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## Highlights of the Year

Forest management is significantly influenced by climatic conditions.

The year 2017 may be generally be considered a significantly warmer year with normal rainfall. However, rainfall was distributed unevenly within the republic. Especially in some parts of Moravia and Vysočina the period with insufficient rainfall continued and it increased the amount of trees which withered because of climatic changes and subsequent bark beetle, honey fungus and other diseases.

The situation was furthermore complicated by windstorms, which in 2017 repeatedly hit the Central Europe. The need for emergency logging of bark beetle infested or endangered trees adversely affected the situation on the timber market and necessitated the revision of the contractual relationship. Nevertheless, thanks to the efforts of the employees and the good cooperation of the partners, it was

### Pre-tax profit



CZK **3.7** billion



Transfer of funds to the state budget was CZK **3.050** billion

### Logging and reforestation



Total logging reached 8.054 million m<sup>3</sup> of lumber



**10.436** thousand ha of forestland were recovered

possible to achieve an interesting economic result and to transfer to the state budget a significant amount, which will benefit all citizens of the Czech Republic.

In order to better cope with the calamity situation, we have taken a number of measures, including the deployment of our own capacities for our directly managed forestry units, in the framework of an aid to combat bark beetle in the most affected forestry units. In all managed forests, we stopped the intentional logging of spruce and pine trees to avoid unnecessary oversaturation of the wood market.

An integral part of the care for forest stands was the restoration of forest stands, i.e. the planting of new trees of a wide range of forest tree species in order to grow mixed forest stands that would be more resistant to extreme climatic influences. In mixed renewed forest stands oaks, beeches, linden trees, maples and fir trees are represented next to spruce and pine trees. While we are taking measures with cultivation we also focus on natural renewal of forest stands and care for younger stands, so we can keep high percentage of deciduous trees until felling age.

In name of social responsibility we supported many valuable cultural, charity or sporting projects. We have continued fulfilling agenda of our social program which we started in previous years where we employed 391 seasonal workers referred by the labour office.

We have also continued our successful cooperation with secondary schools and forestry training centres. Our common goal is to make forestry and in particular lumberjack profession more attractive.



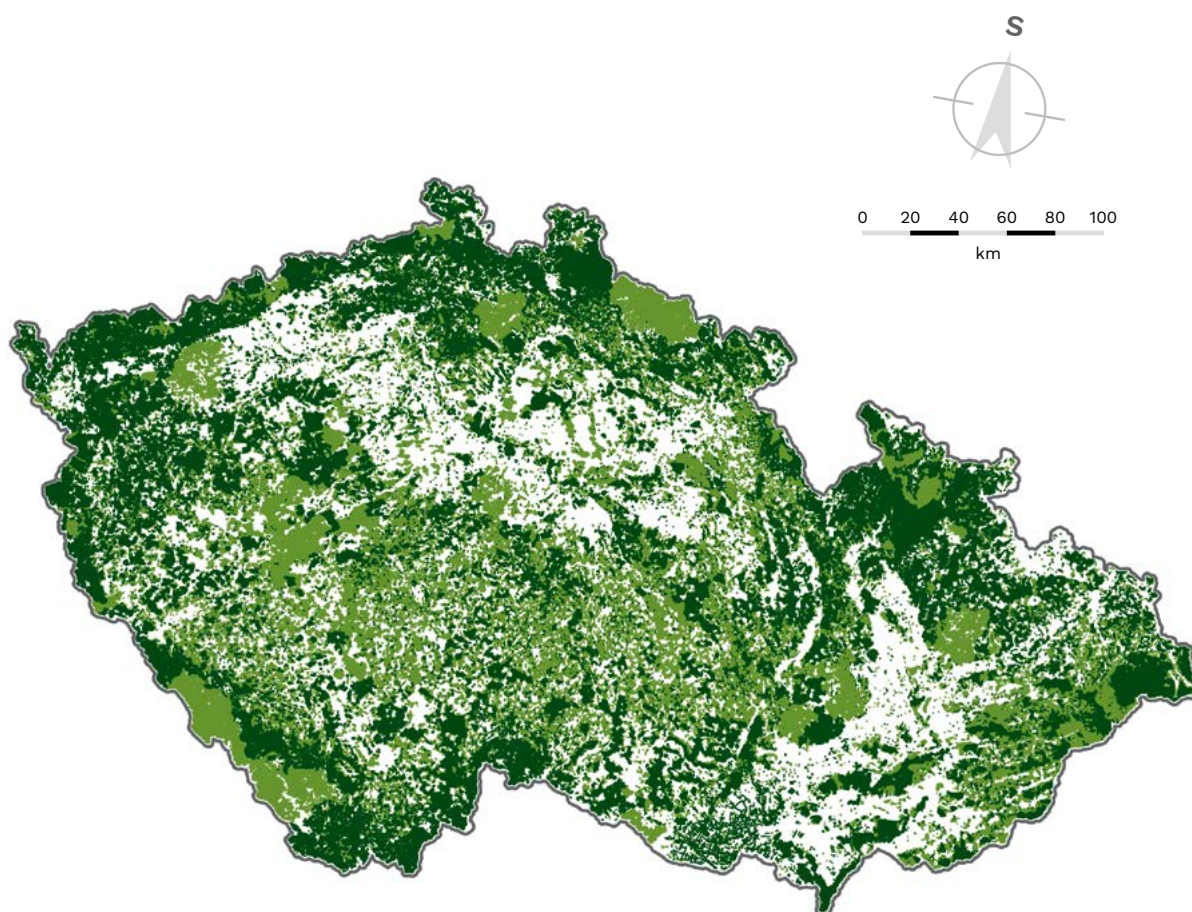
An important achievement of the company in the field of nature and landscape protection was the establishment of more protected areas as non-interference zones, namely in the national nature reserve Ve Studeném in central Bohemia and in national nature reserve Mionší in Beskydy.

