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**Česká pošta**

**Annual Report 2019**

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## 1 Foreword

The postal market, as our predecessors knew it, has undergone and is still undergoing considerable changes. In particular at a time when the previous paper method of communication is changing to digital. On the other hand, there are still societal requirements to maintain the postal structure that was in place before the onset of electronization. This is the conundrum all postal administrations across the globe need to resolve. Česká pošta is no exception. It is one of the reasons why legitimate questions arise about the purpose of the current form of postal services. I am aware of this debate, I do not shun it, and I actively participate in it on behalf of Česká pošta when dealing with various interest groups.

Česká pošta affects all walks of life of every individual, the functioning of state organizations, as well as activities of private companies. It is an irreplaceable part of society. With all its pros and cons.

Despite some shortcomings, Česká pošta represents a certainty for all its clients. We make efforts to work more efficiently and meet customer requirements. They trust us, which is why they use our services, such as the payment of pensions, sending letters, shipping packages, verification of signatures. We are a company with a tradition which adapts its operations to market trends reflecting the needs and requirements of both individuals and companies.

We are Česká pošta. We are not perfect, but we are changing. We want to be and will be a modern company. We are not an Austro-Hungarian institution. We are here for our customers. Not the other way round. Thanks to our employees, customers can find the fundamental certainty in Česká pošta. Despite many doubts and misconceptions we can say with conviction that Česká pošta has existed and will continue to exist. It will most definitely be different from the organization of the time in which most of the clichés about today's Česká pošta originated. But it will be here. Smaller, confident, modern. Simply Česká pošta.

Yours truly,

**Roman Knap, Director General of Česká pošta, s. p.**



## 2 Report of the Supervisory Board

Česká pošta is undergoing transformation that was launched after new management had been appointed. There was no other road for the Company that would not lead to a dead end. A look at the planned changes demonstrates that management has not have to resort yet to radical solutions that would result in instant massive lay-offs, reduction in the range of services provided, even in accordance with applicable legislation, and significant increases in prices of services.

Similar to the previous year, ČP recorded an operating loss for 2019. From the finance manager's perspective, it's not a disaster. Česká pošta is following the restructuring plan that foresees generating profits in 2021. The good news for both the market and employees is that the operating loss is lower than the predicted number. On the whole, there is no reason to be overly optimistic, but we don't need to succumb to skepticism.

The Supervisory Board is aware of the actual situation of the company. The restructuring steps and financial decisions of Česká pošta's management are subject to professional discussion aimed at minimizing any negative effects on the overall condition of the company.

Česká pošta is going through a difficult time, but it knows what it takes, where it goes and, in particular, why it's necessary. The sum of these directions equals the anticipated outcome of the transformation process.

Yours sincerely,

**Petr Zatloukal, Chairman of the Supervisory Board, Česká pošta, s.p.**



### 3 Key events of 2019

- On 15 January 2019, a meeting was held between management of Česká pošta, s.p. (hereinafter also “Česká pošta”, the “Company”, “ČP”) and trade unions representatives, attended by Czech Interior Minister Jan Hamáček.
- In late January 2019, the Lower House of the Parliament began to discuss an amendment to the Postal Services Act that would ensure an additional payment of CZK 800 million to ČP pledged by the government to cover the net costs of universal service in 2013 and 2014, which the state ordered from Česká pošta.
- Two meetings of management with employees took place in the first two months of the year. The first, organized for the regions of East Bohemia, North Moravia and South Moravia, was held on 23 January in the Olomouc Regional Center, and the second, organized for the regions of West Bohemia, South Bohemia, North Bohemia and Prague, was held on 13 February in Prague. Some 500 people participated in the Olomouc meeting and about 800 participants gathered in Prague.
- Petr Cinkl was appointed head of the postal operations and logistics division on 18 February 2019.
- On 20 February, Director General Roman Knap received at Česká pošta Chairman of PostEurop’s Management Board Jean-Paul Forceville and the Association’s Secretary General Botond Szebeny. The topics discussed at the informal meeting included the development of postal regulation and opportunities for closer cooperation between PostEurop and ČP.
- As of 1 March, Česká pošta has simplified the price calculation for selected parcels by introducing S, M, L and XL size categories. The packages have been measured instead of weighed since that date.
- On 1 March 2019, Česká pošta began to offer the option to fill in the address via the Internet before sending packages. This step eliminates the necessity to fill in a paper delivery note, reducing the waiting time at post offices.
- On 18 March 2019, Česká pošta hosted a meeting of the PostEurop WG Security working group, attended by security experts from nearly a dozen foreign postal organizations.
- On 20 March 2019, a new application for the operation of Passport facilities (PPP) was deployed.
- A meeting with colleagues from the Slovak Post took place on 20 March 2019. They discussed exchange of experience in the regulatory, economic and operational areas, e.g. financing of universal service, charging received compensation to income, reducing delivery costs, and transformation of the branch network.
- Since 1 April 2019, tariff wages of Česká pošta employees have increased by 10%, which is the biggest wage increase at Česká pošta over the past 11 years.
- Director General Roman Knap and the Chairman of the Supervisory Board of Česká pošta paid a visit to the Swiss Post on 3 April 2019. They discussed with the Swiss Post’s top management the transformation of the logistics and branch network, the possibility of participating in international e-commerce, and financial services.
- On 11 and 12 April 2019, ČP welcomed an eight-member delegation of the Hungarian Post, led by its Director General György Schamschula. The experts discussed the set-up of logistics and delivery networks. Both DGs also discussed future strategies and developing cooperation.
- Director General Roman Knap and Vice-Dean of the Rennes School of Business in France signed a cooperation agreement on 23 April 2019 under which they will exchange and analyze data. The main focus of the cooperation will be data analysis. ČP expects a very specific outcome of this collaboration, notably streamlining internal processes and improving services.
- On 15 May, the YELLOW LADIES women’s football team competing for the UN’s SDG Global Goal No. 3 (good health and well-being) was inaugurated. On 30 May the Ladies won the GLOBAL GOALS WORLD CUP PRAGUE held on Wenceslas Square and advanced to the World Finals in New York.
- An Open House Day was held at the Pilsen SPU on 1 June 2019 to mark the 20th anniversary of its operation in the new building and the same anniversary of terminating the operation of the railway mail service.

- In June 2019, a criminal complaint was filed on suspicion of counterfeiting of postage stamps, following the detection of counterfeit stamps Czech Republic Flag of 2015 with a nominal value of CZK 19 in the Litoměřice region.
- Česká pošta presented the restructuring plan of the company with the aim to modify the services provided to reflect the current market trends and to meet customer requirements.
- Visa and Mastercard cards may be used for payment at all branches of Česká pošta and Pošta Partner offices since 1 July.
- On 10 July, the Lower House of the Parliament passed on the third reading an amendment to the Postal Services Act, including some proposed changes. The amendment will facilitate compensation payment by the state to Česká pošta which nearly equals the costs of providing public services.
- Another foreign meeting of GD Roman Knap took place on 24 July at the Austrian Post, where the officials discussed, in particular, the restructuring of the Austrian Post, the operation of new-generation post offices and the experience in operating partner post offices in Austria. The meeting included a tour of the Austrian Post's new headquarters, followed by a tour of two standard branches and a letter-sorting center.
- Testing of communicators for people with impaired hearing or deaf at Česká pošta branches was successful. Since July 26, ten communicators have been distributed throughout the Czech Republic.
- Karel Kratina left the position of Supervisory Board Chairman as at 30 July. Petr Zatloukal, who was ČP's Director General until the end of March 2014, was elected the new chairman of the Supervisory Board.
- The unconventional Postcards Online campaign, under way in the summer months, again broke a record with a 100,000 increase in the number electronic postcards sent compared to the same period in 2018. The service attracted 50,000 new customers.
- On 26 September, the Yellow Ladies amateur football team of ČP female employees from across the country won the world finals of the unique women's football tournament for the UN global goals. The Czechs thus became world champions.
- At the end of September, representatives of Česká pošta participated at a special conference of the Universal Postal Union (SPU) in Geneva which discussed a reform of terminal fees in response to the threat of the United States to withdraw from the Union.
- On 4 October, DG Roman Knap and Interior Minister Jan Hamáček presented to Prime Minister Andrej Babiš the approved restructuring plan of the state-owned enterprise for 2019 - 2022 at the post office in Prague's Jindřišská Street
- A memorandum of cooperation was signed between Česká pošta and the Prison Service of the Czech Republic on 10 October.
- Česká pošta received a special award from the jury of the BpS TOP Responsible Company 2019 rating for its openness toward disadvantaged young people in the Don't Be Alone project focused on young people from Halfway Houses.
- On 15 November, Česká pošta DG Roman Knap presented to Prime Minister Andrej Babiš strategic plans for the transformation of postal logistics and toured with him and Director General of the Office of the Government Representation in Property Affairs, Kateřina Arajmu, the Malešice compound in Prague. Česká pošta offered the Malešice compound as a possible alternative for the construction of the government district.
- On 13-15 November 2019, a meeting of the Visegrad Postal Group (VPG) was held at ČP which discussed the current status of cooperation with the Chinese Post, the results of the extraordinary SPU Congress and changes in customs fees and VAT rates.

## 4 The year 2019 in numbers and facts

- During the Tent Against Melanoma event partnered by Česká pošta as in prior years, **5,120** people had their birthmarks examined. Of the total number, 34 malignant melanomas were diagnosed.



- **Two million** Postcards Online were sent. ČP clients conquered this threshold in August 2019. More than 350,000 users sent at least one e-postcard over four years of the operation of this service.
- 99.6 million data messages were sent in 2019, representing an increase of 2% year-on-year. A total of 94,000 new data boxes were set up.
- The millionth data box was set up on 5 August at 14:31. This happened 10 years and 1 month after the ISDS system was launched. Overall, more than 700 million messages passed through the system; this mark was surpassed on 4 November 2019.
- **18** is the number of exhibitions that took place in the Postal Museum, or in which the museum participated in 2019. Four were staged at the Prague Postal Museum, two at its branch in Vyšší Brod, and 12 (of which five were the Postal Museum traveling exhibitions) were on display in other memorial and cultural venues in the Czech Republic and abroad.
- The Postal Museum purchased 14 new exhibits. In addition, its collection was expanded to include 37 donations, the most notable of which is a signal transmitter for detecting damaged telecommunication cables made in the 1930s.
- The Call Center in Ostrava handled 414,173 incoming calls and 165,140 email inquiries and submissions in 2019. The Call Center operators served 4,423 customers in support of the Postcard Online and Mail Online applications. The recruitment line provided information to 4,467 potential applicants for jobs with Česká pošta.
- The Stamp Production Department in 2019 prepared 27 issues of commemorative stamps, 40 commemorative and regular postage stamps, 49 commemorative postmarks and 49 own stamps.
- The number of organizations supported by the Czech Post Foundation under the “Poštáci SRDCEM” (Postmen from the Heart) was 72.
- Postal employees collected 4,462 mobile phones at post offices in the country-wide initiative “Pomoc na druhou” (Helping Others).
- A total of 282 post offices are equipped with the upgraded call-up system. The new touch-screen call-up system was installed at 136 post offices. Of these, 83 were replacements of older versions and 53 new installations.
- In 2019, 31 new specialized ČSOB counters were established.
- Česká pošta operates 439 Parcel Rooms. In the course of the year, 100 Parcel Rooms with the call-up system, 100 Parcel Rooms with the queue system and 16 Partner Parcel Rooms opened.
- 51 postal offices were transferred to Pošta Partners in 2019. The total of these branches operated by Česká pošta is 634.

## 5 Company profile

### 5.1 Mission and strategic goals

Česká pošta provides quality services to citizens, businesses and the state. It is a key player in the parcel segment, a contact place between the population and the state, especially in remote areas, and a partner to companies to which it provides comprehensive services.

The ongoing transformation with the stabilization part implemented in 2019 was designed to return Česká pošta to the black by 2021, streamline its operations and offer its clients services that they require, that are meaningful for Česká pošta and that will bring positive economic effects.

Česká pošta has a unique branch network and sophisticated logistics system and its operations are backed by specialists in the provision of postal services and in the processing and transport of consignments. Česká pošta is at the threshold of the digital era and is there for everyone.

## 5.2 Legal status of the Company

ČP is a legal entity pursuant to Act No. 89/2012 Coll., the Civil Code, as amended. Its legal and proprietary status is regulated by Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

Česká pošta, s.p. was founded on 1 January 1993, following the decision of the Ministry of Economy of the Czech Republic of 16 December 1992 in accordance with Act No. 111/1990 Coll., on State-owned Enterprises, and was incorporated by registration in the Commercial Register maintained by the District Court for Prague 1, Section A, Entry No. 7565. In conjunction with the decision, the Ministry of Economy of the Czech Republic issued a Deed of Foundation of the State-Owned Enterprise dated 16 December 1992. Presently, ČP is entered in the Commercial Register maintained by the Municipal Court in Prague, Section A, Entry No. 7565. The Ministry of Transport and Communications issued a Deed of Foundation of the State-owned Enterprise Česká pošta compliant with Act No. 77/1997, on State-owned Enterprises. This document entered into effect on 16 June 1997 and was later repeatedly amended.

At 31 December 2019, the Ministry of Interior of the Czech Republic acted as Founder of Česká pošta on behalf of the Czech Government.

## 5.3 Company administration and management

Pursuant to Section 11 of Act No. 77/1997 Coll. on State-Owned Enterprise, as amended, the bodies of Česká pošta are the Director General and the Supervisory Board.

### Director General

The Director General ("DG"), as the statutory body of Česká pošta, s.p., acts on behalf of the Enterprise and manages its activities. He decides on all matters concerning ČP that are not entrusted by law to the competence of the Founder pursuant to Section 12 of Act No. 77/1997 Coll. on State-Owned Enterprise, as amended.

The Director General appoints deputy directors general who, in his absence, represent him to the full extent of his powers. The Director General stipulates the order in which his deputies shall represent him. Deputy directors general are entered in the Commercial Register.

### Supervisory Board

The Supervisory Board exercises its powers pursuant to Section 13 of Act No. 77/1997 Coll., on State-owned Enterprises, as amended, to the extent determined by the Founder in the Enterprise's Statutes of Association.

The Supervisory Board consists of 15 members. One-third of the Supervisory Board is comprised of employees of the Enterprise who are elected and recalled by the Enterprise's employees based on the voting results. Two thirds of the Supervisory Board members are appointed and recalled by the Founder.

The Supervisory Board had fifteen members as at 31 December 2019.

### Supervisory Board committees

The Supervisory Board sets up committees as its working, advisory and initiative-proposing bodies. Members of the committees primarily meet for preliminary and then more detailed discussions of agendas and materials to be submitted to the Supervisory Board. Committee members are elected and recalled by the Supervisory Board.

The following Supervisory Board committees were set up as at 31 December 2019:



- Strategy and Finance Committee
- Audit Committee
- Human Resources Development Committee

### Statutory body and ČP management

Corporate governance and the organizational structure of ČP as at 31 December 2019 are described in the Annual Report's Chapter 15 Financial section.

## 6 Regulatory framework for postal services

The liberalization of the European Union postal market culminated with the Third Postal Services Directive (Directive 2008/6/EC of the European Parliament and of the Council of 20 February 2008 amending Directive 97/67/EC with regard to the full accomplishment of the internal market of Community postal services) aimed to gradually and fully open up the postal services market to economic competition. Directives Nos. 97/67/EC and 2002/39/EC to which the Third Postal Services Directive ties in are also part of the legislative framework for European postal services liberalization.

Since April 2005, the area of postal services, as concerns the exercising of regulatory powers, has been within the remit of the Czech Telecommunications Office (hereinafter the "CTO"). This national regulatory authority exercises its powers and performs the obligations of an administrative body in this sector, particularly in connection with the applicable provisions of Act No. 29/2000 Coll., on Postal Services (hereinafter the "Postal Services Act").

The Czech postal services market has been fully liberalized since 1 January 2013 in accordance with an amendment to Act No. 29/2000 Coll. on Postal Services. The framework for liberalization comprises a set of CTO-issued regulations through which it determines the obligations of operators providing or ensuring postal services, the framework for reporting expenses and revenues and financing of basic services, and the conditions for ensuring universal access to basic services.

Česká pošta holds a postal license for the period 2018-2022 awarded to it by CTO Decision No. 70 580/2017-610/V of 12 December 2017 pursuant to Section 22 of the Postal Service Act. The postal license stipulates the obligation of Česká pošta to ensure permanently universal access to all basic services set out in Section 3(1) of the Postal Services Act in the defined quality in the entire territory of the Czech Republic. The basic services ensured by Česká pošta under the granted postal license include, inter alia, free-of-charge delivery of postal consignments of up to 7 kg to the blind. Under the awarded postal services license, Česká pošta remains an entity officially appointed to render services that must be ensured on the basis of obligations arising from the Czech Republic's membership in the Universal Postal Union.

The rights and obligations of Česká pošta as the postal services provider and the postal license holder are enshrined in Title V of the Postal Services Act. The Enterprise shall annually publish and submit complete and truthful information to CTO about the results of meeting the quality criteria. The method, form and content of the published information are determined by implementing legislation of CTO (decrees). The Czech Telecommunication Office annually publishes a summary report on fulfilling the obligations entrusted to the postal license holder.

The Enterprise remedies any shortcomings identified in the CTO Report for 2018 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.

## 6.1 Selected obligations of a postal license holder

- Fulfill the postal obligation in a manner that is in line with the public needs and with basic quality requirements, including continuous provision of information on essential services and how they are used;
- Provide postal services subject to the postal obligation in accordance with postal conditions, at affordable prices allowing the use of basic services to the extent necessary for common needs of persons;
- Prevent any unjustified preferential treatment or disadvantaging of recipients of the basic services defined in the provider's postal license;
- Enable at least one posting on every working day and at least one delivery to the address of each natural person or legal entity (exceptions are listed in the implementing regulation);
- Allow, in a transparent and non-discriminatory manner and under a written agreement, other operators' access to components of postal infrastructure and to specific services related to the postal infrastructure operation.

## 7 Report on activities

In 2019 Česká pošta posted a consolidated loss of CZK 363 million before taxes and CZK 286 million after taxes. Česká pošta alone posted a loss of CZK 376 million before taxes and CZK 302 million after taxes.

ČP's performance was significantly impacted by an amendment to the Postal Services Act which increased the limit for the compensation of net costs of universal service (NCUS) from CZK 0.5 billion to CZK 1.5 billion for the period 2018-2022. Despite this positive change, the consolidated pre-tax loss rose from CZK 250 million to CZK 363 million year-on-year. This trend reflects the fact that even the increased limit for NCUS compensation is not sufficient to cover the real costs incurred by ČR since they are about twice the amount of the legal limit. The principal factor in the growing loss is wage raises. In previous years, ČP's profitability had been achieved by restricting wage growth that pushed ČP wages below the market level, resulting in rising staff turnover and job vacancies with a negative impact on the quality of provided services. In order to stabilize staff turnover, guarantee the quality of services stipulated by postal licenses and protect revenues, it was necessary to increase wages. Since 1 April 2018, tariff wages rose by 7% and since 1 April 2019 by another 10%.

Operating income (consolidated figures) increased by CZK 663 million year-on-year to CZK 19,769 million. The main reason for higher revenues was the aforementioned increase in the NCUS compensation of CZK 1.0 billion. Revenues from the sale of fixed assets also rose (CZK +66 million, in particular from the sale of a building in Prague 8 – Trója, Lodžská Street). Income from intrastate consignments climbed significantly (CZK +132 million) after changes to the parcel portfolio resulted in a 4.6% increase in the average price of parcels. Conversely, a number of services reported a decrease in revenues. The sharpest drop was manifest in intrastate letters (CZK -313 million) where the number of items fell by 8.2% year-on-year due to ongoing electronization. Revenue from incoming foreign letters also declined year-on-year (CZK -142 million) because the 2018 income was favorably affected by the settlement of consignments from China for 2017 with the average price per kg higher than expected in 2017. Revenue from outgoing international EMS consignments dropped as well in 2019 (CZK -57 million) as a result of a steep increase in terminal fees imposed by the Chinese Post. ČP's income from the distribution of promotional materials also fell (CZK -47 million). In an effort to improve cost-effectiveness of this product, ČP considerably raised its rates for most customers (by 56% on average). However, a large proportion of clients did not accept the price increase and, subsequently, submissions decreased by 48% year-on-year. The downward trend in revenues generated from core postal services, such as A-type postal orders (CZK -32 million, a 12.5% drop in the volume was partially offset by an increase of CZK 3/pc), SIPO service (CZK -30 million), cash-paid retirement pensions

(CZK -17 million) continued. The sale of goods also generated lower revenue, including consignment sale (CZK -34 million) and sale of financial products (CZK -21 million).

