



Czech Post  
Annual Report 2006



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## **Jan Povolný**

When my daughter decided to quit flying, I became a pilot myself. There is little that can truly compare to the special feeling you experience when moving through empty space. When in the air I rely more on myself than on sophisticated equipment. I have been with Czech Post for 15 years and since last year I have headed the technical administration section in East Bohemia.

## Ascending

Czech Post's project known as Geopost, an unconventional *technology* that allows optimisation of delivery rounds and transport routes, was given an award by the CACIO association. In 2006, the number of items processed by the hybrid post technology, able to transform electronic data into tangible printouts speedily delivered to the addressees, exceeded 60 million. Apart from corporate clientele, hybrid post also started to attract private individuals who use it for sending postcards by means of MMS. For the first time in history the yields generated by hybrid post exceeded CZK 1 billion.

The thing I look for in flying is a detached view  
and a feeling of freedom.



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# Director General's Statement




*Kratina*

JUDr. Karel Kratina  
Director General

0607

Česká pošta  
Annual Report 2006





The Czech Republic's joining the European Union led to significant changes on the Czech market of postal services. The world around us, currently characterised by globalisation, liberalisation and technological substitutions, rushes forward along with progress, and subsequently makes Czech Post consider what is it going to take for it to succeed in the fully liberalised market of the near future. Success may come only to that kind of commercial enterprise which is economically healthy, able to steer its own course, meets its commitments of a universal (basic) service provider with a constant attention to quality while successfully coping with its competition in respects of offer, quality and price. There is only one way Czech Post is able to reach this goal: through a consistent and systemic transformation into a commercial subject, which is not founded on a regional arrangement but on a pragmatic organisational structure. That is why the only possible way out is to transform into a modern sales and logistics organisation that will function as a market leader in the category of shipping goods, funds as well as information. In order to reach this goal Czech Post has been implementing a gradual systemic transformation.

The outlined issues were the reason for the significant changes in top management that had transpired in the course of the past year, namely in connection with the implementation of a project aimed at activities centralisation and the introduction of linear management. As a result of the new organisational structure, the sales section was separated from the development and operations departments at which time their respective roles had been redefined. In the case of the sales section, the task at hand is to flexibly react to individual customer needs, usually common for whole categories of clients, and to provide a sort of "tailor-made" service, as one might say, individually adjusted to the key customers, regional corporate customers, retail clients, and last but not least, to the clients of our allied partners. The task relevant to the development department is to identify these alterations and react to them accordingly to the full satisfaction on the part of the client. The goal assigned to the operations department is to secure quality and efficient service for all categories of customers.

The centralisation process was gradually applied to the areas of human resources and technical resources while the centralisation of the economic and other areas was being prepared at the same time. In 2006, Czech Post dissolved its specialised branches of the VAKUS, the International Operations and the Supplier and Commercial Services. Management ties were rectified and these organisational units were incorporated into headquarters as at 1 October 2006. One of these measures resulted in integrating the user-oriented section of IT into operations with the intention of bringing IT as close as possible to the operations department, which it is supposed to assist in the maximum possible way. The idea behind centralising human resources activities is to have a single approach within the whole corporation and, at the same time, to give its capable managers a chance to make headway regardless of the region they work in. Significant preparatory steps were taken in technical resources, making it possible for this area to be centralised in the first quarter of 2007, which in reality should translate into having rectified management ties, optimised use of resources and unified resource management. Preparatory work was also done in the area of postal transport, again with the aim of creating a unified management structure therein.

In the future, Czech Post should concentrate on securing universal (basic) services of the quality and scope required by the government, on being at least an equal competitor in the remaining commercial postal activities and on increasing its success in the provision of banking, financial and insurance services. In its view, further possibilities lie in the development of logistics and in cooperation with the government on creating and implementing a scheme aimed at bringing the population and public administration closer (so-called e-Government). For the sake of reaching these goals, a whole series of projects was initiated, focused on applying economic management instruments, reducing the number of levels of management and on the optimisation and greater efficiency of internal processes.

There is much work ahead of us if we want to be truly and properly ready for the future. Apart from its standard day-to-day activities, Czech Post must successfully master the transformation from an operation-based enterprise to a business company, the change of the legal status of the company from a state enterprise to a joint-stock company and the establishment of a new successful business model. Czech Post faces demanding tasks and it will be the quality of their execution that will determine the future and the position of Czech Post in the upcoming years.

I hope that while taking this path, we made as few mistakes as possible and achieved the kind of results that would translate into economic stability and increasing value of Czech Post, that would show in the quality of its services and activities in the individual areas and, last but not least, that would help maintain social conciliation.

## Statement of the Founder

In 2006, Czech Post and its Founder started the process of bringing into practice the changes which are basically aimed at Czech Post's transformation into a standard business company in order to make it possible for it to successfully cope with the competition on the postal market in the period to come after 1 January 2009 when the European postal market is to be fully open.

Czech Post profits generated in 2006 as well as in the years before, allowing Czech Post to make the necessary investments into future developments, are a very good precondition for achieving this aim.

In 2006, as in the years before, Czech Post provided standard domestic as well as international postal services at a quality which is fully comparable to that of the other European postal operators. It further continued its successful cooperation with strategic partners, in particular Československá obchodní banka and Česká pojišťovna, which resulted in an offer of new financial and insurance services available at post offices (e.g. mortgages, business loans). Czech Post has also been active on the electronic services market by, inter alia, administering the „Central Address“ website publishing public procurements and auctions, by providing the accredited certification services, by helping with the preparation and implementation of the „Czech POINT“ project (with select post offices providing certified copies of records in the cadastral register since January 2007, and copies of records in the commercial register since April 2007).

The above-mentioned aims and priorities of Czech Post's developments are reflected in its corporate strategy, prepared for 2007-2011; the main emphasis of the strategy is continue the transformation from a state enterprise into a standard business company, the maintenance of its market share in the traditional postal services market, the seeking of new business opportunities, the increasing of the Company's competitiveness.

I would like to thank all the employees of Czech Post for the results achieved in 2006, and I wish both to them and to Czech Post many a success in the future.



**Mgr. MUDr. Ivan Langer**

Minister of the Interior and Minister of Informatics



# Report of the Supervisory Board

Throughout the year 2006, the Supervisory Board of Czech Post carried out its duties in accordance with the status of this body as defined by the State Enterprise Act No. 77/1997 Coll., as amended, the Deed of Foundation and the Statutes of the State Enterprise Czech Post.

In the course of the year, the Supervisory Board assembled at ten ordinary and one extraordinary meeting during which it mainly dealt with the themes that played a key role in the life of Czech Post that year: the development strategy for Czech Post for the years 2007–2011 with regards to the upcoming liberalisation of the European postal market; the Company's transformation and its preparation for a transition into a business company. The Board also continuously concerned itself with the monitoring of the Company's financial performance and with its evaluation, while focusing on whether the results obtained comply with the approved financial plan.

The Supervisory Board discussed in great detail Czech Post's 2006 Annual Report, examined the financial statements as at 31 December of that year (compiled according to Czech accounting standards) and read the statement of that year's auditor PricewaterhouseCoopers Audit, s.r.o., – “no objections” – and recommended the Founder approve the financial statements and the Annual Report. The Supervisory Board also examined the proposal regarding the distribution of profits generated in CZE AR year 2006 and recommended its execution to the Founder.


## **Changes within the Supervisory Board throughout 2006**

As at 31 January 2006, the Founder removed Ludovít Gulázi from the Supervisory Board and appointed Petr Polák to the vacant post. On 31 May 2006, Pavel Kolář stepped down from the Supervisory Board. On 9 November 2006, the Founder removed Libor Svoboda and Petr Polák and replaced them with new members: Jiří Hurych, Petr Kužel and Milan Votruba. At the extraordinary meeting, which took place on 9 November 2006, the Supervisory Board elected Jiří Hurych as the new Chairman of the Supervisory Board.

A photograph of a man, Jan Bartoš, climbing a mountain. He is wearing a dark, heavy jacket and is looking upwards with a determined expression. The background shows a steep, rocky mountain slope under a bright sky. The lighting is warm, suggesting a sunrise or sunset.

## Jan Bartoš

I have conquered Mt. McKinley and the Aconcagua, the tallest summits of both Americas. What I like about climbing are the unrepeatable views from the mountain tops and the feeling of achieving something great. When you are in the mountains you must never overestimate your strength and underestimate the external conditions. Plus, you have to be mentally tough. Being up there always brings me great relaxation, so then I can put in even more effort when back at work, better fulfilling my duties: finding new customers for Czech Post and looking after existing clients in the Žatec region.

A photograph of a person's hand reaching out to touch a large, textured rock formation in a mountainous landscape. The scene is bathed in a greenish-blue light, creating a dramatic and somewhat ethereal atmosphere. The hand is positioned in the lower left, reaching towards the right side of the frame where the rock formation is prominent. The background shows more of the rugged terrain, with soft lighting highlighting the textures of the rocks and the person's skin.

When you are in the mountains you have to be able to  
rely on your colleagues and vice versa.  
This feeling gives things a great human dimension.  
I believe this can be applied to life in general.

### Tugging in One Direction

For the Czech Republic, Czech Post traditionally represents a certainty in conclusive delivery. Just as in previous years, in 2006, Czech Post provided services to the public administration, self-administration in the area of administrative acts, the independent justice as well as the Czech Police and Army. Alongside the traditional service assistance with, for example, delivering pensions in cash, a new form of securing payments related to the duties of the tax paying population was introduced: our brand new product is called the Tax Money Order. *Reliability* has become the key word symbolising the provision of modern electronic services – the Central Address (CADR), the Qualified Certification Authority (QCA) as well as the Registered Electronic Mail (REP).

# Modern History of the Czechoslovak and Czech Posts

## **1918–1920**

Shortly after the establishment of Czechoslovakia, the government set up the Ministry of Post and Telegraph Offices, the Postal Savings Bank, and issued the first Czechoslovak postage stamps. The Czechoslovak Republic became a member of the Universal Postal Union.

## **1920–1930**

The characteristic of the first half of the 1920s was the process of consolidation of the postal administration, resulting in the establishment of the state enterprise Czechoslovak Post in 1924. The second half of the decade brought about high profits, modernisation, construction of new buildings and further development of services.

## **1930–1940**

The period of prosperity quickly changed into a lengthy period of economic crisis. Czechoslovak Post managed to overcome the crisis; however, due to external circumstances in the late 1930s, the postal administration became subject to German economic and military interests.

## **1940–1950**

After the end of occupation in May 1945, the government set up the Ministry of Post Offices, passed the Postal Law and re-established the state enterprise Czechoslovak Post which was later, after the coming of the communist regime, changed into a national enterprise (1949).

## **1950–1960**

Due to the new state orientation, the Ministry of Post Offices was re-named the Ministry of Communications to meet the Soviet model. This act was followed by a large transformation of the management bodies of the administration of communications. The introduction of air (1956) and automobile (1958) post offices accelerated mail delivery.

## **1960–1970**

The characteristic of this decade was a number of changes in the organisation of management of the Ministry of Communications, starting with the dissolution of the Ministry of Transport and Communications and the establishment of the central headquarters of communications in 1963, the end of mail transport by horse-drawn carriages, and the introduction of new services, e.g. the Collective Payment of Household Bills (SIPO).

## **1970–1980**

Postal operations in the 1970s became much more efficient due to the introduction of saving accounts, postal codes and the installation of the first mechanised line for dispatching printed matters and the first automated letter mail-sorting line.

## **1980–1990**

The process of modernisation of the main sorting centers equipped with semi-automatic letter mail-sorting machines was accompanied with the introduction of new services, e.g. the Express Mail Service (EMS), cheque orders and saving accounts cheques.

## **1990–2000**

The upheaval following the 1989 fall of the communist regime and the 1993 establishment of the independent Czech Republic led to the establishment of the state enterprise, Czech Post. This process continued with the issuing of the first Czech postage stamp, joining of international organisations (UPU, PostEurop) and introduction of new services, such as Postfax, Postboxreklama, PoNos, Commercial Parcel, Commercial Letter, Profi Parcel, etc.

## **2000–2006**

A new Postal Law was passed and the process of liberalisation of the postal industry started. Czech Post started on the path of internal transformation and its Founder decided to open the process of preparation to a change of the legal status of Czech Post from a state enterprise to a joint-stock company.



1918-1920



1920-1930



1930-1940



1940-1950



1950-1960



1960-1970



1970-1980



1980-1990



1990-2000

## Statutory Bodies and Members of the Company's Management Board

The bodies of the Company in accordance with Section 11 of the State Enterprise Act No. 77/1997 Coll., as amended, are the Director General and the Supervisory Board.

### Management of Czech Post

#### Top Management of Czech Post

**Karel Kratina** Director General

**Miroslav Špaček** Deputy Director General, Operations

**Iva Steinerová** Deputy Director General, Technology and Network Development

**Ladislav Musil** Deputy Director General, Finance

**Alois Těšitel** Deputy Director General, Commerce

**Petr Angelis** Deputy Director General, International Relations

**Marek Borusík** Deputy Director General, Human Resources

**Pavel Kolář** Deputy Director General, Governmental Services

**Jan Balák** Deputy Director General, Technical Resources

**Petr Smolík** Executive Director for Corporate Development and Strategy

#### Directors of Branch Enterprises

**Jiří Štráberger** Regional Branch Director for Central Bohemia

**František Vondruška** Regional Branch Director for South Bohemia

**Karel Kohout** Regional Branch Director for West Bohemia

**Rastislav Horáček** Regional Branch Director for North Bohemia

**František Bakeš** Regional Branch Director for East Bohemia

**Ludovít Gulázi** Regional Branch Director for South Moravia

**Václav Veselý** Regional Branch Director for North Moravia

#### Supervisory Board

**Jiří Hurych** Chairman of the Supervisory Board

**Ondřej Felix** Deputy Chairman of the Supervisory Board

**Karel Koukal** Deputy Chairman of the Supervisory Board

**Vladimír Budinský** Member of the Supervisory Board

**Petr Kužel** Member of the Supervisory Board

**Vratislav Kroužecký** Member of the Supervisory Board

**Ivana Musilová** Member of the Supervisory Board

**Milan Votruba** Member of the Supervisory Board

**Jiří Štráberger** Member of the Supervisory Board



## Administration and Control of the Company

### Director General

The Director General is a statutory body of Czech Post. He manages the Company's activities and acts on its behalf. The Director General decides on all matters which do not fall, by the operation of law or of the Deed of Foundation, under the competences of the Founder.

### Supervisory Board

The Supervisory Board of the Company has nine members. It supervises the performance of activities of the Director General as well as carrying out commercial activities. Subject to the State Enterprise Act No. 77/1997 Coll., as amended, six members of the Supervisory Board are appointed and removed by the Founder, the other three members of the Supervisory Board are appointed and removed by the Company's employees.

### Committees of the Supervisory Board

Committees of the Supervisory Board are a part of the Company's administration. They are set up by the Supervisory Board, acting within its competences, as its advisory bodies. Members of the individual committees may be elected or removed by the Supervisory Board.

The following committees of the Supervisory Board are established at present:

- » The Committee of the Supervisory Board for corporate strategy,
- » The Committee of the Supervisory Board for finances and audit,
- » The Committee of the Supervisory Board for human resources development.

## Objects of the Company

Czech Post's main object is the provision of postal services. The Company is the postal license holder under the Postal Services Act No. 29/2000 Coll., as amended.

Czech Post provides postal services within the whole Czech Republic. Above all, these services include: posting, transport and delivery of letters, parcels and money orders, both domestically and internationally. In the above-mentioned standard segment, Czech Post also offers express and courier services with guaranteed delivery times. Another widespread service is the Collective Payment of Household Bills (SIPO) used to clear payments between private persons and businesses that provide them with utilities (services and energies). In addition to the traditional activities, Czech Post also offers services of an agency character, such as pension delivery, as well as services for banking, insurance, betting and lottery corporations. Czech Post has also been gradually expanding its share on the electronic services market, boosting its significance in this area.

A significant task outlined for Czech Post lies in the setting-up and running of a unified network of offices that would be evenly spread over the whole territory of the country in order to meet the criterion of quality and availability of postal services set by the government. This is of course also related to the matter of maintaining and renewing its means of transporting mail, for example, delivery vehicles and sorting equipment.

In addition to postal services, Czech Post, acting on behalf of the Czech Ministry of Informatics, is responsible for the policy for the postage stamps issuing as well as the implementation of the issuing plan. It sells postage stamps and provides philatelic services.

Czech Post is the largest Czech provider of postal services with a long-standing tradition and a strong market position. Most of its activities are carried out in a fully competitive environment; its monopoly applies solely to mail containing correspondence under 50 g of weight and CZK 18. This mail constitutes one of the sources of income which is necessary for the provision of basic postal services that Czech Post must ensure at an affordable price and a required quality within the whole country. Nevertheless, Czech Post does maintain a principal market position in regard to most services, due to the lack of interest on the part of competitors, since the profits ensuing from this area of business are low or not at all and these operations require a costly postal network.

## Regulatory Framework of Postal Services

### Czech Legislative Framework

As at 1 April 2005, Act No. 95/2005 Coll. came into effect, amending Act No. 29/2000 Coll., on postal services and on change of some laws (the Postal Services Act), as amended, and some additional laws. This new legal regulation became the basis for delegation of the exercise of regulatory powers in the area of postal services from the Ministry of Informatics of the Czech Republic onto the Czech Telecommunication Office.

As at 1 June 2005, the Czech Telecommunication Office's approval of the postal terms and conditions, submitted by Czech Post to the administrative body on 31 March 2005, became effective and as at the same date the Czech Telecommunication Office presented the postal license holder, i.e. Czech Post, with the basic quality of service requirements valid as at that time.

By its decision of 24 November 2005, passed under section 20 subsection 1 of the Postal Services Act, the Czech Telecommunication Office granted a postal license to the state enterprise Czech Post. The decision was made with reference to the application letter filed as a response to the Czech Telecommunication Office's notice published on 4 August 2005 in the Postal Bulletin. The postal license was granted for the period of time starting from 1 January 2006 and ending on 31 December 2008, and published in the Postal Bulletin on 28 December 2005. In this decision, the administrative body expressed, inter alia, its approval of the postal terms and conditions submitted by Czech Post along with the application. At the same time, the Czech Telecommunication Office outlined the basic quality requirements applicable to Czech Post and covering such issues as service point network density, post office opening hours, types of delivery to addressees, speed of transport, handling of claims, etc.

By its resolution No. 1565 of 7 December 2005, the Czech government approved the governmental decree defining the scope of the postal license effective as at 1 January 2006. This decree limits the postal monopoly of the postal license holder to mail containing documents that weigh no more than 50 g and cost a maximum of CZK 18.

### European Legislative Framework

A Postal Service Directive of 1997 (97/67/EC) regulated the first stage of postal service harmonisation within the EU. The next step was the 2002 Directive (2002/39/EC) bringing changes into postal services regulations; a special liberalised area was established in the years 2003 and 2006, initiating gradual and regulated opening up of the postal service market to commercial competition.

The proposed Directive on Postal Service, published by the European Commission on 18 October 2006, implicitly endorses the goal of completely opening up the market and also determines the year 2009 as the final deadline for liberalising the internal market of postal services.

