

2005

Annual Report



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Financial and Operating Indicators

	2005	2004	2003
Assets (CZK thousands)	16,956,480	16,591,587	17,831,615
Shareholders' equity (CZK thousands)	9,070,839	8,556,059	8,265,996
Sales of own services (CZK thousands)	16,601,327	15,352,950	14,765,834
Profit before taxation (CZK thousands)	920,675	562,270	916,229
Net Profit (CZK thousands)	666,853	444,599	699,491
Turnover (CZK thousands)	17,706,689	16,352,495	15,862,638
Employees	38,290	38,794	38,923
Average Salary (CZK)	15,563	14,835	14,216
Profit / Sales	5.55 %	3.67 %	6.21 %
Profit / Assets	5.43 %	3.39 %	5.14 %
Profit / Employees	24,045	14,494	23,540

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Word by the Director General

The year 2005 was a successful one for the Czech Post ("CP"). We were able to generate the second best profits in the history of the CP, achieve a higher rate of labour productivity, cancel one management level without operational failures, ensure a higher rate of growth of the employees' real salaries, conclude a long-time collective agreement with the trade union for the period of 2006–2010, and to ensure a very good solvency and liquidity of the CP.

An extensive exchange of our cars provided for compliance with all our duties arising from the qualitative conditions of delivery, we made further progress in the centralization and optimisation of delivery, introduced the trial operation of a new system of post offices' management by the so-called departmental post offices in the branch enterprise North Moravia. The objective of this project is to verify the suitability of introduction of this organizational structure within the entire CP.

A significant step was the commencement of construction of a collection hub in Brno. This is a further step in the systematic creation of a network of collection hubs. We realize that technological progress in logistics is a vital pillar for further development of the CP, as well as a greater efficiency in transportation and optimisation and centralization of delivery.

As regards new products, we achieved a significant improvement in the functionality of the system of collective household payments (SIPO), introduced a qualified certification authority, set in a new way parameters for cooperation with the insurance company Česká pojišťovna, a.s. and the bank Československá obchodní banka, a.s., with the resulting significant extension of the portfolio of products and their availability for general public.

A breakthrough is the new 2006–2010 strategy of the CP and the related document setting the basic principles of organizational changes. The new strategy describes risk factors which require the CP's response in the form of internal changes. The growing competition, gradual limitation of the postal monopoly, requirements of our customers or alliance partners for a high quality standard – these all are facts which require our fast reaction. The aim of the change is a transformation of the CP, from a technology-oriented organisation to a modern customer-oriented company prepared for a fully competitive environment. The means to achieve it is optimisation of the structure and number of employees and transformation of the enterprise into a modern postal operator able to increase its value. It is therefore necessary to reorganize the structure of sales management, apply segment approach, implement line management for individual operation verticals, and use the best practice of individual regional branches.

These changes have to be introduced gradually, consistently, in precisely defined stages and in the frame of open communication. It is necessary to strengthen in a significant way the role of sales and to introduce new processes to ensure the relations between sales, development and operations. We have to remove regional barriers, and at the same time to use in an optimal way the available resources. The CP needs flat management structures, direct line management from the top manager to the bottom manager. The aim is also to strengthen the role of postmasters and to clearly set their competences and responsibility. This all according to the principle: All that is possible will be centralized, all that is necessary will remain decentralized. The management tool shall become economic principles.

An extraordinary importance needs to be attached to single personnel policy and creation of conditions for the work in the centre by employees living out of Prague. The CP employees are our most important capital; without their motivation no positive changes can be achieved. These changes have to take place mainly in the way of thinking. This is the basis for all changes whose quality of performance will decide about our future, which is a sufficient reason to carry them out.



Karel Kratina
Director General

As at 31 December 2005,
Česká pošta, s. p. operated
a total of 3,401 post offices.



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Report of the Supervisory Board

The Supervisory Board of the state enterprise Czech Post developed its activities in 2005 in accordance with the status of this body as defined by the State Enterprise Act No. 77/1997 Coll., as amended, the Deed of Foundation and the Statute of the State Enterprise Czech Post.

In connection with the matters under solution the year 2005 was a year in which the Supervisory Board developed significant activities. Its members met at the overall 10 ordinary and extraordinary meetings held in the course of 2005 in order to transact mainly matters of concept of further development of the enterprise and to approve and discuss proposals made by the director general. The greatest attention was paid to matters of the 2006-2010 corporate strategy and transacting of principles of agreements with the strategic partners, the bank ČSOB, a.s. and the insurance company Česká pojišťovna, a.s. The Supervisory Board examined background documentation in order to monitor and evaluate financial performance of the enterprise and its compliance with the approved financial plan. In this area the Supervisory Board initiated a measure adopted to eliminate an unfavourable development of income from postal operations in the 1st half of the year.

In order to transact major questions of activities and further development of the enterprise the Supervisory Board set up in the course of 2005 three expert committees (for corporate strategy, for finances and auditing, and for human resources). Members of the committees met at the overall 7 meetings held in the course of the year.

The Supervisory Board made a detailed examination of the 2005 Annual Report of the Czech Post and of the Financial Statements as at 31 December 2005 prepared in accordance with Czech accounting standards and of the Financial Statements as at 31 December 2005 prepared in accordance with international accounting standards. The Board read the statement of the auditor Ernst & Young Audit & Advisory, s.r.o., member of concern, and recommended to the founder to approve the financial statements and the annual report. The Supervisory Board also examined the proposal of distribution of the available 2005 profits and recommended to the founder to make the proposed decision.

The Supervisory Board thanks all employees of the Czech Post who contributed to the profits generated in 2005.



Libor Svoboda
Chairman of the Supervisory Board



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Word of the Founder

In 2005 both the Czech Post and the Ministry of Informatics as its founder further continued with the changes whose aim is to enable the Czech Post to face harsher conditions of the gradually liberalized market of postal services and to become a completely modern and successful business company. The record-breaking profits of the Czech Post in 2005 create a very good precondition for the Czech Post defending its position among the growing competition.

The Czech Post entered with its strategic partners, the bank Československá obchodní banka and the insurance company Česká pojišťovna, into contracts which will be the basis for development of new services offered to customers in the area of banking and insurance. The amended law, which is to be passed, regulating information systems in public administration will enable the Czech Post to issue, starting from the next year, at post offices certificates of records in official registers and databases, e.g. from the Land Register or the Commercial Register and Trades Register. A new service of the past year are also the certification authority services - issuing of certified electronic signatures, presently available already at several dozens of Czech Post's offices.

Corresponding with the above mentioned changes and priorities of the Czech Post is the new business strategy for 2006-2010 which emphasizes supporting of sales activities focused on all groups of the Czech Post's customers and on creation and development of new products in the area of postal services, banking services, state services, and others. I would like to use this occasion to thank all employees of the Czech Post for the work done and to wish them and the entire company many a success.



Ing. Dana Bérová
Minister of Informatics

920,67

In 2005, the pre-tax profit of
Česká pošta, s. p. reached
a record CZK 920,675,000.

Auditor's Report for Annual Report

To the Founder of Česká pošta, s.p.:

We have audited the financial statements of Česká pošta, s.p. as at 31 December 2005 prepared in accordance with the accounting principles generally accepted in the Czech Republic (pages 38–54) and the consolidated financial statements of Česká pošta, s.p. ("the Company") as at 31 December 2005 prepared in accordance with International Financial Reporting Standards (pages 56–83). The related issued auditors' reports are presented in the accompanying annual report of the Company on pages 37 and 55, respectively.

We have also audited the consistency of the annual report with the above-mentioned financial statements. The management of Česká pošta, s.p. is responsible for the accuracy of the annual report. Our responsibility is to express, based on our audit, an opinion on the consistency of the annual report with the financial statements.

We conducted our audit in accordance with International Standards on Auditing and the related implementation guidance issued by the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the information presented in the annual report that describes the facts reflected in the financial statements is consistent, in all material respect, with the financial statements. We have checked that the accounting information presented in the annual report on pages 2–36 is consistent with that contained in the audited financial statements as at 31 December 2005. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company. We believe that our audit provides a reasonable basis for our opinion.

Based on our audit, the accounting information presented in the annual report is consistent, in all material respects, with the above-mentioned financial statements.

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

Magdalena Součková
Auditor, License No. 1291

26 April 2006
Prague, Czech Republic

5,000 CZK

Company Profile

Postal Industry and the Czech Post in Time Data

1505

Members of the noble family of Taxis, who already administered postal industry in a large part of Europe, obtained the hereditary right to postal operations within the Habsburg lands in Europe.

1526

The first extraordinary, occasional postal route in the Czech lands established in connection with the election of Ferdinand I Habsburg as King of Bohemia.

1527

Beginning of the organized postal transport in the Czech lands.

1535

The first postal rules issued by the King of Bohemia and Hungary Ferdinand I.

**2. polovina
16. stol.**

Licence for postal transport of private mail.

1624

John Christopher Paar became the Chief Court Postmaster in the hereditary Austrian lands.

1628

The Paar family became hereditary court postmasters.

1695

Postal patent issued by the Emperor Leopold I.

1720

Müller's map of Bohemia, showing the condition of road and postal network, is published in Augsburg.

1722

Beginning of the process of transition of postal operations under the state administration in accordance with a decision by the Emperor Charles VI.

1743

End of the transition of postal operations under the state administration.

1748

Rules of Courier Post issued by the Empress Maria Theresa.

1751

The Empress Maria Theresa issued the first hereditary privileges for postal stations in Bohemia and Moravia.

1776

The Post becomes liable for insured mail.

1789

Licence for posting private items as registered mail.

1791

Introduction of return cards (today's advice of delivery) for registered mail.

1823

Maxmilian Ottenfeld is charged with reorganisation and modernisation of postal transport in Austria.

1837

Rowland Hill in London published the pamphlet "Postal Reform, Its Importance and Need" and submitted to the Chief Post Office in London a proposal of postal reform.

1837

Postal Law (lasting until 1946) was passed in the Austrian Empire.

1845

The first railway transport of mail in the Czech lands.

1850

- The first railway post offices in Austria, travelling on the Vienna-Bohumín route.
- Introduction of money orders.
- The first postage stamps issued in Austria.

1870

The law on privacy of letters and correspondence.

1874

The Universal Postal Union is established in Berne.

1918

- The Ministry of Post and Telegraph Offices is established.
- The Postal Savings Bank starts its operations in the Czechoslovak Republic.

1924

The state enterprise Czechoslovak Post is established under the Act No. 404 of 1922 and the decree of 25. 9. 1924.

1946

The Postal Act No. 222/1946 Coll., lasting until 2000, is passed.

1949

The Act No. 15/1949 Coll., regulating the process of nationalisation of the state enterprise Czechoslovak Post, is passed.

1950

Beginning of the process of transformation of the radial branch postal transport system into a radial hub one.

1952

Following the Soviet model documentation, the name of the government ministry is changed to the "Communications" ministry by the Regulation No. 13/1952 Coll.

1979

Automated sorting line of Nippon Electric Co., Japan is installed at the Post Office 025.

1993

Foundation of the state enterprise Czech Post.

1993

- Accession of the Czech Republic to the Universal Postal Union.
- Accession of the Czech Post to PostEurop.

2000

The Postal Services Act No. 29/2000 Coll., cutting the postal monopoly to 350 g and CZK 27 mail, takes force.

2004

- The accession of the Czech Republic to the EU, the monopoly for correspondence is cut to 100 g and CZK 19.
- Discussion of a key amendment to the Postal Services Act.

2005

The amended Postal Services Act took effect.

2005

The Czech Post obtained the postal license for 2006-2008.

Company Characteristics

The main object of the company is operation of postal services. The company is the postal licence holder under the Postal Services Act No. 29/2000 Coll., as amended.

The Czech Post provides postal services within the whole Czech Republic. These services include mainly posting, transport and delivery of letter, parcel and money mail both in domestic and international relations. In the above mentioned classic segment the Czech Post offers also express and courier services with guaranteed time of delivery. A widespread service is the collective payments of household bills service securing payment operations between private persons and businesses delivering utilities to the public. Besides the traditional services the Czech Post also offers services of agency character, such as pensions delivery or services for banking, insurance, betting and lottery companies. The significance of the share of the Czech Post in the market of electronic services has also been growing.

A significant task of the Czech Post is the construction, development and operation of a uniform network of offices within the whole country in order to meet the standard of availability and quality of postal operations, imposed by the government. The total number of post offices operated by the Czech Post as at 31.12.2005 was 3,401. Connected with postal services as a matter of course are also maintenance and renewal of the means of mail transport, especially cars.

In addition to postal services the Czech Post also keeps for the Czech Ministry of Informatics all agenda connected with the postage stamps issuing policy and implementation of the issue plan. It sells postage stamps and provides philatelic services.

The Czech Post is the largest Czech provider of postal services with a long-time tradition and a strong market position. Most of its activities are carried out in a fully competitive environment, its monopoly covers only mail containing correspondence, weighing up to 50g and costing up to CZK 18. This mail is one of the sources of income necessary to provide the basic postal services whose provision within the whole country at an affordable price and with the required quality is obligatory for the Czech Post. The Czech Post nevertheless has a dominant position on the market in most services due to the lack of interest of the competitors in the operation of low- or no-profit services requiring a costly postal network. The main object of the company is operation of postal services.

50g/1

Legal status of the company

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

The Czech Post was founded by the Ministry of Economy of the Czech Republic in accordance with the State Enterprise Act No. 111/1990 Coll., with effect from 1 January 1993.

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

With effect from 1 June 2003 and subject to section 3 subsection 1 of the State Enterprise Act No. 77/1997 Coll., the Ministry of Informatics which performs the function of the founder issued the Deed of Foundation of the state enterprise Czech Post adapted to the new state enterprise law and modified by means of the above mentioned amendments.

Regulatory Framework of Postal Services

1 April 2005 was the effective date of the Act No. 95/2005 Coll., to amend the Act No. 29/2000 Coll., on postal services and on change of some laws (Postal Services Act), as amended, and of some other laws. This new legal regulation became the basis for delegation of the exercise of regulatory powers in the area of postal services from the Ministry of Informatics of the CR to the Czech Telecommunication Office.

1 June 2005 was the effective date of the Czech Telecommunication Office's approval of the postal conditions presented on 31 March 2005 by the Czech Post to the administrative body; the CTO at the same time set the basic quality requirements as at 1 June 2005 for the postal licence holder, the Czech Post.

By its decision of 24 November 2005 under section 20 subsection 1 of the Postal Services Act the Czech Telecommunication Office granted postal licence to the state enterprise Czech Post. The decision was made with reference to the letter of application filed on basis of the Czech Telecommunication Office's notice published on 4 August 2005 in the Postal Bulletin. The postal licence was granted for the period of time from 1 January 2006 to 31 December 2008 and published in the Postal Bulletin on 28 December 2005. This decision of the administrative body contained, inter alia, its approval of the postal conditions presented by the Czech Post together with the application. At the same time the CTO set the basic quality requirements applicable to the Czech Post with regard to, e.g. density of service points, opening hours of post offices, manner of delivery to addressees, speed of transmission, handling of claims, etc.

By its resolution No. 1565 of 7 December 2005 the Czech government approved the government decree setting the scope of postal licence with effect from 1 January 2006. This decree limits the postal monopoly of the postal licence holder to mail containing documents, weighting up to 50g and costing not more than CZK 18.

The company operates in fully competitive environment; it has only one monopoly and it applies to domestic mail containing documents with weight per item up to 50g and a maximum price of CZK 18.

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Major events of the year

As of 1 February 2005 the Ministry of Finance of the CR approved an increase in domestic prices of postal services, i.e. prices of basic postal services regulated by the state. The existing prices were valid from 1 September 2002. In the meantime there was a significant increase in prices of the basic resources (fuels, energies, V.A.T.) as well as in the demand for high quality of the universal postal services after the accession of the CR to the EU.

As of 1 April 2005 the amended Postal Services Act took effect whereby the operation of postal services and international postal services became a free trade. The possibility to make business is restricted by the fact that some of the postal services may be provided exclusively by one operator that ensures availability of the most important postal services across the whole CR (the present exclusive operator is the Czech Post). The process of liberalization of postal market in the Czech Republic further continued in 2005. The postal monopoly of the Czech Post was reduced (from the original 100 g and CZK 19). The above mentioned monopoly presently applies only to domestic mail containing correspondence whose weight per item may not exceed 50 g and whose price may not exceed CZK 18.

In 2005 the Supervisory Board of the Czech Post discussed and approved the Current Tasks for 2006 to implement the "2006-2010 Development Strategy of the Czech Post".

In 2005 the Czech Post signed long-time business contracts (until 2017) with the main strategic partners of the Czech Post - with the bank ČSOB, a.s. for banking services and with the insurance company Česká pojišťovna, a.s. for insurance services.

In connection with the ongoing transformation of the Czech Post into a modern logistic business the company started a process of transformation of its organisational structure, from the regional to a line-function one. The existing three-level system of management was cancelled and replaced with effect from 1 October 2005 with a two-level one (the cancelled units were operation and technical units, such as District, Transmission, Transportation, Computer Technique).

On 24 November 2005 the Czech Post was awarded by the national regulatory body, the Czech Telecommunication Office, the postal licence for the period of 1 January 2006 to 31 December 2008.

In 2005 the management of the Czech Post agreed with representatives of the Corporate Coordination Trade Union Committee of the Czech Post on the corporate collective agreement for 2006-2010 which was signed in the early 2006.

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On 24 November 2005, Česká pošta, s. p. acquired a postal licence for the period from 1 January 2006 to 31 December 2008.

Development Strategy

In 2005 the “2006–2010 Development Strategy of the Czech Post, State Enterprise” was discussed. The main theme of this document is making business in a permanently changing and globalizing surrounding world. A present modern enterprise has to be able to flexibly react and adapt its behaviour to changes; in addition to the traditional physical services the Czech Post has therefore paid its attention to developing electronic services, both by creating “electronic” variants to traditional services and by developing completely new services.

In connection with the ongoing liberalisation on the Czech postal market and opening of this market to its competition the Czech Post is going to extend its offer of products in the area of relocation activities (intended mainly for commercial clients); in agency activities it is going to try to extend the spectrum of its services (especially in the area of banking and insurance services and in the area of e-government), to develop hybrid mail and to build efficient logistic systems to achieve new market opportunities. A steadily high quality of provided services which will help to maintain the significant market position should therefore become a standard.

The Czech Post will further continue the process of transformation into a modern commercial and logistic business, inter alia also by changing its organisational structure from regional control to line-and-function control on condition of maintaining the existing network of service points at about the same scope.

Events to come in 2006

The Supervisory Board of the Czech Post approved the following tasks for implementation of the 2006-2010 Development Strategy of the Czech Post in 2006:

1. Introduction of separate accounting for the universal and the other services of the Czech Post.
2. a) Centralisation of activities with the aim of creation of a line management system, including the system of management of post offices.
b) Cancellation of specialized branch enterprises and modification of the structure of headquarters.
3. Creation of a system of key customer care.
4. Reconsideration and unification of the existing product portfolio and unification of price policy.
5. Creation of a system of product development according to individual customer segments, including seeking of new opportunities.
6. Creation of a system of organisation of cooperation with the strategic partners, i.e. ČSOB, a.s. and Česká pojišťovna, a.s.
7. Proposed modification of the system of personnel motivation in accordance with corporate targets.

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Statutory bodies and members of the company's management board

The bodies of the company in the meaning of Section 11 of the State Enterprise Act No. 77/1997 Coll., as amended, are Director General and supervisory board.

Since 1 January 2005 the following changes in the management board took place:

In February 2005 Ing. Vít Šorm, Ph.D. was removed from the position of deputy Director General for Economics and Appointed to the position of deputy Director General for Personnel Affairs and Project Coordination.

Ing. Vlasta Svobodová was appointed Manager in charge of the department of Deputy Director General for Economics.

In March 2005 Ing. Vít Šorm, Ph.D. resigned from the post of Deputy Director General for Personnel Affairs and Project Coordination and Ing. Vlasta Svobodová was appointed Manager in charge of this department.

On 18 April 2006 Ing. Tomáš Urban, CSc. was removed from the position of Deputy Director General for Technology and Ing. Antonín Ambrož was appointed Manager in charge of this department.

On 15 May 2006 Ing. Ladislav Musil was appointed to the position of deputy Director General for Economics.

The present managers of the Czech Post are:

JUDr. Karel Kratina	Director General
Ing. Miroslav Špaček	Deputy Director General for Operations
Ing. Antonín Ambrož	Manager in charge of the department of Deputy Director General for Technology
Ing. Ladislav Musil	Deputy Director General for Economics
Ing. Marek Borusík	Deputy Director General for Personnel Affairs
Ing. Pavel Wenisch	Deputy Director General for Sales
Ing. Petr Angelis	Deputy Director General for International Relations
Ing. Karel Kettner	Director of the Office of Director General

Directors of branch enterprises

Ing. Jiří Štráberger	Regional Branch Director Central Bohemia
Ing. František Vondruška	Regional Branch Director South Bohemia
Ing. Karel Kohout	Regional Branch Director West Bohemia
Ing. Rastislav Horáček	Regional Branch Director North Bohemia
Ing. František Bakeš	Regional Branch Director East Bohemia
Ľudovít Gulázsi	Regional Branch Director South Moravia
Ing. Václav Veselý	Regional Branch Director North Moravia
Ing. Petr Dřímalka	Specialized Branch Director International Operations
Ing. Josef Moša	Specialized Branch Director VAKUS Computer Centre
Ing. Jozef Páleník	Specialized Branch Director Supplier and Commercial Services

Supervisory Board

On 15 February 2005 the new "Rules of Procedure of the Supervisory Board of the state enterprise Czech Post" took effect; in accordance with these rules the Supervisory Board ("SB") has two deputy chairpersons (without specifying their priority).

On 8 March 2005 Ing. Ondřej Felix, CSc. was elected as a deputy chairman of the SB.

As at 31 January 2006 Ľudovít Gulázsi was removed from the SB and on 1 February 2006 Petr Polák was appointed a member of the SB.

The members of the SB are:

Chairman of the SB:

Ing. Libor Svoboda

Deputy Chairmen of the SB:

Ing. Ondřej Felix, CSc.

Karel Koukal

Members of the SB:

Ing. Vladimír Budinský, MBA

Ľudovít Gulázsi (till 31 January 2006)

Mgr. Pavel Kolář

Ing. Vratislav Kroužecký

Ivana Musilová

Petr Polák (since 1 February 2006)

Ing. Jiří Štráberger

Administration and control of the company

The Czech Post is a state enterprise founded by the Deed of Foundation issued by the Decision of the Minister of Economy of the Czech Republic dated 28 May 2003 under No. 379, Ref. No. 521295/92-42, as amended. The function of the founder acting on behalf of the state is performed by the Ministry of Informatics of the Czech Republic. The regulator of basic postal services is the Czech Telecommunication Office.

The state enterprise Czech Post was incorporated on 1 January 1993 by registration in the Commercial Register kept with the District Court for Prague 1, Section A, File 7565. At present it is registered in the Commercial Register kept with the Municipal Court in Prague, Section A, File 7565.

Subsidiaries

Business name	Poštovní tiskárna cenin Praha a.s.
Registered capital	CZK 33,124,000
Share of the Czech Post	51%

Administration bodies of the Czech Post

Director General

Director General is a statutory body of the Czech Post. He controls the company's activities and acts on its behalf. Director General decides on all matters which do not fall, by the operation of law or of the Deed of Foundation, into the competences of the founder.

Supervisory Board

Supervisory board of the company has nine members. Its supervises the performance of activities of Director General and the performance of business activities. Subject to the State Enterprise Act No. 77/1997 Coll., as amended, six members of the supervisory board are appointed and removed by the founder, and 3 members of the supervisory board are appointed and removed by the company's employees.

Committees of the Supervisory Board

Committees of the supervisory board are a part of the company's administration. They are set up by the supervisory board, acting within its competences, as its advisory bodies. Members of committees are elected and removed by the supervisory board.

The following committees of the supervisory board have been set up:

- Committee of the supervisory board for corporate strategy,
- Committee of the supervisory board for finances and audit,
- Committee of the supervisory board for human resources development.

Risk Management

An integral part of strategic management of a company is also the ability of a timely recognition and efficient management of risks arising from its business activities.

Being aware of this fact the Czech Post ("CP") set to creation of methodical, organisational and procedural preconditions for efficient application of a uniform system of risk management. With respect to the high variability of business environment, acceleration of changes and increasing of the number and intensity of risk factors which may have rather unfavourable impacts on profits, it is becoming one of the key preconditions for maintaining the position of the CP on the postal market in the Czech Republic.

