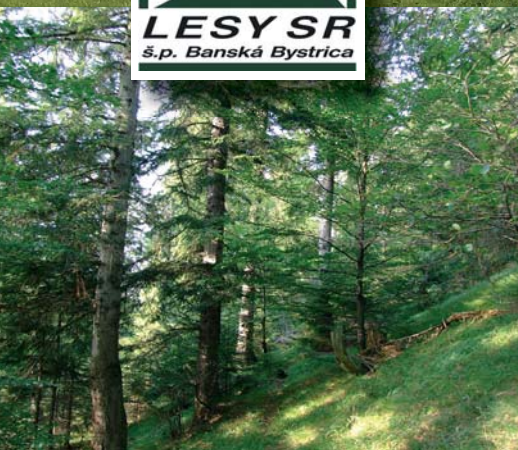


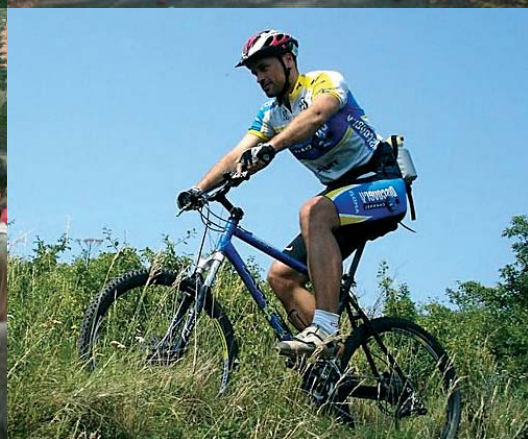


# Annual report 2008

LESY Slovenskej republiky, š. p. Banská Bystrica



**FORESTS** for everyone







Materská starost a bedlivé pečování, které na rozmnožení naší premilej krajiny a na pomahání obecného dobra máme, dobrotivou mysl našu napomenulo dať platné a užitečné lesům zachování v dobrém a kvetúcem stave, a naproti tomu, jestli se lesy bez miry vyrubuju takových snach zahubu učiniť. Pro tuto příčinu, za věc neomylně potřebnu býti sme našli, aby se v rubaní dreva a užitku hor i v tejto krajine dobrý a bez meškání porádek zavedel.

Dorádek hor aneb lesuw zachování, 1769  
Mária Terézia



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## FOREWORD BY DIRECTOR GENERAL



Dear colleagues, business partners and friends of the forests,

since the beginning of 2008 forestry and wood processing industry has anticipated a serious economy crisis, which is presently extending and expanding to all sectors of economic and social life. During the whole year 2008 LESY SR, š. p. has increasingly felt the consequences of the crisis. At the same time we tried to face it up, act in response promptly and rationally so that the influence of the crisis on the economy of the enterprise was reduced. A significant drop-out in incomes from timber trade, no state subsidies, obligation based on the Law on the state budget to contribute in advance to the budget chapter of the Ministry of Agriculture by 200 mil. SKK till the end of October as well as the delayed sale of redundant tangible property administrated by LESY SR, š. p., which was released by a regulation issued by the previous Minister of Agriculture only in May 2008, led us to the inevitable decision to overcome this hard period by a request for a credit. LESY SR, š.p. thus requested a bank for a loan in the form of an overdraft account allowing to dispose with the loan up to 700 mil. SKK.

Apart from the drop-out in incomes, which reached 370 mil. SKK in spite of the increased timber deliveries by more than 320 thousand cubic meters, and due to over 13 % decline in timber prices (average timber price decreased by 198 SKK/m<sup>3</sup> in 2008) we have also experienced increased cost for revitalising and protection measures in spruce forests damaged by wind and bark beetle. These measures required over 300 mil. SKK of operating cost in 2008. These finances were used fully purposely and responsibly for the further destiny of spruce forests in Slovakia and in the effort to stop or at least slow down the gradation of bark beetles, which was caused by incompetent decisions of other bodies. It was necessary to use additional financial means in amount over 80 mil. SKK for the removal of flood damages from July 2008, when floods and storm rainfalls damaged property on the territory of nine Forest enterprises of LESY SR, š. p. In spite of rationalisation measures and elaborated European projects aimed at financing of spruce forest revitalisation and construction of fire fighting roads and reservoirs, these additional cost items had an impact on the economy of the enterprise.

During the year the top management of LESY SR, š. p. had to undertake the implementation of several serious rationalisation measures. The reduction of number of employees by more than 180, mainly leaving for retirement or early pension, was the least popular measure. An audit of economic intentions for 2009, which were submitted by individual Forest enterprises to the enterprise management, was carried in the third quarter 2008. The audit was carried out with the use of a comparative method for groups of 3-5 Forest enterprises with the comparable natural and production conditions and tree species composition in order to speed up, facilitate and more objectively specify rent conditions of individual Forest enterprises. Real and planned cost for timber production, used technologies, average timber price, silviculture cost, proportion of natural regeneration, overhead cost and other factors influencing economy of the enterprise were compared. Based on the audit results, Forest enterprises reconsidered their economy intentions for 2009 and revised economy activities in a way to be profitable.

Of course, a planned intention is on one hand and its implementation on the other. We are aware of the situation on the timber market so that the risk management and management of financial flows inside and outside the enterprise becomes the Alpha and the Omega of its management. Even in this difficult situation, it is the present and future responsibility of each employee to fully meet the criteria of sustainable management of the state forests and all tasks so that we can stabilise the economic situation of enterprise.

doc. RNDr. Ing. Jozef Mindáš, PhD.  
generálny riaditeľ š. p. LESY SR

## BASIC INFORMATION, SCOPE OF ACTIVITIES AND COMPANY PROFILE

<b>Business name:</b>	<b>LESY Slovenskej republiky, štátny podnik</b>
<b>Seat:</b>	<b>Námestie SNP 8, 975 66 Banská Bystrica</b>
<b>Legal form:</b>	<b>state enterprise</b>
<b>Date of establishment:</b>	<b>01. 07. 1999</b>
<b>Identification number:</b>	<b>36038351</b>
<b>VAT number:</b>	<b>SK 2020087982</b>
<b>Registration:</b>	<b>registered with the Trade Register of the District Court in Banská Bystrica on 29 October, 1999, Section Pš, registration number 155/S</b>

The state enterprise LESY Slovenskej republiky, Banská Bystrica continues in rich and long-term forestry traditions in Slovakia. Based on the Decree of the Ministry of Agriculture the enterprise was established on July 1, 1999 by merging of the 6 former regional state forest enterprises.

The main scope of activities of the state enterprise LESY SR Banská Bystrica is to manage forests and other property in the ownership of the Slovak Republic. It provides a balanced fulfilment of all functions of forests and a sustainable use of tangible and intangible products and services provided by the forests.

The main objective of the state enterprise LESY SR is to provide sustainable management of forests in the ownership of state and other forest owners so that an increased functionality and maximal positive management effects can be achieved.

International acknowledged of these management activities is the fact that the total forest area managed by the 26 Forest enterprises is PEFC or FSC certified. Thus LESY SR, state enterprise has become a leader in the process of forest certification and gained a credible proof of the quality of work of foresters, which is needed for assuring the fulfilment of forest functions for the whole society.

From the viewpoint of market position, LESY SR managed 1,040,565 ha of forests in 2002. In 2008 this area decreased by 87,475 ha to 953,090 ha. The total forest area of the Slovak Republic is 2,006,600 ha out of which 47.50 % is managed by the state enterprise LESY SR. A share of LESY SR, š. p. on the relevant timber market is reduced in connection with the decreasing area of managed forests. In 2008 the total timber deliveries from timber producers in Slovakia were 8,131,487 m<sup>3</sup> out of which LESY SR, š. p. delivered 4,138,988 m<sup>3</sup> of timber, i.e. 50.90 %.





## COMPANY VISION AND MISSION

### Company vision

*„Our vision is the sustainable development of the state forests, which will provide a balanced fulfilment of the needs of society and optimal valuation of the state forest property.“*

### Company mission

*„Through our activities we want to assure sustainable development of forest and to work for the benefits of the whole society, while respecting the principles of the protection of the environment, forestry traditions and long-term prosperity of the company.“*

### Mission of Code of Ethics

*Code of Ethics is a unified standard of principles and benchmarks of behaviour of the state enterprise LESY SR and its employees; among the employees at internal level and in relations to the external environment – business partners, representatives of the state and public administration, non-government organizations, stakeholders and all inhabitants of the Slovak Republic. It also states responsibilities towards all entities regarding labor and business relations. At the present time, keeping the ethic rules is important for cultivation of economy system and it is useful for the whole society.*



## ORGANISATIONAL STRUCTURE AND COMPANY TOP MANAGEMENT

### Company organs

LESY SR, š.p. has the following organs:

#### Director General

- doc. RNDr. Ing. Jozef Mindáš, PhD.

#### Supervisory Board

- JUDr. Juraj Procházka - chairman
- doc. Ing. Ján Ilavský, CSc.
- JUDr. Kamil Beresecký
- JUDr. Milan Chovanec
- Ing. Ján Malko, CSc.
- Ing. Ján Beňa
- Ing. Jozef Herud
- Ing. Dušan Krajniak
- Ing. František Suchanovský

### Organisational structure

LESY SR state enterprise consists of the 26 Forest enterprises and 4 specialised enterprises:

#### Enterprise of Forest Technique

is oriented on the internal services mainly in the field of harvesting operations, timber transport and maintenance of forest technique.

#### Semenoles

provides services in the area of forest seed management and production of forest and ornamental trees. At the same time its mission is to maintain a gene pool of the forests in Slovakia.

**Enterprise of Wood Processing** produces timber products and issues price lists for roundwood valuation in the form of sawnwood, semi-finished products and final products for the market of the internal consumption within the enterprise.

#### Biomass Enterprise,

provides processing of energy wood in order to produce and sell energy chips within the whole Slovak Republic.

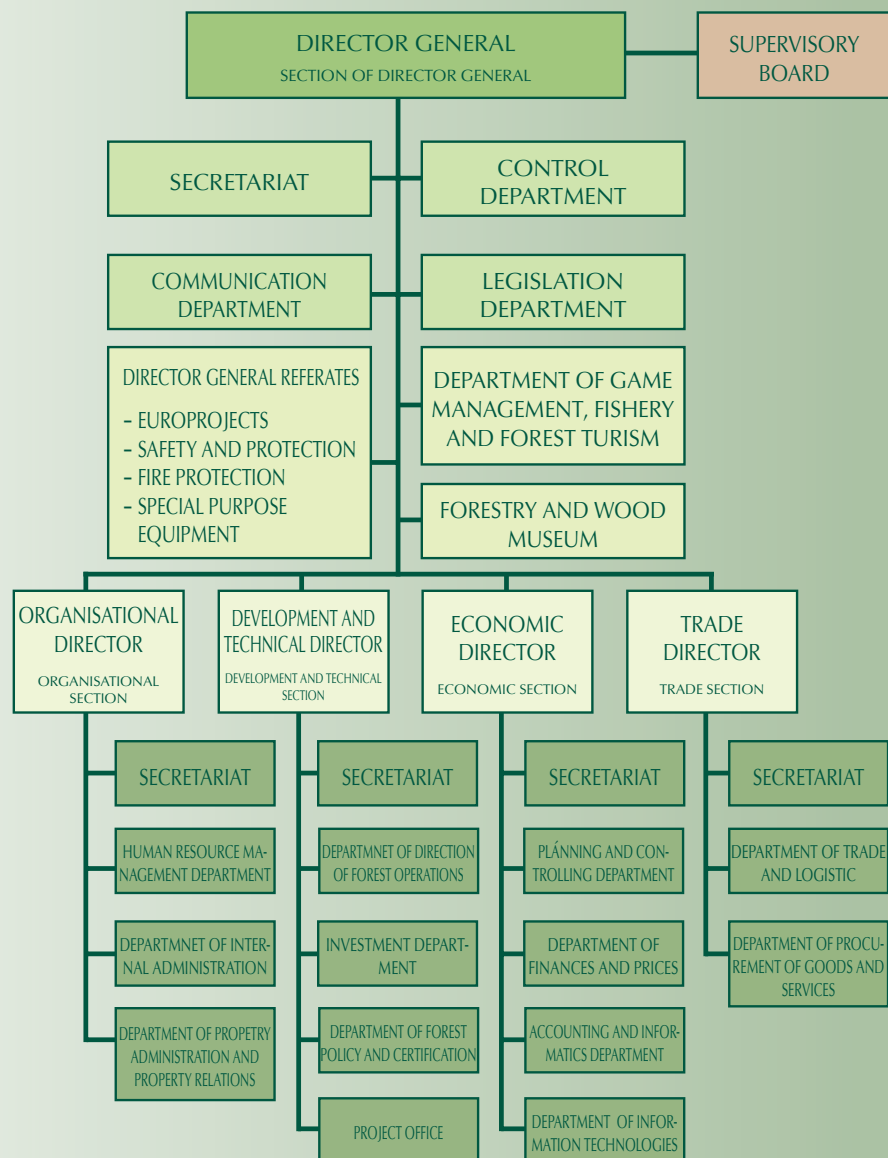
**Organisation structure of the LESY SR, š.p. enables a flexible approach to the modification of number of organisational units at different management levels.**

### Organisational units of LESY SR, š. p. in 2008

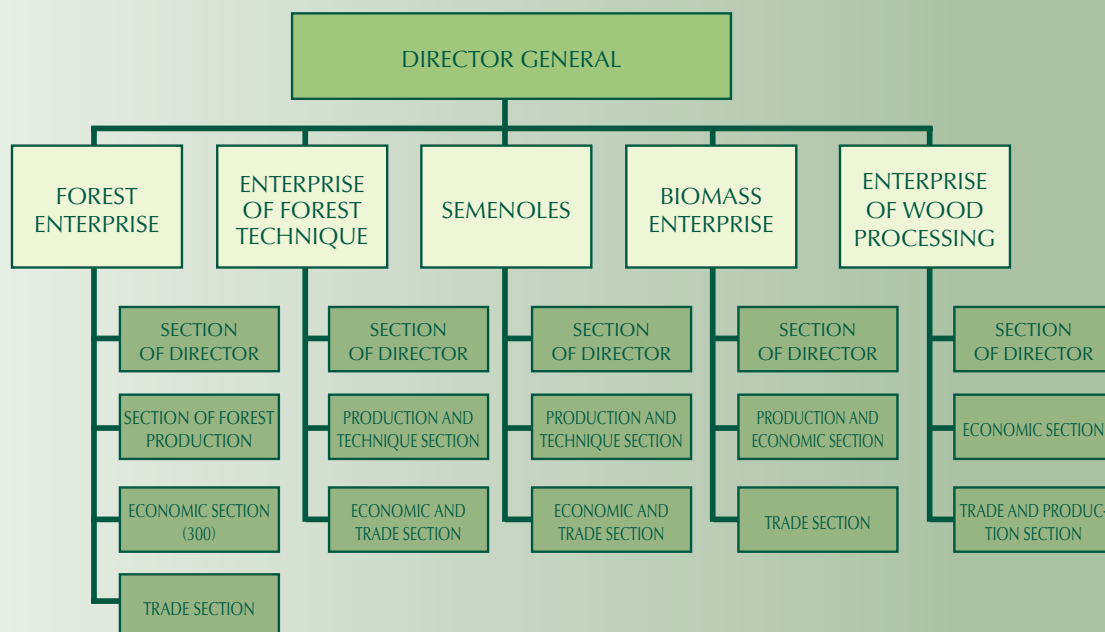
Number	
Forest enterprises	26+4
Forest districts	169
Forest divisions	1061
Timber yards	73
Specialised and other centres	36
Special purpose facilities	5



## Organisational structure as of 31. 12. 2008 (General directorate)



## Organisational structure of Forest and specialised enterprises as of 31. 12. 2008







## COMPANY TOP MANAGEMENT



**doc. RNDr. Ing. Jozef Mindáš, PhD. – Director general, \*1963, Levoča**

- Statutory body of enterprise appointed by the Minister of Agriculture of the SR, subordinate to the Minister
- directly manages four section directors and 30 directors of Forest enterprises and through them the entire economy activities of enterprise
- act independently in accordance with the valid legislation and internal guidelines and regulations of the Minister of Agriculture of the SR
- decides on principal and key issues and delegates part of his responsibilities to the section directors and directors and Forest enterprises
- has two statutory deputies in a given order



**Ing. Jozef Djubek – Organisational director, \*1965 †2008, Rabča**

- runs, coordinates and methodically directs this section
- administrates all materials regarding internal organisational structure, principles and system of management
- coordinates and directs activities of human resource management department, control department and other sections of enterprise; creates conditions for activities of legal service and is responsible for its efficiency
- directs activities of internal administration at the General directorate
- directs provision of the state of land tenure and disposal of managed state forest property
- cooperates with other sections of enterprise, directs Forest enterprises, cooperates with the founder and external bodies

**Mgr. Ing. Edita Tomeková has worked in this position from December 2008**



**Ing. Ján Štefánik – Development and technical director, \*1951, Rejdová**

- coordinates and methodically directs forest operations and organisation of management of forest operations in enterprise
- in accordance with the enterprise development he elaborates development strategies and conceptions, manages technical development and investment activities
- cooperates with the municipal and state administration bodies, Lesoprojekt, forest management plan elaborators and other institutions

**Ing. Peter Chrust has worked in this position from December 2008**



**Ing. Ľuboš Németh – Economic director, \*1962, Vráble**

- runs, coordinates and methodically directs the areas of economics, finances, taxes, prices, allowances, accounting, information system and the use of information technology
- in accordance with the enterprise development he organises elaboration of enterprise conception within the economic section
- carries out methodical, managerial and coordination activities in relation to Forest enterprises
- negotiates with the founder, state funds, bank institutions, relevant tax offices with the aim to fulfil legislative requirements as well as to create optimal conditions for the existence and development of the enterprise in economic area



**Ing. Jaroslav Holiga – Trade director, \*1958, Spišská Sobota**

- manages areas of timber and other commodities trade in the state enterprise
- manages and provides sales of production of the state enterprise to the key domestic buyers and foreign buyers
- manages marketing in the areas of market research, conception of trade activities, monitoring of competitors, price survey, planning, promotion and advertisement
- methodically manages, directs and controls trade activities of subordinate components
- prepares, elaborates and submits sales and other contract proposals to the Director general for approval
- provides procurement of selected materials and energies in cases which require global management or if necessary for obtaining positive economic effects

**Ing. Ján Grolmus worked in this position until February 2008**

## HUMAN RESOURCES MANAGEMENT AND EDUCATION OF EMPLOYEES

### Human resources

LESY SR, š.p. pays an appropriate attention to care of employees and their professional and personal development. Through professional management we try to release and develop the inventive and working potential of employees in order to achieve company's objectives. Personal strategy of the enterprise clearly declares the importance of employees for meeting the strategic objectives. This is done with the help of company's culture supported by the Code of Ethics, which approved in 2005 and is valid for all employees.

Collective labour agreement, bringing positive changes to social and wage areas, has been signed with the social partner for the period of one year. Salaries, possibility of professional growth and the support to social activities are the supporting pillars for the satisfaction of employees.

Under the changing market, environmental and unfavourable economic conditions it is inevitable for the state enterprise LESY SR to maintain quality and educated human potential, which is able to work effectively.

We make efforts to provide appropriate working conditions for employees' professional and personal growth including social benefits. Thanks to these activities we maintain a position of an attractive employer within the Slovak forestry environment in spite of negative effects of the global financial crisis.

