
Česká pošta

Annual Report 2018

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1 Foreword

Česká pošta initiated a major transformation in 2018 with the aim to stabilize the Enterprise and make it ready for the future. I am very glad that last year we managed to put together a new management team that is slimmer than before but has the necessary enthusiasm and a lot of experience from the commercial sector. We have streamlined the corporate structure and reorganized the divisions so that they can work and cooperate better.

In 2018, Česká pošta focused primarily on improving customer service and on commencing investments in necessary upgrades of the logistics network. I would like to emphasize that a large part of the modernization of the sorting hubs was carried out by the previous management which started the process. We have launched innovations that accelerate branch operations. The first innovation is expansion of the network of specialized counters, the so-called Balíkovny (Parcel Rooms), and the second is pick-up of parcels on the basis of codes. These innovations reduced the waiting time at branches by a few minutes per customer and significantly shortened the queues. The changes helped us handle the most challenging period of ČP's operations – the pre-Christmas season. We delivered a record number of 14 million packages before Christmas and kept the network running, even though we had to process 400,000 parcels a day at peak hours.

For the first time in its history, Česká pošta reported a loss. Although it had actually recorded a loss for several previous years, its overall performance was improved by the sale of assets. Now is the time to concede that Česká pošta is underfunded and needs to invest in both new technologies and, in particular, in its employees. Modernization will require large investments that are likely to be funded with a commercial loan. On the other hand, the upgrades will speed up our services and will make the heavy and often unnecessary work of the postal employees easier.

In order to cope with the economic situation, we launched a cost-saving plan in 2018 that has already yielded first results. To be fair, it needs to be noted that Česká pošta does not receive substantial government subsidies. The only state funding for Česká pošta is the compensation for services ordered from Česká pošta by the Czech Republic, i.e. delivery to every address every day of the week, operation of 3,200 branches, maintaining the mailbox network and other tasks of the so-called universal service. To date, the state has paid only about a quarter of the costs of the service ordered. In 2018, the costs of the universal service provided totaled in excess of CZK 2 billion, but Česká pošta is to receive from the government only CZK 500 million. The postal network is largely based on the staff working at the counters and delivering mail. Currently these people bear the brunt of the Czech government's reluctance to reimburse the full costs of the services it orders. Therefore, our top priority is to see passing of an amendment to the Postal Services Act that would allow to significantly increase the state funding.

Another key focus in 2018 was to improve the working conditions of the employees and to conduct fair negotiations with the trade unions. We strive to improve communication with employees. We are ready to implement major changes that will not be fully manifest until 2019. The employees will receive a 10% wage raise and we plan to modify the remuneration system to make the employees feel more secure. We are putting an end to the current practice where employees are evaluated by the number of lottery tickets or SIM cards sold, whereby the amount of the variable component of the wage will depend on the effort involved in the performance of the specific position.

In recent years, several hundred Česká pošta branches have been transferred to contractual partners. However, not all municipalities perceived the Pošta Partner project positively. Based on this experience, in the second half of 2018 we decided to suspend and revise the entire project and we are discussing possible changes to it with pertinent municipal officials. The new Pošta Partner program will be more customer-friendly and simpler.

In conclusion, I would like to thank all employees of Česká pošta for their commitment, our customers for using our services and the state, our owner, for their support in the demanding transformation we are undergoing.



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

2 Report of the Supervisory Board

There were changes to the Supervisory Board of Česká pošta in 2018. The changed Supervisory Board paid increased attention to a broad range of the Enterprise's operations and, in compliance with the applicable laws and regulations governing its activities, exercised its supervisory powers.

The Supervisory Board notes the negative financial result of the Enterprise. It attributes its causes to lack of Česká pošta's preparedness for the liberalization of the postal market and the replacement of letters with electronic correspondence, and to globalization, the emergence of a number of competitors with foreign backing in logistics, especially in E-Commerce.

Česká pošta reported a negative operating result already in 2015, 2016 and 2017. The total result was optimized by the sale of idle real estate and compensation from the state for the net costs of the universal service, i.e. the obligation arising from the postal license stipulating that Česká pošta deliver every working day to any place in the Czech Republic, regardless of the expenses incurred and revenues generated in connection with the provision of this service. The decrease in Česká pošta's revenues stems from a long-term annual decline of 10% in revenue from delivery of letters and the introduction of data boxes that also resulted in a revenue drop amounting to approximately CZK 1 billion. In an effort to eliminate the losses of the universal service, remuneration of Česká pošta employees has not been adequate and the funding necessary to maintain and operate Česká pošta's infrastructure has been reduced.

The essential task of Česká pošta's new management is to restructure the Enterprise on the basis of realistic business and financial assumptions. The goal of the restructuring is to create a viable, modern, customer-friendly and business-oriented company that is capable of acquiring a solid market position and provide quality customer service and is fully competitive in all segments of its operations, while being a reliable partner of the state, businesses and individuals. In addition, the Supervisory Board paid attention to the going concern assumption and assessed that it is appropriate subject to implementation of the following measures, fully supported by the founder:

- Provision of a temporary financial loan from the government to cover České pošta's operational needs;
- Adoption of the amendment to the Postal Services Act and an increase in the limit of compensation for the net costs of the universal service to at least CZK 1.5 billion;
- Reaching an agreement between CTO and Česká pošta on the process of calculating the net costs of providing the universal service;
- Drawing up a fundamental restructuring strategy of Česká pošta, its approval in the relevant bodies and its immediate implementation; and
- Establishing conditions to ensure competitiveness of Česká pošta in commercial areas of its activities.

Česká pošta needs to strengthen the revenue side of the balance sheet by reorganizing and modernizing its product portfolio and realizing new business opportunities.

In order to increase efficiency and streamline the work processes in place, the postal networks will be further optimized and modern technologies introduced to increase productivity, ease and save labor. Česká pošta will professionalize the areas of facility management and procurement, modify and implement the Pošta Partner project in a sensitive manner, define its role in the E-Government project, review and enhance cooperation with ČSOB as well as other cooperating entities. To meet these challenges, it is essential to create a lean organizational structure, introduce a new personnel and motivation strategy, reduce employee turnover, stabilize staff and make ČP an attractive employer.

ČP must strive to improve the product offer for customers, the flow of goods and communication with customers.



Karel Kratina, Supervisory Board Chairman, Česká pošta, s.p.

3 Key events of 2018

- Since 1 January 2018 Česká pošta no longer ensures distribution of daily newspapers due to the failure to reach an agreement on adjusting delivery rates.
- Since 1 April 2018 Česká pošta has increased the remuneration for contractual operators of the Partner Pošta project. The fixed component of the payment increased by 4% on average, which in monetary terms accounts for a raise ranging from CZK 400 to CZK 600 per month. The increase is motivated by an effort to make the Partner Pošta project more attractive for both new and existing operators.
- Pavel Bobek was appointed Česká pošta ombudsman for customers in April.
- Česká pošta won the title Company for Health for the second time. On Tuesday, 3 April, the Senate of the Parliament of the Czech Republic, with the support of the Company for Health initiative, held the third annual conference under the name “Care for Employees’ Health”. Česká pošta took the gold prize as part of the conference.
- Česká pošta in 2018 once again partnered with the 12th annual Tent Against Melanoma event, this time held under the slogan “The black spot under the nail may not be just a bruise”. The event held in partnership with Česká pošta kicked off at Prague’s Wenceslas Square on 10-11 May 2018, continued in Brno on 14 May and closed in Ostrava on 15 May.
- On 15 – 16 May 2018 Česká pošta hosted the international “Retail Network Forum” organized by PostEurop. The key topic was the transformation of postal offices into partner branches. The event was attended by representatives of European operators who exchanged information on the fundamental rules of transition to partner postal branches and operational experience. The Forum is one of seven working groups of the Operational Activities Circle, a PostEurop working body focusing on operating issues.
- The Postal Museum collaborated with the Military Historical Institute and the Prague Castle Administration on the exhibition titled Established 1918. Touches of Czech Statehood. The exhibition was on display at the Prague Castle Riding School (9 May - 31 October). In another cooperation with the Prague Castle Administration, an exhibition Honors on Stamps (27 October 2018 – 31 January 2019) was staged at the seat of the President of the Czech Republic.
- Members of the Česká pošta Supervisory Board elected Karel Kratina its chairman at its meeting held on 7 June 2018. Previously, Mr. Kratina was the Director General of Česká pošta in 2004 – 2008.
- Czech postage stamps have won prestigious international awards. Every two years, the conference of the Government Postage Stamp Printers Association (GPSPA) holds a prestigious competition for the best postage stamp in the world issued over the past two years, in six different categories. The Czech Republic, represented by the Postal Printing House Prague, won two gold medals: the first in the Best Offset Stamp category where it scored with the postage stamp of the series Artworks on Stamps: Taras Kushchinsky. The second gold was awarded for the postage stamp Artworks on Stamps: Jaroslava Pešicová, in the Best Intaglio Stamp category.
- On 18 June 2018 Roman Knap became the General Director of Česká pošta. 43-year old Mr. Knap, who won an open competition held by the Ministry of Interior of the Czech Republic, had previously served as CEO of SAP CR and SAP Slovakia.
- Česká pošta became the general partner of the PRAGA 2018 World Exhibition which took place on 15 - 18 August 2018. The dominant and most famous exhibits that attracted the majority of visitors were the

legendary Mauritius stamps from the first 1847 edition with the inscription Post Office. The exhibition featured a complete set of red and blue Mauritius stamps that came complete with the so-called Bombay Letter mailed in 1850 with two stamps of red Mauritius.

- Česká pošta published the Corporate Social Responsibility Report for 2017.
- At the beginning of September 2018, representatives of Česká pošta participated at a special conference of the Universal Postal Union (SPU) in Ethiopia which discussed urgent issues affecting SPU's future and the operation of international postal services, among them SPU reform and its funding, plan for the product and services integration aimed at their modernization, and a new remuneration system between operators (terminal charges).
- Česká pošta launched an innovation with the objective of significantly accelerating and simplifying pick-up of parcels. From the beginning of October, customers can pick up selected types of packages at all post offices upon submitting a six-digit code without the need to show an identity card. Parcels can thus be picked up by anyone – a relative or friend – to whom the recipient entrusts the unique six-digit code. The post office sends the code to the addressee via a text message or email. All the person picking up the package needs to know, aside from the code, is the name of the addressee or the shipping number.
- Czech postage stamps won prestigious international awards at the world competition of national postal operators and their postage stamps called Premios Nexofil 2018. The award announcement took place on Tuesday, 23 October 2018 at the Royal Mint in Madrid. Stamps issued in 2017 competed for the awards. Among philately competitors from four continents Czech postage stamps again took prizes in several categories.
- At its session held on 15 November 2018, the Senate of the Czech Republic supported a petition of Česká pošta employees led by PKOV chairwoman Jindřiška Budweiserová, demanding a higher and fairer payment for services that the state orders from Česká pošta. The Upper House of the Parliament has stated in its resolution that the petition is justified.
- The Director General of Česká pošta was the recipient of the Laurel Order award. A total of 14 nominees from the ranks of entrepreneurs, managers, physicians, athletes, scientists and artists received the top business awards at an event attended by more than 400 entrepreneurs, state administration representatives and public figures.
- Česká pošta's project Krajané (Expatriots), which is a follow-up to the previous project Ukraine and is dedicated to ethnic Czechs and their descendants from Volhynia, Ukraine, has been awarded the TOP gold certificate of a responsible company in the field of diversity. Česká pošta received the certificate from the Business for Society alliance.
- Česká pošta joined other 66 European associations within the PostEurop organization in a joint letter addressed to EU Member States in connection with the proposal for the so-called ePrivacy Regulation, on the protection of privacy and data in electronic communications. Organizations from various industries across Europe express their concern about the wording of the draft regulation that could have a significant impact on the European economy. They call on Member States' officials to review and revise the proposal when it's discussed in the European Parliament. They also draw attention to the overlaps in the draft regulation with the already effective GDPR regarding the processing of personal data.

4 The year 2018 in numbers and facts

- **155** postal offices were transferred to Pošta Partners in 2018. The overall number of contractual branches operating in the Czech Republic as at 1 December 2018 was **583**.
- **97.3 million** data messages were sent in 2018. A total of **80,000** new data boxes were set up.
- From October to the end of 2018, Česká pošta took over in excess of **21 million** foreign consignments for delivery.
- From October to the end of December 2018, customers entrusted to Česká pošta **13,961,000** intrastate parcels. More than **4.4 million** domestic parcels were delivered in December 2018 alone; on 17 December a record number of **341,000** parcels were posted.
- Postal employees collected **2,707** mobile phones and 2 kg of other accessories or electrical equipment in an in-house employee collection called Mobiles for Jedle. The employees organized the collection on the occasion of Giving Tuesday, the World Volunteering and Charity Day, in cooperation with REMOBIL. This company will pay CZK 10 per donated mobile phone to Jedlička Institute and schools. Česká pošta employees contributed a total of CZK 27,070.
- **26** – is the number of exhibitions that took place in the Postal Museum, or in which the museum participated. Four were staged at the Prague Postal Museum, two at its branch in Vyšší Brod, and 20 (of which five were the Postal Museum traveling exhibitions) were on display in other memorial and cultural venues in the Czech Republic and abroad.
- Customers sent **703,073** modern electronic Online Postcards from their mobile phones and computers to mailboxes.
- In 2018 **100** new Parcel Rooms were set up. Česká pošta now operates 222 Parcel Rooms (170 in the branch network and 52 in delivery and special-purpose networks).
- Call-up systems were installed in 31 post offices in 2018 (16 upgrades from older types and 15 new installations). In total, the call-up system was installed at 226 post offices as at 31 December (138 post offices with a new system and 88 post offices with older type systems).
- **54** new specialized ČSOB counters were established in 2018.
- In 2018, a parcel-storing system was implemented that accelerates pick-up by 30% on average. The new parcel-storing system at post offices according to package barcode and position barcode has been currently deployed at **568** post offices (83% - three- or more-counter post offices). For this task, **308** barcode readers were purchased. A pilot operation of this system for storing letters was launched at 31 post offices.
- The new Personal Data Protection Center has processed more than 250 inquiries from clients in the area of personal data protection legislation since the entry into force of GDPR. In over 40 cases specific information and access to personal data was provided at the customers' request.
- We supported **76** organizations within the Poštáci SRDCEM foundation project.
- We collected **2,689** mobile phones for Giving Tuesday.
- We helped **27** people within the Poštáci POŠŤÁKŮM foundation project.

