

ACTIVITY REPORT FOR 2018

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01

HIGHLIGHTS OF THE YEAR – INTRODUCTORY REMARKS

Dear readers,

you have gotten into your hands an Activity Report of state owned enterprise Lesy České republiky for 2018. Unfortunately, this year, the company got into an extremely difficult operational and economically difficult situation. The consequences of drought and climate change have been manifested by bark beetle calamity and the decline of trees. Lack of capacity has reached the Central European dimension as well as the collapse of the timber market. However, weather development and drought cannot be influenced, so the company has gradually reduced all its spending and concentrated exclusively on salvage felling, forest protection and restoration, and water management measures against drought.

Lesy ČR led by an effort to use all available capacities for bark beetle wood processing, according to the regulation of the Ministry of Agriculture, stopped deliberate extraction of healthy spruce and pine trees and focused only on salvage felling of calamity coniferous trees. This, together with the huge drop in prices, resulted in lower realization of the wood and thus a significant drop in the company's profit. In 2018, Lesy ČR paid CZK 2.5 billion to the state budget and EBT was CZK 238 million, which is CZK 69 million after taxation (EAT).



Josef Vojáček
Chief Executive Officer
Lesy České republiky

After several years of paying tens of billions of Czech crowns into the state budget and unfavorable natural and market circumstances connected mainly with climate change, the state of free financial resources has also decreased and the company has switched to operational financing.

Lesy ČR concluded 180 contracts for the performance of forestry contracts in 2018, covering more than 20 million cubic meters of timber and services worth CZK 11.5 billion. In September we announced forestry tenders 2019+.

The company renewed 9,774 thousand hectares of forest this year and planted 46,159 thousand forest tree seedlings - 27,499 deciduous and 18,660 coniferous. We logged a total of 10.7 million cubic meters of timber.

We spent around CZK 335 million on water management structures that will retain water in the landscape and provide flood protection to municipalities. Again, we devoted ourselves to the restoration of forest roads and car parks, building and maintenance of recreational and sight-seeing sites as well as memorials and buildings. We also continued in Program 2020.

This year's record-breaking company collection of 470 tonnes of masts and cones of forest tree species - 405 of deciduous trees and 65 of coniferous trees was a success. The first seedlings of this crop will be used to restore the forest in autumn 2019.

In June, Lesy ČR first tried a new Czech method of exterminating bark beetle by fumigation with the substance EDN. It has proven itself and the company will continue with it.

REFORESTATION



In 2018, the company renewed **9,774 thousand** hectares of forest and planted **46,159 thousand** forest tree seedlings



**WE HAVE INVESTED
AROUND
CZK 335 MILLION
IN WATER
MANAGEMENT
STRUCTURES**



**IN JUNE LESY ČR
FIRST TRIED NEW
CZECH METHOD OF
EXTERMINATING THE
BARK BEETLE BY
FUMIGATION WITH
THE SUBSTANCE EDN**

PRE-TAX PROFIT



In 2018, Lesy ČR paid **CZK 2.5 billion** to the state budget and EBT was **CZK 238 million**

Lesy ČR again cooperated with forestry schools in 2018. In the summer project, Trainee For the Summer, 90 students tried their skills in forest management. The project has a good reputation and hundreds of students will certainly try it in preparation for their future jobs in the years to come.

In the autumn, Czech foresters, together with their Slovak colleagues, commemorated the hundredth anniversary of the creation of the independent state of Czechs and Slovaks. Not only in the state forests of both countries are now growing Republic Linden trees and several jubilee groves have been created that commemorate the historical event.

Lesy ČR managed in 2018 according to the applicable laws. Despite difficult conditions, we continued to support recreational and tourist activities, environmental education, water management and other measures related to nature conservation.

I would like to thank all my colleagues for their care of the forest, their commitment, resilience and their hard work. I thank our business and professional partners and the public and it is my great wish to continue to understand each other and to keep the dialogue open.

A handwritten signature in blue ink, consisting of a stylized 'J' and 'V'.

Josef Vojáček,
CEO of Lesy České republiky



**THIS YEAR'S RECORD-
BREAKING COMPANY
COLLECTION OF 470 TONNES
OF MASTS AND CONES
OF FOREST TREE SPECIES –
405 TONNES OF DECIDUOUS
TREES AND 65 OF CONIFEROUS
TREES WAS A SUCCESS**

02

ABOUT COMPANY SELECTED INDICATORS

Lesy ČR manages over 1.2 million ha of state owned forests and cares for over 38,000 kilometers of small water courses and streams.