**Average adjusted number  
of employees in 2008**

Total	4,559
out of which workers	1,744
out of which technical and managerial staff	2,815

**Physical number  
of employees in 2008**

Total	4,353
out of which workers	1,607
out of which technical and managerial staff	2,746

**Physical number of technical  
and managerial staff as of 31.12.2008**

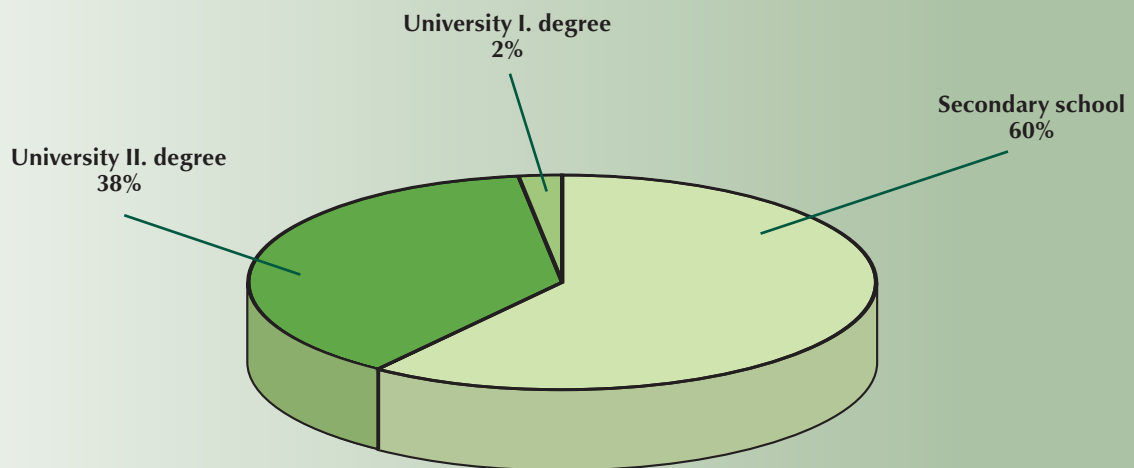
<b>Total</b>	<b>2,746</b>
Forest enterprises	801
Forest districts	1,596
Specialised enterprises	170
General directorate and centres	179

**Development of total number of employees**

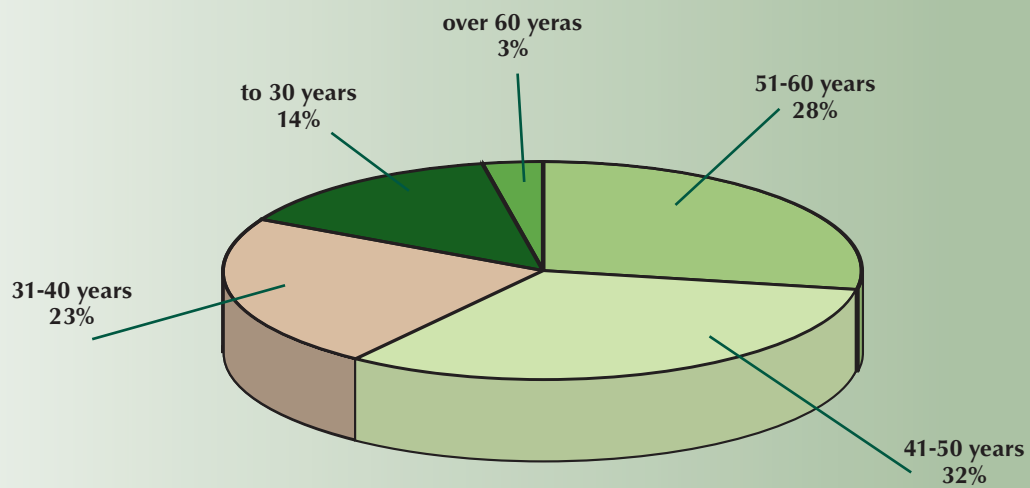




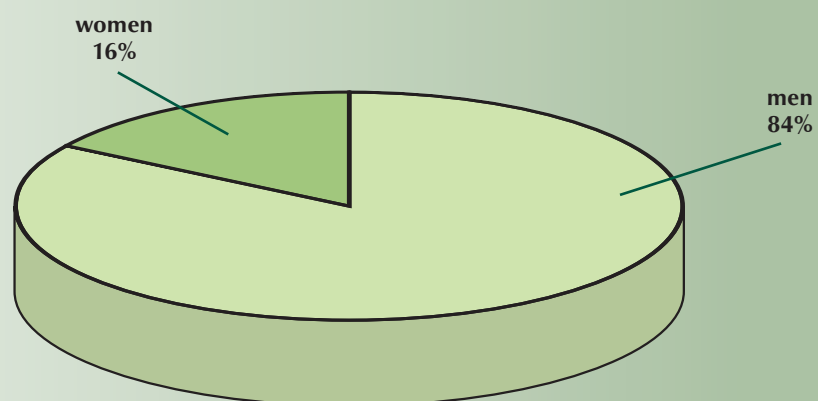
Education structure of technical and managerial staff



Age structure of technical and managerial staff



Gender structure of technical and managerial staff



### Education of employees

The quality of human potential represents an important competitive advantage that cannot be achieved without investments in skills and knowledge of people. Top management of LESY SR, š.p. is aware that insufficient qualification and skills of its employees can threaten the future, prosperity and growth of the organisation.

To possess inventive working potential with professional specialisation in the improvement of professional skills and to reach permanent changes in skills and attitudes, which support and increase output of employees, is the philosophy of educational process following the strategy of our enterprise.

### Implementation of education

A significant attention has been paid to the specialised vocational education of employees aimed at performance of selected professions of personnel of Forest enterprises and forest districts, training for exams of certified forest manager, functional education of foresters and active preparation of employees regarding the transition to EURO currency. In accordance with the Law on Forests there was a periodic education for holders of forest manager certificates carried out.

Special vocational education was aimed at the following areas: forest establishment in the changed environmental conditions, integrated harvesting technologies, timber classification and manipulation, forest pedagogy, sustainable use of biomass and other educational activities aimed at the area of silviculture and forest protection.

Specialised forestry education was provided by the two main educational organisations:

National Forest Centre Zvolen – Institute for Forest Consulting and Education

Technical University in Zvolen – Centre of Continual Education

### Other education of employees

Apart from forestry education, employees of LESY SR, š. p. participated in trainings, seminars, specialised exams and conferences in the Slovak Republic as well as abroad. A managerial courses were provided for managers at all management levels. These courses were aimed at development of professional skills, personal development in the area of effective management, team building, management of changes and other activities aimed at improvement of efficiency in accordance with the present working position.

Information technologies training – courses for PC users at different levels as well as courses for information system specialists were carried out.

Language training – a big emphasis was placed on the improvement of foreign language skills, namely English and German. Courses of professional forestry English and German was organised for employees with a higher level of language knowledge.

Except of mentioned educational activities, LESY SR, š. p. supports improvement of employees qualification through external studies. The cost of education were reimbursed from the enterprise sources as well as co-financed by the European Community.

## HEALTH AND SAFETY AT WORK

Responsibilities of employer towards employees in the area of health and safety at work include mainly care for employees, their working environment, health in connection to work, protection from the influence of unfavourable factors, etc. The relocation of production operations to the external environment has significantly decreased the number of employees mainly in risky professions –harvesting and other operations, which had a significant influence on the statistic data in the area of accidents development. In 2008, at the workplaces of LESY SR, š.p., there were 85 accidents recorded, out of which one was fatal. In spite of provided information on dangers and risks, our contractors recorded 10 fatal accidents and one fatal accident occurred during self-production of wood.

The level of care of health and safety in the organisation is reflected in the cost used, which in the direct form were 18 mil. SKK (personal protective equipment, health care, training and education) and in the indirect form were over 135 mil. SKK (multipurpose meaning of realisation – new technologies, improvement of working conditions, etc.).



## MOST IMPORTANT EVENTS IN 2008

January	Royal visitor	The Swedish King Carl XVI. Gustaf visited Forest enterprise Levice
	Forestry and Wood museum in Zvolen	Since 1.1.2008 museum became a part of the enterprise
	Forest certification completed	100% of forests certified
February	Special Forestry Site Víglaš	Temperature record recorded by foresters
March	More wood for life	Common activity of LESY SR and Union of Wood Processing Manufacturers of Slovak Republic
April	Forestry days	Trees of knowledge planted at 950 schools
	Hunting days in Levice	Representative hunting event prepared by Forest enterprise Levice
	Forest educational path Tajch	Forest enterprise Prešov opened interesting path in Slánske vrchy
	Special Forestry Site Šútovská skala	Witness of extraordinary planting activities
	Forest educational path J. D. Matejovie	Manifold forestry route prepared by Forest enterprise Slovenská Ľupča
	Silva Regina	Participation in forestry and hunting exhibition in Brno
May	10th meeting women -foresters	Female foresters from six states were hosted by the enterprise
	Opening of Forestry open air museum	In 2008 the museum welcomed 43 600 visitors from 38 countries
June	Celebration of 90 years of state forests in Šaštín	Anniversary was accompanied by the opening of new forest educational path Gazárka Tomky
	Forest educational path Čierna Mláka	This path grew in Bardejov Spa in Forest enterprise Bardejov
	Naj horár	4th year of forestry skill competition was prepared by Forest enterprise Slovenská Ľupča
July	Day of Tree	Festival of all who like forests - VII. Year
	First international Forest educational path	The path was opened in cooperation with Polish foresters and nature protectors in Udava, Forest enterprise Vranov
	Historical building of state forests	The building became another Special Forestry Site
August	50 years of Forest enterprise Námestovo	Accompanied by 18th chain saw work championship and opening of Special Forestry Site Oravský komposesorát
	Forest educational path Sigord	Forest enterprise Prešov opened cycling and touristic educational path
	Forest educational path Duchonka – Kulhán	Placed at Forest enterprise Prievidza and supplemented by Special Forestry Site Kulhán
	Fast growing tree species	Seminar at Forest enterprise Sobrance
	LIGNUMEXPO - Les	Participation at traditional fair in Nitra
	Meeting of silver-headed	Foresters in retirement at a common trip
	Forests and forestry – risks, challenges, solutions	At the scientific conference LESY SR were awarded the golden medal of National Forest Centre
October	European championship of coachmen	Utmost event at Forest enterprise Revúca
	European forestry week	Supported by forests pedagogues of the enterprise
	50th anniversary of Bison preserve	Forest enterprise Topoľčianky commemorated preservation of European bison and opened a unique Forest educational path
	Act of piety	At the symbolic forestry cemetery
December	Christmas postcards	One of the expositions prepared by the Forestry and wood museum Zvolen in the historical building of state forests
	Christmas tree as a present	500 Christmas trees for foster homes
	Christmas meeting of foresters	Prepared at the Ministry of Agriculture of the SR accompanied by the introduction of new maps of forests information offices

## WE APPEARED IN THE MEDIA

**Some 730 records on LESY SR, š.p. appeared in the mass media in 2008. Most of them were neutral.**

For a couple of years on the daily basis we have been monitoring what was written, said and broadcasted about LESY SR, š.p. in the press and electronic mass media. The publicity of our enterprise is monthly analysed qualitatively and quantitatively from the viewpoint of successfully managed communication as well as from the negative angle how journalists and public look at the activities in our enterprise. We evaluate mediatisation with the aim to constantly improve our work with the journalists and through them with the broad public.

The analysis of media records on LESY SR, š.p. has shown that 724 contributions regarding our enterprise appeared in national and regional daily, weekly and monthly press, and in radio and television news, discussions and comments in 2008. Most of them were neutral. It means those that informed in a balanced manner – neither for nor against – about a specific event or activity relating to LESY SR, š.p. This category includes 405 records, which represents 55 % of the media records.

The second group consisted of positive media records promoting activities of the enterprise in a positive light, thus invoking a positive perception of the position and meaning of the enterprise for forests and society. Some 279 records were published, which represented 39 % of all records. Most of them were the result of systematic effort of the enterprise in the area of driven communication – publishing of press releases, organisation of press conferences and media trips, mediatisation of image forestry activities and forestry personalities. Most of the published and broadcasted records related to successful and prestigious forestry events – Day of Tree, Forestry days – trees of knowledge, Christmas tree as a present, opening of forestry educational paths and the effort of foresters to save Slovak spruce forests in spite of misunderstanding and disapproval of nature conservators.

From the qualitative point of view, negative records – 40, i.e. 6 % had the fewest occurrence. These related to the doubts about transparency and usefulness of renting out hunting grounds, exchanges of forest lands, justification of chemical sanitation of bark beetle deteriorated and dying spruce forests and granting subsidy for the Director general from the environmental fund, which, however, was rejected and never used.

Most of media records (133) about LESY SR, š.p. were published in July 2008. Over three years of systematic evaluation of media records, there has never been so many articles and contributions published in one month. A helicopter accident in Sopotnická valley, chemical spraying in the Low Tatras, complain of Lesoochránárske zoskupenie VLK against LESY SR, Day of tree, resignation of the Minister of Environment Izák due to allocation of subsidies from the Environment fund, floods in the Eastern Slovakia – all these were broadly and repeatedly mediatised events of July 2008. It has never happened that television broadcasted 27 contributions and national daily press 32 articles about the enterprise in 31 days.

On the other hand, only 33 records appeared in the mass media in September 2008. After paradoxical reach summer months in information, considered to be a death season by the journalist, there was a decline recorded. The objective of relations with the media and public is to achieve at least 60 mainly positive records in average per month and thus systematically build a good image of the enterprise in the eyes of the broad public.





## SUSTAINABLE DEVELOPMENT OF FOREST RESOURCES

The strategic objective of the state enterprise LESY SR is to provide sustainable management of forests in the ownership of state and other forest owners so that an increased functionality and maximal positive management effects can be achieved while keeping all the principles of sustainable development. The objective of sustainable forest management is not only sustainable timber production but a broaden understanding of forest value in compliance with the EU forestry strategy and the EU Action Plan for Forests.

**In this sense the conception aims and the objectives of enterprise policy of sustainable forest management is mainly oriented on:**

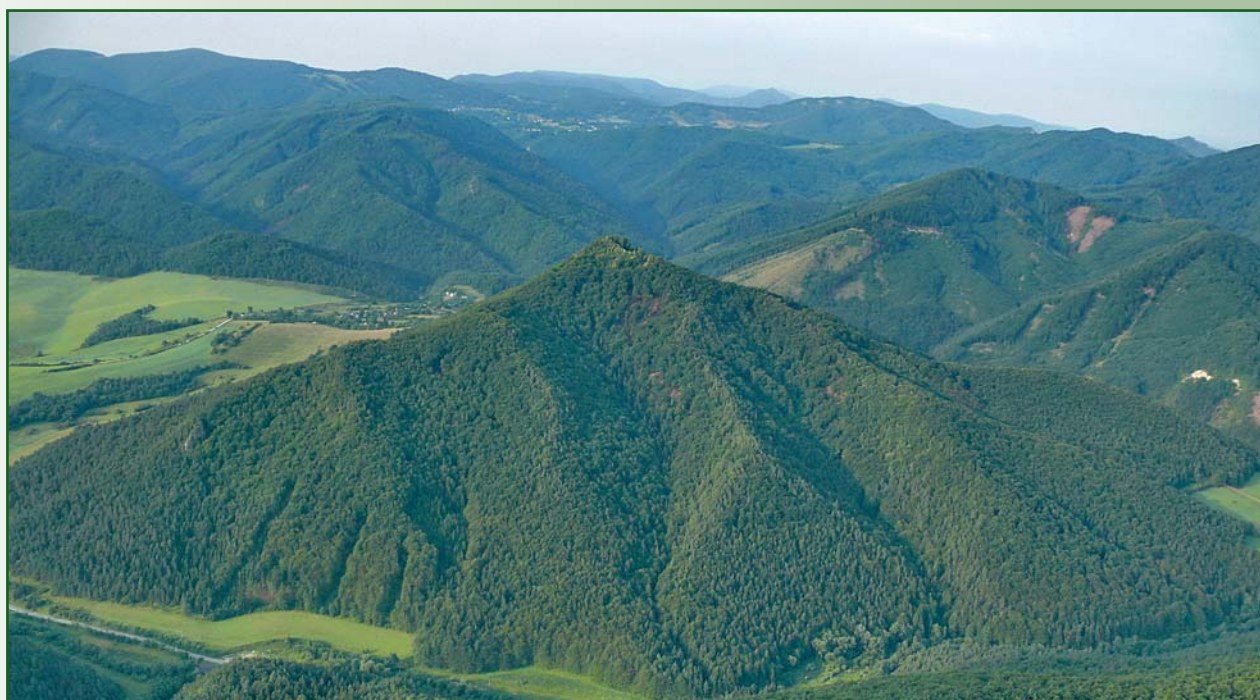
- maintenance and increment of the existing forest area and optimisation of standing volume to the level, which is required with regard to the economic, ecological and social forest functions,
- improvement of health of forests and reduction of risks of damages,
- sustainability and balance of supply of wood and non-wood forest products, always as a part of environmental forest function,
- support to biological diversity of forest ecosystems and maintenance of native forest stands,
- support to soil and water protection functions of forests,
- active cooperation in development of mountain and sub-mountain regions.



Assessment of the quality of sustainable forest management against requirements of certification schemes is carried out by independent certification bodies. Forest enterprises Trenčín, Považská Bystrica and Prešov, managing 111,229 ha of forests, are holders of FSC certificates. The total area of FSC certified forests in Slovakia is 174,083 ha.

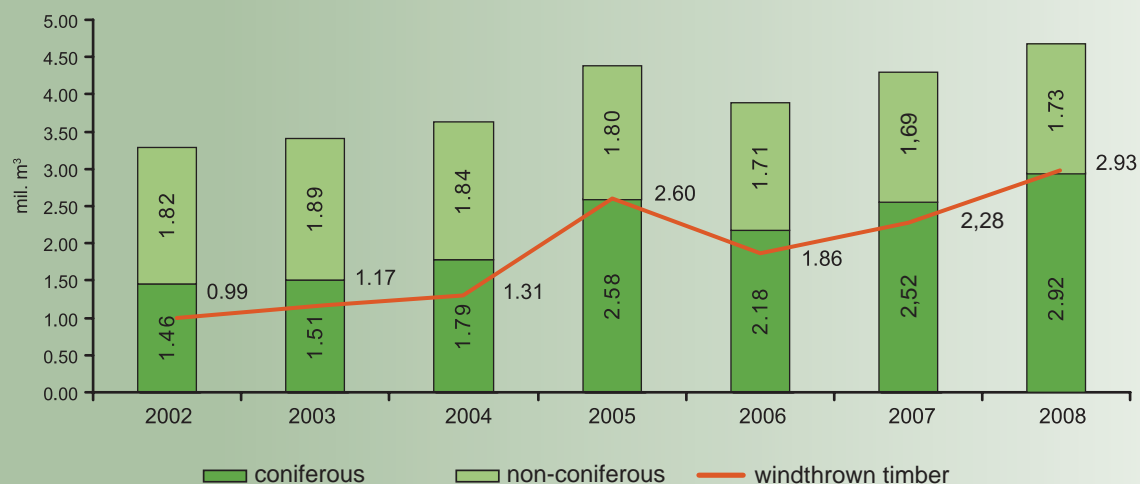


The total area of forests managed by the state enterprise LESY SR, i.e. 953,090 ha in all 26 Forest enterprises, is PEFC certified. PEFC certification is based on regional principle, where LESY SR represents the interests of other forest owners who opted for the verification of quality of sustainable forest management. Based on the results of certification audits in 2008 LESY SR, š.p. issued 105 sustainable forestry certificate attestations to the state, private, cooperative, church and municipal forest owners. The total area of PEFC certified forests in the Slovak Republic is 1,220,576 ha.

