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1 Foreword

The year 2017 was very important for Česká pošta in many respects, in particular with regard to its direction and ensuring its future. One of the key moments was the selection of a partner for co-operation on banking and insurance services for the next ten years. The best offer was submitted by the ČSOB group and Česká pošta subsequently concluded a contract with it. Česká pošta and the ČSOB group thereby extended co-operation lasting a quarter of a century under the Poštovní spořitelna brand. The new contract led to a marked increase in Česká pošta's revenues and growth in profitability, investment by the ČSOB group amounting to hundreds of millions of koruna and an increase in the number of specialised counters at post offices. Co-operation with the ČSOB group puts the concept for comprehensive and available financial services under one roof.

In 2017, Česká pošta also continued to transfer branches to contractual partners as a part of the Pošta Partner project. Last year alone, Česká pošta opened 189 Partner post offices, which are a full alternative to Česká pošta branches. In municipalities where a Partner post office is operating, the citizens are satisfied, which was confirmed, for example, by an independent research drafted last year by the Association of Small and Medium-Sized Enterprises and Crafts. At the end of 2017, 428 partners were offering citizens their services.

Česká pošta has been operating the Data Box Information System for ten years. Last year, Česká pošta issued a tender for a subcontractor. It was won by O2 IT Services and I view the results of the tender very positively. Thanks to the tender we obtained better conditions for the government and saved CZK 200 million over the 5 years for which the contract is concluded.

Česká pošta held its previous postal licence until the end of 2017 and was interested in continuing to provide postal services. A new licence was granted to Česká pošta by the Board of the Czech Telecommunication Office in the middle of December, for the period 2018–2022. In future years we will therefore provide the government with a universal service that includes, for example, the duty to operate a network of 3,200 post offices and make deliveries in accordance with set parameters.

Česká pošta's most valuable assets are its employees. Therefore, we focused on improving their working conditions last year. In the last three years we have provided CZK 2.5 bn for increases in income for employees with a tariff salary and the average annual increase of salaries was 5%. In addition to this, over and above the agreed framework Česká pošta paid an extraordinary bonus totalling CZK 200 million from the payment of compensation for costs of the universal service in 2013 and 2014.

Last year Česká pošta made a before-tax profit of CZK 91 million. It is approximately CZK 100 million less than in previous years. The largest negative influence on this result was due to the year-on-year fall in compensation for the universal service from CZK 600 million to CZK 500 million, the payment of the extraordinary bonus in accordance with the government order for compensation for the costs of the universal service for 2013 and 2014 and the continuing fall in traditional postal services, in particular domestic mail and money orders. Higher revenues from parcels, international mail, higher revenues from co-operation with the ČSOB group and also economy measures affecting operating costs, i.e. the transition to IP telephony, had a positive influence on the results.

In conclusion, I would like to mention one activity that provides me with great joy and whose benefit cannot be expressed in numbers. The Česká pošta Foundation was established at the end of 2016. Its most important function is support for postal workers in need. Last year, employees contributed more than CZK 650 thousand and the administrative board handed out more than CZK 400 thousand to fourteen colleagues who found themselves in very unfavourable circumstances. Such solidarity is not common at all and it makes me even prouder of Česká pošta employees.

Vít Bukvic, charged with managing Česká pošta, s.p.



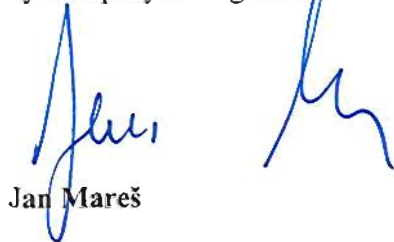
2 Report of the Supervisory Board

In 2017, the Česká pošta Supervisory Board held 11 ordinary meetings and 1 extraordinary meeting. As in previous years, it paid careful attention to a broad range of company activities and issues, and fulfilled its mission as required by the applicable laws.

Aside from long-term, systematic oversight of the activities of this state enterprise, the Supervisory Board devoted careful attention to both the evaluation and meeting of operating result targets, as well as business strategy implementation. Individual issues were discussed in detail by the Board's expert committees. The Supervisory Board focused, among other things, on Česká pošta's investment undertakings and the scope and quality of its services with the aim of bolstering the Company's position in a highly competitive market. The Supervisory Board considered it important to find new ways to address the employee remuneration system currently in place. It regularly monitored and evaluated operating result and its compliance with the approved financial plan.

In 2017, the Supervisory Board also played an active role in selecting a suitable partner for the provision of banking and insurance services. This selection process culminated in the June signing of a ten-year cooperation agreement that entered into force on 1 January 2018. Rigorous negotiations led to a solution enabling Česká pošta to optimize the utilization of its well-trained staff, existing infrastructure and branch network. This will serve to ensure the Company garners an ever higher revenue share of the retail market for banking and insurance services.

The Supervisory Board performed a rigorous review of the standalone and consolidated financial statements for the year ended 31 December 2017 prepared in compliance with Czech accounting standards. It also reviewed the Auditor's Reports prepared by auditor Ernst & Young Audit, s.r.o., which were issued "without qualification". It discussed the Česká pošta Annual Report for 2017 and recommended that the Founder approve the Annual Report, which includes the financial statements and Auditor's Reports. The Supervisory Board recommended that the Founder decide on the distribution of profit/loss for the year 2017 as proposed by Company management.



Jan Mareš

Supervisory Board Chairman, Česká pošta, s.p.

3 Key events of 2017

January 2017

- Advisory firm PricewaterhouseCoopers Česká republika, s.r.o. assessed the risk management function at Česká pošta at the 2016 year-end, and stated in its final report that the risk management process in place at Česká pošta is transparent and achieves a high degree of compliance with key requirements of internationally recognized frameworks, standards and best practices. The fact that Česká pošta has a Risk Management Committee, which is not yet standard practice in the Czech Republic, was just one of the positive review findings.

February 2017

- On 28 February, Česká pošta representatives took part in discussions with the chairman of the Union of Towns and Municipalities of the CR, František Lukl, and vice-chairman Pavel Drahovzal. The discussion of issues led to the further operational streamlining and simplification of individual Pošta Partners. The parties also agreed on a method of conveying information on the progress of the Pošta Partner project and on any changes, e.g. in Pošta Partner contractual operators.

March 2017

- The Czech Government decided to terminate and replace its compensation fund, and enjoined the Czech Ministry of Industry and Trade to collaborate with the Czech Ministry of the Interior to draft a bill amending the Postal Services Act, abolishing the fund and addressing the financing of the net expenses that place an unfair financial burden on Česká pošta. Specifically, they agreed on the coverage of Česká pošta's net expenses for the years 2013 and 2014 in a total amount of CZK 800 million. Payment is to be effected in three phases: CZK 200 million in 2018, CZK 300 million in 2019 and the remaining CZK 300 million in 2020.

April 2017

- As of 1 April, the Česká pošta Customer Card also serves as a "Recipient ID". The new functionality of the Customer Card replaces the existing form of Recipient ID that the holder presents to Česká pošta to prove authorization to accept consignments and money orders for the addressee. Holders of Customer Cards for natural persons (individuals) will be able more easily to pick up post for any other person who has provided advance authorization.
- Česká pošta was once again a partner in the 11th annual Tent Against Melanoma in all three of the cities in which the event is held. The event took place on 18-19 April 2017 in Prague, continuing on 24 April in Brno and 25 April in Ostrava.
- One of the most important international events held at ČP was the Remuneration Forum, a meeting of representatives of European postal services operators from the PostEurop Trade Association, which dealt with terminal charges and compensation for deliveries of international parcels.
- We enlisted the cooperation of contractual partners from the Pošta Partner project to help collect tax via the Tax Money Order service.
- On 1 April, the Czech POINT service launched the new "Performance of identification and drafting of a public document for identification" program.

May 2017

- Česká pošta entered into an agreement with O2 IT Services, the winner of a public contract for a subcontractor / provider of a data mailbox information system.

June 2017

- Česká pošta switched to a new system in the interest of streamlining its telephone network. The modernization process included changes in individual office telephone numbers.
- Česká pošta and ČSOB Group signed a ten-year banking and insurance services cooperation agreement at Prague's main post office. The agreement entered into force on 1 January 2018. Česká pošta and ČSOB Group thus continued a quarter-century tradition of cooperation under the Poštovní spořitelna name. The partnership will result in an increase in Česká pošta sales, profitability growth, ČSOB Group investment of hundreds of millions of crowns and a 60% increase in the number of specialized teller windows at post offices.
- The first two-teller-window Pošta Partners were opened in Vestec and Lukavec.

July 2017

- Česká pošta launched the new Safe Storage service, which provides safe and confidential storage for official and other important documents.
- Customers may now change the place and time of a delivery in the Delivery Change online application for all registered consignments, including letters.

August 2017

- The first Package Rooms were opened. They specialize in the issuance of a 'Package Room Package' or the drop-off of a 'Complete Package'. Here, the customer is guaranteed to be able to pay by card and receive upgraded service thanks to a take-a-number system.

October 2017

- Česká pošta undertook the market launch of an attractive service called Complete Package. This affords optimal simplification of the sending of packages and offers an alternative way to avoid the tiresome steps customers associate with preparing and sending a package. The standard price includes postal charges, insurance, a handy box, package pick-up from the sender and delivery.

November 2017

- Česká pošta representatives received a prize for the third most beautiful postage stamp in the "Hand Engraved Plate" category on Thursday, November 2, 2017 at the World Stamp Exhibition for 2016 in Madrid for a commemorative stamp from the cycle "Works of Art on Stamps: František Tichý (1896 – 1961)".

December 2017

- A public tender was announced and led to the execution of a framework agreement for modernization of the APOST teller window system.

4 The year 2017 in numbers and facts

3,200 branches operated by Česká pošta, of which 428 were Pošta Partners. In 2017, 189 Pošta Partners were opened. The Friendly Post project now includes some 700 post offices.

341,848 packages were delivered on 20 November, a record number. Česká pošta held onto its position as a leader on the market for parcel and letter services.

7% – the rate at which the wages of tariff-salaried Česká pošta employees increased.

20% of the fleet of Česká pošta vehicles is comprised of cars that run on alternative fuel, specifically CNG. In 2017, Česká pošta also tested electric cars and bikes.

10 years – the period for which Česká pošta executed a banking and insurance services agreement with ČSOB Group.

102,830,316 data messages sent by owners of data mailboxes. Total number of data mailboxes created at 31 December 2017: 860,980. The winner of a public contract to supply ISDS for the period 2018 to 2022 was O2 IT Services, s.r.o. The number of data mailboxes continued to rise 10% year on year.

2.7 million traditional postcards and greeting cards were purchased by Česká pošta customers. Customers sent 449,276 modern electronic Online Postcards from their cell phones and computers.

92,000 active users of the Pošta Online application, which was given a new look in 2017; technological adjustments provided for smoother operation. New functions were also added.

88 new stamps were created by Česká pošta in 2017. It won prestigious prizes for its stamps: 2nd place in the category “Most Beautiful Engraved Stamp in Europe 2016” in the GRANDS PRIX DE L’ART PHILATÉLIQUE BELGE ET EUROPÉEN 2016 competition for the stamp *Jan Jesenius*. And 3rd place at the World Stamp Exhibition in Madrid for “Most Beautiful Hand Engraved Plate in the World – 2016” for a stamp after the model of František Tichý’s Clown with Monkey, 1933.

21 exhibitions prepared by the Postal Museum.

5 Company profile

5.1 Mission and strategic goals

The mission of Česká pošta, s.p. ("Česká pošta", "the Enterprise" or "ČP") is to be a trusted provider of quality services in its role as an intermediary for the transfer of information, payments and goods by traditional and electronic means.

Česká pošta provides universal postal services and endeavours to render them as efficient as possible. Its current activity is guided by four key trends affecting the market and competitive environment. These are: new technologies, the change in how we communicate as a result of the internet, the changing needs of customers and the liberalization of postal services. Česká pošta intends to carry on its close cooperation with the state administration, not only through its vast network of post offices, but in new ways, too. ČP considers the ongoing enhancement of its image in the eyes of the public to be essential. Aware of its social role and responsibilities, it also wishes to be seen as a place where people want to work.

5.2 Legal status of the Enterprise

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

Česká pošta, s.p. was founded on 1 January 1993 by the Ministry of Economy of the Czech Republic in accordance with the State-owned Enterprise Act and incorporated by registration in the Commercial Register maintained by the District Court for Prague 1, Section A, Entry No. 7565. Presently, ČP is entered in the Commercial Register maintained by the Municipal Court in Prague, Section A, Entry No. 7565. The Ministry of Transport and Communications issued a Deed of Foundation of state-owned enterprise Česká pošta. This document entered into effect on 16 June 1997 and was later amended.

At 31 December 2017, the Ministry of Interior of the Czech Republic acted as Founder of Česká pošta on behalf of the Czech Government.

5.3 Enterprise administration and management

In the meaning of § 11 of Act No. 77/1997 Coll. on state-owned enterprises, as amended, the bodies of Česká pošta are the Director General and the Supervisory Board.

Director General

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

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

Supervisory Board

The Supervisory Board oversees the activity of the Director General and the execution of the Enterprise's business plan.

In compliance with Act No. 77/1997 Coll. on state-owned enterprises, as amended, ten members of the Supervisory Board are appointed and recalled by the Founder and five members are elected and recalled by the Enterprise employees.

The Supervisory Board has fourteen members at 31 December 2017.

Supervisory Board committees

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

Presently, these Supervisory Board committees exist:

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

Statutory body and ČP management

The composition of the statutory body and the organizational structure of ČP at 31 December 2017 can be found in the 15 Annual Report's financial section.

6 Regulatory framework for postal services

The liberalization of the European Union postal market culminated with the Third Postal Services Directive (Directive of the European Parliament and of the Council 2008/6/EC of 20 February 2008, which amends Directive 97/67/EC with respect to the final formation of the internal postal services market of the Communities), whose objective was gradually and fully to open up the postal services market to economic competition. Directives Nos. 97/67/EC and 2002/39/EC to which the Third Postal Services Directive ties in are also part of the legislative framework for European postal services liberalization.

Since April 2005, the area of postal services, as concerns the exercising of regulatory functions, has lay within the remit of the Czech Telecommunications Office ("CTO"). This national regulatory body exercises its authority and performs the obligations of an administrative body in this area, particularly in connection with the applicable provisions of the Postal Services Act.

The Czech postal services market has been fully liberalized since 1 January 2013 based on an amendment of Act No. 29/2000 Coll. on postal services (the "Postal Services Act"). The framework for liberalization comprises a set of CTO-issued regulations via which it sets the obligations of operators providing or arranging postal services, the framework for reporting expenses and revenues and the financing of basic services and the conditions for ensuring universal access to basic services. Česká pošta holds a postal license for the period 2018-2022 that was granted by CTO Decision No. ČTÚ-70 580/2017-610/Vof 12 December 2017 on the basis of the § 22 of the Postal Service Act. The postal license comprises the obligation of Česká pošta permanently to ensure universal access to all the basic services set out in § 3(1) of the Postal Services Act in the stipulated quality nationwide. The basic services ensured by Česká pošta based on the granted postal license include free-of-charge delivery of postal consignments of up to 7 kg to the blind. Based on the granted postal services license, Česká pošta remains an entity officially appointed to render services that

must be ensured on the basis of obligations arising from the Czech Republic's membership in the Universal Postal Union.

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

The deficiencies identified in the CTO Report for 2016 are being remediated by the Company on a continuous basis. No material financial claims of the CTO or other entities against the Company, which could be enforceable by law, were identified in the Report.

6.1 Selected obligations of a postal license holder

- Plnit poštovní povinnost způsobem, který je v souladu s potřebami veřejnosti a se základními kvalitativními požadavky, včetně soustavného poskytování informací o základních službách a způsobu jejich užití.
- Nabízet poštovní služby, na něž se vztahuje poštovní povinnost, podle poštovních podmínek za dostupné ceny umožňující využívání základních služeb v rozsahu odpovídajícím běžné potřebě osob.
- Zajistit, aby nedocházelo k neodůvodněnému zvýhodňování nebo znevýhodňování zájemců o základní služby, které jsou obsaženy v jeho poštovní licenci.
- Umožnit každý pracovní den nejméně jedno poštovní podání a dále alespoň jedno dodání na adresu každé fyzické nebo právnické osoby (výjimky stanoví prováděcí vyhláška).
- Umožnit transparentním a nediskriminačním způsobem na základě písemné smlouvy přístup ostatním provozovatelům k prvkům poštovní infrastruktury a k zvláštním službám souvisejícím s provozováním poštovní infrastruktury.

7 Report on activities

Česká pošta made a consolidated before-tax profit of CZK +110 million in 2017, which translated to CZK +98 million after tax. Česká pošta alone made a pre-tax profit of CZK +91 million.

Consolidated operating revenues fell year-on-year by CZK 470 million to CZK 18,905 million and consolidated operating costs fell by CZK 335 million to CZK 18,818 million. The main reason was the splitting off of part of the Enterprise (the ICT služby branch establishment) and its subsequent merger with the state enterprise Národní agentura pro komunikační a informační technologie, s.p., as at 1 July 2016. In the first half of 2016, the ICT služby branch establishment had operating revenues of CZK 543 million and operating costs of CZK 529 million.