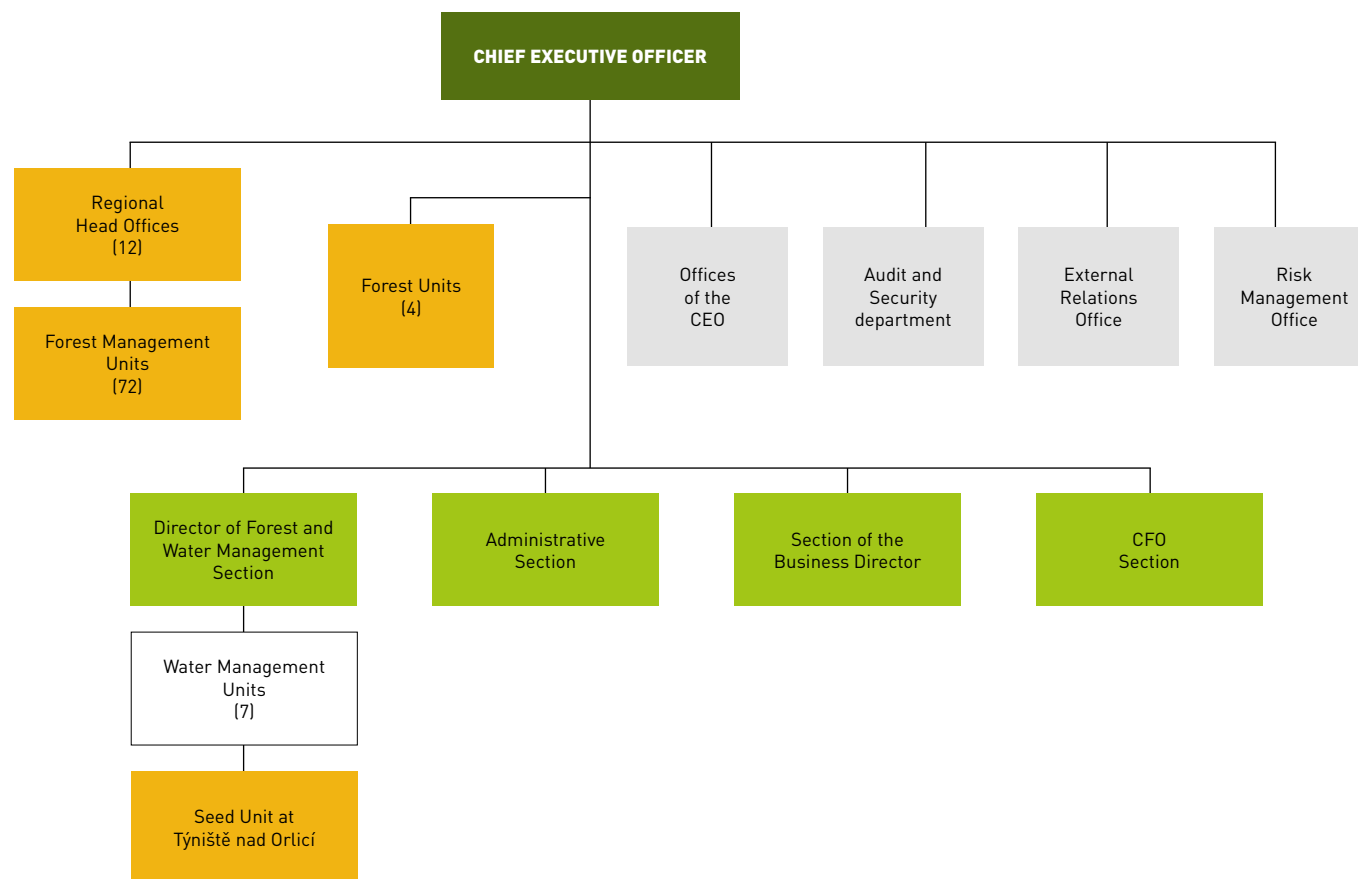
The basis of the forestry strategy of the company is sustainable forest management based on the maximum use of creative natural forces. The aim is to create stable, high quality, species, spatially and age-wise mixed forests.



