

ČESKÁ POŠTA, S.P.

Annual report 2007



ČESKÁ POŠTA, S.P.

We are connecting
your thoughts and work

Director General's statement	4
Statement of the founder	9
Report of the Supervisory Board	13
The profile of Česká pošta, s.p.	17
Statutory body and members of the management of the Company	17
Administration and control of the Company	18
Regulatory framework of postal services	18
Legal status of the Company	19
Mission and strategic goals	19
The Company structure as at 31 December 2007	20
Security management	20
Risk management	21
Internal audit	22
Trends in key economic indicators	23
Report of Česká pošta, s.p. management on the Company's position	29
Macroeconomic situation in the Czech Republic	29
Economic position of the Company in 2007	30
Sales activities	30
Customers	31
Services and operation	32
International relations and operations	39
Investments and technical development	40
Stamp design and philately	41
Postal museum	45
Relationship to environment	46
Employees and wages	46
Financial statements	51
Independent auditor's report	51
Financial statements	52
Notes to the financial statements	56
Contacts	79
Abbreviations used	79

Director General's statement

The fiscal year 2007 was successful for Česká pošta. We managed to achieve positive results even though our efforts and resources were focused on restructuring of Česká pošta and long-term strategy development. The whole period can therefore be considered a preparatory phase for laying the foundations of Česká pošta becoming a modern logistic business with an important position in the information, goods and financial services markets. We have fulfilled all preconditions allowing us to migrate from the regionally distributed management system to the centralised management system. The linear management system of Česká pošta has been fully implemented. The effects of such measures included dissolution of the seven Regional Branches and establishment of eight business regions managed by the Company's headquarters rather than by the General Directorate.

During 2007, selected specialists of Česká pošta worked on the new business strategy 2008–2012. Its objective is to define an appropriate reaction to the effects of globalization, liberalisation and technology substitutions. This modern Strategy of Česká pošta, compared with strategies of other European postal operators, reached the current European level in all aspects. However, the major challenge is ahead of us: to implement the Strategy systematically, thoroughly, skilfully

and consistently. Because the aim is to safeguard the successful future of Česká pošta taking into account the above-mentioned facts. We are aware of the fact that every next step of Česká pošta significantly determines the future development of the postal market, and as such influencing the operations of other postal operators.

What are the key preconditions for successful implementation of the Strategy?

- Clear definition of goals,
- Consistent implementation of individual steps, and
- Mainly the utmost commitment of the middle management and all employees of Česká pošta.

Employees are the most valuable asset of Česká pošta. We are banking on them and expect them to ensure a successful future for Česká pošta in challenging market environments. No matter whether the liberalisation will take place in 2011 or 2013, we have to get prepared as soon as possible. With the aim to increase the quality of Česká pošta services, we must complete major internal reconstruction of the Company, streamline the logistic



paths, optimise the network of transport hubs and automated parcel delivery units and achieve optimal delivery concentration. That all was aimed to significantly increase the quality of services of Česká pošta.

We must focus on optimising of the postal network that has evolved historically and fails to meet today's requirements in economical terms. While there are no post branches within newly built satellites or other dense residential areas, in many other areas there is a lack of demand for traditional post office services. We will also have to cope with expected effects of the postal network optimisation. Before we can implement the change, we must develop alternative methods of serving our clients, mainly in remote areas of the Czech Republic, allowing us to cover the entire territory of the Czech Republic with services of the expected quality.

We will also have an important role in the project aimed at bringing the government and public administration closer to the people. We intend to substantially streamline the contact between citizens and public authorities. This is the aim of the growing Czech POINT network launched in 2007 in Česká pošta offices. Our goal is to extend the portfolio of services offered to businesses and citizens within this network.

The year 2007 was a good year. Among the most important achievements was the development of the new Strategy of Česká pošta and preparing the groundwork for its implementation. We are convinced that 2008 will be the first successful year of the strategy implementation, ensuring effective services for clients, fulfilling the universal service duty towards the government, and bringing economic prosperity for Česká pošta and its employees.

JUDr. Karel Kratina
Director General



6

ANNUAL REPORT 2007

Technology





MMS POSTCARD

7

You will enjoy your unique experiences more when you share them. However, not all people have an opportunity to share their experiences immediately. With this in mind, we have launched the MMS postcard service – send us the best shot from your mobile phone and we will forward it to your friends as a conventional postcard.

STATEMENT
OF THE FOUNDER





Statement of the founder

In 2007, Česká pošta activities were characterised by the ongoing transition from an operational business to a business-oriented company. In this respect, the key milestone was Czech Government Resolution No. 836, dated 18 July 2007, stipulating that Česká pošta should be transformed from a state-owned business to a joint-stock company. The preparation work has so far been carried out in compliance with the planned time-schedule, so we can expect the transformation of Česká pošta to be completed as at 1 July 2009. This fact as well as the upcoming liberalisation of the postal market led to the approval of Česká pošta long-term strategy for the years 2008–2012, defining how to replace expected loss of revenues with other new revenue-generating activities.

A postponement of the liberalisation until 2011 or 2013 is another important milestone. Due to this, it is necessary that Česká pošta transforms itself into a business company capable of competing with other European postal operators.

Česká pošta will also play an important role in streamlining the public administration. Gradual deployment of Czech POINTs within Česká pošta premises as well as a growing number of provided excerpts proves that using

the post branches as contact points for public authorities and citizens was a good choice. I believe that Česká pošta will be able to mediate several other services to further streamline the interaction and communication between the public administration and citizens.



Mgr. MUDr. Ivan Langer
Minister of the Interior



Comfort





SIPO (JOINT COLLECTION OF CITIZENS' PAYMENTS)

11

Spending as much time as possible with their families, in the peace and quiet and comfort of their homes – this is the priority of those of our customers who use the SIPO service. We take care of their worries about rent payments, water or electricity bills on a regular and reliable basis.



Rozpis bezhotovostní platby SIPO

18	Posla / d.o. 500 02/8	1 Identifikační číslo - Variabilní symbol 5276661100	Tř. kód
Příjemce Příjemce Vaší banky		2 Spojovací číslo - Specifický symbol 5010691295	
Plátce Regina Ostrá Evropská 913 Nové Hradky 73 33		3 Částka Kč =3403.00=	

Dělejte přátelům radost a pošlete svoji dobrou pohlednici z dovolené.
 MMS z mobilu, e-mailem nebo z www.stránek.info
 Informaci na www.doschranky.cz

Throughout the year 2007, the Supervisory Board of Česká pošta, s.p. carried out its duties in accordance with the status of this body as defined by Act No. 77/1997 Coll., on a state owned-enterprise, as amended, the Deed of Foundation and the Statutes of the State-Owned Enterprise Česká pošta.

Over the course of the year, the Supervisory Board assembled at ten ordinary meetings during which it mainly dealt with the key themes of Česká pošta for this year: Česká pošta Development Strategy for years 2008–2012 with regard to the upcoming liberalisation of the European postal market, transition of the enterprise into a business

By Amendment 12 of the Česká pošta, s.p. Deed of Foundation dated 15 October 2007, the number of members of the Supervisory Board was increased from nine to twelve.

As at 31 October 2007, the Founder removed Jiří Hurych from the Supervisory Board. As at 30 October 2007, the following persons were appointed as members of the Supervisory Board: Ing. Blanka Vysloužilová, MBA, Mgr. Daniel Rován and Jan Řezník. As at 26 November 2007, Mgr. Zdeněk Zajíček was appointed as a member of the Supervisory Board. At the 77th meeting of the Supervisory Board held on 27 November 2007, Mgr. Zdeněk

Report of the Supervisory Board

company and transformation of the Company into a joint-stock company. The Board also continuously monitored and evaluated the Company's financial performance, while focusing on whether the results obtained comply with the approved financial plan.

The Supervisory Board discussed Česká pošta's 2007 Annual Report in great detail, examined the financial statements as at 31 December 2007 (prepared in accordance with Czech accounting standards) and read the opinion of the auditor PricewaterhouseCoopers Audit, s.r.o., – “unqualified” – and recommended to the Founder to approve the financial statements and the Annual Report. Based on the provided proposal, the Supervisory Board also recommended that the Founder make a decision about 2007 profit distribution.

Changes in the Supervisory Board in 2007

As at 31 July 2007, the Founder removed the following members of the Supervisory Board: Ing. Ondřej Felix, CSc., Ing. Vratislav Kroužecký and Ing. Milan Votruba. As at 31 July 2007, Ing. Ján Dzvonič and Petr Polák were appointed as members of the Supervisory Board; as at 1 August 2007, JUDr. Petr Polák was appointed as a member of the Supervisory Board.

Zajíček was elected the new Chairman of the Supervisory Board and Ing. Blanka Vysloužilová, MBA a Vice-chairman of the Supervisory Board.



Mgr. Zdeněk Zajíček
Chairman of the Supervisory Board



Accessibility





CZECH POINT

15

Before you start building a house you usually have to spend a lot of time in queues in various offices. But you can now obtain information from the Land Register, and other public administration authorities, in a different way – perhaps even at your post office. Via Czech POINT, it is quick and easy.



ckých strojů a přístrojů
řízení v kategorii turistická

ckých zařízení

nitrostátní
vé hmotnosti
rostátní s vozidly nad

Strana: 1/5

The profile of Česká pošta, s.p.

Statutory body and members of the management of the Company

The bodies of the Company in accordance with Section 11 of Act No. 77/1997 Coll., on state-owned enterprise, as amended, are the Director General and the Supervisory Board.

Management of Česká pošta, s.p.

Members of the top management	Position	Position established on	Registered into the Commercial Register on
JUDr. Karel Kratina	Director General	11 June 2004	18 September 2004
Ing. Rastislav Horáček	Deputy Director General, Operations	1 April 2007	26 June 2007
Ing. Petr Zatloukal	Deputy Director General, Development	20 August 2007	13 September 2007
Ing. Ladislav Musil	Deputy Director General, Finance	15 May 2006	13 September 2006
Ing. Michal Vodrážka	Deputy Director General, Commerce	16 November 2007	14 March 2008
Ing. Petr Angelis	Deputy Director General, International Relations	1 May 1998	13 September 2006
Ing. Ladislav Musil	Charged with Managing the Deputy Director General Section, Human Resources	22 December 2007	Not registered in the Commercial Register
Petr Stiegler	Deputy Director General, Public Information	15 October 2007	28 November 2007
Ing. Jan Balák	Deputy Director General, Technical Resources	1 November 2006	20 December 2006

Directors of Branches	Position
Ing. Jiří Štráberger	Regional Branch Director for Central Bohemia
Ing. František Vondruška	Regional Branch Director for South Bohemia
Ing. Karel Kohout	Regional Branch Director for West Bohemia
Ing. Rastislav Horáček	Regional Branch Director for North Bohemia
Ing. František Bakeš	Regional Branch Director for East Bohemia
Ing. Jaroslav Navrátil	Regional Branch Director for South Moravia
Ing. Václav Veselý	Regional Branch Director for North Moravia

Supervisory Board	
Chairman	Mgr. Zdeněk Zajíček
Vice-chairman	Ing. Blanka Vysloužilová, MBA
Members	Karel Koukal
	Ing. Vladimír Budinský, MBA
	Ing. Ján Dzvonič
	Petr Kužel
	Petr Polák
	JUDr. Petr Polák
	Mgr. Daniel Rován
	Ivana Musilová
	Jan Řezník
	Ing. Jiří Štráberger

Administration and control of the Company

Director General

The Director General is a statutory body of Česká pošta, s.p. (hereinafter, "Česká pošta" or the "Company"). 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, under the competences of the Founder.

Supervisory Board

The Supervisory Board of the Company has twelve members. It supervises the performance of activities of the Director General as well as carrying out the Company's business plan. Subject to Act No. 77/1997 Coll., on a state-owned enterprise, as amended, eight members of the Supervisory Board are appointed and removed by the Founder, the other four members of the Supervisory Board are appointed and removed by the Company's employees.

Committees of the Supervisory Board

The Supervisory Board appoints Committees of the Supervisory Board as its working bodies. Members of the individual committees are 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 the Company's strategy,
- The Committee of the Supervisory Board for finance and audit,
- The Committee of the Supervisory Board for human resources development.

Regulatory framework of postal services

Czech legislation and granting the postal license

The provision of postal services in the Czech Republic has been regulated by the Czech Telecommunication Office (hereinafter, the "CTO") since April 2005. The regulation powers were transferred from the Ministry of Informatics of the Czech Republic to the CTO pursuant to new legal regulations. On 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.

As at 1 June 2005, the CTO's approval of the postal terms and conditions, submitted by the Company to the administrative body on 31 March 2005, became effective. As at 1 June 2005 the CTO set the basic quality requirements valid as at that time for the postal license holder, i.e. Česká pošta, s.p.

By its decision of 24 November 2005, in accordance with section 20 (1) of the Postal Services Act, the CTO granted a postal license to the state-owned enterprise Česká pošta. The decision was made with reference to the application letter filed as a response to the CTO's notice published on 4 August 2005 in the Postal Bulletin. The postal license was granted for the period 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 CTO expressed, inter alia, its approval of the postal terms and conditions submitted by the Company along with the application. At the same time, the CTO outlined the basic quality requirements applicable to Česká pošta, s.p. 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 from 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.

EU aim – postal market liberalisation

The Postal Services Directive of 1997 (97/67/EC) marked the completion of the first stage of postal service harmonisation within the EU. In the next few years, several other directives were issued contributing to the progressive and regulated introduction of the competition to the postal service market. Currently, Česká pošta operates within the liberalised environment with the

exception of mail containing correspondence that weigh no more than 50 g and cost a maximum of CZK 18.

In 2007, the European Commission and Council Directive No. 97/67/EC was amended. Approved by the European Parliament and the Council, this amendment sets the latest terms for full liberalisation of the European postal market.

The deadline stipulated by the original Directive was postponed by a two-years for selected EU member states. The primary reasons for this approach were the concerns of member states regarding adequate provision of universal postal services. Under this Directive, Česká pošta will be deprived of its current monopoly over letter mail weighing up to 50 g by 2013.

Legal status of the Company

Česká pošta, s.p. is a legal entity in accordance with provisions of Section 18 of Act No. 40/1964 Coll., the civil code, as amended. Its legal and ownership status is regulated by Act No. 77/1997 Coll., on a state-owned enterprise, as amended.

Česká pošta, s.p. was founded by the Ministry of Economy of the Czech Republic in accordance with the act on state-owned enterprise on 1 March 1993. The foundation of the Company was certified by its incorporation in the Commercial Register kept by the District Court for Prague 1, Section A, Insert 7565. The present record is

in the Commercial Register kept by the Municipal Court in Prague, Section A, Insert 7565.

As of 1 June 2003, the Ministry of Informatics issued a Deed of Foundation of a state-owned enterprise Česká pošta, adapted to the new act on the state-owned enterprise and modified by several amendments.

The CTO is a regulatory body for basic postal services and outgoing international mail tariffs. The price regulation of selected domestic mail categories falls under the competency of the Ministry of Finance.

Mission and strategic goals

The position of Česká pošta is changing substantially with the market liberalisation and proliferation of electronic communication. Česká pošta still uses its own resources to provide a portfolio of basic services. Gradually, it is being transformed from an operational organisation into a business-oriented enterprise.

However, the main strategic goals for the upcoming years remain unchanged. Česká pošta intends to be a trustworthy provider of general services focusing on effective operations and solutions. At the same time, owing to our social responsibility and good corporate citizenship, it will endeavour to be an effective as well as attractive employer. Česká pošta mission is to be a trustworthy provider of quality services in the area of mediating information, payments and goods both via traditional and electronic means. This mission is a key pillar of the Corporate Strategic Plan of Česká pošta for the years 2008–2012. To establish such a profile, the Company must ensure its long-term profitability and competitiveness.

Keeping pace with the current trends

The future operation of Česká pošta must embrace four key trends which will shape market and competitive environment. These are new technologies, the changing needs of clients, changing methods of communication, especially use of Internet, and postal service liberalisation. In this regard, Česká pošta positively accepts the postponement of complete liberalisation, as approved by the European Parliament and will use the time to complete the necessary changes.