Revenues on postal operations (including Postservis services) fell year-on-year by just under 1% of the total. The biggest fall was for ordinary letters, which were affected by the increasing use of electronic communications both in corporate and retail areas. The same reasons led to a fall in revenues from related Postservis services for printing and completing letters (by CZK -48 million). The fall in revenues on postal orders continued (down CZK -96 million). On the contrary, the main growth segment was the delivery of domestic parcels totalling CZK 131 million. Other area with rising revenues was international mail, where revenues grew by CZK 61 million year-on-year. This was primarily caused by dynamic growth in incoming mail from China (up by 59% year-on-year), the positive effect of which was reduced by the strengthening

CZK. The third growth area was cash services (cash collection and processing), where revenues grew by CZK 35 million.

There was a slight increase in revenues from procurement (up CZK +16 million). The biggest increase in revenues was in Poštovní spořitelna (CZK +66 million) due to the influence of fees for the modernisation of specialised counters and other development projects. There was also success in sales of bets and lottery tickets (up CZK +13 million) and supplementary pension insurance (up CZK +9 million). On the other hand, revenues from pension distribution and other traditional services continued to fall (down CZK -29 million).

Of the other services, customers' increasing interest in PostSignum Certification Authority services is worth mentioning (up CZK +11 million).

In other operating revenues there was an increase by CZK 25 million, where revenues on sales of unneeded properties and disposed vehicles rose by CZK 166 million. There was a significant negative impact due to the lower claim for compensation for the net costs of the universal service (down CZK 100 million), as ČP can, under the Act on Postal Services, claim from the government for 2017 no more than CZK 500 million, whereas it was CZK 600 million for 2016.

After removal of the influence of the ICT služby branch establishment, consolidated operating costs rose by CZK 194 million as a consequence of the growth of payroll costs by CZK 588 million. The Enterprise's management continued to perform one of its main priorities of gradually increasing employees' salaries within the bounds of what is possible for the Enterprise. Savings dominated in other cost categories. The biggest fall was in the costs of international outgoing mail paid to foreign postal administrations (terminal charges). They fell by CZK 237 million, where the stronger CZK and the transition from the REIMS system to eCIP, which led to a reduction of rates to most European countries, had an effect.

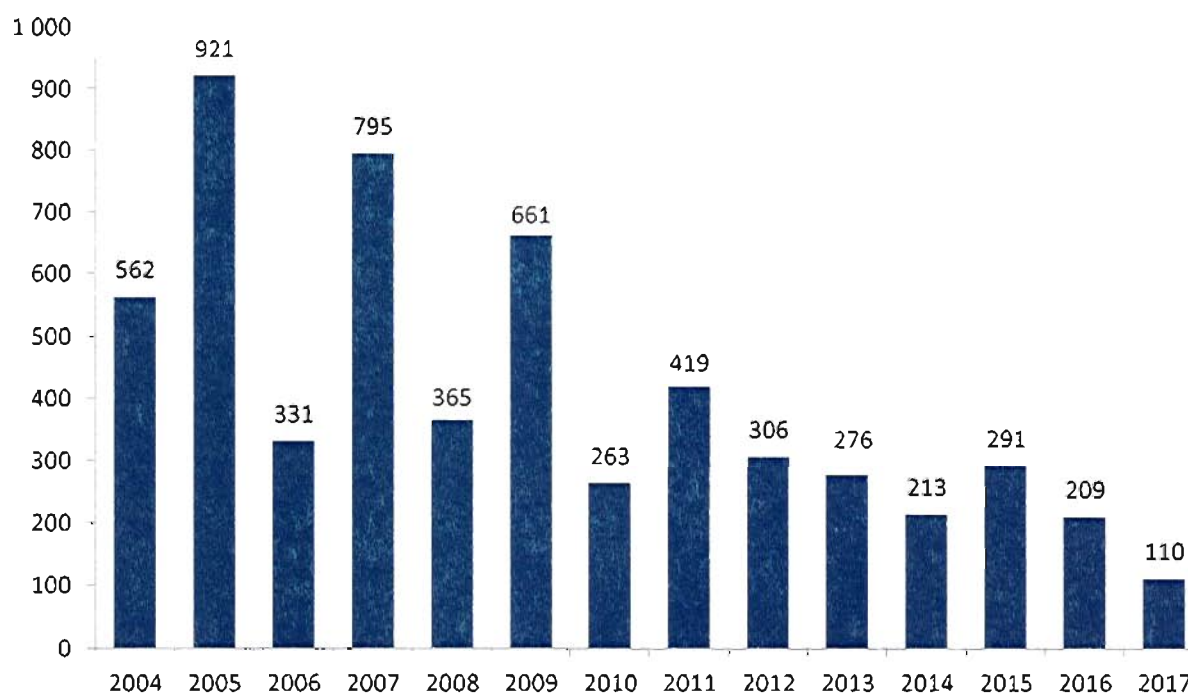
There was success in terms of reductions in the costs of land lines by CZK 23 million and also the costs of data services by CZK 17 million. There was a year-on-year fall in the costs of air transport, where there was a lower number of EMS consignments to China. Lower costs were spent on advertising campaigns, advice and other services. The costs of maintaining SW rose by CZK 15 million and the increase in parcels increased the costs of text message advice for mail by CZK 13 million.

The consolidated financial profit showed a year-on-year improvement by CZK 34 million, which was primarily due to the positive balance of exchange rate differences, rising from CZK +13 million in 2016 to CZK +55 million in 2017.

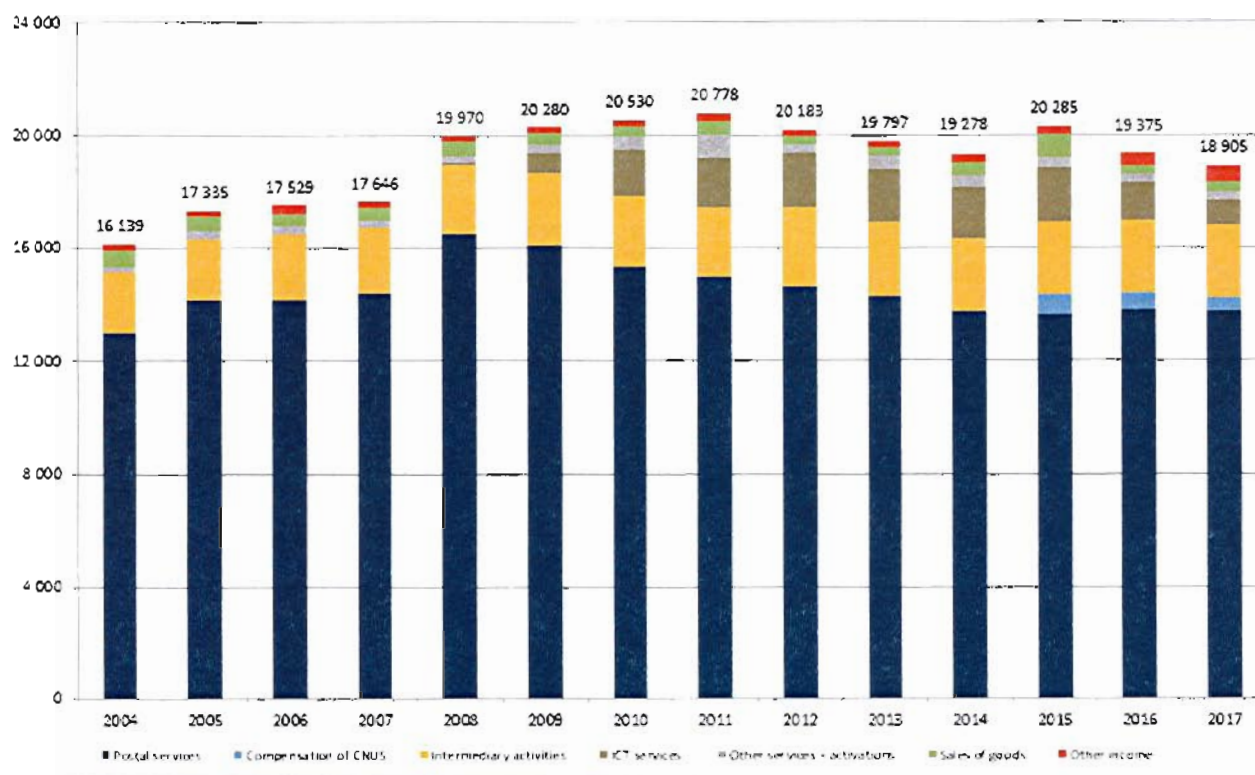
Trends of basic financial indicators – consolidated

	2012	2013	2014	2015	2016	2017
Assets (CZK million)	26 766	26 719	26 106	22 494	20 838	20 222
Equity (CZK million)	10 281	10 341	10 349	10 429	10 191	10 119
Operating revenues (CZK million)	20 183	19 797	19 278	20 283	19 375	18 905
Of which: Sales of own products and services (CZK million)	19 646	19 235	18 553	18 488	18 026	17 448
Operating costs (CZK million)	19 932	19 549	19 112	20 015	19 153	18 818
Of which: personal costs (CZ million)	12 425	12 300	11 906	11 938	12 385	12 789
Profit before tax (CZK million)	306	276	213	291	209	110
Net profit (CZK million)	261	220	179	231	179	98

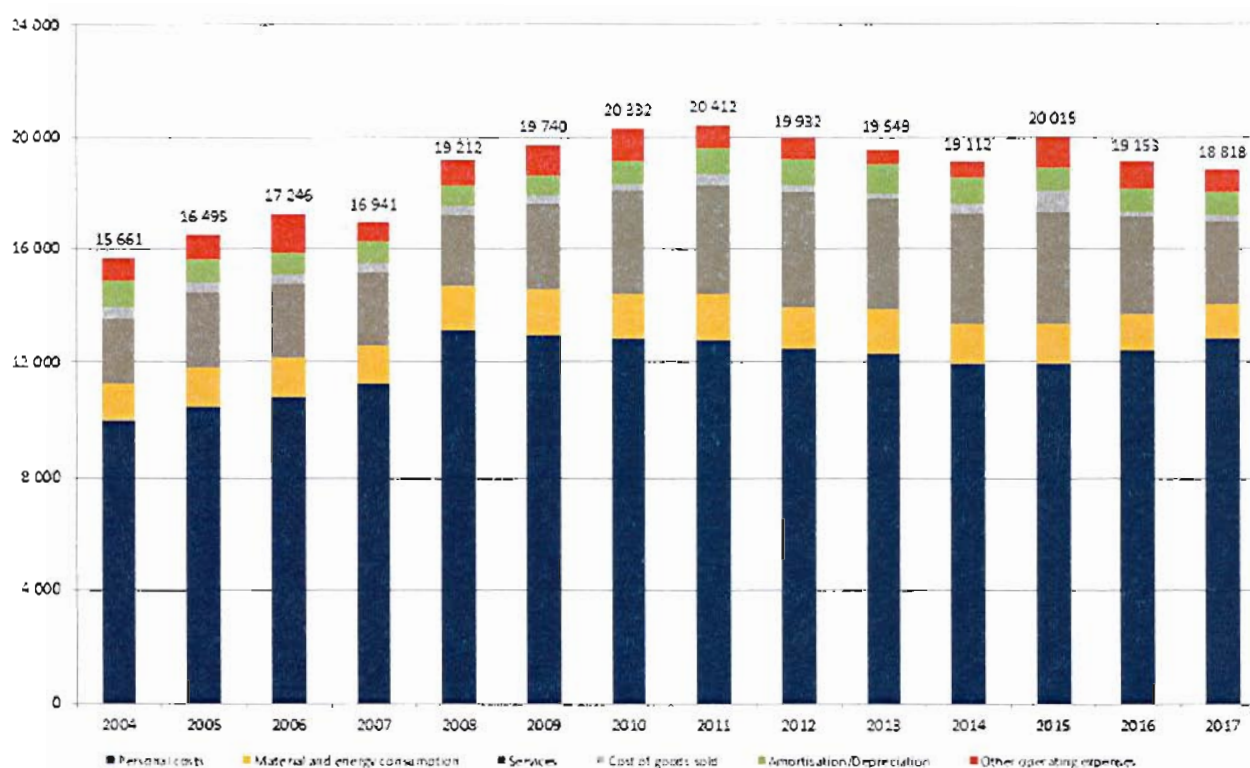
Profit before tax (CZK million)



Development of operational income (CZK million)



Development of operational costs (CZK million)



8 Branch or division abroad

Česká pošta has no branch or division abroad.

9 Information on R&D activities

The Enterprise undertakes no R&D activities.

10 Information on environmental protection

The Enterprise's strategy when it comes to environmental protection is, aside from fulfilling its statutory obligations in all spheres of environmental protection, to reduce emissions of pollutants. ČP uses vehicles that run on CNG, which currently comprise some 20% of the corporate fleet.

11 Information on labour relations

The relatively high rate of employee mobility greatly impacted **employment rate development in 2017**. This trend has prevailed since 2015, when the CR saw a general boom and an increase in job market opportunities. In 2017, Česká pošta reported an unfortunate 18% employee turnover rate, which is 3% higher than in 2016. Nationwide, employee turnover worsened by 4.3%, which means that other companies on the labour market are finding themselves in a similar situation.

The average adjusted employee headcount for 2017 was 29,612, which is 362 fewer than in 2016. Roughly half of this drop (177) is a result of the spin-off of the ICT services branch (OZ ICTs) at 30 June 2016, while the other half is down to organizational changes (185), primarily gradual implementation of the Pošta Partner project and the streamlining of delivery areas in connection with a drop in the number of packages.

The average monthly salary for 2017 is CZK 23,895. This represents a 4.1% increase year on year, but an increase of 5% net of OZ ICTs figures for H1 2016. This growth is impacted by:

- a 3.3% increase in tariff salaries agreed with unions as of 1 April 2017,
- payment of extraordinary compensation in H2 2017 for the provision of basic postal services in the amount of CZK 200 million in personnel expenses, which represents a 2% salary increase.

The average salary of tariff employees increased by 5.6% in the period Q2 through Q4 2017, meaning the promise to employees that ensued from union salary negotiations was kept.

The increase in tariff salaries was implemented differently for different employees:

- based on a salary increase agreed with unions for the respective professional group,
- based on annual evaluation results.

In addition to salaries, Česká pošta provides its employees with employee benefits that on average total CZK 1,500 per employee per month (financial contributions to meal tickets, supplementary pension insurance and life insurance, contributions to leisure activities, spa stays, children's camps, culture and sport and more).

Moreover, Česká pošta employees have 1 extra week of vacation (5 weeks in total) and a work week reduced by 2.5 hours.

12 Protecting ČP, its employees and customers

12.1 Risk management

In 2017, risk management continued to be an integral strategic part of corporate governance at Česká pošta. It provided for the informed acceptance and management of all business risks with the aim of reducing any negative effects on management and on implementation of the Česká pošta business plan.

12.2 Security

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

Tasks within the remit of the security division include crisis management and planning, addressing external and internal criminal activity against Česká pošta, measures to combat money laundering and the financing of terrorism, administering confidential information used in Česká pošta operations and workplace health and safety. The security division also ensures manual reviews of the protection of personal information under the methodological direction of the legal department.

12.3 Compliance

The compliance system at Česká pošta reflects the need for ČP activities to comply with all applicable laws and regulations, thus reducing the risk of penalties and damage to the Enterprise's reputation, while strengthening its transparency and credibility.

12.4 Internal audit

In 2017, all activities were carried out in compliance with the binding provisions of the International Standards for the Professional Practice of Internal Auditing issued by the International Institute of Internal Audit and by rigorous adherence to the associated control documentation of Česká pošta, i.e. the Internal Audit Charter, the Code of Ethics and the Česká pošta Internal Audit Performance Guidelines.

12.5 Ombudsperson

In 2017, 2,774 Česká pošta customers contacted the ombudsperson; their petitions were accordingly investigated, assessed and processed. This year, the ombudsperson handled 501 petitions, of which 127 concerned assessments of the handling of customer claims and complaints; in 90 cases, the ombudsperson upheld the existing Česká pošta decision, and in the other 37 cases, she sided with the customer. Some 374 petitions were handled at the customer's initiative with no standard prior procedure. In 37 cases, a recommendation was made that the Director General provide additional customer compensation. Such payments were made from a special-purpose account. The approved amount on this account was CZK 112,000 in 2017. A total of CZK 141,932.80 was paid out in 2017, i.e. around 27% above the planned amount.

12.6 Office of the Ombudsperson for Employees

For the purpose of defending the legitimate interests of employees in the performance of their duties, Česká pošta established the Office of the Ombudsperson for Employees. The ombudsperson commenced to perform her role in May 2016. Employees can contact her in writing, by phone or in person.

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

Česká pošta, s.p., as an obliged entity in the meaning of Act No. 106/1999 Coll. on freedom of access to information, as amended, herewith, in compliance with § 18 of Act No. 106/1999 Coll. on freedom of access to information, issues this annual report on its activities in the area of the provision of information based on Act No. 106/1999 Coll. on freedom of access to information, in 2017:

1. Number of received requests for information: In 2017, a total of 82 petitions designated as requests for the provision of information was filed pursuant to Act No. 106/1999 Coll. on freedom of access to information, as amended.

2. Number of issued decisions denying a request (or part thereof): In 2017, a total of 29 decisions on the denial of a request and 6 decisions on a partial denial of a request for the provision of information were issued in the meaning of § 15 of Act No. 106/1999 Coll. on freedom of access to information.

