



Česká pošta
Annual report 2016

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004 Introduction by the Director General

Česká pošta is an enterprise whose most valuable asset is its employees. Therefore, over the preceding year I've paid a lot of attention to improving their working conditions, both an increase in wages and salaries and improvement in the working environment. The remuneration of employees in 2016 increased by 5.6% on average and by more than 7% in key operational professions.

For Česká pošta the Year 2016 was an exceptional year with respect to the spin-off of the branch office - ICTs as at 1 July 2016. As a result of this fact, Česká pošta was obliged to prepare extraordinary financial statements as at the day preceding the date of the spin-off (30 June 2016). The year 2016 has become noteworthy by the fact that it consists of two separate accounting periods.

Česká pošta operated in both accounting periods in 2016, with a total profit of CZK 193 million before tax. A major impact on the profit was seen in the continuously declining demand for post correspondence items, compared with the previous year. The operational result was also influenced by the fact that, in compliance with the amendment to the Postal Act for universal service to the state, there was 100 million of Czech crowns less than in 2015, when it totalled 600 million.

Some positive information is that Česká pošta maintained its position as the market leader in both ordinary and registered mail. It still continues to play the main role in parcel deliveries, and it has strengthened its position in the market of international services and distribution of unaddressed items.

The basic assumption for the successful future of Česká pošta is that we have to improve service quality. Therefore, last year we launched a Friendly mailbox project, within the branch network. Particular branches go through a process, during which they certify their quality. It consists not only of the market appearance of the post, but above all the approach of individual employees. As part of the deliveries we have introduced time zones in regional cities, which allows packages to be delivered to clients at a time that suits them best. In addition, we opened dispensaries of shipments in about 70 locations, where customers can collect their packages until eight o'clock in the evening.

Česká pošta is evaluating a very progressive new product - the possibility to electronically change the place and address of delivery. A lot of ground among customers of Česká pošta has been gained by the Online Postcard, which can be sent anywhere via mobile phone or computer, and recipients will find it something "classical" in their mailbox.

We have significantly progressed in the Mail Partner project. During the past year, we have managed to negotiate over 200 new contracts and, at the end of the year, 239 establishments worked under the individual businesses or municipality administration.

One of the most important events in year 2016 undoubtedly was the selection of a new partner for the provision of financial products in Czech post offices. Together with ČSOB Group, we are still negotiating the parameters of our mutual cooperation. We plan to conclude the agreement in the first half of 2017.

In the middle of 2016, Česká pošta began ensuring the safety of more than 2,200 facilities, through its subsidiary Česká pošta Security, s.r.o. In taking this step Česká pošta strengthened the security of its facilities independently, without subcontractors. A secondary effect of this step has been in the form of significant economic savings.

I am well aware that the perception that Česká pošta is affected by every single one of its employees, and therefore it will continue to strive to be an attractive employer where every postman enjoys his work. A satisfied employee is a cornerstone for satisfied customers.



Ing. Martin Elkán
Director General of Česká pošta, s. p.

Miluju svoji práci
Žádné počasí mě nezastaví
Nejraději nosím dobré zprávy
Noviny čtu vždycky první Usmívám se cel
Žiju nonstop
Jsem přátelský
Jsem týmový hráč
Jsem univerzální
Žiju nonstop
univerzální
Mířím
Miluju
nosím
Jsem
dobré zprávy
Miluju svoji práci
Zazvoním a neuteču

WE WORK TOGETHER TOWARDS SUCCESS

006 Report of the Supervisory Board

Also in 2016, as it was in preceding years, the Supervisory Board of Česká pošta took note of many important issues concerning Česká pošta at its regular meetings and the regular meetings of the Committees. In all its activities, it fulfilled its mission as required by Act no. 77/1997 Coll., on state-owned enterprise, as amended, the Articles of Association and the Statute of the state-owned enterprise Česká pošta.

Besides the long-term systematic control activities of the state enterprise, the Supervisory Board put emphasis on both the evaluation and performance of operational results, as well as on the implementation of business strategy. Particular issues were discussed in detail at the professional committees of the Board.

In 2016 the Supervisory Board actively participated in the selection of the appropriate partner to ensure retail financial services. Currently, negotiations with ČSOB Group are underway to provide financial services. The Supervisory Board together with the enterprise's management and founder is looking for a solution that will allow Česká pošta, given the existing infrastructure and branch network, as well as well-trained staff, to strengthen revenue share in the retail segment of banking and insurance services in the long term.

The Supervisory Board of Česká pošta also, in the long term considers it necessary to speed up the settlement of compensation claims for the provision of universal services in 2013 and 2014 and use part of

the compensation for resolving the wage situation of employees in the business.

The Supervisory Board thoroughly reviewed the separate financial statements for 6 months ended 30 June 2016 and consolidated financial statements for the year ended 31 December 2016 prepared in accordance with Czech accounting standards, acknowledged the PricewaterhouseCoopers Audit, s.r.o. report which was „unqualified“, discussed the separate Annual Report of Česká pošta for 6 months ended 30 June 2016 and consolidated annual report for the year 2016 and recommended that the founder approve the annual report, which includes the financial statements and auditor's report.

According to the suggestion of the enterprise's management, the Supervisory Board recommended that the founder decide about the distribution of profit for 6 months ended 31 December 2016.



Jan Mareš
Chairman of the Supervisory Board of Česká pošta, s. p.

Nejraději nosím dobré zprávy

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dobré zprávy

ogie mám v malíku

pouze ke spánku

Miluju svoji práci

moderní technologie mám v malíku

Známky mi kdekdo chválí

Zazvoním a neuteču

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MISSION AND STRATEGIC GOALS

The mission of Česká pošta, s. p. (hereafter only "Česká pošta") is to be a trusted provider of quality services in the area of mediating information, payments and goods via both traditional and electronic means.

Česká pošta ensures the provision of universal postal services and seeks to make them as effective as possible. Its current activities are determined by the four key trends affecting the market and competitive

LEGAL STATUS OF THE COMPANY

The Company is a legal entity in the meaning of Act no. 89/2012 Coll., the Civil Code, as amended. Its legal and ownership status is regulated by Act no. 77/1997 Coll., on state-owned enterprises, as amended ("the State-owned Enterprise Act"). Česká pošta was founded on 1 March 1993 by the Ministry of Economy of the Czech Republic in accordance with the State-owned Enterprise Act and incorporated by registration in the Commercial Register maintained by the district court for Prague 1, section A, file 7565. Presently, the Company is registered in the Commercial Register maintained by the municipal court in Prague,

MANAGEMENT AND SUPERVISION OF THE COMPANY

Director General

The Director General, as a statutory body of Česká pošta, manages the Company's activities and acts on its behalf. The Director General makes decisions on all matters that do not fall, by operation of the law, under the competences of the founder in accordance with section 12 of Act no. 77/1997 Coll., on state-owned enterprise, as amended.

Supervisory Board

The Supervisory Board supervises the performance of the activities of the Director General and the carrying out of the Company's business plan. In accordance with Act no. 77/1997 Coll., on state-owned enterprise, as amended, ten members of the Supervisory Board are appointed and recalled by the founder and five member are elected and recalled by the Company's employees. As at 31 December 2016, the Supervisory Board had fifteen members with all positions in the Supervisory Board being held.

Committees of the Supervisory Board

The Supervisory Board establishes committees of the Supervisory Board as its working advisory and initiative bodies. Members of individual committees meet mainly for

environment, i.e. new technologies, changes in ways of communication due to booming internet services, changing customer needs and the liberalisation of postal services. The Company intends to cooperate closely with the state administration via both its dense network of post offices and new channels. The Company considers the improvement of its image in the eyes of the public to be essential. Being aware of its social role and social responsibilities, it also wants to be seen as an attractive employer.

section A, file 7565. The Ministry of Transport and Communications issued a deed of foundation of the state-owned enterprise Česká pošta, effective from 16 June 1997, which was later amended.

As at 31 December 2016, the Ministry of Interior of the Czech Republic acted as the founder of Česká pošta on behalf of the government.

Česká pošta has no branches abroad. Česká pošta is not engaged in any significant activity in research and development.

preliminary and detailed examinations of documentation that is to be subsequently submitted to the Supervisory Board. Members of the individual committees are elected and recalled by the Supervisory Board.

At present, the Committees of the Supervisory Board are as follows:

- > Strategy and Finance Committee
- > Audit Committee
- > Committee for the Human Resources Development

Statutory body and the Management Board of the Company

The bodies of Česká pošta in the meaning of section 11 of Act no 77/1997 Coll. on the state-owned enterprise, are its Director General and the Supervisory Board.

The composition of the statutory body and organisational structure of the Company as at 31 December 2016 are part of the chapter on finances.

REGULATORY FRAMEWORK OF POSTAL SERVICES

National legislation and postal licence

The basic legislation governing the provision of postal services is Act no. 29/2000 Coll., on postal services. The act on postal services incorporates the relevant EU legislation into Czech legislation and regulates the conditions for business in the field of postal services, the conditions for the provision and operation of postal services, rights and responsibilities that, during such tasks, as well as specific rights and specific obligations of the so-called postal license holder.

Finally, the act on postal services regulates the state administration and regulation of postal services. The administrative body authorised to control the postal market in the Czech Republic is the Czech Telecommunications Office. In cases in which the Czech Telecommunication Office is not empowered by the act on postal services, state administration in the field of postal services is exercised by the Ministry of Industry and Trade.

The act on postal services is built on a series of decrees issued by the Czech Telecommunications Office, which specify the technical parameters of particular basic services, set basic quality requirements for their provision, the method of calculating the net costs of the postal licence holder, the method of keeping separate records of costs and revenues of the postal licence holder and other details concerning selected issues generally covered by the act on postal services. A significant thing from Česká pošta's point of view as a postal license holder is government regulation no. 178/2015 establishing a minimum number of facilities, through which Česká pošta provides its primary services.

The European Union regulation adjusting the field of postal services is the so-called 3rd Postal Directive (2008/6/EC) dated 20 February 2008. This formed the basis of the liberalisation of the European postal market and under which the full opening of competition were completed. Effective from 1 January 2013, the Czech postal market is fully liberalised based on the implementation of the 3rd Postal directive into Czech law.

Česká pošta is the postal license holder for the period 2013 – 2017 under Act 221/2012 Coll. and the decision of the Czech Telecommunications Office Ref. No. 562 / 2013-610 dated 22 February 2013. The content of the postal license is the so-called postal obligation ensuring universal access to basic services, which is obligatory throughout the Czech Republic. The responsibility to fulfil the obligations of the Czech Republic's membership in the Universal Postal Union is a part of the postal license. In December 2016, the Czech Telecommunication Office published

research results of the quality level and method of basic services provision and their overall availability in the Czech Republic. According to the research, there are still reasons to provide each of the core services as specified in Section 3 paragraph 1 of the Act on Postal Services. In 2017, based on the research results, the tender for the postal license holder for the years 2018-2022 will be announced by the Czech Telecommunications Office.

The provision of basic services is associated with the emergence of so-called net costs, which represent a specific economic burden of the postal license holder, which it would have avoided if the postal obligation had not been imposed. There has been a fundamental change in the financing of the net costs since 1 January 2016. The system of reimbursement of net costs from the state budget replaced the current financing system through a compensation fund, which individual postal services operators had a duty to contribute to, according to their market share on the postal services market. The state will pay to Česká pošta (as the postal license holder) upon their request and through the Czech Telecommunication Office net costs which represent an unfair financial burden. The reimbursement from the state budget is limited by the maximum limit, which in 2016 is set at the amount of CZK 600 million.

Selected responsibilities of Česká pošta, as a postal licence holder:

- > Provide basic services constantly throughout the Czech Republic via facilities network, the minimum number of which is determined by the Regulation Government.
- > Fulfil the postal obligation in a manner complying with the needs of the public and basic requirements of quality, including the permanent provision of information on basic services and the manner of their utilisation.
- > Provide postal services that are subject to the postal obligation, according to postal terms for affordable prices which allow the use of basic services to the extent reflected by common needs.
- > Ensure that there is no unjust treatment of persons interested in basic postal services guaranteed by the postal licence.
- > Ensure at least one collection and one delivery to any individual or legal entity's address on each working day (exemptions are set by the implementing decree).
- > Allow other operators to access the postal infrastructure and services connected with operating the postal infrastructure in a transparent and fair manner based on a written agreement.

HOSPODAŘENÍ – KONSOLIDOVANÉ FINANČNÍ VÝSLEDKY

MANAGEMENT - CONSOLIDATED FINANCIAL RESULTS

In 2016, Česká pošta managed to maintain positive economic results from operations despite a decrease in comparison with the previous year. Consolidated gross profit before taxation was + CZK 209 million. Net profit after taxes generated was + CZK 193 million.

Revenues from operations decreased year-on-year by CZK 904 million to a total of CZK 19,375 million. The decrease was mainly caused by the spin-off of part of the Company (Odštěpený závod ICT služby) and its subsequent merger with a state-owned enterprise Národní agentura pro komunikační a informační technologie, s. p., merged on July 1, 2016 (National agency for communication and information technologies).

Revenues from postal operations increased year-on-year by + CZK 146 million (+ 1%). The amount of domestic correspondence increased by + 7.3% year-on-year which generated an additional + CZK 167 million in revenues. A large increase in revenues was also recorded in the field of international postal operations, with a year-on-year increase of + CZK 182 million. The increase in this field of the Company's operations was caused mainly by the dynamically growing number of incoming items from China and other Asian countries. Furthermore, Česká pošta has started to serve as a transit country for incoming postal items from Asia to Europe and other destinations. Greater revenues in comparison with the previous year were also generated from cash payments and SIPO services (+ CZK 43 million). Even though there was a decrease in postal deliveries, the impact of the 4.3% decrease was compensated by the effect of the optimisation of the pricing policy starting on 1 May 2016. The most significant decrease was recorded in the area of ordinary letters delivered (- CZK 147 million). This optimisation of cost savings policy covered only part of that 11 % decrease. The main reason for the decline in the amount of ordinary letters is the strong trend adopted by banks, which continue to replace regular paper bank statements with their electronic forms. The same trend applies among providers of telecommunication services. Also, a decrease in revenues from money orders, (- CZK 126 million) by 9.7 %, continued.

Income from intermediary activities increased slightly in comparison to the previous year. The greatest increase was recorded from sales of lottery tickets (+ CZK 20 million) and consignment sales (+ CZK 10 million) – mostly from SIM cards. DINO service registered an increase too (+ CZK 8 million). However, there was a decrease in revenues from the delivery of pension payments (- CZK 17 million).

The interest in Czech POINT services, mainly authentication (signature verification) and the criminal record certificate, gradually increased. In addition, income from services of the Certification authority PostSignum (+ CZK 6 million) increased.

Other revenues from operations increased by + CZK 104 million, mainly due to sales of unneeded buildings and decommissioned vehicles (+CZK 151 million). The largest single sale of buildings was the property on the corner of Opletalova and Hybernská in Prague. On the other hand, the Company also experienced significant negative impact because there was a decrease in its claims for compensation for net expenses to cover universal services stemming from the Postal Services Act, under which Česká pošta could only apply for maximum compensation in the amount of CZK 600 million in 2016, whereas in 2015, the amount of compensation was CZK 700 million.

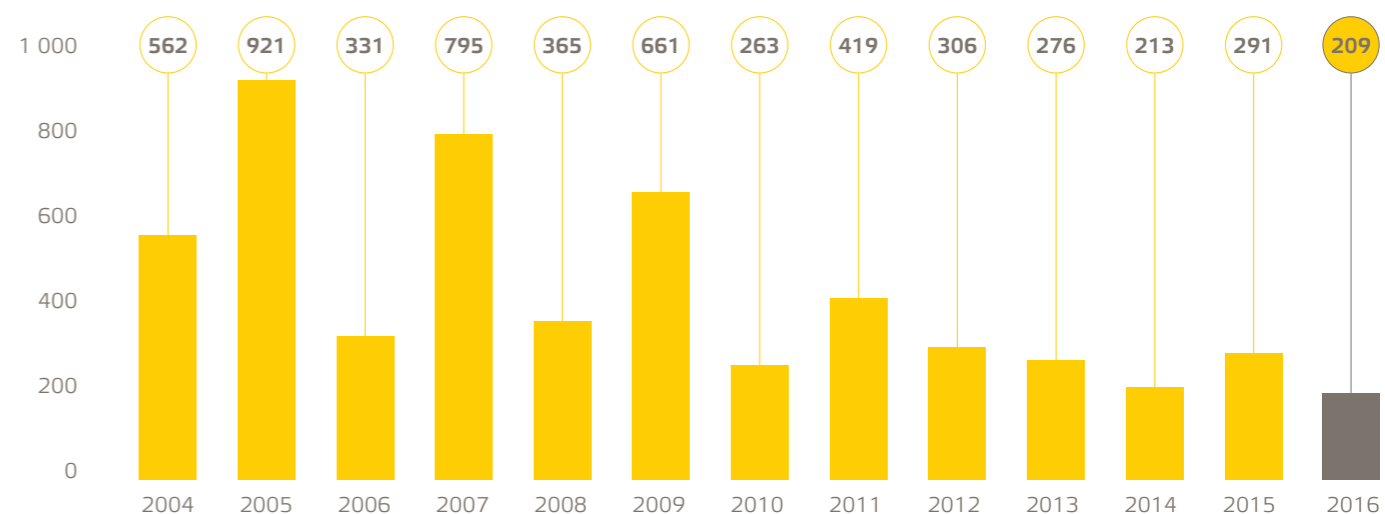
Operational expenses decreased year-on-year by CZK 857 million. Again, the reason is the spin-off of Odštěpený závod ICT služby (here-in-after referred to as OZ ICT).

The operational expenses of OZ ICT increased by CZK 332 million in total due to an increase in personal expenses by CZK 607 million. Management of Česká pošta therefore fulfilled one of their main goals – progressive increase in wages within the bounds of possibility of the Company. In other areas of expenses, management wanted to be more cost effective. The greatest decrease in expenses was recorded in data links, when the Company managed to win better prices in this area. Furthermore, there was CZK 68 million decrease in terminal fees to foreign post offices for international deliveries. Material expenses were mostly influenced by lower prices of fuels and natural gas, as well as by a decline in the consumption of paper, and operational and packaging material. Due to an increase in the number of vehicles under operational leasing, rent increased by CZK 41 million year-on-year. However, this increase was compensated with lower write-offs of vehicles and lower costs for maintenance and repairs.

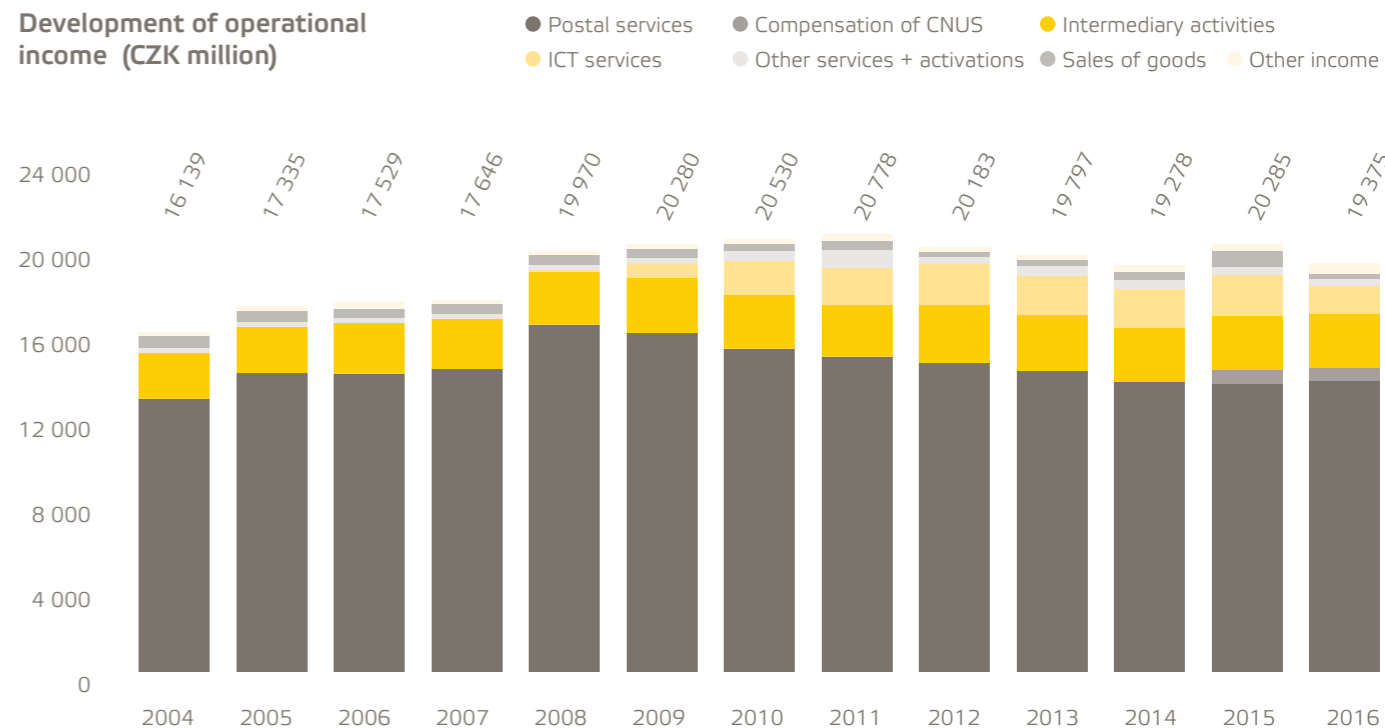
Trends of basic financial indicators – consolidated

	2012	2013	2014	2015	2016
Assets (CZK million)	26 766	26 719	26 106	22 494	20 838
Equity (CZK million)	10 281	10 341	10 349	10 429	10 191
Operating revenues (CZK million)	20 183	19 797	19 278	20 285	19 375
Of which: Sales of own products and services (CZK million)	19 646	19 235	18 553	18 488	18 026
Operating costs (CZK million)	19 932	19 549	19 112	20 015	19 153
Of which: personal costs (CZ million)	12 425	12 300	11 906	11 938	12 385
Profit before tax (CZK million)	306	276	213	291	209
Net profit (CZK million)	261	220	179	231	179

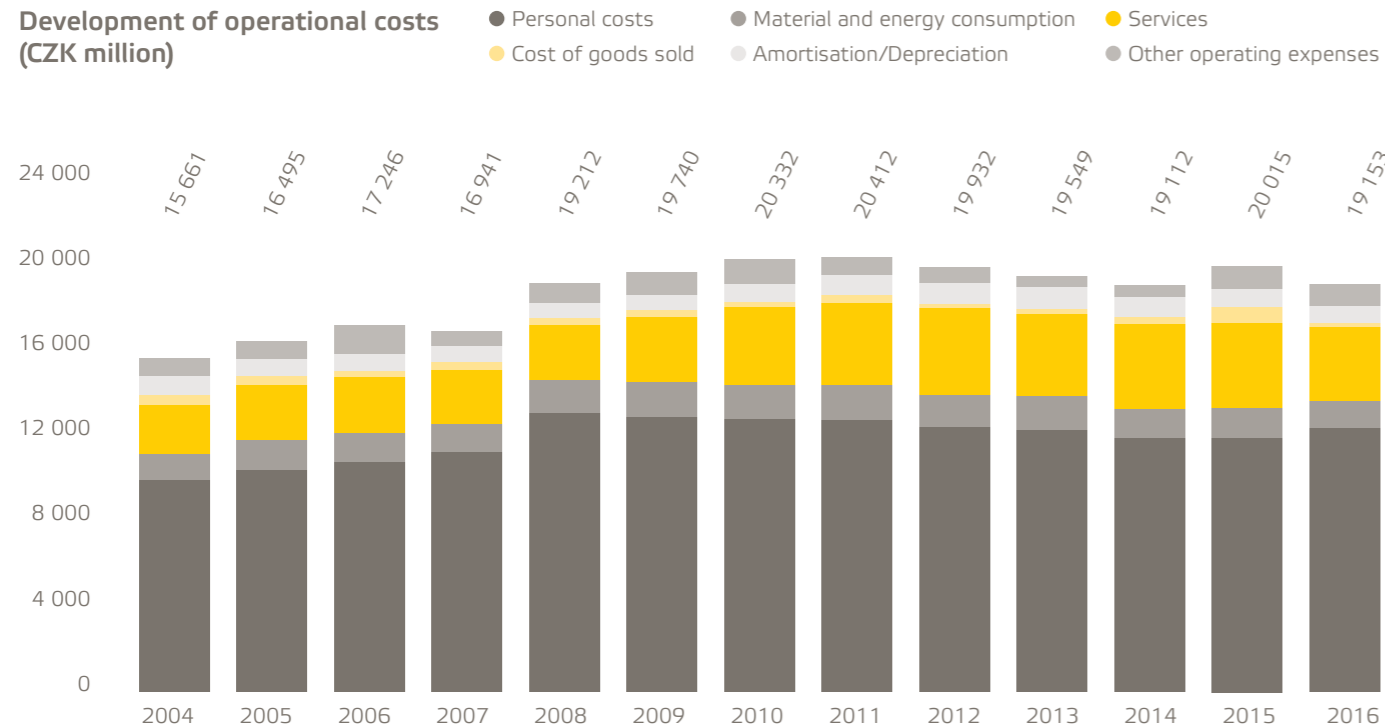
Profit before tax (CZK million)



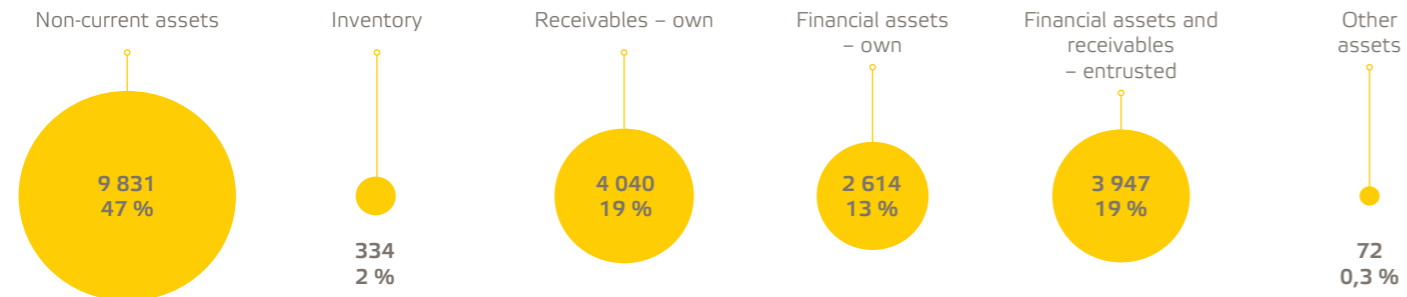
Development of operational income (CZK million)



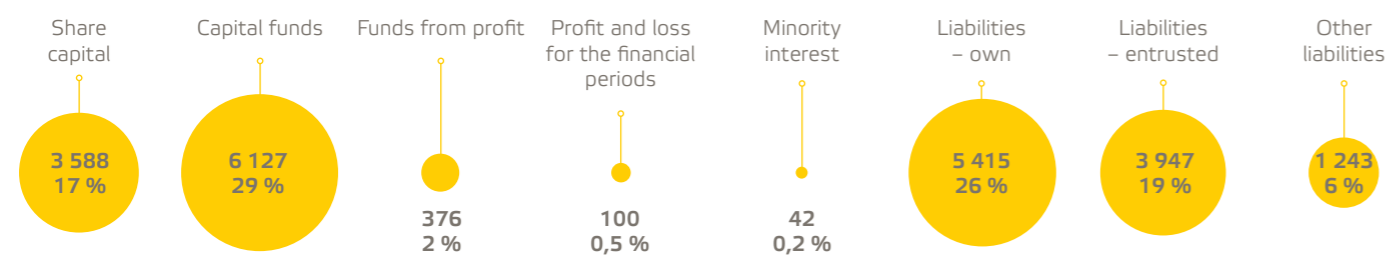
Development of operational costs (CZK million)



Structure of assets 2016 (CZK million)



Structure of liabilities and equity 2016 (CZK million)



INVESTMENTS AND TECHNICAL DEVELOPMENT

Logistics network

In 2016, the new construction of SPU and Depot in České Budějovice were completed, including fittings. The trial operation was launched in October 2016.

Of the 71 targeted depots, the last 6 remain to be deployed, of which 1 is tied to the construction of a new building SPU (Pardubice), of which this depot will form a part.

In the second quarter of 2016, reconstruction of the former supply-point Brno 100 within the SPU Brno compound was completed. These newly renovated rooms were used for the operation of the Center Postservis Brno. The original Postservis Brno centre spaces were used for the operation of depot 72 Brno (Slatina). The capacity of the new space allows for the centralisation of postal services in this area, which

previously was not possible from the capacity point of view.

Deliveries in pre-Christmas and Christmas operations were improved and managed, thanks to investments in logistics facilities (SPU, Depots and other establishments of logistics network), the machinery and the timely adoption of operational measures. Investment in logistics facilities (SPU, Depots and other establishments of logistics networks) is necessary to maintain the competitive position in Česká pošta's liberalised and fully competitive environment. Coordination of investment projects throughout Česká pošta has ensured the fulfilment of strategic activities and the gradual implementation of sub-projects according to set priorities.

Branch network

In 2016, reconstruction and modification of the branch network both in order to improve the working environment of Česká pošta employees and client comfort were continuing, and also within the regular maintenance of the real estate. Among the major projects of this type are e.g. reconstruction of buildings purchased for branches to be moved to Pelhřimov and in Horní Slavkov. The branch in Ostrava 9 also moved. Extensive interior renovation was carried out at the post office Teplice 1, further investments were made in improvements to the building in Kraslice where the situation was

complicated by water damage. Rectification of substandard conditions at the branch Nová Paka was carried out. Further branches Hodonín 1, Strakonice 2, Karlovy Vary 5, Sokolov 5, Přeštice, Lysá nad Labem, Bystřice pod Hostýnem went through fundamental interior reconstruction and a number of other smaller scale investment projects were implemented.

Car fleet

In 2016, during a renewal of the fleet, 16 cars and 295 commercial vehicles were put into operation. These vehicles were acquired under operating lease. In 2016, 16 trucks with a load capacity of 18 tons, 11 tractor units and 12 semi-trailer were acquired.

Thanks to the continued renewal of the fleet, Česká pošta managed to keep the average age of vehicles in the fleet at 5 years.

Information and communication technologies

In 2016, information technologies and communications infrastructure created an essential part to ensure Česká pošta's business services. In 2016, data centres were consolidated; a tender was initiated to implement communication lines for 1,006 objects of Česká pošta. A fundamental increase of the capacity of the lines is a necessary condition for the security of the postal services and certain strategic activities.

Česká pošta carried out necessary investments in the central hardware and software systems, licenses and the necessary supplier support. Among the most important investments are the renewal of SAP economic system licenses, including support, powerful new servers for the business and economic systems of Česká pošta, the new operating system for an APOST.