Key issues of the strategic plan

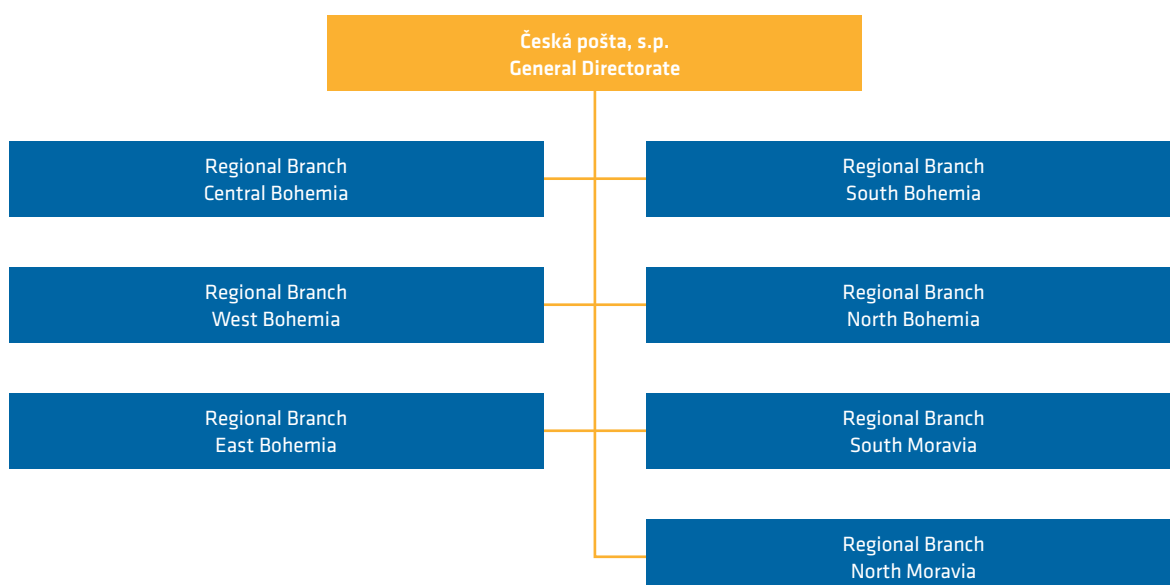
- Maintaining a substantial market share of postal services, even as the competition intensifies;
- Substantial innovation of the product, service and solution portfolio as well as boosting the share of innovative approaches in the overall performance of Česká pošta;

- Identifying new business opportunities;
- Using the branches to streamline interaction between the public administration and citizens: Czech POINT project within the e-Government programme;
- Pursuing the penetration of value-generating processes of major clients with high value-added services (especially in the financial services and utilities sectors);
- Implementing a complex programme designed to optimise processes and significantly increased

efficiency, with the aim of achieving profitability at least comparable with the average performance of central postal operators in the developed EU countries;

- Increasing Česká pošta 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.

The Company structure as at 31 December 2007



Security management

The 2007 results confirmed that the area of security requires substantial investments. Investments into this area ultimately decrease the crime rate. Despite the security measures taken, the volume of damages caused

by external assaults aimed at obtaining cash at post offices, during transportation and delivery increased compared to 2006.

External assaults on postal property and during transportation, damage incurred

Year	2007	2006	2005	2004	2003
Total number of assaults	118	97	149	143	103
Incurred damage (in CZK mil.)	6.2	4.9	4.3	5.4	19.4

Regarding the category of post office robberies during operating hours, there was approximately a 20% year-to-year increase in the number of cases, out of which 50% of attempts were failures. In the category of post office robberies outside operating hours, there was almost a 67% year-to-year increase in the number of cases, out of

which only 18.5% of attempts were failures. The average damage calculated per assault comes to CZK 20–30 thousand. In 2007, the total annual cash damage caused by external assaults (and covered by insurance) amounted to CZK 6.2 million.

Where were the funds spent?

In 2007, the total sum of CZK 222 million in expense funds and CZK 4.7 million in investment funds was spent to enhance 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. Security training of relevant Česká pošta employees was also a primary concern.

Security equipment investments and costs were, above all, used to complete (replace) adequate mechanical security systems in post offices to meet the EU standards for banks and entities dealing with payment processes. In addition, it was necessary to install electronic security systems in newly established post offices in shopping centres.

In the area of security, the largest amount of the funds was used to improve the technical facilities of post

offices, transport premises and vehicles to ensure the safe transport of cash at the stipulated level, i.e. in special safe-deposit boxes with a fail-safe mechanism. Further funds were intended to ensure operation of the remote surveillance of money-transfer vehicles (in two regions) provided by Česká pošta multifunctional monitoring centre.

Also, the funds were used to ensure routine operation and upgrade of mail loss and incident prevention IT applications. These specialized IT applications use inventory, archive and operation-related databases to identify and resolve loss of mail and other postal operation incidents.

The electronic security and emergency database covering all postal structures was completed and updated, especially their security and emergency cards with records about the type and condition of security systems, allowing for routine solutions to impending emergencies and extraordinary events originating in the Company buildings.

Risk management

The risk management has been systematically built within Česká pošta as a top management support function since 2005 with the aim to identifying and managing the risks, minimising the probability of their occurrence and mitigating the impact of damages ensuing therefrom.

Risk monitoring became an integral part of the strategic management processes aimed at meeting the strategic goals and objectives of the Company. Risk identification and evaluation and effective risk management measures and processes are defined in the regularly updated Česká pošta's Book of Risks. All identified risks, incorporated in the Book of Risks, are classified according to their significance and the type of activity. The periodically updated Book of Risks has become an invaluable part of management documentation.

Minimisation of risks in 2007

Continuity of the risk management in the Česká pošta transformation process in 2007 is ensured by the adopted risk management strategy. The strategy created conditions for permanent integration of risk management into the overall management system of Česká pošta. All identified risks were evaluated quarterly and the top management and Supervisory Board were 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 perspectives as well as from the prospective

of directions for the Česká pošta further development. The implementation of these measures contributed to the increasing quality of management.

The top management as well as the Supervisory Board primarily took note of the significant risks, which were systematically managed with the single objective of eliminating potential negative impacts on reaching the Česká pošta set strategic goals and intents. The methodology guidance, Book of Risks management and updating as well as the quarterly evaluation of the Company's risk management efficiency was provided by the Risk Management Department within the internal audit. Based on the information collected from risk owners, the electronic Book of Risks was updated quarterly and the final 2007 Book of Risks was elaborated, providing a summary of all risks identified including the list of major risks.

Internal audit

The Česká pošta Internal Audit Department was established in 2004. Pursuant to binding international regulations governing the professional practice of internal audit, it reports directly to the statutory body, which is the Director General in the state-owned enterprise Česká pošta. This arrangement ensures independence of auditors on audited units and processes and objectivity. Also, the system complies with the above mentioned standards which are reflected both in the Internal Audit Statute of Česká pošta and the Code of Ethics of Internal Auditors, as well as the Česká pošta directive governing the auditing process within the Company.

The main objective of the internal audit is to provide impartial and independent information concerning the adequacy and effectiveness of the audited processes and activities, as well as the quality of risk management, management and control processes and management and administration. By doing so, the internal audit helps the top management to reach its strategic targets, goals and plans.

Internal audit plan 2007

In 2007, the internal audit provided the top management of Česká pošta and its Supervisory Board with various services including the following:

- Planned and upon request audits;
- Planned monitoring and upon request monitoring; and
- Advisory and consultancy services.

The Internal Audit Plan 2007 consisted of ten audits and one monitoring aimed at strategic areas of Česká pošta operations. The plan was compiled upon the findings of auditors based on the risk management level as well as requests from top management and Supervisory Board. In addition, five audits upon request and one monitoring upon request were carried out in 2007.

The auditors' findings had crucial importance for the top management, especially in terms of efficient and proper process management, risk management, gradual transformation measures and the implementation of required changes in the audited areas.

Plan of corrective measures

Individual reports, summarising audit teams' findings and recommendations based on their audits and monitorings, were discussed by the top management of General Directorate of Česká pošta and "Plans of Cor-

rective Measures" were adopted covering the identified system and process irregularities and drawbacks.

The aim was to change the unwanted status, decrease risk exposure, improve the functionality of processes, harmonise management documentation with implemented transformation changes, etc. with no negative impact on management and administration as well as the financial and operational results of Česká pošta.

Advisory and consultancy services

Advisory and consultancy services were provided in accordance with the Code of Ethics and standards of Professional Practice of Internal Audit. The information and findings of the auditors were successfully used for the benefit of other Company departments and units. Auditors provided consultations in relation to comments on new or updated management documentation and gave advice to risk owners. Auditors carried out individual consultations with Česká pošta managers aimed at specific issues, e.g. problem solving and implementation of tasks. Also, consultations with external auditors regarding, e.g. risk management, were carried out.

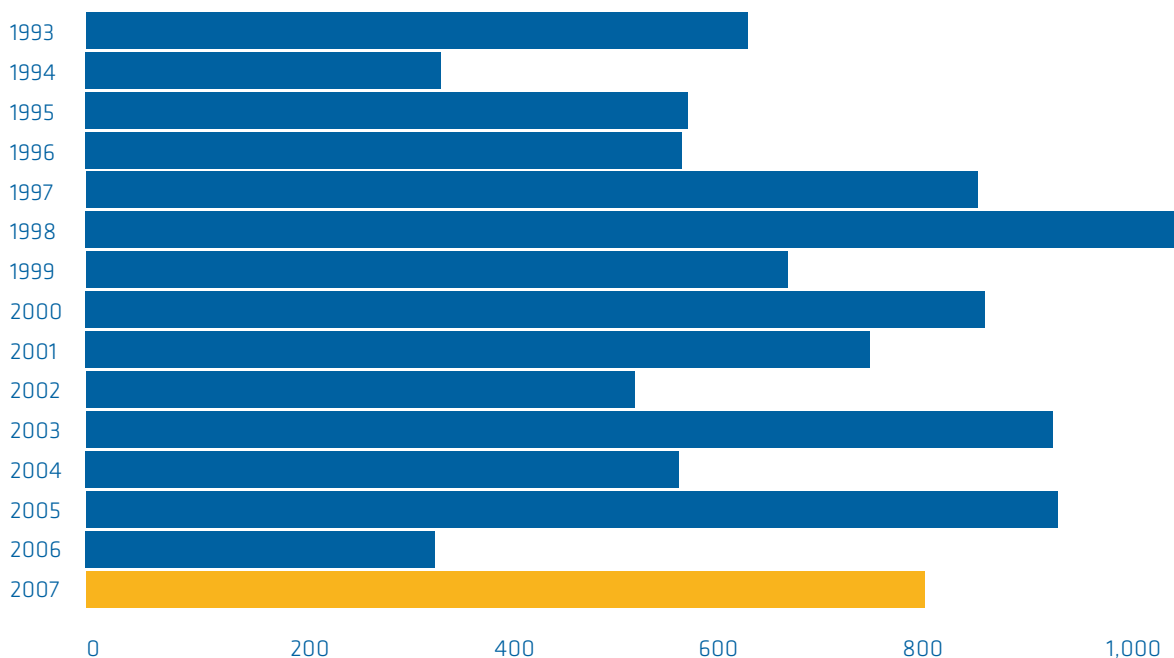
Throughout the whole year internal audit fulfilled its key role, i.e. to monitor the level and development of individual risks including the efficiency of their management.

Trends in key economic indicators

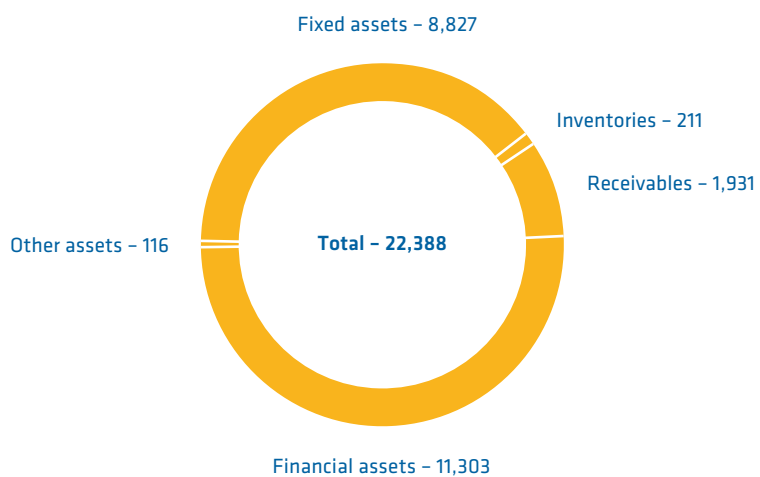
Financial and operating indicators

	2007	2006	2005
Assets (in CZK thousand)	22,388,170	22,411,908	16,956,480
Equity (in CZK thousand)	9,683,355	9,172,878	9,070,839
Revenues from the sale of own products and services (in CZK thousand)	16,947,419	16,757,654	16,586,349
Profit before tax (in CZK thousand)	794,530	331,166	920,675
Net profit (in CZK thousand)	652,539	247,602	666,853
Revenues from ordinary activities (in CZK thousand)	17,646,462	17,528,955	17,335,379
Employees – full time equivalent	37,008	37,415	38,290
Average monthly salary (in CZK)	17,452	16,584	15,563
Profit before tax / Revenues from the sale of own products and services	4.69%	1.98%	5.55%
Profit before tax / Total assets	3.55%	1.48%	5.43%
Profit before tax / Employees – full time equivalent (in CZK)	21,469	8,851	24,045

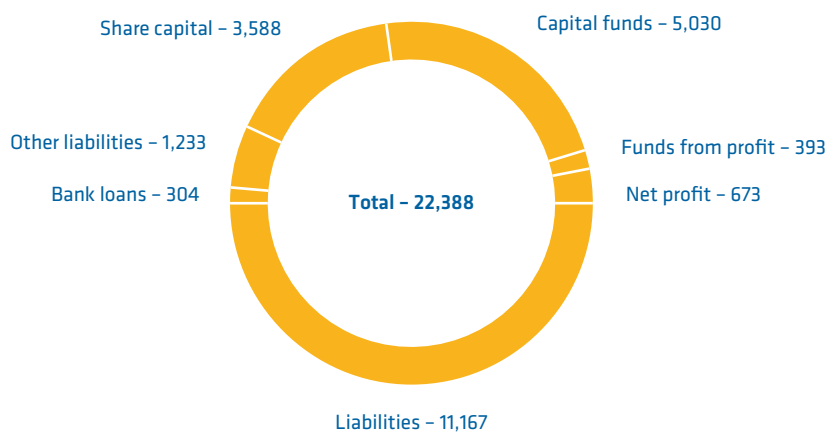
Profit before tax (in CZK mil.)



Assets structure 2007 (in CZK mil.)

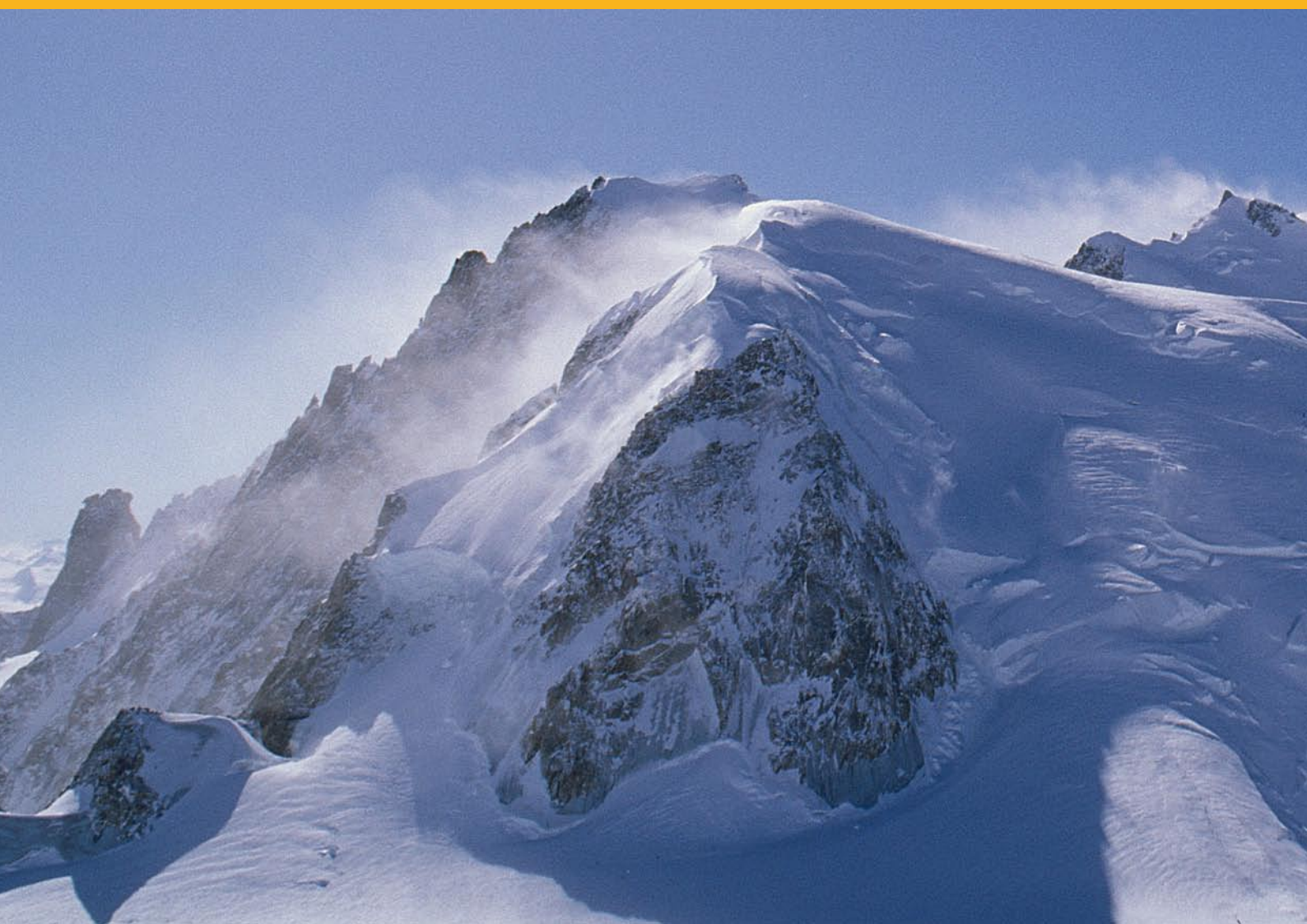


Liabilities and equity structure 2007 (in CZK mil.)