5 Company profile

5.1 Mission and strategic goals

The mission of Česká pošta, s.p. (hereinafter “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 endeavors 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 Enterprise, 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 2018, 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

Pursuant to Section 11 of Act No. 77/1997 Coll. on State-Owned Enterprise, as amended, the bodies of Česká pošta are the Managing Director 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 entrusted by law to the competence of the Founder pursuant to Section 12 of Act No. 77/1997 Coll. on State-Owned Enterprise, as amended.

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

Supervisory Board

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

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

The Supervisory Board had fourteen members as at 31 December 2018.

Supervisory Board committees

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

The following Supervisory Board committees were set up as at 31 December 2018:

- 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 as at 31 December 2018 is described in the Annual Report's Chapter 15 Financial section.

6 Regulatory framework for postal services

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

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

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

Česká pošta holds a postal license for the period 2018-2022 awarded to it by CTO Decision No. 70 580/2017-610/V of 12 December 2017 pursuant to Section 22 of the Postal Service Act. The postal license stipulates the obligation of Česká pošta to ensure permanently universal access to all basic services set out in Section 3(1) of the Postal Services Act in the defined quality in the entire territory of the Czech

Republic. The basic services ensured by Česká pošta under the granted postal license include, inter alia, free-of-charge delivery of postal consignments of up to 7 kg to the blind. Under the awarded postal services license, Česká pošta remains an entity officially appointed to render services that must be ensured on the basis of obligations arising from the Czech Republic's membership in the Universal Postal Union.

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

The Enterprise remediates any shortcomings identified in the CTO Report for 2017 on a continuous basis. No material financial claims of the CTO or other entities against the Company, which could be enforceable by law, were identified in the Report.

6.1 Selected obligations of a postal license holder

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

7 Report on activities

In 2018 Česká pošta posted a consolidated loss of CZK 250 million before taxes and CZK 186 million after taxes. Česká pošta alone posted a loss of CZK 275 million before taxes and CZK 212 million after taxes. For the first time in its history, ČP reported a loss-making result, which is primarily due to inadequate compensation from the government for fulfilling the obligations of the postal license holder that are defined in the Postal Services Act, CTO decrees and government regulations (to operate 3,200 post offices, deliver every working day to all addresses in the Czech Republic, operate a sufficiently dense network of mailboxes with a duty to collect mail from them every working day). According to applicable legislation, the amount of annual compensation is limited to CZK 500 million based on a political decision. The costs incurred were multiple times higher. The actual costs incurred by Česká pošta for 2017 totaled CZK 2.1 billion. The calculations of 2018 costs are still underway; Česká pošta expects a figure between CZK 2.7 billion and CZK 3.0 billion. If the current cap is not removed or the compensation amount is not significantly increased, ČP's performance will continue to be loss-making in the coming years. In recent years, ČP's profitability had

been achieved by restricting wage growth, postponing the necessary investments and divesting unused assets. However, the potential of such measures has been largely exhausted. As the wages are below the market level, staff turnover and job vacancies have been significantly rising which has a negative impact on the quality of provided services. In order to stabilize staff turnover, guarantee the quality of services stipulated by postal licenses and protect revenues, it is necessary to increase wages. Since 1 April 2018, the tariff wages have risen by 7%, and since 1 April 2019, the tariff wages will go up by another 10%.

Operating income (consolidated figures) increased by CZK 201 million year-on-year to CZK 19,106 million. The main reason for higher revenues is the recognition of the claim for compensation for the net costs of the universal service for the years 2013 and 2014 in the amount of CZK 800 million. The claim for compensation for the current year remained the same as in 2017, i.e. at CZK 500 million. Positive trends continued in the segment of incoming foreign consignments where revenues climbed by CZK 280 million, in particular due to continuous growth in the volume of shipments from China. The segment of parcel delivery also recorded a 9% increase in the volume of packages, representing an additional CZK 192 million. The favorable development applied to cash services (cash collection and processing) as well due to new acquisitions, resulting in an increase in revenue of CZK 34 million. Conversely, a number of services reported a decrease in revenues. The termination of newspapers distribution as of 1 January 2018 had the greatest impact (CZK -380 million) as this service was no longer cost-efficient for ČP. Revenues from outgoing international shipments fell (CZK -81 million) due to a decline in the EMS volume to China and mass mailings to US and Canada. The volume of core postal services continued to decline, even though it was partly offset by higher rates: ordinary letter (CZK -76 million), registered letter (CZK +62 million), postal orders (CZK -55 million). In addition to the revenue fall in postal operations, the proceeds from procurement activities also decreased (CZK -160 million), stemming from the long-term trend of declining cash-paid retirement pensions (CZK -18 million), lower demand for the SIPO service (CZK -11 million) and, notably, lower income from the sale of financial products (CZK -137 million). Income from the operation of Data Boxes also fell significantly (CZK -55 million) where the contributing factors were lower prices under the new contract with the Ministry of the Interior that came into effect as of 1 January 2018, and a 5% drop in data messages. The sale of goods also generated lower revenue (CZK -139 million) which was affected by the sale of a license for the Data Box Information System to the Ministry of the Interior at CZK 118 million at the end of 2017. The sale of fixed assets (especially idle real estate) had a substantially lesser effect; revenues fell by CZK 241 million year-on-year.

Total operating expenses increased by CZK 500 million year-on-year from CZK 18,818 million to CZK 19,318 million. Production consumption fell by CZK 25 million; the result was impacted mainly by the sale of the ISDS license at the end of 2017 at the cost of CZK 99 million. Signing a new contract for ISDS operation resulted in saving CZK 57 million. Furthermore, we managed to reduce the costs of telecommunication services by CZK 33 million due to a partial switch to IP telephony. Conversely, terminal fees rose by CZK 84 million year-on-year as a result of the higher SDR rate and, in particular, the impact of the settlement of past years' consignments as the approval of lower rates for consignments shipped to the UK for 2014 and 2015 had a positive effect in 2017, along with the lower than previously estimated number of pieces in 1 kg of mail for some countries (France, Italy, etc.). In addition, the costs of external road transport climbed by CZK 35 million, which corresponds with the growing volume of shipped parcels. Similarly, an increase in the share of vehicles acquired under operating leases resulted in a CZK 34 million increase in lease payments.

Personnel expenses rose by CZK 155 million compared to 2017; wage increases effected as of 1 April 2017 and subsequently as of 1 April 2018 were offset to a great extent by the termination of the newspaper distribution agreement.

Other operating expenses increased by CZK 327 million, mainly due to change in provisions amounting to CZK 240 million. While provisions declined by CZK 130 million in 2017, they rose by CZK 110 million

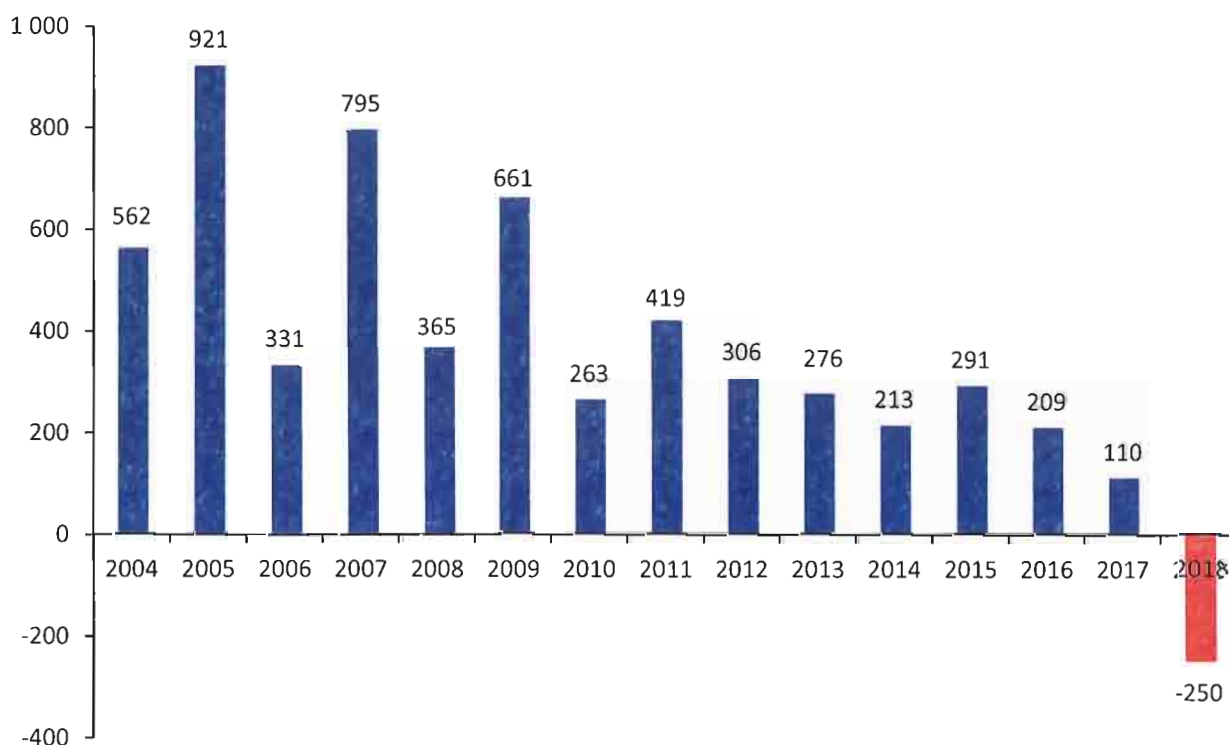
in 2018. Aside from the provisions, expenses related to the operation of leased vehicles (repairs of damage, excessive wear and tear, increased mileage) grew by CZK 51 million. VAT-related expenses also increased by CZK 26 million, stemming from a lower VAT deduction coefficient for a mixed basket.

The financial result fell by CZK 59 million year-on-year, primarily due to the less favorable balance of exchange rate differences, which dropped from CZK +55 million in 2017 to CZK -12 million in 2018.

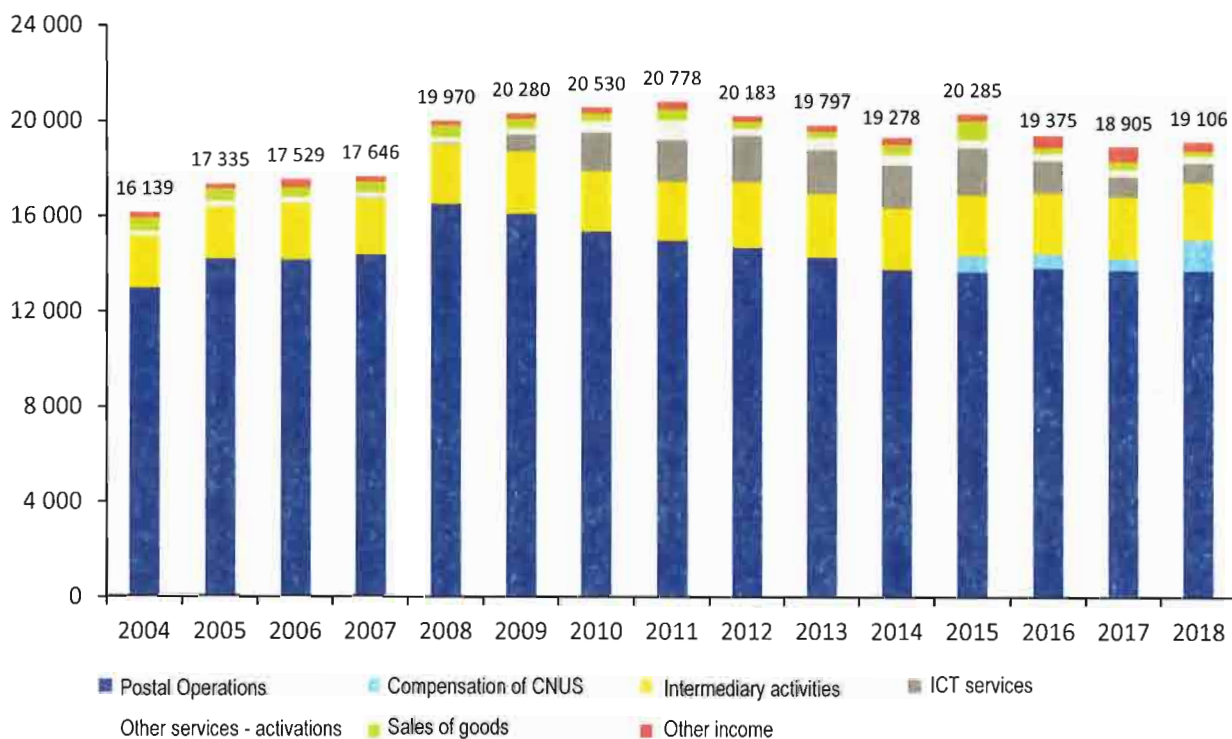
Trends of basic financial indicators – consolidated

	2013	2014	2015	2016	2017	2018
Assets (in CZK millions)	26,719	26,106	22,494	20,838	20,222	19,572
Equity (in CZK millions)	10,341	10,349	10,429	10,191	10,119	9,754
Operating revenues (in CZK millions)	19,797	19,278	20,285	19,375	18,905	19,106
Of which: Sales of products and services (in CZK millions)	19,235	18,553	18,488	18,026	17,448	17,229
Operating costs (in CZK millions)	19,549	19,112	20,015	19,153	18,818	19,318
Of which: personal costs (in CZK millions)	12,300	11,906	11,938	12,385	12,789	12,944
Profit before tax (in CZK millions)	276	213	291	209	110	(250)
Net profit (in CZK millions)	220	179	231	179	98	(186)

