

Table of Contents

- 2 Main Events Introductory Remark
- 8 About Our Company
- 11 Selected Economic Indicators
- 12 Forest Management
- 16 Contractual Relations in Forestry and Business Activities
- 18 Water Management
- 22 In the Public Interest
- 24 Cooperation with Non-Governmental Organizations and Nature and Landscape Protection
- **26** Capital Construction
- 28 Human Resources
- 30 Public Relations

Main Events – Introductory Remark

Dear readers,

the major events of 2021 were related to the management of the bark beetle calamity and the restoration of forests. Favorable weather, especially cold April and May, and August rains slowed down the spread of the bark beetle, so the number of infested trees was significantly reduced. The bark beetle calamity escalated in northern Bohemia in regions of Česká Lípa, Rumburk, Děčín and near Ještěd, and if there is no further weakening of the trees, even in these areas the calamity wood will decrease significantly. A total of 5.5 million m³ of spruce bark beetle infested wood was processed, i.e. 42% less than in 2020. This improved the initial situation for the following year and the economy gradually began to return to normal.

Temperatures and precipitation were average, which also had a positive effect on the regeneration of the forest. A total of 22,000 ha were restored of forest using 96 million seedlings. Of the total area of restoration, 5.9 thousand ha was restored naturally. In the new generation forests, we plant many types of trees, which increases the ability of stands to overcome climate changes and resist the effects of pests and other adverse effects.

However, the restoration of the calamitous clearings continues. An important role in this effort is played by the Seed Unit Týniště nad Orlicí, the fiftieth anniversary of which the company commemorated in 2021. With regard to the requirements of operation and production, its premises had to be modernized and adapted. All five floors of the southern part of the seed raw material warehouse were modified in order to preserve the seeds of deciduous trees. The seed material is collected by forest management units and forest units throughout the Czech Republic, so that the new forests are more resistant and grown in natural conditions close to the regenerated stands. Without the seed unit, it would be difficult to bridge the period of crop failure and at the same time accommodate other forest owners who are also afforesting the post-calamitous clearings.





Jiří Groda entrusted with the management of the state enterprise Lesy České republiky, s. p.

The company's priority is to completely stop the bark beetle calamity and master the restoration of the forest. Forestry works and tenders for their implementation in the five-year period starting in January 2022 are also connected with this. Public contracts were held in the areas of "Forestry activities with the sale of wood" and "Cultivation activities". 36 forestry companies showed interest and submitted 403 offers. Contracts are signed and tenders are closed. The company successfully continued its own trading as well. In 2021, it sold 6 million m³ of wood.

From a commercial point of view, the year was accompanied by turbulent fluctuations in wood prices and an unprecedentedly high demand for fiber. It was related both to the receding bark beetle calamity and the reduction of wood stocks in all assortments, as well as to the large overseas demand for lumber, especially at the end of the first half of the year.

On the contrary, the company's financial situation has stabilized thanks to a favorable increase in the sale price of wood and the received state subsidies for growing activities in accordance with government regulations as

well as subsidies to equalize prices for the sale of bark wood. Lesy ČR did not draw any loans from the banking sector or from external entities and managed with a balanced cash flow. The economic result thus returned to positive figures and the company continued to create a reserve fund.

The number of employees in 2021 increased by 155 to a total of 3,638. Operations were strengthened in terms of personnel, especially in forest protection and the sale of wood at disaster forest management units. For labor positions, recruitment in cultivation exceeded logging. The long-term trend of reducing the number of administrative forces continued. During the summer season, the company again offered part-time work to pupils and students of secondary and college forestry schools. There were 214 of them working at 64 forest administrations and plants. Universities continue to recognize this long-term temporary work as a subject of compulsory internship for students. In addition, we enabled more than 180 students from secondary forestry schools to complete compulsory school practice at our forest management units and forest units.

2021 was also marked by Covid-19. Lesy CR provided its vaccinated employees with a paid day off and respected all applicable measures of the Ministry of Health and the government. Lesy CR has prepared an online program of forest pedagogy From home to forest for pupils, teachers and parents in the form of tests, worksheets, word searches, puzzles, memories, coloring books, fairy tales and educational videos about the forest. According to the reviews, they brought joy.

