

Closer to Customers



Penzijní fond České pojišťovny, a.s.
Annual Report 2007



Penzijní fond České pojišťovny is **the largest** supplementary pension insurance provider in the Czech Republic. Every fourth supplementary pension insurance agreement is concluded with Penzijní fond České pojišťovny. In 2007 alone, the client and employer **deposits**, including state contributions, amounted more than **CZK 9 billion**.

Penzijní fond České pojišťovny

Penzijní fond České pojišťovny is a wholly owned subsidiary of Česká pojišťovna. It provides corporate clients as well as individuals a comprehensive offering of supplementary pension insurance with a state contribution. It serves more than one million clients, administering savings worth CZK 37 billion. It is the most dynamically developing pension fund in the Czech Republic.

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Company Profile

Name:	Penzijní fond České pojišťovny, a.s.
Registered Seat:	Truhlářská 1106/9, 110 00 Prague 1
Legal Form:	Joint-stock company
Date of Establishment:	19 September 1994
ID No.:	61858692
Commercial Registry:	Municipal Court in Prague, section B, entry 2738
Company Owner (share in registered capital):	Česká pojišťovna a.s. (100%)
Registered Capital:	CZK 213,700,000

Historical Milestones

1994 – Establishment of the Company.	2003 – Merger with ČP penzijní fond (formerly Commercial Union Penzijní fond), bringing a further acceleration of the company's growth.
1996 – The Pension Fund's number of clients exceeded 100,000.	
1998 – Restructuring of the Company, leading to a great increase in the fund's financial and business performance.	2004 – Merger with Nový ČP penzijní fond (formerly ABN AMRO Penzijní fond); Penzijní fond České pojišťovny becomes the market leader, in terms of the number of clients.
1999 – Creation of a specialised sales department, focusing solely on corporate clients.	2005 – The Company registered its 800,000th client and for the first time in history won its category in the MasterCard Bank of the Year competition.
2001 – Supplementary pension insurance becomes a part of the product offering of the ČP Employee Benefit Programme.	2006 – Penzijní fond České pojišťovny administer the largest volume of assets on the private supplementary pension insurance market, in excess of CZK 30 bn.
2002 – The volume of assets exceeded CZK 10 bn.	2007 – The Pension Fund's number of clients exceeded one million.

Mission, Objectives and Strategies

The company Penzijní fond České pojišťovny (PFCP) is and works to continue to be a leading, trusted and highly reliable provider of supplementary pension insurance with government contributions. In line with these objectives, the company focused on the accomplishment of the following in 2007:

- Continue the dynamic growth in its number of clients and assets under management.
- Increase its share of the market in both the retail and corporate segments.
- Effectively manage the company and the assets of its clients.
- Further reinforce and enhance our clients' feeling of well-being and assurance.
- Further diversify our distribution network and take advantage of new business opportunities.

The management of Penzijní fond České pojišťovny and the company's employees are intensely focused on the following strategically important activities:

- Support of a multi-channel distribution strategy based on the efforts of the Česká pojišťovna network and key independent distributors including industrial brokers and the use of direct marketing tools.
- The application of cross-selling activities throughout the PPF group.
- The up-selling of the company's own client base and the use of proactive communications with existing customers.
- The taking advantage of synergies in the area of corporate sales with respect to the Česká pojišťovna insurance company and its PFCP.
- The ongoing adjustment of the company's investment strategies to the growing volumes of assets under management and the latest trends in the global capital markets.
- The optimization of activities in and ongoing improvements to the client service area along with the use of new information technologies.

Products and Services

Penzijní fond České pojišťovny has set itself far apart from its competition by its innovative product offering and the scope of its client services. The company's main priorities include a friendly client approach and the provision of simple solutions with maximum comfort, which always precisely correspond to the client's particular needs.

The basic product offer constitutes supplementary pension insurance with a state contribution, with all statutorily defined types of pensions – old age, retirement, invalidity, and survivorship. At the end of the saving period, clients can choose from several means of disbursing the money that has been deposited, including flexible pension schemes.

Since last year, the advantageous supplementary pension insurance START has been offered to clients, which the PFCP has prepared exclusively for Česká pojišťovna's network of branches and advisors. START is designed for new clients aged under 39. The Company provides its clients with a broad range of high-quality services, including comprehensive administration of supplementary pension agreements free of charge. Clients can easily access their supplementary pension insurance through the extensive branch network of Česká pojišťovna. At the same time, however, they can resolve the vast majority of their requests and wishes with PFCP directly, through direct communication channels – telephone, Internet, and post.

Furthermore, the Fund's business partners can make use of online portal services, allowing for a safe and comfortable means of transmitting selected data through the Internet.

Supplementary pension insurance also constitutes a part of our special integrated services offer, called the ČP Employee Benefit Programme, designed primarily for corporate clients. It is a comprehensive offering of supplementary pension insurance, life, and property insurance, which PFCP has developed in association with Česká pojišťovna.

Key Financial Indicators

CZK '000	2007	2006	2005	2004	2003	2002
Profit	938,616	1,032,735	967,336	707,025	294,764	200,957
Total net assets	38,291,304	32,472,450	26,465,601	21,742,736	11,094,736	7,600,108
Registered capital	213,700	213,700	213,700	213,700	210,000	210,000
Number of clients	1,079,410	974,115	867,593	770,640	463,948	348,393
Returns (in % p.a.)	2.4	3.3	3.8	3.5	3.1	3.2
Statutory reserve fund	241,448	189,811	141,445	106,093	57,866	36,081

Organisation Structure

CEO

Executive Director for IT

IT Section

- Development Department
- Analytical Department

Sales and Marketing Section

- Marketing Division
- Internal CP Network Sales Division – Regional Sales Managers
- Financial Consulting Corporate Sales Division
- Department for Sales to Brokerage Companies

Client Service Section

- Front Office Department
- Back Office Department
- Methodological Department

Financial Section

- Portfolio Management Department
- Actuarial and Profitability Department
- Controlling and Planning Department
- Accounting Department
- Department for Client Account Administration



Penzijní fond České pojišťovny has once again **strengthened its position** as a leading Czech supplementary pension insurance provider. For 2007, the company held a **27 percent** share of the market. PFCP's strong performance and market positioning were also confirmed by the company's being **included** in the CZECH TOP 100 industry ranking and its receipt of an **award** in the MasterCard Bank of the Year contest.

Statutory Bodies

Management Board

Tomáš Matoušek, MBA,

Vice-Chairman of the Management Board
CEO of Penzijní fond České pojišťovny, a.s.,
Deputy CEO for Employee Benefits, Česká pojišťovna a.s.

Petr Kopecký,

Member of the Management Board
Deputy CEO for the Retail Business, Česká pojišťovna a.s.

Tomáš Machanec, MBA,

Member of the Management Board
Deputy CEO for Information Technologies,
Česká pojišťovna a.s.

Václav Šrajber, MBA,

Member of the Management Board
Director of the Analytical Department, PPF a.s.

Changes in the Management Board in 2007

Ivo Foltýn, MBA, resigned from his position as the
Chairman of the Management Board on 26 August 2007.

Supervisory Board

Darina Kocsisová, Ph.D.,

Chairwoman of the Supervisory Board
Director of the Actuarial Section, Generali PPF Holding B.V.

Vladimír Filip,

Member of the Supervisory Board
Deputy CEO for Finance, České dráhy, a.s.

Pavel Hlaváč,

Member of the Supervisory Board
Head of Human Resources Planning, ŠKODA AUTO a.s.

Helena Lazosová,

Member of the Supervisory Board
Senior Director of the Life Insurance Product Management
Section, Česká pojišťovna a.s.

Marek Mastník, MBA,

Member of the Supervisory Board
Director of the Department of Investment Analysis,
Home Credit Finance Bank

Petr Obst,

Member of the Supervisory Board
Member of the Management Board, Skanska CS a.s.,
and CEO, Skanska Servis a.s.

Marcela Středová,

Member of the Supervisory Board
Actuary, Generali PPF Holding B.V.

Vít Šroller,

Member of the Supervisory Board
Senior Director of the Section of Responsible Actuaries
and Non-Life Insurance Actuaries, Česká pojišťovna a.s.

Martin Vrba,

Member of the Supervisory Board
Senior Director of the Section for the Management of the
Exclusive Insurance Agents Network, Česká pojišťovna a.s.

Changes in the Supervisory Board in 2007

On 14 September 2007, Marcela Středová became a new
Member of the Supervisory Board.

Introduction by the CEO



Dear Shareholders, Clients, and Business Friends,

It is my honour to present to you, on behalf of the management, the Annual Report of Penzijní fond České pojišťovny, which summarises the company's financial and business results in 2007. Our company carried on in the dynamic growth of previous years and made itself the indisputable leader of the private pension insurance market. We have achieved this success primarily due to the shared efforts of our management, employees, and business partners, who have identified with the long-term strategy and ambitions of our Pension Fund. I am convinced that in the upcoming period both the company's shareholders and its clients will profit from the results that we have achieved.

In 2007, the supplementary pension insurance market carried on in its ten-percent rate of growth. Presently, four million Czechs are involved in the voluntary pension savings system, and their number can be expected to continue to grow. Pension funds administer savings worth more than 162 billion crowns and continue to strengthen their position on the Czech financial market. Last year, all pension funds combined earned more than 4.4 billion crowns. In this connection, we are pleased to observe the extent to which Penzijní fond České pojišťovny participates in the growth and results of the entire sector.

As at the end of 2007, Penzijní fond České pojišťovny was administering nearly 1.1 million agreements. To date, clients have deposited savings with us worth over 40 billion crowns. Our market share was 27%, in terms of the number of clients, and 23%, in terms of the assets held. Whereas the rate of growth in the fund's client agreements amounted to 11%, savings increased by 23% year-on-year. We have also noted an increase in client numbers in our corporate business. Overall, we had 244,000 registered clients receiving a contribution from their employer. These figures clearly show that we have managed to meet the goals that we set for ourselves, and also confirm the correctness of the corporate development strategy we have chosen.