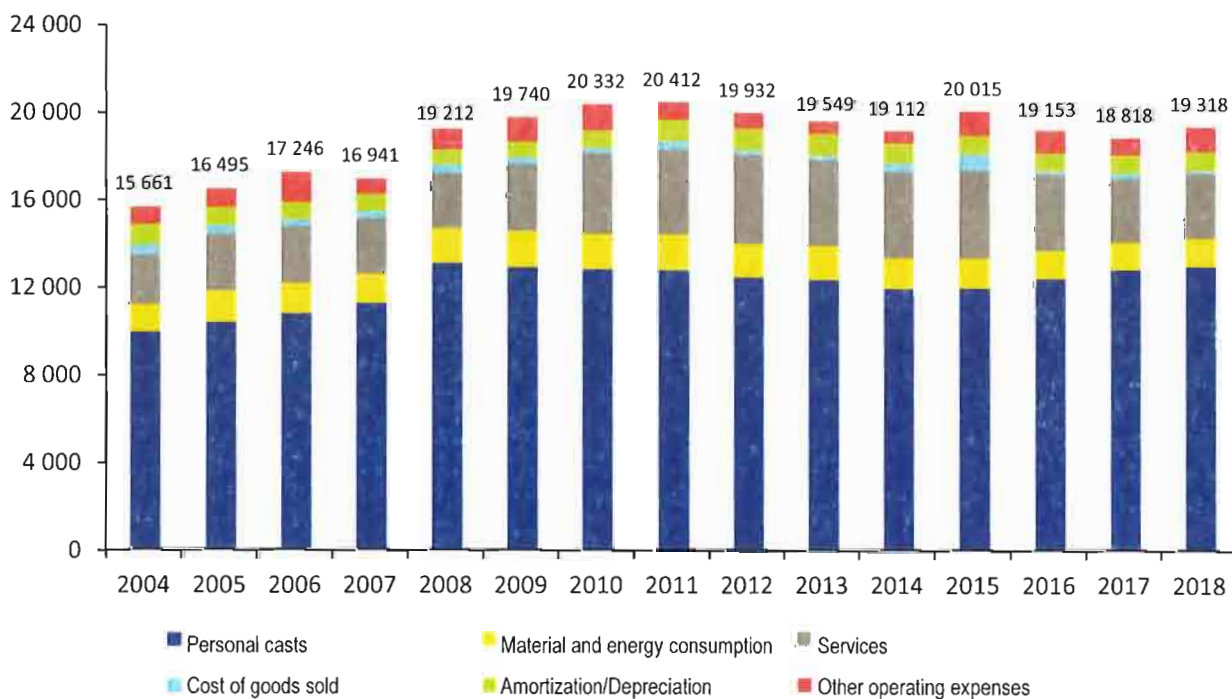
Profit before tax (in CZK millions)



Development of operational income (in CZK millions)



Development of operational costs (in CZK millions)



8 Foreign branch or division

Česká pošta has no foreign branch or division.

9 Information on R&D activities

The Enterprise undertakes no R&D activities.

10 Information on environmental protection

The Enterprise's strategy in respect of environmental protection is, aside from compliance with its statutory obligations in all areas of environmental protection, to reduce emissions of pollutants. For instance, ČP uses CNG-powered vehicles.

11 Information on labor relations

The high rate of employee mobility and low unemployment greatly impacted **employment rate developments in 2018**. This trend has prevailed since 2015, when the CR saw a general boom and an increase in job opportunities. In 2018, Česká pošta reported a 20% voluntary employee turnover rate, which is 2 percentage points higher than in 2017. Companies operating in similar fields are faced with the same problems as regards the trend in employment.

The average adjusted employee headcount of the Company for 2018 was 28,994, representing a decline of 618 employees year-on-year. This decrease stems primarily from streamlining of delivery districts in connection with a drop in the number of parcels, the implementation of the Pošta Partner project and a 20% increase in the number of vacant job positions.

The **average monthly salary in ČP for 2018 is CZK 24,982**. This represents a 4.6%, or CZK 1,087, increase year on year, resulting in particular from a 7% increase in tariff salaries agreed upon with the trade unions as of 1 April 2018. The reason for a slower pace of average wage growth is because, unlike the previous year, no bonuses were paid from the compensation for the provision of the state-ordered basic postal services.

Complementary to wages, Česká pošta provides **employee benefits** totaling about CZK 16,300 per employee per year (contributions to meal vouchers, supplementary pension savings plans and life insurance, contributions to leisure activities, physical therapy and wellness, children's camps, cultural and sports events and the like). In addition to the aforementioned benefits, Česká pošta employees have 1 extra week of vacation (5 weeks in total) and the work week is reduced by 2.5 hours.

12 Protecting ČP, its employees and customers

12.1 Risk management

In 2018, risk management continued to be an integral strategic part of corporate governance at Česká pošta. It provided for the informed acceptance and management of all business risks with the aim to mitigate any negative effects on the performance and implementation of Česká pošta's business plan.

12.2 Security

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

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

12.3 Compliance

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

12.4 Internal audit

In 2018, all activities were carried out in compliance with the binding provisions of the International Standards for the Professional Practice of Internal Auditing issued by the International Institute of Internal Audit and by rigorous adherence to the associated control documentation of Česká pošta, i.e. the Internal Audit Charter, the Code of Ethics and the Česká pošta Internal Audit Performance Guidelines.

12.5 Postal ombudsman office

In 2018, a total of 3,186 Česká pošta customers contacted the ombudsman. Of this number, the postal ombudsman handled 2,502 petitions which were assessed according to the nature of complaint and, in cooperation with relevant departments, investigated and processed. In 2018, the postal ombudsman directly discussed 449 petitions, of which 137 concerned assessments of the handling of customer claims and complaints within the standard procedure; in 100 cases, the ombudsman office upheld the previous decisions of the relevant ČP departments, and in the remaining 37 cases it sided with the customers. In 32 cases, the ombudsman advised the Director General to pay additional customer compensation outside of the standard procedure in the total amount of CZK 60,147.77. 313 petitions submitted at the customer's initiative were handled with no standard prior procedure. Overall, 684 submissions did not meet the conditions for being assessed by the postal ombudsman. 58 submissions complimented or thanked the Česká pošta employees.

12.6 Employee ombudsperson

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

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

Česká pošta, s.p., as an obliged entity pursuant to Act No. 106/1999 Coll. on freedom of access to information, as amended, herewith in accordance Section 18 of Act No. 106/1999 Coll. on freedom of access to information, issues this Annual Report on its activities regarding the provision of information pursuant to Act No. 106/1999 Coll. on freedom of access to information, in 2018:

1. Number of received requests for information: In 2018, a total of 91 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 2018, a total of 30 decisions on the denial of a request and 9 decisions on a partial denial of a request for the provision of information were issued pursuant to Section 15 of Act No. 106/1999 Coll. on freedom of access to information.

3. Number of appeals submitted against decisions: In 2018, a total of 17 appeals against decisions not to provide information was filed.

4. Copy of substantive parts of every court decision regarding 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. 9 A 11/2016-69 of 12 November 2018

Statement:

- I. Decision No. 753196/2015/ČP of the Director General of Česká pošta, s.p. of 15 November 2015, and Decision No. 701144/2015/ČP of Česká pošta, s.p. of 13 November 2015 are annulled and the case is returned to the defendant for further proceedings.
- II. The defendant is obligated to pay to the plaintiff the costs of the proceedings in the amount of CZK 16,771.00, to the applicant's representative, Mgr. Petra Bielinová, attorney-at-law, within 30 days of the judgment becoming final.

Substantial parts of the judgment

The Municipal Court in Prague considers that all essential characteristics stated by the Constitutional Court apply for the defendant as the decisive criteria for the conclusion that Česká pošta, s.p. is an obliged entity. Furthermore, the court has concluded that Česká pošta, s.p., manages public funds and the required information can be attached to the concepts of amount, purpose and conditions of the provided public funds.

The Municipal Court in Prague further concluded that the administrative proceedings in which the contested decisions were issued suffered from a material defect consisting in the omission of the person concerned as a party to the proceedings, which could result in an unlawful decision on the substance of the case. Therefore, the court annulled the contested decisions and returned the case to Česká pošta, s.p. for further proceedings.

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 16,771.

6. Provided exclusive licenses: In 2018, Česká pošta did not provide any exclusive licenses.

7. Complaints about the procedure for handling requests for information (Section 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 2018, four complaints were filed regarding the procedure used by Česká pošta to process requests for information pursuant to Section 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 or to the required extent. The information provider failed to meet the statutory deadline for administrative reasons. For this, the information provider apologized to the petitioners based on their submitted complaints.

14 Subsequent events

ČP shall quantify the net expenses incurred to provide the basic services for the 2018 billing period and request that the CTO reimburse the said expenses, which represent an unfair financial burden for ČP as the postal license holder. The request filing deadline is 31 August 2019.

On 21 January 2019, Ing. Petr Zatloukal MSc, MBA was elected member of the Supervisory Board.

On 18 February 2019, Petr Cinkl was appointed Director of Postal Operations and Logistics Division.

On 8 March 2019, Ing. Jaroslav Hloušek was entered in the Commercial Register as the Deputy Director General.

No other significant events impacting the annual financial statements prepared as at 31 December 2018 occurred between the balance sheet date and date of the preparation of the Annual Report.

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

This section contains Independent Auditor’s Reports, the standalone financial statements of the Enterprise and the consolidated financial statements of Česká pošta Group for the year ended 31 December 2018 and comprises:

- Independent Auditor’s Reports on the standalone financial statements
- Standalone financial statements prepared for the year ended 31 December 2018
 - Standalone financial statements prepared for the year ended 31 December 2018 (in CZK millions)
 - Balance sheet as at 31 December 2018
 - Income statement as at 31 December 2018
 - Cash flow statement for 2018
 - Summary of changes in equity for the year ended 31 December 2018
 - Notes to the standalone financial statements for the year ended 31 December 2018
- Independent Auditor’s Reports on the consolidated financial statements
- Consolidated financial statements prepared for the year ended 31 December 2018
 - Consolidated financial statements prepared for the year ended 31 December 2018 (in CZK millions)
 - Consolidated balance sheet as at 31 December 2018
 - Consolidated income statement as at 31 December 2018
 - Consolidated cash flow statement for 2018
 - Consolidated summary of changes in equity for the year ended 31 December 2018
 - Notes to the consolidated financial statements for the year ended 31 December 2018



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15.1. Independent Auditor's Report on Standalone Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

To the Founder of Česká pošta, s.p.:

Opinion

We have audited the accompanying financial statements of Česká pošta, s.p. (the Company) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the balance sheet as at 31 December 2018, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Company, see Note 15.2.2.1 to the financial statements.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, and of its financial performance and its cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

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

Other Information

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

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

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

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



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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

22 March 2019
Prague, Czech Republic

15.2 Standalone financial statements

15.2.1 Financial statements for the year ended 31 December 2018 (in CZK millions)

BALANCE SHEET					
(in CZK millions)					
Reference	ASSETS	31/ 12/ 2018			
		Gross	Allowances	Net	Net
A	B	1	2	3	4
	TOTAL ASSETS	33,626	(14,074)	19,552	20,229
	<i>of which entrusted resources</i>	<i>3,500</i>	<i>0</i>	<i>3,500</i>	<i>3,500</i>
B.	Fixed assets	23,337	(13,813)	9,524	9,748
B. I.	Intangible fixed assets	2,028	(1,672)	356	363
B. I. 2.	Royalties	1,918	(1,614)	304	302
B. I. 2.1.	Software	1,915	(1,612)	303	301
B. I. 2.2.	Other royalties	3	(2)	1	1
B. I. 4.	Other intangible fixed assets	60	(58)	2	1
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	50	0	50	60
B. I. 5.2.	Intangible fixed assets in the course of construction	50	0	50	60
B. II.	Tangible fixed assets	21,019	(12,141)	8,878	9,089
B. II. 1.	Land and constructions	12,642	(5,692)	6,950	7,033
B. II. 1.1.	Land	833	0	833	843
B. II. 1.2.	Construction	11,809	(5,692)	6,117	6,190
B. II. 2.	Equipment	8,177	(6,442)	1,735	1,686
B. II. 4.	Other tangible fixed assets	5	0	5	5
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	195	(7)	188	365
B. II. 5.2.	Tangible fixed assets in the course of construction	195	(7)	188	365
B. III.	Long-term investments	290	0	290	296
B. III. 1.	Investments - subsidiaries and controlling party	79	0	79	79
B. III. 2.	Loans and borrowings - subsidiaries and controlling party	0	0	0	0
B. III. 5.	Other long-term investments in securities	211	0	211	217
C.	Current assets	10,181	(261)	9,921	10,362
	<i>of which entrusted resources</i>	<i>3,500</i>	<i>0</i>	<i>3,500</i>	<i>3,500</i>
C. I.	Inventories	258	(78)	180	197
C. I. 1.	Raw materials	214	(74)	140	143
C. I. 3.	Finished goods and goods for resale	44	(4)	40	54
C. I. 3.2.	Goods for resale	44	(4)	40	54
C. II.	Receivables	4,436	(183)	4,253	4,913
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 1.	Long-term receivables	821	0	821	524
C. II. 1.1.	Trade receivables	1	0	1	3
C. II. 1.5.	Receivables - other	820	0	820	521
C. II. 1.5. 2.	Long-term advances paid	5	0	5	5
C. II. 1.5. 3.	Estimated receivables	800	0	800	500
C. II. 1.5. 4.	Other receivables	15	0	15	16
C. II. 2.	Short-term receivables	3,615	(183)	3,432	4,389
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 2.1.	Trade receivables	1,614	(100)	1,514	1,473
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 2.2.	Receivables - subsidiaries and controlling party	1	0	1	9
C. II. 2.4.	Receivables - other	2,000	(83)	1,917	2,907
C. II. 2.4. 1.	Receivables from shareholders	22	(4)	18	17
C. II. 2.4. 3.	Taxes - receivables from the state	22	0	22	55
C. II. 2.4. 4.	Short-term advances paid	283	0	283	228
C. II. 2.4. 5.	Estimated receivables	1,525	0	1,525	2,537
C. II. 2.4. 6.	Other receivables	148	(79)	69	70
C. III.	Short-term financial investments	0	0	0	0
C. III. 2.	Other short-term investments	0	0	0	0
C. IV.	Cash	5,488	0	5,488	5,251
	<i>of which entrusted resources</i>	<i>3,500</i>	<i>0</i>	<i>3,500</i>	<i>3,700</i>
C. IV. 1.	Cash in hand	4,038	0	4,038	4,368
C. IV. 2.	Cash at bank	1,450	0	1,450	884
D.	Prepayments and accrued income	107	0	107	119
D. 1.	Prepaid expenses	104	0	104	115
D. 3.	Accrued income	3	0	3	4

