PAGE BY PAGE

ANNUAL REPORT 🔨 ČESKÁ POŠTA 🔧 2011



THE POSTAL SERVICE HAS BEEN A PART OF THOUSANDS OF STORIES EVER SINCE ITS INCEPTION. IN MODERN HISTORY, IT HAS PLAYED A ROLE IN MANY PEOPLE'S LIVES FOR ALMOST ONE HUNDRED YEARS. WE CAN'T DO WITHOUT IT.

EVERY PAGE OF THIS BOOK IS FRESH EVIDENCE OF ITS VALUE AND RELIABILITY. IT LIVES ITS OWN RICH AND COMPLEX LIFE AS A PART OF THE EXISTENCE OF THOSE WHO NEED IT.

THE PROOF IS IN THIS BOOK. JUST BROWSE THROUGH IT.





BY PAGE

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DIRECTOR GENERAL'S STATEMENT

Careful readers of the statements made in the Annual Report 2011 of Czech Post ("the Company") will have a clear idea about the way in which the Company will be moving forward in the forthcoming years. The key was to set a clear direction for development, i.e. which areas are to be developed and supported by investments in order to help the Company maintain its image as an institution vital for Czech citizens as well as their government. The Company's medium-term development strategy, adopted by its Founder, officially confirmed the approach intended to minimise the negative effects of the liberalisation of the postal market in 2013; ensure modernisation of the current services; and mainly enable the Company to use its huge potential as a provider of new services. At the time of a long-term economic recession, the development strategy adopted not only creates an opportunity for sustaining revenue streams but its gradual implementation also supports employment. As the largest employer in the country, the Company plays a certain social role, a task it is well aware of. Thanks to the trade unions representing its employees, the Company has been able to pass through the uneasy period of a global economic crisis while maintaining a peaceful coexistence between employees and management. The necessary changes have obviously affected all activities of the Company; on the other hand, they secure its future.

The year 2011 was clearly a successful one for the Company. The very good profit is not the only evidence of this. The Company followed the development trends of postal operators in well-developed European countries and embarked on modernisation of its logistics capability, including rebuilding its logistic network and renewing its mobile park. Apart from further development of eGovernment communication tools, the essential project in the area of services involved a new range of parcel services. The test runs in the second half of the year showed that the public welcomed the new parcel services without reservations. At the end of the year, this also helped the Company to become number one in the segment of parcel services, the only growing segment of the market of classic postal services. Renewed distribution of press periodicals is also worth mentioning. In a relatively short period of time, the Company proved to its customers that it can also provide price-competitive and high-quality services in this segment. Investments into IT development were also important. Together with traditional postal services, logistics, IT services as well as financial services are the pillars on which the future of the Company rests.

A rare activity were services provided to the Czech Statistical Office as part of the national census held in the first half of the year. This unique project, demanding in terms of organising and managing individual activities and at the same time requiring maximum personal involvement of individual employees, became the evidence of the fact that the Company can deliver atypical services at high levels of responsibility. Going through the Annual Report 2011 of Czech Post will convince you that the Company is and will remain for the future a useful business. Regardless of whether the customer is a citizen or the government. It finds inspiration abroad, but at the same time can serve as a source of inspiration for many.

Millin

Petr Zatloukal General Director Česká pošta, s.p.



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Bohumil Hrabal – Closely Watched Trains

I looked into one compartment. Everywhere it was the same. Shattered glass on the floor, combs, torn-off buttons, some with fabric still attached, a whole sleeve from a military coat, blood-stained pants, a handkerchief once wet with blood, scattered chessmen, a board for the dice game called "Don't be angry, lad!", a round mirror, a mouth-organ, letters spattered with snow, a long bandage and child's striped ball. I picked up one letter, decorated with the print of a hobnailed military boot. Mein Lieber Schnucki Pucki! The letter began, and ended: Deine Luise. And the print of a girl's lips. In a corner there was an unlaced military boot grinning at me with its tongue lolling out.





REPORT OF THE SUPERVISORY BOARD

Over the course of 2011, the Supervisory Board of Czech Post met at eleven ordinary meetings. The Supervisory Board of Czech Post carried out its duties in accordance with the status of this body as defined by the State-Owned Enterprise Act No. 77/1997 Coll., as amended, the Deed of Foundation and the Statutes of the State-Owned Enterprise Czech Post.

The Supervisory Board intensively dealt with a wide range of the Company's activities. Further developments and the orientation of the Company clearly dominated and were also discussed at length during committee meetings of the Supervisory Board. The Supervisory Board recommended two key Company documents, The Strategy of Czech Post for 2012 and The Medium-Term Strategy of Czech Post until 2016, to the Ministry of the Interior of the Czech Republic as the Company's founder for approval. Both documents were approved.

Members of the Supervisory Board paid a great deal of attention to the Company's investment activities as well as the process of preparing new services for customers with the aim of improving its competitive position on the market, with a special regard to the forthcoming full liberalisation of the postal market. They also examined and assessed the regular financial reports of the Company for their compliance with the approved financial plan.

The Supervisory Board discussed Czech Post's Notes to the Financial Statements for 2011, examined the financial statements as at 31 December 2010 (prepared in accordance with Czech accounting standards) in great detail, read the opinion of the auditor PricewaterhouseCoopers Audit, s.r.o. – "unqualified" – and recommended that the Founder approve the financial statements and the Annual Report. Based on the proposal provided by the Company's Management Board, the Supervisory Board also recommended that the Founder make a decision about 2011 profit distribution.

maaska

Jiří Maceška Chairman of the Supervisory Board



— Terms of office of current members of the Supervisory Board ("SB")

Extension of the term of office to six years (subject to the new Rules of Procedure of the Supervisory Board of 29 August 2009)

Name and surname	Date of appointment/ election	Expiry of the term of office – original	Expiry of the term of office – current
Petr Kužel	01 November 2006	01 November 2011	01 November 2012
Jiří Řehola	01 September 2008	_	01 September 2014
Jiří Maceška	01 July 2009	_	01 July 2015
Karel Koukal	23 September 2009	_	23 September 2015
Ivana Musilová	23 September 2009	_	23 September 2015
Štěpán Grochal	23 September 2009	_	23 September 2015
Soňa Lavičková	23 September 2009	_	23 September 2015
Jan Mládek	20 October 2009	_	20 October 2015
Vladimír Budinský	25 November 2010	05 November 2010	25 November 2016
Miroslava Oliveriusová	03 May 2011	_	03 May 2017
Jaroslav Hruška	17 June 2011	-	17 June 2017
Lubomír Krejsa	25 January 2012	-	25 January 2018

Changes in the Supervisory Board in 2011:

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02 May 2011	Michal Moroz removed from the post of member of SB.
02 May 2011	Jiří Franc removed from the post of member of SB.
03 May 2011	Ivana Pánková appointed to the post of member of SB.
03 May 2011	Miroslava Oliveriusová appointed to the post of member of SB – the SB has 12 members.
16 June 2011	Jaroslav Mráz removed from the post of member of SB.
16 June 2011	Ivana Pánková removed from the post of member of SB.
17 June 2011	Jaroslav Hruška appointed to the post of member of SB.
17 June 2011	Pavel Kryštof appointed to the post of member of SB – the SB has 12 members.
15 November 2011	Pavel Kryštof removed from the post of member of SB.
15 November 2011	Radek Šmerda appointed to the post of member of SB – the SB has 12 members.

Members of the Supervisory Board of the Company as at 31 December 2011:

	Position
Jiří Maceška	Chairman
Karel Koukal	Deputy Chairman
Jan Mládek	Deputy Chairman
Vladimír Budinský	Member
Štěpán Grochal	Member
Jaroslav Hruška	Member
Petr Kužel	Member
Soňa Lavičková	Member
Ivana Musilová	Member
Miroslava Oliveriusová	Member
Jiří Řehola	Member
Radek Šmerda	Member

PROFILE OF THE COMPANY

— Mission and strategic goals

As the traditional provider of general postal services in the Czech Republic, the Company is conscious of its role in society and its social responsibility, and wishes to be an efficient and attractive employer. Its mission is to be a trustworthy provider of quality services in the area of mediating information, payments and goods via both traditional and electronic means. The Company has to be able to react to the four key trends currently affecting its market and competitive environment, i.e. new technologies; transformation in the avenues of communication due to the booming internet services; changing customer needs, and the liberalisation of postal services. The Company intends to cooperate closely with the state administration via both its dense network of post offices and new channels. It has therefore been appointed as administrator of a unique system of data mailboxes and the Czech Ministry of the Interior's data networks. The Company considers improvement of its image in the eyes of the public to be essential.

— Legal status of the Company

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The Company is a legal entity in the meaning of section 18 of Act No. 40/1964 Coll., the Civil Code, as amended. Its legal and ownership status is regulated by the State-Owned Enterprise Act No. 77/1997 Coll., as amended.

The Company was founded on 1 March 1993 by the Ministry of Economy of the Czech Republic in accordance with the State-Owned Enterprise Act and incorporated by registration in the Commercial Register maintained by the District Court for Prague 1, Section A, File 7565.

The present record is in the Commercial Register maintained by the Municipal Court in Prague, Section A, File 7565. As at 16 June 1997, the Ministry of Transport and Communications issued a Deed of Foundation of the State-Owned Enterprise Czech Post. The document includes several amendments. During 2011, Amendments Nos. 19 to 25 were approved; they involved mainly changes in the membership of the Supervisory Board and persons authorised to act on behalf of the Founder. The CTO is the regulator for basic postal services and international mail prices. The Ministry of Finance regulates prices of certain domestic mail services.

As at 31 December 2011, the Ministry of the Interior of the Czech Republic acted as the founder of Czech Post on behalf of the government.

Management and supervision of the Company

Director General

The Director General, as a statutory body of Czech Post, manages the Company's activities and acts on its behalf. The Director General decides on all matters that do not fall, by the operation of law, under the competences of the founder (section 12 of the State-Owned Enterprise Act and the Deed of Foundation of the State-Owned Enterprise Czech Post).

Supervisory Board

The Supervisory Board has twelve members. It supervises the performance of the activities of the Director General and the carrying out of the Company's business plan. Subject to the State-Owned Enterprise Act No. 77/1997 Coll., as amended, eight members of the Supervisory Board are appointed and removed by the founder; the remaining four members are elected and removed by the Company's employees. As at 31 December 2010, the Supervisory Board had all twelve members.

Committees of the Supervisory Board

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The Supervisory Board establishes Committees of the Supervisory Board as its working bodies. Members of individual committees meet mainly for preliminary and detailed examination of documentation that is to be submitted to the Supervisory Board as a whole for further examination. Members of individual committees are elected and removed by the Supervisory Board.

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

- Committee of the Supervisory Board for the Company's Strategy,
- Committee of the Supervisory Board for Finances and Audit,
- Committee of the Supervisory Board for Human Resources Development,
- Committee of the Supervisory Board for Classified Information.

Statutory body and Management Board of the Company

The bodies of Czech Post in the meaning of Section 11 of the State-Owned Enterprise Act No. 77/1997 Coll., as amended, are its Director General and the Supervisory Board.

Member	Position	Position established on	Registered in the Commercial Register on
Petr Zatloukal	Director General	25 May 2011	30 June 2011
Martin Elkán	Chief Executive for Sales and Marketing; Deputy Director General	01 June 2011	30 June 2011
Jana Vošická	Chief Executive for Finance*	09 June 2011	
Richard Soldán	Chief Executive for Postal Operations and Logistics*	21 June 2011	
Tomáš Ječný	Chief Executive for ICT and eGovernment*	15 June 2011	
Ladislav Tomeš	Chief Executive for Property Management*	15 September 2011	

Members of the Management Board, i.e. Director General and his deputies, of the Company as at 31 December 2011:

* Positions that are not registered in the Commercial Register.

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Other changes in the Management Board that occurred in 2011:

	Position	Position ceased on	
Marcela Hrdá	Director General	28 February 2011	
Vladimír Měkota	Chief Executive	31 March 2011	
Filip Bouček	Chief Executive	31 March 2011	
Petr Zatloukal	Chief Executive	24 May 2011	

— Organisational structure as at 31 December 2011



Finance /	ICT and	Sales and Marketing /		- Postal Operations
Chief Executive	eGovernment / Chief Executive	Chief Executive	Management / Chief Executive	and Logistics / Chief Executive
Accounting and Taxes / Executive Director	ICT Support / Executive Director	Sales Coordination / Executive Director	Administration / Executive Director	Logistics Network Architecture / Executive Director
Controlling / Executive Director	ICT / Executive Director	Marketing / Executive Director	Operations / Executive Director	Regional Support Logistics Network Executive Director
Treasury and Financing / Executive Director	eGovernment / Executive Director	Regional and International Sales / Executive Director	Transport Management / Executive Director	Investments / Executive Director
		Corporate Sales / Executive Director		Logistics / Executive Director
		Alliance Partners /		Money Services

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Alliance Partners / Executive Director

Money Services Operation / Executive Director

— Regulatory framework of postal services

National legislation and postal license

In April 2005, the Czech Telecommunication Office ("CTO") became the national regulator for postal services. The main piece of legislation governing the powers and duties of this national regulator is the Postal Services Act No. 29/2000 Coll., as amended.

By its decision No. 76 026/2008-608 dated 5 December 2008, the CTO granted a postal licence to Czech Post. The decision also imposes the basic quality requirements on the Company as the licence holder.

This decision, published in the Postal Bulletin on 31 December 2008, endorses, inter alia, the duty to fulfil the obligations of the Czech Republic as a member of the Universal Postal Union in the position of a party to international postal agreements in the meaning of the Acts of the Universal Postal Union; obligations of the Czech Republic as a member of the European Union, which apply to general service providers in the meaning of Directive 97/67/EC of the European Parliament and of the Council, on common rules for the development of the internal market of Community postal services and the improvement of the quality of service, as amended; obligations to provide basic services to the blind free of charge, and other obligations.

By its resolution No. 1565 of 7 December 2005, the Czech government approved the governmental decree defining the scope of postal licence effective as at 1 January 2006. This decree, published in the Collection of Laws under No. 512/2005 Coll., limits the postal monopoly of the licence holder to mail containing documents that weigh no more than 50 g and cost a maximum of CZK 18.

Liberalisation of postal markets within the European Union

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The Postal Services Directive of 1997 (97/67/EC) marked the completion of the first stage of postal service harmonisation within the EU. The subsequent regulations led to further opening of postal markets to the competition. The Company currently operates within the liberalised environment with the exception of mail containing documents that weigh no more than 50 g and cost a maximum of CZK 18.

In 2007, Directive 97/67/EC of the European Parliament and of the Council was amended. The amended directive sets the deadlines for full liberalisation of the European postal market. The original deadline was extended by two years. Some EU member countries may extend it by a further two years. The primary reason for this extension was the concerns of member states about adequate provision of general postal services. Under this Directive, the Company will lose its limited monopoly over letter mail weighing up to 50 g by 1 January 2013.

The present Directive 2008/6/EC of 20 February 2008 amends Directive No. 97/67/EC with regard to the full accomplishment of the internal market of Community postal services.

An amendment to the Postal Services Act No. 29/2000 Coll. was prepared by the Ministry of Trade and Industry in connection with full liberalisation of the Czech postal market in 2013. The bill was approved by the government and submitted to Parliament for approval. The Company was actively involved in the process and proposed a range of modifications and changes mainly with regard to securing an equal position on the liberalised postal market.

Subsequent events

As at 25 January 2012, Radek Šmerda was removed from the post of member of SB and Lubomír Krejsa was appointed to the post of member of SB. As at 9 March 2012, Jaroslav Hruška was removed by the Founder from the post member of SB and Jan Sixta was appointed to the post of member of SB.

As at 10 May 2012, the branch ICT Services (full title: Czech Post, state-owned enterprise, branch enterprise ICT Services), having its registered office at Olšanská 38/9, Prague 3, was registered in the Commercial Register. The branch manager is Ivo Rosypal, appointed to the post as at 1 May 2012 and registered in the Commercial Register as at 10 May 2012.

The branch was established with the following objects:

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- to supply, develop and operate information and communication technology systems and related services, including infrastructure that is used to perform tasks given by the state (public) administration system;
- operate, supply and develop information and communication technology systems that deal with sensitive data or confidential information, including data registers and data stores;
- operate, support and develop critical communication infrastructure of the state, including CMS, in particular under Act No. 365/2000 Coll., on Public Administration Information Systems and on changes of certain other laws, and Act No. 300/2008 Coll., on Electronic Operations and Authorised Conversion of Documents; provide the services of a central purchasing place for state (public) authorities.

No other material events occurred between the balance sheet date and the date of preparation of the financial statements, which would affect the assets, liabilities and profit reported for the 2011 accounting period.



Chinaski – Letter

I'd like to get a letter In my mailbox The kind that comes with postmarks and stamps

Savour every line Make it keep Discover she or he is fine Add it to the heap Knot it with twine.

Those letters had commas and colons Loving and hating (specially the short ones)

0=0

I'd like to get a letter Stamped up just for me But sadly now it seems Letters are not to be.