Total operating expenses increased by CZK 818 million year-on-year from CZK 19,318 million to CZK 20,136 million. This increase stemmed primarily from a hike of CZK 1,108 million in personnel expenses, notably due to the aforementioned increase in tariff wages. Production consumption fell by CZK 100 million. The Company recorded savings in material and energy consumption (-53 million CZK) and reduced costs of terminal fees (CZK -59 million) resulting from a decline in the EMS volume to China, consignments to Slovakia and Hungary, and letters to Norway, Spain and other countries. Costs associated with data messages dipped (CZK -30 million) since impact of 2.6% growth in the number of messages was more than offset by a 15.4% drop in the unit price. The costs of external road transport (CZK -24 million) and SW maintenance (CZK -18 million) were reduced. Conversely, in 2019 ČP upped investments in the maintenance of buildings and security systems (+ CZK 36 million). The number of leased vehicles acquired under operating leases rose (CZK + 30 million), as did remuneration for Pošta Partner branches (CZK + 16 million) and the cost of leased non-residential premises (CZK + 13 million).

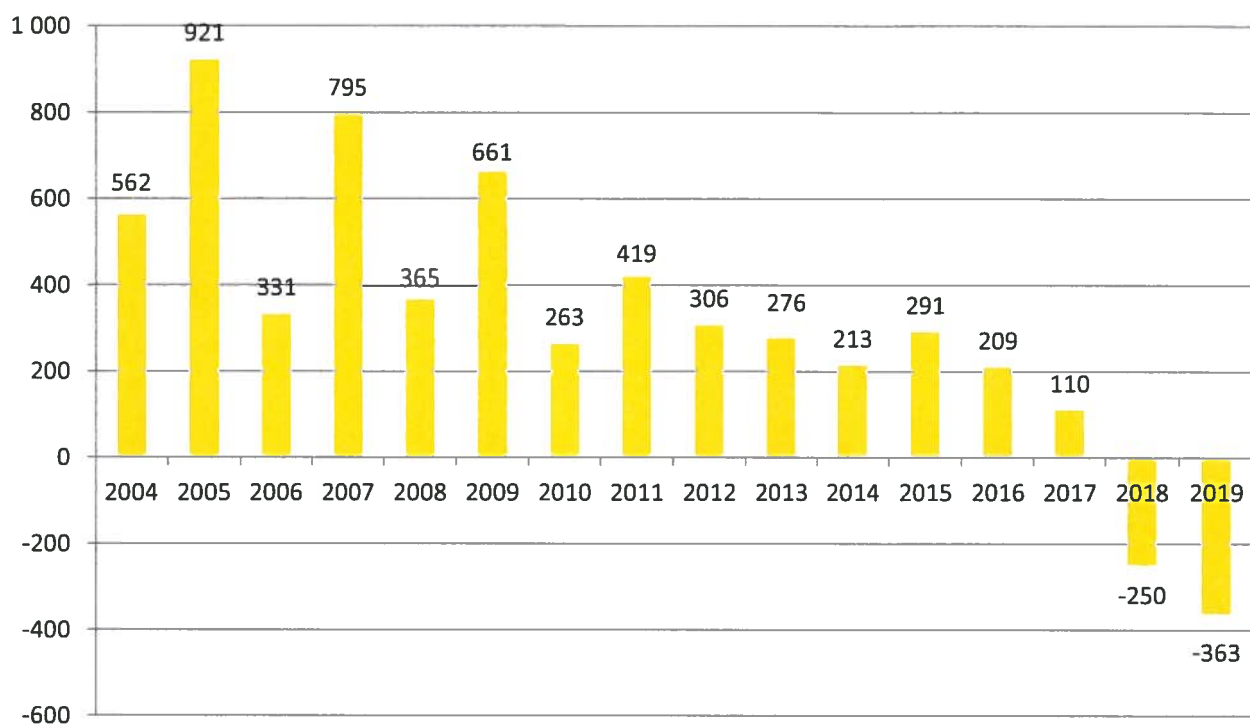
Other operating expenses decreased by CZK 167 million, mainly due to change in provisions amounting to CZK 90 million. In 2018 provisions increased by CZK 110 million, but in 2019 they rose by CZK 20 million only. Expenses related to the operation of leased vehicles (repairs of damage, excessive wear and tear, increased mileage) fell by CZK 42 million. VAT-related expenses also declined by CZK 59 million, stemming from a lower volume of investment and a higher VAT deduction coefficient for a mixed basket.

The financial result rose by CZK 40 million year-on-year, primarily due to a more favorable balance of exchange rate differences, which improved from CZK -12 million in 2018 to CZK +30 million in 2019.

#### Trends in key financial indicators – consolidated

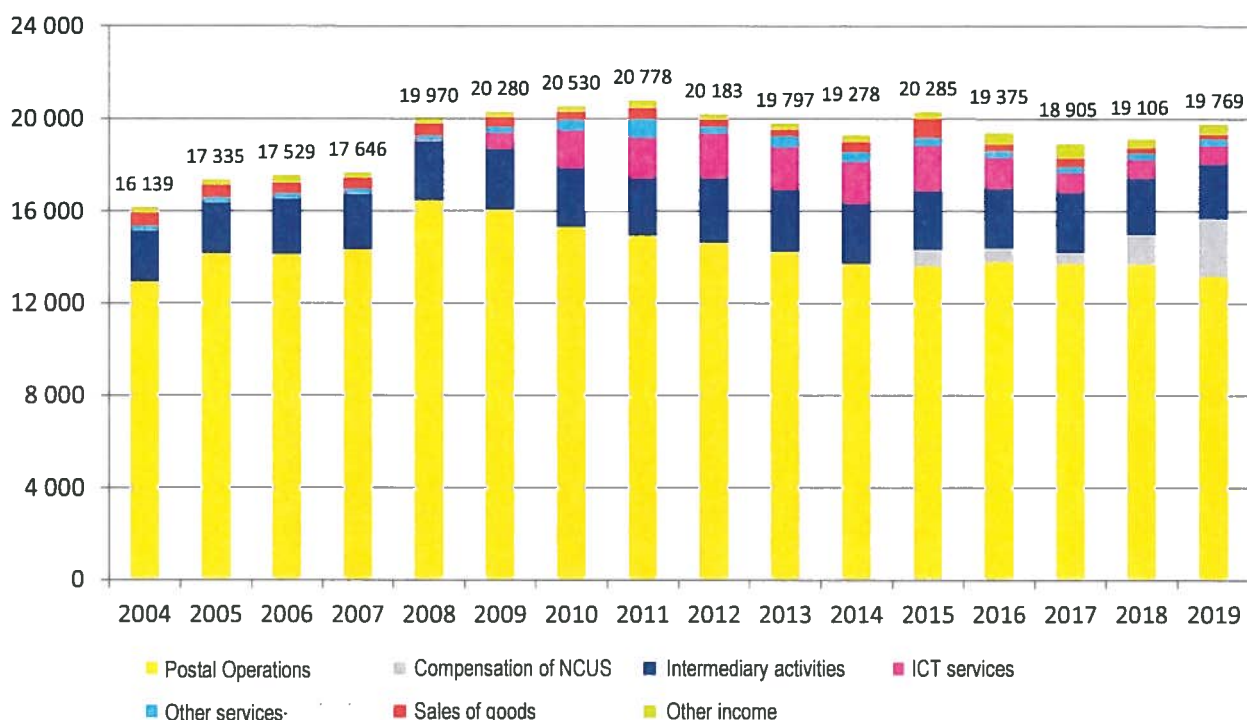
	2014	2015	2016	2017	2018	2019
Assets (CZK millions)	26,106	22,494	20,838	20,222	19,572	20,453
Equity (CZK millions)	10,349	10,429	10,191	10,119	9,754	9,272
Operating revenues (CZK millions)	19,278	20,285	19,375	18,905	19,106	19,769
of which: Sales of products and services (CZK millions)	18,553	18,488	18,026	17,448	17,229	16,634
Operating costs (CZK millions)	19,112	20,015	19,153	18,818	19,318	20,136
of which: Personnel expenses (CZK millions)	11,906	11,938	12,385	12,789	12,944	14,052
Profit before tax (CZK millions)	213	291	209	110	(250)	(363)
Net profit (CZK millions)	179	231	179	98	(186)	(286)

### Profit before tax (in CZK millions)

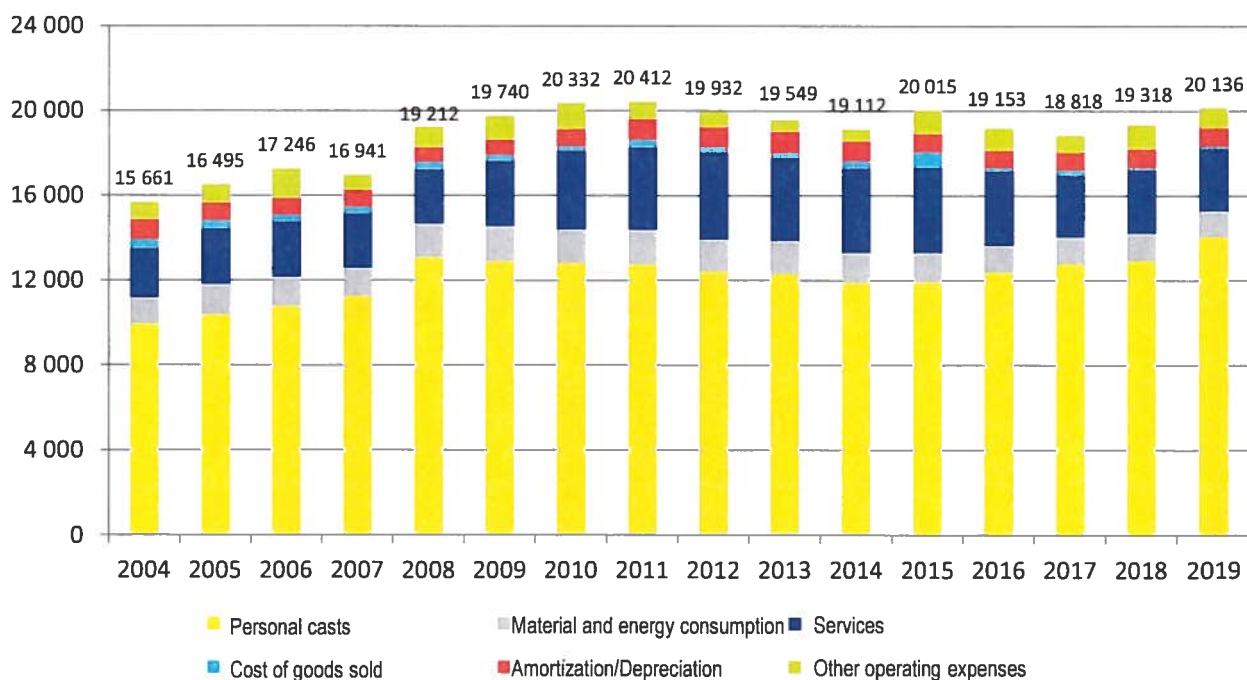




## Development of operational income (CZK millions)



## Development of operational costs (CZK millions)



## 8 Foreign branch or division

Česká pošta has no foreign branch or division.

## 9 Information on R&D activities

The Company undertakes no R&D activities.

## 10 Information on environmental protection

The Company's strategy in respect of environmental protection is, aside from compliance with its statutory obligations in all areas of environmental protection, in particular:

- Reduction in emissions of pollutants

In accordance with Act No. 201/2012 Coll., and Decree No. 415/2012 Coll., ČP is required to meet tighter emission limits, in effect as of 1 January 2020, for the listed sources of air pollution.

In compliance with the legislation, boilers at selected establishments were replaced, burners at the SPU in Olomouc were also replaced with low-emission ones, and the input power of some boiler rooms at selected establishments was lowered in order to reduce CO and NO<sub>x</sub> emissions.

- Efficient energy management

Česká pošta has implemented the "Energy Management System" according to the ČSN ISO 50001: 2012 standard which has been certified.

Česká pošta is considering the use of Energy Performance Contracting (EPC), i.e. energy services with a guarantee that are a very effective tool for implementing energy conservation measures. These are comprehensive services facilitating cost savings related to energy efficiency without having to provide investment funding at the time of the installation of the measure, as achieving the expected result in the form of projected energy savings is contractually guaranteed by the selected energy service provider.

## 11 Information on labor relations

The trend in employment was favorable in 2019. The employee turnover was 23% and absenteeism was 14%. Organized recruitment and implementation of measures to support the stabilization of employees resulted in a significant reduction in turnover. Compared to 2018, overall turnover fell by 5 percentage points and absenteeism by 6 percentage points.

The average adjusted employee headcount for 2019 was 28,927, representing a decline of 67 employees compared to the previous year. This decrease stems primarily from:

- the implementation of the D + 2 project and reduction in the number of jobs in administration and retail as at 1 June 2019 (adjusted total number for 2019: -183 persons),
- conversely, the recruitment and implementation of stabilization measures helped fill vacant jobs for drivers, graders and product sales specialists (adjusted total number for 2019: +116 persons).



The **average monthly salary in ČP for 2019** was CZK 27,313. This represents a 9.3%, or CZK 2,331, increase year-on-year, resulting in particular from a 10% increase in tariff and variable salaries agreed upon with the trade unions as of 1 April 2019. Employees with contractual salaries, except for postmasters, received no raise, which is why the overall wage increase stayed slightly below 10%.

Complementary to wages, Česká pošta provides **employee benefits** totaling about CZK 17,576 per employee annually (contributions to meal vouchers, supplementary pension savings plans and life insurance, contributions to leisure activities, physical therapy and wellness, children's camps, cultural and sports events and the like). In addition to the aforementioned benefits, Česká pošta employees have one extra week of vacation and the work week is reduced by 2.5 hours.

## 12 Protecting ČP, its employees and customers

### 12.1 Risk management

In 2019, risk management continued to be an integral strategic part of corporate governance at Česká pošta. It provided for the informed acceptance and management of all business risks with the aim to mitigate any negative effects on the performance and implementation of Česká pošta's business plan.

### 12.2 Security

The fundamental mission of the Česká pošta security division is to ensure essential security requirements for the smooth operation of all services, to ensure the protection of Česká pošta employees and clients and to protect the Enterprise's assets and those entrusted to it.

Tasks within the remit of the security division include crisis management and planning, BCM, addressing external and internal criminal activity conducted against Česká pošta, measures to combat legitimization of proceeds from crime and financing of terrorism, administering confidential information used in Česká pošta operations and occupational health and safety. The security division also oversees reviews of personal data protection under the methodological guidance of the specialized legal department.

### 12.3 Compliance

The compliance system at Česká pošta reflects the need for ČP's activities to comply with all applicable laws and regulations, thus reducing the risk of penalties and damage to the Enterprise's reputation, while enhancing its transparency and credibility. Increased attention is paid in the corporate compliance program to measures against corruption and other forms of unfair conduct that could lead to recourse against the Czech Post under the Act on Criminal Liability Act of Legal Entities.

### 12.4 Internal audit

In 2019, all activities were carried out in compliance with the binding provisions of the International Standards for the Professional Practice of Internal Auditing issued by the International Institute of Internal Audit and by rigorous adherence to the associated control documentation of Česká pošta, i.e. the Internal Audit Charter, the Code of Ethics and the Česká pošta Internal Audit Performance Guidelines.

### 12.5 Postal ombudsman office

In 2019, a total of 2,308 Česká pošta customers contacted the ombudsman. Of this number, the postal ombudsman handled 1,831 petitions which were assessed according to the nature of complaint and, in cooperation with relevant departments, investigated and processed. In 2019, the postal ombudsman directly discussed 414 petitions; in 122 cases, the previous decisions of the relevant ČP departments were

upheld, and 264 petitions submitted at the customers' initiative were handled by the ombudsman with no standard prior procedure. In 12 cases, the postal ombudsman advised the Director General to pay additional customer compensation outside of the standard procedure. In line with the in-house rules, the ombudsman granted compensation to ČP's customers in 16 cases. The total amount of compensation in 2019 was CZK 56,267.52. Overall, 477 submissions did not meet the conditions for being assessed by the postal ombudsman. 53 submissions complimented or thanked the Česká pošta employees.

## 12.6 Employee ombudsperson

For the purpose of advocating the legitimate interests of employees in the performance of their duties, Česká pošta has established the Office of the Ombudsperson for Employees. Employees may contact the ombudsperson with their suggestions, information and inquiries in writing, by phone or in person. Generalized conclusions from investigations provide feedback on the corporate environment.

## 13 Provision of information pursuant to Act No. 106/1999 Coll. on freedom of access to information

Česká pošta, s.p. (hereinafter „Česká pošta“), as an obliged entity pursuant to Act No. 106/1999 Coll. on freedom of access to information, as amended (hereinafter the “Information Act; “IA”), herewith in accordance Section 18 of IA issues this Annual Report on its activities regarding the provision of information pursuant to IA, in 2019:

- 1. Number of received requests for information:** In 2019, a total of 60 petitions designated as requests for the provision of information was filed pursuant to IA.
- 2. Number of issued decisions denying a request (or part thereof):** In 2019, a total of 12 decisions on the denial of a request for the provision of information and 10 decisions on a partial denial of a request for the provision of information were issued pursuant to Section 15 of IA.
- 3. Number of appeals submitted against decisions:** In 2019, two appeals against decisions not to provide information were filed.
- 4. Copy of substantive parts of every court decision regarding a review of the legitimacy of Česká pošta's decision to deny a request for the provision of information:**

### **a. Municipal Court in Prague Judgment No. 9 A 113/2016 of 29 April 2019:**

#### **Statement:**

- Decision No. JID: 209819/2016/ČP of the Director General of Česká pošta, s.p. of 15 April 2016 is annulled and the case is returned to the defendant for further proceedings.
- The defendant is obligated to pay to the plaintiff the costs of the proceedings in the amount of CZK 11,228.00, to the applicant's representative, Mgr. M. Ch. LL.M., attorney-at-law, within one month of the judgment becoming final.

#### **Substantive parts of the judgment**

The obliged entity is required to examine and justify whether the required information that might be classified by the entrepreneur as trade secret actually meets all characteristics of trade secret pursuant to Section 504 of the Civil Code. If this is not the case, the information is not a trade secret. The reason for denying the provision of information set out in Section 9 (1) of the Information Act is thus bound to the existence of a de jure trade secret, not to the mere opinion of the person who has the information. In the case being tried, it was therefore the obligation of both the obliged entity and the

appellate authority to apply the reliably ascertained facts of the case, i.e. to verify whether the requested information meets the characteristics of trade secret.

In light of the foregoing, the Municipal Court in Prague considered that the denial to provide information was not based on the proper assessment and justification as to what information and facts of the audited activity constitute for the obliged entity meeting the specified aforementioned characteristics of trade secret and this information is classified as trade secret by the person exercising the right to trade secret. It is not clear from the decision whether the obliged entity or someone else had classified this information as trade secret prior to the submission of the request for the provision of information and what are the reasons for considering the security audit performed a trade secret in its entirety. If, in the present case, the decision does not mention any conceptual characteristics whatsoever, and it is clear from the definition of trade secret that conceptual characteristics must be satisfied cumulatively, the decision is obviously not reviewable for lack of reasons.

**b. Municipal Court in Prague Judgment No. 3 A 74/2016 of 22 November 2019:**

Statement:

- I. Decision No. JID 114664/2016/ČP of the Director General of Česká pošta, s.p. of 1 March 2016 is annulled and the case is returned to the defendant for further proceedings.
- II. The defendant is obligated to pay to the plaintiff the costs of the proceedings in the amount of CZK 11,228.00 to the applicant's representative, Mgr. M. Ch. LL.M., attorney-at-law, within one month of the judgment becoming final.

