contractual arrangements, which is not the rule. In those contractual territorial units where the contractual relationship was terminated, the situation was addressed with appropriate legal procedures so that operations were adequately secured. LČR was fined CZK 1,000,000 by a decision of 10 December 2009 concerning information and communication technology and service contracts and invoices, particularly those in the period from 1 March 2007 to 31 October 2007. This decision was upheld in a decision of 20 April 2010, despite an appeal. The decision on the fine thus became final. This amount is currently the subject of an action against the competent former employee. In a decision of 21 October 2010 concerning office supplies, LČR was fined CZK 300,000. An appeal was lodged against this decision, but was rejected in 2011, and the decision thus became final. An administrative action was filed against the OPC chairman's decision. Contracts and invoices concerning information and communication technologies and services concluded particularly in the period from 1 March 2007 to 31 October were investigated. Invoices that have not yet been paid and whose legitimacy has been challenged by LČR, as well as the issue as a whole, were considered by law enforcement agencies. The case was set aside by the Czech Police Force on the grounds that there was no suspicion of a crime and that, in this respect, it could not act otherwise in the case. A complaint was lodged against this decision; in 2010, the competent prosecutor issued a decision dismissing the complaint as unfounded. In light of newly discovered facts, an application was submitted to the Czech Police Force in 2011 to investigate the new facts and re-investigate the original notifications.

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

## 11.

### Cash flow statement

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

#### Cash flow statement 2010 and 2011 (CZK thousands)

| Reference | Text   | Line | 2011        | 2010        |
|-----------|--|------|-------------|-------------|
| P.        | Cash and cash equivalents, beginning of year   | 01   | 2,468,524   | 2,125,363   |
|           | <b>Cash flows from main earning activity (ordinary activities)</b>                     |      |             |             |
| Z.        | Accounting profit (loss) from ordinary activities before tax                           | 02   | 5,275,195   | 3,159,654   |
| A.1.      | Non-cash adjustments   | 03   | 497,070     | (145,852)   |
| A.1.1.    | Depreciation of fixed assets, less residual values of fixed assets sold, etc.          | 04   | 661,551     | 521,890     |
| A.1.2.    | Changes in adjustments and provisions  | 05   | 504,682     | 25,095      |
| A.1.3.    | Gain (loss) on sale of fixed assets  | 06   | (597,091)   | (600,091)   |
| A.1.4.    | Proceeds from dividends and shares of profit (except investment companies and funds)   | 07   | (42)        | (26,475)    |
| A.1.5.    | Interest expense (less capitalized interest) and income                                | 08   | (100,707)   | (59,411)    |
| A.1.6.    | Adjustments for other non-cash transactions  | 09   | 28,677      | (6,860)     |
| A. *      | Net cash flow from ordinary activities before tax and changes                          | 10   | 5,772,265   | 3,013,802   |
| A.2.      | Changes in non-cash items of working capital   | 11   | (696,377)   | (1,671,204) |
| A.2.1.    | Change in receivables from operating activities and deferrals                          | 12   | (1,499,890) | (777,233)   |
| A.2.2.    | Change in payables, subsidies, deferrals and estimated items from operating activities | 13   | 358,448     | 472,170     |
| A.2.3.    | Change in inventories  | 14   | 81,214      | 84,061      |
| A.2.4.    | Change in short-term financial assets, other than cash and cash equivalents            | 15   | 363,851     | (1,450,202) |
| A. **     | Net cash flow from ordinary activities before tax and extraordinary items              | 16   | 5,075,888   | 1,342,598   |
| A.3.      | Interest paid, excluding amounts capitalized   | 17   | (1,312)     | (4,242)     |
| A.4.      | Interest received  | 18   | 102,019     | 63,653      |
| A.5.      | Income tax paid on ordinary activities and additional tax from previous periods        | 19   | (1,070,206) | (588,038)   |
| A.6.      | Receipts and disbursement from extraordinary items – extraordinary profit (loss)       | 20   | 0           | 0           |
| A.7.      | Receipts and disbursement from extraordinary items                                     | 21   | 42          | 26,475      |
| A. ***    | Net cash flow from ordinary activities   | 22   | 4,106,431   | 840,446     |
|           | <b>Cash flows from investing activities</b>  |      |             |             |
| B.1.      | Acquisition of property, plant and equipment   | 23   | (1,214,980) | (1,221,351) |
| B.2.      | Proceeds from sale of fixed assets   | 24   | 768,136     | 749,298     |
| B.3.      | Loans and other borrowings to related entities   | 25   | 0           | 0           |
| B. ***    | Net cash flow from investing activities  | 26   | (446,844)   | (472,053)   |
|           | <b>Cash flow from financial activities</b>   |      |             |             |
| C.1.      | Effects of changes in long-term and current payables                                   | 27   | (20,271)    | 13,322      |
| C.2.      | Increase and decrease in equity from specified transactions                            | 28   | (35,567)    | (38,554)    |
| C.2.1.    | Increase in cash and cash equivalents due to an increase in registered capital         | 29   | 0           | (8)         |
| C.2.2.    | Equity paid to shareholders  | 30   | 0           | 0           |
| C.2.3.    | Other contributions by shareholders  | 31   | 0           | 0           |
| C.2.4.    | Loss settlement by shareholders  | 32   | 0           | 0           |
| C.2.5.    | Direct payments debited to equity funds  | 33   | (35,567)    | (38,546)    |
| C.2.6.    | Dividends paid and profit shares including paid withholding tax                        | 34   | 0           | 0           |
| C. ***    | Net cash flow from financial activities  | 35   | (55,838)    | (25,232)    |
| F.        | Net increase/decrease in cash and cash equivalents                                     | 36   | 3,603,749   | 343,161     |
| R.        | Cash and cash equivalents, end of year   | 37   | 6,072,273   | 2,468,524   |
| S.        | Actual balance of cash and cash equivalents, end of year                               | 38   | 6,072,273   | 2,468,524   |
| R. - S.   | Difference (calculation - actual)  | 39   | 0           | 0           |