3. Number of appeals submitted against decisions: In 2017, a total of 10 appeals against decisions not to provide information was filed.

4. Copy of substantive parts of every court decision in the matter of a review of the legitimacy of a Česká pošta, s.p. decision to deny a request for the provision of information:

Municipal Court in Prague Judgment No. 11 A 201/2015-36 of 20 April 2017

Statement:

- I. Decision No. JID: 594712/2015/ČP of the Director General of Česká pošta, s.p. dated 30 September 2015 is nullified and the case is returned to the respondent for further proceedings.
- II. Respondent shall pay claimant's proceeding costs in an amount of CZK 13,200 within thirty days of the effective date of the judgment, to be remitted to the attention of the claimant's representative Mgr. Filip Hajný, attorney.

The request for information was denied on the grounds of trade secrets. The court found the Česká pošta, s.p. decision to be unreviewable, and therefore nullified and returned it to Česká pošta, s.p. for further proceedings. On 29 May 2017, the Director General of Česká pošta, s.p. issued a new decision.

Municipal Court in Prague Judgment No. 8 A 68/2017-37-41 of 7 September 2017

Statement:

- I. Decision No. JID 208402/2017/ČP of the Director General of Česká pošta, s.p. dated 23 March 2017, and Decision No. JID 1115091/2017/ČP of the Director General of Česká pošta, s.p. dated 14 February 2017, are nullified, and the obliged entity is ordered to provide the claimant with the information requested in his petition of 28 January 2017.
- II. Respondent is obliged to pay claimant's proceeding costs in an amount of CZK 16,962.84 to be remitted to the attention of the claimant's representative, Mgr. Jaroslav Bárta, attorney, within 30 days of the judgment's effective date.

The Municipal Court in Prague ruled that Česká pošta, s.p. is an obliged entity that does business with public funds and is thus obliged, when so requested, to provide information on the amount, purpose and conditions of a payment provided to an individual. The requested information was provided on 6 November 2017.

5. Summary of costs incurred by Česká pošta, s.p. in connection with litigation regarding rights and obligations pursuant to Act No. 106/1999 Coll. on freedom of access to information:

In connection with litigation regarding rights and obligations pursuant to Act No. 106/1999 Coll. on freedom of access to information, Česká pošta, s.p. incurred total costs of CZK 30,162.84.

6. Provided exclusive licenses: In 2017, Česká pošta did not provide any exclusive licenses.

7. Complaints about the procedure for handling requests for information (§ 16a of Act No. 106/1999 Coll. on freedom of access to information, as amended), grounds for their submission and brief description of the manner of their resolution: In 2016, three complaints were filed about the procedure used by Česká pošta to handle requests for information pursuant to § 16a of Act No. 106/1999 Coll. on freedom of access to information. The petitioners filed their complaints because Česká pošta had failed to provide requested information by the statutory deadline. The information provider failed to meet the statutory deadline for administrative reasons. For this, the information provider apologized to the petitioners based on their submitted complaints.

14 Subsequent events

ČP quantifies net expenses incurred to provide basic services for the 2017 billing period and asks the CTO for reimbursement of these expenses, which represent an unfair financial burden for ČP as the holder of a postal license. The request filing deadline is 31 August 2018.

As at 31 December 2017, Marek Jánský quit the position of the Chief Director of Finance Division.

On 1 January 2018, Lukáš Svoboda was appointed the Chief Director of Finance Division.

On 30 January 2018, Pavel Chyła was appointed the second Deputy Director General.

On 28 February 2018, Martin Elkáň was recalled from the Director General position.

Effective from 1 March 2018, Vít Bukvič was entrusted with the management of Česká pošta, s.p., based on the Resolution of DG 16/2018.

On 2 March 2018, Jiří Linert was appointed the Chief Director of Postal Operations and Logistics Division.

On 5 March 2018, Česká pošta received a decision on determining the net costs of providing basic services for 2015 and 2016 from CTO – for more details see 15 Financial section - subsection 15.2.2.7. Net Costs of Universal Service.

No significant events impacting the annual financial statements compiled at 31 December 2017 occurred between the balance sheet date and date the Annual Report and financial statements were prepared.

15 Financial section – Auditor's Reports, standalone financial statements (statements, notes); consolidated financial statements (statements, notes)

This section contains the standalone financial statements of the Enterprise and the consolidated financial statements of Česká pošta Group for the year ended 31 December 2017 and comprises:

- Reports of the Independent Auditor on the Standalone financial statement and Consolidated financial statements
- Financial statements prepared for the year ended 31 December 2017 in CZK million (standalone, consolidated):
 - Balance sheet at 31 December 2017
 - Income statement at 31 December 2017
 - Summary of cash flows for 2017
 - Summary of changes in equity for the year ended 31 December 2017
- Notes to the financial statements for the year ended 31 December 2017

15.1 Report of the Independent Auditor for the Standalone financial statement

(Translation of a report originally issued in Czech - see Note 2 to the financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Founder of Česká pošta, s.p.:

Opinion

We have audited the accompanying financial statements of Česká pošta, s.p. (the Company) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2017, and the income statement, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2017, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The prior year financial statements of Česká pošta, s.p. were audited by another auditor whose report dated 17 March 2017 expressed an unqualified opinion on those statements.

Other Information

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

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

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.

- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



Roman Hauptfleisch, Auditor
License No. 2009

23 March 2018
Prague, Czech Republic

15.2 Standalone financial statement

15.2.1 Financial statements for the year ended 31 December 2017 in CZK million

BALANCE SHEET (in millions Czech crowns)					
Reference	ASSETS	31. 12. 2017		31. 12. 2016	
a	b	Gross 1	Provision 2	Net 3	Net 4
	TOTAL ASSETS	34,038	(13,809)	20,229	20,849
	<i>of which entrusted resources</i>	<i>3,874</i>	<i>0</i>	<i>3,874</i>	<i>3,847</i>
B.	Fixed assets	23,317	(13,569)	9,748	9,894
B. I.	Intangible fixed assets	1,984	(1,621)	363	346
B. I. 2.	Royalties	1,858	(1,554)	302	238
B. I. 2.1.	Software	1,853	(1,552)	301	237
B. I. 2.2.	Other royalties	3	(2)	1	1
B. I. 4.	Other intangible fixed assets	68	(67)	1	3
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	60	0	60	105
B. I. 5.2.	Intangible fixed assets in the course of construction	60	0	60	105
B. II.	Tangible fixed assets	21,037	(11,948)	9,089	9,232
B. II. 1.	Land and constructions	12,504	(5,471)	7,033	7,117
B. II. 1.1.	Land	843	0	843	880
B. II. 1.2.	Construction	11,661	(5,471)	6,190	6,257
B. II. 2.	Equipment	8,156	(8,470)	1,686	1,697
B. II. 4.	Other tangible fixed assets	5	0	5	4
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	372	(7)	365	414
B. II. 5.2.	Tangible fixed assets in the course of construction	372	(7)	365	414
B. III.	Long-term investments	296	0	296	316
B. III. 1.	Investments - subsidiaries and controlling party	79	0	79	72
B. III. 2.	Loans and borrowings - subsidiaries and controlling party	0	0	0	25
B. III. 5.	Other long-term investments in securities	217	0	217	219
C.	Current assets	10,602	(240)	10,362	10,884
	<i>of which entrusted resources</i>	<i>3,874</i>	<i>0</i>	<i>3,874</i>	<i>3,847</i>
C. I.	Inventories	270	(73)	197	324
C. I. 1.	Raw materials	211	(68)	143	158
C. I. 3.	Finished goods and goods for resale	59	(5)	54	166
C. I. 3.2.	Goods for resale	59	(5)	54	166
C. II.	Receivables	5,080	(167)	4,913	4,183
	<i>of which entrusted resources</i>	<i>1,621</i>	<i>0</i>	<i>1,621</i>	<i>1,621</i>
C. II. 1.	Long-term receivables	524	0	524	1,317
C. II. 1.1.	Trade receivables	3	0	3	2
C. II. 1.5.	Receivables - other	521	0	521	1,315
C. II. 1.5. 2.	Long-term advances paid	5	0	5	5
C. II. 1.5. 3.	Estimated receivables	500	0	500	1,300
C. II. 1.5. 4.	Other receivables	16	0	16	10
C. II. 2.	Short-term receivables	4,556	(167)	4,389	2,866
	<i>of which entrusted resources</i>	<i>140</i>	<i>0</i>	<i>140</i>	<i>133</i>
C. II. 2.1.	Trade receivables	1,555	(82)	1,473	1,319
	<i>of which entrusted resources</i>	<i>140</i>	<i>0</i>	<i>140</i>	
C. II. 2.2.	Receivables - subsidiaries and controlling party	9	0	9	8
C. II. 2.4.	Receivables - other	2,992	(85)	2,907	1,539
C. II. 2.4. 1.	Receivables from shareholders	21	(4)	17	20
C. II. 2.4. 3.	Taxes - receivables from the state	55	0	55	26
C. II. 2.4. 4.	Short-term advances paid	228	0	228	232
C. II. 2.4. 5.	Estimated receivables	2,537	0	2,537	1,182
C. II. 2.4. 6.	Other receivables	151	(81)	70	79
C. III.	Short-term financial investments	0	0	0	50
C. III. 2.	Other short-term investments	0	0	0	50
C. IV.	Cash	5,252	0	5,252	6,327
	<i>of which entrusted resources</i>	<i>3,399</i>	<i>0</i>	<i>3,399</i>	<i>3,844</i>
C. IV. 1.	Cash in hand	4,368	0	4,368	4,284
	<i>of which entrusted resources</i>	<i>3,399</i>	<i>0</i>	<i>3,399</i>	<i>3,207</i>
C. IV. 2.	Cash at bank	884	0	884	2,043
	<i>of which entrusted resources</i>	<i>337</i>	<i>0</i>	<i>337</i>	<i>637</i>
D.	Prepayments and accrued income	119	0	119	71
D. 1.	Prepaid expenses	115	0	115	68
D. 3.	Accrued income	4	0	4	3

BALANCE SHEET – Liabilities and Equity (in millions Czech crowns)

Reference	TOTAL LIABILITIES AND EQUITY	31. 12. 2017	31. 12. 2016
a	b	5	6
	TOTAL LIABILITIES AND EQUITY	20,229	20,849
	<i>of which entrusted resources</i>	<i>3,876</i>	<i>3,847</i>
A.	Equity	10,145	10,239
A. I.	Share capital	3,588	3,588
A. I. 1.	Share capital	3,588	3,588
A. II.	Share premium and capital contributions	6,102	6,184
A. II. 2.	Capital contributions	6,102	6,184
A. II. 2.1.	Other capital contributions	6,093	6,172
A. II. 2.2.	Assets and liabilities revaluation	9	12
A. III.	Other reserves	377	376
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	18	17
A. V.	Profit / (loss) for the current period	78	91
B. + C	Liabilities	9,597	10,070
	<i>of which entrusted resources</i>	<i>3,876</i>	<i>3,847</i>
B.	Provisions	571	701
B. 4.	Other provisions	571	701
C.	Liabilities	9,026	9,369
	<i>of which entrusted resources</i>	<i>3,876</i>	<i>3,847</i>
C. I.	Long-term liabilities	306	303
C. I. 4.	Trade payables	11	18
C. I. 8.	Deferred tax liability	295	287
C. II.	Short-term liabilities	8,720	9,066
	<i>of which entrusted resources</i>	<i>3,876</i>	<i>3,847</i>
C. II. 2.	Liabilities due to financial institutions	68	34
	<i>of which entrusted resources</i>	<i>68</i>	<i>34</i>
C. II. 3	Short-term advances received	794	480
C. II. 4.	Trade payables	5,062	5,551
	<i>of which entrusted resources</i>	<i>3,806</i>	<i>3,911</i>
C. II. 6.	Liabilities - subsidiaries and controlling party	31	23
C. II. 8.	Liabilities - other	2,765	2,978
C. II. 8.3	Liabilities to employees	539	555
C. II. 8.4	Liabilities for social security and health insurance	337	350
C. II. 8.5	Taxes and state subsidies payable	197	123
C. II. 8.6.	Estimated payables	1,393	1,654
C. II. 8.7.	Other liabilities	299	296
D.	Accruals and deferred income	487	540
D. 2.	Deferred income	487	540

INCOME STATEMENT				
(in millions Czech crowns)				
Reference	TEXT	Accounting period		
		31. 12. 2017	six months ended 31 December 2016	
	b	1	2	
I.	Sales of products and services	17,409	8,872	
II.	Sales of goods	340	113	
A.	Cost of sales	4,496	2,406	
A. 1.	Cost of goods sold	253	81	
A. 2.	Raw materials and consumables used	1,252	658	
A. 3.	Services	2,991	1,666	
C.	Own work capitalised	(20)	(9)	
D.	Staff costs	12,702	6,285	
D. 1.	Wages and salaries	9,283	4,609	
D. 2.	Social security, health insurance and other social costs	3,419	1,676	
D. 2.1.	Social security and health insurance costs	3,080	1,506	
D. 2.2.	Other social costs	339	170	
E.	Value adjustments in operating activities	818	388	
E. 1.	Value adjustments of fixed assets	825	387	
E. 1.1.	Depreciation, amortisation and write off of fixed assets	829	411	
E. 1.2.	Provision for impairment of fixed assets	(4)	(24)	
E. 2.	Provision for impairment of inventories	4	7	
E. 3.	Provision for impairment of receivables	(11)	(6)	
III.	Operating income - other	1,118	778	
III. 1.	Sales of fixed assets	345	168	
III. 3.	Other operating income	773	610	
3.1.	Compensation for the net cost on providing basic postal services	500	429	
3.2.	Other operating income	273	181	
F.	Operating expenses - other	808	578	
F. 1.	Net book value of fixed assets sold	26	27	
F. 3.	Taxes and charges from operating activities	91	39	
F. 4.	Operating provisions and complex prepaid expenses	(130)	77	
F. 5.	Other operating expenses	822	435	
*	Operating result (+/-)	62	518	
IV.	Income from sales of long-term investments - shares	2	1	
IV. 2.	Income from sales of investments - other	2	1	
VI.	Interest and similar income	5	3	
VI. 2.	Other interest and similar income	5	3	
I.	Provision for impairment of financial assets	(7)	0	
VII.	Other financial income	132	22	
K.	Other financial expenses	117	46	
*	Financial result	29	(20)	
**	Net profit / (loss) before taxation	91	96	
L.	Tax on profit or loss	13	5	
L. 1.	Tax on profit or loss - current	5	15	
L. 2.	Tax on profit or loss - deferred	8	(10)	
**	Net profit / (loss) after taxation	78	91	
***	Net profit / (loss) for the financial period	78	91	
*	Net turnover for the financial period	19,006	9,789	

Cash Flow Statement for the year ended 31 December 2017

(In CZK millions)		Year ended 31 December 2017	6 months ended 31 December 2016
	Cash and cash equivalents at the beginning of the year	6,377	7,907
	<i>of which entrusted resources</i>	3,814	5,328
	Net profit on ordinary activities before tax	91	96
A.1	Adjustments for non-cash movements:	355	320
A.1.1	Amortization, depreciation of fixed assets and abolished investment projects	829	411
A.1.2	Change in allowances and provisions with respect to operating activities	(148)	54
A.1.3	Profits from disposal of fixed assets	(319)	(141)
A.1.5	Net interest income	(5)	(3)
A.1.6	Adjustments for other non-cash movements	(2)	(1)
A*	Net cash flow from operating activities before tax and changes in working capital	446	416
A.2	Change in non-cash components of working capital	(914)	(1,580)
A.2	<i>of which entrusted resources</i>	(78)	(1,514)
A.2.1	Change in receivables and accrued income	(491)	(792)
A.2.1	<i>of which entrusted resources</i>	(7)	101
A.2.2	Change in current and long-term liabilities and deferred income	(545)	(775)
A.2.2	<i>of which entrusted resources</i>	(71)	(1,615)
A.2.3	Change in inventories	122	(13)
A**	Net cash flow from operating activities before tax	(468)	(1,164)
A.**	<i>of which entrusted resources</i>	(78)	(1,514)
A.4	Interest received	5	3
A.5	Income tax overpayment	(33)	(79)
A***	Net cash flow from operating activities	(496)	(1,240)
	<i>of which entrusted resources</i>	(78)	(1,514)
	Cash flows from investing activities		
B.1	Purchase of fixed assets	(889)	(330)
B.2	Proceeds from the sale of fixed assets	413	168
B.3.	Loans and borrowings to related parties	16	0
B***	Net cash flow from investing activities	(460)	(162)
	Cash flows from financing activities		
C.1	Change in long-term and current liabilities falling within financial activity	0	2
C.2	Change in equity	(169)	(80)
C.2.1	Direct payments from funds	(169)	(80)
C.3	Effect of the spin-off	0	(50)
C***	Net cash flow from financing activities	(169)	(128)
	Net decrease in cash and cash equivalents	(1,125)	(1,530)
	<i>of which entrusted resources</i>	(78)	(1,514)
	Cash and cash equivalents at the end of the year	5,252	6,377
	<i>of which entrusted resources</i>	3,736	3,814

Statement of Changes in Equity as at 31 December 2017

(In CZK millions)	Share capital	Other capital funds	Gain or loss on revaluation of assets and liabilities	Reserve fund	Other funds from profit	Profit (loss) for the period	Total
Balance as at 31 December 2015	3,588	6,276	12	359	16	241	10,492
Profit distribution	0	75	0	0	166	(241)	0
Use of funds	0	0	0	0	(85)	0	(85)
Gains or losses from revaluation to fair value	0	0	(3)	0	0	0	(3)
Profit for the period	0	0	0	0	0	73	73
Balance as at 30 June 2016	3,588	6,351	9	359	97	73	10,477
Effect of the spin-off	0	(244)	0	0	(1)	(6)	(251)
Balance as at 1 July 2016	3,588	6,107	9	359	96	67	10,226
Profit distribution	0	67	0	0	0	(67)	0
Use of funds	0	(2)	0	0	(79)	0	(81)
Gains or losses from revaluation to fair value	0	0	3	0	0	0	3
Profit for the period	0	0	0	0	0	91	91
Balance as at 31 December 2016	3,588	6,172	12	359	17	91	10,239
Profit distribution	0	0	0	0	170	0	170
Use of funds	0	(79)	0	0	(169)	(91)	(339)
Gains or losses from revaluation to fair value	0	0	(3)	0	0	0	(3)
Profit for the period	0	0	0	0	0	78	78
Balance as at 31 December 2017	3,588	6,093	9	359	18	78	10,145

15.2.2 Notes to the Separate Financial Statements

15.2.2.1 General Information

15.2.2.1.1 Introductory information about the Company

Česká pošta, s. p. ("the Company" or "Česká pošta") is a state-owned enterprise. It is a legal entity conducting its business activities using assets of the Czech government under its own name and on its own account. The founder of the Company is the Czech State. The Company was established on 1 January 1993 and the founder was then represented by the Ministry of Transport and Communications of the Czech Republic. As at 31 December 2017 and 31 December 2016, the role of the founder of the Company under the government's name was carried out by the Ministry of Interior of the Czech Republic. As at 31 December 2017, the Company had its registered office at Politických vězňů 909/4, Prague 1, Czech Republic. The Company's identification number is 471 14 983 and it is registered in the Commercial Register of the Municipal Court in Prague, Section A, Insert No. 7565. Česká pošta is a business entity pursuant to Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

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

The main business activities of the Company are as follows:

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

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

Organizational structure as at 31 December 2017 was as follows:



Top management of the Company as at 31 December 2017 was as follows:

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

The following information was also entered in the Commercial Register as at 31 December 2017:

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

Between the balance sheet date and the date of preparation of the financial statements there were changes in the top management of the Company – see subsection 15.2.2.26 – Subsequent Events.