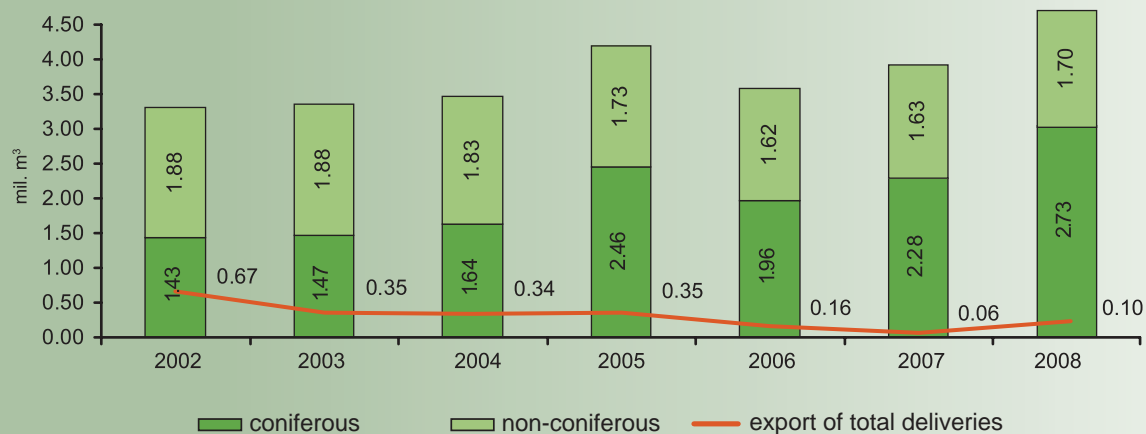


## FINANCIAL AND TECHNICAL INDICATORS OF ECONOMY

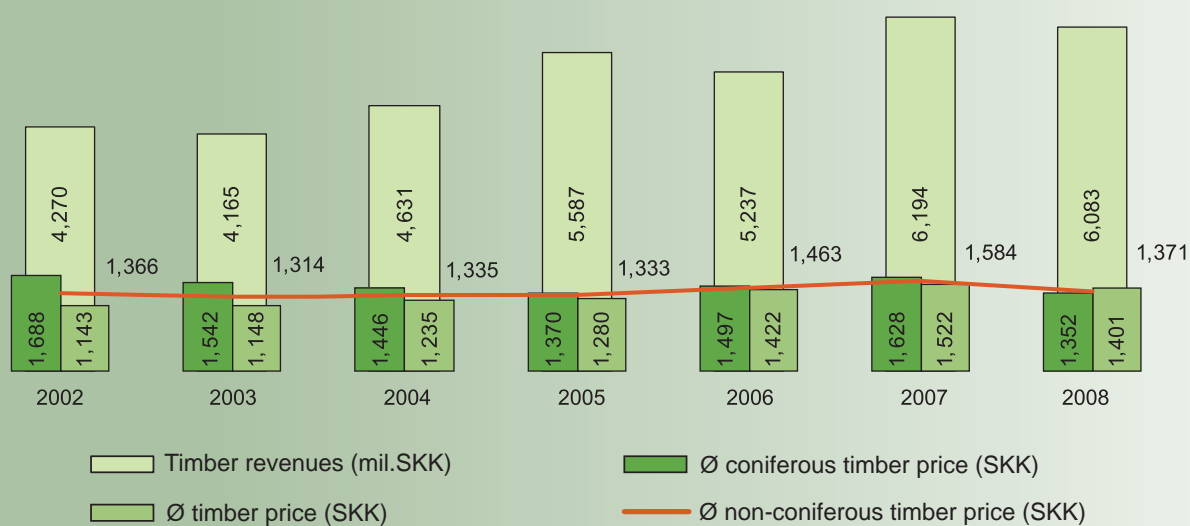
Timber harvesting



Timber deliveries

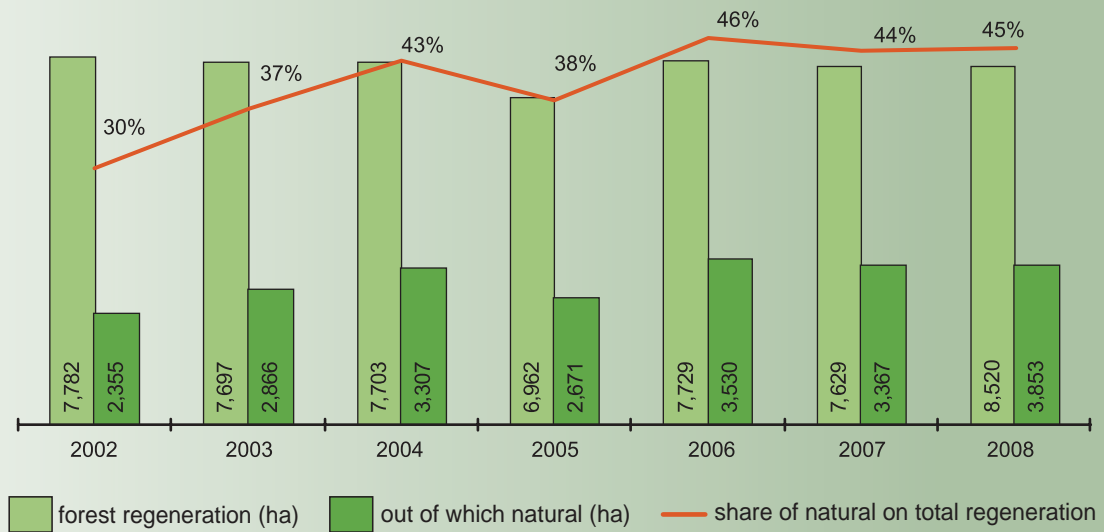


Timber revenues and average timber price





## Forest regeneration



## Labour productivity from added value



### Selected economic and technical indicators in 2006-2008 LESY SR, š. p.

No.	Indicator	Unit	Actual value			Annual change	
			2006	2007	2008	2007-2006	2008-2007
1.	Forest regeneration	ha	7,729	7,630	8,520	-99	890
2.	out of which natural regeneration	ha	3,530	3,367	3,853	-163	486
3.	Clearing	ha	16,095	15,579	14,902	-516	-677
4.	Direct costs of silviculture operations	th. SKK	800,063	976,848	673,764	176,785	-303,084
5.	out of which: creation of reserve	th. SKK	200,640	231,178	112,685	30,538	-118,493
6.	clearing down reserve	th. SKK	-150,088	-85,000	-410,449	65,088	-325,449
7.	Direct costs of silviculture operations without the influence of reserves	th. SKK	599,423	830,670	971,528	231,247	140,858
8.	Direct costs of harvesting operations	th. SKK	2,873,956	3,290,475	3,616,544	416,519	326,069
9.	Direct costs of harvesting operations per m <sup>3</sup>	SKK/m <sup>3</sup>	742.8	782.3	780.2	39.4	-2.0
10.	Overhead cost	th. SKK	2,217,499	2,181 557	2,182 236	-35 942	679
11.	Thinning up to 50 years	ha	14,007	14,193	13,041	186	-1,152
12.	Timber harvesting without self production	m <sup>3</sup>	3,893,992	4,213,786	4,649,961	319,794	436,175
13.	coniferous	m <sup>3</sup>	2,180,387	2,524,615	2,924,265	344,228	399,650
14.	non-coniferous	m <sup>3</sup>	1,713,605	1,689,171	1,725,696	-24,434	36,525
15.	out of which windthrown timber	m <sup>3</sup>	1,858,370	2,275,048	2,933,795	416,678	658,747
16.	Total timber supplies	m <sup>3</sup>	3,579,710	3,911,777	4,438,544	332,067	526,767
17.	out of which coniferous	m <sup>3</sup>	1,960,690	2,284,867	2,731,675	324,177	446,808
18.	non- coniferous	m <sup>3</sup>	1,619,020	1,626,910	1,706,869	7,890	79,959
19.	Total timber export	m <sup>3</sup>	163,499	58,255	101,673	-105,244	43,418
20.	out of which coniferous	m <sup>3</sup>	35,384	23,282	74,822	-12,102	51,540
21.	non-coniferous	m <sup>3</sup>	128,115	34,973	26,851	-93,142	-8,122
22.	Total timber revenues	th. SKK	5,236,530	6,194,401	6,082,863	957,871	-111,538
23.	Average timber price (coniferous + non-coniferous)	SKK/m <sup>3</sup>	1,462.8	1,583.5	1,370.5	120.7	-213.0
24.	Average timber price - coniferous	SKK/m <sup>3</sup>	1,496.6	1,627.5	1,351.6	130.9	-275.9
25.	Average timber price – non-coniferous	SKK/m <sup>3</sup>	1,421.9	1,521.7	1,400.7	99.8	-121.0
26.	<b>Shakeholder's equity</b>	<b>th. SKK</b>	<b>82,857</b>	<b>85,566</b>	<b>218,778</b>	2,709	133,212
27.	Average number of employees	person	4,678	4,613	4,559	-65	-54
28.	out of which workers	person	1,881	1,782	1,744	-99	-38
29.	technical and managerial staff	person	2,797	2,831	2,815	34	-16
30.	Labour productivity from added value	<b>SKK</b>	531,233	603,928	480,877	72,695	-123,051



## FOREST LAND AND REPRIVATISATION

Since the beginning of reprivatization process, some 835,399 ha of forest land and forest stands were returned to the former owners. Out of this number 151,894 ha were returned to private forest owners, 429,561 ha to cooperatives, 181,604 ha to municipalities, 67,045 ha to the church and sensual communities and 5,295 ha to other owners. Comparing to 2007, in 2008 some 1,013 requests were considered and 12,854 ha of forests were physically returned. Out of the total 835,399 ha returned forests LESY SR is renting 29,530 ha. Some 805,869 ha are managed by their own owners.

**As of 31.12.2008 LESY SR, š.p. managed 953,090 ha of forests, out of which 702,164 ha on the basis of ownership, 29,530 ha are rented and 221,396 ha are managed on the basis of the Law on the land.**

Out of the total area of non-state and not returned forests (221,396 ha) some 44,137 requests were considered covering the area of 99,738 ha. Due to different objective reasons (small ownership proportions, area of unknown owners over 50 % in the common area, insufficient documentation, unmarked boundaries, unwillingness of owners to create an association) it was not possible to return physically this land. Out of 44,699 requests covering 100,461 ha, some 44,137 requests covering 99,378 ha were considered to be cleared out and some 562 covering 723 ha were not accepted.

The rest of 120,935 ha in the ownership of non-state entities, who did not required land returning, comprises unknown owners or those who are registered in the Cadastre register, however, it is not possible to determine real owners as the area of forests cannot be specified due to ongoing inheritance procedures or incorrect residence numbers etc.

Out of the area of governed land (702,164 ha) the Slovak Republic owns 673,339 ha, some 18,349 ha is disputable and some 10,476 ha are rented to other organisations (TU Zvolen, Forestry College Banská Štiavnica, Forestry College Prešov, Municipality of Dobšiná, etc.).

### Overview of managed forest land

Ownership structure			l. r.	Actual state as of 31.12.2008		Expected state as of 31.12. 2009
				number of entities	area (ha)	(ha)
a			b	1	2	3
Total forest area r. 1 = r. (2+7)			1	x	953,090	950,246
SR ownership - total r. 2 = r. (3+6)			2	x	702,164	701,169
out of which	a) state r. 3 = (4+5)		3	x	683,815	682,371
	out of which	Managed	4	x	673,339	671,895
		rented	5	x	10,476	10,476
	b) disputable		6	x,	,18,349	18,798
Non-state - total r. 7 = r. (8+9+15)			7	45,941	250,926	249,077
out of which	rented from non-state entities with returned forests		8	1,242	29,530	31,229
	in the ownership of non-state forests with request for returning - total r. 7 = r. (8 to 12)		9	44,699	100,461	103,698
	out of which	a) private	10	43,702	84,519	83,853
		b) collective ownership	11	510	11,612	13,161
		c) municipal	12	116	1,235	2,177
		d) church	13	348	2,941	4,353
		e) other	14	23	154	154
	in ownership of non-state forests that has not requested land returning		15	x	120,935	114,150
Control sum (r. 1 to 13)			99	136,581	3,643,546	3,636,808

Overview of returned and rented forests in ha since the beginning of reprivatisation process till 31.12.2008

1. Organisation: Lesy SR, š.p. Banská Bystrica										
Private owners				Associations						
Not re- turned	Returned			Not re- turned	Returned					
	Total	Out of which			Total	Out of which				
		Individually managed	Rented by state forests			Individually managed	Rented by state forests			
2	3	4	5	6	7	8	9			
195,724	151,894	145,350	6,544	20,252	429,561	410,680	18,881			
Municipalities				Church and sensual associations						
Not re- turned	Returned			Not re- turned	Returned					
	Total	Out of which			Total	Out of which				
		Individually managed	Rented by state forests			Individually managed	Rented by state forests			
10	11	12	13	14	15	16	17			
1,946	181,604	178,586	3,018	4,506	67,045	65,963	1,082			
Other owners				Total				State forests	Managed by state forests 22+25+26	Total forest area
Not re- turned	Returned			Not re- turned	Returned					
	Total	Out of which			Total	Out of which				
		Individually managed	Rented by state forests			Individually managed	Rented by state forests			
18	19	20	21	22	23	24	25	26	27	28
7,885	5,295	5,290	5	221,396	835,399	805,869	29,530	702,164	953,090	1,758,959

OVERVIEW OF MANAGEMENT OF FOREST LAND AS OF 31.12.2008

Area of managed forest land in ha	Type of use						
	governance			rent		Law on the land	
	ownership of the SR	dispu- table	let to other entities	agreement		accor- ding to § 5	accor- ding to § 22
				from other entities	From SLF		
1	2	3	4	5	6	7	8
953,090	673,339	18,349	10,476	29,530	0	36,671	184,725
	702,164					221,396	



## Applications for restitutions of forest land

Indicator			Unit	I. r.	Total from the beginning of privatisation process	
a			b	c	1	
Applications for restitution of owner and tenure rights to forest land			number	1	98,520	
			ha	2	935,860	
out of which applications of private forest owners			number	3	93,074	
			ha	4	236,211	
Positively settled applications - physically returned forest land ( r. 1 and 2)			number	5	53,821	
			ha	6	835,399	
Including applications (r. 5 and 6)	private forest owners r.7 r.(9+11) r. 8 r.(10 +12)		number	7	49,552	
			ha	8	151,894	
	out of which ( r.7 and 8)	application for restitutions of owner rights according to § 6 and § 9 of the law No. 229/91		number	9	2,771
				ha	10	56,338
		application for restitutions of owner rights according to § 3 of the law No. 503		number	11	19
				ha	12	1,420
	common property forests		number	13	3,221	
			ha	14	429,561	
	municipal		number	15	391	
			ha	16	181,604	
	church		number	17	629	
			ha	18	67,045	
	other owners		number	19	28	
			ha	20	5,295	
Settled applications – physically not returned forest land managed by state forestry administration on the basis of tenancy contract (r. 1 and 2)			number	21	44,137	
			ha	22	99,738	
Settled applications – total			number	23	97,958	
			ha	24	935,137	
Not settled applications Physically not returned forest land			number	25	562	
			ha	26	723	
Kontrolný súčet (r. 1 až 24)			x	99	4,380,908	

## FOREST PRODUCTION

### Silviculture

The quality of silviculture activities is one of the basic part of sustainable forest management. In 2008, silviculture operations cost 971,528 thousand SKK, which was more by almost 15 % comparing to the previous year. Over 350 mil. SKK was used for activities regarding implementation of heaths measures in connection with the bark beetle fight and revitalisation of dying mountain spruce forests. An increased attention was paid to forest regeneration as the most costly item. It was reflected in a more effective use of shelterwood system applying modest forms of regeneration cuts. This resulted in a 45 % share of natural regeneration. Even if the prevailing part of planting was done at large areas the rate of rooted plants was high. A share of repeated planting on the total planting decreased to 11 % due to increase rate of container plants use.

Activity	unit.	2004	2005	2006	2007	2008
Balanced unstocked area	ha	7,943	7,308	7,406	8,052	9,772
Total forest regeneration	ha	7,698	6,962	7,729	7,629	8,520
out of which artificial	ha	4,391	4,291	4,199	4,262	4,667
natural regeneration	ha	3,307	2,671	3,530	3,367	3,853

Other activities linked to securing young forests growths and tending has been carried out in accordance with the trend of cost efficiency and rationalisation and, however, in a rate which negatively does not affect qualitative development of the forests.

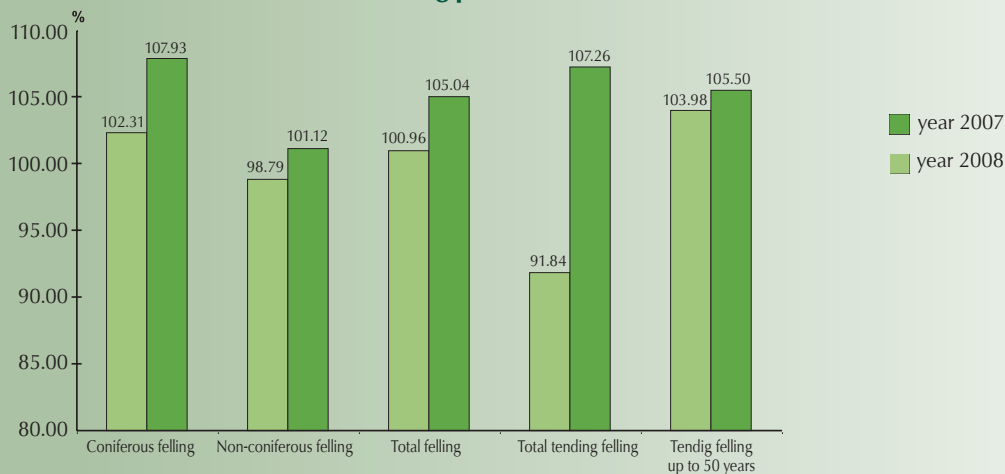
In accordance with the enterprise guideline for nature close forest management there have been activities carried out aiming at its practical application. Other 26 localities were pronounced to be Pro Silva sites. So far there has already been established 137 sites at the area of 23,023 ha. Their management is carried out by the managers of the relevant forest divisions based on the special projects and under the supervising of responsible certified forest managers.

### Harvesting operations

Annual harvesting plan was built on the basis of balanced tasks following the provisions of forest management plans and adopted to prior clearing of damaged timber in Slovakia. The scheduled harvested volume was 3,972 thousand m<sup>3</sup>, however this was exceeded by overcome by 18.78% to 4,718 thousand m<sup>3</sup> in 2008. Provisions of the state forest administration affected the fulfilment of planned values by disturbing time schedule of tending and regeneration felling in relations with accidental felling as well as unsolved property rights in the category of state not yet returned forests. The planned tending felling was on the area of 35,285 ha and carried out on the area of 23,291 ha, which represents 66.01%. This represented an annual decrease by 6.15% (72.16% in 2007). The planned tending felling up to 50 years was on the area of 18,748 ha and carried out on the area of 18,748 ha, which represents 69.56%. Comparing to 2007, the overall fulfilment of the planned tasks was lower in 2008 by 6.92% (reality for 2007 was 76.48%).

The annual harvesting plan was met to 100.96% (in 2000 to 100.92%, in 2001 to 104.62%, in 2002 to 104.25%, in 2003 to 105.75%, in 2004 to 107.20%, in 2005 to 108.89%, in 2006 to 105.76%, in 2007 to 105.03%), when the plan of coniferous felling was over fulfilled by 66,455 m<sup>3</sup> and the plan of non-coniferous felling by 21,801 m<sup>3</sup>.

Fulfilment of timber felling plan in 2007 and 2008 (%)





## FOREST PROTECTION

Protection of forests within the LESY SR, state enterprise is characterised by the health forest conditions and the measures carried out in correlation with the used financial means. Development in removal of windthrown timber since 2003 points clearly out the deterioration of health state of mainly coniferous forests due to the increasing share of spruce in total windthrown volume.

**Overview of harvesting and removed windthrown timber in LESY SR.  
(share of spruce accidental felling on total felling in %)**



A steady increase in number of trapped individuals of the two main species of bark beetles in absolute numbers as well as an average number per trap characterises the health state of spruce stands including the expected trend (tab. 1). In 2008 some 22 thousand tree traps and more than 35 thousand pheromone traps were used trapping 731 imagos of European spruce bark beetle (*Ips typographus*) and Six-toothed spruce bark beetle (*Pityogenes chalcographus*).

**Trapping of *Ips typographus* and *Pityogenes chalcographus* in LESY SR**

Year	2002		2003			2004		2005		2006		2007		2008	
PC	IT	PC	IT	PC	IT	PC	IT	PC	IT	PC	IT	PC	IT	PC	IT
mil. pcs	154	140	68	82	99	101	219	291	303	336	202	282	452	279	
ø per trap (thousand)	21		10			12		30		36		21		34	

Costs used for forest protection reflect to the needs resulting from the forest health conditions and activities aiming at its improvement (tab. 2).

**of forest protection in 2002-2008 (mil. SKK)**

Year	2002	2003	2004	2005	2006	2007	2008
Plan	59.3	52.8	81.0	96.4	113.3	173.2	90.5
Reality	57.0	52.5	58.0	81.3	122.0	136.0	191.5

Forest health is reflected in the development of types of forest damages. A share of emissions in removal of damaged timber declined, however, since 2004 a share of vital damages has increased. From 2002 to 2008 volume of bark beetle damages increased from almost 100 thousand m<sup>3</sup> to 1.9 mil.<sup>3</sup>. Out of the total number of negative impacts, breaking and non-implementation of well established principles of valid forestry legislation has a significant influence on forest protection and forest health. A general principle of the early application of defined and planned measures has been and still is dependent on the promptness of obtaining the relevant approvals and permissions for their application. As of December 31, 2008 some 105 thousand m<sup>3</sup> of damaged timber, mainly spruce, were not removed as permissions to access the damaged areas were not issued by the Environment state administration. Bystrianska valley (Forest enterprise Čierny Balog) is a notable example where bark beetle multiplied the original estimate of approximately 19 thousand m<sup>3</sup> to the present 94,300 m<sup>3</sup> of damaged timber.

## TIMBER TRADE

A share of export on total deliveries was 1.49 %, thus representing 58,256 m<sup>3</sup>. This also includes an auction sale of timber. Some 49 timber auctions were organised at 21 Forest enterprises in 2007. In total, some 19,272 m<sup>3</sup> of timber were offered for sale, out of which 18,491 m<sup>3</sup> were sold, i.e. 96 % success of sale. The average price of auction sold timber was 6,076 SKK/ m<sup>3</sup>. The highest price (236,939 SKK) was paid for maple at Forest enterprise Bardejov.

Timber sales significantly influence revenues of the state enterprise LESY SR. The total timber deliveries in 2008 were 4,643,339 m<sup>3</sup>. Out of the total deliveries some 4,438,543 m<sup>3</sup> represented direct deliveries, 9,797 m<sup>3</sup> own consumption, and 194,999 m<sup>3</sup> internal deliveries. A significant part of internal represented deliveries for the Enterprise Biomass (103,059 m<sup>3</sup>) and Enterprise of Wood Processing (84,754 m<sup>3</sup>).

A share of coniferous logs on total deliveries was 62.93 % and a share of non-coniferous logs 40.02 %. With a share of coniferous timber - 61.54 % and non-coniferous - 38.46 %, the direct timber deliveries followed the structure of harvesting.

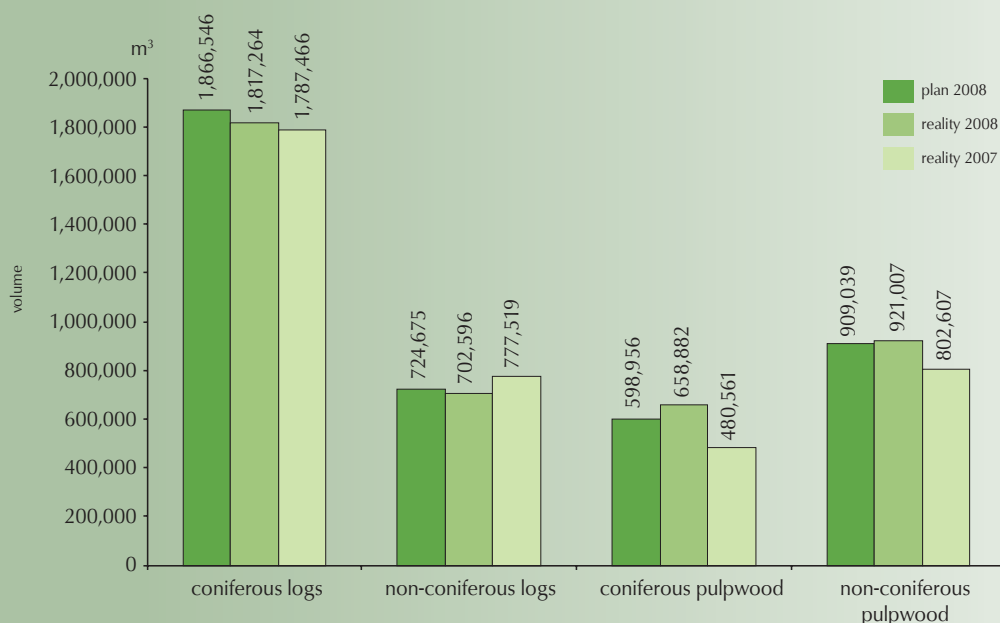
An unfavourable financial development was mainly caused by the increased proportion of sales of lower quality timber due to clearing of windthrown and bark beetle damaged timber as well as by the ongoing economic crisis. Wood processing industries in all segments started to feel problems with the excessive stocks of raw material and final products. This situation was solved by reducing purchases of roundwood and dumping sales of semi-final and final wood products. This resulted in timber price drop which started at the end of February 2008 and lasted till the end of the year 2008.

