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Annual Report — 2016

Lesy České republiky, s.p.

Introductory Remarks



Dear Colleagues and Readers,

With respect to the management of forestry activities, 2016 was affected by the necessary felling of trees afflicted with the bark beetle, and the resulting adjustment of planned logging. Of the 8.1 million cubic meters of trees logged, over half consisted of salvage felling, and this wood was sold at a substantially lower price. Nevertheless, the pre-tax profit of 4.98 billion crowns was among the best in the history of Lesy ČR. Especially in the second half of the year, the company faced a difficult situation on the lumber market. The average price of a cubic meter of wood fell from 1,423 crowns in 2015 to 1,252 crowns. The company transferred 5.6 billion crowns to the state budget and has since 2014 has transferred over 20 billion crowns.

The company continued the restitution process with churches and religious groups and by the end of 2016 had resolved 99 percent of restitution requests. Lesy ČR handed over 128,313 hectares of land and 367 buildings and thus lost one tenth of the forest area it manages. That is why we also started taking an active interest in the purchase of forested land with the aim of unifying our property holdings, joining boundaries and consolidating state forest land. Lesy ČR guarantees all current owners considering selling that the land will be used in an effective and environmentally-friendly manner without a fixation on short-term return on investment. The company operates to ensure healthy forest growth in the future with a functional ecosystem.



Once again, many forest tenders were announced and successfully concluded. This involved 48 contracts for 3.4 billion crowns without VAT. All work began in January.

Last year the company also continued to streamline its operations. For example, the outsourcing of some services saved the company tens of millions of crowns compared to the previous year. In accordance with the principles of corporate responsibility, we continued to develop numerous activities in this area. Lesy ČR invested 27 million crowns into a seasonal employment program for the unemployed. 290 people were hired last year and the program continues. Forestry schools also received support. Particular attention is being paid to apprenticeships, since for several years now there has been a lack of qualified workers in the market. This trend is not favourable for the industry. Therefore, Lesy ČR is attempting to encourage schools and pique the interest of elementary school students. Among other activities, for the second year the company continued to clear the Boří Forest in Břeclav of World War II munitions. More than three million was invested to clean up unauthorized dump sites, and a total of 42 million crowns was invested in the regions through Agenda 2020 to maintain small forestry buildings, historical and cultural buildings, forest rest areas, retreats and the forest information system. The company traditionally works with the Czech Tourist Club to create and maintain signs and markings for hiking trails. 2,500 rescue points were established. Lesy ČR also donated wood to the Wallachian Open Air Museum to rebuild the Libušín Cottage that burned down.

With respect to company employees, most wardens received Škoda Yeti off-road vehicles to use in the field. The rest will receive vehicles in 2017, when we will also be replacing company uniforms and going with a new look from the winning bidder. Another tender was held in 2016 to design the new company headquarters in Hradec Králové, where colleagues from the regions will meet daily with their contractual and business partners. We want to construct the building from 2019-2020. The design is timeless and beneficial for the public, both in the construction of a necessary parking garage and the park space that will surround the building.

Each year we focus on a particular species of tree. In 2016 it was the wild cherry, originally an uncultivated species that grows in deciduous groves, lowlands and even mountain areas where other fruit trees do not thrive. People don't eat the fruit but prize the wood highly. If you plant wild cherries, your descendants will certainly thank you for it.

And I also give thanks – to all my colleagues for their cooperation.

Daniel Szórád
Chief Executive Officer



Highlights of the Year

Each year the company devotes increased attention to certain tree species. In 2016 the company declared the year of the wild cherry.

During this past year the company was responsible for numerous activities, not just in the entrepreneurial sphere of the forestry sector and with contractual partners, but to a significant degree also for all citizens of the CR by supporting recreational activities and contributing to the state budget.

On the whole we believe 2016 was very successful. Company operations were significantly impacted by the weather, and even more by market demands. With respect to climate conditions, the year was relatively favourable. Aside from East Bohemia and the Vysočina region, there were no major climate extremes such as the drought and wind storms seen in the previous year. Nevertheless, the northeast and central Moravian regions experienced cumulative problems arising from the lack of precipitation in past years and weakened spruce stands continued to be susceptible to biotic pests, especially honey fungus and bark beetles. On the other hand, increased precipitation throughout the year positively impacted the viability of newly planted seedlings of all forest tree species. The share of salvage felling in northeast and central Moravia rose to 54%, a year-over-year increase of 6% due to the processing of dead and beetle-infested trees. In 2016 the company completed all of its planned cultivation and harvesting activities, fulfilling the mandatory provisions of the forest management plans as specified by the Forest Act and other legislation.

An important fact fundamentally impacting the operations of Lesy ČR throughout the entire year was the situation on the Czech lumber market. In the interest of maintaining balanced supply and demand for the entire year, in the first quarter the company limited planned spruce logging and prioritized the salvage felling and processing of dead and beetle-infested trees. In the third quarter, this restriction on planned spruce logging was lifted. The company thus stabilized the market, did not exceed annual targets and did not flood the market with excess supply. However, this did alter the composition of lumber being produced. The share of dead and beetle-infested trees increased, while the share of standard quality lumber decreased. In aggregate, this was reflected in a drop in average price per cubic meter of lumber of up to a few hundred crowns.

Conceptually and strategically, the company was able to assess its contractual partners in 2015 with respect to compliance with the general, production and economic parameters stipulated in the contracts concluded. This historic first assessment was completed by the end of April, 2016. The results of the assessment are reflected in the parameters set for future forestry contracts to improve mutual contractual relations.



Like every year, a number of forestry tenders were announced in 2016 for contracts beginning in 2017. In addition to 28 comprehensive forestry contracts the company also tendered six contracts for logging work and 14 contracts for silviculture. In late September, the Office for the Protection of Competition (ÚOHS) began administrative proceedings to examine the documentation and procedure of Lesy ČR in awarding comprehensive forestry and logging contracts for 2017. In November, this anti-monopoly office stopped the proceedings after finding them to be unwarranted. The company then invited the winners of the tenders to sign the contracts for the work to begin in January.

The company continued to upgrade its aging fleet of vehicles and for the first time ever began providing its wardens with off-road vehicles. In 2016 wardens received 200 new cars. In addition, the company finished selecting the new design of its forestry uniform. And a major event was the international public architecture competition to design the new administrative building of Lesy ČR in Hradec Králové. The proposed design is an exemplary demonstration of the use of wood in construction.

The company continued to meet its obligations of corporate responsibility, especially by employing 290 seasonal workers referred by the labour office. Together with the Ministry of Agriculture, Lesy ČR introduced a concept to work with secondary schools and forestry training centres and provide free, practical training on land managed by Lesy ČR. In cooperation with fire departments, the company installed 2,500 new rescue points on forest land it manages. Another phase was completed to decontaminate the Boří Forest in South Moravia from World War II munitions, over 50 hectares of forest were cleared and the clean-up continues.

In 2016 Lesy ČR transferred CZK 5.6 billion to the state budget under the account of the Czech National Bank. These funds will be used to benefit all the citizens of the Czech Republic. Lesy ČR finished 2016 with a pre-tax profit of CZK 4.98 billion. Total logging reached 8.1 mil. m³ of lumber, 11,700 ha of forestland were recovered, of which the share of amelioration and stabilization tree species at the first restoration was 46.3%, and 26,800 ha of stands under 40 were cleaned and thinned.



Corporate Profile

Basic Provisions

1. Legal Form

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

Company management in 2016 was also governed by the charter published by the Ministry of Agriculture of the Czech Republic under number 49925/2015-MZE-13221 on 9 October 2015 and effective as of 1 November 2015, and further by the statute issued on 11 January 2016 under number 69603/2015-MZE-13221 effective on the same date. This document was subsequently replaced by the statute issued on 25 October 2016 under number 59085/2016-MZE-13221 effective as of 1 December 2016 and again replaced by the statute issued on 11 January 2017 under number 73486/2016-MZE-13211 and effective as of this date.

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

Přemyslova 1106/19, Nový Hradec Králové, 500 08 Hradec Králové

3. Primary Business Activity

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



4. Other Areas of Business

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

5. Business Principles

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

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

The aim of forestry work planning and implementation is to establish harmony between the need for, creation of and use of the company's own funds and to seek the most economical use of effective appropriations from the national budget and other sources. The specific elements of LCR'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 runs the company, is responsible for its activities and acts on its behalf in all matters. The Chief Executive Officer is the company's "governing body" and is described as such in the Commercial Registry.

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

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

Unit Manager
Regional Head Office Manager
Forest Manager
Water Manager

2. Company Management as of 31 December 2016

The company's management consists of the CEO and the heads of various sections, which are:

Production and Technical Director
Administrative Director
Business Director
Chief Financial Officer

3. Decision Making

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

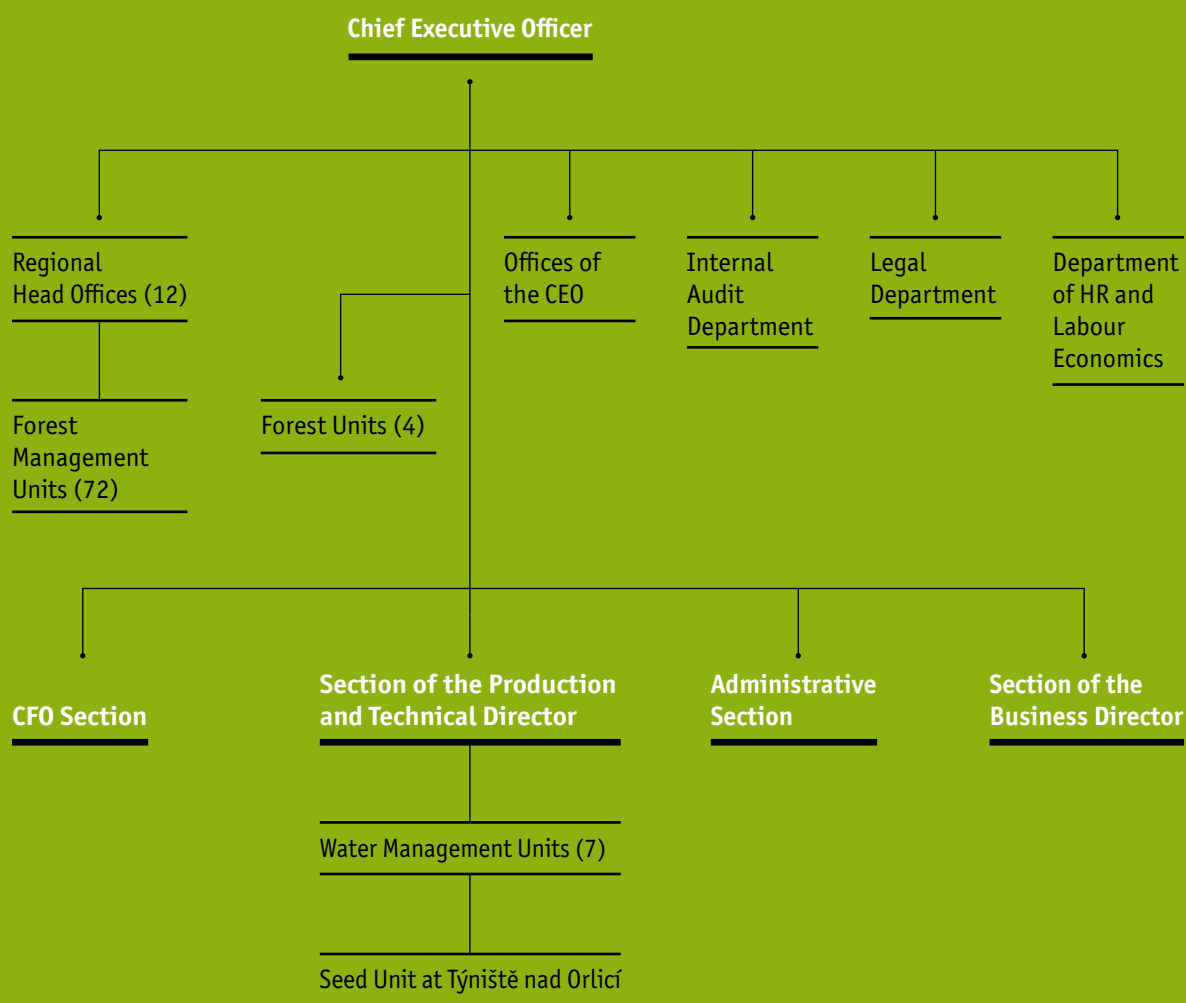
4. Structure of LCR

LCR 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.

Overview of Number of Organizational Units as of 31 December of Each Year

Year	2012 |	2013 |	2014 |	2015 |	2016 |
RHO	13 |	13 |	13 |	12 |	12 |
FMU	77 |	77 |	77 |	74 |	72 |
LU, SU	6 |	6 |	5 |	5 |	5 |
WMU	6 |	6 |	6 |	6 |	7 |





Status as of 31 December 2016

Central Head Office

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

Sections and Departments at the Central Head Office

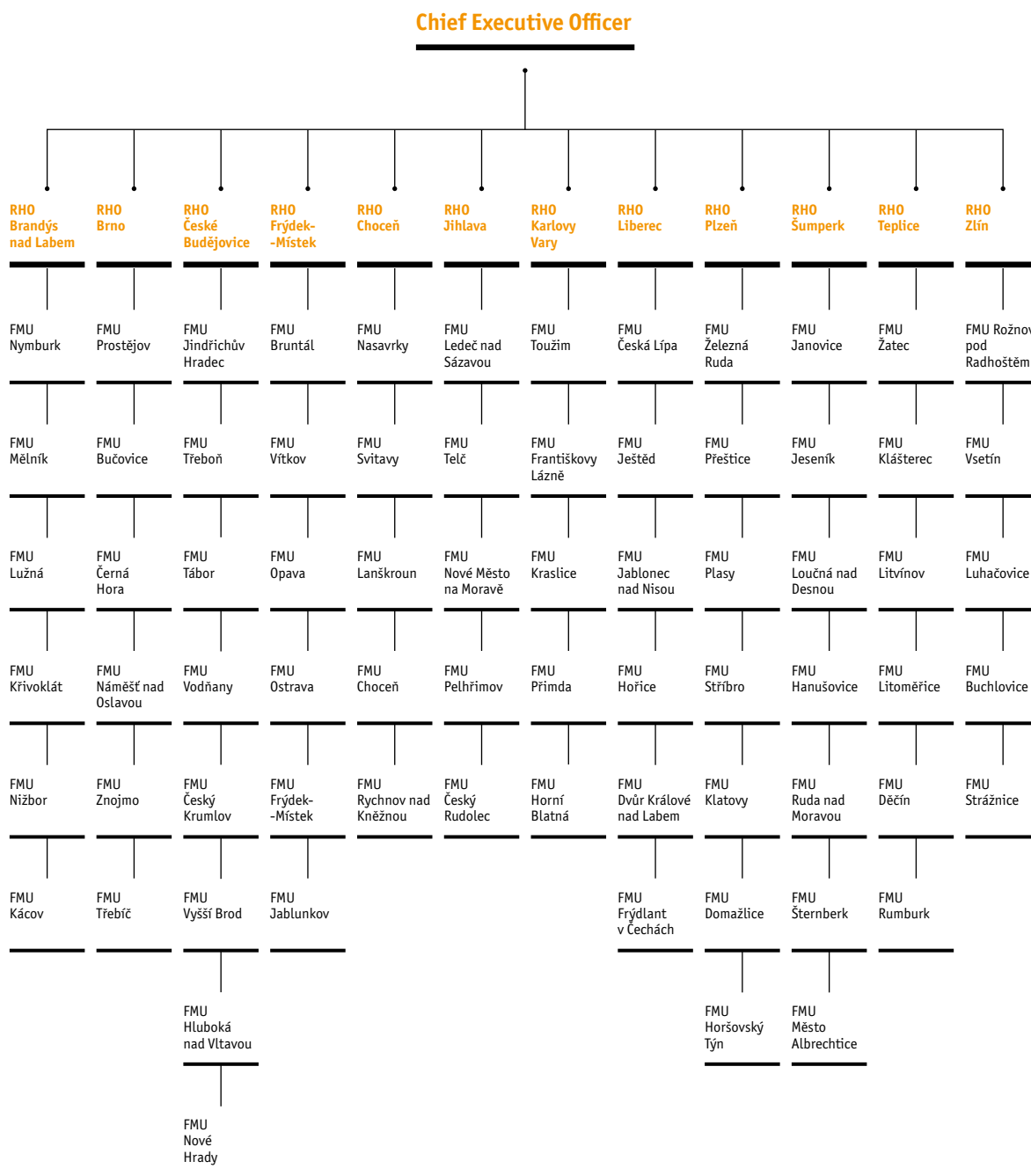
Specialized tasks at the Central Head Office are performed by individual sections, which are the CEO and CFO sections, the section of the Production and Technical Director, the administrative section and the section of the Business Director. Sections are divided into departments, which may be further 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 12 regional head offices, 4 forest units, 1 seed unit and 6 water management units. The regional head offices directly manage 72 forest management units. The sections and departments guide the organizational units within the spheres of their expertise.



Organizational Structure

Organizational Structure of Regional Head Offices as of 31 December 2016



Overview of Assets Managed by LCR



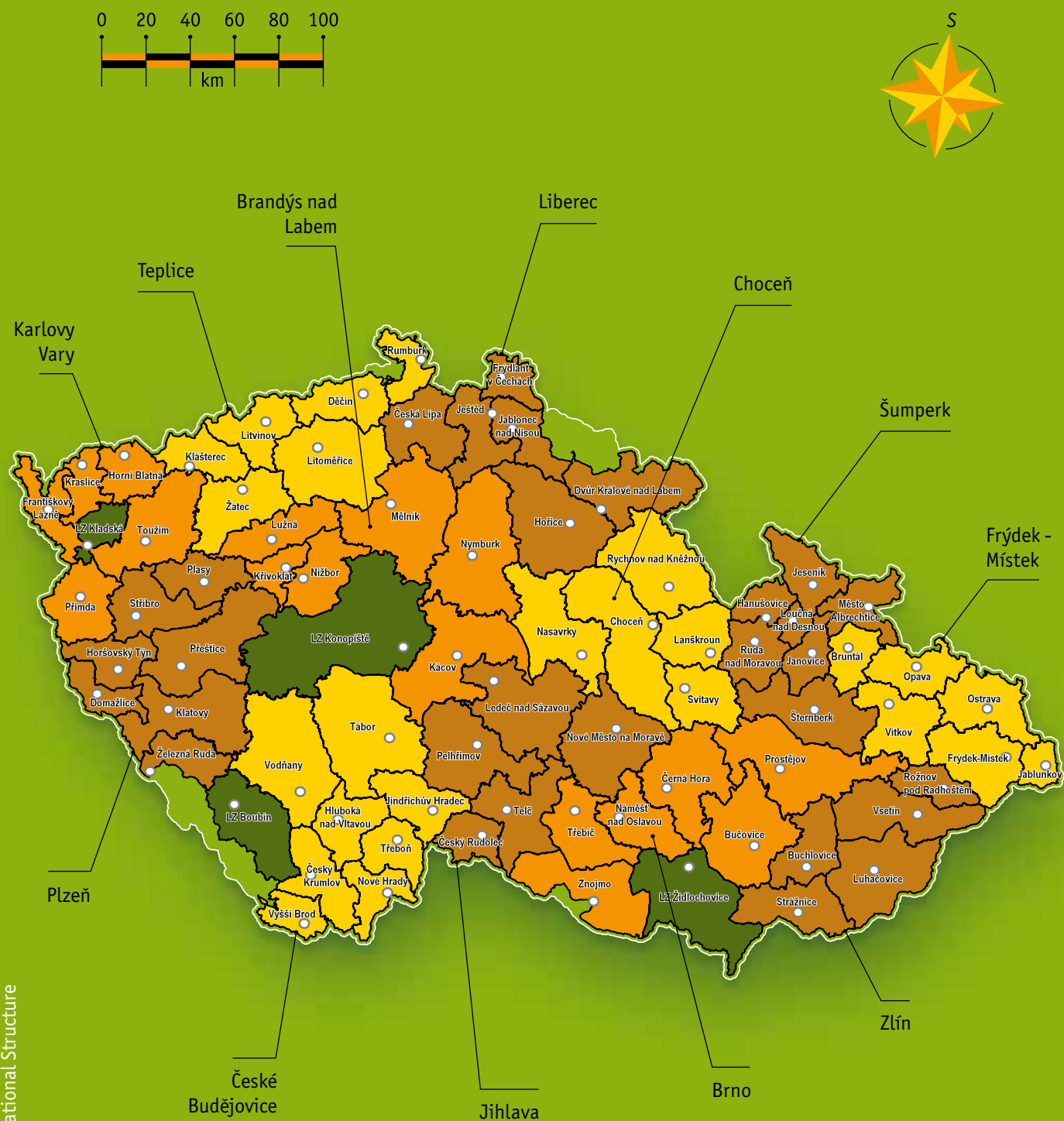
○ Boundaries of forest management units/forestry units

● Czech forests managed by LCR (31 December 2016)

● Forests under other ownership or management



Organizational Map of LCR



Corporate Governance

Governing Body and Its Representatives as of 31 December 2016

Daniel Szórád, Ph.D.
Chief Executive Officer

Václav Lidický
Production and Technical Director

Igor Kalix
Administrative Director

Radovan Srba
Business Director

Karel Buchta, Ph.D.
Chief Financial Officer

Management of Organizational Units as of 31 December 2016

Regional Head Offices

Jan Ševčík, Regional Head Office Director in Frýdek – Místek

Tomáš Pospíšil, Regional Head Office Director in Šumperk

Martin Pavlíček, Regional Head Office Director in Zlín

Dalibor Šafařík, Ph.D., Regional Head Office Director in Brno

Jan Sovák, Regional Head Office Director in Jihlava

Daniel Vlkánova, Ph.D., Regional Head Office Director in Choceň

Jiří Makovec, Regional Head Office Director in Brandýs nad Labem

Radek Pomije, Regional Head Office Director in České Budějovice

Ivan Klik, Regional Head Office Director in Plzeň

Miroslav Rozner, Regional Head Office Director in Karlovy Vary

Zdeněk Růžek, Regional Head Office Director in Teplice

Ludvík Řičář, Regional Head Office Director in Liberec

Forest Units

Miroslav Svoboda, Forest Unit Director in Židlochovice

Jaromír Kříha, Forest Unit Director in Boubín

Miroslav Jankovský, Forest Unit Director in Konopiště

Jan Němický, Forest Unit Director in Kladská

Seed Unit

Zuzana Neznaiová, Seed Unit Director at Týniště nad Orlicí



Corporate Governance

Supervisory Board as of 31 December 2016:

Jaromír Vašíček - Chairman
Jaromír Kříha - Vice-Chairman
Miroslav Jankovský
Zdeněk Adamec
Patrik Mlynář
Petr Moravec
Miloš Pochobradský
Tomáš Vrba
Jan Závěšický

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

Personnel Changes on the Supervisory Board as of 1 January 2016 to 25 April 2017:

On 1 April 2016 Supervisory Board member Jiří Jirsa resigned his function. As of 11 April 2016 Zdeněk Adamec was appointed to the Supervisory Board.

Audit Committee as of 31 December 2016:

Josef Jaroš - Chairman
Jaromír Vašíček - Vice-Chairman
Tomáš Vrba

Personnel Changes on the Audit Committee from 1 January 2016 to 25 April 2017:

From 1 January 2016 to 25 April 2017 there were no changes on the Audit Committee.

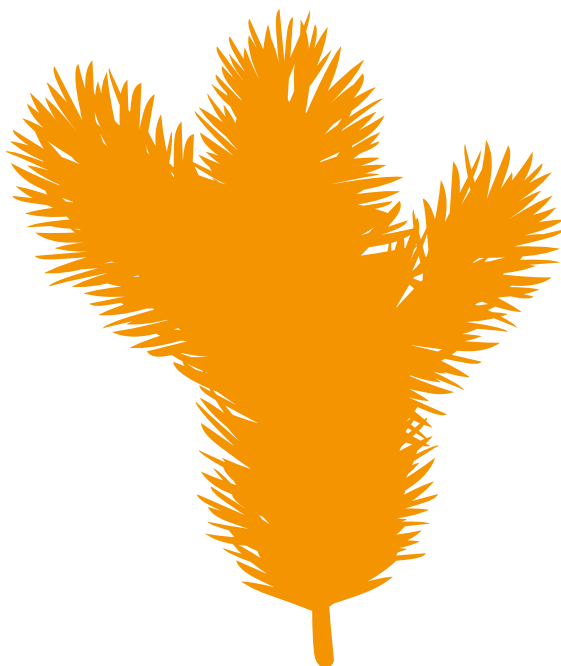


Core Indicators

Year		2012	2013	2014	2015	2016
Area of forestland	ths ha	1,338	1,337	1,287	1,228	1,199
Surface area of stands	ths ha	1,300	1,300	1,253	1,196	1,166
Logging including logging on non-company land	ths m ³	7,844	8,040	7,977	7,703	8,104
Logging per ha of stand area	m ³	6	6	6	6	7
Reforestation	ha	13,100	13,910	13,632	11,612	11,624
Tending of young forest stands	ha	40,152	40,072	40,367	33,586	31,050
Total revenue	mil. CZK	13,113	14,050	13,564	13,133	11,638
Revenue from operations	mil. CZK	12,256	12,163	12,499	12,273	11,466
Total costs	mil. CZK	8,705	10,060	6,746	7,738	7,479
Operational costs	mil. CZK	7,162	7,563	4,838	5,916	6,620
Staff costs	mil. CZK	1,601	1,656	1,713	1,735	1,802
Profit (loss) after tax	mil. CZK	4,408	3,990	6,818	5,395	4,159
Total assets	mil. CZK	81,830	79,853	76,147	70,338	67,513
Fixed assets	mil. CZK	69,352	67,680	64,369	62,153	61,284
Current assets	mil. CZK	12,392	12,056	11,685	8,123	6,128
Equity	mil. CZK	76,964	74,804	73,022	67,906	65,216
Liabilities (debt)	mil. CZK	4,780	4,956	3,045	2,295	2,209
Cash flow from operations	mil. CZK	1,712	7,529	7,740	5,767	4,409
Cash flow from investment	mil. CZK	-1,048	-910	-925	-1,173	-1,293
Cash flow from financial operations	mil. CZK	13	-6,010	-6,504	-8,197	-5,630
Number of employees	persons	3,213	3,271	3,335	3,376	3,475







Annual Report — 2016

Lesy České republiky, s.p.

Report on Company Business Activities

Property

As of 31 December 2016 the company had assets, including forestland, with a net worth of CZK 67.5 bil. Fixed assets amounted to CZK 61.3 bil., with land, primarily forestland, accounting for CZK 48.2 bil. The value of all land declined by CZK 1.0 bil. due to church restitution and its share in total assets as of 31 December 2016 was 71.4% (in 2015: 70.0%, in 1995: 86.4%). The reason for this increasing share is the reduction in financial assets due to the transfer of CZK 5.6 bil. to the state budget. The company's total assets declined by CZK 2.8 bil. (i.e. by 4.0%). Total assets adjusted for the value of forestland in 2016 declined by CZK 1.8 bil., i.e. by 7.9%.