- Borders of forest management units/forestry units
- Czech forests managed by LCR (31 December 2018)
- Czech forests under other ownership or management



BASIC ORGANIZATIONAL STRUCTURE





CHOSEN ECONOMICAL INDICATORS IN CZK MILLIONS

TOTAL REVENUE

8,502

REVENUE FROM OPERATIONS

8,090

TOTAL COSTS

8,433

OPERATIONAL COSTS

7,931

**PROFIT (LOSS)
AFTER TAX**

69



FOREST MANAGEMENT

GENE POOL OF FOREST TREES SPECIES – WE'RE THINKING OF 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.

This year's record-breaking company collection of 470 tonnes of masts and cones of forest tree species - 405 of deciduous trees and 65 of coniferous trees was a success.

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.

In initial rounds of regeneration in 2018, 50% of the trees LCR planted were soil-improving and strengthening species - marginally more than is required by law.



**46 MILLION
SEEDLINGS**

**THE SHARE OF
IMPROVING AND
STABILIZING
SPECIES WAS
OVER 50%**

We have processed **178 tons**
of seed product in seed units



FOREST PROTECTION

With respect to climatic parameters, 2018 may generally be considered a significantly warmer year with less than normal rainfall. The whole vegetation period was therefore very unfavorable for forest stands. The amount of salvage felling was almost 10 million m³ and in 97% was in coniferous trees.

The amount of damage caused by bark beetle on spruce stands continued intense spread of the calamity situation to other areas. In total almost 6 million m³ of bark beetle infected spruce was processed, ie an increase of approximately 130% compared to 2017. The increase in damage was practically in the whole territory of the Czech Republic, the most serious situation was in the Vysočina region. To combat bark beetles, we used a number of tools, such as trap trees, traps, debarking, or chemical treatment.

RESEARCH SUPPORT – LCR GRANT SERVICE

Through the LCR Grant Service we have supported forestry research since 2002 and by the end of 2018 more than 90 research projects have been adopted with a total funding of almost CZK 130 million.

Disclosure of research results, which is often of great importance to other forest owners and other institutions, is one form of public interest promotion.

In 2018, 8 new research projects were approved.

PROFESSIONAL FOREST MANAGEMENT - SERVICE TO SMALL FOREST OWNERS

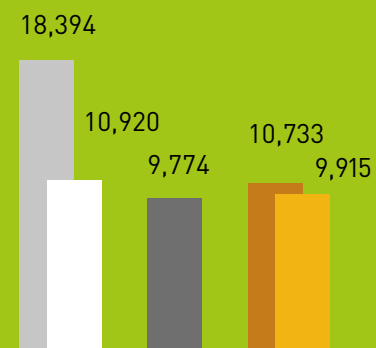


At the end of the year the company's employees provided services to almost **197,000** owners on a total area of almost **290,000** ha

IN 2018 8 NEW RESEARCH PROJECTS WERE APPROVED



SELECT MANAGEMENT INDICATORS



■ Non-stocked land as of 31 Dec. (ha)
■ Clearings from logging (ha)
■ Total regeneration (ha)
■ Logging - total (thou. m³)
■ Logging -salvage felling (thou. m³)

