

22

ACTIVITY
REPORT

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MAIN EVENTS

– INTRODUCTORY REMARKS

Dear readers,
in 2022 the company has managed to significantly recover economically and financially. The economic result may, without hyperbole, be called a record one. This too allowed an extraordinary payment of CZK 3,81 billion to the state while being able to continue in large scale forest regeneration and other activities without complications.

With the kindness of nature and thanks to consistent action in protection of forests against bark beetle, we have managed to reduce the total amount of logging down to 9.2 million m³. Therefore, in most regions we gradually return to planned management and move on to more careful and nature-friendly forms of management. The bark beetle calamity is still unsolved in Northern Bohemia, specifically in the regions of Rumburk and Česká Lípa. However, the amount of wood in need of processing due to bark beetle infestation was lower in these regions as well.

A crucial topic for forest management is the restoration of forests after the calamity, where Lesy ČR invests exceptional funding. We start and grow mixed, diverse and stable forests. In collaboration with the academic community, IFER and Czech Globe, we created the Climate Change Adaptation Plan of Lesy ČR until 2030, a document created in 2022 with the aid of Norway Grants. This way we head toward raising more biologically diverse forests which are more

“ We start and grow mixed, diverse, and stable forests. In collaboration with the academic community, IFER and Czech Globe, we created the Climate Change Adaptation Plan of Lesy ČR until 2030. ”



Dalibor Šafařík
CEO of Lesy České republiky, s. p.

resistant to climate change. I am glad that we are able to develop a professional discussion about this task, as well as collaboration even with private forest owners and non-governmental organizations.

Among other things, proper game management is also important for the success of forest restoration and transformation. Newly started growths struggle especially under high pressure from cloven-hoofed game. This is why we have examined forest and game management in managed hunting grounds in 2022 and decided to make changes in rental agreements so that some of the hunting grounds will fall under our management. After years of established way of hunting grounds management some tenants find such changes unpleasant, but I believe in mutual understanding and new way of operation. After all, we are all striving for healthy forests and their successful growth.

Great current significance is also placed on maintaining high quality seed units and their maximum use. In 2022 the harvest was particularly great. Immediately after collecting seeds and fruits of forest trees were either immediately distributed to forest nurseries for autumn sowing or were taken to our Seed Unit in Týniště nad Orlicí, where they were cleaned, sorted, separated from empty or damaged seeds and stored in warehouses for later use. For decades the Seed Unit has been supplying forest owners and managers with high quality seeds and provides services associated with hulling, storage and pre-sowing preparation of seeds and fruits. The widespread restoration of forests of all owners showed the importance of this largest seed operation in the country. This is why in recent years we have invested into equipment and modernization of the entire compound. We purchased boxes for acorn thermotherapy and beechnut drying, forest tree seeds are sorted with a new optical machine, hundreds of kilograms of linden, hornbeam, robinia

and maple seeds are processed by the Haldrup threshing machine, and all five floors of the southern part of the warehouse were adjusted for the storage of deciduous tree seed material. In spring 2023 a laboratory with top-of-the-line equipment for determining seed quality began its operation.

As for business activities we can speak of a qualitative leap forward in readjustment of channels of commerce and diversification of sales. The company's total sales have reached a record CZK 18 billion in 2022. Of course, the funds will be used for our economic activities, but part will also be saved in our reserve fund, which the company may use in leaner times.

A milestone, in my view, is our support of Czech timber industry on the regional level. We have established hundreds of direct trade relations with small and medium forestry companies. In connection with the energy crisis, there was also an increase in public interest in firewood, which people cut themselves or bought from forestry warehouses. The amount of sold firewood has almost doubled compared to last year.

The investments of Lesy ČR have reached CZK 1.8 billion. Investments were primarily into construction, including construction for water management as part of the "Water Back to Woods" program, which has major influence on the environment and water retention in times of climate change. However, investments were also required for forestry equipment, forest trucks and vehicles for forestry personnel, and other assets.

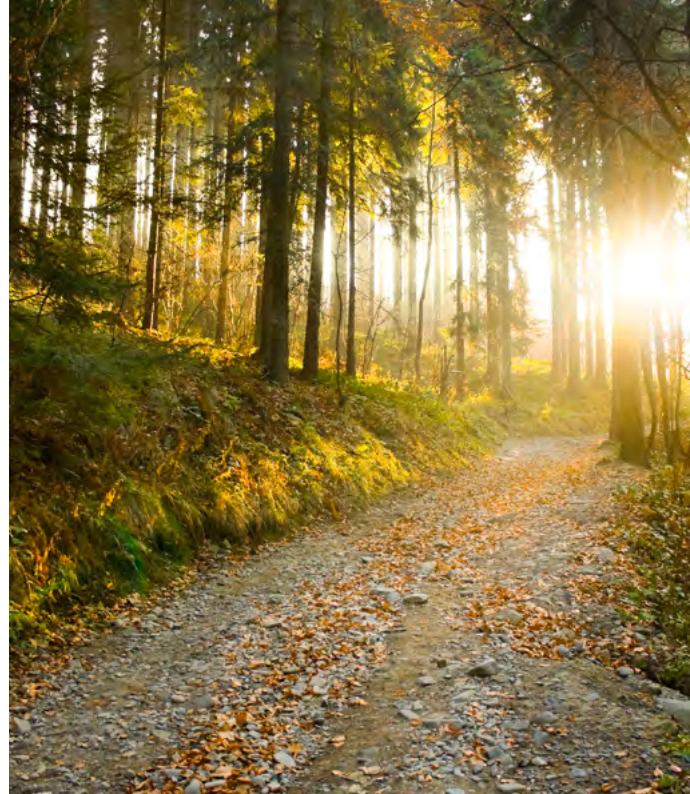
In 2022, Lesy ČR began preparations for the construction of a new administrative centrum in Hradec Králové, a building with exemplary usage of wood. The maximum use of this unique renewable source has our full support.