The company continued with a number of programs such as We return water to the forest. In 2021, Lesy ČR repaired, restored or built 150 ponds, reservoirs, pools and wetlands, and designed another 100. We invested 180 million crowns in constructions that will slow down the outflow of water from the landscape and alleviate the drought. More on www.vracimevodulesu.cz.

In the new generation forests, we plant many types of trees, which increases the ability of stands to overcome climate changes and resist the effects of pests and other adverse effects



22

Forest regeneration (th ha)

A total of **22 th ha** of forest were restored using **96 million** seedlings. Of the total area of restoration **5.9 th ha** were restored naturally.

Lesy ČR handed over 1,850 m³ of logs, sent 35.2 million crowns to applicants' accounts and delivered 2,180 m³ of firewood.

>35

Help after tornado (million CZK)

180

We return water to the forest (million CZK)

Lesy ČR invested **180 million** crowns in constructions that will slow down the outflow of water from the landscape and alleviate the drought

In the Forests for Life program, Lesy ČR signed up for the restoration of three hundred wells and springs in 365 days and the maintenance of forest shelters, gazebos and benches, i.e. tourist infrastructure and forest inventory used by the public. We also dedicated our corporate wall calendar to the topic.

The company once again offered the public the opportunity to participate in the restoration of forests after a disaster. We organized dozens of regional Forest Renewal Days, work events intended for the public, schools and interest organizations. Everything culminated on the third Saturday of October with the big Forest Renewal Day, the largest nationwide forestry event for the public. In thirteen places in all regions of the republic, people could plant trees in new generation forests, help with fencing them or cleaning the forest and other works related to the restoration of the landscape after a disaster.

In 2021, Lesy ČR opened a new forestry exhibition Forests for the Future, divided into two parts, in the National Agricultural Museum in Prague on Letná. In the first, permanent part, the company presents programs related to the establishment and protection of newly planted forests. The second part gives place to current topics.

A series of meetings of foresters with representatives of municipalities and the public also continued. Foresters reported on the processing of calamity wood and the restoration of forests after the bark beetle calamity in the affected regions. In northern Bohemia, in the center of Ústí nad Labem, Litoměřice and Děčín, Lesy ČR installed portable exhibition panels with information on the restoration of stands and forest roads and water retention in the landscape. The traveling exhibition and subsequent weekend meetings in the squares supplemented the aforementioned dozens of discussions.

On Forest Renewal Day in October, people in thirteen places across the country could plant trees in new generation forests, help with their fencing or clean up brush and other work related to the restoration of the landscape after a disaster.



Lesy ČR also showed a solidarity. After the June tornado, we immediately offered help in the form of wood for a new roof or a one-time donation of one hundred thousand crowns and firewood to anyone whose house was seriously damaged. 664 people used the offer. At the end of the year, Lesy ČR handed over 1,850 m³ of logs to sawmills, sent 35.2 million crowns to applicants' accounts and delivered 2,180 m³ of firewood.

Also worth mentioning is the publication of the new European Union strategy for forests until 2030. It calls for a transition to more sustainable ways of managing forests and points to the benefits of an ecosystem approach and practices that support biodiversity and resilience. In order to adapt to climate change and increase the resilience of forests, it prioritizes the ecological and non-reproductive functions of the forest over others, which can mean a lot for forest owners and managers, even with regard to respecting the local and regional nature of the industry and the powers of the member states.

The year 2021 was filled with events and situations that were not easy for many employees to handle. I am referring in particular to the partially completed and stopped at the end of the year the transfer of right to manage on the lands of Lesy ČR and Vojenské lesy a statky ČR, which was also related to the planned organizational changes. After a thorough review, the Ministers of Agriculture and Defense decided to return the land to its original state before the transfer. Negotiations will be held on the further possible transfer of land. Finally, I would like to thank my colleagues and others who work with Lesy ČR for their reliability, helpfulness and patience, and I wish everyone a lot of strength in their future work.