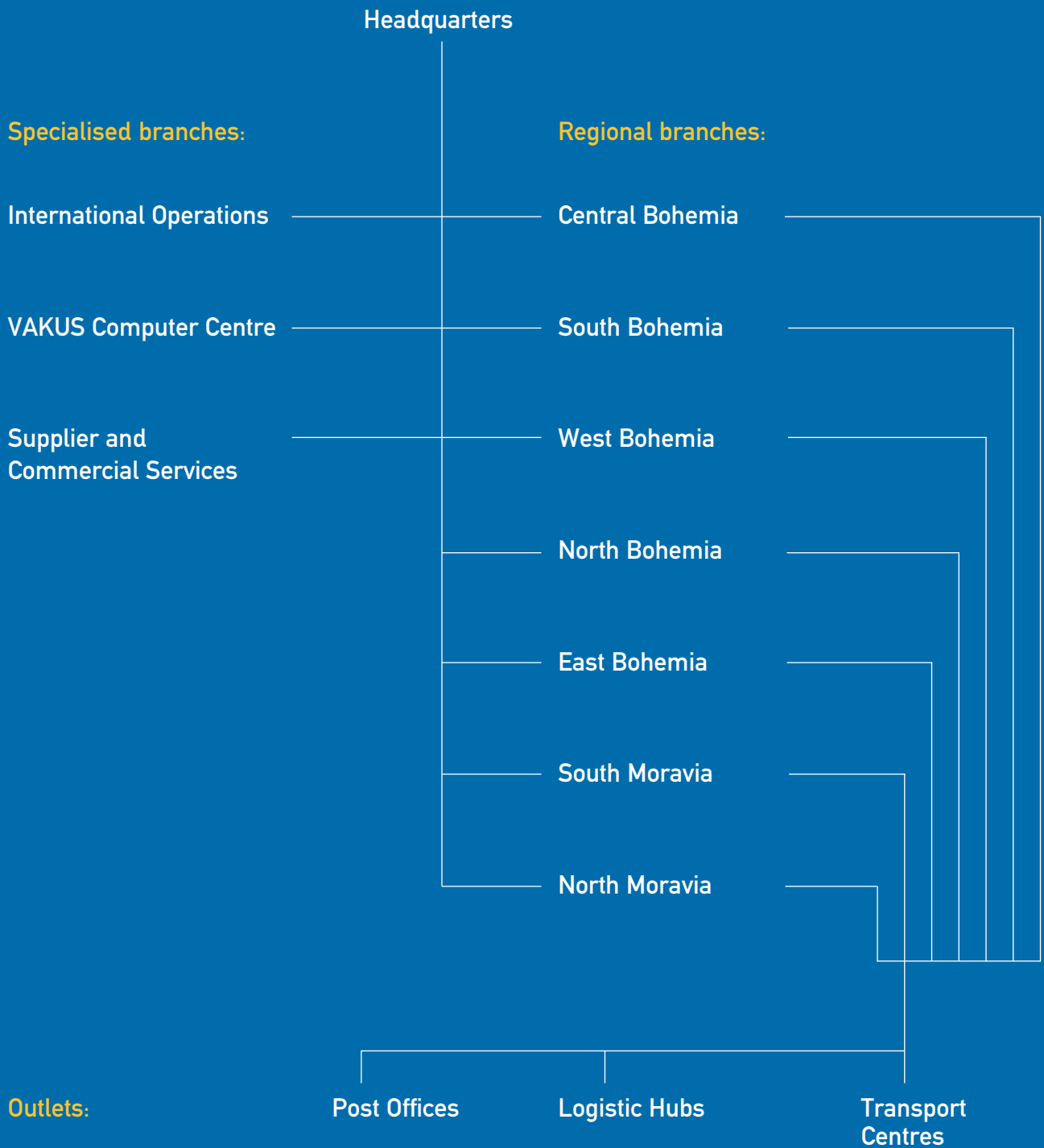
The company adopted an overall strategy with a particular focus on significant risks in all areas of the CP's activities. The objective became an effort to minimize potential negative impacts on performance of the set business objectives and intents as well as an effort to improve the quality and level of management.

The next step was the beginning of the process of risk management system. Already from the very beginning an emphasis was laid on the requirement of compliance of the system with international standards and correspondence with the best international practice and the CP's business character.

The risks identifiable in 2005 were the basis for preparation of the Book of Risks of the CP. This Book emphasizes mainly the so-called significant risks, i.e. risks which have a substantial impact on success or failure of the CP's business activities, both from the short-term and a longer-term point of view, incl. assurance of priority trends of the CP's development. The Book of Risks is a significant document which is an integral part of the CP's management documentation.

An examination of the Commission of the European Communities was held on 25-26 April 2006 in order to investigate into potential abuse of dominant position on the market of direct mail delivery services, including delivery of subscribed magazines.

Organizational Chart of the Czech Post



Service and Operations

Financial Situation

The economic data of the company were determined by the overall development of the Czech economy where the growth rate of the gross domestic product reached 6%, unemployment rate 7.9% and consumer's price growth rate 1.99%.

In 2005 the Czech Post generated the second highest profits since its establishment, with the annual rate of growth of income from own services of 8.1% and the added value growth rate of 6.4%.

The change in the income structure, the increased share of income from postal operations and the reduced share of income from agency operations because of their stagnation, was affected by the increase in regulated prices of domestic postal operations with effect from 1 February 2005. The reduced income from sale of goods was due to the restricted, and subsequently cancelled sale of cigarettes at post offices and a significant reduction of sale of telephone cards in connection with the transition to another technology.

The annual increase in costs of operations by 13.5% was affected by a significant growth of terminal dues for international operations (increase in prices of international operations in reaction to the above mentioned growth was permitted with a year's delay, from 1 January 2006), one-off operating costs in connection with the amended Postal Services Act with effect from 1 April 2005 and the ensuing basic quality requirements set by the regulator, establishment of contact points to ensure the new e-government services, and the company's restructuring at the time of cancellation of one management level as at 1 October 2005.

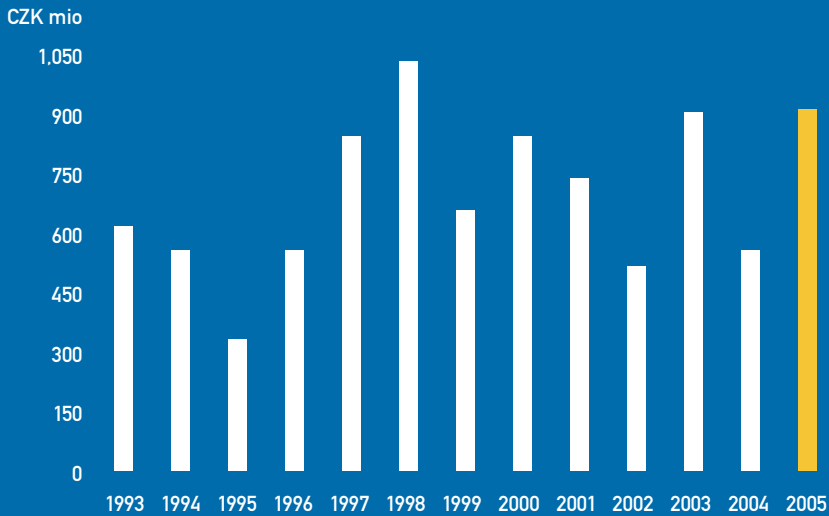
In spite of the high annual increase of personnel costs, with a share in the total costs exceeding 60%, there was a slight reduction of the share of live work with a presumption of its further decreasing. The total costs reflect year-on-year reduction in depreciation of fixed assets due to the consistent application of the Public Contracts Act No. 40/2004 Coll. and the subsequent delay in the planned capital investments which had an impact on V.A.T. costs.

These changes also led to a gradual change of the structure of the company's costs.

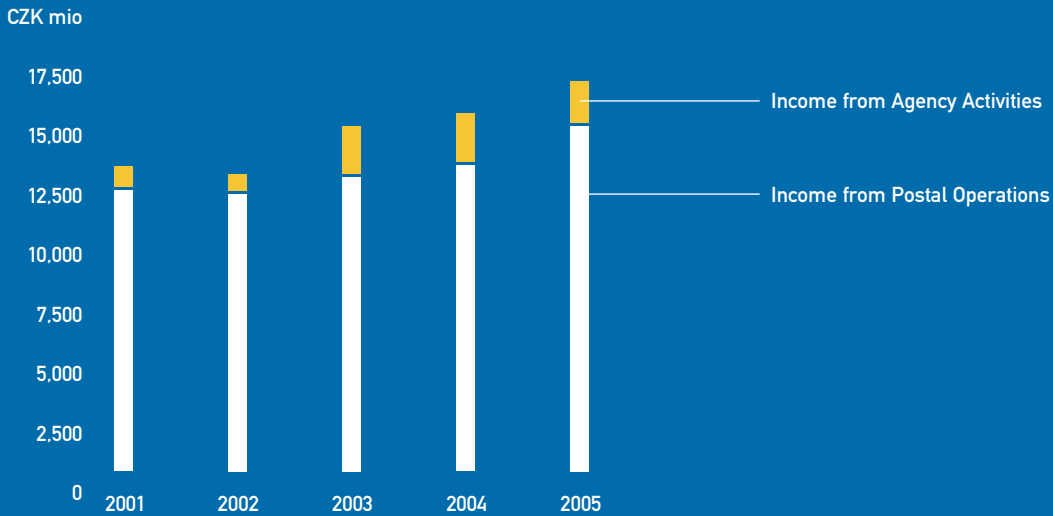
From a long-time point of view, the structure of the company's assets and capital has not changed, with only a slight increase in fixed assets and own income. The company has maintained minimum debt rate and above-average liquidity. Overdue receivables from own activity equal to 11.5% of total receivables, or only 7.3% with the exclusion of receivables due for less than 30 days. Sufficient amount of adjustments to overdue receivables was created in connection to an analysis of their expected payability. The reduction in the amount of finances maintained in trust can be described as a steady trend.

The very favourable economic data had also a positive effect on the annual increase in net profits and cumulation of resources in form of cumulated profits in the amount of 2/3 of the obligatory reserve fund.

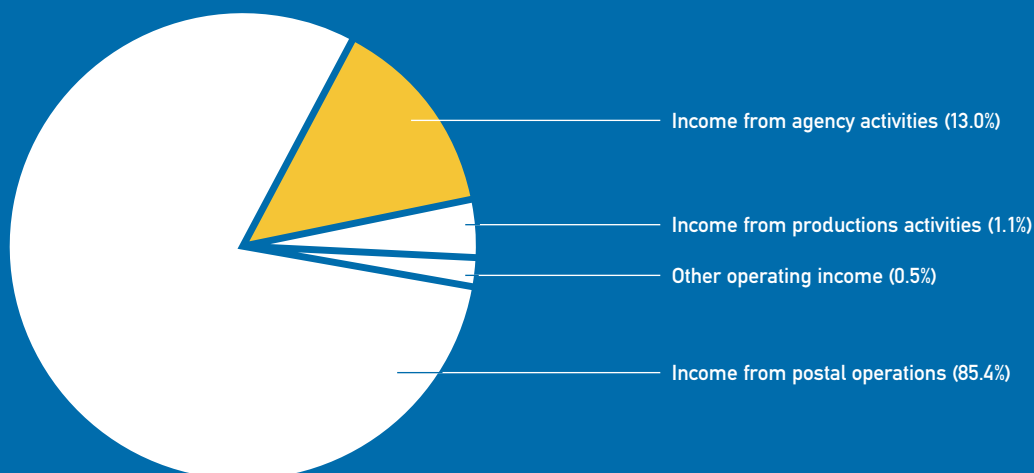
1993-2005 Profits Development



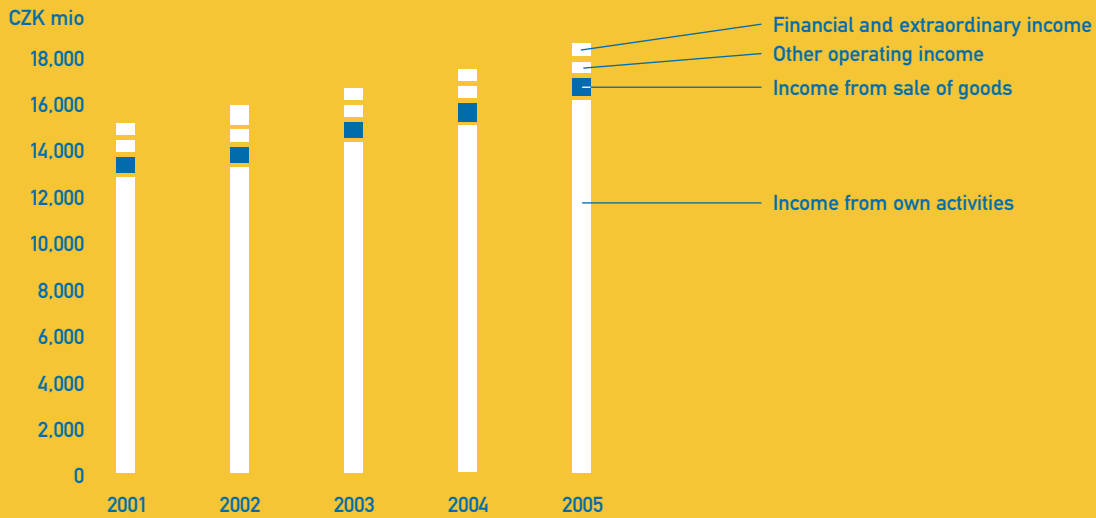
2001-2005 Development of the Structure of Income from Own Operations



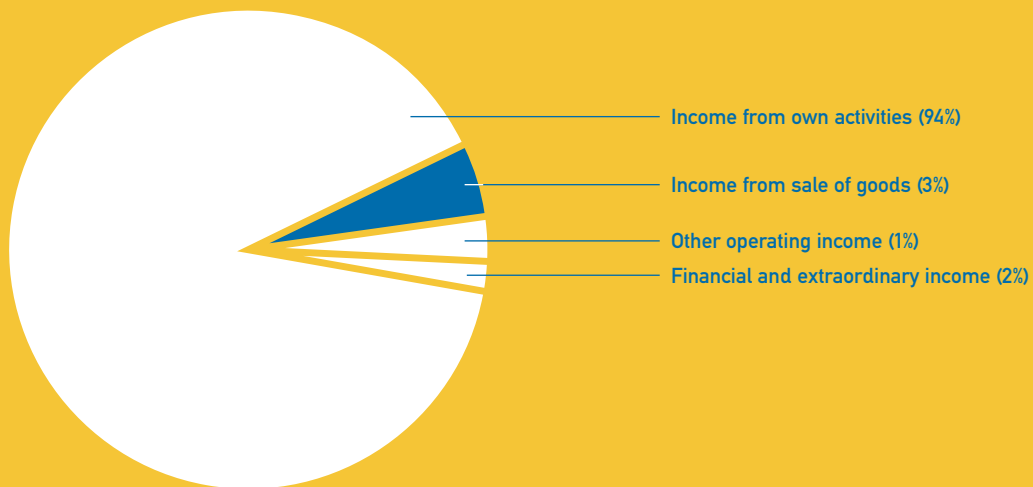
2005 Income from Own Operations Structure



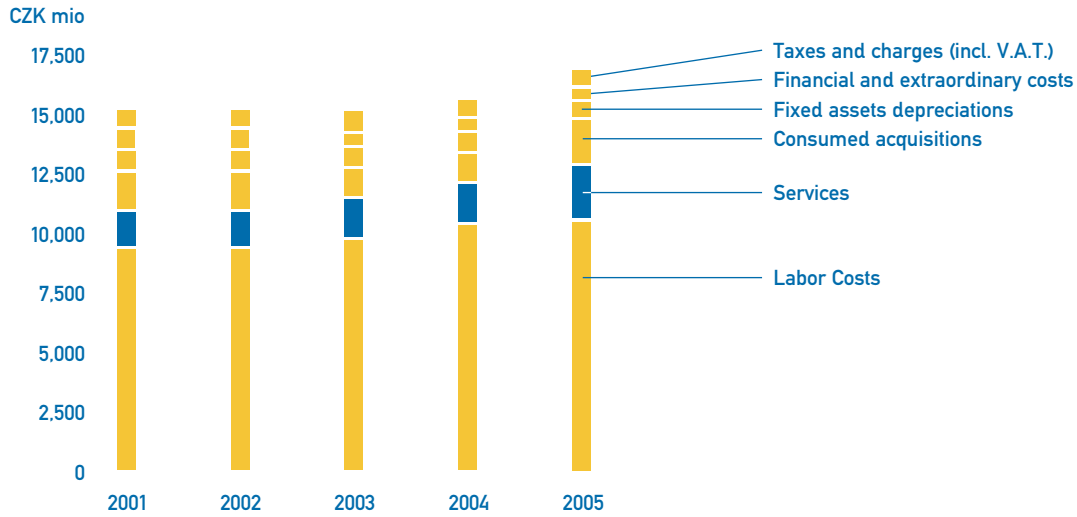
2001-2005 Income Structure Development



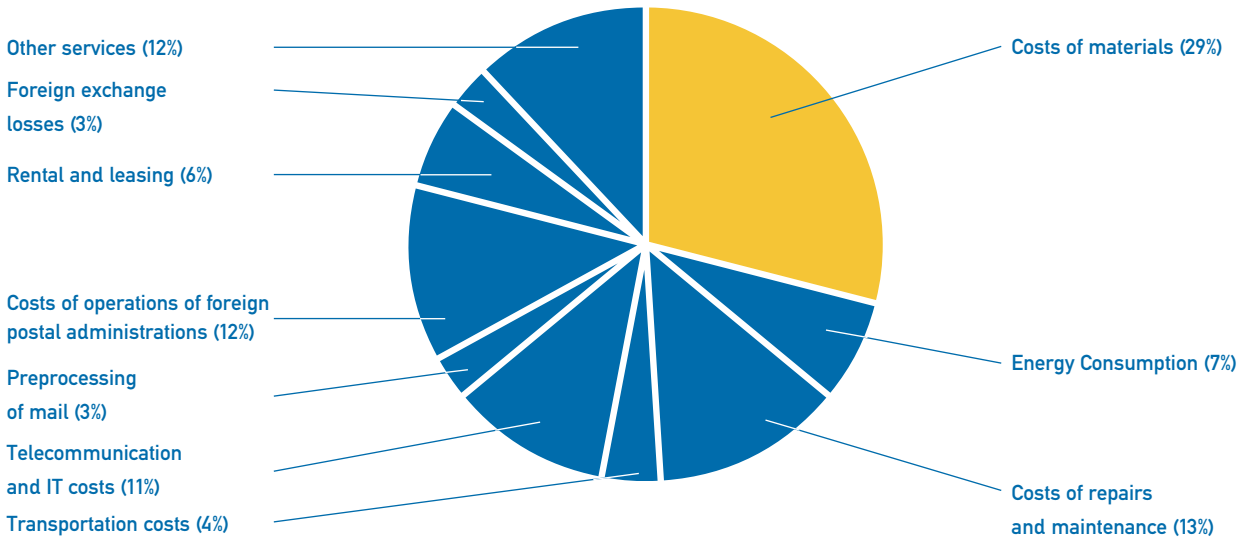
2005 Income Structure



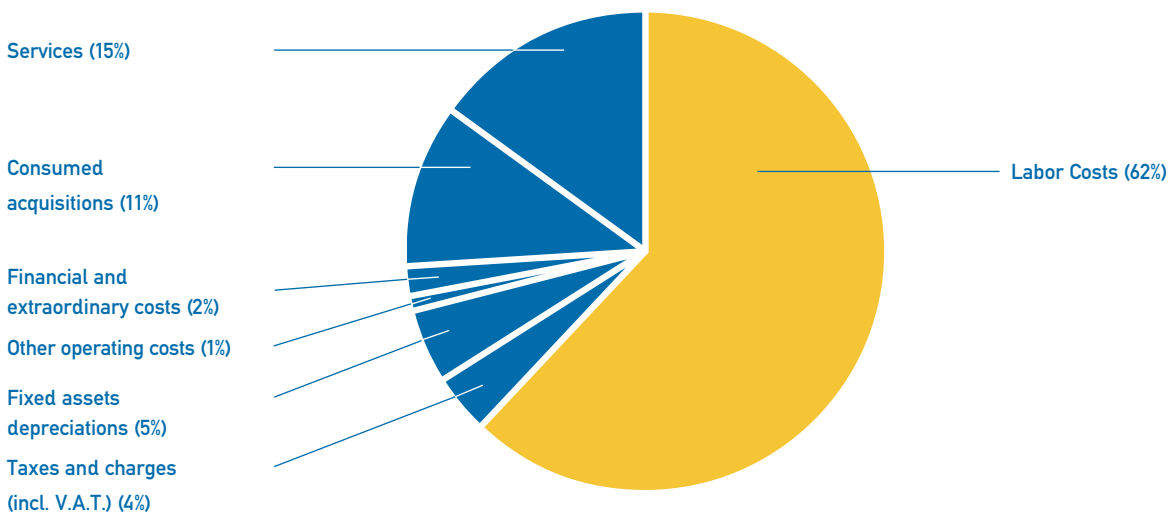
2001-2005 Costs Structure Development



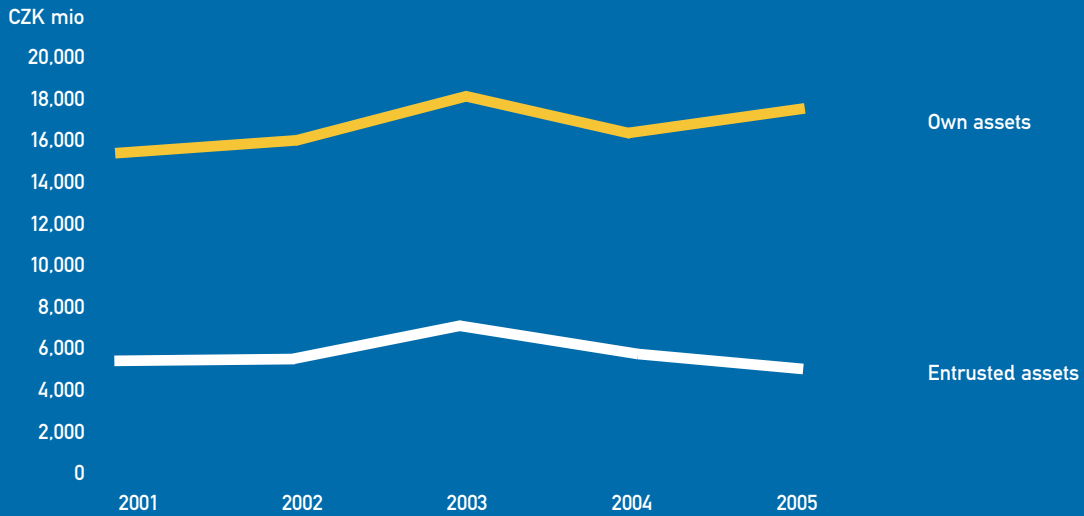
2005 Operational Costs Structure



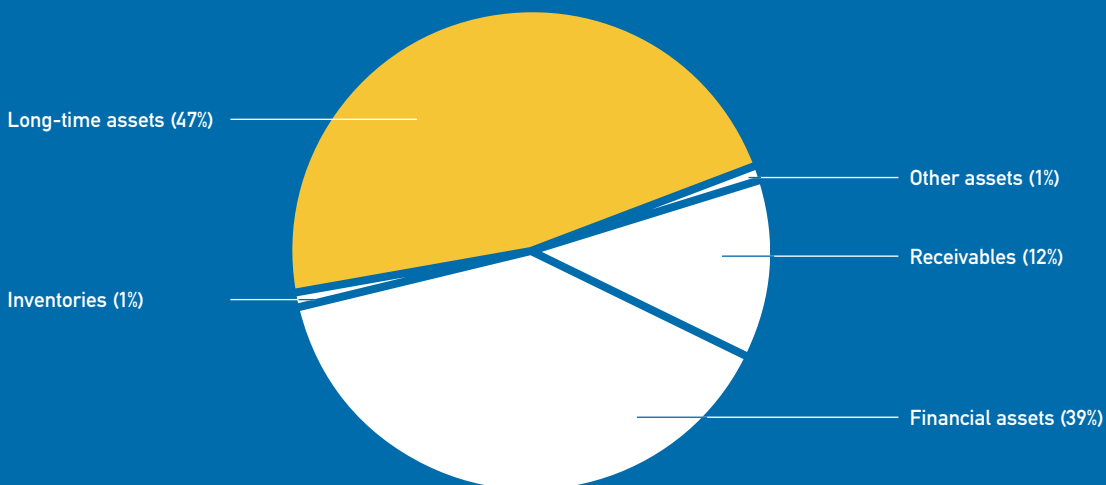
2005 Costs Structure



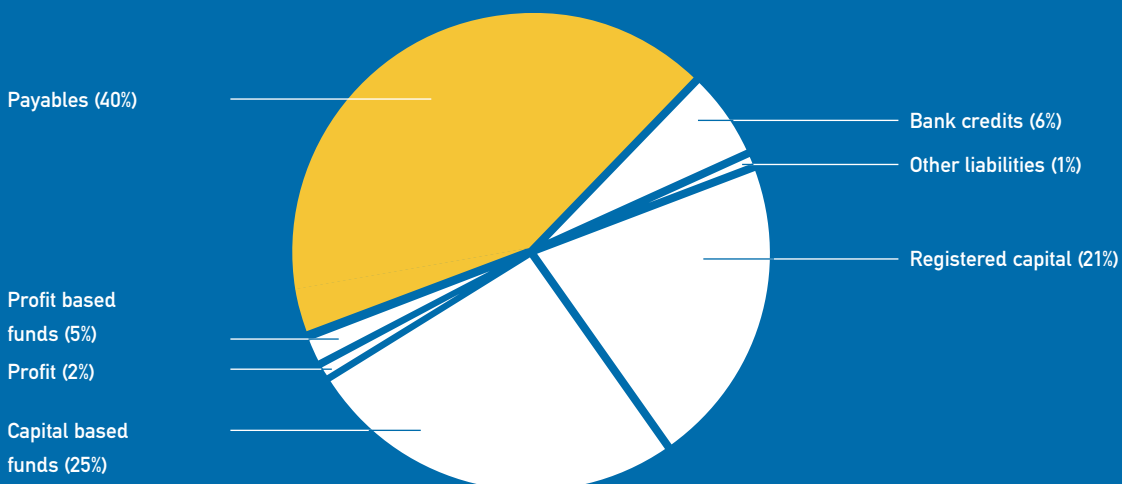
2001-2005 Development of the Structure of Assets and Liabilities