“ A milestone, in my view, is our support of Czech timber industry on the regional level. We have established hundreds of direct trade relations with small and medium forestry companies. ”



COMPANY SALES

The company's total sales have reached a record CZK 18 billion in 2022.



VOCATIONAL EDUCATION

For a long time we have supported vocational education, which includes apprenticeship centers, secondary schools of forestry, and both universities.



LOGGING QUANTITIES

Thanks to consistent action in protecting forests from bark beetle, the amount of logging in 2022 was reduced to 9.2 million m³.

We also want to increase the energetic independence of the company by, including but not limited to, installation of photovoltaics on our buildings.

Of course, all aspects of the activities of last year were affected by the effects of the war in Ukraine. The company held and still holds solidarity with the attacked country. We actively support refugees by offering accommodation and jobs and sending a number of donations from our forest administrations and directorates as well as granting a gift of CZK 1.5 million to the humanitarian organization People in Need. Another half a million CZK was given to the Lesnická práce fundraiser to support forests and forestry colleagues in Ukraine. At the same time, we are ready to participate in restoring the country after the war, a forestry expert exchange and aid in know-how transfer.

Lesy ČR also pays attention to innovation in forest, water and game management, areas of our interest in which we can combine science and research with experience. Our grant services have supported projects of the total worth of CZK 10.3 million in 2022, and we are preparing a new Concept of Applied Research of Grant Services from 2023 to 2029.

For a long time, we have supported vocational education, which includes apprenticeship centres, secondary schools of forestry and both associated universities. The flagship program "Adjunktem na léto" has an exceptionally positive response. We are preparing new scientific competitions for students of secondary schools of forestry with the goal of awarding the CEO's award. The Lesy ČR education center in Nižbor has expanded its services. Alongside silvicultural operations and logging training there is now also training in handling by tractor. Training is offered to external organizations as well.

“ Our grant services have supported projects of the total worth of CZK 10.3 million in 2022, and we are preparing a new Concept of Applied Research of Grant Services from 2023 to 2029. ”

Lesy ČR are also very active in the area of ecology. They evaluate suggestions for the declaration of protected areas with regard to the significance of their protection and suggest contractual protection of areas in own management as an act of mutual agreement with nature conservation authorities. Personally, management with respect to natural processes is close to me, but we cannot resign on the productive function of forests. This is also considered when updating forest management plans.

I would like to return to the successful Czech presidency in the Council of the European Union. The European State Forest Association (EUSTAFOR) has approved its strategy for years 2022 to 2026. It has introduced common forestry goals for European state forests, including promoting of biodiversity, without compromising the competitiveness of the forestry and logging sector. Lesy ČR certainly subscribes to the adaptation forestry actions which reduce the negative effects of climate change on landscapes and forests. Among these are for example changes in species composition of forests, responsible game management, or promoting restoration and construction of water management objects which retain water in the landscape.

I believe that future stability lies in diversity. This is why self-regenerating tree growths in new forests are given as much space as possible. We promote the increasing share of deciduous trees, including valuable ones, and accelerate restoration by seeding. Success is determined by responsible management of water in the landscape, which will be helped by many projects as well as by achieving sustainable density of cloven-hooved game. This is our unified forestry and gamekeeping goals in all regions.

Therefore, I wish to thank all of my colleagues for their thorough and responsible work.

Long live forests!

Dalibor Šafařík

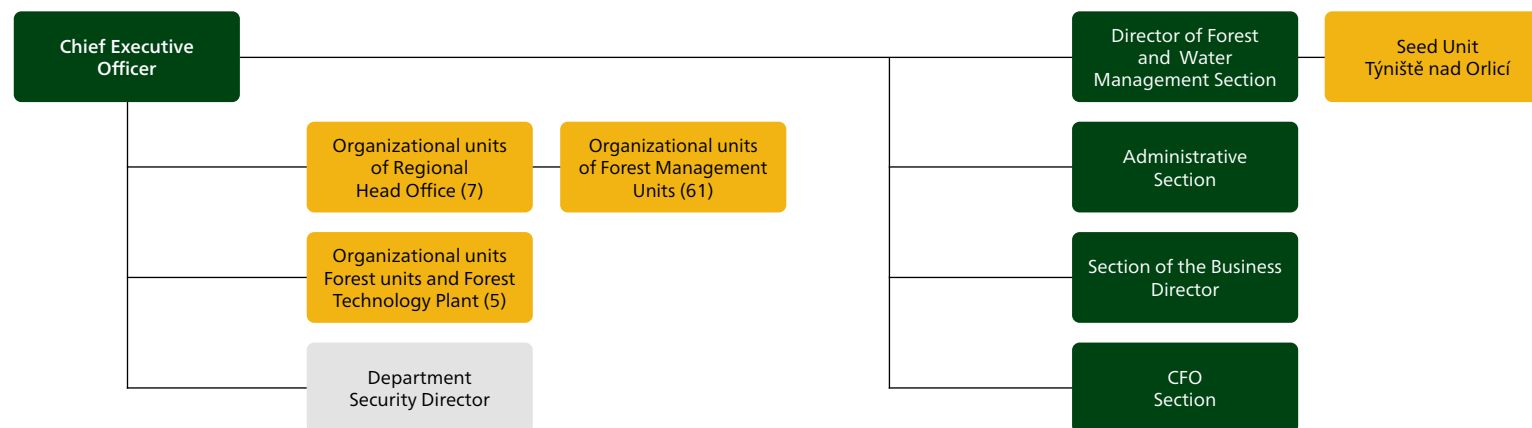
CEO of Lesy České republiky, s. p.