Jiří Groda

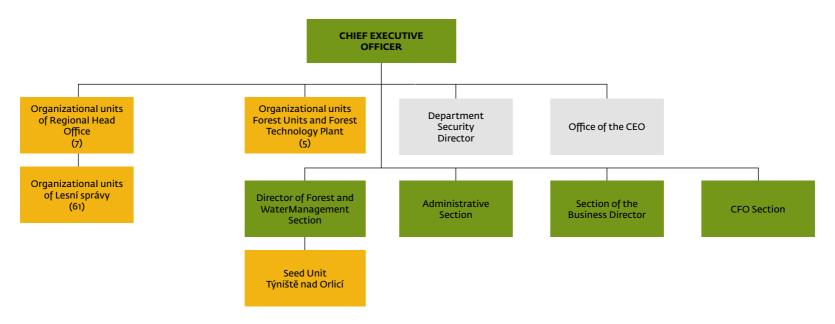
entrusted with the management of the state enterprise Lesy České republiky, s. p.

About Our Company

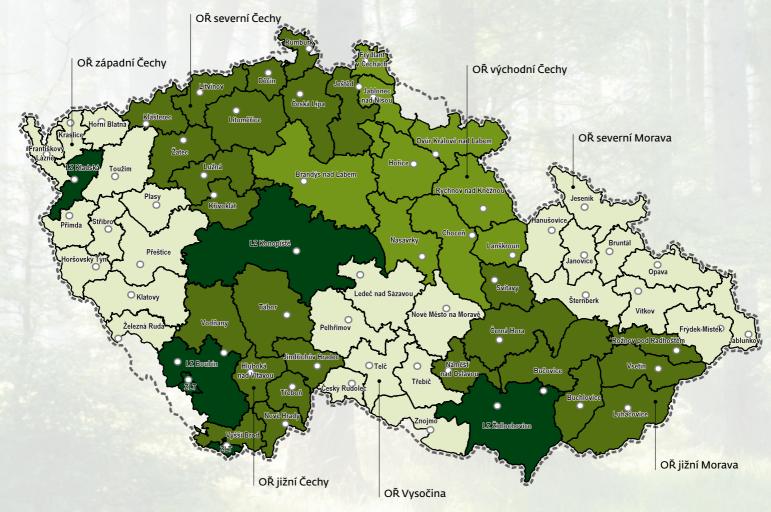
State Enterprise Lesy České republiky LČR manages forest land with an area of 1,176 thousand ha and manages 38.4 thousand km of watercourses and 1,005 small water reservoirs.

The basis of the company's forestry strategy is sustainable management of forests based on the maximum use of the productive forces of nature. The aim is to create stable high-quality, species, spatially and age-group mixed forests.

Basic Organizational Structure as of 31 December 2021

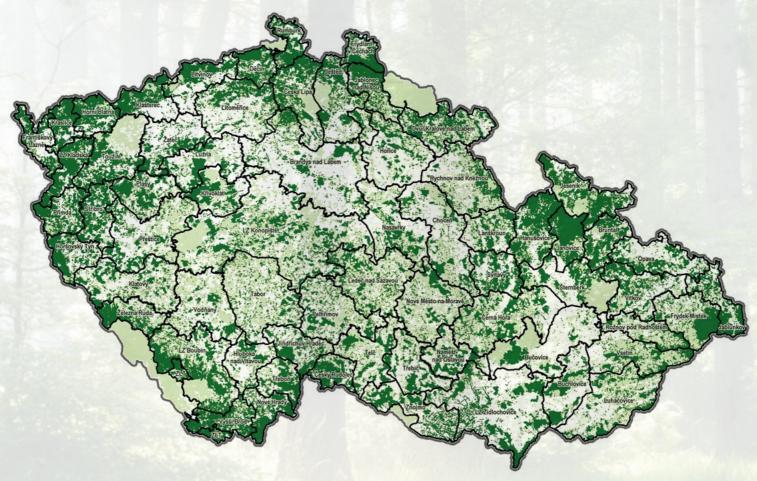


Organizational map of Lesy ČR



▶ Forestry Units

Overview of Assets



- ▶ Boundaries of forest management units/ forestry units
- ► Forests managed by LČR., s. p.
- Forests under other ownership a správců



Selected Economic Indicators

16,542

Revenues from operations (million CZK)

16,788

Total revenues (million CZK)



Forest Management

In the forests of the new generation, the company plants many species of trees, which increases the ability of the stands to overcome climate changes and resist the effects of pests and other adverse effects.