2005 Structure of Assets



2005 Liabilities Structure



Internal Audit

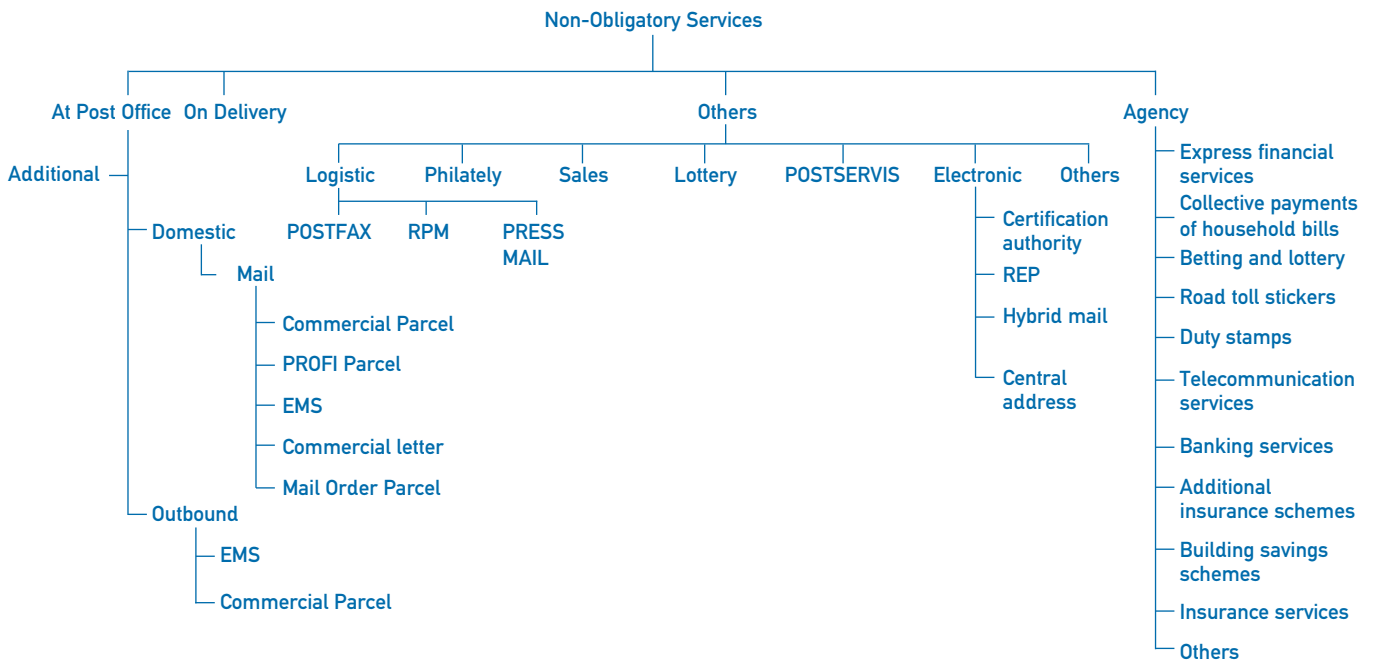
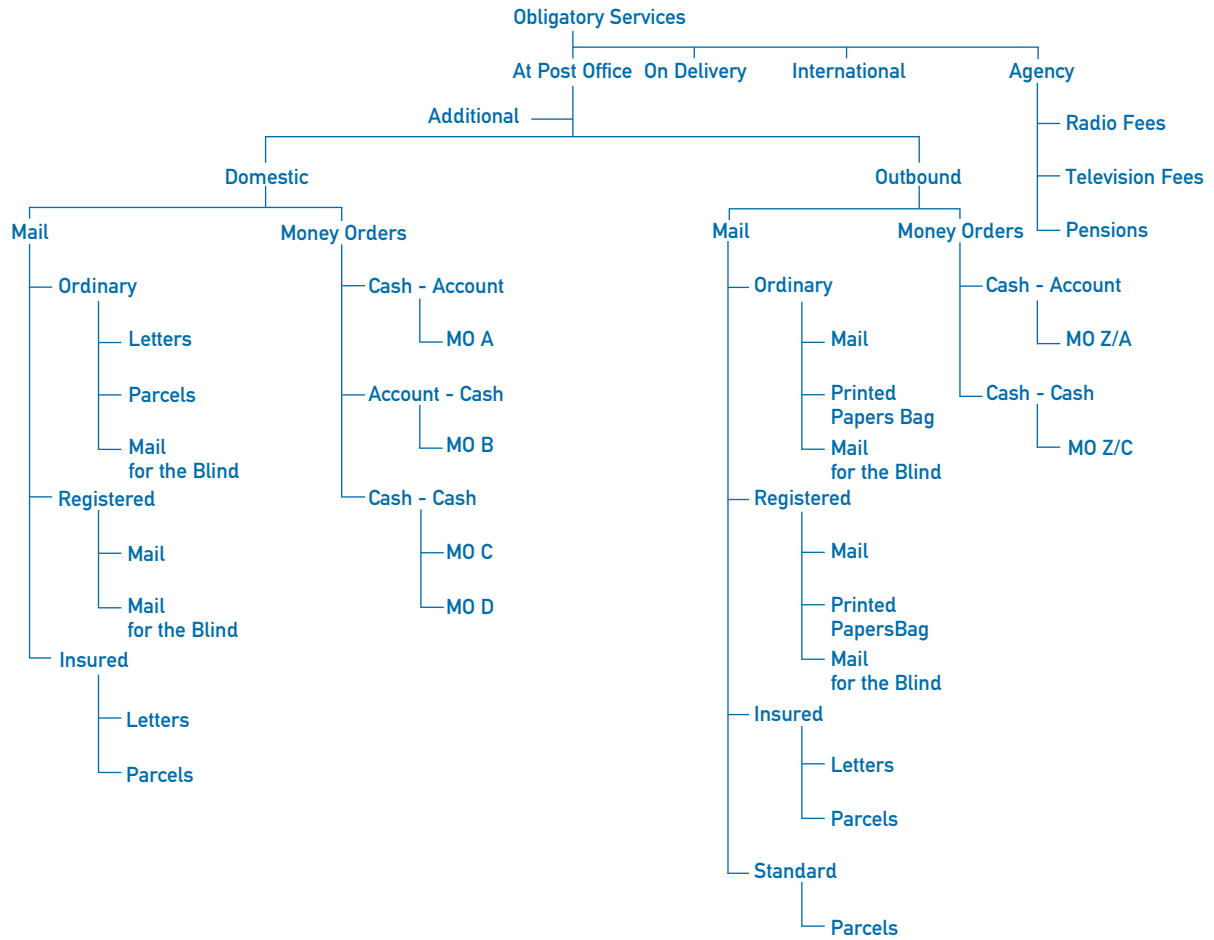
From the beginning of 2005 internal audit became one of the internal sections of the Czech Post ("CP") which efficiently assist the Director General and the Management Board of the CP in fulfilling the set strategic and operational objectives.

The section began to perform its function of independent support in the overcoming of business risks and provider of objective independent assessments of adequacy and efficiency of the internal management system on basis of the issued Statute which fully complies with internationally binding documents, in particular with the Framework for the Professional Practice of Internal Auditing and the Code of Ethics of Internal Auditors issued by the international Institute of Internal Auditors.

The section performed its activities in 2005 on basis of the Plan of Activities, approved by the Director General. It made 5 audits concentrated on those areas of activities and processes which have a vital significance for the CP or which are risk areas having a potential negative impact on the performance of set tasks and objectives. These audits resulted into findings which led to the proposal and adoption by the CP's management of respective concrete measures for remedy. During the 3 monitoring events held throughout 2005 the section followed and evaluated such activities and processes which showed in the year a high rate of risk and whose character required permanent extraordinary attention and operative immediate performance of potential changes and corrections. At the same time the section provided a number of consultations and advice during which the section used for the benefit of other sections knowledge and experience of its auditors in the limits set by the Framework for the Professional Practice of Internal Auditing.

The section fulfilled with success also one of the important tasks of the CP, i.e. introduction of risk management system and its methodical control.

Structure of Provided Services



96% of regular consignments were delivered in D+1 limit in 2005.

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Offer of Services

The Czech Post offers to its clients a large spectrum of services from transmission of documents and things up to money services, outpayment of pensions, etc. The spectrum of services is permanently innovated by creation of other variants in order to achieve the main goal - satisfaction of clients and their change into long-time partners.

In terms of the strategy of control and development of relationships with key clients the Czech Post began using in the recent years a more detailed market segmentation and identification of target groups and their needs. It created a key client care system and key client service consisting in a professional approach to the provision of services and in direct communication securing a high-quality, error-free and fast satisfaction of requirements.

The basis of the portfolio of the Czech Post services is letter mail transmission. In spite of the developing electronic media, gradually replacing the traditional forms of information delivery, the Czech Post still transmits a significant volume of letter mail - ordinary, registered and insured. The quality of transmission of this mail has been continuously improving. In 2005 96% of ordinary mail was delivered within the time limit of J+1; this has been reflected also in a growing satisfaction of the public.

The basic parcel service is ordinary parcel mail transmission and the connected additional services - insured parcel mail and express parcel mail transmission provided as B2B and B2C services. In spite of a growing pressure of the competition in this area the Czech Post maintained in 2005 its market position, supported their loyalty and increased the volume of posted mail. It also won further new clients in the area of express parcel mail.

The Czech Post used its extensive network of post offices and delivery personnel for distribution of leaflets. Services connected with addressed mail were successfully covered by the Commercial Letter service, the Press Mail service was introduced for another part of the client segment, with a growing volume of posted mail proving the interest in this product.

The portfolio of services is completed with money and insurance services. This is the embodiment of the vision of the Czech Post to use its extensive national network of post offices for providing a large spectrum of agency services - the vision of post office as a centre providing postal, banking insurance, information and other services also at locations which are not easy to approach.

The Czech Post offices offer the possibility to pay fees, open and operate bank accounts, save and borrow money, etc. The partner for banking services is ČSOB - Postal Savings Bank, credits are provided in cooperation with Home Credit. The network of post offices also offers the possibility of fast money transfers in cooperation with Western Union. Pension, life, motor vehicle insurance policies can also be arranged for at any post office.

The year 2005 was in the sign of the SIPO (Collective Payments of Household Bills) system. The SIPO was used mainly to pay radio and television fees, rental or fees for gas, electricity, etc. The new innovations extended the range of payments also to different payments to other companies and simplified the administrative work. This led to an improvement of quality of these services both in relation to the public (payers of the collective payments or receivers of outpaid sums by means of Money Orders B) and to organisations and banks.

In addition to the classic postal and banking services every post office also sells goods - press, telephone cards, mobile phone cards, road toll stickers, picture cards, philatelic goods, envelopes and TV PRODUCTS goods.

The Czech Post completes traditional forms of services with new modern electronic ones in the following categories:

- services of a reliable third party,
- e-government services,
- services connected with electronic banking,
- hybrid mail services.

In the category of services of a reliable third party the Czech Post is an accredited provider of certification services. Its commercial certificate - PostSignum VCA - secures ordinary communication with partners by means of electronic signature and encoding. In 2005 it also obtained accreditation from the Ministry of Informatics as a provider of the qualified certificate - PostSignum QCA - for communication with state authorities.

The category of e-government services includes inter alia operation of the website Central Address publishing information on public contracts and auctions. In 2005 it published 20,168 forms of public contracts and 3,708 forms of public auctions.

In the category of services connected with electronic banking the Czech Post has further developed and improved the present spectrum of the provided services with the aim of developing and offering also the electronic variant of these services.

The specialized offices of the Czech Post - the Postservis and Postkomplet centres - offer much more than mere transmission of mail. They offer the so-called hybrid services, with transformation of the background data from the client into physical form and vice versa. This extends postal services to wrapping, foil packaging, enveloping, database management, etc. The services of Postservis centres save the time and costs of their clients. In the course of 2005 there was a further development of these services. In this area the Czech Post has a strong position on the Czech market and is planning a further development with a special focus on improvement of quality of the provided products.

Information on the services provided by the Czech Post are available on its website at www.cpost.cz as well as on its free information line at 0800 104410. Information materials are also available at post offices, and every employee of the Czech Post is instructed to provide the necessary information and deal with all requirements of its clients.

The Czech Post meets the needs of its clients not only by extending the range of its services but also by moving close to them - the Czech Post counters can be newly found also at shopping centres.

The Czech Post with traditional services profiled into a modern business with a large offer of services which can cover the needs of all layers of the Czech population. At present it has already a significant market position, and in the forthcoming years, even after the postal market liberalisation, it is going to seek further growth and modernisation.

Quality of Services

The priority of the Czech Post in 2005 was the provision of services at a minimum quality standard set by the Basic Quality Requirements published by the national regulator.

In the meaning of provisions of the basic quality requirements the Czech Post extended the services provided at post offices open on Sundays and public holidays with issuing of all types of deposited and resent mail and outpayment of remitted money. The binding time limits for handling claims were cut. The card of recipient is issued at any post office while the customer waits. All preparation works to ensure nationwide delivery of all types of mail were done. With respect to the duty to provide at any post office extended information on the Czech Post service points the Czech Post issued a new information material "List of Post Office with Postal Codes, Addresses, Telephone Numbers and Manner of Assisting Persons on Wheel-Chair and Persons with Perambulator" which is regularly updated. The Czech Post also issued new notice boards with obligatory extended information, installed at post offices in such a way that they cannot go unnoticed. The opening hours of the Czech Post Information Centre have been extended.

Customer satisfaction has been monitored by means of regular service quality monitoring conducted both by the Czech Post internal control system and by an independent agency. The following tables show the 2005 monitoring results.

Transmission time - Standard letter mail (continuous measurement by an independent agency)

Size of sample under survey (pcs)	Days after the day of posting (%)			
	1	2	3+	
1. Total	30,561	96,01	3,66 (99,67)	0,33
2. of which:				
inside the region	12,054	96,68	3,01 (99,69)	0,31
outside the region	18,507	95,57	4,07 (99,64)	0,36

Time between money order inpayment and placement to the bank account

Size of sample under survey (pcs)	Days after the day of posting (%)			
	1	2	3	4.+
72,152,114	97,81	1,80	0,37	0,02

Results of the 2005 International Priority Letter Mail Quality Measurement

EC Limit	J+3 - 85%	J+5 - 97%
Inbound mail	88,40%	97,60%
Outbound mail	91,40%	98,70%

The measurement was made by IBM.

The limits set by the Directive 97/67 EC were fulfilled in 2005.

Customer satisfaction has also been evidenced by the number of substantiated claims of mail and mail cards delivery or of substantiated claims of damaged mail or mail with reduced content in comparison with the total number of transmitted items.

The following tables contain data on the number of claimed basic postal services expressed as the percentage of the total number of transmitted items:

Claimed delivery of mail or mail cards

Total claims	0,0093
Substantiated claims	0,0055

Claimed damage or reduced content of mail

Total claims	0,0054
Actual damage found	0,0018
Substantiated claim (compensation of damage)	0,0012

Postal Network

It is possible to say that the network of post offices and other service points remained stabilized.

As of the end of 2005 one service point served 2,906 people (against 2,882 in the year 2004). The number of people served by one mail box slightly increased in comparison with the year 2004, i.e. from 421 to 425. The slight increase of the above mentioned figures is in direct connection with the increased number of population, by 35,504 in comparison with the year 2004.

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

Distribution of the 2005 postal network terminal points

Post offices	3 401
Postal agencies	15
Postal centres	102
Detached post office counters	9
Mobile post offices	0
Post office boxes	24 107
Post office boxes (hired)	40 786
Delivery areas (letter mail)	10 471
(of which) Delivery areas motorized	2 746

(The number of population according to the Statistical Office data as at 31.12.2005 was 10,251,079.)

Employees and Salaries

Employees

The average registration number of employees of the Czech Post in the year 2005 was 38,290 (after recalculation), or by 1.30% less than in the year before, of which 21.22% were counter clerks, 31.56% delivery personnel, 9.10% logistics personnel, 8.08% administration personnel and 30.04% other personnel.

In the year 2005 the Czech Post hired 2,030 (or 5.30%) new employees with contracts for an indefinite time.

The weights of individual professional groups have undergone ongoing changes due to technical modernisation and optimisation of technological processes and labour organisation; the total number of employees has also been significantly affected by the development of demand for services of the Czech Post. Thanks to a systematic cooperation with the trade organization these changes however did not violate the social conciliation.

Salaries and Social Policy

In the year 2005 the average monthly salary was CZK 15,563, which was an annual increase by CZK 728 (4.91%). The average salary of counter clerks grew up to CZK 14,161 (or by 4.18%), of delivery personnel up to CZK 12,338 (or by 5.09%), of logistics personnel up to CZK 14,990 (or by 3.97%), of administration personnel up to CZK 26,337 (or by 6.36%).

The wage policy of the Czech Post follows a strengthening of the principle of equality (based in principle on the application of a system of type positions) and increasing of the weight of salary components which depend on the employee's performance.

Programmes focused on this aim have been gradually applied together with the ongoing process of centralisation of wage policy control.

The real income of employees has been further increased beyond the level of salary with contributions to supplementary pension schemes or life insurance, food, rest and recreation, etc. which achieved in the year 2005 the average amount of CZK 1,034 per employee per month.

Qualification Development

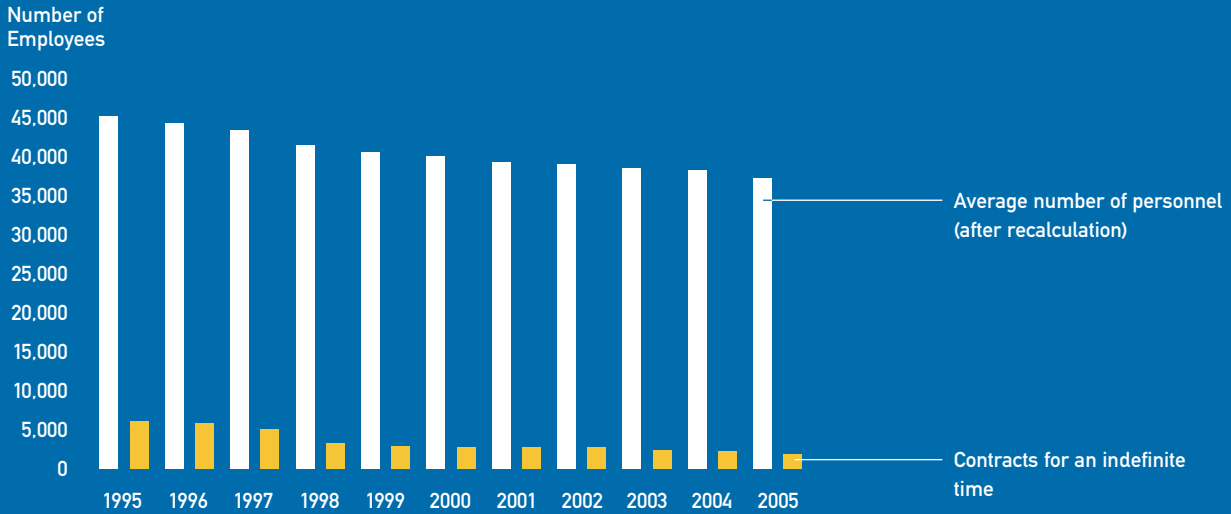
In the year 2005 the number of employees trained at different courses totalled 39,434, of which 54.3% were trained in new technologies, 8.1% in qualification courses at different levels, 7.4% in courses of professional behaviour, and 30.2% in other courses (economics, marketing and sale of services, managerial and business skills, etc.). The key activities were education projects, intended mainly for operations managers, focused on integration of communication processes in sales and management as well as training following a change of attitudes and improvement of professional dealing of counter clerks with customers. A team of 35 in-house trainers of professional dealing, heading courses at 227 select post offices, was set up.

The direct expenses relating to training (without compensation of salaries due to absence from work) totalled ca. CZK 29.48 million (or 0.28% of personnel cost).

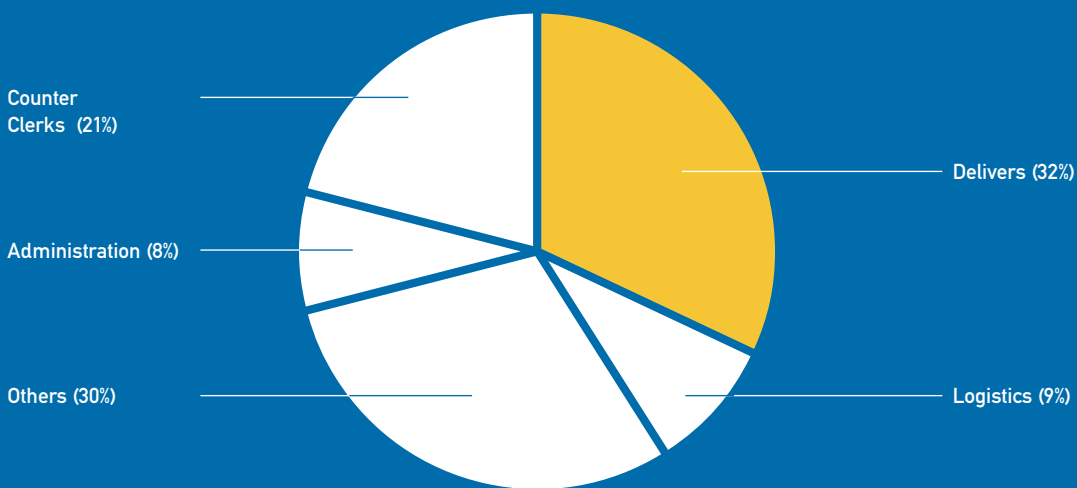
The average expenses per trainee were CZK 747, or CZK 750 per employee.

As of the year-end the prescribed qualification examination was passed by 83.07% of the employees, which complies with the set standards.

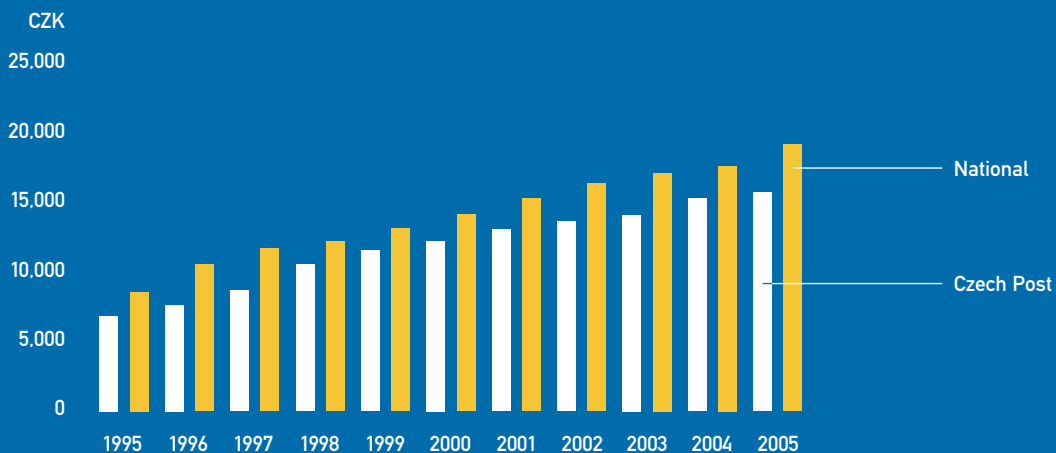
1995-2005 Personnel Development



2005 Classification of Personnel by Professions



1993-2005 Average Monthly Salary: Czech Post vs. National





Capital Investments and Technical Development

In 2005 the project of construction of the Brno Sorting Centre, the 2nd stage of construction of the Ústí nad Labem Sorting Centre and reconstruction of the Poděbrady Post Office were started.

The already started projects of the 1st stage of construction of the Ústí nad Labem Sorting Centre + Automated Parcel Delivery Office Most, reconstruction or modernization of the post offices at Prague 415 Podjavorinská, Jílové u Prahy, Sokolov 1, Moravská Třebová, Sezemice, Horní Jelení, Bílovec, Přerov, reconstruction of the roof of the Vlašim Post Office and construction of automated parcel delivery offices at Chomutov and Krupka, were completed.

As regards implementation of projects in the course of 2005, this area included the launch of routine operation e.g. of the Financial Services - Centralisation of Acceptance of Money Orders B project, the nSIPO (Collective Payments of Household Bills) project, the MkIS (Marketing Information System) project, the Geopost project and the CZ (Backup Centre) project. The tasks were set in a centralized architecture, with a connection to the backup centre and with securing the required safety of the SW. The MkIS is a support tool for sales and marketing personnel; it supplies complete analyses of data about clients and their postings, including detailed analyses in individual product segments. The main goal of the Geopost project is to get objective information for evaluation of the use of delivery service capacities by removing the main areas of problems which used to be data on distances of walks and volumes of ordinary letter mail. The CZ project solves the connection of tasks to the backup centre; in 2005 the portfolio of tasks was extended to cover the tasks Acceptance of Money Orders b, the SIPO payments, the Pension Service, and the C.O.D. Service Without Documents. The implementation of the projects Geopost and CZ will further continue in 2006.

In the first half of the year the SW solution of the graphic interface of the APOST system (automated post office based on the Linux operation system) was launched at 395 post offices. In addition to the APOST application these post office use also the following tools: electronic mail application, http browser and the OpenOffice package.

The EIS task (Economic Information System) serves the financial, personnel and logistic activities of the Czech Post. As part of the process of extending this task it was decided to start the implementation of the REM (Real Estate Management) module.

As part of the process of centralisation of scanning of payment evidence scanning devices were completely renewed and transition to a higher version of the evaluation software started. This will lead to a higher quality and speed of evaluation and processing of the evidence.