It was not only about the creation of non-interference zones, but also about the introduction of integrated forest management together with nature conservation, which means that on the areas intended for economic use, certain percentages of trees are left to complete its lifecycle, ie until their complete decay.



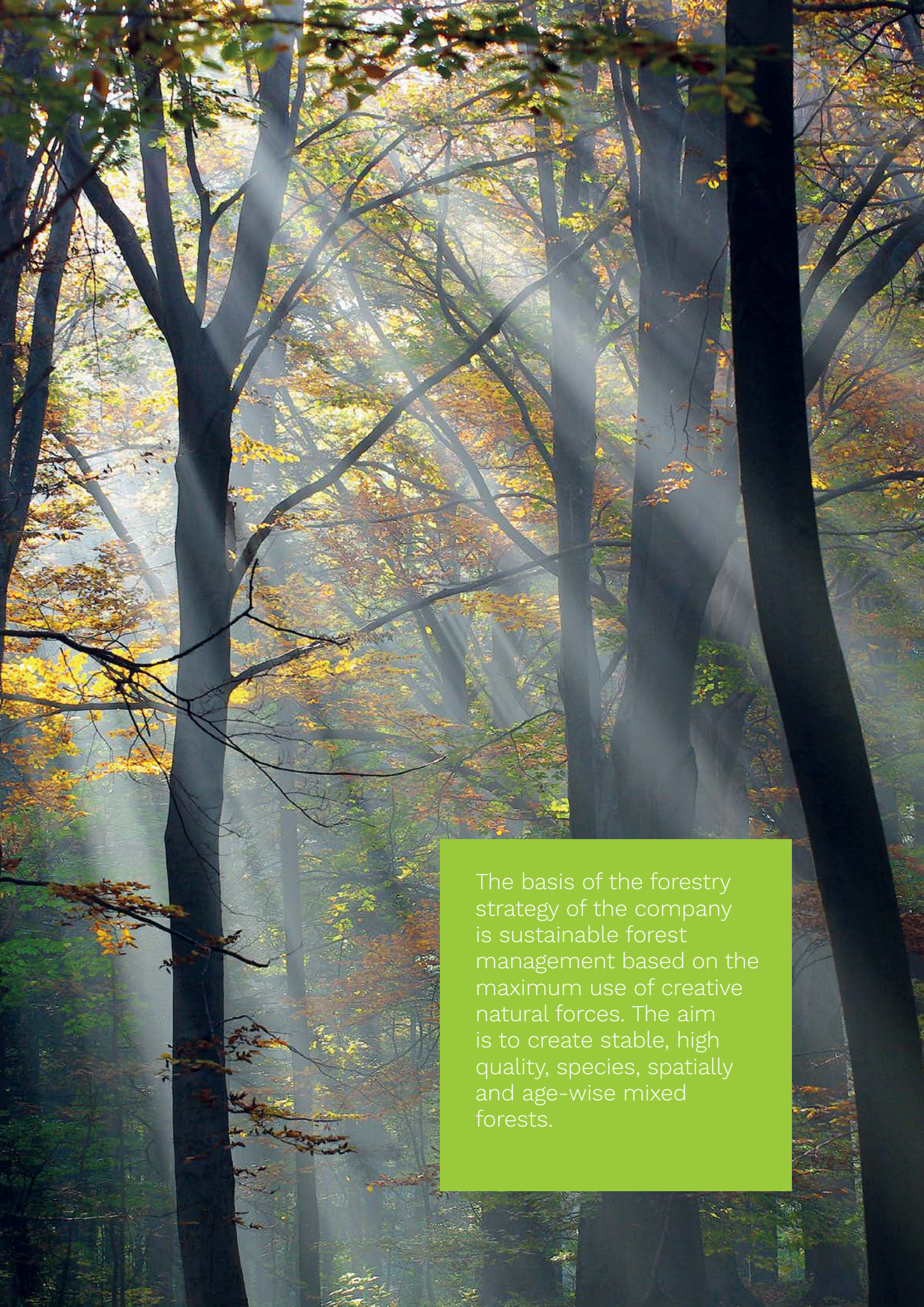
## About Company

Lesy ČR manage **over half of forests in Czech Republic** - 1.2 million ha of state owned forests, almost 85 % of all state forests.



- Czech forests managed by LCR (31 December 2017)
- Forests under other ownership or management



A photograph of a forest with tall, slender trees. The foliage is in autumn, with many leaves turned yellow and orange. Sunlight filters through the canopy, creating a misty, ethereal atmosphere. The trees are dark against the lighter, hazy background.

The basis of the forestry strategy of the company is sustainable forest management based on the maximum use of creative natural forces. The aim is to create stable, high quality, species, spatially and age-wise mixed forests.



## Dear colleagues, forest supporters, readers!

The forest is exceptional and unique. Its simple existence brings a lot of benefits to both the landscape and people. Often we cannot appreciate its significance because we don't recognize. Forest is an oxygen reservoir, it binds free carbon, retains water, combats the erosion, cools the atmosphere, and mitigates the effects of climate change, which we have been seeing in recent years.

The non-productive benefits of the forest are incalculable, which is why it is important to appreciate the principles of sustainability and the efforts of the employees of the state enterprise LCR who take care of forests owned by the state.

The purpose of this publication is to bring you the basic information about the management of LCR. Today's fully grown forests were founded by the foresters a hundred years ago, using the knowledge of their time, times that were climatically much more favourable for forests. They mostly planted high-yielding spruce forests, which we now know are not particularly durable. At present, wood production becomes less and less important in favour of eco-stabilization functions. However, we do not know what the forests will have to resist in the coming decades. It is possible that in hundred years, that today's preferred deciduous trees will be suffering from diseases or pests, which are not present now. Our goal is to successfully cope with the changing living requirements for tree growth in the long run and to maximize our contribution to mitigating the impact of climate change on our country. Nevertheless, even in this situation, it is impossible to completely resign on the production function of the forest, because wood is one of the few renewable raw materials and its popularity is gradually increasing.

The key task of the company and its founder in the following periods will be the balanced management of the production and non-production functions of the forest and the establishment and upbringing of the most resistant forests for future generations. In addition to this task, it will also be necessary to revise legislative boundaries, which often prevent an enterprise from resolving emerging situations (mostly accidental calamity).