Total Assets (in millions of CZK)

Year	2014	2015	2016
Total assets	76,147	70,338	67,513
Value of forestland	49,637	47,499	46,484
Total assets not including forestland	26,510	22,839	21,029

Assets

During the course of 2016 there were changes in asset structure. There was a decline in the absolute value of financial assets of CZK 3,066 mil. (i.e. by 33.1%), mostly short-term, due to the transfer of CZK 5.6 bil. to the state budget with relatively minor changes to other items. The value of short-term receivables increased by 43.9% to a final value of CZK 1.848 bil. The increase was caused by higher year over year sales of lumber in the 4th quarter. Inventory increased to CZK 159 mil. There was a change in fixed assets, where the value of forestland declined by CZK 1.001 mil.

Total Assets (in millions of CZK)

Year	2014	2015	2016	16-15	%
Total assets	76,147	70,338	67,513	-2,825	-4.0
Fixed assets	64,369	62,153	61,284	-869	-1.4
Intangible fixed assets – net	317	292	292	0	0.0
Tangible fixed assets – net	60,961	59,288	58,915	-373	-0.6
- land	51,319	49,202	48,201	-1,001	-2.0
Long-term investments	3,091	2,573	2,077	-496	-19.3
Current assets	11,685	8,123	6,128	-1,995	-24.6
Inventory	160	152	159	7	4.6
Long-term receivables	0	2	6	4	200.0
Short-term receivables	1,461	1,284	1,848	564	43.9
Short-term financial assets	10,064	6,685	4,115	-2,570	-38.4
Accruals	93	62	101	39	62.9



Liabilities

Equity decreased by CZK 2.690 bil. There was a reduction in capital funds of 1.117 bil. (church restitution) and funds from past profit of CZK 1.048 bil. (primarily the draw of CZK 823 mil. from the investment development fund to cover expanded reproduction for 2016 and the transfer of CZK 159 mil. to the founder's fund).

Provisions are lower by CZK 147 mil., due to the planned release of reserves for cultivation (CZK 309 mil.) and reserves for timber price indexing of CZK 10 mil. due to the limitation of suits brought. On the other hand, reserves of CZK 172 mil. were created to profitably resolve disputed assets tied up in church restitution. Liabilities increased by CZK 61 mil. Year over year profit declined by 22.9% (by CZK 1.236 bil.).

Total Liabilities (in millions of CZK)

Year	2014	2015	2016	16-15	%
Total liabilities	76,147	70,338	67,513	-2,825	-4.0
Equity	73,022	67,906	65,216	-2,690	-4.0
Registered capital	12,159	12,659	13,370	711	5.6
Capital funds	49,350	47,193	46,076	-1,117	-2.4
Funds created from profit	4,668	2,659	1,611	-1,048	-39.4
Retained earnings	27	0	0	0	0.0
Profit for the year	6,818	5,395	4,159	-1,236	-22.9
Liabilities (debt)	3,045	2,295	2,209	-86	-3.7
Provisions	1,708	976	829	-147	-15.1
Payables	1,337	1,319	1,380	61	4.6
Accruals	80	137	88	-49	-35.8



Report on Company Business Activities

Costs

In 2016 there was a reduction in total costs of CZK 259 mil. (3.3%). Costs from financial activities were lower by CZK 689 mil. especially due to the lower volume of financial operations compared to the previous year. Unlike the drop in financial costs there was an increase in depreciation and adjustments for operations (CZK 98 mil) and staff costs (CZK 67 mil.). Staff costs increased 3.9% primarily due to the increasing number of employees (additional workers in the Ore Mountains (Krušné hory), public work crews, adjuncts) and the increase in average wage resulting from the collecting bargaining agreement. There was a year over year decline in the draw of provisions by CZK 585 mil., mainly for silviculture.

Total Costs (in millions of CZK)

Year	2014	2015	2016	16-15	%
Total costs	6,746	7,738	7,479	-259	-3.3
Costs of operations	4,838	5,916	6,620	704	11.9
Power consumption	4,241	4,016	4,010	-6	-0.1
Change in inventory	-1	9	-15	-24	-259.5
Capitalization	-13	-9	-6	3	29.8
Staff costs	1,713	1,735	1,802	67	3.9
Operational adjustments	482	596	694	98	16.5
Other operating expenses	-1,585	-431	135	566	131.3
Financing costs	763	723	34	-689	-95.3
Income tax	1,145	1,099	825	-274	-24.9

Direct Cultivation Costs

Year	Total in millions of CZK			CZK per 1 ha of forestland		
	2014	2015	2016	2014	2015	2016
Total	1,856	1,717	1,766	1,442	1,398	1,473
Reforestation	648	603	602	503	491	502
Care of young plantations	736	682	668	572	555	557
Clearing (juvenile thinning)	144	129	118	112	105	98
Forest protection	94	98	162	73	80	135
Fertilization and liming	6	5	5	5	4	4
Other cultivation care	228	200	211	177	163	176



Revenue

In 2016 there was a decline in total revenue by CZK 1.495 bil. (11.4%). Operating revenue from the sale of own products and services fell by CZK 965 mil., caused by the shift from planned logging to salvage felling of lower quality timber. Revenue from financial activity decreased year over year by CZK 688 mil. to a total of CZK 172 mil. This drop was due to the lower volume of financial operations. Revenue from the sale of fixed assets and material increased by 34.1% (CZK 77 mil.) and primarily involved the sale of unnecessary buildings.

Total Revenue (in millions of CZK)

Year	2014	2015	2016	16-15	%
Total revenue	13,564	13,133	11,638	-1,495	-11.4
Revenue from operations	12,499	12,273	11,466	-806	-6.6
Sales of products and services	12,101	11,845	10,880	-965	-8.1
Sales of goods	3	4	4	0	0.5
Other operating revenue	395	424	583	159	37.4
Revenue from financial activity	1,065	860	172	-688	-80.0
Revenue from financial investments - shares	1	3	3	0	8.0
Interest and similar revenue	293	242	145	-97	-40.1
Other financial revenue	771	615	24	-591	-96.1

Earnings

Profit after tax for 2016 was CZK 4.984 bil.

Profit after tax declined year over year by CZK 1.236 bil. The drop in profit compared to 2015 was primarily due to the decline in timber sales by CZK 957 mil. and the year-over-year change in provisions, which was CZK 585 mil.

Operating profit in 2016 was CZK 4.846 bil., which represents a decline of CZK 1.511 bil. compared to 2015.

Financial profit increased year over year by CZK 1 mil. reaching CZK 138 mil. in 2016.

Earnings for the Accounting Period (in millions of CZK)

Year	2014	2015	2016	16-15	%
Net profit/loss for the period	6,818	5,395	4,159	-1,236	-22.9
Profit/loss before tax	7,963	6,494	4,984	-1,510	-23.3
Operating profit/loss	7,662	6,357	4,846	-1,511	-23.8
Financial profit/loss	301	137	138	1	0.7



Contractual Relations in Forest Activities

In 2016 the company continued to tender contracts in the same manner as previous years in accordance with the Concept of the Ministry of Agriculture for the business policy of Lesy ČR, s. p. drafted in 2011 (hereinafter the "Concept").

Tenders 2017+

On 22 June 2016, LCR announced an open, over-limit tender to provide forestry activities on part of the forestland it manages beginning on 1 January 2017 in which forestry companies competed for a total of 28 areas (contracted territorial units). In this case it was a comprehensive contract encompassing cultivation, harvesting and times sales for a period of five years (from 1 January 2017 to 31 December 2021). The annual volume of logging tendered was 1,122,000 m³. In addition, at the same time LCR also announced a logging contract (TČ 2017+) for six smaller CTUs with a total annual harvest of approx. 196,000 m³ and another 14 contracts for cultivation only (PČ 2017+) which are territorially incorporated in comprehensive or logging CTUs. As in 2016, this division was made to enable the participation of smaller local companies that only process lumber or only provide cultivation services. In this way, LCR can assess the prospects for split contracts with respect to the suitability, interest and success of smaller companies. As with the comprehensive contracts, the split contracts were for 5 years to provide our contract partners the security of longer-term cooperation. All tenders were conducted in accordance with the Public Procurement Act. A public ceremony was held on 19 September 2016 when the bid envelopes were opened and the total price of bids was announced.

26 companies took part in the comprehensive tender and together submitted a total of 200 bids.

The total anticipated value of the comprehensive public contract was CZK 2.38 bil. without VAT.

Summary Overview of Contracts for 2017 and Number of Bids Submitted

Contract	No. of Parts	Anticipated Duration (Number of Months)	Anticipated Logging (tho m ³)	Anticipated Value of Services (mil. CZK)	Number of Bidders	Number of Bids	Number of Bids per Part
T 2017+	28	60	5,608	2,381	26	200	7.1
L 2017+	6	60	982	129	18	44	7.3
C 2017+	14	60	0	376	23	69	4.9
Total	48	60	6,590	2,886	36	313	6.5



The only bidders asked to sign contracts by LCR were those finishing first in the tender. Most contracts were signed during December 2016. Contracts were signed with a total of 13 subjects. In three cases, the winning bidder refused to conclude a contract. For this reason LCR cancelled the public contracts and on 15 December announced a new open tender to award these.

The table below shows the number of contracts and the volume of annual logging tendered.

Company Name	Number of Signed Contracts				Annual Logging Volume (th ^s m ³)
	2017 C	2017 L	2017+	Total	
PETRA spol. s r.o.		2	8	10	836
Stora Enso Wood Products Ždírec s. r. o.		1	2	3	141
PROGLES s. r. o.	1	1	4	6	123
UNILES, a. s.	2	2	6	10	111
T.E.P. HOLZ, s. r. o.			2	2	53
Kloboucká lesní s. r. o.	1		1	2	32
HEDERA ZIMA, spol. s r.o.	1		2	3	22
DEBLICE - lesy s. r. o.	1			1	0
KHL- EKO, a. s.	1			1	0
LESCUS Cetkovice, s. r. o.	4			4	0
Lesní společnost Litoměřice, a. s.	1			1	0
Lesostavby Frýdek-Místek a. s.	1			1	0
Milan Maršalík	1			1	0
Sum total	14	6	25	45	1,318

Some Changes in Tenders for 2017+

The modification of tenders for 2017 was discussed within expert work groups that made recommendations for modifying the conditions of tendered contracts. Work groups made up of representatives from LCR, the Ministry of the Environment, universities and associations of forestry companies met to discuss contract-related topics (price adjustments, contract balance, social aspects). The modifications to contract conditions stipulated in contracts as of 1 January 2017 were presented to the professional public by company management on 30 May 2016.

- One measure enabling the participation of smaller companies is the division of large contracted territorial units (CTUs) in newly tendered contracts, i.e. increasing the number of CTUs and decreasing the volume of work per CTU (the original 25 CTUs in the tenders for 2017+ were divided into 34 units). In addition, 14 CTUs were tendered separately for just cultivation work.
- The share of auctions for standing timber set aside from lumber sold through comprehensive contracts was increased another 5% compared to last year to a total of 30% of planned sales per CTU.
- Parts of contracts were defined as calamitous or non-calamitous with the option of terminating the contract by either party in the event there is a change in the contract between these two regimes of logging.



Contractual Relations in Forest Activities

Other Forestry Tenders in 2016

Largely in part due to the unexpected bark beetle infestation in northern Moravia, several contracts were completed and new contracts tendered sooner than expected. Specifically this involved FU Albrechtice and Bruntál, where the period from June to the end of 2016 was bridged, and FU Vítkov and Frýdek-Místek, where contracts are expected to run until the end of 2018. This concerned fulfilment of contracts originally for CTU Hranice and CTU Frenštát pod Radhoštěm (CTUs that were split up because of organizational changes eliminating FU Frenštát pod Radhoštěm).

The contract for CTU Jeseník was also duly completed in late 2016, although the contract was not announced until the second half of the year once there was more information known about settlement of the restitution claims in this CTU. The contract was awarded for one year, so as to match the contract period for CTU Javorník. The Jeseník contract was tendered at the same time as the contracts for CTU Frenštát pod Radhoštěm and CTU Olšovec. The contracts for this work effective from 1 January 2017 were signed with the winning bidders at the end of 2016 or early January 2017. The original contract for CTU Olšovec was terminated at the end of August due to non-performance so this was a “freshly” concluded contract effective from 1 July 2016 arising from splitting up CTU Hranice.

At the end of 2015 there was an agreement to cancel the contract for CTU Stříbro from the restricted tender (UZŘ) of 2012, the new contract awarded in an open tender ran from 1 May to the end of 2016. This contract was also part of the OZŘ 2017+ cycle.

Recapitulation of LCR Tenders for Comprehensive

Forestry Contracts, Prepared Based on the Concept for 2011 to 2016:

Type of Tender	No. of Parts to the Public Contract	Number of Contracts Concluded
Restricted tenders in 2012+ contracts from 1 January 2012	117	94
Open tenders in 2012+ contracts from 1 July 2012	24	24
Restricted tenders in 2013+ contracts from 1 January 2013	31	30
Open tenders in 2013+ contracts from 1 June 2013	32	31
Open tenders in 2014+ contracts from 1 June 2014	31	30
Open tenders in 2015+ contracts from 1 June 2015	30 (+3C+3L)	29 (+3C+3L)
Open tenders in 2016+ contracts from 1 June 2016	36 (+17C+4L)	36 (+17C+4L)
Open tenders in 2017+ contracts from 1 January 2017	28 (+14C+6L)	25 (+14C+6L)



An overview of the course of contracts including future forecasts is depicted in the following diagram:

Year	2013		2014	2015	2016		2017	2018	2019	2020	2021	2022
Month	1-5	6-12										
	RT 2012 (43*)		(29*)	(24*)	(9*)	(8*)						
	OT 2012 (16*)		(13*)	(8*)	(4*)							
	RT 2013+ (30*)											
	CPC (32*)	OT 2013 (31*)	(22*)	(13*)	(4*)							
	OT 2013 Velká Chmelištná (1*)											
		CPC Račice	OT Račice (1*)									
			OT 2014+ (30*)		(29*)	(28*)						
			OT Luhačovice (1*)									
			OT Ostravice (2*)	OT 2015+ (26* + 3L)		(24*)						
				CPC (4*)	OT from July 2015 (10*)	bark beetle	(1*)					
					OT2016+ (36* + 4L)							
						(3*) OT 2016 Ost (1*)						
							OT 2017+ (25* + 6L)					
							OZT 2017+ (3*)					
							(4*) OT 2017 Dod (3*)					
								OT 2018+ (33*)				
Total CTU	122		129	141	144	153	154	163				

Revised 25/1/2017

- Tendered contracts
 - Ongoing tenders
 - Projected
 - Terminated contracts
- (*) Number of CTU



Commercial Activity – Sales of Timber and Logging Residues

Sale of Timber

In 2016, 91% of the wood sold by forest management units was standing timber, where the buyer covered the costs for all logging and transportation. The greatest volume (69%) was sold through five-year comprehensive public contracts. The remaining 22% was sold through auctions, either in person or online. Auctions offered one-time contracts for several hundred m³.

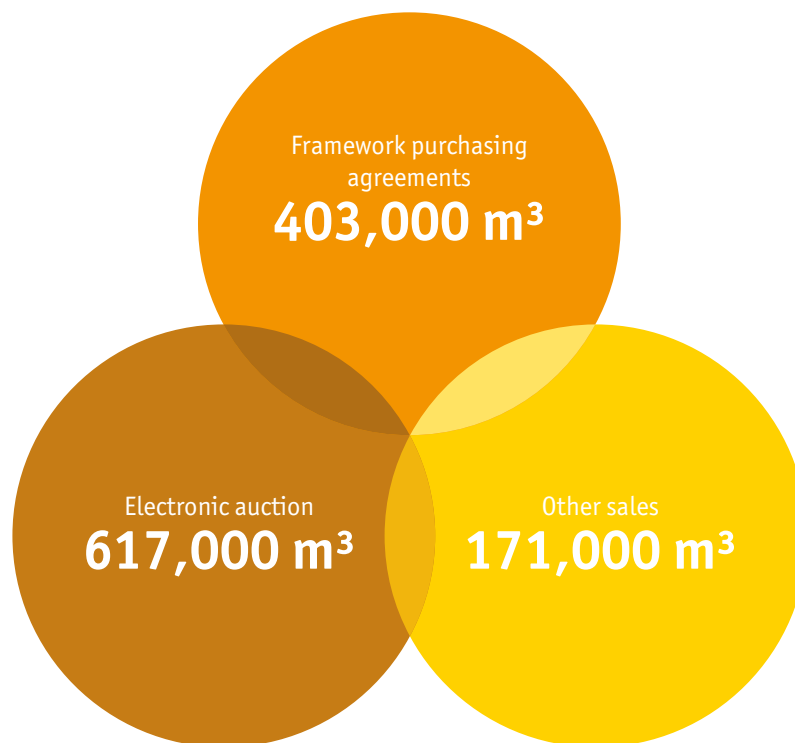
Wood from forest unit sources was sold in the form of cut lumber totalling 6% of total sales. Forest units cover the costs of all logging activities. Sales were made through electronic auction or regional sale.

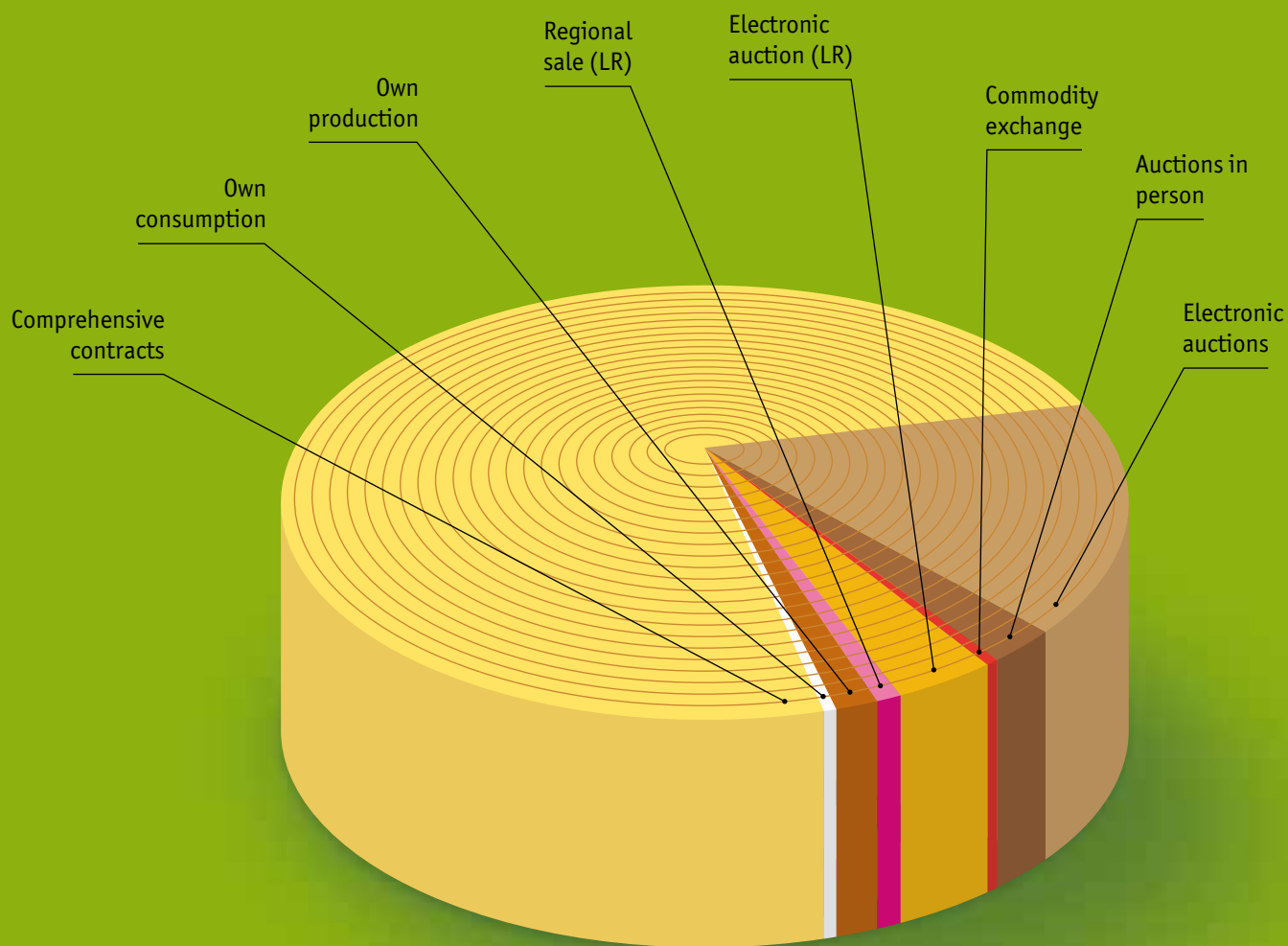
The remaining 3% of wood sales were “cut-and-carry” and own internal consumption. Cut-and-carry sales are where the public is offered lower quality wood as fuel for personal consumption.

Sale of Logging Residues

During the course of 2016 total sales of logging residues were 1,191,000 m³. Logging residues were sold through three sales channels:

- Framework purchasing agreements 403,000 m³
- Electronic auction 617,000 m³
- Other sales 171,000 m³





Volumes of Timber Sales by Individual Sales Channels

Sales Channel	Volume (m³)	Volume
Comprehensive contracts	5,555,972	69.3%
Electronic auctions	1,502,957	18.7%
Auctions in person	262,760	3.3%
Commodity exchange	22,243	0.3%
Electronic auction (LR)	430,106	5.4%
Regional sale (LR)	62,328	0.8%
Own production	159,008	2.0%
Own consumption	21,851	0.3%
Total	8,017,225	100.0%





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Forest Management

Gene Pool of Forest Trees Species

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

The current state of the genetic resources managed by CLR in 2016 is given in the following table.

Status of Genetic Resources Managed by LCR in 2016

Genetic Resource	Number (pcs)	Area (ha)
Genetic bases	111	57,185
Selected resources (A, B)		40,377
Identified resources (C)		48,512
Seed plantations	88	191
Clone mixes	10	8
Parent trees, clones	966	

Operating Stock of Raw Materials and Seeds of LCR as of 31 December 2016

Tree Species	Raw Material (kg)	Seeds (kg)
SM (spruce)	31,909	4,254
BO (pine)	150	1,059
MD (larch)	179	28
JD (fir)		746
BK (beech)	1,342	6,432

The seed stock at the Seed Bank of Regional Populations was not replenished in 2016 and is given in the table.

Seed Bank of Regional Populations – Stocks as of 31 December 2016

Tree Species	Number of Departments	Amount in kg
SM (spruce)	47	237
BO (pine)	28	45
MD (larch)	1	2



In 2016, 122 tons of seed material was collected (40 tons of coniferous trees, 82 tons of deciduous trees), 66 tons of which were delivered for immediate planting (especially oak and beech).

At the Týniště nad Orlicí seed unit 2,206 kg of seed were stratified, especially beech, and more than 159 tons of seed material was processed (132 tons of pine cones, 6 tons of fir cones, 7 tons of acorns and 13.5 tons of beech nuts).

The final harvest in 2016 was affected by the late-summer drought. In some locations of the country – east Bohemia, central and south Moravia – acorns and beech nuts dried out.

As of 31 December 2016 the National Program for Preserving and Reproducing Genetic Resources of Forest Tree Species for the period of 2014–2018 encompassed 65 gene banks, 84 seed plantations, 8 clone mixes and 214 parent trees.

Silviculture

The cultivation of LCR-managed forests was based on the principles of sustainable forest management coupled with respect for all statutory provisions and the rules laid down by the PEFC forest certification system.

Non-Stocked Land Compared to Timber Land

Year	2012	2013	2014	2015	2016
Area of timberland (thou. ha)	1,300	1,300	1,253	1,196	1,166
Non-stocked land as of 31 Dec. (ha)	13,631	13,001	12,149	11,490	11,292
Non-stocked land as of 31 Dec. (%)	1.05	1.00	0.97	0.96	0.97

The ratio of non-stocked land to timberland maintained a positive level below 1%.

Share of Conifers and Deciduous Trees in Artificial Reforestation

Year	2012	2013	2014	2015	2016
Conifers (ha)	5,826	5,960	5,911	5,102	4,961
- fir trees (ha)	464	427	426	373	408
Fir trees - % of artificial regeneration	4.72	4.14	4.22	4.18	4.65
Deciduous (ha)	4,002	4,349	4,181	3,812	3,819
Deciduous - % of artificial regeneration	40.72	42.19	41.43	42.76	43.50
Deciduous and firs (%)	45.44	46.33	45.65	46.95	48.15



Forest Management

As in previous years, in 2016 the share of deciduous trees as firs (used as soil-improving and strengthening species in most habitats in accordance with the Forest Act) was significantly higher than required by law. In initial rounds of regeneration in 2016, 46.3% of the trees LCR planted were soil-improving and strengthening species.

In 2016, LCR planted a total of 52,394,000 seedlings, 3,182,000 of which were viable seedlings cultivated at LCR forest management units.

Share of Natural Regeneration in Initial Regeneration

Year	2012	2013	2014	2015	2016
Total initial regeneration (natural and artificial) (ha)	11,364	11,786	11,255	9,199	9,077
Natural regeneration (ha)	3,201	3,601	3,540	2,698	2,845
Natural regeneration (%)	28.17	30.55	31.45	29.33	31.34

Select Management Indicators

Year	2012	2013	2014	2015	2016
Non-stocked land as of 31 Dec. (ha)	13,631	13,001	12,149	11,490	11,292
Clearings from logging (ha)	9,847	9,204	8,883	6,796	7,566
Artificial (first and repeated) regeneration (ha)	9,899	10,309	10,092	8,914	8,779
Natural regeneration (ha)	3,201	3,601	3,540	2,698	2,845
Total regeneration (ha)	13,100	13,910	13,632	11,612	11,624
Cleaning (ha)	20,670	20,997	20,792	18,641	16,715
Thinning (ha)	42,911	40,072	41,346	30,023	27,796
Logging (thou. m ³)	7,836	8,035	7,975	7,700	8,102
- salvage felling (thou. m ³)	1,521	2,014	2,222	3,706	4,364
Share of salvage felling (%)	19.42	25.06	27.86	48.13	53.86
Logging (m ³) per 1 ha of timberland	6.03	6.18	6.37	6.44	6.95

The annual plan to balance stands under and over 40 years old was maintained in 2016. 26,800 hectares of stands up to 40 years old were cleaned and thinned. The decline in thinning was due to the increase in salvage felling.