The project Qualified Certification Authority PostSignum QCA further developed the successfully completed projects of the Internal Certification Authority issuing certificates to secure the operation of some electronic services of the Czech Post and of the Public Certification Authority (PostSignum VCA) issuing commercial certificates to the public. The project was commenced in the late 2003 and completed in the early 2005. The solution then passed through an external audit with a special focus on compliance with the requirements of the Electronic Signature Act No. 227/2000 Coll., as amended, and the related regulations and international standards. Following this audit the Czech Post applied to the Ministry of Informatics of the Czech Republic for accreditation as an accredited provider of certification services.

The administrative decision by which the Ministry of Informatics granted to the Czech Post accreditation to pursue the activity of an accredited provider of certification services took effect on 3 August 2005. On 1 September 2005 the Czech Post started to act as a provider of services of a Qualified Certification Authority.

Another project of the Czech Post is the Registered Electronic Post (REP - electronic variant of registered mail with certificate of delivery). This project was declared by the CACIO Steering Committee as one of the best projects implemented by the end of 2003.

In connection with operation of the information system Central Address which belongs to the e-government projects, the Czech Post ensured in the course of 2005 within the required time limits a problem-free transition of the block of public contracts of this system to a regime set by a new decree. Furthermore it played an active role in the preparation of an amended law on public contracts (effective from the first quarter of 2006). In order to ensure operation of this block the Ministry for Local Development of the Czech Republic announced a competition for the licence. The competition has not been ended yet because of its repeated cancellations and new announcements in order to make its content more precise. The Czech Post nevertheless took part in all the biddings.

Another focus of the Czech Post in the area of e-government is its active cooperation in the project Public Administration Portal whose aim is electronic providing of select services of the state government and self-government to the public as well as to commercial clients, with the network of the Czech Post offices playing a role which is not a least one.

In connection with the emphasis put on development of the e-government services the Czech Post further continued its close cooperation with the respective departments of the Ministry of Informatics of the Czech Republic and the Ministry for Local Development of the Czech Republic.

In 2005, capital investments included a purchase of 499 vehicles with a total value of CZK 269 million.

The Czech Post also paid a large attention to public information about the overall portfolio of its services on its own website (www.cpost.cz). In 2005 the Czech Post completed a portal solution of this website allowing it to offer on-line services on a larger scale.

The area of standardisation included an update of the Technical Standards for Post Offices, comments on proposed European standards and technical specification and an assessment of the scope of impacts of approved European standards on postal activities.

The area of technical facilities covered a continued process of certification of new facilities, buying of samples, innovation works on packing lines in order to increase reliability and installation of a new parcel mail scanning facility.

The area of technological processes included analytical works facilitating decisionmaking, controlling and inspection activities.

The capital investments into the area of scientific and technical development covered altogether 5 tasks in the amount of CZK 1,920 thousand and 24 tasks covered from operating resources in the amount of CZK 11,645 thousand.

The results of solution of all the financed tasks were accepted by the ordering departments.

In 2005 altogether 499 road vehicles of a total value of CZK 245 million were bought from the capital investments.

The road vehicle park of the Czech Post as at 31 December 2005 included 4,283 vehicles. The increase was due to a delay in deregistration caused by the fact that the 2005 renewal took place no earlier than at the end of the fourth quarter of 2005.

The annual driving performance was 92.36 million km, or a reduction by 1.6% in comparison with the 2004 figure. The number of kilometres driven by 1 vehicle after recalculation was 23,837 km. The average age of road vehicles was 6.60 years, or 7.05 years in the case of the oldest vehicle park of the North Moravia regional branch and 6.35 years in the case of the youngest vehicle park of the South Moravia regional branch.

International Relations and Operations

The relationships with foreign postal administrations are based on the membership of the Czech Republic in the Universal Postal Union and of the Czech Post in the Association of European Public Postal Operators PostEurop, and their main goal is development of the international postal system. A specific feature of these relationships is especially development of the international postal market and strengthening the position of the Czech Post on it.

The Czech Post has been actively involved in the activities of both the above mentioned postal institutions. In terms of the Universal Postal Union the Czech Post has been involved in the task of development of the terminal dues system, is a member of the Direct Mail Advisory Board, the Quality of Service Project Team, the EMS Cooperative and the Telematic Cooperative.

As regards PostEurop task groups and projects, the Czech Post has participated in the activities of the International Affairs Committee, the Philately Task Force and the Terminal Dues Forum where it chairs the subgroup for transitional period. The last above mentioned activity resulted into the completion of the agreement on terminal dues system REIMS East, set up for the new EU member countries, which took effect as at 1 January 2005. This agreement introduced a new system of terminal dues in relation to the EU member countries, Switzerland, Norway and Iceland. This system fully complies with the requirements of the EC Directive 97/67 and is based on specific conditions in the new EU member countries.

The Czech Post has also had a close cooperation with the International Post Corporation, s.c. Its relationships with this corporation were formalized in 2005 by signing an agreement on cooperation opening the access of the Czech Post to top technological and business solutions in postal industry.

In the area of products the attention in 2005 was paid mainly to parcel and express products on the international postal market, with the aim to achieve growing volumes both in their exports and their imports. The Czech Post obtained the International EMS Silver Level Certificate for very good results of quality of this product between the countries of the EMS Cooperative.

In the area of electronic services the Czech Post was mainly involved in the activities of the UPU Telematic Cooperative, the Advanced Electronic Services (AES) Group, the IMS and the IFS User Groups. All groups are concentrated on support and development of electronic services in the area of third trustworthy parties and hybrid mail (AES), in the area of international mail data transfer (IMS) and in the area of international electronic system of payments (IFS)

The centre of gravity both of bilateral and multilateral business relationships with foreign postal operators lies in the creation of mutually beneficial conditions by means of product innovation and improvement of service quality. The major foreign business partner of the Czech Post is the Slovak Post, which is reflected in the extent of common business and operational activities. In 2005 the development of the product Commercial Parcel, put into routine operation in 2004, successfully continued, which helped the Czech Post to significantly strengthen its position in this segment of the international postal market. The development of the EMS and the Priority Parcel and the Economic Parcel services was similarly successful. In 2005 the Czech Post and the Slovak Post started working on the development of the products Commercial Letter and C.O.D. Without Documents.

2005 was the year of a deeper cooperation with the countries of the so-called Visegrad Initiative. In addition to development of operations quality attention was paid to support of business activities. In the year four-party agreements on service quality and on the Consignment and the Direct Entry services were signed. All the above mentioned agreements were joined in the course of 2005 by the Slovenian Post which became another permanent member of the above mentioned group of postal operators.

Stamp Design and Philately

The Czech Post, acting on behalf of the postage stamp issuer, i.e. the Ministry of Informatics of the Czech Republic, issued altogether 32 commemorative postage stamps with the first day covers and commemorative cancellations, of which 2 postage stamps had the form of blocks (Fate of Petr Ginz's Drawing "Landscape on the Moon" and the 200th anniversary of the Battle of Austerlitz) and 4 postage stamps had the form of a block and 4 coupons (Protected Fauna and Flora in the Krkonoše Mountains).

In connection with a change in domestic price there were issues of 5 postage stamps, of which 3 were postage stamps for normal postal operations (1 with a portrait of the President), 1 was a postage stamp with coupons for additional printing, and 1 was a postage stamp with new optional prices for slot machines.

Further issues included 1 picture card with stamp impression, 2 postage stamps with different artworks to stick onto postcards, 1 postcard for normal postal operations, 1 postcard for additional printing and 3 commemorative postcards.

The postage stamps commemorated major events and anniversaries, both local and international, e.g. the 200th anniversary of the Battle of Austerlitz, the World Year of Physics, the World Information Society Summit.

The common theme of the annual issue EUROPA was gastronomy. Further issues included the Beauties of Our Country (historic monuments under the patronage of the UNESCO), the Works of Art on Postage Stamps (A. Kosárek, Z. Burian, A. Kalvoda), stamps featuring sports and games (baseball, curling) as well as other issues of philatelic interest.

In addition to postage stamps, postal stationery and first day covers, the Czech Post ensured for philatelists also the production of popular books of stamps with as well as without coupons, cartes maxima, sticker sheets of postage stamps as well as the production of additional prints on postcards used to advertise various significant events and anniversaries. The offer of products for collectors also included a stamp yearbook with a black impression of the engraved artwork of a postage stamp of the issue "Beauties of Our Country" - St Prokop's Basilica in Třebíč.

Postage stamps and other philatelic goods were distributed on an ongoing basis to philatelists organized in about 350 clubs of the Union of Czech Philatelists as well as to other non-organized collectors via philatelic counters at post offices and the mail order house Services for Philatelists in Karlovy Vary. Philatelic goods were also delivered to private businesses selling postage stamps.

The Czech Post exported through the exports department of the Supplier and Commercial Services branch postage stamps to about 350 clients worldwide.

Altogether 72 commemorative cancellations were available at post offices on various occasions.

The Czech Post had a sales stand promoting the Czech postage stamp design at international postage stamp exhibitions in Germany, Austria and Italy.

The Czech Post acting in cooperation with the Union of Czech Philatelists organized in 2005 the European Postage Stamp Exhibition BRNO 2005. The exhibition hosted expositions from forty countries worldwide.

POSTAL MUSEUM

In the year 2005 the Postal Museum operated the Permanent Exposition Classic Stamp Design of European Countries and the Czech Republic in Prague and the Permanent Exposition of Postal History in Vyšší Brod. The latter location offered to the public also the exposition Czech Post 1993-2003.

The Postal Museum in Prague hosted the following 5 commemorative exhibitions:

- Ladislav Jirka - stamp design, paintings, illustrations
- Josef Saska - stamp and graphic design
- Travelling by Post (the exhibition was turned into digital form on CD ROM for local and international presentation of the museum, in the Czech and the English language versions)
- Antonín Odehnal - stamp and graphic design
- Photographic Archives of the Ministry of Post and Telegraph Offices

The Postal Museum in Vyšší Brod in cooperation with the Town of Vyšší Brod, the Basic School of Arts in Kaplice and the Cistercian Monastery held in the summer time an exhibition of the school pupils' artworks.

The Postal Museum participated the European Postage Stamp Exhibition Brno 2005 held under the patronage of the Federation of European Philatelic Associations FEPA, the Union of Czech Philatelists and the Czech Post. At the exhibition it displayed the following collections:

- Postal History
- First Newspaper Stamps in the World
- First Postage Stamps of Czechoslovakia
- Technology of Printing of Czech Postage Stamps
- Major Awards of Czech Stamp Design

The museum also participated in these local exhibitions:

Golden Times of the Media at the National Museum in Prague, Oldřich Kulhánek in Kutná Hora, Czech Stamp Design in the Municipal Library in Most, Karel Seizinger in the Municipal Museum in Hradec nad Moravicí.

The exhibition Awarded Postage Stamps of the Czech Republic was held abroad, at the premises of the Postal Museum in Gdańsk. In the year 2005 the Postal Museum registered altogether 7,158 new collection entries. The number of collection items and their sets as at 31 December 2005 was 199,210. The number of subcollections in the collection of the Postal Museum reached 69 in 2005.

In 2005 the creation of digital photodocumentation of the subcollections of three-dimensional things Cash Counters and Transport Vehicles under the MUZIS database was completed.

The number of paying visitors of the expositions of the Postal Museum in Prague and in Vyšší Brod was 27,420. Visitors at the Prague or national cultural and education events, such as the World Museum Day, the Ice Prague, the Bambiriáda event, and members of the Association of Museums and Galleries and holders of the ICOM UNESCO card had a free entry.

Relation of the Czech Post to the Environment

The Czech Post ("CP") has been continuously adapting to the growing requirements on environmental protection. The activities in this area have been maintained on a level required not only by legal regulations but also by other requirements arising from its own knowledge of potential rationalization of all kinds of activities, with respect to the requirements of environmental protection and permanently sustainable development. The systemic concept and control activities of the corporate network of specialists in this field, managed by a specialized section of the headquarters, helped the CP to reduce negative impacts of its activities on the environment in spite of the fact that as a company of non-production character it is rather strongly limited in further reduction of these negative impacts.

The ordinary routine activities include continuous performance of tasks set by legal standards in individual areas of environmental protection, i.e.:

- Waste management
- Management of packages
- Air protection
- Water protection
- Handling of dangerous chemical substances
- Energy management

The category which has the most significant impact on the CP with respect to its activities is Waste Management. Since 1999 the CP has annually reduced its waste production, from 12 thousands tons in 1999 to 8.7 thousands tons in 2005, which is an almost 40% reduction.

In addition to these routine activities in the area of environmental protection, the CP completed in 2005 independent energy audits in 120 buildings and operations most demanding in terms of energy, with the subsequent preparation of the document Summary Energy Audit of the CP. The results of the auditing in the form of proposed measures will be gradually introduced, in particular as part of newly prepared capital investments, and their efficiency will be evaluated.

Another extraordinary event in 2005 was the beginning of preparation of Waste Management Plans according to individual regions of the Czech Republic to which the offices of the CP belong. The purpose of preparation of these plans is mainly coordination of internal objectives and the underlying processes and measures of the CP with the rationalization plans of regional authorities in the area of waste management, in a medium-term horizon of three years and a long-term horizon of ten years. The deadline for preparation of the overall summary Waste Management Plan of the CP is the end of 2006.

Annual Financial Statements of the Czech Post, State Enterprise (further as CP)

As of 31 December 2005

Auditor's Report

To the Founder of Česká pošta, s.p.:

We have audited the financial statements of Česká pošta, s.p. as at 31 December 2005. These financial statements are the responsibility of the Company's management. 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, International Standards on Auditing and applicable clauses of the Chamber of Auditors of the Czech Republic. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Česká pošta, s.p. as at 31 December 2005 and the financial results for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

We have also audited the prior year financial statements as at 31 December 2004, resp. 2003 of Česká pošta, s.p. and issued an unqualified report thereon dated 9 March 2005 and 10 March 2004, respectively.



Ernst & Young Audit & Advisory, s.r.o., člen koncernu
Licence No. 401



Magdalena Součková
Auditor, License No. 1291

17 February 2006
Prague, Czech Republic

Balance Sheet – Long Form

As of 31 December 2005

(Czech Crowns in thousands – T-CZK)

		2005		2004	2003	
	Gross	Provisions	Net	Net	Net	
	TOTAL ASSETS	25,560,843	-8,604,363	16,956,480	16,591,587	17,831,615
	from this: entrusted resources	4,676,004		4,676,004	5,621,281	7,224,453
B.	FIXED ASSETS	16,543,161	-8,482,676	8,060,485	7,786,848	7,656,070
B. I.	Intangible assets	1,020,825	-706,250	314,575	319,262	309,647
3	Software	868,699	-651,401	217,298	242,549	229,289
4	Patents, royalties and similar rights	719	-136	583	365	93
6	Small and other intangible assets	116,955	-54,713	62,242	76,348	77,008
7	Intangible assets in progress	34,452	0	34,452	0	2,457
8	Advances granted for intangible assets	0	0	0	0	800
B. II.	Tangible assets	15,464,793	-7,736,709	7,728,084	7,449,760	7,328,597
B. II. 1	Land	754,852	-2,029	752,823	753,089	744,787
2	Constructions	7,955,679	-2,804,746	5,150,933	4,974,618	4,801,578
3	Separate movable items and groups of movable items	6,340,113	-4,922,060	1,418,053	1,409,152	1,445,466
6	Other tangible assets	3,709	0	3,709	3,709	3,280
7	Tangible assets in progress	386,979	-7,874	379,105	279,965	223,115
8	Advances granted for tangible assets	23,461	0	23,461	29,227	110,371
B. III.	Financial investments	57,543	-39,717	17,826	17,826	17,826
B. III. 1	Subsidiaries	17,746	0	17,746	17,746	17,746
3	Other long-term securities and interests	39,797	-39,717	80	80	80
C.	CURRENT ASSETS	8,897,502	-121,687	8,775,815	8,584,588	10,067,069
	from this: entrusted resources	4,676,004		4,676,004	5,621,281	7,224,453
C. I.	Inventory	180,193	-3,639	176,554	162,128	148,294
C. I. 1	Materials	130,838	-2,912	127,926	118,963	121,953
5	Goods	49,355	-727	48,628	43,165	26,341
C. II.	Long-term receivables	58,931	-51,850	7,081	10,453	12,530
	Long-term advances granted	2,169		2,169	2,690	7,597
6	Other receivables	56,762	-51,850	4,912	7,763	4,933
C. III.	Short-term receivables	2,010,474	-66,198	1,944,276	1,480,031	1,451,954
	from this: entrusted resources	626,615		626,615	301,338	266,305
C. III. 1	Trade receivables	741,822	-52,933	688,889	534,704	483,936
	from this: entrusted resources	140,501		140,501	92,399	40,115
6	Due from government - tax receivables	25,482	0	25,482	52,255	820
7	Other short-term advances granted	90,631	0	90,631	85,181	101,528
8	Unbilled revenue	371,479	0	371,479	306,175	328,543
9	Other receivables	781,060	-13,265	767,795	501,716	537,127
	from this: entrusted resources	486,114		486,114	208,939	226,190
C. IV.	Short-term financial assets	6,647,904	0	6,647,904	6,931,976	8,454,291
	from this: entrusted resources	4,049,389		4,049,389	5,319,943	6,958,148
C. IV. 1	Cash	4,046,113		4,046,113	3,649,375	3,685,440
	from this: entrusted resources	4,049,044		4,049,044	3,639,335	3,681,435
2	Bank accounts	1,834,573		1,834,573	3,067,517	4,295,068
	from this: entrusted resources	345		345	1,680,608	3,276,713
3	Short-term securities and interests	767,218	0	767,218	215,084	473,783
D.	OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS	120,180	0	120,180	220,151	108,476
D. I.	Accrued assets and deferred liabilities	120,180	0	120,180	220,151	108,476
D. I. 1	Prepaid expenses	51,210		51,210	142,549	40,401
3	Unbilled revenue	68,970		68,970	77,602	68,075

		2005	2004	2003
	TOTAL SHAREHOLDER'S EQUITY & LIABILITIES	16,956,480	16,591,587	17,831,615
	from this: entrusted resources	4,676,004	5,621,281	7,224,453
A.	EQUITY	9,070,839	8,556,059	8,265,996
A. I.	Basic capital	3,586,708	3,586,611	3,582,543
A. I. 1	Basic capital	3,581,699	3,581,699	3,581,699
	3 Changes in basic capital	5,009	4,912	844
A. II.	Capital funds	4,223,370	4,019,751	3,606,051
	2 Other capital funds	4,223,370	4,019,751	3,606,051
A III.	Reserve funds and other funds created from profit	368,144	355,515	289,760
A III. 1	Legal reserve fund	358,170	343,170	273,221
	2 Statutory and other funds	9,974	12,345	16,539
A. IV.	Retained earnings	225,764	149,583	88,151
	IV. 1 Retained earnings of previous years	225,764	149,583	88,151
A. V.	Result of current accounting period (+/-)	666,853	444,599	699,491
B.	LIABILITIES	7,634,942	7,842,198	9,349,040
	from this: entrusted resources	4,676,004	5,621,281	7,224,453
B. I.	Reserves	46,165	261	261
	4 Other reserves	46,165	261	261
B. II.	Long-term liabilities	316,666	203,854	190,141
	5 Long-term deposits received	45,639	38,627	37,518
	10 Deferred tax liability	271,027	165,227	152,623
B. III.	Current liabilities	6,328,672	7,394,264	8,858,638
	from this: entrusted resources	3,732,565	5,597,462	7,224,453
B. III. 1	Trade payables	3,492,252	2,672,844	2,316,304
	from this: entrusted resources	2,876,849	2,298,200	2,013,216
	5 Liabilities to employees	636,702	502,086	489,582
	6 Liabilities arising from social security and health insurance	343,050	257,124	241,661
	7 Due to government – taxes and subsidies	102,474	93,457	186,798
	8 Short-term advances received	11,182	28,771	78,705
	10 Contingencies - loss	758,490	486,909	410,540
	11 Other liabilities	984,522	3,353,073	5,135,048
	from this: entrusted resources	855,716	3,299,262	5,211,237
B. IV.	Bank loans and short-term borrowings	943,439	243,819	300,000
	from this: entrusted resources	943,439	23,819	
B. IV. 1	Long-term bank loans	26,312	23,819	
	from this: entrusted resources	26,312	23,819	
	2 Short-term bank loans	917,127	220,000	300,000
	from this: entrusted resources	917,127		
C.	OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES	250,699	193,330	216,579
C. I.	Accrued liabilities and deferred assets	250,699	193,330	216,579
C. I. 1	Accruals	101,982	63,140	96,212
	2 Deferred income	148,717	130,190	120,367

Income Statement – Long Form

For the Year Ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

		2005	2004	2003
I.	Revenues from goods sold	514,557	556,238	578,205
A.	Cost of goods sold	401,448	440,266	460,450
+	Gross margin	113,109	115,972	117,755
II.	Operation	16,601,327	15,352,950	14,765,834
II. 1	Revenues from finished products and services	16,586,349	15,337,547	14,753,123
II. 3	Own work capitalized	14,978	15,403	12,711
B.	Production related consumption	4,029,731	3,548,966	3,291,601
B. 1	Consumption of material and energy	1,430,845	1,260,974	1,138,062
B. 2	Services	2,598,886	2,287,992	2,153,539
+	Value added	12,684,705	11,919,956	11,591,988
C.	Personnel expenses	10,391,531	9,933,629	9,496,637
C. 1	Wages and salaries	7,476,840	7,110,115	6,791,992
C. 2	Bonuses to members of company or cooperation bodies	2,901	1,145	949
C. 3	Social security and health insurance	2,589,091	2,496,692	2,390,500
C. 4	Other social costs	322,699	325,677	313,196
D.	Taxes and fees	28,741	31,335	30,501
E.	Amortization of intangibles and depreciation of tangibles	815,866	937,910	895,181
III.	Revenues from intangible and tangible assets and material sold	42,676	38,556	58,568
III. 1	Revenues from non current assets sold	40,216	31,178	52,424
III. 2	Revenues from material sold	2,460	7,378	6,144
F.	Net book value of intangibles, tangibles and material sold	16,235	21,251	22,059
F. 1	Net book value of non current assets sold	14,158	14,692	17,113
F. 2	Material sold	2,077	6,559	4,946
G.	Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	52,824	-14,401	-2,453
IV.	Other operational revenues	176,819	191,388	178,257
H.	Other operational expenses	759,010	761,880	512,003
*	Net operating results	839,993	478,296	874,885
VI.	Revenue from sale of securities and interests	250,418	72,537	125,187
J.	Securities and interests sold	249,183	72,445	125,225
VII.	Income from financial investments	718	718	718
VII. 1	Income from subsidiaries and associates	718	718	718
VIII.	Income from short-term financial assets	1,636	5,101	12,009
IX.	Revenue from revaluation of equity securities	10,955	5,176	608
L.	Loss on revaluation of securities and derivatives	0	0	1,571
X.	Interest revenues	78,313	81,535	64,352
N.	Interest expenses	1,018	3,115	8,482
XI.	Other financial revenues	25,260	30,398	46,967
O.	Other financial expenses	38,513	42,750	60,067
*	Profit or loss on financial activities	78,586	77,155	54,496
Q.	Tax on profit or loss on ordinary activities	253,432	114,745	216,738
Q. 1	- due	147,632	102,141	241,158
Q. 2	- deferred	105,800	12,604	-24,420
**	Profit or loss on ordinary activities after taxation	665,147	440,706	712,643
XIII.	Extraordinary gains	4,010	17,898	31,933
R.	Extraordinary losses	1,914	11,079	45,085
S.	Tax on extraordinary profit or loss	390	2,926	0
S. 1	- due	390	2,926	
*	Extraordinary profit or loss	1,706	3,893	-13,152
***	Net profit or loss for the accounting period	666,853	444,599	699,491
	Profit or loss of operations before taxation	920,675	562,270	916,229

Cash Flow Statement

For the Year Ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

	2005	2004	2003
P. Cash and cash equivalents at the beginning of the accounting period	6,931,976	8,454,291	6,190,727
Z. Profit or loss on ordinary activities before taxation (+/-)	918,578	555,451	929,381
A. 1. Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	764,539	830,706	797,290
A. 1. 1. Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	817,020	940,905	896,016
A. 1. 2. Change in provisions, reserves and change in prepayments and accruals	52,824	-14,484	-2,455
A. 1. 5. (Gain)/Loss on disposal of fixed assets	-27,292	-16,577	-35,273
A. 1. 6. Dividends and profit revenues	-718	-718	-5,128
A. 1. 7. Interest expense and interest income	-77,295	-78,420	-55,870
A * Net cash from operating activities before taxation, changes in working capital and extraordinary items	1,683,117	1,386,157	1,726,671
A. 2. Change in non-cash components of working capital	-763,881	-1,578,309	1,418,848
A. 2. 1. Change in receivables from operating activities	-390,459	-82,757	-115,402
A. 2. 2. Change in short-term payables from operating activities	-360,272	-1,482,713	1,517,464
A. 2. 3. Change in inventories balance	-13,150	-12,839	16,786
A ** Net cash from operating activities before taxation, interest paid and extraordinary items	919,236	-192,152	3,145,519
A. 3. Interest paid	-1,018	-3,115	-8,482
A. 4. Interest received	78,313	81,535	64,352
A. 5. Tax on normal activity and additional tax of prior years	-122,236	-265,512	50,157
A. 6. Proceeds and disbursements related to extraordinary items	1,707	3,892	-13,151
A. 7. Dividends and shares from profit received	718	718	5,128
A *** Net cash provided by (used in) operating activities	876,720	-374,634	3,243,523
B. 1. Purchase of fixed assets	-1,308,791	-1,122,942	-1,019,959
B. 2. Proceeds from sale of fixed assets	290,473	104,920	176,406
B *** Net cash provided by (used in) investing activities	-1,018,318	-1,018,022	-843,553
C. 1. Change in long-term liabilities	9,504	24,928	2,341
C. 2. Effect of changes in basic capital on cash	-151,978	-154,587	-138,747
C. 2. 5. Direct payments debited to funds	-151,978	-154,587	-138,747
C *** Net cash provided by (used in) financing activities	-142,474	-129,659	-136,406
F. Net increase (decrease) in cash	-284,072	-1,522,315	2,263,564
R. Cash and cash equivalents at the end of the accounting period	6,647,904	6,931,976	8,454,291

Notes to the Financial Statements

for the Year Ended 31 December 2005

1. DESCRIPTION OF THE COMPANY

Česká pošta, s.p. ("the Company") is a company wholly owned by the Czech government. The Company was formed by the Ministry of Transportation and Communications of the Czech Republic as of 1 January 1993. The Company's registered office is in Prague 3, Olšanská 38/9, the Czech Republic, and its business registration number (IČ) is 47114983.