Substantive parts of the judgment

According to existing case-law, the notion of trade secret is interpreted not as a disconnected fact allowing only a distinction between existence or non-existence, but as a fact which must be interpreted in connection with the reasons for examining its existence (see, for example, the judgment of the Municipal Court in Prague No. 33 Ca 80/2000-31, the judgment of the Regional Court in Hradec Králové No. 31 Ca 189/2000-27). However, neither the obliged entity nor the appellate authority considered any reasons in the present case, or examined whether all characteristics of trade secret are met with the requirement of proportionality of its provision, except that, according to the appellate authority, the defendant is not willing to provide information as that was the agreement between the obliged entity and the contracting party (for quotations see paragraph 3 of this judgment). The appellate authority considered the trade secret requirements as given without further defining them in any way, therefore the contested decision is not reviewable. In the decision on partial denial to provide information due to the existence of a trade secret, the obliged entity must precisely specify which data or facts it considers to be a trade secret in the requested document and for what specific reasons, and what prevents it from providing the information. The appellate authority, however, failed to explain in a relevantly reviewable manner why the redacted parts of the content of the appendix information that was not provided would meet the characteristics of trade secret. Any such denied information should also be type-defined, i.e. the obliged entity should explain where specifically it identifies the existence of trade secret (origin, designation and nature of the information). However, the subsequent explanation of the reasons, in this case also without reviewable documents, cannot be remedied in the response to the proceedings (see the judgment of the Supreme Administrative Court No. 8 Afs 66 / 2008-71 of 19 December 2008).

In this case, the Municipal Court was unable to verify such non-existent data from unsubmitted documents, as the partial denial to provide information was not based on the proper assessment and justification as to what information and facts constitute for the obliged entity meeting the specified aforementioned characteristics of trade secret and how this information is classified as trade secret by the person exercising the right to trade secret. It is not clear from the decision whether the obliged entity or someone else had classified this information as business secret prior to the submission of the

request for the provision of information, and what are the reasons for considering the non-disclosure of the price quoted in the appendix a trade secret. If, in the present case, the decision does not mention any conceptual characteristics whatsoever, and it is clear from the definition of trade secret that conceptual characteristics must be satisfied cumulatively, the decision is obviously not reviewable for lack of reasons.

**5. Summary of costs incurred by Česká pošta in connection with litigation regarding rights and obligations pursuant to IA:**

In connection with litigation regarding rights and obligations pursuant to IA, Česká pošta incurred total costs of CZK 22,456.

**6. Provided exclusive licenses:** In 2019, Česká pošta did not provide any exclusive licenses.

**7. Complaints about the procedure for handling requests for information (Section 16a of IA), grounds for their submission and brief description of the manner of their resolution:**

In 2019, one complaint was filed regarding the procedure used by Česká pošta to process requests for information pursuant to Section 16a of IA. The petitioner filed the complaint because Česká pošta had failed to provide the requested information by the statutory deadline or to the required extent.

The information provider failed to meet the statutory deadline for administrative reasons. For this, the information provider apologized to the petitioner based on the submitted complaint.

## 14 Subsequent events

ČP shall quantify the net expenses incurred to provide the basic services for the 2019 billing period and request that the CTO reimburse the said expenses, which represent an unfair financial burden for ČP as the postal license holder. The request filing deadline is 31 August 2020.

On 2 March 2020, the General Meeting of ČP's subsidiary Poštovní tiskárna cenin Praha, a.s. discussed possible scenarios for the company's future development.

On 10 March 2020, mandate of the Supervisory Board members of ČP for JUDr. Jaroslav Strouhal and Ľudovít Gulácsi expired.

No other significant events impacting the annual financial statements prepared as at 31 December 2019 occurred between the balance sheet date and date of the preparation of the Annual Report.

## 15 Financial section – Independent Auditor's Reports, Standalone Financial Statements (statements, notes); Consolidated Financial Statements (statements, notes)

This section contains Independent Auditor's Reports, the standalone financial statements of the Enterprise and the consolidated financial statements of Česká pošta Group for the year ended 31 December 2019 and comprises:

- Independent Auditor's Reports on the standalone financial statements
- Standalone financial statements prepared for the year ended 31 December 2019
  - Standalone financial statements prepared for the year ended 31 December 2019 (in CZK millions)
    - Balance sheet as at 31 December 2019
    - Income statement as at 31 December 2019
    - Cash flow statement for the year ended 31 December 2019
    - Summary of changes in equity for the year ended 31 December 2019
  - Notes to the standalone financial statements for the year ended 31 December 2019
- Independent Auditor's Reports on the consolidated financial statements
- Consolidated financial statements prepared for the year ended 31 December 2019
  - Consolidated financial statements prepared for the year ended 31 December 2019 (in CZK millions)
    - Consolidated balance sheet as at 31 December 2019
    - Consolidated income statement as at 31 December 2019
    - Consolidated cash flow statement for the year ended 31 December 2019
    - Consolidated summary of changes in equity for the year ended 31 December 2019
  - Notes to the consolidated financial statements for the year ended 31 December 2019



## 15.1 Independent Auditor's Report on Standalone Financial Statements

(Translation of a report originally issued in Czech - see Note 15.2.2.2 to the financial statements.)

## INDEPENDENT AUDITOR'S REPORT

To the Founder of Česká pošta, s.p.:

### *Opinion*

We have audited the accompanying financial statements of Česká pošta, s.p. (the Company) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2019, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 15.2.2.1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 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 or regulation, in particular, whether the other information complies with law or 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.

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 or regulation.

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

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

The Statutory Body is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the Czech Republic 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 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 Company or to cease operations, or has no realistic alternative but to do so.

The Supervisory Board is responsible for overseeing the Company's 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 above regulations 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 law or regulation, we exercise professional judgment and maintain professional skepticism 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 control.
- Obtain an understanding of internal control 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 Company's internal control.
- 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 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Supervisory Board 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.

Ernst & Young Audit, s.r.o.  
License No. 401



Roman Hauptfleisch, Auditor  
License No. 2009

20 March 2020  
Prague, Czech Republic

## 15.2 Standalone financial statements

### 15.2.1 Financial statements for the year ended 31 December 2019 (in CZK millions)

BALANCE SHEET (in CZK millions)					
Reference	ASSETS	31/ 12/ 2019			31/ 12/ 2018
A	B	Gross 1	Allowances 2	Net 3	Net 4
	<b>TOTAL ASSETS</b>	<b>34,793</b>	<b>(14,380)</b>	<b>20,413</b>	<b>19,552</b>
	<i>of which entrusted resources</i>	4,405	0	4,405	3,505
B.	<b>Fixed assets</b>	<b>23,064</b>	<b>(14,133)</b>	<b>8,931</b>	<b>9,524</b>
B. I.	<b>Intangible fixed assets</b>	<b>2,045</b>	<b>(1,748)</b>	<b>297</b>	<b>356</b>
B. I. 2.	Royalties	1,956	(1,680)	276	304
B. I. 2.1.	Software	1,953	(1,678)	275	303
B. I. 2.2.	Other royalties	3	(2)	1	1
B. I. 4.	Other intangible fixed assets	60	(59)	1	2
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	29	(9)	20	50
B. I. 5.2.	Intangible fixed assets in the course of construction	29	(9)	20	50
B. II.	<b>Tangible fixed assets</b>	<b>20,940</b>	<b>(12,385)</b>	<b>8,555</b>	<b>8,878</b>
B. II. 1.	Land and constructions	12,703	(5,919)	6,784	6,950
B. II. 1.1.	Land	828	0	828	833
B. II. 1.2.	Construction	11,875	(5,919)	5,956	6,117
B. II. 2.	Equipment	8,023	(6,462)	1,561	1,735
B. II. 4.	Other tangible fixed assets	5	0	5	5
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	209	(4)	205	188
B. II. 5.2.	Tangible fixed assets in the course of construction	209	(4)	205	188
B. III.	<b>Long-term investments</b>	<b>79</b>	<b>0</b>	<b>79</b>	<b>290</b>
B. III. 1.	Investments - subsidiaries and controlling party	79	0	79	79
B. III. 5.	Other long-term investments in securities	0	0	0	211
C.	<b>Current assets</b>	<b>11,630</b>	<b>(247)</b>	<b>11,383</b>	<b>9,921</b>
	<i>of which entrusted resources</i>	4,405	0	4,405	3,505
C. I.	<b>Inventories</b>	<b>242</b>	<b>(70)</b>	<b>172</b>	<b>180</b>
C. I. 1.	Raw materials	195	(65)	130	140
C. I. 3.	Finished goods and goods for resale	47	(5)	42	40
C. I. 3.2.	Goods for resale	47	(5)	42	40
C. II.	<b>Receivables</b>	<b>6,463</b>	<b>(177)</b>	<b>6,286</b>	<b>4,253</b>
	<i>of which entrusted resources</i>	102	0	102	52
C. II. 1.	Long-term receivables	23	0	23	821
C. II. 1.1.	Trade receivables	1	0	1	1
C. II. 1.5.	Receivables - other	22	0	22	820
C. II. 1.5. 2.	Long-term advances paid	6	0	6	5
C. II. 1.5. 3.	Estimated receivables	0	0	0	800
C. II. 1.5. 4.	Other receivables	16	0	16	15
C. II. 2.	Short-term receivables	6,440	(177)	6,263	3,432
	<i>of which entrusted resources</i>	102	0	102	52
C. II. 2.1.	Trade receivables	1,240	(97)	1,143	1,514
	<i>of which entrusted resources</i>	102	0	102	52
C. II. 2.2.	Receivables - subsidiaries and controlling party	1	0	1	1
C. II. 2.4.	Receivables - other	5,199	(80)	5,119	1,917
C. II. 2.4. 1.	Receivables from shareholders	18	0	18	18
C. II. 2.4. 3.	Taxes - receivables from the state	0	0	0	22
C. II. 2.4. 4.	Short-term advances paid	230	0	230	283
C. II. 2.4. 5.	Estimated receivables	4,809	0	4,809	1,525
C. II. 2.4. 6.	Other receivables	142	(80)	62	69
C. III.	<b>Short-term financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
C. III. 2.	Other short-term investments	0	0	0	0
C. IV.	<b>Cash</b>	<b>4,925</b>	<b>0</b>	<b>4,925</b>	<b>5,488</b>
	<i>of which entrusted resources</i>	4,303	0	4,303	3,453
C. IV. 1.	Cash in hand	3,616	0	3,616	4,038
C. IV. 2.	Cash at bank	1,309	0	1,309	1,450
D.	<b>Prepayments and accrued income</b>	<b>99</b>	<b>0</b>	<b>99</b>	<b>107</b>
D. 1.	Prepaid expenses	96	0	96	104
D. 3.	Accrued income	3	0	3	3



## BALANCE SHEET – Liabilities and Equity (in CZK millions)

Reference	LIABILITIES AND EQUITY	31/ 12/ 2019	31/ 12/ 2018
a	b	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,413</b>	<b>19,552</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>A.</b>	<b>Equity</b>	<b>9,249</b>	<b>9,751</b>
<b>A. I.</b>	<b>Share capital</b>	<b>3,588</b>	<b>3,588</b>
A. I. 1.	Share capital	3,588	3,588
<b>A. II.</b>	<b>Share premium and capital contributions</b>	<b>5,587</b>	<b>6,000</b>
A. II. 2.	Capital contributions	5,587	6,000
A. II. 2.1.	Other capital contributions	5,587	5,996
A. II. 2.2.	Assets and liabilities revaluation	0	4
<b>A. III.</b>	<b>Other reserves</b>	<b>376</b>	<b>375</b>
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	17	16
<b>A. V.</b>	<b>Profit / (loss) for the current period</b>	<b>(302)</b>	<b>(212)</b>
<b>B. + C.</b>	<b>Liabilities</b>	<b>10,712</b>	<b>9,325</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>B.</b>	<b>Provisions</b>	<b>701</b>	<b>682</b>
B. 4.	Other provisions	701	682
<b>C.</b>	<b>Liabilities</b>	<b>10,011</b>	<b>8,643</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>C. I.</b>	<b>Long-term liabilities</b>	<b>155</b>	<b>234</b>
C. I. 4.	Trade payables	6	7
C. I. 8.	Deferred tax liability	149	227
<b>C. II.</b>	<b>Current liabilities</b>	<b>9,856</b>	<b>8,409</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
C. II. 2.	Liabilities due to financial institutions	31	178
	<i>of which entrusted resources</i>	<i>31</i>	<i>178</i>
C. II. 3.	Short-term advances received	1,328	998
C. II. 4.	Trade payables	5,582	4,439
	<i>of which entrusted resources</i>	<i>4,374</i>	<i>3,327</i>
C. II. 6.	Liabilities - subsidiaries and controlling party	45	42
<b>C. II. 8.</b>	<b>Liabilities – other</b>	<b>2,870</b>	<b>2,752</b>
C. II. 8.3.	Liabilities to employees	714	554
C. II. 8.4.	Liabilities for social security and health insurance	409	347
C. II. 8.5.	Taxes and state subsidies payable	144	151
C. II. 8.6.	Estimated payables	1,325	1,389
C. II. 8.7.	Other liabilities	278	311
<b>D.</b>	<b>Accruals and deferred income</b>	<b>452</b>	<b>476</b>
D. 2.	Deferred income	452	476



INCOME STATEMENT				
(in CZK millions)				
Reference	TEXT	Accounting period		
		31/ 12/ 2019	31/ 12/ 2018	
		1	2	
I.	Sales of products and services	16,609	17,186	
II.	Sales of goods	193	201	
A.	Cost of sales	4,405	4,485	
A. 1.	Cost of goods sold	123	130	
A. 2.	Raw materials and consumables used	1,229	1,280	
A. 3.	Services	3,053	3,075	
C.	Own work capitalized	(21)	(21)	
D.	Staff costs	13,935	12,837	
D. 1.	Wages and salaries	10,163	9,368	
D. 2.	Social security, health insurance and other social costs	3,772	3,469	
D. 2.1.	Social security and health insurance costs	3,393	3,133	
D. 2.2.	Other social costs	379	336	
E.	Value adjustments in operating activities	839	862	
E. 1.	Value adjustments of fixed assets	853	841	
E. 1.1.	Depreciation, amortization and write off of fixed assets	850	862	
E. 1.2.	Provision for impairment of fixed assets	3	(21)	
E. 2.	Provision for impairment of inventories	(8)	5	
E. 3.	Provision for impairment of receivables	(6)	16	
III.	Operating income - other	2,944	1,678	
III. 1.	Sales of fixed assets	169	104	
III. 3.	Other operating income	2,775	1,574	
3.1.	Compensation for the net cost on providing basic postal services	2,500	1,300	
3.2.	Other operating income	275	274	
F.	Operating expenses - other	967	1,140	
F. 1.	Net book value of fixed assets sold	18	15	
F. 3.	Taxes and charges	91	87	
F. 4.	Operating provisions and complex prepaid expenses	19	111	
F. 5.	Other operating expenses	839	927	
*	Operating result (+/-)	(379)	(238)	
IV.	Income from sales of long-term investments - shares	3	3	
IV. 2.	Income from sales of investments - other	3	3	
V.	Income from sales of other long-term investments	208	0	
V. 2.	Other income from sales of other long-term investments	208	0	
H.	Expenses related to other long-term investments	204	0	
VI.	Interest and similar income	11	13	
VI. 2.	Other interest and similar income	11	13	
J.	Interest expense and similar expenses	1	0	
J. 2.	Other interest expense and similar expenses	1	0	
VII.	Other financial income	58	74	
K.	Other financial expenses	72	127	
*	Financial result	3	(37)	
**	Net profit / (loss) before taxation	(376)	(275)	
L.	Tax on profit or loss	(74)	(63)	
L. 1.	Tax on profit or loss - current	3	4	
L. 2.	Tax on profit or loss - deferred	(77)	(67)	
**	Net profit / (loss) after taxation	(302)	(212)	
***	Net profit / (loss) for the financial period	(302)	(212)	
*	Net turnover for the financial period	20,026	19,155	

## Cash Flow Statement for the year ended 31 December 2019

(in CZK millions)		Year ended 31 December 2019	Year ended 31 December 2018
	Cash and cash equivalents at the beginning of the year	5,488	5,252
	<i>of which entrusted resources</i>	3,453	3,736
	Net profit on ordinary activities before tax	(376)	(275)
<b>A.1</b>	<b>Adjustments for non-cash movements:</b>	<b>699</b>	<b>866</b>
A.1.1	Amortization, depreciation of fixed assets and abolished investment projects	856	862
A.1.2	Change in allowances and provisions with respect to operating activities	8	111
A.1.3	Profits from disposal of fixed assets	(157)	(89)
A.1.5	Net interest income	(10)	(13)
A.1.6	Adjustments for other non-cash movements	2	(5)
<b>A*</b>	<b>Net cash flow from operating activities before tax and changes in working capital</b>	<b>323</b>	<b>591</b>
<b>A.2</b>	<b>Change in non-cash components of working capital</b>	<b>(758)</b>	<b>678</b>
A.2	<i>of which entrusted resources</i>	850	(283)
A.2.1	Change in receivables and accrued income	(2,038)	611
A.2.1	<i>of which entrusted resources</i>	(51)	88
A.2.2	Change in current and long-term liabilities and deferred income	1,264	55
A.2.2	<i>of which entrusted resources</i>	901	(371)
A.2.3	Change in inventories	16	12
<b>A**</b>	<b>Net cash flow from operating activities before tax</b>	<b>(435)</b>	<b>1,269</b>
<b>A.**</b>	<b><i>of which entrusted resources</i></b>	<b>850</b>	<b>(283)</b>
A.3	Interest paid excluding capitalized interest	(1)	0
A.4	Interest received	11	13
A.5	Income tax overpayment	16	29
<b>A***</b>	<b>Net cash flow from operating activities</b>	<b>(409)</b>	<b>1,311</b>
	<i>of which entrusted resources</i>	850	(283)
	<b>Cash flows from investing activities</b>		
B.1	Purchase of fixed assets	(335)	(721)
B.2	Proceeds from the sale of fixed assets	377	(186)
B.3.	Loans and borrowings to related parties	0	9
<b>B***</b>	<b>Net cash flow from investing activities</b>	<b>42</b>	<b>(898)</b>
	<b>Cash flows from financing activities</b>		
C.2	Change in equity	(196)	(177)
C.2.1	Direct payments from funds	(196)	(177)
<b>C***</b>	<b>Net cash flow from financing activities</b>	<b>(196)</b>	<b>(177)</b>
	<b>Net decrease in cash and cash equivalents</b>	<b>(563)</b>	<b>236</b>
	<i>of which entrusted resources</i>	850	(283)
	<b>Cash and cash equivalents at the end of the year</b>	<b>4,925</b>	<b>5,488</b>
	<i>of which entrusted resources</i>	4,303	3,453

## Statement of Changes in Equity as at 31 December 2019

(in CZK millions)	Share capital	Other capital funds	Gain or loss on revaluation of assets and liabilities	Reserve fund	Other funds from profit	Profit (loss) for the period	Total
<b>Balance as at 31 December 2017</b>	<b>3,588</b>	<b>6,093</b>	<b>9</b>	<b>359</b>	<b>18</b>	<b>78</b>	<b>10,145</b>
Movements between funds/profit distribution	0	0	0	0	175	0	175
Use of funds	0	(97)	0	0	(177)	(78)	(352)
Gains or losses from revaluation to fair value	0	0	(5)	0	0	0	(5)
Profit for the period	0	0	0	0	0	(212)	(212)
<b>Balance as at 31 December 2018</b>	<b>3,588</b>	<b>5,996</b>	<b>4</b>	<b>359</b>	<b>16</b>	<b>(212)</b>	<b>9,751</b>
Movements between funds/profit distribution	0	0	0	0	197	212	409
Use of funds	0	(409)	0	0	(196)	0	(605)
Gains or losses from revaluation to fair value	0	0	(4)	0	0	0	(4)
Profit for the period	0	0	0	0	0	(302)	(302)
<b>Balance as at 31 December 2019</b>	<b>3,588</b>	<b>5,587</b>	<b>0</b>	<b>359</b>	<b>17</b>	<b>(302)</b>	<b>9,249</b>

## 15.2.2 Notes to the Standalone Financial Statements

### 15.2.2.1 General Information

#### 15.2.2.1.1 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 2019 and 31 December 2018, 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 2019, the Company had its registered office at Politických vězňů 909/4, Prague 1, 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:

- a) provision of postal services,
- b) provision of international postal services,
- c) 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.