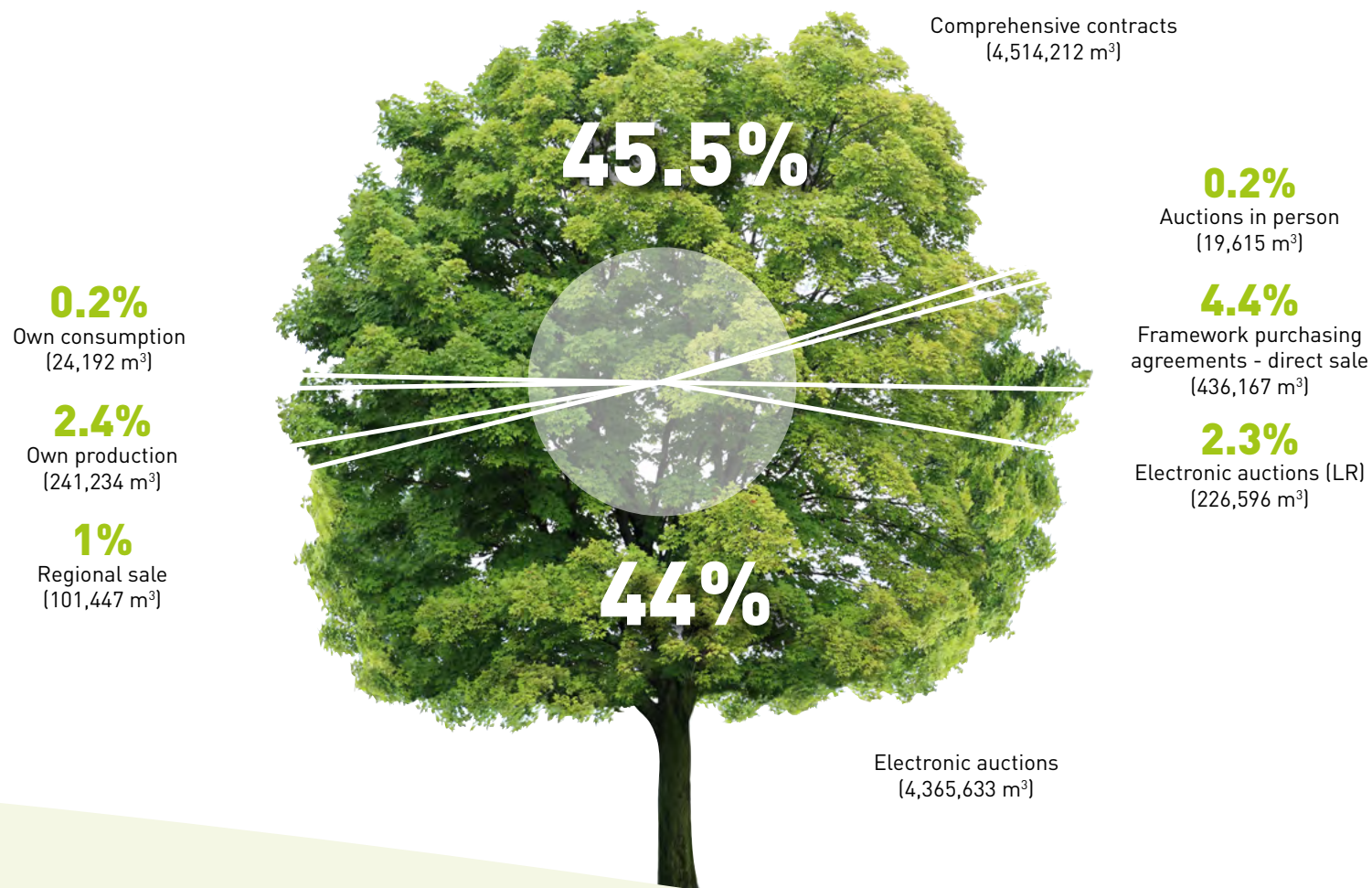
04

CONTRACTUAL RELATIONS IN FOREST AND COMMERCIAL ACTIVITIES

We continue to tender forestry contracts according to the concept of the Ministry of Agriculture to the economic policy of the company LČR, continuing to terminate long-term contracts due to unforeseeable circumstances at the time when the contractual relationship arose, such as the continuing bark beetle calamity or the oversaturated timber market.