This proposed amendment to the Directive represents the third step in the direction of gradual and regulated opening up of the postal service market, with the goal of arriving at a fully liberalised internal market of postal services within the EU.

## Legal Status of the Company

The state enterprise Czech Post is a legal entity in accordance with the provisions set in Section 18 of Act No. 40/1964 Coll., the Civil Code, as amended. Its legal and ownership status is regulated by the State Enterprise Act No. 77/1997 Coll., as amended.

Czech Post was founded by the Ministry of Economy of the Czech Republic in accordance with the State Enterprise Act No. 111/1990 Coll., effective from 1 March 1993. The foundation of Czech Post was certified by its incorporation in the Commercial Register kept by the District Court for Prague 1, Section A, File 7565. The present record is in the Commercial Register kept by the Regional Court in Prague, Section A, File 7565.

The regulatory body for basic postal services is the Czech Telecommunications Office.

In the past years, the Deed of Foundation underwent several modifications by means of Amendment No. 1, Ref. No. 27 186/1998-KM/410 of 30.10.1998, Amendment No. 2, Ref. No. 1336/99-KM of 24.3.1999, Amendment No. 3, Ref. No. 2356/01-KM of 8.6.2001, Amendment No. 4, Ref. No. 455/02-410-PRIV of 4.10.2002, Amendment No. 5, Ref. No. 21/0019/03 of 14.2.2003, Amendment No. 6, Ref. No. 101/0063/03 of 28.5.2003, Amendment No. 7, Ref. No. MI 420/2004 101 of 26.3.2004, Amendment No. 8, Ref. No. MI 1776/2004 101 of 11.6.2004, Amendment No. 9, Ref. No. MI 3206/2004 101 of 5.11.2004, Amendment No. 10, Ref. No. MI 1627/2005 3 of 29.4.2005, and Amendment No. 11, Ref. No. MI 238/2006 3 of 24.1.2006.

With effect from 1 June 2003 and subject to section 3 subsection 1 of the State Enterprise Act No. 77/1997 Coll., the Ministry of Informatics, acting in the capacity of the Founder, issued the Deed of Foundation of the state enterprise Czech Post, reflecting the new State Enterprise Act as well as the changes ensuing from the above-mentioned amendments.

Subsidiaries		
Company Name	Registered Capital	Czech Post's Share
Poštovní tiskárna cenin Praha, a. s.	CZK 33,124,000	51%

## Mission and Strategic Goals

**Czech Post is currently undergoing significant transformations:**

- » transforming from an operations-based enterprise into a sales-oriented company,
- » getting ready for the transformation from a state enterprise into a standard business entity – a joint-stock company.

As in the past, Czech Post uses its own resources to provide a portfolio of basic services under the conditions of market liberalisation and the inevitable substitution of communication means favoring electronic communication.

In compliance with Czech Post's Strategic Plan for the Years 2007-2011, developed in 2006 while drawing on Czech Post's Development Strategy for the Years 2006-2010, Czech Post considers the following definition an accurate description of its mission: To be a trustworthy provider of services in the areas of mediating information, payments and goods through traditional channels as well as hybrid forms.

The main strategic goal is to retain and increase the Company's value. The prerequisite for achieving this goal is the preservation and further promotion of traditional postal services which will remain the principal source of income far into the future. Further increases in revenue shall stem from new or innovative opportunities. Czech Post is aware of the fact that the intention behind the full liberalisation of the postal market that should take place in 2009 does not make the life of the existing postal services providers easy. Therefore, it can hardly be expected that Czech Post will fully retain its current market share in all segments of the market. That is why it is imperative for Czech Post to quickly and effectively come to terms with the consequences of the "liberalisation turnaround" and carry on along the trajectory of dynamic development.



## **Robert Turina**

The reason for my volunteering as a fireman is a family tradition, the company of good friends and also my interest in technical things. And that's also part of the reason why I have been looking after the Pardubice Post Office car-park for nearly ten years now. And what have I learnt from being a fireman? I suppose to help people, most of all.

Our forefathers' motto was: To help a fellow man.  
Even in the present day, it doesn't feel alien to me.

### **A Trustworthy Partner**

Our business partnerships with the bank ČSOB, the lottery and betting company Sazka, the insurance company Česká pojišťovna, the building savings bank ČMSS, the pension scheme Stability as well as with Home Credit and Western Union have continued for years. What is the typical characteristic of a business partnership? Mutual interest, reciprocal loyalty as well as reliability and *trustworthiness*. In the year 2006, our business partners entrusted us with 38 of their products.

Mailboxes don't stand only on the corner of the street but are all over the world. I find them wherever I go.

### **Lenka Andrýsková**

I have been working at the post office since 1985 except for a four-year break, so it comes to a total of 18 years. But then one might be able to add the eight years of studies in the field of postal service and telecommunications. I have been travelling since my childhood in fact. First we wandered around our native country, me, my parents and a tent, then, together with my friends, I longed to see new countries: Curiosity, imagination and desire to learn about new things, these drive us to explore things further. I would have never anticipated, for example, that, being a person who swims like an old lady with her head stuck up, would get involved in diving and adventurous travel expeditions.



## **Our Steps Lead Everywhere**

The above-standard extent of Czech Post's postal network allows for above-standard deliveries especially in the universal service category. In 2006, Czech Post occupied the sixth position among the 25 European postal operators as far as territorial coverage with branch post offices is concerned, and ranked seventh in the availability of post offices to the general public.

Company  
Structure

Regional Branch  
Central Bohemia

Regional Branch  
West Bohemia

Regional Branch  
East Bohemia

Post Offices

Czech Post:  
Main Headquarters

Regional Branch  
South Bohemia

Logistic Hubs

Regional Branch  
North Bohemia

Transport Centers

Regional Branch  
South Moravia

Regional Branch  
North Moravia



**Therefore, the emphasis of the Strategic Plan lies on:**

- » Preserving a significant limit market share on the market of traditional postal services, even as the competition intensifies;
- » Substantial innovation regarding the portfolio of products, services and complex solutions, as well as boosting the share of innovative approaches in the overall performance by Czech Post;
- » Finding new sales opportunities;
- » Pursuing the penetration of services with high added value into the value-creating processes of important clients (especially in the financial services and utilities sector) by means of insourcing;
- » Implementing a complex programme designed to optimise processes and significantly increase efficiency, with the aim of achieving profitability at least comparable with the average performance of central postal operators in the highly developed countries of the EU;
- » Increasing Czech Post's competitiveness as a long-term key factor;
- » Improving the Company's profitability; and
- » Further improving the Company's image in the eyes of the public.

## **Security Management**

The results obtained in the course of 2006 confirmed that Czech Post maintains the status stabilised and accomplished security management regarding the protection of company property, security of postal operation and transportation as well as from the point of view of critical state infrastructure.

In the year 2006, there was a total investment of CZK 228.2 million in expense funds and CZK 25 million in investment funds made for the sake of enhancing the security of post offices and cash circulating within the operational and transport network; upgrading and enhancing security systems; extending long-distance property and vehicle surveillance systems; and implementing measures in the area of security routines and safe personnel conduct.

**Investments and expenses into security systems for post offices were intended to:**

- » Address incomplete mechanical security systems issues and bring the security equipment to a level corresponding to the current EU standards valid for banks and offices dealing with systems of payment;
- » Provide additional electronic security while bringing post offices under long-distance surveillance, and to come up with a solution to transmitting distress signal from post offices along Czech Post's data network, including a pilot test run;
- » Bring camera surveillance systems to the level of completely securing all crucial post offices and other critical buildings;
- » Bring all vault operations to a level corresponding to security regulations valid for the banking sector and to make sure that all cash counters are 100% equipped with safes that have a time-delay locking mechanism.

**Investments and expenses spent towards securing safer transportation were intended to:**

- » Address incomplete technical facilities at post offices, transport premises and vehicles, and to bring these up to a level allowing for all cash transportation to be carried out in special safe-deposit boxes with a fail-safe mechanism (staining banknotes and other paper valuables) and facilitating the wider use of modernised types of safe-deposit boxes; and
- » Secure routine operation of long-distance surveillance of money-transfer vehicles provided by Czech Post's multifunctional monitoring center.

**Expenses spent towards prevention of mail loss and extraordinary events were intended to:**

- » Facilitate the upgrading and routine use of specialised IT applications handling inventory-, archive- and operation-related databases for the purposes of preventing, uncovering and resolving loss of mail as well as postal operation delicts; and
- » Ensure the completion of electronic security and emergency database covering all postal structures, especially their updated security and emergency cards with records about the type and condition of security systems, and at the same time allowing for routine solutions to impending emergency and extraordinary events originating in the buildings of Czech Post – all this provided at a level corresponding to EU requirements.

As the result of the measures undertaken in the area of security, the number of external assaults aimed at obtaining cash at post offices, during transportation and delivery fell in 2006. There was an interannual cut by 35%, out of which 56% of cases were failures on the part of the offenders.

External assaults on Czech Post property (buildings) and during mail transportation; damage incurred				
Year	2003	2004	2005	2006
Total number of assaults	103	143	149	97
Incurred damage in thousands of CZK	19,445	5,398	4,324	4,858

Regarding the category of post office robberies during operating hours, there was an interannual drop in the number of cases by 38.5%, out of which 58% of attempts were failures. In the category of post office robberies outside operating hours, there was an interannual cut in the number of cases by 33%, out of which 75% of attempts were failures. The average damage calculated per assault comes to CZK 20–30 thousand. In 2006, the total annual cash damage caused by external assaults (and covered by insurance) amounted to CZK 4.8 million, i.e. 0.28‰ of Czech Post's assets.

## Risk Management

As a crucial factor influencing its success in achieving the set goals, risk management is an integral part of strategic management of the Company. Czech Post therefore created its risk management system methodically as a handy tool for top management, designed to generate risk alerts, to minimise their occurrence and to prevent the negative impact of damage ensuing from risks encountered while pursuing these goals.

The year 2006 was for Czech Post the first year of systemic risk management in practice; the process was methodically steered by the risk manager in the internal audit section.

What preceded this stage was risk identification and risk evaluation, followed by taking effective risk management measures. The whole process was crowned by the compilation of Czech Post's Book of Risks which has been regularly updated from then on. All identified risk, incorporated in the Book of Risks, is classified according to its importance and the type of activity performed in the Company. The periodically updated Book of Risks has become an invaluable part of management documentation.

With its implications, the adopted risk management strategy ensured continuity in risk management even during the transformation process, helped to create conditions for the integrations of risk management into the overall management of Czech Post, and facilitated the standardisation and unification of processes in the area of risk management, based on recommended international standards.

All identified risks were evaluated quarterly and the top management was informed of the results so that they could take any appropriate steps in order to eliminate any threats endangering the Company's primary goals, both from short-term and long-term standpoints as well as from the standpoint of directions for Czech Post's further development. The implementation of these measures contributed to the increasing quality of management.

The Company's top management primarily took note of the significant risks, which the system managed with the single objective of eliminating potential negative impact on reaching its set strategic goals and intents.

Based on the comparison of values regarding the significance of all risks contained in the Book of Risks updated as at 31 December 2006, with the parameters of the set environment (the Risk Capacity and Risk Appetite values), it is possible to conclude with the following statement: Czech Post carries out its intents with adequate risks, which are appropriately scrutinised by the top management, and is able to achieve the set goals (with an acceptable degree of risk) even in a complicated business environment.

## Internal Audit

Internal audit fulfills its role in Czech Post in compliance with internationally binding standards and the Code of Ethics issued by the International Institute of Internal Auditors. It helps the Company reach its goals via a systemic methodological approach to evaluation and improvement of the risk management system, of processes of management and control, and of running and managing the Company. In doing so, it allows the statutory body and the top management to meet the outlined strategic and operational goals for they can rely on objective and independent information as well as independent assessment of adequacy and efficiency of the audited processes and activities.

In 2006, the internal audit carried out a total of nine audits, all based on a plan approved by the Director General as well as on the requests made by the Supervisory Board. The audits focused on those activities and processes that were either crucial for Czech Post or represented areas of risk that could negatively influence the accomplishment of the set goals. The increasing pressure from competitors and the ongoing transformations in Czech Post simply lead to a more intensive audit focusing on the monitoring of risk development and on the application of measures designed to reduce their impact. These were mainly those kinds of risks that could negatively influence Czech Post's financial results.

The individual findings that came out of the audits were analysed according to their significance. Based on the information gathered, the Director General assigned new and directed tasks designed to bring about the desired changes in the given areas; the proposed steps were published by the Director General in the Plan of Rectification Measures adopted alongside each audit report. The implementation of these tasks was then continually monitored.

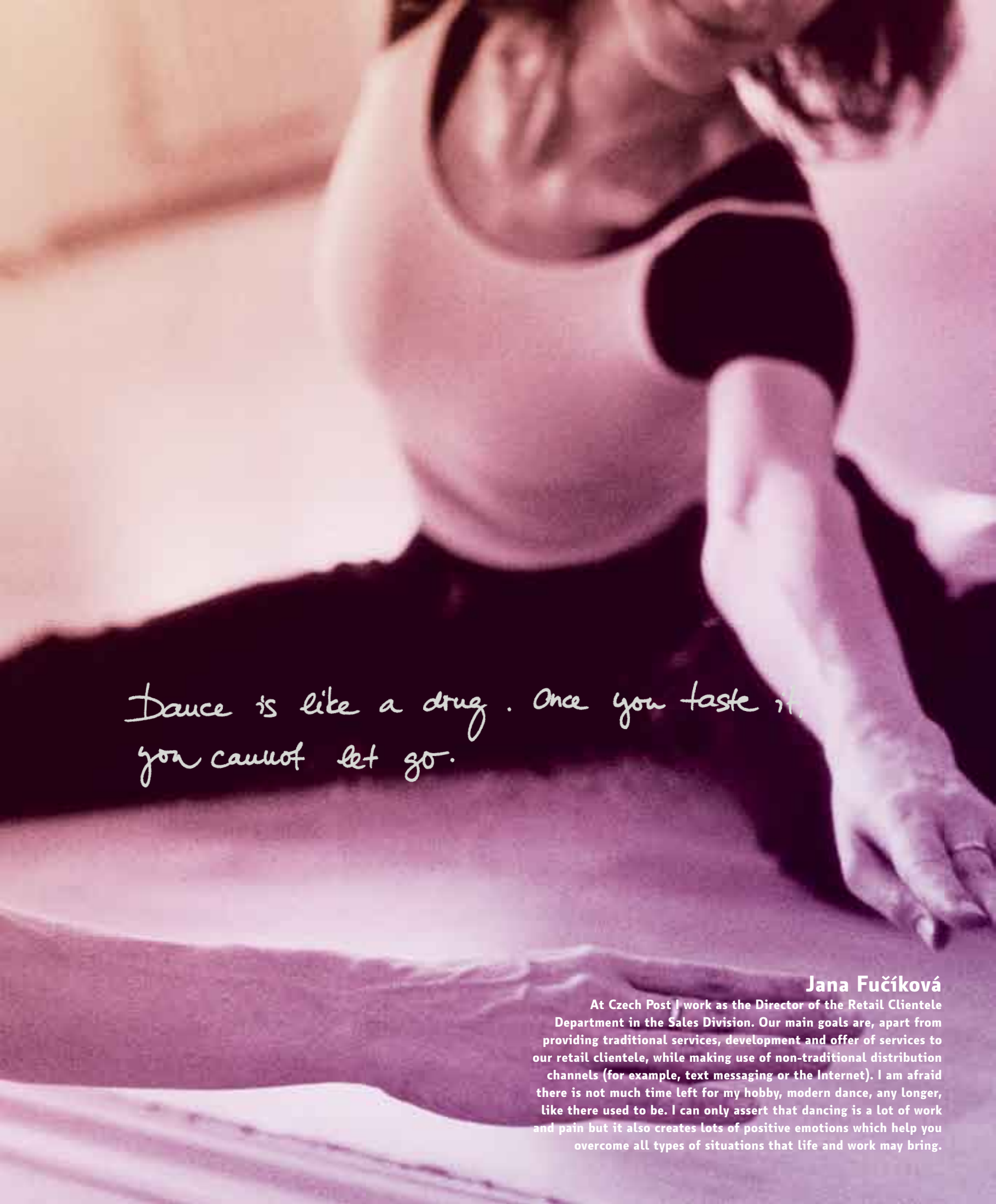
At the same time, the internal audit section provided a number of consultations during which the personnel made optimal use of the acquired knowledge and experience for the benefit of other sections, of course within the limits defined by the basic international standard known as the Framework for the Professional Practice of Internal Auditing.

The section successfully performed yet another important role, i.e. in the area of risk management. Thanks to the risk management section, the risk management system was constantly improved and integrated in order to become a standard and effective tool, eventually playing its key part in the management of Czech Post.



## We Have our Finger on the Pulse of the Times

Jack Welch said that a company that cannot keep up with the pace of progress displayed by its environment stands no chance of survival in the long run. The postal market has been undergoing dynamic changes and that's why we choose to *adjust to the life-style* of our customers. Based on a long-term strategy, we have started to move our offices to shopping and business centres – there were altogether fourteen such post offices on these locations by the end of 2006.

A woman in a black leotard is captured in a dynamic dance pose on a wooden floor. She is leaning forward with her right arm extended and her left hand resting on the floor. The lighting is warm and focused on her, creating a soft glow against the background.

*Dance is like a drug. Once you taste it,  
you cannot let go.*

**Jana Fučíková**

At Czech Post I work as the Director of the Retail Clientele Department in the Sales Division. Our main goals are, apart from providing traditional services, development and offer of services to our retail clientele, while making use of non-traditional distribution channels (for example, text messaging or the Internet). I am afraid there is not much time left for my hobby, modern dance, any longer, like there used to be. I can only assert that dancing is a lot of work and pain but it also creates lots of positive emotions which help you overcome all types of situations that life and work may bring.

## The Largest Net is for Fish Both Big and Small

*The size of virtually any given figure that represents Czech Post inevitably astonishes. Just during the year 2006 we delivered nearly 900 million letters and cards and handled 26 million parcels and packages. The back-and-forth flow of cash between our clients, Czech Post and the Czech National Bank represents altogether CZK 669,307 million.*

### Josef Osvald

I work in Prague as a postmaster but I have been with the Post for over 30 years. However, my fishing career is even longer.

And my greatest achievement? First league in fishing. My biggest catch? The pike I caught in Blatná back in 1965. It weighed 13.80 kg.

I started fishing when I was five. Since then fish and me sort of belong together.