In 2014 salvage felling accounted for 27.86% of total logging. The decline in thinning was due to the increasing share of salvage felling. Of this salvage felling, 9% was necessitated by natural factors while insect damage accounted for 30%. Total logging in 2016 did not exceed the annual limits set by the forest management plans.



Select Management Indicators per 1,000 ha of Forest

Year	2012	2013	2014	2015	2016
Non-stocked land as of 31 Dec. (ha)	10.48	10.00	9.70	9.61	9.68
Clearings from logging (ha)	7.57	7.08	7.09	5.68	6.49
Artificial regeneration (ha)	7.56	7.93	8.06	7.45	7.53
Natural regeneration (ha)	2.46	2.77	2.83	2.26	2.44
Total regeneration (ha)	10.02	10.70	10.88	9.71	9.97
Failed restocking (ha)	1.34	1.63	1.96	1.89	2.28
Cleaning (ha)	15.90	16.15	16.60	15.59	14.34
Thinning (ha)	33.01	30.83	33.00	25.10	23.84
Logging (m ³)	6,027	6,181	6,366	6,438	6,948
- of which: intermediate (m ³)	1,414	1,356	1,494	1,170	1,147
principle (m ³)	3,442	3,276	2,944	2,169	2,058
salvage (m ³)	1,170	1,549	1,773	3,099	3,743
Principle felling (m ³)/ha on non-stocked land	328	328	304	226	211

Forest Certification

In 2016 LCR continued to be certified by the PEFC system (Programme for the Endorsement of Forest Certification Schemes). In total, LCR has certified 148 forest management facilities covering a total area of 1,221,494 ha of forests. Throughout the year, audits of forest management quality were carried out at select LCR forest management facilities.

Professional Forest Management

As of 31 December 2016, LCR provided professional forest management to other owners over a total area of 279,343 ha, of which 266,818 ha were managed for 191,790 owners pursuant to Section 37 par. 6 of the Forest Act, while 12,525 ha were managed contractually for 204 owners according to Section 37, par. 3 of the Forest Act.

Damage Compensation

Since 2006 LCR has claimed damage compensation for damages hindering forestry operations. For 2016 a total of CZK 63.203 mil. was collected as damage compensation.



Forest Management

Placing Timber and Timber Products on the Market

In accordance with Regulation (EU) No. 995/2010 of the European Parliament and of the Council of 20 October 2010 laying down the obligations of operators who place timber and timber products on the market, and pursuant to Act No. 226/2013 Coll. and Ministry of Agriculture Decree No. 285/2013 Coll., LCR furnished the relevant government forest management authorities desired information for 2016 concerning the placement of timber on the market for the central records of proper care systems.

Internal risk assessment of the proper care system and the conclusions of inspections show that the risk of illegally harvested timber or timber products from the forests managed by LCR reaching internal EU markets is negligible.

Air Pollution

Air Pollution Hazard Zones as of 31 December 2016

Wooded lands	A	B	C	D
1,162,144 ha	15,247	47,205	257,212	842,480
%	1.3	4.1	22.1	72.5

Air Pollution Damage Grades as of 31 December 2016

Wooded lands	0	0/I	I	II	IIIA	IIIB	IV
1,189,055 ha	1,070,308	68,245	40,236	6,591	734	116	15
%	89.7	5.9	3.6	0.7	0.1	0	0

Quantified Air Pollution Damage in Millions of CZK

Year	2010	2011	2012	2013	2014	2015
Amount of damage	61	61	55	56	55	57

Felling Due to Air Pollution

Year	2012	2013	2014	2015	2016
Volume in thou. m ³	8	11	10	9	19



Forest Protection

With respect to climatic parameters, 2016 may generally be considered a significantly warmer year with normal rainfall. Temperatures in the first quarter were much higher than normal with the warmest winter ever measured; total precipitation was slightly above normal, although uneven with excessive precipitation in February.

Winter weather with temperatures below freezing for the most part only occurred in January when there was a short episode of very cold arctic air with strong freezes. This was followed by major warming in early February, resulting in loss of snow cover even at higher elevations. There was a short period of snow and freezing temperatures in mid-March, but this did not prevent an early start of the main growing season.

Throughout the entire winter there was replenishment of soil moisture which was at such a low level due to the record drought during the second half of 2015. Replenishment of soil moisture was more marked in topsoil, at deeper levels there continued to be a lack of moisture, especially in the areas of northeast Bohemia, Moravia and Vysočina. The rest of the year up to the end of the growing season was characterized by average temperatures with a slight lack of precipitation. Considering the absence of any longer drought, no critical lack of soil moisture was noted with the exception of northeast Bohemia and central Moravia. The summer was characterized by quickly changing weather patterns and numerous storms, some of record strength and total precipitation. After a very warm September, there was cold weather along with snow in the mountains in October, and by the middle of November for a short time there was snow cover throughout most of the country. During December there was permanent snow cover at middle and high elevations.

The greatest damage from non-biotic factors was caused by wind (615,800 m³), then drought (409,500 m³), snow (51,300 m³), frost (22,200 m³) and industrial emissions (13,000 m³). The share of natural random felling in total logging was 9.1%. The regional distribution of such events was extremely uneven, with salvage felling accounting for over 50% of annual logging in only the forest management unit of Hanušovice. Fires destroyed 15.6 ha of forest stands.

In 2016, a total of 2,068,200 m³ of standing spruce trees infested with bark beetles were cleared, along with 10,400 m³ secondarily infested following natural disasters, which represents an increase of approximately 205% from the previous year. Unlike most years and similar to 2015, the majority of this work was carried out in later months, which negatively impacted the calamity indicator of future threat to stands. This increased to 1,415,700 m³, which represents 115% compared to the previous year. An increase in damage was observed practically throughout the CR. In absolute values, the most serious situation was the withering of spruce in the north-eastern part of the country, where the situation is further complicated by the high volume of random fellings caused by acute attacks of the honey mushroom. Along with salvage felling caused by bark beetles, there was an increase in salvage felling due to drought, particularly in the southern Vysočina and South Bohemia where it was the leading cause of salvage felling. The most significant species of bark beetle remains the European spruce bark beetle. Similar to last year, the share of stands infected with the northern bark beetle increased to approximately 33%, and in the hardest hit regions of Moravia-Silesia, Olomouc and South-Moravia, it may be the primary pest.

As preventative measures, 258,100 classic trap trees and 44,200 standing trap trees (a total mass of 386,500 m³) were set up, and 41,500 traps and 16,500 poison traps were deployed. 20,700 m³ of infected trees were stripped of their bark and 65,300 m³ were chemically treated. The rest were removed.

Pests found under the bark of other tree species did not cause significant damage; the greatest volume of random fellings were recorded for 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 steel blue jewel beetle), which together infested 6,100 m³ of timber. In conjunction with the drought in 2015, pine logging increased to 70,500 m³ (approx. 180% of normal levels), with regularly noted secondary attack of the given species. Also worthy of mention was damage to larches caused by the larch bark beetle and larch longicorn bark beetle, which reached a total of 2,600 m³, and damage from pine bark beetles which totalled 1,700 m³.



Forest Management

In 2016, leaf-eating pests did not cause significant economic damage. Pests capable of mass outbreaks, such as the nun moth, the larch bud moth, and the false spruce webworm, were in low numbers; monitoring indicates that a similar situation is likely in 2017.

In the Horní Polabí region there was considerable swarming of forest cockchafer that extensively denuded deciduous growth, but these areas grew back quickly. Limited protective measures were conducted on the ground at FU Nasavrky over a total area of 16.2 ha.

There was no sign of damage by the gypsy moth or other oak defoliators (the winter moth, the mottled umber, or the oak leaf roller moth). Damage by the gregarious spruce sawfly was below detectable levels. Compared to last year, the extent of damage done by the horse-chestnut leaf miner declined (6.5 ha treated on the ground), in the Krušné hory region, there was a partial subsidence of the local outbreak of larch casebearer and in 2016 no damage was recorded. The area of coniferous crops damaged by the pine weevil was slightly below the average of recent years, and 4,236.8 ha received preventative or curative treatment.

Compared to the strong winter of 2015, the mild winter slightly reduced damage caused by small rodents and significant damage to stands was recorded for 1,092.5 ha, which is still above the long-term average. Damage was recorded in most of the country, with greater damage occurring in central Vysočina, Šumava and Český les, as well as the stands of substitute species in the Ore Mountains (Krušné hory) traditionally affected.

The extent of damage caused by main fungal pathogens increased from last year. Damage caused by pine needle cast was recorded in 968.4 ha (especially in South Bohemia and Central Moravia) while oak mildew attacked 990.9 ha (especially in the Low Jeseníky Mountains, Southern Moravia and South Bohemia).

Damage caused by fungal pathogens in older stands continued to increase, which is directly related to their compromised physiological state. The most economically significant damage remains acute attacks of the honey mushroom (*Armillaria solidipes*) which in 2016 resulted in logging of 385,500 m³, which is the highest annual value ever recorded. As in past years, the Moravia-Silesian region was most affected. Damage to blue spruce in stands of substitute tree species in the higher elevations of the western Krušné hory area caused by infectious *Curcubitaria piceae* and accompanied by fungal pathogens continued to increase as expected and reached a record 4,201.3 ha, which represents approximately 70% of the total blue spruce stand area in PND. The prognosis for these afflicted stands is unfavourable. The most heavily impacted stands are regularly assigned to stand transformation projects. An ever greater problem especially in the lowlands in the east of the Czech Republic (Břeclav, Přerov, Karviná, Ostrava, Frýdek-Místek, Kroměříž, Hodonín) continues to be ash dieback caused by the fungus *Chalara fraxinea*, the area of which is similar to preceding years. 2,407.1 ha of primarily younger stands were affected in 2016. Considering the fact that the most severely affected stands are continually treated, the unchanging scope of the outbreak is a sign of the increasing dynamic of the pathogen. Further fast geographic spread of this dieback into previously unaffected regions was noted.

Stands remain susceptible to yellowing as a result of nutritional disorders. In 2016, significant signs of damage appeared over 28,000 ha. Funds from the Ministry of Agriculture were used to apply lime from the air to 3,210 ha of stands, exclusively in areas of the Ore Mountains (LS Klášterec, Kraslice, Horní Blatná). Serious nutritional deficits of stands were addressed in 2016 through the top-dressing of seedlings after planting with slow release fertilizer tablets used over a total area of 295.65 ha.



Hunting

During the 2016/2017 hunting year, the company operated a total of 219 hunting grounds at its own expense in the areas of its organizational units as of 31 March 2017. This number includes hunting grounds which are used pursuant to Act No. 428/2012 Coll., on property settlement with the church and religious societies. The hunting plan for LCR hunting grounds for all types of hoofed animals was met in the monitored period, both in terms of total volume and according to individual types of hoofed animals so that the plan as a whole was met by 119%.

Fulfilment of the Plan for the Hunting of Select Species of Hoofed Game in LCR Hunting Grounds:

Plan

Species of game	2012/13	2013/14	2014/15	2015/16	2016/17	Index 2015/16
Red deer	1,732	3,025	2,561	2,585	2,755	1.066
Sika deer	341	955	1,052	904	1,308	1.447
Mouflon	906	1,333	961	902	1,047	1.161
Fallow deer	1,292	1,446	1,216	1,318	1,441	1.093
Roe deer	2,075	3,635	3,342	3,150	3,250	1.032
Total	6,346	10,394	9,132	8,859	9,801	1.106

Actual Figures

Species of game	2012/13	2013/14	2014/15	2015/16	2016/17	Index 2015/16
Red deer	1,907	3,250	2,950	2,987	3,175	1.063
Sika deer	569	1,248	1,315	1,477	1,692	1.146
Mouflon	1,262	1,673	1,331	1,255	1,345	1.072
Fallow deer	1,507	1,687	1,576	1,711	1,925	1.125
Roe deer	2,283	3,750	3,368	3,361	3,497	1.040
Total	7,528	11,608	10,540	10,791	11,634	1.078

Fulfilment of the Hunting Plan for Select Species of Hoofed Game in %

2016/17	Red deer	Sika deer	Mouflon	Fallow deer	Roe deer	Total
Plan	2,755	1,308	1,047	1,441	3,250	9,801
Actual figures	3,175	1,692	1,345	1,925	3,497	11,634
%	115	129	128	134	108	119

Due to the negligible hunting numbers for the chamois, wild goat and white-tailed deer, the plan and its fulfilment for these species are not assessed in the annual report.



Forest Management

Damage Caused by Game

Forest damage caused by game is monitored and quantified for all forestland which LCR has the right to manage. In financial terms, there was a year-over-year decrease of CZK 2.399 mil. in damage caused by game. Compared to the past period, there was a decrease in all types of damage, i.e. damage caused by bark scaling, gnawing and destruction of vegetation. However, there was a slight year-over-year increase in damage from extraordinary and cost intensive measures by CZK 29,000.

Of the total estimated forest damage caused by game, company-operated hunting grounds accounted for CZK 3.566 mil. (a year-over-year decrease of CZK 400,000), leased company hunting grounds accounted for CZK 10.366 mil. (a year-over-year decrease of CZK 2.241 mil.) and other hunting grounds (association-owned) accounted for CZK 7.135 mil. (a year-over-year increase of CZK 243,000). The year-over-year decrease in damage to company-operated hunting grounds is a very positive development, since despite the ongoing process of property transfer according to Act No. 428/2012 Coll., on the settlement of property with the church and religious societies, hunting plans were met by LCR for these hunting grounds while at the same time reducing damage caused by game.

Period 1 July – 30 June	Total mil. CZK	Destroyed	Browsing Damage	Bark Scaling and Gnawing	Extraordinary Measures
2015/16	21.067	4.303	8.405	7.831	0.528
2014/15	23.466	6.987	7.799	8.181	0.499
2013/14	19.582	4.996	7.953	6.094	0.539
2012/13	21.128	3.693	7.389	9.573	0.473
2011/12	15.887	2.993	7.009	5.510	0.375

LCR Grant Service

Since 2002 when the LCR Grant Service was established, by the end of 2016 a total of 75 research projects have been adopted with a total funding of CZK 97.244 mil. The research work for 49 projects has been completed, 25 projects are still underway, one project was cancelled (in 2004) before it was completed, while one project has completed only the first stage planned for 2015.

In 2016, 13 new research projects were approved with a total funding of CZK 22.112 mil. And four projects were completed. The LCR Grant Service spent a total of CZK 12.177 mil. On projects (including final and ongoing payments).

A limited number of final research reports are printed for the requirements of the organizational units concerned, forest owners and the company library. Summary results of all projects of the LCR Grant Service are published on the LCR website.



Overview of Research Projects

(Number according to the project overview posted on the LCR website)

Completed projects:

- no. 46) "Reproductive Characteristics of Female Sika Deer". Researcher: Czech University of Agriculture in Prague. Total funding: CZK 678,000, CZK 248,000 of which was paid out in 2016.
- no. 52) "The Road to Increasing Consumption of Lumber Produced in the CR in the Contemporary Central European Context". Researcher: Timber Research and Development Institute in Prague, s. p. Total funding CZK 975,000, CZK 314,000 of which was paid out in 2016.
- no. 57) "Model for Timber Pricing Trends Based on Statistical Analysis of Available Data Obtained from Standing Timber Auctions Held in the Czech Republic". Researcher: FORESTA SG, a.s. Total funding CZK 1,340,000, CZK 761,000 of which was paid out in 2016.
- no. 60) "Processing Potential of the CR". Researcher: APICON, s.r.o. Total funding CZK 183,000, CZK 183,000 of which was paid out in 2016.

Ongoing projects:

- no. 44) "Strategies for Reducing Cockchafer Damage in the Strážnice FMU". Researcher: Mendel University in Brno. Total funding: CZK 990,000, CZK 165,000 of which was paid out in 2016.
- no. 45) "Select Aspects of the Bionomy of the Double-Spined Bark Beetle and its Significance for Forest Protection". Researcher: Biology Centre of the Czech Academy of Science, v.v.i., České Budějovice. Total funding: CZK 999,000, CZK 207,000 of which was paid out in 2016.
- no. 47) "Impact of Stand Age on Quality of DG Seeds in the CR". Researcher: VÚLHM, v.v.i., Strnady. Total funding: CZK 885,000 (no payments were made in 2016).
- no. 48) "Finding and Verifying Operationally Feasible Methods for Assessing the Current Physiological Status of Planting Material." Researcher: VÚLHM, v.v.i., Strnady. Total funding: CZK 995,000, CZK 331,000 of which was paid out in 2016.
- no. 49) "Factors of Hare Mortality, Habitat Use and Population Support." Researcher: VÚLHM, v.v.i., Strnady. Total funding: CZK 696,000, CZK 149,000 of which was paid out in 2016.
- no. 51) "Optimizing Forest Management on Slopes Threatened by Landslides and Rockslide – Methodology of Silviculture Practices. Researcher: Mendel University in Brno. Total funding CZK 988,000, CZK 165,000 of which was paid out in 2016.
- no. 53) "Cultivation Methods to Limit Ash Dieback Caused by *Hymenoscyphus fraxineus* (*Chalara fraxinea*)". Researcher: Mendel University in Brno. Total funding CZK 911,000 (no payments were made in 2016).
- no. 54) "Potential MVE on Minor Watercourses" Researcher: DHP Conservation, s.r.o. Total funding CZK 1,996,000, CZK 413,000 of which was paid out in 2016.
- no. 55) "Optimizing Protection Against Weed Overgrowth in Nutrient Rich and Alternating Wet and Dry Stands". Researcher: Mendel University in Brno. Total funding CZK 1,926,000, CZK 1,074,000 of which was paid out in 2016.
- no. 56) "Ecological Limits and Production Effects of Growing Norway Spruce at Lower Elevations – Analysis of Risks and Production Possibilities of Spruce Populations". Researcher: VÚLHM, v.v.i., Strnady. Total funding CZK 1,957,000, CZK 455,000 of which was paid out in 2016.
- no. 58) "Evaluation of Current State of Watercourses Managed in FMUs Hanušovice, Loučná nad Desnou and Ruda nad Moravou and Proposed Measures to Increase Area Retention Capacity". Researcher: EKOTOXA, s.r.o. Total funding CZK 1,994,000, CZK 496,000 of which was paid out in 2016.
- no. 59) "Tools for Improving Accuracy of Logging Estimates Determined from Real Logging Data According to "Recommended Rules for Measuring and Sorting Timber in the CR". Researcher: IFER – Monitoring and Mapping Solutions, s.r.o. Total funding CZK 893,000, CZK 620,000 of which was paid out in 2016.
- no. 61) "Optimized Breeding of the Excess Population of Wild Goats at the Vříšek Preserve on a Molecular-Genetic Basis Using Assisted Reproduction". Researcher: Mendel University in Brno. Total funding CZK 1,769,000, CZK 413,000 of which was paid out in 2016.
- no. 62) "Analysis of the State of Cold-Blooded Horses Suitable for Forest Management and their Potential Use, Identification of Major Obstacles to Increasing their Use in FM and Proposed Measures for their Support." Researcher: FORESTA SG, a. s. Total funding CZK 1,489,000, CZK 1,033,000 of which was paid out in 2016.



Forest Management

- no. 63) "Assessment of Birch Stands and their Forest Function, the Economics of Birch Forestry and Plan for Birch Farming in the CR". Researcher: Czech University of Life Sciences in Prague. Total funding CZK 1,980,000, CZK 661,000 of which was paid out in 2016.
- no. 64) "Socio-Economic Impacts on the Křivoklát Region in the Event Part of the Region is Classified as a National Park". Researcher: Czech University of Life Sciences in Prague. Total funding CZK 1,190,000, CZK 826,000 of which was paid out in 2016.
- no. 65) "Possibilities of Greater Use of Wooden Multi-Storey Buildings Compared to Multi-Storey Buildings Using Masonry". Researcher Czech Technical University in Prague, UCEEB. Total funding CZK 1,643,000, CZK 1,149,000 of which was paid out in 2016.
- no. 66) "Comprehensive Analysis of the Biological Value of Natural Areas Near Forest Stands in CHKO Šumava Administered by LCR and Proposal for their Multi-functional Management". Jointly ordered by Šumava National Park Management. Researcher: The Silva Tarouca Research Institute for Landscape and Ornamental Gardening Total funding of LCR CZK 1,900,000, CZK 826,000 of which was paid in 2016.
- no. 67) "Comprehensive Methodological Approach to Verifying Declared Origins of Seedlings Using Genetic Markers". Researcher: Czech University of Life Sciences in Prague. Total funding CZK 1,996,000, CZK 413,000 of which was paid out in 2016.
- no. 68) "Impact of Environmental Factors on Gemmomyces Spruce Bud Blight and the Proposal of Practical Measures to Limit its Spread". Researcher: Czech University of Life Sciences in Prague. Total funding CZK 1,977,000, CZK 248,000 of which was paid out in 2016.
- no. 69) "Assessment of Public Interest in Forests and Proposed Public Communication Strategy Based on the Třeboň Basin Model". Researcher: Mendel University in Brno. Total funding CZK 1,511,000, CZK 413,000 of which was paid out in 2016.
- no. 70) "Sub-Species Determination of the Western Capercaillie and Assessment of Degree of Kinship Between Wild Birds and those Bred in Captivity". Researcher: Technical University in Zvolen. Total funding CZK 1,880,000, CZK 200,000 of which was paid out in 2016.
- no. 71) "Monitoring of Migration Routes of Wild Deer in the Southwestern Part of Šumava – in LZ Boubín". Researcher: Czech University of Life Sciences in Prague. Total funding CZK 1,898,000, CZK 413,000 of which was paid out in 2016.
- no. 73) "State of Soil and Level of Nutrition of Growth in Mountainous Terrain of Forest Units Jablonec nad Nisou and Frýdlant in Bohemia and Possible Measures to Improve Conditions". Researcher: Forestry and Game Management Research Institute, Strnady. Total funding CZK 1,942,000 (no payments were made in 2016).
- no. 74) "Establishment of Research Areas With the Introduction of Tree Species Potentially Resistant to Drought in Mountainous Areas of Northern Moravia afflicted by Spruce Blight". Researcher: Forestry and Game Management Research Institute, Strnady. Total funding CZK 1,937,000 (no payments were made in 2016).

Amounts listed without VAT.

LCR also helped fund research for the project titled "Protection and Reproduction of Valuable Grey Poplar Populations (QJ 1520297), Researcher: VÚLHM, v.v.i. in the Comprehensive Sustainable Systems in Agriculture Programme for 2012-2015. Total funding CZK 994,000 without VAT (CZK 229,752 without VAT was paid out in 2016) as well as "Comprehensive Planning, Monitoring, Information and Education Tools to Adapt Land to the Impact of Climatic Changes with a Clear View to Agricultural and Forestry Management in the Countryside" (EHP-CZ02-OV-1-039-2015) for the amount of CZK 1 mil., without VAT.

It was also directly involved in 2016 in the project titled "Use of the Douglas Fir in Czech Forestry Management" (KUS - QJ 1520299) with acknowledged costs of CZK 1,414,000 and support from the Ministry of Agriculture totalling CZK 283,000 and "Ensuring Quality Gene Resources with Regard to the Demands of Society and Climate Change" (KUS - QJ 1620110) – acknowledged expenditures of CZK 1,004,000 with targeted support from MZe amounting to CZK 342,000.



Support through European Union Funds – Use of Support

LCR has used EU support from structural and other funds primarily for projects with high society-wide impact. EU funds from the new 2014–2020 programme period have not yet been drawn, therefore, all funding paid out in 2016 originates from the 2007–2013 programme period.

Aside from individual funds of the European Union, financing has also come from the public budget of the Czech Republic, while the company has also used its own resources to co-finance projects. The drawing of grants from European Union funds takes place based upon contracts and agreements with accredited agencies designated by the managing authorities of operational programmes. The actual drawdown takes place in two manners, either in an ongoing fashion following completion of project stages according to financial payment schedules, or after project completion. A list of individual projects financed and co-financed from European Union funds can be found on the company's website (the industry professionals section under "Financial Support from the EU").

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). In 2016, the company took advantage of the earliest opportunity to submit applications. A total of 6 grant requests were submitted, three of which were for operation 8.4.1 Restoration of Forest Stands after Calamities, one for operation 8.4.2 Flood Damage Removal (as part of Submeasure 8.4 Support to Restore Forests Damaged by Forest Fires and Natural Catastrophes and Catastrophic Events) and two requests for operation 8.5.3 Transformation of Stands of Substitute Species (as part of Submeasure 8.5. Investment Support to Increase the Resilience and Ecological Value of Forest Ecosystems).

Single Area Payment System

In 2016, a payment of CZK 13.788 mil. was made according to the Single Area Payment Scheme for agricultural land cultivated by the company listed in the Land Parcel Identification System (LPIS) based upon the summary request for 2015. No payment for a summary request for 2016 was made in this year.

Environmental Operational Programme

A further vehicle that can be used in support of forestry, water management and landscape projects and projects that contribute to the improvement of waste management is the Environmental Operational Programme (EOP), which is financed from the Cohesion Fund (CF) and the European Regional Development Fund (ERDF). The company took advantage of final funding from the Environment 2007–2013 Operation Programme that was part of Priority Axis 6 "Improving the State of Nature and the Landscape". Grants paid out in 2016 amounted to CZK 2.158 mil. (CZK 1.444 mil. for area 6.2, CZK 0.714 mil. for area 6.3).

A new grant period running from 2014 – 2020 began in 2016. The company took advantage of the first opportunity to take part in the EOP during this period. A total of 13 requests for support were submitted for seven calls of Priority Axis EOP.

2 projects were submitted in cross-border cooperation programmes. One is a joint project with Lesy SK in INTERREG V-A Slovak Republic – Czech Republic (period 2014–2020) and the second project was submitted with Saxon partners for the CCOP of the Free State of Saxony and Czech Republic – 2014 – 2020.

Forest Management

In 2016, LCR registered 154 FMFs with valid FMPs. That is 4 more than in 2015.

Of the 154 FMFs, 3 were listed as co-ownership with a certain share held by the state, 7 FMFs or their parts were placed in the management of the company as part of asset purchases, and one was created over leased assets, with all activity provided by forestry units.



Forest Management

Total renewal of FMPs in various stages of completion took place in 2016 for 320,781 ha in 33 FMFs at 29 organizational units. A detailed list of FMPs renewed in 2016 is shown by individual FMF in the table and in the illustrative map on page 45.

FMPs valid as of 1 January 2016

In 2016, the drafting of forest management plans (FMPs) was completed effective as of 1 January 2016. This encompassed a total of 11 forest management facilities (FMFs) at 9 organization units of LCR. All 11 FMPs were approved by the state forest management authority. The total area of land designated as forestland was 113,606 ha. All 11 FMPs were drafted in accordance with applicable forest management information standards. Based upon an agreement concluded between LCR and the Forest Management Institute (ÚHÚL), the data of approved FMPs was entered into the ÚHÚL information database. The company spent a total of CZK 50,662,810 without VAT on this year's FMPs, which works out to CZK 446 per ha without VAT. This price includes additional work involved with the handover of church assets.