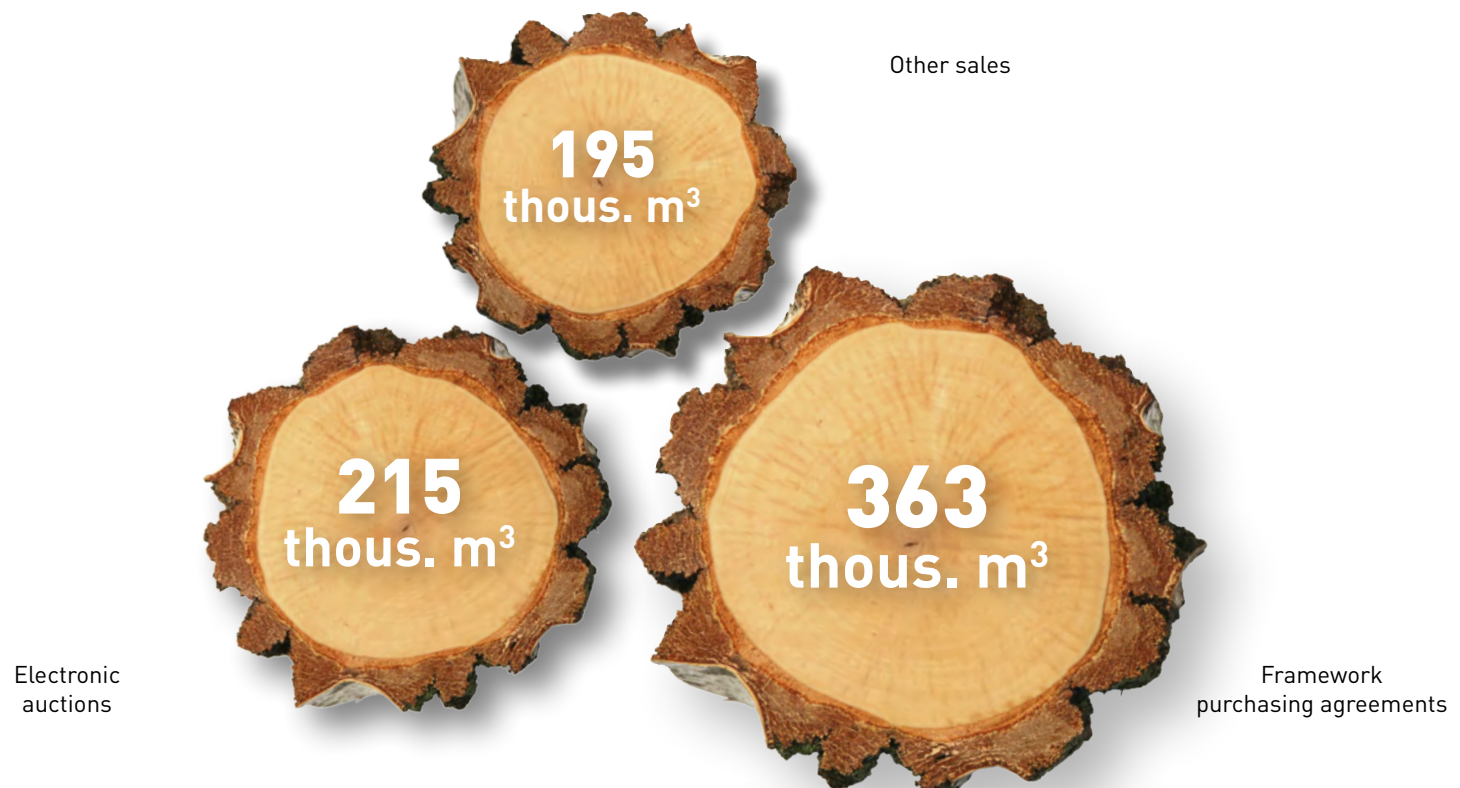


VOLUMES OF TIMBER SALES BY INDIVIDUAL SALES CHANNELS



SELLING LOGGING RESIDUES

Logging residues were sold through three sales channels:





**DURING THE COURSE OF
2018 SALES OF LOGGING
RESIDUE WERE MADE
FROM THE TOTAL
VOLUME OF 773,000 CUBIC
METERS**

WATER MANAGEMENT

Besides the administration of state forests, we are engaged in another important activity - the management of small watercourses. At the end of 2018 we managed 38.5 thousand km of watercourses and more than 900 small water reservoirs.

We perform this activity through seven Watercourse Managements with territorial competence according to the river basin. The main activities include measures to support flood protection of municipalities, measures to retain water in the landscape, anti-erosion measures or care for bank stands.

Watercourse management and implemented measures (repairs, reconstructions, new investments) are financed mainly from the company's own resources.

Some of the finished projects:

- reconstruction of a small water reservoir Klimeš's pond, which is located in the village Roudno in the Bruntál region,
- construction of a detention basin and modification of the riverbed in Němčice by Litomyšl on the watercourse of Zlatý pásek,
- complete reconstruction of the Holoubkovský brook's tributary's riverbed at the river km 20.5 in Cheznovice in the Rokycany region,
- revitalization of the Zelenka watercourse in Orlické Záhoří in the Orlické Mountains.

**IN 2018 WORK HAS
BEEN IN PROGRESS
ON HUNDREDS
OF INVESTMENTS
PROJECTS**



▲
Klimeš's pond

◀
Flood protection structures
in Němčice

◀
Revitalization Zelenka



RESOURCES SPENT ON WATER MANAGEMENT

Total expended funds CZK

= 569
million

company funding
more than CZK

> 437
million

**AT THE END
OF 2018 WE
HAVE MANAGED
38,500 KM OF
WATERCOURSES
AND OVER
900 SMALL
RESERVOIRS**

06

IN THE PUBLIC INTEREST

An unforgettable function of the company is to satisfy important social and public interests of citizens. This is done through many ways, the Agenda 2020 is one of them.