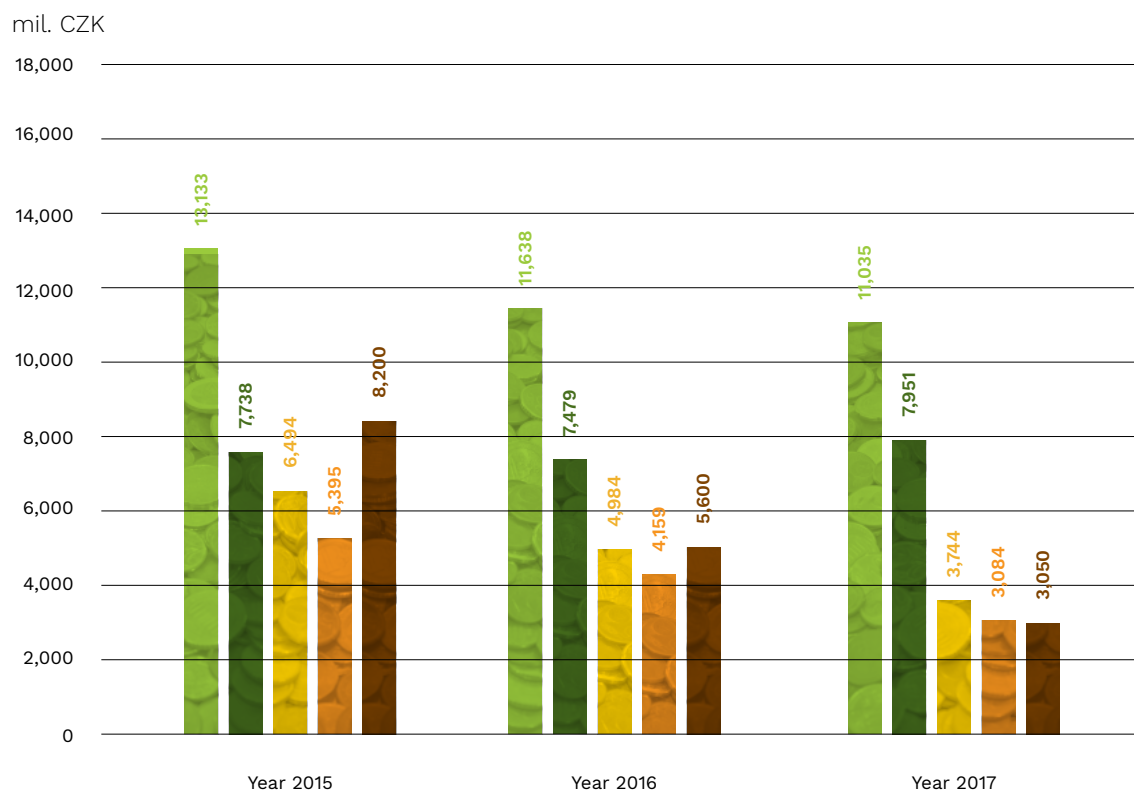
In addition to my thanks to my colleagues for cooperation, I would like to wish them a lot of energy to fulfil other tasks and understanding from the legislators in addressing the issue of forestry.

**Sincerely**

Daniel Szórád



## Progression of chosen economical indicators



- Total revenue
- Total costs
- Profit/loss before tax
- Profit/loss after tax
- Transfer of funds to the state budget

The decline in economic result was mainly due to lower wood prices on the market and the extraction of inferior timber from calamities.



## Forest Management

### Gene Pool of Forest Trees Species – We are thinking of our future

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



In 2017, 42 tons of cones and masts were collected. We strive to get the highest quality seed products, especially from deciduous trees and fir trees.

## Silviculture



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



## Purchase of forest for the state



*The reason for the purchase of forest land is compensation for the loss after restitution.*

We have long-term share of natural regeneration is 30 %.

In 2017, we planted over 47 millions seedlings, 3 millions of which were viable seedlings cultivated at LCR forest management units.