Members of the Supervisory Board as at 31 December 2017 were as follows:

Name	Position
Jan Mareš	Chairman
Jiří Nováček	First Vice-Chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Soňa Lavičková	Member
Jaroslav Strouhal	Member
Ľudovít Gulácsi	Member
Oldřich Černoch	Member
Jan Kasal	Member
Bohumila Mäsiarová	Member
František Lukl	Member
Josef Zedník	Member
Petr Kameník	Member

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

Name	Position
Jan Mareš	Chairman
Jiří Nováček	First Vice-Chairman
Karel Koukal	Vice-Chairman
Lubomír Krejsa	Vice-Chairman
Štěpán Grochal	Member
Soňa Lavičková	Member
Jiří Havlíček	Member
Jaroslav Strouhal	Member
Ľudovít Gulácsi	Member
Oldřich Černoch	Member
Jan Kasal	Member
Bohumila Mäsiarová	Member

Jiří Zimola	Member
František Lukl	Member
Josef Zedník	Member

Members of the Strategy and Finance Committee of the Company as at 31 December 2017 were as follows:

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

Members of the Audit Committee of the Company as at 31 December 2017 were as follows:

Name	Position
Jan Mareš	Chairman
Lubomír Krejsa	Member
Oldřich Čermoch	Member

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

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

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

Name	Position
Jan Mareš	Chairman
Lubomír Krejsa	Member
Oldřich Čermoch	Member

The Company's mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act No. 29/2000 Coll., on Postal Services, as amended („the Postal Services Act“). The Company holds a license to provide postal services in accordance with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

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

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

15.2.2.2 Basis of Preparation

The financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for entrepreneurs applicable for 2017. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention except as disclosed below.

Explanation Added for Translation into English

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

15.2.2.2.1 Comparative information

Based on the amendment to the Act on Accounting and implementing Decree effective from 1 January 2016, individual items of the balance sheet and income statement are presented in a different structure. Individual items of the balance sheet and income statement for the comparable period were already presented in accordance with this amendment in the annual financial statements as at 31 December 2016.

The information in the income statement and cash flow statement for the prior period is presented for the period of six months ended 31 December 2016 due to the spin-off of a part of the Company (the branch ICT services) and its subsequent merger with the state enterprise Národní agentura pro komunikační a informační infrastrukturu, s.p.; the spin-off decisive date was 1 July 2016. The Company prepared extraordinary financial statements for the period of six months ended 30 June 2016. For this reason, the data from the profit and loss statement of the current period are not fully comparable with the data from the prior period.

15.2.2.3 Accounting Policies

The valuation methods applied by the Company during preparation of the ordinary financial statements as at 31 December 2017 were as follows:

15.2.2.3.1 Intangible fixed assets

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

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

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

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

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

15.2.2.3.2 Tangible fixed assets

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

Tangible fixed assets acquired free of charge are valued at their replacement cost and are recorded into other capital funds.

The replacement cost of these assets is based on expert opinion or on market prices of comparable fixed assets in terms of their wear and tear and performance. The valuation of tangible fixed assets is decreased by subsidies for the acquisition of assets.

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

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

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

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

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

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

	Number of years
Buildings, halls and constructions	20 – 45
Plant, machinery and equipment	4 – 15
Vehicles	6 – 20
Furniture, fixtures and equipment	10 – 20
Handling equipment	6 – 20
Computers and related equipment	3 – 7

15.2.2.3.3 Long-term investments

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

i. Investments in subsidiaries

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

Investments in subsidiaries and associates are recorded at cost less an allowance for diminution in value.

ii. Other securities and investments

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

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

Securities and investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, in which case they are included in current assets. The Company management determines the form of securities and investments at the time of their acquisition and revalues them on a regular basis as at the financial statements' date.

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

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

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

15.2.2.3.4 Inventory

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

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

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

15.2.2.3.5 Receivables

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

15.2.2.3.6 Short-term financial investments

Short-term financial assets consist of securities available for sale. Securities available for sale are securities held for the purpose of effecting transactions on the public market in order to make a profit from price fluctuations in the short-term, but with a maximum period of one year.

15.2.2.3.7 Cash and cash equivalents

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

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets. Cash equivalents also include Entrusted resources – see subsection 15.2.2.3.8. – Entrusted resources.

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

An outflow of financial resources in connection with the spin-off of parts of an entity is presented for the period of six months ended 31 December 2016 as a part of the cash flows from financial services.

15.2.2.3.8 Entrusted resources

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

15.2.2.3.9 Foreign currency translation

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

Cash, receivables and liabilities balances denominated in foreign currencies have been translated at the exchange rate published by the Czech National Bank as at the balance sheet date. All exchange gains and losses on cash, receivables and liabilities balances are recorded in the income statement.

15.2.2.3.10 Equity

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

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

The Company creates a cultural and social fund ("FKSP"). The creation and use of this fund is being governed by Section 16 of Decree No. 114/2002 Coll., in connection with Section 3 of Decree No. 310/1995

Coll., on Cultural and Social Needs Fund, as amended (including changes under Decree No. 167/1997 Coll. and 314/1999 Coll.) and the use of FKSP is governed by Section 4 to 10 of Decree No. 310/1995 Coll.

15.2.2.3.11 Provisions

Provisions are recognized when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

15.2.2.3.12 Employee benefits

The Company creates a provision for accrued vacation. The Company creates an estimated payable for rewards and bonuses to employees who became entitled to payment as at the balance sheet date. The Company creates a provision for the rewards and bonuses to employees who did not become entitled to payment as at the balance sheet date. In case of rewards and bonuses to employees who are entitled for a payment after the current financial year-end day after meeting specified criteria, the Company creates a provision on the current financial year-end day.

15.2.2.3.13 Expenses and revenue recognition

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

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

Sales of postal services realized in cash through sales of postal stamps are recognized when the stamps are sold. The Company does not have the necessary information that would allow it to record income from these sales on an accrual basis in respect to the accounting periods in which customers actually use the purchased postal stamps. The Company's management believes that the costs of collecting such information relating to the time allocation needed for these services realized through sales of postal stamps would exceed the benefits of such information.

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

15.2.2.3.14 Leases

The costs of assets held under both finance and operating leases are not capitalized as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed in the notes but not recognized in the balance sheet. The Company activates the respective value of leased asset in the period when the lease agreement is being concluded and the purchase option is exercised. Lease payments made in advance are accrued over the lease period.

15.2.2.3.15 Income tax

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

Corporate income tax is recognized in the balance sheet as a part of the item "Taxes and state subsidies payable" if the tax liability exceeds the tax advances paid. Otherwise, the amount exceeding the tax liability as a result of the advances paid is recorded as "Taxes - receivables from the state".

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

15.2.2.3.16 Deferred tax expense

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

15.2.2.3.17 Related parties

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

- the State represented by the Company's founder, government institutions, state-owned enterprises and companies, and other legal entities, where the state has significant influence, while the nature of the relationship is also decisive and not merely the legal form;
- members of the Company's statutory, supervisory bodies and management and related parties to these members, including companies or institutions or businesses, where these members and parties have controlling, proportional or significant influence.

Significant transactions and balances with related parties, related to other than the main postal services are disclosed in subsection 15.2.2.22 – Related party transactions.

15.2.2.3.18 Subsequent events

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

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

15.2.2.4 Fixed Assets

15.2.2.4.1 Intangible fixed assets

Cost

(In CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,716	141	(4)	1,853
Royalties	2	1	0	3
Other intangible fixed assets	68	0	0	68
Intangible fixed assets in progress	105	97	(142)	60
Total as at 31 December 2017	1,891	239	(146)	1,984
Total as at 31 December 2016	2,023	168	(300)**	1,891

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

**) The amount includes the effect of spin-off totaling CZK (4) million.

Accumulated amortization and net book value

(In CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,459)	(78)	3	(1,534)	(18)	301
Royalties	(1)	(1)	0	(2)	0	1
Other intangible fixed assets	(65)	(2)	0	(67)	0	1
Intangible fixed assets in progress	0	0	0	0	0	60
Total as at 31 December 2017	(1,525)	(81)	3	(1,603)	(18)	363
Total as at 31 December 2016	(1,700)	(50)	225*	(1,525)	(20)	346

*) The amount includes the effect of spin-off totaling CZK 1 million

15.2.2.4.2 Tangible fixed assets

Cost

(In CZK millions)	Opening balance	Additions *)	Disposals **)	Closing balance
Land	861	1	(19)	843
Constructions	11,503	219	(61)	11,661
Plant, machinery and equipment	5,107	188	(144)	5,151
Vehicles	1,601	113	(168)	1,546
Furniture and fixtures	700	22	(21)	701
Selected low value tangible assets of less than CZK 40 thousand	256	135	0	391
Other movable assets	409	0	(42)	367
Art works and collections	4	1	0	5
Tangible fixed assets in progress	421	627	(676)	372
Advances paid for tangible fixed assets	0	0	0	0
Total as at 31 December 2017	20,862	1,306	(1,131)	21,037
Total as at 31 December 2016	20,745	996	(879)***	20,862

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

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

***) The amount includes the effect of spin-off totaling CZK (109) million

Accumulated amortization and net book value

(In CZK millions)	Opening balance of accumulated depreciation	Additions	Disposals	Closing balance of accumulated depreciation	Allowances	Net book value
Land	0	0	0	0	0	843
Constructions	(5,228)	(278)	53	(5,453)	(18)	6,190
Plant, machinery and equipment	(4,038)	(293)	144	(4,187)	(13)	951
Vehicles	(1,321)	(87)	167	(1,241)	0	305
Furniture and fixtures	(566)	(24)	20	(570)	0	131
Selected low value tangible assets of less than CZK 40 thousand	(28)	(64)	0	(92)	0	299
Other movable assets	(409)	0	42	(367)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in progress	0	0	0	0	(7)	365
Advances paid for tangible fixed assets	0	0	0	0	0	0
Total as at 31 December 2017	(11,590)	(746)	426	(11,910)	(38)	9,089
Total as at 31 December 2016	(11,607)	(361)	378*	(11,590)	(40)	9,232

* The amount includes the effect of spin-off totaling CZK 79 million.

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

Over the accounting period ended as at 31 December 2017, the Company did not receive any material fixed assets free of charge.

As at 31 December 2017 and 31 December 2016, besides the easement in favor of PCS – Praha Center s.r.o. created in relation to the post office building at Jindřišská, Prague 1 based on an agreement dated 16 April 1997, which is in force until 31 March 2042, the Company has another 367 (359) easements, or similar rights to tangible fixed assets (rights for sewage pipeline, water pipeline, power and gas connection, hot-water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) mainly created in favor of the communal and municipal authorities, telecommunications infrastructure providers, and electricity producers and distributors.

As at 31 December 2017 and 31 December 2016, the Company did not receive an investment subsidy.

15.2.2.4.3 Long-term investments

As at 31 December 2017 and 31 December 2016, the Company exercised a controlling interest in Poštovní tiskárna cenin Praha, a.s., with its registered office at Ortenovo náměstí 542/16, Prague 7 – Holešovice, in which it held 16,903 shares out of the total 33,124 shares of a nominal value of CZK 1 thousand.

Poštovní tiskárna cenin Praha, a.s.	31 December 2017	31 December 2016
Share (in %)	51.03%	51.03%
	(In CZK millions)	(In CZK millions)
Total assets	85	90
Equity	82	85
Profit/(loss) for the period	(3)	0
Acquisition cost of shares	18	18
Nominal value of shares	17	17

Intrinsic value of shares

42

44

The Company did not provide Poštovní tiskárna cenin Praha, a.s., over which it exercises significant influence, with any loans or borrowings as at 31 December 2017 nor 31 December 2016.

In addition, as at 31 December 2017 and 31 December 2016 the Company exercised significant influence in Česká pošta Security, s.r.o. (formerly ABAS CiT Management s.r.o.) with its registered office at Politických vězňů 909/4, Prague 1, in which it held 100% of the shares. The shares were transferred to the Company on 31 August 2012.

Česká pošta Security, s.r.o.	31 December 2017	31 December 2016
Share (in %)	100.00%	100.00%
	(In CZK millions)	(In CZK millions)
Total assets	49	41
Equity	13	(16)
Profit/(loss) for the period	29	16
Acquisition cost of interest	7	7
Intrinsic value of interest	13	0

The acquisition cost of interest as at 31 December 2017 is final. Due to the negative EBITDA of the CIT division for the year 2013, 2014 and 2015, the Company did not transfer any additional payment of the purchase price in 2014, 2015 and 2016.

The Company provided this company with a general credit line totaling CZK 35 million. As at 31 December 2017, Česká pošta Security, s.r.o., drew an amount of CZK 9 million. Information concerning interest on the loan is disclosed in subsection 15.2.2.22 – Related party transactions.

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

The intrinsic value of shares / interest states the Company's share in the equity capital of the controlled company as at 31 December 2017 and 31 December 2016, respectively.

Other long-term securities and investments as at 31 December 2017 comprise government bonds issued by Ministry of Finance of the Czech Republic maturing in 2023, available-for-sale investments, valued at fair value of CZK 217 million as at 31 December 2017 (as at 31 December 2016: CZK 219 million).

15.2.2.5 Inventories

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

15.2.2.6 Receivables

As at 31 December 2017 and 31 December 2016, receivables due after more than 5 years amounted to CZK 1 million and CZK 2 million, respectively, and outstanding overdue receivables amounted to CZK 414 million and CZK 309 million, respectively. Outstanding overdue receivables are not secured. The Company wrote off irrecoverable receivables of CZK 16 million and CZK 30 million in 2017 and 2016, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Advances for income tax of CZK 55 million paid by the Company as at 31 December 2017 (as at 31 December 2016: CZK 48 million) are netted off with the provision for income tax of CZK 1 million as at 31 December 2017 (as at 31 December 2016: CZK 22 million).

Receivables from related parties are described in subsection 15.2.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2017 and 31 December 2016 amounted to CZK 710 million and CZK 933 million, respectively. Operating records on incoming mail not yet confirmed by individual postal offices were recorded as estimated receivables with the double entry in Sales of own products and services, based on operating statistics. As at 31 December 2017, the compensation of net costs of providing basic postal services is included in estimated receivables as follows: a portion of CZK 1,300 million was recognized in short-term receivables and CZK 500 million was recognized in long-term receivables; as at 31 December 2016, CZK 1,300 million were recognized in long-term receivables (see subsection 15.2.2.7 Net Costs of Universal Service).

15.2.2.7 Net Costs of Universal Service

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

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

According to a mechanism introduced by the Postal Services Act amendment, which entered into force on 1 January 2013, net costs representing an unfair financial burden should be funded through the account for financing of net costs (the so called compensation fund) to which, under the Act, individual postal operators should contribute according to their share on the postal services market. The Company should thus be compensated for the net cost to the amount corresponding to the proportion of the market shares of other entities operating in the postal services market. The determination of the group of mandatory contributors to the compensation fund along with the amount of their contribution crucial for the final amount of compensation for the years 2013 and 2014, which is the responsibility of CTO, have not been determined.