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

**Organizational structure as at 31 December 2019 was as follows:**

### Česká pošta, s.p. Generální ředitel

Corporate Management Executive Director	External and Internal Relations Executive Director	Security Division Manager	Property Management and Strategic Investments Executive Director	CP Sales Executive Director	Human Resource Management Executive Director	Finance Executive Director	ICT and eGovernment Executive Director	Transformation and Technology Executive Director	Marketing and Business Development Executive Director	Postal Network Management Division Manager	Postal Operations and Logistics Executive Director
Spec. Internal Audit and Risk Management Spec. Dept. Manager	International and Domestic Relations Division Manager	Spec. Crisis Management Spec. Dept. Manager	Property Management Division Manager	Spec. Analytics and Data Support Spec. Dept. Manager	Spec. Remuneration Spec. Dept. Manager	Accounting and Taxes Division Manager	Spec. ICT Security Spec. Dept. Manager	Postal Technology Division Manager	Marketing and Product Development Division Manager	Spec. Branch Network Support Spec. Dept. Manager	
Spec. Compliance and Corporate Agenda Spec. Dept. Manager		Spec. Postal Security Operations Spec. Dept. Manager	Spec. Central Procurement Spec. Dept. Manager	Corporate Trade Division Manager	HR Development Division Manager	Controlling Division Manager	Strategic ICT Development and BI Division Manager	Spec. Project Office Spec. Dept. Manager		Branch Network SB, WB, NB, EB, SM, NM and PRG Branch Network Director	Delivery network management Division Manager
Spec. Legal Spec. Dept. Manager		Spec. Inspection Spec. Dept. Manager	Spec. Strategic Investments Spec. Dept. Manager	Spec. Sales and Postal Network Development Spec. Dept. Manager	Front Office Division Manager	Spec. Treasury and Financing Spec. Dept. Manager	ICT Development Division Manager				Cash service operations Division Manager
Regulation Spec. Dept. Manager		Spec. Occupational HS and FP Spec. Dept. Manager			HR Processes - Back Office Division Manager		ICT Operations Division Manager				Operations and Support Division Manager
Purchase Division Manager							e-GOV Division Manager				

**Top management of the Company as at 31 December 2019 was as follows:**

Top management of the Company	Position	Date of appointment	Entered in the Commercial Register *
Roman Knap	Director General	18/ 06/ 2018	yes
Roman Schanner	Deputy Director General, Chief Director of Finance Division	05/ 12/ 2018	yes
Jaroslav Hloušek	Deputy Director General, Chief Director of ICT and e-Government Division	01/ 10/ 2018	yes
Petr Cinkl	Deputy Director General, Chief Director of Postal Operations and Logistics Division	18/ 02/ 2019	yes

\* The Director General stipulates the order in which his deputies shall represent him. Deputy directors general are entered in the Commercial Register.

Between the balance sheet date and the date of preparation of the financial statements there were no changes in the top management of the Company.

**Members of the Supervisory Board as at 31 December 2019 were as follows:**

Name	Position
Petr Zatloukal	Chairman
Jiří Nováček	First Vice-Chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Bohumila Mäsiarová	Member
Soňa Lavičková	Member
Štěpán Grochal	Member
Josef Zedník	Member
Oldřich Černoch	Member
Jaroslav Strouhal	Member
Ľudovít Gulácsi	Member
František Lukl	Member
Vladimír Dzurilla	Member
Martin Netolický	Member
Pavel Jaroš	Member

**Members of the Supervisory Board as at 31 December 2018 were as follows:**

Name	Position
Karel Kratina	Chairman
Jiří Nováček	First Vice-Chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Soňa Lavičková	Member
Jaroslav Strouhal	Member
Ľudovít Gulácsi	Member
Oldřich Černoch	Member
Vladimír Dzurilla	Member
Bohumila Mäsiarová	Member
František Lukl	Member
Josef Zedník	Member
Martin Netolický	Member



**Members of the Strategy and Finance Committee of the Company as at 31 December 2019 were as follows:**

Name	Position
Lubomír Krejsa	Chairman
Štěpán Grochal	Member
Oldřich Černoch	Member
Vladimír Dzurilla	Member
Petr Zatloukal	Member

**Members of the Audit Committee of the Company as at 31 December 2019 were as follows:**

Name	Position
Petr Zatloukal	Chairman
Lubomír Krejsa	Member
Soňa Lavičková	Member
Oldřich Černoch	Member

**Members of the Human Resources Development Committee of the Company as at 31 December 2019 were as follows:**

Name	Position
Karel Koukal	Chairman
Soňa Lavičková	Member
Ľudovít Gulácsi	Member
František Lukl	Member
Josef Zedník	Member
Bohumila Mäsiarová	Member

**Members of the Strategy and Finance Committee of the Company as at 31 December 2018 were as follows:**

Name	Position
Karel Kratina	Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Oldřich Černoch	Member
Vladimír Dzurilla	Member

**Members of the Audit Committee of the Company as at 31 December 2018 were as follows:**

Name	Position
Karel Kratina	Chairman
Soňa Lavičková	Member
Oldřich Černoch	Member

**Members of the Human Resources Development Committee of the Company as at 31 December 2018 were as follows:**

Name	Position
Karel Koukal	Chairman
Soňa Lavičková	Member
Ľudovít Gulácsi	Member
František Lukl	Member
Josef Zedník	Member
Bohumila Mäsiarová	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 on Postal Services (the "Postal Services Act"). The Company holds a license to provide postal services in accordance with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

The content of the postal license 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 license holder are covered by Title V of the Postal Services 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 license holder.

#### 15.2.2.2 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 2019. 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.

#### Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles.

##### 15.2.2.2.1 Comparative Information

The information for both the current and previous year is comparable. The items of Prepayments and accrued income and Accruals and deferred income have been reported in separate sections – D. Prepayments and accrued income/Accruals and deferred income.

##### 15.2.2.2.2 Going Concern

As a postal license holder, Česká pošta has been one of the key parts of the State's infrastructure; despite the long-term downward trend in postal services, these are still indispensable for the functioning of the state system.

On 30 August 2019, an amendment to the Postal Services Act No. 202/2019 Coll. became effective, which, among other things, increased the upper limit of the net costs of providing basic postal services from CZK 500 million to CZK 1,500 million, effective for 2018. At the same time, a procedure has been established for proceedings before the European Commission concerning state aid for cases involving the financing of preliminary net costs or net costs representing an unfair financial burden. According to the provision, the CTO may not transfer any funds to cover these costs until the European Commission decides on the justification for their provision.

As part of its medium-term strategy and the upcoming transformation, Česká pošta is preparing to implement a growth strategy focused on new revenues, utilizing the unique features of its distribution networks as well as potential synergies with key strategic partners. Further, Česká pošta is about to make additional changes in other areas as well, such as delivery of parcels (in the D+n regime), digitizing logistics processes, financial services, real estate management and other internal processes in order to achieve a positive economic result in the future. As the result of the intended activities arising from the approved medium-term strategy, Česká pošta expects to report a positive economic result for 2021.

Česká pošta has an overdraft facility with ČSOB to cover fluctuations in liquidity during the month. In accordance with applicable legislation, Česká pošta expects to be paid the compensation of Net Costs of Universal Service in 2020 for the periods of 2018 and 2019 totaling CZK 3 billion and advances for 2020 in the amount of CZK 750 million.

The specific date of the compensation payment for 2018 and 2019, along with the advance payment for 2020, depends on the completion of the ongoing notification process by the European Commission, which examines whether the conditions have been met under which state aid for services of general economic interest can be declared compatible with European legislation for the period 2018 - 2020. Due to the ongoing lawsuit and two complaints filed by Czech companies with the European Commission against the Czech Republic's practice pertaining to the compensation for the years 2018 - 2022, Czech Post cannot exclude with certainty that the compensation payments for the provision of services arising from the postal license will be deferred. Both the founder and relevant government institutions have been familiarized with the circumstances. Due to the indispensability of the Česká pošta's services to the state as well as the increase in the Net Costs of Universal Service compensation limit through legislation, the Company's management believes that the going concern assumption is valid.

### 15.2.2.3 Accounting Policies

The valuation methods applied by the Company during preparation of the ordinary financial statements as at 31 December 2019 were as follows:

#### 15.2.2.3.1 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 exceeding CZK 40 thousand and estimated useful live longer than one year are amortized using the straight-line method over their estimated useful life in accordance with the Company's amortization 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). If technical improvements of intangible fixed assets are made, following the period in which the improvements are put into use, the amortization period of the asset is extended by 4 years or more in the case of significant asset items that the Company uses and expects to use for more than 4 years (e.g. the SAP backbone economic system).

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

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

The cost limit for the capitalization of the technical improvements of intangible fixed assets is CZK 40 thousand. An allowance 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.

#### 15.2.2.3.2 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.

An allowance 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.

An allowance is created mainly in cases of projects whose realization 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 that year. Ordinary repairs and maintenance expenses are expensed as incurred.

Tangible fixed assets with a unit cost of less than 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 exceeding CZK 40 thousand and selected low value tangible assets with an estimated useful life longer 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 – 45
Plant, machinery and equipment	4 – 15
Vehicles	6 – 20
Furniture, fixtures and equipment	10 – 20
Handling equipment	6 – 20
Computers and related equipment	3 – 7

#### 15.2.2.3.3 Long-term investments

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

##### i. 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 an allowance for diminution in value.

## ii. 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. The Company management determines the form of securities and investments at the time of their acquisition and revalues them on a regular basis as at the financial statements' date.

All securities and investments are initially recorded at cost, including transaction costs.

Held-to-maturity investments are subsequently accounted for at amortized 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 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. Unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized as a movement in equity and recognized into the income statement on realization or when permanently impaired.

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

### 15.2.2.3.4 Inventory

Purchased inventories are stated at the lower of cost and net realizable 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.

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

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 derecognized once the respective revenues are recorded.

### 15.2.2.3.5 Receivables

Receivables are carried at their nominal value after allowance for doubtful accounts. An allowance against doubtful receivables is created on the basis of an aging analysis and an individual evaluation of the credit worthiness of the customers.



#### 15.2.2.3.6 Short-term financial investments

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

#### 15.2.2.3.7 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 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 resources – see subsection 15.2.2.3.8. – Entrusted resources.

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

#### 15.2.2.3.8 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 Československá obchodní banka, a.s. (hereinafter “ČSOB, a.s.”), collection of radio and television license fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for 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 recognized within its own resources using the accrual principle in the same period to which they relate.

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

#### 15.2.2.3.10 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 share 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.

The Company creates a cultural and social fund (“FKSP”). The creation and use of this fund is being governed by 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.

#### 15.2.2.3.11 Provisions

Provisions are intended to cover liabilities or expenses, the nature of which is clearly defined and that are either likely or certain to occur as at the balance sheet date but that are not certain in terms of the amount or the moment of occurrence.

#### 15.2.2.3.12 Employee benefits

The Company creates a provision for accrued vacation. 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. In case of rewards and bonuses to employees who are entitled for a payment after the current financial year-end day after meeting specified criteria, the Company creates a provision on the current financial year-end day.

#### 15.2.2.3.13 Loans

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

#### 15.2.2.3.14 Expenses and revenue recognition

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

Sales are recognized 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 realized in cash through sales of postal stamps are recognized 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 realized 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.

Other operating income includes Compensation for net costs of the provision of basic postal services. In the income statement, the revenue is presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income, observing the matching and accrual principles applied to accounting for incurred costs; for details see subsection 15.2.2.7 – Net Costs of Universal Service.

#### 15.2.2.3.15 Leases

The costs of assets held under both finance and operating leases are not capitalized 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 recognized 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.

#### 15.2.2.3.16 Income tax payable

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.).

Corporate income tax is recognized in the balance sheet as a part of the item “Taxes and state subsidies 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 profit and loss as tax from ordinary activities.

#### 15.2.2.3.17 Deferred tax expense

Deferred tax is recognized 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 recognized if it is probable that sufficient future taxable profit will be available against which the asset can be utilized.

#### 15.2.2.3.18 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 subsection 15.2.2.22 – Related party transactions.

#### 15.2.2.3.19 Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the financial statements, are recognized 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 recognized in the financial statements.

#### 15.2.2.4 Fixed assets

##### 15.2.2.4.1 Intangible fixed assets

###### Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,915	50	(12)	1,953
Royalties	3	0	0	3
Other intangible fixed assets	60	0	0	60
Intangible fixed assets in the course of construction	50	29	(50)	29
<b>Total as at 31 December 2019</b>	<b>2,028</b>	<b>79</b>	<b>(62)</b>	<b>2,045</b>
<b>Total as at 31 December 2018</b>	<b>1,984</b>	<b>158</b>	<b>(114)</b>	<b>2,028</b>

\*) Additions and Disposals also include transfers of intangible fixed assets in progress.

###### Accumulated amortization and net book value

(in CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,595)	(78)	10	(1,663)	(15)	275
Royalties	(2)	0	0	(2)	0	1
Other intangible fixed assets	(58)	(1)	0	(59)	0	1
Intangible fixed assets in the course of construction	0	0	0	0	(9)	20
<b>Total as at 31 December 2019</b>	<b>(1,655)</b>	<b>(79)</b>	<b>10</b>	<b>(1,724)</b>	<b>(24)</b>	<b>297</b>
<b>Total as at 31 December 2018</b>	<b>(1,603)</b>	<b>(82)</b>	<b>30</b>	<b>(1,655)</b>	<b>(17)</b>	<b>356</b>

##### 15.2.2.4.2 Tangible fixed assets

###### Cost

(in CZK millions)	Opening balance	Additions *)	Disposals **)	Closing balance
Land	833	1	(6)	828
Construction	11,809	138	(72)	11,875
Plant, machinery and equipment	4,921	119	(293)	4,747
Vehicles	1,620	100	(143)	1,577
Furniture and fixtures	704	11	(8)	707
Selected low value tangible assets of less than CZK 40 thousand	619	89	0	708
Other movable assets	313	0	(29)	284
Art works and collections	5	0	0	5
Tangible fixed assets in the course of construction	195	478	(464)	209
<b>Total as at 31 December 2019</b>	<b>21,019</b>	<b>936</b>	<b>(1,015)</b>	<b>20,940</b>
<b>Total as at 31 December 2018</b>	<b>21,037</b>	<b>1,325</b>	<b>(1,343)</b>	<b>21,019</b>

\*) Additions also includes transfers of tangible fixed assets in progress.

\*\*) Disposals of tangible fixed assets in progress also include depreciation of lost investments.

#### Accumulated depreciation and net book value

(in CZK millions)	Opening balance of accumulated depreciation	Additions	Disposals	Closing balance of accumulated depreciation	Allowances	Net book value
Land	0	0	0	0	0	828
Construction	(5,692)	(282)	55	(5,919)	0	5,956
Plant, machinery and equipment	(4,091)	(263)	286	(4,068)	(10)	669
Vehicles	(1,255)	(84)	143	(1,196)	0	381
Furniture and fixtures	(578)	(20)	8	(590)	0	117
Selected low value tangible assets of less than CZK 40 thousand	(194)	(120)	0	(314)	0	394
Other movable assets	(313)	0	29	(284)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in the course of construction	0	0	0	0	(4)	205
<b>Total as at 31 December 2019</b>	<b>(12,123)</b>	<b>(769)</b>	<b>521</b>	<b>(12,371)</b>	<b>(14)</b>	<b>8,555</b>
<b>Total as at 31 December 2018</b>	<b>(11,910)</b>	<b>(780)</b>	<b>567</b>	<b>(12,123)</b>	<b>(18)</b>	<b>8,878</b>

Based on the stock-count performed, the Company adjusted the carrying value of the tangible fixed assets for diminution in value through an allowance (see subsection 15.2.2.8 – Allowances).

Over the accounting period ended as at 31 December 2019, the Company did not receive any material fixed assets free of charge.

As at 31 December 2019 and 31 December 2018, besides the easement in favor 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 388 (2018: 374) 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 favor of the communal and municipal authorities, telecommunications infrastructure providers, and electricity producers and distributors.

As at 31 December 2019 and 31 December 2018, the Company received an investment subsidy of CZK 19 million and CZK 11 million, respectively.

#### 15.2.2.4.3 Long-term investments

As at 31 December 2019 and 31 December 2018, 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.	31 December 2019	31 December 2018
Share (in %)	51.03%	51.03%
	(in CZK millions)	(in CZK millions)
Total assets	75	83
Equity	71	79
Profit/(loss) for the period	(8)	(3)
Acquisition cost of shares	18	18
Nominal value of shares	17	17
Intrinsic value of shares	36	40



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 2019 nor 31 December 2018.

In addition, as at 31 December 2019 and 31 December 2018 the Company exercised significant influence 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.	31 December 2019	31 December 2018
Share (in %)	100.00%	100.00%
	(in CZK millions)	(in CZK millions)
Total assets	93	62
Equity	65	42
Profit/(loss) for the period	23	28
Acquisition cost of interest	7	7
Intrinsic value of interest	65	42

The acquisition cost of interest as at 31 December 2019 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.

Financial information about these companies was obtained from the audited financial statements of each company.

The intrinsic value of shares / interest states the Company's share in the equity capital of the controlled company as at 31 December 2019 and 31 December 2018, respectively.

Other long-term securities and investments as at 31 December 2018 comprised government bonds issued by Ministry of Finance of the Czech Republic maturing in 2023 and available-for-sale investments, valued at fair value of CZK 211 million as at 31 December 2018; the government bond was sold during 2019.

#### 15.2.2.5 Inventories

The fair value of obsolete and slow-moving inventory is reduced to the selling price through the allowance account (see subsection 15.2.2.8 – Allowances).

#### 15.2.2.6 Receivables

As at 31 December 2019 and 31 December 2018, receivables due after more than 5 years amounted to CZK 1 million and CZK 0 million, respectively, and outstanding overdue receivables amounted to CZK 310 million and CZK 330 million, respectively. Outstanding overdue receivables are not secured. The Company wrote off irrecoverable receivables of CZK 29 million and CZK 27 million in 2019 and 2018, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Advances for income tax of CZK 1 million paid by the Company as at 31 December 2019 (as at 31 December 2018: CZK 21 million) are netted off with the provision for income tax of CZK 1 million as at 31 December 2019 (as at 31 December 2018: CZK 1 million).

Receivables from related parties are described in subsection 15.2.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of

these transactions as at 31 December 2019 and 31 December 2018 amounted to CZK 1,386 million and CZK 906 million, respectively. 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 2019, the compensation of net costs of providing basic postal services is included in estimated receivables as follows: an amount of CZK 3,300 million was recognized in short-term receivables; as at 31 December 2018, a portion of CZK 500 million was recognized in short-term receivables and CZK 800 million were recognized in long-term receivables (see subsection 15.2.2.7 Net Costs of Universal Service).

#### 15.2.2.7 Net Costs of Universal Service

The Company as a postal license holder, as defined by Section 21 paragraph 2 of the Postal Services Act, is obliged to ensure the universal availability of basic services listed in Section 3 paragraph 1 of the Postal Services Act in the whole territory of the Czech Republic (i.e. Postal services obligation). The Company is obliged to fulfill the postal services obligation (Section 33 paragraph 1 point a) of the Postal Services 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 license holder incurs a net costs representing an unfair financial burden for the postal license 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.

According to a mechanism introduced by the Postal Services Act amendment, which entered into force on 1 January 2013, 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 thus 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. The determination of the group of mandatory contributors to the compensation fund along with the amount of their contribution crucial for the final amount of compensation for the years 2013 and 2014, which is the responsibility of CTO, have not been determined.

Effective from 1 January 2016 in accordance with Act No. 319/2015, Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (Postal Services Act), as amended, and Act No. 77/1997 Coll., on State-Owned Enterprise, as amended, the change in the method of financing net costs for the periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, 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 were 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.

Following the adoption of Act No. 319/2015 Coll., a pre-notification process of the method for compensating the net cost of providing basic services for the years 2015-2017 to the European Commission has been initiated in line with EU law. The period under review has been subsequently extended to the years 2013 and 2014 as well. In July 2016, resulting from the preliminary investigation of the compensation fund regime in the years 2013 to 2014, the European Commission raised several observations, inter alia, questioning the compliance of the arrangements for financing the net costs for both years through the compensation fund set out in the Postal Services Act with EU law, and came up with the recommendation that the compensation fund should be canceled.