**over  
47 millions  
seedlings**

The share of deciduous trees and fir trees in forest renewal reaches almost 50%, which is approximately 30% more than required by law.

## Select Management Indicators

Year	2015	2016	2017
Non-stocked land as of 31 Dec. (ha)	11,490	11,292	12,294
Clearings from logging (ha)	6,796	7,566	7,889
Total regeneration (ha)	11,612	11,624	10,370
Logging (thou. m <sup>3</sup> )	7,700	8,102	8,053
-salvage felling (thou. m <sup>3</sup> )	3,706	4,364	4,774

The total annual growth in our managed forests amounts to 10.5 million m<sup>3</sup> of wood per year, which means that the stock of wood in forests is increasing in the long run.

## Professional Forest Management – service to small forest owners

At the end of the year, employees of the company performed services for more than 193 thousand owners on a total area of over 284,000 ha.



## Forest Protection

In 2017, forest stand in a number of places continued to suffer from a poor supply of water. The most notable lack of rainfall was in southern Moravia and southern Vysočina, which combined with a low initial level of soil moisture led to a period of critical shortage of water.



In the days 29-30 October, the Cyclone Herwart affected our country, bringing an exceptionally strong wind with speeds up to 180 km/h. The wind speed and the damage caused to forest stands (mostly in western Bohemia, north-eastern Moravia and Vysočina), this windfall



has ranked among the most devastating wind episodes in our country in the 21<sup>st</sup> century. In forests under the management of LCR, more than 1.75 million m<sup>3</sup> of wood was damaged during this episode.

Climate change takes its toll on the worsened state of spruce stands. Drought-damaged trees are more easily affected by bark beetle. The amount of damage caused by bark beetle on spruce stands hit state-wide record high in 2017. A total of 2.5 m<sup>3</sup> of standing spruce trees infested with bark beetles were cleared. To fight the bark beetle infestation we used variety of tools, such as trap trees, barking or chemical treatment.

The total amount of salvage felling for 2017 amounted to 4.7 million m<sup>3</sup>, i.e. more than half of the total logging, the vast majority (96.5%) was done on coniferous trees.

## Research Support – LCR Grant Service

In the long term, we systematically support forestry research through the LCR Grant Service. Its aim is above all to look for savings and increase efficiency of activities. **Making available research results, which are often of great importance to other forest owners, institutions and other organizations, is one way of meeting public interest objectives. (Agenda 2020)**

Since 2002 when the LCR Grant Service was established, by the end of 2017 a total of 86 research projects have been adopted with a total funding of almost CZK 116 mil.

In 2017, 12 new research projects were approved.

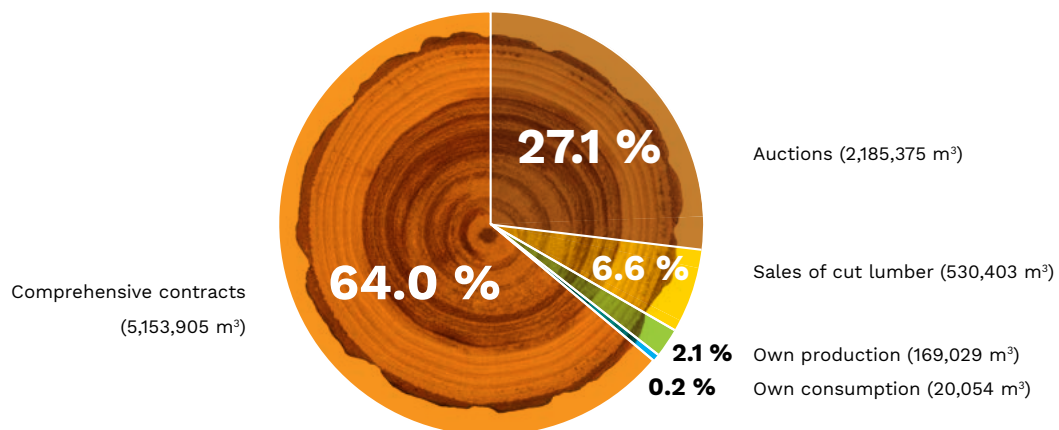
## Contractual Relations in Forest Activities

We continued to tender contracts in the same manner as in previous years in accordance with the Concept of the Ministry of Agriculture for the business policy of LCR. However this standard development of contractual relations was disrupted in 2017 by the development of unforeseen events related to the calamity situation and the collapse of timber market. In this context, we proceeded on the basis of government resolution in late October about agreements on completion of comprehensive agreements. 96 contracts were terminated by agreements.