Date of preparation of financial statements: 30 April 2012.



# Management Statement

The governing body of Lesy České republiky, s.p., under Resolution No 686/2004 adopted at its meeting on 27 January 2004, ruled that the company would not produce a report on relations between the controlling and controlled entities and relations between the controlled entity and other entities controlled by the same controlling entity (a "Report on Related Parties"). In the opinion of the governing body of Lesy České republiky, s.p., if no controlling agreement is executed, the obligation to produce a Report on Related Parties within three months of the end of the reporting period applies only to the governing bodies of controlled entities within a group where relations are subjected to uniform management. The Report on Related Parties then encompasses all relations within the group to which the controlled entity which is the subject of the report is party. Where the Czech Republic has the status of a controlling entity, this is not a group, because a group consists of only a controlling entity and controlled entities, whose companies are group companies. A company (or, under the law, an "undertaking") means a set of tangible, personal and intangible business elements. A company comprises items, rights and other assets which belong to an enterprise and are used to operate the company.

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In the period between the preparation of the financial statements (30 April 2012) and the preparation of the Annual Report (10 May 2012), there were no significant events having a bearing on the disclosures herein. The company has no organizational units abroad.

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## INDEPENDENT AUDITOR'S REPORT

for the founder and Director General on an audit of the Annual Report to 31.12.2011  
state-owned enterprise Lesy České republiky, s.p., with registered seat in Hradec Králové,  
company no. 42196451.

We have audited the Annual Report of the state-owned enterprise Lesy České republiky, s.p. for consistency with the financial statements for the year ended 31.12.2011 which are included in this Annual Report. The correctness of the Annual Report is the responsibility of the statutory body of the state-owned enterprise Lesy České republiky, s.p. Our responsibility is to express an opinion on the consistency of the Annual Report and the financial statements based on our audit.