The financial results of the Pension Fund are, to a large degree, determined by the macroeconomic environment within which we operate. In 2007, the Czech economy maintained its high (more than six percent) rate of economic growth, which was reflected in a more rapid growth in

inflation. In 2007, we also witnessed fluctuations in capital markets – the US mortgage crisis and the ensuing liquidity crises caused a drop in global stock markets. We managed to eliminate the instability of financial markets by our well-chosen investment policy. Penzijní fond České pojišťovny generated a profit of CZK 939 million. This result enables us to credit clients the sound appreciation of 2.4% for last year.

In cooperation with the Association of the Pension Funds of the Czech Republic, we addressed issues related to pension fund legislation and pension fund reform. The announced legislative changes in supplementary pension insurance, which we had expected to be accomplished last year, did not materialise. The issues of pension fund shareholder and client assets, and the valorisation of the state contribution, were not duly discussed by politicians in 2007. The reform of public finance touched on supplementary pension insurance only marginally, due to the amendment of the Income Tax Act. Nor did we note any major progress in the making of changes to the pension fund system. Aside from the preparation of parameter modifications, pension reform issues are still on the theoretical level, although the acute need of a systemic change is being understood by an increasing portion of the general public, and not only by experts.

The main goals of Penzijní fond České pojišťovny include, above all, preserving the current rate of growth and increasing value for shareholders. In this respect, we see the following areas as key: working with the core clientele, increasing the value of savings, simplifying client services, and improving work with our business partners. We will also focus on optimising our company's internal processes and increasing labour productivity. In doing so, we plan to exploit our long-term experience and our membership in the newly formed PPF Generali Holding company. I am convinced that, with its assistance, we will build on our company's achievements thus far, and strengthen our exclusive market position.

Tomáš Matoušek, MBA

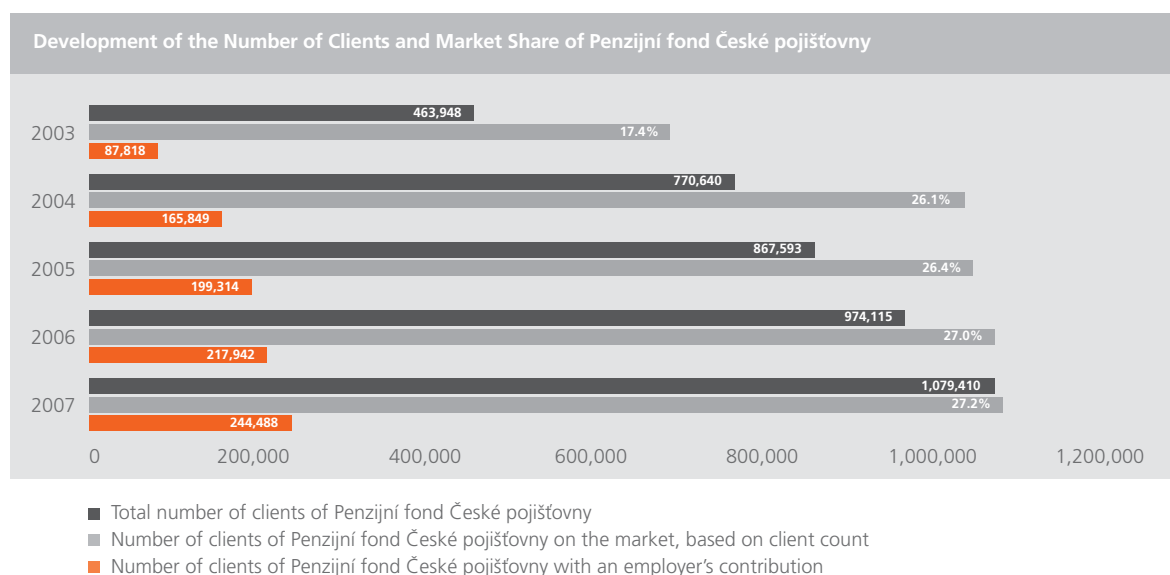
CEO and Vice-Chairman of the Management Board

Report on the Company's Activities

Nearly four million Czechs save for their retirement in pension funds, of whom every fourth person trusts Penzijní fond České pojišťovny (PFCP). PFCP's number of clients increased by 11% in 2007, to 1.079 million people at year end. In 2007, the Fund administered a record 38.3 billion crowns worth of assets. In terms of the assets under administration, it is the strongest fund in the Czech Republic.

A balanced investment strategy and asset volume growth, in connection with a continuous reduction of the cost margin, enabled the Fund to generate a record profit of CZK 939 million in 2007. In 2007, the Fund further strengthened its market position and continued in its dynamic growth.

The strong performance and image of PFCP are reflected in its repeated winning of prestigious awards – the Company again ranked in the sectoral hierarchy CZECH TOP 100 and also came 2nd among pension funds in the MasterCard Bank of the Year competition.

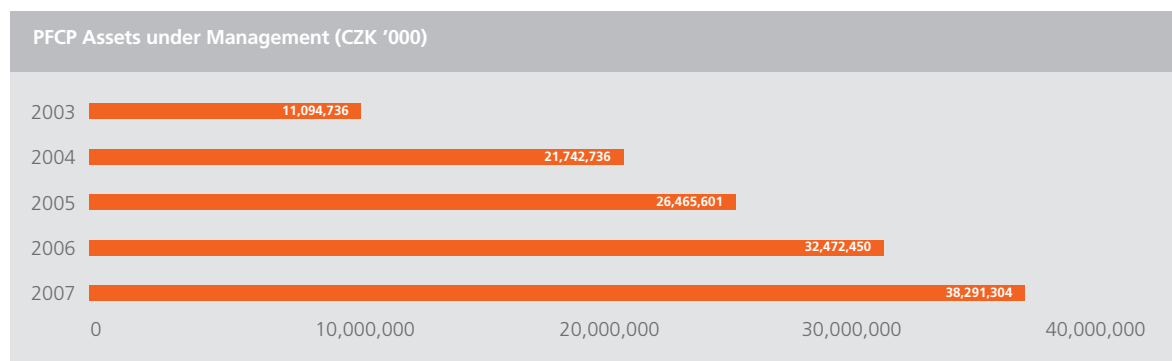


Business Results

PFCP executed the sales of pension savings traditionally, through the retail network of Česká pojišťovna and through independent distribution companies. An innovation in sales was the systemic deployment of direct marketing tools – direct mail and telemarketing. The close cooperation of the Fund, the Insurance Company, and brokerage companies yielded a total of 195,000 new agreements in 2007, which is 13,000 more than in 2006. A major part of this multi-channel distribution strategy is the focus on the corporate clientele, where PFCP is the market leader. The number of clients whose employer contributes to their supplementary pension insurance increased by 12% year on year, reaching 244,000. The sustained interest in private supplementary pension insurance was primarily due to the high yield of savings as well as the increasing level of employer involvement, and also the education of the public as to the consequences of the failure to resolve the pension reform. The market share of PFCP, which had more than one million savings clients at the end of the year, in the supplementary pension insurance market, was 27%.

Financial Results

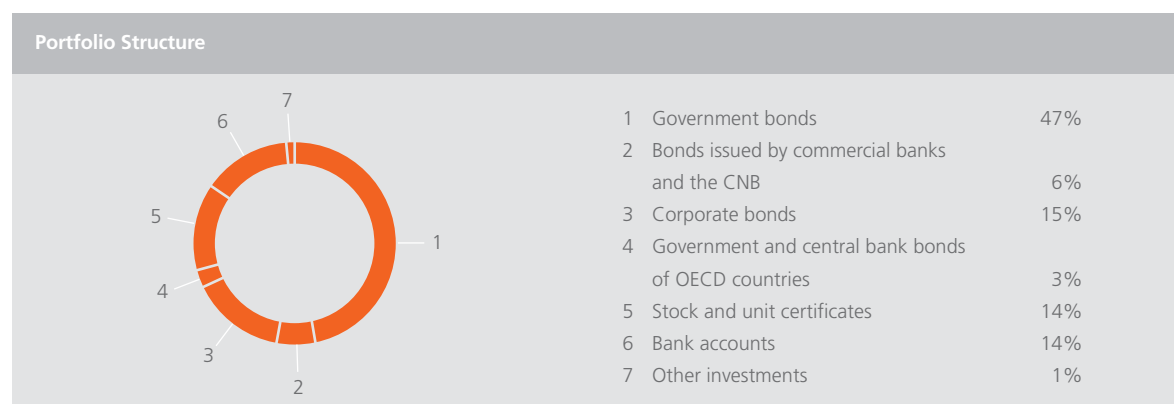
In 2007, the main financials confirmed their growth trends from previous years. The value of the volume of assets increased to CZK 38.3 billion as at 31 December 2007, which constitutes a year-on-year increase by nearly 18%. The funds invested by clients (including state contributions) and employers in 2007 amounted to an aggregate of CZK 9.4 billion. The asset management results led to a net profit of CZK 939 million, the highest among all of the pension funds in the Czech Republic. The most recent sectoral results show that the Fund will note a competitive and high-quality appreciation of client savings for 2007.



Portfolio Management

In 2007, PFCP continued to implement its strategy of diversification in individual asset classes. Its aim is to reduce the portfolio's dependence on the development of the economy of the Czech Republic or a specific region. The Company also focused on making use of modern financial instruments that enable it to make investments with an attractive income-risk profile. Due to the nature of

the product, most of the portfolio is comprised of bonds denominated in Czech crowns, which acted as the stabilisation component of the portfolio's profitability. This balanced investment strategy then largely eliminated the fluctuations in financial markets, where the US mortgage crisis and the ensuing crisis of liquidity caused an increased aversion to risk and drops in global stock markets.