ACTIVITY REPORT

— Economic position of the Company in 2011

Despite the downward trend in revenues from the traditional postal operations (especially letters and money orders), the Company successfully maintained an upward trend in its operating revenues: the operating income grew year-on-year by CZK 248 million (1.2%) to CZK 20,778 million. The main reason behind this growth was the national census of population and dwellings in 2011. The significant year-on-year growth in the sale of goods was only temporary (increased sale of mobile phone recharge coupons at post offices following the unavailability of top up terminals of the bankrupt operator Sazka).

The Company successfully maintained an upward trend in the revenues from its existing services, especially the electronic ones (ICT) such as, communication infrastructure, certification authority, and Czech POINT services, as well as in the revenues from transportation of parcels. A new range of services introduced in 2011, such as newspaper distribution, job seeker sign on services, mobile phone account recharge at post offices, customs clearance services, raised further revenue.

The operating costs grew year-on-year by CZK 80 million (0.4%) to CZK 20,412 million. The total volume of operating costs remained almost the same but the structure of costs saw a number of changes which reflected the development in the structure of revenues. The downward trend in traditional services and the related reduction of staff by 1,172 FTE compared to 2010 would normally mean a significant cut in staff costs. This was however compensated by the number of employees required for the national census and newspaper distribution services, the growing average salary as well as by other factors. This led to staff costs being cut by only CZK 60 million compared to the previous year. On the other hand, the cost of goods sold followed an upward trend in connection to the greater sale of recharging coupons and purchased services (mainly due to subcontracts for communication infrastructure and Czech POINT services). The costs of repairs of buildings and vehicles also grew while the Company cut its consultancy services and other operating costs.

In 2011, the Company generated total profits before taxation equal to CZK 419 million, or CZK 156 million more than in the previous year. The same figure after taxation is CZK 338 million.

Trends in key economic indicators

Financial and operating indicators

	2007	2008	2009	2010	2011
Assets (in CZK million)	22,388	22,442	22,726	21,308	21,775
Equity (in CZK million)	9,684	9,630	9,979	10,010	10,159
Operating income (in CZK million)	17,646	19,970	20,280	20,530	20,778
Out of which: Income from sale of own products	5				
and services (in CZK million)	16,947	19,254	19,627	19,942	20,076
Operating costs (in CZK million)	16,941	19,211	19,740	20,332	20,412
Out of which: Staff costs (in CZK million)	11,248	13,081	12,895	12,801	12,741
Profit before tax (in CZK million)	795	365	661	263	419
Net profit (in CZK million)	653	293	554	214	338
Employees – full-time equivalent	37,008	36,332	34,948	34,374	33,202
Average monthly salary (in CZK)	17,452	20,565	21,500	21,353	21,538
Profit before tax / Income from sale of own proc	lucts				
and services	4.69%	1.90%	3.37%	1.32%	2.09%
Profit before tax / Assets	3.55%	1.63%	2.91%	1.23%	1.92%
Profit before tax / Employees – full-time					
equivalent (in CZK)	21,469	10,058	18,923	7,655	12,632





── Operating income (in CZK million)



4 ICT services

- 5 Agency services
- 6 Postal operations

Operating costs (in CZK million)



Structure of assets in 2011 (in CZK million)





Investments and technical development

Changes to Czech Post's network of outlets and logistics network

In 2011, the Company continued its comprehensive restructuring project of its network of outlets and logistics network. The outlets in Czech Post's network were divided into categories offering different portfolios of services based on customer criteria. Outlets in low-ranking areas cooperate with car service units to provide basic services (posting mail, delivering notified mail). These outlets operate under the trade name "Výdejní místo" (Service Point). Outlets operated under the trade name "Partner" (Partner) provide a wider scope of services. Both kinds of outlets are operated under a contract of mandate, with the Company bearing the liability and costs. Services are provided for a fee based on the number of hours spent and frequency of transactions executed by the office. The service technology, system of control and audits are an integral part of the internal corporate processes.

Postal network

As at the end of 2011, one outlet served 3,067 persons (compared to 3,083 in 2010). The number of people served by one mail box remained the same as in 2010 (467).

Postal terminals in 2011:

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Total outlets (incl. Partners and Service Points)	3,394
<i>Out of which:</i> Post offices	3,309
Specialised outlets	29
Postal agencies	14
Partners	4
Service Points	52
Remote counters	17
Mobile post offices	0
Mail boxes	22,474
P. O. boxes (rented)	38,072
Total delivery areas (letter mail)	9,480
Out of which: Delivery areas with car service	3,083

18 post offices (incl. 16 depots) and 18 Service Points/Partners were set up and 31 post offices and one Service Point was closed down in 2011.

Projects developed in 2011 in the area of the logistics network included the introduction at the Prague-Malešice sorting centre of a new generation of letter sorting machines which use a new reading task. The task enables the machines to read all address details with the exception of the addressee's name and sort letter mail at the level of delivery areas served by letter delivery outlets. The successful sorting rate, achieved by the new technology in sorting letters to the level of delivery outlets in Prague Region and Central Bohemia Region in 2011, was 88 percent.

The Company owns or operates a very broad range of real property, including 1,205 sites with 1,522 buildings and 2,657 land plots. The sufficiently wide range of real property helps the Company achieve its business goals. The property is mostly used to facilitate the main activities (such as logistic hubs, automated parcel delivery outlets, depots, post offices); a smaller part is used for support activities. The Company has the right to operate and dispose (sell or rent) of property entrusted to it as necessary, but the extent to which the real property may be disposed of is restricted due to the fact that the Company is in the process of transformation from a state-owned enterprise into a joint-stock company. Real property which is not used by the Company for its own purposes is rented to others.

The Company continued renewing its mobile park and acquired 59 vehicles in the M1 category, 49 vehicles in the N3 category, and 29 vehicles in the N1 category. 350 vehicles in the N1 category, which were acquired under operational leases, represent the core of a new significant group of vehicles in the Company's fleet acquired through operational leases including all related services. Following a test run of CNG vehicles the Company announced a public tender for 412 CNG vehicles in the N1 category. These vehicles will be mainly used as mail vans in large urban areas; they should improve the environment in those areas and cut operating costs.

Renewal of ICT infrastructure

In the past year, in connection with the project on consolidating and updating its ICT infrastructure, the Company completed the construction process of a new data centre and equipped it with state-of-the-art infrastructure. This new computing environment provides the Company with sufficient space and energy for further expansion of existing applications and the implementation of new applications. Other projects included the renewal of critical elements of the central communication infrastructure system, and the start of the construction of a new Internet connection system in response to the growing requirements for online services.

ICT and customer orientation

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In 2011, the Company implemented an incident management process; the process greatly contributed to the success of the national census project as well as to the routine management of other ICT incidents in the environment of the Company. Data collected within the system is mainly used to manage, analyse and report the level of ICT services. The goal of solving 90 percent of defects within 48 hours was not only achieved but also significantly exceeded.

Communication with the Company's customers is currently directed through the ICT call centre. All communication was initially based on telephone calls. However, in 2011, 70 percent of these calls were successfully redirected to electronic channels, including the Employee Self-Service (EES) portal (67 percent) and classic e-mail messages (3 percent). Classic telephone calls are currently used for only 30 percent of the remaining communication.

Communication with the ICT call centre

The use of different communication channels helped improve the availability (90 percent of telephone calls are answered within 15 seconds) and overall response rate (95 percent of all received calls were answered) of the communication service. In 2011, the availability grew by 30 percent. Overall response rate was measured for the first time, the result was clearly positive.

ICT also delivered a range of services for major projects in the area of support provided to end users of ICT technology, such as the national census or the newly introduced bar-coding of registered mail. The latter project included delivery and installation of ICT technology at 398 post offices.

Extensive changes in the infrastructure used by International Operations, which were due to a modification of the law regulating customs clearance services, were also addressed. They included comprehensive rebuilding of the LANs and creating of 35 new workstations and updating of the existing workstations. The last significant event was the relocation of the Ostrava-based operations call centre.

Quality and security of ICT

In keeping with the aim of providing professional services, great emphasis is placed on the quality and security of the services provided, with a clearly defined policy of customer orientation, a process-based approach, process efficiency measurement and continuous improvement. This policy is fulfilled by way of service certification in accordance with ISO 90001 (Quality Management System) and in accordance with ISO/IEC 27001 (Information Security Management System). In 2011, the Company upheld certification in accordance with the above-mentioned standards, through supervisory and recertification audits, for PostSignum certification authority services, Time Stamp authority services, ICT system management and administration services. Its ambition is to further extend the range of certified systems in the future.

Information security

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Growing emphasis on electronic systems as well as the expansion of the services thereof increase the requirements for ICT security in all information and communication systems of the Company. Information security is incorporated in all projects and most processes throughout the Company. The focus of security gradually changed during 2011, with the aim of combining the security management system according to ISO/IEC 27000 with the creation of security policies for individual security supervision systems and applications and the subsequent gradual introduction of the created measures into all ICT systems. A great deal of emphasis was laid mainly on the security of the Data Mailbox Information System and the shared services centre. The Company is currently developing and introducing a new method of implementing security and security checks also for the internal customer. The aim for 2012 is to further improve the quality of security monitoring and deepen the collaboration between ICT and Security, Internal Audit and, first of all, all internal ICT customers.



Jiří Suchý – Little Postal Blues

I'll stick a stamp right on my weary brow The postmark will make me feel muddled and numb And all of the woes that have pained me till now Will suddenly seem to be useless and dumb They say I'm nothing but a postman Nothing but a postman And I'm starting to believe it now I'll be a carrier pigeon one day Flying under the stars, carrying mail Picasso won't know what to say When I steal his dove and leave no trail And like a pair of little kids Like little kids We'll play games by mail Amidst postcards from exotic lands Drink Dead Sea water and then sleep A bunch of postal clerks, holding hands Will sing a quiet dirge and weep That's my postal blues My little postal blues My blues that won't go postal My little postal blues



In 2011, the Company improved the efficiency of its sales activities (especially those conducted centrally) by updating customer accounts and optimising the number of active sales force. The project of implementing customer relationship management in the corporate environment, which started in late 2011, meant another step towards better customer services. The new system should provide a sales force with higher efficiency, better control of customers and, last but not least, improved management work.

Customers

One of the key events in 2011 was the Company's return on the market of morning newspaper delivery services. This comeback restores the position which logically belongs to the Company and in which it used to play an important role. It should help the Company attract new customers. The first customer is the Vltava-Labe-Press publishing house.

Another factor which helped boost the number of customers was the massive transformation of the range of parcel services: the Company now gives its customers the chance to choose specific ways of how they would like their parcels to be delivered. The Company became number one in the parcel market. This positive trend became distinctly clear in the dynamically developing segment of online shopping. However, the steady trend in the segment of mail order services continued without change and without any hike in volume, a process evidenced by the shutdown of Neckermann's operations in the Czech Republic.

Trends of the previous years (such as digitisation, longer accounting cycles, reduced scope of communication with customers) further continued in the segment of letters. This segment remains one of the key products of the Company. The share of this segment dropped by six percent in 2011 as compared to 2010.

Retail customers can use classic, standard postal services, additional services as well as services other than postal. The range of retail services provided by the Company expanded in 2011. The obligatory bar-coding of registered mail, introduced in 2011, enables the customer to track the mail from the moment it is sent until it is delivered to the addressee. Another service, available at all counters in all post offices, is online topping up of mobile phones of all operators.

\sim Services and operations

Structure of the services provided

29

Obligatory services

Domestic

Outbound

, Mail	Money orders	Mail	Money orders
Ordinary Letters Parcels Mail for the blind	Cash – account Money order A	Ordinary Mail Printed matter bag Mail for the blind	Cash – account Money order Z/A
Registered Mail Packet Mail for the blind	Account – cash Money order B	Registered Mail Printed matter bag Mail for the blind	Cash – cash Money order Z/C
Insured Letters Parcels	Cash – cash Money order C Money order D	Insured Letters Parcels	
		 Standard Parcels	

Obligatory services 2011



Others

Traditional postal services

Letters

In the letter mail segment, the entire year 2011 was marked by active preparations for the forthcoming liberalisation of the postal market. The Company worked to improve, expand and modify its services to a shape that would help it keep its leading position in the market after it becomes open. The global downward trend in volumes of addressed letters led to a six percent decrease in letter mail categories compared to the previous year. The only exception, which did not follow this worst-case scenario, was Printed Matter. This category ended 50 percent higher than anticipated thanks to newspaper distribution projects. This was contrasted by the one percent drop in the Distribution of Information/Promotional Materials category with an expected growth of eight percent.

New letter and mailing services

The renewed scheme of morning newspaper delivery services was a significant step in this area. The Company managed in a short time to tune its logistic and delivery network performance to enable delivery of newspapers to households and businesses by 7:30 a.m. at the latest. The great efforts and enthusiasm on the side of the project team allowed the Company to already start the project nationwide on 1 July 2011.

The obligatory bar-coding of registered mail, which simplified the paperwork required at the time of sending from both the customer and the Company, was another successful project. The link established between this category of mail and the PostingOnline system made it possible to track registered mail online. The customer may also use a new additional service, No-Card Cash on Delivery.

Parcels

In 2011, volumes of parcels in the segment of basic services used mostly by retail customers decreased by 17 percent compared to the previous year. An upward trend of ten percent year-on-year continued in other categories. International parcels and international EMS parcels registered a year-on-year decrease by about 6.4 percent.

New parcel portfolio

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During 2011, in the process of implementing its new parcel portfolio, the Company introduced four new parcel products. Parcel Delivery To Hand, Parcel Delivery To Post Office, Oversize Parcel Delivery and Express Parcel Delivery are designed to become key products in the segment of parcel transportation services.

Parcel Delivery To Hand and Parcel Delivery To Post Office give the customer a new, unique chance to choose whether the parcel is to be delivered directly to the specified address, or to one of more than 2,600 post offices where it would be ready for pickup. These products also set a high level of standards in terms of delivery speed, reliable and secure transportation, and customer communication. They offer the customer a range of additional services such as, SMS and e-mail alerts, possibility to change the instructions for delivery online, compensation cover for damaged parcels up to CZK 50 thousand.

Oversize Parcel Delivery is designed for mailers of parcels weighing between 30 and 1,000 kg, or oversize parcels (up to 300 cm long and up to 200 cm wide and high) within the entire domestic network. The scheme is to be further expanded in 2012 to include additional services such as, Multiple Piece Consignment, declared value up to CZK 300 thousand, pallet management.


Express Parcel Delivery is a unique service guaranteeing same-day delivery of parcels sent from certain post offices before 10 a.m. Parcels can be sent from Prague to regional capitals or vice versa, or only within Prague or the same regional capital. The scheme is to be further expanded and improved in 2012 to provide the customer with longer acceptance times (up to 2 p.m. within the same city) and more delivery attempts (up to 3 attempts free of charge).

The new schemes should fully replace certain older parcel schemes that are to be closed during 2012. They include Mail Order Parcel and Commercial Parcel.

A test run of the new parcel portfolio was conducted in August to December 2011. Almost four hundred consignors were involved in the project. They sent more than 340 thousand Parcel Delivery To Hand and Parcel Delivery To Post Office consignments (Parcel Delivery To Hand accounting for 76 percent). First delivery attempts were successful with almost 98 percent of Parcel Delivery To Hand consignments. The number of returns (rejected parcels or parcels left at the post office) was slightly above two percent. Parcel Delivery To Hand consignments were accompanied with more than 480 thousand SMS and more than 300 thousand e-mail alerts. Almost 97 percent of Parcel Delivery To Post Office consignments were delivered. The rate of returns reached three percent. Parcel Delivery To Post Office consignments were accompanied with more than 120 thousand SMS and more than 80 thousand e-mail alerts.

Price revisions and other changes

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In 2011, the Company introduced price revisions to some of its services. The revisions were discussed and approved by the regulatory authorities (Finance Ministry and the Czech Telecommunication Office). The major changes included an increase in the price of Insured Parcel, Commercial Parcel, Registered Packet and Ordinary Parcel and zone-based reclassification of prices of certain services. The revision process led to the simplification of some services, such as Cumbersome. The original Cumbersome I (CZK 80) and Cumbersome II (CZK 290) were merged into the resulting Cumbersome costing CZK 100 exclusive of VAT.

During 2011, the Company agreed with the CTO on a significant modification of the document containing basic quality requirements. The added parts relate to the creation of new types of outlets – Service Point and Partner – with a different range of provided services. The main focus was on the unification of technology and cutting of costs while maintaining the level of services available in remote areas.

Starting from 1 April 2011, after a modification of Act No. 235/2004 Coll., on value-added tax, the Company had to introduce the 20 percent statutory rate of VAT on the following services: Mail Pickup/Delivery, Domestic and International EMS, Commercial Parcel, Commercial Letter, and their additional services and surcharges (such as pickup of EMS, Commercial Parcel or International Commercial Parcel consignments on sender's premises).

The Company wants to maintain and increase its market share in the segment of traditional postal services. It had therefore directed its investments mainly into the development of additional electronic services available on the posting, tracking and delivery of mail, such as acceptance of data and posting details in an electronic format, providing information and details necessary to track mail, and handover of data on returns. A key change, which affected both electronic and traditional postal services, was the introduction of an electronic system alerting the addressee and the sender on the arrival of their mail. The Company further boosted the efficiency of mail processing through the ongoing optimisation of its logistic network and updating the sorting facilities and delivery technology.