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

**In our opinion, the information included in the Annual Report of the state-owned enterprise Lesy České republiky, s.p. for the year ended 31.12.2011 is consistent, in all material respects, with the financial statements referred to above.**

In Brno, date July 16, 2012

**A&CE Audit, s. r. o.**

Ptašínského 4, 602 00 Brno

License of the Czech Chamber of Auditors no. 007

Ing. Libor Cabicar, Executive



Ing. Pavel Studnička

Auditor, license no. 1702

**Attachments:** Annual Report to 31.12.2011

## Terms and Abbreviations

|         |   |
|---------|---|
| BK      | beech   |
| BO      | pine  |
| BRP     | birch parity  |
| CHO LČR | Central Head Office of Lesy České republiky, s.p.             |
| ČMKBK   | Bohemian-Moravian Commodity Exchange, Kladno                  |
| ČSOP    | Czech Union for Nature Conservation                           |
| DIF     | Development Investment Fund                                   |
| EU      | European Union  |
| FMF     | forest management facility                                    |
| FMI     | Forest Management Institute                                   |
| FMP     | forest management plans                                       |
| FMU     | forest management unit  |
| FU      | forestry unit   |
| GA      | growing area  |
| GIS     | geographic information systems                                |
| GrDW    | Graphics data warehouse                                       |
| HB      | torrent control   |
| HLDS    | Hradecká lesní a dřevařská společnost a.s.                    |
| HÚL     | forest management arrangements                                |
| JD      | fir   |
| KN      | property register   |
| LČR     | Lesy České republiky, s.p.                                    |
| Lesy ČR | Lesy České republiky, s.p.                                    |
| LHE     | forest management register                                    |
| LT      | left tributary  |
| LTM     | technical forest reclamation                                  |
| LVS     | forest altitudinal zonation                                   |
| MD      | larch   |
| MoA     | Ministry of Agriculture of the Czech Republic                 |
| MoE     | Ministry of the Environment of the Czech Republic             |
| MZD     | soil improving and reinforcement species                      |
| NNR     | National nature reserve                                       |
| NR      | nature reserve  |
| OLH     | forest manager  |
| OMK     | Marketing and Communication Department                        |
| OPC     | Office for the Protection of Competition                      |
| OPŠ     | flood damage removal  |
| OVS     | public tendering procedure                                    |
| PEFC    | Programme for the Endorsement of Forest Certification schemes |
| PLA     | protected landscape area                                      |
| PŠ      | flood damage  |
| PUPFL   | land designated as forestland                                 |
| RHO     | regional head office  |
| RŘS     | revitalization of river systems                               |
| RS      | roadside  |
| RT      | right tributary   |
| SLT     | set of forest types   |
| SM      | spruce  |
| SU      | Seed Unit   |
| WMU     | Water management unit   |

## Die hauptsächlichen Ereignisse des Jahres

Das Jahr 2011 war aus wirtschaftlicher Hinsicht für die Lesy ČR der historisch erfolgreichste Zeitraum in der gesamten Existenz des Betriebs, und zwar durch das Erreichen eines wirtschaftlichen Ergebnisses von 5,275 Mrd. CZK. Das erreichte wirtschaftliche Ergebnis wurde zu 85 % aus der unternehmerischen Haupttätigkeit, d.h. aus der Waldbewirtschaftung gebildet.

Das außergewöhnliche wirtschaftliche Ergebnis gelang es insbesondere dank der richtig eingestellten Parameter des komplexen Forstauftrags und durch die Schaffung eines Wettbewerbsumfelds unter den Interessenten für den Auftrag zu erreichen. Die Teilnehmer des öffentlichen Auftrags gaben in einer transparenten und offenen öffentlichen Ausschreibung für den Betrieb sowohl für Dienstleistungen als auch für Holz vorteilhafte Angebotspreise ab. In Übereinstimmung mit der geltenden Legislative und den genehmigten Waldwirtschaftsplänen wurden dauerhaft und auf einem hohen Niveau sämtliche Tätigkeiten abgesichert, die mit einer ordentlichen Pflege des Waldes verbunden sind, und auch im Jahr 2011 waren die Lesy ČR Inhaber des prestigeträchtigen Zertifikats einer dauerhaft nachhaltigen Bewirtschaftung PEFC auf dem gesamten verwalteten Gebiet.