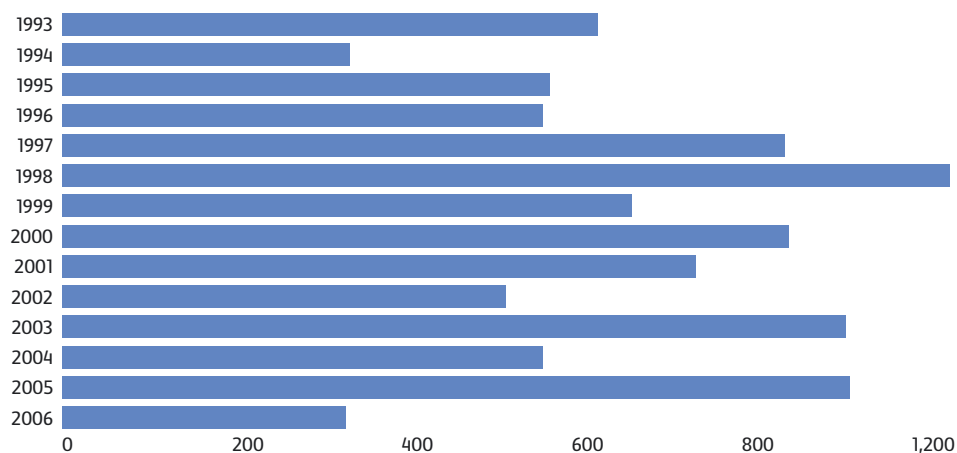


# Trends In Key Economic Indicators

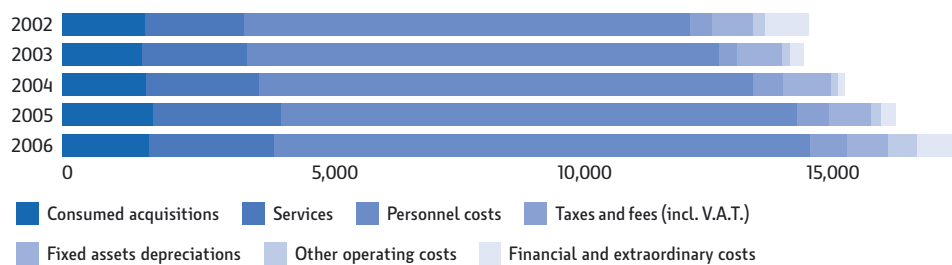
## Financial and Operational Indicators CZK million

	2006	2005	2004
Total assets, net (CZK thousand)	22,411,908	16,956,480	16,591,587
Equity (CZK thousand)	9,172,878	9,070,839	8,556,059
Revenues from the sale of own products and services (CZK thousand)	16,757,654	16,586,349	15,337,547
Profit before tax (CZK thousand)	331,166	920,675	562,270
Net profit (CZK thousand)	247,602	666,853	444,599
Revenues from ordinary activities (CZK thousand)	17,528,954	17,335,379	16,139,132
Employees – average registered number	37,200	38,290	38,794
Average monthly salary (CZK)	16,584	15,563	14,835
Profit before tax/Revenues from the sale of own products and services	1.98%	5.55%	3.67%
Profit before tax/Total assets	1.48%	5.43%	3.39%
Profit before tax/Employees - average registered number (CZK)	8,902	24,045	14,494

## 1993–2006 Profits Before Tax CZK million

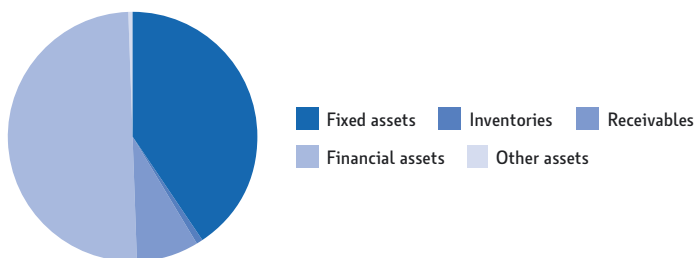


## 2002–2006 Costs Structure CZK million

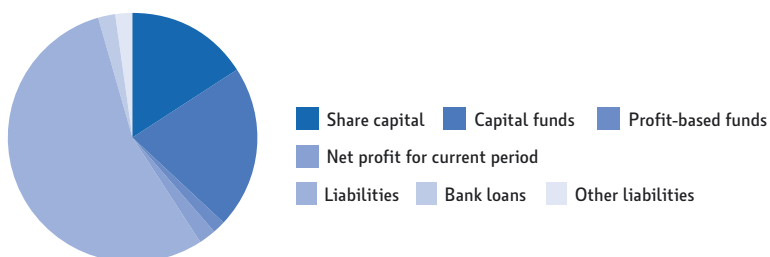




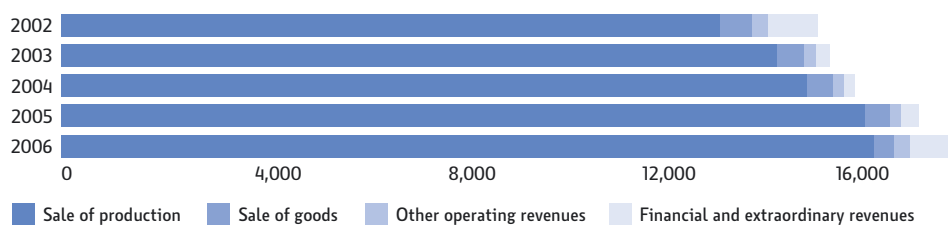
**2006  
Assets Structure  
CZK million**



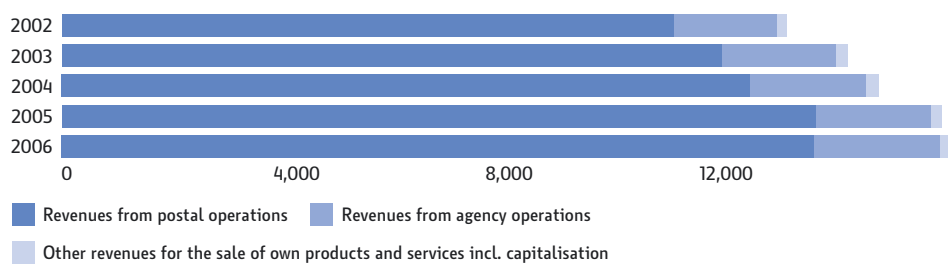
**2006  
Liabilities  
and Equity Structure  
CZK million**



**2002–2006  
Total Revenues  
CZK million**



**2002–2006  
Own Products  
and Services  
CZK million**



## Macroeconomic Data of the Czech Republic (general economic conditions)

Following the trend which started in the previous years, in 2006, the Czech Republic's economy continued to grow. The annual growth of the gross domestic product reached 6.1% and thus matched the record-breaking results from the previous year. It was the highest economic growth since the formation of an independent Czech Republic.

Unemployment was lower in 2006 than in the year before. The average unemployment rate amounted to 7.1% (compared to 8.3% from 2005). The drop in the unemployment figures is attributable to the ongoing growth of the Czech economy.

In 2006, the average inflation rate reached 2.5%, 0.6% higher than in 2005 (the average inflation rate was rendered as an accrual in consumer prices index in 2006 against the average value in 2005).

The cost of money went slightly up over the course of 2006 (when applying PRIBOR 3M – the tri-monthly PRIBOR rate on the interbanking market). The average value of PRIBOR 3M reached 2.3% p.a. in 2006 compared to 2.01% p.a. in the year 2005.

## Economic Position of the Company in 2006

From the economic standpoint, Czech Post was very successful in 2006.

The overall growth of operating earnings by approx. 2% compared to 2005 was mainly due to the growth of the two main categories - revenues from postal operations and revenues from agency activities. Contrary to this development, most of the consumption-related costs went down or stagnated in comparison to the previous period. The major cost continued to be personnel costs, but their growth was slower than in previous years. In view of the numbers of employees cut, this ultimately led to a reasonable proportion of the average salary vs. the labour productivity growth values.

These revenues from ordinary operations allowed the new Company's management to, within the process of preparation of the financial statements, following consultations with the Supervisory Board (largely consisting of new members) and in cooperation with the new Company's auditor, carry out extraordinary accounting operations which were basically aimed at increasing the transparency of the reported data, especially in view of the time relations between the revenues achieved and the costs spent.

On one hand, these extraordinary operations in the total amount of CZK 666.8 million led to a reduction of the reported profit before tax to CZK 331.1 million; on the other hand, they corrected the past inaccuracies in Czech Post's books and allowed the Company to create financial reports in the years to come with transparency and accuracy that is clearly better.

In view of their purely accounting nature, the extraordinary accounting operations had no negative impact on the overall financial standing of the Company. In spite of the ongoing large investment project - Brno Logistic Hub - Czech Post still reports an above-average liquidity and minimum debt.

## Sales Activities

### Czech Post as a Brand Name

The long-standing overall image of Czech Post is perceived by the public as satisfactory. Czech Post is appreciated for its trustworthiness, expertise, accessibility, its scope of supplied services and, last but not least, that it is a traditional service. The greatest improvement was achieved in the area of service quality; in fact, based on research conducted by STEM/MARK, more than half of its clients believe that quality had improved in the course of the year.

Czech Post as a brand name ranks among the best known in the Czech Republic. For a long time now, the Company itself has been at the top in various opinion polls, inquiries and contests, such as The 100 Most Famous Brands in the Czech Republic, SuperBrand, and many others.

### **Marketing: Communication and Promotion**

In 2006, the Company's marketing focused primarily on direct types of communication, i.e. on promoting products and services both for corporate clients as well as for households. Marketing communication included a strategic concept of developing the image and strengthening the Czech Post brand as a modern business and logistics firm.

Czech Post has been a long-term partner of Czech Athletics, the Charter 77 Foundation and the campaign March – the Month of the Internet. Apart from the main activities listed, Czech Post also supports many small to medium-sized regional activities both in sport (such as, for example, the Prague International Marathon) and in culture (Czech Rock League).

In relation to activities aimed at presenting its products and services, Czech Post traditionally participates as a partner in the conference Internet in the State Government and Self-Government (ISSS) and the Brno trade-fair Invex.

An inseparable part of the overall communication is the promotion of Czech Post's image through its allied partners, especially the Postal Savings Bank and the insurance company Česká pojišťovna.

### **Opening to the Customers**

In 2006, Czech Post oriented its sales efforts not just at consolidating and further developing care of existing customers, but also at active presentation of services to new customers. The desire was to offer a complex solution to customer needs and at the same time satisfy demand for specialised and specific services. The attention shifted to services in the area of addressed and non-addressed marketing, express delivery. There was further development of so-called hybrid services, i.e. those where the first part of the transport route takes place in an electronic form, and the Company was also successful in developing transportation services when securing communication between the headquarters or processing centers of companies and their branch offices.

Starting from 1 July 2006, there were some organisational changes in the sales section, designed to bring sales care closer to the specific needs of selected customer segments. New departments were created, namely the VIP Customer Care Department, Regional Sales Department (corporate clients), Recipient Care Department (retail), International Sales Department and Allied Partners Department. From an internal point of view, the second half of the year could be characterised in terms of creating ties and processes within the new organisational structure in order to add quality to customer care in specific customer segments.

This helped to set up cooperation with clients primarily from the areas of finance, insurance, delivery service, DM agencies, energetics, etc. Simultaneously, a new type of communication with these clients was developed. Each client is looked after by a single contact person – the Key Account Manager whose mission is to exactly define the customer's needs and then, internally within Czech Post, handle all processing matters related to the satisfaction of these needs. Thanks to the individual approach chosen and the intensive cooperation of all departments involved, there was a distinct improvement in the care of VIP clients. One of the pleasant consequences of this was meeting all the set indicators.

### **Allied Partners**

In 2006, Czech Post started to implement the goals that ensue from long-term agreements and contracts concluded with strategic partners in the previous years in the area of banking services (Československá obchodní banka, a.s.), and in the area of insurance services (Česká pojišťovna, a.s.).

A new independent department was created within the organisational chart of Czech Post: the Allied Partners Department, designed to ensure quality care for all customers in all branches of Czech Post regarding financial services starting from opening an account, processing loan applications, mortgages, underwriting life and non-life insurance policies up to retirement or building savings schemes. Throughout the course of the year, Czech Post enhanced its portfolio of financial products by adding some more sophisticated products (mortgages, business loans, insurance), in order to be able to offer its clients the widest possible range of services in one location.

An important prerequisite for having success in this area is the attitude of employees at every post office. In cooperation with its strategic partners, Czech Post devised and introduced a specialised system designed to train the employees of Czech Post in financial services, so that their level of knowledge of products and customer care was comparable with other banking and insurance institutions.



Bronz mirrors the form, wine mirrors the heart.

## Quality Only in the First Place and Not One Bit Sooner

A South-Moravian winemaker defying the influx of cheap wine imported from abroad would hardly be able to successfully compete unless she presented her customers with a wine brand characterised by a distinctive unique taste as well as outstanding *quality*. A parallel with Czech Post in 2006? Out of the total volume of transported mail, amounting to just under 900 million, we erred only in 0.0065% deliveries.

## Jaromíra Nogová

Since 1982, I have been working as a postmistress at the Hodonín 1 Post Office. Czech Post is my first and, at the same time, last employer – I have been working here for 37 years. Some people might seek relaxation in sport or culture, while I compensate for mental stress with physical labour. After all, even wine can be perceived as a work of art – only at the moment it fills a glass do you finally find out whether it had been paid the proper attention – starting from the work at the vineyard all the way to the harvest, and work in the cellar.



## Individuality to Us Represents a Challenge

In 2006, we established a special division dealing solely with our VIP clientele, dedicated to satisfying the individual needs of our major corporate clients. We seek *tailor-made solutions*. To give an example of such a solution, we might mention the newly established external postal counters thanks to which as many as 80 of our customers were able to say at the end of 2006: "Right behind the gates of our company, we have our own office of Czech Post."

Is chess a sport or a game?  
I am not sure. But one thing  
I can say for certain,  
it is a nice hobby.

### Jiří Spilka

I have been working with Czech Post for 34 years. During this time, I have tried several professions: I did automobile mail, worked as a postman and also as a counter clerk. Today I head the Rakovník 2 Post Office. When working, I like to theorise different solutions, after all I did win the title of a vice-champion at a correspondence chess tournament. I am also the chairman of the Rakovník Chess Club.



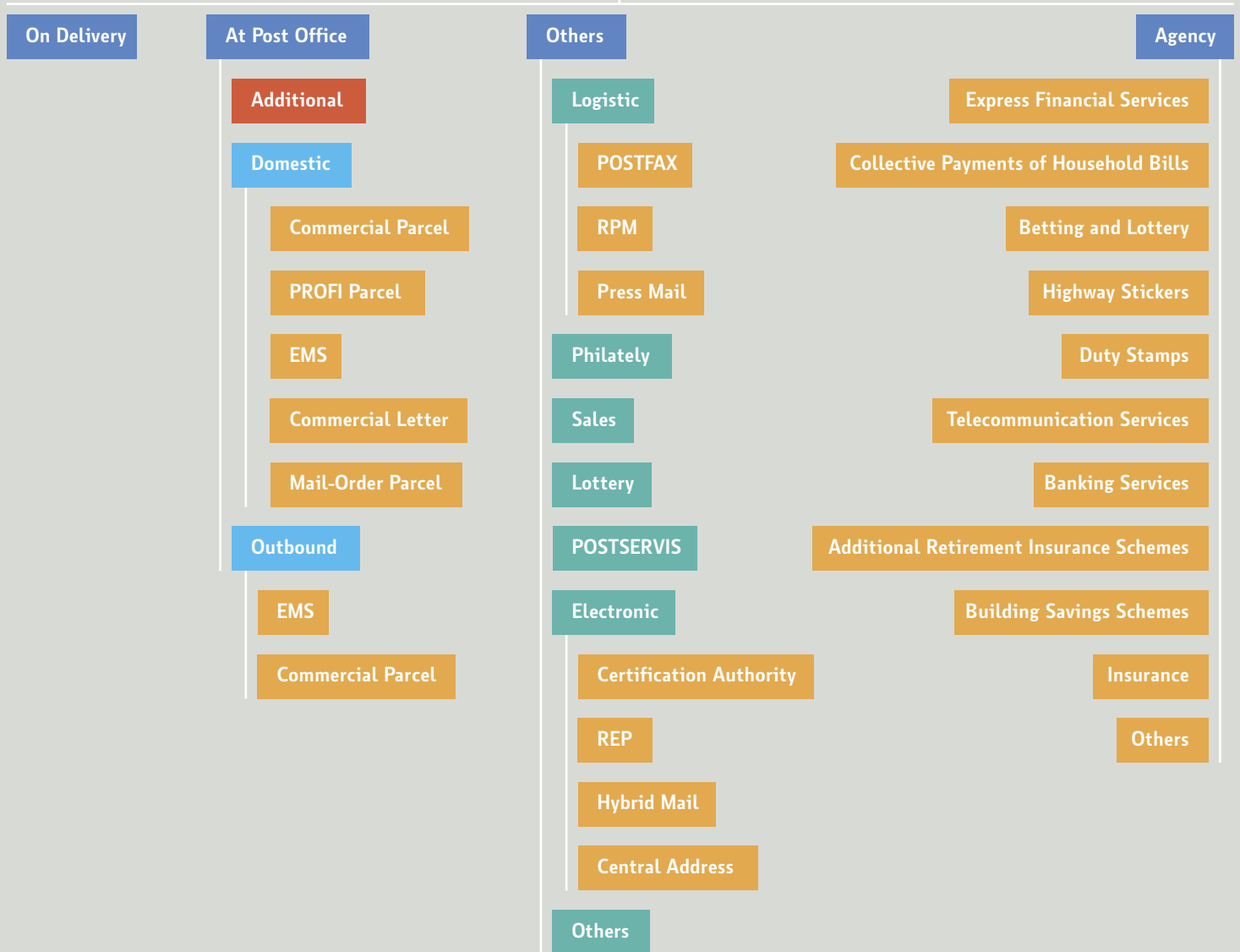


# Structure of Provided Services





# Non-Obligatory Services



## Services and Operation

### Customer-Oriented Approach

The year 2006 can be characterised as a year of many radical changes. A fundamental change for Czech Post came in the form of a new marketing vision. Czech Post started to establish and present itself to the public as a “modern logistic business” providing its customers with a broad portfolio of services starting from transporting documents and goods to providing financial services, pensions delivery, etc.

The portfolio of services continually undergoes innovation, flexibly adjusting not only to fully accommodate the clients while meeting their needs and expectations but also to fortify customer relationships built on a foundation of satisfaction, trust and long-term mutual cooperation.

It is no longer valid, and has not been for quite a while, that Czech Post sees its customers only as one homogeneous crowd and applies an undifferentiated marketing approach. In recent years, Czech Post has been working on an increasingly refined profile, a more precise chart of the local market and identification of target groups, including their needs. A new customer care and service scheme was created for key customers, founded on the professional approach in service provision and on direct communication (to ensure a flawless, high-quality, and prompt execution of requests).

### Traditional Postal Services

Although the booming electronic media is gradually replacing the various forms of distribution of physical information, the core of the portfolio of services supplied by Czech Post still remains mail delivery. On a daily basis Czech Post delivers a significant volume of mail – ordinary, registered or insured. The quality of mail delivery keeps rising; in the year 2006, as much as 94.06% of ordinary mail was delivered within D+1 (until the day after the day of posting), a fact that is being reflected in the increasing satisfaction on the part of the public.

The escalating pressure of competition seems to be most evident on the market of parcel deliveries, which has already been fully divided among medium- and large-size corporations operating predominantly on B2B markets, and to a smaller degree also on B2C markets, though in case of the latter the yields are not as big. At present, winning new clients is rare, and solely through scarce market niches. Should it wish to maintain its position on the relevant market, Czech Post must cherish and pamper its current clients, continually adjusting its services to their needs.