Postal money services

Postal money services are an integral and essential part of obligatory postal services provided by the Company. Volumes of postal money orders, or tools allowing the customer to send cash or transfer cash to account, decreased by 11 percent in 2011 compared to the previous year.

SIP0

Volumes of SIPO transactions (multiple direct debit payments via the Company's payment system) have followed a steady downward trend due to their replacement by similar types of services. The total number of SIPO statements issued by the Company in 2011 was 1.5 percent lower than in 2010. This was compensated by the increasing number of transactions per statement which grew by 3.8 percent to 3.92 when compared year-on-year. The Company applied a sensitive price policy to generate higher cumulated revenues for its SIPO services. The nine percent increase compensated the negative trend caused by customers gradually leaving this form of multiple payments and replacing it by regular, single payments. The share of electronic SIPO transactions in the total (electronic and cash) SIPO transactions was almost 50 percent in 2011 and is predicted to grow.

PostShop

34

The Company uses its nationwide network of offices to sell goods primarily connected with its traditional postal services. Customers can buy a suitable type of envelope for their letter, cardboard boxes and other packing materials, such as wrapping paper, scissors, string or adhesive tape. Each post office has the possibility to choose a range of additional goods to meet the needs of local customers.

Revenues from goods sold increased by 37 percent in 2011, mainly due to the income from mobile phone recharge cards and coupons jumping up after the top up terminals of the bankrupt operator Sazka were unavailable (year-on-year increase by 290 percent). Revenues from sale of newspapers and periodicals recorded a slight drop, while revenues from the sale of the remaining goods decreased by 53 percent when compared year-on-year.

Electronic services

The Company considers development of electronic services as its priority with regard to the weakening status of traditional postal services. It is fully aware of this fact and has been adapting its activities accordingly. It has all – competence, knowledge and skills – it needs to develop electronic services. The extent to which it expanded and further developed the range of these services in 2011 was therefore substantial. The application Czech Post for smart mobile phones can be an example of this process.

Czech Post application for smart mobile phones

At the turn of the year 2011/2012, the Company introduced a new application Czech Post for Android or iOS mobile operating systems. The application provides customers with a simple and easy way of tracking their mail or displaying the postcode or location of the nearest post office. A map of the route will be displayed or they can be navigated directly to the final destination. The application is available in both Czech and English and can be downloaded free of charge from the Company's website or from the main websites of the platforms (the App Store and the Android Market).

Certification authorities – PostSignum

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The scheme provides two types of certificate: commercial certificates that can be used for encryption and unscrambling or for user authentication, and qualified certificates that can be used for electronic communication with public authorities.

In 2011, the Company upheld certification through recertification audits in accordance with ISO 9001:2009 (Quality Management System) and ISO 27001:2006 (Information Security Management System) for certification services provided until 2014. The recertification auditor was the renowned certification company CQS. The certification guarantees that the Company provides its customers with high-quality certification services and considers protection and security of information as a priority in the system it manages.

In 2011, the Company further expanded its certification services to better meet the needs of its customers in this segment. The network of outlets providing certification authority services increased to 976 and the Company launched a new online customer portal, PostSignum. Customers can visit the portal to obtain statistical data on received PostSignum services (certificates and time stamps used by contractual customers), summary details for individual customers, and to change details used for issuance of certificates or application of time stamps. 29,799 commercial certificates and 130,272 qualified certificates were issued in 2011, which represents a 19 and 12 percent drop in the annual volume of commercial certificates and qualified certificates, respectively. This was likely due to the increase in the price of certificates in late 2010. The total revenues in 2011 still exceeded those generated in 2010, thus confirming the leading position of the Company on the market.

Time stamp

Issuing of time stamps is one of the services which have been used with an increasing frequency. A time stamp provides reliable information about the time the document was created and is a valuable addition to the electronic signature. It allows the user to prove the existence of electronic transactions, forms, archived data, electronic signatures, etc. at a certain time.

In 2011, the average volume of time stamps exceeded one hundred and eleven million, which means a year-to-year increase by 167 percent. A new service Balíčky časových razítek s pětiletou platností, which offers a set number of time stamps valid within a five year period, has been introduced at the end of 2011. This service is intended for users who are not able to estimate the volume of time stamps they need or who expect small monthly volumes and do not want to be bound by a contract for a fixed monthly volume. The Company has a dominant position in the time stamp market as well as in the market of the above-mentioned certificates.

Central Address (CADR) and Official Site of Public Contracts (IS VZ)

Starting from 1 November 2011 the Official Site of Public Contracts has been run by NESS after winning the competition for its webmaster. The decision was made by the Ministry for Regional Development. The Company continues publishing only information on public auctions; small-sized contracts; and information on transfers of state-owned property. The reduced scope of services provided in this area in the end of 2011 led to a decrease in the income from this area by two percent compared to the previous year.

eSIP0

The current service eSIPO for Businesses already exists as part of the Company's range of traditional services developed for electronic management of customers' payments via their own electronic interface. By tailoring services according to its customers' wishes, improving old functions and introducing new ones, the Company seeks to achieve maximum user comfort. The income generated in 2011 was 106 percent higher than in 2010.

PostingOnline

During 2011 PostingOnline, which allows the user to track the status of and export data on mail, became a standard tool for mail-related services. The Company also stabilised the application used for this service in order to make it more accessible and comfortable for the user.

eGovernment services

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The Company is a traditional and reliable partner of the government in the development of eGovernment as an efficient platform for electronic communication between citizens and public authorities. The Company has been providing Czech POINT services, used for the access to the public administration system, at almost a thousand of its branches. The Company worked together with the Ministry of the Interior to develop further functions and increase user comfort of the Data Mailbox Information System. It has also paid great attention to the mapping of new areas where the Company's services could be used for further development of eGovernment services.

Czech POINT

Czech POINT services were provided by 976 outlets of the Company. They represent 15 percent of the overall number of all Czech POINT contact places. Despite this low share, the Company recorded an upward trend in the total volume of executed transactions, already exceeding 50 percent in late 2011.

Czech Post's customers could obtain certified information from a range of public administration information systems at Czech POINT outlets. The stable biggest demand was for extracts from the Criminal Register, Real Estate Register and Commercial Register. Czech POINT outlets also accepted applications and notices concerning the Data Mailbox Information System (applications for a mailbox set-up, etc.).

Apart from the classic services available at other Czech POINT outlets, the Company also offered verification and legalisation of signatures and documents. These services have shown the most dynamic growth from among the services provided at Czech POINT outlets. The recorded growth in 2011 was 57 percent compared to the previous year. Further services available at Czech POINT outlets included the obtaining of qualified or commercial certificates, registration and extracts from the IZIP electronic health record system, and acceptance of orders for the Company's Data Safe service. Job seeker signing on is a new service conducted by Czech POINT outlets on behalf of the government.

More than 2.5 million transactions (48 percent more than in the previous year) were executed in 2011. Specific Czech POINT services accounted for 1,274,889 of these transactions, while the remaining 1,259,096 transactions were verifications and legalisations.



Monthly Czech POINT transactions (incl. verifications and legalisations)

37

01/07 05/07 09/07 01/08 05/08 09/08 01/09 05/09 09/09 01/10 05/10 09/10 01/11 05/11 09/11 01/12

Data Mailbox Information System

Two and a half years after its launch, the Data Mailbox Information System went through further improvements in order to make it more attractive and useful for its users. The most significant new functions include a public directory of data mailboxes; interface for better management of access details and identity of authorised persons for access to the mailbox; electronically readable identification documents to log in to the mailbox; and, last but not least, reauthorisation of data messages.

452,193 data mailboxes had been set up by the end of 2011. Public authorities accounted for more than 32 million, and legal entities for 2.85 million out of the total 35,141,473 data messages sent in 2011. The remaining messages were sent by individuals or entrepreneurs. The volume grew by 15 percent year-on-year. A massive (more than 100 percent) increase was recorded in the segment of messages from senders other than public authorities.

New aspects of the system:

- Changes introduced by the amended Act No. 300/2008 Coll., on electronic operations and authorised conversion
 of documents, included changes in private communication services such as Postal Data Message. Postal data
 messages are now considered delivered to the recipient at the moment when the recipient merely logs into the
 mailbox.
- Reply Data Message (analogous to classic Reply Mail) is a new service provided in the system. The recipient can send a reply message back to the sender in 90 days, free of charge.
- Subsidised Data Mailbox is another new service, allowing contractual partners to pay the costs of all messages sent from the mailbox (subject to the mailbox holder's consent).
- The list of mailbox users was extended to include information about the way users log into the mailbox. The aim is to give the Company a chance to monitor compliance with its security policy. Only users qualified as an "authorised person" or "administrator" will have access to sensitive information.
- A data mailbox directory, introduced in 2011, contains identifiers of mailboxes operated not only by public authorities but now also by individuals, entrepreneurs and legal entities. The directory is available on www.seznamovm.cz.

Volumes of data messages by senders in 2011



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⁴ Public authorities; 32,006,410; 91.08%



Postal Data Message

Postal Data Message is a service in the Data Mailbox Information System which can be used by individuals, entrepreneurs and legal entities for the purposes of communicating with each other. E-mails sent as Postal Data Message are a modern alternative to traditional postal services, with delivery having legal effects comparable to those of delivered registered mail with return receipt. Postal Data Message suits any situation where the communicating parties need guaranteed and conclusive proof of document delivery. Users can exchange all types of data messages with any other users, without limitation to the content of messages. As at the end of 2011, more than sixteen thousand data mailbox users have enabled receipt of e-mails in the Postal Data Message scheme. Revenues generated from Postal Data Message in 2011 grew by 350 percent compared to 2010.

Additional data mailbox services

Data mailbox users can use several additional services for increased security and ease of use when working with data messages.

When logging into the data mailbox, the user may use a security, or safe key. This product provides increased security when accessing data mailboxes or provides electronic documents (data messages) with a secure electronic signature. Safe Key to Data Mailbox is a package that contains a commercial and qualified certificate issued by a PostSignum certification authority as well as an iKey 4000 USB token, including service software to ensure secure storage of private keys and certificates. Storing certificates on the USB token is an essential way of protecting them from misuse when compared to storage on a personal computer. The user need not worry about losing the token, since the certificates cannot be copied from the USB token and a PIN code is requested upon use. In 2011, the Company updated the control software (operating software Kl(čn(k) and expanded the system in order to support 64-bit operating systems.

Data mailboxes are not archives: all data messages are automatically deleted after 90 days. Users needing to archive data messages may use the Data Safe service. Data Safe is secure and guaranteed data storage for archiving incoming and outgoing messages more than 90 days old. The messages are automatically moved from the data mailbox to the data safe without the user needing to do anything. Cumulated revenues from Data Safe increased by ten percent in 2011.

The SMS Alerts notification service is intended for users who do not check their mailboxes regularly. These notifications about incoming data messages are used primarily by individuals, independent traders and small legal entities. In order to use this service, it is necessary to have a Czech mobile phone number with the Premium SMS service activated. Revenues from SMS Alerts registered 52 percent year-on-year growth.

In 2011, further authentication services were added to the range of additional services. The options users can use to log into their mailbox now include further solutions enhancing the security of access to data mailboxes via a web interface. These authentication solutions are Authentication SMS and One-Time Password (OTP) Token.

DONEZ

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The cooperation between the Company and the Labour Office of the CR began in 2011. Starting from October the Company's outlets in the Czech POINT network have been providing so-called DONEZ services within a sign-on system for job seekers registered with Labour Offices. Certain job seekers have a duty to sign on at Czech POINT terminals at appointed post offices, approx. twice a week at any time within the post office's standard opening hours. As at the end of 2011, the DONEZ system included around 27 thousand job seekers and the volume of weekly transactions exceeded 45 thousand.

Communication services

The Company has been providing operating, servicing and webmaster services to the Ministry of the Interior of the Czech Republic and the Czech Police in relation to their communication infrastructures already since 2009. During 2011 both institutions received professional communication services in 13 partial areas including communication technology operation, consulting, shared services centre (CMS) management, etc., via the eGovernment section of the Company. The shared services centre is one of the key elements of the entire communication infrastructure of the public administration system: it provides guaranteed exchange of data and services between individual public information systems. In 2011, these services were provided to 68 bodies in the state and public administration system.

Information on the range of services, access to online services

Simplified access to electronic services for registered customers

The client zone for registered users of the Company's website has seen a number of improved functions. As part of an ongoing project, new users will have to use a new address for signing up to the Company's new website.

Marketing communication

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During 2011, the Company took a number of significant steps as part of its marketing communication. Following a successful test run in 2010, the new visual style of the Company's branches was fully introduced in dozens of new as well as modernised post offices over 2011. The new visual style includes new racks for the placement of marketing communication materials that improved the efficiency of advertising of services available at the point of sale, mostly as part of advertising campaigns.

In the autumn of 2011, the first vans with a large yellow post horn in the new style, painted on the sides of the load space, appeared on the road. Also, at the end of the year, the first postal personnel members working directly with customers received new uniforms. The well-fitted, neat uniforms made of high-quality practical materials are a dignified way of representing the Company.

The Company used advertising campaigns to promote both the existing and new services and products such as: mobile phone account recharge at post offices (a new service launched in response to the unavailability of top up terminals of the bankrupt operator Sazka); stamp identified with a letter and portraying the cartoon heroes Pat&Mat; Czech POINT and a range of other eGovernment services; sale of highway stickers and a new type of first-aid kits for cars (obligatory from January 2011).

The number one event in 2011 was the marketing communication project surrounding the launch of a new parcel portfolio. The "Great Parcel Revolution", with its flagship products Parcel Delivery To Post Office and Parcel Delivery To Hand, was first introduced in an extensive sales campaign focused on partners from the of online shop and mail order company segments. A test run of the new parcel services started in August 2011 and, until the end of the year, the project continued with the preparation of an advertising campaign directed to end users and the general public. The Company is aware of the growing importance of online communication channels to which it responded by launching a microsite (www.balikovarevoluce.cz) accompanying the corporate website presentation with information provided in an entertaining way.

The Company continued to publish a catalogue of its services. This traditional and consistently updated information source partially responds to the duty to inform customers, as imposed on the Company by the CTO in the document containing basic quality requirements. Brochures with the catalogue of services are available at any post office.

Website

The Company's website defended its victory on the Transport professional ladder for the third time already. It also ranked fifth in the WebTop100 competition for best company website in 2011, a wonderful accomplishment. The WebTop100 competition automatically compares websites of the top 100 businesses on the CZECH TOP 100 ladder which is based on the economic indicators of each competitor. The board of professional judges compared 211 company websites in terms of their usability, graphic design, technical solution, marketing approach and most of all, their overall benefit for users.

In 2011, the Company's website got 5.98 million unique visitors with a total of 16.86 million visits and 65.14 million viewed pages. In other words, during the year each visitor returned in average 2.8times to the website. The average daily visitor rate to the website grew by more than a half year-on-year, an unseen increase compared to similar sites. The spike in interest in the Company's services around Christmas brought about 40 thousand daily visitors (about 15 thousand during weekends). Every 60th visitor (105 thousand people) used the English version of the site. A total of almost a quarter of a million English pages were viewed during the year. The rocketing number of visitors connecting to the website on a mobile device signalled an interesting trend in 2011. In 2011, mobile phone users accounted for 244 thousand (1.3 percent) of all visits.

Call centre

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The Company provides its customers with information services available through its call centre via telephone or e-mail. Operators at the toll-free information line 800 104 410 provide callers with prompt information about basic postal services. Answers to other queries, especially those concerning electronic services, can be obtained at the customer line 840 111 244. Operators at the toll-free sales line 800 300 302 accept orders of magazines distributed by the Company. The information line 800 260 026 is reserved for guidance services provided to post office staff with regard to the APOST software.

Customers who prefer communication by e-mail can use either of the two central mailboxes, info@cpost.cz or podatelna@cpost.cz.

The call centre played a specific role during the national census in 2011. It provided support information to citizens, state institutions, businesses and organisations; professional consultancy with regard to the filling out of the census forms and arranging meetings with census commissioners; and received motions and comments. The Ostrava and Prague-based units of the call centre hired part-time workers who answered more than 200 thousand calls during the project.

Quality of service

In 2011, the Company was supposed to provide its services at least at a level of quality stipulated by the regulator's requirements set by the CTO. Quality and customer satisfaction is monitored by means of regular surveys focusing on the quality of mail delivery. These are conducted both by the Company's internal inspection mechanism and by an independent agency. The following table illustrates the results of the surveys carried out in 2011.

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

Monitored sample volume (pcs)		Days lapsed after the day of posting (%)	
		1 day	2 days
Within the region	7,853	93.30	99.48
Outside the region	22,486	91.96	99.16
Total	30,339	92.31	99.24

Complaints

Complaints regarding the delivery of mail

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In 2011, there were 174 complaints filed concerning delivery (including those concerning failure to deliver confirmation) per 1 million posted mail items and money orders handled within the basic postal services, of which only 87 complaints were considered justified.

Complaints regarding the damage or partial loss of mail

As regards complaints about damaged or partial loss of mail, the Company recorded 66 claims per 1 million posted items, of which 47 complaints were considered justified.