BALANCE SHEET – Liabilities and Equity (in CZK millions)

Reference	LIABILITIES AND EQUITY	31/ 12/ 2018	31/ 12/ 2017
A	b	5	6
	TOTAL LIABILITIES AND EQUITY	19,552	20,229
	<i>of which entrusted resources</i>	<i>8,509</i>	<i>8,682</i>
A.	Equity	9,751	10,145
A. I.	Share capital	3,588	3,588
A. I. 1.	Share capital	3,588	3,588
A. II.	Share premium and capital contributions	6,000	6,102
A. II. 2.	Capital contributions	6,000	6,102
A. II. 2.1.	Other capital contributions	5,996	6,093
A. II. 2.2.	Assets and liabilities revaluation	4	9
A. III.	Other reserves	375	377
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	16	18
A. V.	Profit / (loss) for the current period	(212)	78
B. + C.	Liabilities	9,325	9,597
	<i>of which entrusted resources</i>	<i>4,382</i>	<i>4,879</i>
B.	Provisions	682	571
B. 4.	Other provisions	682	571
C.	Liabilities	8,643	9,026
	<i>of which entrusted resources</i>	<i>4,315</i>	<i>4,879</i>
C. I.	Long-term liabilities	234	306
C. I. 4.	Trade payables	7	11
C. I. 8.	Deferred tax liability	227	295
C. II.	Current liabilities	8,409	8,720
	<i>of which entrusted resources</i>	<i>4,201</i>	<i>4,879</i>
C. II. 2.	Liabilities due to financial institutions	178	68
	<i>of which entrusted resources</i>	<i>178</i>	<i>68</i>
C. II. 3.	Short-term advances received	998	794
C. II. 4.	Trade payables	4,439	5,062
	<i>of which entrusted resources</i>	<i>3,327</i>	<i>3,808</i>
C. II. 6.	Liabilities - subsidiaries and controlling party	42	31
C. II. 8.	Liabilities – other	2,752	2,765
C. II. 8.3.	Liabilities to employees	554	539
C. II. 8.4.	Liabilities for social security and health insurance	347	337
C. II. 8.5.	Taxes and state subsidies payable	151	197
C. II. 8.6.	Estimated payables	1,389	1,393
C. II. 8.7.	Other liabilities	311	299
D.	Accruals and deferred income	476	487
D. 2.	Deferred income	476	487

INCOME STATEMENT				
(in CZK millions)				
Reference	TEXT	Accounting period		
		31/ 12/ 2018	31/ 12/ 2017	
		1	2	
I.	Sales of products and services	17,186	17,409	
II.	Sales of goods	201	340	
A.	Cost of sales	4,485	4,496	
A. 1.	Cost of goods sold	130	253	
A. 2.	Raw materials and consumables used	1,280	1,252	
A. 3.	Services	3,075	2,991	
C.	Own work capitalized	(21)	(20)	
D.	Staff costs	12,837	12,702	
D. 1.	Wages and salaries	9,368	9,283	
D. 2.	Social security, health insurance and other social costs	3,469	3,419	
D. 2.1.	Social security and health insurance costs	3,133	3,080	
D. 2.2.	Other social costs	336	339	
E.	Value adjustments in operating activities	862	818	
E. 1.	Value adjustments of fixed assets	841	825	
E. 1.1.	Depreciation, amortization and write off of fixed assets	862	829	
E. 1.2.	Provision for impairment of fixed assets	(21)	(4)	
E. 2.	Provision for impairment of inventories	5	4	
E. 3.	Provision for impairment of receivables	16	(11)	
III.	Operating income - other	1,678	1,118	
III. 1.	Sales of fixed assets	104	345	
III. 3.	Other operating income	1,574	773	
3.1.	Compensation for the net cost on providing basic postal services	1,300	500	
3.2.	Other operating income	274	273	
F.	Operating expenses - other	1,140	809	
F. 1.	Net book value of fixed assets sold	15	26	
F. 3.	Taxes and charges from operating activities	87	91	
F. 4.	Operating provisions and complex prepaid expenses	111	(130)	
F. 5.	Other operating expenses	927	822	
*	Operating result (+/-)	(238)	62	
IV.	Income from sales of long-term investments - shares	3	2	
IV. 2.	Income from sales of investments - other	3	2	
VI.	Interest and similar income	13	5	
VI. 2.	Other interest and similar income	13	5	
I.	Provision for impairment of financial assets	0	(7)	
J.	Interest expense and similar expenses	0	0	
VII.	Other financial income	74	132	
K.	Other financial expenses	127	117	
*	Financial result	(37)	29	
**	Net profit / (loss) before taxation	(275)	91	
L.	Tax on profit or loss	(63)	13	
L. 1.	Tax on profit or loss - current	4	5	
L. 2.	Tax on profit or loss - deferred	(67)	8	
**	Net profit / (loss) after taxation	(212)	78	
***	Net profit / (loss) for the financial period	(212)	78	
*	Net turnover for the financial period	19,155	19,006	

Cash Flow Statement for the year ended 31 December 2018

(in CZK millions)		Year ended 31 December 2018	Year ended 31 December 2017
	Cash and cash equivalents at the beginning of the year	5,252	6,377
	<i>of which entrusted resources</i>	3,736	3,814
	Net profit on ordinary activities before tax	(275)	91
A.1	Adjustments for non-cash movements:	866	355
A.1.1	Amortization, depreciation of fixed assets and abolished investment projects	862	829
A.1.2	Change in allowances and provisions with respect to operating activities	111	(148)
A.1.3	Profits from disposal of fixed assets	(89)	(319)
A.1.5	Net interest income	(13)	(5)
A.1.6	Adjustments for other non-cash movements	(5)	(2)
A*	Net cash flow from operating activities before tax and changes in working capital	591	446
A.2	Change in non-cash components of working capital	678	(914)
A.2	<i>of which entrusted resources</i>	(283)	(78)
A.2.1	Change in receivables and accrued income	611	(491)
A.2.1	<i>of which entrusted resources</i>	88	(7)
A.2.2	Change in current and long-term liabilities and deferred income	55	(545)
A.2.2	<i>of which entrusted resources</i>	(371)	(71)
A.2.3	Change in inventories	12	122
A**	Net cash flow from operating activities before tax	1,269	(468)
A. **	<i>of which entrusted resources</i>	(283)	(78)
A.4	Interest received	13	5
A.5	Income tax overpayment	29	(33)
A***	Net cash flow from operating activities	1,311	(496)
	<i>of which entrusted resources</i>	(283)	(78)
	Cash flows from investing activities		
B.1	Purchase of fixed assets	(721)	(889)
B.2	Proceeds from the sale of fixed assets	(186)	413
B.3.	Loans and borrowings to related parties	9	16
B***	Net cash flow from investing activities	(898)	(460)
	Cash flows from financing activities		
C.1	Change in long-term and current liabilities falling within financial activity	0	0
C.2	Change in equity	(177)	(169)
C.2.1	Direct payments from funds	(177)	(169)
C***	Net cash flow from financing activities	(177)	(169)
	Net decrease in cash and cash equivalents	236	(1,125)
	<i>of which entrusted resources</i>	(283)	(78)
	Cash and cash equivalents at the end of the year	5,488	5,252
	<i>of which entrusted resources</i>	3,453	3,736

Statement of Changes in Equity as at 31 December 2018

(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 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
Profit distribution	0	0	0	0	175	0	175
Use of funds	0	(97)	0	0	(177)	(78)	(352)
Gains or losses from revaluation to fair value	0	0	(5)	0	0	0	(5)
Profit for the period	0	0	0	0	0	(212)	(212)
Balance as at 31 December 2018	3,558	5,996	4	359	16	(212)	9,751

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 2018 and 31 December 2017, 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 2018, the Company had its registered office at Politických vězňů 909/4, Prague 1, Czech Republic. The Company’s identification number is 471 14 983 and it is registered in the Commercial Register of the Municipal Court in Prague, Section A, Insert No. 7565. Česká pošta is a business entity pursuant to Act No. 77/1997 Coll., on State-Owned Enterprise, as amended.

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

The main business activities of the Company are as follows:

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

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

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

Organizational structure as at 31 December 2018 was as follows:

Česká pošta, s.p. Director General											
Corporate Management Executive Director	International and Domestic Relations Executive Director	Security Executive Director	Postal Technology Executive Director	Human Resource Management Executive Director	Finance Executive Director	ICT and Government Executive Director	Transformation and Strategy Executive Director	Sales and Marketing Executive Director	Postal Operations and Logistics Executive Director		
Internal Audit and Risk Management Executive Director	Communication Executive Director	Crisis Management Executive Director	Operational Control and Compliance Executive Director	Remuneration Executive Director	Accounting and Taxes Executive Director	ICT Security Executive Director	Strategy Executive Director	Support and Planning Executive Director	Logistics Executive Director		
Compliance and Corporate Agenda Executive Director	International and Domestic Relations Executive Director	Postal Security Executive Director	Circulation of Cash and Valuables Executive Director	HR Development Executive Director	Controlling Executive Director	ICT Architecture Executive Director	Project Office Executive Director	Business Development Executive Director	Purchase Network Managing and Log. Support Executive Director		
Legal Executive Director		Inspection Executive Director		Front Office Executive Director	Costing Executive Director	ICT Development Executive Director		Corporate Trade Executive Director	Purchase Cash Services Executive Director		
Regulation Executive Director		Occupational Health and Safety and Fire Prevention Executive Director		HR Processes Back Office Executive Director	Treasury and Financing Executive Director	Operation Commercial Jobs Executive Director		Marketing Executive Director	Purchase Network South-Bohemia Purchase Function Network Director		
Purchase and Procurement Executive Director					Property Management Executive Director	ICT Operation Executive Director		Postal Network Management Executive Director	Purchase Network West-Bohemia Purchase Function Network Director		
						Customer Services Executive Director			Purchase Network North-Bohemia Purchase Function Network Director		
						Strategic Development and BI Executive Director			Purchase Network East-Bohemia Purchase Function Network Director		
									Purchase Network South-Moravia Purchase Function Network Director		
									Purchase Network North-Moravia Purchase Function Network Director		
									Purchase Network Nutschovsk Director		
									Purchase Network Prague Purchase Function Network Director		

Top management of the Company as at 31 December 2018 was as follows:

Top management of the Company	Position	Date of appointment	Entered in the Commercial Register *
Roman Knap	Director General	18/ 06/ 2018	yes
Roman Schanner	Deputy Director General, Chief Director of Finance Division	05/ 12/ 2018	yes
Martin Vránek	Chief Director of Trade and Marketing Division	01/ 07/ 2018	
Jiří Linert	Entrusted with the management of Postal Operations and Logistics Division	01/ 08/ 2018	
Jaroslav Hloušek	Chief Director of ICT and e-Government Division	01/ 10/ 2018	

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

In addition, the following changes in the top management of the Company were entered in the Commercial Register in 2018:

Top management of the Company	Position	Date of appointment	Date of expiration
Martin Elkáň	Director General	13/ 06/ 2014	28/ 02/ 2018
Vít Bukvic	Chief Director of Postal Operations and Logistics Division	01/ 01/ 2014	31/ 07/ 2018
Petr Šlechta	Deputy Director General, Director of Security	21/ 03/ 2016	04/ 12/ 2018*

* Deputy Director General

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 2018 were as follows:

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

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

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

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

Name	Position
Karel Kratina	Chairman
Soňa Lavičková	Member
Oldřich Černoch	Member

Members of the 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 Černoch	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 Černoch	Member

The Company's mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act on Postal Services (the "Postal Services Act"). The Company holds a license to provide postal services in accordance with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

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

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

15.2.2.2 Basis of Preparation

The financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for entrepreneurs applicable for 2018. The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic relevant for large companies and have been prepared under the historical cost convention except as disclosed below.

Explanation Added for Translation into English

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

15.2.2.2.1 Comparative Information

The information for both the current and previous year is comparable; the statements include changes in the names of the relevant balance sheet and income statement lines in accordance with the amendments effective from 1 January 2018. The items of Prepayments and accrued income and Accruals and deferred income have been reported in separate sections – D. Prepayments and accrued income/Accruals and deferred income.

15.2.2.2.2 Going Concern

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

The current limit of CZK 500 million set for the compensation of Net Costs of Universal Service does not allow Česká pošta to cover all the costs associated with the universal service provision. The founder is acquainted with the situation and will propose a significant increase in the compensation limit under the amendment to the Postal Services Act. According to the approved limit, CP then expects to revise the obligations arising from the postal license so that these obligations correspond to the set compensation limit.

Within the upcoming strategy, Česká pošta is about to take additional steps in other areas as well, such as delivery of parcels, digitizing logistics processes, financial services, real estate management and other internal processes in order to achieve a positive economic result in the future.

Česká pošta currently also deals with the lack of its own funds, which has been caused mainly by the postponed adoption of the amendment to the Postal Services Act and the related deferment of compensation payments for the provision of services arising from the postal license. Both the founder and relevant government institutions have been familiar with the circumstances and actively support Česká pošta in dealing with the situation. Česká pošta, the Ministry of the Interior of CR and the Ministry of Finance of CR currently deal with the first part of the loan in the amount of CZK 800 million, which should be provided to Česká pošta in April 2019 as a loan for the Net Costs of Universal Service compensation not yet paid for the years 2013 and 2014. Additional funds will be dealt with subsequently. Due to the indispensability of the

Česká pošta's services to the state as well as the active approach of the aforementioned ministries to the financial situation of Česká pošta, the Company's management believes that the going concern assumption is valid.