Czech Post uses its extensive network of post offices and delivery personnel for distribution of leaflets and other promotional materials. Services connected with the distribution of addressed mail were successfully secured through the establishment of the Commercial Letter service, while another type of service in the portfolio, the Press Mail, was designed to serve the needs of yet another client segment.

### Hybrid Post Services

Current market development indicates an increasing level of customer requirements and demands, which also shows up in more frequent use of the specialised workplaces – the Postservices, capable of offering much more than just mere mail delivery. Their main mission is to provide service in the area of complementary activities, such as, for example, wrapping, foil packaging, enveloping, database management, etc. The services are referred to as so-called hybrid services, allowing the transformation of data provided by clients into a physical form and vice versa. By making a step in this direction, Czech Post assumes the role of an active player, coproducing individual complex orders, or, in other words, “job-shop” operations for customers.

### Postshop

In connection with the new vision of Czech Post as a modern logistic business, one thing comes up as worth mentioning – it is the strategy of the complementary creation of a new brand name fortifying the positive perception of Czech Post through the means of a new brand called POSTSHOP. Apart from standard postal and banking services, Czech Post also sells goods – when visiting a post office, it is possible to buy magazines or newspapers, telephone cards, chargable coupons, highway stamps, postcards, philatelic items, envelopes, and even goods from TV PRODUCTS companies.

### **Electronic Services**

Apart from the traditional postal services, Czech Post now also offers a range of new and modern electronic services. The Company administers a central address and a web server publishing information on public auctions and procurements. In 2006, altogether 18,592 notifications of public procurements and 8,540 auctions or different offers got published here. For some time now as well, the Company has been an authorised provider of certification services. As a public certification authority, it ensures a safe means of communication with electronic signature and encryption, by issuing a commercial certificate – PostSignum VCA, and a qualified certificate – PostSignum QCA for the purposes of communicating with public authorities.

In 2006, Czech Post made preparations to expand the range of its electronic services, and thus, in 2007 it will also be able to provide several types of certified extracts retrieved from the public administration information systems (for example, Cadastral Registry or Commercial Registry certification) or to run eSIPO, the electronic extension of the existing SIPO (Collective Payments of Household Bills) service.

### **Mediating the Allied Partners' Services**

Within its network, Czech Post also offers a wide range of banking and insurance services by allied partners. A crucial role is in this instance undertaken by post offices located in less accessible destinations. Because of Czech Post, it is possible to pay fees, open and operate bank accounts, save and borrow money, etc. Regarding banking services, Czech Post's partners are Československá obchodní banka, a.s. and the Postal Savings Bank, while loans and credits are provided in cooperation with Home Credit. Thanks to the partnership with Česká pojišťovna, clients can take out a pension, life or car insurance policy at any and every post office, and fast transfers of money are arranged in cooperation with Western Union.

### **Information about the Supplied Services**

One of the most used modern marketing and information channels of Czech Post is undoubtedly its website at [www.ceskaposta.cz](http://www.ceskaposta.cz). Here, customers may find extensive information about services provided, the latest news of various kinds, for example, about philately, announced competitions, goods sold, etc. Traditionally, the Information Center of Czech Post plays an important role for the public. For several years now it has been operating a free information line at 800 10 44 10 where experienced telephone operators provide callers with expert information; in case of more complex or demanding inquiries, the information is not provided instantly but within 24 hours maximum at the e-mail address [info@cpost.cz](mailto:info@cpost.cz). Simultaneously, in Prague and the surrounding areas, the public may also make use of information service centers, run by the Telephone Information Center Prague, by calling 221 132 113. Furthermore, all customers are free to use the post offices themselves, stocked up on information/promotional material on the provided services.

### **New Trends**

New market trends in consumer behaviour lead to increasing concentration of purchases made in shopping centers, shopping malls and supermarkets. Czech Post reacts flexibly to these changes, strategically builds new branches exactly at these types of places and adapts its opening hours to the opening hours of the neighbouring businesses. At the end of last year, Czech Post had 14 post offices situated in shopping centers.

To predict the future development of postal, logistic or banking services at present time, distinctly marked by the ongoing turbulent changes, is not easy. The Company is undergoing a difficult transformation that, however, may in no way have even the slightest negative impact on the quality of the services provided. Czech Post's priority is to hold on to its leading position on the market, while providing up-to-date services to its entire clientele, able to flexibly react to the latest innovation trends, able to resist the increasing pressure from its competition and perfectly handle the approaching liberalisation of the postal services market.

### **Quality of Supplied Services**

A priority observed by Czech Post in 2006 was the provision of services at least at the level of quality as is required by the Basic Quality Requirements declared by the national regulator. Customer satisfaction is monitored by means of regular surveys focusing on the quality of mail delivery conducted both by Czech Post (its internal inspection mechanism) and by an independent agency. The following tables display the results obtained in these surveys during 2006.

Delivery time for standard letter mail (results attained through continuous monitoring by an independent agency)				
Monitored sample volume (pcs)		Days lapsed after the day of posting (%)		
		1 day	2 days	3 days and more
within the region	12,701	95.52	3.96 (99.48)	0.52
outside of the region	17,325	92.99	6.33 (99.32)	0.68
<b>Total</b>	<b>30,026</b>	<b>94.06</b>	<b>5.33 (99.39)</b>	<b>0.61</b>

The time lapse between submitting a money order and crediting the bank account					
Monitored sample volume (pcs)		Days lapsed after the day of posting (%)			
		1 day	2 days	3 days	4 days and more
75,285,976		97.34	2.56	0.08	0.02

Quantitative distribution of the terminal points within the postal network in 2006	
Post offices	3,387
Postal agencies	15
Postal centers	28
Detached post office counters (service points)	8
Mobile post offices	0
Post office boxes	24,006
Post office boxes (rented)	40,844
Delivery districts (letter mail) – total	10,470
(of which) Delivery districts with motorised service	2,794

### Postal Network

The network of post offices and other service points remains stabilised. As at the end of 2006, one service point served 2,991 persons (compared to 2,906 persons in 2005). The number of people served by one mailbox increased slightly in comparison to 2005, rising from 425 to 428. The slight increase in the above-mentioned figures is a result of the country's moderate population growth: in 2006 there were 30,900 more inhabitants than in the year before (according to data supplied by the Czech Statistical Office, as at 31 December 2006 the Czech population reached a total of 10,281,979 persons).

The process of delivery service centralisation, aimed at service quality improvement and the cost cutting, continued throughout the year.

Customer satisfaction is also clearly demonstrated by the number of justified claims regarding the delivery of mail and postal orders or justified claims regarding damaged mail deliveries or those that had suffered loss of contents. The following tables contain data relevant to the numbers of claims filed concerning basic postal service; the figures listed represent percentages out of the total volume of delivered mail.

Mail or postal card deliveries claimed by customers (%)	
Total number of claims	0.0122
Justified claims	0.0065

Claims regarding mail damage or loss of content (%)	
Total number of claims	0.0050
Actual acknowledged damage	0.0020
Justified claims (damage compensation)	0.0016

## Employees, Salaries and Social Policy

### Employment Rates

In 2006, Czech Post began to reduce its number of employees. The average registered number was 37,200 (after recalculation), i.e. by 2.85% less than in the year before. The progressing transformation of Czech Post and the related centralisation process had begun to influence not just the total number of employees but also the staff structure (based on the type of job and employee placement): 21.54% of all personnel were clerks working at the counter, 32.14% were delivery personnel, 8.87% were transport personnel, 7.96% stood for administration, and the remaining types of employees equalled 29.49%.

In the year 2006, Czech Post hired 2,155 new employees (corresponding to 5.76%), furnished with contracts concluded for an indefinite time period.

The total number of employees has also been significantly affected by the growing demand for the Company's services, nevertheless, and partly thanks to a systematic cooperation with the trade organisation, the recent changes had not violated the positive atmosphere in the work place within Czech Post.

### Salaries and Social Policy

Social conciliation is also backed up by other factors, especially salary indicators and their trends. The 2006 average monthly wage reached CZK 16,584, which, in comparison with the previous year, translates into an increase of CZK 1,021 (6.56%). The average salary of counter clerks went up to CZK 15,282 (that is by 7.92%), that of delivery personnel to CZK 13,046 (that is by 5.74%), that of transport personnel to CZK 15,559 (that is by 3.80%), and that of clerks in administration to CZK 28,773 (that is by 9.25%).

The wage policy of Czech Post pursues the idea of ultimately having a strong principle of equality (based on application of a type-position system) and boosting the weight ascribed to those wage components that closely depend on the employee's actual performance. Similarly focused programmes have been gradually applied alongside with the ongoing centralisation of wage policy management.

The employees' real income is further bolstered beyond the boundaries of the salary by contributions towards supplementary retirement schemes, life insurance, meals, vacations, etc., which in 2006 equalled an average monthly monetary benefit of CZK 1,028 per employee.

### Boosting Qualification – Further Training and Education

In the year 2006, the number of employees attending various courses came to a total of 56,921, of which 15.5% were trained in new technologies, 47.3% participated in training activities coordinated by the allied partners, 6.4% took part in qualification examinations of all levels and 30.8% attended other types of courses (economics, marketing and sale of services, managerial and business skills, etc.).

One of the key tasks was to carry out certification necessary for the provision of services to the allied partners. The project of the Postal Savings Bank named "The Academy of Banking" tested and certified a total of 11,377 employees; Česká pojišťovna's course required for the purposes of mediating insurance products certified 5,393 employees in total. In the last quarter of 2006, the Company began to train and test employees in the area of Czech Post's basic services as stipulated by the Director General's decision No. 43/2006, succeeding in having tested altogether 5,269 employees by the end of the year. Educational projects continued, focused on integrating communication processes into sales and management, and a training course for counter clerks aimed at instigating a change of attitude and customer treatment (inviting a more professional behaviour at the counter). The training and subsequent tutelage was conducted at 328 post offices by a professional team of 35 in-house professional behaviour trainers.

The total expenses invested in training and education (without salary compensation for the time of absence from work) totalled approximately CZK 31.03 million (i.e. 0.29% of the examined personnel expenses). The average cost per trainee came to CZK 545, or respectively to CZK 829 per employee.

As at the year-end, altogether 82.3% of employees had passed the prescribed qualification test.



## **Martina Janošcová**

I have been working as a postwoman in the city of Ostrava for over four years. I like my job. The truth is that I enjoy meeting new people. I have also found new friends through my hobby of the past two years – side-cars. Last year I participated in just six races and happened to stand on the winner's rostrum five times.

## Unlimited Speed

Another synonym that easily pops up in relation to Czech Post is definitely *speed*. "Posted today, delivered tomorrow" – this marketing slogan, which characterised Czech Post's operation also throughout the year 2006, hardly refers only to the family of express products (Commercial Parcel, EMS) for it well applies to ordinary letters too. Just for example, let us say that in 2006 we were able to deliver 94.06% out of the total number of posted standard letters within the D+1 regime, i.e. the next day after posting. Under the international certification programme EMS Cooperative, with 140 countries participating, Czech Post received the Gold Level award as one of the best fourteen postal administrations.

I love races and their thrilling atmosphere  
of excitement.

I look for better qualities in people.

## From People to People

Even in 2006, it wouldn't be difficult to pick out a large number of those who could easily deserve a gold medal for *Human Quality* out of the total 37,200 employees of Czech Post. "We have all agreed that the head of our little post office in Hvozdnice, Mrs. Jana Vaňkátová, is the best postwoman in Central Europe... she is always willing and ready to lend a hand or advise elderly people as well as others, providing assistance well beyond her duties...", wrote and signed forty-eight residents of a small village in Central Bohemia on 16 October 2006. As a matter of fact, we receive hundreds of similar letters.





## **Šárka Hrabovská**

I have been working with the Post since 1989, so this is my seventeenth year. As a manager, I run a postal centre in the spa town of Mariánské Lázně. I consider Tomáš, whom we had adopted when he was a year and four months old, together with the moment of his arrival at our family, to be the most important thing in my life... for it was a moment that had totally changed my existing view of the world.

## International Relations and Operations

The participation of the Czech Republic and Czech Post in international organisations makes it possible for just anybody to communicate by mail, with whomever they might choose, any place around the globe, all this at a favourable price and in adequate quality.

Czech Post is a member of the Universal Postal Union and the Association of European Public Postal Operators PostEurop and, as such, it seeks active participation especially with those working bodies that deal with quality of operation and the quality-conditioning technical issues.

Czech Post also pays great attention to cooperation among public postal operators working in a region comprising of the new members of the European Union and countries currently getting ready to join in the near future. The working title of this group is "Visegrad" and Czech Post counts, together with Poland, Slovakia and Hungary, among the founding members. In 2006, Slovenia and Croatia joined the multilateral agreement on the quality standards of international mail service among the Visegrad postal operators.

Clearly the most important foreign business partner of Czech Post is Slovak Post. Both share similar traditions and close technologies, which is reflected in the extent of common business and operational activities. In 2006, the Directors General of both operators met, as they have been doing on a regular basis and, among other things, mutually approved the amended Treaty on Mutual Mail Exchange.

### Quality of International Operations

Independent quality measurement in the area of international operations is provided by IPC (International Post Corporation) according to a Cooperation Contract concluded between Czech Post and the above agency, which had been founded by important postal operators from economically developed countries.

Speed measurements (i.e. delivery of priority mail at the latest on the third working day after its posting) are done through the UNEX system. Moreover, the system is able to identify reliability (i.e. delivery no later than on the fifth day). For the purposes of the REIMS-East Agreement and for EMS quality measurements, the transit time of international mail must also be monitored (the total time international mail spends on Czech territory). Selected international mail flows that are not monitored by the independent measurement system UNEX are scrutinised by means of an internal test arranged by the Universal Postal Union. Czech Post takes an active part in all these quality measurements.

The results obtained in 2006 met the set quality requirements or came very close. With the achieved standard, Czech Post has thus joined the most advanced postal operators in Europe. Excellent and steady quality of their international operations, with values reading close to 100% of the given criteria, displayed interannually not more than a slight fluctuation, as the following overview clearly demonstrates:

International Service Quality				
The results of measuring EMS and priority letter-mail quality in international operation in the years 2005 and 2006	EU requirement	UPU or REIMS requirement	2005	2006
<b>a) Export (International deliveries)</b>				
Speed – the percentage of international mail delivered within 3 days (D+3)	85%	-	91.4%	92.4%
Reliability – the percentage of international mail delivered within 5 days (D+5)	97%	65%	98.7%	98.8%
Speed – the percentage of mail sent abroad the next day after its posting in the Czech Republic	-	80%	77.3%	79.4%
<b>b) Import (posted abroad)</b>				
Speed – the percentage of international mail delivered within 3 days (D+3)	85%	-	88.4%	92.5%
Reliability – the percentage of international mail delivered within 5 days (D+5)	97%	65%	97.6%	99%
Speed – the percentage of mail delivered the next day after its arrival in the Czech Republic	-	85%	78.3%	86.1%
EMS speed – the percentage of EMS mail delivered the next day after its arrival in the Czech Republic	-	-	80%	85%

Substantial quality improvement occurred interannually in the area of inbound mail. The processing speed for the most common product – priority letter mail – stayed close to the highest feasible tempo throughout the Czech territory, but still remained relatively low as the result of constraints brought on by technical limitations of Czech Post's network, and thus comparable with the delivery speed of the EMS.

### **Focusing on New Types of Products**

The introduction of non-traditional international products, ranks, right after its focus on quality, as the second strategic goal of Czech Post in the area of international service. The tasks at hand include, above all, further developing EMS as well as such products as Commercial Parcel and Commercial Letter.

In 2006, a significant change took place – the Company's international operations management became centralised. This effectively reduced labour costs and, above all, simplified and straightened organisational links, which subsequently made room for initiating an optimisation process encompassing the entire international operation.

## **Capital Investments and Technical Development**

### **Capital Investments**

In 2006, the projects that had started in the previous years continued: the Poděbrady Post Office reconstruction, the reconstruction of the Ústí nad Labem Logistics Center – 2nd stage, and the final construction stage of the Brno Sorting Center.

New (re)construction projects: Logistics Center (Postservis) in České Budějovice, the Písek 1 Post Office, the Post Office in Nové Město nad Metují, the Otrokovice 2 Post Office and the Brno 19 Post Office – all to be finished in 2007. A new building was purchased for the Post Office in Nýrsko.

**In 2006, Czech Post purchased altogether 538 motor vehicles in total value of CZK 239.2 million, out of which 448 vehicles as replacements. The total number of purchased vehicles follows:**

- » 210 utility vehicles – Renault Kangoo,
- » 164 cars – Ford Transit,
- » 68 vans – IVECO,
- » 96 passenger cars – Škoda.

As at 31 December 2006, Czech Post's total fleet consisted of 4,154 vehicles out of which 63 vehicles were late in decommissioning; and 125 automobiles were purchased in December. The final core figure came to 4,091 road vehicles as of the end of the year.

The annual driving performance was 94.72 million km, which represents a 2.5% increase compared to the previous year. The number of kilometers driven per one vehicle comes to 22,516 km. The average age of road vehicles was 6.14 years; in the case of the most obsolete fleet, at the Regional Branch South Moravia, the actual figure was 6.36 years, meanwhile at the least obsolete car park at the Regional Branch Central Bohemia it was only 5.78 years.

### **Technical Development**

In the course of 2006, Czech Post implemented the project Geopost, which provides a solution to data collection regarding delivery rounds in the whole country. It also provides a visual representation of this data, which is superimposed over a detailed orthomap, produces route evaluation and finally proposes an optimised solution to the delivery routes. For the collection of time and position data, the system utilises specialised GPS equipment. Thanks to this kind of technology, Czech Post is able to obtain precise information about the movement of any chosen delivery person with direct relation to their territory of deliveries. The information obtained format is then used multiple times for objective evaluation and optimisation of other planes that exist within Czech Post's network.

At the end of 2006, Geopost became the foundation for processing materials and documents necessary for the decision-making process regarding the new territorial and organisational layout of Czech Post during its transformation. Moreover, Geopost is also used for the verification of proposals regarding the reduction in the number of post offices that provide parcel deliveries (ABD), the creation of proposals outlining their transportation links, and for the production of documents Czech Post uses in negotiations

with the Czech Telecommunication Office. The project obtained public recognition in the contest entitled The IT Project of the Year 2006 declared by the CACIO association.

The year 2006 also saw the introduction of separate accounting of universal services and the other services provided by Czech Post. For the purposes of meeting this requirement, the first phase of a project, which was aimed at monitoring the quality and efficiency of operation at post offices, was completed during the course of the year. This project, otherwise known as PES, should – in its first stage – help identify emerging costs, while the second part is supposed to identify yields in terms of individual products and services. The project is successfully continuing according to the approved time schedule and has proven to be of valuable assistance to Czech Post's price management (pricing policy adjustments).

For servicing key customers, the MkIS project (Marketing Information System) was launched in 2005. However, the next year the application underwent more development as it was trying to meet continually increasing demands, including requirements concerning the servicing of VIP clients.

The first stage of implementing the REM module (real property management under SAP) was completed in the first half of 2006. All data concerning any real property of Czech Post is thus on record as of now, centrally organised within the system.