As in 2015, in 2016 LCR was not eligible to request a subsidy for the preparation of FMPs due to the change in binding rules for the provision of funding for forest management in 2013. LCR covered the cost of drafting the FMPs from its own resources.

As of the date of issue of the Annual Report, LCR does not have any FMPs yet to be approved except for those effective as of 1 January 2017, which are undergoing standard approval.

FMPs valid as of 1 January 2017

In 2016, outdoor work was completed for FMPs effective as of 1 January 2017. This concerned 9 FMPs at 8 LCR organizational units. The total area was 98,800 ha.

Based on its contract with LCR, in 2016 the Forest Management Institute (ÚHÚL) conducted external quality controls at 5 organizational units drafting FMPs effective as of 1 January 2017. The inspections did not find any serious systematic errors. External inspections will continue in 2017.

FMPs valid as of 1 January 2018

Since 1 January 1998, the task of renewing the FMPs at LCR has been placed in the hands of external businesses. In 2016, in accordance with the Public Procurement Act, LCR once again announced a public tender for the preparation of FMPs, effective as of 1 January 2018. As in previous years, the full scope of annual FMPs was included in a single public contract which was divided into 11 separate parts, each representing an organizational unit affected by FMP renewal. The tender thus encompassed 12 FMPs in 11 organizational units.

For the first time ever at LCR the company will prepare its own forest management plans at 2 FMFs. This concerns FMF Špičák encompassing 2,384 hectares that was specially selected for internal management and FMF Rakovník measuring 3,848 hectares that was subsequently added to the FMP when the winner of the tender backed out of the contract.

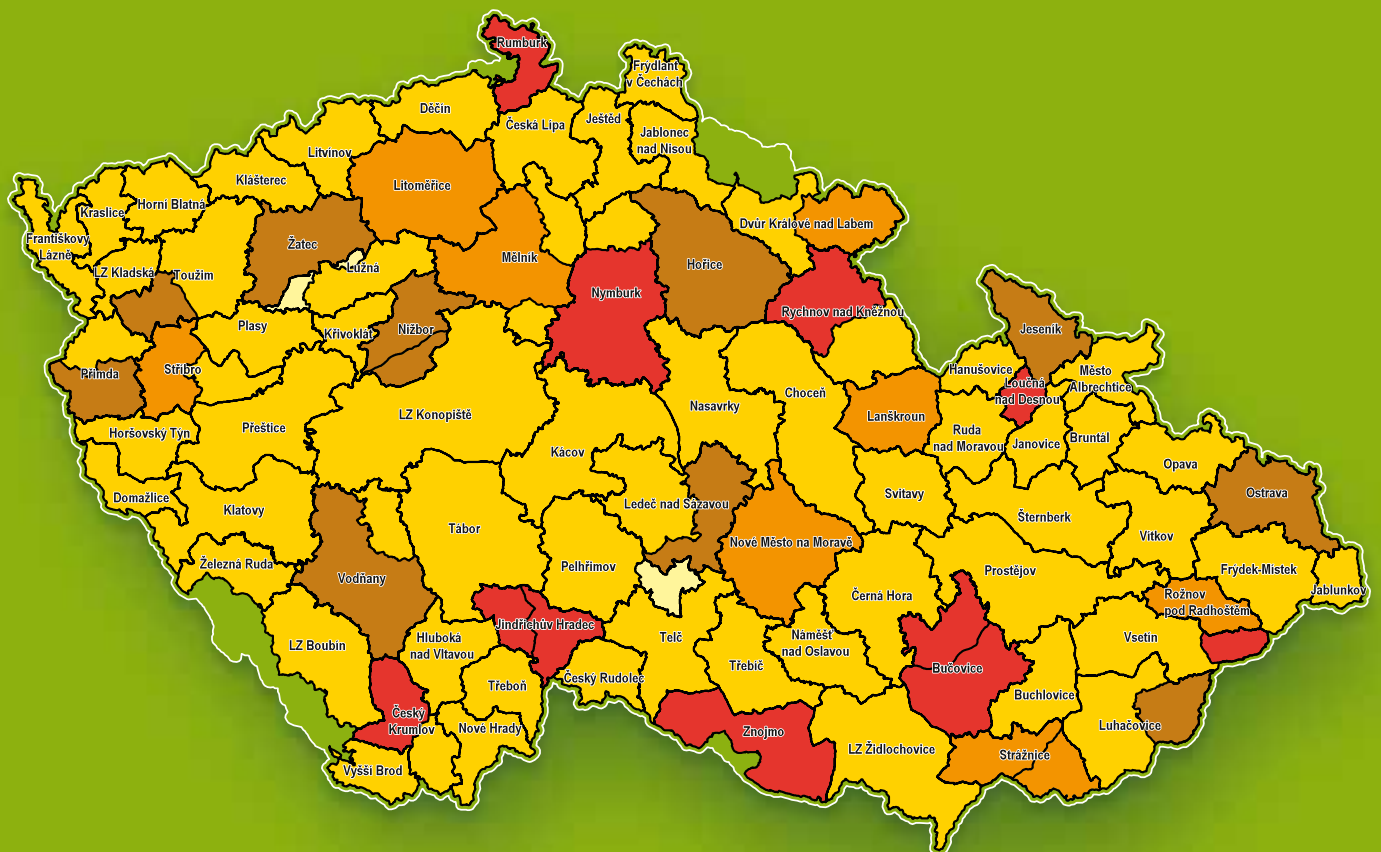
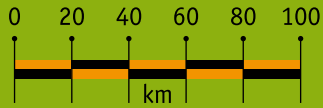
A total of twelve entities expressed interest in preparing FMPs effective as of 1 January 2018, three of which were created through the merger of two companies. The average price (the arithmetic mean weighted by the preliminary area of each FMF) under the concluded work contracts amounted to 516 CZK/ha without VAT. The average price per ha from the previous year's FMPs effective as of 1 January 2017 was 513 CZK/ha without VAT.

The price change index for FMPs effective as of 1 January 2018 compared to the previous year was 101%. The average price thus reached levels for the year of FMPs effective as of 1 January 1999.

As in previous years, the Forest Management Department has provided the company updated digital borders of organizational units. The result of this work is a clear map of organizational structure – see p. 14.

The Graphics Data Warehouse (GrDW) was used to create a map depicting the current status of property managed by LCR as of 31 December 2016 – see p. 13.

Renewed FMPs

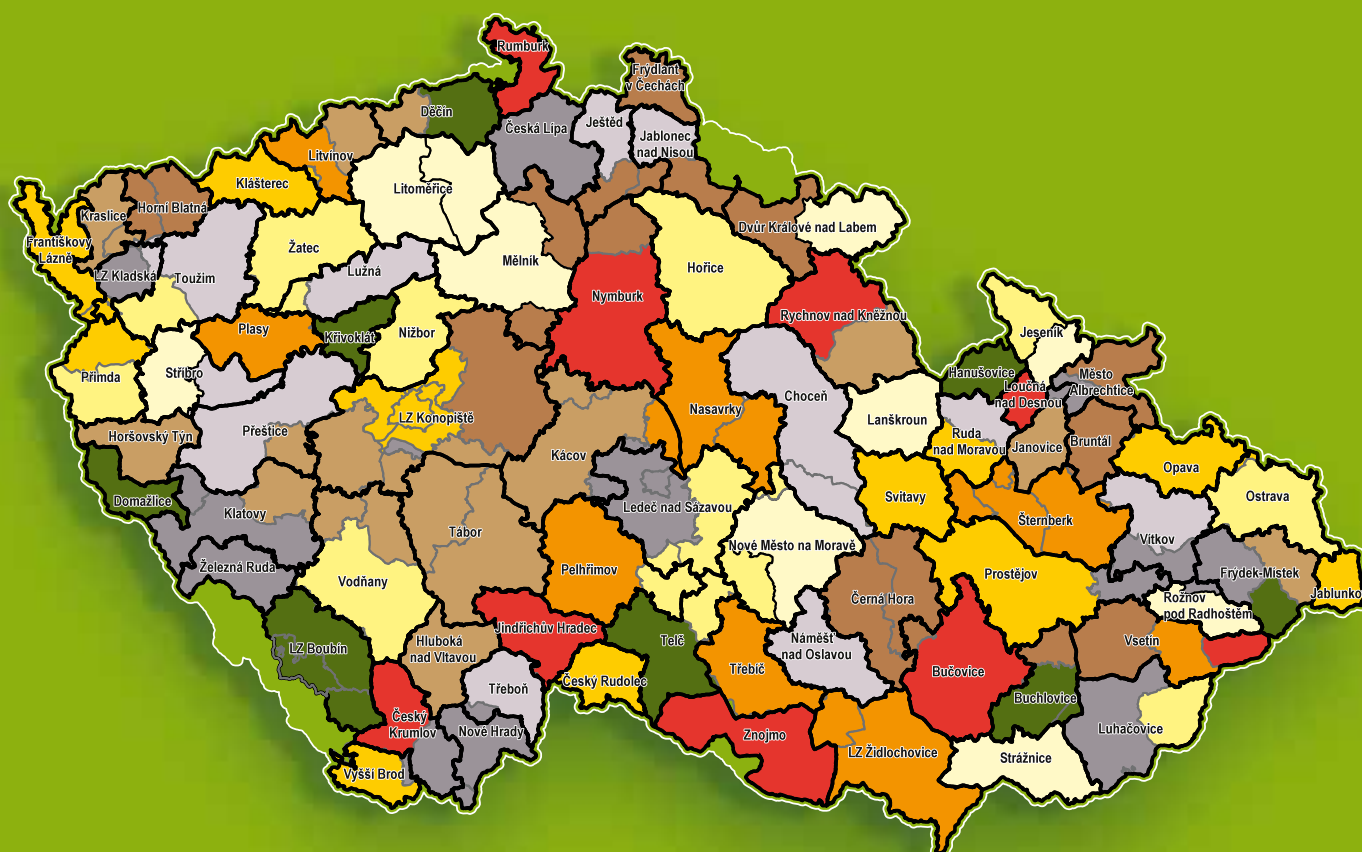


- FMPs valid as of 1 January 2016
- FMPs valid as of 1 January 2017
- FMPs valid as of 1 January 2018
- FMPs valid as of 1 January 2018 processed by the company



Forest Management

Ten-Year Audits



Forestry Inspection

Since 2007, the company has conducted periodic surveys of forest conditions (forest ecosystems) and reviews of long-term operations. Along with ten-year reviews, a system with subsequent five-year inspections was introduced in 2013, which will help correct the system between ten-year reviews and maintain the direction and quality of long-term forest management.

These activities are carried out by staff from the Forestry Inspection Department (FID). These reviews have been successful, especially in mediating feedback on the effectiveness and results of management processes and providing direct information to the Production and Technical Director regarding specific results of forest management by individual organizational units compared with LCR standards.

Reviews of the long-term results in the care of forestland, together with tests of professional forest management, are an important element in the system for maintaining the company's professional level of forest management. The results of forestry inspections help prevent risks of non-compliance with legislative changes and contribute to uniform, standard procedures of LCR employees in relation to bodies of state forestry administration. They help maintain the prestige of forest management and the good reputation of state forestry.

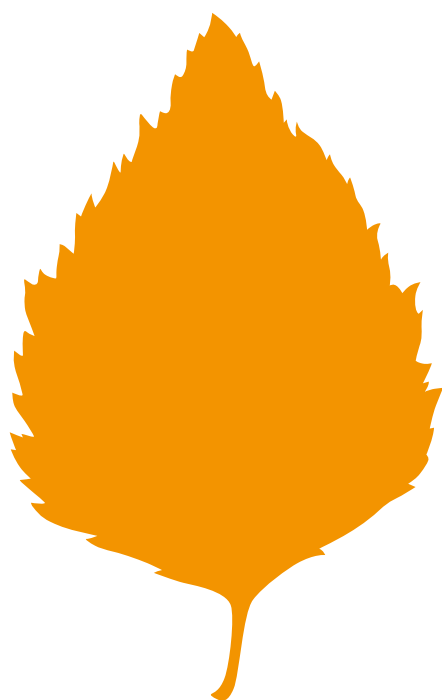
During the period from 2007 to 2016, ten-year inspections were carried out in a total of 873 districts at 134 FMFs or their parts, i.e. 100% of the current total number of FMFs managed by LCR. Overall this involved 25,619 JPRLs. From 2013-2016, five-year field inspections were carried out in a total of 360 districts at 54 FMFs or their parts.

Detailed evaluation results are posted on the company's website.

RHO No.	RHO Name	Average	Office	Outdoor	Number of Districts	Number of FMFs
918	Jihlava	1.58	1.59	1.58	57	11
913	Šumperk	1.58	1.48	1.70	103	11
915	Zlín	1.66	1.67	1.66	58	9
911	Frýdek-Místek	1.68	1.63	1.73	65	8
928	České Budějovice	1.80	1.82	1.80	82	13
919	Choceň	1.83	1.90	1.72	46	8
LZ	LZ	1.85	1.82	1.85	44	15
930	Plzeň	1.85	1.80	1.92	73	11
921	Brandýs nad Labem	1.91	1.92	1.90	63	12
936	Liberec	1.93	2.02	1.84	73	10
932	Karlovy Vary	1.93	1.92	1.94	66	9
916	Brno	1.94	2.11	1.77	77	8
933	Teplice	2.17	2.33	1.95	66	9
TOTAL:		1.82	1.85	1.81	873	134







Annual Report — 2016

Lesy České republiky, s.p.

Working in the Public Interest

The Lesy České republiky state enterprise (LCR) was founded in accordance with Act No. 77/1997 Coll., on state enterprises, as currently amended, to “perform important social and strategic work in the public interest”.

For this purpose, the company has drafted and approved several planning documents which are continually being carried out and updated.

The Sustainable Forest Management programme (1996, 2000, 2015) primarily ensures the existence of forests and improves their condition.

The plan for the preservation and reproduction of forest tree genetic resources at LCR for the 2010-2019 period serves to protect the genetic resources of forest tree species.

Agenda 2020 - guaranteeing Public Interest at LCR. This programme addresses the non-productive function of forests and defines gradual steps to maintain and support these. The updated document is posted on the website and the general public is encouraged to make specific suggestions to attain these goals.

Agenda 2020

Expenditures to Implement Agenda 2020 for 2012-2016

Year	2012	2013	2014	2015	2016
Total expenditures (thou. CZK)	54,428	69,630	70,319	73,501	86,170

Expenditures to Implement Agenda 2020 in 2016 by Individual Type of Activity

Types of activity	thou. CZK	%
Forest arboretums and protected trees	1,827	2.1
Well building	1,335	1.6
Maintenance of protected buildings and structures	3,895	4.5
Recreational and sightseeing facilities for the public	21,120	24.5
Information systems for the public	2,488	2.9
Construction and repair of roads, trails and parking for the public	21,338	24.8
Aesthetic treatment of forests, parks and countryside	6,915	8.0
Management of water resources	9,871	11.5
Biodiversity management of forests and countryside	2,795	3.2
Management of minor structures for the public	4,153	4.8
Suppression of invasive plant species	1,301	1.5
Special programmes for the public	1,894	2.2
Other events for the public	7,238	8.4
Agenda 2020 total	86,170	100



In 2015 the company spent most funds on the construction and maintenance of recreational and sightseeing facilities for the public (CZK 21,338,000) and building and repairing roads, hiking trails and parking lots (CZK 21,120,000). Other considerable investment was made in managing water resources and wells (CZK 11,206,000).

Other major company activities carried out as part of the Agenda included aesthetic treatment of forests, parks and the countryside (CZK 6,915,000), care for minor structures for the public (CZK 4,153,000), maintenance of historical buildings and structures (CZK 3,895,000) and biodiversity management of forests and countryside (CZK 2,795,000).

In total in 2016, the company spent a record amount of CZK 86,170,000 on all types of activities carried out for the public under Agenda 2020, CZK 44,926 of which were investment projects.

Cooperation with Non-Government Organizations

Czech Tourist Club

The recreational function of forests is supported by trail marking in cooperation with the Czech Tourist Club.

Czech Union for Nature Conservation

Our long-term cooperation with the Czech Union for Nature Conservation (ČSOP) results in dozens of specific projects for the protection of biodiversity in forests (e.g. measures to protect endangered species of forest trees, herbs, songbirds, birds of prey, owls and bats), projects to support rescue stations for injured and disabled animals and projects aimed at environmental awareness, education and training.

Dolní Morava Biosphere Reserve

LCR continued in 2016 to support the work of the Dolní Morava Biosphere Reserve, which it co-founded. This company was created by stakeholders and the town on the land of the Dolní Morava Biosphere Reserve as part of the global network of UNESCO biosphere reserves. A representative of the head of this non-profit organization is a member of UNESCO's International Advisory Committee for Biosphere reserves.

Křivoklátsko Forest Park

Support continued for the work of this organization co-founded by LCR.

Cooperation with the Agency for Nature Conservation and Landscape Protection of the CR

Non-Interference Zones and Monitoring Thereof

In 2016, cooperation continued between LCR and the Agency for Nature Conservation and Landscape Protection of the CR in establishing and monitoring non-interference zones in forests. A review of current locations was conducted. An overview of non-interferences zones as of 31 December 2016 and the results of recent monitoring of individual locations are published on the LCR website.

Nature and Landscape Protection at LCR

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

30.4% of the land which the company was entitled to manage in 2016 was part of protected landscape areas (PLAs). Another 3.8% of the area is located in small specially protected sites, i.e. in national nature reserves, national natural monuments, nature reserves and natural monuments.



Working in the Public Interest

In the Natura 2000 system of significant European sites established in all EU Member States 17.1% of the company's land qualifies as bird sanctuaries (under the Birds Directive), while more than 19.2% of land it manages are areas of European significance (under the Habitats Directive). Although some of this land overlaps, the overall share of specially protected sites and Natura 2000 sites on the land which Lesy ČR is entitled to manage is 42.8%.

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 area.

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

Damages Caused by Select Specially Protected Animal Species

In 2016, LCR claimed damage compensation pursuant to Act No. 115/2000 Coll., on the provision of compensation for damage caused by specially protected animals. Damages caused by the European beaver were estimated at CZK 2,552,853, and damages caused by the European salmon at CZK 83,841. However, the act and its implementation decree far from cover all types of damage.

Support of Non-Productive Roles of Forests – External Resources

Support for non-productive roles of the forest from national programmes of the Ministry of the Environment is absolutely minimal over the long-term.

In 2016, the Ministry of the Environment released funds under the Landscape Management Programme for measures in specially protected areas, bird sanctuaries, and areas of European significance, to environmental protection groups which have concluded agreements with land owners to promote biodiversity in these areas. Measures on land which LCR is entitled to manage were granted a total of CZK 772,859 in cooperation with the relevant LCR organizational units. The Ministry of the Environment's "Programme to Restore Natural Landscape Functions" provided a total of CZK 839,306 to repair part of the Kladsko nature trail.

For measures in sites outside these zones, in 2016 the company received direct subsidies under the Landscape Management Programme totalling CZK 547,520. For measures in sites outside these zones, in 2016 LCR received direct subsidies under the Ministry of the Environment's "Programme to Restore Natural Landscape Functions" totalling CZK 353,705.75.



Capital Construction

The total volume of capital funds invested by LCR in 2016 came to CZK 1,595,455,000, which amounts to 97% of the planned volume of CZK 1.648 billion. Company funding amounted to CZK 1,451,339,000 (i.e. 91%), while public funding and EU funds accounted for CZK 40,949,000 (i.e. 3.2%). Agenda 2020 projects received CZK 44,926,000 (2.8%) while other sources accounted for CZK 48,241,000 (i.e. 3%) of total funds invested.

Investments in 2016 by Source of Financing – Actual

Source of Financing	mil. CZK	%
Own sources	1,451.339	91.0
Subsidies, public budget	50.949	3.2
Own sources - Agenda 2020	44.926	2.8
Other resources	48.241	3.0
Total	1,595.455	100

Investments in Intangible and Tangible Assets

Overview by Asset Type	mil. CZK	%
Intangible assets	74.969	4.7
- FMP	49.772	3.1
SW	20.247	1.3
other intangible	2.942	0.2
area studies	2.008	0.1
Tangible assets	1,520.486	95.3
- construction work	924.579	57.9
machinery and equipment	485.998	30.5
land	108.884	6.8
other	1.025	0.1
Total	1,595.455	100

Investments in intangible assets totalled CZK 74.969 mil. (i.e. 4.7% of total investments), most of which was invested in renewing forest management plans (CZK 49.772 mil.).

A total of CZK 1,520.486 mil. was invested in tangible assets (i.e. 95.3% of total investment volume). Of this, CZK 924.579 mil. was invested in construction work, CZK 485.998 mil. in machinery and equipment, while investment in land purchases and other matters related to capital construction or forestland consolidation amounted to CZK 108.884 mil.



Capital Construction

Capital Construction by Statistical Classification

Capital Construction Classification	mil. CZK	%
Torrent control project documentation	13.034	1.4
Other project documentation	3.961	0.4
Forest road project documentation	35.567	3.9
Forest nursery project documentation	0	0
Handling warehouse project documentation	0	0
Warehouse and workshop project documentation	0.055	0
Reservoir project documentation	6.510	0.7
Housing project documentation	1.485	0.2
AB project documentation	3.208	0.4
Flood damage project documentation – torrent control	0.280	0
Flood damage project documentation – other	0	0
Flood damage project documentation – forest roads	0	0
Flood damage project documentation – housing	0	0
Flood damage project documentation – AB	4.889	0.5
Project documentation – EU projects	1.105	0.1
Forest roads	612.408	66.1
Forest nurseries	0.115	0.0
Handling warehouses	0.499	0.1
Warehouses and workshops	0.345	0
Technical forest reclamation + torrent control ... torrent control	72.243	7.8
Technical forest reclamation + torrent control ... reclamation	0	0
Technical forest reclamation + torrent control ... gullies and sanitation	0.004	0
Reservoirs	17.886	1.9
Housing, districts	9.829	1.1
Administrative buildings	51.489	5.6
Other buildings, including pits	24.536	2.7
Agenda 2020	44.926	4.9
Flood damage – torrent control	19.732	2.1
Flood damage – other buildings	0	0
Flood damage – forest roads	0.052	0
Flood damage – housing	0	0
Flood damage – administrative buildings	0	0
EU Projects – implementation	0.421	0.1
Total capital construction	924.579	100



Capital Construction by Type for Forest Management

Construction Work	mil. CZK	%
Forest roads, including documentation	648.027	70.1
Housing construction	11.314	1.2
Service buildings and structures	60.600	6.5
Water management	129.689	14.0
EU projects	1.526	0.2
Agenda 2000	44.926	4.9
Other structures	28.497	3.1
Total	924.579	100

CZK 924.579 mil. was invested in surface structures and utilities, most of which (CZK 648.027 mil., i.e. 70.1%) was invested in the construction and upgrading of forest roads. The second largest amount CZK 129.689 mil. (or 14.0%), was invested in hydraulic works to enhance flood protection and to prevent and eliminate flood damage. Nearly 80% of funding was therefore invested in structures constructed primarily in the public interest.

Investments in Machinery and Equipment by Statistical Classification

Machinery and Equipment	mil. CZK	%
Logging truck-and-trailer units	5.846	1.2
Trucks	35.841	7.4
Other vehicles (off-road)	95.257	19.6
Other vehicles (not off-road)	190.476	39.2
Special forestry machinery	29.352	6.0
Tractors including forestry trucks	28.991	6.1
Trailers and semi-trailers	2.584	0.5
Farming and nursery machinery	4.010	0.8
Loaders	0.482	0.1
Computer equipment, including printers	54.628	11.3
Copiers	0	0
Telecommunications equipment	0.024	0
Security systems for structures	0.076	0
Metalworking machinery	0.040	0
Woodworking machinery	0.120	0
Cross-cutting and sorting lines, dispatch lines	18.896	3.9%
Televisions and cameras	0.657	0.1%
Freezer technology	1.114	0.2%
Other machinery not listed elsewhere	16.907	3.5%
Total machinery	485.301	99.9
Other equipment + tangible fixed assets	0.697	0.1
Total machinery and equipment	485.998	100

Capital Construction

A total of CZK 485.998 mil. was spent on machinery and other equipment in 2016. The largest outlay of CZK 285.733 mil. (i.e. 58.8%) was invested to purchase regular and off-road vehicles to modernize and supplement the company fleet.

Agenda 2020 – Investment Projects

Types of Activity	mil. CZK	%
Forest arboretums	1.800	4.0
Protected, ornamental and other trees	0.028	0.1
Alterations to streams, reservoirs	7.460	16.6
Wells	1.335	3.0
Support for endangered species	0.497	1.1
Historical buildings and structures	3.895	8.7
Landscaping	0.563	1.2
Recreational and sightseeing facilities	14.866	33.1
Building of public campgrounds	0.013	0
Removal of invasive plants	0	0
Building of public information systems	1.659	3.7
Roads, trails, parking lots	8.959	19.9
Other, not listed elsewhere	3.851	8.6
Total	44.926	100

In 2016, a total of CZK 86.170 mil. was spent on public-interest forest projects under Agenda 2020, CZK 44.926 mil. of which was channelled into investment projects.

Capital construction in 2016 included hiking trails and small wooden structures to serve public visitors to forests managed by LCR. The largest volume of investment funds was used to construct recreational and sightseeing facilities and to build hiking trails and parking lots. Considerable funds were also invested in the repair of watercourses, reservoirs and wells.

Overview of Investment into Assets Managed by LCR by Region (in millions of CZK)

Region	Total	Machinery and Equipment	Buildings	Forest Roads
Moravia-Silesia	122.555	29.860	85.461	43.558
Olomoucký	80.496	17.739	58.323	41.665
Zlínský	89.846	14.950	65.198	41.224
South Moravia	193.576	46.584	91.333	47.985
Vysočina	71.264	18.237	34.999	32.523
Pardubický	77.216	14.550	57.513	49.838
Central Bohemia	146.222	61.425	77.718	43.310
South Bohemia	175.371	78.623	83.976	70.116
Pilsen	92.496	27.454	53.684	47.520
Karlovarský	116.355	48.645	65.606	57.050
Ústecký	104.758	19.072	75.317	44.472
Liberecký	115.541	12.894	97.594	88.779
Královehradecký	209.759	95.965	77.857	39.987
Total	1,595.455	485.998	924.579	648.027



Water Management

LCR manages designated small streams and creeks as a non-productive forest function. As of 31 December 2016, it managed more than 38,500 km of watercourses and over 887 small reservoirs. Care for watercourses by LCR involves the management of watercourse-related assets valued at CZK 5.92 bil. (especially watercourse modification, torrent and gully control structures, flood control, and reservoirs). Watercourses are managed by seven water management units with geographical competence determined by the river basins, including the newly established Berounka basin management unit. These units are methodically managed by the Water Management Department at the LCR Central Head Office.