Effective from 1 January 2016 in accordance with Act No. 319/2015, Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (Postal Services Act), as amended, and Act No. 77/1997 Coll., on State Enterprise, as amended, the change in the method of financing net costs for the periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, no more than: for the year 2015 CZK 700 million; for the year 2016 CZK 600 million; for 2017 and subsequent years CZK 500 million. Other net expenses are not considered to be an unfair financial burden. The actual method of determining the net cost of basic services has not been affected by the change in the law.

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

out in the Postal Services Act with EU law, and came up with the recommendation that the compensation fund should be canceled.

On 12 October 2016, following the European Commission investigation, the Czech government acknowledged in its resolution the impossibility of applying the Act on the postal services where it relates to financing of net costs representing an unfair financial burden through the compensation fund and it asked the Minister of Industry and Trade together with Minister of Interior, 1st Deputy Prime Minister for the Economy, and Minister of Finance to draft a proposal on how to prevent potential damage and minimize the risks associated with the decision of not applying the provisions of the Postal Services Act on the years 2013 and 2014, on the basis of which the net cost of providing basic services representing an unfair financial burden should be paid to the postal license holder, i.e. CP through a compensation fund.

Following the Government resolution of 22 March 2017, the Ministry of Industry and Trade prepared a draft amendment of the Postal Services Act. The draft addresses financing of the net costs incurred by the postal license holder, i.e. CP in providing basic services for the years 2013 and 2014 due to abandoning the net cost financing through the compensation fund and replacing the mechanism with a payment from the state budget. According to the draft amendment, CP should be reimbursed the net costs totaling CZK 800 million in three stages: CZK 200 million in 2018, CZK 300 million in 2019 and CZK 300 million in 2020.

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

As for the years 2013 and 2014, the Company's management considers the above mentioned steps as an increased security for the compensation payment. However, the actual payment of CZK 800 million still depends on the successful completion of the legislative process as well as the adoption of the respective amendment to the Postal Services Act. The proposal for amending legislation is currently in the inter-departmental comment procedure as individual comments are being dealt with. At the same time, if there was no change in legislation, the activation of the compensation fund would represent, in the light of the foregoing, an unlawful public aid under EU law, and it is therefore de jure excluded. For these reasons, the Company's management decided not to recognize the entitlement for the years 2013 and 2014 in the books.

As for the years 2015 and 2016, in prior years management decided to post estimated receivables in the amount equal to the upper limit allowable by law, i.e. CZK 700 million and CZK 600 million for 2015 and 2016, respectively. In March 2018, CTO verified the amount of net costs for providing basic services representing an unfair financial burden for 2015 in the amount of CZK 700 million. In March 2018, CTO verified the amount of net costs for providing basic services representing an unfair financial burden for 2016 in the amount of CZK 600 million, thus confirming the correctness of the recognized amounts.

As a part of the profit and loss statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. The compensation for the net costs of the provision of basic postal services for the years 2015 and 2016 was presented within long-term receivables under the line item C.II.1.5.3. in the balance sheet. On 14 March 2018, CTO's decision defining amount of net costs representing unfair financial burden for years 2015 and 2016 become de jure effective. With respect to the fact that in accordance with section 34d of Postal Services Act is CTO responsible for providing net costs representing unfair financial burden in 30 days subsequent to the legally

binding decision, the asset was reclassified as at 31 December 2017 as short-term and reported within short-term receivables under the line item C.II.2.4.5.

As for 2017, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by law, i.e. CZK 500 million. As a part of the profit and loss statement, the revenue was presented on a separate line II.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the estimated payment date, the estimated receivable was classified as long-term and is presented within long-term receivables under C.II.1.5.3.

15.2.2.8 Allowances

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

Allowances against:	Balance as at 30 June 2016	Additions	Reversal / use	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017
(In CZK millions)							
Intangible fixed assets	20	1	(1)	20	0	(2)	18
Tangible fixed assets	64	0	(24)	40	0	(2)	38
Long-term financial investments	7	0	0	7	0	(7)	0
Inventory	62	8	(1)	69	14	(10)	73
Receivables – other	149	38	(41)	146	24	(35)	135
Total tax non-deductible allowances	302	47	(67)	282	38	(56)	264
Receivables – legal	35	26	(29)	32	10	(10)	32
Total tax deductible allowances	35	26	(29)	32	10	(10)	32
Total	337	73	(96)	314	48	(66)	296

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

15.2.2.9 Short-term Financial Assets and Cash

The main bank used by the Company is Československá obchodní banka, a.s., in which the Company has two cash-pooling sets of accounts, a set of current accounts and a set of accounts with entrusted resources. An overdraft enabling the Company to have a negative balance is agreed for the set of accounts with both the Company's own and entrusted resources (see subsection 15.2.2.14 – Bank loans and borrowings).

As at 31 December 2017 and 31 December 2016, the Company did not have short-term securities nor shares.

15.2.2.10 Equity

As at 31 December 2017 and 31 December 2016, share capital amounted to CZK 3,588 million without change.

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

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

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

Other funds from profit include the cultural and social fund.

Profit for the period of six months ended 31 December 2016 was distributed on 2 May 2017 in accordance with the founder's approval. The amount of CZK 170 million was transferred to the cultural and social fund; CZK 79 million was used from other capital funds.

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

15.2.2.11 Provisions

(In CZK millions)	Balance as at 30 June 2016	Additions	Reversal / use	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017
Social and health insurance	118	128	(108)	138	78	(122)	94
Accrued vacation	148	17	(119)	46	11	0	57
Provision for severance pay incl. competition clauses	48	40	(47)	41	68	(41)	68
Non-claimable component of salaries	168	265	(168)	265	125	(265)	125
Other	238	45	(72)	211	51	(35)	227
Total tax non-deductible provisions	720	495	(514)	701	333	(463)	571
Total	720	495	(514)*	701	333	(463)	571

*) The amount includes the effect of spin-off totalling CZK (96) million.

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

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

Other provisions were primarily created to cover risks known as at 31 December 2017 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

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

15.2.2.12 Long-term liabilities

Long-term liabilities are represented by the deferred tax liability as at 31 December 2017 and 31 December 2016, which is described in subsection 15.2.2.16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 11 million and CZK 16 million as at 31 December 2017 and 31 December 2016, respectively. These are mainly part of liabilities concerning retentions – given items are recognized on the line C.1.4 Trade payables.

As at 31 December 2017 and 31 December 2016, the Company did not recognize liabilities that are due after more than 5 years.

15.2.2.13 Current liabilities

As at 31 December 2017 and 31 December 2016, the Company had overdue current payables totaling CZK 17 million and CZK 13 million, respectively.

The Company had no current or long-term liabilities bearing a security or lien in favor of a creditor as at 31 December 2017 and 31 December 2016.

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

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 758 million and CZK 1,027 million as at 31 December 2017 and 31 December 2016, respectively. In addition, estimated payables included quantity discounts, uninvoiced operating deliveries of services and energy, and estimated staff bonuses.

Trade payables decreased on a year-on-year basis mainly due to entrusted resources (see subsection 15.2.2.24 – Entrusted resources).

Payables in respect of social insurance and health insurance amounted to CZK 337 million and CZK 350 million as at 31 December 2017 and 31 December 2016, respectively.

These payables comprise unpaid wages for December 2017 and 2016, which were paid at the beginning of 2018 and 2017, respectively.

The Company did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2017 and 31 December 2016.

15.2.2.14 Bank loans and borrowings

15.2.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Overall limit (In CZK millions)	31 December 2017 (In CZK millions)	31 December 2016 (In CZK millions)
ČSOB, a.s.	Global credit line effective	Own	100	0	0
	Effective interest rate: 0.44%	resources			
ČSOB, a.s.*	Global credit line effective	Own	1,000	0	0
	Effective interest rate: 0.53%	resources			
ČSOB, a.s.	Global credit line effective	Entrusted	1,600	33	0
	Effective interest rate: 0.23%	resources			

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

The overdraft on the own funds account from Československá obchodní banka, a.s., is to offset short-term cash-flow fluctuations and as at 31 December 2017 and 31 December 2016 was not used.

A multi-purpose credit line from Československá obchodní banka, a.s., allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2017 and 31 December 2016, the loan was not used. The multi-purpose credit line of CZK 600 million was terminated in 2/2017 and replaced by the multi-purpose credit line totaling CZK 1,000 million.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., serves to optimize financial liquidity to ensure the provision of Company's services. This overdraft is secured by pledge on the Company's receivables from Československá obchodní banka, a.s., created under a Contract for the provision of services to Československá obchodní banka, a.s., by the Company. The Company used CZK 33 million as at 31 December 2017; As at 31 December 2016, the overdraft from Československá obchodní banka, a.s., was not used.

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

15.2.2.14.2 Denominated in EUR

Bank	Terms/ Conditions	Overall limit (In EUR millions)	31 December 2017		31 December 2016	
			(In EUR millions)	(In CZK millions)	(In EUR millions)	(In CZK millions)
ČSOB, a.s.	Global credit line effective EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.4	35	1.2	34

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

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

15.2.2.15 Accruals and Deferred Income

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

15.2.2.16 Income Tax

Analysis of the income tax expense is as follows:

(In CZK millions)	Year 2017	Period of 6 months ended 31 December 2016
Current tax expense	1	22
Deferred tax	8	(10)
Adjustment of prior year tax expense based on final CIT return	4	(7)
Total tax expense	13	5

The Company quantified tax due as follows:

(In CZK millions)	Year 2017	Period of 6 months ended 31 December 2016
Profit before tax	91	96
Non-taxable revenues	(19)	(56)
Difference between book and tax depreciation	108	(21)
Tax non-deductible expenses and change in allowances and provisions	(111)	126
Of which:		
- change in allowances	(18)	(20)
- change in provisions	(130)	77
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	37	69
Gifts	0	(2)
Deduction to support training	1	0
Taxable income	68	143
Income tax rate	19%	19%
Calculated income tax	13	27
Tax relief (persons with disability or partial disability)	(12)	(5)
Tax due	1	22
Income tax expense from ordinary activities	1	22

The Company calculated the deferred tax asset / (liability) using the 19% tax rate (for both periods, i.e. as at 31 December 2017 and 31 December 2016) and quantified as follows:

	31 December 2017			31 December 2016		
	Base (In CZK millions)	Deferred tax asset (In CZK millions)	Deferred tax liability (In CZK millions)	Base (In CZK millions)	Deferred tax asset (In CZK millions)	Deferred tax liability (In CZK millions)
Deferred tax items						
Difference between net book value of fixed assets for accounting and tax purposes	(2,386)	0	(453)	(2,496)	0	(474)
Allowances	264	50	0	282	54	0
Other provisions	571	108	0	701	133	0
Total	(1,551)	158	(453)	(1,513)	187	(474)
Net deferred tax liability			(295)			(287)

15.2.2.17 Leases

The Company leases fixed assets, which are not recognized in the balance sheet accounts (see subsection 15.2.2.3.14 – Leases and subsection 15.2.2.18 – Commitments and Contingencies).

The assets leased by the Company in the form of operational leases amounted to CZK 310 million and CZK 145 million as at 31 December 2017 and 31 December 2016, respectively. The buildings leased by the Company amounted to CZK 229 million and CZK 116 million as at 31 December 2017 and 31 December 2016, respectively.

As at 31 December 2017 and 31 December 2016, the Company did not have any finance leases.

15.2.2.18 Commitments and Contingencies

The Company recognizes particularly stamps, road toll vignettes and lottery tickets, the nature of which is recognized as valuables (these items are recognized below in nominal value) in its operational evidence as at 31 December 2017 and 31 December 2016. Furthermore, the Company recognized low-value assets

in operating evidence and leased assets in off-balance sheet evidence (recognized in acquisition costs), which is not recognized in the balance sheet:

(In CZK millions)	31 December 2017	31 December 2016
Valuables incl. stamps and lottery tickets	14,409	15,491
Road toll vignettes	2,955	1,928
Leased assets – operational lease	1,672	1,468
Securities	40	40
Low-value tangible assets	2,252	2,379
Low-value intangible assets	63	64

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

	31 December 2017	31 December 2016
Due within 1 year	394	369
Due between 1 to 5 years	836	649
Due after 5 years	61	72
Total	1,291	1,090

Received and provided bank guarantees for the Company, which are drawn under the framework agreements, on the provision of financial services, as at 31 December 2017 were as follows:

Type of provided guarantee	Guarantor	Creditor	Subject	Valid until	Amount (In CZK millions)
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	4
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system	01/ 01/ 2019	9
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2018	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2016	16/ 03/ 2018	75
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2017	16/ 03/ 2019	390
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	03/ 08/ 2018	1
Payment	Československá obchodní banka, a.s.	Investment III, s.r.o.			
Payment	Československá obchodní banka, a.s.	Prologis CR LX s.r.o.	Rental agreement	19/ 01/ 2020	2
					493

Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (In CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action-DEPO Plzeň 72	11/ 04/ 2018	1
Payment	Komerční banka, a.s.	TRAWKO 96 s.r.o.	Action-DEPO Píseň 70	07/ 01/ 2018	1
Payment	Československá obchodní banka, a.s.	VÁHOSTAV-SK, a.s.	Action-DEPO Benešov 70	15/ 02/ 2018	1
Payment	Československá obchodní banka, a.s.	Polabská stavební CZ, s.r.o.	Action-DEPO Česká Lípa 70	18/ 04/ 2018	2
Payment	Československá obchodní banka, a.s.	PSG-International a.s.	Action-dislocation of the post office Praha 50 to SPU Malešice	28/ 08/ 2018	1
Payment	Česká spořitelna, a.s.	Synet s.r.o.	Action - DEPO Kroměříž	14/ 08/ 2018	1
Payment	Komerční banka, a.s.	SAN-JV s.r.o.	Action-DEPO Šumperk 70	03/ 06/ 2018	1
Payment	UniCredit Bank, a.s.	Kappenberger + Braun, Elektro-Technik spol. s r.o.	Action - DEPO Jihlava 70	05/ 10/ 2018	1
Payment	Komerční banka, a.s.	ABC Chomutov spol. s r.o.	Action - SPU Ústí nad Labem	31/ 08/ 2018	1
Payment	Československá obchodní banka, a.s.	IMOS Brno, a.s.	Action - insulation: Prague 3 Olšanská	31/ 12/ 2018	4

Payment	Raiffeisenbank, a.s.	SKD Průmstav-stavby, a.s.	Action - SPU Ústí - completion	03/02/2019	4
Payment	UniCreditBank, a.s.	PSG International a.s.	Action - reconstruction SPU+DEPO Ostrava 71	03/06/2019	1
Payment	Oberbank AG	EDIKT, a.s.	Action - SPU Ostrava+DEPO Ostrava 71 - completion and reconstruction	31/07/2019	5
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action - reconstruction of post office Brno 100	15/04/2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action - SPU České Budějovice - new building	27/09/2021	5
					31

15.2.2.19 Contingent Liabilities

The management of the Company is not aware of any other significant contingent liabilities as at 31 December 2017.

15.2.2.20 Revenues and Other Operating Income

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

	Year 2017			Period of 6 months ended 31 December 2016		
	Domestic (In CZK millions)	Foreign (In CZK millions)	Total (In CZK millions)	Domestic (In CZK millions)	Foreign (In CZK millions)	Total (In CZK millions)
Revenue from postal operations	12,116	1,837	13,953	6,124	1,018	7,142
Revenue from provision of intermediary services	2,577	0	2,577	1,318	0	1,318
Revenue from electronic services	362	0	362	155	0	155
Revenue from the sale of goods	340	0	340	113	0	113
Revenues from data mailboxes	517	0	517	257	0	257
Total revenues	15,912	1,837	17,749	7,967	1,018	8,985
Other operating income	1,118	0	1,118	778	0	778
Total revenues and other operating income	17,030	1,837	18,867	8,745	1,018	9,763

In 2017 and in the period ended 31 December 2016, the Company did not receive subsidies for operating purposes.

15.2.2.21 Employees

Breakdown of staff costs is as follows:

	Year 2017		Period of 6 months ended 31 December 2016	
	Total personnel	Of which: Company's management and Director General	Total personnel	Of which: Company's management and Director General
Average adjusted number of employees	29,612	26	29,801	26
(In CZK millions)				
Wages and salaries	9,283	73	4,609	29
Social security and health insurance	3,080	13	1,506	4
Social costs	339	0	170	0
Total staff costs	12,702	86	6,285	33

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

15.2.2.22 Related Party Transactions

Apart from the bonuses disclosed in subsection 15.2.2.21 – Employees, in 2017 members and former members of the Company's statutory and supervisory bodies and the Company's management did not receive any loans, guarantees, advance payments or other benefits besides the collective agreement, they did however have access to Company cars that are made available by management for both business and private purposes. During the year, the Company executed several transactions with related parties within its ordinary business activities.