BUSINESS ACTIVITY

Also in 2016, pressure from competing companies in the field of letters and parcels in a fully liberalised market was growing. Česká pošta has managed to withstand competitive pressure and to defend its market position. An increasing number of parcels is generated primarily from the field of e-commerce, and also an increase in electronic communication negatively affects the volume of correspondence collected. Competition in the parcel market is the strongest as

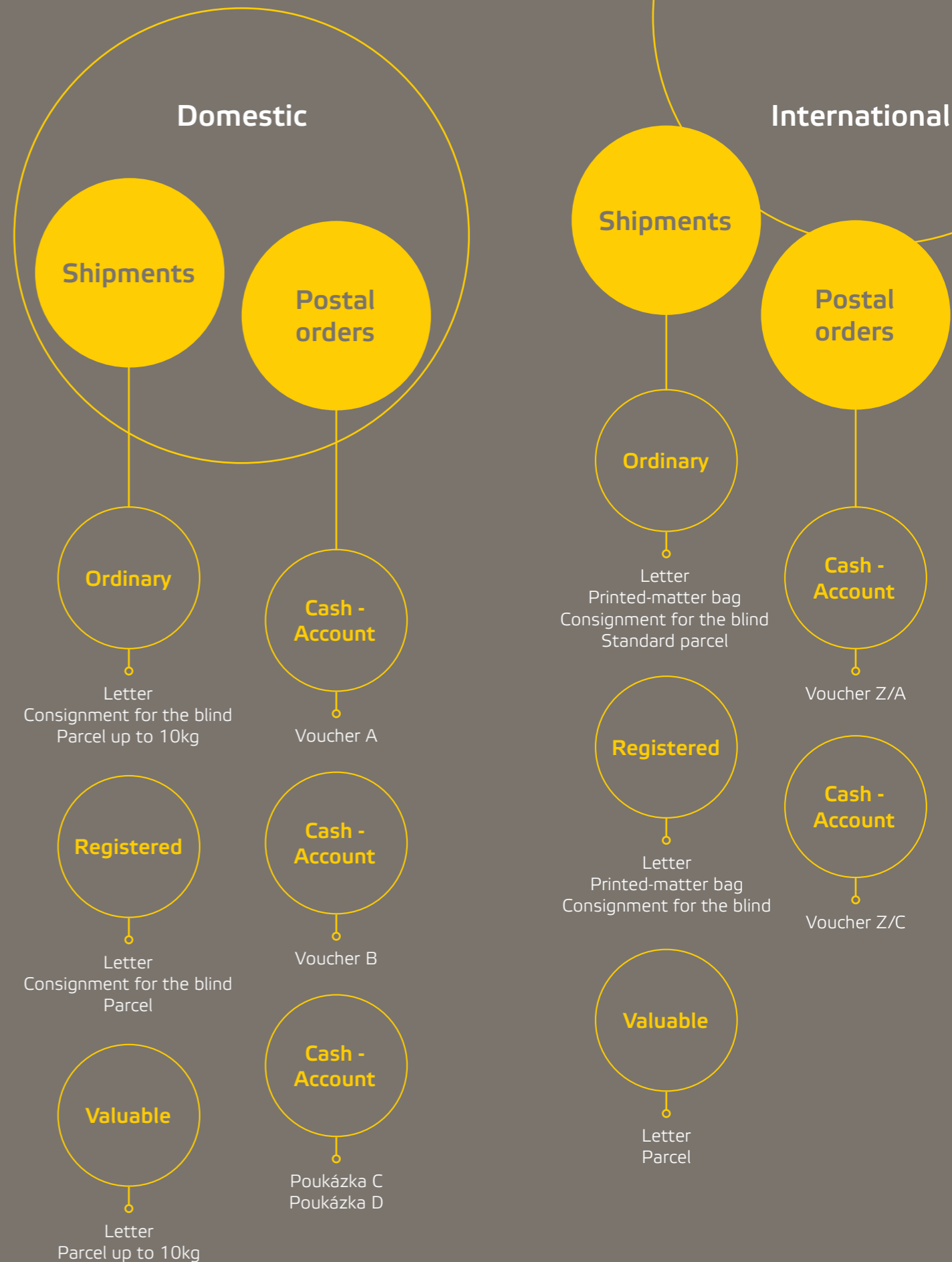
New information systems were deployed and implemented in projects throughout the year. Among them, project intercom systems, project office partner, realisation of the project Online change of the delivery, redesign and replacement of internal portal, completing the consolidation of data centres are seen as particularly important.

Česká pošta, as a subject to critical cyber infrastructure, started to implement the necessary measures arising under the Act on cybersecurity in the field of information and communication security. At the same time, activities were initiated in the field of ensuring the Business Continuity of Česká pošta.

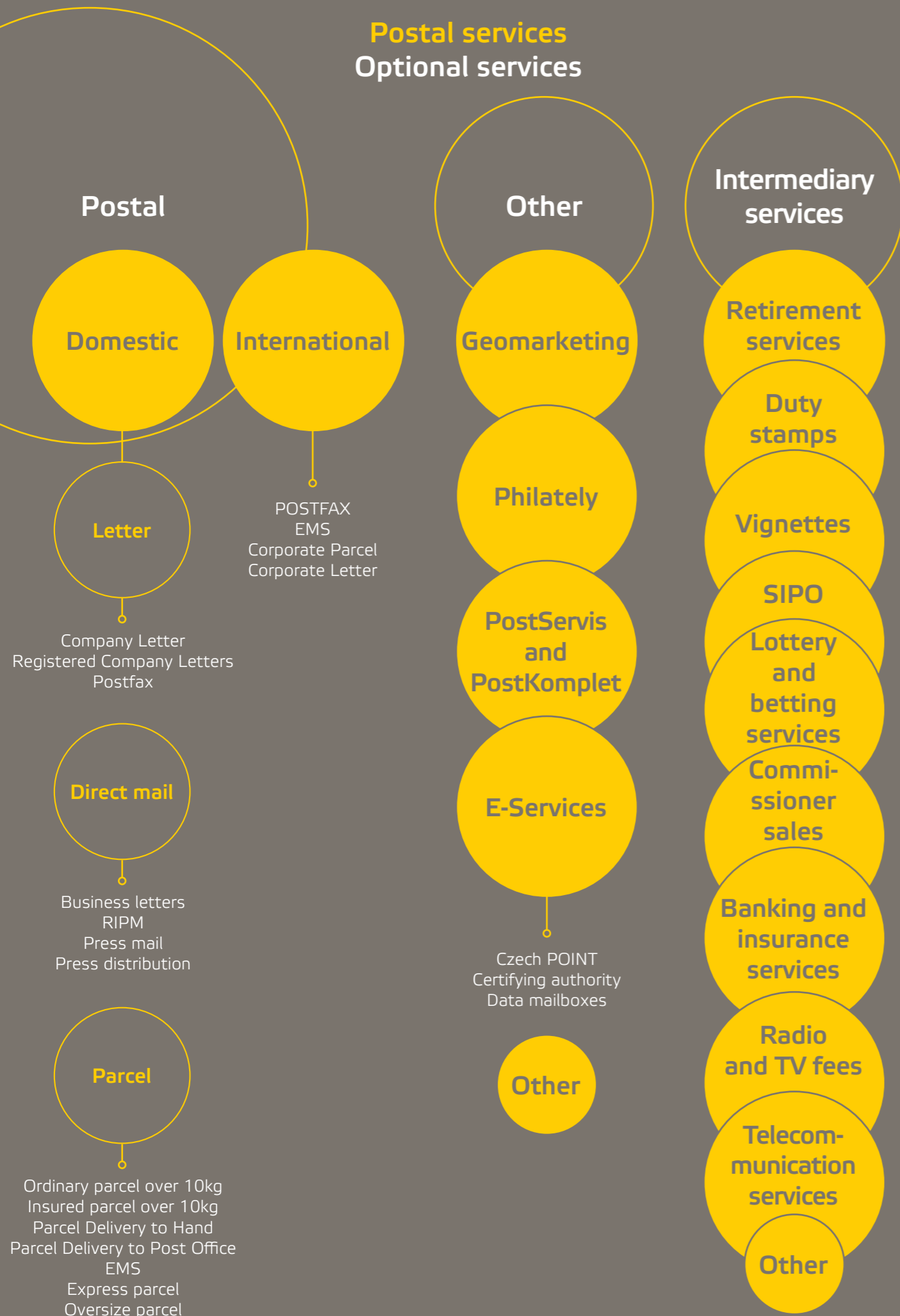
this is the area with the most competitors. Despite this, it continues to grow and Česká pošta has maintained its market share by meeting the quality of service requirements set by the submitters.

Česká pošta compensated the decreasing trend in the field of correspondence collected by keeping some major postal users and through acquisition activities in areas where they could generate new profits.

Postal Services mandatory services



Postal services Optional services



Parcel services

The number of parcel collections continued to follow the rising trend, which was 7.3% in 2016.

One of the basic innovations presented by Česká pošta in 2016 is a new Parcel Delivery to Hand service available in regional capital cities, which allows addressees to choose the preferred time frame for receipts of shipments.

Delivery within two consecutive time frames allows for an increase in capacity of parcel delivery and guarantees delivery within the next working day; it also helps to improve the success of delivery.

In recent years, Česká pošta has continued focusing on improving the quality of electronic services linked to the most frequently used parcel mail. The year 2016 novelty is a new service called Online Change of Delivery. Through a web application, it allows customers to change the date, location and method of delivery. During the first year after this service was put in use, about 700 thousand changes were made in the Online Change of Delivery application.

Electronic alerts, which are already a standard in the delivery, increases customer interest in products providing the service. An indicator of this is the annual increase in volume growth of mail Parcel Delivery to Hand and Parcel Delivery to Post Office (10.3% year-on-year volume increase) at the expense of a decrease in the non-guarantee parcel category (-11.3%). Market share growth in parcel transport is mainly driven by increased interest in internet shopping.

Also, there is growing interest in the already established Parcel Pickup service, which represents a comfortable method of collecting Parcel Delivery to

Hand and Parcel Delivery to Post Office straight from home or office using the web application. The greatest interest in Parcel Pickup was seen in November, when the number of orders increased by more than 31% above ordinary volume of monthly average orders.

Česká pošta is continuously rewarding clients who are holders of its Loyalty card and offers them e.g. discounts on the base price for collecting parcels or for using the Parcel Pickup service.

At the turn of the year 2016, new additional services have been added - Confirmation of Documentation, Data Verification and Provision of Information about Delivery for Oversized Parcel Delivery and Parcel Delivery to Hand, and, at the same time, Česká pošta newly provides a contact for parcel deliveryman in the Track and Trace application. The customer has the opportunity to communicate directly with the deliveryman and specify information on the package being delivered.

Within the area of marketing communication, the most prevalent media campaign was the one supporting the new method of delivery within time frames. The campaign took place in regional capital cities, where the new delivery methods were introduced. The possibility of choosing the delivery time frame caters to customer demand from submitters and addressees and allows for the address of final destination to be changed. The possibility of adjusting the delivery address and date in the Online Change of Delivery application was communicated through a press and online campaign during the summer holiday months. Also, before Christmas, the traditional and very popular Christmas Parcel Contest took place among customers; it was supported by space banner advertising and presentations in posts offices.

Letters

The number of domestic letters decreased year-on-year by 9.8% due to persistent use of electronic communication methods (emails, social networks, data messages, etc.), which was reflected in the annual decrease in revenues.

Customer Loyalty Card and PostBox

The year 2016 brought a further increase in the number of Česká pošta Customer loyalty card holders. Their number increased by 28.5%. Simultaneously, the portfolio of rewards and benefits which the card offers, has been expanded.

A new attractive benefit of postal services is automatic e-mail notification about all saved registered letters and parcels of Customer Card users. Besides the benefits that simplify the use of postal services, from 2016, the Customer card also offers a number of discounts and bonuses provided by the Česká pošta partners.

Partner Customer Loyalty Card

The Partner Customer Loyalty Card project, which offers its partners full-service administration of their members' club, was expanded by other partner companies. Česká pošta provides the receiving and processing of applications, issuing and sending cards, and processing the customer portfolio. Recently,

Direct mail

There was a decrease in the volume of Business Letters submitted in the area of Direct mail.

Due to the strong competitiveness in unaddressed orders cases carried by RIPM services, the decline in delivered flyers was slowed down, which caused a slowdown in the overall declining trend in the volume of shipments delivered within the Direct mail segment. There was only a 0.1% year-on-year drop in delivered flyer pieces. In Direct mail services carried by the

International mail

There was an overall decrease of volume of 11.6% in the field of international outbound shipments. An increase of 18.7% was noted at International Letters, both registered and insured; and 6.6% on international postal orders. Per the collection of International Ordinary Letters, there was a decrease of 12.1%, International packages decreased by 3.8% compared with the previous year, and the International Trade packages (EPG, EMS) decreased by 2.6%.

ELECTRONIC SERVICES

In 2016, Česká pošta continued to further expand its Online Postcard services. Alongside the existing mobile applications for Android and iOS, Česká pošta has also launched a full-fledged web form of the Online Postcard that allows customers to send postcards from the www.pohledniceonline.cz website. They can thus create personalised postcards from their own photos and easily send them via application from mobile, tablet, and computer directly to the recipient's mailbox.

To the existing discounts on postal services, new benefits provided by third parties were added and are available to use via Customer Card website.

If the Customer Card users are interested in a particular benefit, a special code is generated which may then be applied in a shop or at the e-shop of a partner company. A complete list of partners can be found on www.zakaznicka-karta.cz. The new benefits portfolio was officially announced via direct electronic mail, in print media, on the Internet and in post offices.

partners were introduced to a new „PAWR“ application for online member database administration, including effective options for addressing members or collecting the membership fees.

Business Writing services, there was a 3.9% increase in the number of collections recorded compared to 2015. In the case of collecting print consignments, its collection volume has dropped by 0.7%, as in the previous year.

In the first quarter of 2016, Česká pošta introduced a new service - Advertising samples at the post office, which consists of personal delivery of product samples to potential customers who visit the specified counters in post offices.

In 2016, volumes of inbound and outbound international shipments from China were also increasing. The increase refers to the entire parcel portfolio of Česká pošta, mainly for EMS deliveries.

In 2017, Česká pošta expects that this trend will continue.

In the second half of 2016, the mobile application was also upgraded, and the possibility of uploading multiple photos on the front of the postcard was added to it. This Online Postcard has become a popular and positively accepted service that effectively combines online technology with traditional postal services. In the summer season, over 100,000 postcards were sent, which was more than for all of 2015. For the year 2016, the service has been used by more than double the number of customers, who sent 230,000 postcards, what represents a 145.3% increase compared to 2015.

SERVICES ON BEHALF OF ALLIANCE PARTNERS

In the area of sales of banking products in 2016, Česká pošta was also influenced by the positive trend of the Czech economy and the continued reduction in interest rates. Česká pošta recorded a 100% increase in contracted products within the sale of credit products and mortgages, compared to the year 2015. For savings products the interest of customers in appreciation of available resources through investment products continued, where the volume of customer investments reflected the results from Česká pošta's previous year.

When negotiating common types of insurance such as car insurance, travel and property insurance, the community increasingly uses the possibility of acquiring

SALES OF GOODS

The current offer of merchandise available at post offices is primarily focused on a range of products that are related to basic postal operations, specifically various types of delivery. Česká pošta offers different types and sizes of envelopes. Post offices also offer a wide range of paper products (postcards, wishing cards, pencils, pens, markers, crayons, notebooks, notepapers, etc.). Customers still look forward to magazine and newspaper offers, but also mobile top-ups and prepaid cards.

At selected post offices, specialised booths / Postshops are gradually being built. This is a limited space that looks like a classic shop and is part of the

IMPLEMENTATION OF NEW INTERCOM SYSTEMS

In order to improve the quality of customer serviceability at Česká pošta post offices, 17 new generation intercom systems were installed. New intercom systems are equipped with delivery barcode readers for faster check-ins of customers when

FRIENDLY POST

The strategic activity improving the branch network, offer and way of customer service in terms of setting a standard and consistent approach to customers already exists under the name Friendly Post, continued in 2016. The main objective of Friendly Post is to improve the experience of customer visits at Česká pošta post offices.

Through the four pillars, the project optimises the overall appearance of the post offices (tidiness), better orientation in the services offered, changes in the display of products (clarity) and the increase of its sales, and further improves the approach of employees (openness), general communication at the counters, whether it is a customer asking

products through Česká pošta, where in comparison to traditional branches of insurance institutions, the longer opening hours of post offices are the important factor.

Significant client interest in retirement savings, as anticipated by experts due to a reduction in the age limit for the establishment of a product did not bring a larger number of new customers to Česká pošta. In 2016, Česká pošta carried 10% more new contracts than in 2015.

The strategic partnership concluded in 2016 between Česká pošta and Sazka, a.s. proved to be the right path, as revenues from services provided for Sazka, a.s. increased by 14%.

post office. Here the products are visibly presented and the customer has the possibility to choose from an expanded selection, partly through self-service. Currently, Česká pošta has 78 self-service kiosks and 21 other trade barriers opened. This model of building the specialised workplaces brings new revenues to Česká pošta and is positively evaluated both by customers and the employees themselves.

The abovementioned aspects, in connection with joint commercial management, resulted in a 15% year-on-year increase in the realised sales commission.

dispensing parcel deliveries and online ordering to CZECH POINT counters.

about the portfolio, dealing with complaints, or the unification of rules of conduct, dress code and internal communication of the post offices' staff. Within the fourth pillar (availability), setting the standards and availability of telephone service was also solved.

During 2016, the whole project was successfully implemented in 202 post offices, staff training in these areas was initiated, sharing top tips from practice and the certification of the best ranked branches in different regions started. Thanks to the project, there is a clear improvement in contact with the customer. At the same time, it helps to reduce fluctuations, increase internal employee motivation and generally contributes to revenue growth of these branches.

EGOVERNMENT SERVICES AND ICT

Information and Communication Security

In the area of information and communication security, Česká pošta, as a subject of critical cyber infrastructure, carried out a risk analysis and prepared the required security documentation. Based on the

Customer services

In 2016, major investment funds were spent on the next scheduled renewal of computer equipment for final users in operating units.

Czech POINT

Czech POINT services were provided by 976 branches of the Company that represents 14% of the total number of all Czech POINT contact locations.

Services provided within Czech POINT

Customers of Česká pošta can obtain certified information from a range of public administration information systems at Czech POINT service points: the largest demand was for extracts from the criminal, real estate and commercial registers. Furthermore, services like statements on drivers' penalty points, list of qualified suppliers, commercial and insolvency registers as well as authorised conversion of

Authentication of documents and Legalisation of signatures

In addition to traditional services available at many other Czech POINTs, the Company also offers official verification of document authentication (verification)

Number of Czech POINT transactions

Approximately 4 million transactions were realised in Czech POINTs in the year 2016, of which 31% were Czech POINT's services and 69% official verification of document authentication and the authenticity of signatures (verification and legalisation). The share has been continuously changing in favour of verification and legalisation.

evaluation of the risk analysis and requirements arising under the Act on cybersecurity, Česká pošta implements the required technical security measures.

Printers, computers, laptops, backup power supplies, barcode readers and customer displays were especially restored.

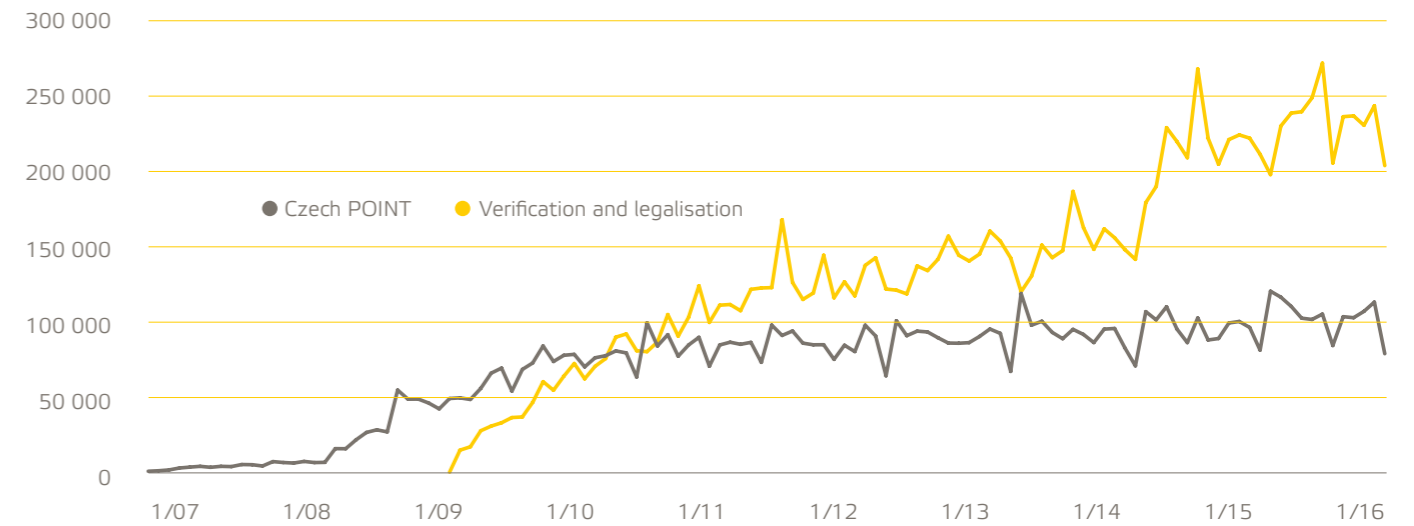
The Company's share of the total volume of realised transactions is approaching 55%.

documents or statements from basics registers are used. Through the Czech POINT system, applications and notifications regarding the information system of data boxes, for example, a request for the establishment of a data mailbox, a request for invalidation of the access data to the data box and the issue of a new one, etc., can be submitted.

and the authenticity of signatures (legalisation). These services are extremely popular at Česká pošta, and the number of customers continues to grow.

There was an annual growth of 7% in the number of transaction. In contrast to the last year, when the number of legislation and legalisation services was growing and Czech POINT services rather stagnated, in 2016 Czech POINT services together with the authentication of documents and signatures similarly increased.

Number of Czech POINT transactions and documents and signatures verified at Česká pošta branches in particular years

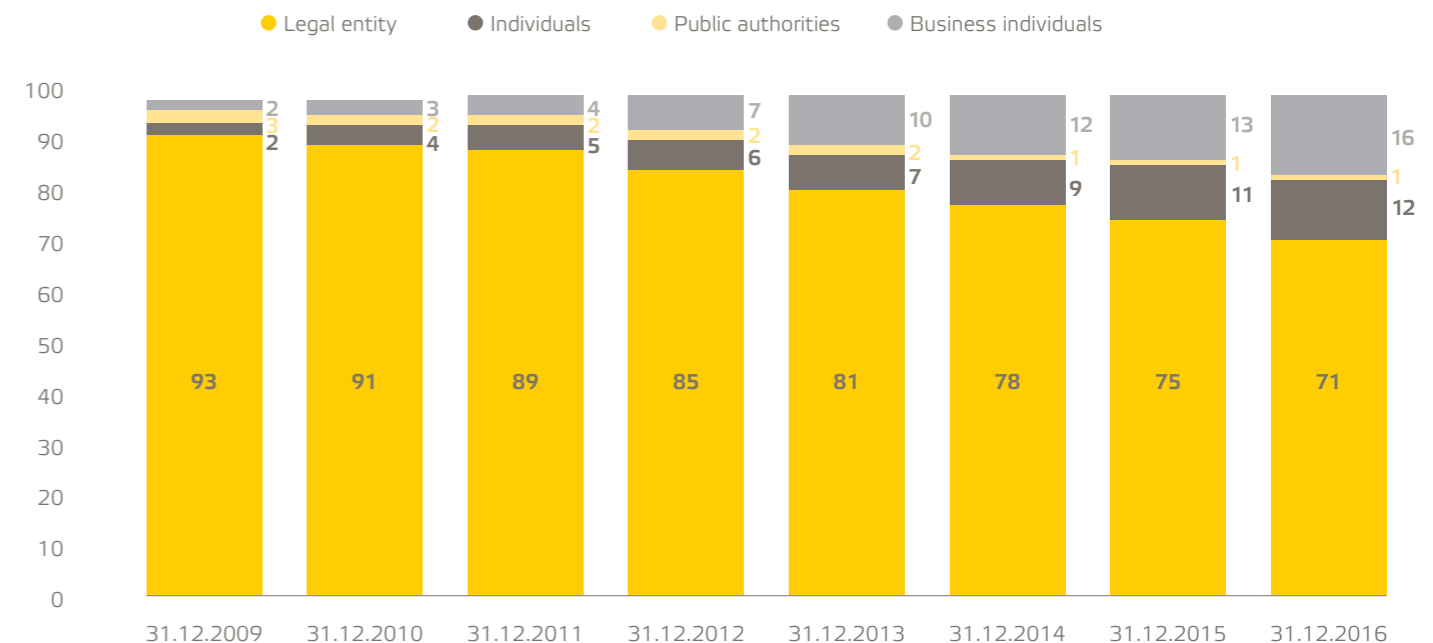


Data Mailbox Information System

Information System data boxes ("ISDS"), which has been conducted by Česká pošta since 2009, is increasingly used by the communication channel, not only within public administration, but more often also within private communication. The main trend in the use of the Information System data boxes ("ISDS") as in recent years was a continuous increase in the number of individuals and entrepreneurs that use data boxes.

In 2016, 90 thousand new data boxes was established, while overall more than 780 thousand data boxes have already been established. During 2016, the number of individual data boxes increased by 28% and the number of self-employed individual boxes by 39%.

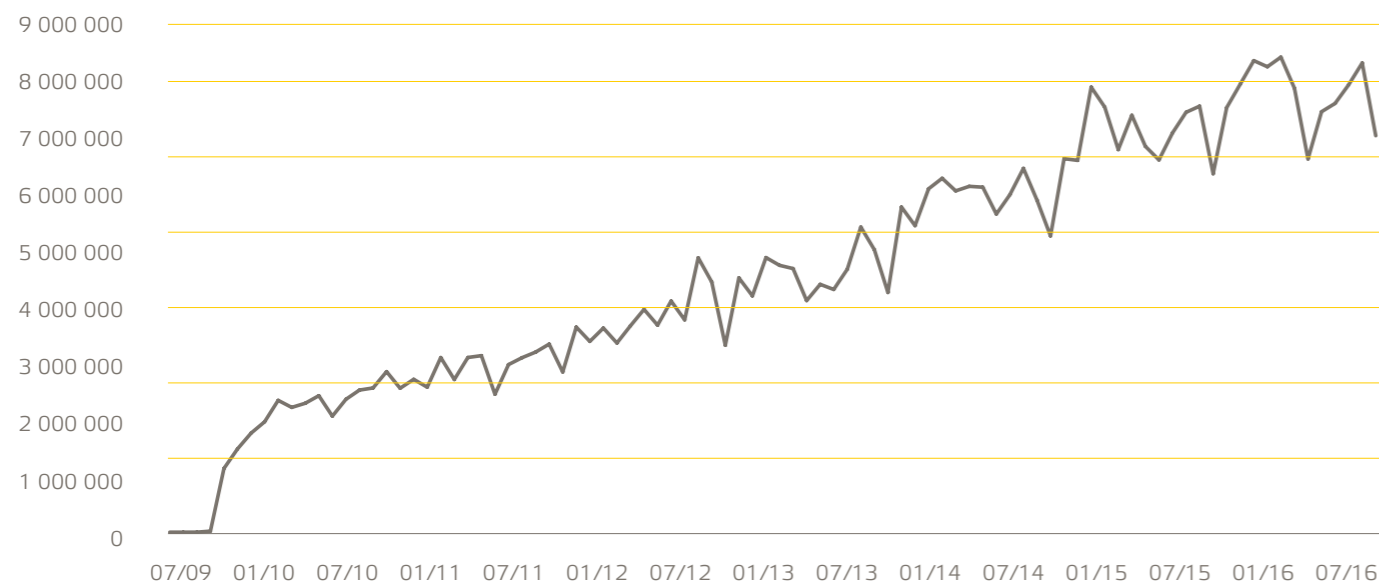
Volumes of data messages by senders (%)



User activity is also increasing in terms of data box use. In 2016, the number of data messages sent increased by 10% to approximately 93.2 million per year. Public authorities remain the most active users despite the relatively high growth in the popularity of data boxes in the segment of individuals. Out

of the total volume of data sent, public authorities accounted for 71%, while their share in the total number of data boxes is only about 1%. In 2016, the barrier of 400 million transmitted data messages was surpassed, since the launch of ISDS. The jubilee message was sent on 1 November 2016 at 17:09.

Number of data messages sent in 6-month periods



Additional services for ISDS

Česká pošta offers a range of additional services to the information system of data boxes, which provide

users with better security and convenience when working with data boxes.

Postal Data Message

Postal data message („PDZ“) is an ISDS service which can be used by individuals, entrepreneurs and legal entities to communicate with each other. PDZs suit any situation where the communicating parties need guaranteed and conclusive proof of document delivery. PDZs are a modern alternative to traditional postal services, with delivery having legal effects comparable to those of delivered registered mail with return receipt. Users can exchange all types of data messages with other users, without limitation on the content of messages.

But the fact that the majority of data-box users have not enabled the receipt of PDZs yet, remains a barrier to even a greater expansion of private communication. Without this, which can be easily done directly in the data box Settings tab, it is not possible to send a PDZ to the data box. The number of data boxes with enabled PDZ has dramatically grown in the last two years. At the end of 2016, about 55% of all active data boxes was utilised this way of communication.

Customer demand for this service is constantly growing. In 2016, the number of messages sent by PDM grew annually by 98% to around 166,000.

Data Safe

Data Safe is a secure and guaranteed data storage for archiving incoming and outgoing messages more than 90 days old. The messages are automatically moved from the data mailbox to the Data Safe without the user needing to do anything.

Data Safe with higher capacities dictated by individual user needs. All new users of data boxes have the opportunity to try out the Data Safe service for three months without any additional costs or obligations.

Data box users can choose up to 9 types of Data Safe by capacity (the number of stored messages) ranging from 50 to 5,000 messages. For customers who have more messages in their data box, Česká pošta offers

The customers' interest in Data Safe is constantly growing. At the end of 2016, the service was already used by 8,400 customers, which is by a one fifth more than a year ago.

SMS notification and authentication

SMS notifications are intended for users who do not check their mailboxes regularly. These notifications about incoming data messages are used primarily by individuals, independent traders and small legal entities who receive relatively fewer messages in their mailboxes and do not use the data mailboxes on a daily basis. In order to use this service, it is

necessary to have a Czech mobile phone number with the activated Premium SMS service.

SMS authentication enables the users to log in to their mailbox through further solutions enhancing the security of access to data mailboxes via a web interface.

Credit System ISDS

An important innovative development in ISDS was the introduction of the credit system for data boxes. The credit system represents a new online payment method that is used for the supplementary services to data boxes. Currently, these services are Postal Data

Message and Data Safe. Besides the credit system, there is also the existing option to pay for Postal Data Messages and Data Safe based on the contracts concluded (invoice payment).

Extracts from the central register of executions

In mid-2016, Česká pošta started providing a new service in cooperation with the Chamber of Executors of the Czech Republic at around 1,000 selected post offices. This is the issuing of extracts from the central register of executions. The service will allow the interested persons to find a variety of information, i.e. whether the particular subject was ruled an execution conducted according to the Enforcement Code, the

bailiff of which was commissioned to perform the execution, which enforced obligation is required, when the execution was stated, or whether the execution was lawfully deferred or stopped. The new service became popular among the customers of Česká pošta. The extract is requested by approximately 5 thousand requestors per month.

BUSINESS ICT

It ensures operation and support for more than 400 central systems and applications:



The applications are usually realised in three data centres: primary, backup and autonomous.

In 2016, there was a consolidation of data centres at the level of network services. It benefited from the greater stability of the communication infrastructure of data centres.

As part of the project of migrating the existing online connections, services at post offices have been accelerated. At the same time, the migration of small offices that used the euro ISDN switched services has started. Completion of the migration process is planned in the first quarter of 2017.

Certification authority – PostSignum

The Certification authority - PostSignum provides mainly certificates. Commercial certificates are mostly used for logging user to applications, or alternatively for communication encryption. Qualified certificates are solely used for electronic signatures and can be used for electronic communication with public authorities.

Another key product is the provision of qualified time stamps, which represent a valuable supplement to electronic certificates as they connect data with a point of time in a reliable way and guarantee that the data existed in electronic form at a certain point in time. Additional services and products can be purchased on the websites through the electronic ordering system in addition to basic certification services. These include products for the secure storage of private keys or software products for electronic signatures of documents and their archiving.

The year 2016 was marked above all by legislative changes. On 1 July 2016, the Regulation of the European Parliament and the Council (EU) of electronic identification and services of confidence building for electronic transactions in the internal market and repealing Directive 1999/93/ES (hereinafter “regulation eIDAS”) went into effect. On 19 September 2016, national legislation with the new Act on confidence building services for electronic transactions, which replaced law no. 227/200 Sb of the Electronic Signature in response to changes in European legislation.

OTHER SERVICES

Outsourcing of mail rooms – service for key senders

In 2016, the project associated with the provision of services in outsourcing mail rooms continued. This aimed to provide comprehensive records management, associated with outbound and inbound mail, including electronic communication from significant clients of

Hybrid Post

Two new full colour printing press lines as substitute for six black and white ones were introduced. Postservice Brno was moved to the renovated building. Two lines have been restored to the cutting of proof of payment and the increased capacity of enveloping online printing envelopes. The service

Comprehensive services of Hybrid Post for executors of the Czech Republic

In 2016, a project was successfully developing, which involved more than 100 executor authorities using the comprehensive solutions of Hybrid Post along with the services of Česká pošta certificate of authority. The service provides long-term consolidation filing of

These legislative changes had a direct impact on all accredited certification service providers, hence the certificated authority PostSignum.

Certification authority PostSignum, as well as other accredited authorities in the European Union, were, based on article no. 51 regulation eIDAS, granted the status of qualified service providers creating confidence for providing qualified electronic signature certificates for a transitional period of one year, which is until 1 July 2017.

Certificated authority PostSignum adapted their services with legislative changes with the minimal impact on customers. From 1 July 2016 it started to present qualified certificates for electronic signatures in accordance with new legislation and technical standards. In October 2016, it started to release a new type of certificate – certificate for electronic stamp, and in November 2016 the sale of qualified tools for creating electronic signatures with regulation eIDAS – USB token TokenME started.

In 2016, 66 thousand commercial certificates and 191 thousand qualified certificates were released. In mid-year comparison, there was a 1.2% decrease in commercial certificates and an 8.7% increase in qualified certificates. The certificated authority was releasing an average of over 30 million timestamps per month for their customers. The total number of released timestamps for the year 2016 was 368 million pieces, which indicates an annual increase of 7.7%.

Česká pošta. Currently, those services are being used, for example, by Komerční banka or Czech Social Security Administration. Total revenues for the year 2016 exceeded CZK 20 million.

Letter was modernised with the additional functions of online reimbursement, logo printing, etc. The central application Hybrid Post was moved to architecture with high availability.

the executor in the segment of shipments and data messages and through this there was a significant increase in the capacity of the shipments submitted. New revenues for the services of PostService have also exceeded the CZK 12 million line.