Communication





LETTER MAIL

27

In these "electronic" times, everybody is pleased to find a letter from friends, congratulations on a birthday or a postcard sent by their children from the mountains in their post box. Thanks to this traditional way of communication, tangible memories of the highlights of your life will remain with you.





Macroeconomic situation in the Czech Republic

Last year's results of the Company were also influenced by the macroeconomic environment of the Czech Republic. The following text describes the development of certain economic indicators.

In 2007, the annual growth of the gross domestic product reached 6.6% (6.4% in 2006). This was mainly driven by household consumption (6.1% growth) leading to the switch in the economy growth structure from net exports to consumption. Export growth slowed from 14.5% to 13.2%, while the import growth rate remained

under 2%, i.e. below the target of the Czech National Bank (3% +/-1%).

During 2007, the basic interest rate was increased four times each by 25bp. In total, the Repo 2W rate increased from 2.50% to 3.50% (+100bp). The interest rate increase was mainly caused by the inflation rate development in the Czech Republic and its predicted further development (January 2008: up to 6.5%). Further increase of interest rates was compensated by strengthening of Czech crown against both Euro and US dollar.

Report of Česká pošta, s.p. management on the Company's position

stable (13.8%). Also industrial production growth slowed to 7.9%, compared with 2006 (11.2%). A 8.1% growth of retail sector (6.5% in 2006) relates to household consumption increase. Labour market data complements the picture of the overall situation. The unemployment rate decreased from 8.1% to 6.6%, nominal wages rose from 6.4% to 7.5%. This is due to the fear of future mitigation and the fact that consumers are more willing to take out credit. Consumer credit grew by 27% year-to-year and mortgages by approximately 40%. The growth in the volume of consumer credit in the Czech Republic has the fifth highest rate in the entire EU in mid-term perspective, but in terms of the percentage of such credit in GDP, the Czech Republic is still below the EU's average. Public budgets report a year-to-year improvement when the state budget balance and public budget balance improved from -3% to -1.9%, and from -3.3% to -2.2% respectively.

Increasing trend of the inflation rate

In 2007, the inflation rate accelerated when the consumer price index increased to 2.9%. The inflation structure shows that the major drivers of this development are cost factors (such as energy, fuel and food prices). On the other hand, demand inflation remained

Long-term strengthening of Czech crown

Monetary market conditions caused further strengthening of the local currency against major currencies (EUR, USD). The average CZK/EUR exchange rate improved by 2.5% from 28.4 in 2006 to 27.7 in 2007, while the average CZK/USD rate improved by 10.2% from 22.6 in 2006 to 20.3 in 2007. Local currency strengthening is driven in the long-term by the gradual approximation of prices in the Czech Republic to EU-15 prices. Price levels in the Czech Republic are however still lower, reaching approximately 60% of EU-15 price levels. In the mid-term, the development of the exchange rate is influenced by real and financial flows into the foreign trade balance of payments. In the near future, improvement of the local currency will be negatively influenced by the outflow of dividends which however shows seasonal fluctuations. It is probable that this will not prevent the local currency from further strengthening in the year-to-year comparison.

An income tax decrease from 24% to 21% next year and to 19% in 2010 will have a substantial macroeconomic impact on businesses. The tax reform is going to introduce several constraints, such as tax deductibility of financial cost (exceeding CZK 1 million), abolishing

the advantages of financial leasing, tax non-deductibility of interest from subordinated debts, etc.

Further development of interest rates will be not only affected by macroeconomic data (development of inflation and its predictions by the CNB) but also anticipated strengthening of local currency. For the open Czech economy, the future development of European

economy will also be important. Considering the current situation, slowdown of the domestic economy can be expected and this situation will be further intensified by the effect of the reforms translating mainly into the decreased level of consumption. Therefore, a mild interest rate increase is expected in the Czech Republic, setting the rates at 4.00%.

Economic position of the Company in 2007

From the economic standpoint, the year 2007 was very successful. The profit before tax reached CZK 794.5 million while profit after tax amounted to CZK 652.5, which is almost a twofold increase compared with the previous year when the results were affected by extraordinary corrective operations.

What is also important is the fact that the actual development of cost and revenues almost exactly corresponded with planned figures. Among other things, this shows that the management is able to control the results of the Company.

Overall stability – a promise for the future

Development of balance sheet sums and individual balance sheet items shows no unexpected fluctuations

and demonstrates that the Company is in a stable position prior to its approved transformation into a joint-stock company. The above-standard share of own sources of financing compared with external sources of financing is a positive indicator, ensuing from the previous economic policy of the Company. We expect this share to approximate a standard value in the industry and region in the following years.

The year 2007 was successful in all aspects, not only from the economic standpoint, but also in terms of the overall development of the Company. This is the result of all employees' commitment and hard work. The year 2007 is the sign of promising development in the future. It proved that the transformation initiated in previous years and continuing in the years to come is taking a good direction.

Sales activities

As it was already mentioned above, in 2007 Česká pošta continued in transformation efforts commenced in the previous years. The changes affected all business activities of the Company.

Foundations of the successful transformation

As with the construction of a house, the transformation of Česká pošta can't do without solid pillars helping it cope with this complex and specific task.

Maintaining and increasing earnings is the strategic basis of the operations of every company and the same certainly applies to Česká pošta. In a market economy, each entity must cope with the pressure of competitors. Continuous improvement of the service and systematic fulfilment of requirements and meeting the increasing demands of clients represent some of the methods helping to repulse such attacks.

In 2007, we focused on specialised customer care in order to meet the needs of individual customer segments to the maximum possible extent. The number of key customers (VIP clients) participating in Česká pošta's partnership projects and programmes increased.

We also established an independent sales network designed for major public administration customers. The sales network for business clients was optimised in 2007 and we focused on Internet and mail-order companies. Česká pošta also cares about minor clients, improving the availability of services via electronic means, streamlining the dispatch at post offices using ticket systems, etc.

Business development, i.e. identification of new market opportunities, represents the second pillar. Česká pošta follows two strategic directions in relation to this.

Firstly, it identifies synergies within the Company's actual business operation. Secondly, it seeks brand new activities, which however are in some ways related to its product portfolio, i.e. financial and electronic services.

Operation optimisation and restructuring of Česká pošta represent other crucial preconditions for the restructuring process. As one of the leading employers in the Czech Republic, the Company should consider both business factors as well as social effects of the restructuring process.

Responding to the market needs and global trends

As part of the transformation process Česká pošta endeavours to fulfil its vision of transforming itself into a modern company. There are several facts proving that it has been successful in doing so.

Firstly, we managed to embrace global trends in developing, as evidenced by sharp increase of revenues in this segment compared with 2006. Česká pošta is strengthening its position as a natural partner in communicating and providing information for public administration. These services are provided using a combination of modern electronic tools and its traditional strengths, such as an extensive branch network, high availability and trustworthiness. Česká pošta took part in the government programme to deploy e-Government within the Czech Republic and became a key member of the Czech POINT project. Early in 2007, we launched the service offering extracts from the Real Estate Register, Commercial Register and Trade License Register to individual customers.

Česká pošta is a traditional leader in the domestic parcel transportation segment. In 2007, the Czech Republic experienced an increase in the number of transported parcels, however the Company's share in this segment has been decreasing.

We should also note a double-digit percentage increase in the volume of transported international registered or certified mail. This is a very good indicator for the Česká pošta future, especially within the context of

stiffening competition in the international mail market and competitors' gains via acquisitions.

Favourable results of surveys

And what do clients think of Česká pošta? The answer was provided by a survey carried out in 2007 by GfK Praha, s.r.o. for the CTO. According to the study, people perceive Česká pošta mainly as a carrier of regular and registered mail, parcels and postal orders. In the last five years, the usage of the Česká pošta services by the general population has been decreasing, while the usage of the services by businesses has been increasing. This situation reflects the electronic communication penetration level among the general public as well as the economic growth of SMEs. This also explains both the decrease in the amount of mail from physical persons and increase in the amount of mail from businesses that use Česká pošta. We must change the way Česká pošta is currently perceived by the general public, i.e. as a public service eligible for state subsidies. To make it clear, Česká pošta receives no funds from the state budget. It is fully financed from its own sources.

The survey shows that the postal services provision sector can boast of a high level of customer satisfaction. Minor local branches of Česká pošta received the best rating. And it is the personalised approach to clients in minor branches that is one of Česká pošta strengths. Other strengths include an extensive service portfolio, availability of branches, the helpfulness, openness and friendly behaviour of staff and competency.

Customers

In 2007, Česká pošta continued its efforts started in prior years – to position itself as a modern logistics business. This was the objective of key transformation activities carried out within the sales section of the Company in the previous year. A change in the management structures of the sales section and a new segmentation of customers including their servicing system were developed.

Basic customer segments

Key customers (VIP customers) represent an important customer segment substantially influencing the economic results of Česká pošta. A single-point servicing (i.e. from contracting to the delivery) has become a very popular and valued service among customers. Thanks to the Key Account Managers and their personal knowledge of the clients' environments, Česká pošta executed several major projects providing services tailored to the client's need and requirements (e.g. intra-company logistics for financial institutions).

Public authorities represent another important customer segment of Česká pošta. Apart from traditional postal services provided to almost all public and local authorities, the Public Authorities Management Team provided several special solutions and individual projects, including pension services, highway sticker distribution, logistics for personal documents and driving licenses management or successful cooperation in the "Tax Postal Order" project with the Ministry of Finance of the Czech Republic. Late in 2007, the Company entered into a new framework contract with the Ministry of Defense of the Czech Republic regarding the complex provision of postal services for the Czech Army including delivery of technology for individual Czech Army postal communication stations.

During 2007, Česká pošta also fulfilled its strategic goals in the Allied Partners customer segment. The Company was committed to increasing the sale of high value-added products. The key partners included Poštovní

pojišťovna in the area of banking services, as well as Česká pojišťovna, a.s. regarding insurance products. The Allied Partners Department ensured quality and professional care for customers via Česká pošta's branches. Other activities of the Allied Partners Department included technology support of sales, staff training in Allied Partners' products, development and evaluation of plans and sales support. At the regional level, a network of capable representatives (vendors and directors of individual segments in the region) was created providing support to the post office sales personnel.

Corporate clients and SME clients represent two other major segments which Česká pošta is committed to service via a unified approach based on management centralisation.

A change in the Company's organisational structure was prepared allowing the Company to readily respond to

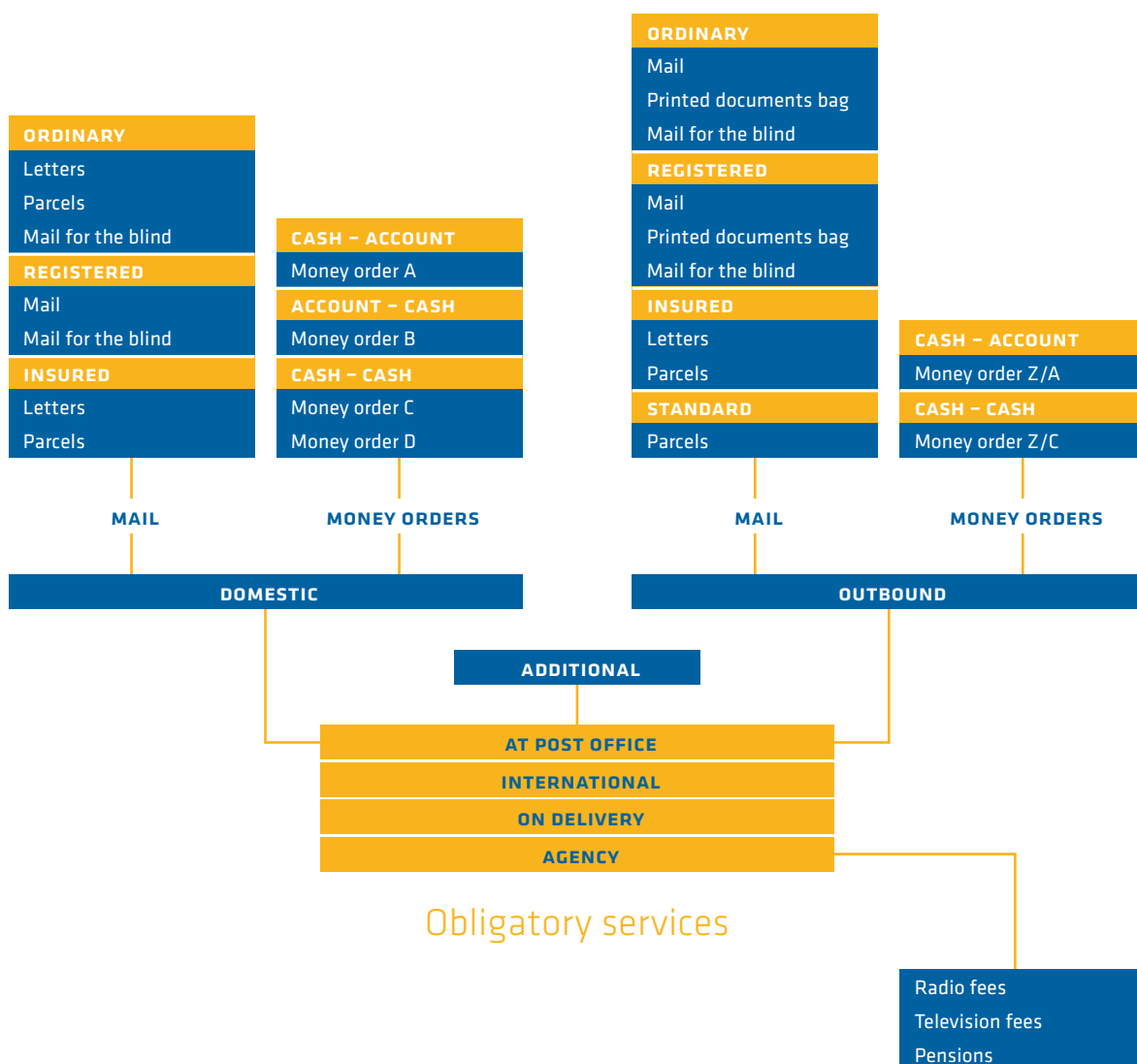
the needs and requirements of all clients. Besides the individual approach to clients, the customer segmentation brings benefits for sales management within Česká pošta. Based on the new business model, Česká pošta aims to provide a personalised approach to customers taking into account their individual needs. For the customers, this means that each of them has a specific partner in Česká pošta who is always available to them.