The average price of coniferous timber was 1,352 SKK/m<sup>3</sup> and 1,401 SKK/m<sup>3</sup> for non-coniferous. The average price was 1,370 SKK/m<sup>3</sup>, which is lower by 214 SKK/m<sup>3</sup> comparing to the year 2007.

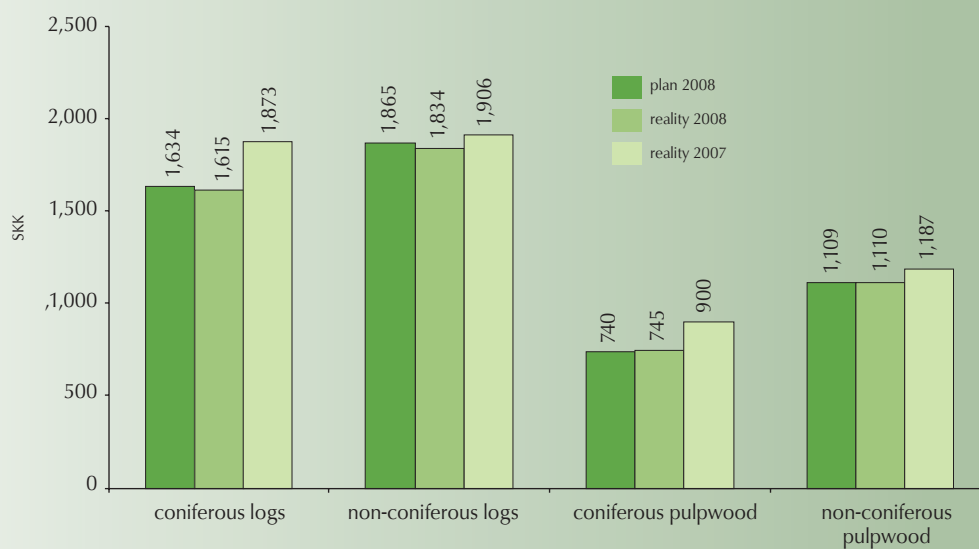
A share of export on total deliveries was 2.19 %, which represents 101,674 m<sup>3</sup>. This also includes an auction sale of timber. In 2009 we plan the total deliveries in the volume of 4,257,000 m<sup>3</sup>, out of which direct deliveries should represent 4,080,000 m<sup>3</sup>, internal deliveries 167,000 m<sup>3</sup> and own consumption 9,200 m<sup>3</sup>. The average price should be 37,81 €/m<sup>3</sup> (1,139 SKK/m<sup>3</sup>) for coniferous timber and 39,83 €/m<sup>3</sup> (1,200 SKK/m<sup>3</sup>) for non-coniferous timber.

Due to the ongoing problems with wood products sales on the world markets, ongoing economic crisis and possible occurrence of winthrown damages we assume complicated development in timber sale in 2009.

Deliveries of coniferous and non-coniferous timber in direct deliveries in 2008



Average price of coniferous and non-coniferous timber in direct deliveries in 2008





## Sales, revenues and average coniferous timber prices in 2008

Sortiment		Own consumption (m³)				Internal deliveries					Direct deliveries (m³)					Revenues (thousand SKK)				Average price (Sk/m³)			
		plan m³	reality m³	previo. year m³	2008 - 2007	plan m³	reality m³	previo. year m³	real reven. th. SKK	real reven. prev. year th. SKK	plan m³	reality m³	differ + -	previo. year m³	2008 - 2007	plan th. SKK	real. th. SKK	real prev. year th. SKK	2008 - 2007	plan	reality	differ + -	real prev. year
Venner logs I. and II. class	dom.				0						2,405	1,355	-1,050	9,288	-7,933	8,029	4,562	30,214	-25,652	3,338	3,367	28	3,253
	exp.				0						172	596	424	565	31	658	2,126	2,031	95	3,826	3,567	-258	3,595
Sawlogs III. class	dom.	387	394	433	-39	68,099	65,147	90,260	108,709	186,260	1,756,185	1,711,497	-44,688	1,666,887	44,610	2,869,285	2,766,424	3,113,383	-346,959	1,634	1,616	-17	1,868
	exp.				0						39,170	38,050	-1,120	19,904	18,146	59,246	55,247	31,368	23,879	1,513	1,452	-61	1,576
Poles	dom.				0						128	225	97	129	96	326	568	360	208	2,547	2,524	-22	2,791
	exp.				0								0		0				0	0	0	0	0
Mining wood IV. class	dom.				0			1,832		2,577	2,516	1,863	-653	5,548	-3,685	3,355	2,313	7,216	-4,903	1,333	1,242	-92	1,301
	exp.				0						2,659	2,419	-240	1,671	748	2,545	2,534	2,320	214	957	1,048	90	1,388
Thin poles IV. class	dom.	55	120	76	44		51	1	38	1	7,173	6,589	-584	2,763	3,826	6,522	6,131	2,586	3,545	909	930	21	936
	exp.				0							5	5		5		5		5	0	1,000	1,000	0
Pulpwood and ungraded timber	dom.	167	200	326	-126	15,720	20,520	14,475	16,413	13,421	575,514	614,843	39,329	465,742	149,101	425,464	455,575	419,363	36,212	739	741	2	900
	exp.				0						7,555	23,319	15,764	18	23,301	5,745	20,035	4	20,031	760	859	99	222
Fuel wood	dom.	2,606	3,362	2,192	1,170	976	1,468	861	714	480	68,139	73,727	5,588	41,991	31,736	34,322	36,429	22,227	14,202	504	494	-10	529
House bote	dom.				0						800	3,151	2,351	11,214	-8,063	514	1,565	5,465	-3,900	643	497	-146	487
Export fuel wood	exp.				0							290	290	319	-29		75	76	-1	0	259	259	238
Raw trunks	dom.		136	104	32		2,700		4,278		209,687	231,702	22,015	51,318	180,384	291,263	316,096	77,633	238,463	1,389	1,364	-25	1,513
	exp.				0							10,144	10,144	806	9,338		15,872	1,264	14,608	0	1,565	1,565	1,568
Stumpage	dom.				0						7,460	11,890	4,430	6,650	5,240	4,096	6,465	3,171	3,294	549	544	-5	477
Chipwood	dom.				0							3	3		3		4		4	0	1,333	1,333	0
	exp.				0								0		0				0	0	0	0	0
Chips	dom.				0								0		0				0	0	0	0	0
Energy wood	dom.				0	48,931	61,802	57,776	19,988	19,489		8	8	56	-48		3	21	-18	0	375	375	375
Internal deliveries for sawmills	dom.				0	83,819	84,679	106,568	126,523	202,259			0		0				0	0	0	0	0
CONIFEROUS TIMBER	dom.	3,215	4,212	3,131	1,081	133,726	151,688	165,205	150,140	222,228	2,630,007	2,656,853	26,846	2,261,586	395,267	3,643,176	3,596,135	3,681,639	-85,504	1,385	1,354	-32	1,628
TOTAL	exp.	0	0	0	0	0	0		0		49,556	74,823	25,267	23,283	51,540	68,194	95,894	37,063	58,831	1,376	1,282	-94	1,592
„TOTAL CONIFEROUS DOMEST+EXPORT“		3,215	4,212	3,131	1,081	133,726	151,688	165,205	150,140	222,228	2,679,563	2,731,676	52,113		446,807	3,711,370	3,692,029	3,718,702	-26,673	1,385	1,352	-34	1,628

Together I.-III.+agr. own consumption Plan: 1,866,546 m³  
Reality 2008: 1,817,264 m³  
Reality 2007: 1,787,466 m³

66.27 % from the whole coniferous deliveries  
62.93 % from the whole coniferous deliveries  
72.86 % from the whole coniferous deliveries

# Sales, revenues and average non-coniferous timber prices in 2008

Assortment		Own consumption (m³)				Internal deliveries					Direct deliveries (m3)					Revenues (thousand SKK)				Average price (Sk/m³)			
		plan m³	reality m³	previo. year m³	2008-2007	plan m³	reality m³	previo. year m³	real reven. th. SKK	real reven. prev. year th. SKK	plan m³	reality m³	differ + -	previo. year m³	2008-2007	plan th. SKK	real. th. SKK	real prev. year th. SKK	2008-2007	plan	reality	differ + -	real prev. year
Venner logs I. and II. class	dom.				0						9,689	6,363	-3,326	12,139	-5,776	49,996	30,939	63,790	-32,851	5,160	4,862	-298	5,255
	exp.				0						3,744	5,034	1,290	8,125	-3,091	24,159	33,274	55,772	-22,498	6,453	6,610	157	6,864
Sawlogs III. class	dom.	573	353	1,256	-903	59	100	1,939	154	3,721	684,843	668,928	-15,915	727,232	-58,304	1,217,501	1,172,249	1,285,557	-113,308	1,778	1,752	-25	1,768
	exp.				0						25,767	21,817	-3,950	26,828	-5,011	58,452	51,134	70,901	-19,767	2,268	2,344	75	2,643
Mining wood IV. class	dom.				0						89	219	130	758	-539	156	412	1,326	-914	1,753	1,881	128	1,749
	exp.				0								0		0				0	0	0	0	0
Thin poles IV. class	dom.	134	191	185	6							11	11		11		19		19	0	1,727	1,727	0
	exp.				0								0		0				0	0	0	0	0
Pulpwood and ungraded timber	dom.	902	866	494	372		29	35	37	42	904,137	920,112	15,975	802,058	118,054	1,002,801	1,021,207	952,301	68,906	1,109	1,110	1	1,187
	exp.				0						4,000		-4,000	20	-20	4,320		21	-21	1,080	0	-1,080	1,050
Fuel wood	dom.	4,694	4,098	3,438	660	558	270	406	296	357	61,075	74,680	13,605	45,207	29,473	60,460	74,777	41,799	32,978	990	1,001	11	925
House bote	dom.				0						3,805	5,124	1,319	3,977	1,147	3,890	4,985	3,987	998	1,022	973	-49	1,003
Export fuel wood	exp.				0								0		0				0	0	0	0	0
Raw trunks	dom.		77	125	-48		1,655		1,166			11	11	153	-142		16	199	-183	0	1,455	1,455	1,301
Chips	dom.				0								0		0				0	0	0	0	0
	exp.				0								0		0				0	0	0	0	0
Stumpage	dom.				0						2,871	4,544	1,673	412	4,132	1,258	1,810	42	1,768	438	398	-40	102
Energy wood	dom.			226	-226	42,895	41,257	50,770	24,376	28,547		24	24		24		11		11	0	458	458	0
Internal deliveries for sawmills	dom.				0	34	75	1,974	119	3,763			0		0				0	0	0	0	0
NON-CONIFEROUS TIMBER	dom.	6,303	5,585	5,724	-139	43,512	43,311	53,150	26,029	32,667	1,666,509	1,680,016	13,507	1,591,936	88,080	2,336,062	2,306,425	2,349,001	-42,576	1,402	1,373	-29	1,476
TOTAL	exp.	0	0	0	0	0	0		0		33,511	26,851	-6,660	34,973	-8,122	86,931	84,408	126,694	-42,286	2,594	3,144	549	3,623
TOTAL NON-CONIFEROUS DOMEST+EXPORT		6,303	5,585	5,724	-139	43,512	43,311	53,150	26,029	32,667	1,700,020	1,706,867	6,847	1,626,909	79,958	2,422,993	2,390,833	2,475,695	-84,862	1,425	1,401	-25	1,522
CONIF. AND NON-CONIF.	tuz.	9,518	9,797	8,855	942	177,238	194,999	218,355	176,169	254,895	4,296,516	4,336,869	40,353	3,853,522	483,347	5,979,238	5,902,560	6,030,640	-128,080	1,392	1,361	-31	1,565
TOTAL TIMBER	exp.	0	0	0	0	0	0	0	0	0	83,067	101,674	18,607	58,256	43,418	155,125	180,302	163,757	16,545	1,867	1,773	-94	2,811
TOTAL		9,518	9,797	8,855	942	177,238	194,999	218,355	176,169	254,895	4,379,583	4,438,543	58,960	3,911,778	526,765	6,134,363	6,082,862	6,194,397	-111,535	1,401	1,370	-30	1,584

Together I.-III.+agr.+ own consumption

Plan:  
Reality 2008:  
Reality 2007:

724,675 m³  
702,595 m³  
777,519 m³

41.41 % from the whole non-coniferous deliveries  
40.02 % from the whole non-coniferous deliveries  
46.12 % from the whole non-coniferous deliveries

## NON-PRODUCTION FOREST FUNCTIONS

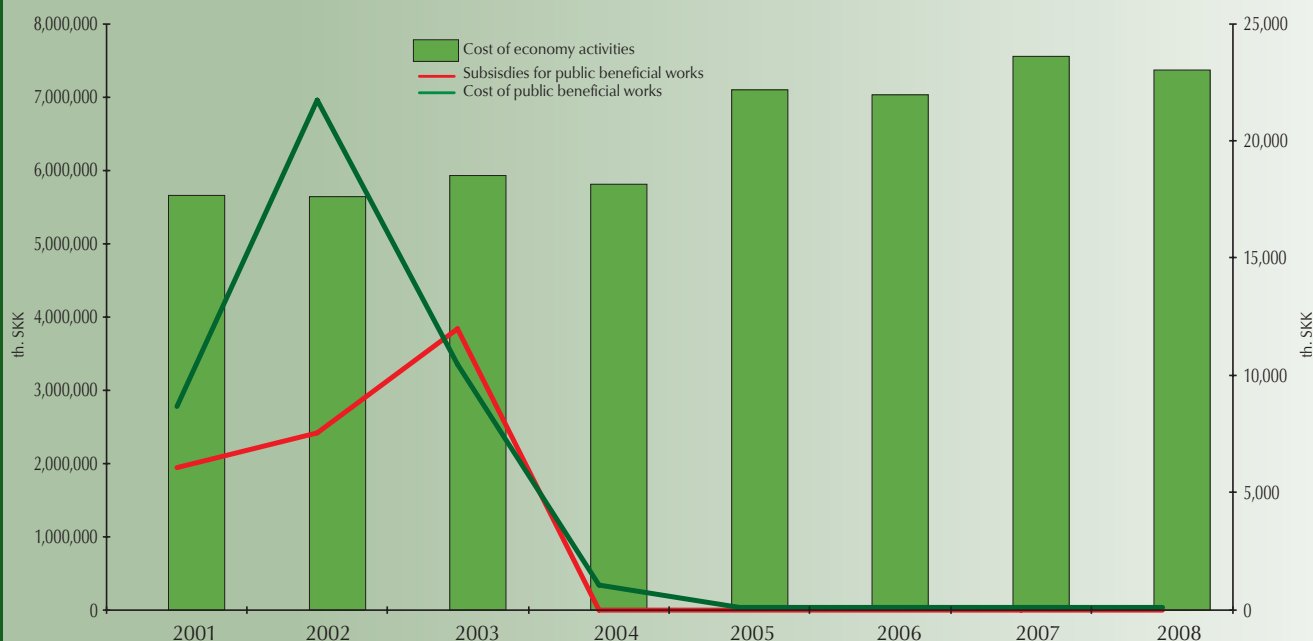
Non-production, public-beneficial and ecological functions are an inevitable part of the whole complex of functions, which are purposefully and on the basis of sustainable forest management provided by the forests. The cardinal problem for forest owner or forest manager is the inconsistency between the use of non-production functions and the provision of public cost used for their appropriate financing.

The recent development in gaining and using financial cost within LESY SR, š.p. is illustrated in the figure and table below with the break-even point in 2003. This was the last year when the forest manager obtained subsidies for the public-beneficial works. This fact significantly influenced cost used in the following years, which was absolutely dependent on the economic result as the only source.

Cost of public beneficial works since 2001 (thousand SKK)

Year	2001	2002	2003	2004	2005	2006	2007	2008
Cost of economy activities	5,648,530	5,633,490	5,920,367	5,806,215	7,100,819	7,021,986	7,549,990	7,356,430
Subsidies for public beneficial works	6,060	7,500	12,000	0	0	0	0	0
Cost of public beneficial works	8,641	21,757	10,453	1,029	162	116	127	144
% of cost for economic activities	0.152978	0.386208	0.176560	0.017722	0.002281	0.001652	0.001682	0.001957

Cost of public beneficial works (thousand SKK)





## FOREST TECHNIQUE

The state enterprise LESY SR provides a part of forestry operations (harvesting, extracting, transport, maintenance of forest roads) through a specialised Enterprise of Forest Technique Banská Bystrica. This so called operational and safety capacity carried out in 2008 was as follows:

Harvesting operations	
harvester technologies:	46,979 m <sup>3</sup>
forest cables:	74,448 m <sup>3</sup>
classical (tractor technologies:	69,319 m <sup>3</sup>
other (processors, skidding machines):	21,288 m <sup>3</sup>
<b>Total:</b>	<b>212,034 m<sup>3</sup></b>

Some 1,728,511 m<sup>3</sup> of **timber was transported**, which represents an average of 18,005 m<sup>3</sup> per lorry. An amount of 54,480 thousand SKK was used for **forest roads maintenance**. These forestry operations were carried out by the Enterprise of Forest Technique for all Forest enterprises within LESY SR, š. p. through its five regional centres (Bánovce nad Bebravou, Banská Bystrica, Ružomberok, Margecany, Vranov nad Topľou) mainly in the areas with a higher concentration of state forests, which allows optimal use of own forest technique. **There is a positive trend in increasing the share of progressive and ecological operations performed by the Enterprise of Forest Technique. LESY SR thus declared the support for the National Forestry Programme, namely chapter 2, which says: "To support development and use of environmentally friendly technologies and technique". LESY SR state enterprise holds a leadership position in the use of modern, progressive and ecological forest technique in the forestry sector of the Slovak Republic.**



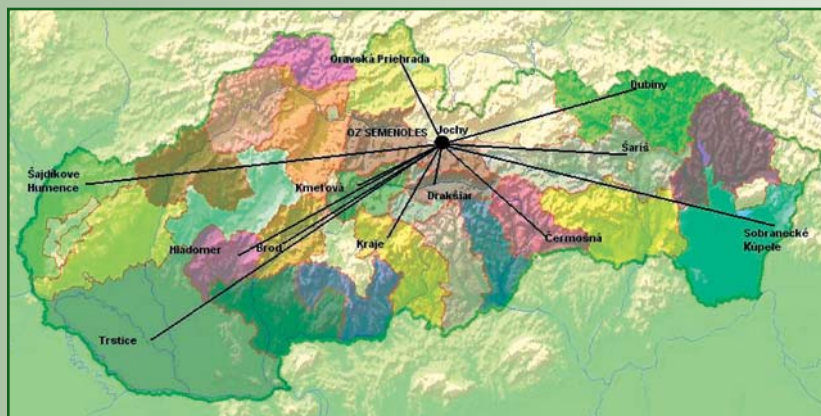


## FOREST NURSERY

In 2008 Forest enterprise Semenoles had 238 ha of production areas in 13 nursery centres (Jochy, Šajdíkove Humence, Trstice, Hladomer, Oravská Priebrada, Drakšiar, Kmeťová, Brod, Kraje, Čermošná, Šariš, Dubiny, Sobranecké Kúpele).

These nursery centres set up the production of 80.711 mil. forest plants, which is approximately by 4 mil. pcs more comparing to the previous year. Out of this number some 50.312 mil. pcs (62%) is represented by coniferous and 30.399 mil. pcs (38%) by broadleaves plants. A share of container plants on the total number was 3.6%.

Sale of plants accounted for 28.262 mil. pcs, out of which the state enterprise consumed 20.987 mil. pcs (75%) and 7.275 mil. pcs (25%) was sold to other organisations. Beech was the most sold tree species (7.657 mil. pcs) followed by spruce (5.677 mil. pcs).



### Seed management

Forest enterprise Semenoles provides seed collection, processing and storage not only for the needs of the state enterprise but also for the needs of the whole Slovakia. It creates reserves for bypassing infertile periods. In 2008 some 89 669 kg of seeds were collected, out of which 41 tons of beech and 22 tons of fir. A weak crop of oak and spruce seed did not allow to collect sufficient amount for sowing or stock renewing.

As of 31.12.2008 there is a seed stock of 18,480 kg (spruce 394 kg, fir 132 kg, pine 526 kg, larch 618 kg, beech 16,015 kg, oak 0 kg, other broadleaved species 795 kg).

### Tree breeding and gene pool maintenance

In order to supplement the seed pool, some 430 kg of spruce seed was collected at the Forest district Oščadnica. Some 9 500 slices for vegetative regeneration were collected at the Forest enterprise Čadca.

As of 31.12.2008 Semenoles managed 114 ha of seed orchards. Due to seed over capacity there were 31 orchards removed from operation in 2008. A new spruce seed orchard having the area of 1.85 ha was established in Paráč in Orava region. The perspective seed collection orchards were cultivated by mowing, mulching and forming. In 2008 some 5,791 kg of seed material from seed orchards was collected.