In order to conclude new contracts, new tenders were announced for the next period. All tendering procedures were declared open and conducted in accordance with the Public Procurement Act.

## Commercial Activity – Sales of Timber and Logging Residues

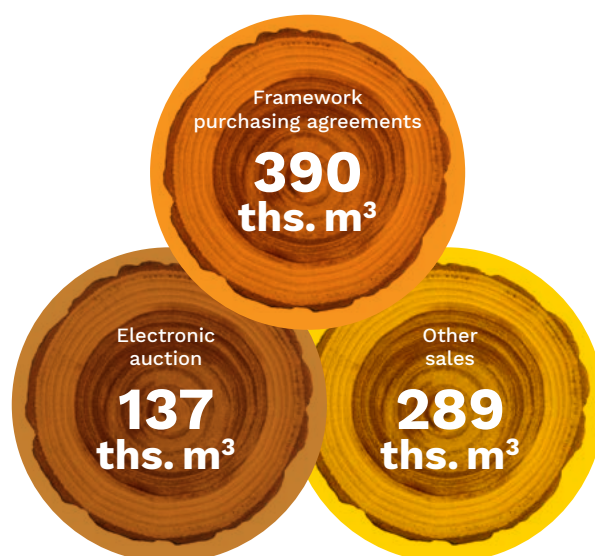
### Volumes of Timber Sales by Individual Sales Channels







By selling logging residues, we increase the cleanliness of the forest and prevent the spread of pests. Logging residues were sold through three sales channels:



*During the course of 2017 total sales of logging were 816 thousand m³.*





## Water Management

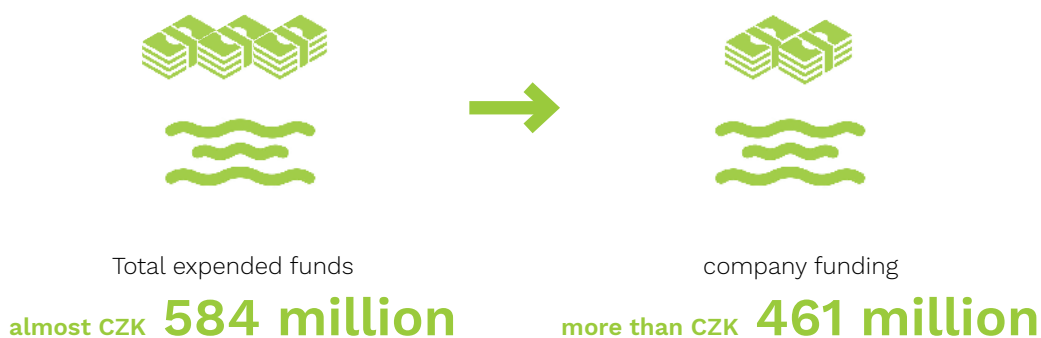
Management of small watercourses is one of our important business activities. By the end of year 2017 we managed 38.600 km of watercourses and over 887 small reservoirs.

Through seven Water Managements with territorial coverage according to the river basins, we take care of designated small streams and torrents as one of the non-productive functions of the forest.

In particular, we implement measures to support flood protection, anti-erosion measures, repair and refurbish water reservoirs for better water retention in the landscape, we care about shores and endangered species of organisms.

The water management and the measures taken (repairs, reconstructions and investments) were financed mainly from the company's own resources.

### Resources spent on water management



In 2017, we finished 5 reservoirs, 4 large transverse structures, 31 longitudinal modifications of watercourses and 32 minor structures.