ABOUT OUR COMPANY

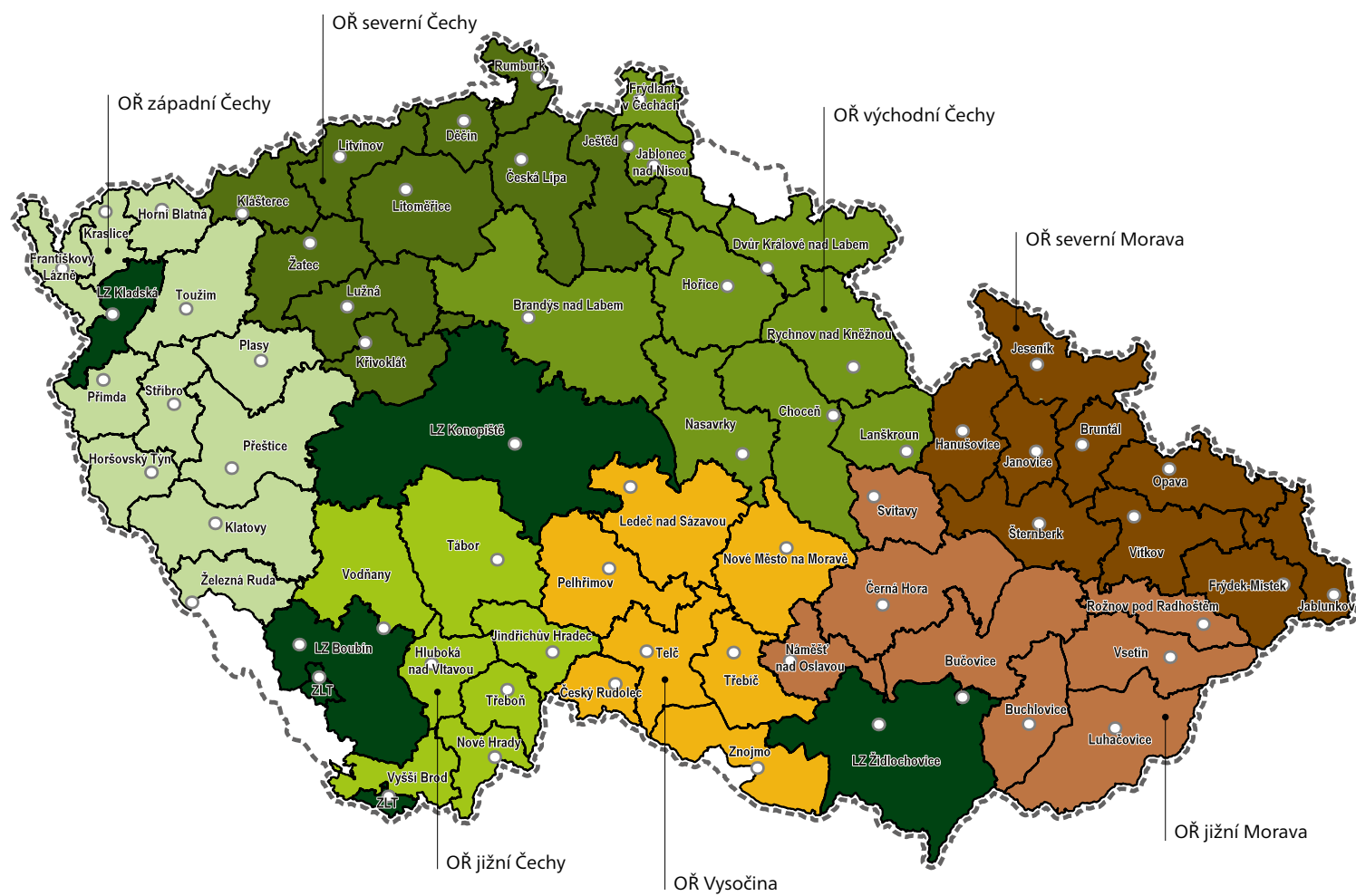
The State Enterprise Lesy České republiky (LČR) manages forest land with an area of nearly 1,200 thousand ha and manages 38 thousand km of watercourses and over 1,000 small water reservoirs.

The enterprise plans and carries out forestry activities in a manner that creates an optimal balance between the fulfilment of all functions of LČR-managed forests and the economic market environment. To achieve this, it uses principles of sustainable forest management, which are a prerequisite for sustained production of high-quality timber stock while respecting and developing all other functions of forests, particularly non-production ones.