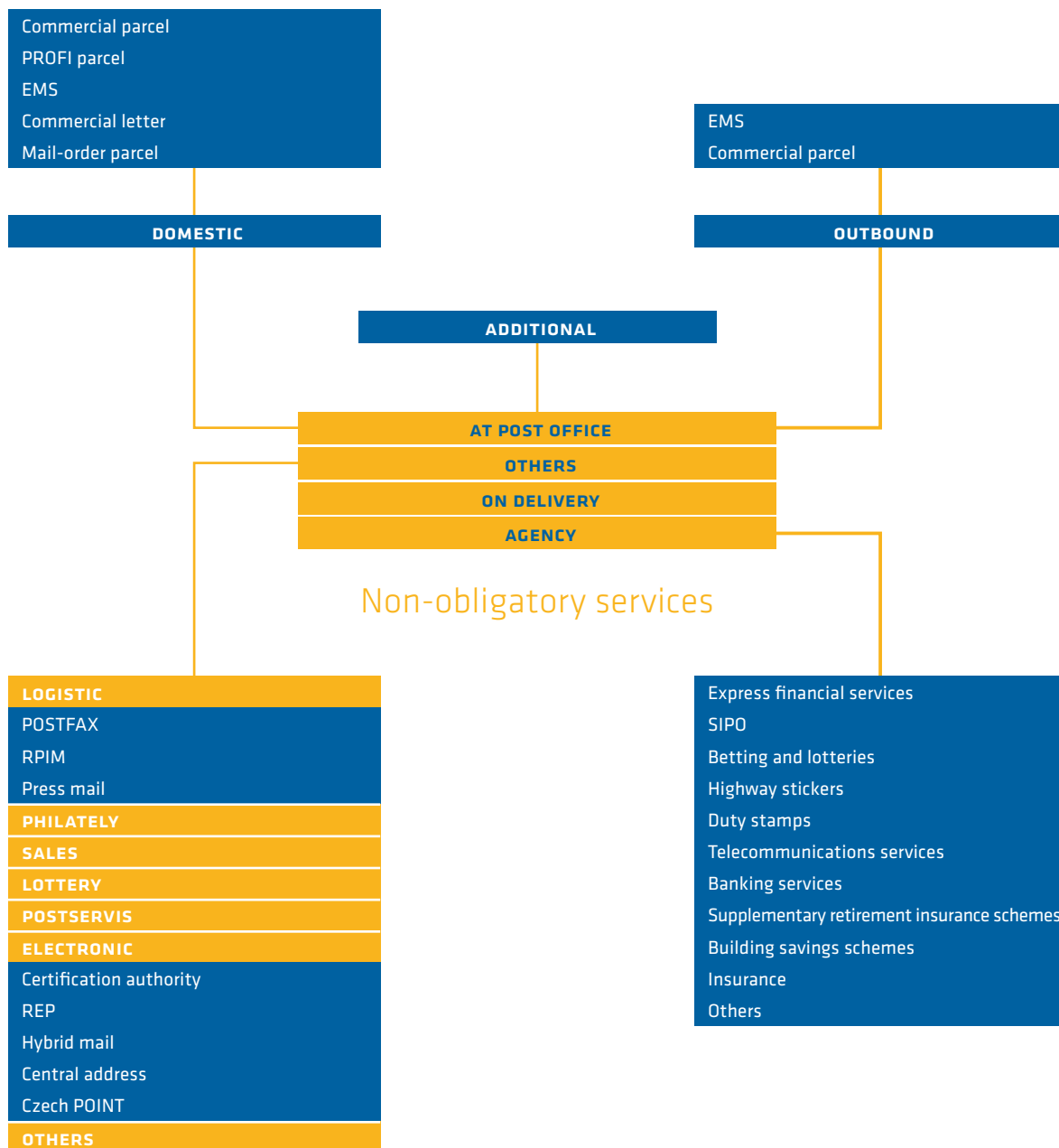
In 2007, the Retail Clientele Department focused mainly on unification of the goods portfolio and improvement of Internet traceability of registered consignments. In cooperation with other Česká pošta sections, the Retail Clientele Department supported further deployment of electronic communication as an additional tool for modernising the services provided.

In future years, Česká pošta will be gradually improving the quality of the implemented sales system.

Services and operation

Structure of the provided services





Traditional postal services – solid basis of the business

Some recent theories say that the traditional letter mail as a mean of communication will gradually fade-out. Although many analysts expected a sharp decrease of letter mail volume in 2007 (up to -30%), Česká pošta cannot validate this prognosis. It is true that electronic communication (SMS and e-mail) partially replaced letter mail thanks to its convenience and speed; however, the traditional mail retained its customers mainly due to the fact that private information sent this way is much safer.

The letter mail market also offers new opportunities such as Direct Mail (Commercial Letter and Press Mail products) or the distribution of promotional and information materials (RPIM product). The demand for these services is growing and partially offsets the letter mail decrease.

Contrary to the decreasing volume in letter mail volume due to its substitution by electronic services in the Czech Republic, parcel mail volume is increasing. In 2007, this market was driven by the growing popularity of shopping via Internet and mail-order shops. Česká pošta should react to this trend with adequate adjustment of their current services.

In 2007, Česká pošta initiated a series of measures in order to increase its share in the traditional postal services market, such as optimisation of the transportation network. These measures were intended to improve the efficiency of the postal network.



Logistics





EMS - EXPRESS MAIL SERVICE

Flowers picked hundreds of kilometres away and sent by post – a romantic idea, but thanks to our personalised and maximum care for the transport of goods, a realistic idea with us. We make every effort for the addressee to receive the shipment intact and on time.



CETIS / DINOCOMMERCE



EMS
EXPRESNÍ POŠTA

Česká pošta, s.p. IČ 47114983

Odesílatel: _____

Tel/Fax: _____

Pro podání zprávy o dodání zásilky připojuji

Dokument POSTFAX

Dodejku

V případě podání zásilky v pátek

Požaduji Nepožádají

dodání zásilky 1 v den pracovního volna

Neukládat Nedosílat

Poznámka: _____

Adre: _____

PSČ: _____

Podací p: _____

Datum a hod: _____

Electronic services

Česká pošta combines the traditional postal services with new advanced electronic services. It operates the "Central Address" (a web server publishing public tenders and auctions), "Registered Electronic Mail" (REP) and it has been an accredited certification service provider since 2005.

As a certification authority it issues a commercial certificate PostSignum VCA and a qualified certificate PostSignum QCA ensuring security (via encryption and electronic signature) of general communication and communication with public authorities, respectively.

In 2007, Česká pošta launched additional electronic services. Within the Czech POINT project, it provides extracts from information systems of public authorities. Customers may obtain excerpts from the Real Estate Register, Commercial Register and Trade License Register at their local post office. The Company continued to deploy an electronic application upgrading the payment service called SIPO (joint collection of citizens' payments). The service is going to be launched in 2008.

Česká pošta – a Czech POINT partner

In 2007, a project called Czech POINT (Czech submitting and verifying information terminal) was successfully launched within the government's e-Government initiative.

This project creates public administration contact points, streamlining the bureaucratic processes, taking the public administration closer to citizens and making it more user-friendly.

Cooperation with Česká pošta offering an extensive and dense network of branches, qualified staff and long business hours is advantageous for Czech POINT. In a pilot project, Česká pošta offered excerpts from the Real Estate Register, Commercial Register and Trade License Register at 74 contact points from 1 August 2007. In addition, Česká pošta offered excerpts from the Real Estate Register and Commercial Register via proprietary remote access to such registers from the beginning of the year.

By submitting an off-line order at any Česká pošta office, a client can order the delivery of a requested excerpt, cash on delivery within 5 business days. Česká pošta issued a total number of 37,908 excerpts during the whole year 2007. The successful execution of the pilot project in November led to the approval of an investment plan to implement the Czech POINT services in 1,000 branches during 2008, i.e. almost 2,000 counters of Česká pošta.

Česká pošta plans to launch electronic ordering of the excerpts, allowing customers to obtain the requested

excerpt from the home or office. Česká pošta also endeavoured to include other services, such as the provision of excerpts from the Criminal Record and accepting deeds pursuant to the Trade Act.

POSTSHOP increases the Company's attractiveness

In connection with the new vision of Česká pošta as a modern logistics business, a new brand name POSTSHOP has been created. Apart from standard postal and banking services, post offices also sell telephone cards, chargeable coupons, highway stamps, postcards, envelopes, philatelic items, etc. POSTSHOP helps contribute to the positive perception of Česká pošta as a versatile service provider.

Hybrid services

In line with the general trend of creating documents in electronic form, customers increasingly demand provision of complex services. Therefore, we offer electronic submission of documents, their conversion into physical form and delivery to addressees. These additional services are provided by Postservice offices as part of their extensive portfolio. However, the Company also offers the reverse process, i.e. converting physical documents into electronic form allowing for their backup. In 2007, these additional services recorded a year-to-year growth of 6.53%.

For retail clientele, the Company launched an MMS postcard service allowing the posting of a postcard via a mobile device or e-mail and its delivery in a physical form. The service is paid via a payment SMS (premium SMS). Česká pošta as an exclusive provider of such services in the Czech Republic provides electronic submission services both for businesses (upon contract) as well as anonymous individuals.

Information about offered services

One of the most used modern marketing and information channels of Česká pošta is undoubtedly its website at www.ceskaposta.cz. Here, customers may find extensive information about services provided, about post offices as well as the various kinds of latest news, for example, about philately (competitions announced, goods sold). Via this site and its Track and Trace service, customers may also trace selected consignments. Traditionally, Česká pošta's Information Centre 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. Inquiries submitted via the e-mail address info@cpost.cz are resolved by our specialists within 24 hours. Furthermore, all customers are free to use the post offices themselves, stocked up with information and promotional material on the provided services. The duty to inform is also fulfilled via an annual Summary

of Basic Services of Česká pošta, s.p. distributed to all households.

Towards new trends

Česká pošta adapts to the ever changing behaviour of customers in consumer markets and reacts flexibly to the increasing concentration of purchases made in shopping centres, shopping malls and supermarkets, by building new branches exactly at these types of places. By the end of 2007, the Company had 20 post offices situated in shopping and administrative centres.

In prior year, the share of purchases made via Internet and mail-order shops sharply increased. According to published statistics, a year-to-year increase of sales made via this sales channel reached 40%. Česká pošta participates in this market by providing majority of transportation of "minor" consignments (up to 30 kg).

Quality of provided services

In 2007, Česká pošta was supposed to provide its services at least at a level of quality stipulated by the regulator's requirements set by CTO. Considering the enormous annual volume of delivered mail, the Company almost fully fulfilled this requirement. Quality and customer satisfaction is monitored by means of regular surveys focusing on the quality of mail delivery conducted both by the Company (its internal inspection mechanism) and by an independent agency. The following table illustrates the results of the surveys carried out in 2007:

Delivery time for standard letter mail (as measured by an independent agency)

		Days lapsed after the day of posting (%)
Monitored sample volume (pcs)		1 day
Within the region	13,456	92.4
Outside the region	16,599	86.52
Total	30,055	89.15

Postal network

The network of post offices and other service points remains stabilised. As at the end of 2007, one service point served 3,045 persons (compared to 2,991 persons in 2006). The number of people served by one mail box increased slightly in comparison to 2006, rising from 428 to 435. The slight increase in the above-mentioned figures is a result of the country's moderate population growth by 99,151 inhabitants compared with 2006 (according to data supplied by the Czech Statistical Office, as at 31 December 2007 the Czech Republic population reached a total of 10,381,130 persons).

Postal terminals in 2007

Post office	3,387
Postal agency	14
Postal centre	-
Remote counters	8
Mobile post offices	-
Mail boxes	23,881
P.O. boxes (occupied)	41,643
Delivery areas (letter mail) total	10,467
Of which delivery areas with car service	2,905

In 2007, the process of delivery service centralisation, aimed at service quality improvement and cost cutting, continued.

Complaints

In 2007, there were only 140 claims filed concerning delivery (including claims regarding the return receipt) per each 1 million posted mail and postal orders handled within the basic postal services of which only 71 claims were considered justified.

Claims regarding the delivery of mail or postal orders per 1 million mail/postal orders (pcs):

Total number of claims	140
Justified claims	71

As regards to claims for damaged mail or mail that had suffered loss of contents, the Company recorded 35 claims per each 1 million of posted mail of which 24 claims were considered justified.

Claims regarding the damage or loss of contents of mail per 1 million mail (pcs):

Total number of claims	35
Justified claims	24

International relations and operations

Česká pošta in the global postal network

The basic framework of Česká pošta international relationships results from the Czech Republic's membership in the Universal Postal Union (UPU). Česká pošta is delegated by the Czech Republic to meet operational obligations ensuing from this membership. As a public postal operator, the Company must maintain and develop postal traffic interconnecting 191 UPU member states.

The international postal network is interfaced with the Česká pošta network at the exchange post offices in Prague, Břeclav and Cheb. International postal traffic is liberalised in the Czech Republic. This means that other entities may enter the segment and create a competitive environment.

Clearly the most important foreign business partner of the Company is Slovenská pošta (Slovak Post).

Successes in the international traffic

The EU membership of the Czech Republic leads to further duties of a public postal operator, i.e. Česká pošta. The Česká pošta's duty is to ensure general availability of high-quality basic services as stipulated by Directive 97/67/EC of the European Parliament and of the Council. For cross-border preferential mails within the EU, the Directive defines qualitative requirements regarding delivery time.

Delivery time	Target	Actual 2007 inbound	Actual 2007 outbound
D+3	85% of mails	91.7%	87.2%
D+5	97% of mails	98.9%	98.9%

As the above-table shows, the Company was successful in fulfilling these requirements in 2007. The quality targets set by the Directive were accomplished both in terms of speed (delivery term D+3) and reliability (delivery term D+5). The international quality is evaluated by UNEX, an independent measurement system provided by the International Post Corporation for public postal operators in EU member states.

Česká pošta was adequately appreciated for meeting the quality criteria set by the Universal Postal Union for the EMS area in 2007. It has received the second highest possible award, the "Silver Level" awarded by the global association of postal operators EMS to entities that have met the set quality criteria.

In 2007, the Company actively participated in preparation of the draft amendment to the above-mentioned Directive No. 97/67/EC of the European Parliament and the Council.

Cooperation with foreign postal operators

Česká pošta maintains international relationships mainly with European public postal operators gathered in PostEurop. In Central Europe, the Company has very good relationships with public postal operators grouped in the "Visegrád Group", i.e. Slovakia, Poland, Hungary, Slovenia and Croatia (since 2007). Discussions of the Visegrád Group's representatives concentrate especially on maintaining and improving high-quality international traffic.

Investments and technical development

Investing in transport

Motor vehicles traditionally represent the largest share in the Company's investments. In 2007, the Company purchased 167 motor vehicles at a total amount of CZK 69.9 million, of which 142 vehicles are replacements and 25 vehicles are development.

As at 31 December 2007, the Company's fleet consisted of 4,225 vehicles.

The annual driving performance was 98.99 million km which represents a 4.5% increase compared to 2006. The number of kilometres driven per vehicle comes to 23,827 km. The average age of road vehicles was 6.68 years.

Technology development – certification services

The Company has been providing Internal Certification Authority (ICA) since 2000. ICA issues technology certificates securing sensitive data exchange between the Company and its customers using Crypta programme. In 2007, the Company issued 9,876 technology certificates used especially in payment systems. Since the ICA will be terminated by 2010, the Company is working on scenarios supporting migration of clients to the Public Certification Authority.

Late in 2002, the Public Certification Authority, or PostSignum VCA was put into operation. This authority provides customers with commercial certificates used for encoding/decoding and user authentication. Use of the certificates is no longer linked exclusively to communication with Česká pošta.

PostSignum VCA issues certificates for Registered Electronic Mail and for Česká pošta's employees who need it in connection with the execution of their work. In 2007, 3,108 certificates were issued. For more information on PostSignum VCA visit <http://vca.postsignum.cz>.

The qualified certification authority PostSignum QCA represents the last step in the Česká pošta strategy to offer complex certification services to its customers. PostSignum QCA issues qualified certificates suitable for electronic communication with public authorities. The Ministry of Informatics of the Czech Republic granted the Company a license to issue qualified certification in August 2005 and the first certificate was issued in September 2005.

In 2007, 31,858 certificates were issued, which is an 81.5% increase compared with prior year. Currently, PostSignum QCA is working on a new customer management system and is preparing a new service: a qualified

time stamp. For further information on PostSignum QCA visit <http://qca.postsignum.cz>.

Electronic mail with ISO certification

Registered electronic mail (REM) is an electronic equivalent to traditional registered mail. As opposed to the general e-mail service, here a sender is informed when a recipient accepts the mail. Communication between clients is secured via PostSignum VCA certificates. The service is used by several health insurance companies and the Czech Police within its project called BODYD. By the end of 2007, REM included 607 active boxes. For further information on REM visit <http://rep.cpost.cz>.

Regarding the certification of information systems of certification authorities and REM, the Company stresses the stable high-quality of the services and protection of information in the processes. This is illustrated by the fact that PostSignum VCA, PostSignum QCA and REM were awarded a Quality Management System certificate ISO 9001:2001 and Information Security Management System certificate ISO 27001 late in 2007.