The transactions realized during 2017 and during the period from 1 July 2016 to 31 December 2016, and the related receivables from and liabilities to related parties are as follows:

As at 31 December 2017	Revenues (In CZK millions)	Expenses (In CZK millions)	Receivables (In CZK millions)	Liabilities (In CZK millions)
Subsidiaries				
Poštovní tiskárna cenin Praha a.s.	0	22	0	6
Česká pošta Security, s.r.o.	2	173	12	26
Other related parties				
Czech Television and Radio	235	1	10	13
Government ministries	689	0	55	15
Czech Social Security Administration	424	2,221	0	2,002
Municipal and local authorities	347	108	14	288
ČD Cargo	1	71	0	4
Charles University in Prague	9	0	0	2
Water and sewage systems Hodonín	2	0	0	2
National Agency for Communications and Information Technology	13	4	3	1
Total	1,722	2,600	94	2,359

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

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

Receivables from Česká pošta Security, s.r.o., relate mainly to the loan provided to the company. The interest rate corresponds to the weighted average interest rate for the appreciation of own funds retroactively for the corresponding months in which the funds were granted.

15.2.2.23 Fees Paid and Payable to the Audit Company

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

15.2.2.24 Entrusted Resources

The entrusted resources analysis as at 31 December 2017 and 31 December 2016 is as follows:

(In CZK millions)	31 December 2017	31 December 2016
ASSETS		
Short-term receivables	140	133
Cash	3,399	3,207
Cash at bank	337	607
Total assets	3,876	3,947

(In CZK millions)	31 December 2017	31 December 2016
LIABILITIES AND EQUITY		
Current liabilities	3,808	3,913
Short-term bank loans	68	34
Total liabilities and equity	3,876	3,947

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

At the end of 2017, the Company received advance payments from Česká správa sociálního zabezpečení in the amount of CZK 1,600 million for 2018 pension payments. As at 31 December 2016, the Company received advance payments totaling CZK 1,695 million for pension payments to be paid in January 2017.

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

15.2.2.25 Cash-flow Statement

As at 31 December 2017 and 31 December 2016, the Company did not consider the used overdraft facilities as cash equivalents for the purpose of the cash-flow statement (see subsection 15.2.2.14 – Bank loans and overdrafts).

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

(In CZK millions)	31 December 2017	31 December 2016
Cash on hand	4,368	4,284
Cash at bank	884	2,043
Cash equivalents from short-term securities and investments	0	50
Cash and cash equivalents	5,252	6,377

15.2.2.26 Subsequent Events

The Company will calculate net costs for the provision of basic services for the accounting period 2017 and will ask CTO for the reimbursement of such costs that represent unfair financial burden for the Company as a postal license holder. The deadline for submission is 31 August 2018.

As at 31 December 2017, Marek Jánský quit the position of the Chief Director of Finance Division.

On 1 January 2018, Lukáš Svoboda was appointed the Chief Director of Finance Division.

On 30 January 2018, Pavel Chyla was appointed the Deputy Director General.

On 28 February 2018, Martin Elkáň was recalled from the Director General position.

Effective from 1 March 2018, Vit Bukvic was entrusted with the management of Česká pošta, s.p., based on the Resolution of DG 16/2018.

On 2 March 2018, Jiří Linert was appointed the Chief Director of Postal Operations and Logistics Division.

On 5 March 2018, Česká pošta received a decision on determining the net costs of providing basic services for 2015 and 2016 from CTO – see subsection 15.2.2.7 – Net Costs of Universal Service for more details.

No other material events have occurred between the balance sheet date and the date of preparation of the ordinary financial statements that would have a material impact on the ordinary financial statements for the accounting period 2017.

23 March 2018



Ing. Vit Bukvic, charged with managing Česká pošta, s.p.

15.3 Consolidated Financial Statements including Report of the Independent Auditor

Report of the Independent Auditor to Consolidated Financial Statements

(Translation of a report originally issued in Czech - see Note 2 to the consolidated financial statements.)

INDEPENDENT AUDITOR'S REPORT

To the Founder of Česká pošta, s.p.:

Opinion

We have audited the accompanying consolidated financial statements of Česká pošta, s.p. (the Company) and its subsidiaries (the Group) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the consolidated balance sheet as at 31 December 2017, and the consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic, which are International Standards on Auditing (ISAs), as amended by the related application clauses. Our responsibilities under this law and regulation are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Group in accordance with the Act on Auditors and the Code of Ethics adopted by the Chamber of Auditors of the Czech Republic and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matters

The prior year consolidated financial statements of Česká pošta, s.p. were audited by another auditor whose report dated 17 March 2017 expressed an unqualified opinion on those statements.

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Statutory Body.

- Conclude on the appropriateness of the Statutory Body's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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



Roman Hauptfleisch, Auditor
License No. 2009

23 March 2018
Prague, Czech Republic

15.3.1 Consolidated Financial statements for the year ended 31 December 2017 in CZK million

CONSOLIDATED BALANCE SHEET					
(in millions Czech crowns)					
Reference	ASSETS	31. 12. 2017			31. 12. 2016
a	b	Gross 1	Provision 2	Net 3	Net 4
	TOTAL ASSETS	34,149	(13,927)	20,222	20,838
	<i>of which entrusted resources</i>	<i>3,875</i>	<i>0</i>	<i>3,875</i>	<i>3,847</i>
B.	Fixed assets	23,391	(13,686)	9,705	9,831
B. I.	Intangible fixed assets	1,987	(1,623)	364	346
B. I. 2.	Royalties	1,858	(1,556)	302	239
B. I. 2.1.	Software	1,855	(1,554)	301	237
B. I. 2.2.	Other royalties	3	(2)	1	1
B. I. 4.	Other intangible fixed assets	66	(67)	1	3
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	61	0	61	105
B. I. 5.2.	Intangible fixed assets in the course of construction	61	0	61	106
B. II.	Tangible fixed assets	21,189	(12,064)	9,125	9,268
B. II. 1.	Land and constructions	12,543	(5,484)	7,059	7,142
B. II. 1.1.	Land	851	0	851	867
B. II. 1.2.	Constructions	11,692	(5,484)	6,208	6,275
B. II. 2.	Equipment	8,268	(6,673)	1,695	1,708
B. II. 4.	Other tangible fixed assets	5	0	5	4
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	373	(7)	366	414
B. II. 5.2.	Tangible fixed assets in the course of construction	373	(7)	366	414
B. III.	Long-term investments	217	0	217	219
B. III. 5.	Other long-term investments in securities	217	0	217	219
B. IV.	Positive consolidation difference	7	0	7	7
B. V.	Negative consolidation difference	(9)	1	(8)	(9)
C.	Current assets	10,638	(241)	10,397	10,935
	<i>of which entrusted resources</i>	<i>3,875</i>	<i>0</i>	<i>3,875</i>	<i>3,847</i>
C. I.	Inventories	281	(74)	207	334
C. I. 1.	Raw materials	221	(69)	152	166
C. I. 2.	Work in progress and semi-finished products	2	0	2	2
C. I. 3.	Finished goods and goods for resale	58	(5)	53	166
C. I. 3.2.	Goods for resale	58	(5)	53	166
C. II.	Receivables	5,073	(167)	4,906	4,173
	<i>of which entrusted resources</i>	<i>140</i>	<i>0</i>	<i>140</i>	<i>133</i>
C. II. 1.	Long-term receivables	524	0	524	1,317
C. II. 1.1.	Trade receivables	3	0	3	2
C. II. 1.5.	Receivables - other	521	0	521	1,315
C. II. 1.5. 2.	Long-term advances paid	5	0	5	5
C. II. 1.5. 3.	Estimated receivables	500	0	500	1,300
C. II. 1.5. 4.	Other receivables	16	0	16	10
C. II. 2.	Short-term receivables	4,549	(167)	4,382	2,856
	<i>of which entrusted resources</i>	<i>140</i>	<i>0</i>	<i>140</i>	<i>133</i>
C. II. 2.1.	Trade receivables	1,557	(82)	1,475	1,319
	<i>of which entrusted resources</i>	<i>140</i>	<i>0</i>	<i>140</i>	<i>133</i>
C. II. 2.4.	Receivables - other	2,992	(85)	2,907	1,537
C. II. 2.4. 1.	Receivables from shareholders	21	(4)	17	20
C. II. 2.4. 3.	Taxes - receivables from the state	55	0	55	27
C. II. 2.4. 4.	Short-term advances paid	228	0	228	230
C. II. 2.4. 5.	Estimated receivables	2,537	0	2,537	1,182
C. II. 2.4. 6.	Other receivables	151	(81)	70	78
C. III.	Short-term financial investments	0	0	0	50
C. III. 2.	Other short-term investments	0	0	0	50
C. IV.	Cash	5,284	0	5,284	6,378
	<i>of which entrusted resources</i>	<i>3,399</i>	<i>0</i>	<i>3,399</i>	<i>3,814</i>
C. IV. 1.	Cash in hand	4,368	0	4,368	4,284
	<i>of which entrusted resources</i>	<i>3,399</i>	<i>0</i>	<i>3,399</i>	<i>3,207</i>
C. IV. 2.	Cash at bank	916	0	916	2,094
	<i>of which entrusted resources</i>	<i>700</i>	<i>0</i>	<i>700</i>	<i>607</i>
D.	Prepayments and accrued income	120	0	120	72
D. 1.	Prepaid expenses	116	0	116	69
D. 2.	Accrued income	4	0	4	3

CONSOLIDATED BALANCE SHEET – Liabilities and Equity (in millions Czech crowns)

a	b	5	6
	TOTAL LIABILITIES AND EQUITY	20,222	20,838
	<i>of which entrusted resources</i>	<i>3,876</i>	<i>3,947</i>
A.	Equity	10,119	10,191
A. I.	Share capital	3,588	3,588
A. I. 1.	Share capital	3,588	3,588
A. II.	Share premium and capital contributions	6,118	6,127
A. II. 2.	Capital contributions	6,118	6,127
A. II. 2.1.	Other capital contributions	8,109	6,118
A. II. 2.2.	Assets and liabilities revaluation	9	11
A. III.	Other reserves	377	376
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	18	17
A. IV.	Retained earnings / Accumulated losses	(62)	(79)
A. IV. 2.	Accumulated losses	(62)	(79)
A. V.	Consolidated profit / (loss) for the current period	98	179
B. + C.	Liabilities	9,576	10,065
	<i>of which entrusted resources</i>	<i>2,370</i>	<i>2,907</i>
B.	Provisions	573	703
B. 4.	Other provisions	573	703
C.	Liabilities	9,003	9,362
	<i>of which entrusted resources</i>	<i>2,370</i>	<i>2,907</i>
C. I.	Long-term liabilities	306	305
C. I. 4.	Trade payables	10	16
C. I. 8.	Deferred tax liability	296	289
C. II.	Short-term liabilities	8,697	9,057
	<i>of which entrusted resources</i>	<i>2,370</i>	<i>2,907</i>
C. II. 2.	Liabilities due to financial institutions	68	34
	<i>of which entrusted resources</i>	<i>68</i>	<i>34</i>
C. II. 3.	Short-term advances received	793	479
C. II. 4.	Trade payables	5,078	5,509
	<i>of which entrusted resources</i>	<i>3,808</i>	<i>3,943</i>
C. II 8.	Liabilities - other	2,758	2,975
	<i>of which entrusted resources</i>	<i>0</i>	<i>0</i>
C. II 8.3.	Liabilities to employees	544	559
C. II 8.4.	Liabilities for social security and health insurance	340	352
C. II 8.5.	Taxes and state subsidies payable	199	124
C. II 8.6.	Estimated payables	1,376	1,644
C. II 8.7.	Other liabilities	299	290
D.	Accruals and deferred income	486	540
D. 2.	Deferred income	486	540
E.	Minority equity	41	42
E. I. 1.	Minority equity	16	16
E. I. 2.	Minority other capital funds incl. reserve fund	16	16
E. I. 3.	Minority retained earnings	10	10
E. I. 4.	Minority profit for the current period	(1)	0

CONSOLIDATED INCOME STATEMENT (in millions Czech crowns)			
reference a	TEXT b	Accounting period	
		31. 12. 2017 1	31. 12. 2016 2
I.	Sales of products and services	17,448	18,026
II	Sales of goods	340	257
A.	Cost of sales	4,415	4,932
A 1.	Cost of goods sold	253	169
A 2.	Raw materials and consumables used	1,284	1,280
A 3.	Services	2,898	3,483
B.	Changes in inventories of finished goods and work in progress	0	(7)
C.	Own work capitalised	(20)	(18)
D.	Staff costs	12,789	12,385
D 1.	Wages and salaries	9,347	9,031
D 2.	Social security, health insurance and other social costs	3,442	3,354
D 2.1.	Social security and health insurance costs	3,101	3,004
D 2.2.	Other social costs	341	350
E.	Value adjustments in operating activities	821	793
E 1.	Value adjustments of fixed assets	828	782
E 1.1.	Depreciation, amortisation and write off of fixed assets	832	809
E 1.2.	Provision for impairment of fixed assets	(4)	(27)
E 2.	Provision for impairment of inventories	4	9
E 3.	Provision for impairment of receivables	(11)	2
III.	Operating income - other	1,117	1,092
III 1.	Sales of fixed assets	345	179
3.	Other operating income	772	913
3.1	Compensation for the net cost on providing basic postal services	500	600
3.2.	Other operating income	272	313
F.	Operating expenses - other	813	1,068
F 1.	Net book value of fixed assets sold	26	28
F 3.	Taxes and charges from operating activities	91	91
F 4.	Operating provisions and complex prepaid expenses	(130)	172
F 5.	Other operating expenses	826	777
	Clearing of positive consolidation difference	0	1
	Clearing of negative consolidation difference	(1)	0
*	Consolidated operating result	88	221
IV.	Income from sales of long-term investments - shares	2	2
IV 2.	Income from sales of investments - other	2	2
VI.	Interest and similar income	5	10
VI 2.	Other interest and similar income	5	10
VII.	Other financial income	132	63
K.	Other financial expenses	117	87
*	Consolidated financial result	22	(12)
**	Consolidated net profit / (loss) before taxation	110	209
L.	Tax on profit or loss	12	30
L 1.	Tax on profit or loss - current	5	61
L 2.	Tax on profit or loss - deferred	7	(31)
**	Net profit / (loss) after taxation	98	179
	Minority profit/loss	99	179
	Minority share	(1)	0
***	Net profit / (loss) for the financial period	98	179
*	Net turnover for the financial period	19,044	19,450

Consolidated Cash-flow Statement for the year ended 31 December 2017

(In CZK millions)		2017	2016
	Cash and cash equivalents at the beginning of the year	6,428	8,975
	<i>of which entrusted resources</i>	3,814	5,450
	Net profit on ordinary activities before tax	110	209
A.1	<i>Adjustments for non-cash movements:</i>	367	710
A.1.1	Amortization, depreciation of fixed assets and abolished investment projects	831	809
A.1.2	Change in allowances and provisions with respect to operating activities	(141)	59
A.1.3	Profits from disposal of fixed assets	(319)	(151)
A.1.4	Net interest expense (+) and income (-)	(5)	(10)
A.1.5	Adjustments for other non-cash movements	1	3
A*	Net cash flow from operating activities before tax and changes in working capital	477	919
A.2	<i>Change in non-cash components of working capital</i>	(948)	(2,409)
A.2	<i>of which entrusted resources</i>	(78)	(1,636)
A.2.1	Change in receivables and accrued income	(517)	(995)
A.2.1	<i>of which entrusted resources</i>	(7)	(46)
A.2.2	Change in current liabilities and deferred income	(553)	(1,397)
A.2.2	<i>of which entrusted resources</i>	(71)	(1,590)
A.2.3	Change in inventories	122	(17)
A**	Net cash flow from operating activities before tax	(471)	(1,490)
A,**	<i>of which entrusted resources</i>	(78)	(1,636)
A.3	Interest paid	0	0
A.4	Interest received	5	10
A.5	Income tax overpayment (+) / income tax on ordinary activities paid and additional taxes for previous periods (-)	(33)	(189)
A***	Net cash flow from operating activities	(499)	(1,669)
	<i>of which entrusted resources</i>	(78)	(1,636)
	Cash flows from investing activities		
B.1	Purchase of fixed assets	(889)	(839)
B.2	Proceeds from the sale of fixed assets	413	179
B***	Net cash flow from investing activities	(476)	(660)
	Cash flows from financing activities		
C.1	Change in long-term and current liabilities falling within financial activity	0	(2)
C.2	Change in equity	(169)	(166)
C.2.1	Direct payments from funds	(169)	(166)
C.3	Effect of the spin-off	0	(50)
C***	Net cash flow from financing activities	(169)	(218)
	Net decrease (-) / increase (+) in cash and cash equivalents	(1,144)	(2,547)
	<i>of which entrusted resources</i>	(78)	1,636
	Cash and cash equivalents at the end of the year	5,284	6,428

Statement of Changes in Equity for the year ended 31 December 2017

(In CZK millions)	Share capital	Other capital funds	Gain or loss on revaluation of assets and liabilities	Legal reserve fund	Other funds from profit	Accumulated loss	Profit / (loss) for the period less minority interest	Total
Balance as at 1 January 2016	3,588	6,293	11	359	16	(71)	233	10,429
Profit distribution	0	75	0	0	166	0	(233)	8
Use of funds	0	(2)	0	0	(164)	(8)	0	(174)
Gains or losses from revaluation to fair value	0	0	0	0	0	0	0	0
Profit for the period	0	0	0	0	0	0	179	179
Effect of the spin-off	0	(250)	0	0	(1)	0	0	(251)
Balance as at 31 December 2016	3,588	6,116	11	359	17	(79)	179	10,191
Profit distribution	0	0	0	0	170	0	(179)	(9)
Use of funds	0	(7)	0	0	(169)	17	0	(159)
Gains or losses from revaluation to fair value	0	0	(2)	0	0	0	0	(2)
Profit for the period	0	0	0	0	0	0	98	98
Balance as at 31 December 2017	3,588	6,109	9	359	18	(62)	98	10,119

15.3.2 Notes to the Consolidated Financial Statements

15.3.2.1 General Information

15.3.2.1.1 Description of the Group

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

Subsidiaries as at 31 December 2017 and 31 December 2016 were as follows:

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

Česká pošta, s.p. (“the Company”, “the Controlling entity” or “Česká pošta”) is a state-owned enterprise. It is a legal entity conducting its business activities using assets of the Czech government under its own name and on its own account. The founder of the Company is the Czech State. The Company was established on 1 January 1993 and the founder was then represented by the Ministry of Transport and Communications of the Czech Republic. As at 31 December 2017 and 31 December 2016, the role of the founder of the Company under the government’s name was carried out by the Ministry of Interior of the Czech Republic. As at 31 December 2017, the Company had its registered office at Politických vězňů 909/4, Prague 1, Czech Republic. The Company’s identification number is 471 14 983 and it is registered in the Commercial Register of the Municipal Court in Prague, Section A, Insert No. 7565. Česká pošta is a business entity pursuant to Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

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

The main business activities of the Group are as follows:

- provision of postal services,
- provision of international postal services,
- provision of services of central procurement for government (public) administration,
- manufacturing and trading in the field of printing industry,
- printing of postage stamps and vouchers, fee stamps and other valuable or protected printed matter,
- printing of publicly traded securities as well as other securities pursuant to the Act on Securities,
- security of property and persons,
- road motor transport,
- assembly, repairs, revision and testing of electrical equipment,
- provision of technical services for the protection of property and persons.

