



2010

Annual Report



PENZIJNÍ FOND
ČESKÉ POJIŠŤOVNY

Built on a sound foundation

The favorable situation in the market and the **dependable** choice of investment strategy for Penzijní fond České pojišťovny helped generate a historic record profit of CZK 1.15 billion – an unparalleled feat never achieved before by any pension fund in the Czech Republic.

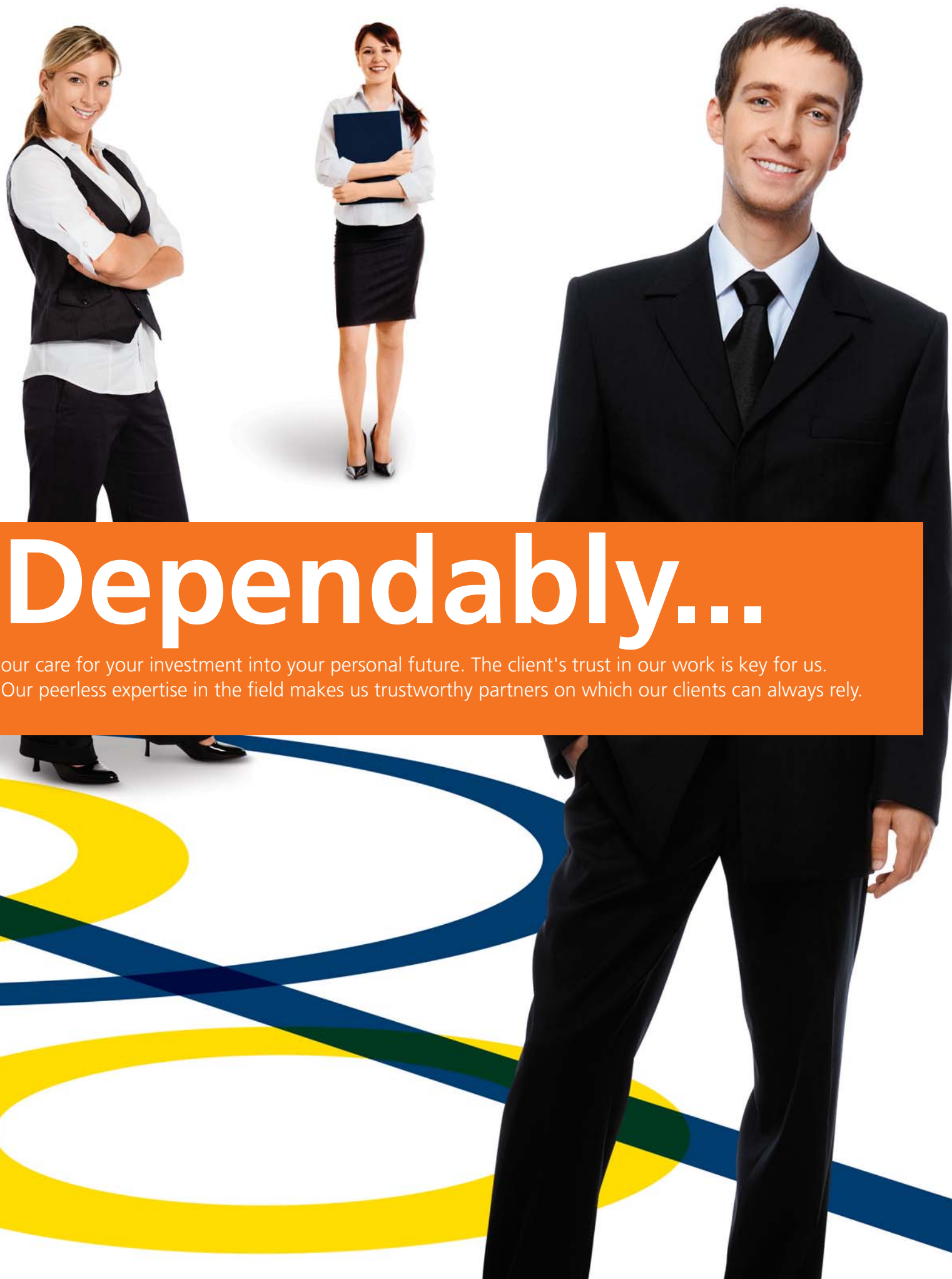
The pension fund also managed to build a new distribution channel for the **efficient** sale of products and services pertaining to supplementary retirement savings plans through the network of Czech Post offices, in addition to the existing comprehensive services rendered through the consultants and branch offices of the fund's parent company, Česká pojišťovna, and through the extensive network of independent external financial brokers.