Czech POINT as a source of quick information

Early in 2007, Česká pošta launched a service within the "Výpisy z ISVS" (excerpts from public administration information systems) project offering excerpts from the Real Estate Register at 74 contact points. In April 2007, clients were offered an additional service of providing excerpts from the Commercial Register. Since August 2007, the Company has been participating in the Czech POINT project managed by the Ministry of Interior Affairs of the Czech Republic. Based on this cooperation, the Company started to integrate Czech POINT services into the APOST system. In 2008, the Company will continue to further extend the Czech POINT services.

Stamp design and philately

Stamp design

In 2007, Česká pošta, acting on behalf of the postage stamp issuer, i.e. the Ministry of Trade and Industry of the Czech Republic, issued altogether 34 commemorative postage stamps with the first day covers and commemorative handstamps out of which six postage stamps came out in blocks ("Charles Bridge", "Václav Hollar – A World-Known Etcher", and "Nature Protection: White Carpathians" – four stamps).

Further seven postage stamps were issued, out of which six were intended for standard mail and one postage stamp with coupons for additional printing upon customer request.

In connection to the new postal rates, the Company also issued one postcard for additional printing, one postcard for standard mail, and four commemorative postcards.

Major impressions in 2007

The following stamps were issued to promote the World Exhibition of Postage Stamps Praga 2008:

- Prague: 750 years of Malá Strana (Lesser Town): Detail of Langweil's model of Prague
- 650 years of Charles Bridge: a block with a stamp featuring a night view of Charles Bridge in Prague. The stamp was voted the "The Most Beautiful Czech Postage Stamp 2007".

The block "Václav Hollar – A World-Known Etcher" commemorates the 400th anniversary of the birth of this outstanding artist of Czech origin. Another block "White Carpathians: Orchid Meadows – UNESCO Biosphere Reserve" promotes protection of nature in the Czech Republic.

This year, Boy Scouts were an umbrella theme of the annually issued impression EUROPA. Within this theme, a stamp dedicated to children was issued featuring Jaroslav Foglar's Rychlé šípy (Speedy Arrows), a literary group of boys inspired by the Boy Scout movement. A new impression of Asian Art featured a Japanese woodcut and Indian glass paint from Czech collections. The importance of health prevention was stressed by a stamp Oncology Disease Prevention.

Two stamps depicting the interior and exterior of Brussels' Stoclet Palace, designed by a well-known Viennese architect Josef Hoffmann, native of Brtnice u Jihlavy, Bohemia, were designed by Czech and Belgian artists and issued under a Joint Issue with Belgium. Other

stamps issued included "The Beauties of our Homeland", "Works of Art on Postage Stamps" (A. Mánesová, O. Lebeda, S. H. Pinkas), and other issues dedicated to collectors' themes and anniversaries of well-known Czech personalities.

The last stamp of the year was dedicated to the Czech Republic entering the Schengen area. And it is the stamp that accompanies this Annual Report.

Other services for philatelists

Apart from postage stamps, postal stationery and first day covers, Česká pošta also supplied the philatelists with the ever-popular stamp booklets with/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 very popular are sheets of stamps with an empty coupon onto which clients may print anything they choose. Naturally the range of collectors' products also included a bound stamp yearbook in a 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.

The Company continuously distributed postage stamps and other philatelic items to philatelists organised in approximately 350 clubs of the Union of Czech Philatelists throughout the year via the so-called "latest arrivals service". The collectors that are not formally members of such an organisation make use of specialised philatelic counters at the post offices, the dedicated mail order service located in Karlovy Vary and possibly even the services provided by private enterprises selling postage stamps (originally bought from the Company).

As for foreign customers, Česká pošta handles the entire export of Czech postage stamps worldwide. The Company presented the Czech postage stamps at international stamp exhibitions in Germany.

Throughout 2007, different post offices used altogether 59 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. Apart from this, post offices used 13 commemorative stickers on registered letters and 30 APOST stickers with an additional promotional print.

Efficiency





MONEY ORDER

43

For your household to run well, both time and finances need to be managed efficiently. Postal orders are a simple solution for those who are searching for a clearly manageable way of making even unexpected payments.

Poštovní poukázka A

Částka Kč: = = = = = 9 9 0 0

Tr. kód: 1 1 0

Ve prospěch účtu: 1 2 3 4 5 6 7 8 9 1 2 1 3 1 4 1

Kód banky: 0 3 0 0

V. symbol: 0 0 5 6 7 9 8 7 5

K. symbol: 0 3 7 9

S. symbol: 4 6 4 4 6 1 3 4 6 5

Udaje zarovnejte vpravo, první část čísla účtu (předčíslo) uveďte před zvýrazněnou svislou čáru

Odesílatel:
Jana Nováková
Americká 258
373 11 Iedenice

Datum splatnosti:

Kód banky: 0 3 0 0

404 X

110<

Praga 2008

In 2007, preparatory activities related to the World Stamp Exhibition Praga 2008 continued. This decennial exhibition, accompanied with the "Sběratel" sales-exhibition, will be organised under the auspices of the International Federation of Philately on 12-14 September

2008. Traditionally, the event is co-organised by Česká pošta and the Union of Czech Philatelists. The exhibition will introduce exhibitors from more than 80 countries worldwide 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.

Postal museum

The Postal Museum in Prague, with a branch in Vyšší Brod, has become an attractive location for all postal history enthusiasts.

Exhibitions attract growing number of visitors

In 2007, the Postal Museum in Prague organised several short-term exhibitions traditionally attracting a lot of attention.

- "Karel Zeman – Stamps, Medals, Graphic Art" (28 February to 22 April 2007)
- "Marie Svobodová – A Green Little Horse – Drawings, Graphic Art, Philately" (25 April to 10 June 2007)
- "The Most Beautiful Czech Stamps" (13 June to 30 September 2007)
- "Post and František Horniak, the Etcher – Selection of Works" (4 October to 2 December 2007)
- "120th Anniversary of the Club of Czech Philatelists" (17 October to 27 October 2007)
- "Karel Dvořák – Graphic Art and Design" (6 December 2007 to 3 February 2008)

On the occasion of individual exhibitions, the Postal Museum issued commemorative postcards with an additional print and established a temporary post office counter offering a commemorative handstamp. A commemorative print of the etching was issued on the 89th anniversary of the establishment of the Postal Museum.

In cooperation with the municipality of Vyšší Brod, Primary Art School in Kaplice and Cistercian Abbey, the Postal Museum branch in Vyšší Brod organised an exhibition of art works created by students of the Primary Art School in Kaplice from July to September.

There were several other exhibitions organised by the Česká pošta's Postal Museum in cooperation with the Postal Museum of Slovenská pošta. The Postal Museum in Banská Bystrica featured stamp art graphics of Bedřich Housa from 31 March to 5 October 2007 and

the "Czech-Slovak Stamp Art Graphics" was presented in Nitra during the "Days of Czech-Slovak Culture" event from 10 October to 4 November 2007.

Cooperation on third parties' exhibitions and publications

The Postal Museum participated in several exhibitions and various events organised by other institutions, including the "National Exhibition of Postal Stamps in Hradec Králové", "Singing Fontaine" (exhibition cycle "Newly Reconstructed Monuments at Prague Castle"), "T. G. Masaryk and Philately" (exhibition in Museum of T. G. Masaryk in Lány and Museum of T. G. Masaryk in Rakovník) or "Philatelic Exhibition" in the Sokolov Regional Museum.

The collection of the Postal Museum is also exploited for the creation of various publications, especially historical. In 2007, the Postal Museum furnished pictorial supplements for two publications: "Protectorate of Bohemia and Moravia in Pictures", and "Smíchov – A Town behind the Újezd Gate". It also cooperated with the Česká pošta's Department of Stamp Art Graphics in the preparation of a stamp and postcard dedicated to the World Exhibition of Postal Stamps "Praga 2008" and joint issue of the Czech Republic and Austria in 2008.

Apart from exhibitions, the Postal Museum organises various seminars on post history and philately. In cooperation with the Union of Czech Philatelists and Filatelie magazine, it organised a "Day of Czech Philately" offering museum visits and lectures.

Postal museum in numbers

In 2007, 10,565 paying visitors and approximately 6,000 non-paying visitors (Museum Day, visits of students of primary and secondary schools and universities, educational projects for youth, etc.) visited the exhibitions of the Postal Museum in Prague and Vyšší Brod.

Research services were provided to 264 persons, including search activities, written answers and cooperation in the compilation of expert texts.

The collection of the Postal Museum acquired 5,577 new items in 2007 which were at the same time registered in the

Central Register of Collections of the Ministry of Culture of the Czech Republic. As at 31 December 2006, the Postal Museum owned 207,301 collectable items and sets of collectable items in 69 sub-collections. An inventory control of 16,332 collectable items was carried out pursuant to Act No. 122/2000 Coll. and 213 collectable items were conserved and restored.

In 2006, photo-documentation of sub-collection "Paintings and Plastic Art" was digitalised in the Muzis

database. Digitalisation of documentation of stamp graphic art sub-collection via Muzis programme continued in 2007.

Apart from standard acquisitions (expert periodicals, postal and official journals, telephone directories), the library acquired 70 expert publications.

Relationship to environment

In 2007, Česká pošta proved that it is an active player in the field of the environment protection and improvement e.g. by consistent separation of office paper. Inspections carried out by public authorities in Česká pošta premises revealed no formal flaws or defects on work sites. The Company's operation caused no environmental accident or material contamination of the environment.

As in the previous years, the Company was committed to identify, mitigate and prevent any environmental risks. The Company reduced minor sources of air pollutions and replaced older vehicles with vehicles meeting more strict actual standards. All these measures decreased emissions.

The tasks stipulated by Act No. 477/2001 Coll., in the area of packaging management (packages introduced into the market) were properly fulfilled by the Company by joining the EKO-KOM system. The EKO-KOM system provides for collection and re-use of package waste via sorting waste systems of municipalities and operation of entities entitled to handle waste.

In 2007, the Company completed all preparatory steps necessary to initiate and execute a complex environmental audit of all the Company's premises during 2008. The audit is one of the preconditions for the Company's transformation into a joint-stock company.

Employees and wages

Employment and structural changes

In 2007 substantial changes in the organisational structure of Česká pošta continued. These changes are intended to rationalise the management, optimise the number of employees improve productivity.

In 2007, a job audit was initiated to enable the streamlining of the salary system in future years. As a result of this, early changes can occur and jobs are transferred between professional groups. All such changes are managed in cooperation with the trade union organisation and due care is taken in order to avoid any disruption of social conciliation.

In 2007, the full time equivalent of employees reached 37,008. The structure of the employees is as follows: counter clerks 21.92%, postmen 32.51%, transport staff 8.44%, administration staff 8.16%, and other employees 28.97%.

In 2007, Česká pošta hired 3,191 new employees (corresponding to 8.62%), furnished with contracts concluded for an indefinite time period, of which 2,298 stated the Česká pošta's tradition as one of the reasons which made them join.

Steady growth of salaries

The salary policy of Česká pošta is based on fundamental simplification of the salary system in order to set a united, streamlined and transparent system and to motivate managers.

In 2007, the average monthly salary amounted to CZK 17,452, i.e. CZK 868 (5.23%) year-to-year increase. The average monthly salary of individual employee categories was as follows: counter clerks: CZK 16,071 (+5.16%); postmen: CZK 13,885 (+6.43%); transport staff: CZK 16,851 (+8.30%); administration staff: CZK 29,908 (+3.94%).

Average additional income of employees beyond the level of salary amounted to CZK 1,061 per employee. This income includes pension insurance benefits, life insurance, meals, vacations, physical education, etc. These funds came from the costs and "FKSP" (Fund for Cultural and Social Needs).

Investing in training – investing in the future

The management of Česká pošta recognises that employees should be motivated both via the above

mentioned social benefits as well as by investments into their development and education.

In 2007, in total 66,137 employees participated in educational programmes and courses. The largest number of events focused on providing and developing the expertise of postal services (33.8%). Regarding the quality of basic provided services, continuation of training and re-examining of employees launched in 2006 (pursuant to Decision of the Director General No. 43/2006) was particularly important. By the first half of 2007, 21,806 members of the operational staff had been re-examined, which rounds out the total number to 32,594 employees.

Courses carried out under the project of Poštovní spořitelna named "The Academy of Banking" represented an important part of the total number of educational activities (24.2%). Initially, these courses were aimed at improving and extending product knowledge of counter clerks and supporting general trading skills. Česká pojišťovna offered similar courses (5.5%).

Further to this, the training aimed at changing attitudes and improving the professional behaviour of counter clerks continued (3.8%). Training courses and follow-up tutelage were conducted at 328 post offices by a professional team of 30 in-house professional behaviour trainers.

Events to support trading skills were initiated by the section of the Deputy Director General for commerce. In addition, the Company provided courses covering wide scale professional training in IT, economy, taxes, accounting, legal, human resources, etc. The Company also provided courses in specialised repairs and maintenance of Postservis equipment and mandatory training such as driver training, etc.

The total expenses invested in training (without salary compensation for the time absent from work) totalled approximately CZK 21.58 million (i.e. 0.19% of the examined personnel expense). The average costs per trainee came to CZK 326 or respectively to CZK 583 per employee.



Tradition





PHILATELY

49

Genuine values are conveyed from generation to generation. This is also true for stamp collections, which often contain rare specimens. Every year we issue new stamps; they often preserve historical events in the smallest and most attractive form.





Independent auditor's report to the founder of Česká pošta, s.p.



PricewaterhouseCoopers Audit, s.r.o.

Kateřinská 40/466
120 00 Praha 2
Česká republika
Telefon +420 251 151 111
Fax +420 251 156 111

We have audited the accompanying financial statements of Česká pošta, s.p. ("the Company"), which comprise the balance sheet as at 31 December 2007, the income statement, statement of changes in equity 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.

General Director's Responsibility for the Financial Statements

The General 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.

Auditor's 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 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 the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2007, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

15 April 2008

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Šobotník, Auditor, Licence No. 113

Translation note

This version of our report is a translation from the original, which was prepared in Czech. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021. ©2008 PricewaterhouseCoopers Audit, s.r.o. All rights reserved. "PricewaterhouseCoopers" refers to the Czech firm of PricewaterhouseCoopers Audit, s.r.o. or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Full balance sheet, as at 31 December 2007 (in CZK thousand)

Ref.				ASSETS	31 December 2007			31 Dec 2006
					Gross	Provision	Net	Net
				TOTAL ASSETS	32,089,385	(9,701,215)	22,388,170	22,411,908
			<i>a</i>	<i>out of which: entrusted resources</i>	8,188,423	-	8,188,423	8,844,795
B.				Fixed assets	18,432,157	(9,605,260)	8,826,897	9,116,488
B.	I.			Intangible fixed assets	1,254,166	(1,035,904)	218,262	319,244
B.	I.	1.		Software	1,106,302	(930,754)	175,548	210,878
		2.		Royalties	840	(418)	422	576
		3.		Other intangible fixed assets	110,372	(104,732)	5,640	100,866
		4.		Intangible assets in the course of construction	36,652	-	36,652	6,924
B.	II.			Tangible fixed assets	17,120,448	(8,529,639)	8,590,809	8,779,418
B.	II.	1.		Land	751,999	(2,029)	749,970	748,508
		2.		Constructions	8,951,450	(3,152,658)	5,798,792	5,108,770
		3.		Equipment	6,857,135	(5,331,596)	1,525,539	1,409,911
		4.		Other tangible fixed assets	3,707	-	3,707	3,707
		5.		Tangible assets in the course of construction	551,106	(43,356)	507,750	1,483,348
		6.		Advances paid for tangible fixed assets	5,051	-	5,051	25,174
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	13,540,718	(95,955)	13,444,763	13,178,070
C.			<i>a</i>	<i>out of which: entrusted resources</i>	8,188,423	-	8,188,423	8,844,795
C.	I.			Inventories	227,425	(15,992)	211,433	183,341
C.	I.	1.		Raw materials	162,452	(15,365)	147,087	131,319
		2.		Goods for resale	64,973	(627)	64,346	52,022
C.	II.			Long-term receivables	10,218	-	10,218	8,369
C.	II.	1.		Trade receivables	734	-	734	974
		2.		Advances paid	1,320	-	1,320	1,914
		3.		Other receivables	8,164	-	8,164	5,481
C.	III.			Short-term receivables	2,000,557	(79,963)	1,920,594	1,810,030
C.	III.		<i>a</i>	<i>out of which: entrusted resources</i>	284,422	-	284,422	448,552
C.	III.	1.		Trade receivables	1,075,461	(41,157)	1,034,304	1,066,711
		1.	<i>a</i>	<i>out of which: entrusted resources</i>	284,422	-	284,422	448,552
		2.		Intragroup receivables	88	-	88	229
		3.		Taxes and state subsidies receivable	33,583	-	33,583	-
		4.		Advances paid	197,186	-	197,186	124,189
		5.		Anticipated assets	445,776	-	445,776	364,348
		6.		Other receivables	248,463	(38,806)	209,657	254,553
C.	IV.			Financial assets	11,302,518	-	11,302,518	11,176,330
			<i>a</i>	<i>out of which: entrusted resources</i>	7,904,001	-	7,904,001	8,396,243
C.	IV.	1.		Cash in hand	4,876,201	-	4,876,201	4,916,823
		1.	<i>a</i>	<i>out of which: entrusted resources</i>	4,752,504	-	4,752,504	4,893,387
		2.		Cash at bank	4,613,358	-	4,613,358	5,088,361
		2.	<i>a</i>	<i>out of which: entrusted resources</i>	3,151,497	-	3,151,497	3,502,856
		3.		Short-term investments	1,812,959	-	1,812,959	1,171,146
D.	I.			Accruals and deferrals	116,510	-	116,510	117,350
D.	I.	1.		Prepaid expenses	40,249	-	40,249	44,116
		2.		Accrued revenue	76,261	-	76,261	73,234