The Company is engaged primarily in:

a) the performance of postal operations in the territory of the Czech Republic within the following scope:

- posting, transport and delivery of mail, including electronic mail, and ensuring of postal system and system of payments in the internal postal system;
- posting, transport and delivery of mail, including electronic mail, and providing of money services in accordance with international agreements applicable to the international postal system;
- express and courier transport of mail with a guaranteed delivery within an agreed period of time, including the international postal system.

b) the construction, operations and development of a standardized postal network in the territory of the Czech Republic and related activities, including service provided for domestic and foreign equipment that is essential or that relates to the postal network operations;

c) the development, import and export of technical and operational facilities of the post.

The Company has a headquarters office and 10 branches located throughout the Czech Republic, as follows:

- Headquarters office, Olšanská 38/9, Prague 3.
- β Central Bohemia, Politických vězňů 909/4, Prague 1.
- South Bohemia, Senovážné náměstí 240, České Budějovice.
- West Bohemia, Solní 260, Plzeň.
- North Bohemia, Berní 2119, Ústí nad Labem.
- East Bohemia, Na Hrádku 105, Pardubice.
- South Moravia, Orlí 655, Brno.
- North Moravia, Poštovní 1368, Ostrava.
- International Operations, Plzeňská 290, Prague 5 – Košíře.
- Supplier and Commercial Services, Ortenovo náměstí 542, Prague 7.
- VAKUS Computer Center, Wolkerova 480, Vítkov.

The following change was made to the Commercial Register entry in 2005: The change in the position of the Head of South Moravia branch was entered in the Commercial Register as of 28 January and his signature specimen was established.

Members of statutory and supervisory bodies as of 31 December 2005 were as follows:

Statutory Body (Directors)

General Director	JUDr. Karel Kratina
Deputy General Director	Ing. Miroslav Špaček
Deputy General Director	Ing. Tomáš Urban, CSc.
Deputy General Director	Ing. Pavel Wenisch
Deputy General Director	Ing. Vít Šorm, PhD.

Supervisory Board

Chair	Ing. Libor Svoboda
Vice-chair	Karel Koukal
Member	Ludovít Gulázi
Member	Mgr. Pavel Kolář
Member	Ing. Vratislav Kroužecký
Member	Ivana Musilová
Member	Ing. Vladimír Budinský, MBA
Member	Ing. Ondřej Felix, CSc.
Member	Ing. Jiří Štráberger

2. BASIS OF PRESENTATION OF THE FINANCIAL STATEMENTS

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting and the related guidelines, the Czech Accounting Standards for Entrepreneurs as applicable for 2005 and 2004 and the relevant accounting procedures for entrepreneurs as applicable for 2003.

Explanation Added for Translation into English

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Company in preparing the 2005, 2004 and 2003 financial statements are as follows:

a) Intangible Fixed Assets

Intangible fixed assets are valued at their acquisition cost and related expenses.

Intangible fixed assets with a cost exceeding CZK 60 thousand are amortized in accordance with an amortization schedule over their estimated useful life, which is four years.

Small intangible items with a cost of less than CZK 60 thousand are valued at cost, expensed and carried only in a subsidiary ledger.

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

a) Tangible Fixed Assets

Purchased tangible fixed assets with cost exceeding CZK 40 thousand are recorded at their acquisition cost that consists of purchase price, freight, customs duties and other related costs. Interest on loans is not capitalised in the acquisition cost of tangible fixed assets.

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

The Company has adjusted the value of tangible fixed assets through a provision, particularly in the case of projects the implementation of which, if any, is uncertain, ownership title is challenged by court or the estimated selling price has been determined lower than the net book value of the respective asset.

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

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

Small tangible items with a cost of less than CZK 40 thousand are expensed and carried only in a subsidiary ledger. For computers, this threshold was reduced to CZK 10 thousand in 2002 and 2003. Since 2004 the threshold has been increased back to the original level, acquisition costs of computer equipment below CZK 40 thousand are in case of standard volume of purchases directly expensed. In 2004 the Company time apportioned the acquisition cost of computer equipment over two years in connection with higher volume of purchases made in 2004 (in relation to transfer to SAP R3 - version 4.7). 50% of the costs were charged to income of 2004, the remaining 50% were charged to income in 2005.

Depreciation

Depreciation is calculated based on the acquisition cost and the estimated useful life of related asset. The estimated useful life of tangible fixed assets has been determined as follows:

	Years
Building, halls and constructions	20–45
Machinery and equipment	4–15
Vehicles	6–20
Furniture and fixtures	10–20
Handling equipment	6–20
Computer technology	3

b) Financial Assets

Short-term financial assets consist of liquid valuables, cash in hand and at bank and held-for-trading securities.

Long-term financial assets consist mainly of ownership interests.

Held-for-trading securities are securities that are held for the purpose of effecting transactions in the market in order to generate profit from the price variances in the short-run which, however, will not exceed one year.

Interests and securities are valued at their acquisition cost, which includes the purchase price and direct costs related to the acquisition, e.g. fees and commissions paid to agents and stock exchanges. In respect of debt securities, interest income is recorded observing the matching and accrual principles. Accrued interest income is included in the relevant securities account.

As of 31 December the individual components of financial assets are revaluated using the following method:

- Held-for-trading securities are revaluated to fair value; the change in the fair value is charged or recognized to income, as appropriate.
- Ownership interests constituting significant or dominant influence are valued at acquisition cost.

The fair value is the market value that is published by the relevant domestic or foreign stock exchange; or, if the market value is not available from a public market, is a valuation amount given in a qualified estimate or in a certified expert's opinion.

If there is a decrease in the carrying value of long-term financial assets that are not revaluated at the balance sheet date, the difference is considered a temporary diminution in value and is recorded as a provision.

c) Inventory

Purchased inventory is valued at actual cost using the lower of the weighted average cost method or market value. In subledger accounts, the cost of purchased inventory is maintained net of the costs related to acquisition (such as freight, customs duties, commissions, etc.).

d) Receivables

Both long- and short-term receivables are carried at their realizable value after provision for doubtful accounts. Additions to the provision account are charged to income.

e) Equity

The Company's legal form is that of a state enterprise. The financial position and funds of a state enterprise are governed by special legislation, the State Enterprise Act (No. 77/1997 Coll.). Under this act, the basic capital of a state enterprise corresponds to its fundamental basic capital, i.e. to the business property to which the entity has a title upon its establishment. The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Municipal Court. Other capital funds are established in compliance with Accounting procedures for Entrepreneurs and Act on Accounting. Transfers of basic capital to the National Property Fund or transfers based on restitution claims are reported in the account Basic capital movements.

In addition, the Company creates a reserve fund from profit. Upon the establishment of the Company, the level of its reserve fund was set by its founder at 10% of the fundamental basic capital. The reserve fund is allocated by 10% of profit. The creation of the obligatory reserve fund finished in 2005.

In addition, the Company is required to create a cultural and social fund. The additions to and disposals from the fund are governed by special legislation.

f) Reserves and Liabilities

The Company creates legal reserves within the meaning of the Act on Reserves and reserves for losses and risks if the related purpose, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

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

g) Financial Leases

The Company records leased assets by expensing the lease payments and capitalizing the residual value of the leased assets when the lease contract expires and the purchase option is exercised. Lease payments paid in advance are recorded as prepaid expenses and amortized over the lease term.

h) Foreign Currency Transactions

Effective from 1 August 2004, assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at a fixed rate set as at the first day of each calendar quarter. Until 1 August 2004 the exchange rates valid at the transaction date were used for the translation. They were adjusted at year-end to the exchange rates at 31 December as published by the Czech National Bank.

Realized and unrealized exchange rate gains and losses were charged or credited, as appropriate, to income of the current year.

i) Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises. Sales are recognized net of sales taxes and discounts when delivery has taken place and transfer of risks and rewards has been completed or at the moment of provision of services to third parties.

The Company recognizes as an expense any additions to reserves for or provisions against risks, losses or physical damage that are known as of the financial statements date.

j) Income Tax

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible reserves and provisions, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes.

4. FIXED ASSETS

a) Intangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	At end of year
Software	814,897	96,528	-42,726	868,699
Patents, royalties and similar rights	400	319	-	719
Other intangible fixed assets	103,750	13,905	-700	116,955
Intangibles in progress	-	115,790	-81,338	34,452
2005 Total	919,047	226,542	-124,764	1,020,825
2004 Total	787,064	301,909	-169,926	919,047
2003 Total	634,048	315,106	-162,090	787,064

ACCUMULATED AMORTIZATION

	At beginning of year	Additions	Disposals	At end of year	Provisions	Net book value
Software	-572,348	-121,211	42,158	-651,401	-	217,298
Patents, royalties and similar rights	-35	-101	-	-136	-	583
Other intangible fixed assets	-27,402	-28,011	700	-54,713	-	62,242
Intangibles in progress	-	-	-	-	-	34,452
2005 Total	-599,785	-149,323	42,858	-706,250	-	314,575
2004 Total	-477,417	-134,341	11,973	-599,785	-	319,262
2003 Total	-341,205	-136,509	297	-477,417	-	309,647

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 95,270 thousand, CZK 83,775 thousand and CZK 66,370 thousand at acquisition cost as at 31 December 2005, 2004 and 2003, respectively.

b) Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	At end of year
Constructions	7,614,698	374,037	-33,056	7,955,679
Machinery and equipment	3,094,800	203,516	-170,804	3,127,512
Vehicles	1,592,205	269,989	-38,038	1,824,156
Furniture and fixtures	557,005	35,968	-8,581	584,392
Other tangible fixed assets	842,089	8,100	-46,136	804,053
Land	753,089	6,324	-4,561	754,852
Art works and collections	3,709	-	-	3,709
Tangibles in progress	287,843	1,001,332	-902,196	386,979
Advances for tangibles	29,227	42,068	-47,834	23,461
2005 Total	14,774,665	1,941,334	-1,251,206	15,464,793
2004 Total	14,170,160	2,363,751	-1,759,246	14,774,665
2003 Total	13,582,331	2,073,344	-1,485,515	14,170,160

ACCUMULATED DEPRECIATION

	At beginning of year	Additions	Disposals	At end of year	Provisions	Net book value
Constructions	-2,618,862	-175,668	11,828	-2,782,702	-22,044	5,150,933
Machinery and equipment	-2,385,920	-310,698	174,933	-2,521,685	-	605,827
Vehicles	-1,044,653	-143,447	36,708	-1,151,392	-1,023	671,741
Furniture and fixtures	-447,690	-18,851	8,472	-458,069	-	126,323
Other tangible fixed assets	-798,684	-29,459	38,252	-789,891	-	14,162
Land	-	-	-	-	-2,029	752,823
Art works and collections	-	-	-	-	-	3,709
Tangibles in progress	-	-	-	-	-7,874	379,105
Advances for tangibles	-	-	-	-	-	23,461
2005 Total	-7,295,809	-678,123	270,193	-7,703,739	-32,970	7,728,084
2004 Total	-6,805,302	-861,406	370,899	-7,295,809	-29,096	7,449,760
2003 Total	-6,242,606	-957,319	394,623	-6,805,302	-36,260	7,328,597

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 1,486,569 thousand, CZK 1,281,231 thousand and CZK 910,626 thousand at acquisition cost as at 31 December 2005, 2004 and 2003, respectively.

The Company has adjusted the carrying value of certain tangible assets for diminution in value through provisions charged against income (see Note 7).

In 2005, 2004 and 2003, the Company did not establish statutory reserves for repairs of tangible fixed assets, as these assets are being repaired and maintained on a regular basis.

The Company received for no consideration tangible fixed assets with a cost of CZK 2,951 thousand, CZK 5,415 thousand and CZK 193 thousand in 2005, 2004 and 2003, respectively. These assets comprise donations, real property including land acquired in restitution and transferred from ČESKÝ TELECOM, a.s. (completion of delimitation of fixed assets) or from district authorities.

Certain tangible fixed assets (scarcely used recreational facilities, real property located at Opletalova Street in Prague, unused land, closed down post offices, warehouses, apartments, lodging houses, etc.) were no longer in use and were being held for sale and refurbishment. These had a cost of CZK 204,735 thousand, CZK 124,201 thousand and CZK 29,612 thousand and accumulated depreciation of CZK 83,101 thousand, CZK 42,232 thousand and CZK 14,562 thousand, as at 31 December 2005, 2004 and 2003, respectively. The estimated selling price is CZK 333,230 thousand. In 2005, unused assets in total volume of CZK 25,956 thousand were sold at a gain of CZK 16,711 thousand.

In 2005, 2004 and 2003, in addition to the easement for the benefit of PCS – Praha Center s.r.o. on the post office building at Jindřišská, Prague 1 created pursuant to a contract entered into on 16 April 1997, which is in force until 31 March 2042, the Company has another approximately 138 minor easements (rights of sewage piping, water mains, power and gas piping connection, hot-water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) generally created for the benefit of the community and municipal authorities, ČESKÝ TELECOM, a.s. and power producers and distributors.

c) Long-Term Financial Investments (in CZK thousands)

Summary of changes in long-term financial assets:

	Balance as at 31/ 12/ 2003	Additions	Disposals	Revaluation	Balance as at 31/ 12/ 2004	Additions	Disposals	Revaluation	Balance as at 31/ 12/ 2005
Subsidiaries	17,746	-	-	-	17,746	-	-	-	17,746
Other long-term securities and deposits	39,797	-	-	-	39,797	-	-	-	39,797
Provisions	-39,717	-	-	-	-39,717	-	-	-	-39,717
Total	17,826	-	-	-	17,826	-	-	-	17,826

Subsidiaries and associates in which the Company has a controlling interest as at 31 December 2005, 2004 and 2003 were as follows (in CZK thousands):

Company name	Poštovní tiskárna cenin Praha a.s.		
Registered office	Ortenovo náměstí 542/16, Prague 7 – Holešovice		
	2005	2004	2003
Percentage of ownership	51.03	51.03	51.03
Total assets	90,790	92,853	96,767
Equity	83,494	84,963	86,640
Basic capital and capital funds	65,264	65,264	48,542
Funds created from profit	6,625	6,712	4,629
Retained earnings	11,605	11,977	23,478
Profit for the current year	382	1,010	9,991
Acquisition cost of share / interest	17,746	17,746	17,746
Nominal value of share	16,903	16,903	16,903
Intrinsic value of shares	42,607	43,357	44,212
Dividends received	718	718	718

Financial information about this company was obtained from the company's standalone audited financial statements..

No loan or credit was granted to the subsidiary as at 31 December 2005, 2004 and 2003.

Other long-term securities and contributions were as follows:

- a) 233,630 shares of IPB, a.s., (currently IP banka, a.s.) with a nominal value of CZK 23,363 thousand and with a cost of CZK 39,717 thousand; this ownership interest was fully provided for in 2000.
- b) an ownership interest in Asociace direct marketingových agentur totalling CZK 80 thousand.

5. INVENTORY

Excess, obsolete and slow moving inventory has been written down to its estimated net realizable value by a provision account. The provision is determined by management based on the analysis of inventory turnover and based on regular disposal of obsolete and excessive inventory (see Note 7).

6. RECEIVABLES

Provisions against outstanding receivables that are considered doubtful were charged to income based on their aging and collectibility in 2005, 2004 and 2003, respectively (see Note 7).

Receivables overdue for more than 180 days totalled CZK 94,922 thousand, CZK 91,605 thousand and CZK 94,266 thousand as at 31 December 2005, 2004 and 2003, respectively, i.e. less than 1% of annual turnover.

In addition, the Company wrote off irrecoverable receivables of CZK 7,954 thousand, CZK 11,254 thousand and CZK 30,643 thousand in 2005, 2004 and 2003, respectively due to cancellation of bankruptcy proceedings or unsatisfying the claims in bankruptcy proceedings, etc.

As at 31 December 2005, 2004 and 2003 the Company had long-term net receivables of CZK 7,081 thousand, CZK 10,453 thousand and CZK 12,530 thousand, respectively. Receivables due after five years amounted to CZK 2,357 thousand, CZK 5,252 thousand and CZK 6,889 thousand as at 31 December 2005, 2004 and 2003, respectively. They relate particularly to advances for rent, advances for meal vouchers and fuelling using the CCS cards.

As at 31 December 2005, 2004 and 2003 the Company also reported long-term receivables from shortages and damage due to the theft. These receivables were provided for in full at an amount of CZK 51,850 thousand, CZK 52,239 thousand and CZK 51,656 thousand, respectively.

Receivables from related parties (see Note 21).

The captions Gain contingencies and Loss contingencies primarily comprise accounting for international postal operations. Operating records on incoming and outgoing postal packets so far not confirmed by individual postal administrations were recorded as gain or loss contingencies with the corresponding entry to operating expenses and revenues.

The remaining portion of gain contingencies comprise estimated satisfaction of insurance claims.

7. PROVISIONS

Provisions reflect a temporary diminution in value of assets (see Notes 4, 5 and 6).

Changes in the provision accounts (in CZK thousands):

Provisions against	Balance as at			Balance as at			Balance as at	
	31/ 12/ 2003	Additions	Deductions	31/ 12/ 2004	Additions	Deductions	31/ 12/ 2005	
Fixed assets	36,260	369	-7,533	29,096	4,224	-350	32,970	
Inventory	5,911	3,000	-3,995	4,916	2,347	-3,624	3,639	
Receivables – legal	25,965	5,647	-13,643	17,969	6,593	-7,907	16,655	
Receivables – other	94,084	38,917	-37,245	95,756	43,851	-38,214	101,393	

Legal provisions are created in compliance with the Act on Reserves and are tax deductible, other provisions are tax non-deductible.

8. SHORT-TERM FINANCIAL ASSETS

The Company has two cash-pooling sets of accounts and overdraft facilities (with agreed credit limits) with Československá obchodní banka, a. s., which is its main bank.

As at 31 December 2005, the overdraft facility with respect to entrusted funds was used at an amount of CZK 917,127 thousand, in accordance with the agreed credit limits, the overdraft facility was not used with respect to current accounts (see note 14).

As at 31 December 2004 and 2003, the overdraft facility was not used with any of the sets of accounts (the entrusted funds or the current accounts).

The Company's term deposits totalled CZK 1,360,000 thousand as at 31 December 2005. The term deposit of CZK 300,000 thousand with Deutsche Bank, A.G., the Prague branch, is for the period from 23 June 2005 to 23 June 2006. The maturity of other term deposits is 90 days or shorter and they bear market interest rates.

Short-term securities and interests as of 31 December were as follows (in CZK thousands):

Bank	Type	2005	2004	2003
ING Bank N.V.	Depository note	-	-	301,429
Komerční banka, a.s.	Depository note	-	10,000	10,000
Československá obchodní banka, a. s.	Mortgage bonds VAR/15	404,293	-	-
Česká spořitelna, a.s. Správa aktiv	Bond Fund,			
	ISČS Trendbond	-	-	7,180
	Espa Fiducia	-	-	32,249
	Bonds:			
	OBL 4 _ 2/15/08	-	-	17,693
	Volkswagen FIN VW	-	-	5,324
ČP Invest, a.s.	Corporate Bond Fund	208,046	103,851	99,908
Credit Suisse Asset Management a.s.	Credit Suisse CZK – money market open-end unit trust	154,879	101,233	
Total		767,218	215,084	473,783

A brokerage contract for the procurement of purchases and sales of security bonds was signed with Československá obchodní banka, a. s. on 2 November 2005. Mortgage bonds at a nominal value of CZK 400,358 thousand were purchased on the basis of the contract.

In 2003 the Company signed contracts for securities management with Česká spořitelna, a.s. and ČP Invest, a.s. Based on these contracts the companies were entrusted with the administration of pre-defined portfolio and representation of the Company on the securities market. The collaboration with Česká spořitelna, a.s. was terminated on 22 October 2004 with profit of CZK 890 thousand. The nominal value of ČP Invest, a.s.'s Corporate Bond Fund was CZK 99,852 thousand as at 31 December 2004. In 2005, more participation certificates of ČP Invest, a.s.'s Corporate Bond Fund were purchased. The nominal value was CZK 199,852 thousand as at 31 December 2005.

A contract on the issue/purchase of participation certificates was signed with Credit Suisse Asset Management investiční společnost a.s. on 2 June 2003. Based on the contract, Česká pošta, s.p. purchased 99,243,821 pieces of participation certificates of Credit Suisse CZK open-end unit trust on 16 June 2004. The number of participation certificates increased by 49,174,683 units during 2005. The nominal value of participation certificates amounted to CZK 151,420 thousand as at 31 December 2005.

Komerční banka's depository note totalling CZK 10,000 thousand served as a security of the bank guarantee provided by Komerční banka upon the requirement of the Ministry of Finance of the Czech Republic in connection with the sale of highway toll stamps (see Note 18). The depository note was agreed for the period from 18 March 2003 to 17 March 2004 and from 18 March 2004 to 17 March 2005 and has not been renewed. As security for the bank guarantee in the period from 17 March 2005 to 17 March 2006, the Company confirmed a term deposit with individual interest rate.

As at 31 December 2003 the Company held three depository notes with ING Bank N.V. totalling CZK 301,429 thousand, for the period from 19 December 2003 to 19 March 2004, from 12 June 2003 to 11 June 2004 and from 31 December 2003 to 2 January 2004, respectively.

The company holds no short-term securities, the market value of which exceeds their book value.

9. ACCRUALS AND DEFERRALS

An extraordinary increase in prepaid expenses in 2004 was due to expenses connected with the purchase of computer equipment, which was timely apportioned over 2 years (balance deferred totalling approximately CZK 87 million). The remaining prepaid expenses, relatively constant in all periods, relate to prepaid rent, insurance of managers and recreation facilities, services of non-material nature (waste disposal), purchase of meal vouchers, health drinks, SW support and payment of trainings. These expenses are charged to income in the year in which they were incurred.

Unbilled revenues include in particular accrued revenues from agency services provided to Československá obchodní banka, a. s. Stabilita Pension Fund, ČMSS and cash payments in respect of collective payment of fees (SIPD) and are recognized into income for the year in which they were earned.

10. EQUITY

The basic capital of the Company corresponds to its fundamental basic capital entered in the Commercial Register.

Changes in basic capital not entered in the Commercial Register particularly relate to the transfers of land from the Czech Land Fund, cities and municipalities and the completion of asset delimitation with ČESKÝ TELECOM, a.s.

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

The reserve fund has been allocated gradually 10% of profit after tax annually.

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

The movements in the capital accounts during 2005, 2004 and 2003 were as follows (in CZK thousands):

	Balance as at 31/ 12/ 03	Allocation from profit	Other increase	Decrease	Balance as at 31/ 12/ 04	Allocation from profit	Other increase Decrease	Balance as at 31/ 12/ 05
Basic capital entered in Commercial Register (CR) - 411	3,581,699	-	-	-	3,581,699	-	-	3,581,699
Movements in basic capital - 419	844	-	5,415	-1,347	4,912	-	550	5,009
Other capital funds	3,606,051	413,657	43	-	4,019,751	201,218	2,401	4,223,370
Legal reserve fund	273,221	69,949	-	-	343,170	15,000	-	358,170
Other funds	16,539	154,453	-	-158,647	12,345	152,200	-	9,974

The Supervisory Board and the founder of the Company approved the following profit distribution for 2004, 2003 and 2002 (in CZK thousands):

Profit for 2002	392,478
Allocation to -	
legal reserve fund	-39,248
CSNF*)	-125,708
- basic	-16,454
- supplementary	-6,959
- stabilizing contribution to insurance	-139,841
capital funds	64,268
Undistributed profits added to retained earnings	23,883
Retained earnings at 1/ 1/ 2003	88,151
Retained earnings at 31/ 12/ 2003	
Profit for 2003	699,491
Allocation to -	
legal reserve fund	-69,949
CSNF*)	-132,928
- basic	-13,768
- supplementary	-7,757
- stabilizing contribution to insurance	-413,657
capital funds	61,432
Undistributed profits added to retained earnings	88,151
Retained earnings at 1/ 1/ 2004	149,583
Retained earnings at 31/ 12/ 2004	
Profit for 2004	444,599
Allocation to -	
legal reserve fund	-15,000
CSNF*)	-138,818
- basic	-6,128
- supplementary	-7,254
- stabilizing contribution to insurance	-201,218
capital funds	76,181
Undistributed profits added to retained earnings	149,583
Retained earnings at 1/ 1/ 2005	225,764
Retained earnings at 31/ 12/ 2005	

*) Cultural and social needs fund

11. RESERVES

The movements in the reserve accounts were as follows (in CZK thousands):

Reserves	Balance as at 31/ 12/ 2003	Creation of reserves	Release of reserves	Balance as at 31/ 12/ 2004	Creation of reserves	Release of reserves	Balance as at 31/ 12/ 2005
Other	261	-	-	261	46,165	261	46,165

In 2005, other reserves were created mainly for health and social insurance for the unpaid contracted wages and profit-target bonuses for the year 2005. In 2003 and 2004 other reserves were established to cover litigation fees.