CALL CENTRE

In the second half of the year 2016, the services of the call centre (hereinafter CC) were enlarged by adding another free hotline 800-223-000. The goal of the new hotline is to provide basic information for those who are interested in working in Česká pošta. The reason behind the creation of this line was the need to address the complex solution for recruitment of new employees. There is a lot of interest in this line, which is proven by the fact that, in the period between September and December 2016, there were 1,181 calls from interested persons. From April 2016, CC took over first level support for customers by using the mobile Post Online and Postcard Online applications. This service is helping to prevent the incorrect usage of these applications. In total, there were 1,674 accepted customer requirements. During the whole year, support for external and internal customers via voice services on hotlines 800-104-410, 840-111-244 was continued.

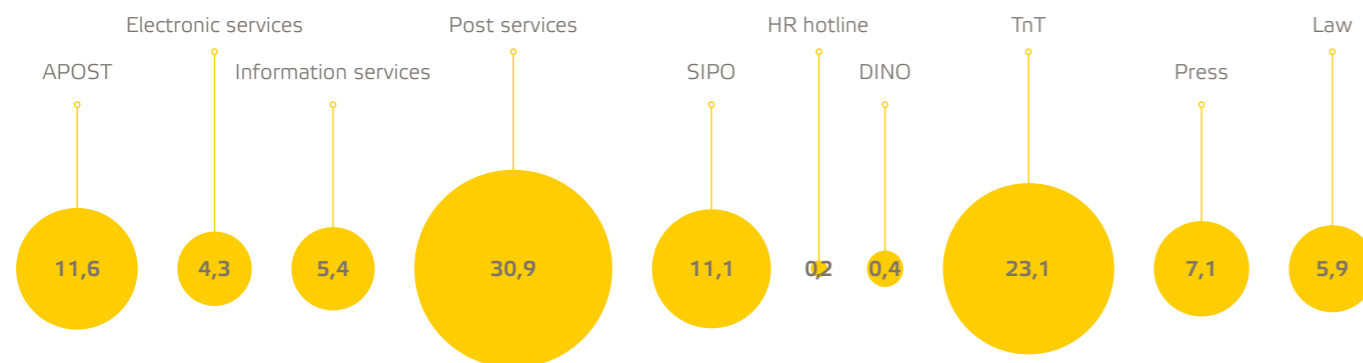
CC operators were still taking care of the customers on line 800-300-302 (designed for handling the requests of periodical subscribers) and line 800-800-880 (for subscribers of the publisher Borgis, a.s.). The situation with daily subscribers has started to stabilise. This is proven by the fact that there has been a 2.24% increase in the number of calls to these lines since 2015. In 2016, another increase in incoming phone calls in comparison to 2015 was noted. The

total number of incoming phone calls increased to 531,071. In absolute numbers, increase was 33,888 phone calls, which is 106.8% in comparison with the previous year. The major interest was, as usual, for information about postal services (30.85% of phone calls), followed by questions relating to storage and delivery location (23.11% of phone calls) and phone calls relating to APOST support (23.11%).

Team operators, which ensure the administration of the central mailboxes info@cpost.cz and fb@cpost.cz (Facebook), processed 115,977 electronic reports. An increase of more than 23% was noted in the number and type of conditions of delivered shipments. In total numbers, there were 92,307 requests. Based on the requirements analysis and marketing department section, Postal Technology continued using the selected operators in obtaining field survey information using CC voice services.

In terms of the technology used in CC, in the second half of the year 2016, it was noted that replacement of an existing system of Internet telephony VoIP from version Cisco Enterprise for simpler Cisco Express with contractual provision supports both manufacturers and services was made. Also, the long-term planned construction work for the premises of the call centre along with the extension and construction of rooms were finished.

Number of incoming calls according to individual services (in %)



Number of incoming calls according to individual services										
APOST	Electronic services	Information services	Post services	SIPO	HR Line	DINO	TnT	Press	Law	TOTAL
61 547	22 857	28 490	163 856	59 004	1 181	2 438	122 730	37 727	31 241	531 071
11,6 %	4,3 %	5,4 %	30,9 %	11,1 %	0,2 %	0,4 %	23,1 %	7,1 %	5,9 %	100,0 %

Quality of service provided

In 2016, Česká pošta, s.p. was obliged to provide its services at least at a level of quality stipulated by the regulator's requirements set by the Czech Telecommunication Office. The quality and satisfaction of Česká pošta customers is regularly monitored through a quality survey of the transportation of

postal packages, conducted simultaneously by the internal control system of Česká pošta and independent bodies.

The results of independent measurements of the transit time of mail weighing up to 50 g for the year 2016 are shown in the following table:

Transit time standard written in 2016 (results of independent measurements)			
	The sample size controlled deliveries (in units)	Amounts of mails (in %) delivered	
		First day after the day of collecting	Second day after the day of collecting
Own region	11,627	94.22	99.38
Outside the region	18,228	93.71	99.24
Total	29,855	93.91	99.30

CLAIMS

For 1 million posted mail items and postal vouchers within basic postal services in 2016, there were 279 delivery claims filed, including those concerning the failure to deliver delivery confirmation. Of the 1 million claims received, only 186 were found to be justified.

Claims regarding the damage or partial loss of mail
Out of 1 million submitted mail deliveries for which the Company is responsible for the damage or partial loss of content, the Company recorded 25 claims of damage or loss. 13 claims out of 1 million posted items were justified.

Complaints delivery post. Consignment of shipment (in units)



Complaints of theft or damage of shipments (in units)



POSTAL NETWORK

At the end of 2016, one service point served 3,191 citizens. The number of people served by one mail box was 491 citizens.*

Overview of the distribution of endpoints of the postal network in 2016	
Total service points	3,868 (incl. partners, vending and postal agencies)
Of which: Post offices	2,984
Specialised service points	557
Postal point	14
Partners	239
Vending points	74
Remote counters	2
Self-service machines	5
Mobile post offices	-
Mail boxes	21,535
P.O. Boxes (rented)	25,051
Total delivery areas (letter mail)f	7,771
of which: delivery areas with car service	3,602

In 2016, 138 post Partners and 1 specialised in business were established. 140 post offices have been removed (4 posts without compensation, 134 post offices replaced by Partners, 2 post offices replaced by a distribution point) and 23 specialised establishments.

*These data is, because of the reporting date of the annual report, assembled at the end of the third quarter of 2016

INTERNATIONAL OPERATIONS AND INTERNATIONAL RELATIONS

Involvement of Česká pošta in the worldwide postal network

The basic framework of the Company's international relationships results from the Czech Republic's membership in the Universal Postal Union („UPU“). Česká pošta is entrusted 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 all 191 UPU member states.

The Company's representatives actively participated in a series of working meetings with the Association of European Public Postal Operators (PostEurop) on

terminal charges, e-commerce, customs services and air transport security.

The Company is connected to the international postal network via its exchange post offices in Prague, Břeclav and Cheb. International postal operations are fully liberalised in the Czech Republic, which means that other operators may enter the segment and create a competitive environment. The most important foreign business partners of Česká pošta are the public postal operators in Slovakia, Germany, Great Britain, the USA and China.

Quality in international operations

The European Union membership of the Czech Republic has led to additional duties for the Company. The Company's duty is to ensure the general availability of high-quality basic services as stipulated by the amended Directive 97/67/EC of the European Parliament and of the Council. For cross-border priority letter mail within the Community, the directive sets

the quality of service targets particularly in terms of delivery performance.

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.

Quality of service targets in terms of delivery performance cross-border priority letter mail within the EU (data for 1-3Q 2016):

Time limit*	Target	Actual 2016 - inbound	Actual 2016 - outbound
D+3	85% of mail	81.3%	83.1%
D+5	97% of mail	94.8%	97.1%

* D means the collection day, D+3 means delivery within three working days after collection and D+5 means delivery within five working days after collection.

LOGISTICS

Plant equipping with small automation and handling equipment

The process of acquiring small machinery, handling equipment, packaging and operating materials within the logistic network were carried out continuously throughout year 2016. New packaging and operational material were also purchased; significant purchases

included shipping cages, crates, mailbags, pallets, shelves, stepladders. A major event was then to acquire new stowage and delivery boxes according to the registered industrial modelled by Česká pošta.

PROPERTIES

Česká pošta has the right to manage its extensive number of real estate properties throughout the Czech Republic. This includes 3,763 premises which includes 4,070 buildings (1,500 of its own and 2,570 owned by third parties) and, moreover, 3,003 plots of land (2,708 of its own and 295 owned by third parties). The vast majority of the property is used to ensure the performance of the business activities of Česká pošta. The properties comprise post offices, depots and SPUs. Česká pošta continuously acquires

property that it needs for its activities, whether by acquisition or construction if it is unable to meet the specific need from its existing portfolio. Some of the properties which are not actively used by Česká pošta are analysed and rented or sold to third parties.

MARKETING COMMUNICATION

Parcel Service - Christmas competition

In the field of packing-portfolio of marketing communications, in 2016 the next edition of the traditional Christmas competition was released to support the Package to hands and Package to Post services. The competition took place on the website

www.vyhrajsbalikem.cz and involved 58 partner e-shops from among the clients for which there were parcel services. The competition involved 19,471 participants, with whom Česká pošta sent 38,326 contest packages.

New intercom systems

In 2016, Česká pošta has equipped 17 of its branches the new generation of systems. New intercom systems are provided with a barcode reader, enabling it to capture ID shipments and transmit this information to hinterland posts in order to make delivery faster. Intercom systems also offer a new graphical interface and the choice of four languages.

Due to the new intercom systems, laser printers were installed on the premises serving Posts with the queuing system of the new generation. Due to this fact, the modern REQUEST / REPEATED REQUEST

CORPORATE COMMUNICATION

In 2016, Česká pošta published the periodical Postal newspapers, addressed to all employees and former employees. This semi-monthly magazine publishes approx. 50,000 copies of each edition. It informs people about the latest news, important changes and future plans, and it is distributed directly to the mailboxes of postal workers. It is also available on the Česká pošta website.

for pickup forms, including barcodes, were established. Request forms which are printing using current technology were also fully modernised.

In August 2016, Česká pošta introduced service orders for the branch offices to be used at specific times, and, thanks to that, customers might schedule a time at a Česká pošta counter. The service is available for service Czech POINT and only in those post offices which are equipped with new generation of intercom systems.

Various social media have become very popular in recent years. For its promotions and communications, Česká pošta used mainly Facebook, where the number of users continues to grow.

**WE ARE THE
LARGEST
EMPLOYER IN
THE COUNTRY**

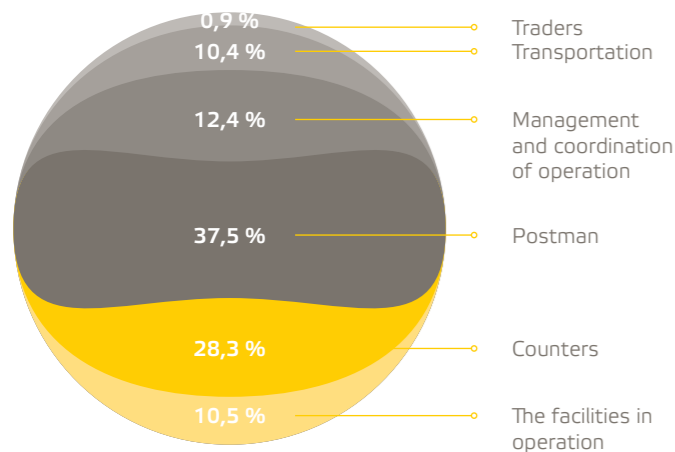
EMPLOYMENT DEVELOPMENT AND EMPLOYEES STRUCTURE

In 2016, the development of employment in Česká pošta was greatly affected by the recovery of the labour market throughout the Czech Republic. As the result of this, there was higher employee mobility and problems with recruitment for vacant positions - mainly messengers, counter staff and drivers.

The total average number of employees for the year 2016 amounted to 29,974 recalculated persons and 31,130 workers. Against 2015, the average number of employees decreased by 220 recalculated persons and 303 physical persons caused by the fact of the branch spin off of ICTs at at 1 July 2016 (from 175 recalculated and 175 physical people in the yearly statement). Another reason is the other administrative changes, especially realisation of the Pošta Partner

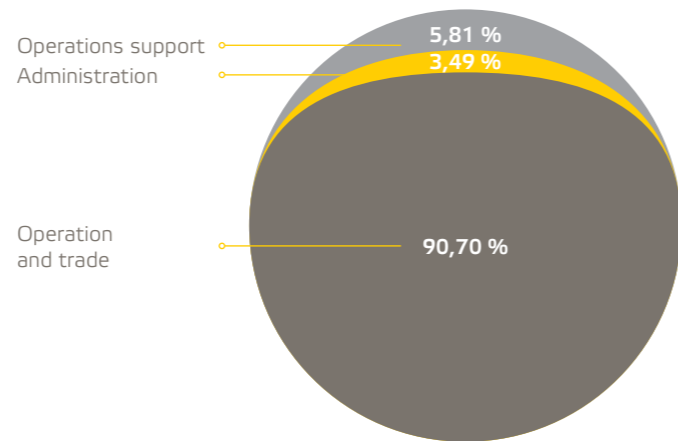
project. Administrative changes caused reductions in the number of employees in all professions teams of Česká pošta but the profession structure did not change significantly. The biggest part of the total number of employees - 90.7% - represents operations (employees at post offices, in depots, collective transport nodes, in cash services, post services, post completes, etc.), business support (IT, transport, call centre, supply, warehouses, etc.) represent ca. 5.81% of staff and administration (accounting, asset management, controlling, monitoring postal operations, HR, marketing etc.) only 3.49% from the total amount of employees are found in administration.

The share of the total number of employees in service and trade.



Within business and trade, the most common professional group is postmen, which represents 37.5% of the total number of employees. Front-desk employees represent 28.3% of the total number of employees in the hinterland in operation 10.5% employees transportation 10.4%, trade employees 0.9% and managing and coordinating trade is 12.4%.

The share of the total number of employees



The profession structure of the employees characteristically affects the average wage, employee benefits provided, training costs, recruitment of new employees, adaptation process, etc.

SALARY AND EMPLOYEE BENEFITS

In 2016, the average wage increased by 5.1%, i.e. to CZK 22,945 compared to 2015.

In the remuneration field, salaries decreased with the tariff salary averaging about 5.6% based on the results of negotiations with the union partners from 1 April 2016.

On top of the wages for work performed, Česká pošta provides its employees with employee benefits, such as:

- > from the statutory fund for cultural and social needs (FKSP) created in the amount of 2 % of wages according to law (gifts for important work and life anniversaries and contributions for recreation, rehabilitation, children camps, culture, sports and catering)
- > charged to Česká pošta costs (financial contributions for food vouchers, pension and life insurance).

SYSTEMATIC EMPLOYEE PERFORMANCE MANAGEMENT

One of the basic management tools for managing the performance of employees is the continuous evaluation of their work performance. Throughout the year, management regularly evaluates individual performance indicators for employees. These indicators are set up before the evaluation period in line with the objectives and strategy of Česká pošta. The so-called „performance bonus“ is paid to employees on top of the basic salary based on the results of the evaluation of individual indicators.

In addition to the continuous assessment, which is used to evaluate short-term work performance, Česká pošta also implemented an annual employee performance assessment of work results and professional behaviour. This assessment took place during February and March 2015. Five criteria which are based on the Company's values were evaluated using the four-grade scale: customer orientation, performance, responsibility, flexibility and cooperation. The employees' wages were adjusted based on the results of the annual assessment. The annual employee assessment allows the assessors and the evaluated employees to meet and discuss the results achieved, future objectives and development needs.

SOCIAL DIALOGUE

A dialogue with social partners is an integral part of Česká pošta communication; it covers questions on the economic, social, salary, labour and safety conditions of employees. The communication process with union partners is realised on the basis of regular meetings and providing information in an agreed scope and operational meetings on specific topics. An integral part of the cooperation between all parties to the social dialogue is the mutual decision making related to planning and using the FKSP, the total balance of which reached CZK 182,6 million in 2016 (plan also include the proportion for OZ ICTS), use of CZK 166 million in 2016.

In November 2016, an agreement to realize the increase of wages. Of all salaried employees in 2017 was reached with majority of the labour unions. Negotiations for the total wage increase will be finalized during the first quarter of 2017. Česká pošta is expecting to pay approx. CZK 500 million in personnel costs in wages increase in 2017.

OMBUDSWOMAN FOR STAFF

For the purpose of defending the legitimate interests of employees in the performance of their duties, Česká pošta established the Ombudsman Institute

for employees. The Ombudswoman started her role in May 2016. Employees might contact her in written form, via telephone or personally.

WE PROTECT OUR EMPLOYEES, CLIENTS AND PROPERTY

035 Security

The political situation in Europe and constantly increasing threats create the need to improve the quality and safety awareness in all its nature.

Within the framework of the provision of postal services, Česká pošta also provides monetary services, which represent activities with a potentially higher level of risk, which in terms of diversity cannot be compared with any other monetary institution. Securing basic safety requirements for the smooth operation of all services, ensuring the protection of employees and clients of Česká pošta, protecting its own and entrusted assets is the fundamental mission of Security department. The security division applies the principles of safety management found in the Information Security Management System (ISMS) and these principles constitute the basic framework for the

POSTAL OPERATIONS SECURITY

Within postal operations security, a number of changes were implemented in 2016 which had an impact on the entire scope of activities of Česká pošta. These changes have tended to increase the level of security of persons, objects, premises and vehicles.

The guidelines for these activities are the actual Czech technical standards, which lead to an improvement in the security management system. As part of the reconstruction of post offices and operations of Dep modern technologies in the form of a security alarms and emergency systems, camera systems and access control systems were used. Newly created counters were regularly equipped with vault-time cash desks and, at a number of branches, the restoration of safes for cash and valuables was performed.

assessment and implementation of activities in this area for the security of all of Česká pošta.

Those tasks under Security department's responsibility include the issues outline the subject of crisis management and planning, solutions of external and internal criminal activity against Česká pošta, measures in the field of legalisation of proceeds from criminal activity and terrorist financing, management of classified circumstances within the operation of Česká pošta and the issue of security and of the field of occupational health and safety. The security division also provides under methodological supervision of a legal department physical control of personal data privacy.

The newly built monitoring centre of the Česká pošta Security, s.r.o. subsidiary began to supervise, monitor and respond to alarms from the alarm control panels at buildings and emergency buttons in vehicles.

Within the postal Partner project, the rules for providing standard security of buildings and persons through the use of security alarms and emergency systems was set.

In the area of training activities, the Security division was focused mainly on newly employed staff members.

INSPECTION DEPARTMENT

The inspection department, as a part of the security and organisational structure of Česká pošta, assesses and reports on the status of crime activities in the environment of Česká pošta. It performs internal inspections, controlling and prevention activities focused on the security of the Company's tangible and intangible assets.

It cooperates with the Police of the Czech Republic and other bodies active in criminal proceedings in providing the necessary documents for the investigation of extraordinary events and in pressing charges as authorised by the Director General. It organises a permanent operational service of Česká pošta for solving extraordinary events. It provides support to authorised bodies in cases where shipments are being inspected.

CRISIS MANAGEMENT

Crisis management in its broad sense represents a set of management activities, analyses and evaluations of security risks, planning, organising, implementation and control of activities performed in connection with the preparation for potential crisis situations as defined by Act No. 240/2000 Coll., the Crisis Act, and Act No. 222/1999 Coll., on Ensuring the Defence of the Czech Republic.

Česká pošta as the subject to critical infrastructure carried out tasks in accordance with Act No. 240/2000 Coll., the Crisis Act, and Act No. 222/1999 Coll., on Ensuring the Defence of the Czech Republic in 2016. „The plan on emergency readiness for the subject of critical infrastructure“ including plans for the emergency readiness of elements of critical infrastructure, was regularly upgraded. Recently, „The plan of emergency readiness of Česká pošta, s.p. for the region of Capital City Prague“ was developed. During the period from 29 May to 3 June 2016 a military exercise involving an infantry platoon of active

MEASURES IN THE AREA OF LEGALISATION OF REVENUES FROM CRIMINAL ACTIVITIES AND TERRORIST FINANCING

Also in 2016, Česká pošta was an obligated entity in accordance with Act no. 253/2008 Coll., on some measures against legalisation of revenues from criminal activities and terrorist financing.

In 2016, for the benefit of authorities involved in criminal proceedings, several hundred investigations and operations were conducted, during which shipments and cash flows in the tens of millions of Czech crowns were reviewed. It was cooperation mainly with those departments with nationwide jurisdiction, department of special operations of police presidium, General Inspection of Security Forces and Customs Administration.

The inspection department provides trainings and instructions to the clients of Česká pošta in the area of cash cartage and related security research and the establishment of granting roads for cash cartage. Furthermore, 70 trainings were carried out for employees assigned to specialty operations, during which employees in all regions were trained to the standards of professional qualifications.

reserves at KVV in Ústí nad Labem and members of professional units of the Armed Forces of the Czech Republic was held under the name „SHIELD OF TERMINAL 2016“ at the strategically important object in the Czech Republic (collective transportation hub of Ústí nad Labem) with the cooperation of Česká pošta, IZS and MP Ústí nad Labem. The exercise was aimed at security (protection) of the object.

The cooperation with Czech Hydro meteorological Institute started in 2016, which included continuously informing Česká pošta in the form of alerts on extraordinary cases within meteorological situation sent to the Permanent operational service security department, which further transferred detailed information to selected logistics, transport, branch network and delivery employees and utility networks for the timely awareness of weather situations, that could threaten the continuity of postal operations and endanger health and lives.

PROTECTION OF CLASSIFIED INFORMATION

In 2016, the area of protection of classified information widely focused on the progress of activities related to the spin-off of the ICT Department from Česká pošta and its subsequent merger with the state enterprise Národní agentura pro komunikační a informační technologie, s.p. (The National Agency for Communication and Information Technology). In this context, significant changes took place especially in the area of personal security. The implementation of the fulfilment of legal obligations was an integral part of it in terms of prompt notification about changes of NBÚ. In connection with the amendment to decree no. 529/2005 Coll., of NBÚ coming into force, the field of

PERSONAL DATA PROTECTION

The security division conducted an inspection focused on protecting personal data in the operation of Česká pošta under the methodological guidance of the legal department. As part of this inspection, the security division continues to provide consulting services to employees that have access to client personal data and alerts on the significance and importance of

OCCUPATIONAL HEALTH AND SAFETY AT WORK

Česká pošta places increased emphasis on safety and health protection at the workplace (BOZP) and on ensuring fire protection (PO). It aims to create a healthy work environment for employees and to secure the removal of hazards in order to prevent occupational injuries.

Ensuring BOZP and PO is managed by an impressive number of legal norms, which Česká pošta elaborated and implemented in its internal processes. Through regular semi-regular trainings, it aims to ensure education, awareness and knowledge in the field of BOZP of employees at the level of supervisor, who have complete responsibility for the status of their workplace. In 2016, 633 group trainings of employees were carried out at the supervision level in the area of BOZP and PO technics.

In cooperation with the trade unions operating within Česká pošta, the status of ensuring BOZP and PO is regularly discussed. Comments provided by union inspectors in the area of BOZP are responded to; the

Administrative Security was brought into line with the valid decree, as amended.

In 2016, the legal obligation on providing training and awareness of changes in legislation in the field of the protection of classified information to employees, who have in Česká pošta access to classified information, was fulfilled by providing training sessions by the security division.

In 2016, there were no security incidents recorded in the field of accessing and handling classified information.

protecting personal data in accordance with Act no. 101/2000 Coll., on personal data protection.

Česká pošta is aware that it is required in each particular case to secure personal data, and that it is protected against unauthorised or accidental access or other abuse.

findings, observations and results of inspections are continuously solved; or, respectively, the deficiencies are eliminated.

In accordance with the Labour Code, the condition of the individual workplaces is regularly reviewed as part of the annual „Reviews of ensuring BOZP and PO at Česká pošta's workplace“, moreover, the level of BOZP and PO is also ensured by having increased internal control activities.

The importance of BOZP and PO topics is also reflected in the area of interest in inspections performed by the state specialised supervisor. In 2016, a total of 44 inspections were conducted by the Fire and Rescue Services of the Czech Republic; 23 inspections were conducted by the labour inspectorate; and 109 controls in the field of work hygiene and no penalty was imposed on Česká pošta by the state specialised supervisor for violating BOZP or PO regulations.



WE ARE A TRANSPARENT BUSINESS

039 Internal audit

In 2016, all activities were carried out under the binding provisions of the International Standards for the Professional Practice of Internal Auditing issued by the International Institute of Internal Audit and by consistent adherence to the follow-up control documents of Česká pošta, i.e. the Internal Audit Charter, Code of Ethics and Guidelines for the performance of an internal audit in Česká pošta.

All internal audit activities carried out in 2016 were performed according to the „Plan of internal audit activities for the year 2016“, approved by the CEO and deliberated by the Audit Committee of the Supervisory Board and by the Supervisory Board. The plan included mainly the realisation of internal audits focused on risky business areas of Česká pošta, identified based on the map of risks map, on areas with an significant impact on the quality of management, the quality of provided services, dealing with property, on agility and business development and the areas recommended by an external auditor, concerning mainly the internal control environment. The plan also included the realisation of a number of the so called required audits, the subject of which was the verification of compliance with relevant ISO standards. Altogether, 18 planned audits and 2 other audits requested beyond the plan by the Director General were conducted in 2016. All final reports of audits approved by the head of the Department of internal audit and risk management were discussed and

acknowledged by the Internal Audit Committee and accepted by the Director General, who subsequently approved the proposed corrective measures and imposed their implementation. The Audit Committee of the Supervisory Board and the Supervisory Board were informed of the results of all completed audits on a quarterly basis.

An integral part of the plan was the implementation of regular quarterly monitoring of the fulfilment of the remediation measures proposed for completed audits. The fulfilment of these tasks continues to enhance the quality of the administration and management of Česká pošta, its processes and the quality of the services provided. It also contributes to the improvement of internal management and control systems and the risk management process. Under the approved plan of activities, sufficient capacity was reserved for counselling services, cooperation with the external auditor, assessment of the internal management and control systems and the levels of risk management, and all these activities were subsequently realised by the internal audit.

The overall quality of the internal audit work was regularly and internally assessed and evaluated in 2016, according to the processed and approved Program for quality assurance and improvement of internal audit quality with positive results.



WE HAVE OUR RISKS UNDER CONTROL

041 Risk management

Risk management was also an integral and permanent part of Česká pošta's corporate governance in 2016. It allowed for the informed acceptance and management of all business risks with the goal of reducing any negative consequences for the management and implementation of the business plans of the Česká pošta. Following the further improvement of the risk management process, the objectives set out in the document „Update of risk management strategy in Česká pošta for the period 2014 - 2017“, which was approved by the management of the Company, were also achieved and followed in 2016. At the same time, the recommendations of the Czech Institute of Internal Auditors to carry out an external evaluation of the level of risk management in Česká pošta was implemented in 2016. Independent reviews were conducted in the fall of 2016 by an independent consulting company. Based on their findings, this company evaluated the final report on the level and quality of risk management in Česká pošta and noted that the risk management process in Česká pošta

is transparently set out and achieved a high level of compliance with the necessary requirements of internationally recognised frameworks, standards and applied best practices in that field. The risk management system is sufficiently robust, is consistent with the objectives and expectations of the Company and has currently reached a very high level. The basic document supporting the results and the level of risk management processes in 2016 is the „Book of risks of Česká pošta s. p. year 2016“, which contains a list of identified and managed risks, broken down by category. The Book of risks, structured according to these categories, contains the distribution of risk at different levels depending on their risk exposure.

Reports on the state of risk management and the measures taken in 2016 were acknowledged by the Risks Management Committee, presented to the Company's management and brought to the attention of the Supervisory Board.

Miluju svoji práci
 Žádné počasí mě nezastaví
 Nejraději nosím dobré zprávy
 Noviny čtu vždycky první
 Usmívám se celý den
 Žiju nonstop
 Jsem týmový hráč
 Jsem univerzální
 Jsem přátelský
 Jsem týmový hráč
 Jsem univerzální
 Žiju nonstop
 univerzální
 Mířím
 Jsem
 Jsem univerzální
 Žiju nonstop
 Model
 Zaskakuji za Ježíškem
 Žiju nonstop

WE COMBAT ALL FORMS OF MISCONDUCT

Miluju svoji práci

Moderní technologie mám v malíku
 Známky mi kdekdo chválí
 Zazvoním a neuteču

043 Compliance

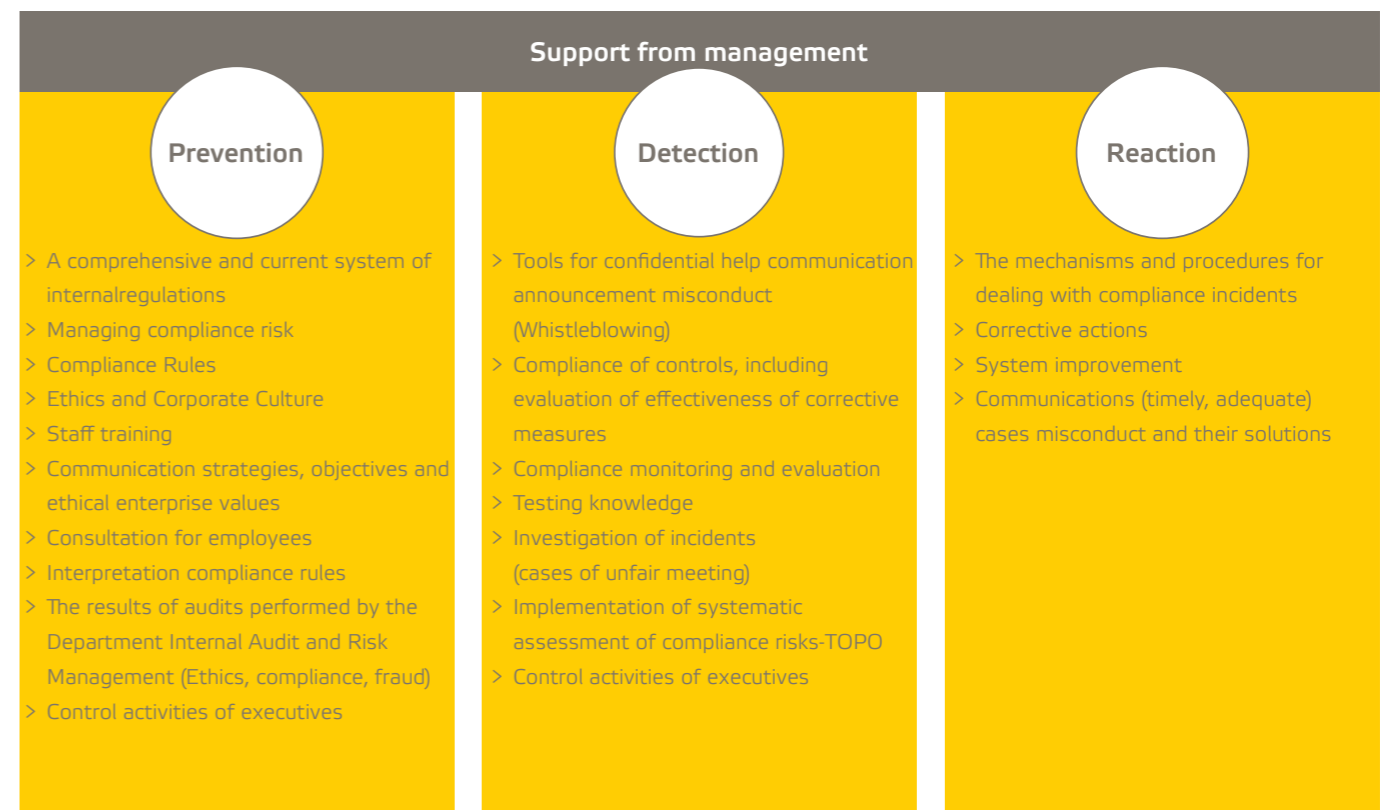
The compliance system in Česká pošta reflects the need for conformity of Česká pošta activities with applicable laws and regulations, thus reducing the risk of penalties and damage to the Company's reputation and, at the same time, strengthening the transparency of Česká pošta and its credibility.

In the corporate system of compliance, the area of internal regulations is included as a basic compliance function, as well as ensuring compliance in all activities of Česká pošta, either within the standard setting of the internal organisational structure and the division of labour in Česká pošta, or through compliance programs, designed to treat identified compliance risk, respectively the risk of non-compliance behaviours and situations.

The key component of the compliance system of Česká pošta is the corporate compliance program against

corruption and other forms of misconduct; special compliance programs are aimed at protecting personal data, and at complying with competition rules and cyber security.

The corporate compliance program against corruption and other forms of misconduct is a comprehensive tool to reduce the risk of Česká pošta being prosecuted under the Act on Criminal Liability of Entities and related damage to the Company's reputation. This program also ensures that all requirements of the Departmental internal anticorruption program of the Ministry of the Interior of the Czech Republic, at which Česká pošta is fully involved, are met. The corporate compliance program includes a comprehensive set of rules, procedures, measures and actions that can be divided into three areas according to their purpose: prevention, detection and correction compliance pillars.