Ref.				LIABILITIES AND EQUITY	31 December 2007	31 December 2006
				TOTAL LIABILITIES AND EQUITY	22,388,170	22,411,908
			<i>a</i>	<i>out of which: entrusted resources</i>	8,188,423	8,844,795
A.				Equity	9,683,355	9,172,878
A.	I.			Share capital	3,587,928	3,587,928
A.	I.	1.		Share capital	3,587,928	3,587,928
		2.		Changes in registered capital not yet registered	-	-
A.	II.			Capital contributions	5,029,848	4,721,829
A.	II.	1.		Other capital contributions	5,029,848	4,721,829
A.	III.			Reserve fund, non-distributable reserves and other reserves	393,040	377,807
A.	III.	1.		Statutory reserve fund, non-distributable reserves	358,170	358,170
		2.		Statutory and other reserves	34,870	19,637
A.	IV.			Retained earnings	20,000	237,712
A.	IV.	1.		Retained profits	20,000	237,712
A.	V.			Profit for the current period	652,539	247,602
B.				Liabilities	11,785,990	12,795,902
B.			<i>a</i>	<i>out of which: entrusted resources</i>	8,188,423	8,844,795
B.	I.			Provisions	314,891	448,667
B.	I.	1.		Other provisions	314,891	448,667
B.	II.			Long-term liabilities	258,234	217,964
B.	II.	1.		Advances received	-	1,374
		2.		Deferred tax liability	258,234	216,590
B.	III.			Short-term liabilities	10,908,731	11,597,352
B.	III.		<i>a</i>	<i>out of which: entrusted resources</i>	8,158,306	8,816,677
B.	III.	1.		Trade payables	8,625,579	9,550,919
		1.	<i>a</i>	<i>out of which: entrusted resources</i>	8,158,306	8,816,677
		2.		Intragroup liabilities	5,923	2,813
		3.		Liabilities to employees	596,961	587,373
		4.		Liabilities for social security and health insurance	313,855	299,901
		5.		Taxes and state subsidies payable	88,134	97,296
		6.		Advances received	27,771	1,703
		7.		Anticipated liabilities	1,115,820	902,040
		8.		Other payables	134,688	155,307
B.	IV.			Bank loans & overdrafts	304,134	531,919
B.	IV.		<i>a</i>	<i>out of which: entrusted resources</i>	30,117	28,118
B.	IV.	1.		Long-term bank loans	176,962	415,611
		2.		Short-term bank loans and overdrafts	127,172	116,308
		2.	<i>a</i>	<i>out of which: entrusted resources</i>	30,117	28,118
C.	I.			Accruals and deferrals	918,825	443,128
C.	I.	1.		Accruals	165,002	63,169
		2.		Deferred revenue	753,823	379,959

Profit and loss account, year ended 31 December 2007, (in CZK thousand)

Ref.	DESCRIPTION	Accounting period	
		2007	2006
I.	Sales of goods	463,834	428,661
A.	Cost of goods sold	348,305	322,601
+	Gross profit	115,529	106,060
II.	Sales of production	16,967,386	16,774,179
II. 1.	Sales of own products and services	16,947,419	16,757,654
	2. Own work capitalised	19,967	16,525
B.	Cost of sales	3,874,566	3,975,621
B. 1.	Raw materials and consumables	1,344,052	1,389,371
	2. Services	2,530,514	2,586,250
+	Added value	13,208,349	12,904,618
C.	Staff costs	11,248,488	10,781,441
C. 1.	Wages and salaries	8,071,318	7,749,625
	2. Emoluments of board members	3,348	1,942
	3. Social security and health insurance costs	2,848,366	2,711,438
	4. Other social costs	325,456	318,436
D.	Taxes and charges	55,368	31,553
E.	Depreciation and amortisation of fixed assets	778,267	790,481
III.	Sale of fixed assets and raw materials	18,621	152,791
III. 1.	Sale of fixed assets	17,694	150,787
	2. Sale of raw materials	927	2,004
F.	Net book value of fixed assets and raw materials sold	5,329	47,467
F. 1.	Net book value of fixed assets sold	4,628	46,017
	2. Net book value of raw materials sold	701	1,450
G.	Change in operating reserves and provisions	(125,848)	401,805
IV.	Other operating income	196,621	173,324
H.	Other operating expenses	756,036	895,413
*	Operating result	705,951	282,573
VI.	Income from sales of securities and shares	373,488	808,682
J.	Securities and shares sold	371,146	804,650
VII.	Income from long-term investments	575	431
VII. 1.	Income from investments in controlled entities/subsidiaries	575	431
VIII.	Income from short-term investments	33,042	14,076
IX.	Gain on revaluation of securities and derivatives	-	8,222
X.	Interest income	93,325	70,884
N.	Interest expense	25,509	6,246
XI.	Other financial income	39,830	34,258
O.	Other financial expense	55,026	46,250
*	Financial result	88,579	79,407
Q.	Tax on profit or loss on ordinary activities	141,991	83,647
Q. 1.	- current	100,347	138,084
	2. - deferred	41,644	(54,437)
**	Profit on ordinary activities after taxation	652,539	278,333
XIII.	Extraordinary income	-	3,758
R.	Extraordinary charges	-	34,572
S.	Tax on extraordinary profit or loss	-	(83)
S. 1.	- current	-	(83)
*	Loss on extraordinary items after taxation	-	(30,731)
***	Net profit for the financial period	652,539	247,602
***	Profit before taxation	794,530	331,166

Cash flow statement, year ended 31 December 2007, (in CZK thousand)

Identification		2007	2006
P.	Cash and cash equivalents at the beginning of the year	11,176,330	6,647,904
P.	<i>out of which: entrusted resources</i>	8,396,243	4,049,389
Z.	Net profit from ordinary activities before tax	794,530	361,980
A.1	Adjustments for non-cash movements:	577,358	1,045,148
A.1.1	Depreciation and amortisation of fixed assets	784,663	813,182
A.1.2	Change in provisions	(125,848)	401,805
A.1.3	Loss from disposal of fixed assets	(13,066)	(104,770)
A.1.4	Dividend income	(575)	(431)
A.1.5	Net interest income	(67,816)	(64,638)
A.*	Net cash flows from ordinary activities before tax, changes in working capital and extraordinary items	1,371,888	1,407,128
A.2	Working capital changes:	59,204	4,311,386
A.2	<i>out of which: entrusted resources</i>	(492,242)	4,346,854
A.2.1	Change in receivables and prepayments	(42,223)	113,981
A.2.1	<i>out of which: entrusted resources</i>	164,130	178,063
A.2.2	Change in short-term payables and accruals	140,894	4,205,170
A.2.2	<i>out of which: entrusted resources</i>	(656,372)	4,168,791
A.2.3	Change in inventories	(39,467)	(7,765)
A.**	Net cash flows from ordinary activities before tax and extraordinary items	1,431,092	5,718,514
A.**	<i>out of which: entrusted resources</i>	(492,242)	4,346,854
A.3	Interest paid	(24,641)	(6,246)
A.4	Interest received	93,131	70,884
A.5	Income tax on ordinary activities and additional taxes for previous periods paid	(148,420)	(99,190)
A.6	Cash movements relating to extraordinary loss	-	(30,731)
A.7	Dividends received	575	431
A***	Net cash flow from ordinary activities	1,351,737	5,653,662
A***	<i>out of which: entrusted resources</i>	(492,242)	4,346,854
B.1	Acquisition of fixed assets	(871,199)	(1,589,323)
B.2	Proceeds from sale of fixed assets	18,870	149,526
B***	Net cash flow from investing activities	(852,329)	(1,439,797)
C.1	Change in long-term and short-term liabilities	(231,158)	461,344
C.2	Changes in equity:	(142,062)	(146,783)
C.2.5	Cash contributions to funds	(142,062)	(146,783)
C***	Net cash flow from financing activities	(373,220)	314,561
F.	Net increase in cash and cash equivalents	126,188	4,528,426
F.	<i>out of which: entrusted resources</i>	(492,242)	4,346,854
R.	Cash and cash equivalents at the end of the year	11,302,518	11,176,330
R.	<i>out of which: entrusted resources</i>	7,904,001	8,396,243

1 Description of the Company

Česká pošta, s.p. (hereinafter referred to as the “Company” or “Česká pošta”) is a state-owned enterprise. It is a legal entity conducting its business activities using the Czech government’s assets in its own name and on its own account. The founder of the Company is the government. The Company was established on 1 January 1993 and the founder was then represented by the Ministry of Transportation and Communications of the Czech Republic. As of 31 December 2007, the Company’s registered office is in Prague 3, Olšanská 38/9, the Czech Republic. On 1 January 2008, the Company’s registered office as registered in the Commercial Register was changed to Prague 1, Politických vězňů 909/4. The Company is incorporated in the Commercial Register maintained by the Municipal Court in Prague, Section A, Insert 7565, under the identification number 47114983. The Company is a business pursuant to Act no. 77/1997 Coll., on a state-owned enterprise, as amended.

Notes to the Financial Statements, year ended 31 December 2007

As at 31 December 2006, the functions of the founder were performed by the Ministry of Informatics of the Czech Republic. Under a special law, all regulatory authorities regarding postal services were transferred from the Ministry of Informatics of the Czech Republic to the Czech Telecommunication Office (“CTO”).

On 1 June 2007, the Ministry of Informatics was dissolved by the Act which also transferred its authorities regarding postal services to the Ministry of the Trade and Industry and the functions of the founder to the Ministry of Interior Affairs. The change of the founder was registered into the Commercial Register on 15 November 2007.

The main activities 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 2007, the Company was divided into a headquarters and 7 regional branches (“odstepny zavod”, or “o. z.” in Czech):

- Headquarters (Olšanská 38/9, Prague 3)
- Regional Branch Central Bohemia (o. z. Střední Čechy, Politických vězňů 909/4, Prague 1)
- Regional Branch South Bohemia (o. z. Jižní Čechy, Senovážné náměstí 240, České Budějovice)
- Regional Branch West Bohemia (o. z. Západní Čechy, Solní 260, Plzeň)
- Regional Branch North Bohemia (o. z. Severní Čechy, Berní 2119, Ústí nad Labem)
- Regional Branch East Bohemia (o. z. Východní Čechy, Na Hrádku 105, Pardubice)
- Regional Branch South Moravia (o. z. Jižní Morava, Orlí 655, Brno)
- Regional Branch North Moravia (o. z. Severní Morava, Poštovní 1368, Ostrava)

During 2007, the organizational structure of the Company changed significantly in order to make the management system more efficient and to implement the necessary changes that will enable implementation of line management and centralisation of service activities.

In its Resolution No. 836 dated 18 July 2007, the Czech government delegated the Minister of Interior Affairs to submit to the Minister of Finance by 31 December 2008 a privatisation project regarding transformation of the Company's assets into a joint-stock company wholly owned by the Ministry of Finance on a temporary basis.

On its 76th meeting dated 30 October 2007, the Supervisory Board of the Company discussed and approved the time schedule of the Company transformation into a joint-stock company.

During 2007, the Company's strategy up to the year 2012 was developed and approved.

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 2007 are as follows:

Members of the top management	Position	Position established on	Registered into the Commercial Register on
JUDr. Karel Kratina	Director General	11 June 2004	18 September 2004
Ing. Rastislav Horáček	Deputy Director General, Operations	1 April 2007	26 June 2007
Ing. Petr Zatloukal	Deputy Director General, Development	20 August 2007	13 September 2007
Ing. Ladislav Musil	Deputy Director General, Finance	15 May 2006	13 September 2006
Ing. Michal Vodrážka	Deputy Director General, Commerce	16 November 2007	14 March 2008
Ing. Petr Angelis	Deputy Director General, International Relations	1 May 1998	13 September 2006
Ing. Ladislav Musil	Charged with Managing the Deputy Director General Section, Human Resources	22 December 2007	Not registered in the Commercial Register
Petr Stiegler	Deputy Director General, Public Information	15 October 2007	28 November 2007
Ing. Jan Balák	Deputy Director General, Technical Resources	1 November 2006	20 December 2006

Other changes in the Company's top management:

Members of the top management	Position	Registered into the Commercial Register on	Position ceased on	Deleted from the Commercial Register on
Ing. Alois Tešitel	Deputy Director General, Commerce	13 September 2006	15 November 2007	23 February 2008
Ing. Miroslav Špaček	Deputy Director General, Operations	1 February 1995	31 March 2007	26 June 2007
Ing. Iva Steinerová	Deputy Director General, Development	20 December 2006	17 August 2007	13 September 2007
Ing. Marek Borusík	Deputy Director General, Human Resources	13 September 2006	4 June 2007	22 August 2007
Mgr. Pavel Kolář	Deputy Director General, Public Information	13 September 2006	12 October 2007	28 November 2007
Ing. Petr Bodlák	Deputy Director General, Human Resources	22 August 2007	22 December 2007	23 February 2008

Other changes and amendments in the Commercial Register occurring in 2007:

- Ing. Rastislav Horáček, Director of the Regional Branch North Bohemia, retired. This change was registered in the Commercial Register on 26 June 2007.
- Ing. Jaroslav Navrátil has become the Director of the Regional Branch South Moravia, replacing Ludovít Gulázi. This change was registered in the Commercial Register on 24 October 2007.
- Equity capital has increased from CZK 3,581,699,000 to CZK 3,587,928,482. This change was registered in the Commercial Register on 15 November 2007.
- Further, it was added that the designated assets of the state within the meaning of Section 2 (5) of Act No. 77/1997 Coll., include buildings used to provide public postal services in towns with a population of more than 50,000 inhabitants, to ensure higher quality of the postal services and having a permanent and important role within the Company structure; such buildings are specified in Annex 1 to the Memorandum of Association. This change was registered in the Commercial Register on 15 November 2007.

All other changes in the organisational structure of the Company, Company's management as well as individual Regional Branches were recorded in the Commercial Register as of 31 December 2007.

Members of the Supervisory Board as at 31 December 2007 were as follows:

Name	Position
Mgr. Zdeněk Zajíček	Chairman
Ing. Blanka Vysloužilová, MBA	Vice-chairman
Karel Koukal	Vice-chairman
Ing. Vladimír Budínský, MBA	Member
Ing. Ján Dzvóník	Member
Mgr. Daniel Rován	Member
Petr Kužel	Member
JUDr. Petr Polák	Member
Petr Polák	Member
Ing. Jiří Štráberger	Member
Ivana Musilová	Member
Jan Řezník	Member

Directors of the Regional Branches as at 31 December 2007:

Name	Regional Branch
Ing. Jiří Štráberger	Central Bohemia
Ing. František Vondruška	South Bohemia
Ing. Karel Kohout	West Bohemia
Ing. Rastislav Horáček *)	North Bohemia
Ing. František Bakeš	East Bohemia
Ing. Jaroslav Navrátil	South Moravia
Ing. Václav Veselý	North Moravia

*) ING. RASTISLAV HORÁČEK HAS BEEN TEMPORARILY NAMED AS THE DIRECTOR OF THE REGIONAL BRANCH NORTH BOHEMIA.

The Company's mission is to execute the functions of a public postal operator involving a duty to provide and operate basic postal services pursuant to Act No. 29/2000 Coll., on postal services, as amended (hereinafter "Postal Services Act"). The Company holds a postal license pursuant to Section 19 of the Postal Services Act. The postal license was granted to the Company by the Czech Telecommunication Office for the period from 1 January 2006 to 31 December 2008. During the fiscal year 2007, no changes of the license conditions occurred. The Company intends to apply for license renewal during 2008. Currently there are no signs of the Company failing to fulfil requirements of the Postal service Act.