Das Jahr 2011 lässt sich als sehr günstig auch hinsichtlich des minimalen Auftretens von Naturkatastrophen bezeichnen. Im wichtigen Bereich des Waldschutzes gelang es dank Abwehrmaßnahmen gegen Borkenkäfer im Jahr 2011 weiter die Schäden zu verringern; das Volumen des verarbeiteten Borkenkäferholz sank um 40 % im Vergleich mit dem Jahr 2010.

Nach Entscheidung des Ministeriums für Landwirtschaft übernahmen die Lesy ČR ab Januar 2011 einen Teil der Landwirtschaftlich-wasserwirtschaftlichen Verwaltung (ZVHS) mit sämtlichen damit zusammenhängenden Tätigkeiten und Kosten. Der Betrieb übernahm im Verlauf des Jahres physisch 14 Tsd. km kleinere Wasserläufe und ein mit ihnen verbundenes Eigentum in einer Gesamthöhe, das 2,4 Mrd. CZK erreichte. Durch die Eingliederung der ZVHS in die Lesy ČR übernahm der Betrieb Kosten des Staatshaushalts, die mit dem Betrieb der ZVHS zusammenhängen, und zwar ohne negative Auswirkung auf seine Wirtschaftstätigkeit.

Ende April schrieben die Lesy ČR eine öffentliche Ausschreibung für Forstarbeiten ab dem Jahr 2012 für den Zeitraum von einem bis fünf Jahren aus. Die Forstausschreibung wurde nach der Konzeption des Ministeriums für Landwirtschaft zur Wirtschaftspolitik des Staatsbetriebs Lesy České republiky, s.p. ab dem Jahr 2012, dem s.g. „Holzbuch“ ausgeschrieben. Die Vorbereitung der Ausschreibung erfolgte in Konsultation mit dem Amt für den Schutz des wirtschaftlichen Wettbewerbs sowie der Nichtregierungsorganisation Transparency International.

Die zweite Runde der Ausschreibung wurde August ausgeschrieben. Im Oktober begann das Amt für den Schutz des wirtschaftlichen Wettbewerbs (ÚOHS) ein Verwaltungsverfahren und gab eine vorläufige Verfügung mit dem Verbot heraus, in diesem öffentlichen Auftrag Verträge abzuschließen. Im Dezember beendete das ÚOHS das Verwaltungsverfahren

und hob die vorläufige Verfügung mit der Feststellung auf, dass es bei der Überprüfung des öffentlichen Auftrags kein Missverhältnis mit dem Gesetz fand und auch keine Gründe für die Auferlegung von Abstellmaßnahmen oder Sanktionen und dass die Ausschreibung vollständig in Übereinstimmung mit dem Gesetz, nicht diskriminierend und transparent, ist. Die Lesy ČR haben nachfolgend unmittelbar den Unterschriftsprozess der Verträge begonnen. Obwohl die Überprüfung des ÚOHS einen Verzug beim Abschluss der Verträge verursachte, und damit einen Verzug beim Beginn der Arbeiten im Wald mit dem Risiko negativer Auswirkungen auf den Holzmarkt am Jahresanfang, unternahm der Betrieb eine Reihe von betrieblichen Maßnahmen zur Verringerung der negativen Auswirkungen auf die Versorgung des Markts mit Holz. Im Übergang der Monate Juni und Juli wurde die Region Zlín durch Hochwasser heimgesucht. Dank des rechtzeitigen Eingriffs der Lesy ČR und der schrittweisen vorbeugenden Erhöhung der Durchlassfähigkeit der Wasserläufe kam es zu einer Minimalisierung der Schäden, welche trotzdem 40 Mio. CZK erreichten. Im Verlauf des gesamten Jahres wurden die Arbeiten zur Beseitigung der Hochwasserschäden aus den Jahren 2009 und 2010 fortgesetzt und gleichzeitig erfolgte die Vorbereitung und der Bau von Hochwasserschutzmaßnahmen an den verwalteten Läufen. Im August 2011 stellten die Lesy ČR der Öffentlichkeit ein Dokument mit der Bezeichnung „Programm 2020 – Absicherung des öffentlichen Interesses bei LČR“ vor. Ziel des Programms ist die Unterstützung und die Entwicklung von öffentlich nutzbringenden Projekten in den nachfolgenden 10 Jahren. Es ist zur Finanzierung konkreter Investitions- sowie Nichtinvestitionsprojekten zur Erneuerung und dem Erhalt von touristischen Wegen, Lehrpfaden, Rastplätzen, Quellbrunnen, Kulturdenkmälern, Maßnahmen zum Schutz der biologischen Vielfalt und vielen weiteren Tätigkeiten in den durch die Lesy ČR bewirtschafteten Wäldern bestimmt. In dieses Programm 2020 planen die Lesy ČR in dem Zeitraum der nächsten 10 Jahre fortlaufend mindestens 600 Mio. CZK zu investieren.