Portfolio Structure (in %)

	2007	2006	2005	2004
Government bonds	47	48	43	40
Bonds issued by commercial banks and the CNB	6	11	19	18
Corporate bonds	15	17	20	24
Government and central bank bonds of OECD countries	3	5	6	5
Stock and unit certificates	14	15	8	5
Bank accounts	14	3	3	7
Other investments*	1	1	1	1
Portfolio market value	100	100	100	100

* Receivables from the state contribution, tax receivables, and coupons.

Report of the Supervisory Board

Report of the supervisory board of the company Penzijní fond České pojišťovny, a.s. on the results of the board's oversight activities, including its review of the following: the company's regular annual financial statements for 2007, the report on the relationships between the company, its controlling entities and other associated entities for 2007 and the response to the board of director's proposal for the distribution of the company's 2007 profits, which was prepared as of April 11, 2008.

The 2007 activities of the supervisory board of the company Penzijní fond České pojišťovny, a.s. (hereinafter as 'company') have been carried out in accordance with the applicable legal regulations and the company's bylaws. The supervisory board of the company has overseen the company's board of directors in the exercise of its authority and it has fulfilled its obligation to oversee the business activities of the company.

In accordance with the company's bylaws and within its scope of authority, the supervisory board of the company held six regular meetings in 2007. On one occasion, it made a per rollam decision. During its meetings, the supervisory board carried out its primary obligation to oversee and monitor the company's finances, business activities and performance, the status of and the return on its investment portfolio and the fulfillment of its 2007 financial and business plans.

At the start of 2007, the supervisory board had the following members – Darina Kocsisová, Vít Šroller, Marek Mastník, Helena Lazosová, Petr Obst, Pavel Hlaváč, Martin Vrba and Vladimír Filip. In September 2007, the sole shareholder of the company, exercising the authority of a general meeting of shareholders, made the decision to appoint Marcela Středová to membership on the supervisory board and to reappoint Darina Kocsisová, Vít Šroller and Helena Lazosová as members of the supervisory board due to the expiration of their prior terms of appointment. During its regular meeting in October 2007, the supervisory board unanimously reappointed Darina Kocsisová to her position as chairwoman of the supervisory board.

As required, the company's board of directors presented to the supervisory board for its consideration the regular financial statements of the company for 2007 (prepared as of December 31, 2007 and verified by an auditor) and the proposal for the distribution of profits generated by the company in 2007. The supervisory board also received for their review, the report on the relationships between associated entities for 2007, which was prepared in accordance with the provisions of Section 66a, Subsection 9 of the Commercial Code, and the accuracy of which had also been verified by an auditor. After having reviewed the company's financial results for 2007, the supervisory board submits the following statement to the general meeting of shareholders:

The supervisory board of the company has reviewed the regular financial statements of the company for 2007 and the related auditor's report and, in accordance with the auditor's statement, the board has found no discrepancies. On the basis of the above, the supervisory board recommends that the general meeting of shareholders approve the regular financial statements of the company for 2007. The supervisory board of the company also recommends the approval of the distribution of profits generated by the company in 2007, as proposed by the company's board of directors.

The supervisory board of the company has also reviewed the report on the relationships between associated entities for 2007, prepared in accordance with the provisions of Section 66a, Subsection 9 of the Commercial Code and verified by an auditor. It has found nothing in the report that might stand out as a reason for the supervisory board to take a negative position with respect to the contents of the document.

Prague, April 11, 2008



Darina Kocsisová, Ph.D.

Chairwoman of the Supervisory Board

Translanton of Auditor's Report



KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Prague 8

Tel.: +420 222 123 111
Fax: +420 222 123 100
Internet: www.kpmg.cz

Auditor's Report for the Shareholders of the Company Penzijní fond České pojišťovny, a.s.

Financial Statements

Based upon a completed audit, on February 7, 2008 we issued the following report on the company's financial statements, which represents a part of this annual report.

„We have completed an audit of the attached financial statements of Penzijní fond České pojišťovny, a.s. – i.e. the balance sheet prepared as of December 31, 2007, the income statement and an overview of changes to shareholders' equity for the year 2007 and a supplement to these financial statements, which includes a description of the key accounting methods used by the company along with other additional information. Information about the company Penzijní fond České pojišťovny, a.s. can be found under Item 1 of the supplement to these financial statements.

Liability of the Statutory Body of the Accounting Unit for the Financial Statements

The statutory body of Penzijní fond České pojišťovny, a.s. is responsible for the preparation and the accuracy of the company's financial statements, in accordance with Czech accounting standards. Part of this responsibility is to propose and implement internal controls over the preparation and accuracy of the company's financial statements in order to make sure that they don't contain any major discrepancies related to fraud or error, to choose and apply appropriate accounting methods and, as necessary, to make reasonable accounting assumptions.

Liability of the Auditor

We are responsible for the issuance of a statement on our assessment of these financial statements based on the completion of an audit. We have completed the audit in conformity with the Auditors Act, the International Standards on Auditing and the related applicable requirements of the Czech Chamber of Auditors. In compliance with these regulations, we are required to adhere to proper ethical standards and plan and execute the audit in a manner that will give us a reasonable level of certainty that the financial statements do not contain any major discrepancies.

The audit includes the use of auditing methods, which have as their objective the obtaining of evidence on the values and facts presented in the financial statements. The selection of these auditing methods is at the discretion of the auditor and such a selection includes an assessment of the possible risk that the financial statements might contain substantial discrepancies that could be the result of fraud or error. In assessing such risks, the auditor takes into consideration the internal controls that are relevant to both the preparation of and the accurate presentation of the financial statements. The objective behind such an assessment of the company's internal controls is to select the right auditing procedures for the task at hand rather than to provide an opinion on the effectiveness of such internal controls. The audit also includes an assessment of the suitability of the accounting methods used, the appropriateness of the accounting assumptions made by the management of the company and also an overall assessment of how well the financial statements are able to testify to the actual financial situation at the company.

We believe that the evidence that was collected provides a sufficient and suitable basis for the preparation of our statement.

Auditor's Statement

In our opinion, the subject financial statements provide – in all important aspects – an accurate and honest picture of the assets, liabilities and financial situation of the company Penzijní fond České pojišťovny, a.s., as of December 31, 2007 and the expenses, income and financial results for the year 2007, in accordance with Czech accounting standards.”

Report on Relationships between Associated Entities

We have also verified the accuracy of the data contained in the report on the relationships between entities associated with Penzijní fond České pojišťovny, a.s., as of December 31, 2007. The statutory body of the company is responsible for this report. Our responsibility is to issue a statement on this report on relationships between associated entities, based on the completed examination.

We have completed this examination in conformity with the International Auditing Standard covering such examinations, the International Standards on Auditing and the related applicable requirements of the Czech Chamber of Auditors. These standards require us to plan and execute the examination in order to obtain a moderate level of certainty that the report contains no major discrepancies. The examination was substantively limited to the questioning of the company's employees, certain analytical evaluations and selective confirmations of the accuracy of the respective data. This is why the examination provides a lower level of surety than an audit. We have not completed an audit of the report on relationships between associated entities and for this reason, we are not issuing an auditor's statement on this report.

During our examination, we did not discover any major discrepancies in the information included in the report on the relationships between entities associated with Penzijní fond České pojišťovny, a.s., as of December 31, 2007.

Annual Report

We have also compared the company's annual report to the above-referenced financial statements. The statutory body of the company is responsible for the accuracy of its annual report. Our responsibility is to issue a statement on the conformity of the annual report to the financial statements of the company, based on a completed review.

We have completed this review in conformity with the Auditors Act, the International Standards on Auditing and the related applicable requirements of the Czech Chamber of Auditors. These standards require us to plan and conduct the review in order to obtain a reasonable level of certainty that the information contained in the annual report, as it relates to facts that are also included in the company's financial statements, conforms in all important aspects to the information that has been included in the financial statements. We are confident that the completed review provides a sufficient basis for the issuance of our statement.

In our opinion, the information contained in the annual report of the company corresponds to the information contained in the above-referenced financial statements in all important aspects.

Prague, June 3, 2008

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.

License Number 71

Gascoigne

Roger Gascoigne

Partner

Závitkovský

Pavel Závitkovský

Partner

License Number 69

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IČ 49619187
DIČ CZ49619187

Obchodní rejstřík
vedený Městským soudem v Praze
oddíl C, vložka 24185

UniCredit Bank Czech Republic
Praha 1
č.ú./account no.
466016004/2700

Balance Sheet

As at 31 December 2007 in CZK '000 (unconsolidated)

Assets	2007	2006
1 Cash in hand and in deposits with central banks	68	241
2 Receivables from banks and credit unions	5,371,711	799,488
of which: a) Payable on demand	1,543,687	799,488
b) Other receivables	3,828,024	–
3 Debt securities	26,333,945	25,580,076
of which: a) Issued by government institutions	17,440,723	15,255,137
b) Issued by other entities	8,893,222	10,324,939
4 Stock, unit certificates, and other ownership interests	5,126,619	4,765,086
5 Intangible fixed assets	11,445	5,255
of which: a) Goodwill	–	328
6 Tangible fixed assets	20,212	21,360
7 Other assets	457,248	518,527
of which: a) Other cash assets	1,433	446
b) Trade receivables	4,720	4,791
c) Receivables from the state budget - government contribution	322,429	290,405
d) Receivables from the state budget - tax receivables	5,347	9,535
e) Receivables from securities transactions	117,155	173,671
f) Estimated accrued revenues and other assets	6,164	39,679
8 Deferred expenses and accrued income	970,056	782,417
Total assets	38,291,304	32,472,450