## WOOD PROCESSING

A new Enterprise of Wood Processing created from the Centre of Wood Processing within the LESY SR, š.p. organisation was established on 1.1.2008.

The production plan was elaborated for wood processing centres in P. Bystrica, Kláštor, L. Hrádok, Ružomberok, Michalová, Závadka and Zákamenné. An extraordinary event – a fire at the sawmill, which destroyed production facilities in Zákamenné interrupted activities in 2008. The extent of damage did not allow restoring the production and therefore this sawmill was closed on 31.10.2008.

### Wood processing production

Wood processing production in 2008 divided according to the main types is showed in the following table:

**Overview of production and revenues of wood processing in 2008**

Product	m <sup>3</sup>	Thousand SKK
Sawnwood	45,205	202,362
Residues	22,726	9,957
Sawdust	12,728	5,924
<b>TOTAL</b>	<b>80,609</b>	<b>218,213</b>

**In 2008 the sawnwood recovery was 55.19%, residues recovery 27.17% and sawdust recovery 15.60%. The overall recovery was 97.96%, i.e. an annual increase by 2.31%.**

### Joinery production

Joinery production was realised at facilities in Kláštor pod Znievom, Závadka and Ružomberok. The revenues in 2008 were as follows:

**Joinery production in 2008 (thousand SKK)**

Site	Reality
Kláštor pod Znievom	1,819
Ružomberok	1,157
Závadka nad Hronom	1,532
<b>Total</b>	<b>4,508</b>

### Sawnwood trade

An unfavourable situation at the roundwood and sawnwood market continued in 2008 as these commodities market was oversupplied due to windthrown in Slovakia, Scandinavia, Germany and Austria in the latest years. This year also showed a recession at the construction market. This resulted in a significant oversupply of sawnwood at the sawmills yards and significant drop in prices of all assortments of coniferous sawnwood in the region of Slovakia and at the target export countries (Greece, Italy, Hungary).

The sawnwood oversupply caused a decrease in average price of sawnwood and wood residues (sawdust, cut-offs) and decrease in sawnwood and residues production.

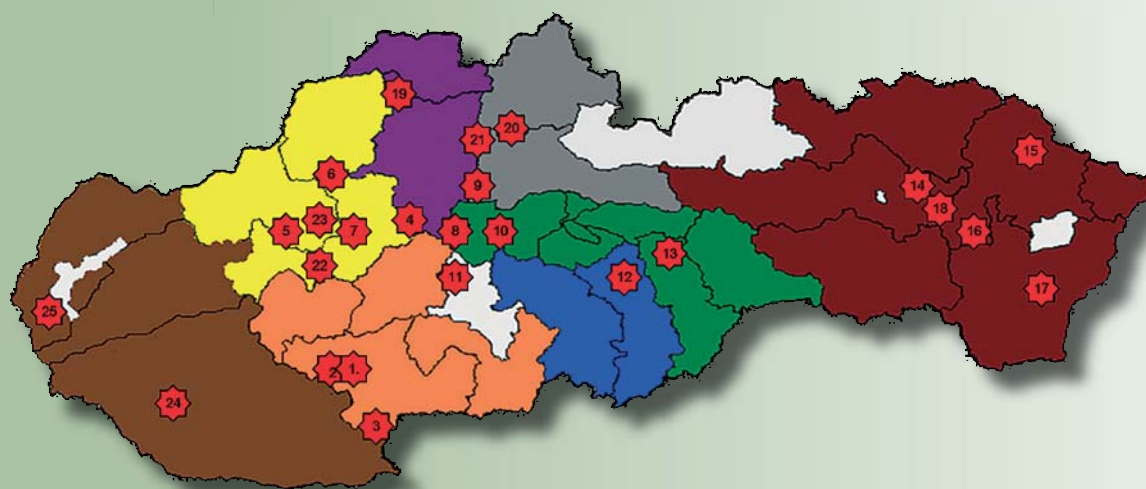




## FOREST BIOMASS

The year 2008 was the first year of the existence of new enterprise that originated from the Biomass Centre. During this period there was 122,743 tons of energy wood chipped, thus creating revenues of 157,900 thousand SKK. The activities are aimed at processing of energy wood from thinning, regeneration felling, and mainly from windthrown harvests with the aim to use the production potential of forest land through the increase of average production per hectare and cutting cost for branches cleaning and protection of forest stands. The establishment of Biomass Enterprise offers new job possibilities – either direct (52 employees) or indirect such as chips transport and production of energy wood. Biomass Enterprise is oriented on the domestic buyers who purchased 112,337 tons (99% of production). This volume was realised by 25 buyers from the entire area of the SR. An increase in the proportion of energy production from sustainable sources – wooden biomass is a contribution to diversification of activities of LESY SR, š.p. and to the achievement of EU commitments.

### Overview of realisation and preparation of regional projects in 2008 according to regional centres



## GAME MANAGEMENT

Game management connected to tourism is one of the main activities provided by the state enterprise LESY SR. Game management represents a separate production and economic cycle. In 2007 the state enterprise managed 870 thousand ha of hunting grounds (19.7 % of the total hunting area in Slovakia). Hunting rights were performed in 103 acknowledged hunting grounds with the total area 388 thousand ha (annual decrease by 31 hunting grounds and 122 thousand ha of hunting area). Hunting rights were rented to 910 entities and organisations at the area of 490 thousand ha, which represents 68 % of hunting land administrated by LESY SR, š.p.

Hunting plan for the hunting season 2008 was met to 77 % for red deer, 60 % for fallow deer, 61 % for mouflon, 77 % for roe deer and 90% for wild boar. Overall fulfilment of the planned hoofed game hunting was 76 %. This is due to the fact that some tenancy contracts were terminated in some of the self-operated hunting and consequently no further planned hunting was realised by LESY SR, š. p. As for rare species, one bear was shot within the regulatory shooting and 7 alpine chamois were shot out of 8 planned pieces.

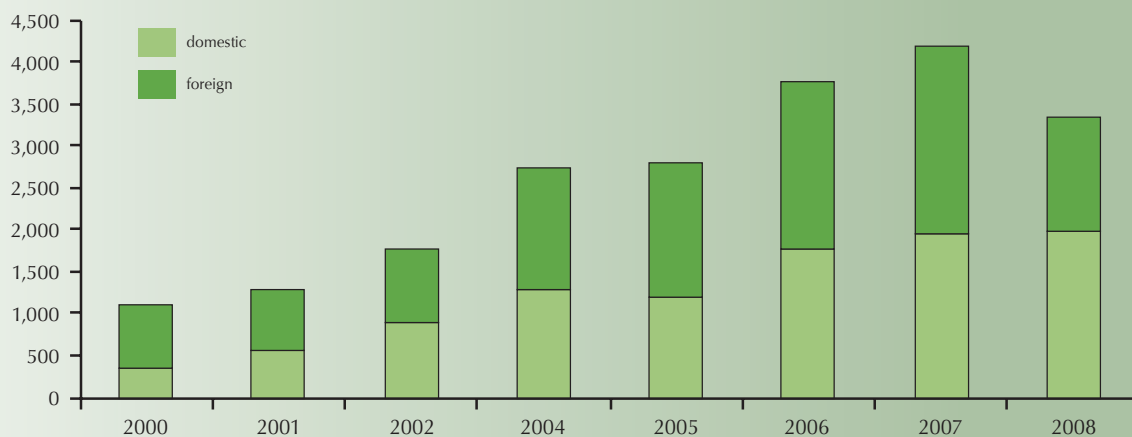
Development of fee hunting of trophy game in 2002-2008 (pieces)

Species	2002	2003	2004	2005	2006	2007	2008	2008-2007
Fallow deer	61	74	90	87	107	119	<b>117</b>	<b>-2</b>
Mouflon	72	63	92	98	126	166	<b>120</b>	<b>-46</b>
Roe deer	146	162	182	215	261	302	<b>249</b>	<b>-53</b>
Red deer	262	269	313	324	359	379	<b>337</b>	<b>-42</b>
Wild boar	945	1,232	1,376	1,481	1,353	1,867	<b>1,519</b>	<b>-348</b>
Pheasant	55,704	32,860	40,904	34,270	34,966	40,425	<b>38,759</b>	<b>-1,666</b>
Bear	10	0	8	5	2	6	<b>1</b>	<b>-5</b>

There was a decrease in fee hunting for all main species recorded during the hunting season 2008 due to the reduction of area and number of self-operated hunting grounds. A number of fee-paying guests dropped from 4,500 in 2007 to 3,330 in 2008 (fall by 1,170).

There was 180 ton of venison produced in self-operated hunting grounds of the LESY SR, š.p. in 2008. There was 110 ton of venison supplied to the own processing facility at Forest enterprise Topoľčianky either from own production or from external sources. This represents an annual decline in supplies of venison by 20 tons.

Development of number of hunting guests in self-operated hunting grounds of LESY SR, š.p.





## Basic economic indicators of LESY SR, š. p. under the operation „241 – game management“ in 2008:

Incomes (including rent and venison).....	83,238 th. SKK	(annual decline by 1,875 th. SKK)
Total revenues .....	117,035 th. SKK	(annual decline by 3 ,834 th. SKK)
Direct cost .....	113,427 th. SKK	(annual decline by 3,159 th. SKK)
Profit from direct cost.....	+ 3,607 th. SKK	(annual decline by 676 th. SKK)

**The original plan of revenues in hunting for 2008 was not met by 2,677 thousand SKK** and the planned profit by 1,065 thousand SKK. The overall profit of hunting in LESY SR, š. p. (+ 3,607 thousand SKK) was influenced by the indicators at the Forest enterprise Levice where a lump sum of 5,700 thousand SKK used for pheasant aviaries reconstruction was charged, thus the profit of the Forest enterprise was – 1,846 thousand SKK (instead of the planned profit + 1,600 thousand SKK). Otherwise, the profit of other Forest enterprises in hunting would be + 7,052 thousand SKK.

## Development of basic economic results of the operation 241 – game management

	unit	2000	2003	2004	2005	2006	2007	2008
Incomes	th. SKK	61,251	73,708	78,893	76,632	79,201	85,113	83,238
Profit	th. SKK	5,469	8,892	8,873	3,329	12,036	4,283	3,607
Revenues	th. SKK	61,251	73,708	88,645	85,339	83,214	120,869	117,035
Direct cost	th. SKK	55,782	64,816	79,772	82,010	71,178	116,586	113,427





## ECOLOGY AND ENVIRONMENTAL POLICY

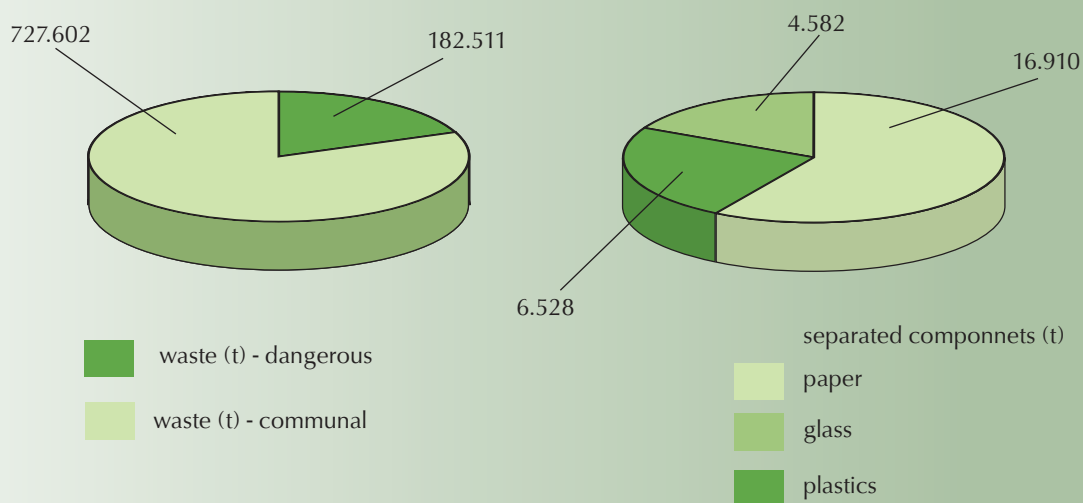
The environmental policy of the state enterprise LESY SR is to provide all activities, preferably production activities, in a responsible way by excluding known risks in relation to the environment with regard to the safety and health of employees, consumers, suppliers and other concerned parties.

The basic principles at all organisational units of the enterprise are:

- to carry out strictly all activities in accordance with the environmental legislation, regulations and other requirements following from the accession of the SR to the European Union,
- to minimise pollution of the environment through the implementation and realisation of environmental measures,
- to inform detached employees and concerned parties of public administration on the obtained results,
- to increase awareness of employees about the best practice and principles of the protection of environment through trainings and other educational activities.

The state enterprise LESY SR fully realises separated collection of usable components of municipal waste. Paper, glass and plastics represent the main commodities.

Waste production in 2008



Since the last year the total volume of waste created by the cleaning of production and manipulation areas at timber yards of the state enterprise has become a valuable material for the production of cultivation substrates, bark mulch and composts.

The endeavour of LESY SR, š.p. to value to a maximal rate the produced waste clearly declares environmental orientation of the enterprise not only in the area of waste management, but in all its activities.

## INVESTMENT ACTIVITIES

### 1. Total investment (th. SKK)

Year	2007		2008	
Indicator	Amount	%	Amount	%
Total investment	709,418	100.0	892,946	100.0
out of which tangible	655,364	92.4	870,833	97.5
intangible	54,054	7.6	22,113	2.5

### 2. Financial sources (th. SKK)

Year	2007		2008	
Indicator	Objem (tis. Sk)	%	Objem (tis. Sk)	%
Total sources	709,418	100.0	892,946	100.0
out of which own	709,418	100.0	892,946	100.0
from state budget		0.0		0.0
other (Eur. funds)		0.0		0.0

### 3. Structure of procured tangible and intangible current property in 2008 (th. SKK)

#### 3a) Total investments

Indicator	Amount	%	%
Total investments	892,946	100.0	
out of which construction	585,413	65.6	100.0
out of which construction works	575,327		98.3
project works	9,578		1.6
other investments	508		0.1
machinery and current property	307,533	34.4	

#### 3b) Construction investments according to construction types

##### 3b.1) Construction investments – own resources:

Indicator	th. SKK	%
Forest roads	91,046	38.8
Timber yards	61,769	26.3
Torrent regulation	7,234	3.1
Nursery activities	18,099	7.7
Residential construction	11,203	4.8
Ecological constructions	4,358	1.9
Other construction	40,985	17.5
Total construction works	234,694	100.0

##### Construction investments – own resources – project works

Indicator	th. SKK	%
Total project works	6,168	100.0
out of which own	2,923	47.4
external	3,245	52.6

**3b.2) Construction investments – European funds:  
Entire financing in 2008 from own sources**

**3b.2.1) – Rural Development Program of the SR 2007 - 2013 – fire fighting measures**

Indicator	th. SKK	%
PP LC reconstruction, 37 projects	236,273	69.6
PP LC new construction, 3 projects	26,780	7.9
PP LC rebuilding, 7 projects	56,486	16.6
PP water dams, 3 projects	19,764	5.8
Total	339,303	100.0

**3b.2.2 - Operational program Environment, Axis 2, Flood protection**

Indicator	th. SKK	%
Bystrý potok, Kriváň	1,000	100.0

**3b.2.3 – National plan of wine yards reconstruction**

Indicator	th. SKK	%
Reconstruction of wine yard Topolčianky	330	100.0

**Construction investments – European funds – projection works**

Indicator	th. SKK	%
Projection works total	3,410	100.0
out of which own (Projection office Žilina)	551	16.2
external	2,859	83.8

**3c) Classification of investments for purchase of machinery and DNM according to activities**

Indicator	th. SKK	%
Harvesting and timber extracting	25,861	8.4
Transport and timber manipulation	143,011	46.5
Silviculture, agricultural production, nursery activities and wood processing	11,774	3.8
Maintenance, service and other activities	48,260	15.7
Personal and technological transport	44,736	14.5
Information and office technology	11,778	3.8
Software and IS	11,817	3.8
Forest management plans elaboration	10,296	3.3
Total machinery investments and current property	307,533	100.0

In 2008 the accessibility of forest stands was the priority of the enterprise in the area of construction investments (410,585 th. SKK, 71.4). There was 137,026 th. SKK (15 projects) used for the construction and reconstruction of forest roads. Some 17.2 km of new forest roads were built in order to increase the density of forest roads (5 projects) and there are 4 more ongoing projects for the roads with the length 17.2 km. The improvement of quality of forest roads (reconstruction) cost 273,559 th. SKK.

The purchase of transport and mechanisation machines for timber manipulation and transport (143,011 th. SKK, 46.5 %), transport and mechanisation machines for maintenance, service and other activities (48,260 th. SKK, 15.7 %) and cars for personal and technological transport (44,736 th. SKK, 14.6 %) was the priority in machinery investments.

Depreciations as own source of financing renewal of investment property in 2008 were as follows:

Depreciations – reality in 2008: .....465,098 th. SKK  
Real volume of investments from own sources: .....892,946 th. SKK



## PUBLIC RELATIONS

The approval of the communication project of LESY SR – Forests for all, which defines objectives and tools for public relations for the period 2008-2001 was an important moment of 2008. This project defines the basic objectives and tools of communication policy. In principles, it builds on all positive developed during the latest years in this area. Its objective is to develop systematically and in a conception way relations of the public to forestry and forests, increase credibility of forestry profession and to build image of the state enterprise LESY SR as a socially responsible company.

### The following tolls of public relations are defined within the project:

- forestry pedagogy (key program aimed at children and youth),
- forest information offices (workplaces of all organisational units as the first contact points, a map showing natural, historical and cultural monuments will be elaborated for each of 26 Forest enterprises – there were 5 maps printed in 2008),
- special forestry sites (continuously built network of places tied to forestry history in Slovakia – there were 6 sites introduced in 2008),
- forestry educational paths (there were 6 new paths opened in 2008),
- Forestry open museum in Vydrovská dolina near Čierny Balog (unique open museum visited by 43 600 visitors from 38 countries in 2008),
- Forestry and Wood Museum in Zvolen.

### Events for the public realised in 2008:

- Day of tree – 7th year of publicly popular and largely visited event in the Forestry open museum,
- Celebrations of the 50th anniversary of Forest enterprise Šaštín and the 90th anniversary of Forest enterprise Námestovo,
- Hunting days in Levice – XIII. year,
- Forestry days (22.4.-1.5.) – national campaign, II. year, includes planting of “mini arboretums” in kinder gardens, primary and secondary schools in Slovakia,
- International meeting of women - foresters,
- European championship of coachmen (Dobšiná, Revúca),
- Christmas tree as a present (V. year, Christmas trees for children in foster homes in Slovakia).