12. LONG-TERM LIABILITIES

Long-term advances of CZK 45,639 thousand, CZK 38,627 thousand and CZK 37,518 thousand as at 31 December 2005, 2004 and 2003, respectively, were received for prepaid postage.

13. CURRENT LIABILITIES

As at 31 December 2005, 2004 and 2003, the Company had overdue current payables totalling CZK 3,660 thousand, CZK 1,253 thousand and CZK 3,883 thousand, respectively (invoices returned unpaid for formal discrepancies).

As at 31 December 2005, the Company had neither long-term nor short-term liabilities that would have been secured by collateral or guarantees.

Payables to related parties (see Note 21).

Unbilled deliveries include particularly accounting for costs and revenues associated with international postal operations (see Note 6), unbilled operating deliveries of services and estimated staff bonuses.

14. BANK LOANS AND BORROWINGS

a) In CZK

Bank	Terms / Conditions	Total limit in CZK thousands	2005 Amount in CZK thousands	2004 Amount in CZK thousands	2003 Amount in CZK thousands
Československá obchodní banka, a. s.	2W PRIBOR, first range – 0.5 % p.a., second range + 5 % p.a., 5 days a month credit balance kreditní zůstatek	1,600,000	917,127	-	-
ING Bank N. V.	11/2001 – 11/2004, 6M PRIBOR + 0.1 %, no collateral	350,000	-	-	300,000
Komerční banka a.s.	17. 12. 2004 - 18. 1. 2005 2.73 % p.a. no collateral	220,000	-	220,000	-
Total		-	917,127	220,000	300,000
Less current portion		-	917,127	-220,000	-300,000
Net		-	-	-	-

In addition, the Company has an overdraft facility with Československá obchodní banka, a. s. with a total limit of CZK 100,000 thousand which may be used with the set of current accounts with the following terms and conditions: 2W PRIBOR + 0.5% p.a., one day a month credit balance. As at 31 December 2005, 2004 and 2003 the Company did not use the overdraft facility.

The interest expense relating to bank loans and overdrafts for 2005, 2004 and 2003 was CZK 114 thousand, CZK 2,840 thousand and CZK 7,822 thousand, respectively. No portion of interest was capitalized.

No loan agreement includes any special terms and conditions to be fulfilled by the Company.

b) In EUR

Bank	Terms / Conditions	Total limit in EUR thousands	Limit as at 31. 12. 2005 thousands	2005		2004		2003	
				Amount in EUR thousands	Amount in CZK thousands	Amount in EUR thousands	Amount in CZK thousands	Amount in EUR thousands	Amount in CZK thousands
Overdraft ERIBOR									
Československá obchodní banka, a. s.	3-month + 0.1 % p.a.	5,000	1,800	907	26,312	782	23,819	-	-

The sole purpose of the overdraft facility was satisfying cash needs connected with the provision of banking services in euro at selected post offices. The overdraft was classified as a long-term loan as it is bound to a framework contract for the provision and mediation of banking services between Investiční a Poštovní banka, a.s. and Česká pošta, s.p.; the contract was entered into for a definite period, i.e. until 31 December 2017.

The interest expense relating to this loan for 2005, 2004 and 2003 was CZK 892 thousand, CZK 257 thousand and CZK 0 thousand, respectively.

15. ACCRUED LIABILITIES

As at 31 December 2004, 2003 and 2002 accruals include billed accrued expenses, customer bonuses for using credit machines, discounts for business and professional parcels, staff bonuses and copyright fees for provided copy services. In all three years, these expenses include non-paid interest on loans and tax on depository notes. These expenses are charged to income for the year in which they were incurred.

Deferred income includes in particular rent of office premises, safes, PO box fees and deferred postal fees for remote credit payment machines set-up and payment received for sold flats and is recognized into income for the year in which it was earned. In 2005, 2004 and 2003, the post office building at Jindřišská Street, Prague 1, was encumbered by easement for the benefit of PCS – Praha Center s.r.o., pursuant to a contract entered into on 16 April 1997, which is in force until 31 March 2042. The easement value totals CZK 49,013 thousand and is gradually recognized into income over the life of the contract.

16. INCOME TAX

	2005 Amount in CZK thousands	2004 Amount in CZK thousands	2003 Amount in CZK thousands
Profit before taxes	920,675	562,270	916,229
Non-taxable revenues	-2,743	-13,661	-21,419
Differences between book and tax depreciation	-365,291	-112,616	-131,380
Tax non-deductible expenses	94,199	55,546	119,510
Creation of provisions	8,235	-6,907	34,063
Creation of reserves	45,890	-	223
Other (e.g. entertainment expenses, shortages and losses)	40,074	62,453	85,224
Gifts	-514	-	-
10% relief on tangibles	-	-53,758	-33,843
Taxable income	646,326	437,781	849,097
Current income tax rate	26 %	28 %	31 %
Income tax computed	168,045	122,578	263,220
Tax relief (persons with disability and partial disability)	-19,084	-19,967	-21,066
Current tax expense	148,961	102,611	242,154
Additional assessments/overpayments relating to prior years	-939	2,456	-996
Corporate income tax expense	148,022	105,067	241,158

Additional tax assessments /overpayments of CZK (939) thousand, CZK 2,456 thousand and CZK (996) thousand were assessed /refunded by the Financial Authority for 2005, 2004 and 2003, respectively, based on corrective and supplementary corporate income tax returns.

The Company quantified deferred taxes as follows:

Deferred tax items	2005		2004		2003	
	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	-	-315,227	-	-207,985	-	-199,655
Other temporary differences:						
Provision against receivables	24,334	-	24,897	-	26,344	-
Provision against inventory	873	-	1,278	-	1,655	-
Provision against fixed assets	7,913	-	6,983	-	9,428	-
Provision against long-term financial assets	-	-	9,532	-	9,532	-
Other reserves	11,080	-	68	-	73	-
Total	44,200	-315,227	42,758	-207,985	47,032	-199,655
Net	-	-271,027	-	-165,227	-	-152,623

In 2005, the Company recorded a year-on-year increase of the deferred tax liability by CZK 105.800 thousand.

17. LEASES

The Company leases fixed assets, which are not recorded on the balance sheet (see Note 3h).

Assets which are being used by the Company under operating leases as at 31 December 2005, 2004 and 2003 consist of the following (in CZK thousands):

Description	Terms / Conditions	Expense in 2005	Expense in 2004	Expense in 2003	Cost
Passenger cars	lease for 4 years				
Ford Mondeo – 14 cars	(10/2002 – 9/2006)	3,430	3,192	3,043	7,363
Other operating leases	lease for 4 years (from 2004 to 2007)	19,504	5,107	-	57,757

Assets which are being used by the Company under finance leases (i.e. the assets are transferred to the Company when the lease term expires) as at 31 December 2005, 2004 and 2003 consist of the following (in CZK thousands):

Description	Terms / Conditions	Total lease	Payments made as at 31 /12/ 2005	Payments made as at 31 /12/ 2004	Payments made as at 31 /12/ 2003	Remaining payments as of 31/ 12/ 2005	
						Due within one year	Due over one year
KERN envelope lines	Lease contracts from 2004 for 36 and 48 months	47,796	13,035	2,519	-	13,035	19,207

18. COMMITMENTS AND CONTINGENCIES

As at 31 December 2005, 2004 and 2003, the Company had third-party assets, in particular duty stamps, road toll stamps and lots, which were reflected in an off-balance sheet account. These items have the nature of liquid valuables and the Company is liable for recover their nominal value in case of loss or damage. No such loss or damage occurred in 2005, 2004 and 2003.

In addition, the Company had own assets and liabilities, particularly liquid valuables and lots stated at a nominal value, leased assets, written-off receivables and additions to the quality fund, that were not shown on the balance sheet. As at 31 December 2005, 2004 and 2003 they consist mainly of the following (in CZK thousands):

	2005	2004	2003
Leased assets	162,601	172,031	90,577
Written-off receivables	10,322	10,801	15,776
Quality fund	30,672	32,463	-
Liquid valuables and lots	3,206,933	2,958,530	3,086,864
High-way stamps	4,324,143	3,605,359	2,777,307

As at 31 December 2005, the Company records a guarantee of CZK 10,000 thousand that was provided by Komerční banka, a.s., upon request of the Ministry of Finance of the Czech Republic in connection with the sale of road toll stamps. This guarantee is secured with a fixed term deposit at the branch of Komerční banka, a.s. (see Note 8).

Office and computer technology including software totalling CZK 232,169 thousand is recorded in a subsidiary ledger. The computer technology totalling CZK 231,369 thousand has been leased for no consideration by its owner, the company Banit, s.r.o. (servers, chip cards sensors, printers, PCs), computer technology from the company NCR totalling CZK 741 thousand, telecommunication equipment from ČESKÝ TELECOM, a.s. totalling CZK 34 thousand, copier and printer provided by Minolta and Z+M servis spol. s r.o. totalling CZK 25 thousand.

In connection with the operation of two own lotteries, the Company made a CZK 6,000 thousand escrow deposit at ING Bank N.V. (blocked from 15 July 2002 to 30 September 2004), which supported an application for the license to operate a lottery tickets raffle called "Anniversary Postal Lottery". The Company also made a CZK 10,000 thousand deposit (from 20 August 2002 to 27 September 2004) to the existing lottery called "SOS" to support those who suffered from the floods of summer 2002. The deposits were released on the basis of a written approval of the Ministry of Finance of the Czech Republic in September 2004.

All movable and immovable assets of the Company are insured with Kooperativa pojišťovna, a.s. pursuant to a framework contract no. 80-595019120-1 entered into on 20 December 1999 and amended on an insurance contract no. 595019120-1 on 20 December 2004 and by addendum to this insurance contract of 23 December 2005.

19. REVENUES

The breakdown of revenues on ordinary activities is as follows (in CZK thousands):

	2005		2004		2003	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Revenues from postal operations	14,031,718	389,585	12,769,598	399,428	12,158,381	463,050
Revenues from agency and other activities	2,165,046	-	2,168,521	-	2,131,692	-
Revenues from sales from goods	514,557	-	556,238	-	578,205	-
Total revenues	16,711,321	389,585	15,494,357	399,428	14,868,278	463,050

Revenues from postal operations include, except for the normal postal products (letter and parcel articles and postal orders), also revenues from the so-called Postservices (packaging and coding) and revenues from IT work associated with postal services.

Other operating revenues are insignificant and represent 1.03% and 1.5% and 1.6% of total operating revenues in 2005, 2004 and 2003 respectively.

20. PERSONNEL AND RELATED EXPENSES

The breakdown of personnel expenses is as follows (in CZK thousands):

	2005		2004		2003	
	Total personnel	Management / Directors	Total personnel	Management / Directors	Total personnel	Management / Directors
Average number of employees	38,290	159	38,794	146	38,923	142
Wages and salaries	7,476,840	175,644	7,110,115	172,824	6,791,992	150,644
Social security and health insurance	2,589,091	62,459	2,496,692	61,456	2,390,500	53,569
Social cost	322,699	1,563	325,677	1,156	313,196	1,122
Total personnel expenses	10,388,630	239,666	9,932,484	235,436	9,495,688	205,335

In addition to the aforementioned personnel costs, the members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,901 thousand, CZK 1,145 thousand and CZK 949 thousand in 2005, 2004 and 2003, respectively. Social security and health insurance liabilities totalling CZK 343,050 thousand as at 31 December 2005 relate to amounts due for December 2005 wages, which were paid on 13 January 2006.

21. RELATED PARTY INFORMATION

The members and former members of statutory and supervisory bodies, directors and executive officers were granted no loans, guarantees, advances or other benefits in 2005, 2004 and 2003, respectively, except for managers who use company cars for business as well as private purposes (for consideration).

The Company purchases/sells products and receives/provides services from/to related parties in the ordinary course of business. Sales to related parties in 2005, 2004 and 2003 were as follows (in CZK thousands):

Related party	2005	2004	2003
Poštovní tiskárna cenin Praha a.s.	1,328	1,121	1,742

Short-term receivables from related parties as of 31 December were as follows (in CZK thousands):

Related party	2005	2004	2003
Poštovní tiskárna cenin Praha a.s.	52	59	112

Purchases from related parties in 2005, 2004 and 2003 were as follows (in CZK thousands):

Related party	2005	2004	2003
Poštovní tiskárna cenin Praha a.s.	63,244	53,228	52,836

Short-term payables to related parties as of 31 December were as follows (in CZK thousands):

Related party	2005	2004	2003
Poštovní tiskárna cenin Praha a.s.	4,638	5,377	904

22. RESEARCH AND DEVELOPMENT COSTS

Research and development costs amounted to CZK 11,645 thousand, CZK 10,692 thousand and CZK 9,285 thousand in 2005, 2004 and 2003, respectively and were expensed as incurred.

23. SIGNIFICANT ITEMS OF INCOME STATEMENT

From a medium-term perspective, the income statement structure remains fairly stable. The major share of personnel expenses in operating expenses, accounting for nearly two thirds of total operating expenses, is only slowly decreasing in favour of direct costs of the consumption of material and energy in connection with the development of Postservises and fixed assets depreciation depending on the scope of capital expenditures. Taking into account the development of competition and departure from classical products (telephone cards, lots, etc.), revenues from the sale of merchandise stagnate with an average margin of 20%.

Assets not used for main activities are gradually being sold (flats, recreation facilities, etc.).

In 2005, 2004 and 2003, extraordinary gains include compensations related to tax-deductible as well as tax non-deductible expenses (such as compensations for damaged, lost or stolen parcels, indemnification for work-related injuries, insurance compensations, damage compensations) and corrective adjustments of revenues incurred in previous accounting periods.

Extraordinary expenses include costs of liquidation of obsolete inventory, shortages and losses, compensations for damaged, lost or stolen parcels, loss of earnings or pension compensations, smart money, corrective adjustments of previous accounting periods and costs of failed investments.

24. SUBSEQUENT EVENTS

Between the date of the financial statements preparation and their sign-off, there were no significant events that would have an impact on the reported assets, liabilities and profit/loss for the 2005 accounting period.

On 2 February 2006, the Company entered into a loan agreement totalling CZK 708 million with Česká spořitelna, a.s for the financing of SPU Brno for eight years.

A change in the composition of the Supervisory Board occurred on 1 February 2006. Ludovít Gulazsi resigned from the position of Supervisory Board member and Petr Polák was appointed new Supervisory Board member.

25. ENTRUSTED FUNDS

In some instances, the monetary funds of customers are temporarily entrusted to the Company for the purpose of effecting specific transactions (such as the services to clients of Československá obchodní banka, a. s., maintaining the register of radio and television sets and the collection of radio and television license fees, payment of pensions, SIPO, i.e. collective payment of fees, lotteries, sale of duty stamps, road toll stamps, brokering of cash transactions, etc.). These funds are recorded in separate accounting records independently on own monetary funds. They are reported at special lines in the accompanying balance sheet. The Company charges commission for effecting these specific transactions and accounts for it on an accrual and matching basis.

No payables arising from entrusted funds were overdue.

26. STATEMENT OF CASH FLOWS (SEE APPENDIX 1)

Cash flow statement was prepared under the indirect method. The Company did not consider any cash equivalents.

27. STATEMENT OF CHANGES IN EQUITY (SEE NOTE 10)

Prepared on:

Signature of accounting
unit's statutory body:



JUDr. Karel Kratina

Person responsible
for accounting:



Ing. Vlasta Svobodová

Person responsible
for financial statements:



Hana Nedbalová

17 February 2006

Consolidated Financial Statements

as of 31 December 2005

Prepared in Accordance with International Financial Reporting Standards

Auditor's Report

To the Founder of Česká pošta, s.p.:

We have audited the accompanying consolidated financial statements of Česká pošta, s.p. and its subsidiary ("the Group"), which comprise the consolidated balance sheet as at 31 December 2005, the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flow for the year then ended, and notes. These consolidated financial statements are the responsibility of the management of Česká pošta, s.p. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements give, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of the Group as at 31 December 2005 and of its financial results and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



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



Magdalena Součková
Auditor, License No. 1291

17 February 2006
Prague, Czech Republics

Consolidated Balance Sheet

For the year ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

	Note	2005	2004
ASSETS			
Current assets			
Cash and short-term deposits	3	1,801,669	1,448,569
Financial assets at fair value through profit or loss	4	767,218	215,084
Receivables, net	5	1,284,604	1,086,405
Inventories, net	6	176,554	162,128
Other current assets	7	147,403	193,581
Income and other taxes receivable	8	25,482	52,255
Total current assets		4,202,930	3,158,022
Entrusted Resources, net	9	-	-
Non-current assets			
Long-term receivables, net	5	7,081	10,453
Property, plant and equipment, net	10	7,746,146	7,565,687
Intangible assets, net	11	314,575	319,262
Other non-current assets, net	12	17,826	17,826
Total non-current assets		8,085,628	7,913,228
TOTAL ASSETS		12,288,558	11,071,250
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	13	2,231,104	1,620,536
Interest bearing loans and borrowings	14	-	220,000
Other liabilities	15	559,387	360,708
Income and other taxes payable	16	102,474	93,457
Total current liabilities		2,892,965	2,294,701
Non-current liabilities			
Deferred tax liability	17	275,362	172,183
Other long term liabilities	18	45,638	38,627
Total non-current liabilities		321,000	210,810
Stockholders' equity attributable to equity holders of the parent			
Issued capital	19	3,581,699	3,581,699
Retained earnings and capital funds		4,986,539	4,636,763
Profit of the current period		506,355	347,277
Total stockholders' equity		9,074,593	8,565,739
TOTAL STOCKHOLDERS' EQUITY AND LIABILITIES		12,288,558	11,071,250

Consolidated Statement of Income

For the year ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

	Note	2005	2004
Revenues	21	16,856,508	15,678,861
Operating income / (expense)			
Salaries and wages	22	-10,593,756	-10,092,320
Raw materials and consumables used	23	-1,745,348	-1,614,295
Services	24	-2,018,900	-1,690,147
Depreciation and amortization		-999,042	-947,800
Repairs and maintenance	25	-438,417	-543,250
Allowance for impairment and provisions	26	-14,874	3,147
Other operating expenses, net		-367,202	-386,999
Profit from operations		678,969	407,197
Financial income / (expense)			
Interest income, net		77,295	78,443
Exchange rate gain / (loss), net		11,414	7,858
Other financial expenses, net		-10,123	-9,123
Financial income / (expense), net		78,586	77,178
Profit before income taxes		757,555	484,375
Income taxes	17	-148,022	-105,067
Deferred taxes	17	-103,178	-32,031
Net profit, 100% attributable to the equity holders of the parent		506,355	347,277

Consolidated Statement of Changes in Stockholders' Equity

For the year ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

			Unregistered Issued			Current	Total
	Note	Issued Capital	Capital Change	Legal Reserve	Retained Earnings	Year Profit	Equity
Balance at 31 December 2003	19	3,581,699	844	273,221	3,813,304	544,894	8,213,962
2003 profit distribution		-	-	69,949	474,945	-544,894	-
Capital contribution (net)		-	4,068	-	432	-	4,500
Current-year profit		-	-	-	-	347,277	347,277
Balance at 31 December 2004	19	3,581,699	4,912	343,170	4,288,681	347,277	8,565,739
2004 profit distribution		-	-	15,000	332,277	-347,277	-
Capital contribution (net)		-	97	-	2,402	-	2,499
Current Year Profit		-	-	-	-	506,355	506,355
Balance at 31 December 2005	19	3,581,699	5,009	358,170	4,623,360	506,355	9,074,593

Consolidated Statement of Cash Flow

For the year ended 31 December 2005

(Czech Crowns in thousands – T-CZK)

	Note	2005	2004
OPERATING ACTIVITIES			
Net profit		506,355	347,277
Adjustments for non-monetary transactions and working capital changes:			
Depreciation and amortization		999,042	947,800
Interest income, net		-77,295	-78,443
Income tax expense		251,200	137,098
Dividends and shares in profit		-718	-718
Gain on fixed asset retirements, net		-27,292	-16,577
Changes in allowances and provisions		14,874	-3,147
Changes in receivables		-210,450	84,529
Changes in inventory		-13,148	-12,921
Changes in other assets		46,179	-55,799
Changes in liabilities		777,195	134,153
Total adjustments		1,759,587	1,135,975
Cash generated from operations		2,265,942	1,483,252
Income taxes paid		-122,236	-265,512
Net cash provided by operating activities		2,143,706	1,217,740
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		-1,387,119	-1,287,142
Proceeds from sale of property, plant and equipment		290,634	103,714
Dividends and shares in profit		718	718
Interest received		78,313	81,558
Net cash used in investing activities		-1,017,454	-1,101,152
FINANCING ACTIVITIES			
Interest paid		-1,018	-3,115
Proceeds from borrowings	14	-	220,000
Repayments of borrowings	14	-220,000	-300,000
Net cash used in financing activities		-221,018	-83,115
Net increase in cash and cash equivalents		905,234	33,473
Cash and cash equivalents at beginning of year	3	1,663,653	1,630,180
Cash and cash equivalents at end of year	3	2,568,887	1,663,653

Notes to 2005 Consolidated Financial Statements

1. CORPORATE INFORMATION

Česká pošta, s.p. ("Česká pošta", "the Company" or "Czech Post") is a state-owned company, which was established by the Ministry of Transportation and Communications of the Czech Republic as of January 1, 1993, and which is the parent company of the Group. The registered office of the Company is in Olšanská 38/9, Prague 3, Czech Republic; its Identification Number (IČO) is 47114983 and it is registered in the Commercial Register kept with the Municipal Court in Prague in Part A, Folio 7565.

Česká pošta is an entity subject to Act No. 77/1997 Coll. on state enterprises, in the wording of Act No. 77/2002 Coll. The mission of Česká pošta is the performance of the function of public postal operator consisting of an obligation to provide basic postal services pursuant to Act No. 29/2000 Coll. on postal services (the Postal Law).

Česká pošta is the holder of Ministry approval and of a postal license pursuant to Section 19 of Act No. 29/2000 Coll. on postal services until 31 December 2008. In the public interest, the postal license:

- a) entitles its holder to perform postal services consisting of the delivery of addressed letter mail weighing up to 350 grams and priced below the amount stipulated by a Government Ordinance (hereinafter "the postal license");
- b) obliges its holder to provide basic services; and
- c) obliges its holder to guarantee general and universal access to basic postal services in the territory of the Czech Republic.

The Company's primary objectives include the following activities:

- d) performance of postal operations in the territory of the Czech Republic within the following scope:
 - posting, transport and delivery of mail, including electronic mail, and ensuring the operation of the postal system and the internal postal payment system;
 - posting, transport and delivery of mail, including electronic mail, and providing money services in accordance with international agreements applicable to the international postal system;
 - express and courier transport of mail with a guaranteed delivery within an agreed period of time, including the international postal system;
- d) construction, operation and development of a standardized postal network in the territory of the Czech Republic and related activities, including service provided for domestic and foreign equipment that is essential or relates to postal network operations; and
- e) development, import and export of technical and operational postal facilities.

The organizational structure of Česká pošta is as follows: Directorate General (Headquarters) and 10 branches. Česká pošta provides postal services through 3,417 service points (2004: 3,427 service points). At the end of 2005, there was one service point for every 2,994 people (2004: 2,982 people) and one mail box for every 425 people (2004: 422 people).

In terms of the international postal system, Česká pošta has been authorized by the state to perform postal operator activities as a member of the Universal Postal Union, i.e. a specialized inter-governmental organization. Česká pošta is also a member of PostEurop, a European organization of postal operators. Within this organization, the Company is an active member of the Agreement between Countries Seeking EU integration and presides over a special working group established in order to enable the associated countries to become duly prepared for operator compatibility with the EU postal sector pursuant to European Parliament and Council Directive 97/67/EC.

Market for postal services in the Czech Republic

The postal market is open to any business entity. However, a licensed entity has a special standing in this market. It has a guaranteed monopoly for the delivery of addressed letter mail weighing up to 350 grams and priced up to 5 times the basic public tariff. An entity enjoying this competitive advantage must provide all basic postal services universally (i.e. to every person in the entire territory of the state), in good quality and at an affordable price. Other business entities are legally entitled to enter the liberalized part of the postal market provided the postal conditions of such services meet the requirements of the Postal Law provisions.

Liberalization of the postal market in the European Union

European Parliament and Council Directive 97/67/EC and its Amendment 2002/39/EC regulate the internal EU postal market. This market is undergoing a process of gradual postal services liberalization, i.e. a reduction of the volume and price limits of services subject to a licensed subject monopoly while respecting the need to maintain a universal service.

The liberalization process as defined by the above amendment consists of two stages as follows: from 1 January 2003, the weight limit has been reduced to 100 grams and the price limit to up to 3 times of the basic public tariff; from 1 January 2006 the weight limit will be reduced to 50 grams and the price limit to up to 2.5 times of this tariff.

As of the date of Czech EU accession, the relevant Czech legislation were amended to respect Directive 2002/39/EC and the limits stipulated for the first phase of the liberalization process.