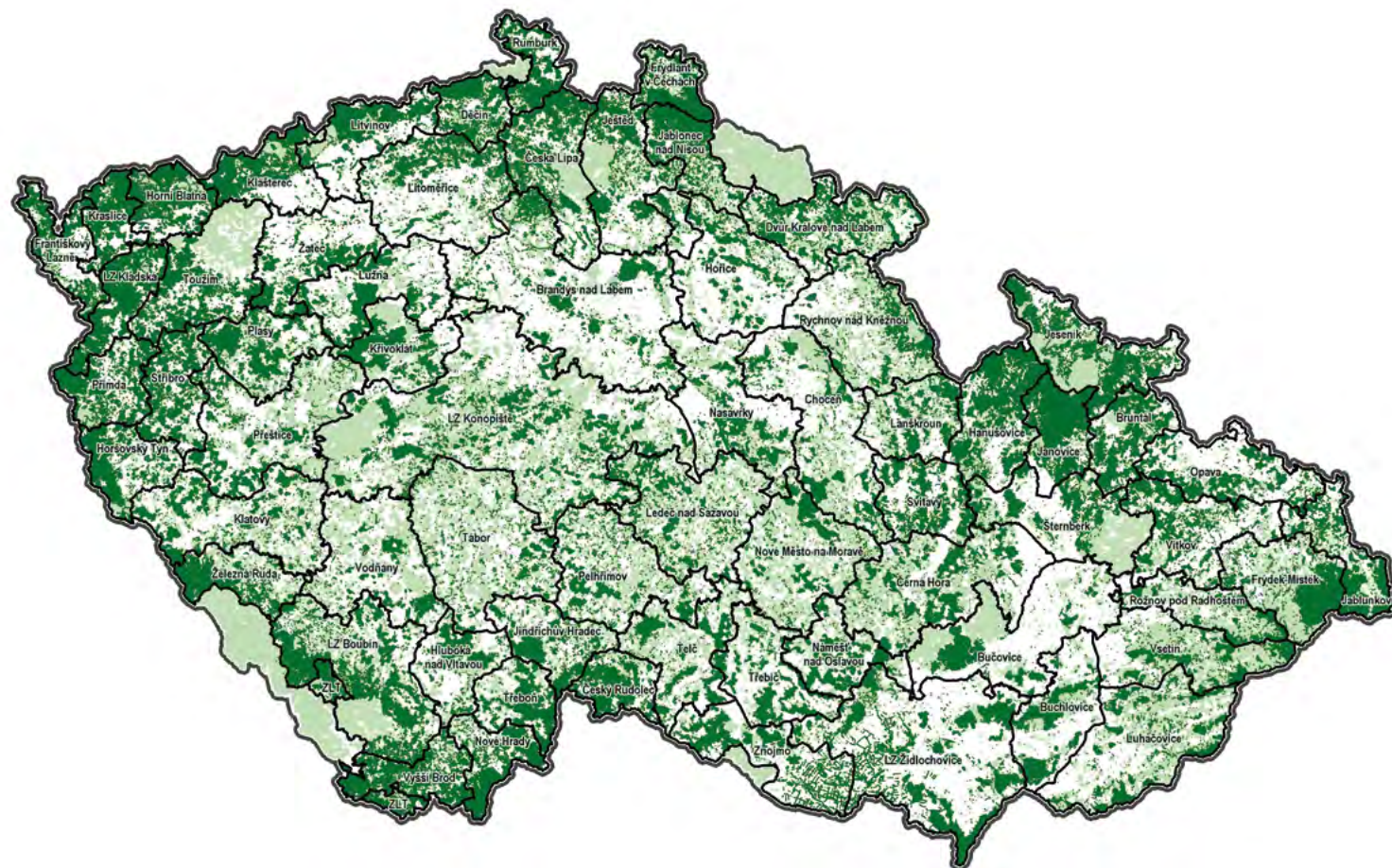
Basic Organizational Structure as of 31 December 2021



ORGANIZATIONAL MAP OF LESY ČR



OVERVIEW OF ASSETS



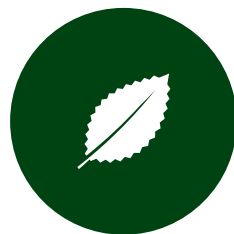
- Boundaries of forest management units/forestry units
- Forests managed by LČR, s. p.
- Forests under other ownership and management

Selected Economic Indicators



20,885
Revenues
from operations
(million CZK)

22,241
Total revenues
(million CZK)



14,666
Operational
cost
(million CZK)

17,213
Total cost
(million CZK)



5,028
Profit/loss
after tax
(million CZK)

FOREST MANAGEMENT

Genepool of forest tree species - with future in mind

One of the company's primary goals is to provide high quality seed material in sufficient quantity for artificial forest regeneration. Within the company, a total of 485 tons of seed raw material, of which 395 tons being deciduous and 90 tons being coniferous species.

80.5 tons of seed were processed, of which 77.5 tons being deciduous and 3 tons coniferous species.

Forest cultivation

As was the case in previous years, during the artificial regeneration of the forest, the share of deciduous trees and firs, which are labeled as improving and stabilizing trees for most habitats by the Forest Act, was significantly higher than the legal requirement. The share of improving and stabilizing trees (deciduous trees, firs, Douglas firs and larch trees) in the first artificial restoration was 61%.