### Driven media communication:

- Halali – TV documentary for nature lovers (Dvojka) – active participation in preparation
- Rádiovíkend – advertising contest of LESY SR, š.p. broadcasted in the Slovak radio



**BALANCE SHEET** (in SKK thousands)

Assets	Line No.	Brutto	Correction	Netto	Previous Years
Total assets	1	52,872,244	7,440,896	45,431,348	45,060,277
Receivables for equity subscriptions	2			0	
Non-current assets	3	50,803,002	7,034,536	43,768,466	43,379,084
Long-term intangibles, total	4	272,223	99,004	173,219	184,825
Incorporation costs	5			0	
Capitalized costs of development	6	958	914	44	86
Software	7	188,823	83,062	105,761	121,078
Valuable rights	8	4,820	1,701	3,119	2,587
Goodwill	9			0	
Other long-term intangibles	10	74,965	13,327	61,638	37,822
Long-term intangibles, acquired	11	2,657		2,657	23,252
Advance for long-term intangibles, paid	12			0	
Long-term tangibles, total	13	50,524,493	6,929,246	43,595,247	43,194,259
Lands	14	35,918,971		35,918,971	35,870,167
Constructions	15	10,909,283	4,583,759	6,325,524	6,052,371
Separate tangibles and assemblies	16	3,355,070	2,315,778	1,039,292	940,651
Silvicultural units	17	1,134	675	459	551
Livestock and draught animals	18	9,199	6,995	2,204	2,135
Other long-term tangibles	19	12,308		12,308	12,308
Long-term tangibles, acquired	20	317,775	22,039	295,736	315,164
Advance for long-term tangibles, paid	21	753		753	912
Provisions for assets acquired	22			0	
Long-term financial assets, total	23	6,286	6,286	0	0
Stock and ownership interests 061	24			0	
Stock and ownership interests 062	25	4,192	4,192	0	0
Other long-term stock and ownership interests 063,065	26	2,094	2,094	0	0
Borrowings in accounting entity	27			0	
Other long-term fin. assets 067,069,06x	28			0	
Loans payable within max. of 1 year	29			0	
Long-term fin. assets, acquired 043	30			0	
Advance for long-term fin. assets, paid	31			0	
Current assets	32	2,042,933	406,360	1,636,573	1,655,837
Inventory, total	33	674,344	40,007	634,337	634,790
Material 112,119,11X	34	31,316	1	31,315	30,801
Work-in-process and semiproducts 121,122,12X	35	231,347	4,041	227,306	219,519
Custom-made production	36			0	
Produce 123	37	384,548	26,525	358,023	368,376
Animals 124	38	23,722	9,440	14,282	9,361
Merchandise 132	39	516		516	1,541
Advance for inventory, paid 314	40	2,895		2,895	5,192
Long-term receivables, total	41	2,270	0	2,270	4,597
Trade receivables 311 through 315	42			0	
Receivables from control. person	43			0	
Other receivables under consolidation	44			0	
Receivables from company members	45			0	
Other receivables 335,33X,371 thr 378	46	2,270		2,270	4,597
Deferred tax assets 481	47			0	
Short-term receivables, total	48	1,335,206	366,353	968,853	789,743
Trade receivables 311 through 315	49	1,159,804	366,353	793,451	764,319
Receivables from control. person	50				
Other receivables under consolidation	51				

Receivables from company members	52				
Social security 336	53				
Tax assets 341 through 345	54	164,086		164,086	18,336
Other receivables 335,33X,371 thr 378	55	11,316		11,316	7,088
Financial accounts, total	56	31,113	0	31,113	226,707
Cash 211,213	57	3,065		3,065	4,619
Accounts with banks 221 and 261	58	28,048		28,048	222,088
Accounts with banks blocked for over 1 year 221	59				
Short-term fin. assets 251,253,256,257	60			0	
Short-term fin. assets, acquired 259	61			0	
Accruals and deferrals	62	26,309	0	26,309	25,356
Accrued costs 381,382	63	24,406		24,406	24,598
Deferred income 385	64	1,903		1,903	758
Check number		211,462,667	29,763,584	181,672,774	180,215,752

Liabilities	Line No.	Brutto	Correction	Netto	Previous Years
Stockholder´s equity and liabilities, total	65	45,431,348			45,060,277
Stockholder´s equity	66	42,967,510			42,830,394
Registered capital, total	67	42,655,721			43,304,088
Registered capital 411	68	43,327,860			43,327,860
Equity shares and interests	69				
Change in registered capital 419	70	-672,139			-23,772
Capital funds	71	10,639			10,639
Capital surplus 412	72				
Other capital funds 413	73	10,639			10,639
Statutory reserve fund 417,418	74				
Gains or losses from revaluation 414	75				
Gains or losses from investments 415	76				
Gains or losses from revaluation 416	77				
Funds from profit, total	78	62,654			51,389
Statutory reserve fund 421	79	21,900			17,600
Indivisible fund 422	80				
State and other funds 423,427,42X	81	40,754			33,789
Business results from previous years	82	19,718			-621,288
Retained earnings from previous years 428	83	88,741			137,088
Accumulated loss from previous years 429	84	-69,023			-758,376
Business results for accounting period	85	218,778			85,566
Liabilities	86	1,902,666			1,676,632
Reserves, total	87	437,097			777,897
Statutory reserves 451	88	112,685			410,449
Other long-term reserves 459	89	80,188			98,750
Short-term reserves 323,32x,451,459	90	244,224			268,698
Long-term liabilities, total	91	211,250			157,343
Long-term trade payables 479	92				
Long-term non-invoiced deliveries 476	93				
Long-term payables to the control. person 471	94				
Other long-term payables under consolidation 471	95				
Long-term advance received 475	96				
Long-term notes payable 478	97				
Bonds issued 473	98				



Payables to social security fund 472	99	19,114		25,250
Other long-term liabilities 474, 479, 372, 373, 377	100			
Deferred tax liability 481	101	192,136		132,093
Short-term liabilities, total	102	585,160		741,392
Trade payables 321 through 325, 475, 478, 479	103	521,524		541,913
Non-invoiced deliveries 326, 476	104	2,037		1,525
Payables to control. person 361,471	105			
Other payables under consolidation 361, 471, 47X	106			
Payables to company members 364 through 368, 398, 478, 479	107	-200,000		
Payables to employees 331, 333	108	135,713		85,068
Payables to social security 336,479	109	56,686		81,350
Tax liability and subsidies 341 through 347, 34X	110	58,376		26,001
Other liabilities 372 through 379, 474, 479, 47X	111	10,824		5,535
Bank credits and loans, total	112	669,159		0
Bank credits, long-term 461	113			
Current bank credits 221, 231, 232, 23X, 461	114	669,159		0
Short-term loans 241, 249, 24X, 473	115			
Accruals and deferrals, total	116	561,172		553,251
Accrued expenses 383	117	607		625
Deferred revenues 384	118	560,565		552,626
Check number	999	180,945,442		179,602,291

## PROFIT AND LOSS ACCOUNT (in SKK thousands)

Text	Line No.	Current accounting period	Previous years
Revenues from goods (604)	1	6,338	6,027
Costs to acquire goods sold (504)	2	4,339	3,706
Margin line01-line02	3	1,998	2,321
Production	4	6,954,101	7,238,108
Revenues from own produce and services sold (601,602)	5	6,845,445	7,078,492
Change in in-house inventories (61)	6	2,356	100,023
Capitalization (accounting class 62)	7	106,300	59,593
Consumption of production line 9+line10	8	4,763,659	4,454,715
Consumption of material, utilities and other unstored supplies (501,502,503)	9	781,666	822,240
Services (accounting class 51)	10	3,981,993	3,632,475
Added value line 3+line4-line8	11	2,192,441	2,785,714
Personnel expenses, total (lines 13 through 16)	12	2,043,767	2,012,686
Wages and salaries (521,522)	13	1,418,379	1,461,914
Remuneration of board members (523)	14	463	358
Social security expenses (524, 525, 526)	15	512,902	503,942
Social security expenses (527, 528)	16	112,023	46,472
Taxes and fees (accounting class 53)	17	182,349	154,381
Write-offs of long-term intangibles and tangibles (551)	18	453,851	461,391
Revenues from long-term assets and material sold (641, 642)	19	255,390	302,364
Net book value of long-term assets and material sold (541,542)	20	117,619	270,934
Other revenues from economic activity	21	432,815	89,314

Other costs of economic activity	22	-209,153	192,177
	23		
	24	0	
<b>Business results of economic activity</b>	<b>25</b>	<b>292,213</b>	<b>85,823</b>
Revenues from goods (661)	26		
Stock and ownership interests sold (561)	27		
Revenues from long-term financial assets line 33+line34+line35	28	38	18
Revenues from stock and ownership interests in control. person (665)	29		
Revenues from other long-term stock and ownership interests (665)	30	38	18
Revenues from other financial assets (665)	31		
Revenues from short-term financial assets (666)	32		
Costs of short-term financial assets (566)	33		
Revenues from revaluation of stock derivatives (664, 667)	34		
Costs of revaluation of stock derivatives (564, 567)	35		
Addition to and accounting for OP against FM	36		
Interests received (662)	37	1,281	11,894
Interests paid (562)	38	10,012	32
Exchange-rate receipts (663)	39	3,128	5,565
Exchange-rate losses (563)	40	7,272	5,580
Other revenues from financial activities (668)	41	21	95
Other cost of financial activities (568, 569)	42	2,944	2,268
Transfer of financial revenues (-) (698)	43		
Transfer of financial expenses (-) (598)	44		
<b>Business results of financial activities</b>	<b>45</b>	<b>-15,760</b>	<b>9,692</b>
Tax on income from ordinary activities, line 54 + line 55	46	60,043	9,778
- due (591, 595)	47		
- deferred (+/- 592)	48	60,043	9,778
<b>Business results of ordinary activities line 29+line 52-line 53</b>	<b>49</b>	<b>216,410</b>	<b>85,737</b>
Extraordinary revenues (accounting class 68)	50	2,480	19
Extraordinary expenses (accounting class 58)	51	112	190
Tax on income from extraordinary activities, line 54 + line 55	52		
- due (593)	53		
- deferred (+/-594)	54		
<b>Business results of extraordinary activities</b>	<b>55</b>	<b>2,368</b>	<b>-171</b>
Transfer of interests in business results to company members (+/- 596)	56		
<b>Business results for accounting period</b>	<b>57</b>	<b>218,778</b>	<b>85,566</b>

## NOTES TO FINANCIAL STATEMENTS AS OF DECEMBER 31, 2008

### A. BASIC DATA

#### 1. Commercial Name and Registered Office of the Company:

LESY Slovenskej republiky, š. p.  
Námestie SNP 8, 975 66 Banská Bystrica

LESY Slovenskej republiky, š. p. (hereinafter referred to as "Company") was founded on 1 July 1999 and incorporated in the Companies Register on 29 October 1999 (the Companies Register of District Court Banská Bystrica, Section: Pš, Entry No.: 155/S).

#### 2. Corporate Core Business as Entered in the Companies Register:

- administration of forest property and other property owned by the Slovak Republic
- establishment, regeneration, silviculture, tending and protection of forest plantations in compliance with the forest management plan pursuing the public and community functions
- timber harvesting in forest plantations in compliance with the provisions of state administration, skidding, handling and transportation
- sale of green timber and other commodities of forest production and sideline operations

#### 3. Unlimited Liability

The Company is a company member with unlimited liability in no other accounting entities.

#### 4. Average Employees Count

In 2008, the Company had 4,371 employees, on an average, including 5 top officials.

#### 5. Legal Ground for Preparation of Financial Statements

Financial statements of the Company as of 31 December 2008 are drawn up as regular financial statements pursuant to Section 17(6) of Act No. 431/2002 Coll. of the National Council of the Slovak Republic on Accounting (hereinafter referred to as "Accounting Act") for the accounting period 1 January 2008 – 31 December 2008.

#### 6. Date of Authorization of Financial Statements for Previous Accounting Period

On April 10, 2008, the Supervisory Board approved the Company's financial statements for the previous accounting period.

### B. COMPANY BODIES

#### 1. Company Bodies

Director General	doc. RNDr. Ing. Jozef Mindáš PhD.
1st deputy director general	Ing. Ľuboš Németh
2nd deputy director general	Ing. Peter Chrast
3rd deputy director general	Mgr. Ing. Edita Tomeková
4th deputy director general	Ing. Jaroslav Holiga

#### Supervisory Board

Chairman	JUDr. Juraj Procházka
member	JUDr. Kamil Beresecký
member	Ing. Ján Beňa
member	Ing. Jozef Herud
member	Ing. Dušan Krajniak
member	Ing. Ján Malko
member	Doc. Ing. Ján Ilavský
member	JUDr. Milan Chovanec
member	Ing. František Suchanovský



## 2. Information on the Company's Promoter

The Company is a state-controlled undertaking founded upon a decision of the Ministry of Agriculture of the Slovak Republic.

## C. CONSOLIDATED ENTITY

The Company is not involved in the consolidated financial statements.

## D. METHODS OF ACCOUNTING AND GENERAL ACCOUNTING POLICIES

### a) Basis of Preparation of Financial Statements

Preparation of the financial statements was effected on the assumption that the Company continues to exist. The accounting entity has consistently applied the methods of accounting and general accounting principles.

### b) Long-Term Intangibles and Long-Term Tangibles

The valuation of the long-term assets acquired against payment is made at the acquisition cost comprising the cost of acquisition and the acquisition by-costs (customs duty, transport, assembly operations, insurance, etc.). Since January 1, 2003 neither interests on third-party resources nor foreign exchange difference incurred have been part of the acquisition cost.

The valuation of the long-term assets generated by own activities of the enterprise is made at the (total) costs incurred. (Total) costs incurred denote all direct costs expended on the manufacturing or other activities, and all indirect costs relating to the manufacturing or other activities.

The valuation of the long-term assets acquired without payment is made at reproduction acquisition cost denoting the price at which the assets would be acquired at the time of the accounting for those assets.

Costs of research are not capitalized but are recognized under the costs of the accounting period when they incurred. Costs of development are recognized under the period when they incurred; yet such costs of development which are incurred in relation to the following: product or process concerned is clearly defined, enjoys provable technical feasibility and marketability, the Company possesses sufficient resources to complete, sell or internally use the outcomes of such projects, are capitalized, amounting to such a sum which is likely to be recovered from the future economic benefits.

Capitalized costs of development write off for max. of 5 years, particularly under the accounting periods when sale of the product or use of the processes concerned are expected. Where the value of such costs is lowered, the write-off is effected at such a sum which is likely to be recovered from the future economic benefits.

Long-term intangibles write off according to the amortisation plan made upon the anticipated lifetime of the assets concerned. The amortisation begins on the first day of the month following the introduction of the assets to use. Low-value intangibles whose acquisition cost (or total costs incurred) amounts to SKK 50,000 or less (before December 31, 2002: SKK 40,000 and less) write off by a single application when put to use.

The anticipated lifetime, method of amortisation, amortisation rate are shown in the following table:

	Anticipated lifetime, in years	Method of amortization	Annual amortization rate, in %
Incorporation costs	5	R	20
Capitalized costs of development	5	R	20
Software	5	R	20

Long-term tangibles write off according to the depreciation plan made upon the anticipated lifetime and course of wear and tear of the assets concerned. Depreciation begins on the first day of the month following the introduction of the assets to use. Amortisation of the SAP software takes 7 years. Low-value tangibles whose acquisition cost (or total costs incurred) amounts to SKK 30,000 and less (before December 31, 2002: SKK 20,000 and less) write off by a single application when put to use. The anticipated lifetime, method of depreciation and depreciation rate are shown in the following table:

	Anticipated lifetime, in years	Method of depreciation	Annual depreciation rate, in %
Constructions	6 - 30	even	1,4 - 18,3
Property, plant and equipment	4 - 12	even	4,3 - 28,6
Rolling stock	4 - 12	even	4,3 - 28,6
Low-value long-term tangibles	1 and over	even	100

In the event of temporary reduction of the utility value of long-term assets as ascertained at the inventory check, which appears substantially lower than the asset valuation disclosed in the accounting records after deduction for adjustments, a deferred provision is made to add to the amount of the utility value of the assets ascertained.

### c) Stock and Ownership Interests

The valuation of stock and ownership interests when acquired is made at acquisition costs, i.e. including the acquisition by-costs (before December 31, 2002: at the cost of acquisition, i.e. exclusive of the acquisition by-costs).

As at the date on which the financial statements are prepared the valuation of stock and ownership interests is made at acquisition costs reduced by deferred provisions made for contingent temporary reduction of the values of the interests.

### d) Inventories

The valuation of the inventories acquired against payment is made at acquisition costs comprising the costs of acquisition and the acquisition by-costs (customs duty, transport, insurance, commissions, etc.). Interests on the third-party resources are not part of the acquisition cost. The Company uses the A method when accounting for inventories, and the method of the weighted arithmetic mean of acquisition costs with respect to the receipt into stock. The valuation of the issue from stock is made at the costs used at the valuation of inventories in stock.

Acquisition on-costs are reversed under the expenses as follows:

Gains or losses from valuation = actual consumption x % gains or losses from valuation, while % gains or losses from valuation is determined as a ratio of the costs related to the acquisition of the material inventories to the total volume of the inventories acquired.

The valuation of inventories resulted from own activities of the enterprise is made at (total) costs incurred. (Total) costs incurred denote direct costs (direct material, direct wages and other direct costs) and part of the indirect costs immediately related to the inventories resulted from the own activities of the enterprise (manufacturing overheads – overheads of forest management authorities). Manufacturing overheads are included in the (total) costs incurred depending of the stage of the work-in-process concerned.

In case of temporary reduction in the inventory utility value, a deferred provision is made for such inventories, namely to amount to the difference between the accounting valuation and the net realization value thereof.

### Valuation of Forest Plants

The valuation of the forest plant inventories is made at (total) costs incurred according to the specific wood species and age. Optimal age of plants good for planting is 4 years. In respect of the plant inventories over 4 years, a risk of waste at the planting occurs, which is allowed for by making a deferred provision for the plants older than 4 years.

(Total) costs incurred denote the direct costs need to produce forest plants (direct material, direct wages and other direct costs) and a part of the indirect costs immediately related to the production of forest plants (manufacturing overheads – overheads of forest management authorities). (Total) costs incurred do not include the costs of the forest plant collection.

### e) Accounts Receivables

The valuation of receivables at their origination is made at their nominal values; valuation of assigned receivables and receivables for equity subscriptions is made at the acquisition cost, i.e. including the acquisition by-costs (before December 31, 2002: at the cost of acquisition, i.e. exclusive of acquisition by-costs). A provision is made for doubtful and irrecoverable receivables pursuant to Directive on creation of deferred provisions and reserves.

Where the term of maturity takes more than one year, a provision is made for 100 % of the nominal value of such receivable.

### **f) Deferred Costs and Accrued Income**

Deferred costs and accrued income are disclosed at the amounts required to observe the policy of subject-matter and time relations to the accounting period.

### **g) Reserves**

Reserves are liabilities representing an existing obligation which originated from previous events and is likely to reduce the economic benefits in the future; the exact amount of such liability is not known. Reserves are created in order to cover a risk or losses on doing business. The valuation of reserves is made at estimated amounts required to discharge the existing obligation as at the date of the financial statements.

Addition to reserves for silviculture is based on the annual silvicultural project endorsed by the authorised forest manager pursuant to Act No. 326/2005 Coll. on forest management and state administration of forest management. Addition to reserves is critically determined by the actual amount of removals as compared to the annual balance based on the forest management plan. A reserve is added when the annual balance of removals is exceeded, being a product of the following:

- actual timber volume logged, which is in excess of the annual balance, reduced to the cut-over area equivalent which is required to be planted with trees and nursed and
- average actual costs of the current period to spend on the forestation and nursing of a single hectare of the cut-over area.

Reserves for retirement benefits and employee's anniversaries are created pursuant Act No. 311/2001 as amended and under the obligation accepted in the collective agreement made in 2001 stipulating that all current employees shall be paid (1) retirement benefits and increased retirement benefits which are granted upon the first termination of employment after they have become eligible to receive old-age pension, early old-age pension or disability pension, or (2) a remuneration of merit for work done at the expiration of 25 years at work from the commencement of their first employment, at the 50th birthday and at the first termination of employment after the occurrence of entitlement to the retirement pension or disability pension. The remuneration concerned to the staff employed as at 31 December 2008.

The wage-earning pensioners were under consideration for the retirement benefits at the time of their retirement only if they had attained the age of retirement after the date of commencement of their employment. Under the collective agreement they are entitled to retirement benefits amounting to the average monthly earnings at the termination of employment on considering the average earnings received at the time of termination of employment. The remunerations granted at the old-age retirement and at the life or work anniversaries did not concern the employees who had satisfied the requirements for the occurrence of entitlement to a specific benefit by the end of 2008.

Reserves for retirement benefits and anniversaries is calculated by an actuary.

### **h) Liabilities**

The valuation of liabilities at their origination is made at nominal values. The valuation of liabilities at their assumption is made at acquisition costs. When the inventory checks finds that the amount of liabilities differs from the one disclosed in the accounting records, the liabilities are reported in the accounting records and in the financial statements at the valuation as recognized.

### **i) Deferred Tax on Income**

Deferred income tax refers to:

- a) temporary differences between the book value of assets and book value of liabilities disclosed in the balance sheet, on one hand, and their tax base, on the other hand,
- b) resources to redeem a tax loss in the future reading that a tax loss may be deducted from the tax basis in the future,
- c) option to defer the unused tax deductions and other tax benefits to the future years

Before December 31, 2002 deferred tax only referred to temporary differences between the book write-offs and tax write-offs.



Deferred tax liability and deferred tax assets were as at 1 January 2003 recalculated using new procedures of accounting. Such part of the deferred tax which resulted from the use of the new procedures was disclosed under 428 Retained Earnings From Previous Years Account or under 429 Accumulated Loss From Previous Years Account

**j) Accrued Expenses and Deferred Revenues**

Accrued expenses and deferred revenues are reported at the amounts required to observe the policy of subject-matter and time relations to the accounting period.

**k) Foreign Currency**

Assets and liabilities given in foreign currencies are converted into the Slovak currency using the conversion rate announced by the National Bank of Slovakia which is in force (1) on the date of the accounting transaction, and (2) on the date of the financial statements. The incurred exchange-rate differences are recorded with effect on the business results (before December 31, 2002: unrealized exchange-rate gains were recorded with no effect on the business results and unrealized exchange-rate losses were recorded under financial costs after addition to reserves under the exchange-rate losses).

**l) Revenues**

Revenues from own outputs and merchandise do not include a value added tax. The revenues are also reduced by discounts and deductions (trade discounts, bonus, cash discounts, credit notes, etc.). Revenues are recorded as at the date of deliverables.

Revenues are divided by individual outputs (commodities). Substantial part of revenues is made up of revenues from timber put to sale as products. This also includes lumber, leases, and wood-chips. Timber sells by the quality classes for the hardwood and softwood mass.

Revenues from own outputs (timber logging) at the lands of unknown owners are recorded under the accruals and deferrals as deferred revenues. Unless the unknown owner asserts his/her rights, in a three-year-time, these items are recorded under revenues since the rights become statute-barred. Where the unknown owner asserts his/her rights and proves his/her title to the forest land, the Company must reverse the land concerned or make replacement, and also must make compensation for the removals.

**Subsidies**

Revenues from the state budget subsidies designed for the acquisition of long-term assets and evaluation are recorded during the write-off time for so acquired long-term assets and so observing the subject-matter and time relations to the recording of write-offs under the operating costs.

**Revenues from the state budget designed for economic activity are recorded so as to observe the subject-matter and time relations to the recording of the costs expended on the specific purpose for which the subsidies for economic activity were granted.**

## **E. ASSETS SIDE OF THE BALANCE SHEET**

### **Long-Term Intangibles and Long-Term Tang**

The breakdown of movements of long-term intangibles and long-term tangibles from January 1, 2008 to December 31, 2008 is given in the enclosed table.

No security interests were created in the long-term tangibles for the benefit of creditors.

The property is insured against damage caused by theft, natural disaster (and other events), the policy value amounts to SKK 10,496 thousand.

The Company also keeps records and uses such real estate where the title has not been yet entered in the land register. The total value of the unsettled real estate amounts to SKK 7,393 thousand.