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 minimize the risks associated with the decision of not applying the provisions of the Postal Services 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.

Following the Government resolution of 22 March 2017, the Ministry of Industry and Trade prepared a draft amendment to the Postal Services Act. The amendment No. 202/2019 Coll. came into effect on 30 August 2019. It primarily resolves financing of the net costs incurred by the postal license holder, i.e. CP, in providing basic services for the years 2013 and 2014 due to abandoning the net cost financing through the compensation fund and replacing the mechanism with a payment from the state budget. The net expenses that, according to the CTO's decision, represent an unfair financial burden as determined pursuant to Section 34c paragraph 2 of Act No. 29/2000 Coll., as amended prior to 1 January 2016, were reimbursed by the state in the amount of CZK 800,000,000 for both years, specifically CZK 500,000,000 in 2019 and CZK 300,000,000 in 2020. The Company received CZK 500,000,000 on 4 September 2019, the remaining CZK 300,000,000 was paid in February 2020.

The amendment No. 202/2019 Coll. also raised the upper limit for compensation of net costs of providing basic services from the state budget for the calendar year 2018 and subsequent years from CZK 500,000,000 to CZK 1,500,000,000. Other net costs are not considered by law to be an unfair financial burden. The method of determining the net cost of basic services has not changed.

On 19 February 2018, the European Commission concluded, based on the notification of the compensation payment for the provision of universal postal services (compensation for the net costs of providing basic services) for the period of 2013 to 2017 along with the supporting documents, that the reimbursement of the compensations to CP for the provision of universal postal services (compensation for the net costs of providing basic services from the state budget) for the period 2013-2017 up to a maximum of CZK 2.6 billion constituted state aid compatible with the internal market under the Services of General Economic Interest framework from 2012, which sets out the conditions to be met by the aid in order to comply with Article 106 (2) of the Treaty on the Functioning of the European Union (TFEU) ("Decision of the European Commission"). The decision of the European Commission is currently being reviewed by the General Court of the European Union following a lawsuit filed by První novinová společnost a.s.

A new notification procedure is under way before the European Commission for the years 2018-2022. In 2018, an estimated receivable for net costs was recognized in the amount of the upper limit set out in the Postal Services Act, as amended until 30 August 2019, i.e. CZK 500 million. In 2019, the Company's management decided, based on an increase in the upper limit by the amended Act and based on the calculated net cost, to raise the estimated receivable for the compensation of net costs for 2018 by CZK 1,000 million so that the total estimated receivable for the compensation of net costs for 2018 equaled the amount of the upper limit as set out in applicable legislation. The Company's management decided to recognize an estimated receivable for the compensation of net costs for 2019 in the amount of the upper limit set out in applicable legislation, i.e. CZK 1,500 million. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the presumed date of reimbursement, the estimated receivable was presented within short-term receivables under C.II.2.4.5.

Payment of any state compensation for the provision of basic services for the period 2018 to 2022 is subject to a decision of the European Commission on the compatibility of state aid in the form of compensation for the net cost of the provision of basic services for the period 2018 to 2022 with the internal market under the

Services of General Economic Interest framework from 2012, which sets out the conditions to be met by the aid in order to comply with Article 106 (2) of TFEU). The notification of the state compensation for the provision of basic services for the period 2018 to 2022 was officially submitted to the European Commission by the Czech Republic on 28 January 2020. The decision of the European Commission is unlikely to be made prior to the judgment of the General Court of the European Union regarding the action against the EC Decision.

The decision of the European Commission or of the General Court of the European Union may theoretically mean the postponement of the payment, but it should not impede Česká pošta's legitimate expectation to receive the compensation for the net costs of the provision of basic services for the period 2018 to 2019.

#### 15.2.2.8 Allowances

Allowances reflect a temporary decrease in the value of assets (disclosed in subsections 15.2.2.4 – Fixed assets, 15.2.2.5 – Inventories and 15.2.2.6 – Receivables).

Allowances against: (in CZK millions)	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018	Additions	Reversal / use	Balance as at 31 December 2019
Intangible fixed assets	18	0	(1)	17	9	(2)	24
Tangible fixed assets	38	0	(20)	18	0	(4)	14
Long-term financial investments	0	0	0	0	0	0	0
Inventory	73	7	(2)	78	12	(20)	70
Receivables – other	135	53	(32)	156	33	(38)	151
<b>Total tax non-deductible allowances</b>	<b>264</b>	<b>60</b>	<b>(55)</b>	<b>269</b>	<b>54</b>	<b>(64)</b>	<b>259</b>
Receivables – legal	32	15	(20)	27	22	(23)	26
<b>Total tax deductible allowances</b>	<b>32</b>	<b>15</b>	<b>(20)</b>	<b>27</b>	<b>22</b>	<b>(23)</b>	<b>26</b>
<b>Total</b>	<b>296</b>	<b>75</b>	<b>(75)</b>	<b>296</b>	<b>76</b>	<b>(87)</b>	<b>285</b>

Legal allowances are created pursuant to the Act No. 593/1992 Coll., on Provisions, as amended and are deductible for tax purposes; other allowances are not deductible for tax purposes.

#### 15.2.2.9 Short-term Financial Assets and Cash

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 subsection 15.2.2.14 – Bank loans and borrowings).

As at 31 December 2019 and 31 December 2018, the Company did not have short-term securities nor shares.

#### 15.2.2.10 Equity

As at 31 December 2019 and 31 December 2018, 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 year ended 31 December 2018 was distributed on 4 April 2019 in accordance with the founder's approval. The amount of CZK 197 million was transferred to the cultural and social fund; CZK 409 million was used from other capital funds.

The proposed compensation of the loss incurred for the year ended 31 December 2019 will be submitted to the founder of the Company along with the request for approval of the annual report in accordance with Section 15 paragraph 1 point i) of the Act on State-Owned Enterprise, as amended.

#### 15.2.2.11 Provisions

(in CZK millions)	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018	Additions	Reversal / use	Balance as at 31 December 2019
Social and health insurance	94	72	(74)	92	73	(77)	88
Accrued vacation	57	15	0	72	0	(28)	44
Provision for severance pay incl. competition clauses	68	202	(68)	202	30	(111)	121
Non-claimable component of salaries	125	91	(125)	91	92	(91)	92
Other	227	52	(54)	225	155	(24)	356
<b>Total tax non-deductible provisions</b>	<b>571</b>	<b>432</b>	<b>(321)</b>	<b>682</b>	<b>350</b>	<b>(331)</b>	<b>701</b>
<b>Total</b>	<b>571</b>	<b>432</b>	<b>(321)</b>	<b>682</b>	<b>350</b>	<b>(331)</b>	<b>701</b>

The provision for social and health insurance is created mainly for contributions to the unpaid part of contracted wages, profit-related bonuses, accrued vacation 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.

Other provisions were primarily created to cover risks known as at 31 December 2019 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.

#### 15.2.2.12 Long-term liabilities

Long-term liabilities are represented by the deferred tax liability as at 31 December 2019 and 31 December 2018, which is described in subsection 15.2.2.16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 6 million and CZK 7 million as at 31 December 2019 and 31 December 2018, respectively. These are mainly part of liabilities concerning retentions – given items are recognized on the line C.I.4 Trade payables.

As at 31 December 2019 and 31 December 2018, the Company did not recognize liabilities that are due after more than 5 years.



### 15.2.2.13 Current liabilities

As at 31 December 2019 and 31 December 2018, the Company had overdue current payables totaling CZK 11 million and CZK 26 million, respectively.

The Company had no current or long-term liabilities bearing a security or lien in favor of a creditor as at 31 December 2019 and 31 December 2018.

Liabilities to related parties are described in subsection 15.2.2.22 – Related party transactions.

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 790 million and CZK 787 million as at 31 December 2019 and 31 December 2018, respectively. In addition, estimated payables included quantity discounts, uninvoiced 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 subsection 15.2.2.24 – Entrusted resources).

Payables in respect of social insurance and health insurance amounted to CZK 409 million and CZK 347 million as at 31 December 2019 and 31 December 2018, respectively. These payables comprise unpaid wages for December 2019 and 2018, which were paid at the beginning of 2020 and 2019, respectively.

The Company did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2019 and 31 December 2018.

### 15.2.2.14 Bank loans and borrowings

#### 15.2.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Total limit (in CZK millions)	31 December 2019 (in CZK millions)	31 December 2018 (in CZK millions)
ČSOB, a.s.	Global credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Own resources	1,000	0	0
ČSOB, a.s.	Multi-purpose credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Own resources	1,500	0	0
ČSOB, a.s.	Global credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Entrusted resources	700	0	148

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

The overdraft on own funds account from Československá obchodní banka, a.s., is to offset short-term cash-flow fluctuations and as at 31 December 2019 and 31 December 2018 was not used.

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 2019 and 31 December 2018, the loan was not used.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., was provided to ensure sufficient financial liquidity of the Company. As at 31 December 2019 and 31 December 2018, the Company used CZK 0 million and CZK 148 million, respectively of the overdraft.

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

#### 15.2.2.14.2 Denominated in EUR

Bank	Terms/ Conditions	Total limit (in EUR millions)	31 December 2019		31 December 2018	
			(in EUR millions)	(in CZK millions)	(in EUR millions)	(in CZK millions)
ČSOB, a.s.	Global credit line EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.2	31	1.2	30

The above-mentioned bank overdraft is exclusively used for cash operations of the banking services provided at selected post-office counters in EUR.

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

#### 15.2.2.15 Accruals and Deferred Income

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

#### 15.2.2.16 Income Tax

Analysis of the income tax expense is as follows:

(in CZK millions)	2019	2018
Current tax expense	1	1
Deferred tax	(77)	(67)
Adjustment of prior year tax expense based on final CIT return	2	3
<b>Total tax expense</b>	<b>(74)</b>	<b>(63)</b>

The Company quantified tax due as follows:

(in CZK millions)	2019	2018
Profit before tax	(376)	(275)
Non-taxable revenues	(10)	(31)
Difference between book and tax depreciation	390	231
Tax non-deductible expenses and change in allowances and provisions	78	149
Of which:		
- change in allowances	(10)	5
- change in provisions	19	111
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	69	33
Gifts	0	0
Deduction to support training	2	1
Taxable income	80	73
Income tax rate	19%	19%
Calculated income tax	15	14
Tax relief (persons with disability or partial disability)	(14)	(13)
Current tax expense	1	1
Income tax expense from ordinary activities	1	1

The Company calculated the deferred tax asset / (liability) using the 19% tax rate (for both periods, i.e. as at 31 December 2019 and 31 December 2018) and quantified as follows:

(in CZK millions)	31 December 2019			31 December 2018		
	Base	Deferred tax asset	Deferred tax liability	Base	Deferred tax asset	Deferred tax liability
Deferred tax items						
Difference between net book value of fixed assets for accounting and tax purposes	(1,743)	0	(331)	(2,144)	0	(407)
Allowances	259	49	0	269	51	0
Other provisions	701	133	0	682	129	0
<b>Total</b>	<b>(783)</b>	<b>182</b>	<b>(331)</b>	<b>(1,193)</b>	<b>180</b>	<b>(407)</b>
<b>Net deferred tax liability</b>			<b>(149)</b>			<b>(227)</b>

The effect of deferred tax arising from the revaluation of available-for-sale securities of CZK -1 million as at 31 December 2019 – the respective security was sold during 2019 (as at 31 December 2018: CZK 1 million) is included in equity.

#### 15.2.2.17 Leases

The Company leases fixed assets, which are not recognized in the balance sheet accounts (see subsection 15.2.2.3.15 – Leases and subsection 15.2.2.18 – Commitments and Contingencies).

The assets leased by the Company in the form of operational leases amounted to CZK 374 million and CZK 344 million as at 31 December 2019 and 31 December 2018, respectively. The buildings leased by the Company amounted to CZK 249 million and CZK 237 million as at 31 December 2019 and 31 December 2018, respectively.

As at 31 December 2019 and 31 December 2018, the Company did not have any finance leases.

#### 15.2.2.18 Commitments and Contingencies

The Company recognizes particularly stamps, road toll vignettes and lottery tickets, the nature of which is recognized as valuables (these items are recognized below in nominal value) in its operational evidence as at 31 December 2019 and 31 December 2018. Furthermore, the Company recognized low-value assets in operating evidence and leased assets in off-balance sheet evidence (recognized in acquisition costs), which is not recognized in the balance sheet:

(in CZK millions)	31 December 2019	31 December 2018
Valuables incl. stamps and lottery tickets	12,490	13,855
Road toll vignettes	3,210	2,615
Leased assets – operational lease	1,760	1,709
Securities	0	40
Low-value tangible assets	2,044	2,142
Low-value intangible assets	47	53

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

	31 December 2019	31 December 2018
Due within 1 year	463	439
Due between 1 to 5 years	953	942
Due after 5 years	94	58
<b>Total</b>	<b>1,510</b>	<b>1,439</b>

Received and provided bank guarantees for the Company, which are drawn under the framework agreements, on the provision of financial services, as at 31 December 2019 were as follows:

Type of provided guarantee	Guarantor	Creditor	Subject	Valid until	Amount (in CZK millions)
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system	01/ 07/ 2020	10
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2020	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2019	16/ 03/ 2020	130
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2020	16/ 03/ 2021	400
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	20/ 07/ 2020	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o.			
Payment	Československá obchodní banka, a.s.	Prologis CR LX s.r.o.	Rental agreement	10/ 01/ 2021	3
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1
Payment	Československá obchodní banka, a.s.	CENTRUM CHODOV, a.s.	Rental agreement	08/ 03/ 2020	1
Payment	Československá obchodní banka, a.s.	Charles Square Center s.r.o.	Rental agreement	14/ 05/ 2020	1
					<b>559</b>
Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (in CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action - Prague 7 - "Stamp design" collection storage room	30/ 06/ 2021	1
Payment	Československá obchodní banka, a.s.	OHL ŽS a.s.	Action - insulation České Budějovice 4	31/ 01/ 2020	1
Payment	Československá obchodní banka, a.s.	šmíragroup a.s.	Action - reconstruction of post office Ostrava 2, SPU Ostrava 02 and Depot Ostrava 71	10/ 07/ 2023	2
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action - reconstruction of post office Brno 100	15/ 04/ 2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action - SPU České Budějovice - new building	27/ 09/ 2021	5
Payment	Komerční banka	SSK-stavby s.r.o.	SPU Praha 022, TB-reconstruction of road ramp including gates	24/ 04/ 2024	1
Payment	Komerční banka	SILBA-Elstav s.r.o.	SPU Plzeň 02 - vehicle parking	12/ 10/ 2024	1
Payment	ČSOB	CENTRA a.s.	provision of cleaning services-PRG reg.	31/ 12/ 2022	2
Payment	ČSOB	CENTRA a.s.	provision of cleaning services-SB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-WB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-NB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-EB reg.	31/ 12/ 2022	1
Payment	ČSOB	Clarima s.r.o.	provision of cleaning services-SM reg.	31/ 12/ 2022	2
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-NM reg.	31/ 12/ 2022	2
					<b>23</b>

#### 15.2.2.19 Contingent Liabilities

The management of the Company is not aware of any significant contingent liabilities as at 31 December 2019.

### 15.2.2.20 Revenues and Other Operating Income

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

	2019			2018		
	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)
Revenue from postal operations	11,531	1,867	13,398	11,883	2,042	13,925
Revenue from provision of intermediary services	2,348	0	2,348	2,422	0	2,422
Revenue from electronic services	407	0	407	377	0	377
Sales of goods	193	0	193	201	0	201
Revenues from data mailboxes	456	0	456	462	0	462
<b>Total revenues</b>	<b>14,935</b>	<b>1,867</b>	<b>16,802</b>	<b>15,345</b>	<b>2,042</b>	<b>17,387</b>
Other operating income	2,944	0	2,944	1,678	0	1,678
<b>Total revenues and other operating income</b>	<b>17,879</b>	<b>1,867</b>	<b>19,746</b>	<b>17,023</b>	<b>2,042</b>	<b>19,065</b>

For Net Costs of Universal Service see subsection 15.2.2.7. In the income statement, compensation for net costs of the provision of basic postal services is presented within other operating income on a separate line III.3.1. Compensation for net costs of the provision of basic postal services.

In 2019 and 2018, the Company received subsidies for operating purposes in the amount of CZK 3 million and CZK 3 million, respectively.

### 15.2.2.21 Employees

Breakdown of staff costs is as follows:

	2019		2018	
	Total personnel	Of which: Company's management and Supervisory Board	Total personnel	Of which: Company's management and Supervisory Board
Average adjusted number of employees (in CZK millions)	28,927	25	28,994	22
Wages and salaries	10,163	77	9,368	103
Social security and health insurance	3,393	15	3,133	16
Social costs	379	0	336	0
<b>Total staff costs</b>	<b>13,935</b>	<b>92</b>	<b>12,837</b>	<b>119</b>

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

### 15.2.2.22 Related Party Transactions

Apart from the bonuses disclosed in subsection 15.2.2.21 – Employees, 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 in 2019, they did however have access to Company cars that are made available by management for both business and private purposes. During the year, the Company executed several transactions with related parties within its ordinary business activities.

The transactions realized during 2019 and 2018 along with the related receivables from and liabilities to related parties are as follows:



As at 31 December 2019	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
<b>Subsidiaries</b>				
Poštovní tiskárna cenin Praha, a.s.	0	19	0	3
Česká pošta Security, s.r.o.	5	210	1	42
<b>Other related parties</b>				
ČD Cargo, a.s.	1	67	0	2
ČEPRO, a.s.	1	362	0	38
Czech Social Security Administration	400	2,446	0	3,074
Czech Metrology Institute	0	5	0	2
Czech Statistical Office	38	0	7	2
ČEZ	90	215	6	78
General Financial Directorate	141	14	0	18
Government ministries	481	0	41	5
National Agency for Communications and Information Technology	7	2	1	0
Pražská plynárenská, a.s.	13	60	0	30
General Directorate for National Roads and Motorways of the Czech Republic	2	33	0	3
Labour Office of the Czech Republic	292	0	0	55
Vodovody a kanalizace Hodonín, a.s.	2	0	0	2
Health insurance companies	126	0	0	14
<b>Total</b>	<b>1,599</b>	<b>3,433</b>	<b>56</b>	<b>3,368</b>

As at 31 December 2018	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
<b>Subsidiaries</b>				
Poštovní tiskárna cenin Praha, a.s.	0	22	0	6
Česká pošta Security, s.r.o.	4	189	1	37
<b>Other related parties</b>				
ČD Cargo, a.s.	1	71	0	4
ČEPRO, a.s.	1	365	0	34
Czech Social Security Administration	416	2,258	0	1,838
Czech Metrology Institute	0	4	0	2
Czech Statistical Office	2	0	0	2
ČEZ	102	201	13	52
General Financial Directorate	148	15	0	30
Government ministries	555	0	39	14
National Agency for Communications and Information Technology	5	4	1	0
Pražská plynárenská, a.s.	14	69	1	26
General Directorate for National Roads and Motorways of the Czech Republic	2	31	0	2
Labour Office of the Czech Republic	304	0	0	60
Vodovody a kanalizace Hodonín, a.s.	2	0	0	2
Health insurance companies	113	0	0	11
<b>Total</b>	<b>1,669</b>	<b>3,229</b>	<b>55</b>	<b>2,120</b>

Liabilities to / costs pertaining to Poštovní tiskárna cenin Praha, a.s., relate mainly to the purchase / consumption of material.

Liabilities to / costs pertaining to Česká pošta Security, s.r.o., relate mainly to the purchase of services.

#### 15.2.2.23 Fees Paid and Payable to the Audit Company

Information on the fees paid and payable to the audit company is included in the consolidated financial statements of the Company.