A project referred to as Cadastral Register Certification was launched in September 2006. Its goal was to use the room provided by the current legislation (Act No. 365/2000 Coll. in its latest amendment) and starting from 1 January 2007 to broaden the Company's service portfolio, namely in the area of providing authorised certification of documents and extracts retrieved from the public administration's information systems at 74 contact sites. The plan was to also include other registries at a later date, namely the Commercial Register, starting 1 April 2007, and the Trades Register, starting from 1 July 2007. Preliminary preparation to start providing authorised certification of extracts retrieved from the public administration information systems "off-line" – the certificate will be delivered to the client based on either a submitted service order or a contract concluded at any Czech Post service counter.

In July 2006, the first stage of the eSIPO project was initiated (SIPO is an abbreviation standing for the Collective Payments of Household Bills). It concerns launching an electronic channel that would provide the first electronic eSIPO. The project is at a phase of implementing the first stage that should allow clients to access and manage their SIPO account via a web interface, including the monitoring of their transaction history for payments made through SIPO. The next stage should extend the range of functions available both to the SIPO remitter and the issuer (various bodies linked to the SIPO application).

## Stamp Design and Philately

### Stamp Design

In 2006, Czech Post, acting on behalf of the postage stamp issuer, i.e. the Ministry of Informatics of the Czech Republic, issued altogether 35 commemorative postage stamps with the first day covers and commemorative handstamps, out of which six postage stamps came out in blocks (Hereditary Monarchs of the Přemyslide Family and Giovanni Castrucci: View of Prague Castle).

Further 2006 issues include: five postage stamps, out of which three were intended for standard mailing (one carrying a logo of the upcoming World Stamp Exhibition PRAGA 2008) and three postage stamps with coupons for additional printing.

In connection to the new postal rates charged for international mail, Czech Post also issued one postcard for additional printing and one stamp featuring different motifs to stick onto postcards and finally five commemorative postcards.

To promote PRAGA 2008, Czech Post issued three new postage stamps: The Vrtbovská Garden featuring a view of the ascending terraces of one of the foremost and most beautiful Baroque gardens in Europe; a block containing one postage stamp depicting Giovanni Castrucci's mosaic View of the Prague Castle dating back to the beginning of the 17th century; and a regular postage stamp portraying the logo of the Praga 2008 exhibition.

Historical topics were addressed by the block entitled Hereditary Monarchs of the Přemyslide Family, featuring the portraits of five Czech kings, and by the stamp The Art from the Era of Charles IV – The Madonna of Zbraslav, which came out in an adjusted printing sheet with four stamps. The Madonna of Zbraslav was voted the number one stamp in the 14th annual competition appointing the most beautiful Czech stamp of the year.

The common theme for this year's issue of the EUROPA yearly series was "integration"; the Czech approach focused on the integration of physically handicapped citizens into normal life through hippo-therapy and canine therapy.

Two stamps with sports in the subject were dedicated to the Olympic games. The theme featured on the stamp XX Winter Olympic Games, Torino 2006 is traditional skiing – women. Following the Olympic victory of Kateřina Neumannová, the stamp was re-issued with an additional print K. Neumannová – Gold Medal. The stamp Winter Paralympics, Torino 2006 depicts sled hockey.

The popular characters from TV evening cartoons for children known as Rumcajs, Manka and Čipísek are featured on a stamp dedicated to children (To Children). Other stamps issued by Czech Post in 2006: The Beauties of Our Country, Works of Art on Postage Stamps (J. D. de Heem, J. Čermák, F. Kaván) and other issues dealing with important anniversaries and collector's subjects.

### **Philately**

Apart from postage stamps, postal stationery and first day covers, as in any other year Czech Post also supplied the philatelists with the ever-popular stamp booklets with as well as without coupons, picture – postcards, cartes maxima, sticker sheets of postage stamps as well as additional prints on postcards promoting various significant events and anniversaries. What has become rather popular are sheets of stamps with an empty coupon onto which the clients may print anything they choose. Naturally the range of collectors' products also included the stamp yearbook in binding containing, apart from postage stamps and black impressions of the engraved artwork, a brief description of the items in Czech, English, German and French.

Czech Post distributed postage stamps and other philatelic items to philatelists organised in approximately 350 clubs of the Union of Czech Philatelists continuously throughout the year via the so-called "latest arrivals service". The collectors that are formally members of no such organisation, make use of specialised philatelic counters at the post offices, the dedicated mail order service and possibly even the services provided by private enterprises selling postage stamps (originally bought from Czech Post). As for foreign collectors, Czech Post handles the entire export of Czech postage stamps worldwide.

Throughout 2006, different post offices used altogether 49 commemorative handstamps at different times and on various occasions. And, of course, what kind of Christmas would it be without the popular seasonal handstamps featuring Christmas themes at the Boží Dar Post Office and what would Easter be without Easter handstamps used at the Kraslice Post Office and finally what kind of Valentine's Day without the special handstamp at the Milostín Post Office – yes, the tradition popular with both collectors and the general public was honoured even in 2006.

Czech Post promoted Czech stamp production at international stamp sales-exhibitions in Germany and at the World Stamp Exhibition BELGICA 2006.

The year 2006 saw the commencement of preparatory activities related to the World Stamp Exhibition PRAGA 2008. The exhibition will be organised under the auspices of the International Federation of Philately on 12–14 September 2008. Traditionally, the event is organised by Czech Post and the Union of Czech Philatelists with the participation of Progress Partners Advertising. The exhibition will introduce exhibitors from more than 80 countries all over the world and some unique exhibits, such as a sample of the British Royal Collection or some of the most unique items from the collection of the Postal Museum. Promotion of the exhibition and updated information is published on a dedicated website launched last year at the address: <http://www.praga2008.cz>.

## **Postal Museum**

### **Permanent exhibitions in Prague and Vyšší Brod**

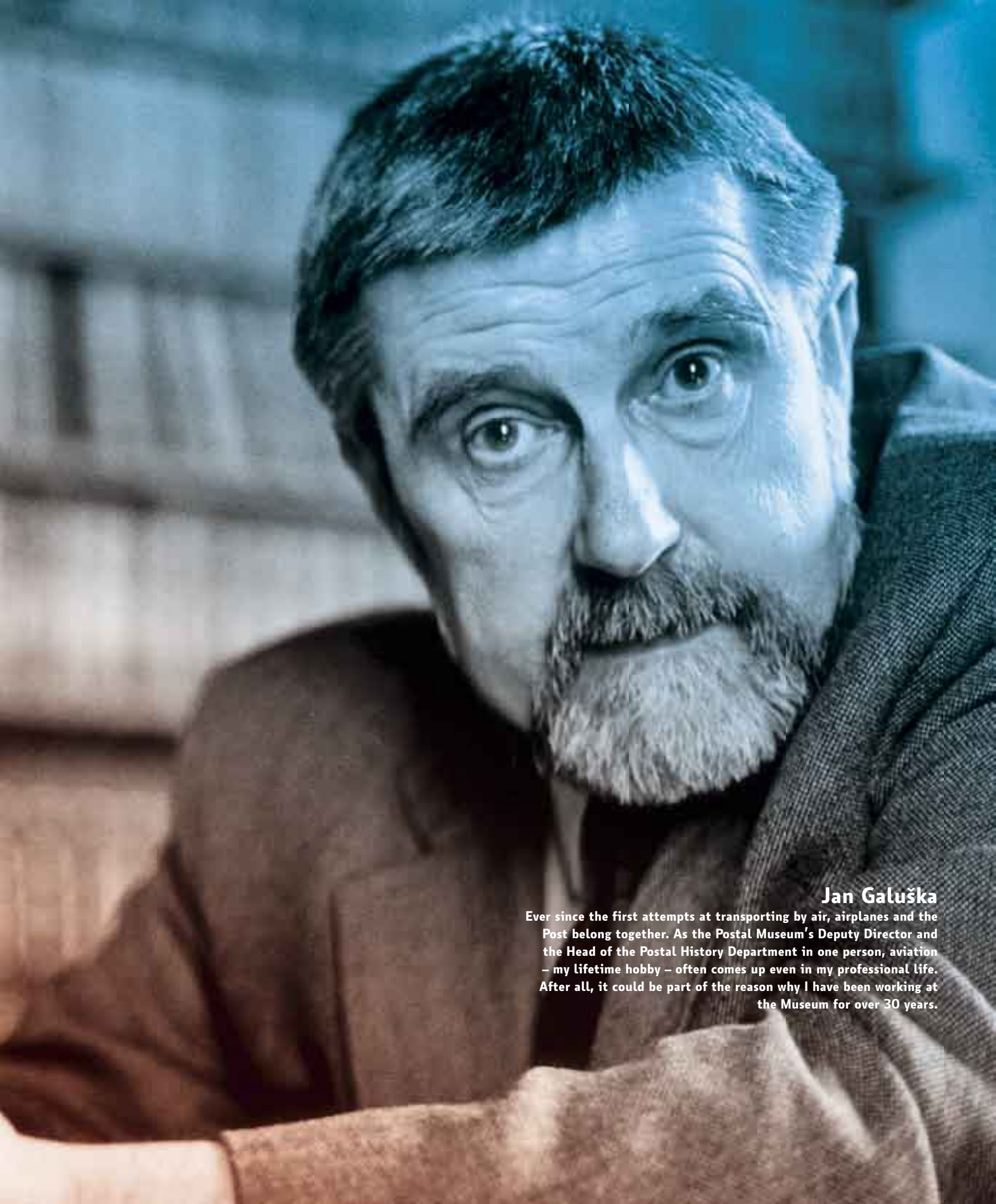
The permanent exhibition of postage stamps on the premises of the Postal Museum in Prague has been continuously updated with new issues of Czech Postage stamps.

On 23 June 2006, a newly re-installed exhibition entitled The Post Office in the Transformations of Time was opened in the Vyšší Brod museum branch on the occasion of the 30th anniversary of the opening of the local branch of the Postal Museum. The exhibition comprises five exhibition halls while the introductory part of the exhibition is located downstairs on the ground floor. The exhibition is divided into a logical section entitled Traveling with the Mail, 18th Century Post Office, Letter Mail Service in 16th – 18th Century, Post and Newspapers and The Picture Gallery. On the occasion of this event, the Museum

## We Have Been Here With You For As Long As You Can Remember

We pride ourselves with a long *tradition*: 501 years since the time when the noble Taxis family earned the hereditary right to postal operations within the European territorial possessions of the Habsburg royal family, 311 years since the issue of a Postal Patent by the Emperor Leopold I, 230 years since the Post was first liable for registered mail with a declared price, 136 years since the introduction of the Act on Privacy of Letters and Correspondence, and 82 years since the foundation of the state enterprise known as the Czechoslovak Post. The year 2006 bore witness to two crucial milestones in the history of Czech Post: Czech Post began its internal transformation with the aim to create an enterprise that will ultimately be able to stand the test of the competition on the European postal market. The same reasons also led to the initiation of another process – preparing the change of Czech Post's legal status from a state enterprise to a joint-stock company.

I have met a number of excellent and selfless people during my work at the Postal Museum... which is perhaps part of the reason why I hold such respect for much of what the previous generations have achieved.



## Jan Galuška

Ever since the first attempts at transporting by air, airplanes and the Post belong together. As the Postal Museum's Deputy Director and the Head of the Postal History Department in one person, aviation – my lifetime hobby – often comes up even in my professional life. After all, it could be part of the reason why I have been working at the Museum for over 30 years.

issued a special post card with an additional print, a special handstamp and the post office in the town of Vyšší Brod set up a temporary post office counter – all of it to commemorate the occasion.

### **Occasional Exhibitions**

The exhibition grounds of the Prague Museum hosted altogether five temporary exhibitions throughout 2006:

- » Martin Srb – Use of Engraving in Stamp Design (8 February – 2 April 2006).
- » Zdeněk Netopil – Postage Stamps and Drawings (5 April – 14 May 2006).
- » 20th Century Post in Slovakia (19 May – 24 September 2006). This exhibition was prepared by the Postal Museum of the Slovak Post based on an agreement on mutual exchange of exhibitions, grounded in the Czech and Slovak Posts Cooperation Agreement regarding the museum activities related to postage stamps. The updated agreement was signed by the Directors General of both operators in May 2006.
- » Phila-France – Exhibition of French Postage Stamps (4 October – 3 December 2006). This exhibition was organised by Musée de la Poste – the postal museum of the French Post, reciprocating the exhibition organised by the Postal Museum in Paris 2002, as part of the project A Season of Czech Culture in France.
- » Bedřich Housa – Stamp Design and Graphics. This exhibition was put together by the Postal Museum to commemorate the 80th birthday of the graphic artist and engraver, Bedřich Housa.

Special postcards with additional prints were issued and temporary post office counters with a special postal handstamp were set up at the occasion of each of the listed exhibitions.

In cooperation with the town of Vyšší Brod, the Elementary Arts School in Kaplice and the Cistercian Abbey, the Postal Museum organised an exhibition presenting art work by the students of the local school in its Vyšší Brod branch, which ran from July until September.

### **Postal Museum's Exhibitions Abroad**

- » The Most Beautiful Stamps of the Czech Republic (June 2006), Brussels, Belgium. This exhibition was prepared by the Postal Museum for the Czech Center located in Brussels.
- » Czechoslovak Post, Telegraph and Telephone 1918–1938 (13 October 2006 – 30 March 2007), The Slovak Post's Postal Museum, Banská Bystrica, Slovak Republic. This exhibition was prepared by the Postal Museum as a reciprocal project to the exhibition organised by the Postal Museum Banská Bystrica in Prague, as part of the aforementioned Cooperation Agreement.
- » Postal Museum's participation in the exhibition entitled MonacoPhil 2006 (1 – 3 December 2006) in Monaco. The Postal Museum participated in the exhibition as a member of the International Philatelic Elite Club Monte Carlo presenting a unique exhibit from its collection – a rare letter of the so-called clapper mail dating back to 1873.

### **Participating in a Publication**

The Postal Museum participated in the illustrations accompanying the publication entitled Sixty Years of the Prague Spring Festival, published by the organisational committee of the Prague Spring music festival.

### **Lectures**

The Postal Museum organised one lecture dedicated to the Society for Philatelic Literature under the Union of Czech Philatelists and a second lecture, this time on the Postal Museum in Paris and French postage stamps, which was given by the curator of the Paris Postal Museum Mr. Pascal Rabier.

### **Visitors and Researchers**

The exhibitions of the Postal Museums in Prague and Vyšší Brod were seen by 13,753 paying visitors and approximately 4,000 non-paying ones (The Museum Day, school trips, educational programmes for pupils and students). Research service was granted to 290 persons, including bibliographic searches, written responses to questions and assistance in the production of specialised documents.



### **Collection Administration and the Library**

In the year 2006, the Postal Museum registered altogether 2,514 new collection entries, which were simultaneously registered with the Central Collections Archive of the Czech Ministry of Culture. As at 31 December 2006, the total number of registered collection items and their sets reached 201,724, distributed in altogether 69 subcollections of the Postal Museum. In compliance with the stipulations of Act No. 122/2000 Coll., the Museum carried out inventorying of total 26,196 collection items.

In 2006, the subcollection Postal Signboards and Mail Boxes was digitally photodocumented within the framework of the Muzis database. The electronic implementation of subcollections documenting stamp design began under the Muzis programme.

Apart from the regular bulk of acquisitions arriving throughout each year in the form of specialised periodicals, postal and official bulletins, as well as telephone directories, the library acquired 76 specialised publications in its fund. The job of making the library database accessible to the public moved closer to completion as the work continued.

### **Relationship to the Environment**

In the area of environmental protection, the year 2006 did not bring any crucial legislative changes that would have any impact on Czech Post. The tasks defined in this area were carried out by specialised units of seven regional branches, three branches of a non-regional character and one specialised section under the main headquarters.

Czech Post carried out all its duties as required by law as well as internal directives, which was also confirmed during the inspections that were performed by some governmental bodies: no flaws or defects were found whether concerned with keeping required documentation or the physical condition of its workplaces. In 2006, no environmental accidents, air pollution or groundwater pollution were caused by the operations of Czech Post.

In the area of waste management, there was further reduction in waste production – a continues trend from the previous years. In accordance with the stipulations of the Waste Act, waste management plans were drafted in 2006 and handed over for approval to the respective regional authorities. The plans comply with the binding section of waste management plans of the individual regions and their fulfillment will be continuously checked by a specialised section operating under Czech Post's headquarters.

In 2006, the tasks stipulated by law in the area of packaging management (packages introduced into the market), especially the mandatory collection of used packaging and its re-use, were secured via hiring an authorised packaging firm.



**Financial Part** 2006

# Financial Statements and Independent Auditor's Report

As of December 31<sup>st</sup>, 2006

# A Report by Independent Auditors to the Founder of the Enterprise Česká pošta, s. p.



PricewaterhouseCoopers Audit, s.r.o.,  
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We have audited the accompanying financial statements of Česká pošta, s.p. (the "Company"), which comprise the balance sheet as at 31 December 2006, the income statement and cash flow statement for the year then ended and notes, including a summary of significant accounting policies (the "financial statements"). Details of the Company are disclosed in note 1 to these financial statements.

## Responsibility of the Director for the Financial Statements

The director is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reason

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Unqualified Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2006, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

12 April 2007

A handwritten signature in cursive script that reads "PricewaterhouseCoopers Audit, s.r.o.".

PricewaterhouseCoopers Audit, s.r.o.  
represented by partner

A handwritten signature in cursive script that reads "Petr Šobotník".