15.2.2.3 Accounting Policies

The valuation methods applied by the Company during preparation of the ordinary financial statements as at 31 December 2018 were as follows:

15.2.2.3.1 Intangible fixed assets

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

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

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

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

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

15.2.2.3.2 Tangible fixed assets

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

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

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

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

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

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

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

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

The estimated useful lives of tangible assets are as follows:

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

15.2.2.3.3 Long-term investments

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

i. Investments in subsidiaries

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

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

ii. Other securities and investments

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

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

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

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

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

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

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

15.2.2.3.4 Inventory

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

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

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

15.2.2.3.5 Receivables

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

15.2.2.3.6 Short-term financial investments

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

15.2.2.3.7 Cash and cash equivalents

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

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

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

15.2.2.3.8 Entrusted resources

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

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

15.2.2.3.9 Foreign currency translation

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

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

15.2.2.3.10 Equity

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

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

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

15.2.2.3.11 Provisions

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

15.2.2.3.12 Employee benefits

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

15.2.2.3.13 Loans

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

15.2.2.3.14 Expenses and revenue recognition

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

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

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

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

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

15.2.2.3.15 Leases

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

15.2.2.3.16 Tax on profit or loss

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

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

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

15.2.2.3.17 Deferred tax expense

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

15.2.2.3.18 Related parties

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

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

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

15.2.2.3.19 Subsequent events

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

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

15.2.2.4 Fixed assets

15.2.2.4.1 Intangible fixed assets

Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,853	82	(20)	1,915
Royalties	3	0	0	3
Other intangible fixed assets	68	2	(10)	60
Intangible fixed assets in the course of construction	60	74	(84)	50
Total as at 31 December 2018	1,984	158	(114)	2,028
Total as at 31 December 2017	1,891	239	(146)	1,984

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

Accumulated amortization and net book value

(in CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,534)	(80)	19	(1,595)	(17)	303
Royalties	(2)	(1)	1	(2)	0	1
Other intangible fixed assets	(67)	(1)	10	(58)	0	2
Intangible fixed assets in the course of construction	0	0	0	0	0	50
Total as at 31 December 2018	(1,603)	(82)	30	(1,655)	(17)	356
Total as at 31 December 2017	(1,525)	(81)	3	(1,603)	(18)	363

15.2.2.4.2 Tangible fixed assets

Cost

(in CZK millions)	Opening balance	Additions *)	Disposals **)	Closing balance
Land	843	1	(11)	833
Construction	11,661	199	(51)	11,809
Plant, machinery and equipment	5,151	153	(383)	4,921
Vehicles	1,546	149	(75)	1,620
Furniture and fixtures	701	20	(17)	704
Selected low value tangible assets of less than CZK 40 thousand	391	228	0	619
Other movable assets	367	1	(55)	313
Art works and collections	5	0	0	5
Tangible fixed assets in the course of construction	372	574	(751)	195
Total as at 31 December 2018	21,037	1,325	(1,343)	21,019
Total as at 31 December 2017	20,862	1,306	(1,131)	21,037

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

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

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	833
Construction	(5,453)	(280)	41	(5,692)	0	6,117
Plant, machinery and equipment	(4,187)	(285)	381	(4,091)	(11)	819
Vehicles	(1,241)	(89)	75	(1,255)	0	365
Furniture and fixtures	(570)	(24)	16	(578)	0	126
Selected low value tangible assets of less than CZK 40 thousand	(92)	(102)	0	(194)	0	425
Other movable assets	(367)	0	54	(313)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in the course of construction	0	0	0	0	(7)	188
Total as at 31 December 2018	(11,910)	(780)	567	(12,123)	(18)	8,878
Total as at 31 December 2017	(11,590)	(746)	426	(11,910)	(38)	9,089

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 2018, the Company did not receive any material fixed assets free of charge.

As at 31 December 2018 and 31 December 2017, 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 374 (2017: 367) 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 2018 and 31 December 2017, the Company received an investment subsidy of CZK 11 million and CZK 0 million, respectively.

15.2.2.4.3 Long-term investments

As at 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Share (in %)	51.03%	51.03%
	(in CZK millions)	(in CZK millions)
Total assets	83	85
Equity	79	82
Profit/(loss) for the period	(3)	(3)
Acquisition cost of shares	18	18
Nominal value of shares	17	17
Intrinsic value of shares	40	42

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 2018 nor 31 December 2017.

In addition, as at 31 December 2018 and 31 December 2017 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 2018	31 December 2017
Share (in %)	100.00%	100.00%
	(in CZK millions)	(in CZK millions)
Total assets	62	49
Equity	42	13
Profit/(loss) for the period	28	29
Acquisition cost of interest	7	7
Intrinsic value of interest	42	13

The acquisition cost of interest as at 31 December 2018 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 2018, Česká pošta Security, s.r.o., paid up the loan.

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 2018 and 31 December 2017, respectively.

Other long-term securities and investments as at 31 December 2018 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 211 million as at 31 December 2018 (as at 31 December 2017: CZK 217 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 2018 and 31 December 2017, receivables due after more than 5 years amounted to CZK 0 million and CZK 1 million, respectively, and outstanding overdue receivables amounted to CZK 330 million and CZK 414 million, respectively. Outstanding overdue receivables are not secured. The Company wrote off irrecoverable receivables of CZK 27 million and CZK 16 million in 2018 and 2017, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Advances for income tax of CZK 21 million paid by the Company as at 31 December 2018 (as at 31 December 2017: CZK 55 million) are netted off with the provision for income tax of CZK 1 million as at 31 December 2018 (as at 31 December 2017: CZK 1 million).

Receivables from related parties are described in subsection 15.2.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2018 and 31 December 2017 amounted to CZK 906 million and CZK 710 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 2018, the compensation of net costs of providing basic

postal services is included in estimated receivables as follows: a portion of CZK 500 million was recognized in short-term receivables and CZK 800 million was recognized in long-term receivables; as at 31 December 2017, CZK 1,300 million were recognized in short-term receivables and CZK 500 million were recognized in long-term receivables (see subsection 15.2.2.7 Net Costs of Universal Service).

15.2.2.7 Net Costs of Universal Service

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

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

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

Effective from 1 January 2016 in accordance with Act No. 319/2015, Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (Postal Services Act), as amended, and Act No. 77/1997 Coll., on State-Owned Enterprise, as amended, the change in the method of financing net costs for the periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, no more than: for the year 2015 CZK 700 million; for the year 2016 CZK 600 million; for 2017, 2018 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 have been 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 regards 2013 and 2014, 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 passed first reading by the Parliament of the Czech Republic on 25 January 2019 and the legislative process is expected to be completed at the beginning of the second half of 2019. Due to the high level of legislative uncertainty, the claim for compensation of CZK 800 million was not accounted for in previous periods.

Based on the ongoing legislative process, in 2018 the Company's management decided to recognize an estimated receivable of CZK 800 million for the compensation for 2013-2014. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. In the balance sheet, the compensation for the net costs of the provision of basic postal services for the years 2013 and 2014 was presented within long-term receivables in the amount of CZK 300 million under the line item C.II.1.5.3., and within short-term receivables in the amount of CZK 500 million under the line item C.II.2.4.5.

A notification process by the European Commission for the years 2018 through 2022 is currently underway. With respect to the fact that the net costs of the provision of basic postal services currently notified exceed the amount of the previous 2013-2017 notification period, it is not expected that the notified net costs of 2018-2022, representing an unfair financial burden, would fall below the upper limit allowable by applicable law. As for 2018, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by applicable law, i.e. CZK 500 million. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the 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: (in CZK millions)	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018
Intangible fixed assets	20	0	(2)	18	0	(1)	17
Tangible fixed assets	40	0	(2)	38	0	(20)	18
Long-term financial investments	7	0	(7)	0	0	0	0
Inventory	69	14	(10)	73	7	(2)	78
Receivables – other	146	24	(35)	135	53	(32)	156
Total tax non-deductible allowances	282	38	(56)	264	60	(55)	269
Receivables – legal	32	10	(10)	32	15	(20)	27
Total tax deductible allowances	32	10	(10)	32	15	(20)	27
Total	314	48	(66)	296	75	(75)	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 2018 and 31 December 2017, the Company did not have short-term securities nor shares.

15.2.2.10 Equity

As at 31 December 2018 and 31 December 2017, share capital amounted to CZK 3,588 million without change.

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

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

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

Other funds from profit include the cultural and social fund.

Profit for the year ended 31 December 2017 was distributed on 24 April 2018 in accordance with the founder's approval. The amount of CZK 175 million was transferred to the cultural and social fund; CZK 97 million was used from other capital funds.

The proposed compensation of the loss incurred for the year ended 31 December 2018 will be submitted to the founder of the Company along with the request for approval of the annual report in accordance with Section 15 paragraph 1 point i) of the Act on State-Owned Enterprise, as amended.

15.2.2.11 Provisions

(in CZK millions)	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018
Social and health insurance	138	78	(122)	94	72	(74)	92
Accrued vacation	46	11	0	57	15	0	72
Provision for severance pay incl. competition clauses	41	68	(41)	68	202	(68)	202
Non-claimable component of salaries	265	125	(265)	125	91	(125)	91
Other	211	51	(35)	227	52	(54)	225
Total tax non-deductible provisions	701	333	(463)	571	432	(321)	682
Total	701	333	(463)	571	432	(321)	682

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

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

Other provisions were primarily created to cover risks known as at 31 December 2018 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 2018 and 31 December 2017, 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 7 million and CZK 11 million as at 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017, the Company did not recognize liabilities that are due after more than 5 years.

15.2.2.13 Current liabilities

As at 31 December 2018 and 31 December 2017, the Company had overdue current payables totaling CZK 26 million and CZK 17 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 2018 and 31 December 2017.

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 787 million and CZK 758 million as at 31 December 2018 and 31 December 2017, 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 347 million and CZK 337 million as at 31 December 2018 and 31 December 2017, respectively. These payables comprise unpaid wages for December 2018 and 2017, which were paid at the beginning of 2019 and 2018, respectively.

The Company did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2018 and 31 December 2017.

15.2.2.14 Bank loans and borrowings

15.2.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Total limit (in CZK millions)	31 December 2018 (in CZK millions)	31 December 2017 (in CZK millions)
ČSOB, a.s.	Global credit line	Own resources			
	Interest rate: O/N PRIBOR + 0.15% p.a.		100	0	0
ČSOB, a.s.*	Multi-purpose credit line	Own resources			
	Interest rate: O/N PRIBOR + 0.12% p.a.		1,500	0	0
ČSOB, a.s.	Global credit line	Entrusted resources			
	Interest rate: PRIBOR (2W) - 0.10% p.a.		1,600	148	33

*) 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 2018 and 31 December 2017 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 2018 and 31 December 2017, 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 multi-purpose credit line's limit was increased to CZK 1,500 million in 2/2018.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., was provided to ensure sufficient financial liquidity of the Company. As at 31 December 2018 and 31 December 2017, the Company used CZK 148 million and CZK 33 million of the overdraft.

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

15.2.2.14.2 Denominated in EUR

Bank	Terms/ Conditions	Total limit (in EUR millions)	31 December 2018		31 December 2017	
			(in EUR millions)	(in CZK millions)	(in EUR millions)	(in CZK millions)
ČSOB, a.s.	Global credit line					
	EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.2	30	1.4	35

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)	2018	2017
Current tax expense	1	1
Deferred tax	(67)	8
Adjustment of prior year tax expense based on final CIT return	3	4
Total tax expense	(63)	13

The Company quantified tax due as follows:

(in CZK millions)	2018	2017
Profit before tax	(275)	91
Non-taxable revenues	(31)	(19)
Difference between book and tax depreciation	231	108
Tax non-deductible expenses and change in allowances and provisions	149	(111)
Of which:		
- change in allowances	5	(18)
- change in provisions	111	(130)
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	33	37
Gifts	0	0
Deduction to support training	1	1
Taxable income	73	68
Income tax rate	19%	19%
Calculated income tax	14	13
Tax relief (persons with disability or partial disability)	(13)	(12)
Current tax expense	1	1
Income tax expense from ordinary activities	1	1

The Company calculated the deferred tax asset / (liability) using the 19% tax rate (for both periods, i.e. as at 31 December 2018 and 31 December 2017) and quantified as follows:

(in CZK millions)	31 December 2018			31 December 2017		
	Base	Deferred tax asset	Deferred tax liability	Base	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	(2,144)	0	(407)	(2,386)	0	(453)
Allowances	269	51	0	264	50	0
Other provisions	682	129	0	571	108	0
Total	(1,193)	180	(407)	(1,551)	158	(453)
Net deferred tax liability			(227)			(295)

The effect of deferred tax arising from the revaluation of available-for-sale securities of CZK 1 million as at 31 December 2018 (as at 31 December 2017: CZK 1 million) is included in equity.

15.2.2.17 Leases

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

The assets leased by the Company in the form of operational leases amounted to CZK 344 million and CZK 310 million as at 31 December 2018 and 31 December 2017, respectively. The buildings leased by the Company amounted to CZK 237 million and CZK 229 million as at 31 December 2018 and 31 December 2017, respectively.

As at 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017. 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 2018	31 December 2017
Valuables incl. stamps and lottery tickets	13,855	14,409
Road toll vignettes	2,615	2,955
Leased assets – operational lease	1,709	1,672
Securities	40	40
Low-value tangible assets	2,142	2,252
Low-value intangible assets	53	63

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 2018	31 December 2017
Due within 1 year	439	394
Due between 1 to 5 years	942	836
Due after 5 years	58	61
Total	1,439	1,291

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 2018 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/ 07/ 2020	10
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2019	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2018	16/ 03/ 2019	100
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2019	16/ 03/ 2020	380
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	20/ 07/ 2020	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o.	Rental agreement	10/ 01/ 2020	2
Payment	Československá obchodní banka, a.s.	Prologis CR LX s.r.o.	Rental agreement	10/ 01/ 2020	2
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1

Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1
Payment	Československá obchodní banka, a.s.	CENTRUM CHODOV, a.s.	Rental agreement	23/ 04/ 2019	1
Payment	Československá obchodní banka, a.s.	Charles Square Center s.r.o.	Rental agreement	14/ 05/ 2020	1
					513

Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (in CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action - Prague 7 - "Stamp design" collection storage room	30/ 06/ 2021	1
Payment	Komerční banka, a.s.	STAVBROS, s.r.o.	Action - DEPOT Česká Třebová - construction works	28/ 04/ 2019	1
Payment	Československá obchodní banka, a.s.	OHL ŽS a.s.	Action - insulation České Budějovice 4	31/ 01/ 2020	1
Payment	Československá obchodní banka, a.s.	šmíragroup a.s.	Action - reconstruction of post office Ostrava 2, SPU Ostrava 02 and Depot Ostrava 71	10/ 07/ 2023	2
Payment	Raiffeisen Bank, a.s.	COM-TIP s. r.o.	Action - exchange of boiler room technology, Prague 5	07/ 04/ 2019	1
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	ZIPB 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
					23

15.2.2.19 Contingent Liabilities

The management of the Company is not aware of any significant contingent liabilities as at 31 December 2018.