“ The cultivation of forests managed by the Lesy ČR was 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. ”



269 t

Seed Unit

The Seed Unit in Týniště nad Orlicí processed 269 tons of raw seed material, of which 165 tons were deciduous and 104 tons coniferous species.



2022

Certification

In 2022 too, Lesy ČR participated in the certification of forests by the PEFC system (Programme for the Endorsement of Forest Certification Schemes).



20,375 ha

Forest regeneration

20,375 ha of forests have been regenerated. Lesy ČR planted 80,999 thousand saplings, of which 2,321 thousand plantable saplings were grown in our own nurseries.

Forest protection

In the perspective of climate parameters, 2022 can be considered as above-average in temperatures and below-average in precipitation. The total volume of salvage felling amounted to 6,516 thousand m³. The worst damages by abiotic agents were caused by wind, then droughts and other damages connected to droughts.

Damages caused on spruces by bark beetle saw significant decrease in processing, with the exception of a slight re-increase in Moravian-Silesian, Zlín and Olomouc region. The total amount of processed spruce wood infested by bark beetle was 2,947 thousand m³, and 25 thousand m³ of wood damaged by secondary infestations, which is a decrease of roughly 46% compared to the previous year.

Research support - Grant Service of the LČR

The company has supported the implementation of 6 new research projects in total contractual quantity of more than CZK 10 million. Over CZK 14 million was spent on the development of 22 actively implemented projects.

“ We plant many species of trees which increases the ability of forests to withstand climate change and resist pest pressure and other adverse effects. ”



RESEARCH SUPPORT

The company fulfils the public interest condition by publishing final reports of important research projects on the company website in the LČR Grant Services section.



PLANTING OF SEEDLINGS

As part of forest restoration, Lesy ČR planted almost 81 million saplings, of which 2,321 thousand plantable saplings were grown in our own nurseries.



EXPERT SERVICES

Lesy ČR perform the activities of professional forestry managers for other forest owners on a total area of over 281 thousand ha.

COMMERCIAL ACTIVITY

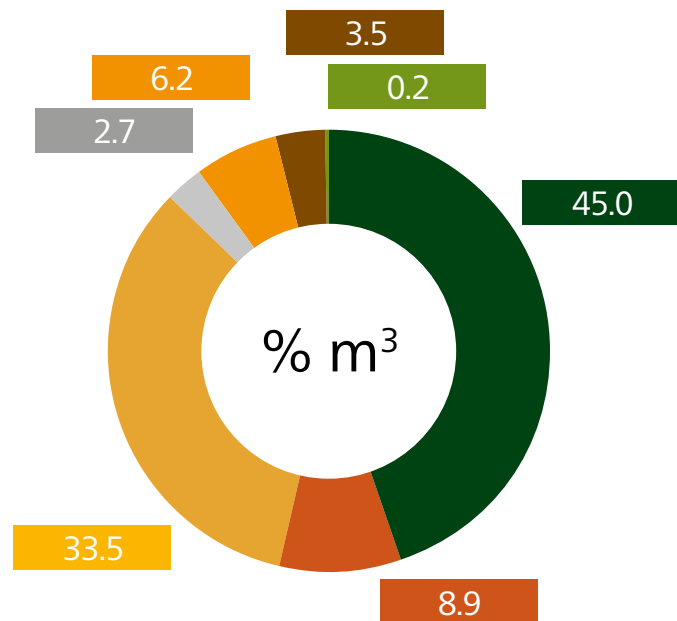
The year 2022 was marked by a decrease of salvage felling which led to a decrease in timber sales by 22.6% compared to 2021. At the same time, the development on raw timber market brought an increase in sales by 23.6% in the same period.

Positive development may be seen in the area of stock turnover length. This indicator, important for forest protection as well as maintaining the quality of supplied wood, has a long-term downward trend. For 35 days it decreased by 42% compared to 2021.

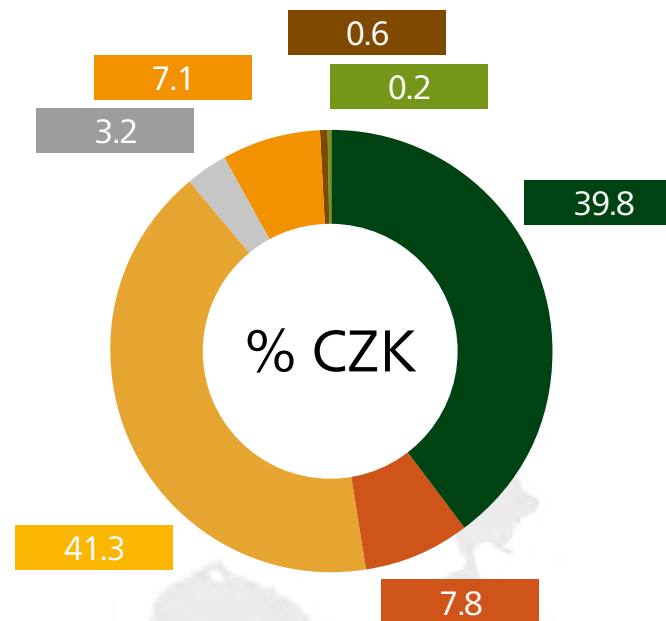


“ The highest volumes of wood sold by Lesy ČR are in the form of standing trees with a 54% share of wood volume. The most significant are comprehensive procurement projects on five-year contracts, where the buyer finances all logging activities including handling and transportation. ”