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 50 g 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, within the entire territory of the Czech Republic.

Within its regulatory powers, the CTO 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 Fulfilment of Obligations of Česká pošta, s.p. in the Area of Basic Services, issued by the CTO ("CTO Report"). The CTO Report for the year 2006 published in July 2007 did not identify any material failures in meeting the quality requirements that might lead to the loss of the postal license. At the same time, the CTO Report identified no material legally executable financial requirements of the CTO or other entities towards the Company.

2 Basis of preparation

The financial statements have been prepared in accordance with 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 2007. 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 2007 financial statements are as follows:

a) Intangible fixed assets

Acquired intangible fixed assets are recorded at cost, which include costs of acquisition and related cost. All research costs are expensed.

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

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

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 acquisition cost, which include costs of acquisition, transportation costs, customs duties and other related costs. Interest on loans is not included 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 creates provision 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 the 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 thousand are treated as inventory and are expensed upon consummation and carried only in an off-balance sheet records.

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

Tangible fixed assets	No. 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 Company management has the express intention of holding the investment for less than 12 months from the balance sheet date, in which case they are included in current assets. Company management determines the appropriate classification of investments at the time of acquisition 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 their 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

Acquired inventories are stated at the lower of cost and net realisable value. Cost includes all costs incurred in connection with acquisition (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 (less than 12 months) 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 published by the domestic or international stock exchange, 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 for 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 the particular service.

h) Equity

The financial position and funds of the Company are governed by Act No. 77/1997 Coll., on a state-owned enterprise, as amended. Pursuant to this Act, the registered capital corresponds to the business property to which the Company 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.

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 with an allocated contribution of 10% of net profit annually up to the set level pursuant to the Deed of Foundation.

The Company creates a cultural and social fund ("CSF"). 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 CSF 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.

Long-term and short-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 not capitalised to fixed assets. The 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 prevailing at the first day of the calendar quarter as published by the Czech National Bank.

All monetary assets, receivables 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 monetary assets, receivables and liabilities 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 and are recognised net off discounts and VAT.

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 a 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 (not related to the performance) 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 item "Taxes and state subsidies payable" 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 the item "Taxes and state subsidies receivable". 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.

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 2006 profit 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. In 2006, unused credit for prepaid postal services was estimated based on assessment of payment machine users representing 38% of the prepaid credit in 2006. This estimation based on a representative sample was applied towards the entire population and the total amount of the unused credit was recognised as deferred income.

In 2007, unused credit for prepaid postal services was estimated based on 100% assessment of payment machine users and therefore the entire amount of the unused credit was recognised as deferred income.

In 2006, 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 in 2006. The above-mentioned change affected the personnel costs in the amount of CZK 106,917,000 and the provision increase in the amount of CZK 152,260,000.

Until 2006, the Company reported as extraordinary costs and income mainly corrections to revenues and costs related to previous years which exceeded a certain threshold set by the Company, as well as compensation for lost earnings, received indemnities for occupational accidents and supplementary tax returns. Since 2007, the Company amended its policy extraordinary costs and income recognition. Since 2007, items which are not extraordinary or contingent in terms of their relation to the Company's business are reported in individual categories of operational cost and revenues. The comparative data have not been adjusted.

In 2007, the Company reclassified certain assets and liabilities, such as agency fees, received and paid advances for services related to lease, receivables/liabilities towards Postovní tiskárna cenin Praha a.s., a controlled entity, and other intangible fixed assets. At the same time, the Company improved accuracy when identifying transactions with related parties. All changes were carried out in order to provide a more true and accurate picture of the financial statements. The impact of the above-mentioned changes is insignificant for the financial statements. The comparative data have generally not been adjusted.

4 Fixed assets

a) Intangible fixed assets

Acquisition cost

(in CZK thousand)	Opening balance	Additions*)	Disposals*)	Reclassification	Closing balance
Software	991,794	45,219	(6,677)	75,966	1,106,302
Royalties	840	-	-	-	840
Other intangible fixed assets	186,338	-	-	(75,966)	110,372
Intangible fixed assets in the course of construction	6,924	73,759	(44,031)	-	36,652
Advances paid for intangible fixed assets	-	78	(78)	-	-
Total 2007	1,185,896	119,056	(50,786)	-	1,254,166
Total 2006	1,020,825	375,973	(210,902)	-	1,185,896

*) ADDITIONS AND DISPOSALS ALSO INCLUDE TRANSFERS OF INTANGIBLE FIXED ASSETS IN THE COURSE OF CONSTRUCTION.

Accumulated amortisation

(in CZK thousand)	Opening balance	Additions	Disposals	Reclassification	Closing balance	Provisions	Net book value
Software	(780,916)	(144,983)	6,677	(11,532)	(930,754)	-	175,548
Royalties	(264)	(154)	-	-	(418)	-	422
Other intangible fixed assets	(85,472)	(30,792)	-	11,532	(104,732)	-	5,640
Intangible fixed assets in the course of construction	-	-	-	-	-	-	36,652
Total 2007	(866,652)	(175,929)	6,677	-	(1,035,904)	-	218,262
Total 2006	(706,250)	(170,675)	10,273	-	(866,652)	-	319,244

The total value of low-valued intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 115,587,000 in acquisition costs as at 31 December 2007 and CZK 113,199,000 as at 31 December 2006.

b) Tangible fixed assets

Acquisition cost

(in CZK thousand)	Opening balance	Additions*)	Disposals*)	Closing balance
Land	750,537	2,428	(966)	751,999
Buildings	8,060,034	901,344	(9,928)	8,951,450
Machinery and equipment	3,169,813	402,959	(80,061)	3,492,711
Vehicles	1,955,656	88,179	(27,199)	2,016,636
Furniture and fixtures	589,665	22,928	(8,251)	604,342
Other tangible fixed assets	773,952	-	(30,506)	743,446
Works of art	3,707	-	-	3,707
Tangible fixed assets in the course of construction	1,493,870	473,683	(1,416,447)	551,106
Advances paid for tangible fixed assets	25,174	17,750	(37,873)	5,051
Total 2007	16,822,408	1,909,271	(1,611,231)	17,120,448
Total 2006	15,464,793	2,398,457	(1,040,842)	16,822,408

*) ADDITIONS AND DISPOSALS ALSO INCLUDE TRANSFERS OF TANGIBLE FIXED ASSETS IN THE COURSE OF CONSTRUCTION.

Accumulated amortisation

(in CZK thousand)	Opening balance	Additions	Disposals	Closing balance	Provisions	Net book value
Land	-	-	-	-	(2,029)	749,970
Buildings	(2,931,198)	(206,644)	5,128	(3,132,714)	(19,944)	5,798,792
Machinery and equipment	(2,625,196)	(189,892)	79,949	(2,735,139)	-	757,572
Vehicles	(1,217,973)	(187,721)	25,594	(1,380,100)	(592)	635,944
Furniture and fixtures	(464,964)	(16,507)	8,231	(473,240)	-	131,102
Other tangible fixed assets	(771,042)	(1,916)	30,433	(742,525)	-	921
Works of art	-	-	-	-	-	3,707
Tangible fixed assets in the course of construction	-	-	-	-	(43,356)	507,750
Advances paid for tangible fixed assets	-	-	-	-	-	5,051
Total 2007	(8,010,373)	(602,680)	149,335	(8,463,718)	(65,921)	8,590,809
Total 2006	(7,703,739)	(632,813)	326,179	(8,010,373)	(32,617)	8,779,418

The total value of low-valued tangible fixed assets, which are not reflected in the balance sheet, was CZK 1,742,254,000 in acquisition costs as at 31 December 2007 and CZK 1,672,084,000 as at 31 December 2006.

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 2007 and 2006, the Company did not create statutory reserves for repairs of tangible fixed assets, as these assets are repaired and maintained on a regular basis.

In 2007, the Company acquired no tangible fixed assets affecting the authorized capital free-of-charge. In 2006, the Company acquired tangible fixed assets free-of-charge worth CZK 1,220,000.

As at 31 December 2007, the Company did not intend to sell any item from tangible fixed assets. As at 31 December 2006, 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. Their acquisition cost amounted to CZK 143,078,000, with accumulated depreciation of CZK 65,320,000. The estimated selling price of these assets exceeds their net book value. Some of the expected sales were not transacted based on the approved Company strategy (see Note 1). In 2007 and 2006, fixed assets of the Company in the total amount of CZK 17,693,000 and CZK 150,787,000 respectively were sold.

In 2007 and 2006, in addition to the easement for the benefit of PCS – Praha Center s.r.o. created in relation to the post office building at Jindriská, Prague 1 according to an agreement dated 16 April 1997, which is in force until 31 March 2042, the Company has another approximately 158 (2006: 164) 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.

In 2007, the Company received no investment subsidies.

c) Long-term financial assets

As at 31 December 2007 and 31 December 2006, 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.

(in CZK thousand)	2007	2006
Share (%)	51.03%	51.03%
Total assets	95,442	90,967
Equity	84,297	83,314
Profit for the current year	3,484	2,034
Acquisition cost of the shares	17,746	17,746
Nominal value of the shares	16,903	16,903
Intrinsic value of the shares*	43,017	42,515
Dividends received	575	431

* 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 2007 or 31 December 2006, 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 2007 and 31 December 2006, receivables with maturity over 5 years amounted to CZK 3,713,000 and CZK 1,065,000 respectively.

As at 31 December 2007 and 31 December 2006, outstanding overdue receivables amounted to CZK 156,824,000 and CZK 172,469,000 respectively. Outstanding overdue receivables are not secured.

In addition, the Company wrote off as expenses in 2007 and 2006 receivables in the amount of CZK 46,644,000 and CZK 6,782,000, respectively, due to irrecoverability, dismissal of bankruptcy petition and settlement or non-satisfaction of debts in bankruptcy proceedings.

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

As at 31 December 2007 and 31 December 2006, receivables resulting from the creation of the CSF by advance payments (see Note 3h – Equity capital) amounted to CZK 170,704,000 and CZK 162,738,000, respectively.

The Anticipated assets and liabilities 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 assets and liabilities 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: (in CZ thousand)	Balance as at 1 January 2006	Creation	Dissolution/ usage	Balance as at 31 December 2006	Creation	Dissolution/ usage	Balance as at 31 December 2007
Tangible fixed assets	32,970	3,770	(4,123)	32,617	38,812	(5,508)	65,921
Long-term financial assets	39,717	-	-	39,717	-	-	39,717
Inventory	3,639	4,570	(3,592)	4,617	11,901	(526)	15,992
Receivables – statutory	16,655	5,520	(4,895)	17,280	8,798	(6,418)	19,660
Receivables – other	101,393	5,157	(7,118)	99,432	14,813	(53,942)	60,303
Total	194,374	19,017	(19,728)	193,663	74,324	(66,394)	201,593

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.

No funds were withdrawn from the overdraft facility as at 31 December 2007 and 31 December 2006.

The Company's time deposits totalled to CZK 3,703,300,000 and 3,840,000,000 as at 31 December 2007 and 31 December 2006, respectively. A time deposit with individual interest rate of Komerční banka, a.s. in the amount of CZK 10,000,000 has been 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 until 17 March 2009. In addition, the Company provided to the Czech Ministry of Finance a non-cash security amounting to CZK 600,000 and valid until 29 February 2008 for the submitted offer concerning a public tender and a cash security to the Ředitelství silnic a dálnic ČR (Directorate of Highways and Roads) amounting to CZK 3,052,000 and valid until 30 November 2008 for the performance of obligations within the electronic toll system.

Other time deposits have a maturity period of 5 days, and bear interest at the market interest rate.

Short-term securities and ownership interests as at 31 December:

Bank (in CZK thousand)	Type	2007	2006
Komerční banka, a.s.	Depository note	400,000	800,000
Československá obchodní banka, a. s.	Depository note	815,000	-
Česká spořitelna, a.s.	Depository note	597,959	-
ČP Invest, a.s.	Corporate Bond Fund	-	212,104
Credit Suisse Asset Management a.s.	Credit Suisse CZK – money market open-end unit trust	-	159,042
Total		1,812,959	1,171,146

9 Accruals and deferrals

Prepaid expenses of 2006 and 2007 particularly consist of prepaid rent.

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

10 Equity

The registered capital as at 31 December 2006 includes an amount of CZK 6,229,000 which was not recorded to the Commercial Register until 2007.

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 up to the level of 10% of the registered capital. Due to the registered capital increase, as registered in the Commercial Register on 15 November 2007, the statutory reserve fund will be increased based on the 2007 profit allocation scheme to be discussed by the Supervisory Board and approved by the founder in 2008.

Other funds created from profit include the CSF (Cultural and Social Fund).

The following changes in equity occurred in 2007 and 2006:

(in CZK thousand)	Registered capital	Other capital funds	Statutory reserve fund	Other funds	Profit in current period	Retained earnings	Total
Balance as at 1 January 2006	3,586,708	4,223,370	358,170	9,974	666,853	225,764	9,070,839
Allocation from profit	-	498,459	-	156,446	(666,853)	11,948	-
Other increases	1,220	-	-	-	-	-	1,220
Decrease	-	-	-	(146,783)	-	-	(146,783)
Profit in the current period	-	-	-	-	247,602	-	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
Allocation from profit	-	308,034	-	157,280	(247,602)	(217,712)	-
Decrease	-	(15)	-	(142,047)	-	-	(142,062)
Profit in the current period	-	-	-	-	652,539	-	652,539
Balance as at 31 December 2007	3,587,928	5,029,848	358,170	34,870	652,539	20,000	9,683,355

Profit in 2006 was distributed according to the founder's approval dated 16 July 2007.

11 Provisions for liabilities

(in CZK thousand)	Balance as at 1 January 2006	Creation	Dissolution/ Usage	Balance as at 31 December 2006	Creation	Dissolution/ Usage	Balance as at 31 December 2007
Social and health insurance	46,089	115,201	(46,089)	115,201	127,523	(115,201)	127,523
Unused holiday	-	112,319	-	112,319	133,759	(112,319)	133,759
Prepaid postal services	-	197,112	-	197,112	-	(197,112)	-
Other	76	24,035	(76)	24,035	53,609	(24,035)	53,609
Total	46,165	448,667	(46,165)	448,667	314,891	(448 667)	314,891

Provision for social and health insurance is created for unpaid contracted wages, profit-related bonuses in 2007 and 2006, unused holiday and other employee benefits.

Provision for prepaid postal services represented as at 31 December 2006 estimated liability for the unused credit related to the postal services (see also Note 3q – Changes of the accounting methods).

Other provisions were created to cover risks known as at 31 December 2007 and potential loss from pending litigations and out-of-court disputes and related obligations.

12 Long-term liabilities

As at 31 December 2007, the Company reported no long-term liabilities. As at 31 December 2006, long-term liabilities comprised received advance payments for cash-free postage payments amounting to CZK 1,374,000.

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

13 Short-term liabilities

As at 31 December 2007 and 31 December 2006, the Company's overdue short-term liabilities amounted to CZK 61,716,000 and CZK 8,201,000 respectively. The increase of the overdue short-term liabilities is caused mainly by suspending payments of suppliers' invoices.

As at 31 December 2007 and 31 December 2006, the Company had no liabilities with maturity over 5 years.

As at 31 December 2007, the Company had no short-term or long-term liabilities bearing a security or lien for the benefit of a creditor.

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

Anticipated liabilities 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 decreased on year-on-year basis mainly due to entrusted resources (see Note 23 – Entrusted resources).

14 Bank loans and borrowings

a) In CZK

Bank (in CZK thousand)	Terms and conditions	Overall limit	31 December 2007	31 December 2006
Česká spořitelna, a.s.	1 February 2006–31 August 2013 3.68% p.a. no collateral	708,000	274,017	503,801
Balance			274,017	503,801
Out of which:				
– payable in one year			97,055	88,190
– maturity period 1 to 5 years			176,962	369,349
– maturity period 5 and more years			–	46,262

b) In EUR

Bank	Terms and conditions	Overall limit (in EUR thousand)	2007		2006	
			(in EUR thousand)	(in CZK thousand)	(in EUR thousand)	(in CZK thousand)
Československá obchodní banka, a. s.	Overdraft facility EURIBOR 3 months + 0.1% p.a.	5,000	1,131	30,117	1,023	28,118

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

The Company complies with all terms and conditions of the loan agreements.

15 Accrued expenses and deferred income

Accrued expenses consist of 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. as well as rent of office premises, safes, payments received for apartments sold, and is recognised as income for the period in which it was earned. In 2007 and 2006, the Company was also 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 original amount of CZK 49,013,000 is also included in these accruals (2007: CZK 37,304,000; 2006: CZK 38,394,000) and is gradually recognised as income, during the effective period of the agreement.