We will undoubtedly further reinforce our position in 2011, as the big debate about pension reform culminates – a reform which has been eagerly awaited by the Czech Republic for many years now. Penzijní fond České pojišťovny is at the ready, offering a **flexible** response to the new legal framework for pension schemes which will strongly promote individual responsibility.

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Dependably...

our care for your investment into your personal future. The client's trust in our work is key for us. Our peerless expertise in the field makes us trustworthy partners on which our clients can always rely.

Corporate Profile

Name:	Penzijní fond České pojišťovny, a.s.
Registered office:	Truhlářská 1106/9, 110 00 Prague 1
Corporate form:	Public limited company
Incorporation date:	19 September 1994
Identification Number:	61858692
Incorporation details:	Commercial Register maintained by the Prague Municipal Court, Section B, File 2738
Owner (stake in share capital):	Česká pojišťovna a.s. (100%)
Share capital:	CZK 213,700,000

Historical Milestones

1994 – Incorporation.

1996 – The number of pension fund clients surpasses the 100,000 mark.

1998 – Corporate restructuring is completed, resulting in an upsurge in the fund's financial performance and sales.

1999 – Creation of a specialized sales department focusing exclusively on corporate clientele.

2001 – Supplementary retirement savings become a part of the integrated product portfolio of the ČP Employee Benefit Program.

2002 – The value of assets exceeds CZK 10 billion.

2003 – A merger with ČP penzijní fond (formerly Commercial Union Penzijní fond) results in a further acceleration of the corporation's growth.

2004 – A merger with Nový ČP penzijní fond (formerly ABN AMRO Penzijní fond); Penzijní fond České pojišťovny becomes the market leader as regards the number of clients.

2005 – The company surpasses the 800,000 client mark and for the first time wins the MasterCard Bank of the Year contest in its category.

2007 – The number of pension fund clients exceeds one million.

2009 – The company's assets surpass the CZK 50 billion mark.

2010 – Company earnings reach a record high of CZK 1.15 billion.

Calendar of Main Events in 2010

January

The pension fund reported an increase in assets, which surpassed the CZK 50 billion mark at the end of the year.

February

The company mailed all clients eligible for tax deductions a free certificate of payments for taxation purposes. In the preceding year, 178,000 clients (a 5% year-on-year increase) were eligible for tax deductions. Certificates were issued for the aggregate amount of CZK 1.4 billion.

March

A campaign was launched with the aim of achieving an increase in regular payments. Several tens of thousands of selected clients received an offer by telephone or by mail to increase their deposits and to receive a higher government contribution.

April

The pension fund announced its first-quarter results, as earnings amounted to CZK 200 million and assets increased by 17% year-on-year to reach the CZK 51.5 billion mark.

May

The general meeting decided on the value of appreciation for the year 2009. Client accounts were credited with earnings of 1.2%.

June

The company became the general partner of the 104th Žofín Forum. Attended by cabinet members and leading industry specialists, the main topic of this prestigious conference was pension reform.

Account statements were distributed to more than one million clients. Selected segments of the client portfolio received an offer to sign an additional agreement within the family or to increase regular deposits.

For the sixth time, Penzijní fond České pojišťovny placed first in the Financial Institution/Pension Fund sectorial chart as part of the CZECH TOP 100.

July

The pension fund's semi-annual earnings grew by 116% on the previous year to reach the total of CZK 557 million. Assets increased to CZK 52.2 billion, and the total number of clients grew to 1.17 million.

September

Clients were approached with an offer to increase deposits similar to the campaign carried out in the spring.

October

Penzijní fond České pojišťovny placed second in the Fincentrum Bank of the Year 2010 contest in the "Pension Fund of the Year 2010" category, confirming its leading position on the Czech market. The company has been the most frequently awarded pension fund in the Bank of the Year contest in the last five years, regularly placing in one of the top positions.