Complaints regarding the delivery of mail or money orders per 1 million mail items/money orders

Total number of complaints	174
Out of which: Justified complaints	87

Complaints regarding the damage or partial loss of mail per 1 million items

Total number of complaints	66
Out of which: Justified complaints	47



Milan Kundera – The Joke

From the training course (it took place at one of the castles of central Bohemia) she sent me a letter that was pure Marketa: full of earnest enthusiasm for everything around her; she liked everything: the early-morning calisthenics, the talks, the discussions, even the songs they sang; she praised the "healthy atmosphere" that reigned there; and diligently she added a few words to the effect that the revolution in the West would not be long in coming.

As far as that goes, I quite agreed with that she said; I too believed in the imminence of a revolution in Western Europe; there was only one thing I could not accept: that she should be so happy when I was missing her so much. So I bought a postcard and (to hurt, shock, and confuse her) wrote: Optimism is the opium of the people! A healthy atmosphere stinks of stupidity! Long live Trotsky! Ludvik.



Services on behalf of alliance partners

The Company provides a range of banking and insurance services that cover the basic needs of the ordinary customer. In doing so, the Company has sustained long-term collaborative relationships with its alliance partners. The key alliance partners of the Company are the postal savings company Poštovní spořitelna (a division of ČSOB, a.s.) with a broad range of banking services; Česká pojišťovna, a.s. with a portfolio of insurance products; SAZKA a.s. with an offer of lotteries; Českomoravská stavební spořitelna, a.s. with a portfolio of building savings schemes; and two supplementary pension insurance schemes (ČSOB Penzijní fond Stabilita, a.s. and Penzijní fond České pojišťovny, a.s.). A collaborative effort between the Company and Raiffeisen stavební spořitelna, a.s. with a portfolio of building savings schemes started in 2011. The range of services is made complete by appropriate services provided on behalf of other alliance partners, such as Western Union (PES, s.r.o.) with an offer of money transfers; Home Credit, a.s. with a portfolio of credit products; and Pražská plynárenská, a.s. with customer services provided on behalf of this Prague-based gas company.

Collaborative efforts between the Company and its alliance partners led to the introducing of certain simple products aimed at general public as well as the expanding of workplaces providing specialised banking and insurance services. In 2011, the Company built up a total of 33 specialised insurance counters offering equal services to those of the partnering insurance companies.

The actual revenues from services provided on behalf of alliance partners were lower than planned. The main reason was the plummeting income from services offered on behalf of SAZKA, a.s., which was due to the uncertainty among customers surrounding its further existence.

International operations and relations

The Company in the global postal network

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

In 2011, the Company paid a great deal of attention to the preparation of the 25th Universal Postal Union Congress in Doha 2012, with a special focus on postal strategy in 2014–17. Members of the Company were actively involved in the plenary meeting of the association of European Public Postal Operators (PostEurop) in the area of common postal strategy for the European region.

The international postal network is interfaced with the Company's network via its exchange post offices in Prague, Břeclav and Cheb. International postal operation is liberalised in the Czech Republic which means that other operators may enter the segment and create a competitive environment. Slovak Post has remained the most important foreign business partner of the Company in the long term.

Successes in international operations

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The EU membership of the Czech Republic leads to further duties of a public postal operator, i.e. the Company. The Company's duty is to ensure the general availability of high-quality basic services as stipulated by the amended Directive 97/67/EC of the European Parliament and of the Council. For cross-border priority letter mail within the Community, the Directive sets the quality of service targets particularly in terms of delivery performance.

Quality of service targets in terms of delivery performance (cross-border priority letter mail within the EU):

Time limit*	Target	Actual 2011 – inbound	Actual 2011 – outbound
D+3	85% of mail	91.2	94.9
D+5	97% of mail	98.3	98.7

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

As the above table shows, the Company was successful in fulfilling these requirements in 2011. The quality of service targets, set by the Directive, were accomplished both in terms of speed (delivery time D+3) and reliability (delivery time D+5). The international quality is evaluated by UNEX, an independent measurement system provided by the International Post Corporation for public postal operators in EU member states.



Money services provided by the Company within the range of postal services carry a higher degree of risk. The diversity of these services cannot be compared with those provided by any other financial institution. With this in mind, Security's key mission is to fulfil the basic security requirements necessary for the fluid operation of these services and protection of the Company's employees and customers.

Innovations in security at offices

In 2011, the smallest post offices accounted for 93 percent of all assaults at the Company's premises, which prompted further security innovations in this area. These included the ongoing project of installing time-lock cash registers, which combine many security elements, at all newly opened and refurbished offices, as well as a project of installing small camera systems in these offices. The suitability of the latter project was proved by a test run conducted in 2011. Security therefore intends to use it in future. Another key step towards higher security at the Company's outlets involved the development of a project of typical security features to be installed in its depots, including the state-of-the art technology such as CCTV camera systems, electric security signalling systems, access and attendance control systems.

Money laundering

Security was given the task of supervising the observation of the Act No. 253/2008 Coll., on certain measures against money laundering and financing of terrorism, as amended, within the conditions of the Company. The main activity in this context is the registration of all suspected deals and their immediate reporting to the Czech Ministry of Finances' Financial and Analytical section.

National census 2011

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In 2011, Security cooperated with the Czech Statistical Office on the national census, running a range of proposed security measures already tested in a pilot census. No serious security incidents were reported during the project, as described in the final report.

Crisis planning

The most attention with regard to crisis planning issues was paid to a Crisis Preparedness Plan (CPP) update for the Company's headquarters and to the preparation of Extracts from CPP for each region. These contain solutions to potential critical situations and Crisis management processes for individual outlets.

The Measures of General Nature, which took legal force on 7 October 2011, define elements of the national critical infrastructure in the sectors of electricity generation, transmission and distribution in the area of postal services and electronic communications (critical infrastructure elements or "CIEs"). The Company, as an operator of CIEs, has therefore become a critical infrastructure entity, as defined by section 2 subsection k of Act No. 240/2000 Coll., on crisis management, as amended.

Security improvements in other areas

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The Security Policy department is responsible for wide-ranging activities connected to security improvement and compliance with security principles within the Company. The main activities include compliance with legal obligations in the area of personal data protection; methodological guidance for the risk management process; and a range of activities in the dynamically developing area of ICT security.

ICT security is required for all major projects in which the Company is involved, such as a Risk Analysis for the PostingOnline scheme or the national census 2011. The ICT Security department plays an important role in the area of security control over the Data Mailbox Information System and shared services centre projects.

Within the area of personal data protection, Security focused on eliminating cases of potential non-compliance with Act No. 101/2000 Coll., on personal data protection, as amended, including signing or drafting contracts for personal data processing. Concrete projects included SMS Alerts, Afternoon Delivery, Monitoring of Company Cars, etc. Apart from the above-mentioned participation in projects and supervision over the Company's activities, Security also examined forms used by Human Resources from the viewpoint of personal data protection.



🦳 Internal audit

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In 2011, Internal Audit performed its activities in accordance with the requirements set by the International Standards for the Professional Practice of Internal Auditing and the Company's Internal Audit Statute. Internal Audit directly reports to Director General as the Company's statutory body. This position in the organisational structure warrants the independence of internal auditors from the audited activities and organisational units. The required objectivity of audit activities that are conducted by internal auditors is also guaranteed by strict compliance with the provisions of the Internal Audit Statutes and the Code of Ethics for Internal Auditing.

In 2011, the Company strengthened the role of its internal auditors by establishing the Internal Audit Committee as an advisory body to Director General. Members of the committee meet to discuss the results of all internal audits and submit them to Director General. The quality of all internal audits is assessed and evaluated in accordance with the approved Internal Audit Quality Assurance and Improvement Programme. In 2011, the results of the quality assurance and improvement programme supported the statement "Conforms with the International Standards for the Professional Practice of Internal Auditing" in the meaning of standard No. 1321. The quality and benefits of internal audits were assessed by internal users as considerable.

The primary basis for the activities conducted by Internal Audit in 2011 was the internal audit activities plan. The plan was discussed by the Management Board of the Company and approved by the Director General. The plan followed the proposals and requirements of the Management Board; expertise and knowledge obtained by internal auditors during the audits; and the results of assessment and development of risks with regard to certain processes and activities within the Company which have an essential influence on achieving the business plan and setting targets or which pose a potential risk.

A total of 18 planned audits and one audit requested by the Management Board were carried out throughout the year. The results of each audit were contained in the final audit report, discussed with the chief executive of the audited organisational unit and submitted for examination to the Management Board or the Internal Audit Committee. Each report contained adequate recommendations on how to remedy the defects found, including recommendations in respect of improving the quality of the Company's administration and management, the internal management and control system and the risk management process. Each report is accompanied by a corrective measures plan based on the approved recommendations and approved by the Director General. The plan sets concrete tasks with time limits and the names of chief executives responsible for removing the defects found. Apart from audit and monitoring services, Internal Audit also provided consultancy and cooperation to other chief executives and organisational units and collaborated with the external auditor, mostly in the area of information in respect of the results of the audit activities that were conducted. In relation to the reading of international standards, Internal Audit also performed other activities, such as assessments of the management and control systems, levels of risk control, evaluation and communication of the results of audit services, implementation of the Internal Audit Quality Assurance and Improvement Programme, professional education of auditors, etc.

Overall, the Internal Audit activities carried out throughout 2011, particularly its audits and monitoring events; analyses of the findings; formulation of the recommended corrective measures; identification and evaluation of risks established during audits and monitoring events; consultancy services rendered to the Management Board in various areas, chiefly contributed towards:

- Improved quality of the services provided by the Company,
- Constant fulfilment of the quality and security requirements on certified services,
- Cost-cutting in respect of compulsory audits and certain other activities,
- Improved level of the audited processes and activities,
- Better efficiency of the management activity and cooperation between organisational units of the Company,
- Identification of the causes of risks and measures leading to their elimination,
- Stronger preventative measures against fraud and damage,
- Assured guidance in control activities,

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- Better efficiency of the managerial and professional control.

Risk management

Since its introduction in 2005, the risk management system has played an integral role in the management process of the Company by contributing to the prevention and management of both expected and unexpected events originating inside as well as outside the Company and by helping eliminate potential negative impacts on its economic performance.

The year 2011 was marked by an organisational restructuring of the risk management process (the newly created Risk Management department within Internal Audit and Risk Management, reporting directly to Director General) and by the adoption and implementation of the current modern approaches towards risk management. The Risk Management department assumed responsibility for providing guidance and creating necessary conditions and structure for efficient risk management. With regard to the usual practice and internal control documentation, the risk owners play a fundamental role in the risk management process.

The newly created Risk Management department drafted new management documents in order to establish the conditions necessary for an efficient risk management process in the Company. A great deal of attention was also paid to educating all risk owners in risk management principles as well as to the process of re-identification, evaluation and management of risks.

In 2011, the Company identified and achieved the following goals in the area of risk management:

- Classification of assets,
- Identification of the owners of assets,
- Identification of risks and risk owners,

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- Publication of new risk management documentation,
- Creation of a single risk management process within the information security management system (ISMS),
- Providing support to the owners of assets or risks in the process of risk identification and evaluation,
- Publication of the Company's Book of Risks as at 31 December 2011.

The Risk Management department was fully responsible for the preparation of the Company's Book of Risks for 2011. The process of preparation included updating the information on risks; identification and allocation of risks to individual assets; and revaluation of all risks in collaboration with the identified risk owners. The book contains individual risk cards and maps divided into categories, as well as a separate chapter on significant risks with the obligatory plans for their management.

The new guideline No. SM-20/2011 introduced a new system of risk classification into the following categories: business and legal risks; HR management risks; financial risks; property risks; operations risks; information technology risks; and security risks.

The Risk Management department in cooperation with risk owners identified a total of 50 risks, with impact values ranging between CZK 50 thousand and more than CZK 100 million and incidence rates ranging from very low to very high. Out of the 50 risks, 9 were classified at the level of remaining risks, 37 at the level of acceptable risks, and 4 at the level of significant risks. None of the risks identified within the Company achieved the level of critical risks.



Employee structure

In 2011, the trend of improving the efficiency of activities and better labour productivity continued, which resulted in lower personnel costs. By early 2011, 20 positions were cut on the basis of the employer's amicable invitation to voluntarily leave jobs, accepted in 2010. A further 1,625 positions were cut as part of streamlining projects during 2011. Another wave of streamlining the administration came in late 2011 with the aim of cutting another 179 positions – as at the end of December, 104 employees left with compensation and another 75 employees were to leave by the end of February 2012.

The full-time equivalent number of employees in 2011 was 33,202, or 1,172 (3.4%) less than in 2010. Of the total number of employees, 34.46% were postmen; 32.37% were post-office personnel (counter clerks, cashiers, internal service); 8.76% were logistics personnel; 5.88% were administrative personnel; 1.77% were IT personnel, and the remaining 16.76% accounted for other personnel.

Salary and social policy

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The year 2011 was defined by a change in the system of remuneration, which was introduced on 1 April 2011. The remuneration system is based on job performance assessment with the aim of boosting the motivation component of salary. The new remuneration system and job performance assessment system have both been approved by the relevant trade unions. In the course of 2011 preparations were underway for the annual assessment of employees – all managers received training and supporting materials for the assessment, including manual for assessors, review card for interview preparation with employees, and a CD containing instructions on how to solve various model situations. The annual employee assessment took place in early 2012.

The average monthly salary in 2011 amounted to CZK 21,538. It grew by CZK 185 (0.9%) compared to the previous year. Average additional monthly income of employees beyond the level of salary in 2011 amounted to CZK 1,210 per employee. This income includes supplementary pension insurance benefits; life insurance; meals; vacations; physical education, etc. These benefits were funded from social costs and the Company's fund for cultural and social needs. In addition to these financial benefits, employees also received other, non-monetary benefits. These included mainly an additional week of holiday beyond the level set by the Labour Code; compensation for salary beyond the level set by the Labour Code (e.g. leave due to caring for a child under 15 years of age), and a work week that is 1–2 hours shorter for certain operations jobs.

In November 2011, the trade unions submitted a joint draft to the employer of a first amendment to the existing collective agreement. The bargaining process was successfully closed in early 2012.

Education and development

In 2011, the project Setting a System of Qualification and Revision of Types of Positions was started. The project has two main aims: the first involves (i) setting the European standard of qualifications for typical postal activities and (ii) updating qualification requirements for individual types of positions in accordance with the set standard, needs of the Company and labour market. The second is to verify the types of positions in individual structural units with regards to the work performed and, if necessary, to reassess the intensity of the work and to set the level of salary accordingly. The project has been gradually introduced according to the approved timetable and will be ended in 2013.

The Company launched an e-learning system. A number of e-learning courses/manuals were introduced to provide information to drivers of vehicles up to 3.5 tonnes; information about money laundering measures; information to new employees; basic postal information, or information about the PostSignum certification authority.

— Environmental protection

The Company's operations only have a very slight impact on the environment. The Company's strategy in respect of the ecology primarily focuses on compliance with the legislation in all areas of environmental protection with a view to precluding environmental hazards and minimising any ecological risks. The Company's operations in 2011 were not affected by any emergencies that would have an impact on the environment. The public authorities found no flaws or defects in respect of the Company.

One of the tasks of the Company is to cut its energy costs as much as possible. The costs predicted for 2011 included CZK 259 million for electricity; CZK 79 million for natural gas, and CZK 114 million for supplies of heat, i.e. around CZK 450 million in total energy costs.

🔨 Postal ombudsman

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In 2011, 1,262 customers appealed to the Ombudsman of Czech Post, who settled 151 within that time. 71 of these appeals requested examination of the results of a previous complaint or claim handling procedure. The Ombudsman confirmed the previous decision in 60 cases, while in the remaining 11 cases upheld the customer's view. A total of 80 appeals concerned new cases without previous standard examination.

11 cases led to the recommendation to provide the customer with additional compensation. The payment was then made from a special account dedicated to settling similar cases. The sum allocated to this account in 2011 was CZK 165,000, out of which CZK 37,383.97 (23%) was paid out in 2011.

— Philately

In 2011, following the success of the first issues, the Company came out with further stamps identified with a letter. At the end of the year, the Company also created the basic conditions for a new category of "personalised stamps", which is to appear in 2012. One international, Czech and Slovenian stamp portraying violinist and music teacher Johann Gerstner, came out in the form of a miniature sheet. A native of Žlutice (within the borders of the modern Czech Republic), Gerstner spent his life in Slovenia. The Easter and Christmas stamps came out as definitive stamps for the first time in history. The same motifs will be used in the next several years. The Christmas issue was accompanied with a Christmas postcard with prepaid stamp and with a special New Year's envelope with prepaid stamp designed for the purposes of the Company only.

The Company organised 12 exhibition events in the space of the former philatelic shop at the main post office in Jindřišská Street, Prague. The events were attended by the authors of the displayed stamp designs, engravers and members of the postal printing house Poštovní tiskárna cenin Praha, a.s., and accompanied by souvenir sheets. The net revenue from the sale of these souvenir sheets in 2011 was CZK 300 thousand. The Company issued a special commemorative sheet as a tribute to former President Václav Havel who died in December 2011.