Petr Šobotník  
Auditor, Licence No. 113

# Full Balance Sheet

Identification	ASSETS	Gross	Provisions	Net	Net
as at 31 December 2006 (in CZK thousand)		31 December 2006			31 December 2005
B.	Fixed assets	18,065,847	(8,949,359)	9,116,488	8,060,485
B. I.	Intangible fixed assets	1,185,896	(866,652)	319,244	314,575
B. I. 1.	Software	991,794	(780,916)	210,878	217,298
	2. Royalties	840	(264)	576	583
	3. Other intangible fixed assets	186,338	(85,472)	100,866	62,242
	4. Intangible assets in the course of construction	6,924		6,924	34,452
B. II.	Tangible fixed assets	16,822,408	(8,042,990)	8,779,418	7,728,084
B. II. 1.	Land	750,537	(2,029)	748,508	752,823
	2. Constructions	8,060,034	(2,951,264)	5,108,770	5,150,933
	3. Equipment	6,489,086	(5,079,175)	1,409,911	1,418,053
	4. Other tangible fixed assets	3,707		3,707	3,709
	5. Tangible assets in the course of construction	1,493,870	(10,522)	1,483,348	379,105
	6. Advances paid for tangible fixed assets	25,174		25,174	23,461
B. III.	Long-term investments	57,543	(39,717)	17,826	17,826
B. III. 1.	Investments in controlled entities/subsidiaries	17,746		17,746	17,746
	2. Other long-term investments in securities	39,797	(39,717)	80	80
C.	Current assets	13,299,399	(121,329)	13,178,070	8,775,815
	out of which: entrusted resources	8,844,795		8,844,795	4,676,004
C. I.	Inventories	187,958	(4,617)	183,341	176,554
C. I. 1.	Raw materials	135,113	(3,794)	131,319	127,926
	2. Goods for resale	52,845	(823)	52,022	48,628
C. II.	Long-term receivables	8,453	(84)	8,369	7,081
C. II. 1.	Trade receivables	974		974	
	2. Advances paid	1,914		1,914	2,169
	3. Other receivables	5,565	(84)	5,481	4,912
C. III.	Short-term receivables	1,926,658	(116,628)	1,810,030	1,944,276
	out of which: entrusted resources	448,552		448,552	626,615
C. III. 1.	Trade receivables	1,120,760	(53,820)	1,066,940	1,175,003
	out of which: entrusted resources	448,552		448,552	626,615
	2. Taxes and state subsidies receivable				25,482
	3. Advances paid	124,189		124,189	90,631
	4. Anticipated assets	364,348		364,348	371,479
	5. Other receivables	317,361	(62,808)	254,553	281,681
C. IV.	Financial assets	11,176,330		11,176,330	6,647,904
	out of which: entrusted resources	8,396,243		8,396,243	4,049,389
C. IV. 1.	Cash in hand	4,916,823		4,916,823	4,046,113
	out of which: entrusted resources	4,893,387		4,893,387	4,039,044
	2. Cash in bank	5,088,361		5,088,361	1,834,573
	out of which: entrusted resources	3,502,856		3,502,856	10,345
	3. Short-term investments	1,171,146		1,171,146	767,218
D.	Other Assets	117,350		117,350	120,180
D. I.	Accruals and deferrals	117,350		117,350	120,180
D. I. 1.	Prepaid expenses	44,116		44,116	51,210
	2. Accrued revenue	73,234		73,234	68,970
	<b>TOTAL ASSETS</b>	<b>31,482,596</b>	<b>(9,070,688)</b>	<b>22,411,908</b>	<b>16,956,480</b>
	out of which: entrusted resources	8,844,795		8,844,795	4,676,004

Identification	LIABILITIES	31 December 2006	31 December 2005
as at 31 December 2006 (in CZK thousand)			
A.	Equity	9,172,878	9,070,839
A. I.	Share capital	3,587,928	3,586,708
A. I. 1.	Share capital	3,587,928	3,581,699
	2. Changes in registered capital not yet registered		5,009
A. II.	Capital contributions	4,721,829	4,223,370
A. II. 1.	Other capital contributions	4,721,829	4,223,370
A. III.	Reserve funds, non-distributable reserves and other reserves	377,807	368,144
A. III. 1.	Statutory reserve fund, non-distributable reserves	358,170	358,170
	2. Statutory and other reserves	19,637	9,974
A. IV.	Retained earnings	237,712	225,764
A. IV. 1.	Retained profits	237,712	225,764
A. V.	Net profit (loss) for the current period	247,602	666,853
B.	Liabilities	12,795,902	7,634,942
	out of which: entrusted resources	8,844,795	4,676,004
B. I.	Provisions	448,667	46,165
B. I. 1.	Other provisions	448,667	46,165
B. II.	Long-term liabilities	217,964	316,666
B. II. 1.	Advances received	1,374	45,639
	2. Deferred tax liability	216,590	271,027
B. III.	Short-term liabilities	11,597,352	6,328,672
	out of which: entrusted resources	8,816,677	3,732,565
B. III. 1.	Trade payables	9,553,732	4,347,968
	out of which: entrusted resources	8,816,677	3,732,565
	2. Liabilities to employees	587,373	636,702
	3. Liabilities for social security and health insurance	299,901	343,050
	4. Taxes and state subsidies payable	97,296	102,474
	5. Advances received	1,703	11,182
	6. Anticipated liabilities	902,040	758,490
	7. Other payables	155,307	128,806
B. IV.	Bank loans and overdrafts	531,919	943,439
	out of which: entrusted resources	28,118	943,439
B. IV. 1.	Long-term bank loans	415,611	
	2. Short-term bank loans and overdrafts	116,308	943,439
	out of which: entrusted resources	28,118	943,439
C.	Other Liabilities	443,128	250,699
C. I.	Accruals and deferrals	443,128	250,699
C. I. 1.	Accruals	63,169	101,982
	2. Deferred revenue	379,959	148,717
TOTAL LIABILITIES		22,411,908	16,956,480
out of which: entrusted resources		8,844,795	4,676,004

# Income Statement

Identification	Text	2006	2005
as at 31 December 2006 (in CZK thousand)		Accounting period	
I.	Sales of goods	428,661	514,557
A.	Cost of goods sold	322,601	401,448
+	Gross profit	106,060	113,109
II.	Sale of production	16,774,179	16,601,327
II. 1.	Sales of own products and services	16,757,654	16,586,349
II. 2.	Own work capitalised	16,525	14,978
B.	Cost of sales	3,975,621	4,029,731
B. 1.	Raw materials and consumables	1,389,371	1,430,845
B. 2.	Services	2,586,250	2,598,886
+	Added value	12,904,618	12,684,705
C.	Staff costs	10,781,441	10,391,531
C. 1.	Wages and salaries	7,749,625	7,476,840
C. 2.	Emoluments fo board members	1,942	2,901
C. 3.	Social security costs	2,711,438	2,589,091
C. 4.	Other social costs	318,436	322,699
D.	Taxes and charges	31,553	28,741
E.	Depreciation of long-term assets	790,481	815,866
III.	Sale of long-term assets and raw material	152,791	42,676
III. 1.	Sale of long-term assets	150,787	40,216
III. 2.	Sale of raw materials	2,004	2,460
F.	Net book amount of long-term assets and raw materials	47,467	16,235
F. 1.	Net book amount of long-term assets sold	46,017	14,158
F. 2.	Net book amount of raw materials sold	1,450	2,077
G.	Change in operating provisions and complex prepaid expenses	401,805	52,824
IV.	Other operating income	173,324	176,819
H.	Other operating charges	895,413	759,010
*	Operating result	282,573	839,993
VI.	Income from sales of securities and shares	808,682	250,418
J.	Securities and shares sold	804,650	249,183
VII.	Income from long-term investments	431	718
VII. 1.	Income from investments in controlled entities/subsidiaries	431	718
VIII.	Income from short-term investments	14,076	1,636
IX.	Gain on revaluation of securities and derivatives	8,222	10,955
X.	Interest income	70,884	78,313
N.	Interest expense	6,246	1,018
XI.	Other financial income	34,258	25,260
O.	Other financial expense	46,250	38,513
*	Financial result	79,407	78,586
Q.	Tax on profit or loss on ordinary activities	83,647	253,432
Q. 1.	- current	138,084	147,632
Q. 2.	- deferred	(54,437)	105,800
**	Profit or loss on ordinary activities after taxation	278,333	665,147
XIII.	Extraordinary income	3,758	4,010
R.	Extraordinary charges	34,572	1,914
S.	Tax on extraordinary profit or loss	(83)	390
S. 1.	- current	(83)	390
*	Profit or loss on extraordinary items after taxation	(30,731)	1,706
***	Net profit or loss for the financial period	247,602	666,853
***	Profit or loss before taxation	331,166	920,675



# Cash Flow Statement

Identification		2006	2005
as at 31 December 2006 (in CZK thousand)			
P.	Cash and cash equivalents at the beginning of the year	6,647,904	6,931,976
P.	out of which: entrusted resources	4,049,389	5,319,943
Z.	Net profit/(loss) on ordinary activities before tax	361,980	918,578
A.1	Adjustments for non-cash movements:	1,045,148	764,539
A.1.1	Depreciation and amortisation of fixed assets	813,182	817,020
A.1.2	Change in provisions	401,805	52,824
A.1.3	(Profit)/loss from disposal of fixed assets	(104,770)	(27,292)
A.1.4	Dividend income	(431)	(718)
A.1.5	Net interest expense/(income)	(64,638)	(77,295)
A.*	Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items	1,407,128	1,683,117
A.2	Working capital changes:	4,311,386	(763,881)
A.2.1	Change in receivables and prepayments	113,981	(390,459)
A.2.1	out of which: entrusted resources	178,063	(325,277)
A.2.2	Change in short-term payables and accruals	4,205,170	(360,272)
A.2.2	out of which: entrusted resources	4,168,791	(945,277)
A.2.3	Change decrease in inventories	(7,765)	(13,150)
A.**	Net cash flow from ordinary activities before tax and extraordinary items	5,718,514	919,236
A.**	out of which: entrusted resources	4,346,854	(1,270,554)
A.3	Interest paid	(6,246)	(1,018)
A.4	Interest received	70,884	78,313
A.5	Income tax on ordinary activities paid	(99,190)	(122,236)
A.6	Cash movements relating to extraordinary profit/(loss)	(30,731)	1,707
A.7	Dividends received	431	718
A ***	Net cash flow from ordinary activities	5,653,662	876,720
A ***	out of which: entrusted resources	4,346,854	(1,270,554)
B.1	Acquisition of fixed assets	(1,589,323)	(1,308,791)
B.2	Proceeds from sale of fixed assets	149,526	290,473
B***	Net cash flow from investing activities	(1,439,797)	(1,018,318)
C.1	Change in long-term and short-term liabilities	461,344	9,504
C.2	Changes in equity:	(146,783)	(151,978)
C.2.5	Cash contribution to funds	(146,783)	(151,978)
C***	Net cash flow from financing activities	314,561	(142,474)
F.	Net increase /(decrease) in cash and cash equivalents	4,528,426	(284,072)
F.	out of which: entrusted resources	4,346,854	(1,270,554)
R.	Cash and cash equivalents at the end of the year	11,176,330	6,647,904
R.	out of which: entrusted resources	8,396,243	4,049,389

# Notes to the Financial Statements

## 1. Description of the Company

Česká pošta, s.p. (hereinafter referred to as “the Company”) is a state enterprise. It is a legal entity conducting business activities using the government’s assets in its own name and on its own account. The Company was established on 1 January 1993. Its registered office is in Prague 3, Olšanská 38/9, Czech Republic, the Company is registered under identification number 47114983. The founder of the Company is the government. As the founder of the Company, the government is represented by the Ministry of Informatics of the Czech Republic.

### The main objects of the Company include:

- a) performance of postal operations in the territory of the Czech Republic within the following scope:
  - » posting, transport and delivery of mail, including electronic mail, and operation of the postal system and system of payments within the internal postal system,
  - » posting, transport and delivery of mail, including electronic mail, and provision of cash services according to international agreements within the international postal system,
  - » express and courier mail transport with guaranteed delivery times including international postal services,
- b) construction, operation and development of a standard unified postal network in the Czech Republic and the related activities including servicing and maintenance for domestic and foreign equipment essential or related to postal operations,
- c) development, import and export of technical and operating resources of the Czech Post.

### As at 31 December 2006, the Company was organisationally divided into headquarters and 7 regional branches:

- » Czech Post Headquarters, Olšanská 38/9, Praha 3,
- » Regional Branch Central Bohemia, Politických vězňů 909/4, Praha 1,
- » Regional Branch South Bohemia, Senovážné náměstí 240, České Budějovice,
- » Regional Branch West Bohemia, Solní 260, Plzeň,
- » Regional Branch North Bohemia, Berní 2119, Ústí nad Labem,
- » Regional Branch East Bohemia, Na Hrádku 105, Pardubice,
- » Regional Branch South Moravia, Orlí 655, Brno,
- » Regional Branch North Moravia, Poštovní 1368, Ostrava.

During the year, the organisation structure of the Company changed significantly in order to make the management system more efficient and to make the necessary changes that will enable implementation of line management and centralisation of service activities.

Specialised branches were dissolved (International Operations, Supplier and Commercial Services, VAKUS) and the organisation of the headquarters and regional branches was changed in the course of 2006.

On 22 November 2006, the Supervisory Board of the Company discussed the proposed project of transformation of the Company into a joint-stock company wholly-owned by the Czech government, and authorised the Director General of the Company, JUDr. Karel Kratina, to proceed with the project in more detail.

The bodies of the Company are the Director General and the Supervisory Board. The Director General is the Company’s statutory body and he also appoints his deputies who fully represent him when he is absent. The top management of the Company, i.e., the Director General and his deputies, as at 31 December 2006 are as follows:

### **Top Management of the Company**

**Karel Kratina** Director General

**Miroslav Špaček** Deputy Director General, Operations

**Iva Steinerová** Deputy Director General, Technology and Network Development

**Ladislav Musil** Deputy Director General, Finance

**Alois Těšitel** Deputy Director General, Commerce

**Petr Angelis** Deputy Director General, International Relations

**Marek Borusík** Deputy Director General, Governmental Services

**Pavel Kolář** Deputy Director General, Human Resources

**Jan Balák** Deputy Director General, Technical Resources

All changes in the organisational structure, top management of the Company, and the regional branches were registered in the Commercial Register as at 31 December 2006.

### **Members of the Supervisory Board as at 31 December 2006 were as follows:**

**Jiří Hurych** Chairman

**Ondřej Felix** Deputy chairman

**Karel Koukal** Deputy chairman

**Vladimír Budinský** Member

**Vratislav Kroužecký** Member

**Petr Kužel** Member

**Ivana Musilová** Member

**Jiří Štráberger** Member

**Milan Votruba** Member

The Company holds a postal license pursuant to the Postal Services Act No. 29/2000 Coll., as amended. The postal license was granted to the Company by the Czech Telecommunication Office for the period from 1 January 2006 to 31 December 2008.

### **By granting the postal license, the holder is in the public interest:**

- a) granted an exclusive license to operate postal services involving delivery of mail with a weight less than 50g and at price lower than CZK 18 (hereinafter referred to as the "postal license");
- b) under the obligation to provide basic services; and
- c) under the obligation to ensure general availability of the basic services to which the postal license applies, in the entire territory of the Czech Republic.

Within its regulatory powers, the Czech Telecommunication Office has set basic quality requirements for the Company concerning, for example, density of service points, working hours for the public, methods of delivery to recipients, speed of transport, handling of complaints, etc. These quality requirements are assessed on an annual basis in the report on the fulfillment of obligations of Czech Post in the area of basic services, issued by the Czech Telecommunication Office. The 2006 report has not yet been published as at the date of these financial statements. It is expected to be published in April 2007.

## **2. Basis of preparation**

The financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and Decree No. 500/2002 Coll. related to this Act and pursuant to Czech accounting standards for businesses applicable for the year 2006. The financial statements have been prepared under the historical cost convention except as disclosed below.

## **3. Accounting policies**

The accounting policies that the Company applied in preparing the 2006 financial statements are as follows:

### **a) Intangible fixed assets**

Purchased intangible fixed assets are recorded at cost, which include costs incurred in bringing the assets to their present location and condition. All research costs are expensed.

Intangible fixed assets with a unit cost more than CZK 60 thousands are amortised applying the straight-line method over their estimated useful lives, according to Company's amortization schedule which is 4 years.

Intangible fixed assets with a unit cost less than CZK 60 thousands are expensed upon acquisition and carried only in an off-balance sheet records.

The cost limit for the inclusion of technical appreciation of intangible fixed assets is CZK 40 thousands.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

### **b) Tangible fixed assets**

Acquired tangible fixed assets are recorded at cost, which include costs incurred in bringing the assets to their present location and condition such as freight, customs duties and other related costs. The accounting unit does not include interest on loans in the acquisition cost of tangible fixed assets.

Tangible fixed assets acquired free-of-charge are valued at their replacement cost and are recorded with a corresponding credit to the other capital funds account on the date of acquisition. The replacement cost of these assets is based on an expert opinion or on market prices of comparable fixed assets in terms of their wear and tear and performance.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount.

If the net book value of a cash-generating unit exceeds its estimated selling price, the net book value of the cash-generating unit shall be reduced by a provision to equal the estimated selling price. A cash-generating unit is the smallest identifiable group of assets that generates cash revenues significantly independent on cash revenues from other assets or asset group. The Company considers the entire accounting unit a cash-generating unit.

The Company created provision for tangible fixed assets, particularly in the case of projects the implementation of which, if any, is uncertain, or, in the event of a sale, the estimated selling price – after having taken into account the sale-related costs - has been determined lower than the net book value of the respective asset.

Government subsidies contributed towards the acquisition of tangible fixed assets as well as revenues generated on the operation of such assets before they are put in use are deducted from the cost of related asset.

The costs of technical improvements are capitalized. Ordinary repairs and maintenance expenses are expensed as incurred.

Tangible fixed assets with a unit cost less than CZK 40,000 are treated as inventory and are expensed upon consumption and carried only in an off-balance sheet records.

Tangible fixed assets with a unit cost more than CZK 40,000 are depreciated applying the straight-line method over their estimated useful lives as follows:

## b) Tangible fixed assets

	Number of years
Buildings, halls and structures	20–45
Machinery and equipment	4–15
Transport vehicles	6–20
Furniture and fixtures	10–20
Handling equipment	6–20
Computers and related equipment	3

## c) Long-term financial assets

Long-term financial assets consist particularly of equity investments and other long-term securities and shares.

Equity investments in subsidiaries are valued at cost less provision for diminution in value. A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies in order to obtain benefits from its activities.

Other long-term securities, other than equity investments, are represented by available-for-sale securities. These investments are intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates. They are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or if the investments need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of investments at the time of purchase and the classification is reviewed on a regular basis.

Pursuant to the applicable regulations, the Company determined the fair value of the available-for-sale securities using the acquisition cost because market value is not available and valuation by a certified expert's opinion would not be effective in respect of the costs. Provision is created for a diminution in value.

## d) Inventories

Inventories are stated at the lower of cost and net realisable amount. Cost includes the appropriate overheads incurred to bring inventory to its present state and location (mainly transport, customs duty, etc.). The weighted average cost is applied for all disposals.

A provision is created for slow-moving and obsolete inventory based on an analysis of turnover and individual evaluation of inventories at the year-end.

## e) Receivables

Receivables are stated at the nominal value less a provision for doubtful amounts. A provision for bad debts is created on the basis of an aging analysis and individual evaluation of the collectibility of the receivables as at the year end.

## f) Short-term financial assets

Short-term financial assets consist of valuables, cash in hand and in the bank and trading securities.

Short-term financial assets also include entrusted resources; see Note 3g – Entrusted resources.

Trading investments are securities that are acquired principally for the purpose of performing transactions generating profits from short-term fluctuations in price.

These securities are valued at cost, including transaction costs, such as fees and commissions to brokers and stock exchanges. They are subsequently re-valued at the fair value and the change of the fair value is recorded as costs or revenues as the case may be.

The fair value is determined as the market value of the securities at the balance sheet date, or as a management estimate or expert valuation based on recognised models or valuation techniques, if the market value is not available.

#### **g) Entrusted resources**

In some cases, financial resources of third parties are temporarily entrusted to the Company in order to perform specific transactions (services of the clients of Československá obchodní banka, a. s., collection of radio and television license fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, highway stickers, postal payment services, etc.). These resources are recorded in a separate accounting group apart from the own financial resources, and in the attached financial statements they are posted in separate rows. The Company charges an agreed commission for performing the specific transactions, which is recognized at the time of rendering particular service.

#### **h) Equity**

The financial position and funds of the Company are governed by the State Enterprise Act No. 77/1997 Coll., as amended. Under this act, the share capital corresponds to the business property to which the entity has a title upon its establishment. The registered capital includes both registered and non-registered capital of the Company in compliance with accounting legislation. Other capital funds are created by the Company in accordance with the accounting standards and Accounting Act.