The social responsibility represents for Česká pošta a voluntary commitment which, in its activities, considers the needs of customers, suppliers, employees, citizens living in a place where it operates, also with regard to the environment. In 2016, Česká pošta focused on developing a strategy that will be in line with the priorities of the National Action Plan CSR approved by the Government of the Czech Republic on 25 January 2016. With regard to the business

objectives of Česká pošta, the voluntary fulfilment of the EU directive on the marketing of non-financial information will also be part of the strategy. As part of the preparations in 2016, Česká pošta performed the mapping of its activities in terms of CSR. We also focused on the unification of the social pillar, whose future sponsorship and volunteer projects will shield the newly formed Foundation of Česká pošta.

THE FOUNDATION

The Foundation of Česká pošta was founded on 22 December 2016 as a separate legal entity and registered in a public register. The purpose of the Foundation of Česká pošta is in line with the Czech Government Resolution no. 334/1999 and aims to:

- > Supporting projects in the area of social and health care and protection of human health,
- > Supporting Education, Science and Youth Care,
- > Supporting communal activities and projects for the development of civil society in line with the purposes according to the government resolution,
- > Provision of humanitarian, social and other assistance,
- > Promoting culture and nature conservation,
- > Protection of the environment and supporting projects for sustainable development,
- > Supporting individuals in obtaining costly compensation, rehabilitation and re-education aids,
- > And other support for entities (natural or legal persons) in line with the purposes according to the government resolution.

Giving Tuesday

'Postmen for postmen' and 'We send the heart' these were the names of events which Česká pošta and its employees joined on the Day of Volunteering and Giving - Giving Tuesday, which we first celebrated on 29 November 2016. The Czech Republic became one of the 98 countries that support this day.

Česká pošta joined the Giving Tuesday with a company-wide collection for the employees' children in need. The collection 'Postmen for postmen' was held from 29 November to 2 December 2016 and employees contributed 365,844 crowns for compensation and rehabilitation aids.

For the public we organised the event „We send the heart“, in which people could participate by sending Online Postcards. For every postcard sent on 29 November 2016, Česká pošta donated ten crowns, and on every postcard sent from 30 November to 13 December donated two crowns to the Barriers foundation account. Thanks to these funds, we have donated a mechanical wheelchair to eleven-year Lukáš and pointing device for eight-year Nikolka.

SOCIAL PILLAR

We develop the potential of our employees.

In 2016, the aim of the Company was also to provide mandatory training to continue the systematic and comprehensive professional training and other educational activities to enhance the functioning of the Company and its processes, and, in the development area, to encourage senior employees especially in strengthening their work and the role of manager.

In the year 2016, 6,500 participants attended the training. Most of the training was mandatory as in previous years. Training in line with the Act on the circulation of banknotes and coins and training on Measures against legalisation of proceeds from crime continued, in which during the last quarter participated employees of the Partner post offices, as stipulated by the contractual obligations of Česká pošta to train staff operating on behalf of Česká pošta's aforementioned services. In the field of alliance partners, a major training for Czech insurance company implementing new operating system was held, which greatly simplified our employees the offer of that partner.

The team of internal trainers was significantly involved in staff training. In 2016, they trained employees on the standards of managerial work for selected management positions in business. Senior employees have passed very important programs aimed at the recruiting and selection, as well as adaptation, of new employee. The programs have helped them understand the recruitment process from the requirement for a job to the adoption of the new joiners, and also recognise the role of the manager in the process of training new workers.

We deepen corporate social responsibility in equal opportunities

Česká pošta meets the strategy of corporate social responsibility within the social pillar, with many activities. One of them is a program for parents returning from maternity or parental

We support the employer brand in cooperation with schools

Setting up the cooperation with partner schools (more than 10 cooperating schools across the Czech Republic) allows Česká pošta to communicate deliberately with potential employees from among secondary school pupils and university students. From the activities realised in 2016, the organisation of professional practice for students from the University

by 3,190 members of lower and middle management passed the development program

Development programs were also prepared for middle and lower management. They were primarily purposed to map the competencies, to assess strengths and weaknesses and identify possible ways to improve the development needs for managers. Development programs were attended by 428 employees.

In the field of staff qualification, a major project 'Adaptation' has been launched. The project began as a pilot from August 2016 in Prague and from October 2016 in South Moravia. In 2017, the adaptation process will be extended to all of Česká pošta. The project is focused mainly on the typical position of the deliveryman and counter worker. The goal is to train new employees and prepare them for their job classification.

As part of the National Qualifications Framework project and in accordance with Act no. 179/2006 Coll., On verification and recognition of further education, the revision of five professional qualifications has been completed and approved. Specifically, there were:

- > Front desk worker
- > Postal transportation worker
- > Post operator
- > Professional post operator
- > Postman

Revisions were carried out with respect to technological changes in Česká pošta.

leave. The program includes a web portal www.ceskapostarodicum.cz serving not only as a source of information about Czech Post, but also providing the opportunity to attend several e-learning courses.

of Pardubice is particularly worth mentioning, the presentation of Česká pošta at a job fair at the University of Pardubice and professional nationwide competition of postal skills, organised for students of secondary „postal“ schools. Česká pošta also provide internships for students from abroad.

We care about our employees' health

Apart from legislative requirements in the area of occupational services, Česká pošta in the long term encourages its employees to take care of their health by having programs aimed at preventing cancer.

In 2016, Česká pošta followed up the opening action of the melanoma prevention programme, which was implemented with international participation by doctors in 2015 and held a series of events for its employees and its clients called „POST CONNECTS“ or 'ČESKÁ POŠTA AGAINST MELANOMA'. The activity is shielded by the management of Česká pošta and is organised in cooperation with the trade unions, professionally Česká pošta is guaranteed by Prof. MD. Peter Arenberg, MD., MBA, head of the Dermatology Clinic of the 3rd Faculty of Medicine.

The programme was launched in April 2016 in Usti nad Labem. Subsequently, Česká pošta became a partner of the 10th edition of „TENT against melanoma,“ which took place in Prague, Ostrava, in Brno two surgeries were allocated directly to employees from

SPONSORSHIP

Countrywide operations, of Česká pošta, its connection with all areas of life, and therefore a significant position in society also reflects its efforts to help those who need help. In 2016, the support was therefore once again focused on the elderly in nursing homes and physically and / or socially disadvantaged children as in accordance with Government Resolution no. 334/1999, which defines to which subject and for what purposes a state enterprise may provide donations. Suitable subjects were selected in cooperation with the Departments of Social Welfare of the regional authorities, which know best the conditions in their localities. In each region one agency caring for the elderly and one caring for physically and / or socially

ENVIRONMENTAL PROTECTION

Activities performed by Česká pošta as part of its standard operations have only a relatively small impact on all components of the environment. Interference or intervention in land or agricultural land, damage to surface and groundwater can be classified as those having a small impact, and affecting protected elements of nature and protected species as insignificant. Emissions of pollutants into the air can be considered as a more significant intervention in terms of environmental pollution. Emissions come from two main sources, the operation of stationary sources of air pollution, and mainly from the operation of trucks and passenger cars. Česká pošta produces significant quantities of waste, particularly mixed

the region of South Moravia. The last event took place in the autumn of 2016 in České Budějovice.

In total, Česká pošta allowed the examination of 6,350 people, of which 61 were revealed to have dangerous melanomas; all of them were given immediate medical assistance.

The huge interest by employees and the public indicate that the correct focus on the subject of society-wide range.

Last year, during the Employees health care conference held in the Senate of the Czech Republic, Česká pošta was awarded with the title 'Company for Health' for long-term commitment in the area of employee health.

Česká pošta programmes aimed at preventing oncological diseases generated interest among European postal operators and become part of a shared database of „best practice“ CSR PostEurop.

disadvantaged children were selected. With regard to lower required financial support in the Liberec and the South Bohemian Region, it was always possible to support three subjects in these regions. Apart from the regional recipients of sponsorship donations, Česká pošta also supported one subject that operates nationwide.

At the same time and as part of long-term collaboration, Česká pošta made a donation to the League Against Cancer and Charter 77 Foundation - Barriers Account.

Overall, Česká pošta donated gifts amounting to CZK 2,056,696 in 2016.

municipal waste, plastics and paper. We managed to set up a system for collecting paper and plastic so as to minimise the costs of liquidation and, by their sale as secondary raw materials, generate a profit.

Besides the fulfilment of legislative obligations in all areas of environmental protection, the Company's strategy in the field of environmental protection is the reduction of pollutant emissions. For that reason Česká pošta uses CNG vehicles. In 2016, 16 new passenger CNG vehicles have been included in the operation and use. CNG vehicles currently make up 20 percent of the Česká pošta car fleet.



STAMPS IN 2016

In 2016, Česká pošta provided a issuer of postage stamps – the Ministry of Industry and Trade of the Czech Republic – with 35 commemorative postage stamps with first edition envelopes and stamps.

The Company issued traditional designs that are considered the stars of stamp design for a couple of years already. Mainly these themes include the Tradition of Czech stamp making, Celebrities, the Beauty of our homeland, Europe, Prague Castle and Works of art on Stamps. It also issued a first collective Czech-Liechtenstein stamp by Gerrit Dou, the young lady on the balcony.

OWN STAMPS

For those who want to have an original way of advertising, Česká pošta issues custom-made stamps. In 2016, 146 custom-made stamps with the total invoice value of CZK 7,413,300 were issued.

OCCASIONAL RUBBER STAMPS

In 2016, Česká pošta issued a total of 52 occasional rubber stamps. In addition to the commemorative rubber stamps with traditional subjects - Easter, Christmas holidays, Valentine's Day, etc., special rubber stamps were also issued, for example, for the events of the 120th anniversary of Svitavy – Polička railway or the anniversary of 250 years of Václav Radecký.

In one of the world's most prestigious competitions for the most beautiful postage stamps - Vienna Grand Prix WIPA for the year 2015, Česká pošta reached 2nd place for the occasional sheet of 4 stamps with the European owl theme. Designers of these occasional stamps were Libuše and Jaromír Knotek and the engraver was Martin Srb. The sheet was printed by ddy stamping of a flat plate combined with multi-coloured offset.

45 R-stickers with occasional overprints and 33 valuable APOST stickers with occasional overprints were issued. These sub-products strongly encourage the purchase and use of postage stamps. It is common that collectors request that the postage stamps be stamped.

Occasional stamps 2016:

Occasional stamps 2016		CZK
20.01.	Tradition of Czech stamp making: Karel Svolinský	13
20.01.	Celebrities: Jeroným Pražský	17
3.02.	Puppies - Czech national breeds of dogs: Czech Spotted Dog	13
17.02.	Historical means of transport: Slovak Arrow	27
17.02.	Historical means of transport: Vyšehrad steamboat	7
16.03.	Celebrities: Tomáš Baťa	13
16.03.	Technical monuments: the 125th anniversary of Golden Gate Bridge and 125th anniversary of Petřín funicular	13
16.03.	Joint Institute for Nuclear Research – 60th anniversary	27
6.04.	Beauty of our homeland: Buchlov castle	17
27.04.	Czech-Slovak philatelic exhibition Žďár nad Sázavou	13
4.05.	Europe: We think green	27
4.05.	Charles IV	54
18.05.	Prague castle – Lucas Cranach	38
18.05.	The Bartered Bride - the 150th anniversary of the premiere	16
22.06.	Strážnice - The international ethnical festival	20
22.06.	Czech Olympic team	32
22.06.	Summer Paralympic Games	16
22.06.	Jan Jessenius - collective Edition (Czech Republic, Hungary, Poland, Slovakia)	27
7.09.	Nature protection: Zoological gardens I	16
	Nature protection: Zoological gardens I.	20
	Nature protection: Zoological gardens I.	24
	Nature protection: Zoological gardens I.	27
7.09.	Celebrities: Prof. RNDr. Antonín Holý	20
7.09.	Gerrit Dou - The young lady on the balcony - a collective Czech-Liechtenstein edition	27
7.09.	World Heritage: Lednice-Valtice Cultural Landscape - common theme publication	16
7.09.	World Heritage: Prague - common theme publication	27
21.09.	Historical means of transport: Tatra 87	16
21.09.	Historical means of transport: biplane Aero Ab-11	16
12.10.	Iron Mountains - CHKO	16
12.10.	Fight for Czech nationhood (x 2)	27
9.11.	UNESCO – 70th anniversary	32
9.12.	Works of Art on Stamps: Jaroslav Král	27
9.12.	Works of Art on Stamps: Bedřich Stefan	30
9.12.	Works of Art on Stamps: František Tichý	38

WE RESPECT OUR RICH HISTORY

053 Postal museum

The Postal Museum contributes to the Company's marketing activities and promotes the corporate tradition and history of the post office and stamp design. This is fully met by the following activities of the museum in 2016.

Firstly, it operates a permanent exhibition in Prague and in its branch in Vyšší Brod, in the former Cistercian monastery where, on an area of about 1,800 m², it acquaints visitors with the history of post and telecommunications. Besides the temporary exhibitions which are organised in its Prague headquarters and the branch in Vyšší Brod, it also participates in a series of local and foreign exhibitions. Additionally, it even lends all of the exhibition projects which serve as touring exhibitions.

The Postal Museum held or participated in the preparation of 35 exhibitions, 7 of which were held in its headquarters in Prague, 3 in the Vyšší Brod branch and 25 (of which 11 own mobile ones) in external museums and galleries in the Czech Republic.

The largest exhibition event of 2016 was the exhibition *Orbis naturalis pictus - Natural motives in the work of J. and L. Knotek*, organised in cooperation with the Prague Zoo. The National Museum and the Ethnographic Museum and Gallery in Česká Lípa borrowed their collections in terms of the partnership support. The exhibition complemented by a rich accompanying program, visitors could also view to a smaller extent in the Prague zoo, which was presented during July and August 2016. It was met with great media and visitor response.

The branch of the Postal Museum in Vyšší Brod offered two exhibitions. While the first named *Cars and Toy cars* unveiled drawings and models of automobile veterans, the second named *Winners and losers* revealed stamp art with motives of Czechoslovak and Czech athletes in connection with the Olympic Games, which took place in the summer of 2016 in Rio de Janeiro. The exhibition program of Vyšší Brod branch was traditionally enriched by the art exhibition of Basic art school students in Kaplice.

From the touring exhibitions the public was most attracted by: *Mail in the Great War, I am writing to you from the front ... Pigeon Post and Adolf Born*, or how postage stamps are created. Partner museums and other cultural institutions have made repeated requests to borrow all three exhibitions..

Regarding the partial loans of items from the Postal Museum's collection, those associated with the celebration of the 700th anniversary of the birth of the Czech King and Roman Emperor Charles IV.: *Second Life of Charles IV.*, *Crown on the palm* and *Charles IV at present* Czech illustration and graphics are worth mentioning in particular.

In connection with the intended sale of the former Monastery of the Annunciation of the Virgin Mary by St. Gabriel's church in Prague 5, which since 1933 has housed the Postal Museum, between 14 March and 30 June 2016 a new depository and research centre for the museum's needs was built. The successful process of relocating was significantly contributed to by the Ministry of Culture of the Czech Republic, which provided a grant to the Postal Museum within the „Integrated system for the protection of cultural heritage ISO / D“ programme.

Postal Museum is a long-standing and traditional member of the Union of Central European Technical Museums (MUT), the Conference of European communications museums (CECOMM) and prestigious Club World Philatelic elite Monte Carlo in Monaco. It is also founding member of the International Association of Transport and communication museums (IATM) which 41th International conference in Edinburg, Scotland representative of Post Museum attended in 2016.

In the Czech Republic, the Postal Museum actively participates in the work of the Association of Museums and Galleries and still cooperates with the Union of Czech Philatelists, along with the Society of Friends of the Postal Museum SČF.

By law, it is authorised to approve the export of objects from the field of the history of the postal industry and stamp making and serves as a Czech centre for postage stamp exchange within the framework of the Universal Postal Union. An important feature of the museum is the provision of library and advisory services to researchers, students of secondary schools and universities as well as employees of Česká pošta.

In 2016, the Postal Museum celebrated the 98th anniversary of its foundation with the traditional issuance of a Memorial certificate, this time bearing the engraving postage stamps of Old Prague – 60th anniversary of Czechoslovak postage stamp with Miloš Ondráček.

TEMPORARY EXHIBITIONS AT THE POSTAL MUSEUM

Václav Zapadlák – Stamps with a gasoline smell, Golden Ribbon 2015 - Best Czech books for children, Orbis naturalis pictus. Natural motives in the art. of J. and L. Knotek, Inheritable post in Litomyšl. The exhibition from the collection of Ing. Roman Zoubek, František Horniak. 60 best engravings, Miloš Ondráček – art on stamp, Old maps of the Czech Republic,	18. 9. 2015 – 10. 4. 2016 9. 12. 2015 – 20. 3. 2016 6. 4. – 25. 9. 2016 22. 4. – 19. 6. 2016 25. 6. – 11. 9. 2016 22. 9. 2016 – 12. 3. 2017 5. 10. 2016 – 12. 2. 2017
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TEMPORARY EXHIBITION AT THE POSTAL MUSEUM IN VYŠŠÍ BROD

Cars and Toy cars. Drawings and models of automobile veterans Winners and losers. Unissued stamps and unrealised Olympics. Exhibition of works by Fine Arts students of Basic Art School in Kaplice,	24. 6. – 30. 9. 2016 24. 6. – 30. 9. 2016 24. 5. – 30. 8. 2016
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TEMPORARY EXTERNAL EXHIBITIONS IN CZECH REPUBLIC

(Traveling projects of the Postal museum and partial participations in external exhibitions)

- > Jan Žižka of Trocnov exhibition, 18. 5. 2015 - 19. 6. 2016 Museum of South Bohemia in the Czech Budějovice, Jan Žižka of Trocnov memorial in Trocnov u Borovan.
- > Mail in the Great War. I am writing to you from the front ..., 1. 10. 2015 - 8. 1. 2016 Museum Lamberská stezka in Žihobce.
- > Cooperation of ČSOB with Postal Museum in the area of restoration, 14. 12. 2015 - 8. 1. 2016. ČSOB, a. s. Headquarters (space), Prague 5 - Radlice.
- > State-building. Czechoslovakia representation in art, architecture and design, 20. 11. 2015 - 7. 2. 2016. National Gallery in Prague, Veletržní palác.
- > Pigeon Post, 12. 1. - 28.2.2016 Litoměřice Regional Museum.
- > Presentation of the parcel car 15. 2. - 7. 7. 2016. The Main Post Office, Prague 1
- > Pigeon Post 8. 3 - 22.5. 2016. The Museum of the City of Usti nad Labem.
- > Kornelie Němečková 8. 3 – 1. 5.2016. Litoměřice Regional Museum.
- > Oldřich Kulhánek - Stamp Art, 10. 3. - 29. 4. 2016 ERA Svět, Prague 1
- > Post during the Great War. I am writing to you from the front ... 1. 4. - 30. 9. 2016. The Mining Museum in Příbram.
- > Second Life of Charles IV., 14. 5. - 31. 8. 2016. Charles University, Carolinum, Prague 1.
- > Crown on the palm - Eternal Kingdom coins, 15. 5. 2016 - 7. 1. 2017 Prague Castle.
- > Illustrations for children and adults 21.5. - 30. 10. 2016 Linhartovy castle.
- > Pigeon Post, 7. 6. - 15. 9. 2016 Regional Museum in Most.
- > Adolf Born or how the stamp is created 9. 6 – 14. 8.2016 Zbiroh Museum.
- > History of the post Jesenícko 14. 6-4 9. 2016 history museum Jeseník.
- > Post by one track 26. 6.- 4. 9. 2016 Regional museum in Vysoke Myto.
- > On the trail of Kamil Lhoták 26. 6. – 4. 9. 2016. Regional museum in Vysoke Myto.
- > Orbis naturalis pictus. Natural motives in the art of J. and L. Knotek, 1.7. – 11. 9. 2016, Prague Zoo
- > Adolf Born or how the stamp is created, 11. 10. 2016 - 8. 1. 2017, Regional Museum in the Czech Krumlov.
- > Charles IV. at present Czech illustration and graphics 14.10 - 27.11. 2016. Art Gallery Havlickuv Brod.
- > Exposition of horse-drawn means of transport from the Collection of Postal Museum, whole year, Castle Děčín.
- > Borrowed exposition of postal train, whole year. Railway museum of Czech Railways in Lužná u Rakovníka.
- > Carriages loan. National Stud Farm Kladruby nad Labem, whole year.

SHORT-TERM FOREIGN EXHIBITIONS

From the creations of Alfons Mucha, an exhibition on the occasion of the publication of postage stamps using the image Hail blessed fountain of health, 25.11.2015 – 10.02.2016. Balneologické Museum Piešťany, Slovakia.

EDUCATIONAL ACTIVITY

In 2016, the museum continued its educational activities aimed at expounding the collection of the Postal Museum to visitors, especially children. Within the accompanying program, the museum was visited by nearly 1,000 pupils and students from kindergartens, primary and secondary schools. The exhibitions in Prague and Vyšší Brod were endowed with interactive elements for children. Orbis naturalis pictus exhibition, Old maps of Czech Republic and Miloš Ondráček - art on the stamp, were attended by 350 children from school and other special interest

departments. In the accompanying events, nine art workshops for children took place as well as lectures, guided tours and book signings for adults, which were attended by 750 people. The Postal Museum has traditionally been involved in promotional events - Prague Museum Night and Ice Prague with attendance by 820 people. On the preparation of the accompanying events for exhibitions, the museum has cooperated with artists, writers, publishers and cultural institutions.

THE POSTAL MUSEUM COLLECTION

The periodic reporting on the updating of the collection records of the Postal Museum's collections in the Central Register of Collections (CES) to the Ministry of Culture was performed. As at 31 December 2016, the total number of registration numbers entered in the CES grew to 230,075 registered items (collection items and their files). All new acquisitions were duly filed by Directives no. 3/2009 and no. 5/2015.

In 2016, the Postal museum collections were enriched by 3 donations. 48 items were purchased from antique shops or directly from the owners.

There were 16,701 registration units inventoried in total.

RESTORATION

In 2016, 111 pieces of original engraving plates damaged by the 2002 floods were cleaned and conserved; including 24 graphics, one mailbox,

one travel trunk from the Austro-Hungarian Empire period and one Phaeton type carriage from 1911 were restored.

VISITORS' TURNOUT

Total number of visitors: 10,622

Of which:

Prague	2,948
Vyšší Brod	7,674

WE PROTECT THE INTERESTS OF OUR CLIENTS

057 Postal ombudsman

In 2016, the ombudsman was contacted by 2,317 customers of Česká pošta, whose collections were investigated, assessed and processed according to their nature.

This year, the ombudsman settled 289 collections. 111 collections concerned the assessment of the processing of claims and customer complaints. The ombudsman confirmed the previous decision of Česká pošta in 73 cases, while in the remaining 37 cases, the customers' views were upheld. A total of 178

collections were new cases per the customers' initiative, without previous standard examination.

37 cases led to a recommendation being made to the Director General to provide the customer with additional compensation. The payment was then made from a special account dedicated to settling similar cases. The sum allocated to this account was CZK 112,000 in 2016, out of which CZK 66,649.40 (around 60% from the planned amount) was paid out in 2016.

058 Providing information

PROVIDING INFORMATION ACCORDING TO ACT NO. 106/1999 COLL., ON FREE ACCESS TO INFORMATION

Česká pošta as an obliged body according to Act no. 106/1999 Coll. on free access to information, as amended, according to Act. no. 106/1999 Coll. on free access to information, section 18, prepared this annual report on its activities in the area of providing information based on Act no. 106/1999 Coll. on free access to information in the year 2016:

- 1. The number of requests for information received:** In 2016, a total of 84 collections as requests for information in accordance with Act. no. 106/1999 Coll. on free access to information were received, as amended.
- 2. The number of issued decisions denying the requests (or part of a request):** In 2016, 23 decisions to deny the requests were issued according to Act. no. 106/1999 Coll. on free access to information, section 15, and 5 decisions to deny a part of the request for information.
- 3. The number of submitted appeals against decisions:** In 2016, 4 appeals against decisions of non-providing information.
- 4. Copy of substantial parts of each court decision on the review of the legitimacy of Česká pošta's decision to deny the requests on the provision of information:** during the period from 1 January 2016 to 31 December 2016, Česká pošta did not receive any court decision on Česká pošta's decision to deny requests for the provision of information.
- 5. The list of court fees which Česká pošta paid in relation to judicial proceedings on rights and responsibilities according to Act. no. 106/1999 Coll. on free access to information:** In 2016, Česká pošta did not incur any expenses in respect of legal proceedings on rights and obligations according to Act. no. 106/1999 Coll. on free access to information.
- 6. The exclusive licenses provided:** In 2016, Česká pošta did not provide any exclusive licenses.
- 7. Complaints on the process of handling requests for information (Act. no. 106/1999 Coll. on free access to information, section 16a, as amended), the reason for their collecting and a brief description of how they were resolved:** In 2016, 4 complaints on Česká pošta's process of handling the requests for information according to Act. no. 106/1999 Coll. on free access to information, section 16a were filed. Both requestors filed the complaints because Česká pošta had not provided them with the required information within the legal deadline. The legal deadline for handling the requests for information was not kept by the information provider due to administrative reasons, and the provider apologised for that to the requestors based on the complaint received.

WE ARE
CLOSE TO OUR
CUSTOMERS

060

Subsequent events

There were no significant events between the balance sheet date and the date of preparation of the annual report on December 31, 2016, except for the subsequent events disclosed in note 26 of the separate financial statements of the Company for the six-month period ended 31 December 2016, and in note 26 of the consolidated financial statements the twelve-month period ended 31 December 2016.

061

Financial part

The year 2016 was different for Česká pošta (hereinafter "the Company") due to the spin-off of a part of the Company and its subsequent merger with the state-owned enterprise Národní agentura pro komunikační a informační technologie, s.p. in accordance with the Act No. 77/1997 Coll. on state-owned enterprise, with the decisive date of 1 July 2016. The spin-off was governed by the Resolution MV-85243-1/NV-2016 off 15 June 2016, of the Ministry of the Interior of the Czech Republic acting as the founder of the state-owned enterprise Česká pošta, as well as the Decree of the Czech government nr. 413 of 11 May 2016. Therefore, Česká pošta prepared as at the date preceding the decisive date, the extraordinary financial statements for the period of six months ended 30 June 2016.

The closing financial statement in the financial part includes:

- > Individual financial statements of the Company compiled for a period of 6 months, ending on 31 December 2016 due to the spin-off of a part of the company - OZ ICTs - and its subsequent merger with the state-owned enterprise Národní agentura pro komunikační a informační technologie, s.p., and
- > Consolidated closing financial statements of the Group, which contains of Česká pošta (including Česká pošta Odštěpený Závod for a period of 6 months, ending on 30 June 2016), Česká pošta Security s.r.o. and Poštovní tiskárna cenin Praha, a.s., compiled for a twelve-month period, ending on 31 December 2016./

The Information included in this closing financial statement report on the Company covers the period of 6 months, ending on December 31, 2016, as well as information on the Group covering a period of 12 months, ending on December 31, 2016.

1. Information on existing of branch office or division of the company and the group abroad

The Company does not have neither a branch office nor a division abroad over the six-month period, ending on December 31, 2016. The Group does not have neither a branch office nor a division abroad over the twelve-month period ending on December 31, 2016.

2. Information about activities of the company and the group in research and development

The Company does not have any activities in research and development over the six-month period, ending on December 31, 2016. The Group does not have any activities in research and development over the twelve-month period, ending on December 31, 2016

3. Information on acquisition of own stock or own share in any entity of the Group

Group's entities did not earn any own stock (Poštovní tiskárna cenin Praha, a.s.), nor any own share (Česká pošta Security, s.r.o.) over the twelve-month period, ending on December 31, 2016.

4. Information on investment instruments

The Company had no investment instruments, nor any assets or liabilities similar to investment instruments over the six-month period, ending on December 31, 2016, the Group did not use any investment instruments, nor any assets or liabilities similar to investment instruments over the twelve-month period, ending on December 31, 2016.

5. Information on activities within environmental protection of the Company and the Group

Information regarding activities in the field of environmental protection are described in part CSR of the Annual report. Furthermore, the Group maintains and will develop a system of environmental management in accordance with ČNS norm ISO 14001.

6. Information on social and labour law relations

Average registration amount of employees of the Company over the six-month period, ending on December 31, 2016 reached 29,801 counted employees. In comparison with the over the six-month period, ending on June 30, 2016, there was a decrease of 345 counted employees, mainly due to a spin-off of Odštěpený závod ICTs on July 1, 2016. Another reason are continual changes in structure, mostly by realization of project Pošta Partner.

Besides the wages for performed work, Česká pošta provides its employees with employee benefits, such as:

- > from the statutory fund for cultural and social needs ("FKSP") generated in the amount of 2% of wages as stipulated by the law (gifts for important work and life anniversaries and holiday and rehabilitation contributions, summer camps, culture, sports and catering)
- > from costs (financial contributions to meal vouchers, to pension and life insurance).

In November 2016, an agreement to realize the increase of wages of all tariff employees in 2017 was reached with majority of the labor Unions partners. Negotiations for the total wage increase will be finalized during the first quarter of 2017. Česká pošta is expecting to pay approx. CZK 500 million in personnel costs in wages increase in 2017.

More detailed information on employment relationships, including the development of employment and the structure of employees of the Company is listed in the section of the Annual Report entitled Human Resources.

Average number of employees of the Group over the twelve-month period, ending on 31 December 2016 was 30,096 employees. Average number of employees of the company Česká pošta Security, s.r.o. was 69 employees. Average number of employees of the company Poštovní tiskárna cenin Praha, a.s. was 53 employees.

Compliance with labor regulations is in the Group primarily governed by the Labor Code, Act on employment, Acts on pension and sickness insurance, Act on personal data protection and other labor laws.

7. Information on expected development of the activities of the Company and the Group

Information on the development of activities of the Company is listed in the section Profile, paragraph Mission and strategic goals.

Development of activities of the Group, which besides Česká pošta consists also of Česká pošta Security, s.r.o. and Poštovní tiskárna cenin Praha, a.s., is affected by the activities of all companies.

The goal of Česká pošta Security, s.r.o. is to continue providing services to Česká pošta in newly built monitoring center (PCO – central security, monitoring center and monitoring of technological units), in area

of technology (installment and maintenance of security units), guarding (physical security of objects, persons and properties, receptionist services) and area of CIT (transport of cash, stamps and other valuables). Within these services, the goal is to improve the security of clients of the Group and employees of Česká pošta with implementing of new hi-tech security technologies and improve the security with digitalization of security services.

Company Poštovní tiskárna cenin Praha, a.s. belongs to the biggest producers of postal valuables in Central Europe. In previous year it created and delivered to its customers 152,089,373 post stamps in nominal value of CZK 2,904,070,177. Traditional printing techniques (rotary deep print combined with steel print, sheet steel print and sheet offset combined with steel print) are still the flagship of the company. The year 2017 will be marked with maintaining of the current market and customers, whilst also searching for new business opportunities. Underlying business event of 2017 is primarily the result of tender for delivery of postal stamps for Slovak post for years 2017-2020. New business opportunities will be, in line with Strategy of PTC Praha, a.s. for period 2016-2020, searched primarily to utilize the ability to produce postage stamps.

063 Independent Auditor's report



English translation

Independent auditor's report

to the founder of Česká pošta, s.p.

Opinion

We have audited:

- The accompanying consolidated financial statements of Česká pošta, s.p., with its registered office at Politických vězňů 909/4, Praha 1 ("the Company") and its subsidiaries (together "the Group") prepared in accordance with Czech accounting legislation, which comprise the consolidated balance sheet as at 31 December 2016 and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, which include significant accounting policies and other explanatory information;
- Accompanying separate financial statements of the Company prepared under Czech accounting regulations, which comprise the balance sheet as of 31 December 2016, income statement, statement of changes in equity and statement of cash flows for the six months ended 31 December 2016 and notes to these financial statements, which include significant accounting policies and other explanatory information.

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2016 of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Czech accounting legislation;
- Accompanying individual financial statements give a true and fair view of the financial position of the Company as at 31 December 2016, its financial performance and its cash flows for the six months ended 31 December 2016 in accordance with accounting legislations.

The consolidated and separate financial statements are further referred to together as financial statements.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Standards on Auditing of the Chamber of Auditors of the Czech Republic. These standards consist of International Standards on Auditing (ISAs) which may be supplemented and modified by related application guidance. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group and of the Company and in accordance with the Act on Auditors and Code of Ethics for Professional Accountants issued by the International Ethics Standards Board for Accountants (IESBA) and accepted by the Chamber of Auditors of the Czech Republic, and we have fulfilled our other ethical responsibilities in accordance with these regulations. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

In compliance with Section 2(b) of the Act on Auditors, the other information comprises the information included in the Annual Report other than the financial statements and auditor's report thereon. The Statutory Body of the Company is responsible for the other information.