Stamps issued in 2011

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In 2011, the Company, acting on behalf of the stamp issuer, i.e. the Ministry of Trade and Industry of the Czech Republic, issued a total of 31 commemorative stamps with first day covers and commemorative handstamps, of which four stamps came out as souvenir sheets printed from steel plates. The Company produced the traditional issues including some old favourites in the area of stamp design, such as Tradition of Czech Stamp Design, Personalities, Beauties of Our Country, Europa, For Children, Works of Art on Postage Stamps. New designers, who successfully entered Czech stamp design in 2011, include Czech engraver Jindřich Faktor (FDC for the Une femme douce issue) and engraver Wolfgang Maurer from Bundesdruckerei Berlin (co-author, together with graphic designer Oldřich Kulhánek, of the miniature sheet Kaspar Maria von Sternberg). The miniature sheet Year of the Rožmberks was another outstanding product. The sheet, printed from steel plates, was designed by Oldřich Kulhánek and engraved by Miloš Ondráček. The stamp Execution of 27 Protestant Leaders on the Old Town Square, designed by Zdeněk Ziegler and engraved by Václav Fajt, also boasts unconventional graphic design and top quality printing from steel plates.

In the 19th annual competition on the most beautiful Czech stamp, the public voted for the CZK 30 stamp portraying August Bedřich Piepenhagen from the issue Works of Art on Postage Stamps. The stamp was engraved by Martin Srb. The Lynx and Woodpecker stamp from the issue Nature Protection: Šumava – UNESCO Biosphere Reserve ranked second. The Moose, Black Grouses and Dragon-Fly stamp from the same issue ended up third. Both stamps were designed by Libuše and Jaromír Knotek and engraved by Martin Srb. The two offset stamps portraying film posters for Une femme douce and Markéta Lazarová also recorded a huge success. The stamps commemorate 1960s Czechoslovakia.

Commemorative stamps in 2011 (value in CZK)

Kaspar Maria von Sternberg (1761–1838)	43
Census	10
Tradition of Czech Stamp Design: Josef Herčík	10
St Agnes of Bohemia (1211–1282)	12
Jiří Melantrich of Aventinum (1511–1580)	30
Beauties of Our Country: Cheb 950 Years	12
Beauties of Our Country: Cubist Architecture (Black Madonna House Prague)	14
20 Years of the Visegrad Group	20
Year of the Rožmberks: Vilém and Petr Vok of Rožmberk	49
Vlasta Burian (1891–1962)	10
200 Years of Teaching at the Prague Conservatory	10
EUROPA – Forests: Alluvial Forests	20
Common Czech-Slovenian Issue: Johann Gerstner (1851–1939)	34
For Children: Zdeněk Smetana: The Little Witch	10
Execution of 27 Protestant Leaders on the Old Town Square	26
100 Years since Jan Kašpar's First Public Flight	21
Young Animals	10
European Florists Championship Europa Cup 2011	25
Nature Protection: Šumava – UNESCO Biosphere Reserve	10,14,18,20
František Alexander Elstner (1902–1974)	14
Crafts: Historical Organs, Plasy	10
World Post Day	21
Men's European Volleyball Championships 2011	20
Czech Film Posters – Une femme douce	10
Czech Film Posters – Markéta Lazarová	10
Works of Art on Postage Stamps:	
Jaroslav Vožniak (1933–2005)	24
Joža Úprka (1861–1940)	26
August Bedřich Piepenhagen (1791–1868)	30

Definitive stamps and postal stationeries

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A total of twelve definitive stamps, nine commemorative postcards, eight picture cards, one postcard with prepaid stamp, one postcard with prepaid stamp identified with a letter, and one special New Year's envelope with prepaid stamp were issued in 2011. The Company launched a new series of definitive stamps portraying folk architecture monuments. This series should gradually replace the existing Zodiac series of definitive stamps.

The best-selling Čtyřlístek series further expanded, with the final two stamps – Pinďa the Rabbit (February) and Bobík the Pig (May) coming up in 2011. The series was launched in 2010. In 2011, building on the success of selfadhesive stamp booklets (the Čtyřlístek and Alfons Mucha series), the Company issued a booklet with E-stamps (current face value: CZK 20) W.A. Mozart, followed in autumn by a booklet with A-stamps (current face value: CZK 10) Pat&Mat. In 2011, the Company generated CZK 105 million in revenues from the sale of 1.032 million selfadhesive booklets.

Commemorative handstamps

In 2011, the Company prepared and used a total of 71 commemorative handstamps (a year-on-year increase by 18 percent). Like every year, several traditional handstamps marking holidays such as, Easter, Christmas and Valentine's Day, and the international fair Collector (2 handstamps) were issued. Special events, including the 1st Czech and Slovak Philatelic Exhibition in Vysoké Mýto, exhibition of graphic design by Miloš Ondráček, 770 years of the town of Krucemburk, etc., were commemorated by a wide range of other handstamps. Six handstamps accompanied commemorative postcards (e.g. 20 years of Czech Police, Battle of Tobruk, 60 years since the start of production of the Velorex car). The winner of the annual most beautiful handstamp awards was the Boží Dar handstamp of the regular Christmas series. The handstamp, designed by academic painter and graphic designer Pavel Sivko, won the contest for the third time. The Company issued a total of 37 commemorative stickers, out of which 22 were for registered letters (R-stickers) and 15 were APOST stickers with an additional print.

— Postal Museum

Postal Museum

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The Postal Museum, which houses almost 500 years of mementos of the organised postal industry in the Czech Republic, entered its 93rd year of existence as a fixed, integral part of the Company. It contributes to the Company's marketing activities, promotes stamp design and represents the Company both locally and internationally. The Postal Museum is a member of the International Association of Transport and Communications Museums (IATM), an active member of the Conference of European Communications Museums (CECOMM) and, as one of eleven selected postal museums worldwide, belongs to the Club Elite de la Philatelie de Monte Carlo, Monaco. In the Czech Republic, it participates in the work of the Association of Museums and Galleries, and collaborates with the Union of Czech Philatelists, including, among other things, within the framework of the Union of Czech Philatelists' Association of Friends of the Postal Museum.

The museum has long-term exhibitions in Prague and in its branch in Vyšší Brod, where the history of post and telecommunications, from their very beginnings up until the present day, is presented in the abbey of the former Cistercian Monastery in a space of approximately 1,800 square meters. Apart from temporary exhibitions, held in Prague as well as in Vyšší Brod, it participated in a number of exhibitions both in the Czech Republic and abroad. By law, it is entrusted to approve the export of articles from the field of the history of the postal industry and stamp design, and serves as a Czech centre for stamp exchange within the framework of the UPU. One of the museum's important functions is the provision of library and consultancy services to researchers, students and the Company's employees.



Exhibitions

Temporary exhibitions at the Postal Museum in Prague

- Philately as a Look into History. An exhibition held by the Union of Czech Philatelists's KF 00-65 Apollofila 24 November 2010–27 February 2011
- Nature Protection on Stamps of the Czech Republic
 1 March 2011–2 June 2011, 21 September 2011–20 November 2011
- Jaroslav Němeček The Čtyřlístek Comics Not Only on Stamps
 23 November 2011–26 February 2012

A commemorative postcard with additional print marked each of these events, and a commemorative handstamp was available at a temporary post-office counter set up to mark the occasion.

Temporary exhibition at the Postal Museum in Vyšší Brod

 20th Annual Exhibition of Artwork by Students at the Kaplice-Based Elementary School of Arts in Vyšší Brod 15 June 2011–1 September 2011

Exhibitions - external collaboration within the Czech Republic

- History of the Post Office in Žamberk; Municipal Museum in Žamberk, 8 October 2011–30 October 2011
- History of the Post Office in Týn nad Vltavou; Municipal Museum in Týn nad Vltavou, 15 September 2011-28 October 2011
- The White Tale... 80 Years since the National Exhibition of Physical Education and Sports, Pardubice 1931; State District Archives in Pardubice, 5 October 2011–13 November 2011
- Academic painter Bedřich Housa Graphic Designer, Engraver and Painter; Vysočina Regional Gallery, Jihlava,
 7 January 2011–6 February 2011
- Prague Castle in the Art of Postage Stamp Treasures from Prague Castle and Postal Museum's Collections; Cistercian Abbey in Vyšší Brod, 3 June 2011–2 October 2011
- Prague Castle Photo Archive; Masaryk Museum Hodonín, April June 2011; T.G. Masaryk Museum Rakovník, Lány Branch, July – September 2011; East Bohemia Museum in Hradec Králové, October – November 2011
- Tracing the Fox; Bohemian Karst Museum in Beroun, 27 July 2011–25 September 2011
- First Ladies Fate, Mission, Ordeal?; Central Bohemia Museum in Roztoky, 30 September 2011-15 March 2012
- Miloš Ondráček Postage Stamps and Graphic Art; Krkonoše Museum in Jilemnice, 19 September 2011– 30 November 2011
- The 1st Czech and Slovak Exhibition Vysoké Mýto 2011; Regional Museum in Vysoké Mýto, 10 October 2011
 31 November 2011

Exhibitions – external collaboration abroad

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- Decorative Telegraph Blanks in Interwar Czechoslovakia; Slovak Post's Postal Museum in Banská Bystrica, 6 May 2011–9 September 2011
- Prague Castle Photo Archive; Slovak National Museum, Bratislava, October 2010-March 2011
- Ice Hockey on Postage Stamps; Children's Art House, Bratislava, April-May 2011
- Ladislav Guderna; Gallery of the City of Bratislava, September-November 2011

Social events in the Postal Museum

- Postal Museum's presentation to the Association of Czech Travel Agents, 3 February 2011
- Announcement of the results of the 2010 most beautiful Czech stamp awards held by Czech Post, magazine Filatelie and the Právo daily magazine, 7 April 2011
- Event to celebrate the 93th anniversary of establishment of the Postal Museum, 18 December 2011

Collaboration with the Union of Czech Philatelists

 - 5th Day of Czech Philately; 10 November 2011 (graphic designer Dušan Kállay and engraver Miloš Ondráček's stamp unveiling ceremony and signings, guided tours, presentations)

Collaboration with dedicated Czech Post departments

Marketing

- Selection and scanning of background documents (photographs, maps, imprints of handstamps) for preparation of a new-style design of refurbished post offices.
- Creation of a new visual style for the Postal Museum, including the orientation systems for the Prague and Vyšší Brod venues, logo and sign plates for the Vyšší Brod venue.
- Postal Museum's commemorative medal (stamped metal medal in case box for promotional purposes, with Postal Museum's logo on the front side and a mounted postilion on the reverse).
- Postal Museum's website based on the new visual style using a new architecture (the first own website of the Postal Museum with the registered domain name www.postovnimuzeum.cz).
- Postal Museum's representative publication with the working title "Stories of Postal Museum's Artefacts" (colour publication with pictures, containing stories on 33 highlights in Postal Museum's collections).
- Intranet magazine DOMINO used for regular updates of information on Postal Museum's activities.

Stamp Design and PostFila

- Handover of outline drawings and graphic designs for new Czech stamps and commemorative postcards.
- Identification of unused original graphic designs by academic painter J. Liesler, scanning and preparation of background documents for texts accompanying the issue of the stamp Tradition of Czech Stamp Design – Josef Liesler marking the 100th anniversary of Liesler's birth.

Communication

- Collaboration on the preparation and holding of a Summer Postal Detective Competition announced by the Poštovní kurýr magazine and held on 1 July–31 August 2011 (about 3,000 visitors).
- Photographs documenting Postal Museum events published in the Poštovní kurýr magazine.
- Articles published in the Poštovní kurýr magazine.

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Karel Čapek – The Crime at the Post Office

You'll recall, mister, that little miss that worked here two years ago in our village post office? Sure, Helenka, that was her name. She was such a good, kind girl, pretty as a picture. Not likely you'd forget her. Well, this Helenka, mister, last summer she drowned herself; she jumped in that big pond near here and went out maybe fifty-five yards until she got to the deep part, and she didn't wash up for two days. And you know why she did it? On that same day when she drowned herself, there was this auditor from Prague who suddenly turned up at our post office and found out Helenka was short a couple hundred crowns from the cash drawer. A miserable couple hundred, mister. That bonehead of an auditor said he was going to report it and there'd be an investigation, like for embezzlement. But that mening, mister, Helenka drowned herself - from shame.

When they pulled her out, over by the dike, I had to stay with her till the coroner came. There wasn't anything pretty about her then, poor girl, but the whole time I kept seeing her the way she used to be, smiling blind the window at the post office – well, we all hung around there because of her; you know, everybody liked that girl.

Collaboration outside the Company

- Society of Friends of the Museum of Applied Arts Prague guided tour through the Postal Museum for members of the society.
- G-design, Karel Scherzer completion of collaboration efforts on the preparation of a monograph Oldřich Kulhánek and Stamp Design.
- European Project Athena presentation of selected Postal Museum artefacts on the National Museum's website www.esbirky.cz (joint presentation of European museums on a shared portal).
- VIRVAR Bratislava, with the support of Czech Post handover of scans of designs (held in the Postal Museum's collections) of Czechoslovak stamps by Albín Brunovský published in the monograph Albín Brunovský Maliarské dielo.

Film and media collaboration

- Feature Ve stínu koně directed by David Ondříček, screenplay by Marek Epstein photographs documenting interior and exterior setting of historical post offices, mail boxes, sign plates, seals, motor vehicles, telephone box (for the purposes of architectural design), consultancy.
- Czech Radio's ČRo 2 programme Čaj pro dva on the history of post and postage stamps.
- Czech Radio's Regina live broadcasting marking the anniversary of Postal Museum's foundation.
- Czech Radio's Radiožurnál interview for the programme Po Česku dedicated to Vávra's house (Postal Museum's current premises).
- Czech Television's ČT 24 interview marking the unveiling of the miniature sheet Year of the Rožmberks in Třeboň.
- Czech Television's ČT 24 interview dedicated to the history of postcards.
- Czech Television's ČT 2 collaboration on the shooting of a documentary in the series Příběhy předmětů dedicated to music composer Josef Mysliveček, directed by J. Střecha.

Events abroad

- Conference of the International Association of Transport and Communications Museums (IATM), London, 26 June 2011–1 July 2011.

Publications

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- Kramář, J.: Review of J. Kratochvíl's publication Pražské pošty historie a současnost. Pražský sborník historický, No. 38.
- Kramář, J.: Čechami a Moravou za starými poštami. PTN Echo, No. 3–4.
- Kramář, J.: Josef Provazník úřední fotograf ministerstva pošt a telegrafů. Historická fotografie, Volume 10.
- Kavka, T. (in collaboration with V. Chládek): Žamberecké poště je 175 let. Filatelie, No. 9, Žamberecké listy, No. 9, Orlické listy (7 October 2011).
- Kavka, T.: Poklady žambereckého poštmistra. Přísně tajné!, No. 4
- Information on temporary exhibition events published in the magazine Filatelie.

Lectures

- Chapters on the Postal History in Bohemia, Moravia and Silesia; a series of 12 dedicated lectures for summer-term students at the Faculty of Arts, Charles University, February May 2011.
- Postal Museum's Collection and Its Use in Genealogy; a lecture for members of the Czech Genealogy Society, 23 March 2011.
- Guided tour of the Postal Museum in Prague for students of Archival Science, Faculty of Arts, Charles University, 1 June 2011.
- Guided tours for students of primary and secondary schools (6 tours during 2011).

Services for researchers

Research in Stamp Design and Philately

- A total of 1,176 sets of Czechoslovak and Czech Republic stamps including documentation related to production processes (graphic designs, colour test stamps, etc.) and 576 engraved transpositions and printing plates were available for study by visiting researchers in the Postal Museum's study room.
- Number of visits: 24.
- Consultancy was also provided by means of electronic mail and phone.
- Additional imprints of commemorative handstamps on cards: 33.

Research in Post and Telecommunication History

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- Researchers could visit the Postal Museum's study room or contact museum staff via e-mail or by phone. The study room offered documents and photographs from the museum's collections, books and telephone directories.
- Number of visiting researchers and research activities: 235.
- Kratochvíl, J.: Historický vývoj názvů pošt v českých zemích. 20th volume of the Monograph of Czechoslovak and Czech Stamps – consultancy, pictures and documents for the 2nd edition.
- Hoffman, P.: Dějiny státní autobusové dopravy v Českých zemích a na Slovensku –pictures and documents for the 2nd volume (Postal Buses 1915–1933).
- Štoll, M.: Zrození televizního národa documents and consultancy for the publication about the early Czechoslovak television industry.

Postal Museum's collections

New acquisitions: 2,282 inventory numbers Total inventory according to Act No. 122/2002 Coll.: 12,603 units (inventory numbers)

Donations

14 donations (major donors: Libuše Gebauerová, Krnov and Vladimír Procházka, Prague)

Purchases

- Wall telephone, turn of the 19th to 20th century.
- Postman in uniform model 1950 by J. Poš, oil on canvass, 1951.
- Office filing folder for clerks, 2nd half of the 19th century.

Maintenance of collections and repositories

In January 2011, a series of smear samples were taken from sub-collections of documents maintained in the Postal Museum's repositories (Nové Mlýny 2, Prague 1; Holečkova 10, Prague 5) and sent for analysis to Bronislava Bacílková of the department for the preservation of physical archived materials, National Archives of the CR. The results confirmed the previous findings – the documents were not contaminated with active fungi.

From February to December 2011 calibrated thermo-hygrographs were borrowed from the National Archives of the CR to check the levels of humidity in the repositories of the Postal Museum (Nové Mlýny 2, Prague 1).