*Retention reservoir Lišný*



*Jindřichovický Stream*



*Kobylí Stream in Karlovice*





## In the public interest

One function of the company that cannot be omitted is meeting the major societal and public interests for the benefit of all citizens.

Many tools are used to achieve these goals. One of them is the Agenda 2020. Within this program, the general public can recommend projects. In 2017 the company spent most funds on the construction and maintenance of recreational and sightseeing facilities for the public (over CZK 24 million) and building and repairing roads, hiking trails and parking lots (over CZK 21 million). Other considerable investment was made in managing water resources and wells (over CZK 18 million).

Other important activities of the company include the creation of information systems for the public, the care for minor structures for the public, the aesthetic treatment of forests, parks and landscapes or, for example, the biodiversity management of forests and landscapes.

In total in 2017, the company spent a record amount of CZK 104 million on all types of activities carried out for the public under Agenda 2020.





### Costs to Implement Agenda 2020







## Cooperation with Non-Government Organizations

We work together with variety of non-government organizations. In the long run, for example, with the Czech Tourist Club on a project to support the marking of the hiking trails „Green for Your Steps“ or with the Czech Union for Nature Conservation, we in a name of long term cooperation make several dozen projects every year.

In 2017, we continued to support the work of the Dolní Morava Biosphere Reserve, which co-founded. This company was created by stakeholders and the towns on the land of the Dolní Morava Biosphere Reserve as part of the global network of UNESCO biosphere reserves.

We actively participate in founding and activities of Forest Parks in the Czech Republic (Forest Park Křivoklátsko - 2010, Forest Park Bezděz - 2011). In 2017 new Forest Park Podkomorské lesy was established.



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

### Non-Interference Zones and Their Monitoring

In 2017, cooperation continued between LCR and the Agency for Nature Conservation and Landscape Protection of the CR in establishing and monitoring non-interference zones in forests. New locations were established Ve Studeném (LR Konopiště) and Mionší (LR Jablunkov)

### Nature and Landscape Protection at LCR

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

30.4% of the land which we were entitled to manage in 2017 was part of protected landscape areas (PLAs). Another 3.8% of the area is located in small specially protected sites, i.e. in national nature reserves, national natural monuments, nature reserves and natural monuments.





## Capital Construction

The total volume of capital funds invested exceeded CZK 2 billion.

Almost 95% of funds were invested in tangible assets, mainly to surface structures and utilities, most of which was invested in the construction and improvement of forest roads. The second largest amount was invested in hydraulic works to enhance flood protection and to prevent and eliminate flood damage.

Over 80% of funding was therefore invested in structures constructed primarily in the public interest.

From the total of CZK 104 million dedicated to Agenda 2020 was more than CZK 65 million channelled into investment projects. It involved the construction of forest parking lots, hiking trails and small wooden buildings, which serve the public for their stay in the forests managed by us. The largest volume of investment funds was put into construction of recreational and sightseeing facilities and into building hiking trails and parking spaces.

In the maintenance and construction of office buildings, we prefer wood as a building material.





*Forest Management Unit Hořice, built in 2017*



*Forest spring Hluboká  
in FMU Bučovice*





## We are the most important employer in the field



The company  
employs over

**3,500 employees**



Average earnings  
has reached the amount

**CZK 31,034**

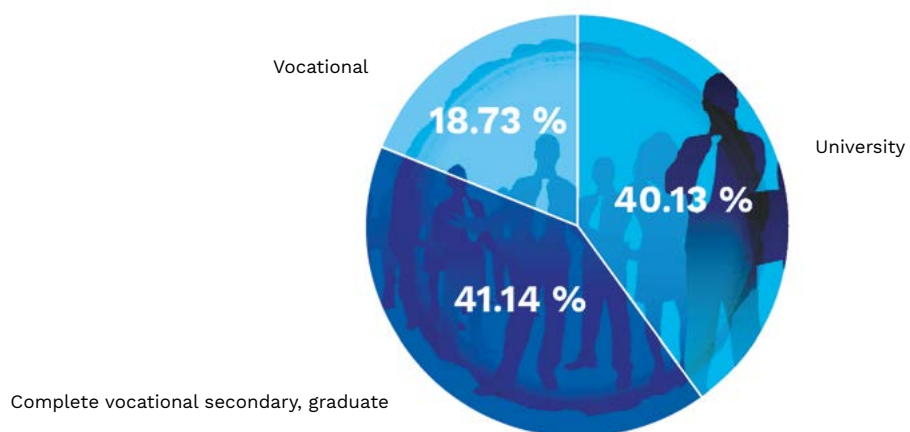
We care about the high level of expertise - the number of university-educated salaried employees is above 50%. We provide opportunities for graduates, especially of forestry training centres.