In addition, the Company creates a reserve fund based on profit. Upon the establishment of the Company, the level of its reserve fund was set by its founder at 10% of the share capital. The reserve fund is further gradually increased by an allocated contribution of 10% of net profit annually.

The Company creates a cultural and social fund. The creation and use of this fund is governed by Section 16 of Decree No. 114/2002 Coll., reading Decree No. 310/1995 Coll. In connection with the above-mentioned legislation, the cultural and social fund is created during the accounting period by means of advance payments, and the related receivable is netted off against the net profit in the following accounting period ; see Notes 6 – Receivables and 10 – Equity.

#### **i) Provisions and Liabilities**

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

Long-term and short-term liabilities are recorded at their nominal values.

Short-term and long-term loans are recorded at their nominal values. Any portion of long-term debt, which is due within one year of the balance sheet date, is regarded as short-term debt.

#### **j) Leases**

The costs of assets held under both finance and operating leases are recorded as expenses evenly over the life of the lease. Amounts payable in future periods but not yet due are disclosed in the notes but not recognised in the balance sheet. The Company includes the respective value of the leased asset at the time when the lease agreement terminates and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses.

### **k) Foreign currency translation**

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the first day of the calendar quarter.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. All foreign exchange gains and losses from translation of receivables are recognised in the profit and loss account.

### **l) Recognition of expenses and revenues**

Revenues and expenses, in general, are recognised on an accrual basis.

Sales are recognised upon the performance of services (with exceptions as described below) or sale of goods to customers.

Revenues from postal services realised as cash through the sale of postal stamps are charged at the time of sale of the stamp. The Company does not have the necessary information that would allow it to record revenues from these services on deferral basis in respect of the respective accounting periods in which customers actually use the postal stamps purchased.

Management of the Company believes that the costs of collection of such information related to the time allocation needed for these services realised through the sale of postal stamps would exceed the benefits of such information.

Revenues from prepaid postal services have been realised since 2006 at the moment of provision of the postal service; see also Note 3q – Changes of the accounting methods.

Revenues from agency services include the commission received for the services provided in the relevant accounting period on an accrual basis.

The costs of certain employee benefits (jubilee payments and retirement benefits) are posted in the period of payment, because of the repetitive nature and the relative insignificance relating to the total amount of staff costs.

The Company provides for any risks, losses or physical damage that are known as of the financial statements date.

### **m) Income tax**

The corporate income tax expense is calculated based on the enacted statutory tax rate from the accounting profit, increased or decreased by the appropriate permanent and temporary non-deductible expenses and non-taxable revenues (e.g. non-deductible provisions and allowances, representation expenses, differences between accounting and tax depreciation, etc.).

Corporate income tax is recorded in the balance sheet as a part of the provisions in the event that the tax liability exceeds the tax advance payments. Otherwise, the amount exceeding the tax liability as a result of the advance payments is recorded under "state - tax receivables". The tax expense is recorded in the income statement as a tax related to ordinary activities in the current period.

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

#### **n) Pension plans**

The Company provides its employees with supplemental pension insurance according to the principles set out in the collective agreement. In addition, the Company pays regular contributions to the state pension system.

#### **o) Related parties**

The Company's related parties are considered to be the following:

- » The state represented by the founder of the Company, government institutions, state-owned enterprises and companies, and other legal entities, if any, where the government has a significant or dominating influence;
- » Members of statutory, supervisory and management bodies and entities related to these parties, including companies or institutions or businesses where these members and parties have significant or dominating influence; and
- » Companies that share a common member of management with the Company.

This methodology of reporting related parties has been applied since 1 January 2006. Only a subsidiary was considered a related party in the 2005 financial statements. Comparable information was reported consistent with the 2006 methodology.

Important transactions with related parties are listed in Note 22 – Transactions with related parties.

#### **p) Subsequent events**

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

#### **q) Changes of the accounting methods**

In 2006, the Company changed the method of reporting revenues from prepaid postal services, in order to make the truer and fairer picture of the financial statements. The revenue is no longer recognised at the date of receiving an advance payment but at the moment of provision of the service. The impact of the above-described change on the profit for the current period before tax amounted to CZK 320,032,000 (decrease), whereas the amount of CZK 122,920,000 was recorded as a decrease of revenues from the sale of the Company's own products and services and the amount of CZK 197,112,000 was recorded as a provision increase, expressing the estimate of non-realised postal services.

The Company also changed the method of reporting some types of bonuses and compensations to employees in order to make the truer and fairer picture of the financial statements, more specifically the existing obligation to employees as of the date of the financial statements. The one-off impact of this change of the accounting policies resulted in additional costs before tax in the total amount of CZK 259,117,000. The above-mentioned change affected the HR costs in the amount of CZK 106,917,000 and the provision increase in the amount of CZK 152,260,000.



According to Czech accounting regulation, the impact of the above mentioned-changes of the accounting methods were not accounted for retrospectively, i.e. were not projected to the accounting period prior to 1 January 2006.

In addition, the Company made some reclassifications on the face of balance sheet and income statement in order to improve their quality. In this respect, the Company made analogical changes to comparable data, unless it is stated otherwise hereafter. The impact of the above-mentioned changes is significant neither cumulatively nor in respect of the individual items.

## 4. Fixed assets

### a) Intangible fixed assets

Acquisition cost (CZK thousand)	Opening balance	Additions/transfers	Disposals/transfers	Closing balance
Software	868,699	133,368	(10,273)	991,794
Royalties	719	121	0	840
Other intangible fixed assets	116,955	69,383	0	186,338
Intangible fixed assets in the course of construction	34,452	173,101	(200,629)	6,924
<b>Total 2006</b>	<b>1,020,825</b>	<b>375,973</b>	<b>(210,902)</b>	<b>1,185,896</b>
<b>Total 2005</b>	<b>919,047</b>	<b>226,542</b>	<b>(124,764)</b>	<b>1,020,825</b>

Accumulated amortisation (CZK thousand)	Opening balance	Additions/transfers	Disposals/transfers	Closing balance	Net book value
Software	(651,401)	(139,788)	10,273	(780,916)	210,877
Royalties	(136)	(128)	0	(264)	576
Other intangible fixed assets	(54,713)	(30,759)	0	(85,472)	100,866
Intangible fixed assets in the course of construction	0	0	0	0	6,924
<b>Total 2006</b>	<b>(706,250)</b>	<b>(170,675)</b>	<b>10,273</b>	<b>(866,652)</b>	<b>319,243</b>
<b>Total 2005</b>	<b>(599,785)</b>	<b>(149,323)</b>	<b>42,858</b>	<b>(706,250)</b>	<b>314,575</b>

The total value of low-valued intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 113,199,000 in acquisition costs as at 31 December 2006 and CZK 95,270,000 as at 31 December 2005.

### b) Tangible fixed assets

Acquisition cost (CZK thousand)	Opening balance	Additions/transfers	Disposals/transfers	Closing balance
Land	754,852	7,291	(11,606)	750,537
Buildings, halls and constructions	7,955,679	190,009	(85,654)	8,060,034
Machinery and equipment	3,127,512	158,349	(116,048)	3,169,813
Vehicles	1,824,156	254,469	(122,969)	1,955,656
Furniture and fixtures	584,392	15,796	(10,523)	589,665
Other tangible fixed assets	804,053	312	(30,413)	773,952
Works of art	3,709	0	(2)	3,707
Tangible fixed assets in the course of construction	386,979	1,733,118	(626,227)	1,493,870
Advance payments for tangible fixed assets	23,461	39,113	(37,400)	25,174
<b>Total 2006</b>	<b>15,464,793</b>	<b>2,398,457</b>	<b>(1,040,842)</b>	<b>16,822,408</b>
<b>Total 2005</b>	<b>14,774,665</b>	<b>1,941,334</b>	<b>(1,251,206)</b>	<b>15,464,793</b>

Adjustments, provisions and net book value (CZK thousand)	Opening balance	Additions/transfers	Disposals/transfers	Closing balance	Provisions	Net book value
Land	0	0	0	0	(2,029)	748,508
Buildings, halls and constructions	(2,782,702)	(198,170)	49,674	(2,931,198)	(20,066)	5,108,770
Machinery and equipment	(2,521,685)	(218,832)	115,321	(2,625,196)	0	544,617
Vehicles	(1,151,392)	(186,371)	0	(1,217,973)	0	737,683
Furniture and fixtures	(458,069)	(17,716)	10,821	(464,964)	0	124,701
Other tangible fixed assets	(789,891)	(11,724)	30,573	(771,042)	0	2,910
Works of art	0	0	0	0	0	3,707
Tangible fixed assets in the course of construction	0	0	0	0	(10,522)	1,483,348
Advance payments for tangible fixed assets	0	0	0	0	0	25,174
<b>Total 2006</b>	<b>(7,703,739)</b>	<b>(632,813)</b>	<b>326,179</b>	<b>(8,010,373)</b>	<b>(32,617)</b>	<b>8,779,418</b>
<b>Total 2005</b>	<b>(7,295,809)</b>	<b>(678,123)</b>	<b>270,193</b>	<b>(7,703,739)</b>	<b>(32,970)</b>	<b>7,728,084</b>

The total value of low-valued tangible fixed assets, which are not reflected in the balance sheet, was CZK 1,672,084,000 in acquisition costs as at 31 December 2006, and CZK 1,486,569,000 as at 31 December 2005.

Based on the stock-taking performed, the Company has adjusted the carrying value of the tangible fixed assets for diminution in value through provisions (see Note 7 - Provisions).

In 2006 and 2005, the Company did not establish statutory reserves for repairs of tangible fixed assets, as these assets are repaired and maintained on a regular basis.

In 2006 and 2005, the Company acquired tangible fixed assets free-of-charge worth CZK 1,220,000 and CZK 2,951,000, respectively. These assets comprise land acquired from restitution, by donation or transfer from Telefónica O2 Czech Republic, a.s. (formerly ČESKÝ TELECOM, a.s.) (completion of the delimitation of assets) and from state authorities.

As at 31 December 2006 and 31 December 2005, certain tangible fixed assets (scarcely used recreational facilities, property located at Opletalova Street in Prague, unused land, closed-down post offices, warehouses, apartments, lodging houses, etc.) were no longer in use and were held for sale and renovation. These had acquisition cost of CZK 143,078,000 and CZK 204,735,000, with accumulated depreciation of CZK 65,320,000 and CZK 83,101,000. The estimated selling price of these assets exceeds their net book value. In 2006, fixed assets of the Company in the total amount of CZK 150,787,000 were sold.

In 2006 and 2005, in addition to the easement for the benefit of PCS –Praha Center s.r.o. created in relation to the post office building at Jindřišská, Prague 1 according to an agreement entered into on 16 April 1997, which is in force until 31 March 2042, the Company has other approximately 164 (2005: 138) minor easements (rights of sewage piping, water mains, power and gas piping connection, hot-water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) mainly created for the benefit of the community and municipal authorities, Telefónica O2 Czech Republic, a.s. (formerly ČESKÝ TELECOM, a.s.) and power producers and distributors.

### c) Long-term financial assets

As at 31 December 2006 and 31 December 2005, the Company exercised a dominating influence in Poštovní tiskárna cenin Praha, a.s., having its registered office at Ortenovo náměstí 542/16, Praha 7 – Holešovice.

(CZK thousand)	2006	2005
Total assets	90,967	89,489
Equity	83,314	82,574
Profit for the current year	2,034	309
Acquisition cost of the shares	17,746	17,746
Nominal value of the shares	16,903	16,903
Intrinsic value of the shares *	42,515	42,138
Dividends received	431	718
Equity investment in %	51.03 %	51.03 %

\* Company's share in equity capital of the controlled company as at 31 December.

Financial information on this company was retrieved from financial statements verified by an auditor.

As at 31 December 2006 or 31 December 2005, the Company did not provide the company over which it exercises dominating influence with any loan or credit.

**Other long-term securities and investments comprise:**

- a) 233,630 shares of IPB, a.s., (currently IP Exit, a.s.) with a nominal value of CZK 23,363,000 and with acquisition cost of CZK 39,717,000; this equity investment was fully provided for;
- b) equity investment in "Asociace direct marketingových agentur" (Direct Marketing Agencies Association) totalling CZK 80,000.

## 5. Inventory

The Company used provisions to adjust the value of inventory (see Note 7 – Provisions).

## 6. Receivables

As at 31 December 2006 and 31 December 2005, receivables overdue for more than 180 days amounted to CZK 112,535,000 and CZK 94,922,000, respectively. Outstanding overdue receivables are not secured.

In addition, the Company wrote off as expenses in 2006 and 2005 receivables in the amount of CZK 6,782,000 and CZK 7,954,000, respectively, due to irrecoverability, dismissal of bankruptcy petition and settlement or non-satisfaction of debts in bankruptcy proceedings.

As at 31 December 2006 and 31 December 2005, the Company had long-term receivables in the net amount of CZK 8,369,000 and CZK 7,081,000, respectively. As at 31 December 2006 and 31 December 2005, receivables with a maturity period longer than 5 years were CZK 1,065,000 and CZK 2,357,000, respectively. In most cases they relate to advance payments for rent, advance payments for meal vouchers and fuelling using CCS cards.

Receivables from related parties are listed under Note 22 – Transactions with related parties.

As at 31 December 2006 and 31 December 2005, receivables resulting from the creation of the cultural and social fund by advance payments (see Note 3h – Equity capital) amounting to CZK 162,738,000 and CZK 156,446,000, respectively.

The Anticipated receivables and payables primarily comprise accounting for international postal operations. Operating records on incoming and outgoing mail so far not confirmed by individual postal administrations were recorded as anticipated receivables and payables with the double entry in operating expenses and revenues, based on operating statistics.

## 7. Provisions

Provisions reflect a temporary reduction of the value of assets (specified under Notes 4 – Fixed assets, 5 – Inventory and 6 – Receivables).

Changes in the provisions accounts:

Provisions against: (CZK thousand)	Balance as at 1 January 2005	Creation	Dissolution/usage	Balance as at 31 December 2005	Creation	Dissolution/usage	Balance as at 31 December 2006
Tangible fixed assets	29,096	4,224	(350)	32,970	3,770	(4,123)	32,617
Long-term financial assets	39,717	0	0	39,717	0	0	39,717
Inventory	4,916	2,347	(3,624)	3,639	4,570	(3,592)	4,617
Receivables – statutory	17,969	6,593	(7,907)	16,655	5,520	(4,895)	17,280
Receivables – other	95,756	43,851	(38,214)	101,393	5,157	(7,118)	99,432

Statutory provisions are created in compliance with the Reserves Act and are deductible for tax purposes, other provisions are non-deductible for tax purposes.

## 8. Short-term financial assets

The main bank used by the Company is Československá obchodní banka, a.s. (ČSOB) in which the Company has two cash-pooling sets of accounts, a set of current accounts and a set of accounts with entrusted resources. An overdraft facility that enables the Company to have negative balance is agreed for the set of accounts with entrusted resources.

As at 31 December 2006, the overdraft facility was not used. As at 31 December 2005, the resources from the set of accounts with entrusted resources were used in the total amount of CZK 917,127,000 (overdraft facility in CZK) and CZK 26,312,000 (overdraft facility in EUR) (see Notes 14 – Bank loans and borrowings, and 23 – Entrusted resources), within the agreed overdraft limit.

The Company's term deposits totaled CZK 3,840,000,000 as at 31 December 2006. A time deposit with individual interest rate of Komerční banka, a.s. in the amount of CZK 10,000,000 is used from 17 March 2005 as a security for the loan provided by this bank according to the requirements of the Czech Ministry of Finance in relation to the sale of highway stickers (see Note 18 – Assets and liabilities not recorded in the balance sheet). The time deposit was prolonged in 2006 until 19 March 2007.

Other terms deposit have a maturity period of 90 days or less, and bear interest at the market interest rate.

Short-term securities and shares as at 31 December:

Bank	Type	2006 (CZK thousand)	2005 (CZK thousand)
Komerční banka, a.s.	Depository note	800,000	0
ČSOB, a.s.	Mortgage bonds VAR/15	0	404,293
ČP Invest, a.s.	Corporate Bond Fund	212,104	208,046
Credit Suisse Asset Management a.s.	Credit Suisse CZK - money-market open-end unit trust	159,042	154,879
<b>Total</b>		<b>1,171,146</b>	<b>767,218</b>

## 9. Accruals and deferrals

Prepaid expenses of 2006 and 2005 particularly consist of prepaid rent.

Accrued revenue particularly consist of accrued revenues due to agency services provided, among others, to ČSOB, a.s., and are recognised as income in the period in which they were earned.

## 10. Equity

Changes in the share registered capital not entered in the Commercial Register particularly relate to the transfers of land from the Czech Land Fund, municipal and local authorities and the completion of asset delimitation with Telefónica O2 Czech Republic, a.s. (formerly ČESKÝ TELECOM, a.s.).

Other capital funds comprise allocations from profit for investment purposes or received gifts.

The reserve fund has been allocated gradually 10% of profit after tax annually. Due to the changes in equity, it is expected that additional contributions to the reserve fund will be made from the profit of the previous years.

Other funds created from profit include the cultural and social fund.

The following changes in equity occurred in 2006 and 2005:

(CZK thousand)	Share capital	Other capital funds	Statutory reserve fund	Other funds	Profit/loss in the current period	Retained earnings	Total
Balance as at 1 January 2005	3,586,611	4,019,751	343,170	12,345	444,599	149,583	8,556,059
Allocation from profit	0	201,218	15,000	152,200	(444,599)	76,181	0
Other increases	550	2,401	0	0	0	0	2,951
Decrease	(453)	0	0	(154,571)	0	0	(155,024)
Profit in the current period	0	0	0	0	666,853	0	666,853
Balance as at 31 December 2005	3,586,708	4,223,370	358,170	9,974	666,853	225,764	9,070,839
Allocation from profit	0	498,459	0	156,446	(666,853)	11,948	0
Other increases	1,220	0	0	0	0	0	1,220
Use of the cultural and social fund	0	0	0	(146,783)	0	0	(146,783)
Profit in the current period	0	0	0	0	247,602	0	247,602
Balance as at 31 December 2006	3,587,928	4,721,829	358,170	19,637	247,602	237,712	9,172,878

As at 31 December 2006, the share capital not entered in the Commercial Register is recorded under Share capital pursuant to section 14 subsection 1 of Decree No. 500/2002 Coll., which implements some provisions of the Accounting Act No. 563/1991 Coll., as amended. As at 31 December 2005, it was recorded under Changes in the share capital. Comparable information was not re-classified.

Share capital includes the part that was not entered in the Commercial Register as at 31 December 2006. It amounts to CZK 6,229,000; as at 31 December 2005, it amounts to CZK 5,009,000.

Profit in 2005 was distributed according to the founder's approval dated 31 May 2006.