In September 2011, the permanent exposition Coach Room of the Prague Information Service (PIS), displayed at chateau Ctěnice (Prague 9 – Vinoř), was dismantled. In October 2011, all collectables owned by the Postal Museum (5 coaches) were taken (under a borrowing agreement) to National Stud Kladruby nad Labem to become part of a prepared coach exposition.

Restoration and conservation

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Three-dimensional collectable items: 603 (including 589 seals and dies) Documentary materials: 35 Stamp designs and outline drawings: 43 Steel engravings and printing plates: 274

Digitisation

Promotional products and banners: 62 inventory numbers Seals and dies: 250 inventory numbers

Digitisation was conducted in the necessary order in the following sub-collections of documents: Graphic Design, Drawings, Reproductions; Mailcoach Transportation; Photoarchives of the Ministry of Post and Telegraph Offices; Photodocumentation of the Ministry of Communications; Post Office Yearbooks; Patents and Circulars; Post Offices; Postal Savings Bank; Postmarks Archived by the Institute of Postal History.

Restoration of murals by Josef Navrátil located in the building at Nové Mlýny 2, Prague 1

From 2 June 2011 to 12 September 2011, after 23 years, a comprehensive restoration project of Josef Navrátil's 1847 murals located in all four rooms on the first floor of the Postal Museum's building took place. The restoration efforts were conducted by a restoration team led by academic painter Naďa Mašková following a decision (binding opinion) issued by the City of Prague Conservation Department (based on the opinion of the National Heritage Institute's Local Professional Unit in Prague) under the professional supervision of P. Teichmanová who confirmed the high standard of work. The restoration report was deposited in the sub-collection of the Postal Museum.

In connection to the restoration of murals in the so-called Green Room, a gallery of the most famous Czechoslovak stamp designers (created by Bedřich "Fric" Votruba), which was unsuitable in terms of aesthetics, was removed. Following an agreement with the National Heritage Institute it was replaced by two 1873 portraits of the Vávra couple by Jan Hrdinka, purchased from the family in 1977. At the same time the original furniture – a Biedermeier sofa and a couple of chairs – were installed in the room.

Promotion

- "Lipno Card" The Postal Museum joined the Lipno Card system by creating an acceptance point; discount cards, issued by Lipensko, s.r.o. are now accepted at the Vyšší Brod venue.
- "Travel Guide through South Bohemian, Upper Austrian and Bavarian Museums", bilingual texts and pictures.
 The project is sponsored by the Prácheňské Museum in Písek.

Visitors and revenues

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Postal Museum in Prague (paying visitors): 2,067 Visitors with free entry (openings, Czech Post employees, AMG card holders, Ice Prague, Bambiriáda, social events): approximately 750 Postal Museum in Vyšší Brod (paying visitors): 8,000 Visitors with free entry: approximately 400 Total paying visitors: 10,067 Total visitors: 11,217 Revenues from sales in the Postal Museum's shops in Prague and Vyšší Brod: CZK 1,986 thousand

The number of paying visitors to the Postal Museum in Prague was lower by 1,679, or 45 percent compared to 2010. This was due to the expected negative effect of the closure of the first floor for visitors (restoration of Navrátil's murals) and the connected reduction of the Museum's exhibition programme. The number of paying visitors to the Postal Museum in Vyšší Brod was lower by 510 visitors, or 5.99 percent. This was due to the extreme weather conditions (approximately 1,000 fewer visitors than expected arrived in August 2010) and the reconstruction project of the front side of the building (the building was covered by scaffolding). Other regional heritage sites also recorded lower rates of admission. The projected amount of revenues was exceeded by CZK 205 thousand.


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INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS



Independent auditor's report

to the Founder of Česká pošta, s.p.

We have audited the accompanying financial statements of Česká pošta, s.p., identification number 471 14 983, with registered office at Politických vězňů 909/4, Praha 1 ("the Company"), which comprise the balance sheet as at 31 December 2011, the income statement and cash flow statement for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Body's Responsibility for the Financial Statements

The General Director is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls 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.

Auditor's Responsibility

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

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

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

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2011, its financial performance and its cash flows for the year then ended in accordance with Czech accounting legislation.

9 March 2012

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

Wr. 4/ 1

Věra Výtvarová Statutory Auditor, Licence No. 1930

Translation note

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

— Balance sheet as at 31 December 2011

	CZK r I	Ref.	,	ASSETS	31	. 12. 2011	31	31. 12. 2010	
					Gross	Provision	Net		
		а		b	1	2	3	4	
				TOTAL ASSETS	33,327	11,552	21,775	21,308	
			а	this include entrusted resources	5,138	0	5,138	4,778	
3.				Fixed assets	21,447	11,420	10,027	10,240	
3.	I.			Intangible fixed assets	1,873	1,357	516	308	
3.	١.	1.		Software	1,489	1,238	251	145	
		2.		Royalties	2	1	1	1	
		3.		Other intangible fixed assets	152	118	34	2	
		4.		Intangible fixed assets in the course of construction	230	0	230	160	
	II.			Tangible fixed assets	18,973	10,063	8,910	9,313	
	11.	1.		Land	781	1	780	770	
		2.		Constructions	9,529	4,063	5,466	5,579	
		3.		Equipment	7,680	5,900	1,780	1,593	
		4.		Other tangible fixed assets	4	0	4	4	
		5.		Tangible fixed assets in the course of construction	974	99	875	1,362	
		6.		Advances paid for tangible fixed assets	5	0	5	5	
	III.			Long-term investments	601	0	601	619	
	111.	1.		Investments in subsidiaries	18	0	18	18	
		2.		Other long-term investments in securities	583	0	583	601	
				Current assets	11,752	132	11,620	10,895	
			а	this include entrusted resources	5,138	0	5,138	4,778	
	١.			Inventories	268	56	212	186	
	Ι.	1.		Raw materials	185	45	140	140	
		2.		Finished goods	83	11	72	46	
	II.			Long-term receivables	13	0	13	11	
		1.		Trade receivables	3	0	3	2	
		2.		Other receivables	10	0	10	9	
	111.			Short-term receivables	2,821	76	2,745	2,312	
	111.		а	this include entrusted resources	346	0	346	240	
	111.	1.		Trade receivables	1,778	54	1,724	1,150	
		1.	а	this include entrusted resources	346	0	346	240	
		2.		Taxes and state subsidies receivable	182	0	182	150	
		3.		Short-term advances paid	118	0	118	170	
		4.		Estimated receivables	672	0	672	796	
		5.		Other receivables	71	22	49	46	
	IV.			Financial assets	8,650	0	8,650	8,386	
	IV.		а	this include entrusted resources	4,792	0	4,792	4,538	
	IV.	1.		Cash in hand	4,108	0	4,108	4,086	
		1.	а	this include entrusted resources	4,026	0	4,026	3,959	
		2.		Cash at bank	3,339	0	3,339	2,160	
		2.	а	this include entrusted resources	766	0	766	579	
		3.		Short-term investments	1,203	0	1,203	2,140	
).	Ι.			Other assets	128	0	128	173	
).	١.	1.		Prepaid expenses	122	0	122	171	
		2.		Accrued income	6	0	6	2	

Ref.			LIABILITIES AND EQUITY	31. 12. 2011	31. 12. 2010	
		а		b	6	7
				TOTAL LIABILITIES AND EQUITY	21,775	21,308
			а	this include entrusted resources	5,138	4,778
۹.				Equity	10,159	10,010
۹.	Ι.			Share capital	3,588	3,588
Δ.	Ι.	1.		Share capital	3,588	3,588
۹.	11.			Capital contributions	5,861	5,840
۹.	11.	1.		Other capital contributions	5,868	5,840
		2.		Assets and liabilities revaluation	[7]	(
۹.	111.			Reserve fund and other reserves	372	368
۹.	111.	1.		Legal reserve fund	359	359
		2.		Statutory and other reserves	13	ç
۹.	IV.			Profit / (loss) for the current period	338	214
3.				Liabilities	10,874	10,414
3.			а	this include entrusted resources	5,138	4,778
3.	Ι.			Provisions	935	933
8.	Ι.	1.		Tax-deductible provisions	0	60
		2.		Other provision	935	877
3.	П.			Long-term liabilities	225	225
		1.		Deferred tax liability	225	225
	Ш.			Short-term liabilities	9,682	9,216
3.	Ш.		а	this include entrusted resources	5,106	4,742
8.	111.	1.		Trade payables	7,277	6,465
		1.	а	this include entrusted resources	5,106	4,742
		2.		Liabilities – subsidiaries / controlling parties	1	3
		3.		Liabilities to employees	532	686
		4.		Liabilities for social security and health insurance	334	355
		5.		Taxes and state subsidies payable	80	85
		6.		Short-term advances received	14	15
		7.		Estimated payables	1,102	1,248
		8.		Other payables	342	357
3.	IV.			Bank loans & overdrafts	32	36
	IV.		а	this include entrusted resources	32	36
	IV.	1.		Short-term bank loans and overdrafts	32	36
		1.	а	this include entrusted resources	32	36
	Ι.			Accruals and deferred income	742	884
).	Ι.	1.		Accruals	129	253
		2.		Deferred income	613	631

Income statement

۱CZ	K m	illio	n)	Accounting period	
Ref.			DESCRIPTION	31. 12. 2011	31. 12. 201
	а		b	1	
I			Sales of goods	452	328
			Cost of goods sold	381	225
Н	+		Gross profit	71	100
I	Ι.		Sales of production	20,002	19,960
I	١.	1.	Sales of own products and services	20,076	19,942
		2.	Change in inventory of finished goods and work in progress	(92)	I
		3.	Own work capitalised	18	18
			Cost of sales	5,519	5,300
		1.	Raw materials and consumables	1,644	1,605
		2.	Services	3,875	3,698
-	+		Added value	14,554	14,760
			Staff costs	12,741	12,80
		1.	Wages and salaries	9,359	9,349
		2.	Emoluments of board members	8	0
		3.	Social security and health insurance costs	3,041	3,099
		4.	Other social costs	333	344
			Taxes and charges	92	82
			Depreciation of fixed assets	956	80
	11.		Sale of fixed assets and raw materials	2	
	11.	1.	Sale of fixed assets	2	
			Net book value of fixed assets and raw materials sold	1	
		1.	Net book value of fixed assets sold	1	
			Increase / (decrease) in operating provisions	108	268
I	V.		Other operating income	322	239
			Other operating charges	614	852
×	*		Operating result	366	198
١	V.		Income from long-term investments	11	10
١	V.	1.	Income from investments in subsidiaries and associates	11	10
١	<i>/</i> 1.		Income from short-term investments	25	35
١	/II.		Revenue on revaluation of securities and derivatives	0	(
			Increase / (decrease) in financial provisions	0	(40
١	/111.		Interest income	32	24
I	Х.		Other financial income	38	30
			Other financial expense	53	92
×	*		Financial result	53	65
			Tax on profit or loss on ordinary activities	81	49
		1.	– current	81	70
		2.	- deferred	0	(21
×	**		Profit or loss on ordinary activities after taxation	338	214
×	***		Net profit / (loss) for the financial period	338	214
×	***		Net profit / (loss) before taxation	419	263

Cash flow statement

(in CZł	K million)	2011	2010
P.	Cash and cash equivalents as at the beginning of the financial period	8,386	10,516
P.	out of which: entrusted resources	4,538	6,039
Z.	Net profit on ordinary activities before tax	419	263
A.1	Adjustments for non-cash movements:	1,241	1,040
A.1.1	Depreciation / amortisation of fixed assets and lost investment projects	965	807
A.1.2	Change in provisions	108	228
A.1.3	Profit from disposal of fixed assets	(1)	(2)
A.1.4	Net interest income	(32)	(24)
A.1.5	Adjustments for other non-cash movements	201	31
A.*	Net cash flow from ordinary activities before tax, changes in working capital – and extraordi- nary items	1,660	1,303
A.2	Working capital changes:	(236)	(1,640)
A.2	out of which: entrusted resources	254	(1,501)
A.2.1	Change in receivables and prepayments and accrued income	(441)	(315)
A.2.1	out of which: entrusted resources	(106)	(29)
A.2.2	Change in short-term payables and accruals and deferred income	238	(1,302)
A.2.2	out of which: entrusted resources	360	(1,472)
A.2.3	Change in inventories	(33)	(23)
A.**	Net cash flows from operating activities before tax and extraordinary items	1,424	(337)
A.**	out of which: entrusted resources	254	(1,501)
A.4	Interest received	32	24
A.5	Income tax on ordinary activities and additional taxes for previous periods	(49)	(118)
A ***	Net cash flow from operating activities	1,407	(431)
A ***	out of which: entrusted resources	254	(1,501)
B.1	Acquisition of fixed assets	(978)	(1,519)
B.2	Proceeds from the sales of fixed assets	2	3
B***	Net cash flow from investing activities	(976)	(1,516)
C.1	Changes in equity:	(167)	(183)
C.1.1	Direct payments from reserves	(167)	(183)
C***	Net cash flows from financing activities	(167)	(183)
F.	Net increase / (decrease) in cash and cash equivalents	264	(2,130)
F.	out of which: entrusted resources	254	(1,501)
R.	Cash and cash equivalents as at the end of the financial period	8,650	8,386
R.	out of which: entrusted resources	4,792	4,538

— 1. Description of the Company

Česká pošta, s.p. ("the Company" or "the Czech Post") is a state-owned enterprise. It is a legal entity conducting its business activities using the Czech government's assets under own name and on its own account. The founder of the Company is the government of the Czech Republic. The Company was established on 1 January 1993 and the founder was then represented by the Ministry of Transportation and Communications of the Czech Republic. The Company as at 31 December 2011 has its registered office at Prague 1, Politických vězňů 909/4, the Czech Republic. The Company is written in the Commercial Register of the Municipal Court in Prague, section A, insert no. 7565, under the Company's identification number 471 14 983. The Company is a business entity pursuant to the State-Owned Enterprise Act No. 77/1997 Coll., as amended.

As at 31 December 2011 and 31 December 2010, the founder was represented by the Ministry of the Interior of the Czech Republic. The Company's activities are regulated by the Czech Telecommunication Office ("CTO").

The main business activities of the Company are as follows: a) postal services provision, b) international postal operations provision.

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By Resolution No. 836 dated 18 July 2007, the Czech government delegated a task to the Minister of the Interior of drafting a project on the privatisation of the Company. The project, which was to be submitted to the Minister of Finance at the latest by 31 December 2008, including transformation of the state-owned enterprise into a joint-stock company fully owned by the Ministry of Finance on a temporary basis. The Ministry of Finance received the project, but during 2009, when the transformation into a joint-stock company should have been executed, the Ministry decided to postpone the transformation process until the unknown date.

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

There were significant changes in the organisational structure of the Company during the year in order to improve the management system and to realise essential changes which would enable the implementation of streamlined management and the centralisation of service activities. The organisational structure as at 31 December 2011 was as follows:



Finance / Chief Executive	 ICT and eGovernment / Chief Executive 	Sales and Marketing / Sales and Marketing /	 Property Management / Chief Executive 	 Postal Operations and Logistics / Chief Executive
Accounting and Taxes / Executive Director	ICT Support / Executive Director	Sales Coordination / Executive Director	Administration / Executive Director	Logistics Network Architecture / Executive Director
Controlling / Executive Director	ICT / Executive Director	Marketing / Executive Director	Operations / Executive Director	Regional Support to Logistics Network / Executive Director
Treasury and Financing / Executive Director	eGovernment / chief executive	Regional and International Sales / Executive Director	Transport Management / Executive Director	Investments / Executive Director
		Corporate Sales / Executive Director		Logistics / Executive Director
		Alliance Partners / Executive Director		Money Services Operation / Executive Director

The top management of the Company, i.e. the General Director and his executives, as at 31 December 2011 were as follows::

Members of the top management	Position	Appointed on	Written into the Commercial Register on
Petr Zatloukal	General Director	25 May 2011	30 June 2011
Martin Elkán	Chief Director of Trade and Marketing Division	20 July 2010	30 June 2011
Tomáš Ječný	Chief Director of ICT a e-Government Division*	15 June 2011	-
Richard Soldán	Chief Director of Postal Operations and Logistics Division*	21 June 2011	-
Jana Vošická	Chief Director of Finance Division*	8 June 2011	-
Ladislav Tomeš	Chief Director of Property Management Division*	15 September 2011	-

* Position not written into the Commercial Register.

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Martin Elkán was appointed as an executive member of Statutory Body of the Company's General Director as at 1 June 2011.

The following changes in the top management of the Company were also registered into the Commercial Register in 2011:

Members of the top management	Position	Appointed on	Removed from the Commercial Register on
Marcela Hrdá	General Director	28 February 2011	24 June 2011
Vladimír Měkota	Chief Director of Corporate Service and Resource Management Division	31 March 2011	4 May 2011

Changes in the top management of the Company, which occurred between the balance sheet date and the date of preparation of the financial statements, are disclosed in Note 28 – Subsequent events.