Genepool of forest tree species

Ensuring quality seed material in sufficient quantity for artificial forest regeneration is one of the company's priority goals. The year 2021 was characterized by a large crop failure of almost all types of trees and confirmed the irreplaceable role of the Seed Unit for carrying out forest restoration even in years of fruit and seed failure.

In the Seed Unit, almost 17 tons of seed were stratified, 75 tons of cones were shelled and 38 tons of seed were produced from the seed material.

Forest cultivation

The cultivation of forests managed by the Lesy ČR is based on the principles of sustainable management in compliance with all legal provisions and the rules laid down for the certification of forests by the PEFC system.

During the artificial regeneration of the forest, the share of improving and stabilizing trees from the first artificial regeneration was 60%, which is significantly more than required by legal regulations.



49 t

Seed unit At the end of the year, **49 tons** of both own and foreign seeds were stored in the seed unit.

During the artificial regeneration, the share of improving and stabilizing trees from the first artificial regeneration was **60%**.

Sources of reproductive material are recognized for 68 species of trees – 16 coniferous and 52 deciduous.

60%

Artificial regeneration



Certification



Also in 2021, Lesy ČR participated in the certification of forests by the PEFC system (Programme for the Endorsement of Forest

Forest protection

The year 2021 can be assessed as normal in terms of temperature and precipitation. Salvage felling in the volume of 9,214 thousand m³ for the most part took place in conifers. The biggest damage was caused by wind, drought and other drought-related damage. In the case of damage caused by bark beetles to spruces, there was a significant decrease in processing, with the exception of the northwestern part of the republic.

Research support - Grant Service of the LČR

By supporting research for 20 years through the LČR Grant Service, the company contributed to the solution of 123 research projects in the forestry and water management and game keeping.

In 2021, 12 new projects were supported with a total contractual volume of CZK 18.4 million.

The results of all projects (final reports from the solutions) are published for the wider professional and forestry public on the company's website in the Grant Service section of the LČR







96

Planting of seedlings (million)

Out of almost **96 million** planted seedlings, **2.7 million** capable of being planted were grown in our own nursery operations.

123

Research support

Through the LČR Grant Service, the company contributed to the solution of **123** research projects.

Expert Services

The company's employees perform the activities of professional forestry managers for other forest owners on a total area of **279,595 ha.**

Contractual Relations in Forestry and Business Activities

Lesy ČR announced an open above-limit procurement procedure for the provision of forestry activities, which was divided into two separate procurement procedures:

- Forestry activities with the sale of timber 2022+ 34 parts (contractual territorial units), estimated value of CZK 4.36 billion without VAT.
- Cultivation activities 2022+ 12 parts (contractual territorial units), estimated value of CZK 0.73 billion without VAT.

When awarding a public contract, the LČR proceeded in accordance with Act No. 134/2016 Coll., on awarding public contracts. A total of 403 offers were submitted, i.e. 8.8 per order.

In 2021, 50% of timber volume was sold in the form of standing trees, with 38% of the volume sold in long-term public contracts and 12% in standing auctions.

The sale of processed wood, when the costs were covered by the company, accounted for 47% of the volume of wood sold.



Volumes of timber sales by individual sales channels



Sale of logging residues

Logging residues (thousand m³) were sold through three sales channels:



39,7% Framework purchasing agreements - direct sale LU/SU (5,014,980 m³) 38,4% Comprehensive contract (4,851,911 m³)

11,9% Electronic standing auctions (1,500,495 m³)

6,7% Regional sale LU/SU (845,399 m³)

2,2% Own production (280,020 m³)

0,8% Electronic auctions (including commodity exchange) LZ/LS (102,211 m³)

0,2% Own consumption (25,530 m³)

0,0% Auctions in person (1,067 m³)

100% Total (12,621,613 m³)

Total sale of logging residues 626 thousand m³

Water Management

Lesy ČR manage designated small watercourses and streams as one of the non-production functions of the forest. As of 31 December 2021, we managed 38.4 thousand km of watercourses and 1,005 small water reservoirs.