Our opinion on the financial statements does not cover the other information. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge about the Group and the Company obtained in the audit or otherwise appears to be materially misstated. In addition, we assess whether the other information has been prepared, in all material respects, in accordance with applicable law and regulation, in particular, whether the other information complies with law and regulation in terms of formal requirements and procedure for preparing the other information in the context of materiality, i.e. whether any non-compliance with these requirements could influence judgments made on the basis of the other information.

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PricewaterhouseCoopers Audit, s.r.o., registered seat Hvězdova 1734/2c, 140 00 Prague 4, 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 Evidence No 021.



To the Founder of Česká pošta, s.p.
Independent auditor's report

Based on the procedures performed, to the extent we are able to assess it, we report that:

- The other information describing the facts that are also presented in the financial statements is, in all material respects, consistent with the financial statements; and
- The other information is prepared in compliance with applicable law and regulation.

In addition, our responsibility is to report, based on the knowledge and understanding of the Group and the Company obtained in the audit, on whether the other information contains any material misstatement of fact. Based on the procedures we have performed on the other information obtained, we have not identified any material misstatement of fact.

Responsibilities of the Statutory Body and the Supervisory Board s of the Company for the Financial Statements

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with Czech accounting legislation and for such internal control as the Statutory Body determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Statutory Body is responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Statutory Body either intends to liquidate the Group or the Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the above stated requirements will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the above stated requirements, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit 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 Group and the Company's internal controls.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.
- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group and the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group or the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the notes, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Translation note

This version of our report is a translation from the original, which was prepared in the 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 Czech version of our report takes precedence over this translation.



To the Founder of Česká pošta, s.p.
Independent auditor's report

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Statutory Body, the Supervisory Board and the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

17 March 2017

PricewaterhouseCoopers Audit s.r.o.

PricewaterhouseCoopers Audit, s.r.o.
represented by

V. Výtvarová

Věra Výtvarová
Statutory Auditor, Evidence No. 1930

Translation note

This version of our report is a translation from the original, which was prepared in the 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 Czech version of our report takes precedence over this translation.

Financial statements

BALANCE SHEET (in millions Czech crowns)							
Reference		ASSETS	31. 12. 2016			30. 06. 2016	
			Gross	Provision	Net		Net
a		b	1	2	3		4
		TOTAL ASSETS	34 278	-13 429	20 849		21 656
		of which entrusted resources	3 947	0	3 947		5 562
B.		Fixed assets	23 076	-13 182	9 894		9 690
B. I.		Intangible fixed assets	1 891	-1 545	346		303
B. I. 2.		Royalties	1 718	-1 480	238		212
B. I. 2.1.		Software	1 716	-1 479	237		211
B. I. 2.2.		Other royalties	2	-1	1		1
B. I. 4.		Other intangible fixed assets	68	-65	3		5
B. I. 5.		Advances paid and intangible fixed assets in the course of construction	105	0	105		86
B. I. 5.2.		Intangible fixed assets in the course of construction	105	0	105		86
B. II.		Tangible fixed assets	20 862	-11 630	9 232		9 074
B. II. 1.		Land and constructions	12 364	-5 247	7 117		7 171
B. II. 1.1.		Land	861	-1	860		865
B. II. 1.2.		Constructions	11 503	-5 246	6 257		6 306
B. II. 2.		Equipment	8 073	-6 376	1 697		1 643
B. II. 4.		Other tangible fixed assets	4	0	4		4
B. II. 5.		Advances paid and tangible fixed assets in the course of construction	421	-7	414		256
B. II. 5.1.		Advances paid for tangible fixed assets	0	0	0		5
B. II. 5.2.		Tangible fixed assets in the course of construction	421	-7	414		251
B. III.		Long-term investments	323	-7	316		313
B. III. 1.		Investments - subsidiaries and controlling party	79	-7	72		72
B. III. 2.		Loans and borrowings - subsidiaries and controlling party	25	0	25		25
B. III. 5.		Other long-term investments in securities	219	0	219		216
C.		Current assets	11 131	-247	10 884		11 824
		of which entrusted resources	3 947	0	3 947		5 562
C. I.		Inventories	393	-69	324		344
C. I. 1.		Raw materials	214	-56	158		149
C. I. 2.		Work in progress and semi-finished products	0	0	0		15
C. I. 3.		Finished goods and goods for resale	179	-13	166		180
C. I. 3.2.		Goods for resale	179	-13	166		180
C. II.		Receivables	4 361	-178	4 183		3 573
		of which entrusted resources	133	0	133		234
C. II. 1.		Long-term receivables	1 317	0	1 317		886
C. II. 1.1.		Trade receivables	2	0	2		2
C. II. 1.5.		Receivables - other	1 315	0	1 315		884

C. II. 1.5. 2.		Long-term advances paid	5	0	5	4
C. II. 1.5. 3.		Estimated receivables	1 300	0	1 300	871
C. II. 1.5. 4.		Other receivables	10	0	10	9
C. II. 2.		Short-term receivables	3 044	-178	2 866	2 687
		of which entrusted resources	133	0	133	234
C. II. 2.1.		Trade receivables	1 416	-97	1 319	1 615
		of which entrusted resources	133	0	133	234
C. II. 2.2.		Receivables - subsidiaries and controlling party	8	0	8	15
C. II. 2.4.		Receivables - other	1 620	-81	1 539	1 057
C. II. 2.4. 1.		Receivables from shareholders	23	-3	20	5
C. II. 2.4. 3.		Taxes - receivables from the state	26	0	26	3
C. II. 2.4. 4.		Short-term advances paid	232	0	232	137
C. II. 2.4. 5.		Estimated receivables	1 182	0	1 182	838
C. II. 2.4. 6.		Other receivables	157	-78	79	74
C. III.		Short-term financial investments	50	0	50	50
C. III. 2.		Other short-term investments	50	0	50	50
C. IV.		Cash	6 327	0	6 327	7 857
		of which entrusted resources	3 814	0	3 814	5 328
C. IV. 1.		Cash in hand	4 284	0	4 284	3 735
		of which entrusted resources	3 207	0	3 207	3 646
C. IV. 2.		Cash at bank	2 043	0	2 043	4 122
		of which entrusted resources	607	0	607	1 682
D.		Prepayments and accrued income	71	0	71	142
D. 1.		Prepaid expenses	68	0	68	98
D. 3.		Accrued income	3	0	3	44

BALANCE SHEET (in millions Czech crowns)					
Reference		LIABILITIES AND EQUITY		31.12.2016	30.06.2016
a		b		5	6
		TOTAL LIABILITIES AND EQUITY		20 849	21 656
		of which entrusted resources		3 947	5 562
A.		Equity		10 239	10 477
A. I.		Share capital		3 588	3 588
A. I.	1.	Share capital		3 588	3 588
A. II.		Share premium and capital contributions		6 184	6 360
A. II. 2.		Capital contributions		6 184	6 360
A. II.	2.1.	Other capital contributions		6 172	6 351
A. II.	2.2.	Assets and liabilities revaluation		12	9
A. III.		Other reserves		376	456
A. III.	1.	Other reserve funds		359	359
A. III.	2.	Statutory and other reserves		17	97
A. V.		Profit / (loss) for the current period		91	73
B. + C.		Liabilities		10 070	10 685
		of which entrusted resources		3 947	5 562
B.		Provisions		701	720
B.	4.	Other provisions		701	720
C.		Liabilities		9 369	9 965
		of which entrusted resources		3 947	5 562
C. I.		Long-term liabilities		303	303
C. I.	4.	Trade payables		16	22
C. I.	8.	Deferred tax liability		287	281
C. II.		Short-term liabilities		9 066	9 662
		of which entrusted resources		3 947	5 562
C. II.	2.	Liabilities due to financial institutions		34	32
		of which entrusted resources		34	32
C. II.	3.	Short-term advances received		480	255
C. II.	4.	Trade payables		5 551	6 445
		of which entrusted resources		3 913	5 530
C. II.	6.	Liabilities - subsidiaries and controlling party		23	23
C. II. 8.		Liabilities - other		2 978	2 907
		of which entrusted resources		0	0
C. II.	8.3.	Liabilities to employees		555	507
C. II.	8.4.	Liabilities for social security and health insurance		350	322
C. II.	8.5.	Taxes and state subsidies payable		123	168
C. II.	8.6.	Estimated payables		1 654	1 653
C. II.	8.7.	Other liabilities		296	257
D.		Accruals and deferred income		540	494
D.	2.	Deferred income		540	494

INCOME STATEMENT (in millions Czech crowns)				
Reference		Actuals in accounting period		
		six-month, ending December 31, 2016	six-month, ending June 30, 2016	
a		b	1	1
I.		Sales of products and services	8 872	9 134
II.		Sales of goods	113	144
A.		Cost of sales	2 405	2 599
A.	1.	Cost of goods sold	81	112
A.	2.	Raw materials and consumables used	658	604
A.	3.	Services	1 666	1 883
B.		Changes in inventories of finished goods and work in progress	0	-6
C.		Own work capitalised	-9	-9
D.		Staff costs	6 285	6 032
D.	1.	Wages and salaries	4 609	4 372
D. 2.		Social security, health insurance and other social costs	1 676	1 660
D.	2.1.	Social security and health insurance costs	1 506	1 481
D.	2.2.	Other social costs	170	179
E.		Value adjustments in operating activities	388	402
E. 1.		Value adjustments of fixed assets	387	392
E.	1.1.	Depreciation, amortisation and write off of fixed assets	411	395
E.	1.2.	Provision for impairment of fixed assets	-24	-3
E.	2.	Provision for impairment of inventories	7	2
E.	3.	Provision for impairment of receivables	-6	8
III.		Operating income - other	778	314
III.	1.	Sales of fixed assets	168	10
III.	3.	Other operating income	610	304
	3.1.	Compensation for the net cost on providing basic postal services	429	171
	3.2.	Other operating income	181	133
F.		Operating expenses - other	578	484
F.	1.	Net book value of fixed assets sold	27	1
F.	3.	Taxes and charges from operating activities	39	51
F.	4.	Operating provisions and complex prepaid expenses	77	93
F.	5.	Other operating expenses	435	339
*		Operating result	116	90
IV.		Income from sales of long-term investments - shares	1	1
IV.	2.	Income from sales of investments - other	1	1
VI.		Interest and similar income	3	6
VI.	2.	Other interest and similar income	3	6
VII.		Other financial income	22	41
K.		Other financial expenses	46	41
*		Financial result	-20	7
**		Net profit / (loss) before taxation	96	97
L.		Tax on profit or loss	5	24
L.	1.	Tax on profit or loss - current	15	46
L.	2.	Tax on profit or loss - deferred	-10	-22
**		Net profit / (loss) after taxation	91	73
***		Net profit / (loss) for the financial period	91	73
*		Net turnover for the financial period	9 789	9 640

**CASH-FLOW STATEMENT
FOR THE PERIOD OF SIX MONTHS 31 DECEMBER 2016**

(CZK million)	6 months ended 31 December 2016	6 months ended 30 June 2016
Cash flows from operating activities	7,907	8,925
<i>- of which entrusted resources</i>	<i>5,328</i>	<i>5,450</i>
Net profit on ordinary activities before tax	96	97
A.1 Adjustments for non-cash movements:	320	477
A.1.1 Amortisation, depreciation of fixed assets and abolished investment projects	411	395
A.1.2 Changes in provisions of operating activities	(54)	100
A.1.3 Profit from disposal of fixed assets	(141)	(10)
A.1.5 Net interest income	(3)	(6)
A.1.6 Other non-cash movements	-1	(2)
A* Net cash flow from operating activities before tax and changes in working capital	416	574
A.2 Working capital changes:	(1,580)	(876)
A.2 - of which entrusted resources	(1,514)	(122)
A.2.1 Changes in receivables and accrued income	(792)	(398)
A.2.1 - of which entrusted resources	101	(147)
A.2.2 Changes in short-term and long-term payables and deferred income	(775)	(449)
A.2.2 - of which entrusted resources	(1,615)	25
A.2.3 Changes in inventories	13	(29)
A** Net cash flow from operating activities before tax	(1,164)	(302)
A.** - of which entrusted resources	(1,514)	(122)
A.4 Interest received	3	6
A.5 Income tax on ordinary activities paid and additional taxes for previous periods	(79)	(110)
A*** Net cash flow from operating activities	(1,240)	(406)
<i>of which entrusted resources</i>	<i>(1,514)</i>	<i>(122)</i>
Cash flows from investing activities		
B.1 Acquisition of fixed assets	(330)	(538)
B.2 Proceeds from the sale of fixed assets	168	11
B*** Net cash flow from investing activities	(162)	(527)
Cash flows from financing activities		
C.1 Change in long- and short-term liabilities	-2	1
C.2 Changes in equity	(80)	(86)
C.2.1 Direct payments from funds	(80)	(86)
C.3 Impact of the spin off	(50)	-
C*** Net cash flow from financing activities	(128)	(85)
Net decrease in cash and cash equivalents	(1,530)	(1,018)
<i>of which entrusted resources</i>	<i>(1,514)</i>	<i>(122)</i>
Cash and cash equivalents as at the end of the year	6,377	7,907
<i>of which entrusted resources</i>	<i>3,814</i>	<i>5,328</i>

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY AS AT 31 DECEMBER 2016

(CZK million)	Share capital	Other capital funds	Revaluation of assets and liabilities	Reserve fund	Other funds from profit	Profit for the period	Total
As at 31 December 2015	3,588	6,276	12	359	16	241	10,492
Profit distribution	-	75	-	-	166	(241)	
Use of funds	-	-	-	-	(85)	-	(85)
Gains or losses from revaluation to fair value	-	-	(3)	-	-	-	(3)
Profit for the period	-	-	-	-	-	73	73
As at 30 June 2016	3,588	6,351	9	359	97	73	10,477
Impact of spin-off	-	(244)	-	-	(1)	(6)	(251)
As at 1 July 2016	3,588	6,107	9	359	96	67	10,226
Profit distribution	-	67	-	-	-	(67)	-
Use of funds	-	(2)	-	-	(79)	-	(81)
Gains or losses from revaluation to fair value	-	-	3	-	-	-	3
Profit for the period	-	-	-	-	-	91	91
As at 31 December 2016	3,588	6,172	12	359	17	91	10,239

NOTES TO THE FINANCIAL STATEMENTS FOR THE PERIOD OF SIX MONTHS ENDED 31 DECEMBER 2016

1. GENERAL INFORMATION

1.1. Introductory information about the Company

Česká pošta, s. p. ("the Company" or "Česká pošta") is a state-owned enterprise. It is a legal entity conducting its business activities using assets of the Czech government under its own name and on its own account. The founder of the Company is the Czech State. The Company was established on 1 January 1993 and the founder was then represented by the Ministry of Transport and Communications of the Czech Republic. As at 31 December 2016 and 30 June 2016, the role of the founder of the Company under the government's name was carried out by the Ministry of Interior of the Czech Republic. As at 31 December 2016, the Company had its registered office at Prague 1, Politických vězňů 909/4, the Czech Republic. The Company's identification number is 471 14 983 and it is registered in the Commercial Register of the Municipal Court in Prague, section A, insert no. 7565. Česká pošta is a business entity pursuant to Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

The Company's activities are regulated by the Czech Telecommunication Office ("CTO").

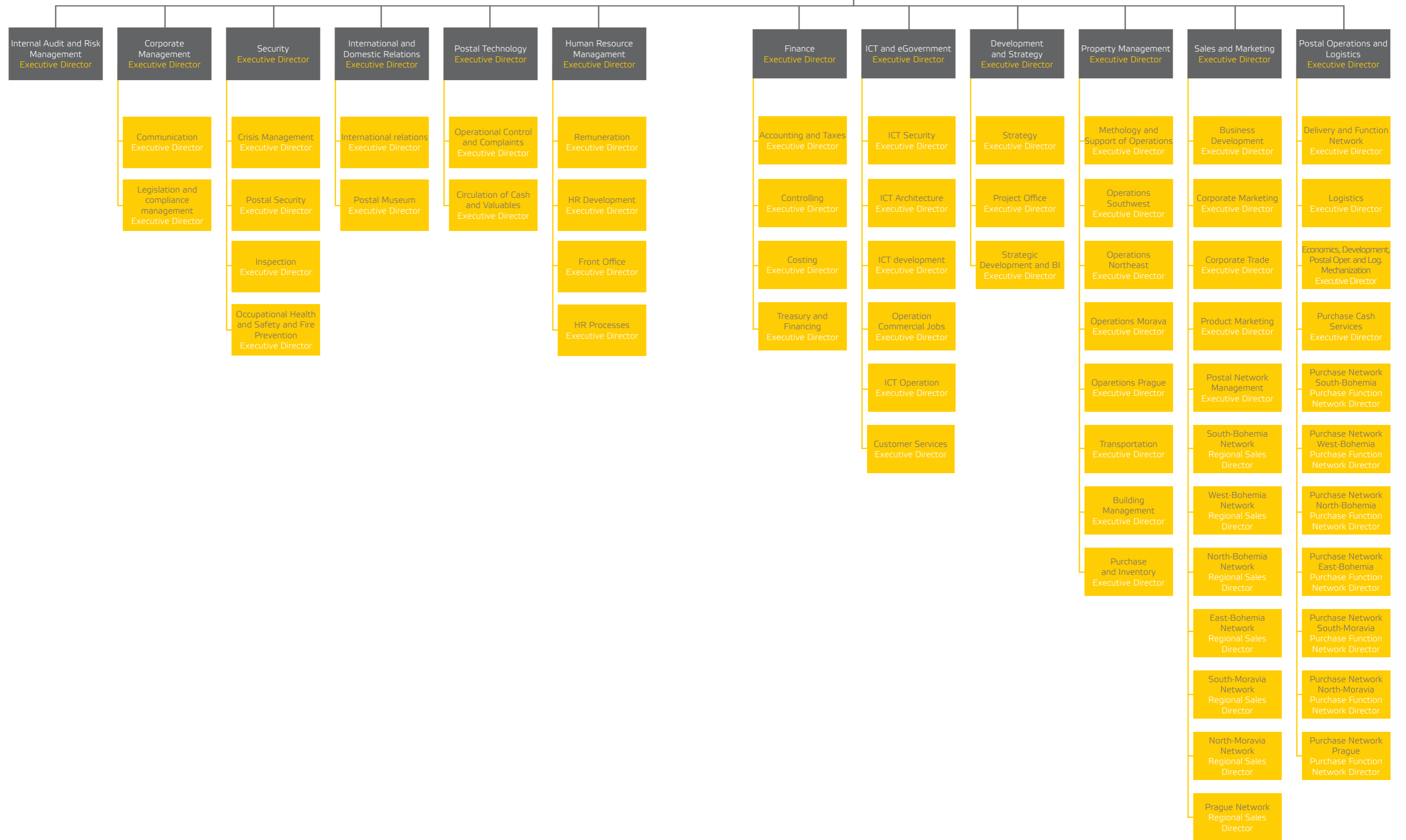
The main business activities of the Company are as follows:

- provision of postal services,
- provision of international postal services,
- provision of services of central procurement for government (public) administration.

The corporate bodies of the Company are the Director General and the Supervisory Board. The Director General is the Company's statutory body.

Česká pošta, s.p.
Director General

Organisational structure as at 31 December 2016 was as follows:



Top management of the Company as at 31 December 2016 was as follows:

Top management of the Company	Position	Date of appointment	Entered in the Commercial Register
Martin Elkán Vít Bukvic	Director General	13 June 2014	1 July 2014
Marek Jánský	Deputy Director General, Chief Director of Postal Operations and Logistics Division	1 January 2014	22 January 2014
Jan Foubík	Deputy Director General, Chief Director of Finance Division	1 July 2014	25 August 2014
Pavel Chyla	Chief Director of Trade and Marketing Division	1 July 2014	
Aleš Pospíšil	Chief Director of ICT and e-Government Division	14 July 2014	
Ondřej Škorpil	Chief Director of Property Management Division	1 September 2015	
	Director of Development and Strategy Division	1 December 2016	

The following information was also entered in the Commercial Register as at 31 December 2016:

Management of the Company	Position	Date of appointment	Entered in the Commercial Register
Petr Šlechta	Deputy Director General, Director of Security	21 March 2016	19 April 2016

No changes occurred in top management of the Company between the balance sheet date and the date of preparation of the financial statements.

Members of the Supervisory board as at 31 December 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Jiří Nováček	First vice chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Soňa Lavičková	Member
Jiří Havlíček	Member
Jaroslav Strouhal	Member
Ľudovít Gulázsi	Member
Oldřich Černoch	Member
Jan Kasal	Member
Bohumila Mäsiarová	Member
Jiří Zimola	Member
František Lukl	Member
Josef Zedník	Member

Members of the Supervisory board as at 30 June 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Jiří Nováček	First vice chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Soňa Lavičková	Member
Jiří Havlíček	Member
Jaroslav Strouhal	Member
Ľudovít Gulázsi	Member
Oldřich Černoch	Member
Jan Kasal	Member
Bohumila Mäsiarová	Member
Jiří Zimola	Member
František Lukl	Member (since 4 January 2016)
Josef Zedník	Member (since 31 March 2016)

Members of the Strategy and Finance Committee of the Company as at 31 December 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Štěpán Grochal	Member
Lubomír Krejsa	Member
Oldřich Černoch	Member

Members of the Audit Committee of the Company as at 31 December 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Lubomír Krejsa	Member
Oldřich Černoch	Member

Members of the Strategy and finance Committee of the Company as at 30 June 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Štěpán Grochal	Member
Lubomír Krejsa	Member
Oldřich Černoch	Member

Members of the Audit Committee of the Company as at 30 June 2016 were as follows:

Name	Position
Jan Mareš	Chairman
Lubomír Krejsa	Member
Oldřich Černoch	Member

The Company's mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act No. 29/2000 Coll., on Postal Services, as amended („the Postal Services Act“). The Company holds a licence to provide postal services in accordance with paragraph 19; the Company also holds the licence in accordance with paragraph 21 of the Postal Services Act. The postal licence was granted to the Company until 31 December 2017.

The content of the postal licence establishes the duty to secure the general availability of basic postal services in the whole territory of the Czech Republic.

The rights and obligations of the postal services and the postal licence holder are covered by Title V of the Postal Service Act. According to the law, the Company must annually publish and submit complete and truthful information to CTO about the results of providing and securing basic services and an evaluation of the fulfilment of the quality parameters. The method, form and content of published information are determined by implementing the legislation of CTO (decrees). Czech Telecommunication Office annually publishes the summary report on the obligations fulfilment entrusted to the postal licence holder.

The deficiencies identified in the CTO Report for 2015 are being remediated by the Company on a continuous basis. No material financial claims of the CTO or other entities against the Company, which could be enforceable by law, were identified in the Report.

Description of the branch ICT Services

Based on the Czech Government Resolution no. 224 dated 4 April 2012 relating to the provision of selected information and communication technologies services used by the state administration, and based on the acknowledgment of the Supervisory Board of Česká pošta, s. p., a decision of the Director General of the Company was issued relating to the establishment of the branch within Česká pošta, s. p., in order to effectively ensure the provision of ICT services to the state administration of the Czech Republic.

Based on decision no. MV-85243-1/NV-2016 dated 15 June 2016 of the Ministry of Interior of the Czech Republic acting as the Company's founder, and in accordance with the Resolution no. 413 dated 11 May 2016 of the government of the Czech Republic, the spin-off of part of the Company was approved in accordance with the Act no. 77/1997 Sb., on state enterprise, a, followed by its merger with the state enterprise Národní agentura pro komunikační a informační technologie, s.p., founded by the Ministry of Interior of the Czech Republic on at 1 February 2016, as at 1 June 2016, which is the decisive date of the spin-off.

The spin-off of the branch ICT Services and its merger with the state enterprise Národní agentura pro komunikační a informační infrastrukturu, s.p. was entered in the Commercial Register on 1 July 2016.

Overview of the span-off assets and liabilities as at 1 July 2016

	(CZK million)
Fixed assets	33
Inventories	26
Long-term receivables	15
Short-term receivables	288
Short-term financial assets	50
Accruals	61
Provisions	96
Current liabilities	126

2. BASIS OF PREPARATION

The financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for entrepreneurs applicable for 2016. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention except as disclosed below.

2.1. Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure. Individual items of the balance sheet and income statement for the comparative period were already presented in accordance with this amendment

3. ACCOUNTING POLICIES

The valuation methods applied by the Company during preparation of the ordinary financial statements as at 31 December 2016 were as follows:

3.1. Intangible fixed assets

Purchased intangible fixed assets are recorded at cost, which includes all costs related with its acquisition.

Intangible fixed assets with a unit cost more than CZK 40 thousand and estimated useful live is more than one year are amortised using the straight-line method over their estimated useful life in accordance with the Company's amortisation plan, i.e. over 4 years, in exceptional cases, the useful life is set for longer period (e.g. according to the useful life of the related equipment).

Intangible fixed assets with unit cost less than CZK 40 thousand are expensed upon acquisition and only

The Company's ordinary financial statements as at 31 December 2016 were prepared for the period of six months ended 31 December 2016 due to the spin-off of a part of the Company (the branch ICT services) and its subsequent merger with the state enterprise Národní agentura pro komunikační a informační infrastrukturu, s.p. 1 July 2016 was the decisive date of the spin-off . The Company prepared extraordinary financial statements for the period of six months ended 30 June 2016.

in the extraordinary financial statements as at 30 June 2016.

carried in the operational evidence or off balance sheet.

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life.

The cost limit for the capitalisation of the technical improvements of intangible fixed assets is CZK 40 thousand. A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

3.2. Tangible fixed assets

Acquired tangible fixed assets are initially recorded at cost, which includes all costs related with its acquisition. The Company does not include loan interest in the acquisition cost of tangible fixed assets.

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded into other capital funds. The replacement cost of these assets is based on expert opinion or on market prices of comparable fixed assets in terms of their wear and tear and performance. The valuation of tangible fixed assets is decreased by subsidies for the acquisition of assets.

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life.

A provision for impairment is established when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

A provision is created mainly in cases of projects whose realisation is uncertain or in cases of expected sales if the expected sales price net of transaction cost is lower than the book value disclosed in the records.

Buildings, halls and constructions
Plant, machinery and equipment
Motor vehicles
Furniture and fittings
Handling equipment
Computers and related equipment

Technical improvement expenses of tangible fixed assets increase the acquisition costs if their expenses exceed the total amount of CZK 40 thousand and technical improvements are put into use in that year. Ordinary repairs and maintenance expenses are expensed as incurred.

Tangible fixed assets with a unit cost below CZK 40 thousand are treated as inventory and are expensed upon consumption and are only carried in the operational record. The exceptions are selected low value assets – selected information technology and postal technology, which is also considered as tangible fixed assets.

Tangible fixed assets with a unit cost above CZK 40 thousand and selected low value tangible assets with an estimated useful life of more than one year are depreciated using the straight-line method over their estimated useful lives of assets. The estimated useful lives of tangible assets are as follows:

Number of years

20 – 45
4 – 15
6 – 20
10 – 20
6 – 20
3 – 7

3.3. LONG-TERM FINANCIAL ASSETS

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

3.3.1 Investments in subsidiaries

Investments in subsidiaries represent ownership interests in enterprises that are controlled by the Company (“the subsidiaries”).

Investments in subsidiaries and associates are recorded at cost less a provision for diminution in value.

3.3.2 Other securities and investments

The Company classifies securities and investments, other than investments in subsidiaries and associates, as held-to-maturity or available-for-sale.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, unless the date of maturity falls within 12 months of the balance sheet date.

Securities and investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, in which case they are included in current assets.

All securities and investments are initially recorded at cost, including transaction costs. Held-to-maturity investments are subsequently accounted for at amortised cost. Other investments are subsequently

3.4. Inventories

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied for all disposals.

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

3.5. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing

3.6. Short-term financial assets

Short-term financial assets consist of securities available for sale. Securities available for sale are securities held for the purpose of effecting

accounted for at fair value. The fair value is determined as the market value of the securities as at the balance sheet date. Measurement of non-traded securities is based on management estimates.

Gains and losses arising from changes in the fair value of trading instruments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognised as a movement in equity and recognised into the income statement on realisation or when permanently impaired.

A provision for impairment is established for held-to-maturity investments when their carrying value is greater than their estimated recoverable amount.

For long-term contracts, the carrying value of work-in-progress also includes the allocation of administrative overheads. Subcontracted supplies received and other direct costs are expensed and simultaneously recorded in work-in-progress against revenues. Subcontracted supplies are valued at cost. Work-in-progress is derecognised once the respective revenues are recognised.

analysis and an individual evaluation of the credit worthiness of the customers.

transactions on the public market in order to make a profit from price fluctuations in the short-term, but with a maximum period of one year.

3.7. Cash and cash equivalent

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets. Cash equivalents also include Entrusted

3.8. Entrusted resources

In some cases, the financial resources of third parties are temporarily entrusted to the Company in order to perform specific transactions (services for clients of Československa obchodni banka, a.s. (hereinafter "ČSOB, a.s."), collection of radio and television licence fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for the

3.9. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the first day of the current calendar month as published by the Czech National Bank.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank

3.10. Equity

The Company's financial position and funds are being managed in accordance with Act No. 77/1997 Coll., on State-Owned Enterprise, as amended. Pursuant to this Act, the registered capital of the Company corresponds to the business capital to which the Company has a title on its establishment. The share capital includes both registered and non-registered capital in compliance with accounting legislation. Other capital funds are created in accordance with the accounting standards for entrepreneurs.

In addition, the Company creates a reserve fund from profit, which was created gradually up to 10% of the share capital.

resources – see also Note 3.8. – Entrusted resources.

The Company prepared a Cash-flow statement using the indirect method.

The outflow of funds in connection with the spin-off of a part of the Company is presented within cash flows from financing activities.

mobile operators, customs declarations, etc.). These resources are recorded in a separate accounting group apart from the Company's own financial resources, and are disclosed on separate lines in the balance sheet. The Company charges an agreed commission for performing the specific transactions, which is recognised within its own resources using the accrual principle in the same period to which they relate.

as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

The Company creates a cultural and social fund ("FKSP"). The creation and use of this fund is being governed by the section 16 of Decree No. 114/2002 Coll., in connection with section 3 of Decree No. 310/1995 Coll., on Cultural and Social Needs Fund, as amended (including changes under Decree No. 167/1997 Coll. and 314/1999 Coll.) and the use of FKSP is governed by section 4 to 10 of Decree No. 310/1995 Coll.

3.11. Provisions

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.

3.12. Employment benefits

The Company creates a provision for untaken holidays. The Company creates an estimated payable for rewards and bonuses to employees who became entitled to payment as at the balance sheet date.

The Company creates a provision for the rewards and bonuses to employees who did not become entitled to payment as at the balance sheet date.

3.13. Expenses and revenue recognition

Revenues and expenses are recognised on an accrual principle in the period to which they relate. Sales are recognised as at the date the services are rendered (with the exceptions disclosed below) or goods are sold to customers and are stated net of discounts and value added tax.

Sales of postal services realised in cash through sales of postal stamps are recognised when the stamps are sold. The Company does not have the necessary information that would allow it to record income

from these sales on an accrual basis in respect to the accounting periods in which customers actually use the purchased postal stamps. The Company's management believes that the costs of collecting such information relating to the time allocation needed for these services realised through sales of postal stamps would exceed the benefits of such information.

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

3.14. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognised in the balance sheet. The Company activates the respective value of leased asset in the period when the lease

agreement is being concluded and the purchase option is exercised. Lease payments made in advance are accrued over the lease period.

3.15. Income tax

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

payable" if the tax liability exceeds the tax advances paid. Otherwise, the amount exceeding the tax liability as a result of the advances paid is recorded as "Taxes and state subsidies receivable".

The tax expense is disclosed in the profit and loss as tax from ordinary activities.

3.16. Deferred tax

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 asset

is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

3.17. Related parties

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

- > the State represented by the Company's founder, government institutions, state-owned enterprises and companies, and other legal entities, where the state has significant influence, while the nature of the relationship is also decisive and not merely the legal form;

- > members of the Company's statutory, supervisory bodies and management and related parties to these members, including companies or institutions or businesses, where these members and parties have controlling, proportional or significant influence.

Significant transactions and balances with related parties, related to other than the main postal services are disclosed in Note 22 – Related party transactions.

3.18. 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.

4. FIXED ASSETS

4.1. Intangible fixed assets

Cost

(CZK million)	Opening balance	Impact of spin-off	Additions *)	Disposals *)	Closing balance
Software	1,867	(4)	76	(223)	1,716
Royalties	2	-	-	-	2
Other intangible fixed assets	68	-	-	-	68
Intangible fixed assets in the course of construction	86	-	92	(73)	105
Total as at 31 December 2016	2,023	(4)	168	(296)	1,891
Total as at 30 June 2016	2,120	-	42	(139)	2,023

*) Additions and Disposals also include transfers of intangible fixed assets in the course of construction.