Das Jahr 2011 wurde durch die Organisation der Vereinten Nationen (UNO) als Internationales Jahr des Waldes ausgerufen. Die Lesy ČR haben sich diesem internationalen Jahr aktiv angeschlossen. Während des gesamten Jahres 2011 organisierte der Betrieb Dutzende kulturelle Aktionen für eine breite Öffentlichkeit über den Wald und die Waldbewirtschaftung in der Form von Vorlesungen, Gesprächen, Wanderungen, aber vor allem durch die Aktion „Ein Tag mit LČR“. Diese Aktionen fanden schrittweise in allen Regionen statt. Die Lesy ČR beendeten das Jahr 2011 mit einem wirtschaftlichen Ergebnis in Höhe von 5,275 Mrd. CZK. Der Gesamteinschlag an Holz erreichte 8,02 Mio. m<sup>3</sup>, es gelang 13,7 Tsd. ha Wald zu erneuern, davon betrug der Anteil an wasserregulierenden und verfestigenden Gehölzen bei der Ersterneuerung 43 % und die dringende Züchtung von Beständen bis zu einem Alter von 40 Jahren wurde auf 41 Tsd. ha Wald durchgeführt.

## Hechos destacados del año

El año 2011 fue, de un punto de vista económico, para "Bosques de la Rep. Checa" históricamente el periodo más exitoso en la existencia de la empresa, y esto fue el logro del resultado económico de 5.275 mil millones de coronas checas. El logro del resultado económico se formó del 85% de la principal actividad empresarial, esto es de la economía de los bosques.

El resultado económico extraordinario se ha logrado principalmente gracias al buen ajuste de los parámetros de los contratos complejos forestales y a la creación de un mercado competitivo entre los interesados en el contrato. Los participantes en la licitación pública presentaron, en un sorteo público transparente, y abierto para la empresa, ofertas ventajosas tanto como para los servicios como para la madera. De acuerdo con la legislación vigente y los planes económicos forestales han sido continuamente y en un alto nivel aseguradas todas las actividades asociadas con el cuidado apropiado del bosque, también en el año 2011 "Bosques de la Rep. Checa" fueron acreedores de un certificado prestigioso de gestión sostenible PEFC en todo el territorio administrado.

El año 2011 se puede considerar como muy bueno también del punto de vista de un mínimo de calamidades naturales.

En un importante campo de la protección del bosque, gracias a las medidas defensivas en contra de los escarabajos de la corteza, se logró en el año 2011 reducir aún más los daños, el volumen de la madera tratada que fue dañada por el escarabajo de la corteza disminuyó en un 40% en comparación con el año 2010.

Por decisión del ministro de agricultura se hicieron cargo "Bosques de la Rep. Checa" desde enero del 2011, de una parte de la Administración agrícola del Agua (ZVHS) con todas las actividades y costos relacionados. La empresa durante el año, físicamente se hizo cargo de 14.000 kilómetros de cursos menores de agua y los activos con ello relacionados por un total de más de 2.4 mil millones de coronas checas. Mediante la incorporación del "ZVHS" a "Bosques de la Rep. Checa" la empresa tomó a su cargo los gastos del presupuesto estatal aliado con el funcionamiento del "ZVHS" y sin ningún impacto negativo a su economía.