In 2016, water management activities at LCR focused primarily on:

- eliminating flood damage from 2013 and 2014;
- carrying out investment projects aimed at flood protection, erosion control measures and public interest activities pursuant to Section 35 of the Forest Act;
- assets repairs and maintenance;
- preparation of documentation to implement projects within the Ministry of Agriculture's Stage III Flood Prevention programme;
- activities focused on care for riparian vegetation, restoration of watercourses unsuitably altered in the past, attention to the non-productive function of forests, support for endangered species, elimination of invasive non-native vegetation, etc.;
- keeping central records of watercourses and reservoirs.

The management of watercourses and the measures taken (repairs, upgrading and investment) were mainly financed from the company's own resources and partially from subsidies. Grants were awarded for action taken in the public interest in accordance with Section 35 of the Forest Act, included funding from the national budget for Ministry of Agriculture programmes pursuant to Section 102 of the Water Act. These include "Support for the Elimination of Flood Damage to State Water Management Assets" (OPŠ), "Flood Prevention and Support III" (PPO III) and "Support of Measures on Small Watercourses and Small Reservoirs" (DVT). In addition, EU funds – The Environmental Operational Programme (EOP) and the Rural Development Program (RDP) were also used. The activities conducted in relation to watercourses are of a non-commercial nature and practically do not generate any profit with regard to total expenditures.

Through its organizational units, LCR spent a total of CZK 522.8 mil. on watercourse and waterworks management in 2016, with CZK 173.7 mil. going to investment. This investment includes not only construction, but also investment in machinery and non-tangible assets and purchase of watercourse land. Of this capital expenditure, CZK 123.5 mil. came from the company's own funds. CZK 349.1 mil. went to the management, repair and maintenance of basic torrent control, CZK 336.8 mil. of which came from the company's own funds. CZK 41.7 mil. was spent on removing flood damage, with CZK 27.3 mil. coming from the company's own funds. These amounts include all costs associated with watercourse management. Revenue obtained from purchases of surface water totalled CZK 13.2 mil. and was used to cover watercourse management.

The structure of water management funding in 2016 is given in the following table:

Full Costs in Millions of CZK for Water Management in 2016

LCR	Total	Own Funding	Subsidies	Of This: Flood Damage	
		Total	Total	Own Funding	Subsidies
Investment	173.7	123.5	50.2	8.5	11.5
Non-investment	349.1	336.8	12.3	18.8	2.9
Total	522.8	460.3	62.5	27.3	14.4



Water Management

In 2016, 77 investment projects were carried out, including 4 reservoirs, 4 large transverse structures, 36 longitudinal modifications of watercourses and 33 minor structures as part of the 2020 Agenda (pools, information boards, rest shelters, etc.). 7 water flow studies were also conducted.

Measures Taken in Individual Catchment Basins:

At watercourse management in the Odra Basin the final stage of riverbed stabilization and restoration was completed for the Javornický Stream, serving to protect the property and inhabitants of Javorník. There was also maintenance of the Bystrý Stream in Baška na Frýdecko-Místecko and two transverse structures on Podolský Stream in Rýmařov.

Major construction funded by grants included completion of flood protection under the Stage III Flood Protection Programme of the Ministry of Agriculture on the Kobylí Stream in Karlovice in the Bruntál district and the Děhylovský Stream in Děhylov near Ostrava. Major construction was also started on the Mušlov Stream in the town of Třemešná near Město Albrechtice. The Minor Watercourse Programme of the Ministry of Agriculture began implementing measures to stabilize the Kopytná riverbed near Bystřice near Třinec.

Public-interest construction pursuant to Section 35 of the Forest Act was carried out to build two retention dams in the town of Morávka in the Beskids. In late May and early June minor flood damage was reported on the tributaries of the Opavice in Město Albrechtice. In late July flash floods damaged watercourses in the town of Mosty u Jablunkova. All flood damage was subsequently eliminated.

At watercourse management in the Dyje Basin repairs and maintenance were carried out on LCR structures on the Hodonínka in Štěpánov, Rumzovský járek in Dubňany, Pístovecký Stream in Kněžice, Kamenička in Kamenice or the Radiměřský Stream in Radiměř. The Julinka retention reservoir in the Třebíč region was also renovated.

Work to provide flood protection under the Stage III Flood Protection Programme of the Ministry of Agriculture was carried out near Blanensko to repair the Hodonínka at kilometers 13.670 – 15.700 in Olešnice and the Šebrovka in Sv. Kateřina, Černý Stream in Borova in the Svitavsko region, SN Horky in the town of Čeložnice and the Brťovský Stream in the Žďár region.

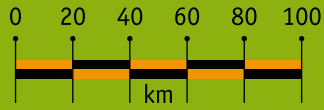
Public-interest construction pursuant to Section 35 of the Forest Act was carried out to build two retention reservoirs near Znojmo, namely RN Višňové and RN Tvarůžek.

As part of the new Minor Watercourse Programme (MZe – DVT) repairs were made to the riverbed of the Chrastová in the town of Rašov and work was begun to repair the riverbeds of seven other watercourses and to restore two reservoirs.

EU - PRV funds were used to start the Barácký Stream project to eliminate flood damage from 2014 in the town of Bransouze near Třebíč.



Geographical Scope of LCR's Watercourse Management



Water Management

At watercourse management in the Labe Basin there was a major lack of precipitation in 2016 which worsened the dry conditions of 2015 particularly in areas of East Bohemia. The drought resulted in low water levels and several watercourses dried up.

Internal funding was used to complete the Zbytý Stream project in the town of Koberovy, construction work is continuing on tributary no. 8 Lužická Nisa in Bílý Kostel nad Nisou and a tributary of the Metuje in Teplice nad Metují. The Stage III Flood Protection Programme of the Ministry of Agriculture started construction of a dry reservoir and riverbed repair in the town of Němčice for the Zlatý pásek watercourse in Česká Třebová.

The newly created Minor Watercourse Programme (MZe – DVT) funded the repair of Počátecký Stream in Počátky and Sedloňovský Stream in Sedloňov. Work was also begun on a tributary of Jindřichovický Stream in Jindřichovice pod Smrkem, the Brodec – Přestavky project in Borovnice, Městecký Stream in Krucemburk and others.

Projects in EU Environmental Operational Programmes included design preparation and submission of two funding requests for two revitalization projects – the Zelenka watercourse in Orlické Záhoří and the Uhřínovský Stream in Uhřínov.

Major activities of the **watercourse management of the Vltava Basin** included elimination of flood damage from June 2013. In the South Bohemia Region this concerned repairs on the Miletínský Stream near České Budějovice and the Bedrna watercourse running through the Poněšice Preserve near Chateau Hluboká nad Vltavou. In the Central Bohemian Region there was work on the Brtnický Stream that flows below Český Šternberk Castle and Chotouňský Stream in the Prague – west district.

The retention dam on Jindrovský Stream near the town of Dobříš was rebuilt and the riverbed of Losinský Stream near Kutná Hora was repaired at places where the bank had crumbled.

Watercourse management also drew funds from the Minor Watercourse Programme (MZe – DVT).

Maintenance work was performed on the Komárovský sewer near Tábor. Sediment was removed and the banks of the Petroupimský Stream were fortified in the Benešov District.

As in previous years, the “Schwarzenberg Canal – Living Cultural Heritage” project was co-financed with EU funds and LCR Days were held in September under the auspices of the watercourse management of the Vltava Basin.

Watercourse management of the Berounka Basin performed to work to remove riverbed sediment from watercourses, ensure maximum flow capacity primarily in repaired sections of watercourses along with maintenance of existing watercourse structures. This concerned the Rakovský Stream in Rokycany, Mlýnecký Stream and tributaries in Postřekov, the Chumava in Radouš, Bykovský Stream in Hromnice, Žihlický Stream in Žihle or Starý Stream near Lešovice.

Major projects included completion of flood damage removal on the tributaries of Tyterský Stream in the town of Skřiván or reconstruction of the stone arched bridge on Sklářský Stream in CHKO Český les.

The response to the major drought includes preparations for the reconstruction of several reservoirs funded according to Section 35 of the Forest Act and with subsidies from MZe – DVT. The reconstruction of Černý Pond in the town of Plachtín is complete.

EU Environmental Operational Programme funds were used to prepare to revitalization projects: Lichovský Stream near the town of Krsa and the “U Křížku” watercourse near Dlouhý Újezd.

Especially in Český les but also in other locations, watercourse management included the removal of beaver dams and other damage to bank vegetation and riverbed flows.



Watercourse management of the Ohře Basin in 2016 repeatedly shored up banks and improved the flow of watercourses after floods, including the Luční, Chudoslavický, Trojhorský and Homolský streams around Litoměřice. Repairs were completed in the Louny region of damage from the June 2013 flood to the historic retaining structures on the left-bank tributary of Struhařský Stream near Lubenec. Internal funding was used to complete repairs and clean-up of the large retention dam on Kojetický Stream in the Ústí region.

Public-interest repairs of the historic retaining structures of the Moravanka Stream were completed pursuant to Section 35 of the Forest Act between the towns of Moravanka and Dolní Zálezly in the Ústí region.

Other public-interest projects of LCR watercourse management (Agenda 2020) included the construction of a nature trail through the revitalized peat bog along Chodovský Stream.

Watercourse management of the Morava Basin carried out several internally funded projects to remove sediment from riverbeds and repair waterworks on several watercourses. The largest of these were the repairs to Ratíškovický Stream and tributaries of the Vracovský Stream in the Znojmo region, the removal of sediment from the Teplička in the towns of Újezd near Uničov and Paseka near Šumperk, repairs of the Lutonínka in Vizovice and Zádveřice in the Zlín area. Investment included improved flow of the Racková and Lutoninka in Lutonina near Zlín, also rebuilt was the flood protection dam on Zlechovský Stream near Kostelany in the Uherské Hradiště area.

The MZe – PPO III grant program was used to fund the construction of the Klášťov retention structure near the town of Vysoká Pole in the Valašsko-Klobouk region.

Public-interest work according to Section 35 of the Forest Act including completion of the project to level out the riverbeds of tributaries to the Hvozdenský Stream in the town of Hvozdná u Zlína.

Funds continued to be drawn in 2016 from the MZe – DVT programme for the Loučka project in Hradišín in the Šumperk District, the Podhrádek project in Loštice and repair of the Ptenka riverbed in Ptení in the Prostějov District.

Over the course of 2016 watercourse management had to repair damage caused by the European beaver to riparian vegetation and channel structures at roughly 20 sites – in Haná, South Moravia, and in the foothills of the Jeseník and White Carpathian mountains.

Watercourse management was also involved in events for the public, especially forest schooling for children, and it regularly informs the public of its activities through press conferences.







Annual Report — 2016

Lesy České republiky, s.p.

Restoration of Ownership and User Relations, Contractual Transfers

Implementation of Act No. 428/2012 Coll., on the Settlement of Property with the Church and Religious Societies

On 1 January 2013 Act No. 428/2012 Coll. on the Settlement of Property with the Church and Religious Societies took effect. Lesy České republiky, s.p. is one of the subjects required by law to return property to registered church and religious societies.

2016 saw the conclusion of most agreements for the transfer of property. In the coming period we now expect a limited number of agreements and property will be transferred primarily based on court ruling or ruling of the State Land Office in administrative proceedings.

As of 31 December 2016, LCR had received a total of 2,303 requests for the transfer of property, in which entitled subjects claimed the transfer of 49,249 land parcels and 1,398 buildings. Some of these requests were duplicitous claims to 10,575 land parcels and 60% of the buildings.

As of 31 December 2016, a total of 2,067 agreements had been concluded with entitled subjects for the transfer of claimed property totalling 49,249 land parcels measuring 10,575 ha and 262 buildings.

As of 31 December 2016, LCR had received 600 rulings from the State Land Office pursuant to Section 9 par. 6 of Act No. 428/2012 Coll. stating that the entitled subjects are the rightful owners of 4,654 land parcels measuring a total of 48,502 ha and 105 buildings.

As of 31 December 2015, LCR had received 5 court rulings pursuant to Sections 9 and 10 of Act No. 428/2012 Coll. declaring petitioners to be the rightful owners of 8 land parcels measuring a total of 4 ha.

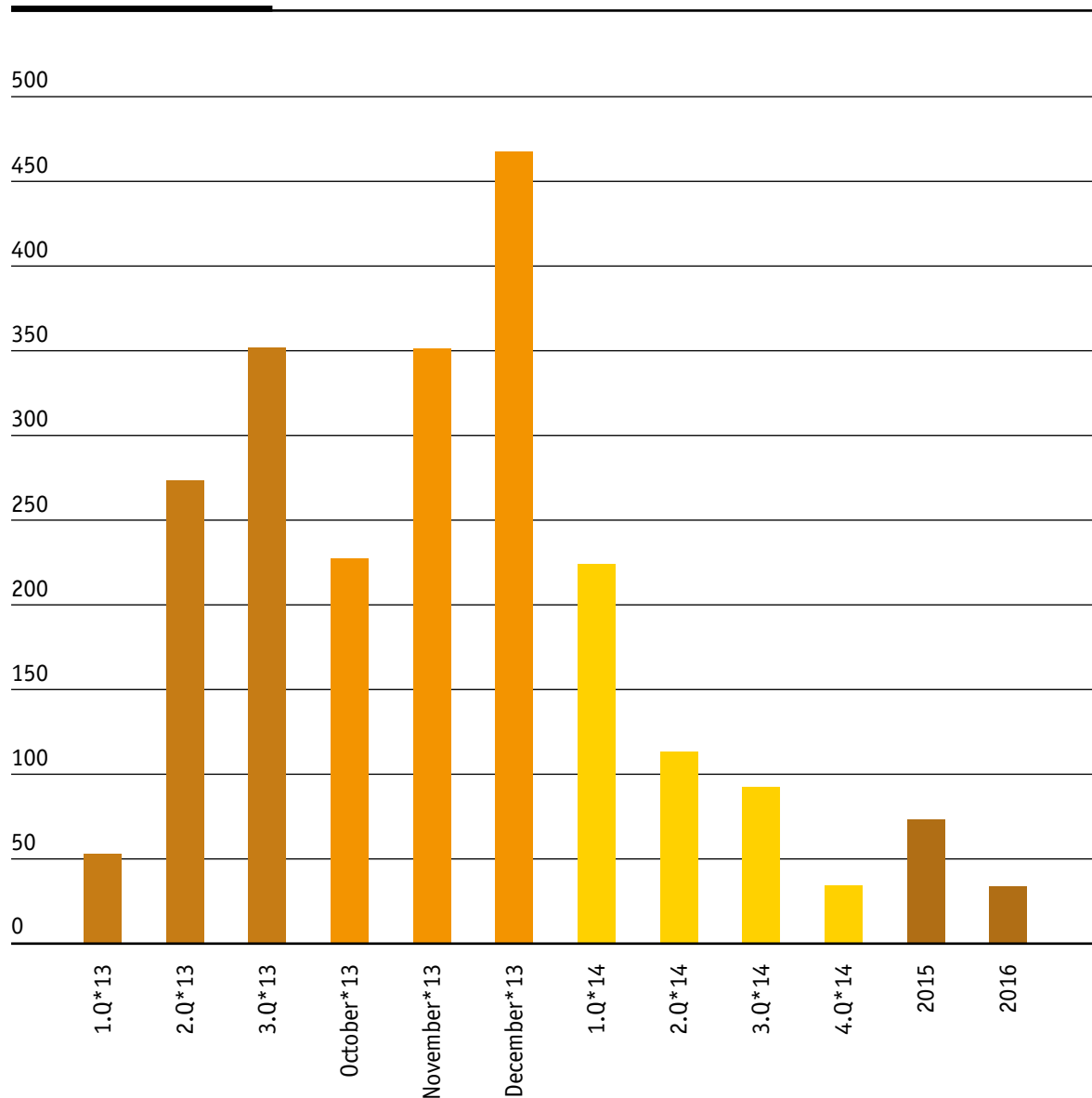


Number of Requests Filed in Individual Months from 2013-2015

Status as of 31 December 2017

Period	1Q*13	2Q*13	3Q*13	October*13	November*13	December*13
Number of requests filed	51	275	353	230	352	465
Period	1Q*14	2Q*14	3Q*14	4Q*14	2015	2016
Number of requests filed	225	113	92	39	70	38
Total						2,303

Number of Requests Filed

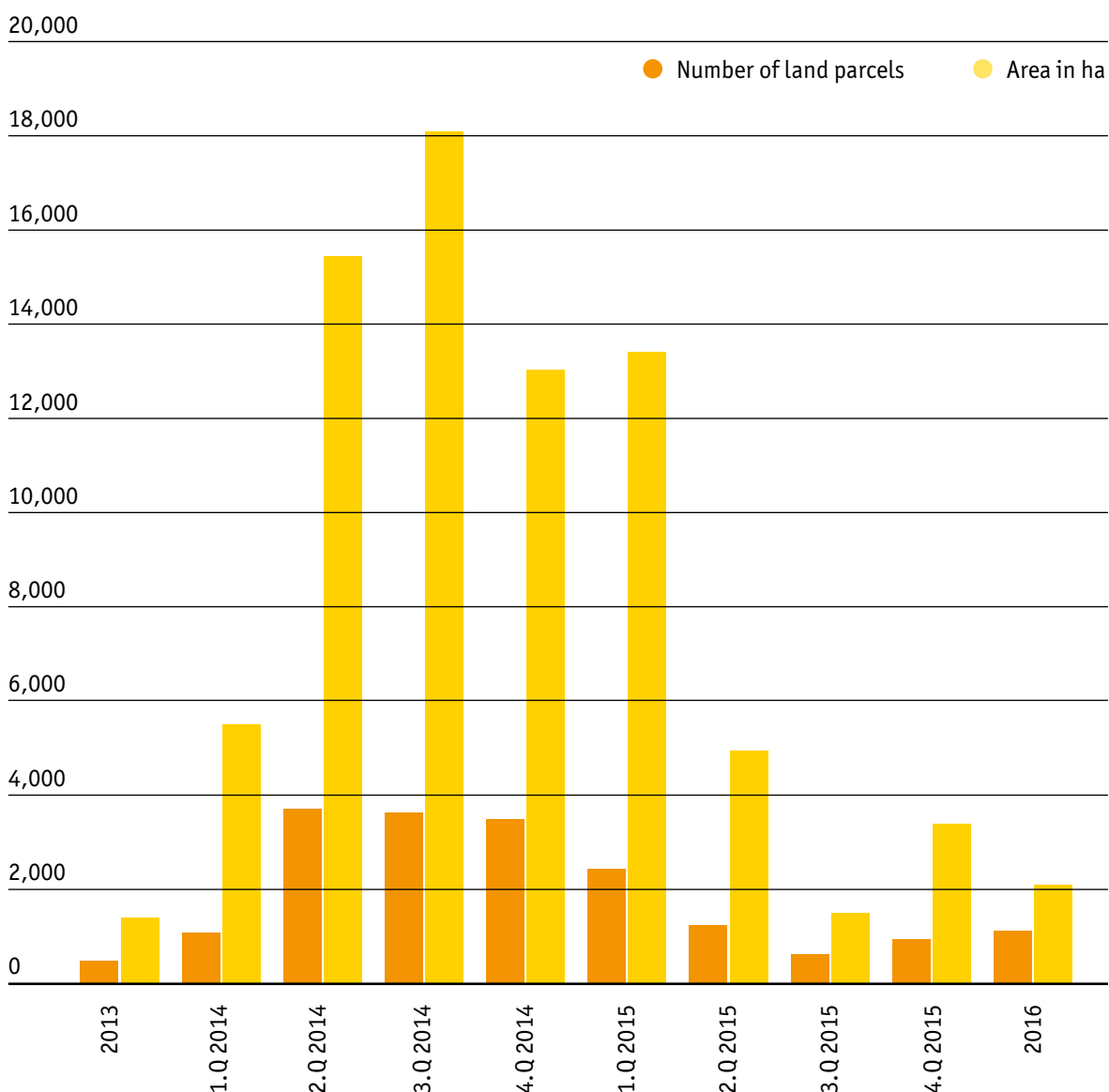


Restoration of Ownership and User Relations, Contractual Transfers

Number of Land Parcels Listed in Agreements pursuant
to Sections 9 and 10 of Act No. 428/2012 Coll. from 2013-2016

Period	2013	1Q 2014	2Q 2014	3Q 2014	4Q 2014
Number of agreements	32	84	284	394	439
Number of land parcels	293	1,164	3,860	3,800	3,763
Area in ha	1,422	5,651	15,549	18,406	13,077

Period	1Q 2015	2Q 2015	3Q 2015	4Q 2015	2016	Celkem
Number of agreements	225	201	121	129	158	2,067
Number of land parcels	2,154	1,234	583	826	917	18,594
Area in ha	13,537	5,032	1,518	3,597	2,021	79,810



Other Restitution

In other cases a total of 697.8265 ha of property was returned to original owners pursuant to Act No. 172/1991 Coll., on the transfer of certain property from the Czech Republic to municipalities, as subsequently amended (in 2016 this exclusively involved the ending of lawsuits for ownership rights filed by municipalities before 31 March 2013) and pursuant to Act No. 229/1991 Coll. on the ownership of land and other agricultural property, as subsequently amended.

Property Transfers Carried Out in 2016

Land Parcels (Purchase, Sale, Exchange)

Sale (Including Transfer for Consideration of the Right to Conduct Commerce)

	Total I	Forest Lands I
Area in ha	330.7217 I	237.8869 I
Purchase price in CZK	169,456,576 I	64,216,648 I

Purchase (Including Transfer for Consideration of the Right to Conduct Commerce)

	Total I	Forest Lands I
Area in ha	548.0631 I	439.8960 I
Purchase price in CZK	108,949,362 I	72,265,235 I

Buildings (sale)

Sale (Including Transfer for Consideration of the Right to Conduct Commerce)

Number of buildings	126 I
Purchase price in CZK	97,526,493 I

Human Resources

In 2016, the following changes took place in senior staff positions

Org. unit	Function	Newly appointed	Replacing	Date of Change
BM Odry	Head of BM	Kahánek Miroslav	Němčanský Vladimír	1 Jan 2016
BM Moravy	Head of BM	Hopjan Pavel	Kahánek Miroslav	1 Jan 2016
BM Berounky	Head of BM	Šampalík František		1 Jan 2016
FMU Plasy	Forest manager	Hefler Václav	Štich Jan	1 Jan 2016
FMU Frýdek Místek	Forest manager	Peka Tomáš		15 Feb 2016
FMU Buchlovice	Forest manager	Karásek Ladislav	Zálešák Zdeněk	1 June 2016

Average Number of Employees

Year	2012	2013	2014	2015	2016
FMU, BM, RHO, CHO, LCR	2,125	2,175	2,230	2,278	2,413
FU, SU	1,088	1,096	1,105	1,098	1,062
Total	3,213	3,271	3,335	3,376	3,475
- white-collar employees					
FMU, BM, RHO, CHO, LCR	2,041	2,080	2,119	2,118	2,154
FU, SU	309	302	301	297	289
Total	2,350	2,382	2,420	2,415	2,443
- labourers	863	889	915	961	1,032

The average number of labourers increased from last year due to more personnel involved in forest protection. This increase in hiring is primarily in conjunction with the expansion of the Public Works social programme.

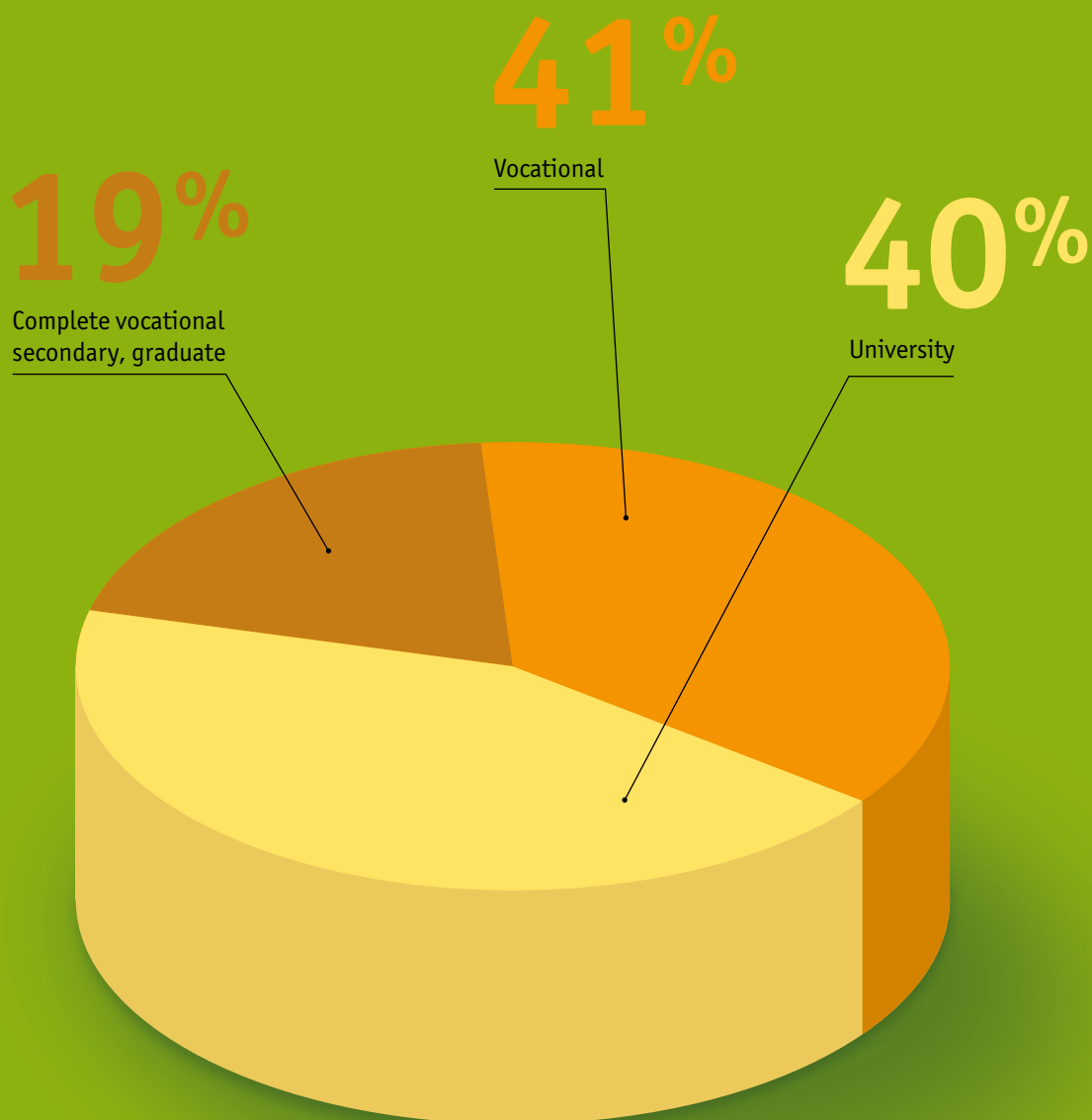
Average Wage

Year	2012	2013	2014	2015	2016
White-collar employee	29,329	30,024	30,693	31,163	31,726
Labourer	20,078	20,468	20,629	20,834	20,955
Total	29,057	29,418	29,963	30,056	30,211

Total average earnings increased by 0.52% compared to 2015. The mandatory annual increase in average wage as set forth in the company's collective bargaining agreement was met 100.7% for employees without a contractual wage.