Dynamic growth has been confirmed by third-quarter figures, as earnings amounted to CZK 931 million and assets totaled CZK 54.2 billion (a 9.5% year-on-year increase).

November

Close to 400,000 clients were mailed an offer to take advantage of tax deductions. Clients can handle the necessary administrative tasks by mail or via the Internet through a special website.

Products and Services

The key component of the portfolio of products and services is the government-subsidized supplementary retirement savings scheme together with all types of legally defined pensions – old-age, service, disability, and survivor benefits. Upon the conclusion of the savings period, clients can choose one of several methods of receiving their investments, including flexible pension schemes.

Supplementary retirement savings are an integral part of the assortment of selected insurance products offered by Česká pojistovna. Clients of this traditional Czech institution can easily arrange a savings plan for retirement age at the same time they negotiate life, accident, and property insurance. The synergic effects within the financial group are evidenced by the inclusion of supplementary retirement savings in the ČP Employee Benefit Program, which is designed for the corporate clientele.

Together with the basic product version of retirement savings, clients interested in additional investment options can take advantage of the POHODA investment supplementary retirement savings program. This product is provided in cooperation with our sister company ČP Invest and combines the benefits of supplementary retirement savings with the advantages of investing in mutual funds.

The SMS Echo service is a testimony to the continual improvement in the pension fund's customer care. Using this service, the fund notifies clients by mobile telephone of any problems with their payments. In addition, SMS Echo confirms the receipt of special deposits to individual retirement savings accounts. Another customer care benefit is the Tax Service, which informs clients of the possibilities of receiving tax deductions by calculating the necessary supplementary payment at the end of a year while, at the same time, taking care of all related administrative tasks. A new feature is the callback service launched earlier this year, which facilitates personal communication with the pension fund and is mainly intended for clients from the ranks of busy professionals.

Clients have easy access to their supplementary retirement savings plans and related services through Česká pojistovna's extensive branch network. In addition, most of their matters relating to the pension fund can be handled using direct communication channels – telephone, the new website, and mail. More and more clients use the PEPA electronic tool (PEnsion Portal Application). Thanks to this secure on-line instrument, clients can be served by their financial advisors at any time. Further, business partners have additional information on their clients and are more readily able to offer them an increase in their regular contributions.