Taking care of waterways within the company represents the management of water management assets with a purchase value of CZK 6.9 billion. In connection with the management of streams and water reservoirs, Lesy ČR spent CZK 550 million in 2021, of which expenditure of an investment nature amounted to CZK 240.1 million.

550

Management of streams and water reservoirs (million CZK)



The management of watercourses and the measures implemented (repairs, reconstruction, new investments) are mainly financed from the company's own resources.



280 Campaigns of the "Water Back to Woods" Program



Restoration of the water reservoir U Pily in Šumpersko



Anti-flood measures in the village of Fryčovice in the district of Frýdek-Místek



Anti-flood measures in the village of Chlum u Sedlčan



Reconstruction of the Rybarna water reservoir in Plzeň area



Revitalization of Borkovická blata in the Tábor area - II. phase





Revitalization of the watercourse Podhrádek, Loštice in Šumperk area



Restoration of the pond Dolní, Nový Ples municipality, Jaroměř area



Restoration of the Niva water reservoir in the Prostějov area



The Hastrman Pools in the Jihlava area



Modification of the Drahtinka watercourse in Hlinsko

70 constructions have been built and 110 smaller preventative measures have been taken in pursuance of the "Water Back to Woods" Program.

In the Public Interest

The newly introduced Forests for Life Program, which is a continuation of the 2020 Program, is focused on the issue of non-production functions of the forest and defines gradual steps to preserve and support them. As part of this program, in 2021, the company spent CZK 18.042 million on all types of activities for the public.

CZK 4,737,000 was spent on the care of water resources, including the construction of wells, and CZK 4,356,000 was spent on the care of biodiversity and the aesthetic improvement of forests, parks and landscapes. CZK and 3,906,000 for the construction and maintenance of recreational and viewing facilities for the public, including the care of small facilities.



Important activities of the company in the implementation of public interest goals also include repairs of roads, routes and parking lots associated with the maintenance of information systems for the public (CZK 2,480,000) and special programs for the public (CZK 1,559,000).

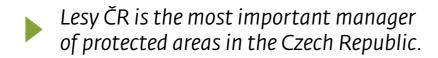


Cooperation with Non-Governmental Organizations and Nature and Landscape Protection

The company cooperates with a wide range of other entities, for example with the Czech Tourist Club in the field of marking tourist routes or with the Czech Union for Nature Conservation in the field of biodiversity protection in forests and ecological awareness, education and training, and actively participates in the activities of forest parks in the Czech Republic.

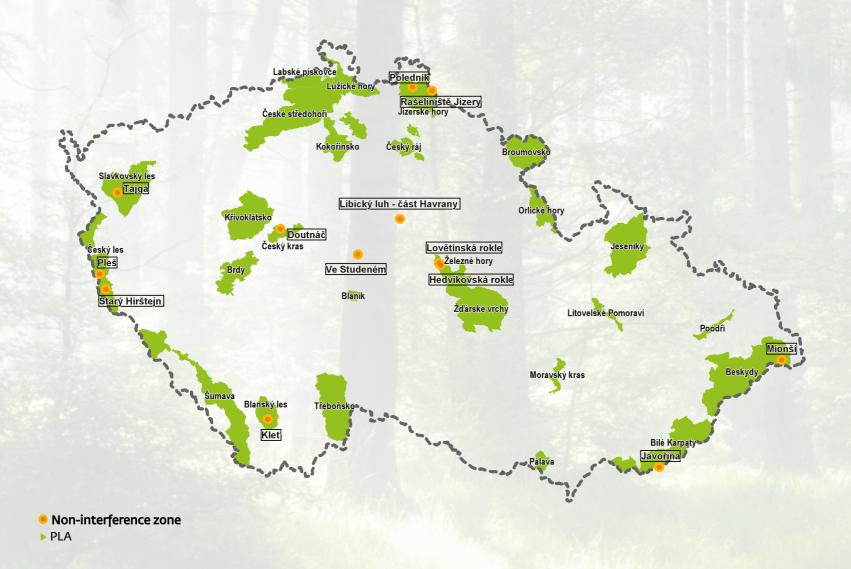
In 2021, the fulfillment of the contract between the Lesy ČR and the Agency for the Protection of Nature and Landscape of the Czech Republic on cooperation in the protection of non-interference areas in forests and their monitoring continued.