As part of this program tourist routes, trails and parking lots worth more than CZK 19 million were build and repared and over CZK 13 million was spent on water sources and wells. A considerable amount of money was also spent on the construction and maintenance of rest and sightseeing facilities for the public (over CZK 9 million). Other activities included, for example, aesthetic modifications of forests, parks and landscapes, and care for species diversity.





**IN TOTAL IN 2018,
THE COMPANY SPENT
A RESPECTABLE
AMOUNT OF CZK
71.8 MILLION ON ALL
TYPES OF ACTIVITIES
CARRIED OUT FOR
THE PUBLIC UNDER
AGENDA 2020**

▲
Memorial site Jindřichovice -
former WW I POW burial ground
(Forest Management Unit
Kraslice)

▶
Bicycle Path Nový Bor - Svob.
(Forest Management Unit Česká
Lípa)



07

COOPERATION WITH NON-GOVERNMENT ORGANIZATIONS AND NATURE AND LANDSCAPE PROTECTION

We have been cooperating with many NGOs for a long time. These include, for example, cooperation with the Czech Tourist Club in the marking of hiking trails, the Czech Union for Nature Conservation and the Dolní Morava Biosphere Reserve.

NATURE AND LANDSCAPE PROTECTION

As part of the agreement between Lesy ČR and the Agency for Nature Conservation and Landscape Protection we cooperate in defining non-interference zones and their monitoring. New locations were established Ples (Forest Management Unit Horšovský Týn) and Starý Hirštejn (Forest Management Unit Domažlice).

We are the largest manager of protected sites in Czech Republic. 30.4% of the land which the company has the right to manage was part of the protected landscape areas, another 3.8% of the area is located in small specially protected sites (national nature reserves, national natural monuments, nature reserves and natural monuments).



**WE PARTICIPATE
IN THE ESTABLISHMENT AND
OPERATION OF FOREST PARKS
(KŘIVOKLÁTSKO, BEZDĚJ,
PODKOMORSKÉ LESY)**

**WE ARE THE LARGEST
MANAGER OF PROTECTED
SITES IN CZECH REPUBLIC**

08

CAPITAL CONSTRUCTION

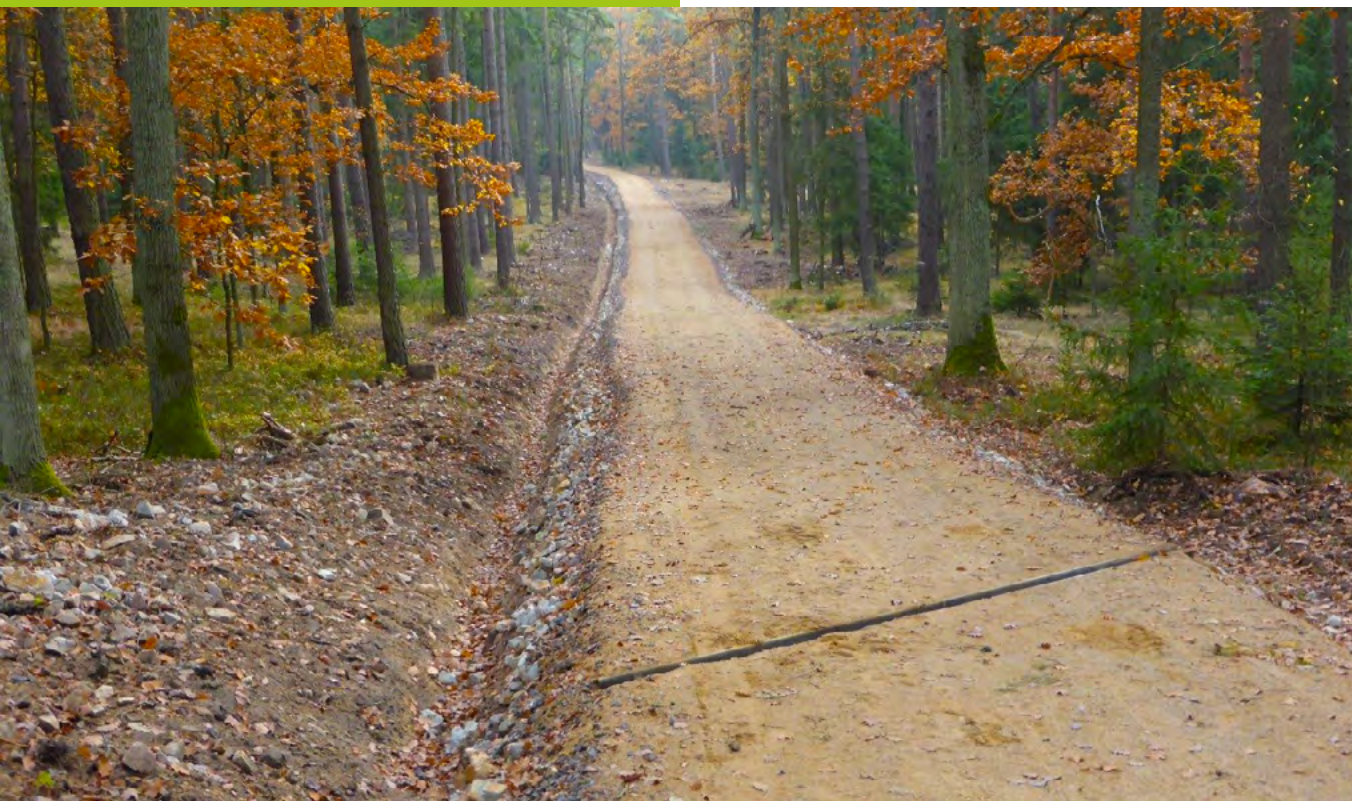
More than 90% of funds were invested in tangible assets, mainly to utilities (CZK 860 million), most of which was invested in the construction and improvement of forest roads. The second largest amount (over CZK 182 million), was invested in water management structures to enhance flood protection and to prevent and eliminate flood damage.