Liabilities	2007	2006
1 Other liabilities	37,306,785	30,314,677
a) Funds of supplementary pension insurance subscribers	37,182,519	30,238,372
of which: aa) Policyholder funds and government contributions	34,210,826	27,903,673
ab) Funds for pension payments	37,365	31,833
ac) Income from policyholder contributions	2,834,983	2,252,399
ad) Unallocated policyholder contributions	94,061	37,468
ae) Benefit payments	5,284	12,999
b) Other	124,266	76,305
of which: ba) Trade payables	16,313	27,300
bb) Payables to employees	3,459	3,486
bc) Payables to social security	2,276	2,307
bd) Payables to state budget - government contribution	–	1,180
be) Payables to state budget - tax obligations	10,236	19,809
bf) Estimated accrued expenses and other liabilities	91,982	22,223
2 Provisions	5,982	11,626
of which: a) For pensions and similar liabilities	5,982	11,626
3 Registered capital	213,700	213,700
of which: a) Paid-up registered capital	213,700	213,700
4 Issue premium	50,000	50,000
5 Reserve funds and other funds created from profit	250,336	200,497
of which: a) Compulsory reserve funds and risk funds	241,448	189,811
b) Other funds created from profit	8,888	10,686
6 Capital funds	245,567	245,567
of which: a) Shareholder invested capital	225,753	225,753
b) Other capital funds	19,814	19,814
7 Revaluation differences	(1,020,689)	205,915
of which: a) From assets and liabilities	(1,020,689)	205,915
8 Retained profit or unpaid loss from previous years	301,007	197,733
9 Profit (loss) in fiscal year	938,616	1,032,735
Total liabilities	38,291,304	32,472,450

Off Balance Sheet

As at 31 December 2007 in CZK '000 (unconsolidated)

Off Balance Sheet Items	2007	2006
Off Balance Sheet Assets		
Managed assets	36,779,621	31,173,177
Receivables from fixed-term operations	6,589,015	5,497,956
Receivables from spot operations with stock instruments	–	62,869
Off Balance Sheet Liabilities		
Liabilities from fixed-term operations	6,523,274	5,532,911
Liabilities from spot operations with stock instruments	–	62,869

Statement of Changes in Shareholders' Equity

As at 31 December 2007 in CZK '000 (unconsolidated)

	Registered capital	Issue premium	Reserve funds	Capital funds	Revaluation differences	Accumulated profit (loss) from previous years	Funds created from profit	Profit (loss)	Total
Balance									
as at 1 January 2006	213,700	50,000	141,445	245,567	123,299	101,000	11,098	967,336	1,853,445
Net profit (loss) for fiscal year	–	–	–	–	–	–	–	1,032,735	1,032,735
Transfers to funds	–	–	48,366	–	–	96,733	–	(145,099)	–
Use of funds	–	–	–	–	–	–	(412)	–	(412)
Exchange rate differences and revaluation differences not included in profit (loss)	–	–	–	–	82,616	–	–	–	82,616
Returns distributed to policyholders	–	–	–	–	–	–	–	(822,237)	(822,237)
Balance									
as at 31 December 2006	213,700	50,000	189,811	245,567	205,915	197,733	10,686	1,032,735	2,146,147

	Registered capital	Issue premium	Reserve funds	Capital funds	Revaluation differences	Accumulated profit (loss) from previous years	Funds created from profit	Profit (loss)	Total
Balance									
as at 1 January 2007	213,700	50,000	189,811	245,567	205,915	197,733	10,686	1,032,735	2,146,147
Net profit (loss) for fiscal year	–	–	–	–	–	–	–	938,616	938,616
Transfers to funds	–	–	51,637	–	–	103,274	–	(154,911)	–
Use of funds	–	–	–	–	–	–	(1,798)	–	(1,798)
Exchange rate differences and revaluation differences not included in profit (loss)	–	–	–	–	(1,226,604)	–	–	–	(1,226,604)
Returns distributed to policyholders	–	–	–	–	–	–	–	(877,824)	(877,824)
Balance									
as at 31 December 2007	213,700	50,000	241,448	245,567	(1,020,689)	301,007	8,888	938,616	978,537

Profit and Loss Statement

As at 31 December 2007 in CZK '000 (unconsolidated)

Profit and Loss Statement		2007	2006
1	Interest earned and similar income	1,043,746	826,283
	of which: Interest on debt securities	957,177	811,346
2	Interest paid and similar expenses	(11)	(175)
3	Income from shares and ownership interests - other	71,891	76,895
4	Income from fees and commissions	254	401
5	Expenses related to fees and commissions	(368,126)	(272,875)
6	Profit (loss) from financial transactions	420,959	593,193
7	Other operating income	7,131	7,890
8	Other operating expenses	(965)	(758)
9	Overhead expenses	(220,626)	(176,104)
	a) Personnel expenses	(67,257)	(62,042)
	of which: aa) Social and health insurance	(16,075)	(14,769)
	b) Other overhead expenses	(153,369)	(114,062)
	of which: ba) Sales expenses	(63,324)	(48,718)
	bb) Administrative expenses	(90,045)	(65,344)
10	Amortisation, creation and use of provisions, and adjusting entries for tangible and intangible fixed assets	(14,797)	(22,024)
11	Amortisation, creation and use of adjusting entries, and provisions for receivables and guarantees	(4,640)	(623)
12	Creation and use of other provisions	3,800	632
13	Profit (loss) in fiscal period after tax	938,616	1,032,735

Notes to the Financial Statement

1. General Information

(A) Establishment and Character of the Company

Penzijní fond České pojišťovny, a.s. (the "Company" or "PFCP"), was incorporated by being entered into the Commercial Registry on 19 September 1994. The Company's Identification Number is 61858692.

(B) Line of Business

The Company's main line of business is the provision of supplementary pension insurance, pursuant to Act No. 42/1994 Coll., on Supplementary Pension Insurance with a Government Contribution, as amended. The main line of business of the Company includes:

- a) Collecting funds from supplementary insurance policyholders (referred to as the "policyholder") and, from the state, in the form of the government contribution provided to qualified policyholders.
- b) Using the funds obtained pursuant to a).
- c) Paying out supplementary pension insurance benefits.
- d) Other activities directly associated with supplementary pension insurance.

(C) Registered Seat of the Company

Penzijní fond České pojišťovny, a.s., Truhlářská 1106/9, 110 00 Prague 1, Czech Republic

(D) Members of the Management Board and of the Supervisory Board, as at 31 December 2007

Members of the Management Board:

Tomáš Matoušek, MBA (Vice-Chairman)
 Petr Kopecký
 Tomáš Machanec, MBA
 Václav Šrajer, MBA

Members of the Supervisory Board:

Darina Kocsisová, Ph.D. (Chairwoman)
 Vladimír Filip
 Pavel Hlaváč
 Helena Lazosová
 Marek Mastník, MBA
 Petr Obst
 Marcela Středová
 Vít Šroller
 Martin Vrba

The following changes affecting the statutory bodies of the Company took place in 2007:

- On 26 August 2007, Ivo Foltýn, MBA, terminated his membership in the Management Board.
- On 14 September 2007, Marcela Středová was appointed to the Company's Supervisory Board.

(E) Organisation Structure

The basic organisation structure of the company is as follows:

- Sales and Marketing Division
- Finance Division
- Client Services Division
- IT Division

Sales are carried out through external brokers and through the branches of Česká pojišťovna a.s. The investment portfolio is managed by PPF Asset Management a.s. and BH Securities a.s.

Depository services are provided by UniCredit Bank Czech Republic, a.s., pursuant to an agreement of 26 June 2003.

As at 31 December 2007, the Company had 1,079,410 active clients (as at 31 December 2006: 974,115).

(F) Ownership Structure of the Company

As at 31 December 2007, the Company had a sole shareholder – Česká pojišťovna a.s.

2. Standards Used for the Preparation of the Financial Statement

The Financial Statement was prepared on the basis of accounting records maintained in accordance with Act No. 563/1991 Coll., the Accounting Act, as amended, and the relevant regulations and decrees applicable in the Czech Republic, especially the Czech Ministry of Finance Regulation No. 501, of 6 November 2002, as amended, implementing certain provisions of Act No. 563/1991 Coll., the Accounting Act, as amended, for accounting units that are banks or other financial institutions. This regulation sets out the arrangement of and specifications for the Financial Statement items, defines the contents of those items, the accounting system, the accounting methods and their application.

The Financial Statement has been compiled on the basis of generally accepted accounting principles, in particular the accrual principle, the chronological/temporal and actual relationship of expenses and income, and historical costing principle, with the exception of selected financial instruments, which are valued at their market value, and on the assumption that the accounting unit will be able to carry on in its activities in the foreseeable future.

All figures are expressed in Czech crowns (CZK). The unit of measurement is thousands of CZK, unless otherwise provided.

This Financial Statement is not consolidated.

3. Key Accounting Methods

The Company's Financial Statement has been prepared in accordance with the following key accounting principles:

(A) Time of the Recording of Accounting Transactions

Depending on the type of transaction, the record date of an accounting transaction is the payment date or the date currency is received; the date of the purchase or sale of a foreign currency, a foreign-currency denominated money market instrument, or securities; the date a payment is made; or the date of the stipulation and settlement of a securities, foreign exchange, or derivative transaction.

(B) Debt Securities, Shares, Unit Certificates, and Other Ownership Interests

Government treasury notes, bonds, and other debt securities and shares, including unit certificates and other ownership interests, are classified in accordance with the Company's intentions, in the "held to maturity" portfolio, the portfolio valued at market value in the respective income or expense account, or in the "securities available for sale" portfolio. Only debt securities can be classified in the "held to maturity" portfolio.

Government treasury notes, bonds, and other debt securities are accounted for at their acquisition price, including any proportionate allocation of any discounts or premiums. The accrued value of any interest income is included in the accounting value of the respective securities. Shares, unit certificates, and other ownership interests are accounted for at their acquisition price.

Premiums or discounts on debt securities in the held-to-maturity portfolio are amortised in the Profit and Loss Statement, from their acquisition date until their maturity date, employing the effective interest rate method. In other portfolios, the amortisation of any premiums or discounts is posted on a straight-line interest rate basis. In the case of securities that mature in less than 1 year from the settlement date of their purchase, any premium or discount is amortised in the Profit and Loss Statement on a straight-line basis, from the acquisition date until maturity.