The Company keeps no accounting records for forest plantations. Their value as assessed by the expert institution of Lesoprojekt Zvolen, which was set up upon Decree of the Government of the Czechoslovak Republic No. 2 of February 22, 1956, amounted as at December 31, 2008 to SKK 83,447,675 thousand.

## Long-Term Financial Assets

The breakdown of movements of long-term financial assets from January 1, 2008 to December 31, 2008 is shown in the balance sheet. The balance and movements in financial assets are given here at the acquisition costs.

In 2008 no change to the volume of financial investment occurred.

## Inventories

The following table shows the development of a deferred provision during the accounting period:

	As at Dec. 31, 2007 Sk '000s	Creation (addition) Sk '000s	Reduction (disposal) Sk '000s	Write-back (reversal) Sk '000s	As at Dec. 31, 2008 Sk '000s
Material and merchandise	220	1		220	1
Work-in-process	7,823	4 041		7,823	4,041
Livestock	11,359	1,351	3,270		9,440
Finished goods (timber)	7,716	25,693	6,884		26,525
<b>TOTAL</b>	<b>27,118</b>	<b>31,086</b>	<b>10,154</b>	<b>8,043</b>	<b>40,007</b>

Reduction of utility value of inventories was allowed for by creating of a deferred provision. The utility value of inventories was mainly reduced as a result of the reduced acquisition costs of material as compared to its present book value and the reduced sale price, i.e. as a difference between the valuation in the accounting records and the realisation value.

The Company has provided no security interest in inventories to any third parties.

## Accounts Receivable

The following table shows development of a deferred provision during the accounting period:

	As at Dec. 31, 2007 Sk '000s	Creation (addition) Sk '000s	Reduction (disposal) Sk '000s	Write-back (reversal) Sk '000s	As at Dec. 31, 2008 Sk '000s
Trade receivables	373,422	84,358	91,427		366,353
Other accounts receivable	0	0	0		0
<b>TOTAL</b>	<b>373,422</b>	<b>84,358</b>	<b>91,427</b>		<b>366,353</b>

The age structure of receivables is shown in the following table:

	At Dec. 31, 2007 Sk '000s	At Dec. 31, 2008 Sk '000s
Receivables unmatured	730,428	803,636
Receivables overdue	437,334	533,840
<b>TOTAL</b>	<b>1,167,762</b>	<b>1,337,476</b>

The Company has provided no third parties with any security interest in inventories.

## Financial Accounts

Financial accounts report cash in hand, accounts with banks and securities. The Company can dispose of the bank accounts with the bank VÚB, a.s..

## Short-Term Financial Assets

The Company possesses no short-term financial assets.

## Accruals and Deferrals

Individual accrued items are listed in the following table:

	Dec. 31, 2007 Sk '000s	Dec. 31, 2008 Sk '000s
Accrued costs:	24,598	24,406
- statutory insurance	2,500	2,180
- licences	3,228	3,528
- SEZ, SPP, telephone	500	424
- NLC, SOFTWARE – services	1,555	1,743
- enclosure, game-preserve	16,086	15,534
- others	729	997
Deferred income:	758	1,903
Premium commission	710	1,807
- others	48	96
TOTAL	25,356	26,309

## F. LIABILITY SIDE OF THE BALANCE SHEET

### 1. Stockholder's Equity

	As at Dec. 31, 2007 Sk '000s	Distribution of profit of 2008	Others	HV roku 2008	Rollover	As at Dec. 31, 2008 Sk '000s
Registered Capital	43,304,088		-648,367			42,655,721
Capital stock	43,327,860		-			43,327,860
Change in registered capital	-23,772		-648,367			-672,139
Capital Funds	10,639		0			10,639
Other capital funds	10,639		0			10,639
Gains or losses from revaluation Gains or losses from investments	0		0			0
Funds from profit	51,389	43,100	-31,835			62,654
Statutory reserve fund	17,600	4,300	0			21,900
Statutory funds and other funds	33,789	38,800	-31,835			40,754
Business results from previous years – retained earnings	-621,288	42,466	598,540			19,718
Retained earnings from previous years	137,088	42,466	-90813			88,741
Accumulated losses from previous years	-758,376	-	689353			-69,023
Business results of current accounting period	85,566	-85,566	-	218,778		218,778
TOTAL	42,830,394	0	-81,662	218,778		42,967,510



Changes in the registered capital during 2008 (in SKK thousands):

**Reduction:**

Sale of residential units.....	4,729
Revaluation of lands within inventory check .....	13,910
Restitutions .....	28,630
Inventory check variances in lands .....	16,937
Release of forest roads .....	19,182
Delimitation of lands and constructions.....	7,192
Settlement of losses from previous years .....	667,563

**Total..... 758 143**

**Increase:**

Lands beyond inventory check.....	20,698
Delimitation of lands and constructions.....	54,203
Forest plantations .....	34,875

**Total:..... 109,776**

**Total difference refers to the reduction of assets by SKK 648,367 thousand.**

a) of profit made in 2007 amounting to SKK 85, 556 thousand was reported as follows:

**Allocation to:**

Reserve fund.....	SKK 4,300,000
Social security fund .....	SKK 3,000,000
Special fund .....	SKK 20,000,000
Expense allowance .....	SKK 2,300,000
Development fund .....	SKK 11,000,000
Employee fund .....	SKK 2,500,000
Retained earnings from previous years.....	SKK 42,466,023

**Total:..... SKK 85,566,023**

b) After approved by the Supervisory Board of LESY SR š.p. the accumulated loss from previous years amounting to SKK 758,376 thousand was settled as follows:

Reclassification from retained earnings from previous years .....	90,813
Reduction of registered capital .....	667,563

Addition to a deferred provision for assets – lands was recorded under the accumulated loss from previous years account owing to detection of error in the valuation of lands in 1999, i.e. before the Company was founded at Banská Bystrica, amounting to SKK 69,023 thousand. An application was filed with the Ministry of Agriculture of the Slovak Republic for approval of reduction of the registered capital on the ground of incorrect valuation of lands in the accounting records.

c) The book profit from 2008 amounting to SKK 218,788 thousand is designed to be distributed as follows:

To:

Extraordinary income tax to MA SR .....	SKK 200,000 thousand
Reserve fund.....	SKK 11,000 thousand
Social security fund .....	SKK 3,000 thousand
Expense allowance .....	SKK 3,000 thousand
Retained earnings.....	SKK 1,778 thousand

## 2. Reserves

a) The breakdown of reserves is given in the following table:

	At Dec. 31, 2007 Sk '000s	Addition Sk '000s	Reversal Sk '000s	Reduction Sk '000s	At Dec. 31, 2008 Sk '000s
Statutory reserves	410,449	112,685	410,449		112,685
Long-term reserves					
Provision for retirement benefits	98,750		0	18,562	80,188
Long-term reserves, total	98,750	112,685	0	18,562	80,188
Short-term reserves					
Non-invoiced deliveries	10,527	15 928		13,483	12,972
Severance pay	13,398	4 939		13,398	4,939
Holiday	48,236	37,556,		48,236	37,556
Bonus and remuneration, admin staff	83,421	86,723		83,421	86,783
Insurance	37,822	43,293		37,825	43,290
Company benefits	0	0		0	0
Annual financial statements	2,418	2 627		2,418	2,627
Passive lawsuits	57,588	3,204		19,226	41,565
Reserves, others	15,115	11,010		11,721	14,404
Credit notes	141	0	17	123	1
Remuneration of members of Superv. Board	32	55			87
Short-term reserves, total	268,698	205,280	17	229,883	244,224
RESERVES, TOTAL	777,897	317,965	410,466	248,445	437,097

**b)** Addition to reserves for silviculture is based on the annual silvicultural project endorsed by the authorised forest manager pursuant to Act No. 326/2005 Coll. on forest management and state administration of forest management. Addition to reserves is critically determined by the actual amount of removals as compared to the annual balance which is based on the forest management plan. A reserve is added when the annual balance of removals is exceeded, equalling a product of the following:

- actual timber volume logged, which is in excess of the annual balance, reduced to the cut-over area equivalent which is required to be planted with trees and nursed and
- average actual costs of the current period to spend on the forestation and nursing of a single hectare of the cut-over area.

A need to add to reserves occurred as a result of preparation and implementation of special protective and defensive measures providing for defence of forest plantations against bark beetles and wood destroying pests, esp. at the sites of calamity branches at Liptovský Hrádok, Námestovo, Čadca and others.

### c) retirement benefits

Pursuant to the collective agreement and the labour Code the Company keeps records of payables to employees on account of retirement. Retirement benefits are calculated using the principles of insurance mathematics and the discount rate of 4.5% and the annual pay rise index of 2.5%.

Employee become eligible for:

- retirement benefits – upon the first termination of employment after they have become eligible to receive the old-age pension, early old-age pension or disability pension in the amount equal to their average monthly earnings
- increased retirement benefits – providing they terminate the employment by agreement within 3 months after they become eligible to receive an old-age pension depending on duration of employment with the employer for:
  - more than 5 through 15 years
  - more than 15 through 30 years
  - more than 30 years

## Anticipated year of the reserve use

Short-term reserves will be used during the following year.

The use of long-term reserves is estimated by the weighted mean to last until 2024.

### 3. Payables

The structure of payables (except for bank credits) according to the residual payable period is listed in the following table:

	As at Dec. 31, 2007 Sk '000s	As at Dec. 31, 2008 Sk '000s
Payables unmatured	713,962	536,423
Payables overdue	27,430	48,737
SHORT-TERM PAYABLES, TOTAL	741,392	585,160
Payables of residual payable period under 1 year	0	0
Payables of residual payable period 1 - 5 years – social security fund	25,250	19,114
LONG-TERM PAYABLES, TOTAL	25,250	19,114

### 4. Deferred Tax Liability

The calculation of deferred tax liability is shown in the following table:

	As at Dec. 31, 2007 Sk '000s	As at Dec. 31, 2008 Sk '000s
- temporary difference between book value of long-term assets and tax value thereof	1,749,510	2,068,877
- revenues from late charges only taxed after paid	25,229	23,311
- provisions for payables	-223,798	-234,436
- provisions for inventories	-25 604	-40,007
- difference between book value of payables and tax base thereof	-2,129	-13,049
- creation of reserves, tax non-deductible	-182,866	-256,320
- unredeemed tax loss	-643,601	-537,135
- temporary tax difference	695,227	1 011,241
	132,093	192,136



## 5. Social Security Fund

Additions to and drawings from the social security fund during the accounting period are listed in the following table:

	Dec. 31, 2007 Sk '000s	Dec. 31, 2008 Sk '000s
As at January 1	30,784	25,250
Additions debiting the costs	18,936	18,180
Additions from earnings	3,000	3,000
Other additions	14	108
Drawings	27,484	27,424
As at December 31	25,250	19,114

## 6. Bank Credits

In 2008, LESY SR š.p. had a bank overdraft and a short-term loan for operations amounting to SKK 700,000 thousand and SKK 49,000 thousand, respectively.

## 7. Accruals and Deferrals

The structure of accruals and deferrals is shown in the following table:

	Dec. 31, 2007 Sk '000s	Dec. 31, 2008 Sk '000s
Accrued expenses:	625	607
Deferred revenues:	552,626	560,565
- Investment subsidies	405,866	395,152
- Revenues from non-national unreleased forests	146,391	160,900
- Revenues BO, easement	0	3,057
- Others	347	1,159
- Newly determined assets to write off	22	297
	553,251	561,172

# G. REVENUES

## 1. Revenues from Own Outputs and Merchandise

Revenues from own outputs and merchandise by individual segments, i.e. by types of products and services and by main territories are listed in the following table:

Type of revenues	Revenue values	
	Year 2007	Year 2008
Timber	6 194,397	6 082,862
Lumber	312,347	219,052
Services	19,825	17,323
Lease	121,362	136,600

Wood-chips	188,366	157,935
Hunting	77,950	69,450
Engineering operations	10,432	6,046
Other revenues from timber production	21,517	44,612
Revenues from merchandising activities	17,265	15,806
Forest seed management and nursery	34,998	41,155
Revenues from housing services	42,031	37,324
Revenues from merchandise	6,027	6,338
Tržby z ostatných nevýrobných činností	38 002	17,280
<b>SPOLU</b>	<b>7 084,519</b>	<b>6,851 783</b>

#### Main territories

Druh tržieb	Hodnota tržieb	
	Rok 2007	Rok 2008
Slovakia	6 835,100	6 604,313
Austria	51,660	35,094
Czech Republic	94,424	74,781
Cyprus	23,153	12,334
Greece	9,139	8,759
Italy	7,921	10,544
Germany	0	3,816
Hungary	19,055	23,785
Poland	41,416	76,783
Others	2,651	1,574
<b>Total</b>	<b>7 084,519</b>	<b>6 851,783</b>

## 2. Change in Inventories of Own Production

Change in inventories of own production in the profit and loss account accounts for SKK 2,356 thousand. Based on the balance sheet items this is shown in the following table:

	As at			Change	
	Dec. 31, 2006 Sk '000s	Dec. 31, 2007 Sk '000s	Dec. 31, 2008 Sk '000s	2007 Sk '000s	2008 Sk '000s
Inventories reported in the brutto values, i.e. before provisions					
Work-in-process	216,802	227,342	231,347	10,540	4,005
Finished goods	285,720	376,092	384,548	90,372	8,456
Animals	19,986	20,720	23 722	734	3,002
<b>TOTAL</b>	<b>522,508</b>	<b>624 154</b>	<b>639 617</b>	<b>101,646</b>	<b>15,463</b>

	As at			Change	
	Dec. 31, 2006 Sk '000s	Dec. 31, 2007 Sk '000s	Dec. 31, 2008 Sk '000s	2007 Sk '000s	2008 Sk '000s
Inventories reported in the netto values					
Work-in-process	209,210	219,519	227,306	10,309	7,787
Finished goods	278,327	368,376	358,023	90,049	-10,352
Animals	9,696	9,361	14,282	-335	4,921
<b>TOTAL</b>	<b>497,233</b>	<b>597,256</b>	<b>599,611</b>	<b>100,023</b>	<b>2,356</b>

### 3. Capitalization

The breakdown of capitalization is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Long-term tangibles generated by own activities of enterprise	48,414	84,250
Inventories acquired by own transport	5,057	11,893
Other capitalization	6,122	10,157
<b>TOTAL</b>	<b>59,593</b>	<b>106,300</b>

### 4. Other Revenues from Economic Activity

The breakdown of other important revenues of the economic activity is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Revenues from subsidies received	12,687	18,612
Newly determined assets	25,286	26,254
Revenues from Euro funds	0	334,227
Subsidy write-offs against revenues	7,097	10,783
Revenues for shortages and losses	5,325	11,377
Revenues from substitution of land	3,761	0
Revenues from written-off debt	1,014	0
Fines and penalties	3,529	4,999
Compensation for forest clearance	1	82
Compensation for air pollutants and restraints of operations	13,447	15,794
Others	17,167	10,687
<b>TOTAL</b>	<b>89,314</b>	<b>432,815</b>



## 5. Financial Revenues

The breakdown of financial revenues is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Interest received	11,894	1,281
Revenues from other long-term assets	0	0
Reversal of reserves for financial activities (exchange-rate losses)	0	0
Other revenues from financial activities	0	21
Exchange-rate gains	5,565	3,128
Realized exchange-rate gains	5,565	2,410
Exchange-rate gains accounted at Dec. 31, 2008		718
SPOU	17,459	4,409

## 6. Extra Revenues

The structure of extra revenues is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Indemnification from insurance agency	19	2,480
TOTAL	19	2,480

## H. COSTS

### 1. Costs of Services Rendered

The breakdown of costs of services rendered is shown in the following table:

	2007 Sk '000s	2008 Sk '000s
Transport charges	390,271	416,386
incl. timber hauling	302,344	358,288
Skidding	410,755	559,221
Euro funds	0	251,124
Rent	80,948	69,348
Services of communications	25 292	23,334
Costs of software	4,885	5,951
Services related to property settlement	61,808	47,178
Other services	1,935,427	2,371,570
incl. silviculture	812,074	910,171
logging	198,917	214,531
total timber production	924,436	1,246,868
Costs of sale	3,706	4,339
Repairs and maintenance	349,232	165,732
Travelling expenses	81,513	72,149
TOTAL	3,636,181	3,986,332

## 2. Other Costs of Economic Activity

The breakdown of other important costs of economic activity is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Fines and penalties	810	6,018
Debt write-off	1,915	589
Property insurance	28,802	26,527
Shortages and losses	2,032	28,802
Indemnification	577	4,400
Others	8,252	7,083
Creation of reserves for silviculture	231,178	112,685
Creation of other reserves	3,611	-12,029
Reversal of reserves for silviculture	-85,000	410,490
Total credit notes		
<b>TOTAL</b>	<b>192,177</b>	<b>584,565</b>

## 3. Financial Costs

The breakdown of financial costs is given in the following table:

	2007 Sk '000s	2008 Sk '000s
Interest paid	32	10,012
Bank charges	2,208	2,658
Others	60	286
Exchange-rate losses	5,580	7,272
Realized exchange-rate losses	5,580	5,479
Exchange-rate losses as at Dec. 31, 2008		1,793
<b>TOTAL</b>	<b>7,880</b>	<b>20,228</b>

## 4. Extra Costs

The breakdown of extra costs is reported in the following table:

	2007 Sk '000s	2008 Sk '000s
Natural disasters	190	112
<b>TOTAL</b>	<b>190</b>	<b>112</b>

## 5. Costs of Application of Euro

The costs of application of Euro in 2008 totalled SKK 6,307 thousand which included the costs of training amounting to SKK 518 thousand, costs of cash registers amounting to SKK 700 thousand, costs of software amounting to SKK 5,036 thousand and other costs amounting to SKK 53 thousand.

**I. INCOME TAXES**

	Sk '000s
Business results before tax (earnings)	278,821
Due tax for 2008	0
Deferred tax for 2008	60,043
Total tax recognized (revenue)	60,043

The tax return for 2008 disclosed a tax basis amounting to SKK 106,466 thousand; there was redemption of tax loss from 2003 and 2004 amounting SKK 106,466 thousand in 2008. The balance of the non-redeemed loss from 2004 is SKK 2,929 thousand, the non-redeemed losses from 2006 and 2007 amount to SKK 534,206 thousand; a total of non-redeemed tax losses is SKK 537,135 thousand. On account 341-001 the Company recognized a receivable amounting to SKK 237 thousand - withholding tax on bank interests. The income revenue authority will refund this amount as tax overpaid for 2008.

**J. OTHER ASSETS AND LIABILITIES****1. Contingent Other Liabilities**

The Company has no other liabilities not covered by the routine accounting or disclosed in the balance sheet.

Whereas many subbranches of the Slovak tax law have not been verified enough in practice, there is uncertainty about their application by tax authorities. The extent of such uncertainty cannot be quantified, and the uncertainty shall only disappear after all leading cases, or official interpretations of competent authorities become available. The management of LESY SR, š.p. is aware of no circumstances leading to future occurrence of any considerable costs.

As at the date of the balance the Company keeps records of lands of total value of SKK 35.9bn. The lands lacking settlement under law are worth of SKK 8.051bn and may become subject to estate in reversion procedure.

Torrent regulation of total net book value of SKK 128m Sk will be delimited by the organizations of the state-controlled enterprises Povodie as decided by the Ministry of Agriculture of the Slovak Republic in 1996.

The Company has no other liabilities not covered by the routine accounting or disclosed in the balance sheet.

**K. INCOME AND BENEFITS OF MEMBERS OF THE COMPANY'S STATUTORY, SUPERVISORY AND OTHER BODIES**

The gross income of the members of statutory bodies of LESY SR, š.p. earned in the accounting year concerned amounted to SKK 6,181 thousand (in the preceding accounting period: SKK 5,248 thousand). The Supervisory Board's income amounted to SKK 463 thousand in 2008.

**L. ECONOMIC RELATIONS AND RELATED PERSONS OF THE COMPANY**

Transactions with related persons and personally related entities were carried out under condition that the persons and prices concerned remained independent as well as equal, and in place, respectively.

**N. FACTS AFTER AND BEFORE THE DATE OF FINANCIAL STATEMENTS**

After 31 December 2008 no such events occurred as to have significant influence on true representation of the facts which are an object of accounting and would failed to be entered in the accounting records.

In 2009, the Slovak Republic acceded to the EURO. Therefore, all company assets will be converted to the EURO as at 1 January 2009 using the conversion rate of 30.1260, except for the received and paid advance payments.