The consolidated financial statements include the following subsidiary in 2005 and 2004:

Subsidiary	Ownership / Voting, %	Country	Date of incorporation	Industry	Date of acquisition
Poštovní tiskárna cenin, a.s.	51,03 %	Czech Republic	28 April 1992	printing	28 April 1999

The consolidated financial statements of the Group were authorized for issue in accordance with the resolution of the General Director on 17 February 2006.

2.1 BASIS OF PREPARATION

The consolidated financial statements of Česká pošta s.p. and its subsidiary ("the Group") have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss and available-for-sale financial assets, which are measured at fair value. The consolidated financial statements are presented in Czech crowns ("CZK") and all values are rounded to the nearest thousand ("T-CZK") except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board.

Basis for consolidation

The Company maintains its book of accounts and prepares statements for regulatory purposes in accordance with local accounting principles. The accompanying consolidated financial statements are based on the accounting records of the Company and its subsidiary, together with appropriate adjustments and reclassifications necessary for fair presentation in accordance with accounting standards as prescribed by the International Accounting Standards Board.

2.2 FIRST TIME ADOPTION

The Group has prepared its first consolidated financial statements in accordance with IFRS in the current year, the date of transition to IFRS being 1 January 2004. Reconciliations between previous GAAP and IFRS as of 1 January 2004 (opening balance sheet date) and 31 December 2004 (end of the comparative period) are included in Note 30.

Up to 2004, the parent company historically prepared and presented its separate financial statements under IFRS. Due to this fact, the Group elected to use in its first IFRS financial statements the exemption described in paragraph 25 of IFRS 1. This exemption allows the Group to measure its assets and liabilities presented in its opening balance sheet and in its comparative period at the same carrying amounts as were presented in its previous separate financial statements, except for consolidation adjustments.

Given the application of the exemption described above, the comparative 2004 balances correspond with the balances presented in the separate financial statements of the parent company issued in 2004.

2.3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Significant Accounting Judgements and Estimates

The presentation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and their reported amounts of revenues and expenses during the reporting period. Actual results will differ from those estimates and such differences could be material.

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

Allowance for impairment of receivables

The Group regularly reviews its receivables to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where a borrower is in financial difficulties.

Allowance for impairment of inventories

The Group regularly reviews its inventories to assess impairment. The Group uses its judgment to estimate the amount of any impairment loss in cases where an item of inventory becomes obsolete or slow moving.

Impairment of non-current assets

The Group regularly reviews the non-current assets to assess impairment. This requires an estimation of the recoverable amount of the asset.

Useful life of significant parts of buildings

The Group regularly reviews the basis of the depreciation and amortization of non-current assets, which requires an estimation of their useful lives. In the current year, the Group has enhanced the application of the component approach regarding buildings, i.e. identified separate significant parts of buildings and estimated their respective useful lives based on the expert opinion of the technicians of the Group. Because of the lack of historical data on the actual economic lives of individually significant parts of buildings (the Group previously maintained entire buildings in its assets register); there was a significant amount of estimation used in this process. Accordingly, future changes in the estimates regarding useful lives and residual values might be necessary.

Taxation

Czech tax legislation is subject to varying interpretations and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant authorities. As such, significant additional taxes, penalties and interest may be assessed. As at 31 December 2005 management, believes that its interpretation of the relevant legislation is appropriate and that the Group's tax position will be sustained.

Legal claims

In the ordinary course of business, the Group is subject to legal actions and complaints. Management believes that the ultimate liability, if any, arising from such actions or complaints will not have a material adverse effect on the financial condition or the results of future operations of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash in hand and at banks and short-term deposits with an original maturity of one year or less.

For the purpose of the consolidated statement of cash flow, cash and cash equivalents consist of cash and short-term deposits and of financial assets at fair value through profit or loss.

Financial assets

Financial assets in the scope of IAS 39 held by the Group are classified as either assets at fair value through profit or loss, receivables and available for sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or financial assets that are part of a portfolio that is managed together for the purpose of short-term profit-taking. Gains or losses on investments held for trading are recognised in income.

Receivables

Receivables, consisting mainly of trade receivables, are recognized and carried at the original invoice amount less an allowance for any uncollectible amounts. An allowance for impairment is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written off when identified.

Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale or are not classified in any of the preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the asset is derecognised or until the asset is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income. The fair value of asset that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For asset where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Inventories

Inventories are valued at the lower of cost and net realizable value, after allowance for obsolete items. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale (marketing and distribution).

Purchased inventory is valued at the lower of the actual cost of acquisition (using the weighted arithmetic average method) or the selling price. The cost of purchased inventory includes related external costs including transit costs.

Subsidiaries

Subsidiaries, which are those entities in which the Group has an interest of more than one half of the voting rights, or otherwise has power to exercise control over their operations, are consolidated. Subsidiaries are consolidated from the date on which control is transferred to the Group and are no longer consolidated from the date that control ceases. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

As the Company has only one subsidiary, which is immaterial to the Group, it has not been consolidated. The Group has accounted for the subsidiary at cost under Other non-current assets in the balance sheet.

Property, plant and equipment

Plant and equipment is stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria are met. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of income.

Assets with acquisition cost not meeting the eligibility criteria for the classification as property, plant and equipment are classified as sets of fixed assets and depreciated over the expected useful life of the asset.

Depreciation

Depreciation is calculated on a straight line basis over the useful life of the asset or a significant part of the asset. The estimated useful lives are as follows:

	Years
Buildings and structures:	
Roof	30
Facade	30
Communication networks	9
Distributions	30
Other parts of buildings and structures	60
Machinery and equipment	4–15
Transportation equipment	6–20
Furniture and fixtures	10–20
Handling technology	6–20
Computer technology	3

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

Construction-in-progress includes non-current tangible assets and is reported in acquisition cost, which includes acquisition-related expenditure and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operation.

Borrowing costs

Borrowing costs are expensed as incurred.

Leases

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Leases under which a significant portion of the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the statement of income on a straight-line basis over the lease term.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of all intangible assets are assessed by the Group to be finite. Intangible assets with finite lives are amortised on a straight-line basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the line item of "Depreciation and amortization".

Software

The acquisition cost of new software is capitalized and treated as an intangible asset if these costs are not an integral part of the related hardware.

The estimated useful lives are as follows:

	Years
Software	4
Other intangibles	4

Impairment of assets

Property, plant and equipment and other assets and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, or at least on an annual basis and for intangibles not yet in use. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's net selling price and value in use.

All assets are annually reviewed for the impairment indicators, at least at the balance sheet date.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the statement of income when the liabilities are derecognised as well as through the amortisation process.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of the provision is the present value of the expenditures expected to be required to settle that obligation.

Contingencies

Contingent liabilities are not recognized in the financial statements. They are disclosed and explained in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Pensions

The Group, in the normal course of business, makes fixed contributions into the Czech Republic private pension funds on behalf of its employees. The Group does not operate any other significant pension scheme or post retirement benefit plan.

Stockholders' equity

The legal form of the Company is a state enterprise. Its ownership relationships and funds are subject to special legislation – the State Enterprise Act (No. 77/1997 Coll.). Pursuant to this Act, issued capital equals the so-called stockholders' equity, i.e. business assets owned by the parent company at establishment. The Company's issued capital is reported at an amount registered in the Commercial Register kept with the Municipal Court. Other capital funds are created in compliance with the accounting procedures for entrepreneurs and the Accounting Act. Issued capital transfers to the National Property Fund and/or restitution-related transfers are recorded under issued capital changes.

The Group also creates a reserve fund from profit. At the date of the Company's establishment, its founder decided that the reserve fund must equal 10% of stockholders' equity. The reserve fund is created on a gradual basis through allocations of 10% of net annual profits. The creation of the obligatory reserve fund finished in 2005. According to the State Enterprise Act, the reserve fund can only be used to cover losses.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rendering of services

Revenues are recognized net of sales taxes and discounts when delivery has taken place and the transfer of risks and rewards has been completed.

Interest income

Revenue is recognised as interest accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Profit from operations

Profit from operations as reported by the Group excludes interest income on current and term bank deposits and other financial instruments, interest expense on bank loans and overdrafts, exchange gains/losses and other financial expenses, net represented mainly by revenues and expenses related to sale of securities, bank charges, etc.

Foreign currency transactions

Transactions denominated in foreign currencies are recorded in Czech crowns, which is the Group's functional and presentation currency. Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are recorded in Czech crowns at actual exchange rates prevailing at the date of the transaction. Any gain or loss arising from a change in exchange rates subsequent to the date of the transaction is included as an exchange gain or loss in the statement of income. On the balance sheet date monetary items are adjusted to the exchange rates as published by the Czech National Bank as at 31 December.

Income taxes

The provision for corporate income tax is calculated in accordance with Czech tax regulations and is based on the profit or loss reported under Czech accounting regulations adjusted for appropriate permanent and timing differences from Czech taxable income.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred taxes are provided using the liability method whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The tax effects of these temporary differences are reflected as deferred tax items.

Segments

The Group has identified only one distinguishable business segment: the provision of postal services, which includes postal operations, agency activities and sale of postal goods. The Group provides its services to customers in similar economic environments, which bear similar risks and rewards and do not constitute different geographical segments.

Subsequent events

Post-year-end events that provide additional information about the Group's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. CASH AND SHORT-TERM DEPOSITS

Cash and short-term deposits at 31 December 2005 and 2004 are comprised of the following (in T-CZK):

	2005	2004
Cash on hand	2,686,113	3,649,375
Current bank accounts	1,834,573	3,067,517
Short-term deposits	1,360,000	-
Total cash	5,880,686	6,716,892
Less Entrusted Cash (Note 9)	-4,079,017	-5,268,323
Total Group's cash and short-term deposits	1,801,669	1,448,569

At 31 December 2005, current accounts with banks included foreign currency balances of 5,076 T-CZK (31 December 2004: 61,519 T-CZK).

Cash at bank earns interest at floating rate based on daily bank deposit rates.

Short-term deposits include a term deposit of 300,000 T-CZK with Deutsche Bank, A.G., Prague branch for a one year period maturing on 23 June 2006. The maturity of other term deposits is 90 days or shorter and they bear a market interest rate.

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise the following at 31 December (in T-CZK):

	2005	2004
Cash at banks and in hand (net of balance attributable to Entrusted Cash, Note 9)	441,669	1,448,569
Short-term deposits	1,360,000	-
Financial assets at fair value through profit or loss (Note 4)	767,218	215,084
Total cash and cash equivalents	2,568,887	1,663,653

4. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss comprised the following as at 31 December 2005 and 2004 (in T-CZK):

Bank	Type of financial asset	2005	2004
ČSOB.a.s.	Mortgage bonds VAR/15	404,293	-
ČP Invest, a.s.	Corporate Bond Fund	208,046	103,851
Credit Suisse a.s.	Credit Suisse CZK – money market open-end unit trust	154,879	101,233
Komerční banka, a.s.	Depository note	-	10,000
Total		767,218	215,084

The mortgage bonds mature on 27 October 2015 and bear an interest rate of 3.23%. All the financial instruments are liquid and actively traded in the market.

5. RECEIVABLES, NET

At 31 December 2005 and 2004, current accounts receivable, net, are comprised of the following (in T-CZK):

	2005	2004
Trade receivables	953,820	748,428
Advances granted	90,631	85,181
Other receivables	306,351	314,282
Less allowance for impairment	-66,198	-61,486
Total current receivables, net	1,284,604	1,086,405

As at 31 December 2005 and 2004 the long-term receivables, net, of 7,081 T-CZK, and 10,453 T-CZK, respectively, relate to advances for rent and advances for meal vouchers and fuelling using CCS cards.

The Group also reported long-term receivables from shortages and damage due to the theft, which are provided for in full at an amount of 51,850 T-CZK and 52,239 T-CZK, respectively.

Receivables are non-interest bearing and generally on 14-30 day terms.

Allowances for impairment charged to income were established based on an analysis of receivables ageing and recoverability. The Group wrote off irrecoverable receivables of 7,954 T-CZK in 2005 (2004: 11,336 T-CZK) due to bankruptcy proceedings, etc. (see Note 26).

For information regarding receivables from related parties, see Note 27.

6. INVENTORIES, NET

At 31 December 2005 and 2004, inventory is comprised of the following (in T-CZK):

	2005	2004
Material, at cost	130,838	123,285
Merchandise	49,355	43,759
Less allowance for excess and obsolete material	-3,639	-4,916
Total inventory, net	176,554	162,128

Inventories in stock consist, in particular, of postal and office supplies, blank forms, postage stamps and other postal stationery, small handling technology, uniforms, spare parts and fuel.

Excess and obsolete inventories of material have been reduced to net realizable value by an allowance, which was determined by management based on an analysis of inventory turnover (see Note 26).

7. OTHER CURRENT ASSETS

At 31 December 2005 and 2004, other current assets are comprised of the following (in T-CZK):

	2005	2004
Unbilled revenues	68,970	77,602
Prepaid expenses	51,210	55,604
Other current assets	27,223	60,375
Total	147,403	193,581

Unbilled revenues include, in particular, accrued revenues from agency services provided to Československá obchodní banka, a.s. ("ČSOB") for Poštovní spořitelna.

Prepaid expenses include, in particular, rent for non-residential premises and billboards paid in advance as well as employee insurance costs.

8. INCOME AND OTHER TAXES RECEIVABLE

At 31 December 2005 and 2004, income and other taxes receivable are comprised of the following (in T-CZK):

	2005	2004
Corporate income tax receivable	24,405	49,800
Other tax receivable	1,077	2,455
Total tax receivable	25,482	52,255

9. ENTRUSTED RESOURCES, NET

In some cases, monetary funds of customers are temporarily entrusted to the Group for the purpose of effecting specific transactions. These funds are recorded in separate accounts independently of the Group's own monetary funds. The Group charges a commission to effect these specific transactions, which it accounts for on an accrual and matching basis.

Entrusted resources are generated primarily from pension payments and agency services. The agency activity includes the provision of services especially for Poštovní spořitelna clients, keeping the register of radios and television sets and collecting radio and television license fees. Group customers may use a form of collective payment to pay a number of other fees. The post offices offer lottery tickets, duty stamps, road toll stamps, etc.

The Group has been authorized to intermediate cash transactions between its clients, both institutional and individual. In its accounts, the Group maintains accounts payable representing the obligation to pay out entrusted cash and accounts receivable representing the right to receive the cash from its clients.

At 31 December 2005 and 2004, the Group had 3,742,545 T-CZK (2004: 5,525,500 T-CZK) of liabilities arising from the possession of entrusted cash, of which an obligation to pay out pensions and benefits amounted to 865,696 T-CZK (2004: 3,227,300 T-CZK) and other monetary transfer obligations amounted to 2,876,849 T-CZK (2004: 2,298,200 T-CZK). All liabilities arising from entrusted resources fall within due dates.

Additionally, at 31 December 2005 and 2004, the Group had backed several pension payouts and other monetary transfers on a contractual basis in the total amount of 606,967 T-CZK (2004: 280,996 T-CZK). These contracts and agreements give rise to receivables in respect of entrusted cash.

In the course of 2004, ČSOB provided a EUR-denominated overdraft facility to the Group. This overdraft facility is designed exclusively for clients of Poštovní spořitelna to provide cash for banking services offered at selected postal service points. At 31 December 2005 and 2004, this overdraft facility balance totalled 26,312 T-CZK/907 thousand EUR (2004: 23,819 T-CZK/782 thousand EUR).

As at 31 December 2005, the overdraft facility with respect to entrusted funds was used at an amount of 917,127 T-CZK, in accordance with the agreed credit limits (2004: 0 T-CZK).

Entrusted resources, net:	2005	2004
Cash of Česká pošta clients	4,079,017	5,268,323
Receivables from clients in respect of entrusted cash	606,967	280,996
Liabilities to clients in respect of entrusted cash	-3,742,545	-5,525,500
Short-term liability to ČSOB – overdraft facility (CZK)	-917,127	-
Long-term liability to ČSOB – overdraft facility (EUR)	-26,312	-23,819
Total	-	-

10. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment at 31 December 2005 and 2004 were as follows (in T-CZK):

	Buildings and structures	Plant and equipment	Land and other	Accumu- lated depre- ciation	Advances and constru- ction work in progress	Allowance for impairment	Net Property, plant and equipment
31 December 2003	7,245,142	5,150,422	1,618,738	-7 038 406	340 995	-36,260	7,280,631
Additions	448,050	795,255	36,162	-813,459	1,258,174	-	1,724,182
Disposals	-89,537	-331,703	-56,013	313,061	-1,282,098	7,164	-1,439,126
31 December 2004	7,603,655	5,613,974	1,598,887	-7,538,804	317,071	-29,096	7,565,687
Additions	459,350	509,473	14,424	-849,719	1,043,399	-3,874	1,173,053
Disposals	-33,056	-217,423	-50,697	258,612	-950,030	-	-992,594
31 December 2005	8,029,949	5,906,024	1,562,614	-8,129,911	410,440	-32,970	7,746,146

Depreciation of tangible fixed assets of 849,719 T-CZK was charged to income in 2005 (2004: 813,459 T-CZK).

At 31 December, the allowance for impairment of Property, plant and equipment related to the following (see Note 26):

	2005	2004
Buildings and structures	22,044	21,218
Plant and equipment	1,023	-
Land and other	2,029	-
Advances and construction work in progress	7,874	7,878
Total	32,970	29,096

No interest expense was capitalized in 2005 and 2004.

The total value of small tangible fixed assets not reflected in the accompanying balance sheet (items of long-term consumption recorded in a subsidiary ledger) was 1,486,569 T-CZK at 31 December 2005 (2004: 1,281,231 T-CZK). These assets were fully depreciated as of that date.

The gross carrying amounts of certain items of Property, plant and equipment, which are fully depreciated as of 31 December 2005 and 2004 but are still in use, are as follows (in T-CZK):

	2005	2004
Buildings and structures	141,376	138,693
Plant and equipment	2,055,290	1,482,225
Transportation equipment	634,858	567,863
Furniture and fixtures	388,755	321,728
Total	3,220,279	2,510,509

During the stocktaking, excessive and obsolete assets with a net book value of 119,506 T-CZK at 31 December 2005 (2004: 74,246 T-CZK) and an estimated net realizable value of 333,230 T-CZK (2004: 83,267 T-CZK) were identified. Based on the historical experience with the duration of the sales process, the management of the Company does not consider probable that these assets would be sold within 1 year; accordingly, these items were not classified as held for sale.

In 2005 and 2004, the easement for the benefit of PCS – Praha Center s.r.o. on the post office building at Jindřišská, Prague 1 was created pursuant to a contract entered into on 16 April 1997, which is in force until 31 March 2042. In addition, the Group has another approximately 138 (2004: 111) minor easements (rights of sewage piping, water mains, power and gas piping connection, hot-water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) created to the benefit of above all community and municipal authorities, ČESKÝ TELECOM, a.s. and power producers and distributors.

11. INTANGIBLE ASSETS, NET

Intangible assets at 31 December 2005 and 2004 were as follows (in T-CZK):

	Software	Other intangibles	Accumulated depreciation	Intangibles in progress	Advances for intangibles in progress	Intangible assets, net
31 December 2003	701,415	82,392	-477,417	2,457	800	309,647
Additions	131,568	22,264	-	143,514	4,563	301,909
Retirements	-18,086	-506	11,973	-145,971	-5,363	-157,953
Amortization	-	-	-134,341	-	-	-134,341
31 December 2004	814,897	104,150	-599,785	-	-	319,262
Additions	96,528	14,224	-	115,790	-	226,542
Retirements	-42,726	-700	42,858	-81,338	-	-81,906
Amortization	-	-	-149,323	-	-	-149,323
31 December 2005	868,699	117,674	-706,250	34,452	-	314,575

Amortization of intangible assets of 149,323 T-CZK was charged to income in 2005 (2004: 134,341 T-CZK). None of the additions is attributable to internal development or business combinations in both 2005 and 2004.

The individual significant intangible assets hold by the Group as of 31 December 2005 are as follows (in T-CZK):

Description	Purchase price	Carrying amount	Remaining amortization period
Software SAP	139,760	45,838	16 months
Project DSCP	79,654	41,649	26 months
Software nAPOST	55,992	13,261	12 months
Software "Aplikace portálu centrální adresy" (Central Address Portal Application)	34,029	13,041	19 months

The gross carrying amounts of certain items of Intangible assets, which are fully depreciated as of 31 December 2005 and 2004 but are still in use, are as follows (in T-CZK):

	2005	2004
Software	346,988	356,194

12. OTHER NON-CURRENT ASSETS, NET

At 31 December 2005 and 2004, other non-current assets, net consist of the following (in T-CZK):

	2005	2004
Investment in the subsidiary ^{a)}	17,746	17,746
Investment in IP banka, a.s. ^{b)}	39,717	39,717
Less allowance for investment in IP banka, a.s. (Note 26)	-39,717	-39,717
Other non-current assets	80	80
Total Other non-current, net	17,826	17,826

a) A majority interest (51%) in a subsidiary, Poštovní tiskárna cenin Praha a.s., acquired in 1999. As the subsidiary is immaterial to the Group, it has not been consolidated and as a result of this treatment, no minority interest has been recognized or disclosed. In 2005, the Group received dividends of 718 T-CZK (2004: 718 T-CZK).

b) A minority interest in shares of IP banka, a.s. (originally IPB, a.s.) classified under the available-for-sale securities portfolio. Impairment losses incurred on this investment were recognized in 2000, when the Group created respective allowances. The provision amount was determined by the Group's management based on the realizable value of this investment.

13. ACCOUNTS PAYABLE

At 31 December 2005 and 2004 accounts payable are comprised of the following (in T-CZK):

	2005	2004
Trade payables	1,111,370	694,437
Wages and social security	989,726	771,555
Advances received	11,182	28,771
Other payables	118,826	125,773
Total accounts payable	2,231,104	1,620,536

Accounts payable are non-interest bearing and are normally settled on 14 - 30 day terms. At 31 December 2005, the Group had overdue short-term liabilities totalling 3,660 T-CZK (2004: 1,253 T-CZK).

For information regarding payables to related parties, see Note 27.

14. INTEREST BEARING LOANS AND BORROWINGS

At 31 December 2005 and 2004, the Group had the following short-term loans payable (in T-CZK):

Bank	Original terms / conditions	Total limit in T-CZK	2005 Drawn amount in T-CZK	2005 Amount in foreign currency	2004 Drawn amount in T-CZK	2004 Amount in foreign currency
	17. 12. 2004 - 18. 1. 2005					
Komerční banka a.s.	2.73% p.a., unsecured	220,000	-	-	220,000	-
Total			-	-	220,000	-

In 2004, the Group withdrew a bridging loan based on a "Contract on the provision of short-term loans" concluded with Komerční banka a.s. The loan was repaid in line with the contract on 18 January 2005.

15. OTHER LIABILITIES

At 31 December 2005 and 2004, accrued liabilities and deferred income were as follows (in T-CZK):

	2005	2004
Accrued liabilities	410,670	230,518
Deferred income	148,717	130,190
Total other liabilities	559,387	360,708

Accrued liabilities include, in particular, liabilities arising from unbilled supplies of electricity, heat, gas and other utilities/services, and are charged to income for the appropriate period.

At 31 December 2005 and 2004, deferred income includes, in particular, received prepayments of rent for non-residential premises, safes and deferred postal fees, and is recognized in income as the relevant income is earned.

Deferred income further includes the not-yet-recorded part of a fee for the establishment of an easement for the post office at Jindřišská Street in Prague 1 for the benefit of PCS – Praha Center s.r.o. The easement has been established in accordance with an agreement concluded on 16 April 1997 and is effective until 31 March 2042. The easement value totals 49,013 T-CZK and is gradually being recognized in income over the period of the agreement.

16. INCOME AND OTHER TAXES PAYABLE

At 31 December 2005 and 2004, income and other taxes payable are comprised of the following (in T-CZK):

	2005	2004
Personal income tax payable	99,575	66,623
VAT payable	2,899	26,834
Total	102,474	93,457

17. TAXATION

Income tax legislation

Corporate income tax is calculated in accordance with Czech tax regulations at the rate of 26% in 2005 (2004: 28%).

The Czech Republic currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value-added tax, corporate income tax, payroll taxes and others. In addition, laws related to these taxes have not been in force for extensive periods, in contrast to more developed market economies. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretations exist both among and within government ministries and organizations, thus creating uncertainties and areas of conflict. Tax returns, together with other legal compliance areas (e.g., customs and currency control matters), are subject to review and investigation by a number of authorities that are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in the Czech Republic that are substantially more significant than those typically found in countries with more developed tax systems. Management believes that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that the competent authorities could take differing positions with regard to interpretive issues and the effect could be significant.

Income tax expense

The components of income tax expense for the years ended 31 December 2005 and 2004 are as follows (in T-CZK):

	2005	2004
Current tax expense	148,022	105,067
Deferred tax expense	103,178	32,031
Total income tax expense	251,200	137,098

The movements in the deferred tax are attributable to the following:

	2005	2004
Effect of origination and reversal of temporary differences	100,154	46,763
Effect of changes in tax rates	3,024	-14,732
Total deferred tax expense	103,178	32,031

A reconciliation between the tax expense and the accounting profit multiplied by the statutory tax rate for the years ended 31 December 2005 and 2004 is as follows (in T-CZK):

	2005	2004
Profit before taxes under IFRS	757,555	484,375
Adjustments between CAS and IFRS	163,120	77,895
Profit before taxes under CAS	920,675	562,270
Non-taxable revenues	-2,743	-13,661
Differences between book and tax depreciation	-365,291	-112,616
Tax non-deductible expenses	94,199	55,546
Creation of provisions	8,235	-6,907
Creation of reserves	45,890	-
Other (e.g. entertainment expenses, shortages and losses)	40,074	62,453
Gifts	-514	-
10% relief on tangibles	-	-53,758
Taxable income	646,326	437,781
Current income tax rate	26%	28%
Income tax computed	168,045	122,578
Tax relief (persons with disability and partial disability)	-19,084	-19,967
Current income tax expense	148,961	102,611
Additional assessments/overpayments relating to prior years	-939	2,456
Corporate income tax expense	148,022	105,067

The change in the applicable tax rate in 2005 compared to 2004 (from 28% to 26%) is driven by the applicable Czech tax legislation, stipulating decreasing corporate income tax rates in respective years.