More than 30% of the area of land, which LČR has the right to manage, was part of protected landscape areas. Outside of them, another 3% of the area is located in small specially protected areas, i.e. in national nature reserves, national natural monuments, nature reserves and natural monuments.





Non-interference zone



Capital Construction

Investments in intangible assets amounted to CZK 109.976 million (18.6% of the total volume of investments), of which the majority was for the renewal of forest management plans (CZK 76.993 million).

CZK 482.289 million (81.4% of the total volume of investments) was invested in tangible assets, of which most were in construction works (CZK 316.125 million) and machinery and equipment (CZK 87.567 million).

When drawing construction investments, 70.5% of the volume of financial sums was directed to water management (CZK 222.988 million), 14.9% to forest roads including documentation (CZK 47.117 million) and 7.8% to EU projects (CZK 24.661 million).

85%

Investment in the public interest



85% of the volume of funds was invested in constructions implemented primarily in the public interest.



Human Resources

The average calculated number of employees increased in 2021. While the number of TH administrative employees has decreased, the number of operating personnel has been increasing for a long time. The reason is the strengthening of outdoor personnel in forest protection and workers in cultivation and logging activities.

Compared to 2020, the total average earnings increased by 4.5%, although the increase in average earnings was negatively affected in 2021 by the measures related to the Covid-19 disease and the increase in non-worked time, mainly due to the reasons for ordered quarantines and isolations.

4.5%

Increase of average salary

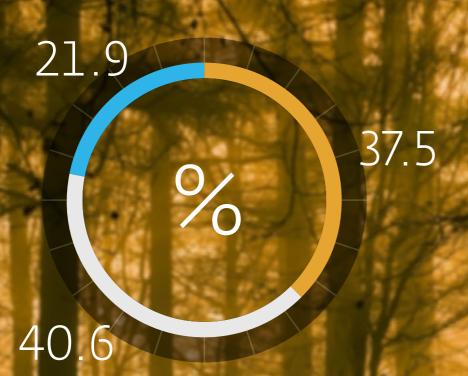


Employees are provided with benefits and other bonuses beyond the scope of generally applicable legal regulations. The company long-term supports the education of employees and is improving the conditions for their work.

Employee education

37,5% University

Average earnings



40,6% Secondary education with maturita exam + vocational college 21,9% Primary and secondary vocational education



Average earnings of company's employee was CZK 42.853.

Public Relations

During the temporary lifting of anti-covid measures, the Lesy ČR, especially in the summer, prepared 172 volunteers for groups of ten to thirty interested parties who planted a new forest, collected seeds, repaired fences and cleaned forest areas. Employees of other companies participated in dozens of events.

In October, the company organized the second Forest Renewal Day at 13 locations across the country, where 12,000 visitors planted almost 70,000 saplings. We also used these events for the public to promote backbone programs, especially We are planting new generation forests, We return water to the forest and the Return of the owls to the forest.

In autumn, the traveling exhibition Forests for the Future was installed in the center of three North Bohemian cities – Ústí nad Labem, Děčín and Litoměřice. The event met with favorable responses and improved the public's awareness of LČR's forest management.

In June, we inaugurated a new exhibition dedicated to Lesy ČR at the National Agricultural Museum. The company was also presented at the Earth Provider and Natura Viva exhibitions.



697

Public events

60 thousand participants took part in **697** public events.

300

Trees for Children

As part of the Trees for Children event, we delivered **300** Christmas trees to children's wards in hospitals, children's homes and other facilities.

Forest Renewal Day





We organized second Forest Renewal Day in 13 places across the country, where 12,000 visitors planted almost 70,000 saplings.



© 2022 Lesy České republiky, s.p. www.lesycr.cz