Members of the Supervisory Board as at 31 December 2011 were as follows:

Name	Position
Jiří Maceška	Chairman
Karel Koukal	Vice-Chairman
Jan Mládek	Vice-Chairman
Vladimír Budinský	Member
Soňa Lavičková	Member
Radek Šmerda	Member
Petr Kužel	Member
Jaroslav Hruška	Member
Ivana Musilová	Member
Jiří Řehola	Member
Miroslava Oliveriusová	Member
Štěpán Grochal	Member

The Company's mission is to perform the function of public postal operator involving a duty to provide and operate basic postal services in accordance with the Postal Services Act No. 29/2000 Coll., as amended ("the Postal Services Act"). The Company holds a postal licence in accordance with paragraph 19 of the Postal Services Act. The postal licence was granted to the Company by the Czech Telecommunication Office (CTO) till 31 December 2017.

The holder of the postal licence has :

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a) A duty to secure the general availability of basic postal services on the whole territory of the Czech Republic,b) A right to operate postal services, i.e. deliver mail and/or money remitted by money order.

The CTO, as the postal regulator, sets basic quality requirements for the Company, concerning, e.g. density of service points, opening hours of premises, methods of delivering to addressees, delivery speed, handling complaints, etc. These quality requirements are assessed on an annual basis by the CTO. The requirements are assessed on yearly basis in the Report on the fulfilment of tasks of Česká pošta, s.p. in the area of basic services published by the CTO ("the CTO Report"). The CTO Report for 2011 has not been published as at the date of the Company's financial statements.

The deficiencies identified in the CTO Report for 2010 (e.g. short opening hours, etc.) are being resolved by the Company on a continuous basis. No material financial claims of the CTO or other entities against the Company, which could be enforceable by law, were identified in the Report.

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 Businesses applicable for 2011. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention except as disclosed below.

3. Accounting policies

Valuation methods applied by the Company during preparation of the financial statements for 2011 were as follows:

a) Intangible fixed assets

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

Intangible fixed assets with a unit cost more than CZK 60 thousand are amortised using the straight-line method over their estimated useful lives in accordance with the Company's amortisation plan (i.e. over 4 years).

Intangible fixed assets with a unit cost less than CZK 60 thousand are expensed upon acquisition and carried only in the operational evidence.

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

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

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

b) Tangible fixed assets

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Acquired tangible fixed assets are recorded at cost, which include costs of acquisition, transportation costs and other related costs. Loan interest is not included by the Company 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 the other capital funds. The replacement cost of these assets is based on an expert opinion or on market prices of comparable fixed assets in terms of their wear and tear and performance.

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

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

A provision for impairment is established when the carrying value of a cash-generating unit is greater than its estimated recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash income significantly independent of cash income from other assets or asset groups. The Company considers the entire accounting unit being cash-generating unit.

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

Valuation of tangible fixed asset is decreased by subsidies for the acquisition of assets.

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

Tangible fixed assets with a unit cost below CZK 40 thousand are treated as inventory and are expensed upon consumption and are only carried in operational record.

Tangible fixed assets with a unit cost above CZK 40 thousand are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives of tangible assets are as follows:

Veere

	rears
Buildings, halls and constructions	20-45
Plant, machinery and equipment	4-15
Motor vehicles	6-20
Furniture and fittings	10-20
Handling equipment	6-20
Computers and related equipment	3–5

c) Investments in controlled entities / subsidiaries and investments in associates

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

🦳 d) Long-term financial assets

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

Equity investments in companies with controlling interest are valued at cost disclosed by a provision, taking into account any reduction in value. Investment with the controlling interest companies ("subsidiaries") is a company controlled by the Company whose financial and operating processes can be controlled by the Company to obtain benefits from its activities. Other long-term securities and shares, that are not owned, represent debt securities held to maturity and the securities available for sale.

— e) Other securities and investments

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

Debt securities that the Company 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 by the Company for an indefinite period of time, which may be sold in response to Company's liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless the Company's 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. Management determines the appropriate classification of investments as at the time of purchase and the classification are reviewed on a regular basis.

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

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

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

f) Short-term financial assets

Short-term financial assets consist of valuables, cash in hand and in the bank and trading securities. Short term financial assets also include Entrusted resources – see also Note 3i – Entrusted resources.

Trading securities are securities held for the purpose of effecting transactions on the public market in order to make a profit from price fluctuations in short-term, but in one-year period as a maximum.

🦳 g) Inventories

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

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

h) Receivables

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Receivables are stated at nominal value less a provision for doubtful amounts. A provision for doubtful amounts is created on the basis of an ageing analysis and individual evaluation of the credit worthiness of the customers.

i) Entrusted resources

In some cases, financial resources of third parties are temporarily entrusted to the Company in order to perform specific transactions (services for clients of Československá obchodní banka, a.s. ("ČSOB, a.s."), collection of radio and television licence fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for the mobile operators, customs declarations etc.). These resources are recorded in a separate accounting group apart from the Company's own financial resources, and are disclosed in separate rows in the balance sheet. The Company charges an agreed commission for performing the specific transactions, which is recognised in accruals within its own resources.

🦳 j) Share capital

The Company's financial position and funds are being managed in accordance with the State-Owned Enterprise Act No. 77/1997 Coll., as amended. Pursuant to this Act, the registered capital of a state-owned enterprise corresponds to the business capital to which the enterprise 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 businesses.

In addition, the Company creates a reserve fund from profit. On the establishment of the Company, the level of its reserve fund was set by the founder at 10% of the registered capital and this level was met during 2010.

The Company creates a cultural and social fund ("CSF"). The creation and use of this fund is being managed in accordance with paragraph 16 of Decree No. 114/2002 Coll., in connection with Decree No. 310/1995 Coll.

k) Provisions and liabilities

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

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

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

🔨 l) Leases

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The costs of assets held under both finance and operational leases are not capitalised to fixed assets. The leases are recorded as expenses evenly over the life of the lease. Amounts payable in future periods but not yet due are disclosed in the notes but not recognised in the balance sheet. The Company 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.

m) Foreign currency translation

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling as at the previous day of 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.

n) Expenses and revenues recognition

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

Sales are recognised as at the date the services are rendered (with exceptions disclosed below) or sales of goods to customers and are stated net of discounts and Value Added Tax.

Sales of postal services realised as cash through sales of postal stamps is recognised when the stamp is 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 believes that the costs of collecting such information relating to the time allocation needed for these services realised through sales of postal stamps would exceed the benefits of such information.

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

The Company records expenses related to provisions and allowances for any risks, losses and devaluation that are known as at the date of preparation of the financial statements.

🔨 o) Income tax

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

Corporate income tax is recognised 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, amount exceeding the tax liability as a result of the advances paid is recorded as "Taxes and state subsidies receivable".

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

p) Deferred tax

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

— q) Employment benefits

The Company provides its employees with contributions to pension and health insurance in accordance with the principles set out in the collective agreement. Regular contributions are made to the state to fund the national pension plan.

The Company creates a provision for employees benefits, in which the following types of employees benefits are reflected:

- work jubilee bonuses,
- life jubilee bonuses,
- employee's retirement bonuses.

The above-mentioned types of employee benefits are classified as follows:

- work and live jubilee bonuses are recognised as other long-term employee benefits,
- employee's retirement bonuses are recognised as employee benefits incurred on the employee's retirement, that are paid based of the defined pension plan.

Employees may claim these benefits when that they have worked for the Company for a certain period of time and, in the case of bonuses paid on the employee's retirement, when the statutory retirement age is reached, or, in the case of work and live jubilee bonuses. The fixed amount paid on the employee's retirement depends on the number of years spent with the Company, but is independent of the growth in salary. The total amount of retirement payments of the Company equals to the long-term employee benefits as at the balance sheet date and is calculated using a method of planned annual appreciation of employee benefits, including the related social and health insurance costs. Gains or losses from adjustments and changes of the actuarial estimates are recognised in the profit and loss account.

The Company creates provision for untaken holidays and work and life jubilees. The Company creates estimated payable for rewards and bonuses to employees who became entitled to payment as at the balance sheet date. The Company creates provision for the rewards and bonuses to employees who did not become entitled to payment as at the balance sheet date.

r) Related parties

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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 controlling or 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 a controlling or significant influence.

Material transactions and outstanding balances not only related to main postal services with related parties are disclosed in Note 23 – Related party transaction.

s) Cash and cash equivalents

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

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

The Company has prepared a cash flow statement using the indirect method.

t) Extraordinary items

Extraordinary income and expenses arise mainly due incomes and expenses from extraordinary operations that are clearly distinct from the Company's ordinary activities as well as extraordinary income and expenses from randomly occurring events.

— u) Subsequent events

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

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

v) Changes of the accounting methods and estimates

In 2011 the Company changed classification of changes in securities fair values when these changes are recorded in equity in the relevant year.

4. Fixed assets

> a) Intangible fixed assets

COST

(in CZK million)	Opening balance	Additions*)	Disposals*)	Closing balance
Software	1,287	204	[2]	1,489
Royalties	2	-	_	2
Other intangible fixed assets	111	41	_	152
Intangible fixed assets in the course of construction	160	315	(245)	230
Total 2011	1,560	560	(247)	1,873
Total 2010	1,482	188	(110)	1,560

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

ACCUMULATED AMORTISATION AND NET BOOK VALUE

(in CZK million)	Opening balance	Additions	Disposals	Closing balance	Net book value
Software	(1,142)	(98)	2	(1,238)	251
Royalties	(1)	-	-	(1)	1
Other intangible fixed assets	(109)	(9)	-	(118)	34
Intangible fixed assets in the course of construction	-	-	-	-	230
Total 2011	(1,252)	(107)	2	(1,357)	516
Total 2010	(1,200)	(78)	26	(1,252)	308

b) Tangible fixed assets

COST

(in CZK million)	Opening balance	Additions*)	Disposals*)	Closing balance
Land	771	10	_	781
Buildings	9,415	119	(5)	9,529
Plant, machinery and equipment	3,466	816	(103)	4,179
Motor vehicles	2,299	61	(36)	2,324
Furniture and fixtures	625	16	(6)	635
Other movable assets	593	-	(51)	542
Works of art	4	-	_	4
Tangible fixed assets in the course of construction	1,463	540	(1,029)	974
Advances paid for tangible fixed assets	5	-	-	5
Total 2011	18,641	1,562	(1,230)	18,973
Total 2010	18,158	1,815	(1,332)	18,641

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

ACCUMULATED DEPRECIATION AND NET BOOK VALUE

(in CZK million)	Opening balance	Additions	Disposals	Closing balance	Provisions	Net book value
Land	-	-	-	-	(1)	780
Buildings	(3,791)	[229]	2	(4,018)	(45)	5,466
Equipment	(2,543)	(420)	103	(2,860)	(86)	1,233
Motor vehicles	(1,747)	(183)	36	(1,894)	-	430
Furniture and fixtures	(507)	(17)	6	(518)	-	117
Other tangible fixed assets	(593)	-	51	(542)	-	_
Works of art	-	-	-	-	-	4
Tangible fixed assets in the course of construction	-	-	-	-	(99)	875
Advances paid for tangible fixed assets	-	-	-	-	-	5
Total 2011	(9,181)	(849)	198	(9,832)	(231)	8,910
Total 2010	(9,084)	(724)	627	(9,181)	(147)	9,313

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

The Company released a statutory provision for repairs of tangible fixed assets amounting CZK 60 million in 2011. There were no changes in these provisions in 2010. The total amount of these provisions as at 31 December 2011 and 31 December 2010 amounted to CZK 0 and CZK 60 million, respectively.

The Company received no significant tangible fixed assets free of charge in 2011 and 2010.

In 2011 and 2010, besides the lien in favour of PCS – Praha Center s.r.o. created in relation to the post office building at Jindřišská, Prague 1 under an agreement dated 16 April 1997, which is in force until 31 March 2042, the Company has another 268 (2010: 253) minor liens (rights for sewage pipeline, water pipeline, power and gas connection, hot--water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) mainly created in favour of the communal and municipal authorities, Telefónica O2 Czech Republic, a.s. and power producers and distributors.

In 2011 and 2010, the Company received no investments subsidies.

c) Long-term financial assets

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As at 31 December 2011 and 31 December 2010, 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 out of the total 33,124 shares of a nominal value of CZK 1 thousand each.

(in CZK million)	2011	2010
Share (%)	51,03	51,03
Total assets	96	98
Equity	90	90
Net profit for the financial period	1	2
Acquisition cost of the shares	18	18
Nominal value of the shares	17	17
Intrinsic value of the shares*	46	46
Dividends received	-	_

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

Financial information for this company were taken from financial statements verified by an auditor. The Company did not provide the company over which it exercises significant influence with any loan or borrowing as at 31 December 2011 and 31 December 2010.

Other long-term investments comprise:

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- a) state debenture maturing in 2016, available for sale investment, valued at fair value of CZK 387 million (2010: CZK 399 million);
- b) state debenture maturing in 2023, purchased in 2011, available for sale investment, valued at fair value of CZK 196 million.

These state debentures were issued by the Ministry of Finance of the Czech Republic.

State debenture maturing in 2012 held to maturity with the total acquisition cost of CZK 203 million was reclassified as at 31 December 2011 from long-term financial assets to short-term financial assets.

In 2010, the Company reclassified its investments from long-term financial assets to the off-balance sheet records based on probable permanent devaluation of 233,630 shares of IPB, a.s. (currently IP Exit, a.s.) at a total nominal value of CZK 23 million, purchased at the acquisition cost of CZK 40 million and zero net book value.

5. Inventories

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

6. Receivables

As at 31 December 2011 and 31 December 2010, receivables due after more than 5 years amounted to CZK 1 million and CZK 2 million, respectively and outstanding overdue receivables amounted to CZK 224 million and CZK 180 million, respectively. Outstanding overdue receivables are not secured. In 2011 and 2010, the Company wrote off its receivables in the amount of CZK 11 million and CZK 2 million, respectively as expenses, due to the unrecoverable nature of them, dismissal of bankruptcy petition and settlement or not recovering of debts in bankruptcy proceedings.

Receivables from related parties are described in Note 23 – Related party transactions. The estimated receivables and payables primarily comprise transactions related to international postal operations. Operating records on incoming and outgoing mail so far not confirmed by individual postal offices were recorded as estimated and payables with the double entry in operating expenses and income, based on operating statistics.

7. Provisions

(in CZK million) Provisions as at:	Balance as at 1 January 2010	Charge	Release / use	Balance as at 31 December 2010	Charge	Release / use	Balance as at 31 December 2011
Tangible fixed assets	86	71	(10)	147	93	(9)	231
Long-term financial assets	40	-	(40)	-	-	_	-
Inventories	26	23	_	49	7	_	56
Receivables – other	30	18	(13)	35	30	[9]	56
Total tax non-deductible provisions	182	112	(63)	231	130	(18)	343
Receivables – legal	16	9	(3)	22	8	(10)	20
Total tax deductible provisions	16	9	(3)	22	8	(10)	20
Total	198	121	(66)	253	138	(28)	363

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

Legal provisions are being created pursuant to the Reserves Act and are deductible for tax purposes, other provisions are not deductible for tax purposes.

8. Short-term financial assets

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

The Company's time deposits and deposits on saving accounts amounted to CZK 3,310 million and CZK 2,051 million as at 31 December 2011 and 31 December 2010, respectively. These time deposits and deposits on saving accounts have a short maturity period and bear market interest rate.

The Company's guarantees, which have been drawn under a general agreement on the provision of financial services made with Komerční banka, a.s up to CZK 430 million limit as at 31 December 2011 were as follows:

(in CZK million)

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Type of guarantee	Creditor	Subject	Valid until	Amount
Payment	Customs Directorate in Prague	Customs debt	23 May 2012	4
Payment	Czech Directorate of Highways and Roads	Fulfilment of obligations in respect of the electronic toll system	6 November 2012	7
Payment	State Fund of Transport Infrastructure	Distribution and sales of vignettes proving the fee payment for highways and expressways use	16 March 2013	10
Payment	CONTERA Investment III s.r.o.	The lease of rent for commercial space	29 September 2012	1

Short-term securities and ownership interests as at 31 December 2011 and 31 December 2010 were as follows:

(in CZK million)			
Issuer	Туре	2011	2010
Ministry of Finance CR	State debenture (CR)	203	-
ČSOB, a.s.	Short-term depository notes	-	140
UniCredit Bank Czech Republic, a.s.	Short-term depository notes	-	500
PPF banka a.s.	Short-term depository notes	1,000	1,000
Raiffeisenbank a.s.	Short-term depository notes	-	500
Total		1,203	2,140

9. Prepayments and accrued income

Prepaid expenses in 2011 and 2010 particularly consist of prepaid rent and other prepaid services.

As at 31 December 2011 and 31 December 2010, accrued income particularly consists of accrued income from securities and time deposits.

10. Equity

As at 31 December 2011 and 31 December 2010, share capital amounted to CZK 3,588 million.

Other capital funds mainly comprise of contributions from profit for investment purposes or received gifts.

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

The reserve fund has been created gradually by 10% of net profit after tax up to the level of 10% of share capital.

Other funds from profit include the cultural and social fund.