Effective tax rate

A reconciliation of expected income tax expense for the years ended 31 December 2005 and 2004 is as follows (in T-CZK):

	2005	2004
Income before income taxes	757,555	484,375
Statutory income tax rate	26%	28%
"Expected" income tax expense	196,964	135,625
Add (deduct) tax effect of:		
- CAS vs. IFRS accounting differences	39,790	41,236
- 10% investment tax relief	-	-15,052
- tax credits	-19,084	-19,967
- (tax refunds) / tax assessments for previous periods	-939	2,456
- other	31,445	7,532
- effect of tax rate changes	3,024	-14,732
Income taxes	251,200	137,098
Effective Tax Rate	33.2%	28.3%

Deferred taxes

At 31 December 2005 and 2004, deferred tax is comprised of the following deferred tax assets and liabilities (in T-CZK):

Deferred tax item	Base	Tax rate	2005		2004	
			Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	-1,298,541	24%	-	-311,648	-	-207,958
Other temporary differences						
Allowance against receivables	101,393	24%	24,334	-	24,897	-
Allowance against inventory	3,639	24%	873	-	1,278	-
Allowance against other non-current assets	-	24%	-	-	9,532	-
Other	46,165	24%	11,080	-	68	-
Total			36,287	-311,648	35,775	-207,958
Total deferred tax liability, net				-275,361		-172,183

18. OTHER LONG-TERM LIABILITIES

At 31 December 2005 and 2004, other long-term liabilities are 45,638 T-CZK (2004: 38,627 T-CZK) and consist of long-term prepayments received from large users of postal services (customers). The amount of prepayments is reassessed every month and can be adjusted according to the extent of provided services.

19. STOCKHOLDERS' EQUITY

The Company is a 100% state-owned company with the legal form of a state enterprise. Pursuant to the State Enterprise Act, issued capital equals the so-called owner's capital, i.e. business assets owned by the parent company at establishment.

Issued capital changes arising from additional movement of assets subject to the spin-off project in 1993 are not entered in the Commercial Register until all asset movements have been finalized. Any proposal for an issued capital change in the Commercial Register is subject to the founder's consent.

Pursuant to the State Enterprise Act, the Group creates a legal reserve fund from profit. At establishment, the founder decided that the reserve fund must equal 10% of stockholders' equity. The reserve fund is created on a gradual basis through allocations of 10% of net annual profits.

20. COMMITMENTS AND CONTINGENCIES

Operating lease commitments – Group as a Lessee

Assets which are being used by the Group under operating leases as at 31 December 2005 and 2004 consist of the following (in T-CZK):

Description	Terms / Conditions	Expense in 2005	Expense in 2004	Cost
Passenger cars – 14 cars	lease for 4 years (from 2002 to 2006)	3,430	3,192	7,363
Other operating leases	lease for 4 years (from 2004 to 2007)	19,504	5,107	57,757

Future minimum rentals under non-cancellable leases are as follows:

	2005	2004
Within one year	24,754	20,471
After one year but less than five years	30,794	52,611
Total minimum rentals	55,548	73,082

Guarantees

At 31 December 2005 and 2004, the Group records a guarantee totalling 10,000 T-CZK (2004: 10,000 T-CZK) that was provided by Komerční banka, a.s. based upon a request of the Ministry of Finance of the Czech Republic made in connection with the sale of road toll stamps. In 2005 and 2004, this guarantee was secured with a fixed term deposit, resp. a short-term deposit note, at a branch of Komerční banka, a.s. (see Note 3).

In connection with the operation of two own lotteries, the Group made a 6,000 T-CZK escrow deposit at ING Bank N.V. (blocked from 15 July 2002 to 30 September 2004), which supported an application for the license to operate a lottery tickets raffle called "Anniversary Postal Lottery". The Group also made a 10,000 T-CZK deposit (from 20 August 2002 to 27 September 2004) to the existing lottery called 'SOS' to support those who suffered from the floods in the Summer of 2002. The deposits were released on the basis of a written approval of the Ministry of Finance of the Czech Republic in September 2004.

Capital Commitments

The Group had no capital commitments at 31 December 2005 (2004: nil).

Pension commitments

The Group makes contributions only to the basic state pension scheme. Contributions for state pension benefits are charged to the statement of income on an accrual basis.

Legal claims

As at 31 December 2005, there is one significant legal action initiated against the Group, which may result in maximum contingent liability of 58,454 T-CZK. The Group's management believes that the Group will not be required to pay the above amount.

21. REVENUES

The breakdown of the Group's revenues from current activities is as follows (in T-CZK):

	2005	2004
Postal operations		
Sales revenues from postal stationery	1,383,960	1,357,848
Letter and parcel mail	7,913,209	7,039,378
Money order fees	2,242,387	2,178,026
Revenues from foreign postal administrations	389,584	399,428
Press distribution	4,766	5,922
Contractual delivery of printed papers	829,580	697,247
Commercial parcels	805,020	750,713
Other revenues from relocation services	728,075	632,095
Volume and tariff discounts	-119,676	-106,555
Revenue from postal operations	14,176,905	12,954,102
Agency activity		
Revenue from services provided to banks	769,383	755,737
Commission on collection of television and radio fees	218,033	219,393
Commission on collective payments (SIPO) collection	337,235	331,740
Commission on payment of pensions	400,846	431,418
Commission on sale of duty stamps, road toll stamps, etc.	193,474	152,338
Commission on lotteries	119,837	104,470
Revenue from services provided to TELECOM	13,795	14,765
Other commissions	112,443	158,660
Revenue from agency activity	2,165,046	2,168,521
Sale of goods		
Sale of phone cards at post offices	160,223	217,376
Sale of press at post offices	190,157	182,835
Sale of philatelic goods	47,789	50,232
Other goods sold	116,388	105,795
Revenue from sale of goods	514,557	556,238
Total revenues	16,856,508	15,678,861

22. SALARIES AND WAGES

The breakdown of the Group's salaries and wages is as follows (in T-CZK):

	2005		2004	
	Total personnel	Directors, Deputy Directors and Managers	Total personnel	Directors, Deputy Directors and Managers
Average number of employees	38,290	159	38,794	146
Salaries and wages	7,522,745	175,644	7,110,115	172,824
Social insurance	2,589,090	62,459	2,496,692	61,456
Social expenses	479,020	1,563	484,368	1,156
Remunerations of board members	2,901	452	1,145	293
Total salaries and wages	10,593,756	240,118	10,092,320	235,729

Social expenses include employer contributions to defined contribution pension plans and additional staff life insurance totalling 111.667 T-CZK in 2005 (2004: 110.086 T-CZK).

Key management personnel received compensation in the form of short-term employee benefits as stated in the above table. No other types of compensation such as post-employment or other long-term benefits were granted to the key management in 2005 and 2004, except for managers who use company cars for business as well as private purposes (for consideration).

23. RAW MATERIALS AND CONSUMABLES USED

The breakdown of the Group's cost of materials and consumables used is as follows (in T-CZK):

	2005	2004
Consumption of material		
Office supplies	205,341	202,077
Fuel	245,663	221,872
Small assets	217,859	113,775
Uniforms	80,253	78,785
Spare parts	20,444	18,880
Duty stamps and postage stamps	32,451	34,959
Other material	250,940	238,907
Total consumption of material	1,052,951	909,255
Energy consumption		
Electricity	144,369	132,692
Gas	59,588	48,695
Water and sewage	9,663	9,789
Steam	77,329	73,598
Total consumption of energy	290,949	264,774
Cost of goods sold		
Sale of phone cards at post offices	150,548	202,922
Sale of press at post offices	150,278	144,498
Sale of philatelic goods	8,703	9,478
Other goods sold	91,919	83,368
Total cost of goods sold	401,448	440,266
Total	1,745,348	1,614,295

24. SERVICES

The breakdown of the Group's 2005 and 2004 service expense is as follows (in T-CZK):

	2005	2004
Performances of communications – domestic	118,212	114,884
Performances of communications of foreign postal administrations	498,939	329,781
Transportation cost	148,268	129,187
Security surveillance of premises and of cash transports	204,064	207,968
Operating leasing	137,875	139,412
Technological discounts granted	35,969	10,818
Software and hardware maintenance	121,825	130,542
Cleaning and waste disposal	281,955	218,710
Commission on sale of duty stamps and road toll stamps	112,591	106,685
Training	70,750	39,590
Advisory services	15,905	23,295
Other services	29,075	33,460
Total services	2,018,900	1,690,147

25. REPAIRS AND MAINTENANCE

The breakdown of the Group's 2005 and 2004 repair and maintenance expense is as follows (in T-CZK):

	2005	2004
Repairs of		
Buildings and structures	184,494	294,827
Cars and carriages	51,885	53,292
Hardware	112,797	104,191
Electronic security systems and equipment	64,248	63,961
Machines and office and similar equipment	24,993	26,979
Total repairs	438,417	543,250

26. ALLOWANCE FOR IMPAIRMENT AND PROVISIONS

The movements in allowances for impairment were as follows:

	Receivables	Inventories	Other non-current assets	Property plant and equipment	Total
December 31, 2003	120,049	5,911	39,717	36,260	201,937
Amounts written-off	-11,336	-	-	-	-11,336
Charge for the year (reversal)	5,012	-995	-	-7,164	-3,147
December 31, 2004	113,725	4,916	39,717	29,096	187,454
Amounts written-off	-7,954	-	-	-	-7,954
Charge for the year (reversal)	12,277	-1,277	-	3,874	14,874
December 31, 2005	118,048	3,639	39,717	32,970	194,374

Allowances for impairment of assets are deducted from the carrying amounts of the related assets.

27. RELATED PARTY TRANSACTIONS

During the year, the Group entered into transactions with related parties in the ordinary course of business. The transactions with related parties are performed on an arm's length basis. Those transactions, along with related balances at 31 December 2005 and 2004 and for the years then ended, are presented in the following tables:

	Sales to related parties	Purchases from related parties	Amounts owed by related parties	Amounts owed to related parties
2005				
Subsidiary:				
Poštovní tiskárna cenin Praha a.s.	1,328	63,244	52	4,638
Other state enterprises (entities under joint control):				
Suppliers of energy	40,827	34,234	7,574	788
Transport service providers	11,972	78,653	819	3,378
Suppliers of heat	2,071	612	340	174
Other	182	12,058	2	6,363
2004				
Subsidiary:				
Poštovní tiskárna cenin Praha a.s.	1,121	53,228	59	5,377
Other state enterprises (entities under joint control):				
Suppliers of energy	42,382	32,132	6,402	888
Transport service providers	8,953	71,625	506	4,845
Suppliers of heat	117	674	654	114
Other	205	9,832	2	4,450

The Group also enters into transactions relating to the transfer of property with the state (the Czech Land Fund) and ČESKÝ TELECOM, a.s. (an entity under joint control) with respect to the restitution and completion of delimitation of fixed assets, in addition to the above transactions. Such transfers are recorded under Unregistered Issued Capital Change in stockholders' equity (see Statement on changes in stockholders' equity).

Terms and conditions of transactions with related parties

Outstanding balances of trade receivables and payables at the year-end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2005, the Group has not made any provision for doubtful debts relating to amounts owed by related parties (2004: 0).

28. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and overdrafts, financial assets at fair value through profit or loss, available-for-sale financial assets, financial investments and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The management reviews and agrees policies for managing each of these risks and they are summarized below.

The Group has risk management policies and guidelines, which specifies the general risk management philosophy and has established processes to monitor and control risks in a timely and accurate manner.

Interest rate, currency risk, liquidity risk

The Group is not exposed to significant risks connected to its financial instruments. The Group monitors the maturity, currency and interest rate structure of monetary assets and liabilities, to ensure they are matched in order to manage the exposure.

As concerns the interest rate risk, the Group scarcely uses external sources of financing, and if any, they are represented by only short-term instruments, i.e. an overdraft drawn in 2005 and a bridging loan utilized in 2004 (see Note 14).

In relation to the currency risk, the Group concluded several contracts denominated in foreign currencies. The related risk is determined for the respective foreign currency for assets and liabilities and some off-balance sheet items, such as contingent purchases or sales commitments. Given the fact that the volume of assets and liabilities denominated in foreign currencies was immaterial at year-end, the exchange rate risk exposure for the Group is also insignificant.

Credit risk

As of 31 December 2005, the Group's maximum exposure to credit risk in the event that counterparties fail to perform their obligations as of 31 December 2005 in relation to each class of recognized financial assets is the carrying amount of those assets as indicated in the balance sheet.

The Group manages the credit risk by regularly assessing customer solvency by means of internal regulations governing customers approval process and monitoring of customers exposures.

Concentrations of credit risk exist when changes in economic, industry or geographic factors similarly affect groups of counterparties whose aggregate credit exposure is significant in relation to the Group's total credit exposure. The Group's portfolio of financial assets is broadly diversified along industry and product, and transactions are entered into with diverse creditworthy counterparties, thereby mitigating any significant concentration of credit risk.

29. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Fair values

Fair value is defined as the amount at which an instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than in a forced or liquidation sale. Fair values are obtained from discounted cash flow models.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

Cash and short-term deposits

The carrying amount of cash approximates fair value due to the relatively short-term maturity of this financial instrument.

Receivables and payables

The carrying amount of receivables and payables approximates fair value due to the short-term maturity of these financial instruments. An estimate of long-term receivables has been calculated based on the expected discounted cash flows.

Financial investments

Financial investments for which there are no quoted market prices are carried at cost reduced by allowances for impairment in value.

Interest bearing loans and borrowings

The carrying amount approximates fair value because of the short period to maturity of these instruments.

Financial assets at fair value through profit or loss

The fair value of bonds and fund units is set on the basis of their quoted market value at the financial statements date.

The carrying amounts and the estimated fair values of financial assets and liabilities at 31 December 2005 and 2004 were as follows (in T-CZK):

	2005		2004	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Cash and ST deposits	1,801,669	1,801,669	1,448,569	1,448,569
Financial assets at FV through profit or loss	767,218	767,218	215,084	215,084
Short-term receivables	1,284,604	1,284,604	1,086,405	1,086,405
Long-term receivables	7,081	6,809	10,453	10,052
Financial investments	17,826	17,826	17,826	17,826
Liabilities				
Accounts payable	2,231,104	2,231,104	1,620,536	1,620,536
Interest bearing loans and borrowings	-	-	220,000	220,000

30. RECONCILIATION BETWEEN PREVIOUS GAAP AND IFRS

Reconciliation of equity at 1 January 2004 (date of transition to IFRS):

	Reconciliation Note	Previous GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and short-term deposits	1	7,980,508	-6,824,111	1,156,397
Financial assets at fair value through profit or loss		473,783	-	473,783
Receivables, net	2	1,114,042	61,823	1,175,865
Inventories, net		148,294	-	148,294
Other current assets	2	445,568	-307,787	137,781
Taxes receivable		820	-	820
Total current assets		10,163,015	-7,070,075	3,092,940
Non-current assets				
Long-term receivables, net		12,530	-	12,530
Financial investments, net	3	7,328,597	-47,966	7,280,631
Property, plant and equipment, net		309,647	-	309,647
Intangible assets, net		17,826	-	17,826
Total non-current assets		7,668,600	-47,966	7,620,634
TOTAL ASSETS		17,831,615	-7,118,041	10,713,574
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	4	8,261,300	-6,783,863	1,477,437
Interest bearing loans and borrowings		300,000	-	300,000
Other liabilities	5	627,119	-269,412	357,707
Income and other taxes payable		186,798	-	186,798
Total current liabilities		9,375,217	-7,053,275	2,321,942
Non-current liabilities				
Provisions	5	261	-261	-
Deferred tax liability	6	152,623	-12,471	140,152
Other long term liabilities		37,518	-	37,518
Total non-current liabilities		190,402	-12,732	177,670
Stockholders' equity				
Issued capital		3,581,699	-	3,581,699
Retained earnings	7	4,684,297	-52,034	4,632,263
Total stockholders' equity		8,265,996	-52,034	8,213,962
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		17,831,615	-7,118,041	10,713,574

Notes to the reconciliation of equity at 1 January 2004:

1) The balance under previous GAAP comprises also entrusted resources. Under IFRS the balance is presented net of the entrusted resources, which are reclassified to a separate balance sheet line "Entrusted resources" (see Note 9 for detailed explanation).

Summarized impact of reclassification of Entrusted resources under IFRS:

Entrusted resources, net:	T-CZK
Cash and short-term deposits	6,824,111
Receivables, net	245,964
Liabilities to clients in respect of entrusted cash	-7,070,075
Total	-

2) The balance under the previous GAAP (i) comprises also entrusted resources of 245,964 T-CZK (see Reconciliation Note 1), and (ii) does not include balances receivable in relation to international postal services of 307,787 T-CZK, which were classified under Other current assets.

3) Property, plant & equipment under the previous GAAP does not comprise items acquired under finance lease, which were under previous GAAP not capitalized and depreciated. Lease payments were recorded as an expense under Services.

4) The balance under the previous GAAP comprises also entrusted resources of 7,070,075 T-CZK (see Reconciliation Note 1). Balances payable in relation to international postal services of 269,673 T-CZK were under previous GAAP classified under Other liabilities. Social fund created by the Group under the local law on state enterprise was under previous GAAP reported as a separate component of equity 16,539 T-CZK.

5) The balance under the previous GAAP comprises also balances payable in relation to international postal services of 269,673 T-CZK, which were under IFRS reclassified to Accounts payable. The reserve of 261 T-CZK was recognized under previous GAAP, this amount does not qualify for recognition as a reserve under IFRS.

6) The above decreased the deferred tax liability as follows:

	Reconciliation Note	T-CZK
Finance lease (26% of 47,966 T-CZK)	3	-12,471
Total		-12,471

7) The following illustrates the adjustments to retained earnings:

	Reconciliation Note	T-CZK
Social fund	4	-16,539
Finance lease	3	-47,966
Deferred tax	6	12,471
Total		-52,034

Reconciliation of equity at 31 December 2004 (end of the comparative period):

	Reconciliation Note	Previous GAAP	Effects of transition to IFRS	IFRS
ASSETS				
Current assets				
Cash and short-term deposits	1	6,716,892	-5,268,323	1,448,569
Financial assets at fair value through profit or loss		215,084	-	215,084
Receivables, net	2	1,110,717	-24,312	1,086,405
Inventories, net		162,128	-	162,128
Other current assets	3	537,210	-343,629	193,581
Income and other taxes receivable		52,255	-	52,255
Total current assets		8,794,286	-5,636,264	3,158,022
Non-current assets				
Long-term receivables, net		10,453	-	10,453
Financial investments, net	4	7,449,760	115,927	7,565,687
Property, plant and equipment, net		319,262	-	319,262
Intangible assets, net		17,826	-	17,826
Total non-current assets		7,797,301	115,927	7,913,228
TOTAL ASSETS		16,591,587	-5,520,337	11,071,250
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Accounts payable	5	6,813,898	-5,193,362	1,620,536
Interest bearing loans and borrowings		220,000	-	220,000
Other liabilities	6	680,239	-319,531	360,708
Income and other taxes payable		93,457	-	93,457
Total current liabilities		7,807,594	-5,512,893	2,294,701
Non-current liabilities				
Provisions	6	261	-261	-
Deferred tax liability	7	165,227	6,956	172,183
Other long term liabilities	1	62,446	-23,819	38,627
Total non-current liabilities		227,934	-17,124	210,810
Stockholders' equity				
Issued capital		3,581,699	-	3,581,699
Retained earnings	8	4,974,360	9,680	4,984,040
Total stockholders' equity		8,556,059	9,680	8,565,739
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		16,591,587	-5,520,337	11,071,250

Notes to the reconciliation of equity at 31 December 2004:

- The balance under previous GAAP comprises also entrusted resources. Under IFRS the balance is presented net of the entrusted resources, which are reclassified to a separate balance sheet line "Entrusted resources" (see Note 9 for detailed explanation).

Summarized impact of reclassification of Entrusted resources under IFRS:

Entrusted resources, net:	T-CZK
Cash and short-term deposits	5,268,323
Receivables, net	280,996
ST liabilities to clients in respect of entrusted cash	-5,525,500
LT liabilities to clients in respect of entrusted cash	-23,819
Total	-

2. The balance under the previous GAAP (i) comprises also entrusted resources (see Reconciliation Note 1), and (ii) does not include balances receivable in relation to international postal services of 256,684 T-CZK, which were classified under Other current assets.
3. The balance under the previous GAAP (i) does not include balances receivable in relation to international postal services of 256,684 T-CZK, which were classified under Receivables (see Reconciliation Note 2), and (ii) comprises time apportionment of purchase price of computer equipment of 86,945 T-CZK, which is under IFRS recognized as tangible non-current asset.
4. Property, plant & equipment under the previous GAAP does not comprise newly acquired items of computer equipment, which were under the previous GAAP not capitalized and depreciated but rather reported as consumption deferred over 2 years (see Reconciliation Note 3). Under IFRS these items qualify for non-current tangible assets and are depreciated over 3 years (i.e. gross carrying amount of such items amounts to 173,890 T-CZK, annual depreciation charge amounts to 57,963 T-CZK).
5. The balance under the previous GAAP comprises also entrusted resources of 5,525,500 T-CZK (see Reconciliation Note 1). Balances payable in relation to international postal services of 319,792 T-CZK were under previous GAAP classified under Other liabilities. Social fund created by the Group under the local law on state enterprise was under the previous GAAP reported as a separate component of equity 12,346 T-CZK.
6. The balance under the previous GAAP comprises also balances payable in relation to international postal services of 319,792 T-CZK, which were under IFRS reclassified to Accounts payable. The reserve of 261 T-CZK was recognized under the previous GAAP, this amount does not qualify for recognition as a reserve under IFRS.
7. The above decreased the deferred tax liability as follows:

	Reconciliation Note	T-CZK
Computer equipment (24% of 28,982 T-CZK)	3, 4	6,956
Total		6,956

8. The following illustrates the adjustments to retained earnings:

	Reconciliation Note	T-CZK
Social fund	5	-12,346
Computer equipment	3, 4	28,982
Deferred tax	7	-6,956
Total		9,680

Reconciliation of profit or loss for the year 2004:

	Reconciliation Note	Previous GAAP	Effects of transition to IFRS	IFRS
Revenues		15,678,861	-	15,678,861
Operating income / (expense)				
Salaries and wages	1	-9,937,867	-154,453	-10,092,320
Raw materials and consumables used	2	-1,701,240	86,945	-1,614,295
Services	3	-1,689,733	-414	-1,690,147
Depreciation and amortization expenses	2, 3	-937,910	-9,890	-947,800
Repairs and maintenance		-543,250	-	-543,250
Travel expenses		-55,009	-	-55,009
Allowances, provisions and write-offs, net		14,401	-	14,401
Other operating expenses, net	3	-343,138	-106	-343,244
Profit from operations		485,115	-77,918	407,197
Financial income / (expense)				
Interest income	3	81,535	23	81,558
Interest expense		-3,115	-	-3,115
Exchange rate gain, net		7,858	-	7,858
Other financial expenses, net		-9,123	-	-9,123
Financial income, net		77,155	23	77,178
Profit before income taxes		562,270	-77,895	484,375
Income taxes		-105,067	-	-105,067
Deferred taxes	4	-12,604	-19,427	-32,031
Net profit		444,599	-97,322	347,277

Notes to the reconciliation of profit or loss for the year 2004:

1. Under previous GAAP the Group created Social fund under the local law on state enterprise, which was reported as a separate component of equity. Social fund is reclassified to liabilities to employees under IFRS and the balance related to annual contribution to the social fund is accordingly recognized as an expense.
2. Purchase price of certain low value tangible fixed assets acquired in 2004 was under previous GAAP reported under consumption. Under IFRS such items of fixed assets were capitalized and depreciated over their useful life.
3. Under previous GAAP fixed assets acquired under finance lease were not capitalized and depreciated over their useful lives; lease payments were recorded as an expense under Services. Under IFRS such items were capitalized and depreciated, the excess of total lease payments over acquisition price is reported as a finance charge.
4. Adjustments 1-3 above lead to increase of 19,427 T-CZK in deferred tax expense.

Explanation of material adjustments to the cash flow statement for 31 December 2004:

Movements in entrusted resources reported by the Group were not considered in the cash flow under IFRS. There are no other material differences between the cash flow statement prepared under IFRS and the cash flow statement presented under previous GAAP.

31. EVENTS AFTER BALANCE SHEET DATE

The following events with the effect on the presented financial statements occurred after the balance sheet date.

On 2 February 2006, the Group entered into a loan agreement totalling 708 CZK million with Česká spořitelna, a.s for the financing of SPU Brno for eight years.

A change in the composition of the Supervisory Board occurred on 1 February 2006. Ludovít Gulazsi resigned from the position of Supervisory Board member and Petr Polák was appointed as a new Supervisory Board member.

Authorized for issue:

Signature of accounting
unit's statutory body:

Person responsible for
the accounting:



JUDr. Karel Kratina
General Director



Ing. Vlasta Svobodová
Deputy Director for Economy

17 February 2006

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End of english part

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