VOLUMES OF TIMBER SALES SHARE
BY INDIVIDUAL SALES CHANNELS



SHARE FROM SALES REVENUE FOR TIMBER
BY INDIVIDUAL SALES CHANNELS



Sales channel	m³	% of m³	% CZK
Comprehensive contract	4,390,340	45.0	39.8
Electronic standing auctions	867,953	8.9	7.8
OM-type framework purchasing agreements	3,270,820	33.5	41.3
FU/FMU OM Electronic auctions (including commodity market)	261,293	2.7	3.2
FU/FMU OM regional sales	608,619	6.2	7.1
Own production	344,570	3.5	0.6
Own consumption	23,038	0.2	0.2

WATER MANAGEMENT

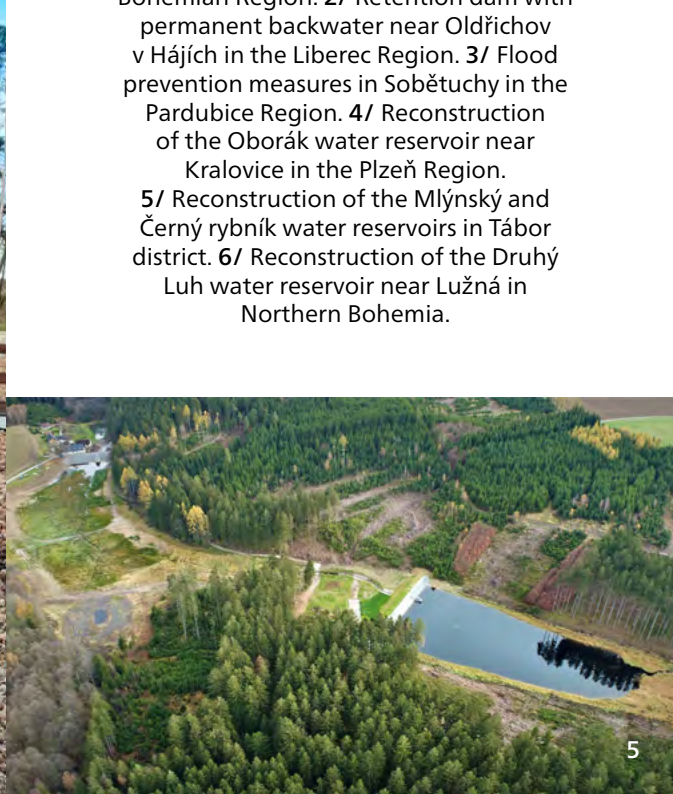
Lesy ČR manage designated small watercourses and streams as one of the non-production functions of the forest. As of 31st December 2022, we managed 38.4 thousand km of watercourses and 1,032 small water reservoirs.

Lesy ČR have spent a total of CZK 672 million on the management of water courses and reservoirs, of which investment-type expenses made up CZK 274.1.



New Adamov
water reservoir
in Bruntál

“ Taking care of water courses within the company represents the management of Water Management assets with a purchase value of CZK 8.5 billion (especially water course modifications, torrent and ravine control, flood prevention and water reservoirs). ”



WATER RESERVOIR CARE

1/ Reconstruction of the Jaroměř u Kaplice water reservoir in the South Bohemian Region. 2/ Retention dam with permanent backwater near Oldřichov v Hájích in the Liberec Region. 3/ Flood prevention measures in Sobětuchy in the Pardubice Region. 4/ Reconstruction of the Oborák water reservoir near Kralovice in the Plzeň Region. 5/ Reconstruction of the Mlýnský and Černý rybník water reservoirs in Tábor district. 6/ Reconstruction of the Druhý Luh water reservoir near Lužná in Northern Bohemia.

Water management and implemented measures and their preparation was funded both from our own sources and from subsidy funding. Specifically, it is the "Flooding Prevention Support" and "Support of Anti-flooding Measures on Small Water Courses and Small Water Reservoirs". programs. Furthermore, EU funds of the Environment Operational Program and landscape renovation programs of the Ministry of the Environment were used.

Considering the current climate changes, the "Water Back to the Woods" Program which helps with retaining water in the landscape. The goal of this program is the implementation of measures to reduce the adverse effects of droughts and water scarcity. These measures aim to reduce surface water run-off, create, and restore water features such as pools, wetlands, and small reservoirs. We have finished 100 construction projects and 90 small-scale landscape measures which represent 373 pools having a surface exceeding 5.2 ha. We have started 40 more construction projects and continue in preparing more.

“Activities carried out in connection with water management are of non-commercial character and bring essentially no profit in relation to their cost.”



7



8



9

WATER COURSES CARE

7/ Dolina pool near České Budějovice
 8/ Stability measure on the water course Desná in Poříčí in the Holic district.
 9/ Anti-flood measures in Třemešná in the Bruntál district. 10/ Rokytenka water course reconstruction in Liptál near Vsetín. 11/ Anti-flood measures in Nové Sedlice in Opava district. 12/ Water regime improvement in drained areas - Měkušina site, Pod Horkou.



10



11



12

IN THE PUBLIC INTEREST

As part of the Forests for Life program, which is focused on the issue of non-production functions of forests, the company spent almost CZK 34 million on all types of activities for the public, which is a 88% increase compared to the previous year.