Employees have state-of-the-art IT technology and vehicle fleet, are equipped with functional clothing and footwear for active movement and outdoor work.

We appreciate the hard work of all our employees and we can reward them accordingly. We support skills upgrading, we care about the professional and personal growth of our employees.



## Employee Education (in %)





## Public relations

Through the websites and social networks, we present not only our day to day activities but also a long-term vision. Important communication topics include: nature conservation, forest as our national wealth, and wood as the only renewable raw material. By encouraging tourism and leisure sports, the company tries to bring the forest environment closer to a larger group of people.

Within the Notebooks for Schools project, over half million notebooks were produced that were free to order for schools. Another project was also dedicated to children - we delivered over 400 Christmas trees to children's homes, social institutions and children's hospital wards.

### Children and Youth

Priorities of work with children and youth include environmental education, upbringing and awareness. One of the methods of forestry and environmental education is forestry pedagogy. It represents the forest as an ecosystem, while at the same time explaining the principle of sustainable forest management, emphasizing wood as an only renewable raw material.

During the 2017 we organized more than thousand events (competitions, outings, sport-educational Days with LCR) and we had the opportunity to welcome over 144,000 visitors.





**144,290**  
visitors

in previous years  
135,451 (2016), 118,910 (2015)



**1,091**  
events

in previous years  
936 (2016), 938 (2015)



**270**  
forest educators

in previous years  
253 (2016), 229 (2015)



We support movement  
in nature

**Series Run through  
Forests 2017**

7 races

11,614 participants

10,080 adults

1,534 children





## Gift giving

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

We have set a simple, transparent, open and fair system for providing gifts and establishing advertising cooperation.

In 2017 we supported these subjects and their projects:

**Jedlička Institute Foundation** and their leisure activities for children with physical disabilities from socially disadvantaged families. **Association of Individuals Afflicted with Civilization Diseases in the Czech Republic** with a project to support the activities of people with chronic illnesses. **Rosa - centrum pro ženy** in the care and help of women, victims of domestic violence. **Junak – Czech Scouting** in support of patrol leader events, leader's handbook and creating periodicals. **Czech Union for Nature Conservation** and their program Biodiversity conservation, Wood and National Network of Rescue Centers. **Mobilní hospic Ondrášek**, which helps the patients in leaving this world, and provides support to their relatives. **Asociace svazů chovatelů koní ČR** and their series of local competitions of draught horse. **Diaconia ECCB - Vsetín** with the construction of a home for the elderly by reconstructing the former special school in Vsetín. **Nadace dřevo pro život** for the organization of the student contests Building with the Scent of Wood and Wooden Building of the Year. **St. George Hospice** and their services to incurably ill in their home environment. **Asociace lesních mateřských školek** for their educational programs. **Nadační fond osob se zdravotním postižením** in promoting the employment of people with disabilities. **Na počátku** on the operation of a shelter and apartments designed for pregnant women and mothers with children in an unfavorable life situation. **Českomoravská myslivecká jednota** and their educational program for children. **Domácí hospic Vysočina** and their home hospice service project for people with incurable diseases. **La Strada Czech Republic** with project, which was aimed to help exploited seasonal workers. **Cesta domů** in projects supporting psychosocial, therapeutic and spiritual support for dying adults and children and their families.

And many others.

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Design and production: KUKLIK.CZ

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