Debt securities and shares, unit certificates, and other ownership interests valued at market value in the respective income or expense account are posted at their current market value, and any profit (loss) from this valuation is posted in the Profit and Loss Statement, under "Profit (Loss) from financial transactions".

Securities, shares, unit certificates, and other ownership interests for sale are accounted for at their market value and the profit (loss) from this valuation is posted in shareholder's equity, in the item "Revaluation differences". When sold, the revaluation difference is posted in the Profit and Loss Statement, in the item "Profit (Loss) from financial transactions". Should it be proven that a permanent reduction in the value (depreciation) of a security for sale has occurred, this loss is posted in the relevant Profit and Loss Statement item. The amount corresponds to the difference between the valuation at the time of the acquisition of the security, reduced or increased by premium or discount accruals at the real value, taking into account previously posted losses from depreciation.

The real value used in the valuation of securities is determined in accordance with Regulation No. 270/2004 Coll., on Determining the Method of Setting the Real Value of Assets and Liabilities of Collective-Investment Funds, as amended.

The real values of publicly traded debt securities and ownership interests are equal to the prices on the respective public markets in OECD countries, provided that the liquidity requirements for the securities are also met.

If the market value cannot be determined as the market price, it is calculated as the adjusted value of the security. The adjusted value of a security equals the:

- Participation interest in the equity capital of the Company, for shares.
- Participation interest in the equity of a mutual fund, for unit certificates.
- Present value of the security, for debt securities.

If an adjusted value cannot be determined with a reasonable degree of certainty, the Company will value the financial asset at its acquisition value. For securities with inserted derivatives, where the Company cannot reliably value the individual components of a security, the security is valued at its real value as a whole. This does not affect the original inclusion of the securities in individual portfolios.

(C) Creation of Provisions

A provision represents a likely performance that is uncertain as to its timing and amount. Provisions are created if the following criteria are met:

- There is an obligation (legal or factual) to perform, which is the result of past events.
- It is probable that the performance will take place and that it will require an outflow of funds, where "probability" means a probability of greater than 50%.
- A reasonably reliable estimate of the performance can be made.

(D) Foreign Currency Conversions

Transactions denominated in foreign currencies are accounted for in Czech crowns and converted at the exchange rate valid on the transaction date. Assets and liabilities denominated in foreign currencies, together with foreign exchange spot transactions occurring prior to maturity, are converted into Czech crowns using the Czech National Bank exchange rate valid on the Balance Sheet Date. In the Profit and Loss Statement, foreign exchange gains or losses are recorded in the „Profit (Loss) from financial transactions“ account or, on the Balance Sheet, in the “Unrealised gains or losses – assets and liabilities account”.

(E) Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are accounted for at their historical prices, depreciated on a straight-line basis over their anticipated useful life. The amortisation periods used for different categories of tangible and intangible fixed assets are shown in the following table:

Asset	Amortisation period
Software	Individually, based on anticipated service Life, max. 20 years
Fixed minor asset	3 years
Machinery and equipment	3–4 years
Personal vehicle	4 years
Furniture	6–8 years
Air-conditioning	12–15 years
Safe deposit boxes	12–15 years

Goodwill can arise from the sale of an asset, as the difference between the acquisition price and the real value of the identifiable asset and liability acquired, on its acquisition date. Goodwill is depreciated over its useful life.

Intangible assets with an acquisition price lower than CZK 60,000, and tangible assets with an acquisition price lower than CZK 40,000, are posted into costs in the period in which they were acquired, and their useful life is less than one year.

(F) Financial Derivatives**Hedging Derivatives**

Hedging derivatives are reported at real value. The manner of reporting this real value depends on the model of hedge accounting used.

Hedge accounting can be used provided that:

- The hedging is in accordance with the Company's risk management strategy.
- At the time of the hedging transaction, the hedging relationship is formally documented.
- It is expected that the hedging relationship will be highly effective while it lasts.
- The effectiveness of the hedging relationship can be measured objectively.
- The hedging relationship is highly efficient during the accounting period.
- In the event of hedging related to an anticipated transaction, there is a strong likelihood that the respective transaction will take place.

The Company used derivatives to hedge against currency risks, due to the holding of securities denominated in foreign currencies.

If a derivative is being used to hedge the risk of a change in the real value of the respective asset or liability, the hedged item is also valued at its real value due to the hedging risk. When hedging real value, the gain and loss from the valuation of the hedging derivatives are recorded in the Profit and Loss Statement item “Profit (Loss) from financial transactions”.

The real value of a financial derivative is set at the present value of the expected cash flow from the transaction. To determine the present value, the usual models acceptable on the market are used. The parameters ascertained on the active market are put into these valuation models, such as exchange rates, yield curves, the volatility of the relevant financial instruments, etc.

(G) Taxes

The income tax base is calculated from the profit (loss) in the current period, by adding non-tax deductible costs and deducting income not subject to income tax, further adjusted for any applicable tax discounts and set-offs.

Deferred taxes are based on all temporary differences between the accounting and tax values of assets and liabilities, using the expected tax rate applicable in the next accounting period. A deferred tax receivable is only accounted for if there is no question as to its receipt in future accounting periods.

(H) Items from Other Accounting Periods and Changes in Accounting Methods

Items from an accounting period other than that to which they belong for tax or accounting purposes, and changes in accounting methods, are posted as income or expenses in the Profit and Loss Statement for the current accounting period, with the exception of corrections to major errors in the posting of the income and expenses of previous periods, which are reported under "Retained profits (unpaid losses) from previous years" on the Company's Balance Sheet.

(I) Pension Payment Liabilities

Adequacy Test

The Company creates provisions for liabilities arising from supplementary pension insurance policies. The amount of such provisions is based on a test of the adequacy of policyholders' accounts, carried out separately for the portfolio of policyholders at the saving stage and for the portfolio of pensioners, reflecting the available options and guarantees arising from supplementary pension insurance policies. The discounted cash flow model is used as the method of testing the adequacy of provisions. Cash flows mean, above all, the contributions of policyholders, the benefits paid, and the expenses of the Company. The result of these adequacy tests is the minimum value of the Company's liabilities to its policyholders, calculated as the best estimate of the expected future development of input parameters, adjusted by increases for risk and uncertainty. An inadequacy concerning the policyholders' accounts occurs if the minimum value of the Company's liability to its policyholders exceeds the total of policyholders' accounts. If the adequacy test indicates an inadequacy of policyholders' accounts, the Company creates a provision at the amount of that insufficiency.

(J) Accrual of Acquisition Costs

The Company posts commissions paid and other direct acquisition costs to the deferred expenses account, which will be amortised over the term of the respective supplementary pension insurance policy, but for no more than 15 years. As at the Balance Sheet Date, the Company performs a test of the recoverability of deferred acquisition costs. Taking into account future risks, the value of accruals, as at the Financial Statement Date, was reduced by CZK 12,332,000.

4. Receivables from Banks and Credit Unions

	2007	2006
Current bank accounts	113,687	192,211
Term deposits in banks	5,258,024	607,277
Total	5,371,711	799,488

5. Debt Securities

(A) Classification of Debt Securities in Portfolios According to the Company's Plans

	2007	2006
Debt securities held to maturity	3,020,170	–
Debt securities valued at real value against Expense and income accounts	1,150,592	952,443
Debt securities for sale	22,163,183	24,627,633
Total	26,333,945	25,580,076

(B) Analysis of Debt Securities for Sale

Market price	2007	2006
Issued by financial institutions		
– Listed on a Czech exchange	1,401,178	1,797,792
– Listed on another exchange	1,596,151	2,501,547
Total	2,997,329	4,299,339
Issued by non-financial institutions		
– Listed on a Czech exchange	2,899,998	2,993,537
– Listed on another exchange	748,428	602,941
Total	3,648,426	3,596,478
Government-issued		
– Listed on a Czech exchange	14,420,553	15,255,137
– Listed on another exchange	1,096,875	1,476,679
Total	15,517,428	16,731,816
Total	22,163,183	24,627,633

Securities listed on another securities exchange are traded mainly on the Vienna, Dublin, London, Warsaw, Luxemburg, and German stock exchanges.

Furthermore, the Company holds the ECL debt security issued by European Credit Luxemburg, and 5YELN issued by JP Morgan Chase Bank N.A. Both securities are accepted for trading on the Luxemburg Stock Exchange. In accounting, in accordance with the issue conditions, the income from the holding of the ECL security is posted in the Company's interest income account, and the amount depends on the current developments in the market prices of securities on the European corporate bond market with an investment rating of A-.

The amortised value, as at 31 December 2007, was CZK 374 million, and the bonds mature in 2009. The 5YELN is a zero-coupon bond, and the amount of income to be derived from it is tied to the growth of major global stock indices. The Company, on the basis of an analysis of available information, has determined the market value of the instrument, as at 31 December 2007, to be at 110–115% of the principal. Given the impossibility of determining the market value with sufficient certainty, the unrealised revenue from holding the instrument is not posted. As at the date of the Financial Statement, the written-down value of these bonds is CZK 200 million and the duration is 2.5 years.

(C) Analysis of Debt Securities Held to Maturity

Market price	2007	2006
Government-issued		
– Listed on a Czech exchange	3,020,170	–
Total	3,020,170	–

(D) Analysis of Debt Securities Valued at Real Value against Expense and Income Accounts

Market price	2007	2006
Issued by financial institutions		
– Listed on another exchange	957,043	741,575
Total	957,043	741,575
Issued by non-financial institutions		
– Listed on another exchange	193,549	210,868
Total	193,549	210,868
Total	1,150,592	952,443

The securities listed on another securities exchange are traded on the Luxemburg and Dublin Stock Exchanges.