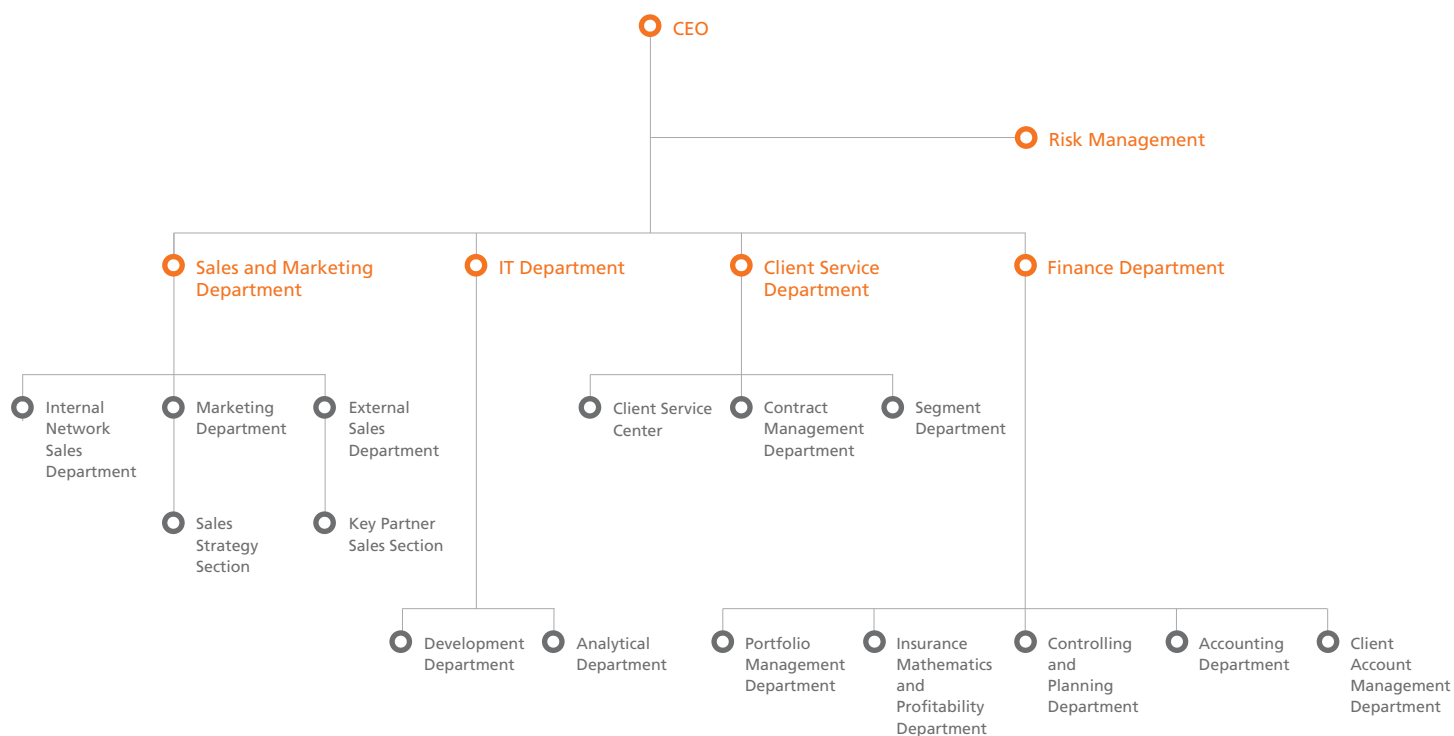
Key Financial Indicators

TCZK	2010	2009	2008	2007	2006	2005
Profit after tax	1,147,392	619,073	81,354	938,616	1,032,735	967,336
Total assets, net	55,304,610	51,366,237	44,811,073	38 291,304	32,472,450	26,465,601
Share capital	213,700	213,700	213,700	213,700	213,700	213,700
Statutory reserve fund	323,397	292,447	288,379	241,448	189,811	141,445

%	2010	2009	2008	2007	2006	2005
Yield assigned (% p.a.)	2.0	1.2	0.2	2.4	3.3	3.8

	2010	2009	2008	2007	2006	2005
Number of clients	1,179,881	1,160,915	1,160,860	1 079,410	974,115	867,593
Number of clients with employer contribution	255,735	265,311	265,582	244,488	217,942	198,314

Organizational Chart



Company Bodies

Board of Directors

Chairman	Tomáš Matoušek
Deputy Chairman	Pavel Šoukal
Member	Václav Šrajber
Member	Libor Pergl
Member	Robert Hlava

Supervisory Board

Chairman	Pavel Řehák
Deputy Chairman	Lorenzo Kravina
Member	Petr Kopecký

Changes made according to a decision by the sole shareholder in 2010 (in descending order):

- 1) On 26 November 2010, Robert Hlava was appointed a member of the Board of Directors.
- 2) Effective as of 31 August 2010, Štefan Tillinger was discharged from the Board of Directors of PFČP a.s.
- 3) Pavel Řehák was appointed a member and chairman of the Supervisory Board as of 1 August 2010.
- 4) Ivan Vodička was discharged from the Supervisory Board as of 31 May 2010.
- 5) The sole shareholder appointed Petr Kopecký a member of the Supervisory Board as of 26 January 2010.
- 6) The sole shareholder discharged Vladimír Filip from the Supervisory Board effective as of 25 January 2010.
- 7) The sole shareholder appointed Ivan Vodička a member of the Supervisory Board effective as of 25 January 2010.

Introduction by the Chairman of the Board of Directors

Dear Shareholder, Clients, and Business Partners,

I am pleased to present you with the 2010 Annual Report of Penzijní fond České pojišťovny, the largest pension fund in the Czech Republic. Last year brought a recovery on global capital markets and, consequently, new stimuli for the supplementary retirement savings segment. As in the past, not only were pension funds able to protect invested assets, but they also succeeded in achieving very favorable financial results. As a result, the funds offered for the purposes of individual retirement savings continue to be very attractive from the earnings viewpoint. In addition, the past year confirmed that the importance of supplementary retirement savings would continue to grow, as the public debate about reforming the pension system gets underway.