The following changes in equity occurred in 2011 and 2010:

(in CZK million)	Share capital		Revaluation differences from reva- luation of assets and liabilities	Legal reserve fund	Other funds	Net profit for the financial period	Total
As at 1 January 2010	3,588	5,286	-	359	192	554	9,979
Profit contribution and movements between funds	_	554	_	-	_	(554)	_
Decrease (e.g. fund utilisation)	-	-	-	-	(183)	-	(183)
Net profit for the current period	-	-	-	-	-	214	214
As at 31 December 2010	3,588	5,840	_	359	9	214	10,010
Profit contribution and movements between funds	_	43	_	-	171	(214)	_
Decrease (e.g. fund utilisation)	-	(15)	[7]	-	(167)	-	(189)
Net profit for the current period	-	-	-	-	-	338	338
As at 31 December 2011	3,588	5,868	(7)	359	13	338	10,159

Profit for 2010 was distributed in 2011 according to the founder's approval.

11. Provisions

(in CZK million)	Balance as at 1 January 2010	Charge	Release / use	Balance as at 31 December 2010	Charge	Release / use	
Social and health insurance	99	95	(99)	95	154	(95)	154
Untaken holiday	172	140	(172)	140	169	(40)	169
Employee benefits	190	2	[2]	190	-	[12]	178
Severance provision	144	421	[229]	336	124	(336)	124
Non-claimable component or salaries	f –	-	-	-	236	-	236
Other	99	43	(26)	116	6	(48)	74
Total tax non-deductable provisions	704	701	(528)	877	689	(631)	935
Repair provision	60	_	_	60	_	(60)	_
Total tax provisions	60	_	-	60	-	(60)	_
Total	764	701	(528)	937	689	(691)	935

Provision for social and health insurance is created for unpaid contracted wages, profit-related bonuses in 2011 and 2010, untaken holiday and other salary benefits.

The Company creates a provision for employee benefits resulting from a collective agreement (see also Note 3q – Employee benefits).

Provision for non-claimable component of salaries is composed of expected extraordinary wage bonuses estimated by general director amounted to CZK 149 million and subjective components of wages amounted to CZK 87 million – from 2011 the Company discloses unpaid portion of the non-claimable component of wages associated with the accounting period in the reserve accounts. In 2010, the relevant amounts were recorded to estimated payables.

Repair provision created in respect of the Company's buildings in Prague and Ostrava was fully released in 2011.

The Company created provision for compensation for salaries payable to employees who would have to leave in connection with the plan of gradual cuts in jobs. This plan was approved by the Management Board and announced to the Company's employees and unions.

Other provisions were primarily created to cover risks known as at 31 December 2011 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

12. Long-term liabilities

Long-term liabilities are represented by deferred tax liability as at 31 December 2011 and 31 December 2010, which is described in Note 16 – Income tax.

13. Short-term liabilities

The Company's overdue short-term liabilities as at 31 December 2011 and 31 December 2010 amounted to CZK 49 million and CZK 43 million, respectively.

The Company had no liabilities due after more than 5 years as at 31 December 2011 and 31 December 2010. The Company had no short-term or long-term liabilities bearing a security or lien in favour of a creditor as at 31 December 2011 and 31 December 2010.

Liabilities to related parties are described in Note 23 – Related party transaction.

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Estimated payable particularly consist of costs associated with international postal operations, uninvoiced operating deliveries of services and energy and estimated staff bonuses.

Trade payables increased on a year-on-year basis mainly due to entrusted resources (see Note 25 – Entrusted resources).

Payables in respect of social insurance and health insurance amounted to CZK 334 million as at 31 December 2011 and CZK 355 million as at 31 December 2010. These payables comprise unpaid wages for December 2011 and December 2010 respectively, which were paid at the beginning of 2012 and 2011.

The Company did not recognise any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2011 and 31 December 2010.

14. Bank loans and overdrafts

🔨 a) In CZK

(in CZK mill	ion)				
Bank	Terms and conditions	Account	Overall limit	31 December 2011	31 December 2010
KB, a.s.*	Global credit line	Own resources	430	-	-
ČSOB, a.s.	Bank overdraft	Own resources	100	-	-
ČSOB, a.s.	Bank overdraft	Entrusted resources	1,600	-	-
ČSOB, a.s.	Bank overdraft	Entrusted resources	1,600		

* it can be used in foreign currency in the appropriate consideration

The global credit line form Komerční banka, a.s. allows for overdraft, short-term loan on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2011 and 31 December 2010 overdraft from Komercni banka, a.s. was not used.

The bank overdraft from ČSOB, a.s. on the Company's own resources was primarily provided for operational financing. The variable interest rate is derived from O/N PRIBOR plus and 0.15% p.a. margin. The bank overdraft was not used as at 31 December 2011 and 31 December 2010.

The bank overdraft from ČSOB, a.s. on the Company's entrusted resources was primarily provided for financing cash in hand for banking operations. The variable interest rate is derived from PRIBOR (2W) decreased by 0.1% p.a. within a debit range up to CZK 500 million and PRIBOR (2W) plus 1.3% p.a. within a debit range from CZK 500 million to CZK 1.6 billion.

The bank overdraft from ČSOB, a.s. was not used as at 31 December 2011 and 31 December 2010. This overdraft is secured by encumbrance on the Company's receivables from ČSOB, a.s. created under a contract for provision of services by the Company to ČSOB, a.s.

🔨 b) In EUR

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Bank	Terms and conditions	Overall limit	20	11	20	10
		(EUR million)	(EUR million)	(CZK million)	(EUR million)	(CZK million)
ČSOB, a.s.	Bank overdraft EURIBOR 3M + 0.1% p.a. – entrusted resources	5	1.2	32	1.4	36

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

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

15. Accruals and deferred income

Accruals consist particularly of accrued compensation for agency services.

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

— 16. Income tax

(in CZK million)	2011	2010
Net profit before taxation	419	263
Non-taxable income	(128)	(24)
Difference between accounting and tax depreciation	(196)	(140)
Tax non-deductible expenses	233	307
Out of which:		
 Changes of impairments 	112	48
 Changes of provisions 	58	174
 Other (e.g. previous prepaid expenses, representation expenses, shortages and losses) 	63	85
Gifts	[2]	[2]
Taxable income	326	404
Income tax rate	19%	19%
Calculated income tax	62	77
Tax relief (persons with disability or partial disability)	[9]	(10)
Current tax	53	67
Overpayments / (underpayments) from the previous period	28	3
Income tax expense	81	70
Out of which:		
– from ordinary activities	81	70

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

(in CZK million)		2011			2010	
Deferred tax item	Basis	Deferred tax asset	Deferred tax liability	Basis	Deferred tax asset	Deferred tax liability
Difference between accounting and tax net book						
value of fixed assets	(2,407)	-	(457)	(2,225)	-	(423)
Provisions	343	65	-	230	44	-
Other reserves	879	167	-	812	154	-
Total	(1,185)	232	(457)	(1,183)	198	(423)
Net deferred tax liability			(225)			(225)

17. Leases

The Company leases fixed assets, which are not recorded in the balance sheet accounts (see Note 31 – Lease and Note 18 Assets and liabilities not recorded in the balance sheet).

The assets leased by the Company in the form of operational lease amounted to CZK 29 million as at 31 December 2011 and CZK 18 million as at 31 December 2010.

The Company recorded no financial leases as at 31 December 2011 and 31 December 2010.

18. Assets and liabilities not recorded in the balance sheet

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The Company recognises in operational evidence as at 31 December 2011 and 31 December 2010 particularly stamps, vignettes and lottery tickets, which are valuables in nature evidences. Furthermore, the Company recognised in its operational records leased and low-value assets that are not included in the balance sheet, and all probably permanently devalued investments containing 233,630 shares of IPB, a.s. (currently IP Exit, a.s.) at a total nominal value of CZK 23 million and the acquisition cost of CZK 40 million.

(in CZK million)	2011	2010
Valuables and lottery tickets	9,152	7,056
Vignettes	4,059	2,862
Leased assets – operational lease	260	26
Securities	40	40
Low-value tangible assets	2,538	2,382
Low-value intangible assets	119	110

The "structure" of the contracted future obligations from operating lease is presented in the table below:

(in CZK million)	31 December 2011	31 December 2010
Due within 1 year	47	11
Due between 1 to 5 years	117	11
Due after 5 years	-	-
Total	164	22

The Company also recorded commitments related to rentals of non-residential premises in the following amount and structure (CZK million):

(in CZK million)	31 December 2011	31 December 2010
Due within 1 year	88	72
Due between 1 to 5 years	154	124
Due after 5 years	98	89
Total	340	285

19. Contingent liabilities

The Company had a reserve amounting to CZK 74 million for litigations and out-of-court disputes resulting in liabilities and other contingent liabilities out of the total other provisions of CZK 935 million as at 31 December 2011. The provisions for pending litigations and out-of-court disputes amounted to CZK 110 million out of the total other reserves of CZK 877 million as at 31 December 2010.

The Company is a defending party in certain litigations related to its business activities. The Company's Management Board does not expect the results of such litigations to significantly affect the financial position or profit of the Company in any material way.

The Management Board is not aware of any other material contingent liabilities of the Company as at 31 December 2011.

20. Revenues analysis

The Company's revenues from the main activity were as follows:

(in CZK million)	2011				2010		
	Domestic	Foreign	Total	Domestic	Foreign	Total	
Sales from postal operations	13,735	1,217	14,952	14,114	1,216	15,330	
Sales of agency services	2,469	-	2,469	2,521	-	2,521	
Sales of goods	452	-	452	328	-	328	
Other revenues from operations activities (inc. Activation and data mailboxes)	2,905	-	2,905	2,351	-	2,351	
Total revenues from the ordinary activities	19,561	1,217	20,778	19,314	1,216	20,530	

21. Employees

Staff costs analysis:

	2011		2010	
	Total number of employees	Out of which: Management*	Total number of employees	Out of which: Management*
Average number of employees	33,202	5	34,374	6
(in CZK million)				
Wages and salaries	9,359	33	9,349	27
Social and health insurance	3,041	5	3,099	4
Social security costs	333	-	344	-
Total staff costs	12,733	38	12,792	31

* without competing clauses

Besides the above-mentioned staff costs, members and former members of statutory and supervisory bodies received bonuses in the total amount of CZK 8 million and CZK 9 million in 2011 and 2010, respectively.

22. Extraordinary income and charges

The Company did not recognised extraordinary income in 2011 and 2010.

23. Related party transactions

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Apart from the bonuses disclosed in Note 21 – Employees, in 2011 and 2010 members and former members of the Company's statutory and supervisory bodies and the Company's managers did not receive any loans, guarantees, advance payments or other benefits besides the collective agreement except the Company's cars are made available for both business and private purposes by management.

During the year, the Company executed several transactions with related parties within its ordinary business activities. The transactions recognised in 2011 and 2010 and the related receivables from and liabilities to related parties are as follows:

(in CZK million)				
2011	Sales	Costs / Reo Expenses	ceivables	Payables
Subsidiary				
Poštovní tiskárna cenin Praha a.s.	1	34	-	1
Other related parties				
Czech Television and Czech Radio	246	2	-	12
Government ministries	1,608	2	432	55
Czech Social Security Administration	554	2,198	-	2,347
Municipal and local authorities	418	58	14	328
State Fund of Transport Infrastructure	105	1	30	520
Total	2,932	2,295	476	3,263
(in CZK million) 2010	Sales	5 Costs / Receivables Expenses		Payables
Subsidiary				
Poštovní tiskárna cenin Praha a.s.	11	34	-	3
Other related parties				
Czech Television and Czech Radio	249	2	-	5
Government ministries	1,565	1	154	44
Czech Social Security Administration	560	2,235	-	2,511
Municipal and local authorities	440	69	16	329
State Fund for Transport Infrastructure	103	1	25	407
Total	2,918	2,342	195	3,299

24. Fees paid and payable to the audit company

Total fees paid and payable to the audit company for the statutory audit of financial statements and audit in accordance with IFRS for 2011 and 2010 amounted to CZK 2 million.

25. Entrusted resources

Entrusted resources analysis as at 31 December 2011 and 31 December 2010 is as follows:

(in CZK million)	31 December 2011	31 December 2010
ASSETS		
Short-term receivables	346	240
Cash in hand	4,026	3,959
Cash in bank	766	579
Total	5,138	4,778
(in CZK million)	31 December 2011	31 December 2010
LIABILITIES		
Short-term payables	5,106	4,742
Short-term bank loans	32	36
Total	5,138	4,778

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 2011 and 2010, the Company received advance payments in the amount of CZK 2,011 million and CZK 2,147 million from the Czech Social Security Administration for 2012 and 2011 for pension payments, respectively.

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

26. Cash flow statement

As at 31 December 2011 and 31 December 2010, the Company did not consider the used overdraft facilities as cash equivalents for the purpose of the cash flow statement (see Note 14 – Bank loans and overdrafts).

Cash and cash equivalents recognised in the cash flow statements as follows:

(in CZK million)	31 December 2011	31 December 2010
Cash on hand	4,108	4,086
Cash in bank	3,339	2,160
Cash equivalents resulting from short-term investments and shares	1,203	2,140
Cash and cash equivalents	8,650	8,386

27. Current volatility on the global financial markets

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The effects of the ongoing global economic recession which started in 2008 resulted in, among other things, a lower level of capital market funding, lower liquidity levels across the banking sector and very high volatility in stock markets.

The Company's Management assessed all currently available information and does not expect the economic recession to have any material impact on the Company's operations, in particular its liquidity and financing, presently. Management believes it is taking all the necessary steps to support the sustainability and development of the Company in the current circumstances.

28. Subsequent events

As at 25 January 2012 Member of the Supervisory Board Radek Šmerda was recalled by the founder and as at 25 January 2012 Lubomír Krejsa was appointed.

No other material events occurred between the balance sheet date and the date of preparation of the financial statements, which would affect the financial statements for the accounting period 2011.

9 March 2012

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Petr Zatloukal General Director Česká pošta, s.p.

INDEPENDENT AUDITOR'S REPORT ON THE ANNUAL REPORT



Independent auditor's report

to the Founder of Česká pošta, s.p.

We have audited the financial statements of Česká pošta, s.p., identification number 471 14 983, with registered office at Politických vězňů 909/4, Praha 1 ("the Company") for the year ended 31 December 2011 disclosed in the annual report on pages 72 to 106 and issued the opinion dated 9 March 2012 disclosed on page 70.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent with the financial statements referred to above. The General Director is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

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

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic T: +420 251 151 111, F: +420 251 156 111, www.pwc.com/cz

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Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2011 is consistent, in all material respects, with the financial statements.

15 June 2012

Procenterlande Coopen And fris.

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

Věra Výtvarová

Věra Výtvarová Statutory Auditor, License No. 1930

CONTACTS

Company name Registered office Identification number Tax identification number Registration court Company's registration number Call centre Prague information centre E-mail address Data mailbox ID Website

Region Prague Region Central Bohemia Region South Bohemia Region West Bohemia Region North Bohemia Region East Bohemia Region South Moravia Region North Moravia

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Česká pošta, s.p. Politických vězňů 909/4, 225 99 Prague 1 47114983 CZ 47114983 Municipal Court in Prague File 7565, Section A 800 10 44 10 +420 221 132 113 info@cpost.cz kr7cdry www.ceskaposta.cz

Bystřická 9, 140 00 Prague 4 Poštovní nám. 2357, 272 01 Kladno Senovážné náměstí 240/1, 370 01 České Budějovice Solní 259/20, 301 00 Plzeň Berní 2/2119, 400 01 Ústí nad Labem Na Hrádku 105, 530 02 Pardubice 1 Orlí 655/30, 663 00 Brno Poštovní 1368/20, 728 60 Ostrava

ABBREVIATIONS USED

AMG	Czech Association of Museums and Galleries
APDO	Automated parcel delivery outlet
BI	Business Inteligence
CADR – IS VZ	Central Address – Official Site of Public Contracts
CCTV	Closed circuit television system
CMS	Shared services centre
CNG	Compressed natural gas
СР	Czech Post
CPP	Crisis Preparedness Plan
CRM	Customer relationship management
СТО	Czech Telecommunication Office
Czech POINT	National network of submitting and verifying information terminals
D+3	Delivered by the third day after posting
D+5	Delivered by the fifth day after posting
DG	Director General
DONEZ	Sign-on system for job seekers
EMS	Express Mail Service
FKSP	Fund for cultural and social Leeds
GE COMM	Conference of European Communications Museums
GPS	Global Positioning System
ICT	Information and Communication Technologies
IFRS	International Financial Reporting Standards
ISDS	Data Mailbox Information System
ISO	International Organization for Standardization
LAN	Local area network
OTP	One time password
PDZ	Postal Data Message
PHÚ	Postal Procurement Management Office
PM	Postal Museum
REP	Registered electronic post
RIPM	Distribution of information and promotional materials
SB	Supervisory Board
SČF	Union of Czech Philatelists
SIPO	Multiple direct debit payments via the Company's payment system
SMS	Short message service
SPU	Logistic hub
SW	Software
TP	Severe disability (applies to holders of extraordinary benefits card)
UNEX	Quality of service measurement system for public postal operators
USB	Universal serial bus
VAT	Value added tax
ZPS	Money service processing

Sources

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The following poems and other literary excerpts translated for this annual report by Lucie Mikolajkova.

Chinaski – Dopis. In: www.chinaski.eu [online]. Available from: http://www.chinaski.eu/chinaski-dopis/. SUCHÝ, Jiří. Encyklopedie Jiřího Suchého: Písničky Mi – Po. Praha: Pražská imaginace, 2000. ISBN 80-7110-195-8.

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