15.2.2.20 Revenues and Other Operating Income

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

	2018			2017		
	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)
Revenue from postal operations	11,883	2,042	13,925	12,116	1,837	13,953
Revenue from provision of intermediary services	2,422	0	2,422	2,577	0	2,577
Revenue from electronic services	377	0	377	362	0	362
Sales of goods	201	0	201	340	0	340
Revenues from data mailboxes	462	0	462	517	0	517
Total revenues	15,345	2,042	17,387	15,912	1,837	17,749
Other operating income	1,678	0	1,678	1,118	0	1,118
Total revenues and other operating income	17,023	2,042	19,065	17,030	1,837	18,867

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

In 2018 the Company received subsidies for operating purposes of CZK 3 million. In 2017 the Company did not receive subsidies for operating purposes.

15.2.2.21 Employees

Breakdown of staff costs is as follows:

	2018		2017	
	Total personnel	Of which: Company's management and Supervisory Board	Total personnel	Of which: Company's management and Supervisory Board
Average adjusted number of employees (in CZK millions)	28,994	22	29,612	26
Wages and salaries	9,368	103	9,283	73
Social security and health insurance	3,133	16	3,080	13
Social costs	336	0	339	0
Total staff costs	12,837	119	12,702	86

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 2018 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 2018 and 2017 along with the related receivables from and liabilities to related parties are as follows:

As at 31 December 2018	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.	4	189	1	37
Other related parties				
Czech Television and Radio	230	1	1	5
Government ministries	555	0	39	14
Czech Social Security Administration	416	2,258	0	1,838
Municipal and local authorities	402	122	19	211
Water and sewage systems Hodonín	2	0	0	2
National Agency for Communications and Information Technology	5	4	1	0
Total	1,614	2,596	61	2,113

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

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

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

15.2.2.23 Fees Paid and Payable to the Audit Company

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

15.2.2.24 Entrusted resources

The entrusted resources analysis as at 31 December 2018 and 31 December 2017 is as follows:

(in CZK millions)	31 December 2018	31 December 2017
ASSETS		
Short-term receivables	52	140
Cash in hand and at bank	3,453	3,736
Total assets	3,505	3,876

(in CZK millions)	31 December 2018	31 December 2017
LIABILITIES AND EQUITY		
Current liabilities	3,327	3,808
Short-term bank loans	178	68
Total liabilities and equity	3,505	3,876

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 2018, the Company received advance payments from Česká správa sociálního zabezpečení in the amount of CZK 1,400 million for 2019 pension payments. As at 31 December 2017, the Company received advance payments totaling CZK 1,600 million for pension payments to be paid in January 2018.

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

15.2.2.25 Cash-flow Statement

As at 31 December 2018 and 31 December 2017, 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 2018	31 December 2017
Cash on hand	4,038	4,368
Cash at bank	1,450	884
Cash and cash equivalents	5,488	5,252

15.2.2.26 Subsequent events

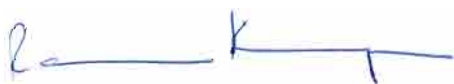
On 21 January 2019, Petr Zatloukal was appointed a Supervisory Board member.

On 18 February 2019, Petr Cinkl was appointed a Chief Director of Postal Operations and Logistics Division.

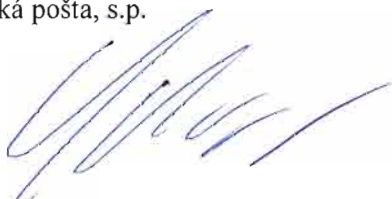
On 8 March 2019, Ing. Jaroslav Hloušek was entered in the Commercial Register as the Deputy Director General.

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 2018.

22 March 2019



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



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



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

15.3. Independent Auditor's Report on Consolidated Financial Statements

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

INDEPENDENT AUDITOR'S REPORT

To the Founder of Česká pošta, s.p.:

Opinion

We have audited the accompanying consolidated financial statements of Česká pošta, s.p. (the Company) and its subsidiaries (the Group) prepared in accordance with accounting principles generally accepted in the Czech Republic, which comprise the consolidated balance sheet as at 31 December 2018, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information. For details of the Group, see Note 15.4.2.1 to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the Czech Republic.

Basis for Opinion

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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



Roman Hauptfleisch, Auditor
License No. 2009

22 March 2019
Prague, Czech Republic

15.4 Consolidated financial statements

15.4.1 Consolidated financial statements for the year ended 31 December 2018 (in CZK millions)

CONSOLIDATED BALANCE SHEET					
(in CZK millions)					
Reference	ASSETS	31/ 12/ 2018			31/ 12/ 2017
a	b	Gross 1	Allowances 2	Net 3	Net 4
	TOTAL ASSETS	33,764	(14,192)	19,572	20,222
	<i>of which entrusted resources</i>	<i>3,900</i>	<i>0</i>	<i>3,900</i>	<i>3,676</i>
B.	Fixed assets	23,410	(13,931)	9,479	9,705
B. I.	Intangible fixed assets	2,031	(1,673)	358	364
B. I. 2.	Royalties	1,920	(1,615)	305	302
B. I. 2.1.	Software	1,917	(1,613)	304	301
B. I. 2.2.	Other royalties	3	(2)	1	1
B. I. 4.	Other intangible fixed assets	60	(58)	2	1
B. I. 5.	Advances paid and intangible fixed assets in the course of construction	51	0	51	61
B. I. 5.2.	Intangible fixed assets in the course of construction	51	0	51	61
B. II.	Tangible Fixed Assets	21,169	(12,257)	8,912	9,125
B. II. 1.	Land and constructions	12,680	(5,706)	6,974	7,059
B. II. 1.1.	Land	840	0	840	851
B. II. 1.2.	Constructions	11,840	(5,706)	6,134	6,208
B. II. 2.	Equipment	8,289	(6,544)	1,745	1,695
B. II. 4.	Other tangible fixed assets	5	0	5	5
B. II. 5.	Advances paid and tangible fixed assets in the course of construction	195	(7)	188	366
B. II. 5.2.	Tangible fixed assets in progress	195	(7)	188	366
B. III.	Long-term investments	211	0	211	217
B. III. 5.	Other long-term investments in securities	211	0	211	217
B. IV.	Positive consolidation difference	7	(1)	6	7
B. V.	Negative consolidation difference	(8)	0	(8)	(8)
C.	Current assets	10,246	(261)	9,985	10,397
	<i>of which entrusted resources</i>	<i>2,310</i>	<i>0</i>	<i>2,310</i>	<i>2,576</i>
C. I.	Inventories	269	(78)	191	207
C. I. 1.	Raw materials	223	(74)	149	152
C. I. 2.	Work in progress and semi-finished products	2	0	2	2
C. I. 3.	Finished goods and goods for resale	44	(4)	40	53
C. I. 3.2.	Goods for resale	44	(4)	40	53
C. II.	Receivables	4,438	(183)	4,255	4,906
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 1.	Long-term receivables	822	0	822	524
C. II. 1.1.	Trade receivables	1	0	1	3
C. II. 1.5.	Receivables - other	821	0	821	521
C. II. 1.5. 2.	Long-term advances paid	5	0	5	5
C. II. 1.5. 3.	Estimated receivables	800	0	800	500
C. II. 1.5. 4.	Other receivables	16	0	16	16
C. II. 2.	Short-term receivables	3,616	(183)	3,433	4,382
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 2.1	Trade receivables	1,616	(100)	1,516	1,475
	<i>of which entrusted resources</i>	<i>52</i>	<i>0</i>	<i>52</i>	<i>140</i>
C. II. 2.4.	Receivables - other	2,000	(83)	1,917	2,907
C. II. 2.4. 1.	Receivables from shareholders	22	(4)	18	17
C. II. 2.4. 3.	Taxes - receivables from the state	21	0	21	55
C. II. 2.4. 4.	Short-term advances paid	283	0	283	228
C. II. 2.4. 5.	Estimated receivables	1,525	0	1,525	2,537
C. II. 2.4. 6.	Other receivables	149	(79)	70	70
C. III.	Short-term financial investments	0	0	0	0
C. III. 2.	Other short-term investments	0	0	0	0
D.	Cash	5,539	0	5,539	5,284
	<i>of which entrusted resources</i>	<i>3,453</i>	<i>0</i>	<i>3,453</i>	<i>3,730</i>
C. IV. 1.	Cash in hand	4,038	0	4,038	4,368
C. IV. 2.	Cash at bank	1,501	0	1,501	916
D.	Prepayments and accrued income	108	0	108	120
D. 1.	Prepaid expenses	104	0	104	116
D. 2.	Accrued income	4	0	4	4

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

a	b	5	6
	TOTAL LIABILITIES AND EQUITY	19,572	20,222
	<i>of which entrusted resources</i>	<i>3,508</i>	<i>3,872</i>
A.	Equity	9,754	10,119
A. I.	Share capital	3,588	3,588
A. I. 1.	Share capital	3,588	3,588
A. II.	Share premium and capital contributions	6,017	6,118
A. II. 2.	Capital contributions	6,017	6,118
A. II. 2.1.	Other capital contributions	6,013	6,109
A. II. 2.2.	Assets and liabilities revaluation	4	9
A. III.	Other reserves	375	377
A. III. 1.	Other reserve funds	359	359
A. III. 2.	Statutory and other reserves	16	18
A. IV.	Retained earnings / Accumulated losses	(41)	(62)
A. IV. 1.	Retained earnings or accumulated loss (+/-)	(41)	(62)
A. V.	Consolidated profit / (loss) for the current period less minority interests	(185)	98
B. + C.	Liabilities	9,304	9,576
	<i>of which entrusted resources</i>	<i>3,508</i>	<i>3,872</i>
B.	Provisions	683	573
B. 4.	Other provisions	683	573
C.	Liabilities	8,621	9,003
	<i>of which entrusted resources</i>	<i>3,508</i>	<i>3,872</i>
C. I.	Long-term liabilities	234	306
C. I. 4.	Trade payables	7	10
C. I. 8.	Deferred tax liability	227	296
C. II.	Current Liabilities	8,387	8,697
	<i>of which entrusted resources</i>	<i>3,508</i>	<i>3,872</i>
C. II. 2.	Liabilities due to financial institutions	178	68
	<i>of which entrusted resources</i>	<i>178</i>	<i>68</i>
C. II. 3.	Short-term advances received	998	793
C. II. 4.	Trade payables	4,450	5,078
	<i>of which entrusted resources</i>	<i>3,327</i>	<i>3,808</i>
C. II. 8.	Liabilities – other	2,761	2,758
	<i>of which entrusted resources</i>	<i>0</i>	<i>0</i>
C. II. 8.3.	Liabilities to employees	559	544
C. II. 8.4.	Liabilities for social security and health insurance	350	340
C. II. 8.5.	Taxes and state subsidies payable	153	199
C. II. 8.6.	Estimated payables	1,387	1,376
C. II. 8.7.	Other liabilities	312	299
D.	Accruals and deferred income	475	486
D. 2.	Deferred income	475	486
E.	Minority Equity	39	41
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	8	10
E. I. 4.	Minority profit for the current period	(1)	(1)

CONSOLIDATED INCOME STATEMENT			
(in CZK millions)			
Reference A	TEXT B	Accounting period	
		31/ 12/ 2018 1	31/ 12/ 2017 2
I.	Sales of products and services	17,229	17,448
II.	Sales of goods	201	340
A.	Cost of sales	4,390	4,415
A. 1.	Cost of goods sold	129	253
A. 2.	Raw materials and consumables used	1,297	1,264
A. 3.	Services	2,964	2,898
B.	Changes in inventories of finished goods and work in progress	0	0
C.	Own work capitalized	(21)	(20)
D.	Staff costs	12,944	12,789
D. 1.	Wages and salaries	9,447	9,347
D. 2.	Social security, health insurance and other social costs	3,497	3,442
D. 2.1.	Social security and health insurance costs	3,160	3,101
D. 2.2.	Other social costs	337	341
E.	Value adjustments in operating activities	865	821
E. 1.	Value adjustments of fixed assets	844	828
E. 1.1.	Depreciation, amortization and write off of fixed assets	865	832
E. 1.2.	Provision for impairment of fixed assets	(21)	(4)
E. 2.	Provision for impairment of inventories	5	4
E. 3.	Provision for impairment of receivables	16	(11)
III.	Operating income - other	1,676	1,117
III. 1.	Sales of fixed assets	104	345
3.	Other operating income	1,572	772
3.1.	Compensation for the net cost on providing basic postal services	1,300	500
3.2.	Other operating income	272	272
F.	Operating expenses - other	1,140	813
F. 1.	Net book value of fixed assets sold	15	26
F. 3.	Taxes and charges from operating activities	87	91
F. 4.	Operating provisions and complex prepaid expenses	110	(130)
F. 5.	Other operating expenses	928	826
	Amortization of goodwill	1	0
	Clearing of negative consolidation difference	0	(1)
*	Consolidated operating result	(213)	88
IV.	Income from sales of long-term investments - shares	3	2
IV. 2.	Income from sales of investments - other	3	2
VI.	Interest and similar income	14	5
VI. 2.	Other interest and similar income	14	5
VII.	Other financial income	74	132
K.	Other financial expenses	128	117
*	Consolidated financial result	(37)	22
**	Consolidated net profit / (loss) before taxation	(250)	110
L.	Income tax	(64)	12
L. 1.	Tax on profit or loss - current	4	5
L. 2.	Tax on profit or loss - deferred	(68)	7
**	Net profit / (loss) after taxation	(186)	98
	Of which: profit / (loss) less minority interests		
	Profit / loss less minority interests	(185)	99
	Minority interest	(1)	(1)
***	Net profit / (loss) for the financial period	(186)	98
*	Net turnover for the financial period	19,197	19,044