6. Shares, Unit Certificates, and Other Ownership Interests

(A) Classification of Shares, Unit Certificates, and Other Ownership Interests into Portfolios, Based on the Company's Plans

	2007	2006
Shares, unit certificates, and other ownership interests valued at real prices against the expense and income account	1,450,673	408,305
Shares, unit certificates, and other ownership interests for sale	3,656,946	4,356,781
Total	5,126,619	4,765,086

(B) Analysis of Shares, Unit Certificates, and Other Ownership Interests Valued at Real Prices against the Expense and Income Account

Market price	2007	2006
Issued by financial institutions		
– Listed on a Czech exchange	70,956	–
– Listed on another exchange	642,633	377,873
Total	713,589	377,873
Issued by non-financial institutions		
– Listed on a Czech exchange	737,084	30,432
Total	737,084	30,432
Total	1,450,673	408,305

The securities listed on another securities exchange are traded on the Luxemburg and Dublin Stock Exchanges.

(C) Analysis of Shares, Unit Certificates, and Other Ownership Interests for Sale

Market price	2007	2006
Issued by financial institutions		
– Listed on a Czech exchange	87,420	133,257
– Listed on another exchange	1,375,444	1,664,246
Total	1,462,864	1,797,503
Issued by non-financial institutions		
– Listed on a Czech exchange	831,486	1,430,739
– Listed on another exchange	1,381,596	1,128,539
Total	2,213,082	2,559,278
Total	3,675,946	4,356,781

The Company holds unit certificates issued by Opus Fund Limited, Oak Hill Alpha Fund (Offshore), Limited, and Lighthouse Diversified Fund limited, whose real value is derived from the shareholders' equity in the respective foreign hedging fund.

The securities noted as listed on another securities exchange are traded on exchanges in Austria, Milan, Bucharest, Budapest, Dublin, Germany, United Kingdom, and USA.

7. Tangible Fixed Assets

Changes in tangible fixed assets

	Vehicles	Machinery and equipment	Inventory and minor assets	Total
Acquisition price				
As at 31 December 2006	12,524	31,097	13,696	57,317
Increases	3,259	5,245	2,540	11,044
Decreases	(2,864)	(1,972)	(461)	(5,297)
As at 31 December 2007	12,919	34,370	15,775	63,064
Adjustments and adjusting entries				
As at 31 December 2006	5,762	19,783	10,412	35,957
Annual amortisation	3,089	6,147	2,239	11,475
Decreases	(2,211)	(1,909)	(460)	(4,580)
As at 31 December 2007	6,640	24,021	12,191	42,852
Written-down price				
As at 31 December 2006	6,762	11,314	3,284	21,360
As at 31 December 2007	6,279	10,349	3,584	20,212

All of the Company's assets are classified in the operating assets group. In the Profit and Loss Statement item "Amortisation, creation and use of provisions, and adjusting entries for tangible and intangible fixed assets", CZK 14,797,000 is posted. The difference of CZK 346,000 is the written-down value of the assets after additional amortisation, due to asset liquidation.

8. Intangible Fixed Assets

Changes in intangible fixed assets

	Goodwill	Software	Valuable rights	Total
Acquisition price				
As at 31 December 2006	853	37,239	14,751	52,843
Increases	–	1,342	8,124	9,466
Decreases	(853)	(2,202)	(7,251)	(10,306)
As at 31 December 2007	–	36,379	15,624	52,003
Adjustments and adjusting entries				
As at 31 December 2006	525	32,679	14,384	47,588
Annual amortisation	28	2,123	825	2,976
Decreases	(553)	(2,202)	(7,251)	(10,006)
As at 31 December 2007	–	32,600	7,958	40,558
Written-down price				
As at 31 December 2006	328	4,560	367	5,255
As at 31 December 2007	0	3,779	7,666	11,445

9. Other Assets

	2007	2006
Other cash assets	1,433	446
Other receivables	12,185	7,616
Receivables due from government contributions	322,428	288,598
Receivables due from government contributions – refunds of overpaid government contributions	–	1,807
Receivables due from income taxes	5,347	9,535
Receivables due from securities trading	117,155	173,671
– Payable by companies of the Group	23,388	18,788
Unrealised gains from derivatives	6,054	39,612
Other	110	67
Adjusting entries	(7,465)	(2,825)
Total	457,248	518,527

More detailed comments on the item “Receivables due from government contributions” are given in Item 12. Receivables from securities trading are primarily mature coupons and dividends. These receivables were paid within their maturity period, at the beginning of 2008.

10. Deferred Expenses and Accrued Income

The Company reports active current accruals and deferrals of CZK 970,056,000 (2006: 782,417,000), of which CZK 966,222,000 (2006: 779,622,000) are accrued acquisition costs and CZK 3,834,000 (2006: 2,795,000) are other prepaid assets.

11. Other Liabilities

	2007	2006
Trade liabilities	16,311	27,300
Unrealised losses in the value of derivatives	70,275	897
Tax liabilities	10,236	19,809
Returned government contributions	–	1,180
Liabilities towards employees and social security	5,735	5,793
Estimated accrued expenses	21,707	21,326
Total	124,226	76,305

The estimated accrued expenses, of CZK 21,707,000 (2006: CZK 21,326,000) include mainly bonuses for the second half of the year, which were paid out with the January 2008 salaries, and liabilities for commissions paid to companies for the organisation of batch payments. Tax liabilities consist primarily of withholding tax on the benefits paid, of CZK 9,196,000 (2006: CZK 7,901,000) and taxes on salaries for December 2007.

12. Policyholders' Funds

	2007	2006
Balance as at 1 January		
Contributions from policyholders and employers	23,485,897	19,016,264
Returns credited to accounts	2,252,399	1,706,688
Government contributions	4,500,076	3,817,884
Total policyholder funds	30,238,372	24,540,836
Increases		
Contributions from policyholders and employers	8,184,590	6,803,096
Returns credited to accounts	877,825	822,237
Returns transferred from other pension funds	72,630	65,376
Government contributions	1,355,152	1,197,925
Total increases	10,490,197	8,888,634
Decreases		
a) Benefits		
Contributions from policyholders and employers	2,465,400	2,221,573
Returns credited to accounts	364,102	335,462
Government contributions	479,430	451,457
Total benefits	3,308,932	3,008,492
Number of benefits paid out	85,745	78,885
b) Returns and transfers to income		
Contributions from policyholders and employers	179,634	111,890
Returns credited to accounts	3,769	6,440
Government contributions	53,715	64,276
Total returns and transfers to income	237,118	182,606
Total decreases	3,546,050	3,191,098
Balance as at 31 December		
Contributions from policyholders and employers	29,025,453	23,485,897
Returns credited to accounts	2,834,983	2,252,399
Government contributions	5,322,083	4,500,076
Total of policyholder funds	37,182,519	30,238,372

The Balance Sheet item "Unallocated policyholder contributions", of CZK 94,061,000 (2006: CZK 37,468,000) are liabilities to policyholders representing contributions received that are waiting to be identified, and is included in the "Policyholder contributions" item. This item also includes benefit payments that are awaiting payout, of CZK 5,284,000 (2006: CZK 12,999,000), that will be deducted from the current account in early January 2008. The unpaid government contributions for the fourth quarter of 2007 of CZK 322,429,000 (2006: CZK 288,598,000) are included in the total amount entered as „Government contributions“.

The Balance Sheet item "Receivables from the state budget – government contributions", includes a receivable from the Ministry of Finance of the Czech Republic, as at 31 December 2007, based on client claims for government contributions, of CZK 322,429,000 (2006: CZK 288,598,000), payable in February 2008.

In 2008, the Company expects to distribute at least 85% of the 2007 profit to its policyholders.

13. Provisions

The Company creates a provision for pension distributions based on the methodology described under Item 3 (l).

	Pension reserves
Balance as at 1 January 2007	11,626
Added	2,042
Liquidated	(5,842)
Drawn	(1,844)
Balance as at 31 December 2007	5,982

The following key economic and actuarial assumptions were used in the calculations as at 31 December 2007:

- The cost model used by the Pension Fund was derived from the actual administrative, investment, and acquisition costs. In projecting these costs forward, we assumed an annual cost inflation rate determined on the basis of market conditions.
- The best estimates of the fund's future income, valid as at 31 December 2007, were used in projecting future income and setting discount rates. In accordance with the existing procedures, the model assumed that 85% of the annual profit would be credited to the policyholders' accounts.
- Decrements used in the modelling of the decreases in the number of the pension fund's policyholders:
 1. The likelihood of death, based on the Czech Statistical Office 2006 population tables, modified to reflect the currently improving mortality trend.
 2. The Company's experience to date is used to project the percentage of policyholders selecting a pension instead of a lump sum settlement and the probability of policyholders remaining with their contract (transfers to other pension funds or cancellations). Current conditions evidence an increasing percentage of policyholders electing the pension option.

14. Registered Capital

The Company's registered capital, as at 31 December 2007, was CZK 213,700,000 (2006: CZK 213,700,000), and consisted of 213,699,560 registered shares with a nominal value of CZK 1.

Shareholders of the Company, as at 31 December 2007

Name	Registered seat	Number of shares	Share of registered capital (%)
Česká pojišťovna a.s.	Czech Republic	213,699,560	100

15. Revaluation Differences

Revaluation differences relate to securities held to maturity and securities for sale. The Company regularly tests whether there has not been a permanent decline in the value of securities, which would have to be included in the Profit and Loss Statement from the account of revaluation differences. The information obtained indicates that the present market decline is not of a long-term nature and is only temporary, caused by increased volatility on world financial markets, which is why there has not been a permanent depreciation at the end of the accounting period.

	2007	2006
Government bonds	(602,654)	55,254
Other bonds	(35,161)	122,311
Shares and unit certificates	(382,874)	39,188
Deferred tax on revaluation differences	–	(10,838)
Total	(1,020,689)	205,915

The increase in negative revaluation differences is due primarily to the decline of the market prices of government debt securities. The credit risk with this type of assets is minimal, and it is only the consequence of the capturing of their current market value. The decline in the revaluation differences amount, with respect to shares, is due primarily to fluctuations in stock markets, which the Company deems to be of a non-permanent nature.