#### 15.2.2.24 Entrusted resources

The entrusted resources analysis as at 31 December 2019 and 31 December 2018 is as follows:

(in CZK millions)	31 December 2019	31 December 2018
<b>ASSETS</b>		
Short-term receivables	102	52
Cash in hand and at bank	4,303	3,453
<b>Total assets</b>	<b>4,405</b>	<b>3,505</b>

(in CZK millions)	31 December 2019	31 December 2018
<b>LIABILITIES AND EQUITY</b>		
Current liabilities	4,374	3,327
Short-term bank loans	31	178
<b>Total liabilities and equity</b>	<b>4,405</b>	<b>3,505</b>

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

At the end of 2019, the Company received advance payments of CZK 2,600 million for 2020 pension payments from the Czech Social Security Administration. As at 31 December 2018, the Company received advance payments totaling CZK 1,400 million for pension payments to be paid in January 2019.

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

#### 15.2.2.25 Cash-flow Statement

As at 31 December 2019 and 31 December 2018, the Company did not consider the used overdraft facilities as cash equivalents for the purpose of the cash-flow statement (see subsection 15.2.2.14 – Bank loans and overdrafts).

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

(in CZK millions)	31 December 2019	31 December 2018
Cash on hand	3,616	4,038
Cash at bank	1,309	1,450
<b>Cash and cash equivalents</b>	<b>4,925</b>	<b>5,488</b>

#### 15.2.2.26 Subsequent events

On 10 March 2020, mandate of the Supervisory Board members of ČP for JUDr. Jaroslav Strouhal and Ľudovít Gulázsi expired.

No other material events have occurred between the balance sheet date and the date of preparation of the ordinary financial statements that would have a material impact on the ordinary financial statements for the accounting period 2019.

20 March 2020



**Ing. Roman Knap, Director General of Česká pošta, s.p.**  
Statutory body of Česká pošta, s.p.



**Roman Schanner Dipl.-Betriebsw (FH), Chief Director of Finance Division**  
Person responsible for accounting of Česká pošta, s.p.



**Ing. Jitka Salmonová, Accounting and Taxes Manager**  
Person responsible for financial statements of Česká pošta, s.p.

### 15.3 Independent Auditor's Report on Consolidated Financial Statements

(Translation of a report originally issued in Czech - see Note 15.4.2.2.1 to the consolidated financial statements.)

## 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. (the Company) and its subsidiaries (the Group) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the consolidated balance sheet as at 31 December 2019, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 15.4.2.1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

### *Basis for Opinion*

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation 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 in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 Consolidated Annual Report other than the consolidated financial statements and auditor's report thereon. The Statutory Body of the Company is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information. In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge 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 or regulation, in particular, whether the other information complies with law or 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.



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 consolidated financial statements is, in all material respects, consistent with the consolidated financial statements; and
- The other information is prepared in compliance with applicable law or regulation.

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

#### *Responsibilities of the Company's Statutory Body and the Supervisory Board for the Consolidated Financial Statements*

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

In preparing the consolidated financial statements, the Statutory Body is responsible for assessing the Group'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 to cease operations, or has no realistic alternative but to do so.

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

#### *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated 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 above regulations 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 consolidated financial statements.

As part of an audit in accordance with the above law or regulation, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 control.
- Obtain an understanding of internal control 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's internal control.
- 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'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 consolidated 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 to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- 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 Supervisory Board 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.

Ernst & Young Audit, s.r.o.  
License No. 401



Roman Hauptfleisch, Auditor  
License No. 2009

20 March 2020  
Prague, Czech Republic

## 15.4 Consolidated financial statements

### 15.4.1 Consolidated financial statements for the year ended 31 December 2019 (in CZK millions)

CONSOLIDATED BALANCE SHEET					
(in CZK millions)					
Reference	ASSETS	31/ 12/ 2019			31/ 12/ 2018
a	B	Gross 1	Allowances 2	Net 3	Net 4
	<b>TOTAL ASSETS</b>	<b>34,952</b>	<b>(14,499)</b>	<b>20,453</b>	<b>19,572</b>
	<i>of which entrusted resources</i>	4,405	0	4,405	3,505
<b>B.</b>	<b>Fixed assets</b>	<b>23,140</b>	<b>(14,252)</b>	<b>8,888</b>	<b>9,479</b>
<b>B. I.</b>	<b>Intangible fixed assets</b>	<b>2,048</b>	<b>(1,749)</b>	<b>299</b>	<b>358</b>
<b>B. I. 2.</b>	<b>Royalties</b>	<b>1,958</b>	<b>(1,681)</b>	<b>277</b>	<b>305</b>
<b>B. I. 2.1.</b>	<b>Software</b>	<b>1,955</b>	<b>(1,679)</b>	<b>276</b>	<b>304</b>
<b>B. I. 2.2.</b>	<b>Other royalties</b>	<b>3</b>	<b>(2)</b>	<b>1</b>	<b>1</b>
<b>B. I. 4.</b>	<b>Other intangible fixed assets</b>	<b>60</b>	<b>(59)</b>	<b>1</b>	<b>2</b>
<b>B. I. 5.</b>	<b>Advances paid and intangible fixed assets in the course of construction</b>	<b>30</b>	<b>(9)</b>	<b>21</b>	<b>51</b>
<b>B. I. 5.2.</b>	<b>Intangible fixed assets in the course of construction</b>	<b>30</b>	<b>(9)</b>	<b>21</b>	<b>51</b>
<b>B. II.</b>	<b>Tangible Fixed Assets</b>	<b>21,094</b>	<b>(12,504)</b>	<b>8,590</b>	<b>8,912</b>
<b>B. II. 1.</b>	<b>Land and constructions</b>	<b>12,745</b>	<b>(5,933)</b>	<b>6,812</b>	<b>6,974</b>
<b>B. II. 1.1.</b>	<b>Land</b>	<b>835</b>	<b>0</b>	<b>835</b>	<b>840</b>
<b>B. II. 1.2.</b>	<b>Constructions</b>	<b>11,910</b>	<b>(5,933)</b>	<b>5,977</b>	<b>6,134</b>
<b>B. II. 2.</b>	<b>Equipment</b>	<b>8,135</b>	<b>(6,567)</b>	<b>1,568</b>	<b>1,745</b>
<b>B. II. 4.</b>	<b>Other tangible fixed assets</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>5</b>
<b>B. II. 5.</b>	<b>Advances paid and tangible fixed assets in the course of construction</b>	<b>209</b>	<b>(4)</b>	<b>205</b>	<b>188</b>
<b>B. II. 5.2.</b>	<b>Tangible fixed assets in progress</b>	<b>209</b>	<b>(4)</b>	<b>205</b>	<b>188</b>
<b>B. III.</b>	<b>Long-term investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>211</b>
<b>B. III. 5.</b>	<b>Other long-term investments in securities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>211</b>
<b>B. IV.</b>	<b>Positive consolidation difference</b>	<b>6</b>	<b>0</b>	<b>6</b>	<b>6</b>
<b>B. V.</b>	<b>Negative consolidation difference</b>	<b>(8)</b>	<b>1</b>	<b>(7)</b>	<b>(8)</b>
<b>C.</b>	<b>Current assets</b>	<b>11,713</b>	<b>(247)</b>	<b>11,466</b>	<b>9,985</b>
	<i>of which entrusted resources</i>	4,405	0	4,405	3,505
<b>C. I.</b>	<b>Inventories</b>	<b>253</b>	<b>(70)</b>	<b>183</b>	<b>191</b>
<b>C. I. 1.</b>	<b>Raw materials</b>	<b>203</b>	<b>(65)</b>	<b>138</b>	<b>149</b>
<b>C. I. 2.</b>	<b>Work in progress and semi-finished products</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>2</b>
<b>C. I. 3.</b>	<b>Finished goods and goods for resale</b>	<b>47</b>	<b>(5)</b>	<b>42</b>	<b>40</b>
<b>C. I. 3.2.</b>	<b>Goods for resale</b>	<b>47</b>	<b>(5)</b>	<b>42</b>	<b>40</b>
<b>C. II.</b>	<b>Receivables</b>	<b>6,463</b>	<b>(177)</b>	<b>6,286</b>	<b>4,255</b>
	<i>of which entrusted resources</i>	102	0	102	52
<b>C. II. 1.</b>	<b>Long-term receivables</b>	<b>23</b>	<b>0</b>	<b>23</b>	<b>822</b>
<b>C. II. 1.1.</b>	<b>Trade receivables</b>	<b>1</b>	<b>0</b>	<b>1</b>	<b>1</b>
<b>C. II. 1.5.</b>	<b>Receivables – other</b>	<b>22</b>	<b>0</b>	<b>22</b>	<b>821</b>
<b>C. II. 1.5. 2.</b>	<b>Long-term advances paid</b>	<b>6</b>	<b>0</b>	<b>6</b>	<b>5</b>
<b>C. II. 1.5. 3.</b>	<b>Estimated receivables</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>800</b>
<b>C. II. 1.5. 4.</b>	<b>Other receivables</b>	<b>16</b>	<b>0</b>	<b>16</b>	<b>16</b>
<b>C. II. 2.</b>	<b>Short-term receivables</b>	<b>6,440</b>	<b>(177)</b>	<b>6,263</b>	<b>3,433</b>
	<i>of which entrusted resources</i>	102	0	102	52
<b>C. II. 2.1</b>	<b>Trade receivables</b>	<b>1,241</b>	<b>(97)</b>	<b>1,144</b>	<b>1,516</b>
	<i>of which entrusted resources</i>	102	0	102	52
<b>C. II. 2.4.</b>	<b>Receivables – other</b>	<b>5,199</b>	<b>(80)</b>	<b>5,119</b>	<b>1,917</b>
<b>C. II. 2.4. 1.</b>	<b>Receivables from shareholders</b>	<b>18</b>	<b>0</b>	<b>18</b>	<b>18</b>
<b>C. II. 2.4. 3.</b>	<b>Taxes - receivables from the state</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>21</b>
<b>C. II. 2.4. 4.</b>	<b>Short-term advances paid</b>	<b>230</b>	<b>0</b>	<b>230</b>	<b>283</b>
<b>C. II. 2.4. 5.</b>	<b>Estimated receivables</b>	<b>4,809</b>	<b>0</b>	<b>4,809</b>	<b>1,525</b>
<b>C. II. 2.4. 6.</b>	<b>Other receivables</b>	<b>142</b>	<b>(80)</b>	<b>62</b>	<b>70</b>
<b>C. III.</b>	<b>Short-term financial investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>C. III. 2.</b>	<b>Other short-term investments</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>C. IV.</b>	<b>Cash</b>	<b>4,997</b>	<b>0</b>	<b>4,997</b>	<b>5,539</b>
	<i>of which entrusted resources</i>	4,303	0	4,303	3,453
<b>C. IV. 1.</b>	<b>Cash in hand</b>	<b>3,616</b>	<b>0</b>	<b>3,616</b>	<b>4,038</b>
<b>C. IV. 2.</b>	<b>Cash at bank</b>	<b>1,381</b>	<b>0</b>	<b>1,381</b>	<b>1,501</b>
<b>D.</b>	<b>Prepayments and accrued income</b>	<b>99</b>	<b>0</b>	<b>99</b>	<b>108</b>
<b>D. 1.</b>	<b>Prepaid expenses</b>	<b>96</b>	<b>0</b>	<b>96</b>	<b>104</b>
<b>D. 2.</b>	<b>Accrued income</b>	<b>3</b>	<b>0</b>	<b>3</b>	<b>4</b>

Consolidated balance sheet – liabilities and equity (in CZK millions)

Reference	LIABILITIES AND EQUITY	31/12/2019	31/12/2018
a	b	5	6
	<b>TOTAL LIABILITIES AND EQUITY</b>	<b>20,453</b>	<b>19,572</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>A.</b>	<b>Equity</b>	<b>9,272</b>	<b>9,754</b>
<b>A. I.</b>	<b>Share capital</b>	<b>3,588</b>	<b>3,588</b>
A. I. 1.	Share capital	3,588	3,588
<b>A. II.</b>	<b>Share premium and capital contributions</b>	<b>5,604</b>	<b>6,017</b>
A. II. 2.	Capital contributions	5,604	6,017
A. II. 2.1.	Other capital contributions	5,604	6,013
A. II. 2.2.	Assets and liabilities revaluation	0	4
<b>A. III.</b>	<b>Other reserves</b>	<b>376</b>	<b>375</b>
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	17	16
<b>A. IV.</b>	<b>Retained earnings / Accumulated losses</b>	<b>(14)</b>	<b>(41)</b>
A. IV. 1.	Retained earnings or accumulated loss (+/-)	(14)	(41)
<b>A. V.</b>	<b>Consolidated profit / (loss) for the current period less minority interests</b>	<b>(282)</b>	<b>(185)</b>
<b>B. + C.</b>	<b>Liabilities</b>	<b>10,694</b>	<b>9,304</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>B.</b>	<b>Provisions</b>	<b>703</b>	<b>683</b>
B. 4.	Other provisions	703	683
<b>C.</b>	<b>Liabilities</b>	<b>9,991</b>	<b>8,621</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
<b>C. I.</b>	<b>Long-term liabilities</b>	<b>152</b>	<b>234</b>
C. I. 4.	Trade payables	6	7
C. I. 8.	Deferred tax liability	146	227
<b>C. II.</b>	<b>Current Liabilities</b>	<b>9,839</b>	<b>8,387</b>
	<i>of which entrusted resources</i>	<i>4,405</i>	<i>3,505</i>
C. II. 2.	Liabilities due to financial institutions	31	178
	<i>of which entrusted resources</i>	<i>31</i>	<i>178</i>
C. II. 3.	Short-term advances received	1,327	998
C. II. 4.	Trade payables	5,598	4,450
	<i>of which entrusted resources</i>	<i>4,374</i>	<i>3,327</i>
C. II. 8.	Liabilities – other	2,883	2,761
C. II. 8.3.	Liabilities to employees	720	559
C. II. 8.4.	Liabilities for social security and health insurance	412	350
C. II. 8.5.	Taxes and state subsidies payable	146	153
C. II. 8.6.	Estimated payables	1,326	1,387
C. II. 8.7.	Other liabilities	279	312
<b>D.</b>	<b>Accruals and deferred income</b>	<b>452</b>	<b>475</b>
D. 2.	Deferred income	452	475
<b>E.</b>	<b>Minority Equity</b>	<b>35</b>	<b>39</b>
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	7	8
E. I. 4.	Minority profit for the current period	(4)	(1)



CONSOLIDATED INCOME STATEMENT (in CZK millions)			
Reference A	TEXT B	Accounting period	
		31/ 12/ 2019 1	31/ 12/ 2018 2
I.	Sales of products and services	16,634	17,229
II.	Sales of goods	193	201
A.	Cost of sales	4,290	4,390
A. 1.	Cost of goods sold	121	129
A. 2.	Raw materials and consumables used	1,244	1,297
A. 3.	Services	2,925	2,964
B.	Changes in inventories of finished goods and work in progress	(1)	0
C.	Own work capitalized	(21)	(21)
D.	Staff costs	14,052	12,944
D. 1.	Wages and salaries	10,249	9,447
D. 2.	Social security, health insurance and other social costs	3,803	3,497
D. 2.1.	Social security and health insurance costs	3,422	3,160
D. 2.2.	Other social costs	381	337
E.	Value adjustments in operating activities	843	865
E. 1.	Value adjustments of fixed assets	857	844
E. 1.1.	Depreciation, amortization and write off of fixed assets	854	865
E. 1.2.	Provision for impairment of fixed assets	3	(21)
E. 2.	Provision for impairment of inventories	(8)	5
E. 3.	Provision for impairment of receivables	(6)	16
III.	Operating income – other	2,942	1,676
III. 1.	Sales of fixed assets	169	104
3.	Other operating income	2,773	1,572
3.1.	Compensation for the net cost on providing basic postal services	2,500	1,300
3.2.	Other operating income	273	272
F.	Operating expenses – other	973	1,140
F. 1.	Net book value of fixed assets sold	18	15
F. 3.	Taxes and charges	91	87
F. 4.	Operating provisions and complex prepaid expenses	20	110
F. 5.	Other operating expenses	844	928
	Amortization of goodwill	0	1
	Clearing of negative consolidation difference	(1)	0
*	Consolidated operating result	(366)	(213)
IV.	Income from sales of long-term investments – shares	3	3
IV. 2.	Income from sales of investments – other	3	3
V.	Income from sales of other long-term investments	208	0
V. 2.	Other income from sales of other long-term investments	208	0
H.	Expenses related to other long-term investments	204	0
VI.	Interest and similar income	11	14
VI. 2.	Other interest and similar income	11	14
J.	Interest expense and similar expenses	1	0
J. 2.	Other interest expense and similar expenses	1	0
VII.	Other financial income	58	74
K.	Other financial expenses	72	128
*	Consolidated financial result	3	(37)
**	Consolidated net profit / (loss) before taxation	(363)	(250)
L.	Income tax	(77)	(64)
L. 1.	Tax on profit or loss – current	3	4
L. 2.	Tax on profit or loss – deferred	(80)	(68)
**	Net profit / (loss) after taxation	(286)	(186)
	Of which: Profit / loss less minority interests		
	Profit / loss less minority interests	(282)	(185)
	Minority interest	(4)	(1)
***	Net profit / (loss) for the financial period	(286)	(186)
*	Net turnover for the financial period	20,049	19,197



## Consolidated Cash-flow Statement for the year ended 31 December 2019

(in CZK millions)	2019	2018
Cash and cash equivalents at the beginning of the year	5,539	5,284
<i>of which entrusted resources</i>	3,453	3,736
Net profit on ordinary activities before tax	(363)	(250)
<b>A.1 Adjustments for non-cash movements:</b>	<b>696</b>	<b>871</b>
A.1.1 Amortization, depreciation of fixed assets and abolished investment projects	853	866
A.1.2 Change in allowances and provisions with respect to operating activities	9	110
A.1.3 Profits from disposal of fixed assets	(155)	(89)
A.1.4 Net interest expense (+) and income (-)	(11)	(14)
A.1.5 Adjustments for other non-cash movements	0	(2)
<b>A* Net cash flow from operating activities before tax and changes in working capital</b>	<b>333</b>	<b>621</b>
<b>A.2 Change in non-cash components of working capital</b>	<b>(744)</b>	<b>678</b>
A.2 <i>of which entrusted resources</i>	850	(283)
A.2.1 Change in receivables and accrued income	(2,035)	613
A.2.1 <i>of which entrusted resources</i>	(51)	88
A.2.2 Change in current liabilities and deferred income	1,275	53
A.2.2 <i>of which entrusted resources</i>	901	(371)
A.2.3 Change in inventories	16	12
<b>A** Net cash flow from operating activities before tax</b>	<b>(411)</b>	<b>1,299</b>
<b>A.** <i>of which entrusted resources</i></b>	<b>850</b>	<b>(283)</b>
A.3 Interest paid	(1)	0
A.4 Interest received	11	14
A.5 Income tax overpayment (+) / income tax on ordinary activities paid and additional taxes for previous periods (-)	16	29
<b>A*** Net cash flow from operating activities</b>	<b>(385)</b>	<b>1,342</b>
<b><i>of which entrusted resources</i></b>	<b>850</b>	<b>(283)</b>
Cash flows from investing activities		
B.1 Purchase of fixed assets	(338)	(724)
B.2 Proceeds from the sale of fixed assets	377	(186)
<b>B*** Net cash flow from investing activities</b>	<b>39</b>	<b>(910)</b>
Cash flows from financing activities		
C.2 Change in equity	(196)	(177)
C.2.1 Direct payments from funds	(196)	(177)
<b>C*** Net cash flow from financing activities</b>	<b>(196)</b>	<b>(177)</b>
Net decrease (-) / increase (+) in cash and cash equivalents	(542)	255
<i>of which entrusted resources</i>	850	(283)
Cash and cash equivalents at the end of the year	4,997	5,539
<i>of which entrusted resources</i>	4,303	3,453

## Consolidated summary of changes in equity for the year ended 31 December 2019

(in CZK millions)	Share capital	Other capital funds	Gain or loss on revaluation of assets and liabilities	Legal reserve fund	Other funds from profit	Accumulated loss	Profit / (loss) for the period less minority interests	Total
<b>Balance as at 31 December 2017</b>	<b>3,588</b>	<b>6,109</b>	<b>9</b>	<b>359</b>	<b>18</b>	<b>(62)</b>	<b>98</b>	<b>10,119</b>
Movements between funds/profit distribution	0	0	0	0	175	0	(98)	77
Use of funds	0	(96)	0	0	(177)	21	0	(252)
Gains or losses from revaluation to fair value	0	0	(5)	0	0	0	0	(5)
Profit for the period	0	0	0	0	0	0	(185)	(185)
<b>Balance as at 31 December 2018</b>	<b>3,588</b>	<b>6,013</b>	<b>4</b>	<b>359</b>	<b>16</b>	<b>(41)</b>	<b>(185)</b>	<b>9,754</b>
Movements between funds/profit distribution	0	0	0	0	197	0	185	382
Use of funds	0	(409)	0	0	(196)	27	0	(578)
Gains or losses from revaluation to fair value	0	0	(4)	0	0	0	0	(4)
Profit for the period	0	0	0	0	0	0	(282)	(282)
<b>Balance as at 31 December 2019</b>	<b>3,588</b>	<b>5,604</b>	<b>0</b>	<b>359</b>	<b>17</b>	<b>(14)</b>	<b>(282)</b>	<b>9,272</b>

## 15.4.2 Notes to the Consolidated Financial Statements

### 15.4.2.1 General Information

#### 15.4.2.1.1 Description of the Group

The Group comprises Česká pošta, s.p., the controlling entity, and its subsidiaries.