Employee Education (in %)



Trade Unions

There are 12 local trade union chapters active at LCR associated under the Woodworking, Forestry and Water Management Trade Union of the Czech Republic, Lesů České republiky, s.p. headquartered at Přemyslova 1106, 501 68 Hradec Králové and one Independent Trade Union headquartered at Tyršova 1, 667 01 Židlochovice FU; These unions enter into Collective Agreements with the company. Under the Company's Collective Agreement, employees receive benefits and other consideration in excess of generally applicable laws.



Communication with the Public

The company has a long-term view to remaining an economically strong, stable and open organization. Communication with the general public and professional community has focused on presenting the company as a profitable, stable, responsible and open organization in all areas of interest: economic areas, environmental protection, and social areas.

The aim of the company is transparent, quality communication that contributes to strengthening positive perception of the company. This was to a large degree met through the company's website and Facebook profile. Both of these tools enable modern and flexible communication with the public.

Exhibitions are an excellent communication opportunity. Major events included Silva Regina in Brno, which primarily featured talks on forestry topics, and Natura Viva in Lysá nad Labem that traditionally showcases hunting opportunities, environmental protection, Agenda 2020, and forest-based education. Also noteworthy was the Bread Basket International Agriculture Fair in České Budějovice, where LCR reached new potential partners.

This was also the first year we were able to make the popular LCR Day a republic-wide event in the natural amphitheatre and adjacent forest stands of Konopiště. The event was well received with contributions from a great number of forestry educators who prepared interesting exhibits along a playful and instructive nature trail.

We also repeated the successful Notebooks for Schools project, and this time over 900 schools took advantage of free notebooks with interesting graphics. Before Christmas we also didn't forget about the orphans and children in institutions and hospital wards and sent over 400 Christmas trees to brighten up their holidays.

The company is also presented to the public through printed materials that LCR regularly issues and distributes. News from the forests of the Czech Republic thus found its way in 2016 into the mailboxes of over 900,000 inhabitants of our republic.

1. Communication with Journalists

The company's spokesperson, Eva Jouklová, is the contact person for all media representatives. The spokesperson handles all questions from journalists, organizes press conferences, and prepares press and news releases. In 2016, the company put out 154 press releases and held 25 press conferences, many in the field. Her openness to the media and accessibility follows the goals clearly defined by company management in the current Strategic Development Concept for 2015-2019, namely, to restore the company's good name, present its approach to good stewardship of the country's forest and reasonably justify and defend all of its measures and decisions.

Media releases concerned regional and general topics.

Including for example:

- church restitution
- forestry tenders
- transfer of funds to the state budget
- forest management: silviculture, new planting, pine cone harvesting, etc.
- construction of forest pavilions and rest areas, restoration of hiking trails and more from Agenda
- construction of flood-prevention measures and other water management structures.
- fire prevention research in Boří Forest in Břeclav
- installation of rescue points in forests
- logging to repair Libušina
- employing the unemployed through the LCR social programme
- sale of unnecessary properties and assets
- forest-based schooling

2. Children and Youth

Part of the education plan at the elementary school level is environmental education, upbringing and awareness (EVVO). Since 1999 environmental education has been a priority for the company's entire communication strategy. These educational and awareness activities are carried out through a series of communication tools.

One method of promoting awareness of forestry and the environment is forest-based schooling, with an emphasis on experiential learning mediated by professional forest educators and foresters. Foresters use these programmes to teach the public about all the useful things forests do for people and to give them a comprehensive understanding of forests from an ecological, social and economic perspective. The forest is introduced as an ecosystem and living space for animals, while at the same time explaining the principle of sustainable forestry with an emphasis on wood as a renewable resource.

The primary target groups are pre-schoolers, elementary school students and other children's groups, families with children, adults and seniors

In 2016 forestry educators held 936 events attended by over 135,000 participants. Among the most popular are school trips into the forests with educators.

Several art competitions and knowledge contests were held throughout the year, forestry educators guided trips and organized various forestry/hunting celebrations. The most highly attended events were the 127 LCR Days with sports and education that represent an important opportunity for the state company to strengthen ties with the public on a regional level.

Year	Number of Event Participants	Number of Events	Number of Forestry Educators
2010	78,021	689	174
2011	81,045	760	195
2012	98,385	827	211
2013	100,842	894	233
2014	134,147	949	245
2015	118,910	938	229
2016	135,451	936	253



Communication with the Public

3. Internal Communication within the Company

The most flexible and widely used tool for internal communication within the company is the company intranet. Our internet magazine, Lesu zdar, also remains a popular traditional tool. Company culture and employee loyalty is strengthened by personal meetings between management and the rank and file, both on a formal and informal level (LCR Cup, LCR Ball, Sports Day in Nymburk).

4. Gift Giving

Forests are not only a great natural treasure but also an economic one. The ownership of such wealth has always been historically associated with social obligation, not only towards the direct descendants of landholders, but also to the broader society living in the particular territory. LCR is a state enterprise that is aware of its corporate responsibility, and therefore purposely creates an environment to carry out social and cultural projects.

Eight priority areas have been established:

- promotion of LCR's main activities and forestry awareness aimed at the broader lay public, including children and youth, topics: significance of forests, silviculture and logging, uses of wood, and protection of the environment and countryside;
- support of schools and vocational training with the aim of raising the level of education, training young specialists and supporting the handicapped, topics: learning aids, textbooks, technology, foreign languages, leisure time, lifestyle;
- promotion of the consumption and utility of wood through the promotion of materials like renewable resources, topics: wood construction, furniture, energy sources, alternative uses;
- care for the environment with an emphasis on forests as a key component, topics: shaping landscapes, environmental protection, awareness, breeding of cold-blooded horses;
- support for mass sport, especially for youth, focused exclusively on recreational sports, topics: sports in the forest – hiking, cycling, cross-country skiing;
- support of cultural activities – especially those that address the topics of natural and cultural heritage, topics: Czech countryside, natural heritage, national pride, tradition;
- support for handicapped citizens – projects with positive impacts on quality of life, topics: nature heals and helps;
- promotion of fire safety – volunteer firefighters, monitoring services, topics: material support for particular subjects.

Requests for gifts and advertising cooperation are accepted four times each year, and if all formal requisites are met they are presented to an independent expert commission for approval. LCR is aware of its position and its ensuing corporate responsibility, which is why it has a simple, transparent, open and fair system for providing gifts and establishing advertising cooperation.



Annual Report of State Enterprise Lesy České republiky on Provision of Information Pursuant to Act No. 106/1999 Coll., on Free Access to Information, as Amended, for 2016

State enterprise Lesy České republiky, s.p. (hereinafter also LCR), established by Memorandum of Association of the Ministry of Agriculture of the Czech Republic Ref. No. 6677/91-100 of 11 December 1991, with its registered office at Přemyslova 1106, Hradec Králové, Postal Code: 501 68, Identification No.: 42196451, incorporated in the Commercial Register maintained by the Regional Court in Hradec Králové in Section A XII, Entry 540 (hereinafter also "LCR"), as an obligated party pursuant to Act No. 106/1999 Coll., on Free Access to Information, as amended (hereinafter the "AFAI"), hereby, in accordance with Section 18 of the AFAI, issues this annual report on its activities regarding the provision of information according to the AFAI:

1. Number of requests for information:

There were a total of 55 written requests for the provision of information according to the AFAI in 2016.

2. Number of requests fully or partially rejected:

One decision was issued fully or partially rejecting a request for information under the AFAI in 2016.

3. Number of appeals submitted against decisions rejecting requests:

One appeal was submitted against a decision rejecting a request for information under the AFAI in 2016.

4. Transcript of the relevant parts of court rulings regarding the lawfulness of LCR's decision to reject information requests:

In 2016, the Regional Court in Hradec Králové issued Ruling Ref. No. 30A 49/2016-34, dated 15 September 2016, whereby LCR's decisions No. 099/14/000173/2016 dated 29 February 2016 and No. 99/14/001115/2015 dated 15 January 2016 were cancelled, which rejected a request for provision of information – i.e. provision of copies of all documents by which LCR had been demanding contractual penalties from contractual partners between January 2013 and November 2015 for their failure to comply with the rules of defence and protection against bark beetles pursuant to Exhibit Z3 of the Comprehensive Forestry Contract. The reason for the rejection of the request was an alleged business secret. After the incurred costs in the total amount of CZK 4,189.60 were paid by the requesting party, the requested information was provided on 6 January 2017.

In 2016, the Regional Court in Hradec Králové issued Ruling Ref. No. 30A 20/2016-41, whereby LCR's decisions No. 099/14/0000011413/2016 dated 20 January 2016 and No. 99/14/000931/2015 dated 1 December 2015 were cancelled and LCR was concurrently required to provide the requested information – a summary of penalties as imposed by LCR between January 2013 and October 2015 upon its contractual partners carrying out forestry work for their failure to timely process timber affected by bark beetles, including the following data for each of the penalties: the date on which the respective penalty was imposed; the contractual partner upon which the penalty was imposed; the amount of the penalty; identification of the respective contractual unit; reason for imposing the penalty – how many m³ of timber affected by bark beetles were not processed/were processed belatedly and whether or not a request for processing, or repeated requests, had been sent before the penalty was imposed. The reason for rejecting the request was that LCR did not have the information in the requested structure and would have to create it anew. The Supreme Administrative Court rejected LCR's cassation complaint by Ruling Ref. No. 7As 314/2016 – 32, dated 12 January 2017. The requested information was provided on 27 February 2017.

5. Overview of expenditures incurred by LCR in relation to court proceedings regarding rights and obligations according to AFAI:

In 2016, LCR paid a total of CZK 29,800 as costs of court proceedings based on the court proceedings specified in Section 4 of this report.

6. Exclusive licenses provided:

LCR did not provide any exclusive licenses in 2016.

7. Complaints about the handling of information requests (Section 16a of AFAI), reasons for their submission and brief description of outcome:

In 2016, one complaint was made against the procedure of LCR in handling a request for information due to the information not being provided within the deadline pursuant to Sec. 14 (5) (d). The supervising body confirmed the procedure of LCR by Decision Ref. No. 99/14/000696/2016 dated 20 September 2016, having provided the complainant with evidence that the information had been provided within the deadline pursuant to Sec. 14 (5) (d) of the AFAI.

Criminal Compliance Programme, Anti-Corruption Programme and Ethical Code of Lesy České republiky, s.p.

As a state enterprise and legal entity authorized to manage state assets, LCR is committed to eliminating corrupt (criminal) practices and unethical conduct. In joining the fight against corruption and building upon efforts of the Government of the Czech Republic and the Ministry of Agriculture of the Czech Republic and upon the amended Act No. 418/2011 Coll., on Criminal Liability of Legal Entities and Proceedings against Them, the company has created the Criminal Compliance Programme (which includes the Code of Criminal Compliance, Anti-Corruption Programme, and Ethical Code of Conduct) for the prevention and detection of criminal activities to prevent unlawful conduct and avert or eliminate consequences of criminal wrongdoing within the state enterprise.

LCR recognizes its social accountability arising out of its economic position as a state enterprise and the fact that its significance goes beyond its specific activities, primarily involving the due care of state forest assets, their preservation, refinement and development in the interest of the public. LCR's accountability also arises out of the fact that it employs a substantial number of employees and is not only responsible for these employees, but also accountable for their actions.

LCR has a zero tolerance policy with respect to any criminal acts committed in the interest of LCR or as part of its activities.

LCR declares all of its activities to be in full compliance with any applicable legal regulations and ethical rules and is committed to further upholding and respecting these in the future. The conduct of LCR at all times respects the currently valid legal regulations and internal policies, with these representing an integrated, comprehensive, accordant and mutually interconnected system of principles, rules, measures and procedures aimed at ensuring and promoting the legal and ethical conduct of LCR and its employees in the long term.

Any breach of the Criminal Compliance Programme may be reported to these e-mail addresses:

compliance.officer@lesycr.cz, korupce@lesycr.cz, etickakomise@lesycr.cz

You may also report any incident in writing or in person at these addresses:

Lesy České republiky, s. p. Compliance officer Přemyslova 1106/19 500 08 Hradec Králové (CO)	Lesy České republiky, s. p. Ethical Committee Přemyslova 1106/19 500 08 Hradec Králové (EK)	Lesy České republiky, s. p. Internal Audit Department Přemyslova 1106/19 500 08 Hradec Králové (OIA)
By telephone		
+420 956 999 265	+420 956 999 314	+420 956 999 534

Any suspected fraud or other serious non-conformity potentially having an adverse impact on the financial funds of the EU, whether income, expenditures or assets owned by EU bodies, or any suspected material breach of duties by employees of EU bodies or institutions may also be reported anonymously using the web form at the website of the European Anti-Fraud Office (OLAF):

http://ec.europa.eu/anti_fraud/investigations/report-fraud/index_cs.htm
(http://ec.europa.eu/anti-fraud/olaf-and-you/report-fraud_en)

or the mailing address:
European Commission
European Anti-Fraud Office (OLAF)
1049 Brussels
Belgium

Please visit the website of the state enterprise for more details and related information:
<https://lesycr.cz/o-nas/profil-firmy/kodex-ccp/>



Equity Interests

Lesy České republiky, s. p. held equity interests in the following companies as of 31 December 2016:

The state enterprise holds two equity interests in businesses of other legal entities – in Hradecká lesní a dřevařská společnost a.s. ("HLDS") and H.F.C. a.s. ("HFC"). The founder has intended these to be designated assets and any disposal of them is subject to the founder's consent.

Hradecká lesní a dřevařská společnost a.s. (HLDS)

Registered office: Malé náměstí 111, 502 00 Hradec Králové, Identification Number: 60913827

Equity: 2014: CZK +193,058 thousand; 2015: not known as of the date of the financial statements

Profit/loss: 2014: CZK +402 thousand; 2015: not known as of the date of the financial statements

LCR's holding in the registered capital of the joint-stock company: 50% of shares and control; no controlling agreement or agreement on transfer of profit has been concluded.

Intra-Group Companies

HLDS holds equity interests in the following entities:

Company	No. of Shares	Nominal Value	Book Value	Holding in %
Hanušovická lesní a.s.	580	32,480,000	23,696,515	100
Krnovská lesní obchodní společnost a.s.	60	1,200,000	2,550,000	60
Lesní společnost Broumov Holding, a.s.	19,000	19,000,000	16,321,000	37
ENERGOWOOD CZ, a.s.	10	1,000,000	1,000,000	50
Slovenská lesnická a obchodná společnost, a.s.	37	14,763 EUR	445,295	44

H.F.C. a.s. (HFC)

Registered office: Dřevařská 904, 500 03 Hradec Králové, Identification Number: 25939181

Equity: 2014: CZK +74,929 thousand; 2015: not known as of the date of the financial statements

Profit/loss: 2014: CZK -26,227 thousand; 2015: not known as of the date of the financial statements

LCR's holding in the registered capital of the joint-stock company: 50% of shares and control; no controlling agreement or agreement on transfer of profit has been concluded.

The acquisition price of the long-term securities and equity interests held by LCR as of 31 December 2016 is CZK 91,670 thousand (Balance Sheet, Assets, Row B. III. 2. gross).

HFC's scope of business involves the operation of the U Královny Elišky Hotel at Malé náměstí in the centre of Hradec Králové and the operation of a forestry project for teak production in Nicaragua.

Company	No. of Shares (pcs)	Nominal Value of Shares (CZK ths)	Acquisition Price (CZK ths)	Asset Provision (CZK ths)
Hradecká dřevařská a lesní společnost, a.s.	552	40,500	41,670	
H.F.C. a.s.	83	51,284	50,000	14,930





Financial Section

—| **2016**

Lesy České republiky, s.p.

Independent Auditor's Report on Audit of the Financial Statements as at December 31, 2016



Information about the audited accounting unit

Name of the accounting unit:	Lesy České republiky, s.p.
Registered office:	Přemyslova 1106/19, Nový Hradec Králové, 500 08 Hradec Králové
Recording carried out at:	Krajského soudu v Hradci Králové
Recording under number:	file number AXII 540
ID number:	421 96 451
Tax ID number:	CZ4219651
Statutory body:	Ing. Daniel Szórád, Ph.D. Chief Executive Officer
Subject of business:	direct management by the accounting unit or via select business partners ensuring the optimal performance of all forest functions, exercise of the right to manage state-owned forests as granted to Lesy České republiky by the state, management of designated streams, forest technical melioration, torrent and gully control structures according to the Act no. 254/2001 Coll., its implementing regulations and generally applicable regulations exercise of the right to manage other state-owned movable and immovable assets entrusted to the accounting unit to carry out its tasks, and the right to engage in non-business activities with state property in the company's own name at its own responsibility
Audited period:	from 1 January 2016 to 31 December 2016
Recipient of the report:	Founder of state enterprise – Czech Republic – Ministry of Agriculture of the Czech Republic

Information about the auditing company

Name of the company:	NEXIA AP a.s.
Audit firm licence No.:	No. 096
Registered office:	Sokolovská 5/49, 186 00 Prague 8 Karlín
Recording carried out at:	Municipal court in Prague
Recording under number:	Section B, file number 14203
ID number:	481 17 013
Tax ID number:	CZ48117013
Phone:	+420 221 584 302
E-mail:	nexiaprague@nexiaprague.cz
Responsible auditor:	Ing. Jakub Kovář
Auditor licence No.:	No. 1959
Responsible manager:	Ing. Pavel Hejný
Auditor licence No.:	No. 2408



Independent auditor's report

to the founder of the state enterprise Lesy České republiky, s.p.

Opinion

We have audited the accompanying financial statements of state enterprise Lesy České republiky, s.p. (hereinafter also the „accounting unit“) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2016, the income statement for the year then ended 31 December 2016 and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the financial statements give a true and fair view of the financial position of the state enterprise Lesy České republiky, s.p. as at 31 December 2016, and of its financial performance for the year then ended 31 December 2016 in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors, and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the accounting unit in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We would like to draw your attention to the point no 7 of notes to the financial statements:

- Effect of the Act no. 428/2012 Coll., on the property settlement with the churches and religious societies with the Constitutional order of the Czech Republic and the change of some other Acts in 2016 and expected impact in subsequent accounting periods
- Selected legal disputes in which the entity is in the position of the defendant.

Our opinion is not modified in relation to these matters.

Other Matter

The financial statements as at 31 December 2015 were audited by another auditor. Independent Auditor's Report on Audit of the financial Statements as at December 31, 2015 was not modified.

Other Information included in the Annual Report

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Component Management is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law or regulation, in particular, whether the other information complies with law or regulation in terms of formal requirements and procedure for

Independent Auditor's Report on Audit of the Financial Statements as at December 31, 2016



preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

Based on the procedures performed, to the extent we are able to assess it, we report that:

- the other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- the other information is prepared in compliance with applicable law or regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the accounting unit obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Statutory Body, Supervisory Board and Audit Committee for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Statutory Body is responsible for assessing the Accounting Unit's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the accounting unit or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board and Audit Committee are responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 accounting unit's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Component Management.
- Conclude on the appropriateness of the Component Management' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the accounting unit's ability to continue as a going



concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the accounting unit to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Statutory Body, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Prague, 2 May 2017



Jakub Kovář
auditor licence No. 1959
NEXIA AP a.s.
audit firm licence No. 096

Financial Statements

Balance Sheet as of 31 December 2016 (in thousands of CZK)

Row	Item	Gross	Adjustment	Net Current	Net Previous
	TOTAL ASSETS	83,426,144	-15,913,574	67,512,570	70,337,868
B.	Fixed assets	76,349,419	-15,065,162	61,284,257	62,152,700
B.I.	Intangible fixed assets	1,119,593	-827,677	291,916	292,492
B.I.1.	Intangible results of research and development	0	0	0	0
B.I.2.	Royalties	613,056	-593,610	19,446	31,403
B.I.2.1.	Software	574,087	-557,533	16,554	30,709
B.I.2.2.	Other valuable rights	38,969	-36,077	2,892	694
B.I.4.	Other intangible fixed assets	448,832	-234,067	214,765	205,875
B.I.5.	Advance payments for intangible fixed assets and intangible fixed assets under construction	57,705	0	57,705	55,214
B.I.5.1.	Advance payments for intangible fixed assets	1,028	0	1,028	2,924
B.I.5.2.	Intangible fixed assets under construction	56,677	0	56,677	52,290
B.II.	Tangible fixed assets	73,137,700	-14,222,555	58,915,145	59,287,302
B.II.1.	Land and buildings	70,527,043	-12,810,826	57,716,217	58,378,665
B.II.1.1.	Land	48,200,933	0	48,200,933	49,202,164
B.II.1.2.	Buildings	22,326,110	-12,810,826	9,515,284	9,176,501
B.II.2.	Separate movables and sets of movable items	2,051,218	-1,411,588	639,630	324,220
B.II.4.	Other tangible fixed assets	2,159	-141	2,018	1,959
B.II.4.1.	Perennial crops	30	-30	0	0
B.II.4.2.	Adults animals and their groups	161	-111	50	21
B.II.4.3.	Other tangible fixed assets	1,968	0	1,968	1,938
B.II.5.	Advance payments for tangible fixed assets and tangible fixed assets under construction	557,280	0	557,280	582,458
B.II.5.1.	Advance payments for tangible fixed assets	1	0	1	22
B.II.5.2.	Tangible fixed assets under construction	557,279	0	557,279	582,436
B.III.	Financial investments	2,092,126	-14,930	2,077,196	2,572,906
B.III.3.	Equity interests – significant influence	91,670	-14,930	76,740	76,740
B.III.5.	Other securities and investments	456	0	456	496,166
B.III.7.	Other long-term financial assets	2,000,000	0	2,000,000	2,000,000
B.III.7.1.	Other long-term investments	2,000,000	0	2,000,000	2,000,000
B.III.7.2.	Advance payments for long-term financial assets	0	0	0	0



Row	Item	Gross	Adjustment	Net Current	Net Previous
C.	Current assets	6,976,646	-848,412	6,128,234	8,122,509
C.I.	Inventory	168,094	-8,734	159,360	151,976
C.I.1.	Raw material	56,070	-8,083	47,987	54,828
C.I.2.	Work in progress and semi-finished goods	79,704	0	79,704	70,679
C.I.3.	Finished products and goods	32,102	-651	31,451	26,270
C.I.3.1.	Finished products	30,313	-612	29,701	24,366
C.I.3.2.	Goods	1,789	-39	1,750	1,904
C.I.4.	Young/other animals and their groups	218	0	218	199
C.I.5.	Advance payments for inventory	0	0	0	0
C.II.	Receivables	2,693,614	-839,678	1,853,936	1,286,252
C.II.1.	Long-term receivables	6,496	0	6,496	2,332
C.II.1.1.	Trade receivables	0	0	0	70
C.II.1.5.	Receivables – other	6,496	0	6,496	2,262
C.II.1.5.2.	Long-term advances paid	6,496	0	6,496	2,262
C.II.2.	Short-term receivables	2,687,118	-839,678	1,847,440	1,283,920
C.II.2.1.	Trade receivables	2,147,045	-629,977	1,517,068	1,193,274
C.II.2.3.	Receivables – significant influence	0	0	0	0
C.II.2.4.	Receivables – other	540,073	-209,701	330,372	90,646
C.II.2.4.1.	Receivables from shareholders	160	0	160	112
C.II.2.4.2.	Social security and health insurance	0	0	0	0
C.II.2.4.3.	State – tax receivables	247,824	-5,632	242,192	16,382
C.II.2.4.4.	Short-term advances paid	24,422	-416	24,006	18,457
C.II.2.4.5.	Estimated receivables	5,825	0	5,825	2,194
C.II.2.4.6.	Other receivables	261,842	-203,653	58,189	53,501
C.III.	Financial assets	2,563,223	0	2,563,223	2,617,916
C.III.2.	Other financial assets	2,563,223	0	2,563,223	2,617,916
C.IV.	Cash	1,551,715	0	1,551,715	4,066,365
C.IV.1.	Cash in hand	3,178	0	3,178	3,316
C.IV.2.	Cash at bank	1,548,537	0	1,548,537	4,063,049
D.	Accruals	100,079	0	100,079	62,659
D.1.	Pre-paid expenses	14,946	0	14,946	13,529
D.3.	Accrued revenues	38,100	0	38,100	9,032
D.3.	VAT to be applied in January 2017	47,033	0	47,033	40,098



Financial Statements

Row	Item	Current Period |	Previous Period |
	TOTAL LIABILITIES AND EQUITY	67,512,570 |	70,337,868 |
A.	Equity	65,216,413 |	67,905,791 |
A.I.	Registered capital	13,369,696 |	12,658,789 |
A.I.1.	Capital stock - registered	5,818,759 |	5,818,759 |
A.I.3.	Changes in capital stock	7,550,937 |	6,840,030 |
A.II.	Share premium and capital funds	46,076,720 |	47,192,956 |
A.II.2.	Capital funds	46,076,720 |	47,192,956 |
A.II.2.1.	Other capital funds	46,114,885 |	47,204,452 |
A.II.2.2.	Gain or loss on revaluation of assets and liabilities (+/-)	-38,165 |	-11,496 |
A.III.	Funds created from profit	1,610,764 |	2,658,916 |
A.III.1.	Other reserve funds	1,251,283 |	1,251,283 |
A.III.2.	Statutory and other funds	359,481 |	1,407,633 |
A.V	Profit (loss) for the current period (+/-)	4,159,233 |	5,395,130 |
B. + C.	Liabilities (debt)	2,208,502 |	2,295,046 |
B.	Provisions	829,422 |	976,305 |
B.4.	Other provisions	829,422 |	976,305 |



Row	Item	Current Period	Previous Period
C.	Paybles	1,379,080	1,318,741
C.I.	Long-term payables	108,320	180,643
C.I.8.	Deferred tax liability	108,320	180,643
C.II.	Short-term payables	1,270,760	1,138,098
C.II.3.	Short-term advances received	70,891	53,131
C.II.4.	Trade payables	910,788	818,125
C.II.7.	Payables – significant influence	0	0
C.II.8.	Payables other	289,081	266,842
C.II.8.1.	Payables to shareholders	414	471
C.II.8.3.	Payables to employees	102,325	92,747
C.II.8.4.	Payables to social security and health insurance	58,793	50,067
C.II.8.5.	State – tax liabilities and subsidies	115,222	114,559
C.II.8.6.	Estimated payables	9,956	5,926
C.II.8.7.	Other payables	2,371	3,072
D.	Deferrals	87,655	137,031
D.1.	Accrued expenses	24,400	74,023
D.2.	Deferred income	63,255	63,008



Financial Statements

Profit and Loss Statements as of 31 December 2016 (in thousand of CZK)

Row	Item	Current Period	Previous Period
I.	Revenue from products and services	10,879,864	11,845,105
II.	Revenue from sales of goods	3,658	3,643
A.	Cost of sales	4,009,552	4,015,950
A.1.	Costs of goods sold	2,930	3,069
A.2.	Raw materials and consumables	332,586	290,602
A.3.	Services	3,674,036	3,722,279
B.	Change in inventory of own production (+/-)	-15,118	9,407
C.	Capitalization (-)	-5,818	-8,546
D.	Staff costs	1,802,271	1,735,286
D.1.	Wages and salaries	1,288,740	1,248,456
D.2.	Costs for social security and health insurance and other costs	513,531	486,830
D.2.1.	Costs for social security and health insurance	443,430	424,209
D.2.2.	Other costs	70,101	62,621
E.	Adjustments to operating figures	694,274	595,527
E.1.	Adjustments to intangible and tangible fixed assets	681,438	646,699
E.1.1.	Adjustments to intangible and tangible fixed assets – permanent	681,438	657,829
E.1.2.	Adjustments to intangible and tangible fixed assets – temporary	0	-11,130
E.2.	Adjustments to inventory	8,083	-848
E.3.	Adjustments to Receivables	4,753	-50,324
III.	Other operating revenue	582,724	424,119
III.1.	Proceeds from disposals of fixed assets	300,252	222,083
III.2.	Proceeds from disposals of raw material	3,173	3,843
III.3.	Other operating revenue	279,299	198,193
F.	Other operating costs	135,021	-431,484
F.1.	Net book value of of fixed assets sold	39,820	30,023
F.2.	Net book value of material sold	2,156	2,312
F.3.	Taxes and charges	151,071	155,378
F.4.	Operating reserves and accrued expenses	-146,883	-732,191
F.5.	Other operating costs	88,857	112,994
*	Operating profit (loss)	4,846,064	6,356,727



Row	Item	Current Period	Previous Period
IV.	Revenues from long-term financial assets – equity interests	3,070	2,778
IV.2.	Other revenues from equity interests	3,070	2,778
G.	Costs of sold equity interests	0	0
V.	Revenues from other long-term financial assets	0	0
V.2.	Other revenues from other long-term financial assets	0	0
H.	Costs connected with other long-term financial assets	0	0
VI.	Interest revenues and similar revenues	144,568	242,050
VI.2.	Other interest revenues and similar revenues	144,568	242,050
I.	Financial reserves and adjustments	0	0
J.	Interest expense and similar expense	3	0
J.2.	Other interest expense and similar expense	3	0
VII.	Other financial revenue	24,239	615,498
K.	Other financial expense	33,526	723,302
*	Financial profit (loss)	138,348	137,024
**	Profit/loss before tax (+/-)	4,984,412	6,493,751
L.	Income tax	825,179	1,098,621
L.1.	Income tax due	897,502	1,083,794
L.2.	Income tax deferred (+/-)	-72,323	14,827
**	Profit/loss after tax (+/-)	4,159,233	5,395,130
***	Net profit (loss) for the period (+/-)	4,159,233	5,395,130
*	Net turnover for accounting period	11,638,123	13,133,193

Notes to Annual Financial Statements for 2016

1.