Accumulated amortisation and net book value

(CZK million)	Opening balance of accumulated amortisation	Impact of spin-off	Additions	Disposals	Closing balance of accumulated amortisation	Allowance	Closing balance
Software	(1,636)	1	(48)	224	(1,459)	(20)	237
Royalties	(1)	-	-	-	(1)	-	1
Other intangible fixed assets	(63)	-	(2)	-	(65)	-	3
Intangible fixed assets in the course of construction	-	-	-	-	-	-	105
Total as at 31 December 2016	(1,700)	1	(50)	224	(1,525)	(20)	346
Total as at 30 June 2016	(1,764)	-	(43)	107	(1,700)	(20)	303

4.2. Tangible fixed assets

Cost

(CZK million)	Opening balance	Impact of spin-off	Additions *)	Disposals **)	Closing balance
Lands	866	-	-	(5)	861
Buildings	11,474	-	108	(79)	11,503
Plant, machinery and equipment	5,151	(85)	134	(93)	5,107
Motor vehicles	1,696	(18)	65	(142)	1,601
Furniture and fittings	700	-	7	(7)	700
Assets below CZK 40 thousand	160	(6)	102	-	256
Other tangible assets	430	-	-	(21)	409
Work of art	4	-	-	-	4
Tangible fixed assets in the course of construction	259	-	580	(418)	421
Advances paid for tangible fixed assets	5	-	-	(5)	-
Total as at 31 December 2016	20,745	(109)	996	(770)	20,862
Total as at 30 June 2016	20,855	-	316	(426)	20,745

*) Additions also includes transfers of tangible fixed assets in the course of construction.

**) Disposals of tangible fixed assets in the course of construction also include depreciation of lost investments.

Accumulated depreciation and net book value

(CZK million)	Opening balance of accumulated amortisation	Impact of spin-off	Additions	Disposals	Closing balance of accumulated amortisation	Allowance	Closing balance
Lands	-	-	-	-	-	(1)	860
Buildings	(5,127)	-	(140)	39	(5,228)	(18)	6,257
Plant, machinery and equipment	(4,043)	61	(149)	93	(4,038)	(14)	1,055
Motor vehicles	(1,437)	17	(41)	140	(1,321)	-	280
Furniture and fittings	(560)	-	(12)	6	(566)	-	134
Assets below CZK 40 thousand	(10)	1	(19)	-	(28)	-	228
Other tangible assets	(430)	-	-	21	(409)	-	-
Work of art	-	-	-	-	-	-	4
Tangible fixed assets in the course of construction	-	-	-	-	-	(7)	414
Advances paid for tangible fixed assets	-	-	-	-	-	-	-
Total as at 31 December 2016	(11,607)	79	(361)	299	(11,590)	(40)	9,232
Total as at 30 June 2016	(11,490)	-	(352)	235	(11,607)	(64)	(9,074)

Based on the stock-count performed, the Company adjusted the carrying value of the tangible fixed assets for diminution in value through provisions (see Note 8 – Provisions).

During the accounting period ended at 31 December 2016, the Company did not receive any material fixed assets free of charge.

As at 31 December 2016 and 30 June 2016 besides the easement in favour of PCS – Praha Center s.r.o. created in relation to the post office building at Jindřišská, Prague 1 based on an agreement dated 16 April 1997, which is in force until 31 March 2042,

the Company has another 359 (366) easements, or similar rights to tangible fixed assets (rights for sewage pipeline, water pipeline, power and gas 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 in favour of the communal and municipal authorities, Telefónica O2 Czech Republic, a.s. and electricity producers and distributors.

As at 31 December 2016, or as at 30 June 2016, the Company did not receive an investment subsidy.

The acquisition price of the shares as at 31 December 2016 and 30 June 2016 is final. Due to the negative EBITDA of the CIT division for the year 2013, 2014 and 2015, the Company did not transfer any additional payment of the purchase price in 2014, 2015 and 2016.

The emphasis of matter related to the negative equity of CZK 16 million arises from the financial statements of Česká pošta Security s.r.o. as at 31 December 2016

The Company provided this company with a general credit line as at 31 December 2016. The total credit line provided amounted to CZK 35 million as at 31 December 2016. As at 31 December 2016, Česká

pošta Security, s.r.o. drew the amount of CZK 25 million. Information concerning interest on the loan is disclosed in Note 22 – Related party transactions.

The intrinsic value of shares states the Company's share in the equity capital of the controlled company as at 31 December 2016, respectively as at 30 June 2016.

Other long-term securities and investments as at 31 December 2016 comprise government bonds issued by Ministry of Finance of the Czech Republic maturing in 2023, available-for-sale investments, valued at fair value of CZK 219 million as at 31 December 2016 (as 30 June 2016: CZK 216 million).

4.3. Long-term financial assets

As at 31 December 2016 and 30 June 2016, the Company exercised a controlling interest in Poštovní tiskárna cenin Praha, a.s., with its registered office at

Ortenovo náměstí 542/16, Prague 7 – Holešovice, in which it held 16,903 shares out of the total 33,124 shares of a nominal value of CZK 1 thousand.

Poštovní tiskárna cenin Praha, a.s. Share (%)	31 December 2016 51,03% (CZK million)	30 June 2016* 51,03% (CZK million)
Total assets	90	95
Equity	85	88
Profit or the period	-	3
Acquisition cost of the shares	18	18
Nominal value of the shares	17	17
Value of the shares	47	47

* Data as at 30 June 2016 were taken from perpetual unaudited accounting records of the subsidiary without the impact of the period closing operations. The subsidiary did not prepare extraordinary financial statements as at 30 June 2016.

The Company did not provide Poštovní tiskárna cenin Praha, a.s., over which it exercises significant influence, with any loans or borrowings as at 31 December 2016 nor 30 June 2016.

The Company also exercised significant influence as at 31 December 2016 in Česká pošta Security, s.r.o. (formerly ABAS CIT Management s.r.o.) with its registered office at Politických vězňů 909/4, Prague 1,

in which it held 100% of the shares.

The shares were transferred to the Company on 31 August 2012.

Česká pošta Security, s.r.o. Share (%)	31 December 2016 100,00% CZK million	30 June 2016* 100,00% CZK million
Total assets	41	38
Equity	(16)	(27)
Profit for the period	16	5
Acquisition cost of the shares	7	7
Intrinsic value of the shares	-	-

* Data as at 30 June 2016 were taken from perpetual unaudited accounting records of the subsidiary without the impact of the period closing operations. The subsidiary did not prepare extraordinary financial statements as at 30 June 2016.

5. INVENTORIES

The Company created a provision for inventories to adjust the value of the inventory (see Note 8 – Provisions).

6. RECEIVABLES

As at 31 December 2016 and as at 30 June 2016, receivables due after more than 5 years amounted to CZK 2 million and CZK 2 million, respectively, and outstanding overdue receivables amounted to CZK 309 million and CZK 335 million, respectively. Outstanding overdue receivables are not secured. The Company wrote off its receivables during the period of six months ended as at 31 December 2016 and during the period of six months ended 30 June 2016 in the amount of CZK 30 million and CZK 6 million, respectively, due to their unrecoverable nature, the dismissal of a bankruptcy petition and the settlement or non-recovery of debts in bankruptcy proceedings.

Advances for income tax of CZK 48 million paid by the Company as at 31 December 2016 (as at 30 June 2016: CZK 3 million) are netted off with the provision for income tax of CZK 22 million as at 31 December 2016 (as at 30 June 2016: CZK 42 million).

Receivables from related parties are described in Note 22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2016 amounted to CZK 933 million and to CZK 672 million as at 30 June 2016. Operating records on incoming mail not yet confirmed by individual postal offices were recorded as estimated receivables with the double entry in Sales of own products and services, based on operating statistics. As at 31 December 2016, respectively as at 30 June 2016, estimated receivables also included the compensation of net cost of providing basic postal services in the amount of CZK 1,300 million, respectively CZK 871 million - see note 7 - Net cost of universal service. As at 31 December 2016, this item is classified as long-term, since it is a process that takes a longer period of time.

7. NET COSTS OF UNIVERSAL SERVICE

The Company as a postal license holder, as defined by Section 21 paragraph 2 of the Postal Service Act, is obliged to ensure the universal availability of basic services listed in Section 3 paragraph 1 of the Postal Service Act in the whole territory of the Czech Republic (ie. Postal services obligation). The Company is obliged to fulfil the postal services obligation (Section 33 paragraph 1 point a) of the Postal Service Act), in accordance with the basic quality requirements set out in Decree no. 464/2012 Coll., of 17 December 2012, establishing specifications for each basic service and basic quality requirements for their provision.

If, due to the obligation of providing basic services the postal licence holder incurs a net costs representing an unfair financial burden for the postal licence holder these costs are reimbursed in such a way as stipulated by the Postal Services Act. The CTO's process of calculating the net cost of providing basic services is further specified in Decree no. 466/2012 Coll. of 17 December 2012 on the procedure of the Czech Telecommunication Office (CTO) when calculating the net cost of fulfilling obligations to provide basic services.

The legislation governing the manner of determining and financing the net cost of providing basic services is based on third postal directive.

The third postal directive was transposed to the Czech legislation by Law no. 212/2013 of 20 June 2013 (the so-called: liberalisation amendment of the Postal Services Act). According to the Postal Service Act, as amended by the liberalisation amendment, net costs representing an unfair financial burden should be funded through the account for financing of net costs (the so called compensation fund) to which, under the Act, individual postal operators should contribute according to their share on the postal services market. The Company should be compensated for the net cost to the amount corresponding to the proportion of the market shares of other entities operating in the postal services market.

In accordance with the accrual-based principle for revenues and expenses, revenues from the compensation should always be recognised in the year when the related costs were incurred. In the years 2013 and 2014 the revenues were not recognised as of the date of preparation of the respective financial statements the amounts of net costs were not verified by CTO in accordance with the applicable legislation and the Company's management was not able to calculate a sufficiently accurate estimate of the compensation of net costs for provision of the universal service.

In March 2015, the CTO verified the amount of net cost for providing basic services for the year 2013 in the amount of CZK 947.8 million, or CZK 753.1 million after deducting the net costs that do not represent an unfair financial burden. In February 2016, CTO verified the amount of net cost of basic services for the year 2014 in the amount of CZK 851.5 million, or 657.2 million after deducting net costs that do not represent an unfair financial burden.

Market shares that are crucial for the amount of contributions to the compensation fund, and therefore also for the final amount of compensation for the years 2013 and 2014, which is the responsibility of the CTO, have not been determined so far. In order to determine the market shares crucial for determining the value of compensation, it is essential to define the potential group of contributors to the compensation fund based on the types of activities they carry out in the market. The determination of the group of mandatory contributors to the compensation fund and the amount of their contribution became one of the topics of the investigation conducted by the European Commission in connection with the compensation fund regime. With regards to possible alternative outcomes of this issue, the Company's management was not able with a sufficient level of certainty to quantify the amount of the claim, since the estimates ranged between CZK 1 million and CZK 154 million for the year 2013 and CZK 1 million and CZK 135 million for the year 2014. As a result, management of the Company decided not to recognise the entitlement to compensation for the years 2013 and 2014 in the 2015 financial statements, nor in the extraordinary financial statements for the first half of 2016.

In July 2016, resulting from the preliminary investigation of the compensation fund regime in the years 2013 to 2014, the European Commission raised several questions, which resulted in a recommendation that the compensation fund should be cancelled. The Commission also informally indicated that, if the fund regime is abolished, the approval of direct payments from the state budget could be viable. Among the key observations on the of compensation fund mechanism were the lack of a definition for substitutable services in the Act or any other legal document; therefore, it is not possible to clearly determine the potential group of contributors to the compensation fund, possible incompatibility with amendments to Czech legislation (the so-called postal directive), or SGEI (Services of General Economic Interest) framework from 2012, or the absence of a ceiling for the contribution paid into the fund and therefore to require disproportionately high contributions from postal operators.

On 12 October 2016, following the European

Commission investigation, the Czech government acknowledged in its resolution the impossibility of applying the Act on the postal services where it relates to financing of net costs representing an unfair financial burden through the compensation fund and it asked the Minister of Industry and Trade together with Minister of Interior, 1st Deputy Prime Minister for the Economy, and Minister of Finance to draft a proposal on how to prevent potential damage and minimise the risks associated with the decision of not applying the provisions of the Postal Service Act on the years 2013 and 2014, on the basis of which the net cost of providing basic services representing an unfair financial burden should be paid to the postal license holder, i.e. CP through a compensation fund.

During the course of negotiations between the Minister of Interior and 1st Deputy Prime Minister and Minister of Finance on 2 March, 2017 there a consensus on paying the net costs from the state budget was reached. The payment would be limited to a total of CZK 800 million - for both years would be realised in three stages: CZK 200 million in 2018, CZK 300 million in 2019 and CZK 300 million in 2020.

The Company's management considers the public political promise on the CZK 800 million compensation for net costs for the provision of basic services for the years 2013 and 2014, from the state budget, as an increased security for the compensation for the years 2013 and 2014. However, the actual payment of CZK 800 million depends on the successful notification of the new mechanism for reimbursing net costs by the European Commission and an amendment of the Postal Services Act. Until the legislative process is completed, the existing legislation on financing the net costs for the years 2013 and 2014 is valid i.e. requiring the payments through the so-called compensation fund.

The uncertainty regarding the correct quantification of the claim prevails. From the updated data for calculating market shares of individual postal operators gathered in administrative proceedings by the Czech Telecommunication Office, it seems that the total maximum market share of other operators in the postal market is only about 12%. That would mean that the Company is entitled to a compensation amounting to a maximum of about CZK 170 million in total for both years. Also, it is valid that the operators of postal services whose market shares were included by the CTO in the calculation (providers of i.e. package services) could dispute by the way of administrative or judicial procedures with a higher or lower probability of success that their services do not have the character of postal services in the meaning of the law of postal services and therefore indirectly they realize that they

must contribute to the compensation fund. Therefore, it is realistic to expect a further market share reduction of other operators in the postal services market.

Considering everything mentioned above, the Company's management concluded that, as at balance sheet date, it is still not possible to reliably estimate the amount of entitlement for the years 2013 and 2014 and decided therefore not to recognise the entitlement for the years 2013 and 2014. Regarding the entitlements for 2015 and 2016, effective from 1 January 2016 according to Act no. 319/2015 Coll amending Act 29/2000 Coll. on postal services and amending other laws (Postal Services Act), as amended, and Act no. 77/1997 Coll., on State Enterprise, as amended, the change in the method of financing net costs for the period beginning on calendar year 2015 came into effect. The method of financing net costs was replaced by a payment from the state budget in the amount of the net cost for providing the basic services representing an unfair financial burden, in the amount verified by CTO according to § 34b Sec. 6 of the Postal Services Act, but no more than:

- > For the year 2015 CZK 700 million;
- > For the year 2016 CZK 600 million;
- > For 2017 and subsequent years CZK 500 million.

Other net expenses are not considered to be an unfair financial burden.

The actual method of determining the net cost of basic services has not been affected by the change in the law.

In 2015, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by law, CZK 700 million. As at the date of the financial statements, the decision of the Czech Telecommunications Office concerning the verification of the net costs of universal service for 2015 was not yet available. Management is however convinced that, also supported by informal communication with the Czech Telecommunications Office, the amount of the verified cost will not be lower than the estimated receivable recognised.

Also in 2016, the Company's management is confident that the verified amount of expenses for 2016 will be above the upper limit of CZK 600 million as given by law. The estimated receivable of CZK 171 million was recognised in the extraordinary financial statements for the first half of the year. In the second half of the year, the additional CZK 429 million was recognised as the anticipated receivable, together totalling CZK 600 million.

As a part of the profit and loss statement, the revenue is presented on a separate line III.3.1. Compensation for net costs from the provision of basic postal services within other operating income. In the balance sheet, the amount of compensation for net costs for the provision of universal service for 2015 and 2016 is presented within long-term receivables under the line item Estimated Receivables C.II.1.5.3. since the valid legislation does not stipulate the due date and with respect to the existing mechanism regarding

8. PROVISIONS

Provisions reflect a temporary decrease in the value of assets (disclosed in Note 4 – Fixed assets, 5 – Inventories and 6 – Receivables).

Provisions for: (CZK million)	Balance as at 1 January 2016	Creation	Release / use	Balance as at 30 June 2016	Creation	Release / use	Balance as at 31 December 2016
Intangible fixed assets	21	-	(1)	20	1	(1)	20
Tangible fixed assets	66	-	(2)	64	-	(24)	40
Long-term financial assets	7	-	-	7	-	-	7
Inventories	60	3	(1)	62	8	(1)	69
Receivables - other	138	26	(15)	149	38	(41)	146
Total tax non-deductible provisions	292	29	(19)	302	47	(67)	282
Receivables - legal	38	3	(6)	35	26	(29)	32
Total tax deductible provisions	38	3	(6)	35	26	(29)	32
Total	330	32	(25)	337	73	(96)	314

Legal provisions are created pursuant to the Reserves Act no. 593/1992 Coll. as amended and are deductible

9. SHORT-TERM FINANCIAL ASSETS AND CASH EQUIVALENTS

The main bank used by the Company is Československá obchodní banka, a.s., 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 enabling the Company to have a negative balance is agreed for the set of accounts with both the Company's own and entrusted resources (see Note 14 – Bank loans and overdrafts).

compensation for net costs for the provision of universal service the Company expects to receive the payment after more than one year.

The compensation mechanism for the years 2015 and 2016 is also subject to the notification process of the European Commission, which was not completed by the date on which the financial statements were completed.

for tax purposes; other provisions are not deductible for tax purposes.

ČP did not have as at 31 December 2016, respectively 30 June 2016 any short-term securities nor shares. The outflow of funds in connection with the spin off of business entity is presented within cash flows from financing activities.

10. EQUITY

As at 31 December 2016, respectively as at 30 June 2016, share capital amounted to CZK 3,588 million without change.

Other capital funds mainly comprise contributions from profit or gifts received.

The revaluation differences from the revaluation of assets and liabilities include the revaluation of available-for-sale securities at fair value.

The reserve fund has been created gradually up to the level of 10% of share capital.

Other funds from profit include the cultural and social fund.

Profit for the period of six months ended 30 June 2016 was distributed on 17 January 2017 in accordance with the founder's approval. The amount of CZK 67 million was transferred to other capital funds.

The Company is part of the whole of the government consolidation.

11. PROVISIONS

(CZK million)	Balance as at 1 January 2016	Creation	Release /use	Balance as at 30 June 2016	Impact of spin-off	Creation	Release /use	Balance as at 31 December 2016
Social and health insurance	116	74	(72)	118	(6)	128	(102)	138
Untaken holiday	29	119	-	148	(5)	17	(114)	46
Provision for severance pay incl. competition clauses	48	11	(11)	48	(7)	40	(40)	41
Non-claimable component of salaries	202	72	(106)	168	(6)	265	(162)	265
Other	232	47	(41)	238	(72)	45	-	211
Total tax non-deductible provisions	627	323	(230)	720	(96)	495	(418)	701
Total	627	323	(230)	720	(96)	495	(418)	701

The provision for social and health insurance is created mainly for contributions to the unpaid part of contracted wages, profit-related bonuses, untaken holiday and other salary benefits.

A provision for the compensation for severance pay and competition clauses was created in connection with the gradual reduction in the number of employees in subsequent years, which has been approved by the Company's management and then communicated to the employees and trade unions.

Other provisions were primarily created to cover risks known as at 31 December 2016 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

The Company also created a provision for the non-claimable component of salaries which is composed of expected extraordinary wage bonuses estimated by the Director General and an additional subjective component of salaries including individual agreed salary bonuses.

12. LONG-TERM LIABILITIES

Long-term liabilities are represented by the deferred tax liability as at 31 December 2016 and 30 June 2016, which is described in Note 16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 16 million and CZK 22 million as at 31 December 2016 and 30 June 2016, respectively.

These are mainly part of liabilities concerning retentions – given items are recognised on the line C.I.4 Trade payables.

As at 31 December 2016 and 30 June 2016, the Company did not recognise liabilities that are due after more than 5 years.

13. SHORT-TERM LIABILITIES

The Company's overdue short-term liabilities as at 31 December 2016 and 30 June 2016 amounted to CZK 13 million and CZK 8 million, respectively.

The Company had no short-term or long-term liabilities bearing a security or lien in favour of a creditor as at 31 December 2016 and 30 June 2016.

Liabilities to related parties are described in Note 22 – Related party transactions.

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 1,027 million as at 30 June 2016 and to CZK 1,015 million as at 30 June 2016. Estimated payables also included quantity discounts, un-invoiced operating deliveries of services and energy, and estimated staff bonuses.

Trade payables decreased on a year-on-year basis mainly due to entrusted resources (see Note 24 – Entrusted resources).

Payables in respect of social insurance and health insurance amounted to CZK 350 million as at 31 December 2016 and to CZK 322 million as at 30 June 2016. These payables comprise unpaid wages for December 2016 and June 2016, which were paid at the beginning of 2017 and in July 2016.

The Company did not recognise any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2016 and 30 June 2016.

14. BANK LOANS AND OVERDRAFTS

14.1. Denominated in Czech Crowns

Bank	Terms and conditions	Account	Overall limit (CZK million)	As at 31 December 2016 (CZK million)	As at 30 June 2016 (CZK million)
KB, a.s.*	Global credit line effective interest rate: 0.0%	Own resources	2.2	-	-
ČSOB, a.s.	Global credit line effective interest rate: 0.00%	Own resources	100	-	-
ČSOB, a.s.*	Global credit line effective interest rate: 0.35%	Own resources	600	-	-
ČSOB, a.s.	Global credit line effective interest rate: 0.05%	Own resources	1,600	-	-

*) It can be drawn in foreign currency in the corresponding amount.

The global credit line from Komerční banka, a.s. allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2016 and 30 June 2016, the overdraft from Komerční banka, a.s. was not used. The global credit line from Komerční banka, a.s. ended in the second half of 2016.

A multi-purpose credit line from Československá obchodní banka, a.s. allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2016 and 30 June 2016, the loan was not used.

As at 31 December 2016 and 30 June 2016, the overdraft from Československá obchodní banka, a.s. was not used. This overdraft is secured by pledge on the Company's receivables from Československá obchodní banka, a.s. created under a Contract for the provision of services to Československá obchodní banka, a.s. by the Company.

The bank overdraft on the account of entrusted funds at Československá obchodní banka, a.s. was provided to ensure sufficient financial liquidity of the Company. The bank overdraft from Československá obchodní banka, a.s. was not used as at 31 December 2016 and 30 June 2016.

14.2. Denominated in EUR

Bank	Terms and conditions	Overall limit (EUR million)	31 December 2016 (EUR million) (CZK million)		30 June 2016 (EUR million) CZK million)	
ČSOB, a.s.	Bank overdraft EURIBOR 3months + 0.1 % p.a. – entrusted funds	5	1.2	34	1.2	32

The above-mentioned bank overdraft is exclusively used for cash operations of the banking services provided at selected post-office counters in EUR. No collateral was required for the bank overdraft.

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

15. ACCRUALS AND DEFERRED INCOME

Deferred income primarily includes prepaid postal fees for offsetting remote credit machines.

16. INCOME TAX

Analysis of the income tax expense

(CZK million)	Period of 6 months ended 31 December 2016	Period of 6 months ended 30 June 2016
Current tax expense	22	42
Deferred tax expense	(10)	(22)
Adjustment of prior year tax expense based on final CIT return	(7)	4
Total income tax expense	5	24

Analysis of current tax:

(CZK million)	Period of 6 months ended 31 December 2016	Period of 6 months ended 30 June 2016
Net profit before taxation	96	97
Non-taxable income	(56)	(21)
Difference between accounting and tax depreciation	(21)	10
Tax non-deductible expenses and changes in provisions of which:	126	133
> Changes of impairment	(20)	10
> Changes of provisions	77	93
> Other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	69	30
Gifts	(2)	-
Taxable income	143	219
Income tax rate	19%	19%
Calculated income tax	27	42
Tax relief (persons with disability or partial disability)	(5)	-
Current tax	22	42
Income tax expense from ordinary activities	22	42

The Company calculated the deferred tax asset/ (liability) using the 19% tax rate (for both periods, i.e. as at 31 December 2016 and 30 June 2016) and quantified as follows:

Deferred tax item	31 December 2016			30 June 2016		
	Base (CZK million)	Deferred tax asset (CZK million)	Deferred tax liability (CZK million)	Base (CZK million)	Deferred tax asset (CZK million)	Deferred tax liability (závazek mil. Kč)
Difference between accounting and tax net book value of fixed assets	(2,496)	-	(474)	(2,499)	-	(475)
Provisions	282	54	-	302	57	-
Other reserves	701	133	-	720	137	-
Total	(1,513)	187	(474)	(1,477)	194	(475)
Net deferred tax liability			(287)			(281)

17. LEASES

The Company leases fixed assets, which are not recognised in the balance sheet accounts (see Note 3.14 – Leases and Note 18 Assets and liabilities not recognised in the balance sheet).

The assets leased by the Company in the form of operational leases amounted to CZK 145 million

18. ASSETS AND LIABILITIES NOT RECOGNISED IN THE BALANCE SHEET

The Company recognises particularly skittles, vignettes and lottery tickets, the nature of which is recognised as valuables (these items are recognised below in nominal value) in its operational evidence as at

as at 31 December 2016 (as at 30 June 2016: CZK 144 million). The buildings leased by the Company amounted to CZK 116 million as at 31 December 2016 (as at 30 June 2016: CZK 120 million).

The Company did not have any finance leases as at 31 December 2016 and 30 June 2016.

31 December 2016 and 30 June 2016. Furthermore, the Company recognised low-value assets in operating evidence and leased assets in off-balance sheet evidence (recognised in acquisition costs), which is not recognised in the balance sheet:

(CZK million)	31 December 2016	30 June 2016
Valuables incl. stamps and lottery tickets	15,491	15,599
Vignettes	1,928	716
Leased assets – operational lease	1,468	1,351
Securities	40	40
Low-value tangible assets	2,379	2,412
Low-value intangible assets	64	74

The structure of the contracted future obligations from operating leases and rental of buildings is presented in the table below (in CZK millions):

(CZK million)	31 December 2016	30 June 2016
Due within 1 year	369	359
Due between 1 to 5 years	649	657
Due after 5 years	72	81
Total	1,090	1,097

Received and provided bank guarantees for the Company, which are drawn under the frame agreements, on the provision of financial services, as at 31 December 2016 were as follows:

Type of provided guarantee	Guarantor	Creditor	Subject	Valid until	Amount (CZK million)
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	4
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system NIS IZS	1. 7. 2017	9
Payment	Československá obchodní banka, a.s.	Ministry of Interior	Distribution and sale of vignettes for the year 2016 and following emissions	31. 12. 2017	12
Payment	Československá obchodní banka, a.s.	State Fund of Transport	Distribution and sale of vignettes for the year 2017 and following emissions	16. 3. 2017	100
Payment	Československá obchodní banka, a.s.	State fund of transport	Distribution and sale of vignettes for the year 2017 and following emissions	16. 3. 2018	370
Payment	Československá obchodní banka, a.s.	CONTERA Investment III. s.r.o.	Rental agreement	3. 8. 2018	1
Payment	Československá obchodní banka, a.s.	- Prologis CR LX s.r.o.	Rental agreement	19.2.2018	3
					499

Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (CZK million)
Payment	Unicredit Bank, a.s.	PRONIX s.r.o.	Action – building data centre	31. 8. 2017	6
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action-DEPO Plzeň 72	11. 4. 2018	1
Payment	Komerční banka, a.s.	TRAWEKO 96 s.r.o.	Action-DEPO Přešov 70	7. 1. 2018	1
Payment	Československá obchodní banka, a.s.	VÁHOSTAV-SK, a.s.	Action-DEPO Benešov 70	15. 2. 2018	1
Payment	Československá obchodní banka, a.s.	Polabská stavební CZ, s.r.o.	Action-DEPO Česká Lípa 70	18. 4. 2018	2
Payment	Komerční banka, a.s.	Středomoravské Stavby, s.r.o.	Action-DEPO Prostějov 70	20. 12. 2017	1
Payment	Československá obchodní banka, a.s.	PSG-International a.s.	Action-dislocation of the post office Praha 50		
Payment	Česká spořitelna, a.s.	Synet s.r.o.	SPU Malešice	28. 8. 2018	1
Payment	Komerční banka, a.s.	SAN-JV s.r.o.	Action-DEPO Kroměříž	14. 8. 2018	1
Payment	UniCredit Bank, a.s.	Kappenberger + Braun, Elektro-Technik spol. s r.o.	Action-DEPO Jihlava 70	5. 10. 2018	1
Payment	Komerční banka, a.s.	ABC Chomutov spol. s r.o.	Action-SPÚ Ústí nad Labem	31. 8. 2018	1
Payment	Raiffeisenbank, a.s.	STAEG Stavby, spol. s r.o.	Action DEPO Znojmo	21. 12. 2017	1
Payment	Československá obchodní banka, a.s.	IMOS Brno, a.s.	Action – insulation Praha 3 Olšanská	31. 12. 2018	4
Payment	Raiffeisenbank, a.s.	SKD Průmstav-stavby, a.s.	Action – SPU Ústí-completion	3. 2. 2019	4
Payment	UniCreditBank, a. s.	PSG International a.s.	Action-reconstruction SPU+DEPO Ostrava 71	3. 6. 2019	1
Payment	Oberbank AG	EDIKT, a. s.	Action- SPU Ostrava+DEPO Ostrava 71- completion and reconstruction	31. 7. 2019	5
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action – reconstruction of post office Brno 100	15. 4. 2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action – SPU České Budějovice – new building	27. 9. 2021	5
					39

19. CONTINGENT LIABILITIES

The management of the Company is not aware of any contingent liabilities as at 31 December 2016.

20. REVENUE AND OTHER OPERATING INCOME

Breakdown of revenues and other operating income from the Company's activities:

	Period of 6 months ended 31 December 2016			Period of 6 months ended 30 June 2016		
	Domestic (CZK million)	Foreign (CZK million)	Total (CZK million)	Domestic (CZK million)	Foreign (CZK million)	Total (CZK million)
Revenues from postal operations	6,124	1,018	7,142	6,160	776	6,936
Revenues from provision of intermediary services	1,318	-	1,318	1,243	-	1,243
Revenues from communication infrastructure	-	-	-	336	-	336
Revenues from electronic services	155	-	155	363	-	363
Revenues from the sales of goods	113	-	113	144	-	144
Revenues from data mailboxes	257	-	257	256	-	256
Total revenues	7,967	1,018	8,985	8,502	776	9,278
Other operating income	778	-	778	314	-	314
Revenues and other operating income total	8,745	1,018	9,763	8,816	776	9,592

Revenues from the sale of own goods and services include gross revenues related to services connected with management of communication infrastructure. Appropriate related costs are presented as part of the line Services. The Company did not provide these services during the period of six months ended 31 December 2016.

During accounting period ending as at 31 December 2016 the Company did not receive subsidies for operating purposes, respectively during accounting period ending as at 30 June 2016 the Company received subsidies for operating purposes in amount of CZK 3 million. These revenues are part of other operating income.

21. EMPLOYEES

Breakdown of staff costs:

Pořizovací cena

	6 month period ending 31 December 2016		6 month period ending 30 June 2016	
	Total number of employees	Out of which: Management and Director General	Total number of employees	Out of which: Management and Director General
Average number of employees (CZK million)	29,801	26	30,147	28
Wages and salaries	4,609	29	4,372	41
Social and health insurance	1,506	4	1,481	9
Other cost	170	-	179	-
Total staff costs	6,285	33	6,032	50

Notes: Wages and salaries of the Company's management and Supervisory Board also include severance pay and anti-competitive clause.

22. RELATED PARTY TRANSACTIONS

Apart from the bonuses disclosed in Note 21 – Employees, in 2016 members and former members of the Company's statutory and supervisory bodies and the Company's management did not receive any loans, guarantees, advance payments or other benefits besides the collective agreement, they did however have access to Company cars that are made available by management for both business and private purposes.

During the year, the Group executed several transactions with related parties within its ordinary business activities.

The transactions realised during the period from 1 July 2016 to 31 December 2016 and during the period from 1 January 2016 to 30 June 2016, and the related receivables from and liabilities to related parties are as follows:

	Period of 6 months ended 31 December 2016	Sales (CZK millions)	Costs (CZK millions)	Receivables (CZK millions)	Payables (CZK millions)
Subsidiaries					
Poštovní tiskárna cenin Praha a.s.	-	-	12	-	4
Česká pošta Security, s.r.o.	2	81	-	35	20
Other related parties					
Czech Television and Radio	118	-	-	-	10
Government ministries	282	-	-	53	19
Czech Social Security Administration	214	1,086	-	-	2,073
Municipal and local authorities	172	37	-	7	230
ČD Cargo	0	36	-	-	5
Charles University in Prague	4	-	-	-	2
České dráhy	3	1	-	1	1
Water and sewage systems Hodonin	1	-	-	-	2
National Agency for Communications and Information Technology	5	2	-	3	-
Total	801	1,255	99	2,366	

	Period of 6 months ended 30 June 2016	Sales (CZK millions)	Costs (CZK millions)	Receivables (CZK millions)	Payables (CZK millions)
Subsidiaries					
Poštovní tiskárna cenin Praha a.s.	-	-	13	-	8
Česká pošta Security, s.r.o.	1	72	-	42	16
Other related parties					
Czech Television and Radio	120	-	-	-	14
Government ministries	776	22	-	306	220
Czech Social Security Administration	239	1,069	-	0	2,969
Municipal and local authorities	166	39	-	12	342
ČD Cargo	0	34	-	4	2
Charles University in Prague	5	-	-	1	2
České dráhy	3	2	-	1	2
Water and sewage systems Hodonin	1	-	-	-	2
Total	1,311	1,251	366	3,577	

Receivables / revenues with Poštovní tiskárně cenin Praha a.s. relate mainly to the provision of rent and services; liabilities / costs relate mainly to the purchase / consumption of material.

interest rate corresponds to the weighted average interest rate for the appreciation of own funds retroactively for the corresponding months in which the funds were granted.