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

The Company’s mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act No. 29/2000 Coll., on Postal Services, as amended („the Postal Services Act“). The Company holds a license to provide postal services in accordance

with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

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

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

15.3.2.2 Accounting Policies

The accounting policies and valuation methods applied by the Group during preparation of the consolidated financial statements as at 31 December 2017 were as follows:

15.3.2.2.1 Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for entrepreneurs applicable for 2017, and have been prepared under the historical cost convention except as disclosed below.

Explanation Added for Translation into English

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

i. Consolidation System

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

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

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

Financial statements of all companies included in consolidation were prepared as at 31 December 2017.

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

ii. Consolidation Difference

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

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

15.3.2.2.2 Subsidiaries

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

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

15.3.2.2.3 Intangible fixed assets

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

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

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

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

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

15.3.2.2.4 Tangible fixed assets

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

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

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

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

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

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

Tangible fixed assets with a unit cost of less than CZK 40 thousand are treated as inventory and are expensed upon consumption and are only carried in the operational record. The exceptions are selected low value assets – selected information technology and postal technology, which is also considered as tangible fixed assets. Tangible fixed assets with a unit cost exceeding CZK 40 thousand and selected low value assets with an estimated useful life longer than one year are depreciated using the straight-line method over their estimated useful lives of assets. The estimated useful lives of tangible assets are as follows:

	Number of years
Buildings, halls and constructions	20 – 50
Plant, machinery and equipment	4 – 15
Vehicles	6 – 20
Furniture, fixtures and equipment	10 – 20
Handling equipment	6 – 20
Computers and related equipment	3 – 7
Centralized protection desk ("PCO")	5

15.3.2.2.5 Long-term investments

Long-term financial assets consist of other long-term securities and investments, which represent available-for-sale securities.

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

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

Securities and investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements, are classified as available-for-sale. These investments are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, in which case they are included in current assets. The Group determines the form of securities and investments at the time of their acquisition and revalues them on a regular basis as at the consolidated financial statements' date.

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

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

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

15.3.2.2.6 Inventory

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

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

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

15.3.2.2.7 Receivables

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

15.3.2.2.8 Short-term financial investments

Short-term financial assets consist of securities available for sale. Securities available for sale are securities held for the purpose of effecting transactions on the public market in order to make a profit from price fluctuations in the short-term, but with a maximum period of one year.

15.3.2.2.9 Cash and cash equivalents

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

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets. Cash equivalents also include Entrusted resources – see subsection 15.3.2.2.10. – Entrusted resources.

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

15.3.2.2.10 Entrusted resources

In some cases, the financial resources of third parties are temporarily entrusted to the Company in order to perform specific transactions (services for clients of Československá obchodní banka, a.s. (hereinafter “ČSOB, a.s.”), collection of radio and television license fees, payment of pensions, collection of SIPO payments, betting games, sale of stamps, vignettes, postal payment services, services for mobile operators, customs declarations, etc.). These resources are recorded in a separate accounting group apart from the Company’s own financial resources, and are disclosed on separate lines in the balance sheet. The Company charges an agreed commission for performing the specific transactions, which is recognized within its own resources using the accrual principle in the same period to which they relate.

15.3.2.2.11 Foreign currency translation

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

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

15.3.2.2.12 Equity

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

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

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

15.3.2.2.13 Provisions

Provisions are recognized when the Group has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

15.3.2.2.14 Employee benefits

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

15.3.2.2.15 Loans

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

15.3.2.2.16 Expenses and revenue recognition

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

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

Sales of postal services realized in cash through sales of postal stamps are recognized when the stamps are sold. The Group does not have the necessary information that would allow it to record income from these sales on an accrual basis in respect to the accounting periods in which customers actually use the purchased postal stamps. The Group's management believes that the costs of collecting such information relating to the time allocation needed for these services realized through sales of postal stamps would exceed the benefits of such information.

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

15.3.2.2.17 Leases

The costs of assets held under both finance and operating leases are not capitalized as fixed assets. Lease payments are expensed evenly over the life of the lease. Future lease payments not yet due are disclosed

in the notes to the consolidated financial statements but not recognized in the consolidated balance sheet. The Group activates the respective value of leased asset in the period when the lease agreement is being concluded and the purchase option is exercised. Lease payments made in advance are accrued over the lease period.

15.3.2.2.18 Income tax

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

Corporate income tax is recognized in the balance sheet as a part of the item "Taxes and state subsidies payable" if the tax liability exceeds the tax advances paid. Otherwise, the amount exceeding the tax liability as a result of the advances paid is recorded as "Taxes - receivables from the state".

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

15.3.2.2.19 Deferred tax expense

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

15.3.2.2.20 Related parties

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

- the State represented by the Company's founder, government institutions, state-owned enterprises and companies, and other legal entities, where the state has significant influence, while the nature of the relationship is also decisive and not merely the legal form;
- members of the Company's statutory, supervisory bodies and management and related parties to these members, including companies or institutions or businesses, where these members and parties have controlling, proportional or significant influence.

Significant transactions and balances with related parties, related to other than the main postal services are disclosed in subsection 15.3.2.22 – Related party transactions.

15.3.2.2.21 Subsequent events

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

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

15.3.2.3 Fixed Assets

15.3.2.3.1 Consolidation Difference

Movements in goodwill on consolidation can be analyzed as follows:

(In CZK millions)	2017
Opening balance as at 1 January 2017	7
Amortization of goodwill	0
Closing balance as at 31 December 2017	7

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

(In CZK millions)	2017
Opening balance as at 1 January 2017	(9)
Amortization of negative goodwill	1
Closing balance as at 31 December 2017	(8)

15.3.2.3.2 Intangible Fixed Assets

Cost

(In CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,718	141	(4)	1,855
Royalties	2	1	0	3
Other intangible fixed assets	68	0	0	68
Intangible fixed assets in progress	105	98	(142)	61
Total as at 31 December 2017	1,893	240	(146)	1,987
Total as at 31 December 2016	2,122	210	(439) **	1,893

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

**) The balance contains the effect of spin - off of CZK (4) million

Accumulated amortization and net book value

(In CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,461)	(78)	3	(1,536)	(18)	301
Royalties	(1)	(1)	0	(2)	0	1
Other intangible fixed assets	(65)	(2)	0	(67)	0	1
Intangible fixed assets in progress	0	0	0	0	0	61
Total as at 31 December 2017	(1,527)	(81)	3	(1,605)	(18)	364
Total as at 31 December 2016	(1,765)	(94)	332*	(1,527)	(20)	346

*) The balance contains the effect of spin - off of CZK 1 million.

15.3.2.3.3 Tangible Fixed Assets

Cost

(In CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Land	868	1	(18)	851
Constructions	11,533	220	(61)	11,692
Plant, machinery and equipment	5,220	189	(145)	5,264
Vehicles	1,601	113	(169)	1,545
Furniture and fixtures	700	22	(21)	701
Assets of less than CZK 40 thousand	256	135	0	391
Other movable assets	409	0	(42)	367
Art works and collections	4	1	0	5
Tangible fixed assets in progress	421	628	(676)	373
Total as at 31 December 2017	21,012	1,309	(1,132)	21,189
Total as at 31 December 2016	20,996	1,321	(1,305)**	21,012

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

***) The balance contains the effect of spin - off of CZK (109) million

Accumulated depreciation, allowances and net book value

(In CZK millions)	Opening balance of accumulated depreciation	Additions	Disposals	Closing balance of accumulated depreciation	Allowances	Net book value
Land	0	0	0	0	0	851
Constructions	(5,240)	(279)	53	(5,466)	(18)	6,208
Plant, machinery and equipment	(4,140)	(295)	145	(4,290)	(13)	961
Vehicles	(1,321)	(87)	167	(1,241)	0	304
Furniture and fixtures	(566)	(24)	20	(570)	0	131
Assets of less than CZK 40 thousand	(28)	(64)	0	(92)	0	299
Other movable assets	(409)	0	42	(367)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in progress	0	0	0	0	(7)	366
Total as at 31 December 2017	(11,704)	(749)	427	(12,026)	(38)	9,125
Total as at 31 December 2016	(11,602)	(715)	613*	(11,704)	(40)	9,268

*) The balance contains the effect of spin - off of CZK 79 million

Based on the stock-count performed, the Group adjusted the carrying value of the tangible fixed assets for diminution in value through an allowance (see subsection 15.3.2.7 – Allowances).

In 2017 and 2016, the Group did not receive any material fixed assets free of charge.

As at 31 December 2017 and 31 December 2016, besides the easement in favor of PCS – Praha Center s.r.o. created in relation to the post office building at Jindřišská, Prague 1 based on an agreement dated 16 April 1997, which is in force until 31 March 2042, the Group has another 367 (359) easements, or similar rights to tangible fixed assets (rights for sewage pipeline, water pipeline, power and gas connection, hot-water piping, right of entry, access, crossing, riding, parking of a company car, pre-emptive right and the right of use) mainly created in favor of the communal and municipal authorities, telecommunications infrastructure providers, and electricity producers and distributors.

In 2017, the Group did not receive subsidies for investment purposes. In 2016, the Group received subsidies for investment purposes of CZK 5 million.

15.3.2.3.4 Long-term investments

Other long-term securities and investments as at 31 December 2017 comprise government bonds issued by Ministry of Finance of the Czech Republic maturing in 2023, available-for-sale investments, valued at fair value of CZK 217 million as at 31 December 2017 (as at 31 December 2016: CZK 219 million).

15.3.2.4 Inventory

The fair value of obsolete and slow-moving inventory is reduced to the selling price through the allowance account (see subsection 15.3.2.7 – Allowances).

15.3.2.5 Receivables

As at 31 December 2017 and 31 December 2016, receivables due after more than 5 years amounted to CZK 1 million and CZK 2 million, respectively, and outstanding overdue receivables amounted to CZK 420 million and CZK 311 million, respectively. Outstanding overdue receivables are not secured. The Group wrote off irrecoverable receivables of CZK 16 million and CZK 36 million in 2017 and 2016, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Receivables from related parties are described in subsection 15.3.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2017 and 31 December 2016 amounted to CZK 710 million and CZK 933 million, respectively. Operating records on incoming mail not yet confirmed by individual postal offices were recorded as estimated receivables with the double entry in Sales of own products and services, based on operating statistics. As at 31 December 2017, the compensation of net costs of providing basic postal services is included in estimated receivables as follows: a portion of CZK 1,300 million was recognized in short-term receivables and CZK 500 million was recognized in long-term receivables; as at 31 December 2016, CZK 1,300 million were recognized in long-term receivables (see subsection 15.3.2.6. – Net Costs of Universal Service).

15.3.2.6 Net Costs of Universal Service

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

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

According to a mechanism introduced by the Postal Services Act amendment, which entered into force on 1 January 2013, net costs representing an unfair financial burden should be funded through the account for financing of net costs (the so called compensation fund) to which, under the Act, individual postal operators should contribute according to their share on the postal services market. The Company should thus be compensated for the net cost to the amount corresponding to the proportion of the market shares of other entities operating in the postal services market. The determination of the group of mandatory contributors to the compensation fund along with the amount of their contribution crucial for the final amount of compensation for the years 2013 and 2014, which is the responsibility of CTO, have not been determined.

Effective from 1 January 2016 in accordance with Act No. 319/2015, Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (Postal Services Act), as amended, and Act No. 77/1997 Coll., on State Enterprise, as amended, the change in the method of financing net costs for the periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, no more than: for the year 2015 CZK 700 million; for the year 2016 CZK 600 million; for 2017 and subsequent years CZK 500 million. Other net expenses are not considered to be an unfair financial burden. The actual method of determining the net cost of basic services has not been affected by the change in the law.

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

On 12 October 2016, following the European Commission investigation, the Czech government acknowledged in its resolution the impossibility of applying the Act on the postal services where it relates to financing of net costs representing an unfair financial burden through the compensation fund and it asked the Minister of Industry and Trade together with Minister of Interior, 1st Deputy Prime Minister for the Economy, and Minister of Finance to draft a proposal on how to prevent potential damage and minimize the risks associated with the decision of not applying the provisions of the Postal Services Act on the years 2013 and 2014, on the basis of which the net cost of providing basic services representing an unfair financial burden should be paid to the postal license holder, i.e. CP through a compensation fund.

Following the Government resolution of 22 March 2017, the Ministry of Industry and Trade prepared a draft amendment of the Postal Services Act. The draft addresses financing of the net costs incurred by the postal license holder, i.e. CP in providing basic services for the years 2013 and 2014 due to abandoning the net cost financing through the compensation fund and replacing the mechanism with a payment from the state budget. According to the draft amendment, CP should be reimbursed the net costs totaling CZK 800 million in three stages: CZK 200 million in 2018, CZK 300 million in 2019 and CZK 300 million in 2020.

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

As for the years 2013 and 2014, the Company's management considers the above mentioned steps as an increased security for the compensation payment. However, the actual payment of CZK 800 million still depends on the successful completion of the legislative process as well as the adoption of the respective amendment to the Postal Services Act. The proposal for amending legislation is currently in the inter-departmental comment procedure as individual comments are being dealt with. At the same time, if there was no change in legislation, the activation of the compensation fund would represent, in the light of the foregoing, an unlawful public aid under EU law, and it is therefore de jure excluded. For these reasons, the Company's management decided not to recognize the entitlement for the years 2013 and 2014 in the books.

As for the years 2015 and 2016, in prior years management decided to post estimated receivables in the amount equal to the upper limit allowable by law, i.e. CZK 700 million and CZK 600 million for 2015 and 2016, respectively. In March 2018, CTO verified the amount of net costs for providing basic services representing an unfair financial burden for 2015 in the amount of CZK 700 million. In March 2018, CTO verified the amount of net costs for providing basic services representing an unfair financial burden for 2016 in the amount of CZK 600 million, thus confirming the correctness of the recognized amounts.

As a part of the profit and loss statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. The compensation for the net costs of the provision of basic postal services for the years 2015 and 2016 was presented within long-term receivables under the line item C.II.1.5.3. in the balance sheet. On 14 March 2018, CTO's decision defining amount of net costs representing unfair financial burden for years 2015 and 2016 become de jure effective. With respect to the fact that in accordance with section 34d of Postal Services Act is CTO responsible for providing net costs representing unfair financial burden in 30 days subsequent to the legally binding decision, the asset was reclassified as at 31 December 2017 as short-term and reported within short-term receivables under the line item C.II.2.4.5.

As for 2017, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by law, i.e. CZK 500 million. As a part of the profit and loss statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the estimated payment date, the estimated receivable was classified as long-term and is presented within long-term receivables under C.II.1.5.3.

15.3.2.7 Allowances

Allowances reflect a temporary decrease in the value of assets (disclosed in subsections 15.3.2.3 – Fixed assets, 15.3.2.4 – Inventories and 15.3.2.5 – Receivables).

Allowances against: (in CZK millions)	Balance as at 1 January 2016	Additions	Reversal / use	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017
Intangible fixed assets	21	1	(2)	20	0	(2)	18
Tangible fixed assets	66	0	(26)	40	0	(2)	38
Inventory	60	11	(2)	69	14	(10)	73
Receivables – other	138	64	(56)	146	24	(35)	135
Total tax non-deductible allowances	285	76	(86)	275	38	(49)	264
Receivables – legal	38	29	(35)	32	10	(10)	32
Total tax deductible allowances	38	29	(35)	32	10	(10)	32
Total	323	105	(121)	307	48	(59)	296

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

15.3.2.8 Short-term Financial Assets and Cash

The main bank used by the Group is Československá obchodní banka, a.s., in which the Group has two cash-pooling sets of accounts, a set of current accounts and a set of accounts with entrusted resources. An overdraft enabling the Group to have a negative balance is agreed for the set of accounts with both the Group's own and entrusted resources (see subsection 15.3.2.14 – Bank loans and borrowings).