Lesy České republiky, s.p.

Hradec Králové 8, Přemyslova 1106/19, Nový Hradec Králové, Postal Code 500 08

Registration Number: 42196451

Legal Form: state enterprise (státní podnik)

Principal Activities (according to the current Memorandum of Association):

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

Other business activities are listed in the publicly available Commercial Register on the website www.justice.cz. Likewise, all changes and additions made during the 2015 and 2016 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. No. 6677/91 100 of 11 December 1991 effective from 1 January 1992. The complete wording of this memorandum was most recently updated on 27 January 2016 by Decision of the Ministry of Agriculture of the Czech Republic Ref. No. 2430/2016-MZE 13221. The current wording of the Memorandum of Association, including all other changes, is publicly available in the Commercial Register.

The company is incorporated in the Commercial Register kept by the Regional Court in Hradec Králové in Section A XII, Entry 540.

The value of capital stock entered in the Commercial Register as at 31 December 2016 was CZK 5,818,758,987.42.

The annual accounts for 2016 were compiled as of 31 December 2016.

Statutory Body as of 31 December 2016:

Ing. Daniel Szórád, Ph.D. – Chief Executive Officer

Representatives of Statutory Body as of 31 December 2016:

Ing. Václav Lidický	- Production Technical Director
Ing. Igor Kalix, MBA	- Administrative Director
Ing. Radovan Srba	- Business Director
Ing. Karel Buchta, Ph.D.	- Chief Financial Officer

Supervisory Board as of 31 December 2016:

Ing. Jaromír Vašíček, CSc.	- Chairman
Ing. Jaromír Kříha	- Vice-Chairman
Ing. Zdeněk Adamec, CISM	
Ing. Miroslav Jankovský	
Mgr. Patrik Mlynář	
Petr Moravec	
Ing. Miloš Pochobradský	
Ing. Tomáš Vrba	
PhDr. Jan Závěšický	



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

Audit Committee as of 31 December 2016:

Josef Jaroš, MBA - Chairman
Ing. Jaromír Vašíček, CSc. - Vice-Chairman
Ing. Tomáš Vrba

Organizational Structure of the Company as of 31 December 2016 (internal company accounting units):

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

In addition, the company's Central Head Office directly manages 12 regional head offices, which in turn are in charge of 72 forest management units throughout the Czech Republic. Regional head offices are not autonomous internal accounting units.

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

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

2.

	2015	2016
Average annual number of employees	3,376	3,475
Registered number of employees as of 31 December	3,251	3,276
Wages and salaries (CZK ths)	1,248,456	1,288,740
Social security costs (CZK ths)	424,209	443,430
Social costs (CZK ths)	62,621	70,101
Personnel expenses (CZK ths)	1,735,286	1,802,271
Average annual number of employees in decision-making bodies	22	22
Wages and salaries of employees in decision-making bodies (CZK ths)	37,116	36,750
Social security costs of employees in decision-making bodies (CZK ths)	12,931	12,804

Employees in decision-making bodies are head office staff in positions of directors and heads of department. Persons who are a statutory body and members of statutory or other management and supervisory bodies received no benefits beyond the scope of generally applicable internal guidelines. In 2016, Supervisory Board member remuneration totalling CZK 2,767 thousand was recognized. All members of staff in decision-making bodies, in accordance with applicable legal standards and internal guidelines, have the possibility of using a company car for their private needs.

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

Receivables from employees (Balance Sheet, Assets, C.II.2.4.6.) were CZK 3,000 thousand as of 31 December 2016 (CZK 4,380 thousand as of 31 December 2015). The amount for 2016 includes repayments of loans maturing in 2018 and beyond in the amount of CZK 1,635 thousand, which are due with immediate effect if employment is terminated.

Notes to Annual Financial Statements for 2016

3.

3.1. Application of general accounting principles, accounting methods, methods of valuation and depreciation

In 2015 and 2016, LCR applied accounting practices, principles, methods and valuation methods in accordance with the current wording of Act No. 563/1991 Coll., on Accounting, and Decree No. 500/2002 Coll.

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 Coll., on Income Tax, in most cases.

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

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

The depreciation schedule is expressed by a uniform book depreciation table used throughout the company for purposes of fixed assets, which 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 2015 and 2016.

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 2015 and 2016, there was no change in valuation or depreciation methods and no other significant change in accounting practices.

3.2. Deviations from accounting methods, method of determining adjustments and accumulated depreciation for assets, method for conversion of foreign currency, method of determining fair value and fair-value changes

a) Deviations from accounting methods

In 2015 and 2016, LCR reported no deviations from the methods prescribed by Act No. 563/1991 Coll., on Accounting.

b) Method for determining adjustments and accumulated depreciation of assets

Adjustments to non-current financial assets are described in Part 4.3 a).

An adjustment for materials amounting to CZK 8,083 thousand was created in 2016 for a stock of hunting and bowie knives; by means of the adjustment, the valuation of this stock was made more realistic to reflect the value determined by expert valuations. An adjustment to goods of CZK 39,000, created at Týniště nad Orlicí SU as the difference between the stock price and the sales price of the goods as of 31 December 2015, remained unchanged as of 31 December 2016. By the same principle, an adjustment to products of CZK 612 thousand was created at Týniště nad Orlicí SU at 31 December 2015, and there was no reason to change it as of 31 December 2016.

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 any receivables from debtors in insolvency proceedings, legally enforced receivables and receivables from the Agency for Nature Conservation and Landscape Protection of the Czech Republic regardless of the length of the delay in payment. Tax-purpose adjustments to receivables are created in keeping with Act No. 593/1992 Coll., on Provisions to Determine Income Tax Base.

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 until 30 November 2016; commencing from 1 December 2016, the fixed exchange rate announced by the Czech National Bank as of 30 November 2016 was applied. Other methods for the conversion of assets and liabilities denominated in foreign currencies were not used in 2015 and 2016.

d) Method for determining fair value

Assets fair-valued in 2015 and 2016 were valued at their market price determined on the public market or at their market price determined by the status of a security.

Non-current financial assets and short-term financial assets were fair-valued in 2015 and 2016. These were the stock units of investment funds, debt securities and promissory notes. A change in the fair value of long-term debt securities is charged against the Balance Sheet item "Liabilities, A.II.2.2 Gain or loss on revaluation of assets and liabilities." A change in the fair value of short-term stock units, debt securities and promissory notes is charged individually for each title held – an increase compared to the Profit and Loss Account item "VII. Other revenues from financial assets," and a reduction compared to item "K. Other expenses of financial assets."



Notes to Annual Financial Statements for 2016

4.

Breakdown and Description of Significant Balance Sheet Asset Items

4.1. Breakdown of intangible fixed assets

Balances and changes of intangible fixed assets

Acquisition Cost in CZK ths	Balance as of 1 Jan 2015	Additions 2015	Disposals 2015	Balance as of 31 Dec 2015	Additions 2016	Disposals 2016	Balance as of 31 Dec 2016
Software	608,333	10,891	3,083	616,141	13,399	55,453	574,087
Valuable rights	37,963	349	2,291	3,021	2,948	0	38,969
Forest management plans	355,218	43,044	41,975	356,287	50,409	25,793	380,903
Other IFA	62,160	2,176	105	64,231	3,698	0	67,929

Balances and changes of accumulated amortization on intangible fixed assets

Acquisition Cost in CZK ths	Balance as of 1 Jan 2015	Change 2015	Balance as of 31 Dec 2015	Change 2016	Balance as of 31 Dec 2016
Software	544,088	+ 41,344	585,432	- 27,899	557,533
Valuable rights	37,047	- 1,720	35,327	+ 750	36,077
Forest management plans	151,413	+ 14,493	165,906	+ 14,027	179,933
Other IFA	43,542	+ 5,196	48,738	+ 5,396	54,134

4.2. Breakdown of tangible fixed assets

a) Land was the major and most significant item of tangible fixed assets. The following changes occurred in 2016:

2016	Forestland		Other Land		Total	
	CZK ths	ths m ²	CZK ths	ths m ²	CZK ths	ths m ²
Balance as of 1 Jan	47,499,143	12,342,420	1,703,107	273,710	49,202,250	12,616,130
Total additions	891,133	206,921	94,327	9,399	985,460	216,320
Transfer of management right	76,486	5,921	14,661	1,847	91,147	7,768
Purchase (exchange)	57,718	3,886	36,455	1,060	94,173	4,946
Other	756,929	197,114	43,211	6,492	800,140	203,606
Total disposals	1,906,001	500,331	80,690	11,675	1,986,691	512,006
Church restitution	1,128,267	297,029	11,996	2,700	1,140,263	299,729
Restitution	26,360	6,919	728	59	27,088	6,978
Sale (exchange)	6,862	2,078	9,779	887	16,641	2,965
Other	744,512	194,305	58,187	8,029	802,699	202,334
Balance as of 31 Dec	46,484,275	12,049,010	1,716,744	271,434	48,201,019	12,320,444

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 in the off-balance sheet).



Comparative data regarding changes in land in 2015 is provided in the following table:

2015	CZK ths	Forestland ths m ²	CZK ths	Other Land ths m ²	CZK ths	Total ths m ²
Balance as of 1 Jan	49,637,087	12,908,565	1,682,485	275,982	51,319,572	13,184,547
Total additions	835,533	208,392	103,095	11,912	938,628	220,304
Transfer of management right	16,849	8,382	16,975	2,122	33,824	10,504
Purchase (exchange)	61,734	3,240	44,326	1,112	106,060	4,352
Other	756,950	196,770	41,794	8,678	798,744	205,448
Total disposals	2,973,477	774,537	82,473	14,184	3,055,950	788,721
Church restitution	2,150,211	564,815	21,663	4,117	2,171,874	568,932
Restitution	35,357	9,291	946	217	36,303	9,508
Sale (exchange)	6,264	1,600	7,026	848	13,290	2,448
Other	781,645	198,831	52,838	9,002	834,483	207,833
Balance as of 31 Dec	47,499,143	12,342,420	1,703,107	273,710	49,202,250	12,616,130

LCR 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 most recent valuation of forest stands was carried out in 2014. The official price was quantified in accordance with Decree of the Ministry of Finance No. 3/2008 Coll. The market price of forest stands is carried out by reference to the yield value in accordance with LCR methodology based on average linear surveys of forests managed by LCR. The valuation of forest stands is expressed in the following table:

CZK mil.	Price per 1 m ² in CZK – 2014	2015	2016
Market value according to LCR method	11.42	140,950	137,600
Official price under MoF Decree No. 3/2008 Coll.	26.56	327,815	320,022

b) Balances and changes of tangible fixed assets

Acquisition Cost in CZK ths	Balance as of 1 Jan 2015	Additions 2015	Disposals 2015	Balance as of 31 Dec 2015	Additions 2016	Disposals 2016	Balance as of 31 Dec 2016
Buildings	21,704,760	963,428	812,807	21,855,381	979,383	508,654	22,326,110
Separate movables and sets of movable items	1,415,077	255,454	79,654	1,590,877	484,618	171,403	1,904,092
Low-value separate movables and sets of movable items	141,519	15,295	8,474	148,340	19,732	20,946	147,126
Perennial crops	30	0	0	30	0	0	30
Adult animals	53	41	0	94	70	3	161
Works of art	1,938	0	0	1,938	30	0	1,968

Notes to Annual Financial Statements for 2016

Balances and changes of accumulated amortization on tangible fixed assets

Acquisition Cost in CZK ths	Balance as of 1 Jan 2015	Change 2015	Balance as of 31 Dec 2015	Change 2016	Balance as of 31 Dec 2016
Buildings	12,665,970	+ 12,910	12,678,880	+ 131,946	12,810,826
Separate movables and sets of movable items	1,259,213	+ 13,865	1,273,078	- 226	1,272,852
Low-value separate movables and sets of movable items	130,394	+ 11,525	141,919	- 3,183	138,736
Perennial crops	30	0	30	0	30
Adult animals	53	+ 20	73	+ 38	111

c) Significant additions to tangible fixed assets in terms of funds invested:

Acquisition Cost in CZK ths	2015	2016
Buildings and structures	964,814	924,579
of that – housing construction, lodges	14,827	11,314
administrative and service buildings	133,669	60,600
forest roads	701,182	648,027
torrent control and forestland draining	115,136	138,484
Machinery and equipment	234,348	485,998
Of that – forestry machinery	43,945	62,835
trucks	55,546	44,271
passenger cars	118,570	285,733
computers and other devices	16,287	93,159

d) Major disposals of tangible fixed assets:

Acquisition Cost in CZK ths	2015	2016
Non-residential buildings and structures	577,926	471,018
Of that – structures	540,805	361,666
sold	21,801	15,216
handed over (restitution)	465,571	335,119
demolished due to wear or accident	53,433	11,331
buildings	37,121	109,352
sold	16,950	69,729
handed over (restitution)	19,464	39,333
demolished due to wear or accident	707	290
Machinery and equipment	21,833	102,372
Of that – trucks	14,770	67,275
passenger cars	7,063	35,097

e) Leased fixed assets recorded in off-balance sheet accounts are valued as follows as of 31 December in thousands of CZK:

CZK ths	2015	2016
Leased fixed assets	14,605	14,073

f) 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 (above-ground 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.

g) *Aggregate amount of low-value intangible and tangible assets not disclosed in the balance sheet as of 31 December in thousands of CZK:*

CZK ths	2015	2016
Low-value intangible assets not reported in balance sheet	85,727	85,727
Low-value tangible assets not reported in balance sheet	284,934	296,447

h) *Aggregate amount of fixed assets acquired with 100% subsidies and recorded in off-balance sheet accounts as of 31 December in thousands of CZK:*

CZK ths	2015	2016
Fixed assets acquired with 100% subsidies	174,690	166,651

i) As of 31 December 2016, 115 real estate items were removed from the asset list with their net book value of CZK 1,622 thousand (acquisition cost was CZK 4,019 thousand, accumulated amortization CZK 2,397 thousand); a petition for registration of these in the real estate register was filed in 2016, but the registration was not effected in 2016 (further see para 5.4).

4.3. Breakdown of non-current financial assets

a) *Equity interests – significant influence*

Lesy České republiky, s. p., held equity interests and had controlling influence in the following companies as of 31 December 2016:

- **Hradecká lesní a dřevařská společnost a.s. (HLDS)**

Registered office: Malé náměstí 111, 502 00 Hradec Králové, Identification Number: 60913827

Equity: 2015: CZK +182,657 thousand; 2016: not known as of the date of the financial statements

Profit/loss: 2015: CZK -5,639 thousand; 2016: not known as of the date of the financial statements

LCR's holding in the registered capital of the joint-stock company: 50% of shares and control.

In the early 2017, LCR had an expert valuation made of its holding in HLDS. Neither the expert valuation of LCR's holding in HLDS nor preliminary profit/loss data for 2016 indicate any need for correction of the valuation of the equity interest in this company.

- **H.F.C. a.s. (HFC)**

Registered office: Dřevařská 904, 500 03 Hradec Králové, Identification Number: 25939181

Equity: 2015: CZK +71,742 thousand; 2016: not known as of the date of the financial statements

Profit/loss: 2015: CZK -3,187 thousand; 2016: not known as of the date of the financial statements

LCR's holding in the registered capital of the joint-stock company: 50% of shares and control.

During 2014, LCR had an expert valuation made of its holding in HFC, which determined a market valuation that was significantly lower than the acquisition price. In response, an adjustment of CZK 14,930,400 was made as part of 2014 final accounts operations (Balance Sheet, Assets, Row B.III.3 correction), by which the amount of the holding in HFC was corrected to CZK 35,069,500, corresponding to the minimum market valuation of this holding. Profit/loss of HFC for 2016 is not known yet; nevertheless, the amount of any loss is not expected to significantly lower the valuation of the company recorded as of 31 December 2016 or as of 31 December 2015, so the valuation as of 31 December 2015 was not corrected in 2016.



Notes to Annual Financial Statements for 2016

The acquisition price of the long-term securities and equity interests held by LCR as of 31 December 2016 is CZK 91,670 thousand (Balance Sheet, Assets, Row B.III.3. gross).

Company	Number of Shares (pcs)	Nominal Value of Shares (CZK ths)	Acquisition Cost (CZK ths)	Provision (CZK ths)
Hradecká dřevařská a lesní společnost, a.s.	552	40,500	41,670	--
H.F.C. a.s.	83	51,284	50,000	14,930

b) Other non-current financial assets

As of 31 December 2016, two long-term time deposits were recorded in the accounts with a total value of CZK 2,000,000 thousand (reported in the Balance Sheet, Assets, Row B.III.7.1.).

4.4. Receivables

Summary of receivables as of 31 December

CZK ths	2015	2016
Total short-term trade receivables (gross); Assets, Row C.II.2.1 Assets, Row C.III.1. (2015)	1,827,307	2,147,045
- of that, total receivables due	1,160,102	1,492,729
- of that, total receivables past due	667,205	654,316
- of that, total receivables more than 180 days past due	636,269	631,679
- of that, total receivables with maturity of more than 5 years	0	0
- of that, receivables subject to enforcement (except for the following line)	76,362	71,787
- of that, claims in insolvency, bankruptcy and composition proceedings	527,895	529,684
Receivables denominated in foreign currencies	1,973	1,278

Receivables from companies within the group from ordinary trade totalled CZK 1,162 thousand as of 31 December 2016. These are receivables from HLDS, a.s. As in previous years, all these receivables are not yet due.

CZK thousand	2015	2016
Intra-group trade receivables	841	1,162

The total amount of receivables is disclosed in the balance sheet.

4.5. Financial assets

LCR makes returns on a portion of available funds through the professional management of client assets (asset management). All these securities are valued at fair value and the market price of these securities is fully recognized in the accounts in the Balance Sheet, Assets, Row C.III.2.

Row C.III.2. also shows the value of long-term bonds (the bonds were acquired in 2014 for purposes of long-term holding) in the amount to CZK 462,382 thousand as of 31 December 2016, which are due in 2017 (see para 5.1 for details).

4.6. Accrued revenues

Balance sheet row "D.3. VAT to be applied in January 2017" shows the input VAT quantified in tax documents received in January 2017 and charged in 2016, for the amount of CZK 47,033 thousand (in 2015, it was CZK 40,098 thousand). This VAT is claimed in full in the VAT return for January 2017.

5.

Breakdown and Description of Significant Balance Sheet Liabilities Items

5.1. Description of equity and its changes during 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; a significant portion of assets returned are assets returned based on Act No. 428/2012 Coll., on Property Settlement with the Church and Religious Societies (referred to herein as church restitution). 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, Row A.I.3. Changes in equity.

The other reserve fund (formerly referred to as the statutory reserve fund) complies with the threshold established by the Decision of the Ministry of Agriculture on the adaptation of the founding memorandum of 12 August 1997, i.e. a compulsory minimum threshold of CZK 1.2 billion.

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

In 2016, the Founder's Fund amounted to CZK 5,600,000 thousand; in December 2016, this amount was transferred to the state budget (in 2014 and 2015, CZK 6,500,000 thousand and CZK 8,224,375 thousand, respectively, was transferred to the state budget).

Statement of changes in equity for 2015 and 2016 (the header contains the relevant Balance Sheet Liability Row):

CZK ths	Equity Capital (A.I.1.)	Changes in Equity Capital (A.I.3.)	Capital Funds (A.II.2.1)	Gain or Loss on Revaluation (A.II.2.2)	Other Reserve Fund (A.III.1.)	Other Funds from Profit (A.III.2.2.b)
31 December 2016	5,818,759	7,550,937	46,114,885	-38,165	1,251,283	359,481
Balance of changes 2016	0	+710,907	-1,089,567	26,669	0	-1,048,152
Increase 2016	0	+885,336	+805,568	26,669	0	+5,586,078
Reduction 2016	0	-174,429	-1,895,135	0	0	-6,634,230
31 December 2015	5,818,759	6,840,030	47,204,452	-11,496	1,251,283	1,407,633
Balance of changes 2015	0	+499,548	-2,198,018	-41,420	0	-2,009,347
Increase 2015	0	+711,634	+764,589	0	0	+8,472,388
Reduction 2015	0	-212,086	-2,962,607	-41,420	0	-10,481,735
31 December 2014	5,818,759	6,340,482	49,402,470	-52,916	1,251,283	3,416,980

Notes to Annual Financial Statements for 2016

Breakdown of changes in equity capital:

CZK ths	2015	2016
Balance of changes – of that:	+ 499,548	+ 710,907
Delimitation changes	- 7,210	- 23,121
Transfers for no consideration	+ 29,714	+ 22,491
Church restitution-based disposals	- 163,390	- 100,599
Restitution-based disposals	- 4,972	- 10,391
Use of the Development Investment Fund	+ 645,406	+ 822,527

Breakdown of changes in capital funds:

CZK ths	2015	2016
Balance of changes – of that:	- 2,198,018	- 1,089,567
Delimitation changes	- 31,765	+ 4,040
Church restitution-based handover of forestland	- 2,150,211	- 1,128,267
Restitution-based handover of forestland	- 35,357	- 26,360
Awards, transfers for no consideration (2015 accepted donations)	+ 19,315	+ 61,020

Forestland valued in total at CZK 1,128,267 thousand and other assets (buildings, structures, FMPs, etc.) amortized at CZK 100,599 thousand were returned in 2016 as part of church restitution:

CZK ths	2013	2014	2015	2016
Total property transferred through church restitution	26,805	1,844,618	2,313,601	1,238,866
- of that, forestland transfers	26,548	1,749,762	2,150,211	1,128,267
- of that, other property transfers	257	94,856	163,390	110,599

Gain/loss on revaluation of assets (Balance Sheet, Liabilities, Row A.II.2.2.) reflects the reduction in the actual value of the body of the long-term bonds recorded, due to their maturity in 2017, in Row C.III.2. Other current financial assets (see also para 4.5.).

2014 and 2015 profit distribution was accounted for in 2015 and 2016 by decision of the founder, based on recommendations of the Supervisory Board:

CZK ths	2015	2016
Profit of the reporting period allocated to:	6,818,117	5,395,130
Welfare fund	31,881	29,919
Fund for renewal and development opportunities	100,000	--
Founder's fund	6,686,236	5,365,211

When allocating profit from 2015, the founder also decided to transfer the amount of CZK 159,164 thousand from the Investment Development Fund to the Founder's Fund, whereby the Founder's Fund amounted to CZK 5,600,000 thousand (as of 1 January 2016, the balance of the Founder's Fund was CZK 75,625 thousand).

Information on the proposed profit distribution by the statutory body is not provided as it is subject to assessment on several levels and may significantly differ from that eventually approved by the founder.



5.2. Breakdown and description of provisions for 2015 and 2016

CZK ths	Provision for Silviculture	Provision for Price Indexation	Provision for Church Settlement
31 December 2016	321,657	228,242	279,523
Additions 2016	0	0	172,318
Released 2016	309,300	9,901	0
31 December 2015	630,957	238,143	107,205
Additions 2015	0	0	107,205
Released 2015	548,145	291,251	0
31 December 2014	1,179,102	529,394	0

The provision for silviculture was 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 Coll., on Provisions to Determine Income Tax Base, as amended; in 2005 to 2013, 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 was not reported as a tax-deductible expense and an accounting provision was created. In 2014, the “Strategic Development Plan for LCR for the 2015–2019 Period” (hereinafter referred to as the “Development Plan”) was created, which does not call for a provision to cover the cost of silviculture. The provision for silviculture has shown a steady long-term balance over the past 5 years around CZK 3 bil. (silviculture costs also did not change much year over year). When preparing the financial sections of the Development Plan, these reserves to cover future silviculture losses were not deemed necessary and the risk of losses from silviculture activity, which would make it impossible to finance silviculture, was considered to be very unlikely. Therefore, in 2014, 2015 and 2016 no provision was created for silviculture from revenue from logging activities in 2014, 2015 and 2016. The remaining provisions for silviculture as of 31 December 2016 are funds to cover silviculture costs for 2017 and 2018 created from logging revenues from 2012 and 2013.