16. Transactions with Companies within the Group

Summary of receivables due from and liabilities owed to companies in the Group

2007	Income	Expenses	Receivables	Liabilities
Česká pojišťovna a.s.	392	2,623	–	1
Home Credit a.s.	26,392	1,037	14,030	1,037
HC Holding a.s.	20,190	–	–	–
PPF a.s.	–	5,419	–	1,256
PPF Asset Management a.s.	–	71,790	–	529
PPF banka a.s.	9,325	11,376	1,300,690	3
Home Credit Finance Bank o.o.o.	56,160	–	9,355	–
PPF Co2 B.V.	3,456	–	–	–

2006	Income	Expenses	Receivables	Liabilities
Česká pojišťovna a.s.	3,442	12,517	1,425	17,837
eBanka, a.s.	–	1,124	–	–
Home Credit a.s.	14,567	–	7,206	–
HC Holding a.s.	22,962	–	–	–
PPF a.s.	–	4,361	–	1,771
PPF Asset Management a.s.	–	60,684	–	645
PPF banka a.s.	–	3,854	–	2
Home Credit Finance Bank o.o.o.	49,198	–	10,803	–

In addition, the Company holds the following bonds issued of enterprises within the Group, and bonds issued by the companies in which Group companies exercise significant influence.

ISIN	Group company	Number of units	Market value CZK '000
CZ0003501488	Home Credit a.s.	500	498,668
CZ0000000229	PPF Co2 B.V.	165	302,066
XS0294480354	Home Credit Finance Bank o.o.o.	5,000	87,699
XS0221878720	Home Credit Finance Bank o.o.o.	12,000	212,055
XS0237063184	Home Credit Finance Bank o.o.o.	40	133,886
XS0237063267	Home Credit Finance Bank o.o.o.	40	133,866

17. Interest Earned and Similar Income

	2007	2006
Interest income from current accounts	10,790	2,824
Interest income from term deposits	75,779	12,113
Interest income from debt securities	957,177	811,346
Total interest income	1,043,746	826,283

18. Expenses and Income from Fees and Commissions

	2007	2006
Commissions paid to supplementary pension insurance brokers	244,595	176,012
Bank fees, stock exchange fees, and fees paid to the Prague Securities Centre	16,616	9,577
Remuneration for portfolio managers	79,840	67,416
Commissions – extra-commission incentives	27,075	19,870
Total expenses related to fees and commissions	368,126	272,875
Income from fees and commissions	254	401
Total income from fees and commissions	254	401

19. Profit (Loss) from Financial Transactions

	2007	2006
Profit (loss) from securities transactions	334,951	508,220
Profit (loss) from derivative transactions	117,805	85,819
Exchange rate differences	(32,328)	(2,249)
Other	531	1,403
Total	420,959	593,193

20. Personnel Expenses

	Average number of employees	Payroll expenses and bonuses	Social security and health insurance	Other social expenses
2007				
Employees and management	87	46,524	16,075	2,252
Members of the management and supervisory boards	13	2,406	–	–
Total	87*	48,930	16,075	2,252
2006				
Employees and management	84	43,205	14,769	2,033
Members of the management and supervisory boards	13	2,035	–	–
Total	84*	45,240	14,769	2,033

* The total only includes employees and managers. Some members of the statutory bodies are also employees of the Company.

21. Other Operating Income and Expenses

2007	Expenses	Income	Balance
Insurance	402	324	(78)
Divestiture of tangible assets	660	1,345	685
Policyholder contributions	150	5,447	5,297
Pensions	(367)	–	367
Other	120	15	(105)
Total other operating expenses and income	965	7,131	6,166

2006	Expenses	Income	Balance
Insurance	155	150	(5)
Divestiture of tangible assets	588	936	348
Policyholder contributions	157	6,788	6,631
Pensions	(156)	–	156
Other	14	16	2
Total other operating expenses and income	758	7,890	7,132

22. Income Tax and Deferred Tax Liability/Receivable

(A) Deferred Tax Liability/Receivable

The Company's management presumes that the present and future level of taxable income will not suffice to cover the calculated deferred tax receivable and therefore it has not reported it in its Financial Statement, as at 31 December 2007.

(B) Income Tax Due

	2007	2006
Profit (loss) for the accounting period before taxation	938,616	1,032,735
Non-taxable income	(1,186,645)	(1,056,599)
Non-deductible expenses	112,631	84,836
Deductible tax losses	–	(60,972)
Subtotal	(135,398)	–
Tax payable at 5% tax rate (2006: 5%)	–	–

Figures of the year 2006 are provided on the basis of the actual tax return – the Notes to the 2006 Financial Statements only included preliminary figures.

23. Other Overhead Expenses

The total other overhead expenses, for the accounting period ending 31 December 2007, were CZK 153,369,000 (2006: CZK 114,062,000).

	2007	2006
Postage and telecommunication	38,683	28,801
Client statements and correspondence, forms, and promotional items	52,992	24,743
Advertising and promotion	23,488	22,917
Equipment maintenance and software support	4,469	3,150
Lease payments (incl. services and utilities)	11,846	12,092
Audit, legal and tax consultants, depository oversight	10,406	9,127
Employee training	1,477	2,320
Document scanning and archiving	234	1,206
Other	9,774	9,706
Total other overhead expenses	153,369	114,062

24. Off Balance Sheet Items

(A) Off Balance Sheet Financial Instruments

	Contractual amounts		Real value	
	2007	2006	2007	2006
Term currency instruments				
Term currency transactions (purchase)	6,589,015	5,497,956	–	–
Term currency transactions (sale)	6,523,274	5,532,911	(64,221)	38,715
Spot stock trading transactions				
Spot stock trading transactions (purchase)	–	62,869	–	–
Spot stock trading transactions (sale)	–	62,869	–	–

Term currency instruments were traded on the inter-bank market (OTC).

(B) Expiration Dates of Financial Derivatives

The figures below represent the allocation of the nominal values of the individual financial derivatives to their maturity expiration dates.

	Up to 3 months	Total
As at 31 December 2007		
Term currency instruments		
Term currency transactions (purchase)	6,589,015	6,589,015
Term currency transactions (sale)	6,523,274	6,523,274
As at 31 December 2006		
Term currency instruments		
Term currency transactions (purchase)	5,497,956	5,497,956
Term currency transactions (sale)	5,532,911	5,532,911

(C) Managed Assets

	2007	2006
Bank accounts and term deposits	5,266,123	613,249
Bonds	26,333,945	25,580,076
Stocks	5,126,619	4,765,086
Coupons and dividends due	115,533	113,182
Unsettled securities transactions	1,622	62,869
Market value of derivatives	(64,221)	38,715
Total	36,779,621	31,173,177

25. Financial Instruments – Market Risk

The Company is exposed to market risks due to its open positions in transactions with interest, equity, and currency instruments, which are sensitive to changes in the financial markets.

(A) Risk Management

The investment strategy of the Company is to realise the appreciation of the funds invested, while minimising the market risks associated with the investments in its portfolio. The basic instruments for risk management include limits on the allocation of the portfolio to the different types of financial instruments, set by Act No. 42/1994 Coll., on Supplementary Pension Insurance with Government Contributions, and by the investment strategy of the Company, which conforms to the applicable regulatory requirements.

(B) Interest Rate Risk

The tables below summarise the discrepancies between the interest rate-sensitive assets and liabilities of the Company. The accounting value of these assets and liabilities and the nominal (ideal) value of interest rate derivatives are included for the period in which they mature or when the interest rate adjusts, whichever occurs earlier. Due to certain anticipated prepayments or non-specific maturity dates, certain assets and liabilities have been placed into time periods based on professional judgement.

Interest Rate Sensitivity of the Company's Assets

	Up to 3 months	From 3 months to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2007					
Receivables due from banks	5,371,711	–	–	–	5,371,711
Other zero coupon bonds	–	–	1,082,385	–	1,082,385
Debt securities – government	556,353	567,385	8,729,187	7,587,798	17,440,723
Debt securities – other	2,954,090	2,874,653	1,489,147	492,947	7,810,837
Total	8,882,154	3,442,038	11,300,719	8,080,745	31,705,656
	Up to 3 months	From 3 months to 1 year	1–5 years	Over 5 years	Total
As at 31 December 2006					
Receivables due from banks	799,488	–	–	–	799,488
Other zero coupon bonds	11,961	–	1,047,557	655,100	1,714,618
Debt securities – government	95,805	778,477	6,393,156	7,987,699	15,255,137
Debt securities – other	1,370,489	3,084,600	2,402,820	1,752,412	8,610,321
Total	2,277,743	3,863,077	9,843,533	10,395,211	26,379,564

The above tables only include interest rate sensitive assets and the figures are therefore not identical to the figures shown in the Balance Sheet.

(C) Liquidity Risk

Liquidity risk includes the risk that the Company cannot finance its assets using instruments with the appropriate maturity, and the risk that the Company cannot dispose of its assets for the appropriate price within a reasonable time-frame.

On the liabilities side, the Company reports contributions received from policyholders, the government, and third parties, for the benefit of policyholders. The Company's shareholders' equity is a minor source of financing. It is impossible to determine the maturity value of liabilities from retirement income insurance contributions, because of the nature of the product and the possibility of policyholders to claim the payment of benefits at any time after they are eligible to do so, and the possibility of the payment of the surrender value after the agreement has been in force for 12 months. The Company reported CZK 7,740,237,000 (2006: CZK 6,409,543,000) in these liability accounts due to policyholders who were entitled to a pension benefit but have yet to apply for a payout or the start of payments.

The Company regularly evaluates its liquidity risk, in particular by monitoring changes in the structure of incoming and outgoing policyholders' contributions. Furthermore, the Company holds, as a part of its liquidity risk management strategy, a portion of its assets in highly liquid funds, such as government treasury notes and similar government bonds.