As at 31 December 2017 and 31 December 2016, the Group did not have short-term securities nor shares.

15.3.2.9 Equity

As at 31 December 2017 and 31 December 2016, share capital amounted to CZK 3,588 million.

Other capital funds mainly comprise contributions from the Group's profit or gifts received.

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

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

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

15.3.2.10 Minority Equity

Minority equity as at 31 December 2007 consists of the following (in CZK millions):

(In CZK millions)	Share capital	Other capital funds incl. reserve fund	Undistributed profit/(loss) for previous years	Profit (loss) for the period	Total
Balance as at 1 January					
2017	16	16	10	0	42
Movements between funds	0	0	0	0	0
Profit for the period	0	0	0	(1)	(1)
Balance as at 31 December					
2017	16	16	10	(1)	41

15.3.2.11 Provisions

(In CZK millions)	Balance as at 1 January 2016	Additions	Reversal / use	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017
Social and health insurance	116	202	(180)	138	78	(122)	94
Accrued vacation	29	136	(119)	46	11	0	57
Provision for severance pay incl. competition clauses	48	51	(58)	41	68	(41)	68
Non-claimable component of salaries	202	338	(274)	266	126	(266)	126
Other	233	94	(115)	212	51	(35)	228
Total tax non-deductible provisions	628	821	(746)	703	334	(464)	573
Total	628	821	(746)*	703	334	(464)	573

*) The amount includes the effect of spin-off totaling CZK (96) million

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

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

Other provisions were primarily created to cover risks known as at 31 December 2017 and probable loss from ongoing litigations and out-of-court disputes and related obligations.

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

15.3.2.12 Long-term liabilities

Long-term liabilities are represented by the deferred tax liability as at 31 December 2017 and 31 December 2016, which is described in subsection 15.3.2.16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 10 million and CZK 16 million as at 31 December 2017 and 31 December 2016, respectively. These are mainly part of liabilities concerning retentions – given items are recognized on the line C.I.4 Trade payables.

As at 31 December 2017 and 31 December 2016, the Group did not recognize liabilities that are due after more than 5 years.

15.3.2.13 Current Liabilities

As at 31 December 2017 and 31 December 2016, the Group had overdue current payables totaling CZK 19 million and CZK 15 million, respectively.

The Group had no current or long-term liabilities bearing a security or lien in favor of a creditor as at 31 December 2017 and 31 December 2016, respectively.

Liabilities to related parties are described in subsection 15.3.2.22 – Related party transactions.

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 758 million and CZK 1,027 million as at 31 December 2017 and 31 December 2016, respectively. In addition, estimated payables included quantity discounts, uninvoiced operating deliveries of services and energy, and estimated staff bonuses.

Payables in respect of social insurance and health insurance amounted to CZK 340 million and CZK 353 million as at 31 December 2017 and 31 December 2016, respectively. These payables comprise unpaid wages for December 2017 and 2016, which were paid at the beginning of 2018 and 2017, respectively.

The Group did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2017 and 31 December 2016.

15.3.2.14 Bank Loans and Borrowings

15.3.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Total limit (In CZK millions)	31/ 12/ 2017 (In CZK millions)	31/ 12/ 2016 (In CZK millions)
ČSOB, a.s.	Global credit line effective Effective interest rate: 0.44%	Own resources	100	0	0
ČSOB, a.s.*	Global credit line effective Effective interest rate: 0.53%	Own resources	1,000	0	0

ČSOB, a.s.	Global credit line effective Effective interest rate: 0.23%	Entrusted resources	1,600	33	0
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*) It can be drawn in foreign currency in the corresponding amount.

The overdraft on own funds account from Československá obchodní banka, a.s., is to offset short-term cash-flow fluctuations and as at 31 December 2017 and 31 December 2016 was not used.

A multi-purpose credit line from Československá obchodní banka, a.s., allows for overdrafts, short-term loans on the financial market, documentary letters of credit and different types of guarantees. As at 31 December 2017 and 31 December 2016, the loan was not used. The multi-purpose credit line of CZK 600 million was terminated in 2/2017 and replaced by the multi-purpose credit line totaling CZK 1,000 million.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., serves to optimize financial liquidity to ensure the provision of Company's services. This overdraft is secured by pledge on the Company's receivables from Československá obchodní banka, a.s., created under a Contract for the provision of services to Československá obchodní banka, a.s., by the Company. The Company used CZK 33 million as at 31 December 2017; as at 31 December 2016, the overdraft from Československá obchodní banka, a.s., was not used.

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

15.3.2.14.2 Vedené v EUR

Bank	Terms/ Conditions	Total limit (In EUR millions)	31/ 12/ 2017		31/ 12/ 2016	
			(In EUR millions)	(In CZK millions)	(In EUR millions)	(In CZK millions)
ČSOB, a.s.	Global credit line effective EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.4	35	1.2	34

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

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

15.3.2.15 Accruals and Deferred Income

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

15.3.2.16 Income Tax

Analysis of the income tax expense is as follows:

(In CZK millions)	2017	2016
Current tax expense	1	64
Deferred tax	7	(31)
Adjustment of prior year tax expense based on final CIT return	4	(3)
Total tax expense	12	30

The Company quantified tax due as follows:

(In CZK millions)	2017	2016
Profit before tax	110	209
Non-taxable revenues	(20)	(77)

Difference between book and tax depreciation	107	(12)
Tax non-deductible expenses (+), including changes in provisions and allowances (-)	(104)	260
Of which:		
- change in allowances	(11)	(10)
- change in provisions	(130)	171
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	37	99
Gifts	0	(2)
Deduction to support professional training	(1)	0
Tax loss of subsidiaries	4	1
Taxable income	96	379
Deduction of tax loss from 2012, 2013	(28)	(17)
Tax base	68	362
Income tax rate	19 %	19 %
Calculated income tax	13	69
Tax relief (persons with disability or partial disability)	(12)	(5)
Current tax expense	1	64
Income tax expense from ordinary activities and total	1	64

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

	31/ 12/ 2017			31/ 12/ 2016		
	Base (In CZK millions)	Deferred tax asset (In CZK millions)	Deferred tax liability (In CZK millions)	Base (In CZK millions)	Deferred tax asset (In CZK millions)	Deferred tax liability (In CZK millions)
Deferred tax items						
Difference between net book value of fixed assets for accounting and tax purposes	(2 410)	0	(458)	(2 509)	0	(477)
Allowances	264	50	0	275	52	0
Other provisions	573	109	0	703	134	0
Other temporary differences	13	3	0	9	2	0
Total	(1 560)	162	(458)	(1,522)	188	(477)
Net deferred tax liability			(296)			(289)

As at 31 December 2017 and 31 December 2016, the Group did not recognize a deferred tax asset from its subsidiary's tax losses totaling CZK 10 million and CZK 16 million, respectively on the basis that its recovery was uncertain.

15.3.2.17 Leases

The Group leases fixed assets, which are not recognized in the balance sheet accounts (see subsection 15.3.2.2.17 – Leases and subsection 15.3.2.18 – Commitments and Contingencies).

The assets leased by the Group in the form of operational leases amounted to CZK 314 million and CZK 294 million as at 31 December 2017 and 31 December 2016, respectively. The buildings leased by the Company amounted to CZK 229 million and CZK 236 million as at 31 December 2017 and 31 December 2016, respectively.

As at 31 December 2017 and 31 December 2016, the Group did not have any finance leases.

15.3.2.18 Commitments and Contingencies

The Group recognizes particularly stamps, road toll vignettes and lottery tickets, the nature of which is recognized as valuables (these items are recognized below in nominal value) in its operational evidence as at 31 December 2017 and 31 December 2016. Furthermore, the Group recognized low-value assets in operating

evidence and leased assets in off-balance sheet evidence (recognized in acquisition costs), which is not recognized in the balance sheet:

(In CZK millions)	31/ 12/ 2017	31/ 12/ 2016
Valuables incl. stamps and lottery tickets	14,409	15,491
Road toll vignettes	2,955	1,928
Leased assets – operational lease	1,692	1,487
Securities	40	40
Low-value tangible assets	2,272	2,379
Low-value intangible assets	63	64

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

(In CZK millions)	31/ 12/ 2017	31/ 12/ 2016
Due within 1 year	398	374
Due between 1 to 5 years	840	657
Due after 5 years	61	72
Total	1,299	1,103

Received and provided bank guarantees for the Group, which are drawn under the framework agreements, on the provision of financial services, as at 31 December 2017 were as follows:

Type of provided guarantee	Guarantor	Creditor	Subject	Valid until	Amount (In CZK millions)
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	4
Payment	Československá obchodní banka, a.s.	General Directorate for National Roads and Motorways of the Czech Republic	Electronic fee system	01/ 01/ 2019	9
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2018	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2016	16/ 03/ 2018	75
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2017	16/ 03/ 2019	390
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	03/ 08/ 2018	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o. - Prologis CR LX s.r.o.	Rental agreement	19/ 01/ 2020	2
					493

Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (In CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action-DEPO Plzeň 72	11/04/2018	1
Payment	Komerční banka, a.s.	TRAWEKO 96 s.r.o.	Action-DEPO Píčov 70	07/01/2018	1
Payment	Československá obchodní banka, a.s.	VÁHOSTAV-SK, a.s.	Action-DEPO Benešov 70	15/02/2018	1
Payment	Československá obchodní banka, a.s.	Polabská stavební CZ, s.r.o.	Action-DEPO Česká Lipa 70	18/04/2018	2
Payment	Československá obchodní banka, a.s.	PSG-International a.s.	Action-dislocation of the post office Praha 50 to SPU Malešice	28/08/2018	1
Payment	Česká spořitelna, a.s.	Synet s.r.o.	Action - DEPO Kroměříž	14/08/2018	1
Payment	Komerční banka, a.s.	SAN-JV s.r.o.	Action-DEPO Šumperk 70	03/06/2018	1
Payment	UniCredit Bank, a.s.	Kappenberger + Braun. Elektro-Technik spol. s r.o.	Action - DEPO Jihlava 70	05/10/2018	1
Payment	Komerční banka, a.s.	ABC Chomutov spol. s r.o.	Action - SPU Ústí nad Labem	31/08/2018	1
Payment	Československá obchodní banka, a.s.	IMOS Brno, a.s.	Action - insulation; Prague 3 Olšanská	31/12/2018	4
Payment	Raiffeisenbank, a.s.	SKD Průmstav-stavby, a.s.	Action - SPU Ústí - completion	03/02/2019	4
Payment	UniCredit Bank, a.s.	PSG International a.s.	Action - reconstruction SPU+DEPO Ostrava 71	03/06/2019	1
Payment	Oberbank AG	EDIKT, a.s.	Action - SPU Ostrava+DEPO Ostrava 71 - completion and reconstruction	31/07/2019	5
Payment	Komerční banka	ZIPP Brno, s.r.o.	Action - reconstruction of post office Brno 100	15/04/2021	2
Payment	ČSOB	OHL ŽS, a.s.	Action - SPU České Budějovice - new building	27/09/2021	5
					31

15.3.2.19 Contingent Liabilities

The management of the Group is not aware of any other significant contingent liabilities as at 31 December 2017.

15.3.2.20 Revenues and Other Operating Income

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

	2017			2016		
	Domestic (In CZK millions)	Foreign (In CZK millions)	Total (In CZK millions)	Domestic (In CZK millions)	Foreign (In CZK millions)	Total (In CZK millions)
Revenue from postal operations	12,111	1,837	13,948	12,284	1,794	14,078
Revenue from provision of intermediary services	2,577	0	2,577	2,561	0	2,561
Printing (postal stamps, envelopes, valuables)	32	12	44	6	14	20
Revenue from the communication infrastructure	0	0	0	336	0	336
Revenue from electronic services	362	0	362	518	0	518
Revenues from data mailboxes				513	0	513

	517	0	517			
Revenue from the sale of goods	340	0	340	257	0	257
Total revenues	15,939	1,849	17,788	16,475	1,808	18,283
Other operating income	1,117	0	1,117	1,092	0	1,092
Total other operating income	1,117	0	1,117	1,092	0	1,092
Total revenues and other operating income	17,056	1,849	18,905	17,567	1,808	19,375

In 2017, the Group did not receive subsidies for operating purposes; in 2016, the Group received subsidies for operating purposes in the amount of CZK 3 million.

15.3.2.21 Employees

Breakdown of Group's staff costs is as follows:

	2017		2016	
	Total personnel	Of which: Group's management and Director General	Total personnel	Of which: Group's management and Director General
Average adjusted number of employees	29,750	39	30,096	36
Wages and salaries (in CZK millions)	9,347	88	9,031	80
Social security and health insurance (In CZK millions)	3,102	17	3,004	17
Social costs (in CZK millions)	340	0	350	0
Total staff costs	12,789	105	12,385	97

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

15.3.2.22 Related Party Transactions

Apart from the bonuses disclosed in subsection 15.3.2.21 – Employees, in 2017 members and former members of the Group's statutory and supervisory bodies and the Group's management did not receive any loans, guarantees, advance payments or other benefits besides the collective agreement, they did however have access to company cars that are made available by management for both business and private purposes.

During the year, the Group executed several transactions with related parties within its ordinary business activities. The transactions realized in 2017 and 2016 along with the related receivables from and liabilities to related parties are as follows:

	Revenues (In CZK millions)	Expenses (In CZK millions)	Receivables (In CZK millions)	Liabilities (In CZK millions)
2017				
Czech Television and Radio	235	1	10	13
Government ministries	689	0	55	15
Czech Social Security Administration	424	2,221	0	2,002
Municipal and local authorities	347	108	14	288
ČD Cargo	1	71	0	4
Charles University in Prague	9	0	0	2
Water and sewage systems Hodonín	2	0	0	2
National Agency for Communications and Information Technology	13	4	3	1
Total	1,720	2,405	82	2,327

2016	Revenues (In CZK millions)	Expenses (In CZK millions)	Receivables (In CZK millions)	Liabilities (In CZK millions)
Czech Television and Radio	238	0	0	10
Government ministries	1,058	22	53	19
Czech Social Security Administration	453	2,155	0	2,073
Municipal and local authorities	338	76	7	230
ČD Cargo	0	70	0	5
Charles University in Prague	9	0	0	2
České dráhy	6	3	1	1
Water and sewage systems Hodonín	2	0	0	2
National Agency for Communications and Information Technology	5	2	3	0
Total	2,109	2,328	64	2,342

15.3.2.23 Fees Paid and Payable to the Audit Company

The fees paid to audit companies for the statutory audit of the financial statements, including the consolidated financial statements audit, totaled CZK 2 million and CZK 3 million, respectively in 2017 and 2016.

15.3.2.24 Entrusted Resources

The entrusted resources analysis as at 31 December 2017 and 31 December 2016 is as follows:

(In CZK millions)	31/ 12/ 2017	31/ 12/ 2016
ASSETS		
Short-term receivables	140	133
Cash	3,399	3,207
Cash at bank	337	607
Total assets	3,876	3,947
(In CZK millions)	31/ 12/ 2017	31/ 12/ 2016
LIABILITIES AND EQUITY		
Current liabilities	3,808	3,913
Short-term bank loans	68	34
Total liabilities and equity	3,876	3,947

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

At the end of 2017 and 2016, the Group received advance payments in the amount of CZK 1,600 million and CZK 1,695 million, respectively for 2017 and 2016 pension payments from the Czech Social Security Administration.

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

15.3.2.25 Cash-flow Statement

As at 31 December 2017 and 31 December 2016, the Group did not consider the used overdraft facilities as cash equivalents for the purpose of preparing the consolidated cash-flow statement (see subsection 15.3.2.14 – Bank loans and overdrafts).

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

(In CZK millions)	31/ 12/ 2017	31/ 12/ 2016
Cash on hand	4,368	4,284
Cash at bank	916	2,094
Cash equivalents from short-term securities and investments	0	50
Cash and cash equivalents	5,284	6,428

15.3.2.26 Subsequent events

The Company will calculate net costs for the provision of basic services for the accounting period 2017 and will ask CTO for the reimbursement of such costs that represent unfair financial burden for the Company as a postal license holder. The deadline for submission is 31 August 2018.

As at 31 December 2017, Marek Jánský quit the position of the Chief Director of Finance Division.

On 1 January 2018, Lukáš Svoboda was appointed the Chief Director of Finance Division.

On 30 January 2018, Pavel Chyla was appointed the Deputy Director General.

On 28 February 2018, Martin Elkáň was recalled from the Director General position.

Effective from 1 March 2018, Vít Bukvic was entrusted with the management of Česká pošta, s.p., based on the Resolution of DG 16/2018.

On 2 March 2018, Jiří Linert was appointed the Chief Director of Postal Operations and Logistics Division.

On 5 March 2018, Česká pošta received a decision on determining the net costs of providing basic services for 2015 and 2016 from CTO – see subsection 15.3.2.6 – Net Costs of Universal Service for more details.

No other material events have occurred between the balance sheet date and the date of preparation of the consolidated financial statements that would have a material impact on the consolidated financial statements for the 2017 accounting period.

23 March 2018



Ing. Vít Bukvic, charged with managing Česká pošta, s.p.