16 Income tax

(in CZK thousand)	2007	2006
Profit before tax	794,530	331,166
Non-taxable income	(8,340)	(5,742)
Difference between accounting and tax depreciation	(216,608)	(232,741)
Tax non-deductible expenses	(10,916)	568,941
Out of which:		
- changes of provisions	5,548	(1,337)
- creation of provisions for liabilities	(133,776)	402,502
- other (e.g. accrued expenses, entertainment expenses, shortages and losses)	117,312	167,776
Gifts	-	(500)
Taxable income	558,666	661,124
Income tax rate	24%	24%
Calculated income tax	134,081	158,670
Tax relief (persons with disability and partial disability)	17,333	(18,021)
Current tax	116,748	140,649
Overpayments from the previous period	(16,401)	(2,648)
Income tax expense – payable	100,347	138,001
Out of which:		
- from ordinary activities	100,347	138,084
- from extraordinary activities	-	(83)

The deferred tax as at 31 December 2007 is calculated using the following tax rates: 21% (2008 tax rate), 20% (2009 tax rate) and 19% (2010 tax rate) depending on the period in which the temporary difference adjustment is expected. The deferred tax as at 31 December 2006 was calculated using the tax rate of 24%.

The Company quantified the deferred tax asset / (liability) as follows:

Deferred tax item (in CZK thousand)	2007		2006	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and for tax purposes		(331,732)	-	(369,917)
Provisions:				
- against receivables	8,818	-	23,864	-
- against inventory	3,038	-	1,108	-
- against tangible fixed assets	5,455	-	7,828	-
Other provisions	56,187	-	107,680	-
Other temporary differences	-	-	12,847	-
Total	73,498	(331,732)	153,327	(369,917)
Net deferred tax liability		(258,234)		(216,590)

The above mentioned impact of the tax rate change effective for the subsequent periods on the deferred tax was recorded in the profit and loss statement for the current accounting period. The impact of such change in the form of a decrease of deferred tax cost or deferred tax liability amounted to CZK 76,579,000.

In 2007, the Company recorded a year-to-year increase of the deferred tax liability by CZK 41,644,000.

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 2007 and 31 December 2006 are as follows:

Description (in CZK thousand)	Lease payments in 2007	Owner's acquisition cost as at 31 December 2007	Lease payments in 2006	Owner's acquisition cost as at 31 December 2006
Passenger vehicles	5,171	5,796	3,046	9,317
Other operational leasing	20,262	66,371	22,314	69,629

The assets leased by the Company in the form of finance lease as at 31 December 2007 and 31 December 2006 are as follows:

Description (in CZK thousand)	Terms and conditions	Sum of lease payments over the period of the expected lease	Actually paid finance lease payments		Schedule of future payments according to the actual maturity as at 31 December 2006	
			For the year ended 31 December 2007	From the start of the lease until 31 December 2007	Payable within 1 year	Payable within a period longer than 1 year
KERN inserting lines	Lease contracts of 2004 for 36 and 48 months	49,035	11,353	39,965	9,070	-

18 Assets and liabilities not recognised in the balance sheet

As at 31 December 2007 and 31 December 2006, 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 2007 or 2006. 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 2007 and 31 December 2006, these items were quantified as follows:

(in CZK thousand)	2007	2006
Valuables and lottery tickets	2,957,838	2,625,811
Highway stickers	2,676,167	2,088,468
Leased assets – operating lease	66,942	78,946
Leased assets – finance lease	49,035	49,035
Assets leased free of charge	139,680	131,673
Low-value tangible assets	1,742,254	1,672,084
Low-value intangible assets	115,587	113,199

Assets leased free-of-charge mainly consist of office and computer equipment (e.g. card readers) and supplies necessary for the performance of agency services.

Contractual capital commitments as at 31 December 2007 and 31 December 2006 amounted to CZK 215,720,000 and CZK 272,200,000 respectively. In addition, the Company recorded commitments related to rentals of non-residential premises, amounting to CZK 189,274,000 as at 31 December 2007 and CZK 207,890,000 as at 31 December 2006.

19 Contingent liabilities

As at 31 December 2007, the Company created a provision amounting to CZK 48,609,000 for litigations and out-of-court disputes and related liabilities.

The Company is a defending party in certain litigations related to its business activities. The Company's management doesn't expect the results of such litigations to significantly affect the financial position or profit of the Company.

Starting from 6 August 2008, the Company has been subject to an audit carried out by the Supreme Audit Office to review the Company's management of the state-owned assets. The audit has not been closed yet (the Final Report has not been approved). It is expected that the audit will be closed in late April/early May 2008. The Company's management doesn't expect the audit result and potential measurements to substantially affect the financial position and financial results of the Company.

The Company's management is not aware of any other contingent liabilities of the Company as at 31 December 2007.

20 Revenues

Breakdown of the Company's revenues from its operations:

(in CZK thousand)	2007		2006	
	Domestic	International	Domestic	International
Revenues from postal operations	14,012,321	349,375	13,996,469	391,930
Revenues from agency services	2,585,723	-	2,369,255	-
Revenues from sale of goods	463,834	-	428,661	-
Subtotal of revenues from ordinary activities	17,061,878	349,375	16,794,385	391,930
Income from the sale of fixed assets and material	18,621	-	152,791	-
Other income from operations (incl. capitalisation)	216,588	-	189,849	-
Total revenues and income from operations	17,297,087	349,375	17,137,025	391,930

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 centres (packaging and labelling) and revenues from IT work associated with postal services.

In 2007, the Company received a subsidy amounting to CZK 14,953,000 from the Universal Postal Union's Quality Fund supporting a project to increase the availability of delivery post boxes. This income is included in the Other income from operations.

21 Employees and staff costs

Breakdown of staff costs:

	2007		2006	
	Total employees	Out of which: Company management	Total employees	Out of which: Company management
Average headcount	37,008	16	37,415	17
(in CZK thousand)				
Labour costs	8,071,318	53,449	7,749,625	52,698
Social security and health insurance	2,848,366	17,417	2,711,438	19,186
Social expenses	325,456	120	318,436	124
Total staff costs	11,245,140	70,986	10,779,499	72,008

On top of the above-mentioned amounts of staff costs, members and former members of statutory and supervisory bodies in 2007 and 2006 received remuneration in the amount of CZK 3,348,000 and CZK 1,942,000, respectively.

Social security and health insurance liabilities amounted to CZK 313,855,000 as at 31 December 2007. This unpaid liability related to wages for December 2007 was paid at the beginning of 2008.

As at 31 December 2007, the Company recorded no tax arrears due to the local Tax Authority.

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 2007 and 2006, 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 several 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 2007 and 2006 and the related receivables from and payables to related parties are as follows:

2007 (in CZK thousand)	Sales	Purchases	Receivables	Payables
Subsidiary				
Postovní tiskárna cenin Praha a.s.	80	45,032	88	5,923
Other related parties				
Czech Television and Czech Radio	242,870	1,490	38	5,614
Suppliers of electricity, heat and water	413,402	201,477	84,046	99,225
Ministry of Finance	126,859	1,099	2,982	73,601
Tax Authorities	131,362	136,990	9,608	225,285
Czech Social Security Administration	443,322	2,082,042	23,891	5,547,807
Health Insurance Company	70,809	466,280	8,599	68,741
Municipal and local authorities	428,671	47,569	12,604	284,616
Carriers and freight forwarders	11,527	80,138	1,132	13,286
The State Fund for Transport Infrastructure *)	74,687	2,767	20,183	345,042
Other	474,781	16,129	6,393	115,175
Total	2,418,370	3,081,013	169,564	6,784,315

*) IN 2007, THE STATE FUND FOR TRANSPORT INFRASTRUCTURE WAS SEPARATED FROM THE MINISTRY OF FINANCE TO PROVIDE A MORE TRANSPARENT VIEW. THE COMPARABLE DATA HAVE NOT BEEN ADJUSTED.

2006 (in CZK thousand)	Sales	Purchases	Receivables	Payables
Subsidiary				
Postovní tiskárna cenin Praha a.s.	537	48,661	229	2,813
Other related parties				
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
Total	1,723,447	2,804,343	92,251	6,621,823

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.

23 Entrusted resources

Analysis of entrusted resources as at 31 December 2007 and 31 December 2006 is as follows:

(in CZK thousand)	31 December 2007	31 December 2006
ASSETS		
Short-term receivables	284,422	448,552
Cash	4,752,504	4,893,387
Bank accounts	3,151,497	3,502,856
Total assets	8,188,423	8,844,795
LIABILITIES		
Short-term payables	8,158,306	8,816,677
Short-term bank loans	30,117	28,118
Total liabilities	8,188,423	8,844,795

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

The Company received advance payments towards 2008 and 2007 pension payments from the Czech Social Security Administration in December 2007 and December 2006 in the amount of CZK 5,285,000,000 and CZK 5,186,013,000 respectively.

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 2007 and 31 December 2006, 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).

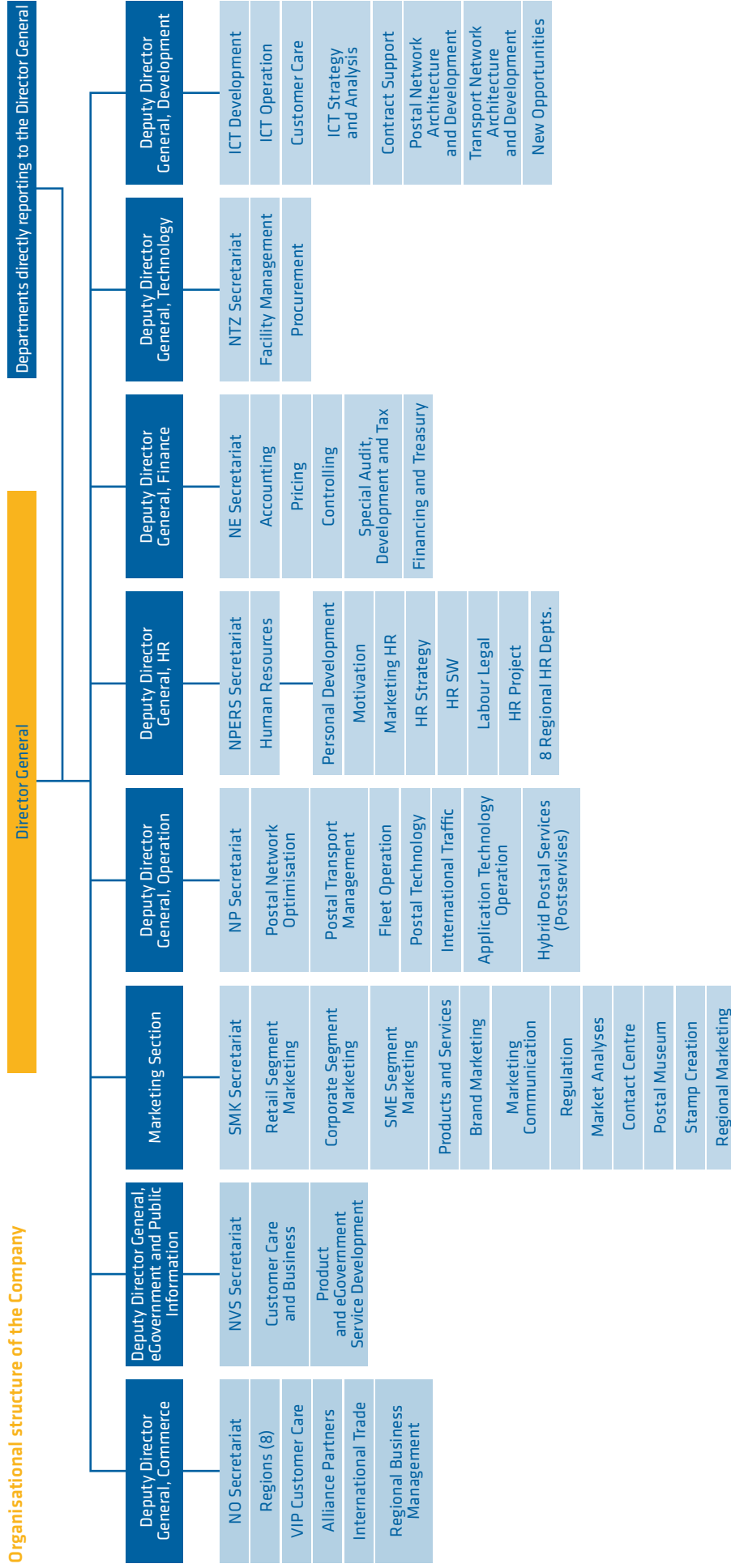
25 Subsequent events

Changes are underway within the organisational structure of the Company, which will enable implementation of linear management and centralisation of operational and service activities. Upon the Director General's decision dated 27 December 2007, a new organisational scheme of the Company was set effective from 1 January 2008 to ensure more efficient management. Upon the Director General's decision dated 31 January 2008, all Regional Branches were dissolved effective from 29 February 2008.

The position of the Deputy Director General, International Relations, was abolished due to changes in the Company's organisational structure.

The Company's organisational structure is as follows:

Organisational structure of the Company



Departments directly reporting to the Director General

On 1 January 2008, the change of the Company's registered office was registered in the Companies Register (see Note 1 – Description of the Company)

After the balance sheet date, a change of persons in the positions of Deputies was also recorded in the Commercial Register. For details see Note 1 – Description of the Company.

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 2007.

Approval of the Financial Statements

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

15 April 2008



JUDr. Karel Kratina
Director General



Ing. Ladislav Musil
Deputy Director General, Finance

Independent auditor's report to the founder of Česká pošta, s.p.

**PricewaterhouseCoopers Audit, s.r.o.**

Kateřinská 40/466

120 00 Praha 2

Česká republika

Telefon +420 251 151 111

Fax +420 251 156 111

We have audited the annual report Česká pošta, s.p. (the "Company") for consistency with the financial statements for the year ended 31 December 2007 which are included in this annual report on pages 52 till 77. The director is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report and the financial statements based on our audit.

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 2007 is consistent, in all material respects, with the financial statements referred to above.

20 June 2008

PricewaterhouseCoopers Audit, s.r.o.

represented by partner

Petr Šobotník

Auditor, Licence No. 113

Translation note

This version of our report is a translation from the original, which was prepared in Czech language. All possible care has been taken to ensure that the translation is an accurate representation of the original. However, in all matters of interpretation of information, views or opinions, the original language version of our report takes precedence over this translation.

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021. ©2008 PricewaterhouseCoopers Audit, s.r.o. All rights reserved. "PricewaterhouseCoopers" refers to the Czech firm of PricewaterhouseCoopers Audit, s.r.o. or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Contacts	
Company name	Česká pošta, s.p.
Registered office	Politických vězňů 909/4, Praha 1, 115 00
Identification number	47114983
Tax identification number	CZ 47114983
Registration court	Municipal court in Prague
Company's registration number	Insert 7565, section A
Information line	800 10 44 10
Prague information center	+420 221 132 113
E-mail	info@cpost.cz
Http	www.ceskaposta.cz
Regional Branch Central Bohemia	Politických vězňů 909/4, Praha 1, 115 00
Regional Branch South Bohemia	Senovážné náměstí 240, České Budějovice, 370 81
Regional Branch West Bohemia	Solní 260, Plzeň, 301 99
Regional Branch North Bohemia	Berní 2119, Ústí nad Labem, 401 01
Regional Branch East Bohemia	Na Hrádku 105, Pardubice, 532 05
Regional Branch South Moravia	Orlí 655, Brno, 663 00
Regional Branch North Moravia	Poštovní 1368, Ostrava, 728 60

Abbreviations used

BODYS – A project of the Police of the Czech Republic
 bp – Percentage point
 CNB – Czech national bank
 CSF – Cultural and social fund
 CTO – Czech telecommunication office
 Czech POINT – Czech submitting and verifying information terminal
 CZK – Czech crown
 ČSOB – Československá obchodní banka, a.s.
 D+3 – Delivered by the third day after posting
 D+5 – Delivered by the fifth day after posting
 EMS – Express mail services
 EU – European Union
 FKSP – Fund for cultural and social needs
 GDP – Gross domestic product
 ICA – Internal certification authority
 ISO – International organization for standardization
 IT – Information technologies
 pcs – Pieces
 QCA – Qualified certification authority
 REP – Registered electronic mail
 RPIM – Promotional and information materials
 s.p. – A state-owned company
 SIPO – Joint collection of citizens' payments
 SME – Small and medium enterprises
 UPU – Universal postal union
 VAT – Value added tax
 VCA – Public certification authority