This program finances for example the construction and repair of public roads, paths and parking lots and maintenance of springs, information systems, or promoting of biodiversity.



Vlčí jámy hiking trail (on the territory of FMU Horní Blatná)



33.9 million CZK

The Forests for Life Program

As part of the Forests for Life Program the company spent 88% more on all types of activities for the public compared to last year



26.8 %

Forest parking and hiking trails

As part of the Forests for Life Program, the highest amount of investment was used for the construction and maintenance of roads, forest parking and hiking trails (over CZK 9 million)



16.7 %

Recreational and viewing facilities

Significant monetary volumes were spent on maintenance and construction of recreational and viewing facilities (over CZK 5.6 million)

NATURE AND LANDSCAPE PROTECTION AND COOPERATION WITH NON-GOVERNMENTAL ORGANIZATIONS

Lesy ČR is the most important manager of protected areas in the Czech Republic. In areas with greater interest in nature conservation we operate with consideration for individual spatial protection categories, distribution of particularly protected species, valuable habitats and other major natural and cultural phenomena.

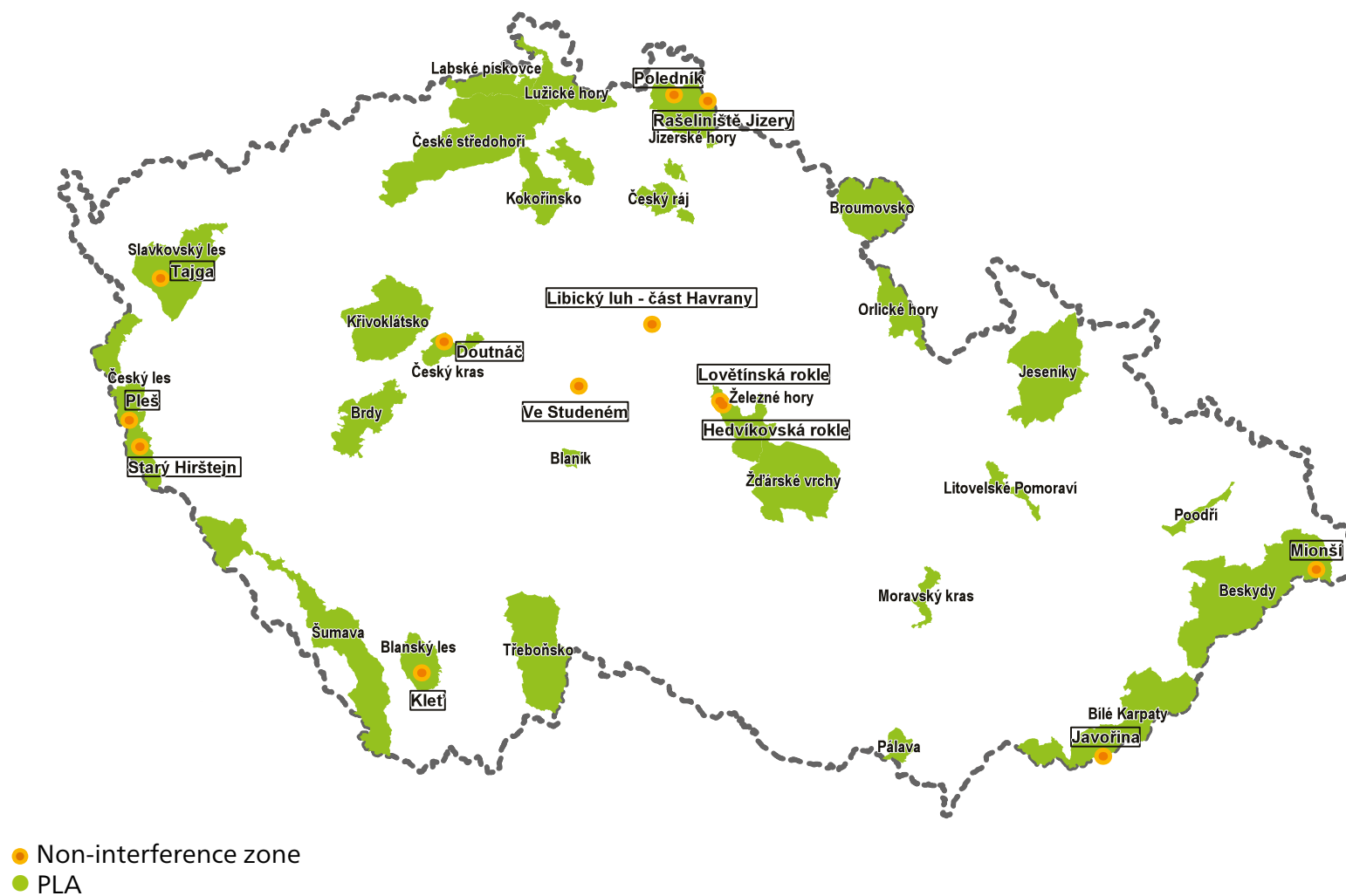
More than 30% of the area of land in the company's management was part of protected landscape areas.

We continued cooperation with a wide range of other entities, among which the most important are for example the Czech Tourist Club, the Czech Union for Nature Conservation or the Agency for the Protection of Nature and Landscape of the Czech Republic.