Over 65% of the economically active population in the Czech Republic participates in the supplementary retirement savings scheme. Indisputably, its most important advantage is public support consisting of government contributions and the related tax deductions. This is also one of the reasons why people have stuck to their supplementary retirement savings plans even at times when they had to make significant cuts in their family budgets due to the recession. Thanks to that, pension funds presently manage over CZK 220 billion, having succeeded last year in accomplishing their main mission – taking advantage of the improving atmosphere on financial markets to appreciate securely the value of entrusted investments. The results achieved by pension funds in the preceding year speak for themselves: a number of them registered record-high earnings, as the aggregate profit of the sector reached the CZK 4.6 billion mark.

Thanks to the favorable economic situation and a suitably selected investment strategy, Penzijní fond České pojišťovny earned an all-time high profit in the amount of CZK 1.15 billion, achieving a result unparalleled by any other pension fund in the Czech Republic in the past. Last year, funds invested in our company by clients, including government and employer contributions, totalled CZK 9.4 billion.

Total assets surpassed CZK 55 billion, an 8 % increase on the previous year. The long-term growth of assets was supported by activities aimed at increasing regular monthly deposits and expanding the client portfolio, which currently consists of 1.2 million persons, a figure that underlines the fund's dominant position. Last year, 125,000 clients signed a new supplementary retirement savings agreement. This number translates into close to 350 new contracts every day. Such a favorable result was achieved, among other facts, thanks to a change in the distribution strategy. In addition to the highly professional consultants and branches of the parent company, Česká pojišťovna, and an extensive network of independent external financial brokers, we have created another successful distribution channel, and supplementary retirement savings plans are now sold through Czech Post branches.

Penzijní fond České pojišťovny will undoubtedly continue to reinforce its position in 2011, especially as the debate about pension reform gains in importance. The Czech Republic has waited for key modifications of the pension system for more than two decades, and it seems that the conditions are currently favorable for introducing a fundamental systemic change. Our corporation has been pointing out for a long time the unsustainable nature of the current method of financing the pension system, as we promote individual savings. Moreover, we take active part in discussions about the various forms of reform, relying on more than 16 years of experience in the Czech Republic and the international expertise of the Generali PPF Holding.

Thus, we entered the year 2011 aiming not only to fulfill the business and financial plans of our shareholder, but also to prepare our company for new opportunities brought about by changes in the government-run pension system. Besides the government-proposed opt-out, new legislation regulating supplementary retirement savings is likely to be tabled this year. At last, the assets of clients and shareholders will be separated, making existing supplementary retirement savings plans more attractive. Our pension fund has strived for a long time to introduce the option to offer clients various investment profiles reflecting the relationship between return and risk. This is another way of giving clients new and simple prospects of accumulating assets for the post-productive age. I believe that we will take full advantage of all the new forthcoming opportunities.



Tomáš Matoušek
Chief Executive Officer
Chairman of the Board of Directors





Flexibly...

our response to your wishes. We always provide you with a choice, informed by our substantial experience and facilitated by the accommodating character of our products and services. We closely monitor changes in the environment, and are therefore uniquely positioned to adapt to them as they occur.

Report of the Company's Activities

In the second decade of its existence, Penzijní fond České pojišťovny has continuously been profiled as the leader in pension savings in the Czech Republic. The financial and sales results have again confirmed our long-standing image as a provider of high-quality services related to retirement savings. Total assets exceeded CZK 55 billion in 2010. The historically highest profit ever achieved of CZK 1.15 billion was recorded in the past year, representing year-on-year growth of 86%. The number of pension fund clients stood at 1.2 million, of which over 250 thousand receive employer contributions. Penzijní fond České pojišťovny benefited from its diversified distribution network, which is able to address a wide portfolio of client segments. In addition to Česká pojišťovna's consultants and branches, the Fund also cooperates intensively with independent external brokers. In the spring, the company once again defended its leading position among pension funds on the prestigious "CZECH TOP 100" list. In the autumn, for the sixth consecutive year, the company achieved success in the pension fund category of "Fincentrum Bank of the Year 2010".