## REPORT OF MOVEMENT OF NON-CURRENT ASSETS DECEMBER 31, 2008

Title	Acquisition Cost					Adjustments /Provisions					Zostatková cena	
	Dec. 31, 2007	Additions	Disposals	Rollovers	Dec. 31, 2008	Dec. 31, 2007	Additions	Disposals	Rollovers	Dec. 31, 2008	Dec. 31, 2007	Dec. 31, 2008
	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s	Sk '000s
Incorporation costs	0	0	0	0	0	0	0	0	0	0	0	0
Capitalized cost of development	958	0	0	0	958	872	42	0	0	914	86	44
Software	181,241	11,005	3,423	0	188,823	60,163	26,322	3,423	0	83,062	121,078	105,761
Valuable rights	2,700	2,120			4,820	113	1,588	0	0	1,701	2,587	3,119
Other long-term intangibles	45,382	29,583	0	0	74,965	7,560	5,767	0	0	13,327	37,822	61,638
Long-term intangibles, acquired	23,252	22,113	42,708	0	2,657	0	0	0	0	0	23,252	2,657
Advance for long-term intangibles, paid	0	18	18	0	0	0	0	0	0	0	0	0
Long-term intangibles, total	253,533	64,839	46,149	0	272,223	68,708	33,719	3,423	0	99,004	184,825	173,219
Lands	35,870,167	209,638	160,834	0	35,918,971	0	69,023	0	0	69,023	35,870,167	35,849,948
Works of art	12,308	0	0	0	12,308	0	0	0	0	0	12,308	12,308
Constructions	10,470,962	582,004	143,683	0	10,909,283	4,418,591	266,707	170,589	0	4,514,709	6,052,371	6,394,574
Separate movables and assemblies of movables	3,319,369	329,276	293,575	0	3,355,070	2,378,718	239,525	302,439	0	2,315,804	940,651	1,039,266
Silvicultural units	1,134	0	0	0	1,134	583	91	0	0	674	551	460
Animals	9,722	863	1,386	0	9,199	7,587	794	1,386	0	6,995	2,135	2,204
Other long-term tangibles	15	0	15	0	0	15	0	15	0	0	0	0
Long-term tangibles, acquired	337,204	969,668	989,097	0	317,775	22,040	0	0	0	22,040	315,164	295,735
Advance for long-term tangibles, paid	912	14,507	14,666	0	753	0	0	0	0	0	912	753
Long-term tangibles, total	50,021,793	2,105,956	1,603,256	0	50,524,493	6,827,534	576,140	474,429	0	6,929,245	43,194,259	43,595,248
Stock and ownership interests in the controlled person	0	0	0	0	0	0	0	0	0	0	0	0
Stock and ownership interests in the company with substantial influence	4,192	0	0	0	4,192	4,192	0	0	0	4,192	0	0
Other long-term stock and ownership interests	2,094	0	0	0	2,094	2,094	0	0	0	2,094	0	0
Long-term financial assets, total	6,286	0	0	0	6,286	6,286	0	0	0	6,286	0	0
<b>Non-current assets, total</b>	<b>50,281,612</b>	<b>2,170,795</b>	<b>1,649,405</b>	<b>0</b>	<b>50,803,002</b>	<b>6,902,528</b>	<b>609,859</b>	<b>477,852</b>	<b>0</b>	<b>7,034,535</b>	<b>43,379,084</b>	<b>43,768,467</b>

## STATEMENT OF CASH FLOWS

Cash flows by using the modified direct method for 2008 (in SKK thousands)				
Ind.	Item name	line no.	Accounting period	
			Current	previous
A.	Cash flows from core business activities (CBA)	x	x	x
A.1.	Cost of CBA	1	-7,074,096	-7,024,099
A.2.	Cost adjustment of CBA expenses	2	772,876	299,650
A.3.	Costs of CBA adjusted	3	-6,301,220	-6,724,449
A.4.	Revenues from CBA	4	7,213,671	7,233,579
A.5.	Adjustment of sales and revenues against CBA	5	-178,655	-140,126
A.6.	CBA sales and revenues adjusted against incomes	6	7,035,016	7,093,453
A.7.	Other income except for specific alternative items	7	-1,895	6,188
A.8.	Other expenses except for specific alternative items	8	5,289	1,329
A*	Cash flows from operations	9	737,190	376,521
A.9.	Specific items	10	-69,415	-62,952
A**	Cash flows before alternative items	11	667,775	313,569
A.10.	Alternative disclosed items	12	18	18
A.11.	Other items affecting cash flows from CBA	13	0	0
<b>A***</b>	<b>Cash flow from CBA, net</b>	14	667,793	313,587
B.	Cash flows from investing activities (IA)	x	x	x
B.1.	Expense in acquisition of fixed assets	15	-985,774	-636,612
B.2.	Income on sale of fixed assets	16	273,711	116,956
B.3.	Cash flows from lease of assembly of funds and properties	17	89,826	166,149
B.4.	Cash flows from credits and lendings to related persons	18	0	0
B.5.	Specific items	19	0	0
B.6.	Alternative items disclosed	20	0	0
B.7.	Other items affecting cash flows from IA	21	0	0
<b>B***</b>	<b>Cash flow from investing activities, net</b>	22	-622,237	-353,507
<b>C***</b>	<b>Cash flow after financing of investment, net</b>	23	45,556	-39,920
D.	Cash flows from financial activities (FA)	x	x	x
D.1.	Change in long-term accounts payable, incl. credits	24	0	0
D.2.	Cash flows resulting from stockholder's equity	25		0
D.3.	Specific items	26	-200,000	0
D.4.	Alternative items disclosed	27	-37,006	-20,593
D.5.	Other items affecting cash flows from FA	28	0	0
<b>D***</b>	<b>Cash flow from FA, net</b>	29	-237,006	-20,593
<b>E</b>	<b>Result exchange-rate difference quantified as at December 31</b>	30	-4,144	-15
E.1.	Exchange-rate loss (account 563 AÚ) (-)	31	-7,272	-5,580
E.2.	Exchange-rate profit (account 663 AÚ) (+)	32	3,128	5,565
F	Change in cash and cash equivalents (total A***+B***+D***+E) = (H-G)	33	-195,594	-60,528
G.	Cash and cash equivalents, beginning of accounting period (as at January 1)	34	226,707	287,235
H.	Balance of cash and cash equivalents, end of accounting period (as at March 31) (G-A***-B***-D***-E)	35	31,113	226,707

## REPORT OF INDEPENDENT AUDITOR



Nábrežná 3, 911 61 Trenčín IČO 36 342 807 OR SR, OS Trenčín, oddiel Sro, vložka č. 15 477/R

## REPORT OF INDEPENDENT AUDITOR

*To the incorporator of the state-controlled undertaking LESY Slovenskej republiky Banská Bystrica*

We have audited the accompanied financial statements of the state-controlled undertaking LESY Slovenskej republiky Banská Bystrica (hereinafter referred-to as "Company") containing the balance sheet as of 31 December 2008, profit and loss account and respective notes to the year ended on the same date, and the summary of important accounting policies and methods of accounting and other explanatory notes.

*Financial statements are the responsibility of the Company's management*

Preparation and fair presentation of these financial statements in compliance with Act No. 431/2002 Coll. on Accounting as amended are the responsibility of the Company's managing director. This responsibility applies to the following: (1) scheme, execution and observance of internal controls relevant to the preparation and fair presentation of the financial statements which contain no substantial inaccuracies resulted from fraud or error, (2) selection and application of appropriate accounting policies, methods of accounting and accounting estimates in place under the given conditions.

*Responsibility of the auditor*

Our responsibility is to express an opinion on these financial statements under authority of our audit. Except for the procedures which could not have been conducted for some limitations imposed on the scope of the conducted audit, as specified in the next paragraph herein, we have conducted the audit in compliance with the International Standards on Auditing. According to these Standards we are required to observe ethics requirements, plan and conduct audit in order to attain reasonable assurance that the financial statements concerned contain no substantial inaccuracies. The audit comprises procedures to obtain audit-based evidence on the amounts and data reported in the financial statements. The selection of such procedures depends on a decision by the auditor who also assesses a risk of occurrence of substantial inaccuracies in the financial statements, either as a result of fraud or error. When assessing the risk the auditor takes into account internal controls relevant to the preparation and fair presentation of the financial statements of the accounting entity in order to put forward such accounting procedures which are in place under the given conditions, even though not in order to express his/her opinion on the efficiency of the internal controls of the accounting entity concerned. Audit also covers evaluation of convenience of accounting policies and methods of accounting put to use, on one hand, and adequacy of accounting estimates made by the management of the company, on the other hand. The audit also evaluates the presentation of the statement of finance in its entirety.

*Pending the audit the following restraints of the scope of audit rights occurred in respect of long-term tangible assets:*

- Pursuant to Forests Act, 10% of the forest lands managed by the Company is annually affected by a renewed forest management plan. In carrying out the said renewal, both the area and value of the lands are particularized under the registration system known as "Pozemkár". In some cases, the total area of land registered with the "Pozemkár" system differs from the figures of the Land Register, and it is impossible to decide which of the figures is correct. Due to such particularization the Company decreased the value of its forest land by SKK 15,389 thousand as at 31 December 2008, which reflected in the amount of the capital stock. In consideration of numerous pending proceedings conducted by the State aiming to accomplish particularization of the whole area of lands in the Slovak Republic (e.g. Register of Renewed Land Records), the Company is now not in a position to submit all documents showing the overall changes in the area and value of individual lands. As of 31 December 2008, the lands of total area of 165,573 ha, worth SKK 8,051,016 thousand, in aggregate, are not registered on the certificate of title as Lots of Register C - Registered on Cadastral Map. The value of such lands cannot now be specified, and therefore there is a chance that the property and stockholder's equity of the Company are not reported properly.
- As of 31 December 2008, the Company has no registration of Constructions worth SKK 7,393 thousand entered on the certificate of title. As of 31 December 2008, the constructions and land of total area of 26,467.56 ha, worth SKK 1,985,740 are registered as contested assets. The said constructions and lands are the subjects of various legal proceedings, cadastral surveys, or administrative action. The Company is now not in a position to quantify the exact value of the land subjected to restitution. The said facts may have impact on the amounts of the reported assets, capital stock, and liabilities of the Company, which, however, cannot be quantified.



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- Since 1999 the Company has annually updated the value of the managed land on the date of inventory check. The last revaluation was carried out on 31 December 2006 by the organization known as Lesoprojekt and pursuant to Regulation No. 465/1991 on Prices of constructions, lands and permanent plantations. This is in compliance with neither Accounting Act nor accounting procedures in force under which the value of land is to be assessed by acquisition costs. The Company disposes of neither necessary documents nor figures of the land revaluation from before 2004. Therefore, the rate of overvaluation of the land compared to the original acquisition costs cannot be quantified in relation to the capital stock.

*Opinion*

In our opinion, except for the contingent effects of adjustments, if any, to be made if the procedures mentioned above could have been exercised, the financial statements of the state-controlled undertaking LESY Slovenskej republiky Banská Bystrica do show impartially in all relevant relations the following: financial situation of the undertaking as of 31 December 2008, business results, and cash flows as of and for the year ended on the given date as per the Act on Accounting in force in the Slovak Republic and consequential accounting procedures.

Without prejudice to our opinion we point out that in 2009 the Company keeps records of a rather great number of replaceable contracts. In terms of accounting procedures, replaceable contracts are treated much like the events of sale and purchase as all are handled by the same accounting procedures. Since the Company keeps records of lands without reporting the plantations on the lands, the replaceable contracts need to show the values adjusted so that they include the plantations worth SKK 66,911 thousand. This consequently affects the amount of the capital stock.

At Trenčín, this 24th day of March, 2009

Trenčín 24. marca 2009

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# REPORT ON ACCORDANCE OF ANNUAL REPORT WITH FINANCIAL STATEMENTS



**PARTNER AUDIT, s.r.o.**

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## AUDIT REPORT ON ACCORDANCE OF ANNUAL REPORT WITH FINANCIAL STATEMENTS pursuant to S. 23(5) of Act No. 540/2007 Coll.

*To the incorporator of the state-controlled undertaking LESY Slovenskej republiky Banská Bystrica*

1. We have audited the financial statements of the state-controlled undertaking LESY Slovenskej republiky Banská Bystrica (hereinafter referred-to as "Company") as of December 31, 2008 given on pages 43-64 for which we issued on March 24, 2008 a report of independent auditor enclosed on pages 65-66.
2. We have also audited accordance of the annual report with the above mentioned financial statements. Veracity of the annual report is responsibility of the Company's management. Our responsibility is to issue an opinion on accordance of the annual report with the financial statements. The audit was conducted in compliance with the International Standards on Auditing. According to these Standards auditors are required to plan and conduct audit in order to attain reasonable assurance that the information given in the annual report and the facts covered by financial statements are in all relevant relations in accordance with the respective financial statements. The information given in the annual report on pages 43-64 has been compared to the information given in the financial statements as of December 31, 2008. No other data and information than the accounting data obtained from the financial statements and books of account have been audited. We are convinced that the conducted audit gives reasonable basis for the auditor's opinion to be expressed.

*In our opinion, the accounting information given in the annual report is in all relevant relations in accordance with the financial statements enclosed.*

*At Trenčín, this 19th day of May, 2009*

Trenčín 19. máj 2009

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## REMARKS OF THE MANAGEMENT ON THE COMPANY'S POSITION AND FUTURE EXPECTATIONS

As compared to the preceding year of 2007, the realization of softwood and hardwood declined in 2008 by SKK 213 per m<sup>3</sup> at average. The related deficit in the earnings exceeded in the year-over-year terms the amount of SKK 110m, even though LESY SR, š.p. increased its timber production in 2008 by more than 436,000m<sup>3</sup> as compared to the 2007 production, and the timber supply even went up by more than 526,000m<sup>3</sup>. These economic indicators show best the effects of economic downturn on the timber market, which first hit this company at the end of first quarter 2008. The early mortgage crisis in the USA moved during the year over the Atlantic to plague the European markets as well and attained such level that LESY SR, š.p. experienced a yearly decrease in timber price which went over dramatic 13.5 percent.

The first economy measures were introduced as early as in summer 2008. LESY SR, š.p. cut down the costs to produce one cubic metre of timber by SKK 25.00, which helped to obtain total cost reduction amounting to SKK 115m. In addition, costs of repair and maintenance were reduced by SKK 80m, and overheads went down by SKK 100m. The company also took some other measures, which was, however, not enough to cover for the impaired levels of timber sale.

The economic plan for 2009, which was made in December 2008, contained some measures to minimize costs, and a management plan drawn up for a positive net margin. However, even in March 2009 the trends in the timber market gave rise to an urgent need to rebalance the production and financial plan as indicating that according to the trends in the timber market in the early 2009 and the market forecast for the rest of 2009 the undertaking LESY SR, š.p. gets into the red. The average sales price for timber has already dropped below the actual manufacturing costs. Revenues from timber are hardly enough to cover the most vital expenses of the company.

In order to prevent the planned cost-cutting in the sectors of silviculture and forest protection from interfering with sustainable management of the forest land managed by LESY SR, š.p. the management of the company decided to ask the State (through the Ministry of Agriculture of the Slovak Republic, the company's promoter) for a recoverable grant-in-aid amounting to Eur 66m (cca SKK 2bn) tailored to LESY SR, š.p. If granted, the resources will facilitate to achieve desired performance in the sectors of silviculture and forest protection in 2009 and 2010. The real need for a cost increase in these sectors actually amounts to Eur 25m, which shall consequently allow the company to employ approximately 2 thousand people to work in the external environment. Due to the State aid the company will be able to continue to manage 230 thousand ha of non-state unreleased forests (annual expenditure totalling almost Eur 8m, or SKK 240m to this end), and conduct the property settlement of the forest land, i.e. costs amounting to cca Eur 15m for two years. The company also needs to cover for the costs associated with elimination of flood damage amounting to Eur 5m, which should be another area to use the state resources from the recoverable grant-in-aid.

Sources to pay the aid back are to be obtained through gradual readjustment in pricing for timber after the market recovers, and by cost-savings based on restructuring within the company, i.e. by (1) cutting rates across the organisational structure, and (2) changing the manufacturing technology and trade by increasing the timber sale right from the skidway. Completion of a detailed plan of comprehensive and systematic measures for restructuring and revitalization is scheduled for the end of 2009, and its implementation is planned to begin in 2010. This shall provide for economic stability and development of this company at the time of recession and give it good prospects after the crisis is over.

## PROGRESS REPORT BY THE SUPERVISORY BOARD

**Dear colleagues,**

last year bore severe problems to the economy of the Slovak forestry, in general, and to LESY SR, š. p., in particular. The consequences of the worldwide economic downturn fully affected this Company's economy and had large impact on its business results. Accordingly, the efforts of the company bodies aimed to adopt such efficient measures which would mitigate the incidence of the recession on the Company and its employees.

Supervisory Board of LESY SR, š.p. was in 2008 composed of the following members: Ing. Ján Beňa, JUDr. Kamil Beresecký, Ing. Jozef Herud – Vice-Chair, JUDr. Milan Chovanec, doc. Ing. Ján Ilavský CSc., Ing. Dušan Krajniak, Ing. Ján Malko, CSc., Ing. František Suchanovský – Secretary, and JUDr. Juraj Procházka – Chair. The Board carefully monitored trends in the timber market, timber price, balance of the trade and intra-company receivables and payables throughout the past year. Stagnation in the timber market, the first signs of which appeared as soon as during the first six months of the year, and the subsequent downward price pressure were the cause of a year-over-year decline in the average realisation of the timber sale and deficit in earnings totalling SKK 370m.

In its August meeting, which was attended by Ing. Zdenka Kramplová, the then Minister of Agriculture, the Supervisory Board assigned the Director General to submit Corporate Development Conception which would comply with the Manifesto of the Government. The actual conception ceased to be in place after the formation of the new government which authorized its own understanding of the State development formulated in the Manifesto. The Company's conception was supposed to respond to several issues concerning the future business conduct, such as determining the number of employees, structure of the organisation to perform the tasks related to the corporate development, trade policy, prospects of the OZLT (Forest Machinery Branch), use of the service and dispatch stores, introduction of field points of sale and their proportion in the total volume of sales. The development plan was designed for a minimum of five years.

Trend of the economic conditions in the second half-year made us come up with even stronger decisions, both externally and internally oriented. On October 3, 2008, the Supervisory Board of LESY SR, š.p. held an extraordinary session in Topoľčianky in order to discuss some topical issues of the current economic situation of the Company, and the Measures of Streamlining Plan. The meeting was attended by Ing.

Stanislav Becík, PhD., the actual Minister of Agriculture. To the satisfaction of the Board, the Company management had come to realize that unless taking on board some changes to the corporate business strategy, on one hand, and measures to reduce overheads and non-productive costs, on the other hand, the aftermath of crisis cannot be survived. By taking some restrictive action and selling the surplus tangibles the Company generated profit amounting to SKK 218m in 2008.

As anticipated by economic analysts, in respect of the EU economic area the recession will continue to last for the next two or three years. The impact of the crisis on the timber market seems obvious. The Company's key personnel at all management levels need to remember that their active approach to the performing of job duties is fundamental to the Company's success. Commercial departments of the Company, in general, and of its branches, in particular, need to conduct true business rather than just timber marketing. The line of production needs to manufacture just what is saleable at profit, not at loss. Close co-operation between the commercial department and the field operations is of essence. Substantiated demands for staffing levels remarkably vary at individual branches, which should be reflected in the organisational structure. The economic situation of the Company as it is does not only result from the recession and natural disaster. Speaking about the need to reduce direct corporate costs of silviculture, an indicative solution to this problem seems to be found with the resources available under the EU funds. Last year the Company was successful in this resource raising. As well as all referred-to issues, some other topical business shall also be covered by the corporate plan of restructuring and revitalization. The plan is intended to constitute a development conception of the Company for a few years to come.

In conclusion, I wish to render thanks to all members of the Supervisory Board for their work done in 2008 in benefit of this Company. I truly believe that working closely with the Ministry of Agriculture of the Slovak Republic we will succeed in resolving our complex problems so that the Company may thrive and its employees rest satisfied. Foresters have always been noted for their strong 'pro-company' thinking, which makes me believe that the staff of the state-controlled company LESY SR will manage to handle the effects of this crisis successfully.

## LIST OF USED ABBREVIATIONS

*(English translation of abbreviated expressions)*

FSC	- Forest Stewardship Council – a scheme of worldwide recognized certification to assess management in forests; an efficient tool to monitor timber origin starting from timber harvesting through timber processing to the final product -
HR	- hydraulická ruka (hydraulic arm)
HV	- hospodársky výsledok (profit or loss)
IS	- informačný systém (information system)
LC	- lesná cesta (forest road)
LDM	- Lesnícko-drevárske museum (Museum of Forestry and Wood Science and Technology)
LHP	- lesný hospodársky plán (forest management plan)
LKT	- lesný kolesový traktor (logging wheeled tractor)
LNCH	- lesný náučný chodník (forest nature trail)
LS	- lesná správa (forest authority)
MP SR	- Ministerstvo pôdohospodárstva Slovenskej republiky (Ministry of Agriculture of the Slovak Republic)
NLC Zvolen	- Národné lesnícke centrum Zvolen (National Forest Centre Zvolen)
OLH	- odborný lesný hospodár (authorised forest manager)
OZ	- odštepny závod (branch)
PCV	- práce celospoločenského významu (work of universal interest)
PEFC	- Programme for the Endorsement of Forest Certification Schemes – a leading and largest worldwide forest certification programme which observes the opinions of international conferences and processes implemented worldwide in respect of sustainable forest management, sets a framework for mutual recognition of compatible certification schemes tailored to the types of forests, to individual and specific management of forests in the existing countries
PK	- Projekčná kancelária Žilina (Project Engineering Agency Žilina)
PP	- protipožiarne (fire-fighting)
SDV	- stredisko drevárskej výroby (centre for wood technology)
š. p.	- štátny podnik (state-controlled undertaking)
ŠL	- štátne lesy (national forests)
ŠR	- Štátny rozpočet (State budget)
TU Zvolen	- Technická univerzita vo Zvolene (Technical University in Zvolen)
TUOL	- trvalo udržateľné obhospodarovanie lesov (sustainable forest management)
VLM	- významné lesnícke miesto (important forest site)
VPV	- vnútropodnikové výnosy (intra-company revenues)
ZB	- zahrádzanie bystrín (torrent regulation)
ZLF	- zvelaďovanie lesného fondu – finančná kapitola MP SR (forest resources development – chapter: Finance, Ministry of Agriculture of the Slovak Republic)



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