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 thousand. LCR identified as a risk the actual and potential actions brought before a court against the process in the indexing of prices for timber sales in public procurement procedure in 2011. The value of the provision was calculated as the difference in prices between the indexed prices invoiced by LCR to contracting partners, and the prices claimed by contracting partners to be “correct,” i.e. non-indexed prices based on the prices bid in tendering procedures. The provision for indexing was created for all work performed in 2011. As of 31 December 2016 there are 5 claims in court alleging improper procedures by LCR; these possible claims amount to CZK 228,242 thousand.

In 2015 and 2016, provisions for church settlements were created for the amounts of CZK 107,205 thousand and CZK 172,318 thousand, respectively. LCR has identified as a risk the outflow of funds upon financial settlement from operations on land not yet returned to the church for which a restitution request has been filed. Separate LCR accounting offices keep records of operations on property for which a restitution request has been filed but that LCR has identified as problematic and, therefore, decided not to transfer the property, leaving the validity of the request up to administrative bodies or possibly the courts. LCR manages this property with due diligence, emphasizing all principles of sustainability and environmental protection, while respecting current forestry legislation, the principles of PEFC certification and current FMPs. Given a valid ruling to transfer the property in question, LCR is prepared to also transfer to the church entity the profit from operations generated during the time the property was not transferred. The provision for church settlements has been created for 100% of profit per individual church entities.

Notes to Annual Financial Statements for 2016

5.3 Deferred tax

Commencing from 2016, deferred tax is measured as the difference between the tax and book depreciation of fixed assets and the impact of the accounting provision for price indexation and accounting provision for church settlement (see para 5.2. for details); until 2016, deferred tax had been measured only as the difference between the tax and book depreciation of fixed assets; in terms of deferred tax, the remaining provision for silviculture is not considered as a temporary difference between the tax and the accounting perspectives of the actual remainder of the provision for silviculture.

The provision for price indexation will show as a reduction in after-tax sales if valid and effective decisions are issued against LCR in court disputes; the provision for church settlement will show as a cost offsetting after-tax profit if settlement is made with a church entity.

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

Calculation (breakdown) of deferred tax:

CZK ths	2015	2016
Difference between book and tax value of fixed assets	- 950,752	- 1,077,870
Balance of provision for church settlement as of 31 December	0	+ 279,523
Balance of provision for indexation as of 31 December	0	+ 228,242
Basis for calculation of deferred tax	- 950,752	- 570,105
Tax rate in next period	19%	19%
Total deferred tax asset (liability)	- 180,643	- 108,320

5.4. Payables

Payables as of 31 December:

CZK ths	2015	2016
Payables more than 180 days past due	0	0
Payables with a maturity of more than 5 years	0	0
Payables tied to fulfilment of conditions by suppliers	6,149	9,881

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 2016 (see also para 4.2.i), amounted to CZK 431 thousand (CZK 751 thousand in 2015). This amount was also recorded, in accordance with valid methodology, in account 385 – Accrued revenues, because no entry had been made in the land registry as of 31 December 2016 (or 2015). The amount of CZK 431 thousand is reported in the Balance Sheet in both Row D.3. (Assets) and Row C.II.3. (Liabilities).

Trade payables to group companies are CZK 1,396 thousand (this was CZK 85 thousand in 2015). All these payables are instalments to HLDS, a.s. and are not yet due.



6.

Breakdown of Significant Profit and Loss Account Items

6.1. LCR, in view of its wide range of business activities, receives various subsidies for capital and operating purposes.

The table below provides an overview of the most significant subsidies. The term “subsidy” is used within the meaning of Section 47 (6) of Decree No. 500/2002 Coll.

CZK ths	2015	2016
Subsidies for acquisition of forest management plans	0	0
Subsidies for acquisition of tangible fixed assets (total)	58,124	51,373
- of that, compensation in public interest related to watercourse management (especially flood control measures)	39,747	50,097
Subsidies to cover operational costs (total)	100,950	129,540
- of that, compensation under Section 24 of Act No. 289/1995 Coll., on Forests	8,936	7,398
- of that, compensation under Section 35 of Act No. 289/1995 Coll., on Forests	3,440	4,000
- of that, financial contributions under Section 46 of Act No. 289/1995 Coll.	2,448	11,996
- of that, subsidies from Ministry of Agriculture for water management	7,911	7,501
- of that, EU subsidies	17,924	2,235
- of that, subsidies from labour authority	14,079	20,033

6.2. Information on statutory audit costs

The costs of the statutory audit of the accounts in 2016 totalled CZK 745 thousand (CZK 1,478 thousand in 2015). The statutory auditor provides no services other than the auditing of financial statements.

6.3. Disposals of fixed assets and raw materials

The Profit and Loss Account includes 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 ths	Total Account	2015 Fixed Assets Sold	Fixed Assets Exchanged	Total Account	2016 Fixed Assets Sold	Fixed Assets Exchanged
Item III.1. Proceeds from disposals of fixed assets	222,083	158,592	63,491	300,252	242,029	58,223
Item F.1. Net book value of fixed assets sold	30,023	24,286	5,737	39,820	30,748	9,072
Difference	192,060	134,306	57,754	260,432	211,281	49,151



Notes to Annual Financial Statements for 2016

6.4. Revenue Data

Revenues from ordinary activities

CZK ths	2015	2016
Revenues from ordinary activities	13,133,193	11,638,123
Revenues from goods	3,643	3,658
Revenues from products	11,067,987	10,110,577
- of that, revenues from timber, incl. logging rights	10,940,804	9,984,231
Revenues from services	777,118	769,287
- of that, rental	528,400	510,466
Other operating revenues	424,119	582,724
Financial revenues	860,326	171,877

Business activities with foreign countries are insignificant.

7.

Other

There has been no significant event between the balance sheet date and the date of the financial statements other than as described hereinafter in this section, which could render the annual financial statements for 2016 not true and equitable.

In 2004, CE WOOD, a.s. brought an action for damages and reasonable satisfaction for a total amount of more than CZK 3.7 bil. This action was rejected by a decision of the Regional Court in Hradec Králové dated 19 December 2013. CE WOOD appealed for the amount of CZK 229 mil. The High Court in Prague upheld the ruling of the first instance court and rejected the suit. LCR appealed the decision as it did not award full coverage of court costs. The suit of CE WOOD, a.s. against LCR for the return of CZK 86.37 mil. as performance provided under contracts from which LCR withdrew in 2009 was also rejected in the appeal. CE WOOD, a.s. then applied for an appellate review to the Supreme Court, as to which LCR made a submission in 2014. By its ruling dated 22 June 2016, the Supreme Court of the Czech Republic quashed the previous rulings of both instances and returned the case to the first instance court for further proceedings. The Regional Court again decided on the rejection of the action and CE WOOD filed another appeal in February 2017.

With respect to the ongoing insolvency proceedings of LESS&FOREST, s.r.o., this debtor and the insolvency administrator filed two suits against LCR on 26 February 2013 seeking invalidity of Contracts for the Performance of Comprehensive Forestry Activities and contracts associated with the period of 2011 and 2012+ and the return of unjust enrichment totalling CZK 6.36 bil. as follows:

a) Suit for nullity of legal action, i.e. to invalidate 28 comprehensive contracts in 2011 and for payment of CZK 4,202,760,738 filed at the Prague Regional Court under Ref. No. 33 ICm 244/2013. The High Court in Prague ruled to separate from this suit the suit for payment of CZK 4,202,760,738, which is presently being heard by the District Court in Hradec Králové under Ref. No. 15 C 391/2013.

b) Suit for nullity of legal action, i.e. to invalidate 32 comprehensive contracts in 2012+ and for payment of CZK 2,153,665,618.40 filed at the Prague Regional Court under Ref. No. 33 ICm 245/2013. The High Court in Prague ruled to separate from this suit the suit for payment of CZK 2,153,665,618.40, which is presently being heard by the District Court in Hradec Králové under Ref. No. 14 C 440/2013.



The courts intend to first issue declaratory judgments regarding the validity or unenforceability of the legal acts, i.e. comprehensive contracts of 2011 and 2012+. Only if these judgments are in favour of the debtor and the insolvency administrator will proceedings take place before the District Court of Hradec Králové for the possible return of unjust enrichment and payment of up to CZK 6.3 bil. Court hearings have not yet been scheduled.

LCR does not acknowledge these claims in any way and considers them completely aggrandizing and fictitious with no basis in applicable law.

Act No. 428/2012 Coll., on Property Settlement with Churches and Religious Societies and the Amendment of Certain Acts (Church Restitution Act – CRA) took effect on 1 January 2013. LCR is an obliged entity required according to the CRA to return property owned by the state that originally belonged to entitled persons and was unjustly taken from such person. Property was returned over the course of 2013 through 2016 (see a part of Appendix 5.1). Additional return of property through church restitution will result in a decrease in the value of managed assets and equity as well as in lower future profit. LCR accounts for property transfers as part of church restitution at the time when a decision by the relevant administrative body takes legal force or based on the legal effects of the registration of an agreement on surrendering of an item by means of registration in the real estate register. Until then, the respective property as specified in the application made by an entitled person remains part of LCR's assets pursuant to the CRA. In 2017, we expect to return another 5,000 ha of forestland with a book value of approximately CZK 200 million. As of 31 December 2016, LCR questioned the validity and refused to conclude agreements for land with a total area of 28.5 thousand ha (book value of the disputed land is approx. CZK 1.1 bil.) and 77 buildings; the final ruling regarding the possible transfer of this property will be issued by an administrative body or court.

In the second half of 2016, the Metropolitan Chapter of St. Wenceslas in Olomouc filed a total of 5 actions for failure to surrender an item in the condition as of the date of the application pursuant from Section 12 (1) of the CRA. The total sued amount is CZK 51 million (principal). LCR has rejected the claim of the plaintiff, as the case only involved unregulated felling pursuant to Section 33 (1) of the Forest Act as part of taking due professional care of the respective forestland at the time when the state was registered in the real estate register as the owner of the land, with LCR being entitled to manage it. According to legal opinions available to LCR, it is impossible to foresee the outcome of the respective legal disputes. Given the early stage of these court proceedings and the high degree of uncertainty regarding the justification of the respective action and quantification of the plaintiff's claim, if any, no provision for such court disputes has been accounted for.

In addition to the aforementioned, no other circumstances were determined that could potentially result in significant future losses, and no other adjustments or provisions for such have been created. Likewise, no other circumstances have been determined between the time the financial statements were compiled and their effective date that could significantly affect the financial, asset or income situation of the Company.



Notes to Annual Financial Statements for 2016

8.

Cash Flow Statement

The cash flow statement is prepared in accordance with Decree No. 500/2002 Coll. 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 Row C.IV.

Item	Text	2016
P.	Cash and cash equivalents, beginning of year	4,066,365
CASH FLOWS FROM MAIN EARNING ACTIVITY (OPERATING ACTIVITIES)		
Z.	Accounting profit (loss) from ordinary activities before tax	4,984,412
A.1.	Non-cash adjustments	149,280
A.1.1.	Depreciation of fixed assets, less residual values of fixed assets sold, etc.	681,438
A.1.2.	Changes in adjustments and provisions	-134,047
A.1.3.	Gain (loss) on sale of fixed assets	-260,431
A.1.4.	Proceeds from dividends and shares of profit (except investment companies and funds)	0
A.1.5.	Interest expense (less capitalized interest) and income	-144,565
A.1.6.	Adjustments for other non-cash transactions	6,885
A. *	Net cash flow from operating activities before tax and changes in working capital	5,133,692
A.2.	Changes in non-cash items of working capital and long-term financial assets	282,574
A.2.1.	Change in receivables from operating activities and deferrals	-314,885
A.2.2.	Change in payables, subsidies, deferrals and estimated items from operating activities	89,194
A.2.3.	Change in inventories	-15,468
A.2.4.	Change in short-term financial assets, other than cash and cash equivalents	1,742,841
A.2.5.	Change in long-term financial assets	-1,219,108
A. **	Net cash flow from operating activities before tax and extraordinary items	5,416,266
A.3.	Interest paid, excluding amounts capitalized	-3
A.4.	Interest received	144,568
A.5.	Income tax paid on ordinary activities and additional tax from previous periods	-1,151,735
A.6.	Receipts and disbursements from extraordinary items – extraordinary profit (loss)	0
A.7.	Dividends and profit shares received	0
A. ***	Net cash flow from operating activities	4,409,096



CASH FLOWS FROM INVESTMENT ACTIVITIES		
B.1.	Acquisition of property, plant and equipment	-1,593,538
B.2.	Proceeds from the sale of fixed assets	300,211
B.3.	Loans and credit to related entities	0
B. ***	Net cash flow from investment activities	-1,293,327
CASH FLOWS FROM FINANCIAL ACTIVITIES		
C.1.	Effects of changes in long-term and current payables	0
C.2.	Effects of changes in equity on cash and cash equivalents	-5,630,419
C.2.1.	Increase in cash and cash equivalents due to an increase in registered capital	-9,663
C.2.2.	Equity paid to shareholders	0
C.2.3.	Other contributions by shareholders	0
C.2.4.	Loss settlement by shareholders	0
C.2.5.	Direct payments debited to equity funds	-20,756
C.2.6.	Transfer of financial funds to state budget	-5,600,000
C. ***	Net cash flow from financial activities	-5,630,419
F.	Net increase/decrease in cash and cash equivalents	-2,514,650
R.	Cash and cash equivalents, end of year	1,551,715
S.	Actual balance of cash and cash equivalents, end of year	1,551,715
R.-S.	Difference (calculated – actual)	0

Financial statements compiled on 21 April 2017.



Terms and Abbreviations

BK	.....	beech
BO	.....	pine
BRP	.....	downy birch
CHO LCR	.....	Central Head Office of Lesy České republiky, s.p.
ČMKBK	.....	Bohemian-Moravian Commodity Exchange, Kladno
ČSOP	.....	Czech Union for Nature Conservation
DB	.....	oak
DG	.....	Douglas fir
DR	.....	supervisory board
DZ	.....	sessile oak
EU	.....	European Union
FIR	.....	Development Investment Fund
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	.....	land registry
LCR	.....	Lesy České republiky, s.p.
Lesy ČR	.....	Lesy České republiky, s.p.
LHE	.....	forest management register
LT	.....	left tributary
LTM	.....	technical forest reclamation
LVS	.....	forest altitudinal zoning



MD	larch
MoA	Ministry of Agriculture of the Czech Republic
MoE	Ministry of the Environment of the Czech Republic
MZD	soil improving and reinforcement species
NPR	National nature reserve
NR	nature reserve
OLH	forest manager
OMK	Marketing and Communication Departmente
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 wichtigsten Ereignisse des Jahres

Jedes Jahr widmet die Gesellschaft erhöhtes Interesse einer Holzart. Im Jahr 2016 war es die Vogelkirsche.

Im vergangenen Jahr 2016 unterstützte die Gesellschaft nicht nur viele Aktivitäten seiner Vertragspartner und im Unternehmenssektor der Forstwirtschaft, sondern in erheblicher Weise durch ihre Unterstützung von Freizeitaktivitäten, Abführung an den Staatshaushalt etc. auch alle Staatsbürger Tschechiens.

Im ganzen gesehen werten wir das Jahr 2016 als sehr erfolgreich. Die Wirtschaftsführung wurde maßgebend durch das Wetter, doch im höheren Ausmaß durch die Markterfordernisse beeinflusst. Aus Sicht klimatischer Bedingungen war das Jahr verhältnismäßig günstig. Mit Ausnahme von Ostböhmen und Region Vysočina gab es keine klimatische Extreme wie Niederschlagsdefizit oder Windstürme wie im letzten Jahr. Trotzdem zeigten sich deutlich Nordost- und Mittelmähren kumulierte Probleme des Niederschlagsdefizites der letzten Jahre und die geschwächten Fichtengewächse waren auch weiterhin gegen biotische Schädlinge (Dunkler Hallimasch oder Borkenkäfer) anfällig. Auf anderer Seite wirkten sich die stärkeren Niederschläge im Laufe des Jahres 2016 positiv auf den Anwuchserfolg der neu gepflanzten Setzlinge aller Holzarten aus. Anteil der Zufallsförderung erreichte wegen Verarbeitung von Dürholz und Borkenkäferholz in Nordost- und Mittelmähren 54%, was einen Zuwachs von 6% gegenüber 2016 bedeutet. Die Gesellschaft realisierte alle geplanten Waldbau- und Förderungstätigkeiten, die zur Erfüllung aller verbindlichen Anordnungen der forstwirtschaftlichen Pläne führten. Das Ganze im Einklang mit dem Waldgesetz und weiteren Rechtsvorschriften.

Ein sehr wichtiger Faktor, der die Wirtschaft von Lesy ČR im Laufe des ganzen Jahres beeinflusste, war die Situation auf dem tschechischen Holzmarkt. Die Gesellschaft reduzierte bereits im ersten Quartal absichtlich die Fichtenförderung, um die gesamte Jahresbilanz der Holzförderung im Gleichgewicht zu halten, und als erstes wurde das Dürholz und Borkenkäferholz verarbeitet. Im dritten Quartal wurde diese Restriktion aufgehoben. Die Gesellschaft konnte so den Markt stabilisieren, überschritt nicht den geplanten jährlichen Voranschlag und verursachte keinen Nachfrageüberhang. Die Struktur des geförderten Holzes änderte sich jedoch, da der Anteil von Dürholz und Borkenkäferholz stieg und der von Holz üblicher Qualität sank. In der Gesamtsumme bedeutete das eine Senkung des durchschnittlichen Preises eines m³ Holz um einige Hunderte von CZK.

Einer der konzeptionellen und strategischen Schritte, die die Gesellschaft durchsetzen konnte, war die Evaluierung der Vertragspartner von Lesy ČR im Jahr 2015, und zwar aus Sicht der Einhaltung von Produktions- und Wirtschaftsparameter, die aus den geschlossenen Verträgen resultierten. Diese historisch erste Evaluierung wurde Ende April 2016 abgeschlossen. Die Ergebnisse der Evaluierung werden auch bei den zukünftigen forstlichen Aufträgen berücksichtigt, um die gegenseitigen Vertragsbeziehungen mit unseren Partnern zu verbessern.

Wie jedes Jahr war auch 2016 kardinaler Punkt die Bekanntmachung von forstlichen Tendern für das Jahr 2017. Neben den 28 komplexen forstlichen Aufträgen gab es auch sechs Aufträge auf Förderungsarbeiten und 14 Aufträge auf Waldbauarbeiten. Ende September startete ÚOHS ein Verwaltungsverfahren, in dem die Dokumentation und der Prozess von Lesy ČR bei der Vergabe komplexer forstlicher Aufträge ab 2017 untersucht wurde. Im November wurde dieses Verfahren vom ÚOHS gestoppt und als unbegründet befunden. Die Gesellschaft konnte dann die Tendergewinner zur Vertragsunterschreibung auffordern, damit sie mit den vereinbarten Arbeiten ab Januar beginnen konnten.

Es wurde die Erneuerung des Wagenparkes fortgesetzt und zum ersten mal began die Ausrüstung der Revierförster mit Geländewagen. Im Jahr 2016 erhielten sie 200 neue Wagen. Die Gesellschaft beendete auch die Auswahl des neuen Entwurfs der neuen Uniform. Ein bedeutendes Ereignis war der internationale öffentliche architektonische Wettbewerb um das neue Administrationszentrum von Lesy ČR in Hradec Králové. Die vorgeschlagene Gebäudekonzeption ist ein vorbildliches Beispiel, wie Holz im Bauwesen genutzt werden kann.



Die Gesellschaft widmete sich auch ihrer gesellschaftlichen Rolle, und zwar vor allem indem sie 290 im Arbeitsamt gemeldeten Saisonarbeiter anstellte. Lesy ČR stellten zusammen mit dem Landwirtschaftsministerium das Konzept gegenseitiger Zusammenarbeit mit auf Forstwissenschaft orientierten Mittelschulen vor, um auf den von Lesy ČR verwalteten Grundstücken ein kostenfreies und praktisches Unterricht sicherzustellen. In Zusammenarbeit mit der Feuerwehr wurden in den von Lesy ČR verwalteten Wäldern 2 500 neue Rettungspunkte installiert. Es wurde eine weitere Etappe der Dekontaminierung des Waldes Boří les von der Munition aus dem 2. Weltkrieg abgeschlossen und es wurden mehr als 50 ha Wald dekontaminiert. Die Assanation läuft weiter.

Im Jahr 2016 konnte Lesy ČR 5,6 Mrd. CZK in den Staatshaushalt abführen. Lesy ČR beendeten das Jahr 2016 mit einem wirtschaftlichen Ergebnis vor Steuern in Höhe von 4,98 Mrd. CZK. Der Gesamteinschlag an Holz erreichte 8,1 Mil. m³, es gelang 11,7 Tsd. ha Wald zu erneuern, davon betrug der Anteil an wasserregulierenden und verfestigenden Gehölzen bei der Ersterneuerung 46,3 % und dringende Züchtung von Beständen bis zum Alter von 40 Jahren wurde auf 26,8 Tsd. ha Wald durchgeführt.



Eventos principales del año

La empresa dedica cada año más atención a un determinado maderable. En 2016 la empresa Lesy ČR proclamó el cerezo silvestre el maderable del año.

El año pasado 2016 la empresa ejerció numerosas actividades no solo en el ámbito empresarial del sector de silvicultura e industria de la madera, sino también con sus socios contractuales y también en colaboración con todos los ciudadanos de RCh, apoyando actividades de recreo, cotización de medios financieros al presupuesto estatal etc.

El año 2016 en general se puede considerar como muy positivo. El clima influía sustancialmente en la actividad económica de la empresa, no obstante los requisitos del mercado mucho más. Del punto de vista de las condiciones climáticas fue un año bastante favorable. A parte de Bohemia del Este y Vysočina no se han registrado situaciones climáticas extremas en forma de déficit de precipitaciones o vientos como el año anterior. A pesar de ello, en las regiones de Moravia Central y del Nordeste aparecían expresivamente problemas acumulados debido al déficit de precipitaciones de los años pasados y las vegetaciones de pinos siguieron siendo susceptibles a plagas bióticas, especialmente la armilaria y los escolitinos. Por el otro lado, una parte elevada de precipitaciones en el transcurso del año entero se ha reflejado positivamente en el establecimiento de nuevos plantones de todos los tipos de maderables silvestres. La parte de la extracción casual alcanzó el 54%, gracias al procesamiento de material seco y madera atacada por escolitinos en Moravia Central y Moravia de Nordeste, ascendió entre un año y el otro en 6%. La empresa en 2016 realizó todas las actividades de silvicultura planeadas, ya sea en actividades de cultivo o sea de extracción que conducían al cumplimiento de todos los establecimientos obligatorios de los planes económicos al tenor de la ley forestal y otras normas legales.

La situación en el mercado checo de la madera fue un factor importante que afectó considerablemente la economía de la empresa Lesy ČR durante todo el año. La empresa, por tal de mantener el balance anual general de la cantidad de madera extraída, limitó en el primer trimestre la extracción intencional de pinos y mandó a procesar preferentemente las extracciones casuales de material seco y madera afectada por escolitinos. En el tercer trimestre fue cancelada la limitación de extracciones intencionales de pinos. La empresa estabilizó el mercado, no excedió la cantidad de madera anual planificada y no causó un exceso de oferta respecto a la demanda. No obstante, ha cambiado la estructura de la madera extraída, aumento la parte de madera seca y afectada por escolitinos, al contrario ha disminuido la parte de la madera de calidad ordinaria. En resumidas cuentas esto significó la disminución de la comercialización promedia de m³ de madera, en varios centenares de coronas.

Entre las acciones conceptuales y estratégicas, la empresa logró promover la evaluación de los socios contractuales de Lesy ČR del 2015, desde el punto de vista del cumplimiento de los parámetros de producción, económicos y generales que se derivan de los contratos comerciales celebrados. Esta evaluación que fue primera en la historia se efectuó antes del fin del mes de abril 2016. Los resultados de estas evaluaciones se reflejarán también en la configuración de los parámetros de futuros encargos de silvicultura, con el fin de mejorar las relaciones contractuales mutuas.

Tal y como cada año, en 2016 también fue importante la declaración de concursos de silvicultura a partir del año 2017. A parte de 28 encargos complejos de silvicultura, la empresa competía también con seis encargos de trabajos de extracción y 14 encargos de actividades de cultivo. El Instituto de Competencia Comercial y Económica inició al final de septiembre el proceso civil durante el cual analizó la documentación y el procedimiento que la empresa Lesy ČR aplicó para asignar encargos complejos de extracción y silvicultura a partir del 2017. El Departamento antimonopolio en noviembre canceló el proceso civil por injustificado. La empresa llamó a los ganadores de concursos para que firmen los contratos, por tal de que los trabajos acordados empiecen en enero.

Siguió la renovación del parque de vehículos envejecido y por primera vez en la historia comenzó la dotación de vehículos de todo terreno y en 2016 los gestores de coto obtuvieron 200 coches nuevos. La empresa además llevó al final la selección del nuevo modelo de uniformes para los guardabosques. La competencia arquitectónica pública internacional organizada para seleccionar el mejor proyecto del nuevo centro de administración de Lesy ČR en Hradec Králové fue otro evento importante. La solución propuesta es una muestra ejemplar del modo de aprovechar la madera en la construcción.



La empresa continuó con sus actividades de responsabilidad social, en especial se trató de emplear a 290 trabajadores temporales registrados en las magistraturas de trabajo. La empresa Lesy ČR, en colaboración con el Ministerio de Agricultura, presentó el concepto de colaboración mutua con escuelas de educación media y politécnicos de silvicultura, con el fin de asegurar la enseñanza práctica gratuita en los terrenos administrados por la empresa Lesy ČR. Un total de 2 500 nuevos puestos de salvación fueron instalados en los bosques administrados por la empresa, en colaboración con el cuerpo de bomberos. Transcurrió otra etapa de descontaminación del bosque Boří les en Moravia del Sur para eliminar la munición de la segunda guerra mundial, se hizo limpieza en más de 50 hectáreas del bosque. El saneamiento continúa.

En el año 2016 contribuyó al presupuesto nacional, a la cuenta en el Banco Nacional Checo, con 5,6 mil millones de coronas. Todos los ciudadanos de la República Checa se beneficiarán de estos recursos. El año 2016 terminó con un beneficio económico antes de impuesto de 4,98 mil millones de coronas checas. La cantidad total de madera extraída ascendió a 8,1 millones de m³ de madera, la empresa logró renovar 11,7 mil hectáreas del bosque, de ello la parte de maderables destinados a mejoramiento y fortalecimiento llegó a 46,3% en la primera renovación artificial y a formación de vegetaciones de hasta 40 años de edad fue realizada en 26,8 miles de hectáreas de bosque.





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