Subsidiaries as at 31 December 2019 and 31 December 2018 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 Transport and Communications of the Czech Republic. As at 31 December 2019 and 31 December 2018, 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 2019, the Company had its registered office at Politických vězňů 909/4, Prague 1, 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:

- provision of postal services,
- provision of international postal services,
- provision of services of central procurement for government (public) administration,
- manufacturing and trading in the field of printing industry,
- printing of postage stamps and vouchers, fee stamps and other valuable or protected printed matter,
- printing of publicly traded securities as well as other securities pursuant to the Securities Act,
- manufacture of other printing products,
- publishing, printing production, bookbinding and copying,
- security of property and persons,
- road motor transport,
- assembly, repairs, revision and testing of electrical equipment, pressure equipment and gas containers,
- provision of technical services for the protection of property and persons,
- production, installation and repairs of electrical machinery and tools, electronic and telecommunication equipment,
- technical and organizational activities in the field of fire protection,
- production, trading and services not stipulated in Annexes 1 to 3 to the Trade Licensing Act.

The corporate bodies of the Company are the Director General and the Supervisory Board. The Director General is the Company's statutory body – for details see subsection 15.2.2.1.1 Introductory information about the Company.

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 on Postal Services (the "Postal Services Act"). The Company holds a license to provide postal services in accordance with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

The content of the postal license 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 license holder are covered by Title V of the Postal Services 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 fulfillment entrusted to the postal license holder.

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

#### 15.4.2.2 Accounting Policies

The accounting policies and valuation methods applied by the Group during preparation of the consolidated financial statements as at 31 December 2019 were as follows:

##### 15.4.2.2.1 Basis of Preparation

The Group's consolidated 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 2019, and have been prepared under the historical cost convention, except the cases below.

#### Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles.

##### i. Going Concern

As a postal license holder, Česká pošta has been one of the key parts of the State's infrastructure; despite the long-term downward trend in postal services, these are still indispensable for the functioning of the state system.

On 30 August 2019, an amendment to the Postal Services Act No. 202/2019 Coll. became effective, which, among other things, increased the upper limit of the net costs of providing basic postal services from CZK 500 million to CZK 1,500 million, effective for 2018. At the same time, a procedure has been established for proceedings before the European Commission concerning state aid for cases involving the financing of preliminary net costs or net costs representing an unfair financial burden. According to the

provision, the CTO may not transfer any funds to cover these costs until the European Commission decides on the justification for their provision.

As part of its medium-term strategy and the upcoming transformation, Česká pošta is preparing to implement a growth strategy focused on new revenues, utilizing the unique features of its distribution networks as well as potential synergies with key strategic partners. Further, Česká pošta is about to make additional changes in other areas as well, such as delivery of parcels (in the D+n regime), digitizing logistics processes, financial services, real estate management and other internal processes in order to achieve a positive economic result in the future. As the result of the intended activities arising from the approved medium-term strategy, Česká pošta expects to report a positive economic result for 2021.

Česká pošta has an overdraft facility with ČSOB to cover fluctuations in liquidity during the month. In accordance with applicable legislation, Česká pošta expects to be paid the compensation of Net Costs of Universal Service in 2020 for the periods of 2018 and 2019 totaling CZK 3 billion and advances for 2020 in the amount of CZK 750 million.

The specific date of the compensation payment for 2018 and 2019, along with the advance payment for 2020, depends on the completion of the ongoing notification process by the European Commission, which examines whether the conditions have been met under which state aid for services of general economic interest can be declared compatible with European legislation for the period 2018 - 2020. Due to the ongoing lawsuit and two complaints filed by Czech companies with the European Commission against the Czech Republic's practice pertaining to the compensation for the years 2018 - 2022, Czech Post cannot exclude with certainty that the compensation payments for the provision of services arising from the postal license will be deferred. Both the founder and relevant government institutions have been familiarized with the circumstances. Due to the indispensability of the Česká pošta's services to the state as well as the increase in the Net Costs of Universal Service compensation limit through legislation, the Company's management believes that the going concern assumption is valid.

## **ii. Consolidation System**

To prepare the consolidated financial statements, the full consolidation was used.

Mutual transactions, balances and unrealized gains on transactions between consolidated companies were eliminated from the consolidated financial statements, along with unrealized losses on mutual transactions.

Profits from the sale of assets between the Group entities were also fully eliminated.

Financial statements of all companies included in consolidation were prepared as at 31 December 2019.

For consolidation purposes, the major accounting policies were unified within the Group; these accounting policies, applied by individual consolidated entities, are described below.

## **iii. Consolidation Difference**

A consolidation difference is the difference between the purchase price of shares and interests in a consolidated entity and their valuation reflecting the shareholding of the Controlling entity in equity, valued at fair value as at the date of acquisition. The date of acquisition is the day from which the Controlling entity effectively exercises its influence.

In the case of the consolidation difference, a linear depreciation method has been set for 20 years whereas the first depreciation is charged to its full extent in the year the consolidation difference appeared.



#### 15.4.2.2.2 Subsidiaries

For the purposes of consolidation, a subsidiary is a company over which the Controlling entity exercises a controlling influence through:

- direct or indirect enforcement of more than 50% of the voting rights in the subsidiary company, or
- demonstrable control of operative and strategic policies, wherein the Controlling entity is also a shareholder/partner in the given company.

#### 15.4.2.2.3 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 exceeding CZK 40 thousand and estimated useful live longer than one year are amortized using the straight-line method over their estimated useful life in accordance with the Group's amortization plans, 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). If technical improvements of intangible fixed assets are made, following the period in which the improvements are put into use, the amortization period of the asset is extended by 4 years or more in the case of significant asset items that the Group uses and expects to use for more than 4 years (e.g. the SAP backbone economic system).

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

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

The cost limit for the capitalization of the technical improvements of intangible fixed assets is CZK 40 thousand. An allowance 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.

#### 15.4.2.2.4 Tangible Fixed Assets

Acquired tangible fixed assets are initially recorded at cost, which includes all costs related with its 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.

An allowance 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.

An allowance is created mainly in cases of projects whose realization 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 that year. Ordinary repairs and maintenance expenses are expensed as incurred.

Tangible fixed assets with a unit cost of less than 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 exceeding CZK 40 thousand and selected low value assets with an estimated useful life longer 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
Vehicles	6 – 20
Furniture, fixtures and equipment	10 – 20
Handling equipment	6 – 20
Computers and related equipment	3 – 7
Centralized protection desk ("PCO")	5

#### 15.4.2.2.5 Long-term investments

Long-term financial assets consist of other long-term securities and investments, which represent available-for-sale 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 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. The Group determines the form of securities and investments at the time of their acquisition and revalues them on a regular basis as at the consolidated financial statements' date.

All securities and investments are initially recorded at cost, including transaction costs. Held-to-maturity securities are subsequently accounted for at amortized 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 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. Unrealized gains and losses arising from changes in fair value of available-for-sale investments are recognized as a movement in equity and recognized into the income statement on realization or when permanently impaired.

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

#### 15.4.2.2.6 Inventory

Purchased inventories are stated at the lower of cost and net realizable 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.

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

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 derecognized once the respective revenues are recorded.

#### 15.4.2.2.7 Receivables

Receivables are carried at their nominal value after allowance for doubtful accounts. An allowance against doubtful receivables is created on the basis of an aging analysis and an individual evaluation of the credit worthiness of the customers.

#### 15.4.2.2.8 Short-term financial investments

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

#### 15.4.2.2.9 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 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 resources – see subsection 15.4.2.2.10. – Entrusted resources.

The Group prepared its consolidated cash-flow statement using the indirect method.

#### 15.4.2.2.10 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. (hereinafter “ČSOB, a.s.”), collection of radio and television license fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for 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 recognized within its own resources using the accrual principle in the same period to which they relate.

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

#### 15.4.2.2.12 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 share 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.

The Company creates a cultural and social fund ("FKSP"). The creation and use of this fund is being governed by 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.

#### 15.4.2.2.13 Provisions

Provisions are intended to cover liabilities or expenses, the nature of which is clearly defined and that are either likely or certain to occur as at the balance sheet date but that are not certain in terms of the amount or the moment of occurrence.

#### 15.4.2.2.14 Employee benefits

The Group creates a provision for accrued vacation. The Group creates an estimated payable for rewards and bonuses to employees who became entitled to payment as at the balance sheet date. In case of rewards and bonuses to employees who are entitled for a payment after the current financial year-end day after meeting specified criteria, the Company creates a provision on the current financial year-end day.

#### 15.4.2.2.15 Loans

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

#### 15.4.2.2.16 Expenses and revenue recognition

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

Sales are recognized 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 realized in cash through sales of postal stamps are recognized 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 Group's management believes that the costs of collecting such information relating to the time allocation needed for these services realized 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.

Other operating income includes Compensation for net costs of the provision of basic postal services. In the income statement, the revenue is presented on a separate line III.3.1. Compensation for net costs of the



provision of basic postal services within other operating income, observing the matching and accrual principles applied to accounting for incurred costs; for details see subsection 15.4.2.6 – Net Costs of Universal Service.

#### 15.4.2.2.17 Leases

The costs of assets held under both finance and operating leases are not capitalized 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 to the consolidated financial statements but not recognized 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.

#### 15.4.2.2.18 Income tax payable

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.).

Corporate income tax is recognized in the balance sheet as a part of the item “Taxes and state subsidies 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.

#### 15.4.2.2.19 Deferred tax expense

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

#### 15.4.2.2.20 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 balances with related parties, related to other than the main postal services are disclosed in subsection 15.4.2.22 – Related party transactions.

#### 15.4.2.2.21 Subsequent events

The effects of events, which occurred between the balance sheet date and the date of preparation of the consolidated financial statements, are recognized in the consolidated 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 consolidated 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 recognized in the consolidated financial statements.

### 15.4.2.3 Fixed Assets

#### 15.4.2.3.1 Consolidation Difference

Movements in goodwill on consolidation can be analyzed as follows:

(in CZK millions)	2019	2018
Opening balance as at 1 January 2019	6	7
Amortization of goodwill	0	(1)
Closing balance as at 31 December 2019	6	6

Movements in negative goodwill on consolidation can be analyzed as follows:

(in CZK millions)	2019	2018
Opening balance as at 1 January 2019	(8)	(8)
Clearing of negative consolidation difference	1	0
Closing balance as at 31 December 2019	(7)	(8)

#### 15.4.2.3.2 Intangible Fixed Assets

##### Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,917	50	(12)	1,955
Other royalties	3	0	0	3
Other intangible fixed assets	60	0	0	60
Intangible fixed assets in the course of construction	51	29	(50)	30
<b>Total as at 31 December 2019</b>	<b>2,031</b>	<b>79</b>	<b>(62)</b>	<b>2,048</b>
<b>Total as at 31 December 2018</b>	<b>1,987</b>	<b>159</b>	<b>(115)</b>	<b>2,031</b>

\*) Additions and Disposals also include transfers of intangible fixed assets in progress.

##### Accumulated amortization and net book value

(in CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,596)	(79)	11	(1,664)	(15)	276
Other royalties	(2)	0	0	(2)	0	1
Other intangible fixed assets	(58)	(1)	0	(59)	0	1
Intangible fixed assets in the course of construction	0	0	0	0	(9)	21
<b>Total as at 31 December 2019</b>	<b>(1,656)</b>	<b>(80)</b>	<b>11</b>	<b>(1,725)</b>	<b>(24)</b>	<b>299</b>
<b>Total as at 31 December 2018</b>	<b>(1,605)</b>	<b>(82)</b>	<b>31</b>	<b>(1,656)</b>	<b>(17)</b>	<b>358</b>

### 15.4.2.3.3 Tangible Fixed Assets

#### Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Land	840	1	(6)	835
Constructions	11,840	142	(72)	11,910
Plant, machinery and equipment	5,033	120	(294)	4,859
Vehicles	1,620	100	(143)	1,577
Furniture and fixtures	704	11	(8)	707
Selected low value tangible assets of less than CZK 40 thousand	619	89	0	708
Other movable assets	313	0	(29)	284
Art works and collections	5	0	0	5
Tangible fixed assets in progress	195	483	(469)	209
<b>Total as at 31 December 2019</b>	<b>21,169</b>	<b>946</b>	<b>(1,021)</b>	<b>21,094</b>
<b>Total as at 31 December 2018</b>	<b>21,189</b>	<b>1,334</b>	<b>(1,354)</b>	<b>21,169</b>

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

#### Accumulated depreciation, allowances and net book value

(in CZK millions)	Opening balance of accumulated depreciation	Additions	Disposals	Closing balance of accumulated depreciation	Allowances	Net book value
Land	0	0	0	0	0	835
Constructions	(5,706)	(282)	55	(5,933)	0	5,977
Plant, machinery and equipment	(4,193)	(266)	286	(4,173)	(10)	676
Vehicles	(1,255)	(84)	143	(1,196)	0	381
Furniture and fixtures	(578)	(20)	8	(590)	0	117
Selected low value tangible assets of less than CZK 40 thousand	(194)	(120)	0	(314)	0	394
Other movable assets	(313)	0	29	(284)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in progress	0	0	0	0	(4)	205
<b>Total as at 31 December 2019</b>	<b>(12,239)</b>	<b>(772)</b>	<b>521</b>	<b>(12,490)</b>	<b>(14)</b>	<b>8,590</b>
<b>Total as at 31 December 2018</b>	<b>(12,026)</b>	<b>(784)</b>	<b>571</b>	<b>(12,239)</b>	<b>(18)</b>	<b>8,912</b>

Based on the stock-count performed, the Group adjusted the carrying value of the tangible fixed assets for diminution in value through an allowance (see subsection 15.4.2.7 – Allowances).

In 2019 and 2018, the Group did not receive any material fixed assets free of charge.

As at 31 December 2019 and 31 December 2018, besides the easement in favor 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 Group has another 388 (2018: 374) 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 favor of the communal and municipal authorities, telecommunications infrastructure providers, and electricity producers and distributors.

As at 31 December 2019 and 31 December 2018, the Group received an investment subsidy of CZK 19 million and CZK 11 million, respectively.

#### 15.4.2.3.4 Long-term investments

Other long-term securities and investments as at 31 December 2018 comprised government bonds issued by Ministry of Finance of the Czech Republic maturing in 2023 and available-for-sale investments, valued at fair value of CZK 211 million as at 31 December 2018; the government bond was sold during 2019.

#### 15.4.2.4 Inventories

The fair value of obsolete and slow-moving inventory is reduced to the selling price through the allowance account (see subsection 15.4.2.7 – Allowances).

#### 15.4.2.5 Receivables

As at 31 December 2019 and 31 December 2018, receivables due after more than 5 years amounted to CZK 1 million and CZK 0 million, respectively, and outstanding overdue receivables amounted to CZK 310 million and CZK 332 million, respectively. Outstanding overdue receivables are not secured. The Group wrote off irrecoverable receivables of CZK 29 million and CZK 27 million in 2019 and 2018, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Receivables from related parties are described in subsection 15.4.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2019 and 31 December 2018 amounted to CZK 1,386 million and CZK 906 million, respectively. 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 2019, the compensation of net costs of providing basic postal services is included in estimated receivables as follows: an amount of CZK 3,300 million was recognized in short-term receivables; as at 31 December 2018, a portion of CZK 500 million was recognized in short-term receivables and CZK 800 million were recognized in long-term receivables (see 15.4.2.6 Net Costs of Universal Service).

#### 15.4.2.6 Net Costs of Universal Service

The Company as a postal license holder, as defined by Section 21 paragraph 2 of the Postal Services Act, is obliged to ensure the universal availability of basic services listed in Section 3 paragraph 1 of the Postal Services Act in the whole territory of the Czech Republic (i.e. Postal services obligation). The Company is obliged to fulfill the postal services obligation (Section 33 paragraph 1 point a) of the Postal Services 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 license holder incurs a net costs representing an unfair financial burden for the postal license 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.

According to a mechanism introduced by the Postal Services Act amendment, which entered into force on 1 January 2013, 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 thus 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. The determination of the group of mandatory contributors to the compensation fund along with the amount of their contribution crucial for the final amount of compensation for the years 2013 and 2014, which is the responsibility of CTO, have not been determined.

Effective from 1 January 2016 in accordance with Act No. 319/2015 Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (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 periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, 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 were 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.

Following the adoption of Act No. 319/2015 Coll., a pre-notification process of the method for compensating the net cost of providing basic services for the years 2015-2017 to the European Commission has been initiated in line with EU law. The period under review has been subsequently extended to the years 2013 and 2014 as well. In July 2016, resulting from the preliminary investigation of the compensation fund regime in the years 2013 to 2014, the European Commission raised several observations, inter alia, questioning the compliance of the arrangements for financing the net costs for both years through the compensation fund set out in the Postal Services Act with EU law, and came up with the recommendation that the compensation fund should be canceled.

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 minimize the risks associated with the decision of not applying the provisions of the Postal Services 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.

Following the Government resolution of 22 March 2017, the Ministry of Industry and Trade prepared a draft amendment to the Postal Services Act. The amendment No. 202/2019 Coll. came into effect on 30 August 2019. It primarily resolves financing of the net costs incurred by the postal license holder, i.e. CP, in providing basic services for the years 2013 and 2014 due to abandoning the net cost financing through the compensation fund and replacing the mechanism with a payment from the state budget. The net expenses that, according to the CTO's decision, represent an unfair financial burden as determined pursuant to Section 34c paragraph 2 of Act No. 29/2000 Coll., as amended prior to 1 January 2016, were reimbursed by the state in the amount of CZK 800,000,000 for both years, specifically CZK 500,000,000 in 2019 and CZK 300,000,000 in 2020. The Company received CZK 500,000,000 on 4 September 2019, the remaining CZK 300,000,000 was paid in February 2020.

The amendment No. 202/2019 Coll. also raised the upper limit for compensation of net costs of providing basic services from the state budget for the calendar year 2018 and subsequent years from CZK 500,000,000 to CZK 1,500,000,000. Other net costs are not considered by law to be an unfair financial burden. The method of determining the net cost of basic services has not changed.

On 19 February 2018, the European Commission concluded, based on the notification of the compensation payment for the provision of universal postal services (compensation for the net costs of providing basic services) for the period of 2013 to 2017 along with the supporting documents, that the reimbursement of the compensations to CP for the provision of universal postal services (compensation for the net costs of providing basic services from the state budget) for the period 2013-2017 up to a maximum of CZK 2.6 billion constituted state aid compatible with the internal market under the Services of General Economic Interest framework from 2012, which sets out the conditions to be met by the aid in order to comply with Article 106 (2) of the Treaty on the Functioning of the European Union (TFEU) ("Decision of the European



Commission"). The decision of the European Commission is currently being reviewed by the General Court of the European Union following a lawsuit filed by První novinová společnost a.s.