A finales de abril "Bosques de la Rep. Checa" anunciaron una licitación pública para trabajos forestales desde el año 2012 por el periodo de un hasta 5 años. El concurso público de licitación fue anunciado según la concepción del Ministerio de agricultura a la política económica de la empresa estatal "Bosques de la Rep. Checa s.p. (Empresa estatal)" desde el año 2012, el llamado "Libro de madera". La preparación del concurso público se realizó con la consulta con la Oficina para la protección de concursos económicos como también con la empresa no estatal ni con fines de lucro: Transparency International.

La segunda ronda de la licitación pública fue anunciada en agosto. En octubre la Oficina para la protección de concursos económicos (ÚOHS) realizó un procedimiento administrativo y anunció una medida provisional con la prohibición de cerrar los contratos en esta licitación pública. En diciembre la oficina ÚOHS terminó el procedimiento administrativo

y canceló las medidas provisionales teniendo en cuenta que, durante la investigación de las licitaciones públicas, no se encontró ninguna desaprobación con la ley ni razones para la imposición de la medida correctiva o sanción y que la oferta es totalmente compatible con la ley, es no discriminatoria y es transparente. "Bosques de la Rep. Checa" iniciaron inmediatamente a continuación un proceso de firma de contratos. Aunque la investigación de la oficina ÚOHS dio lugar a retrasos en el cierre de contratos y de esa manera en retrasos en el comienzo del trabajo en el bosque con el riesgo de impactos negativos en el mercado de la madera al principio del año, la empresa adquirió una serie de medidas cautelares para la mitigación de los impactos negativos en el suministro de madera al mercado.

En la fractura de los meses de junio y julio, la región de Zlín fue afectada por inundaciones. Gracias a la oportuna intervención de "Bosques de la Rep. Checa" y a una progresiva previsión de la apertura de los cursos de agua fueron minimizados los daños, los cuales a pesar de ello alcanzaron los 40 millones de coronas checas. A lo largo de todo el año los trabajos continuaron en la eliminación de los daños de las inundaciones de los años 2009 y 2010 y también tuvo lugar una preparación y construcción de medidas de control de inundaciones en los flujos administrados.

En agosto del 2011 "Bosques de la Rep. Checa" presentaron al público un documento con el nombre de "Programa 2020 – aseguración del interés público en Bosques de la Rep. Checa". El programa tiene como objetivo el apoyo y el desarrollo de los programas públicos beneficiosos en los próximos 10 años. Está destinado al financiamiento de proyectos específicos de inversión y de no inversión para la regeneración y mantenimiento de las rutas turísticas, senderos educativos, lugares de descanso, vertientes, monumentos culturales, medidas para la protección de la biodiversidad y muchas otras actividades en los bosques gestionados por "Bosques de la Rep. Checa". En este Programa 2020 "Bosques de la Rep. Checa" planean invertir, en el periodo de los próximos 10 años, por lo menos 600 millones de coronas checas.

El año 2011 fue designado por la Organización de las Naciones Unidas (ONU) como el Año Internacional de los Bosques. "Bosques de la República Checa" se unieron activamente a este año internacional. En todo el año 2011 la empresa organizó decenas de eventos educativos para el público en general sobre los bosques y la silvicultura en forma de conferencias, debates, caminatas, pero ante todo en eventos como "Un Día con Bosques de la Rep. Checa". Estos eventos tuvieron gradualmente lugar en todas las regiones. "Bosques de la Rep. Checa" culminaron el año 2011 con el resultado económico antes de impuestos de 5.275 mil millones de coronas checas. La producción total alcanzó 8.02 millones de metros cúbicos de madera, se logró regenerar 13.7 mil hectáreas de bosque, del cual la parte de mejora y de reforzamiento de maderas durante la primera renovación fue de un 43% y la formación urgente de vegetación hacia los 40 años de edad fue realizada en 41 mil hectáreas de bosque.



## Notes