Receivables due from Česká pošta Security, s.r.o. relate mainly to the loan provided to the company. The

23. FEES PAID AND PAYABLES TO THE AUDIT COMPANY

Information about the remuneration of the audit company PricewaterhouseCoopers Audit, s.r.o. are

included in the consolidated financial statements of the Company.

24. ENTRUSTED RESOURCES

The entrusted resources analysis as at 31 December 2016 and 30 June 2016 is as follows:

(CZK million)	31 December 2016	30 June 2016
ASSETS		
Short-term receivables	133	234
Cash in hand	3,207	3,646
Cash at bank	607	1,682
Total assets	3,947	5,562

(CZK million)	31 December 2016	30 June 2016
LIABILITIES AND EQUITY		
Short-term payables	3,913	5,530
Short-term bank loans	34	32
Total liabilities and equity	3,947	5,562

Short-term receivables consist primarily of short-term receivables for agency services (e.g. card transactions, cheque transactions, etc.) provided to ČSOB, a.s.

advance payments in the amount of CZK 2,644 million as at 30 June 2016 for pension payments to be paid in July 2016.

At the end of 2016, the Company received advance payments in the amount of CZK 1,695 million for 2017 pension payments. The Company received

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

25. CASH-FLOW STATEMENT

As at 31 December 2016 and 30 June 2016, the Company did not consider the used overdraft facilities as cash equivalents for the purpose of the cash-flow statement (see Note 14 – Bank loans and overdrafts).

Cash and cash equivalents disclosed in the cash-flow statement can be analysed as follows:

(CZK million)	31 December 2016	30 June 2016
Cash on hand	4,284	3,735
Cash at bank	2,043	4,122
Cash equivalents included in short-term securities and investments	50	50
Total cash and cash equivalents	6,377	7,907

26. SUBSEQUENT EVENTS

The Company will calculate net costs for the provision of basic services for the accounting period 2016 and will ask CTO for the reimbursement of such costs that represent unfair financial burden for the Company as a postal license holder. The deadline for submission is 31 August 2017.

No other material events have occurred between the balance sheet date and the date of preparation of the consolidated financial statements that would have a material impact on the consolidated financial statements for the accounting period 2016.

17 March 2017



Martin Elkán
General Director
Česká pošta, s.p.

098 Consolidated Financial statements of the Group for twelve-month period, ending December 31, 2016

Consolidated Financial statements

Consolidated balance sheet (in millions Czech crowns)							
Reference		ASSETS	31.12.2016			01.07.2016	
			Gross	Provision	Net		Net
a		b	1	2	3		4
		TOTAL ASSETS	34 377	-13 539	20 838		22 494
		of which entrusted resources	3 947	0	3 947		5 537
B.		Fixed assets	23 123	-13 292	9 831		9 882
B. I.		Intangible fixed assets	1 893	-1 547	346		336
B. I. 2.		Royalties	1 720	-1 482	238		223
B. I. 2.1.		Software	1 718	-1 481	237		222
B. I. 2.2.		Other royalties	2	-1	1		1
B. I. 4.		Other intangible fixed assets	68	-65	3		7
B. I. 5.		Advances paid and intangible fixed assets in the course of construction	105	0	105		106
B. I. 5.2.		Intangible fixed assets in the course of construction	105	0	105		106
B. II.		Tangible fixed assets	21 012	-11 744	9 268		9 328
B. II. 1.		Land and constructions	12 401	-5 259	7 142		7 303
B. II. 1.1.		Land	868	-1	867		872
B. II. 1.2.		Constructions	11 533	-5 258	6 275		6 431
B. II. 2.		Equipment	8 186	-6 478	1 708		1 702
B. II. 4.		Other tangible fixed assets	4	0	4		4
B. II. 5.		Advances paid and tangible fixed assets in the course of construction	421	-7	414		319
B. II. 5.1.		Advances paid for tangible fixed assets	0	0	0		5
B. II. 5.2.		Tangible fixed assets in the course of construction	421	-7	414		314
B. III.		Long-term investments	219	0	219		219
B. III. 5.		Other long-term investments in securities	219	0	219		219
B. IV.		Positive consolidation difference	8	-1	7		8
B. V.		Negative consolidation difference	-9	0	-9		-9
C.		Current assets	11 182	-247	10 935		12 478
		of which entrusted resources	3 947	0	3 947		5 537
C. I.		Inventories	403	-69	334		326
C. I. 1.		Raw materials	222	-56	166		144
C. I. 2.		Work in progress and semi-finished products	2	0	2		9
C. I. 3.		Finished goods and goods for resale	179	-13	166		173
C. I. 3.2.		Goods for resale	179	-13	166		173
C. II.		Receivables	4 351	-178	4 173		3 177
		of which entrusted resources	133	0	133		5 537
C. II. 1.		Long-term receivables	1 317	0	1 317		719
C. II. 1.1.		Trade receivables	2	0	2		5
C. II. 1.5.		Receivables - other	1 315	0	1 315		714

C. II. 1.5. 2.		Long-term advances paid	5	0	5	5
C. II. 1.5. 3.		Estimated receivables	1 300	0	1 300	700
C. II. 1.5. 4.		Other receivables	10	0	10	9
C. II. 2.		Short-term receivables	3 034	-178	2 856	2 458
		of which entrusted resources	133	0	133	87
C. II. 2.1.		Trade receivables	1 416	-97	1 319	1 235
		of which entrusted resources	133	0	133	87
C. II. 2.4.		Receivables - other	1 618	-81	1 537	1 223
C. II. 2.4. 1.		Receivables from shareholders	23	-3	20	14
C. II. 2.4. 3.		Taxes - receivables from the state	27	0	27	3
C. II. 2.4. 4.		Short-term advances paid	230	0	230	210
C. II. 2.4. 5.		Estimated receivables	1 182	0	1 182	935
C. II. 2.4. 6.		Other receivables	156	-78	78	61
C. III.		Short-term financial investments	50	0	50	50
C. III. 2.		Other short-term investments	50	0	50	50
C. IV.		Cash	6 378	0	6 378	8 925
		of which entrusted resources	3 814	0	3 814	5 450
C. IV. 1.		Cash in hand	4 284	0	4 284	4 713
		of which entrusted resources	3 207	0	3 207	4 634
C. IV. 2.		Cash at bank	2 094	0	2 094	4 212
		of which entrusted resources	607	0	607	816
D.		Prepayments and accrued income	72	0	72	134
D. 1.		Prepaid expenses	69	0	69	70
D. 2.		Accrued income	3	0	3	64

Consolidated balance sheet (in millions Czech crowns)					
Reference		LIABILITIES AND EQUITY		31.12.2016	31.12.2015
a		b		5	6
		TOTAL LIABILITIES AND EQUITY		20 838	22 494
		of which entrusted resources		3 947	5 537
A.		Equity		10 191	10 429
A. I.		Share capital		3 588	3 588
A. I.	1.	Share capital		3 588	3 588
A. II.		Share premium and capital contributions		6 127	6 304
A. II. 2.		Capital contributions		6 127	6 304
A. II.	2.1.	Other capital contributions		6 116	6 293
A. II.	2.2.	Assets and liabilities revaluation		11	11
A. III.		Other reserves		376	375
A. III.	1.	Other reserve funds		359	359
A. III.	2.	Statutory and other reserves		17	16
A. IV.		Retained earnings / Accumulated losses		-79	-71
A. IV.	2.	Accumulated losses		-79	-71
A. V.		Consolidated profit / (loss) for the current period		179	233
B. + C.		Liabilities		10 065	11 507
		of which entrusted resources		3 947	5 537
B.		Provisions		703	628
B.	4.	Other provisions		703	628
C.		Liabilities		9 362	10 879
		of which entrusted resources		3 947	5 537
C. I.		Long-term liabilities		305	326
C. I.	4.	Trade payables		16	23
C. I.	8.	Deferred tax liability		289	303
C. II.		Short-term liabilities		9 057	10 553
		of which entrusted resources		3 947	5 537
C. II.	2.	Liabilities due to financial institutions		34	36
		of which entrusted resources		34	36
C. II.	3.	Short-term advances received		479	364
C. II.	4.	Trade payables		5 569	7 071
		of which entrusted resources		3 913	5 501
C. II. 8.		Liabilities - other		2 975	3 082
		of which entrusted resources		0	0
C. II.	8.3.	Liabilities to employees		559	548
C. II.	8.4.	Liabilities for social security and health insurance		352	345
C. II.	8.5.	Taxes and state subsidies payable		124	198
C. II.	8.6.	Estimated payables		1 644	1 686
C. II.	8.7.	Other liabilities		296	305
D.		Accruals and deferred income		540	516
D.	2.	Deferred income		540	516
E.		Minority equity		42	42
E. I.	1.	Minority equity		16	16
E. I.	2.	Minority other capital funds incl. reserve fund		16	16
E. I.	3.	Minority retained earnings		10	12
E. I.	4.	Minority profit for the current period		0	-2

Consolidated income statement (in millions Czech crowns)					
Reference		TEXT	Accounting period		
a			31.12.2016	31.12.2015	
a		b	1	2	
I.		Sales of products and services	18 026	18 488	
II.		Sales of goods	257	803	
A.		Cost of sales	4 932	6 125	
A. 1.		Cost of goods sold	169	742	
A. 2.		Raw materials and consumables used	1 280	1 374	
A. 3.		Services	3 483	4 009	
B.		Changes in inventories of finished goods and work in progress	-7	10	
C.		Own work capitalised	-18	-16	
D.		Staff costs	12 385	11 938	
D. 1.		Wages and salaries	9 031	8 713	
D. 2.		Social security, health insurance and other social costs	3 354	3 225	
D. 2.1.		Social security and health insurance costs	3 004	2 879	
D. 2.2.		Other social costs	350	346	
E.		Value adjustments in operating activities	793	892	
E. 1.		Value adjustments of fixed assets	782	862	
E. 1.1.		Depreciation, amortisation and write off of fixed assets	809	846	
E. 1.2.		Provision for impairment of fixed assets	-27	16	
E. 2.		Provision for impairment of inventories	9	0	
E. 3.		Provision for impairment of receivables	2	30	
III.		Operating income - other	1 092	988	
III. 1.		Sales of fixed assets	179	28	
3.		Other operating income	913	960	
3.1.		Compensation for the net cost on providing basic postal services	600	700	
3.2.		Other operating income	313	260	
F.		Operating expenses - other	1 068	1 061	
F. 1.		Net book value of fixed assets sold	28	2	
F. 3.		Taxes and charges from operating activities	91	96	
F. 4.		Operating provisions and complex prepaid expenses	172	269	
F. 5.		Other operating expenses	777	694	
		Clearing of positive consolidation difference	1	0	
		Clearing of negative consolidation difference	0	-1	
*		Consolidated operating result	221	268	
IV.		Income from sales of long-term investments - shares	2	2	
IV. 2.		Income from sales of investments - other	2	2	
VI.		Interest and similar income	10	22	
VI. 2.		Other interest and similar income	10	22	
VII.		Other financial income	63	57	
K.		Other financial expenses	87	58	
*		Consolidated financial result	-12	23	
**		Consolidated net profit / (loss) before taxation	209	291	
L.		Tax on profit or loss	30	60	
L. 1.		Tax on profit or loss - current	61	114	
L. 2.		Tax on profit or loss - deferred	-31	-54	
**		Net profit / (loss) after taxation	179	231	
		Consolidated profit for the financial period attributable to			
		Minority profit / loss	179	233	
		Minority share	0	-2	
***		Net profit / (loss) for the financial period	179	233	
*		Net turnover for the financial period	19 450	20 360	

**CONSOLIDATED CASH-FLOW STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2016**

(CZK million)	2016	2015
Cash and cash equivalents as at the beginning of the financial period	8,975	13,180
– out of which entrusted resources	5,450	10,092
Net profit on ordinary activities before tax	209	291
A.1 Adjustments for non-cash movements:	710	1,130
A.1.1 Depreciation/amortisation of fixed assets and lost investments projects	809	867
A.1.2 Changes in operating provision	59	315
A.1.3 Profit from disposal of fixed assets	(151)	(26)
A.1.4 Net interest income	(10)	(22)
A.1.5 Other non-cash movements	3	(4)
A* Net cash flow from operating activities before tax and changes in working capital	919	(1,421)
A.2 Non-cash working capital changes:	(2,409)	(5,135)
A.2 – out of which entrusted resources	(1,636)	(4,642)
A.2.1 Changes in receivables and accrued income	(995)	(851)
A.2.1 – out of which entrusted resources	(46)	10
A.2.2 Changes in short-term and long-term payables and deferred income	(1,397)	(4,297)
A.2.2 – of which entrusted resources	(1,590)	(4,652)
A.2.3 – out of which entrusted resources	(17)	13
A** Net cash flow from operating activities before tax – out of which entrusted resources	(1,490)	(3,714)
A.** – out of which entrusted resources	(1,636)	(4,642)
A.3 Interest paid	-	-
A.4 Interest received	10	22
A.5 Income tax on ordinary activities paid and additional taxes for previous periods	(189)	(10)
A*** Net cash flow from operating activities – out of which entrusted resources	(1,669)	(3,702)
	(1,636)	(4,642)
Cash flows from investing activities		
B.1 Acquisition of fixed assets	(836)	(378)
B.2 Proceeds from the sale of fixed assets	179	28
B*** Net cash flow from investing activities	(660)	(350)
Cash flows from financing activities		
C.1 Changes in long-term and short-term liabilities falling in financing activities	(2)	1
C.2 Changes in equity	(166)	(154)
C.2.1 Direct payments from funds	(166)	(154)
C.3. Impact of the spin-off	(50)	-
C*** Net cash flow from financing activities	(218)	(153)
Netdecrease in cash and cash equivalents – out of which entrusted resources	(2,547)	(4,205)
Cash and cash equivalents as at the end of the year – out of which entrusted resources	6,428	8,975
	3,814	5,450

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED 31 DECEMBER 2016

(CZK million)	Share capital	Other capital funds	Revaluation differences from revaluation of assets and liabilities	Statutory reserve fund	Other funds from the profit	Accumulated loss	Profit for the period without minority interest	Total
As at 1 January 2015	3,588	6,253	9	361	10	(52)	180	10,349
Profit distribution	-	40	-	-	160	-	(180)	20
Use of funds	-	-	-	(3)	(154)	(25)	-	(182)
Gains or losses from revaluation to fair value	-	-	2	-	-	-	-	2
Profit for the period	-	-	-	-	-	-	233	233
Impact of the consolidation	-	-	-	-	-	7	-	7
Rounding	-	-	-	1	-	-1	-	-
As at 31 December 2015	3,588	6,293	11	359	16	(71)	233	10,429
Profit distribution	-	75	-	-	166	-	(233)	8
Use of funds	-	(2)	-	-	(164)	(8)	-	(174)
Gains or losses from revaluation to fair value	-	-	-	-	-	-	-	-
Profit for the period	-	-	-	-	-	-	179	179
Impact of spin-off	-	(250)	-	-	(1)	-	(6)	(251)
As at 31 December 2016	3,588	6,116	11	359	17	(79)	179	10,191

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE PERIOD OF TWELVE MONTHS ENDED DECEMBER 31, 2016

1. GENERAL INFORMATION

1.1. Description of the Group

The Group comprises Česká pošta, s. p. (controlling entity) and its subsidiaries. Subsidiaries as at 31 December 2016 and 31 December 2015 were as follows:

Subsidiary	Registered office	Ownership interest
Poštovní tiskárna cenin Praha, a.s.	Ortenovo náměstí 542/16, Praha 7 – Holešovice	51.03 % (Česká pošta, s. p., owned 16,903 shares out of the total 33,124 shares with the nominal value of CZK 1 thousand)
Česká pošta Security, s.r.o.	Politických vězňů 909/4, Praha 1	100.00 %

Česká pošta, s. p. (“the Company”, “the Controlling entity” or “Česká pošta”) is a state-owned enterprise. It is a legal entity conducting its business activities using assets of the Czech government under its own name and on its own account. The founder of the Company is the Czech State. 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 at 31 December 2016 and 31 December 2015, the role of the founder of the Company under the government’s name was carried out by the Ministry of Interior of the Czech Republic. As at 31 December 2016, the Company had its registered office at Prague 1, Politických vězňů 909/4, the Czech Republic. The Company’s identification number is 471 14 983 and it is registered in the Commercial Register of the Municipal Court in Prague, section A, insert no. 7565. Česká pošta is a business entity pursuant to Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

The Company’s activities are regulated by the Czech Telecommunication Office (“CTO”).

The main business activities of the Group are as follows:

- a) provision of postal services,
- b) provision of international postal services,
- c) provision of services of central procurement for government (public) administration,
- d) manufacturing and trade activities in the area of the printing industry,
- e) printing of postage stamps, stamps and other stamped or secured printed materials,
- f) printing of publicly traded securities and other securities according to Act on securities,
- g) security of property and persons,
- h) road transport.
- i) the installation, repair, inspection and testing of electrical equipment,
- j) provision of technical services to protect persons and property.

The corporate bodies of the Company are the Director General and the Supervisory Board. The Director General is the Company’s statutory body.

The Company’s mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act No. 29/2000 Coll., on Postal Services, as amended (“the Postal Service Act”). The Company holds a licence to provide postal services in accordance with paragraph 19; the Company also holds the licence in accordance with paragraph 21 of the Postal Service Act. The postal licence was granted to the Company by the CTO until 31 December 2017.

In accordance with the postal licence, it is the duty of the Company to secure general availability of basic postal services throughout the whole territory of the Czech Republic.

The rights and obligations of the postal services and the postal licence holder are covered by Title V of the Postal Service Act. According to the law, the Company must annually publish and submit complete and truthful information to CTO about the results of providing and securing basic services and an evaluation of the fulfilment of the quality parameters. The method, form and content of published information are determined by implementing the legislation of CTO (decrees). Czech Telecommunication Office annually publishes the summary report on the obligations fulfilment entrusted to the postal licence holder. The CTO Report for 2016 was not published as at the date of the Company’s consolidated financial statements.

The deficiencies identified in the CTO Report for 2015 are being remediated by the Company on a continuous basis. No material financial claims of the CTO or other entities against the Company, which could be enforceable by law, were identified in the Report.

Based on decision no. MV-85243-1/NV-2016 dated 15 June 2016 of the Ministry of Interior of the Czech Republic acting as the Company’s founder, and in accordance with the Resolution no. 413 dated 11 May 2016 of the government of the Czech Republic, the spin-off of part of the Company was approved in accordance with the Act no. 77/1997 Sb., on state enterprise, a, followed by its merger with the state enterprise Národní agentura pro komunikační a informační technologie, s.p., founded by the Ministry of Interior of the Czech Republic on at 1 February 2016, as at 1 June 2016, which is the decisive date of the spin-off.

The spin-off of the branch ICT Services and its merger with the state enterprise Národní agentura pro komunikační a informační infrastrukturu, s.p. was entered in the Commercial Register on 1 July 2016.

2. ACCOUNTING POLICIES

Valuation methods applied by the Group during preparation of the consolidated financial statements for 2016 were as follows:

2.1. Basis of preparation of consolidated financial statements

Consolidated financial statements of the Group have been prepared in accordance with Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for Businesses applicable for 2016. The consolidated financial statements have been prepared under the historical cost convention except as disclosed below.

Comparative figures

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January

2.2. System of consolidation

Full consolidation method was used in the preparation of the consolidated financial statements.

All mutual accounting transactions, balances and unrealised gains from accounting transactions between all companies of the consolidation unit are excluded from the consolidated financial statements. Unrealised losses from mutual transactions are also excluded.

Profit from the sale of assets between companies of the Group is fully excluded.

2.3. Consolidation difference

Consolidation difference is the difference between the acquisition price of shares and deposits of the consolidated company and their valuation according to the shareholding of the Controlling entity on equity valued at fair value as at the acquisition date. The acquisition date is the date from which the Controlling entity starts to effectively exercise its influence.

2016, individual items of the balance sheet and income statement are presented in a different structure.

In order to ensure the comparability of items presented in the financial statements for 2015, the comparative figures were reclassified in accordance with Czech accounting standard no. 24: „The comparative figures for the accounting period beginning in 2016“.

All financial statements entering into consolidation were prepared as at 31 December 2016.

There was a unification of significant accounting policies within the Group for the purpose of consolidation. These accounting policies, which are used by individual companies of the consolidation unit, are described below.

Consolidation difference is amortised applying the straight-line method for the period of 20 years, while the first amortisation is accounted for in the full amount in the year of the consolidation difference origin.

2.4. Subsidiaries and associates

For consolidation purposes, a subsidiary is a company in which the Controlling entity exercises significant influence through:

- > direct or indirect application of more than 50% of voting rights of controlled, managed company, or
- > demonstrable control of operating and strategic policies, while, at the same time, the Controlling entity is the company shareholder or partner.

2.5. Intangible fixed assets

Purchased intangible fixed assets are recorded at cost, which includes all costs related with its acquisition.

Intangible fixed assets with a unit cost more than CZK 40 thousand and estimated useful life of more than one year, are amortised using the straight-line method over their estimated useful life in accordance with the Company's amortisation plan, i.e. over 4 years, in exceptional cases, the useful life is set for longer period (e.g. according to the useful life of the related equipment).

Intangible fixed assets with a unit cost less than CZK 40 thousand are expensed upon acquisition and only carried in the operational evidence and, more specifically, off balance sheet.

2.6. Tangible fixed assets

Acquired tangible fixed assets are initially recorded at cost, which includes all costs related with their acquisition. The Group does not include loan interest in the acquisition cost of tangible fixed assets.

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded into other capital funds. The replacement cost of these assets is based on expert opinion or on market prices of comparable fixed assets in terms of their wear and tear and performance. The valuation of tangible fixed assets is decreased by subsidies for the acquisition of assets.

The depreciation plan is updated during the useful life of the tangible fixed assets based on the expected useful life.

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

The amortisation plan is updated during the useful life of the intangible fixed assets based on the expected useful life.

The cost limit for the capitalisation of the technical improvements of intangible fixed assets is CZK 40 thousand. A provision for impairment is created when the carrying value of an asset is greater than its estimated recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the specific asset.

recoverable amount. The estimated recoverable amount is determined based on expected future cash flows generated by the certain asset.

A provision is created mainly in cases of projects whose realisation is uncertain or in cases of expected sales if the expected sales price net of transaction cost is lower than the book value disclosed in the records.

Technical improvement expenses of tangible fixed assets increase the acquisition costs if their expenses exceed the total amount of CZK 40 thousand and technical improvements are put into use in this year. Ordinary repairs and maintenance expenses are expensed as incurred.

Tangible fixed assets with a unit cost below CZK 40 thousand are treated as inventory and are expensed upon consumption and are only carried in the operational record. The exceptions are selected low value assets – selected information technology and postal technology, which is also considered as

tangible fixed assets. Tangible fixed assets with a unit cost above CZK 40 thousand and selected low value tangible assets with an estimated useful life of more than one year are depreciated using the straight-line method over their estimated useful lives of assets.

The estimated useful lives of tangible assets are as follows:

	Number of years
Buildings, halls and constructions	20–50
Plant, machinery and equipment	4–15
Motor vehicles	6–20
Furniture and fittings	10–20
Handling equipment	6–20
IT equipment	3–7
The central security	5

2.7. Long-term financial assets

The Group's long-term financial assets consist of equity investments and other long-term securities, which represent realisable securities.

The Group classifies securities and investments, other than investments in subsidiaries and associates, as held-to-maturity or available-for-sale.

Investments with a fixed maturity that the Group has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, unless the date of maturity falls within 12 months of the balance sheet date.

Securities and investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless the Group 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. The Group determines the appropriate classification of investments and securities as at the time of purchase and the classification is reviewed on a regular basis.

All securities and investments are initially recorded at cost, including transaction costs. Held-to-maturity investments are subsequently accounted for at amortised cost. Other investments are subsequently accounted for at fair value. The fair value is determined as the market value of the securities as at the balance sheet date. Measurement of non-traded securities is based on the Group estimates based on recognised models or valuation techniques.

Gains and losses arising from changes in the fair value of trading instruments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in fair value of available-for-sale investments are recognised as a movement in equity and recognised into the income statement on realisation or when permanently impaired.

A provision for impairment is established for held-to-maturity investments when their carrying value is greater than their estimated recoverable amount.

2.8. Inventories

Purchased inventories are stated at the lower of cost and net realisable amount. Cost includes all costs related with its acquisition (mainly transport costs, customs duty, etc.). The weighted average cost method is applied by the Group for all disposals.

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

2.9. Receivables

Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an

2.10. Short-term financial assets

Short-term financial assets consist of securities available for sale. Securities available for sale are securities held for the purpose of effecting

2.11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, stamps and vouchers and cash in banks, including bank overdrafts.

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are, for example, deposits with a maturity of less than 3

2.12. Entrusted resources

In some cases, the 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. ("ČSOB, a.s."), collection of radio and television licence fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for the mobile operators, customs

In the case of long-term contracts, the carrying value of work-in-progress also includes the allocation of administrative overheads. Subcontracted supplies received and other direct costs are expensed and simultaneously recorded in work-in-progress against revenues. Subcontracted supplies are valued at cost. Work-in-progress is derecognised once the respective revenues are recognised.

ageing analysis and individual evaluation of the credit worthiness of the customers.

transactions on the public market in order to make a profit from price fluctuations in short-term, but in one-year period as a maximum.

months from the date of acquisition and liquid debt securities traded in public markets. Cash equivalents also include Entrusted resources – see also Note 2. 12. – Entrusted resources.

The Group has prepared a consolidated Cash-flow statement using the indirect method.

declarations, etc.). These resources are recorded in a separate accounting group apart from the Company's own financial resources, and are disclosed on separate lines in the consolidated balance sheet. The Company charges an agreed commission for performing the specific transactions, which is recognised within its own resources using the accrual principle in the same period to which they relate.

2.13. Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the first day of the current calendar month as published by the Czech National Bank.

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the

2.14. Equity

The Company's financial position and funds are being managed in accordance with Act No. 77/1997 Coll., on State-Owned Enterprise, as amended. Pursuant to this Act, the registered capital of the Company corresponds to the business capital to which the Company has a title on its establishment. The share capital includes both registered and non-registered capital in compliance with accounting legislation. Other capital funds are created in accordance with the accounting standards for entrepreneurs.

In addition, the Company creates a reserve fund from profit, which was created gradually up to 10% of the share capital.

2.15. Provisions

Provisions are recognised when the Group has a present obligation, an outflow of resources is likely to be required to settle the obligation and a reliable estimate of the amount can be made.

2.16. Employment benefits

The Group creates a provision for untaken holidays. The Group creates an estimated payable for rewards and bonuses to employees who became entitled to payment as at the balance sheet date. The Group

2.17. Loans

Long-term and short-term liabilities, including loans are recorded at their nominal values. Any proportion of long-term loan debt due within one year of the balance sheet date is recognised as short-term loan.

exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the consolidated income statement.

The Company creates a cultural and social fund (FKSP). The creation and use of this fund is being managed in accordance with section 16 of Decree No. 114/2002 Coll., in connection with paragraph 3 of Decree No. 310/1995 Coll., on Cultural and Social Needs Fund, as amended (including changes under Decree No. 167/1997 Coll. and 314/1999 Coll.) and the use of FKSP is governed by section 4-10 of Decree No. 310/1995 Coll.

creates a provision for the rewards and bonuses to employees who did not become entitled to payment as at the balance sheet date.

2.18. Expenses and revenue recognition

Revenues and expenses are recognised on an accrual principle in the period to which they relate.

Sales are recognised as at the date the services are rendered (with the exceptions disclosed below) or goods are sold to customers and are stated net of discounts and value added tax.

Sales of the postal services realised in cash through sales of postal stamps are recognised when the stamps are sold. The Group does not have the necessary information that would allow it to record

income from these sales on an accrual basis in respect to the accounting periods in which customers actually use the purchased postal stamps. The Company's management believes that the costs of collecting such information relating to the time allocation needed for these services realised through sales of postal stamps would exceed the benefits of such information.

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

2.19. Leases

The costs of assets held under both finance and operating leases are not capitalised as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the consolidated notes but not recognised in the consolidated balance sheet. The Group activates

the respective value of leased asset in the period when the lease agreement is being concluded and the purchase option is exercised. Lease payments made in advance are accrued over the lease period.

2.20. Income tax

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

payable" if the tax liability exceeds the tax advances paid. Otherwise, the amount exceeding the tax liability as a result of the advances paid is recorded as "Taxes – receivables from the state".

The tax expense is disclosed in the consolidated profit and loss as tax from ordinary activities.

Corporate income tax is recognised in the balance sheet as a part of the item "Taxes and state subsidies

2.21. Deferred tax

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 asset

is recognised if it is probable that sufficient future taxable profit will be available against which the asset can be utilised.

2.22. Related parties

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

- > the state represented by the Company's founder, government institutions, state-owned enterprises and companies, and other legal entities, where the state has significant influence, while the nature of the relationship is also decisive and not merely the legal form;

- > members of the Company's statutory, supervisory bodies and management and related parties to these members, including companies or institutions or businesses, where these members and parties have controlling, proportional or significant influence.

Significant transactions and outstanding balances with related parties, related to other than the main postal services with related parties are disclosed in Note 22 – Related party transaction.

2.23. 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.

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

Where significant events occur subsequent to the balance sheet date but prior to the preparation of the

3. TANGIBLE FIXED ASSETS

3.1. Consolidation difference

Movement in the positive consolidation difference can be analysed as follows:

(CZK million)	2016
Opening balance as at 1 January	8
Settlement of positive consolidation difference	(1)
Closing balance as at 31 December	7

Movement in negative consolidation difference can be analysed as follows:

(CZK million)	2016
Opening balance as at 1 January	(9)
Settlement of negative consolidation difference	-
Closing balance as at 31 December	(9)

3.2. Fixed assets

Cost

(CZK million)	Opening balance	Additions *)	Disposals*)	The impact of spin-off	Closing balance
Software	1,942	107	(327)	(4)	1,718
Royalties	2	-	-	-	2
Other intangible fixed assets	72	-	(4)	-	68
Intangible fixed assets in the course of construction	106	103	(104)	-	105
Total in 2016	2,122	210	(435)	(4)	1,893
Total in 2015	2,135	207	(220)	-	2,122

*) Additions and Disposals also include transfers of intangible fixed assets in the course of construction.

Accumulated amortisation and net book value

(CZK million)	Opening balance of accumulated amortisation	Additions	Disposals	The impact of spin-off	Closing balance of accumulated depreciation	Allowance	Closing balance
Software	(1,699)	(90)	327	1	(1,461)	(20)	237
Royalties	(1)	-	-	-	(1)	-	1
Other intangible fixed assets	(65)	(4)	4	-	(65)	-	3
Intangible fixed assets in the course of construction	-	-	-	-	-	-	105
Total in 2016	(1,765)	(94)	331	1	(1,527)	(20)	346
Total in 2015	(1,676)	(108)	19	-	(1,765)	(21)	336

3.3. Tangible fixed assets

Cost

(CZK million)	Opening balance	Additions *)	Disposals*)	The impact of spin-off	Closing balance
Land	873	-	(5)	-	868
Buildings	11,473	142	(82)	-	11,533
Plant, machinery and equipment	5,345	175	(215)	(85)	5,220
Motor vehicles	1,789	69	(239)	(18)	1,601
Furniture and fittings	703	10	(13)	-	700
Assets below CZK 40 thousand	43	219	-	(6)	256
Other tangible assets	438	-	(29)	-	409
Work of art	4	-	-	-	4
Tangible fixed assets in the course of construction	323	706	(608)	-	421
Advances paid for tangible fixed assets	5	-	(5)	-	-
Revaluation difference of acquired assets	-	-	-	-	-
Total in 2016	20,996	1,321	(1,196)	(109)	21,012
Total in 2015	20,748	1,077	(829)	-	20,996

*) Additions and Disposals also include transfers of tangible fixed assets in the course of construction. Disposals of tangible fixed assets in the course of construction also include depreciation of lost investments.