Consolidated Cash-flow Statement for the year ended 31 December 2018

(in CZK millions)	2018	2017
Cash and cash equivalents at the beginning of the year	5,284	6,428
<i>of which entrusted resources</i>	3,736	3,814
Net profit on ordinary activities before tax	(250)	110
A.1 Adjustments for non-cash movements:	871	367
A.1.1 Amortization, depreciation of fixed assets and abolished investment projects	866	831
A.1.2 Change in allowances and provisions with respect to operating activities	110	(141)
A.1.3 Profits from disposal of fixed assets	(89)	(319)
A.1.4 Net interest expense (+) and income (-)	(14)	(5)
A.1.5 Adjustments for other non-cash movements	(2)	1
A* Net cash flow from operating activities before tax and changes in working capital	621	477
A.2 Change in non-cash components of working capital	678	(948)
A.2 <i>of which entrusted resources</i>	(283)	(78)
A.2.1 Change in receivables and accrued income	613	(517)
A.2.1 <i>of which entrusted resources</i>	88	(7)
A.2.2 Change in current liabilities and deferred income	53	(553)
A.2.2 <i>of which entrusted resources</i>	(371)	(71)
A.2.3 Change in inventories	12	122
A** Net cash flow from operating activities before tax	1,299	(471)
A. ** of which entrusted resources	(283)	(78)
A.4 Interest received	14	5
A.5 Income tax overpayment (+) / income tax on ordinary activities paid and additional taxes for previous periods (-)	29	(33)
A*** Net cash flow from operating activities	1,342	(499)
<i>of which entrusted resources</i>	(283)	(78)
Cash flows from investing activities		
B.1 Purchase of fixed assets	(724)	(889)
B.2 Proceeds from the sale of fixed assets	(186)	413
B*** Net cash flow from investing activities	(910)	(476)
Cash flows from financing activities		
C.2 Change in equity	(177)	(169)
C.2.1 Direct payments from funds	(177)	(169)
C*** Net cash flow from financing activities	(177)	(169)
Net decrease (-) / increase (+) in cash and cash equivalents	255	(1,144)
<i>of which entrusted resources</i>	(283)	(78)
Cash and cash equivalents at the end of the year	5,539	5,284
<i>of which entrusted resources</i>	3,453	3,736

Statement of Changes in Equity for the year ended 31 December 2018

(in CZK millions)	Share capital	Other capital funds	Gain or loss on revaluation of assets and liabilities	Legal reserve fund	Other funds from profit	Accumulated loss	Profit / (loss) for the period less minority interests	Total
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
Profit distribution	0	0	0	0	175	0	(98)	77
Use of funds	0	(96)	0	0	(177)	21	0	(252)
Gains or losses from revaluation to fair value	0	0	(5)	0	0	0	0	(5)
Profit for the period	0	0	0	0	0	0	(185)	(185)
Balance as at 31 December 2018	3,588	6,013	4	359	16	(41)	(185)	9,754

15.4.2 Notes to the Consolidated Financial Statements

15.4.2.1 General Information

15.4.2.1.1 Description of the Group

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

Subsidiaries as at 31 December 2018 and 31 December 2017 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 2018 and 31 December 2017, 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 2018, 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,
- manufacture of other printing products,
- publishing, printing production, bookbinding and copying,
- security of property and persons,
- road motor transport,
- assembly, repairs, revision and testing of electrical equipment, pressure equipment and gas containers,
- provision of technical services for the protection of property and persons,
- production, installation and repairs of electrical machinery and tools, electronic and telecommunication equipment,
- technical and organizational activities in the field of fire protection.

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

The Company's mission is to perform the function of public postal operator involving a duty to provide and operate postal and basic postal services in accordance with Act on Postal Services (the "Postal Services Act"). The Company holds a license to provide postal services in accordance with paragraph 19; the Company also holds the license in accordance with paragraph 21 of the Postal Services Act. The postal license was granted to the Company until 31 December 2022.

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

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

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

15.4.2.2 Accounting Policies

The accounting policies and valuation methods applied by the Group during preparation of the consolidated financial statements as at 31 December 2018 were as follows:

15.4.2.2.1 Basis of Preparation

The Group's consolidated financial statements have been prepared in accordance with the Accounting Act No. 563/1991 Coll. and related Decree No. 500/2002 Coll. and pursuant to the Czech Accounting Standards for entrepreneurs applicable for 2018, and have been prepared under the historical cost convention.

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. Going Concern

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

The current limit of CZK 500 million set for the compensation of Net Costs of Universal Service does not allow Česká pošta to cover all the costs associated with the universal service provision. The founder is acquainted with the situation and will propose a significant increase in the compensation limit under the amendment to the Postal Services Act. According to the approved limit, CP then expects to revise the obligations arising from the postal license so that these obligations correspond to the set compensation limit.

Within the upcoming strategy, Česká pošta is about to take additional steps in other areas as well, such as delivery of parcels, digitizing logistics processes, financial services, real estate management and other internal processes in order to achieve a positive economic result in the future.

Česká pošta currently also deals with the lack of its own funds, which has been caused mainly by the postponed adoption of the amendment to the Postal Services Act and the related deferment of compensation payments for the provision of services arising from the postal license. Both the founder and relevant government institutions have been familiar with the circumstances and actively support Česká pošta in dealing with the situation. Česká pošta, the Ministry of the Interior of CR and the Ministry of Finance of CR currently deal with the first part of the loan in the amount of CZK 800 million, which should be provided to Česká pošta in April 2019 as a loan for the Net Costs of Universal Service compensation not yet paid for the years 2013 and 2014. Additional funds will be dealt with subsequently. Due to the indispensability of the Česká pošta's services to the state as well as the active approach of the aforementioned ministries to the financial situation of Česká pošta, the Company's management believes that the going concern assumption is valid.

ii. Consolidation System

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

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

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

Financial statements of all companies included in consolidation were prepared as at 31 December 2018.

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

iii. Consolidation Difference

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

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

15.4.2.2.2 Subsidiaries

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

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

15.4.2.2.3 Intangible fixed assets

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

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

made, following the period in which the improvements are put into use, the amortization period of the asset is extended by 4 years or more in the case of significant asset items that the Group uses and expects to use for more than 4 years (e.g. the SAP backbone economic system).

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

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

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

15.4.2.2.4 Tangible Fixed Assets

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

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

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

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

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

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

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

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

15.4.2.2.5 Long-term investments

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

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

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

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

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

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

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

15.4.2.2.6 Inventory

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

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

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

15.4.2.2.7 Receivables

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

15.4.2.2.8 Short-term financial investments

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

15.4.2.2.9 Cash and cash equivalents

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

Cash equivalents are short-term highly liquid investments that can be exchanged for a predictable amount of cash and no significant changes of value over time are expected. Cash equivalents are deposits with a maturity of less than 3 months from the date of acquisition and liquid debt securities traded in public markets. Cash equivalents also include Entrusted resources – see subsection 15.4.2.2.10. – Entrusted resources.

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

15.4.2.2.10 Entrusted resources

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

15.4.2.2.11 Foreign currency translation

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

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

15.4.2.2.12 Equity

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

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

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

15.4.2.2.13 Provisions

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

15.4.2.2.14 Employee benefits

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

15.4.2.2.15 Loans

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

15.4.2.2.16 Expenses and revenue recognition

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

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

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

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

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

15.4.2.2.17 Leases

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

15.4.2.2.18 Income tax

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

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

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

15.4.2.2.19 Deferred tax expense

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

15.4.2.2.20 Related parties

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

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

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

15.4.2.2.21 Subsequent events

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

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

15.4.2.3 Fixed Assets

15.4.2.3.1 Consolidation Difference

Movements in goodwill on consolidation can be analyzed as follows:

(in CZK millions)	2018	2017
Opening balance as at 1 January 2018	7	7
Amortization of goodwill	(1)	0
Closing balance as at 31 December 2018	6	7

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

(in CZK millions)	2018	2017
Opening balance as at 1 January 2018	(8)	(9)
Clearing of negative consolidation difference	0	1
Closing balance as at 31 December 2018	(8)	(8)

15.4.2.3.2 Intangible Fixed Assets

Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Software	1,855	82	(20)	1,917
Other royalties	3	0	0	3
Other intangible fixed assets	68	2	(10)	60
Intangible fixed assets in the course of construction	61	75	(85)	51
Total as at 31 December 2018	1,987	159	(115)	2,031
Total as at 31 December 2017	1,893	240	(146)	1,987

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

Accumulated amortization and net book value

(in CZK millions)	Opening balance of accumulated amortization	Additions	Disposals	Closing balance of accumulated amortization	Allowances	Net book value
Software	(1,536)	(80)	20	(1,596)	(17)	304
Other royalties	(2)	(1)	1	(2)	0	1
Other intangible fixed assets	(67)	(1)	10	(58)	0	2
Intangible fixed assets in the course of construction	0	0	0	0	0	51
Total as at 31 December 2018	(1,605)	(82)	31	(1,656)	(17)	358
Total as at 31 December 2017	(1,527)	(81)	3	(1,605)	(18)	364

15.4.2.3.3 Tangible Fixed Assets

Cost

(in CZK millions)	Opening balance	Additions *)	Disposals *)	Closing balance
Land	851	1	(12)	840
Constructions	11,692	199	(51)	11,840
Plant, machinery and equipment	5,263	157	(387)	5,033
Vehicles	1,546	149	(75)	1,620
Furniture and fixtures	701	20	(17)	704
Selected low value tangible assets of less than CZK 40 thousand	391			
		228	0	619
Other movable assets	367	1	(55)	313
Art works and collections	5	0	0	5
Tangible fixed assets in progress	373	579	(757)	195
Total as at 31 December 2018	21,189	1,334	(1,354)	21,169
Total as at 31 December 2017	21,012	1,309	(1,132)	21,189

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

Accumulated depreciation, allowances and net book value

(in CZK millions)	Opening balance of accumulated depreciation	Additions	Disposals	Closing balance of accumulated depreciation	Allowances	Net book value
Land	0	0	0	0	0	840
Constructions	(5,466)	(281)	41	(5,706)	0	6,134
Plant, machinery and equipment	(4,290)	(288)	385	(4,193)	(11)	829
Vehicles	(1,241)	(89)	75	(1,255)	0	365
Furniture and fixtures	(570)	(24)	16	(578)	0	126
Selected low value tangible assets of less than CZK 40 thousand	(92)	(102)	0	(194)	0	425
Other movable assets	(367)	0	54	(313)	0	0
Art works and collections	0	0	0	0	0	5
Tangible fixed assets in progress	0	0	0	0	(7)	188
Total as at 31 December 2018	(12,026)	(784)	571	(12,239)	(18)	8,912
Total as at 31 December 2017	(11,704)	(749)	427	(12,026)	(38)	9,125

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

In 2018 and 2017, the Group did not receive any material fixed assets free of charge.

As at 31 December 2018 and 31 December 2017, 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 374 (2017: 367) 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 2018 and 2017, the Group received an investment subsidy of CZK 11 million and CZK 0 million, respectively.

15.4.2.3.4 Long-term investments

Other long-term securities and investments as at 31 December 2018 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 211 million as at 31 December 2018 (as at 31 December 2017: CZK 217 million).

15.4.2.4 Inventories

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

15.4.2.5 Receivables

As at 31 December 2018 and 31 December 2017, receivables due after more than 5 years amounted to CZK 0 million and CZK 1 million, respectively, and outstanding overdue receivables amounted to CZK 332 million and CZK 420 million, respectively. Outstanding overdue receivables are not secured. The Group wrote off irrecoverable receivables of CZK 27 million and CZK 16 million in 2018 and 2017, respectively due to cancellation of bankruptcy proceedings, unsatisfying the claims in bankruptcy proceedings, etc.

Receivables from related parties are described in subsection 15.4.2.22 – Related party transactions. The estimated receivables primarily comprise transactions related to international postal operations; balances of these transactions as at 31 December 2018 and 31 December 2017 amounted to CZK 906 million and CZK 710 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 2018, the compensation of net costs of providing basic postal services is included in estimated receivables as follows: a portion of CZK 500 million was recognized in short-term receivables and CZK 800 million was recognized in long-term receivables; as at 31 December 2017, CZK 1,300 million were recognized in short-term receivables and CZK 500 million were recognized in long-term receivables (see subsection 15.4.2.6 Net Costs of Universal Service).

15.4.2.6 Net Costs of Universal Service

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

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

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

Effective from 1 January 2016 in accordance with Act No. 319/2015, Coll. amending Act No. 29/2000 Coll., on Postal Services and amending certain other acts (Postal Services Act), as amended, and Act No. 77/1997 Coll., on State Enterprise, as amended, the change in the method of financing net costs for the periods following the 2015 calendar year came into effect. The previous method of financing net costs through the compensation fund was replaced by a payment from the state budget in the amount of the net cost for providing basic services verified by CTO, however, no more than: for the year 2015 CZK 700 million; for the year 2016 CZK 600 million; for 2017, 2018 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 have been 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 regards 2013 and 2014, 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 passed first reading by the Parliament of the Czech Republic on 25 January 2019 and the legislative process is expected to be completed at the beginning of the second half of 2019. Due to the high level of legislative uncertainty, the claim for compensation of CZK 800 million was not accounted for in previous periods.

Based on the ongoing legislative process, in 2018 the Company's management decided to recognize an estimated receivable of CZK 800 million for the compensation for 2013-2014. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. In the balance sheet, the compensation for the net costs of the provision of basic postal services for the years 2013 and 2014 was presented within long-term receivables in the amount of CZK 300 million under the line item C.II.1.5.3., and within short-term receivables in the amount of CZK 500 million under the line item C.II.2.4.5.

A notification process by the European Commission for the years 2018 through 2022 is currently underway. With respect to the fact that the net costs of the provision of basic postal services currently notified exceed the amount of the previous 2013-2017 notification period, it is not expected that the notified net costs of 2018-2022, representing an unfair financial burden, would fall below the upper limit allowable by applicable law. As for 2018, the Company's management decided to post an estimated receivable in the amount equal to the upper limit allowable by applicable law, i.e. CZK 500 million. In the income statement, the revenue was presented on a separate line III.3.1. Compensation for net costs of the provision of basic postal services within other operating income. With regard to the estimated payment date, the estimated receivable was classified as long-term and is presented within long-term receivables under C.II.1.5.3.

15.4.2.7 Allowances

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

Allowances against: (in CZK millions)	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018
Intangible fixed assets	20	0	(2)	18	0	(1)	17
Tangible fixed assets	40	0	(2)	38	0	(20)	18
Inventory	69	14	(10)	73	7	(2)	78
Receivables – other	146	24	(35)	135	53	(32)	156
Total tax non-deductible allowances	275	38	(49)	264	60	(55)	269
Receivables – legal	32	10	(10)	32	15	(20)	27
Total tax deductible allowances	32	10	(10)	32	15	(20)	27
Total	307	48	(59)	296	75	(75)	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.