A new notification procedure is under way before the European Commission for the years 2018-2022. In 2018, an estimated receivable for net costs was recognized in the amount of the upper limit set out in the Postal Services Act, as amended until 30 August 2019, i.e. CZK 500 million. In 2019, the Company's management decided, based on an increase in the upper limit by the amended Act and based on the calculated net cost, to raise the estimated receivable for the compensation of net costs for 2018 by CZK 1,000 million so that the total estimated receivable for the compensation of net costs for 2018 equaled the amount of the upper limit as set out in applicable legislation. The Company's management decided to recognize an estimated receivable for the compensation of net costs for 2019 in the amount of the upper limit set out in applicable legislation, i.e. CZK 1,500 million. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the presumed date of reimbursement, the estimated receivable was presented within short-term receivables under C.II.2.4.5.

Payment of any state compensation for the provision of basic services for the period 2018 to 2022 is subject to a decision of the European Commission on the compatibility of state aid in the form of compensation for the net cost of the provision of basic services for the period 2018 to 2022 with the internal market under the Services of General Economic Interest framework from 2012, which sets out the conditions to be met by the aid in order to comply with Article 106 (2) of TFEU). The notification of the state compensation for the provision of basic services for the period 2018 to 2022 was officially submitted to the European Commission by the Czech Republic on 28 January 2020. The decision of the European Commission is unlikely to be made prior to the judgment of the General Court of the European Union regarding the action against the EC Decision.

The decision of the European Commission or of the General Court of the European Union may theoretically mean the postponement of the payment, but it should not impede Česká pošta's legitimate expectation to receive the compensation for the net costs of the provision of basic services for the period 2018 to 2019.

#### 15.4.2.7 Allowances

Allowances reflect a temporary decrease in the value of assets (disclosed in subsections 15.4.2.3 – Fixed assets, 15.4.2.4 – Inventories and 15.4.2.5 – Receivables).

Allowances against: (in CZK millions)	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018	Additions	Reversal / use	Balance as at 31 December 2019
Intangible fixed assets	18	0	(1)	17	9	(2)	24
Tangible fixed assets	38	0	(20)	18	0	(4)	14
Inventory	73	7	(2)	78	12	(20)	70
Receivables – other	135	53	(32)	156	33	(38)	151
<b>Total tax non-deductible allowances</b>	<b>264</b>	<b>60</b>	<b>(55)</b>	<b>269</b>	<b>54</b>	<b>(64)</b>	<b>259</b>
Receivables – legal	32	15	(20)	27	22	(23)	26
<b>Total tax deductible allowances</b>	<b>32</b>	<b>15</b>	<b>(20)</b>	<b>27</b>	<b>22</b>	<b>(23)</b>	<b>26</b>
<b>Total</b>	<b>296</b>	<b>75</b>	<b>(75)</b>	<b>296</b>	<b>76</b>	<b>(87)</b>	<b>285</b>

Legal allowances are created pursuant to the Act No. 593/1992 Coll., on Provisions, as amended and are deductible for tax purposes; other allowances are not deductible for tax purposes.

#### 15.4.2.8 Short-term Financial Assets and Cash

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 subsection 15.2.2.14 – Bank loans and borrowings).

As at 31 December 2019 and 31 December 2018, the Company did not have short-term securities nor shares.

#### 15.4.2.9 Equity

As at 31 December 2019 and 31 December 2018, share capital amounted to CZK 3,588 million.

Other capital funds mainly comprise contributions from the Group's 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.

The proposed compensation of the loss incurred for the year ended 31 December 2019 will be submitted to the founder of the Company along with the request for approval of the annual report in accordance with Section 15 paragraph 1 point i) of the Act on State-Owned Enterprise, as amended.

#### 15.4.2.10 Minority Equity

Minority equity as at 31 December 2019 consists of the following (in CZK millions):

(in CZK millions)	Share capital	Other capital funds incl. reserve fund	Undistributed profit/(loss) for previous years	Profit (loss) for the period	Total
<b>Balance as at 1 January</b>					
<b>2019</b>	16	16	8	(1)	39
Movements between funds	0	0	0	1	1
Profit for the period	0	0	(1)	(4)	(5)
<b>Balance as at 31 December</b>					
<b>2019</b>	16	16	7	(4)	35



#### 15.4.2.11 Provisions

(in CZK millions)	Balance as at 31 December 2017	Addition s	Reversal / use	Balance as at 31 December 2018	Addition s	Reversal / use	Balance as at 31 December 2019
Social and health insurance	94	72	(74)	92	73	(77)	88
Accrued vacation	57	15	0	72	0	(28)	44
Provision for severance pay incl. competition clauses	68	202	(68)	202	30	(111)	121
Non-claimable component of salaries	126	92	(126)	92	92	(92)	92
Other	228	52	(55)	225	158	(25)	358
<b>Total tax non-deductible provisions</b>	<b>573</b>	<b>433</b>	<b>(323)</b>	<b>683</b>	<b>353</b>	<b>(333)</b>	<b>703</b>
<b>Total</b>	<b>573</b>	<b>433</b>	<b>(323)</b>	<b>683</b>	<b>353</b>	<b>(333)</b>	<b>703</b>

The provision for social and health insurance is created mainly for contributions to the unpaid part of contracted wages, profit-related bonuses, accrued vacation 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 Group's management.

Other provisions were primarily created to cover risks known as at 31 December 2019 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

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.

It is clear from the Annual Report of Česká pošta Security that, in view of the ongoing commercial litigation, the company will create provisions for increased costs of related legal services. According to the representing law firm no facts have yet been proven that should result in losing the respective disputes by the company. The management believes it is not necessary to create any provisions for the litigations at this time.

#### 15.4.2.12 Long-term liabilities

Long-term liabilities are represented by the deferred tax liability as at 31 December 2019 and 31 December 2018, which is described in subsection 15.4.2.16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 6 million and CZK 7 million as at 31 December 2019 and 31 December 2018, respectively. These are mainly part of liabilities concerning retentions – given items are recognized on the line C.I.4 Trade payables.

As at 31 December 2019 and 31 December 2018, the Group did not recognize liabilities that are due after more than 5 years.

#### 15.4.2.13 Current Liabilities

As at 31 December 2019 and 31 December 2018, the Group had overdue current payables totaling CZK 13 million and CZK 28 million, respectively.

The Group had no current or long-term liabilities bearing a security or lien in favor of a creditor as at 31 December 2019 and 31 December 2018, respectively.

Liabilities to related parties are described in subsection 15.4.2.22 – Related party transactions.

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 790 million and CZK 787 million as at 31 December 2019 and 31 December 2018, respectively. In addition, estimated payables included quantity discounts, uninvoiced operating deliveries of services and energy, and estimated staff bonuses.

Payables in respect of social insurance and health insurance amounted to CZK 412 million and CZK 350 million as at 31 December 2019 and 31 December 2018, respectively. These payables comprise unpaid wages for December 2019 and 2018, which were paid at the beginning of 2020 and 2019, respectively.

The Group did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2019 and 31 December 2018.

#### 15.4.2.14 Bank Loans and Borrowings

##### 15.4.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Total limit (in CZK millions)	31/ 12/ 2019 (in CZK millions)	31/ 12/ 2018 (in CZK millions)
ČSOB, a.s.	Global credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Own resources	1,000	0	0
ČSOB, a.s.	Multi-purpose credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Own resources	1,500	0	0
ČSOB, a.s.	Global credit line Interest rate: O/N PRIBOR + 0.12% p.a.	Entrusted resources	700	0	148

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

The overdraft on own funds account from Československá obchodní banka, a.s., is to offset short-term cash-flow fluctuations and as at 31 December 2019 and 31 December 2018 was not used.

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 2019 and 31 December 2018, the loan was not used.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., was provided to ensure sufficient financial liquidity of the Company. As at 31 December 2019 and 31 December 2018, the Company used CZK 0 million and CZK 148 million, respectively of the overdraft.

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

#### 15.4.2.14.2 Denominated in EUR

Bank	Terms/ Conditions	Total limit (in EUR millions)	31/ 12/ 2019		31/ 12/ 2018	
			(in EUR millions)	(in CZK millions)	(in EUR millions)	(in CZK millions)
ČSOB, a.s.	Global credit line EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.2	31	1.2	30

The above-mentioned bank overdraft is exclusively used for cash operations of the banking services provided at selected post-office counters in EUR.

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

#### 15.4.2.15 Accruals and Deferred Income

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

#### 15.4.2.16 Income tax

Analysis of the income tax expense is as follows:

(in CZK millions)	2019	2018
Current tax expense	1	1
Deferred tax expense	(80)	(68)
Adjustment of prior year tax expense based on final CIT return	2	3
<b>Total tax expense</b>	<b>(77)</b>	<b>(64)</b>

The Company quantified tax due as follows:

(in CZK millions)	2019	2018
Profit before tax	(363)	(250)
Non-taxable revenues	(10)	(23)
Difference between book and tax depreciation	391	231
Tax non-deductible expenses (+), including changes in provisions and allowances (-)	78	149
Of which:		
- change in allowances	(10)	5
- change in provisions	20	110
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	68	34
Gifts	0	0
Deduction to support professional training	2	1
Tax loss of subsidiaries	11	4
Taxable income	105	110
Deduction of tax loss from 2014, 2015	(24)	(37)
Tax base	81	73
Income tax rate	19%	19%
Calculated income tax	15	14
Tax relief (persons with disability or partial disability)	(14)	(13)
Current tax expense	1	1
<b>Income tax expense from ordinary activities and total</b>	<b>1</b>	<b>1</b>

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

	31/ 12/ 2019			31/ 12/ 2018		
Deferred tax items	Base (in CZK millions)	Deferred tax asset (in CZK millions)	Deferred tax liability (in CZK millions)	Base (in CZK millions)	Deferred tax asset (in CZK millions)	Deferred tax liability (in CZK millions)
Difference between net book value of fixed assets for accounting and tax purposes	(1,755)	0	(333)	(2,160)	0	(410)
Allowances	260	49	0	269	51	0
Other provisions	701	133	0	683	129	0
Other temporary differences	27	5	0	16	3	0
<b>Total</b>	<b>(767)</b>	<b>187</b>	<b>(333)</b>	<b>(1,192)</b>	<b>183</b>	<b>(410)</b>
<b>Net deferred tax liability</b>			<b>(146)</b>			<b>(227)</b>

The effect of deferred tax arising from the revaluation of available-for-sale securities of CZK -1 million as at 31 December 2019 (as at 31 December 2018: CZK 1 million) is included in equity.

As at 31 December 2019 and 31 December 2018, the Group did not recognize a deferred tax asset from its subsidiary's tax losses totaling CZK 0.5 million and CZK 5 million, respectively on the basis that its recovery was uncertain.

#### 15.4.2.17 Leases

The Group leases fixed assets, which are not recognized in the balance sheet accounts (see subsection 15.4.2.2.17 – Leases and subsection 15.4.2.18 – Commitments and Contingencies).

The assets leased by the Group in the form of operational leases amounted to CZK 383 million and CZK 350 million as at 31 December 2019 and 31 December 2018, respectively. The buildings leased by the Company amounted to CZK 249 million and CZK 237 million as at 31 December 2019 and 31 December 2018, respectively.

As at 31 December 2019 and 31 December 2018, the Group did not have any finance leases.

#### 15.4.2.18 Commitments and Contingencies

The Group recognizes particularly stamps, road toll vignettes and lottery tickets, the nature of which is recognized as valuables (these items are recognized below in nominal value) in its operational evidence as at 31 December 2019 and 31 December 2018. Furthermore, the Group recognized low-value assets in operating evidence and leased assets in off-balance sheet evidence (recognized in acquisition costs), which is not recognized in the balance sheet:

(in CZK millions)	31/ 12/ 2019	31/ 12/ 2018
Valuables incl. stamps and lottery tickets	12,490	13,855
Road toll vignettes	3,210	2,615
Leased assets – operational lease	1,806	1,737
Securities	0	40
Low-value tangible assets	2,054	2,147
Low-value intangible assets	47	53

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

(in CZK millions)	31/ 12/ 2019	31/ 12/ 2018
Due within 1 year	473	445
Due between 1 to 5 years	965	948
Due after 5 years	94	58
<b>Total</b>	<b>1,532</b>	<b>1,451</b>

Received and provided bank guarantees for the Company, which are drawn under the framework agreements, on the provision of financial services, as at 31 December 2019 were as follows:

Type of provided guarantee	Guarantor	Creditor	Subject	Valid until	Amount (in CZK millions)
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system	01/ 07/ 2020	10
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2020	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2019	16/ 03/ 2020	130
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2020	16/ 03/ 2021	400
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	20/ 07/ 2020	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o.			
Payment	Československá obchodní banka, a.s.	Prologis CR LX s.r.o.	Rental agreement	10/ 01/ 2021	3
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1
Payment	Československá obchodní banka, a.s.	CENTRUM CHODOV, a.s.	Rental agreement	08/ 03/ 2020	1
Payment	Československá obchodní banka, a.s.	Charles Square Center s.r.o.	Rental agreement	14/ 05/ 2020	1
					559
Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (in CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action - Prague 7 - "Stamp design" collection storage room	30/ 06/ 2021	1
Payment	Československá obchodní banka, a.s.	OHL ŽS a.s.	Action - insulation České Budějovice 4	31/ 01/ 2020	1
Payment	Československá obchodní banka, a.s.	šmíragroup a.s.	Action - reconstruction of post office Ostrava 2, SPU Ostrava 02 and Depot Ostrava 71	10/ 07/ 2023	2
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action - reconstruction of post office Brno 100	15/ 04/ 2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action - SPU České Budějovice - new building	27/ 09/ 2021	5
Payment	Komerční banka	SSK-stavby s.r.o.	SPU Praha 022, TB-reconstruction of road ramp including gates	24/ 04/ 2024	1
Payment	Komerční banka	SILBA-Elstav s.r.o.	SPU Plzeň 02 - vehicle parking	12/ 10/ 2024	1
Payment	ČSOB	CENTRA a.s.	provision of cleaning services-PRG reg.	31/ 12/ 2022	2
Payment	ČSOB	CENTRA a.s.	provision of cleaning services-SB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-WB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-NB reg.	31/ 12/ 2022	1
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-EB reg.	31/ 12/ 2022	1
Payment	ČSOB	Clarima s.r.o.	provision of cleaning services-SM reg.	31/ 12/ 2022	2
Payment	ČSOB	ZENOVA services s.r.o.	provision of cleaning services-NM reg.	31/ 12/ 2022	2
					23

#### 15.4.2.19 Contingent Liabilities

The management of the Group is not aware of any other significant contingent liabilities as at 31 December 2019.



#### 15.4.2.20 Revenues and Other Operating Income

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

	2019			2018		
	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)
Revenue from postal operations	11,534	1,867	13,401	11,890	2,042	13,932
Revenue from provision of intermediary services	2,348	0	2,348	2,422	0	2,422
Printing (postal stamps, envelopes, valuables)	21	1	22	33	3	36
Revenue from electronic services	407	0	407	377	0	377
Sales of goods	193	0	193	201	0	201
Revenues from data mailboxes	456	0	456	462	0	462
<b>Total revenues</b>	<b>14,959</b>	<b>1,868</b>	<b>16,827</b>	<b>15,385</b>	<b>2,045</b>	<b>17,430</b>
Other operating income	2,942	0	2,942	1,676	0	1,676
<b>Total revenues and other operating income</b>	<b>17,901</b>	<b>1,868</b>	<b>19,769</b>	<b>17,061</b>	<b>2,045</b>	<b>19,106</b>

For Net Costs of Universal Service see subsection 15.4.2.6. In the income statement, compensation for net costs of the provision of basic postal services is presented within other operating income on a separate line III.3.1. Compensation for net costs of the provision of basic postal services.

In 2019 and 2018, the Group received subsidies for operating purposes in the amount of CZK 3 million and CZK 3 million, respectively.

#### 15.4.2.21 Employees

Breakdown of Group's staff costs is as follows:

	2019		2018	
	Total personnel	Of which: Group's management and Supervisory Board	Total personnel	Of which: Group's management and Supervisory Board
Average adjusted number of employees	29,099	43	29,161	38
In CZK millions				
Wages and salaries	10,249	97	9,447	118
Social security and health insurance	3,422	21	3,160	21
Social costs	381	0	337	0
<b>Total staff costs</b>	<b>14,052</b>	<b>118</b>	<b>12,944</b>	<b>139</b>

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

#### 15.4.2.22 Related Party Transactions

Apart from the bonuses disclosed in subsection 15.4.2.21 – Employees, in 2019 and 2018 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, 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 realized in 2019 and 2018 along with the related receivables from and liabilities to related parties are as follows:

As at 31 December 2019	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
ČD Cargo, a.s.	1	67	0	2
ČEPRO, a.s.	1	362	0	38
Czech Social Security Administration	400	2,446	0	3,074
Czech Metrology Institute	0	5	0	2
Czech Statistical Office	38	0	7	2
ČEZ	90	215	6	78
General Financial Directorate	141	14	0	18
Government ministries	481	0	41	5
National Agency for Communications and Information Technology	7	2	1	0
Pražská plynárenská, a.s.	13	60	0	30
General Directorate for National Roads and Motorways of the Czech Republic	2	33	0	3
Labour Office of the Czech Republic	292	0	0	55
Vodovody a kanalizace Hodonín, a.s.	2	0	0	2
Health insurance companies	126	0	0	14
<b>Total</b>	<b>1,594</b>	<b>3,204</b>	<b>55</b>	<b>3,323</b>

As at 31 December 2018	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
ČD Cargo, a.s.	1	71	0	4
ČEPRO, a.s.	1	365	0	34
Czech Social Security Administration	416	2,258	0	1,838
Czech Metrology Institute	0	4	0	2
Czech Statistical Office	2	0	0	2
ČEZ	102	201	13	52
General Financial Directorate	148	15	0	30
Government ministries	555	0	39	14
National Agency for Communications and Information Technology	5	4	1	0
Pražská plynárenská, a.s.	14	69	1	26
General Directorate for National Roads and Motorways of the Czech Republic	2	31	0	2
Labour Office of the Czech Republic	304	0	0	60
Vodovody a kanalizace Hodonín, a.s.	2	0	0	2
Health insurance companies	113	0	0	11
<b>Total</b>	<b>1,665</b>	<b>3,018</b>	<b>54</b>	<b>2,077</b>

#### 15.4.2.23 Fees Paid and Payable to the Audit Company

The fees paid to audit companies for the statutory audit of the financial statements, including the consolidated financial statements audit, totaled CZK 2 million and CZK 2 million, respectively in 2019 and 2018.

#### 15.4.2.24 Entrusted resources

The entrusted resources analysis as at 31 December 2019 and 31 December 2018 is as follows:

(in CZK millions)	31/ 12/ 2019	31/ 12/ 2018
<b>ASSETS</b>		
Short-term receivables	102	52
Cash in hand and at bank	4,303	3,453
<b>Total assets</b>	<b>4,405</b>	<b>3,505</b>

(in CZK millions)	31/ 12/ 2019	31/ 12/ 2018
<b>LIABILITIES AND EQUITY</b>		
Current liabilities	4,374	3,327
Short-term bank loans	31	178
<b>Total liabilities and equity</b>	<b>4,405</b>	<b>3,505</b>

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

At the end of 2019 and 2018, the Group received advance payments in the amount of CZK 2,600 million and CZK 1,400 million, respectively for January 2020 and 2019 pension payments from the Czech Social Security Administration.

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

#### 15.4.2.25 Cash-flow Statement

As at 31 December 2019 and 31 December 2018, the Group did not consider the used overdraft facilities as cash equivalents for the purpose of preparing the consolidated cash-flow statement (see subsection 15.4.2.14 – Bank loans and overdrafts).

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

(in CZK millions)	31/ 12/ 2019	31/ 12/ 2018
Cash on hand	3,616	4,038
Cash at bank	1,381	1,501
<b>Cash and cash equivalents</b>	<b>4,997</b>	<b>5,539</b>

#### 15.4.2.26 Subsequent events

On 10 March 2020, mandate of the Supervisory Board members of ČP for JUDr. Jaroslav Strouhal and Ludovit Gulázsi expired.

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 2019 accounting period.

20 March 2020



**Ing. Roman Knap, Director General of Česká pošta, s.p.**  
Statutory body of Česká pošta, s.p.



**Roman Schanner Dipl.-Betriebsw (FH), Chief Director of Finance Division**  
Person responsible for accounting of Česká pošta, s.p.



**Ing. Jitka Salmonová, Accounting and Taxes Manager**  
Person responsible for financial statements of Česká pošta, s.p.