The company continued with cooperation in designating non-interference areas in forests and their monitoring.

“ Lesy ČR actively participate in the activities of Czech forestry parks. They are the founders of the Podkomorské lesy Forestry Park, and co-founders of the Křivoklátsko Forestry Park and Bezděz Forestry Park ”

NON-INTERFERENCE ZONES



CAPITAL CONSTRUCTION

Investments in intangible assets crossed CZK 111 million, of which the majority was for the renewal of forest management plans (almost CZK 83 million).

Over 1,233 million was invested in tangible assets. Of this, over CZK 549 million was invested in buildings and civil engineering works, of which the highest monetary volume (over CZK 250 million) was invested into construction and reconstruction of water reservoirs, ponds and small water courses to increase water retention in the landscape, increase anti-flood protection and to prevent and repair damage caused by floods. The second highest amount was invested in construction, modernization, and reconstruction of forest roads.

Drawing of construction investments for forest management based on type

Construction work type	CZK million	%
Water management including documentation	250.358	45.6
Forest roads including documentation	209.87	38.2
Facility buildings including documentation	31.548	5.8
Other works including documentation	21.07	3.8
The Forests for Life Program	15.262	2.8
Housing including documentation	10.513	1.9
EU projects including documentation	10.425	1.9
Total	549.046	100

“ Over 80% of the volume of funds was invested in constructions implemented primarily in the public interest. ”



Restoration of the Černý water reservoir (in the territory of FMU Pelhřimov)



Tourists and visitors to Prachatice may now see the Tree of Souls, a memorial near Boubín in the shape of a tree ring, which was made in memory of foresters, gamekeepers and others who have died working in forests since 1918.



HUMAN RESOURCES

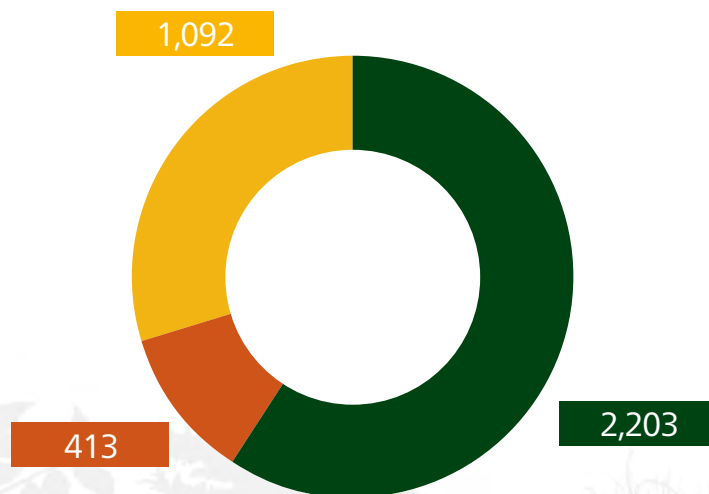
The average calculated number of employees continues to increase especially in blue-collar positions. The reason for this is the strengthening of the ranks of outdoor personnel in forest protection and cultivation at FMUs and workers in logging activities.

Compared to 2021, the total average earnings of the company's employees increased by 7.8%.



“ In the categories of white-collar workers and workers without the influence of managers, who receive contractual wages, the average earnings increased by 8.97% compared to 2021. ”

AVERAGE CALCULATED NUMBER OF EMPLOYEES



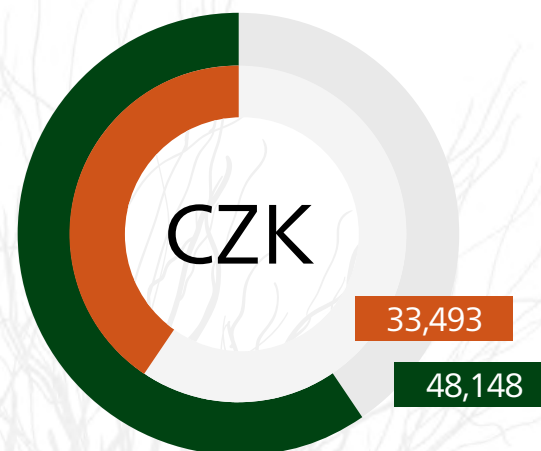
● FMU white-collar workers, Country Directorate
incl. WMU, LCR

● FU, FTP, SU white-collar workers

● Workers (W)

TOTAL **3,708**

AVERAGE EARNINGS



● White-collar categories

● Workers (W)

Company average **46,198 Kč**

PUBLIC RELATIONS

Lesy ČR have organized over 930 events for the public, of which almost 600 took place in forests. Total attendance - 90 thousand. The largest project was the now traditional Forest Renewal Day.

We actively address the public and cooperate also through social media. We have increased the number of text and image posts and have recently begun with video production, creating a Lesy ČR newsletter.



Another topic worth mentioning is cooperation with Czech University of Life Sciences Prague on developing the app "Klíšťapka", which informs users on the issue of ticks and their occurrence in nature.

Public events



930

Public events

Lesy ČR prepared over 930 events for 90 thousand visitors.



FOREST RENEWAL DAY

34 thousand of oak, beech, linden, fir, and other seedlings have been planted as part of this project.



59

Communication

In 2022 we prepared 59 reports on news and current affairs for journalists. We continue to develop a podcast "Ear in the Moss".



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