15.4.2.8 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 15.4.2.14 – Bank loans and borrowings).

As at 31 December 2018 and 31 December 2017, the Group did not have short-term securities nor shares.

15.4.2.9 Equity

As at 31 December 2018 and 31 December 2017, share capital amounted to CZK 3,588 million.

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

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

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

The proposed compensation of the loss incurred for the year ended 31 December 2018 will be submitted to the founder of the Company along with the request for approval of the annual report in accordance with Section 15 paragraph 1 point i) of the Act on State-Owned Enterprise, as amended.

15.4.2.10 Minority Equity

Minority equity as at 31 December 2018 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					
2018	16	16	10	(1)	41
Movements between funds	0	0	0	(1)	(1)
Profit for the period	0	0	(2)	1	(1)
Balance as at 31 December					
2018	16	16	8	(1)	39

15.4.2.11 Provisions

(in CZK millions)	Balance as at 31 December 2016	Additions	Reversal / use	Balance as at 31 December 2017	Additions	Reversal / use	Balance as at 31 December 2018
Social and health insurance	138	78	(122)	94	72	(74)	92
Accrued vacation	46	11	0	57	15	0	72
Provision for severance pay incl. competition clauses	41	68	(41)	68	202	(68)	202
Non-claimable component of salaries	266	126	(266)	126	92	(126)	92
Other	212	51	(35)	228	52	(55)	225
Total tax non-deductible provisions	703	334	(464)	573	433	(323)	683
Total	703	334	(464)	573	433	(323)	683

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

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

Other provisions were primarily created to cover risks known as at 31 December 2018 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.

Further, it is clear from the Annual Report of Česká pošta Security, s.r.o., that according to the representing law firm no facts have yet been proven in any of the commercial litigations filed against the company that should result in losing the respective disputes by the company. According to the management, it is not necessary to create any provisions for the litigations at this time.

15.4.2.12 Long-term liabilities

Long-term liabilities are represented by the deferred tax liability as at 31 December 2018 and 31 December 2017, which is described in subsection 15.4.2.16 – Income tax and the amounts of trade payables, which have maturity longer than one year as at the balance sheet date, were CZK 7 million and CZK 10 million as at 31 December 2018 and 31 December 2017, 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 2018 and 31 December 2017, the Group did not recognize liabilities that are due after more than 5 years.

15.4.2.13 Current Liabilities

As at 31 December 2018 and 31 December 2017, the Group had overdue current payables totaling CZK 28 million and CZK 19 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 2018 and 31 December 2017, respectively.

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

Estimated payables particularly consist of costs associated with international postal operations, where balances of transactions amounted to CZK 787 million and CZK 758 million as at 31 December 2018 and 31 December 2017, 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 350 million and CZK 340 million as at 31 December 2018 and 31 December 2017, respectively. These payables comprise unpaid wages for December 2018 and 2017, which were paid at the beginning of 2019 and 2018, respectively.

The Group did not record any unpaid tax liabilities payable to the relevant tax authority as at 31 December 2018 and 31 December 2017.

15.4.2.14 Bank Loans and Borrowings

15.4.2.14.1 Denominated in CZK

Bank	Terms/ Conditions	Account	Total limit (in CZK millions)	31/ 12/ 2018 (in CZK millions)	31/ 12/ 2017 (in CZK millions)
ČSOB, a.s.	Global credit line Interest rate: O/N PRIBOR + 0.15% p.a.	Own resources	100	0	0
ČSOB, a.s.*	Multi-purpose credit line Interest rate: O/N PRIBOR +0.12% p.a.	Own resources	1,500	0	0
ČSOB, a.s.	Global credit line Interest rate: PRIBOR (2W) - 0.10% p.a.	Entrusted resources	1,600	148	33

*) 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 2018 and 31 December 2017 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 2018 and 31 December 2017, 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 multi-purpose credit line's limit was increased to CZK 1,500 million in 2/2018.

The overdraft on the entrusted resources account from Československá obchodní banka, a.s., was provided to ensure sufficient financial liquidity of the Company. As at 31 December 2018 and 31 December 2017, the Company used CZK 148 million and CZK 33 million of the overdraft.

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

15.4.2.14.2 Denominated in EUR

Bank	Terms/ Conditions	Total limit (in EUR millions)	31/ 12/ 2018		31/ 12/ 2017	
			(in EUR millions)	(in CZK millions)	(in EUR millions)	(in CZK millions)
ČSOB, a.s.	Global credit line EURIBOR 3months + 0.1% p.a. – entrusted resources	5	1.2	30	1.4	35

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

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

15.4.2.15 Accruals and Deferred Income

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

15.4.2.16 Income tax

Analysis of the income tax expense is as follows:

(in CZK millions)	2018	2017
Current tax expense	1	1
Deferred tax expense	(68)	7
Adjustment of prior year tax expense based on final CIT return	3	4
Total tax expense	(64)	12

The Company quantified tax due as follows:

(in CZK millions)	2018	2017
Profit before tax	(250)	110
Non-taxable revenues	(23)	(20)
Difference between book and tax depreciation	231	107
Tax non-deductible expenses (+), including changes in provisions and allowances (-)	149	(104)
Of which:		
- change in allowances	5	(11)
- change in provisions	110	(130)
- other (e.g. previous prepaid expenses, representation expenses, shortages and losses)	34	37

Gifts	0	0
Deduction to support professional training	1	1
Tax loss of subsidiaries	4	4
Taxable income	110	96
Deduction of tax loss from 2013, 2014	(37)	(28)
Tax base	73	68
Income tax rate	19%	19%
Calculated income tax	14	13
Tax relief (persons with disability or partial disability)	(13)	(12)
Current tax expense	1	1
Income tax expense from ordinary activities and total	1	1

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

Deferred tax items	31/ 12/ 2018			31/ 12/ 2017		
	Base (in CZK millions)	Deferred tax asset (in CZK millions)	Deferred tax liability (in CZK millions)	Base (in CZK millions)	Deferred tax asset (in CZK millions)	Deferred tax liability (in CZK millions)
Difference between net book value of fixed assets for accounting and tax purposes	(2,160)	0	(410)	(2,410)	0	(458)
Allowances	269	51	0	264	50	0
Other provisions	683	129	0	573	109	0
Other temporary differences	16	3	0	13	3	0
Total	(1,192)	183	(410)	(1,560)	162	(458)
Net deferred tax liability			(227)			(296)

The effect of deferred tax arising from the revaluation of available-for-sale securities of CZK 1 million as at 31 December 2018 (as at 31 December 2017: CZK 1 million) is included in equity. As at 31 December 2018 and 31 December 2017, the Group did not recognize a deferred tax asset from its subsidiary's tax losses totaling CZK 5 million and CZK 10 million, respectively on the basis that its recovery was uncertain.

15.4.2.17 Leases

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

The assets leased by the Group in the form of operational leases amounted to CZK 350 million and CZK 314 million as at 31 December 2018 and 31 December 2017, respectively. The buildings leased by the Company amounted to CZK 237 million and CZK 229 million as at 31 December 2018 and 31 December 2017, respectively.

As at 31 December 2018 and 31 December 2017, the Group did not have any finance leases.

15.4.2.18 Commitments and Contingencies

The Group recognizes particularly stamps, road toll vignettes and lottery tickets, the nature of which is recognized as valuables (these items are recognized below in nominal value) in its operational evidence as at 31 December 2018 and 31 December 2017. 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/ 2018	31/ 12/ 2017
Valuables incl. stamps and lottery tickets	13,855	14,409
Road toll vignettes	2,615	2,955
Leased assets – operational lease	1,737	1,692
Securities	40	40
Low-value tangible assets	2,147	2,272
Low-value intangible assets	53	63

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/ 2018	31/ 12/ 2017
Due within 1 year	445	398
Due between 1 to 5 years	948	840
Due after 5 years	58	61
Total	1,451	1,299

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 2018 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/ 07/ 2020	10
Payment	Československá obchodní banka, a.s.	Ministry of Interior	NIS IZS	31/ 12/ 2019	12
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2018	16/ 03/ 2019	100
Payment	Československá obchodní banka, a.s.	State Fund for Transport Infrastructure (SFDI)	Distribution and sale of vignettes for the year 2019	16/ 03/ 2020	380
Payment	Československá obchodní banka, a.s.	CONTERA	Rental agreement	20/ 07/ 2020	1
Payment	Československá obchodní banka, a.s.	Investment III. s.r.o.	Rental agreement	10/ 01/ 2020	2
Payment	Československá obchodní banka, a.s.	Prologis CR LX s.r.o.	Rental agreement	10/ 01/ 2020	2
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1
Payment	Československá obchodní banka, a.s.	Customs directorate for the South Bohemian Region	Custom debt	indefinite	1
Payment	Československá obchodní banka, a.s.	CENTRUM CHODOV, a.s.	Rental agreement	23/ 04/ 2019	1
Payment	Československá obchodní banka, a.s.	Charles Square Center s.r.o.	Rental agreement	14/ 05/ 2020	1
					513

Type of received guarantee	Guarantor	Debtor	Subject	Valid until	Amount (in CZK millions)
Payment	Komerční banka, a.s.	SILBA-Elstav s.r.o.	Action - Prague 7 - "Stamp design" collection storage room	30/ 06/ 2021	1
Payment	Komerční banka, a.s.	STAVBROS, s.r.o.	Action - DEPOT Česká Třebová - construction works	28/ 04/ 2019	1
Payment	Československá obchodní banka, a.s.	OHL ŽS a.s.	Action - insulation České Budějovice 4	31/ 01/ 2020	1
Payment	Československá obchodní banka, a.s.	šmíragroup a.s.	Action - reconstruction of post office Ostrava 2, SPU Ostrava 02 and Depot Ostrava 71	10/ 07/ 2023	2
Payment	Raiffeisen Bank, a.s.	COM-TIP s. r.o.	Action - exchange of boiler room technology, Prague 5	07/ 04/ 2019	1
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
					23

15.4.2.19 Contingent Liabilities

The management of the Group is not aware of any other significant contingent liabilities as at 31 December 2018.

15.4.2.20 Revenues and Other Operating Income

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

	2018			2017		
	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)	Domestic (in CZK millions)	Foreign (in CZK millions)	Total (in CZK millions)
Revenue from postal operations	11,890	2,042	13,932	12,111	1,837	13,948
Revenue from provision of intermediary services	2,422	0	2,422	2,577	0	2,577
Printing (postal stamps, envelopes, valuables)	33	3	36	32	12	44
Revenue from electronic services	377	0	377	362	0	362
Sales of goods	201	0	201	340	0	340
Revenues from data mailboxes	462	0	462	517	0	517
Total revenues	15,385	2,045	17,430	15,939	1,849	17,788
Other operating income	1,676	0	1,676	1,117	0	1,117
Total revenues and other operating income	17,061	2,045	19,106	17,056	1,849	18,905

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

In 2018 and 2017, the Group received subsidies for operating purposes in the amount of CZK 3 million and CZK 0 million, respectively.

15.4.2.21 Employees

Breakdown of Group's staff costs is as follows:

	2018		2017	
	Total personnel	Of which: Group's management and Supervisory Board	Total personnel	Of which: Group's management and Supervisory Board
Average adjusted number of employees	29,161	38	29,750	39
Wages and salaries (in CZK millions)	9,447	118	9,347	88
Social security and health insurance (in CZK millions)	3,160	21	3,102	17
Social costs (in CZK millions)	337	0	340	0
Total staff costs	12,944	139	12,789	105

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

15.4.2.22 Related Party Transactions

Apart from the bonuses disclosed in subsection 15.4.2.21 – Employees, in 2018 and 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 2018 and 2017 along with the related receivables from and liabilities to related parties are as follows:

2018	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
Czech Television and Radio	230	1	1	5
Government ministries	555	0	39	14
Czech Social Security Administration	416	2,258	0	1,838
Municipal and local authorities	402	122	19	211
Water and sewage systems Hodonín	2	0	0	2
National Agency for Communications and Information Technology	5	4	1	0
Total	1,610	2,385	60	2,070

2017	Revenues (in CZK millions)	Expenses (in CZK millions)	Receivables (in CZK millions)	Liabilities (in CZK millions)
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

15.4.2.23 Fees Paid and Payable to the Audit Company

The fees paid to audit companies for the statutory audit of the financial statements, including the consolidated financial statements audit, totaled CZK 2 million and CZK 2 million, respectively in 2018 and 2017.

15.4.2.24 Entrusted resources

The entrusted resources analysis as at 31 December 2018 and 31 December 2017 is as follows:

(in CZK millions)	31/ 12/ 2018	31/ 12/ 2017
ASSETS		
Short-term receivables	52	140
Cash in hand and at bank	3,453	3,736
Total assets	3,505	3,876

(in CZK millions)	31/ 12/ 2018	31/ 12/ 2017
LIABILITIES AND EQUITY		
Current liabilities	3,327	3,808
Short-term bank loans	178	68
Total liabilities and equity	3,505	3,876

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 2018 and 2017, the Group received advance payments in the amount of CZK 1,400 million and CZK 1,600 million, respectively for 2018 and 2017 pension payments from the Czech Social Security Administration.

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

15.4.2.25 Cash-flow Statement

As at 31 December 2018 and 31 December 2017, the Group did not consider the used overdraft facilities as cash equivalents for the purpose of preparing the consolidated cash-flow statement (see subsection 15.4.2.14 – Bank loans and overdrafts).

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

(in CZK millions)	31/ 12/ 2018	31/ 12/ 2017
Cash on hand	4,038	4,368
Cash at bank	1,501	916
Cash and cash equivalents	5,539	5,284

15.4.2.26 Subsequent events

On 21 January 2019, Petr Zatloukal was appointed a Supervisory Board member.

On 18 February 2019, Petr Cinkl was appointed a Chief Director of Postal Operations and Logistics Division.

On 8 March 2019, Ing. Jaroslav Hloušek was entered in the Commercial Register as the Deputy Director General.

On 28 February 2019, Pavel Kameník was recalled from the Statutory Representative position of Česká pošta Security, s.r.o.

Effective as at 1 March 2019, Tomáš Hampl was appointed a new Statutory Representative of the company.

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 2018 accounting period.

22 March 2019



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



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



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