Agenda 2020 projects received CZK 43.2 million from total funds CZK 71.8 million invested into capital construction. Especially for the construction of hiking trails, forest parking lots and small wooden structures, to serve public visitors to forests managed by LČR. Substantial funds were also invested in the repair of watercourses, reservoirs and wells, that support the development of environmental biodiversity and contribute to water retention in the landscape.



**TOTAL VALUE OF CAPITAL
FUNDS INVESTED CAME
TO CZK 1.3 BILLION**

**OVER 75% OF
FUNDING WAS
THEREFORE INVESED
IN STRUCTURES
CONSTRUCTED
PRIMARILY IN
PUBLIC INTEREST**



▲
Leat on forest path Větrná
(FU Boubín)

◀
Forest path Zkratka
(FU Konopiště)

09

THE MOST IMPORTANT EMPLOYER IN THE FIELD

High level of expertise is very important for us and that is why we provide opportunities for graduates of forestry specialised schools. We support their continuing education and professional growth.

We appreciate the hard work of all our employees and we can reward them accordingly.

Employees have state-of-the-art IT technology and vehicle fleet.



**THE COMPANY
EMPLOYS OVER
3,500 EMPLOYEES**

**AVERAGE EARNINGS
HAS REACHED MORE
THAN CZK 34,300**

EMPLOYEE EDUCATION

Complete vocational
secondary, graduate

16.5%

High school graduate +
vocational colleges

43.3%

40.2%

University

10

PUBLIC RELATIONS

We use especially our website and social media to inform the public about our daily activities and special events. Important communication topics include: forest and forest management, climate change issues and activities to eliminate its impacts, nature conservation and public interest in forests.

As part of the project Notebooks for Schools we distributed over 250,000 notebooks. Before Christmas we also didn't forget about orphans, children in institutions and hospital wards and sent them over 400 Christmas trees.

We also work with the public, especially youth, especially through various events. Since 1999 we have been devoted to forest-based schooling, where we explain forestry issues through a popular and hands on form.

At present, nearly 300 forest educators from our staff are involved in forest-based schooling.

IN 2018, WE ORGANIZED A RECORD NUMBER OF EVENTS FOR THE PUBLIC INVOLVING NEARLY 150,000 PARTICIPANTS.



almost
150,000
participants

in previous years
144,290 (2017)
135,451 (2016)
118,910 (2015)



more than
1,200
events

in previous years
1,091 (2017)
936 (2016)
938 (2015)



almost
300
forestry educators

in previous years
270 (2017)
253 (2016)
229 (2015)

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www.lesy-cr.cz

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