## 11. Provisions for liabilities

(CZK thousand)	Balance as at 1 January 2005	Creation	Dissolution/usage	Balance as at 31 December 2005	Creation	Dissolution/usage	Balance as at 31 December 2006
Social and health insurance	0	46,089	0	46,089	115,201	(46,089)	115,201
Unused holiday	0	0	0	0	112,319	0	112,319
Prepaid postal services	0	0	0	0	197,112	0	197,112
Other	261	76	(261)	76	24,035	(76)	24,035
<b>Total</b>	<b>261</b>	<b>46,165</b>	<b>(261)</b>	<b>46,165</b>	<b>448,667</b>	<b>(46,165)</b>	<b>448,667</b>

Provision for social and health insurance is created for unpaid contracted wages, profit-related bonuses, unused holiday and other employee benefits.

Provision for prepaid postal services represents estimated liability for the unused credit related to the postal services; see Note 3q – Changes of the accounting methods.

## 12. Long-term liabilities

Long-term advance payments as at 31 December 2006 and 31 December 2005 in the amount of CZK 1,374,000 and CZK 45,639,000, respectively, were received for cash-free postage payments. In 2006, the items payable upon request were transferred to short-term liabilities. Comparable information was not adjusted.

Deferred tax liability is described under Note 16 – Income tax.

## 13. Short-term liabilities

As at 31 December 2006 and 31 December 2005, the Company had overdue short-term liabilities in the amount of CZK 8,201,000 and CZK 3,660,000, respectively (late delivery of invoices from suppliers, invoices sent back unpaid due to formal discrepancies, invoices for net-off).

As at 31 December 2006, long-term or short-term liabilities have not been secured over any assets of the Company.

Payables to related parties are listed under Note 22 – Transactions with related parties.

Anticipated payables include particularly accounting for costs and revenues associated with international postal operations (see Note 6 - Receivables), uninvoiced operating deliveries of services and utilities and estimated staff bonuses.

Trade payables have grown on year-on-year basis mainly due to entrusted resources; see Note 23 – Entrusted resources.

## 14. Bank loans and borrowings

### a) In CZK

Bank	Terms Conditions	Overall limit (CZK thousand)	31 December 2006 (CZK thousand)	31 December 2005 (CZK thousand)
Československá obchodní banka, a.s.	2W PRIBOR, first range – 0.5% p.a., second range + 5% p.a., 5 days a month credit balance*	1,600,000	0	917 127
Česká spořitelna, a.s.	1 Feb 2006 – 31 Aug 2013 3.68 p.a. no collateral	708,000	503,801	0
<b>Balance</b>			<b>503,801</b>	<b>917,127</b>
<b>Out of which:</b>	<b>payable in one year</b>		<b>88,190</b>	<b>917,127</b>
	<b>maturity period 1–5 years</b>		<b>369,349</b>	<b>0</b>
	<b>maturity period 5 and more years</b>		<b>46,262</b>	<b>0</b>

\* This is an overdraft facility (see Note 8 – Short-term financial assets).

None of the loan agreements includes special terms and conditions mandatory for the Company.

## b) In EUR

Bank	Terms Conditions	Overall limit (EUR thousand)	Limit as at 31 December 2006 (EUR thousand)	2006		2005	
				EUR thousand	CZK thousand	EUR thousand	CZK thousand
Československá obchodní banka, a.s.	Overdraft facility EURIBOR 3 months + 0.1% p.a.	5 000	2 670	1 023	28 118	907	26 312

The above-mentioned overdraft facility is used solely for cash operations (in EUR) of the banking services provided at selected post-office counters.

## 15. Accrued expenses and deferred income

Accrued expenses consist of contributions in relation to non-compliance with the percentage of employment contracts with fully or partially disabled persons as well as unbilled customer bonuses related to the prepaid postal services, discounts for commercial and PROFÍ parcels, staff bonuses and royalties related to the provision of copying services. These expenses are recorded as expenses in the period in which they occurred.

Deferred income includes in particular prepaid postal fees for the set-up of remote credit machines and accrued compensation for agency services provided to ČSOB, a.s. and also rent of office premises, safes, payments received for apartments sold, and is recognised as income for the year in which it was earned.

In 2006 and 2005, the Company has also been encumbered with an easement for the benefit of PCS – Praha Center s.r.o. – see Note 4b – Tangible fixed assets. A one-off payment in the amount of CZK 49,013,000 is also included in these accruals and is gradually recognised as income, during the effective period of the agreement.

## 16. Income tax

(CZK thousand)	2006	2005
Profit before tax	331,166	920,675
Non-taxable income	(5,742)	(2,743)
Difference between accounting and tax depreciations	(232,741)	(365,291)
Expenses not tax deductible	568,941	94,199
Out of which: Changes in asset-related provisions	(1,337)	8,235
Creation provisions for liabilities	402,502	45,890
Other*	167,776	40,074
Donations	(500)	(514)
Taxable income	661,124	646,326
Income tax rate	24 %	26 %
Calculated income tax	158,670	168,045
Tax relief (persons with disability and partial disability)	(18,021)	(19,084)
Tax payable	140,649	148,961
Overpayments from the previous period	(2,648)	(939)
Income tax expense – payable	138,001	148,022
Out of which: From ordinary activities	138,084	147,632
From extraordinary activities	(83)	390

\* (e.g., accrued expenses, entertainment expenses, shortages and losses)

The Company quantified the deferred tax as follows:

(CZK thousand)	2006		2005	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax
Difference between net book value of fixed assets for accounting and for tax purposes	0	(369,917)	0	(315,227)
Provisions:				
- against receivables	23,864	0	24,334	0
- against inventory	1,108	0	873	0
- against tangible fixed assets	7,828	0	7,913	0
Provisions for liabilities	107,680	0	11,080	0
Other temporary differences	12,847	0	0	0
Total	153,327	(369,917)	44,200	(315,227)
Net deferred tax liability		(216,590)		(271,027)

In 2006, the Company recorded a year-on-year decrease of the deferred tax liability by CZK 54,436,000.

## 17. Leases

The Company leases fixed assets, which are not recorded in the balance sheet accounts; see Note 3j – Leases.

The assets leased by the Company in the form of operational leasing as at 31 December 2006 and 31 December 2005 are as follows:

(CZK thousand)	Lease payments in 2006	Lease payments in 2005	Cost
Passenger vehicles	3,046	3,430	9,317
Other operational leasing	22,314	19,504	69,629

The assets leased by the Company in the form of financial leasing as at 31 December 2006 and 31 December 2005 are as follows:

(CZK thousand)	Terms / Conditions	Sum of lease payments over the period of the expected lease	Actually paid financial lease payments		Schedule of future payments according to the actual maturity date as at 31 December 2006	
			for the year ended on 31 December 2006	from the start of the lease until 31 December 2006	Payable within 1 year	Payable Within a period longer than 1 year
KERN enveloping lines	Lease contracts of 2004 for 36 and 48 months	49,035	13,035	28,589	11,353	9,093

## 18. Assets and liabilities not included in the balance sheet

As at 31 December 2006 and 31 December 2005, the Company had third-party assets, in particular duty stamps, highway stickers and lottery tickets, which were placed on an off-balance sheet account. These items have the nature of valuables and the Company is liable for recovering their nominal value in case of loss or damage. No such loss or damage, for which the Company would have to pay, occurred in 2006 or 2005. In addition, the Company has leased and low-value assets in its operational records that are not included in the balance sheet. As at 31 December 2006 and 31 December 2005, these items were quantified as follows:



(CZK thousand)	2006	2005
Valuables and lottery tickets	2,625,811	3,206,933
Highway stickers	2,088,468	4,324,143
Leased assets – operational leasing	78,946	65,120
Leased assets – financial leasing	49,035	47,796
Assets leased free of charge	131,673	232,169
Low-value tangible assets	1,672,084	1,486,569
Low-value intangible assets	113,199	95,270

Assets leased free-of-charge mainly consist of office and computer equipment and supplies necessary for the performance of agency services.

As at 31 December 2006, the Company records a guarantee of CZK 10,000,000 that was provided by Komerční banka, a.s. upon request of the Ministry of Finance of the Czech Republic in connection with the sale of highway stickers. This guarantee is secured with a fixed term deposit at a branch of Komerční banka, a.s. (see Note 8 – Short-term financial assets).

Contractually capital commitments as at 31 December 2006 amounted to CZK 272,200,000. In addition, the Company recorded commitments related to rentals of non-residential areas.

## 19. Potential liabilities

The Company is the defending party in arbitration proceedings with JUPITER INVEST a.s. concerning the payment of CZK 94,707,000 with ancillary rights. The plaintiff claims this amount as compensation for damage resulting from a breach of the agreement on cooperation in distribution of investment certificates dated 15 August 2002. On 21 February 2007, the arbitration court declared the proceedings closed, and the Company now awaits the results.

The Company's management believes that the plaintiff did not prove all statutory prerequisites for the liability of the Company for the damages, and the case should have therefore been dismissed. The Company did not create a provision in the 2006 financial statements for this arbitration because it has believed that it is not likely that the arbitration will result in a payment of a significant amount.

The Company is also the defending party to other litigations related to its business activities. The Company's management does not expect the results of these litigations to significantly affect the financial position or profit of the Company.

The Company's management is not aware of any other potential liabilities of the Company as at 31 December 2006.

## 20. Revenues

Breakdown of the Company's revenues from its operations:

(CZK thousand)	2006		2005	
	Domestic	International	Domestic	International
Revenues from postal operations	13,996,469	391,930	14,031,718	389,585
Revenues from agency services	2,369,255	0	2,165,046	0
Revenues from the sale of goods	428,661	0	514,557	0
Subtotal of revenues from ordinary activities	16,794,385	391,930	16,711,321	389,585
Revenues from the sale of fixed assets and material	152,791	0	42,676	0
Other revenues from operations	173,324	0	176,819	0
Total revenues from operations	17,120,500	391,930	16,930,816	389,585

Revenues from postal operations also include, in addition to the basic postal products (letters and parcels and money orders), revenues from services provided by Czech Post's Postservis centers (packaging and labeling) and revenues from IT work associated with postal services.

## 21. Employees and staff costs

Breakdown of staff costs:

	2006		2005	
	Total employees	Out of which: Company management	Total employees	Out of which: Company management
Average headcount	37,200	17	38,290	16
in CZK thousand				
Wages	7,749,625	52,698	7,476,840	55,555
Social security and health insurance	2,711,438	19,186	2,589,091	14,109
Social expenses	318,436	124	322,699	119
<b>Total staff costs</b>	<b>10,779,499</b>	<b>72,008</b>	<b>10,388,630</b>	<b>69,783</b>

Due to the organisational changes in the Company and the gradual implementation of linear management during 2006, the structure of managers was altered relative to 2005 when only the members of the Company's top management are recorded. Comparable information has been adjusted accordingly.

On top of the above-mentioned amounts of staff costs, members and former members of statutory and supervisory bodies received remuneration in 2006 and 2005 in the amount of CZK 1,942,000 and CZK 2,901,000, respectively.

Social security and health insurance liabilities amounted to CZK 299,901,000 as at 31 December 2006. This unpaid liability related to wages for December 2006 was paid on 12 January 2007.

## 22. Transactions with related parties

Beside the bonuses and remuneration mentioned under Note 21 – Employees and staff costs, members of the current and former statutory and supervisory bodies and the Company's managers did not receive any loans, guarantees, advance payments or other benefits in 2006 and 2005, with the exception of the Company's managers who use the Company vehicles for their business and private use (paid).

Within its normal business activities the Company executed a number of transactions with its related parties during the year. These transactions were executed under the terms and conditions customary on the market. The transactions executed in 2006 and 2005 and the related receivables from and payables to related parties are as follows:

2006 (CZK thousand)	Sales	Purchases	Receivables	Payables
<b>Subsidiary</b>				
Poštovní tiskárna cenin Praha a.s.	537	48,661	229	2,813
<b>Other related parties</b>				
Czech Television and Czech Radio	234,755	1,688	45	8,773
Suppliers of electricity, heat and water	165,504	56,896	35,488	68,112
Ministry of Finance	33,919	3,012	671	399,465
Tax authorities	101,856	162,517	2,994	97,296
Czech Social Security Administration	543,207	1,981,779	48,264	5,820,790
Health Insurance Company	52,329	411,631	270	57,251
Municipal and local authorities	578,287	41,360	3,004	154,574
Carriers and freight forwarders	10,511	83,894	338	5,841
Other	2,542	12,905	948	6,908
<b>Total</b>	<b>1,723,447</b>	<b>2,804,343</b>	<b>92,251</b>	<b>6,621,823</b>

2005 (CZK thousand)	Sales	Purchases	Receivables	Payables
<b>Subsidiary</b>				
Poštovní tiskárna cenin Praha a.s.	1,328	63,244	52	4,638
<b>Other related parties</b>				
Czech Television and Czech Radio	282,358	924	76	15
Suppliers of electricity, heat and water	131,544	66,443	18,619	10,505
Ministry of Finance	32,626	2,855	56	302,937
Tax authorities	91,149	170,194	28,589	102,474
Czech Social Security Administration	495,620	1,893,622	85,414	1,099,670
Health Insurance Company	40,356	393,302	739	64,291
Municipal and local authorities	274,235	41,597	4,339	5,376
Carriers and freight forwarders	11,972	78,653	819	3,378
Other	1,507	13,296	78	6,909
<b>Total</b>	<b>1,362,695</b>	<b>2,724,130</b>	<b>138,781</b>	<b>1,600,193</b>

Cash transactions relating to postal services provided to related parties are not recorded separately because the cost of determining them would exceed their evidentiary value. These postal services were provided to the related parties under normal market conditions.

Relative to 2005, the definition of related parties is broader – see Note 3o – Related parties. Comparable information has been adjusted.

## 23. Entrusted resources

Analysis of entrusted resources as at 31 December 2006 and 31 December 2005 is as follows:

(CZK thousand)	31 December 2006	31 December 2005
<b>ASSETS</b>		
Short-term receivables	448,552	626,615
Cash	4,893,387	4,039,044
Bank accounts	3,502,856	10,345
<b>Total assets</b>	<b>8,844,795</b>	<b>4,676,004</b>
<b>LIABILITIES</b>		
Short-term payables	8,816,677	3,732,565
Short-term bank loans	28,118	943,439
<b>Total liabilities</b>	<b>8,844,795</b>	<b>4,676,004</b>

Short-term receivables mainly result from the agency services provided to ČSOB, a.s. (e.g. chip-card transactions, cheque transactions, etc.) and to the Czech Social Security Administration (payments of social benefits and pensions by money orders).

The increase of short-term financial assets and short-term liabilities is mainly affected by the advance payments toward pension payments in 2007 received from the Czech Social Security Administration in December 2006 in the amount of CZK 5,186,013,000.

All these liabilities in respect of entrusted resources were within the maturity period.

## 24. Cash flow statement

The cash flow statement was prepared using the indirect method. Cash equivalents represent short-term liquid assets that can be easily and readily translated into a previously known cash amount.

As at 31 December 2006 and 31 December 2005, the Company did not consider the overdraft facilities used to be cash equivalents for the purpose of the cash flow statement; see Note 14 – Bank loans and borrowings.

## 25. Subsequent events

On 21 March 2007, the House of Deputies of the Parliament of the Czech Republic passed the government's draft bill on some measures in the system of central bodies of the state administration related to the dissolution of the Ministry of Informatics of the Czech Republic. This bill proposes that the Ministry of Informatics be dissolved and its powers in postal matters transferred to the Ministry of Industry and Commerce. This bill has not come into force as at the date of these financial statements.

Changes are underway within the organisational structure of the Company, which will enable completion of the implementation of linear management and centralisation of operational and service activities.

No significant event occurred between the balance sheet date and the date of preparation of these financial statements, which would affect the assets, liabilities and profit/loss reported for the accounting period 2006.

### Approval of the financial statements

These financial statements were approved by the Director General for presentation to the founder.

12 April 2007



JUDr. Karel Kratina  
Director General



Ing. Ladislav Musil  
Deputy Director General for Economics

## A Report by Independent Auditors to the Founder of the Enterprise Česká Pošta, s.p.



PricewaterhouseCoopers Audit, s.r.o.,  
Kateřinská 40/466  
120 00 Prague 2  
Czech Republic  
Telephone +420 251 151 111  
Facsimile +420 251 156 111

We have audited the annual report of Česká pošta, s.p. (the "Company") for consistency with the financial statements for the year ended 31 December 2006 which are included in this annual report on pages 60 till 82. The director is responsible for the accuracy of the annual report. Our

We conducted our audit in accordance with the International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that the auditor plan and perform the audit to obtain reasonable assurance about whether the information included in the annual report describing matters that are also presented in the financial statements is, in all material respects, consistent with the relevant financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the information included in the annual report of the Company for the year ended 31 December 2006 is consistent, in all material respects, with the financial statements referred to above.

5 June 2007

A handwritten signature in cursive script that reads "PricewaterhouseCoopers Audit, s.r.o.".

PricewaterhouseCoopers Audit, s.r.o.  
represented by partner

A handwritten signature in cursive script that reads "Petr Šobotník".

Petr Šobotník  
Auditor, Licence No. 113

## Contact Data of the Czech Post

**Name:** Česká pošta, s. p.

**Registered office:** Praha 3, Olšanská 38/9, 225 99

**Identification number:** 47114983

**Tax identification number:** CZ 47114983

**Registration court:** Municipal Court in Prague.

**Registration number:** File 7565, Section A

**Information Line:** 800 10 44 10

**Prague Information Line:** 221 132 113

**e-mail:** info@cpost.cz

**http:** www.ceskaposta.cz

## Regional Branches

### Regional Branch Central Bohemia

Praha 1, Politických vězňů 909/4, PSČ 115 00

### Regional Branch South Bohemia

České Budějovice, Senovážné náměstí 240, PSČ 370 81

### Regional Branch West Bohemia

Plzeň, Solní 260, PSČ 301 99

### Regional Branch North Bohemia

Ústí nad Labem, Berní 2119, PSČ 401 01

### Regional Branch East Moravia

Pardubice, Na Hrádku 105, PSČ 532 05

### Regional Branch South Moravia

Brno, Orlí 655, PSČ 663 00

### Regional Branch North Moravia

Ostrava, Poštovní 1368, PSČ 728 60

## Abbreviations Used

<b>ČP</b>	Česká pošta, s. p. / Czech Post
<b>OZ</b>	Odštěpný závod / Branch Enterprise
<b>ČTÚ</b>	Český telekomunikační úřad / Czech Telecommunication Office
<b>EU</b>	Evropská unie / European Union
<b>ES</b>	Evropská směrnice / European Directive
<b>HDP</b>	Hrubý domácí produkt / Gross Domestic Product
<b>B2B</b>	Business to Business
<b>B2C</b>	Business to Customer
<b>ČSOB</b>	Československá obchodní banka, a. s.
<b>SIPO</b>	Sdružené inkaso plateb obyvatelstva / Collective Payments of Household Bills
<b>RGŘ</b>	rozhodnutí generálního ředitele / Decision of Director General
<b>IPC</b>	International Post Corporation
<b>EMS</b>	Express Mail Service
<b>FIP</b>	Fédération Internationale de Philatélie
<b>PM</b>	Poštovní muzeum / Postal Museum
<b>SPU</b>	Sběrný přepravní uzel / Logistic Hub
<b>ABD</b>	Automatizovaná balíková dodejna / Automated Parcel Delivery Office
<b>D+1</b>	Dodáme následující den po dni podání / Delivery the day after the day of posting

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