Maturity Values of the Company's Assets and Liabilities

	Up to 3 months	From 3 months to 1 year	1–5 years	Over 5 years	Unspecified	Total
As at 31 December 2007						
Cash-in-hand	68	–	–	–	–	68
Receivables due from banks	5,371,711	–	–	–	–	5,371,711
Other zero coupon bonds	–	–	1,082,385	–	–	1,082,385
Debt securities – government	556,353	567,385	8,729,187	7,587,798	–	17,440,723
Debt securities – other	461,770	685,148	4,216,836	2,447,083	–	7,810,837
Shares, unit certificates, and other ownership interests	–	–	–	–	5,126,619	5,126,619
Other assets	452,538	4,701	–	–	1,011,713	1,458,961
Total	6,842,440	1,257,243	14,028,408	10,034,881	6,128,332	38,291,304
Liabilities due to supplementary pension insurance contributions	5,284	–	–	–	37,177,235	37,177,235
Other liabilities	123,648	618	–	–	–	124,266
Provisions	–	5,982	–	–	–	5,982
Shareholders' equity	–	–	–	–	978,537	978,537
Total	128,932	6,600	–	–	38,155,772	38,291,304
Difference	6,713,508	1,250,643	14,028,408	10,034,881	(32,027,440)	–
Cumulative difference	6,713,508	7,964,150	21,992,559	32,027,440	–	–

	Up to 3 months	From 3 months to 1 year	1–5 years	Over 5 years	Unspecified	Total
As at 31 December 2006						
Cash-in-hand	241	–	–	–	–	241
Receivables due from banks	799,488	–	–	–	–	799,488
Other zero coupon bonds	11,961	–	1,047,557	655,100	–	1,714,618
Debt securities – government	95,805	778,477	6,393,156	7,987,699	–	15,255,137
Debt securities – other	57,376	950,177	4,427,346	3,175,422	–	8,610,321
Shares, unit certificates, and other ownership interests	–	–	–	–	4,765,086	4,765,086
Other assets	508,992	9,535	–	–	809,032	1,327,559
Total	1,473,863	1,738,189	11,868,059	11,818,221	5,574,118	32,472,450
Liabilities due to supplementary pension insurance contributions	12,999	–	–	–	30,225,373	30,238,372
Other liabilities	63,696	886	11,723	–	–	76,305
Provisions	–	11,626	–	–	–	11,626
Shareholders' equity	–	–	–	–	2,146,147	2,146,147
Total	76,695	12,512	11,723	–	32,371,520	32,472,450
Difference	1,397,168	1,725,677	11,856,336	11,818,221	(26,797,402)	–
Cumulative difference	1,397,168	3,122,845	14,979,181	26,797,402	–	–

The above tables show the maturity value of the individual financial instruments, but do not include the value of all cash flows arising out of such instruments.

(D) Exchange Rate Risk

Assets and liabilities that are denominated in foreign currencies, including off-Balance-Sheet items, represent an exchange rate risk for the Company. Both realised and unrealised foreign currency gains and losses are reflected directly in the Profit and Loss Statement. The Company's foreign exchange positions are as follows:

Foreign Currency Position of the Company

	EUR	USD	SKK	CZK	Other	Total
As at 31 December 2007						
Cash-in-hand	–	–	–	68	–	68
Receivables due from banks	7,968	1,046	12,527	5,348,126	2,044	5,371,711
Debt securities – government	–	–	–	17,440,723	–	17,440,723
Debt securities – other	1,713,002	299,754	–	6,405,300	475,166	8,893,222
Shares, unit certificates, and other ownership interests	2,322,571	1,371,088	–	1,230,547	202,413	5,126,619
Other assets	1,096	17,852	–	1,438,856	1,157	1,458,961
Total	4,044,637	1,689,740	12,527	31,863,620	680,780	38,291,304
Policyholder funds	–	–	–	37,182,519	–	37,182,519
Other liabilities	618	–	–	123,648	–	124,266
Provisions	–	–	–	5,982	–	5,982
Shareholders' equity	–	–	–	978,537	–	978,537
Total	681	0	0	38,290,686	0	38,291,304
Off Balance Sheet – short positions	(4,053,069)	(1,805,463)	–	–	(664,742)	(6,523,274)
Off Balance Sheet – long positions	–	93,763	–	6,495,252	–	6,589,015
Net FX Positions	(9,050)	(21,960)	12,527	68,186	16,038	65,741

Foreign Currency Position of the Company

	EUR	USD	SKK	CZK	Other	Total
As at 31 December 2006						
Cash-in-hand	–	–	–	241	–	241
Receivables due from Banks	534	390	224	793,690	4,650	799,488
Debt securities – government	–	–	–	15,255,137	–	15,255,137
Debt securities – other	1,805,429	250,870	11,961	7,797,044	459,635	10,324,939
Shares, unit certificates, and other ownership interests	2,136,410	601,698	–	1,978,668	48,310	4,765,086
Other assets	1,598	77,920	–	1,248,041	–	1,327,559
Total	3,943,971	930,878	12,185	27,072,821	512,595	32,472,450
Policyholder funds	–	–	–	30,238,372	–	30,238,372
Other liabilities	1,771	–	–	74,534	–	76,305
Provisions	–	–	–	11,626	–	11,626
Shareholders' equity	–	–	–	2,146,147	–	2,146,147
Total	1,771	0	0	32,470,679	0	32,472,450
Off Balance Sheet – short positions	(4,211,880)	(997,629)	–	–	(323,402)	(5,532,911)
Off Balance Sheet – long positions	217,463	56,299	–	5,224,194	–	5,497,956
Net FX Positions	(52,217)	(10,452)	12,185	(173,664)	189,193	(34,955)

(E) Equity Risk

Equity risk is the risk of the fluctuation of prices of the equity instruments held in the Company's portfolio and the financial derivatives based on those instruments. The risks associated with equity instruments are managed through trading limits and the methods employed in the management of those risks are specified in the "Risk Management" section (Item 25 (A)).

26. Significant Events Occurring after the Closing Date of the Financial Statements

On 10 July 2007, PPF Group N.V. (the ultimate parent company) and Assicurazioni Generali SpA, concluded an agreement on the establishment of Generali PPF Holding B.V. In it, the PPF Group and Generali Group agreed on merging their insurance activities in the Central and East European regions.

On 17 January 2008, the above-mentioned agreement took effect. All companies from the CZI Holdings N.V. and selected companies from the Central and East European region of the Generali Group were contributed into the corporation Generali PPF Holding B.V. On that date, Generali PPF Holding B.V. became a related company of PPF Group N.V. (49% ownership interest) and a subsidiary of Assicurazioni Generali SpA (51% ownership interest).

Report on Relations among Related Entities

For the 2007 Accounting Period

The company Penzijní fond České pojišťovny, a.s., with its registered seat in Prague 1, Truhlářská 1106/9, postcode 110 00, ID No. 61858692, (hereinafter referred to as the "Company") is obliged to compile, for 2007, what is known as a Report on Relations Among Related Entities, pursuant to Sec. 66a (9) of Act No. 513/1991 Coll., the Commercial Code, as amended.

• **The Company and PPF Asset Management a.s., with its registered seat in Prague 4, Na Pankráci 121/1658, postcode 140 21, ID No. 25629123 concluded the following:**

- Amendment No. 10, of 24 January 2007, to the Management Agreement, of 1 February 2004, replacing and modifying Appendix 6, concerning the portfolio specification and investment policy;
- Management Agreement for the Company's Assets, of 19 December 2007, effective 1 January 2008.

The following were terminated:

- Management Agreement, of 1 February 2004, on the basis of which portfolio management was provided to the Company until 31 December 2007.

• **The Company and Česká pojišťovna a.s., with its registered seat in Prague 1, Spálená 75/16, postcode 113 04, ID No. 45272956, concluded the following:**

- Agreement on the Processing of Personal Information, of 5 February 2007, which regulates the mutual rights and obligations of the contractual parties in the processing of personal information. This agreement was concluded for a definite period of time and terminated on 31 December 2007;
- Amendment 2 to an Agreement on the Processing of Personal Information ČP D/1450-7/2004, of 1 July 2004, expanding the use of information systems for the processing of personal information.

The following were terminated:

- Agreement on the Lease of Commercial Premises, dated 23 August 2004, on the basis of which the Company rented commercial space in Ostrava-Dubina, Horní 73, for a consideration;
- Agreement on the Provision of Cleaning Services in the Commercial Premises in Ostrava-Dubina, Horní 73, of 17 September 2004;
- Agreement on the Lease of Commercial Premises, dated 1 December 2003, on the basis of which the Company rented commercial space in Žatec, Obránců míru 2767, for a consideration;
- Agreement on the Lease of Commercial Premises, dated 14 February 2006, on the basis of which the Company rented commercial space in Pilsen, Slovanská alej 24A, for a consideration.

• **The Company and Home Credit a.s., with its registered seat in Brno, Moravské nám. 249/8, postcode 602 00, ID No. 26978636 concluded:**

- Agreement on Cooperation in the Promotion and Offering of Products and Services, of 31 January 2007.

All of the agreements referred to above were concluded in the normal course of business relations, and all performances provided or received on the basis of the agreements referred to above were provided in the normal course of business relations, and the Company did not sustain any harm on the basis of those agreements.

The Company did not accept or take, in the 2007 accounting period, any measures or other legal steps in the interest or at the instigation of associated entities.

The statutory body hereby declares that in the compilation of this report it has exercised the due care and diligence of a good manager and that the information provided in the report is correct and complete.

Prague, 25 January 2008



Tomáš Matoušek, MBA

CEO and Vice-Chairman of the Management Board

Company name:	Penzijní fond České pojišťovny, a.s.
Registered office:	Truhlářská 1106/9, 110 00 Prague 1, Czech Republic
Telephone:	+420 840 111 280
Fax:	+420 222 314 191
E-mail:	pfcp@pfcp.cz
Internet:	www.pfcp.cz
Auditor:	KPMG Česká republika Audit, s.r.o., Pobřežní 648/1a, 186 00 Prague 8, Czech Republic
Depository:	UniCredit Bank Czech Republic, a. s., Na Příkopě 858/20, 111 21 Prague 1, Czech Republic