Accumulated depreciation, allowances and net book value

(CZK million)	Opening balance of accumulated amortisation	Additions	Disposals	The impact of spin-off	Closing balance of accumulated depreciation	Allowance	Closing balance
Land	-	-	-	-	-	(1)	867
Buildings	(5,001)	(279)	40	-	(5,240)	(18)	6,275
Plant, machinery and equipment	(4,115)	(302)	216	61	(4,140)	(14)	1,066
Motor vehicles	(1,492)	(83)	237	17	(1,321)	-	280
Furniture and fittings	(554)	(24)	12	-	(566)	-	134
Assets below CZK 40 thousand	(2)	(27)	-	1	(28)	-	228
Other tangible assets	(438)	-	29	-	(409)	-	-
Work of art	-	-	-	-	-	-	4
Tangible fixed assets in the course of construction	-	-	-	-	-	(7)	414
Advances paid for tangible fixed assets	-	-	-	-	-	-	-
Revaluation difference of acquired assets	-	-	-	-	-	-	-
Total 2016	(11,602)	(715)	534	79	(11,704)	(40)	9,268
Total 2015	(11,158)	(736)	292	-	(11,602)	(66)	9,328

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

In 2016 and 2015, the Group did not receive any material fixed assets free of charge.

In 2016 and 2015, besides the easement in favour of PCS – Praha Center s.r.o. created in relation to the post office building at Jindřišská street, Prague 1, based on an agreement dated 16 April 1997, which is in force until 31 March 2042, the Group had other 359 (2015: 346) easements, or similar rights to tangible

fixed assets (rights for sewage pipeline, water pipeline, power and gas 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 in favour of the communal and municipal authorities, Telefónica O2 Czech Republic, a.s. and electricity producers and distributors.

In 2016, the Group did not received any investment subsidy. In 2015, the Company received an investment subsidy in the amount of CZK 5 million.

3.4. Long-term investments

As at 31 December 2016, other long-term securities and investments comprised government bonds emitted by the Ministry of Finance of the Czech

Republic payable in 2023, securities available for sale, valued at CZK 219 million as at 31 December 2016 using the fair value method (as at 31 December 2015: CZK 219 million).

4. INVENTORIES

The Company created a provision for inventories to adjust the value of inventory (see Note 7 – Provisions).

5. RECEIVABLES

As at 31 December 2016 and 31 December 2015, receivables due after more than 5 years amounted to CZK 2 million and CZK 2 million, respectively, and outstanding overdue receivables amounted to CZK 311 million and CZK 327 million, respectively. Outstanding overdue receivables are not secured. In 2016 and 2015, the Group wrote off its receivables in the amount of CZK 36 million and CZK 22 million, respectively, as expenses, due to their unrecoverable nature, the dismissal of a bankruptcy petition and the settlement or non-recovery of debts in bankruptcy proceedings.

Receivables from related parties are described in Note 22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these

transactions as at 31 December 2016 amounted to CZK 933 million and to CZK 685 million as at 31 December 2015. Operating records on incoming mail not yet confirmed by individual postal offices were recorded as estimated receivables with the double entry in Sales of own products and services, based on operating statistics. As at 31 December 2016, respectively (31 December 2015, estimated receivables (presented under long-term receivables) included the compensation of net costs for the provision of basic postal services in the amount of CZK 1,300 million, respectively CZK 700 million - See note 6. - Net costs of universal service. As at 31 December 2016, this item is classified as long-term, since it is a process that takes a longer period of time.

6. NET COSTS OF UNIVERSAL SERVICE

The Company as a postal license holder, as defined by Section 21 paragraph 2 of the Postal Service Act, is obliged to ensure the universal availability of basic services listed in Section 3 paragraph 1 of the Postal Service Act in the whole territory of the Czech Republic (ie. Postal services obligation). The Company is obliged to fulfil the postal services obligation (Section 33 paragraph 1 point a) of the Postal Service Act), in accordance with the basic quality requirements set out in Decree no. 464/2012 Coll., of 17 December 2012, establishing specifications for each basic service and basic quality requirements for their provision.

If, due to the obligation of providing basic services the postal licence holder incurs a net costs representing an unfair financial burden for the postal licence holder these costs are reimbursed in such a way as stipulated by the Postal Services Act. The CTO's process of calculating the net cost of providing basic services is further specified in Decree no. 466/2012 Coll. of 17 December 2012 on the procedure of the Czech Telecommunication Office (CTO) when calculating the net cost of fulfilling obligations to provide basic services.

The legislation governing the manner of determining and financing the net cost of providing basic services is based on third postal directive.

The third postal directive was transposed to the Czech legislation by Law no. 212/2013 of 20 June 2013 (the so-called: liberalisation amendment of the Postal Services Act). According to the Postal Service Act, as amended by the liberalisation amendment, net costs representing an unfair financial burden should be funded through the account for financing of net costs (the so called compensation fund) to which, under the Act, individual postal operators should contribute according to their share on the postal services market. The Company should be compensated for the net cost to the amount corresponding to the proportion of the market shares of other entities operating in the postal services market.

In accordance with the accrual-based principle for revenues and expenses, revenues from the compensation should always be recognised in the year when the related costs were incurred. In the years 2013 and 2014 the revenues were not recognised as of the date of preparation of the respective financial statements the amounts of net costs were not verified by CTO in accordance with the applicable legislation and the Company's management was not able to calculate a sufficiently accurate estimate of the compensation of net costs for provision of the universal service.

In March 2015, the CTO verified the amount of net cost for providing basic services for the year 2013 in the amount of CZK 947.8 million, or CZK 753.1 million after deducting the net costs that do not represent an unfair financial burden.

In February 2016, CTO verified the amount of net cost of basic services for the year 2014 in the amount of CZK 851.5 million, or 657.2 million after deducting net costs that do not represent an unfair financial burden.

Market shares that are crucial for the amount of contributions to the compensation fund, and therefore also for the final amount of compensation for the years 2013 and 2014, which is the responsibility of the CTO, have not been determined so far. In order to determine the market shares crucial for determining the value of compensation, it is essential to define the potential group of contributors to the compensation fund based on the types of activities they carry out in the market. The determination of the group of mandatory contributors to the compensation fund and the amount of their contribution became one of the topics of the investigation conducted by the European Commission in connection with the compensation fund regime. With regards to possible alternative outcomes of this issue, the Company's management was not able with a sufficient level of certainty to quantify the amount of the claim, since the estimates ranged between CZK 1 million and CZK 154 million for the year 2013 and CZK 1 million and CZK 135 million for the year 2014. As a result, management of the Company decided not to recognise the entitlement to compensation for the years 2013 and 2014 in the 2015 financial statements, nor in the extraordinary financial statements for the first half of 2016.

In July 2016, resulting from the preliminary investigation of the compensation fund regime in the years 2013 to 2014, the European Commission raised several questions, which resulted in a recommendation that the compensation fund should be cancelled. The Commission also informally indicated that, if the fund regime is abolished, the approval of direct payments from the state budget could be viable. Among the key observations on the of compensation fund mechanism were the lack of a definition for substitutable services in the Act or any other legal document; therefore, it is not possible to clearly determine the potential group of contributors to the compensation fund, possible incompatibility with amendments to Czech legislation (the so-called postal directive), or SGEI (Services of General Economic Interest) framework from 2012, or the absence of a ceiling for the contribution paid into the fund and therefore to require disproportionately high contributions from postal operators.

On 12 October 2016, following the European Commission investigation, the Czech government acknowledged in its resolution the impossibility of applying the Act on the postal services where it relates to financing of net costs representing an unfair financial burden through the compensation fund and it asked the Minister of Industry and Trade together with Minister of Interior, 1st Deputy Prime Minister for the Economy, and Minister of Finance to draft a proposal on how to prevent potential damage and minimise the risks associated with the decision of not

applying the provisions of the Postal Service Act on the years 2013 and 2014, on the basis of which the net cost of providing basic services representing an unfair financial burden should be paid to the postal license holder, i.e. CP through a compensation fund.

During the course of negotiations between the Minister of Interior and 1st Deputy Prime Minister and Minister of Finance on 2 March, 2017 there a consensus on paying the net costs from the state budget was reached. The payment would be limited to a total of CZK 800 million - for both years would be realised in three stages: CZK 200 million in 2018, CZK 300 million in 2019 and CZK 300 million in 2020.

The Company's management considers the public political promise on the CZK 800 million compensation for net costs for the provision of basic services for the years 2013 and 2014, from the state budget, as an increased security for the compensation for the years 2013 and 2014. However, the actual payment of CZK 800 million depends on the successful notification of the new mechanism for reimbursing net costs by the European Commission and an amendment of the Postal Services Act. Until the legislative process is completed, the existing legislation on financing the net costs for the years 2013 and 2014 is valid i.e. requiring the payments through the so-called compensation fund.

The uncertainty regarding the correct quantification of the claim prevails. From the updated data for calculating market shares of individual postal operators gathered in administrative proceedings by the Czech Telecommunication Office, it seems that the total maximum market share of other operators in the postal market is only about 12%. That would mean that the Company is entitled to a compensation amounting to a maximum of about CZK 170 million in total for both years. Also, it is valid that the operators of postal services whose market shares were included by the CTO in the calculation (providers of i.e. package services) could dispute by the way of administrative or judicial procedures with a higher or lower probability of success that their services do not have the character of postal services in the meaning of the law of postal services and therefore indirectly they realize that they must contribute to the compensation fund. Therefore, it is realistic to expect a further market share reduction of other operators in the postal services market.

Considering everything mentioned above, the Company's management concluded that, as at balance sheet date, it is still not possible to reliably estimate the amount of entitlement for the years 2013 and 2014 and decided therefore not to recognise the entitlement for the years 2013 and 2014. Regarding the entitlements for 2015 and 2016, effective from 1 January 2016 according to Act no. 319/2015 Coll amending Act 29/2000 Coll. on postal services and

amending other laws (Postal Services Act), as amended, and Act no. 77/1997 Coll., on State Enterprise, as amended, the change in the method of financing net costs for the period beginning on calendar year 2015 came into effect. The method of financing net costs was replaced by a payment from the state budget in the amount of the net cost for providing the basic services representing an unfair financial burden, in the amount verified by CTO according to § 34b Sec. 6 of the Postal Services Act, , but no more than:

- > For the year 2015 CZK 700 million;
- > For the year 2016 CZK 600 million;
- > For 2017 and subsequent years CZK 500 million.

Other net expenses are not considered to be an unfair financial burden.

The actual method of determining the net cost of basic services has not been affected by the change in the law.

In 2015, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by law, CZK 700 million. As at the date of the financial statements, the decision of the Czech Telecommunications Office concerning the verification of the net costs of universal service for 2015 was not yet available. Management is however convinced that, also supported by informal communication with the Czech Telecommunications Office, the amount of the verified cost will not be lower than the estimated receivable recognised.

Also in 2016, the Company's management is confident that the verified amount of expenses for 2016 will be above the upper limit of CZK 600 mil. as given by law. The estimated receivable of CZK 171 million was recognised in the extraordinary financial statements for the first half of the year. In the second half of the year, the additional CZK 429 million was recognised as the anticipated receivable, together totalling CZK 600 million.

As a part of the profit and loss statement, the revenue is presented on a separate line III.3.1. Compensation for net costs from the provision of basic postal services within other operating income. In the balance sheet, the amount of compensation for net costs for the provision of universal service for 2015 and 2016 is presented within long-term receivables under the line item Estimated Receivables C.II.1.5.3. since the valid legislation does not stipulate the due date and with respect to the existing mechanism regarding compensation for net costs for the provision of universal service the Company expects to receive the payment after more than one year.

The compensation mechanism for the years 2015 and 2016 is also subject to the notification process of the European Commission, which was not completed by the date on which the financial statements were completed.

7. PROVISIONS

Provisions reflect a temporary decrease in the value of assets (disclosed in Note 3 – Fixed assets, 4 – Inventories and 5 – Receivables).

Provisions for: (CZK million)	Balance as at 1 January 2015			Balance as at 31 December 2015			Balance as at 31 December 2016		
	Creation	Release /use		Creation	Release /use		Creation	Release /use	
Intangible fixed assets	-	21	-	21	1	(2)	-	(2)	20
Tangible fixed assets	71	15	(20)	66	-	(26)	-	(26)	40
Inventories	60	11	(11)	60	11	(2)	11	(2)	69
Receivables - other	108	63	(33)	138	64	(56)	64	(56)	146
Total tax non-deductible provisions	239	110	(64)	285	76	(86)	76	(86)	275
Receivables - legal	38	16	(16)	38	29	(35)	29	(35)	32
Total tax deductible provisions	38	16	(16)	38	29	(35)	29	(35)	32
Total	277	126	(80)	323	105	(121)	105	(121)	307

Legal provisions are created pursuant to the Reserves Act no. 593/1992 Coll. as amended and are deductible for tax purposes; other provisions are not deductible for tax purposes.

8. SHORT-TERM FINANCIAL ASSETS AND CASH EQUIVALENTS

The main bank used by the Group is Československá obchodní banka, a.s., in which the Group has two cash-pooling sets of accounts, a set of current accounts and a set of accounts with entrusted resources. An overdraft enabling the Group to have a negative balance is agreed for the set of accounts with both the C Group's own and entrusted resources (see Note 14 – Bank loans and overdrafts).

As at 31 December 2016, respectively 31 December 2015, the Group had CZK 2,947 mil., respectively CZK 3,721 mil. on its savings accounts, which bear the market interest.

Short-term securities and ownership interests as at 31 December 2016, respectively 31 December 2015 were as follows:

Issuer	Type	2016 (CZK million)	2015 (CZK million)
PPF banka a.s.	Short-term depository notes	-	50
Total		-	50

9. EQUITY

As at 31 December 2016, respectively 31 December 2015, the share capital amounted to CZK 3,588 million.

The reserve fund has been created gradually up to the level of 10% of share capital. Other funds from profit include the cultural and social fund.

Other capital funds comprise mainly contributions from profit of the Group or gifts received. The revaluation differences from the revaluation of assets and liabilities include the revaluation of available-for-sale securities at fair value.

The Group is a part of the whole of the government consolidation

10. MINORITY EQUITY

Minority equity as at 31 December 2016 comprises of the following (in CZK million):

(CZK million)	Share capital	Other capital funds incl. reserve fund	Retained earnings	Profit/Loss for the current period	Total
Balance as at 1 January 2016	16	16	12	(2)	42
Movements between funds	-	-	(2)	2	-
Profit for the current period	-	-	-	-	-
Balance as at 31 December 2016	16	16	10	-	42

11. PROVISIONS

(CZK million)	Balance as at 1 January 2015			Balance as at 31 December 2015			Impact of the spin -off	Balance as at 31 December 2016
	Creation	Release /use		Creation	Release /use			
Social and health insurance	77	116	(77)	116	202	(174)	(6)	138
Untaken holiday	33	29	(33)	29	136	(114)	(5)	46
Provision for severance pay incl. competition clauses	91	47	(90)	48	51	(51)	(7)	41
Non-claimable component of salaries	88	202	(88)	202	338	(268)	(6)	266
Other	70	163	-	233	94	(43)	(72)	212
Total tax non-deductible provisions	359	557	(288)	628	821	(650)	(96)	703
Total	359	557	(288)	628	821	(650)	(96)	703

The provision for social and health insurance is created mainly for contributions to the unpaid part of contracted wages, profit-related bonuses, untaken holiday and other salary benefits.

Other provisions were primarily created to cover risks known as at 31 December 2016 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

A provision for compensation for severance pay and competition clauses was created in connection with the gradual reduction in the number of employees in subsequent years, which has been approved by the Group's management and then communicated to the employees and trade unions.

The Group also created a provision for the non-claimable component of salaries which is composed of expected extraordinary wage bonuses estimated by the Director General and an additional subjective component of salaries including individual agreed salary bonuses.

12. LONG-TERM LIABILITIES

Long-term liabilities are represented by the deferred tax liability as at 31 December 2016 and 31 December 2015, which is described in Note 16 – Income tax, and the amounts of trade payables, which have maturity longer than one year as at the consolidated balance sheet date, were CZK 16 million and CZK 23 million as at 31 December 2016 and 31 December 2015, respectively. These are mainly part of liabilities concerning retentions – given items are recognised on the line C.I.4 Trade payables.

As at 31 December 2016 and 31 December 2015, the Group did not recognise liabilities that are due after more than 5 years.

13. SHORT-TERM LIABILITIES

The Group's overdue short-term liabilities as at 31 December 2016 and 31 December 2015 amounted to CZK 15 million and CZK 36 million, respectively.

The Group had no short-term or long-term liabilities bearing a security or lien in favour of a creditor as at 31 December 2016 and 31 December 2015.

Liabilities to related parties are described in Note 22 – Related party transactions.

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 1,027 million as at 31 December 2016 and to CZK 865

million as at 31 December 2015. Estimated payables also included quantity discounts, un-invoiced operating deliveries of services and energy, and estimated staff bonuses.

Payables in respect of social insurance and health insurance amounted to CZK 353 million as at 31 December 2016 and to CZK 345 million as at 31 December 2015. These payables comprise unpaid wages for December 2016 and December 2015, which were paid at the beginning of 2017 and 2016.

The Group did not recognise any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2016 and 31 December 2015.

14. BANK LOANS AND OVERDRAFTS

14.1. DENOMINATED IN CZECH CROWNS

Bank	Terms and conditions	Account	Overall limit (CZK million)	As at 31 December 2016 (CZK million)	As at 31 December 2015 (CZK million)
KB, a.s.*	Global credit line effective interest rate: 0.0%	Own resources	2.2	-	-
ČSOB, a.s.	Overdraft line effective interest rate: 0.00%	Own resources	100	-	-
ČSOB, a.s.*	Multi-purpose credit line effective interest rate: 0.35%	Own resources	600	-	-
ČSOB, a.s.	Overdraft credit line effective interest rate: 0.05%	Entrusted resources	1,600	-	-

* It can be drawn in foreign currency in the corresponding amount.

The global credit line from Komerční banka, a.s. allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2016 and 31 December 2015, the overdraft from Komerční banka, a.s. was not used. The global credit line from Komerční banka, a.s. ended in the second half of 2016.

As at 31 December 2016 and 31 December 2015, the overdraft from Československá obchodní banka, a.s. was not used. This overdraft is secured by pledge on the Company's receivables from Československá obchodní banka, a.s. created under a Contract for the provision of services to Československá obchodní banka, a.s. by the Group.

A multi-purpose credit line from Československá obchodní banka, a.s. allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2016 and 31 December 2015, the loan was not used.

The bank overdraft on the account of entrusted funds at Československá obchodní banka, a.s. was provided to ensure sufficient financial liquidity of the Group. The bank overdraft from Československá obchodní banka, a.s. was not used as at 31 December 2016 and 31 December 2015.

14.2. Denominated in EUR

Bank	Terms and conditions	Overall limit (EUR million)	2016 (EUR million)	(CZK million)	2015 (EUR million)	(CZK million)
ČSOB, a.s.	Bank overdraft EURIBOR 3months + .1 % p.a. – entrusted funds	5	1.2	34	1.2	36

The above-mentioned bank overdraft is exclusively used for cash operations of the banking services provided at selected post-office counters in EUR. No collateral was required for the bank overdraft.

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

15. ACCRUED AND DEFERRED LIABILITIES

Deferred revenue primarily includes prepaid postal fees for offsetting remote credit machines.

16. INCOME TAX

Analysis of the income tax expense of the Group:

(CZK million)	2016	2015
Current tax expense	64	107
Deferred tax expense	(31)	(54)
Adjustment of prior year tax expense based on final CIT return	(3)	7
Total income tax expense	30	60

Analysis of current tax:

(CZK million)	2016	2015
Net profit before taxation	209	291
Non-taxable income	(77)	(37)
Difference between accounting and tax depreciation	(12)	(34)
Tax non-deductible expenses (+) and changes in provisions (-) of which:	260	389
> changes of impairment	(10)	46
> changes of provisions	171	269
> other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	99	74
Gifts	-2	(2)
Tax loss of subsidiaries	1	13
Taxable income	379	618
Deduction of tax loss from 2012	-17	0
Tax base	362	618
Income tax rate	19 %	19 %
Calculated income tax	69	117
Tax relief (persons with disability or partial disability)	(5)	(10)
Current tax	64	107
Income tax expense from ordinary activities and total	64	107

The Group calculated the deferred tax asset/ (liability) using the 19% tax rate (for both years) and quantified as follows:

Deferred tax item	2016		2015			
	Basis (CZK million)	Deferred tax asset (CZK million)	Deferred tax liability (CZK million)	Basis (CZK million)	Deferred tax asset (CZK million)	Deferred tax liability (CZK million)
Difference between accounting and tax net book value of fixed assets	(2,509)	-	(477)	(2,521)	-	(479)
Provisions	275	52	-	292	55	-
Other reserves	703	134	-	627	119	-
Other temporary differences	9	2	-	8	2	-
Total	(1,522)	188	(477)	(1,594)	176	(479)
Net deferred tax liability			(289)			(303)

The Group did not recognise a potential deferred tax asset from tax losses of subsidiaries in the amount

of CZK 16 million (as at 31 December 2015: CZK 25 million) due to the principle of prudence.

17. LEASES

The Group leases fixed assets, which are not recognised in the balance sheet accounts (see Note 2.19 - Leases and Note 18 - Assets and liabilities not recognised in the balance sheet).

as at 31 December 2016 (as at 31 December 2015: CZK 262 million). The buildings leased amounted to CZK 236 million as at 31 December 2016 (as at 31 December 2015: CZK 240 million).

The assets leased by the Group in the form of operational leases are amounted to CZK 294 million

The Group did not have any finance leases as at 31 December 2016 and 31 December 2015.

18. ASSETS AND LIABILITIES NOT RECOGNISED IN THE BALANCE SHEET

The Group recognises particularly skittles, vignettes and lottery tickets, the nature of which is recognised as valuables (these items are recognised below in nominal value) in its operational evidence as at 31

December 2016 and 31 December 2015. Furthermore, the Group recognised low-value assets in operating evidence and leased assets in off-balance sheet evidence (recognised in acquisition costs), which is not recognised in the balance sheet:

(CZK million)	31 December 2016	31 December 2015
Valuables incl. stamps and lottery tickets	15,491	15,861
Vignettes	1,928	1,394
Leased assets – operational lease	1,487	1,368
Securities	40	40
Low-value tangible assets	2,379	2,426
Low-value intangible assets	64	80

The structure of the contracted future obligations from operating leases and rental of buildings is presented in the table below (in CZK million):

(CZK million)	31 December 2016	31 December 2015
Due within 1 year	374	386
Due between 1 to 5 years	657	813
Due after 5 years	72	101
Total	1,103	1,300

Received and provided bank guarantees/letters of credit for the Group, which are drawn under the frame agreements, on the provision of financial services, as at 31 December 2016 were as follows:

Type of guarantee provided	Guarantor	Creditor	Subject	Valid until	Amount (CZK million)
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	4
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system NIS IZS	1. 7. 2017	9
Payment	Československá obchodní banka, a.s.	Ministry of Interior	Distribution and sale of vignettes for the year 2016 and following emissions	31. 12. 2017	12
Payment	Československá obchodní banka, a.s.	State Fund of Transport	Distribution and sale of vignettes for the year 2017 and following emissions	16. 3. 2017	100
Payment	Československá obchodní banka, a.s.	State fund of transport	Distribution and sale of vignettes for the year 2017 and following emissions	16. 3. 2018	370
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	3. 8. 2018	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o. - Prologis CR LX s.r.o.	Rental agreement	19.2.2018	3
					499
Type of guarantee received	Guarantor	Debtor	Subject	Valid until	Amount (CZK million)
Payment	Unicredit Bank, a.s.	PRONIX s.r.o.	Action – building data centre	31. 8. 2017	6
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action-DEPO Plzeň 72	11. 4. 2018	1
Payment	Komerční banka, a.s.	TRAWEKO 96 s.r.o.	Action-DEPO Přešov 70	7. 1. 2018	1
Payment	Československá obchodní banka, a.s.	VÁHOSTAV-SK, a.s.	Action-DEPO Benešov 70	15. 2. 2018	1
Payment	Československá obchodní banka, a.s.	Polabská stavební CZ, s.r.o.	Action-DEPO Česká Lípa 70	18. 4. 2018	2
Payment	Komerční banka, a.s.	StředomoravskéStavby, s.r.o.	Action-DEPO Prostějov 70	20. 12. 2017	1
Payment	Československá obchodní banka, a.s.	PSG-International a.s.	Action-dislocation of the post office Praha 50		
			SPU Malešice	28. 8. 2018	1
Payment	Česká spořitelna, a.s.	Synet s.r.o.	Action-DEPO Kroměříž	14. 8. 2018	1
Payment	Komerční banka, a.s.	SAN-JV s.r.o.	Action-DEPO Šumperk 70	3. 6. 2018	1
Payment	UniCredit Bank, a.s.	Kappenberger + Braun, Elektro-Technik spol. s. r.o.	Action-DEPO Jihlava 70	5. 10. 2018	1
Payment	Komerční banka, a.s.	ABC Chomutov spol. s r.o.	Action-SPÚ Ústí nad Labem	31. 8. 2018	1
Payment	Raiffeisenbank, a.s.	STAEG Stavby, spol. s r.o.	Action DEPO Znojmo	21. 12. 2017	1
Payment	Československá obchodní banka, a.s.	IMOS Brno, a.s.	Action – insulation Praha 3 Olšanská	31. 12. 2018	4
Payment	Raiffeisenbank, a.s.	SKD Průmstav-stavby, a.s.	Action – SPU Ústí-completion	3. 2. 2019	4
Payment	UniCreditBank, a. s.	PSG International a.s.	Action-reconstruction SPU+DEPO Ostrava 71	3. 6. 2019	1
Payment	Oberbank AG	EDIKT, a. s.	Action- SPU Ostrava+DEPO Ostrava 71- completion and reconstruction	31. 7. 2019	5
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action – reconstruction of post office Brno 100	15. 4. 2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action – SPU České Budějovice – new building	27. 9. 2021	5
					39

19. CONTINGENT LIABILITIES

The management of the Group is not aware of any contingent liabilities as at 31 December 2016.

20. REVENUE AND OTHER OPERATING INCOME

Breakdown of revenues and other operating income from the Group's principal activities:

	2016			2015		
	Domestic (CZK million)	Foreign (CZK million)	Total (CZK million)	Domestic (CZK million)	Foreign (CZK million)	Total (CZK million)
Revenue from postal operations	12,284	1,794	14,078	12,318	1,614	13,932
Revenue from provision of intermediary services	2,561	-	2,561	2,537	-	2,537
Print (stamps, envelopes, valuables)	6	14	20	8	15	23
Revenue from the communication infrastructure	336	-	336	730	-	730
Revenue from electronic services	518	-	518	757	-	757
Revenue from data mailboxes	513	-	513	509	-	509
Revenue from the sales of goods without communication and print	257	-	257	803	-	803
Total revenues	16,475	1,808	18,283	17,662	1,629	19,291
Other operating income	1,092	-	1,092	988	-	988
Other operating income total	1,092	-	1,092	988	-	988
Revenues and other operating income total	17,567	1,808	19,375	18,650	1,629	20,279

The main revenues include gross revenues related to services connected with management of communication infrastructure. Appropriate related costs are presented as part of the line Services. The Group did not provide these services as at 31 December 2016.

In 2016 and 2015, the Group received subsidies for operating purposes in the amount of CZK 3 million and CZK 0.5 million, respectively. This income is part of Other operating income.

21. EMPLOYEES

Breakdown of staff costs of the Group:

	2016		2015	
	Total number of employees	Out of which: Group's management and Director General	Total number of employees	Out of which: Group's management and Director General
Average number of employees	30,096	36	30,295	34
Wages and salaries (CZK million)	9,031	80	8,713	77
Social and health insurance (CZK million)	3,004	17	2,879	16
Other cost (CZK million)	350	-	346	-
Total staff costs	12,385	97	11,938	93

Notes: Wages and salaries of the Group's management and Supervisory Board also include severance pay and anti-competitive clause.

22. RELATED PARTY TRANSACTIONS

Apart from the bonuses disclosed in Note 21 – Employees, in 2016 and 2015, members and former members of the Group's statutory and supervisory bodies and the Group's management did not receive any loans, guarantees, advance payments or other benefits besides the collective agreement.

However, the Group's management has access to Company cars that are made available for both business and private

purposes.

During the year, the Group executed several transactions with related parties within its ordinary business activities. The transactions realised in 2016 and 2015 and the related receivables from and liabilities to related parties are as follows:

	Sales (CZK million)	Costs (CZK million)	Receivables (CZK million)	Payables (CZK million)
2016				
Czech Television and Radio	238	-	-	10
Government ministries	1,058	22	53	19
Czech Social Security Administration	453	2,155	-	2,073
Municipal and local authorities	338	76	7	230
ČD Cargo	-	70	-	5
Charles University in Prague	9	-	-	2
České dráhy	6	3	1	1
Water and sewage systems Hodonin	2	-	-	2
National Agency for Communications and Information Technology	5	2	3	-
Total	2,109	2,328	64	2,342
2015				
Czech Television and Radio	242	1	-	5
Government ministries	1,951	3	212	21
Czech Social Security Administration	459	2,067	-	3,853
Municipal and local authorities	313	65	15	287
ČD Cargo	1	68	4	-
Charles University in Prague	9	-	-	2
České dráhy	5	4	1	1
Water and sewage systems Hodonin	2	-	-	2
Total	2,982	2,208	232	4,171

23. FEES PAID AND PAYABLES TO THE AUDIT COMPANY

The total fees paid and payable for the statutory audit of financial statements, including the audit of consolidated financial statements and extraordinary

financial statement as at 30 June 2016, amounted to CZK 3 million as at 31 December 2016 and 2 million as at 31 December 2015.

24. ENTRUSTED RESOURCES

The entrusted resources analysis as at 31 December 2016 and 31 December 2015 is as follows:

(CZK million)	31 December 2016	31 December 2015
ASSETS		
Short-term receivables	133	87
Cash in hand	3,207	4,634
Cash at bank	607	816
Total assets	3,947	5,537

(CZK million)	31 December 2016	31 December 2015
LIABILITIES		
Short-term payables	3,913	5,501
Short-term bank loans	34	36
Total liabilities	3,947	5,537

25. CASH-FLOW STATEMENT

As at 31 December 2016 and 31 December 2015, the Group did not consider the used overdraft facilities as cash equivalents for the purpose of the cash-flow statement (see Note 14 – Bank loans and overdrafts).

Cash and cash equivalents disclosed in the cash-flow statement can be analysed as follows:

(CZK million)	31 December 2016	31 December 2015
Cash on hand	4,284	4,713
Cash at bank	2,094	4,212
Cash equivalents included in short-term securities and investments	50	50
Total cash and cash equivalents	6,428	8,975

26. SUBSEQUENT EVENTS

The Company will calculate net costs for the provision of basic services for the accounting period 2016 and will ask CTO for the reimbursement of such costs that represent unfair financial burden for the Company as a postal license holder. The deadline for submission is 31 August 2017.

No other events have occurred between the balance sheet date and the date of preparation of the consolidated financial statements that would have a material impact on the consolidated financial statements for the accounting period 2016.

17 March 2017



Martin Elkán
Director General
Česká pošta, s.p.

126 ABBREVIATIONS USED

BOZP	Health and safety at workplace
CE COMM	The Conference of European Communication Museums
CMS	Shared services centre
CNG	Compressed natural gas
ČSSZ	Czech Social Security Administration
CSR	Corporate social responsibility
Czech POINT	National network of submitting and verifying
ČP OZ	Česká pošta ICT services branch
ČSOB	Československa obchodni banka, a. s. (Czech and Slovak Business Bank)
CTO	Czech Telecommunication Office
D+3	Delivered by the third day after collection
D+5	Delivered by the fifth day after collection
DG	Director General
DR	Supervisory Board
DINO	Debt collection of inhabitants
DPH	Value added tax
EK	European Commission
EMS	Express Mail Service
ES	European directive
ESF	European Social Fund
EU	European Union
FKSP	Fund for cultural and social needs
HDP	Gross domestic product
HP	Hybrid Post
HR	Human resources
HW	Hardware
ICT	Information and communication technologies
ISDS	Data Mailbox Information System
ISO	International Organisation for Standardisation
KI	Critical infrastructure
KS	Critical situation
LZ	Human resources
NBÚ	National Security Office
OSVČ	Self-employed person
OZP	Persons with disabilities
PDZ	Postal data message
PKP	Crisis preparedness plan
PM	Postal Museum
QCA	Qualified Certification Authority
RIPM	Distribution of information and promotional Materials
SČF	Union of Czech Philatelists
SIPO	Multiple direct debit payments via the Company's payment system
SMS	Short message service
SPU	Logistic hub
SW	Software
TnT	Track and tracing
USB	Universal serial bus
UNEX	International measurement of quality of postal services of public postal operators
VZP	Všeobecná zdravotní pojišťovna (General Health Insurance Company)

127 CONTACTS

Company name:	Česká pošta, s.p.
Registered office:	Politických vězňů 909/4, Prague 1, 225 99
Identification number:	47114983
Tax identification number:	CZ47114983
Registration court:	The Municipal Court in Prague
Company's registration no.:	insert 7565, section A
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Data mailbox ID:	kr7cdry
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Region East Bohemia:	Na Hradku 105, 530 02 Pardubice 1
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Region North Moravia:	Poštovní 1368/20, 728 60 Ostrava

The background features a dark grey, semi-transparent shape resembling a stylized letter 'C' or a speech bubble on the left side. Overlaid on this are several concentric circles of varying shades of grey and thin yellow lines. The overall aesthetic is modern and minimalist.

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