Sales Results

A change in strategy across all distribution channels brought higher output from independent financial advisors and stabilized Česká pojišťovna's productivity. The commencement of sales through Česká pošta branches saw significant success, while cooperation with selected MLM companies also accelerated. As a result, a total of 125 thousand clients signed a new pension contract last year. Given that future market development will primarily be influenced by continuing penetration of the retail pension market, the highest potential lies in yet-to-be-determined pension reform, and in the media publicising the necessity of personal supplementary pension savings.

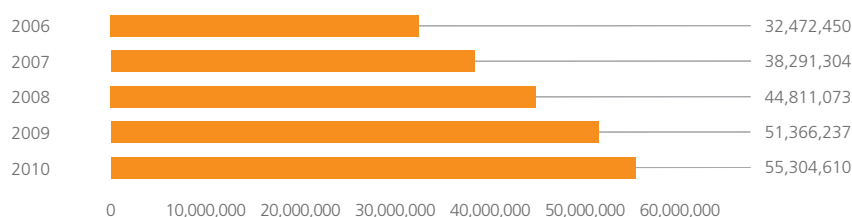
Penzijní fond České pojišťovny: number of clients and asset under management market share



Financial Results

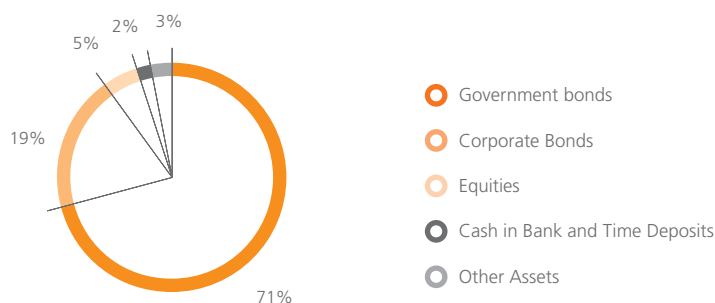
Growth in the main financial indicators of the pension fund was connected with the successful implementation of the investment strategy and increases on the capital markets. Thanks to both of the above-mentioned factors, the company made a record profit of CZK 1.15 billion. Total assets saw a year-on-year increase of 8% to CZK 55.3 billion as at 31 December 2010. Client contributions, including state and employer contributions, reached CZK 9.4 billion in 2010. Long-term asset growth is supported by up-sell activities and one-off campaigns focused on single premiums connected with the possibility of tax relief.

Assets of Penzijního fondu České pojišťovny (TCZK)



Portfolio Management

Despite the global economic recovery in 2010, the most prominent features of the financial markets remained unchanged, being a high degree of volatility and increased uncertainty. Due to the legislative requirement to maintain the value of client assets versus potential market risks, the share of government bonds in the portfolio increased to 71%. The total share of bonds in the portfolio increased to 90%, which was reflected positively in the performance of the portfolio as market yields dropped. A small share of stocks participated in the growth of market indices, and contributed to total performance.



Portfolio Structure

	2010 %	2009 %	2008 %	2007 %
Government Bonds	71	68	61	49
Corporate Bonds	19	17	22	20
Equities	5	5	5	8
Cash in Bank and Time Deposits	2	6	3	14
Other Assets*	3	4	9	9
Market Value of Portfolio	100	100	100	100

* Receivables from state contributions, tax receivables and coupons.



Tomáš Matoušek
Chief Executive Officer
Chairman of the Board of Directors



Report of the Supervisory Board

Report of the supervisory board of the company Penzijní fond České pojišťovny, a.s. on the results of its oversight activities, including its review of the company's regular annual financial statements for the financial year 2010, its review of the report on the relationships between the company and other associated entities for the financial year 2010 and its opinion on the company's board of director's proposal for the distribution of the company's 2010 profits.

In 2010 all activities of the supervisory board of the company Penzijní fond České pojišťovny, a.s. (the "company") had been carried out in accordance with applicable legal regulations and the company's charter. The supervisory board of the company had been overseeing the company's board of directors while exercising its authority as well as overseeing the business activities of the company.

In accordance with the company's charter and within its scope of authority, the supervisory board of the company held five regular meetings during 2010. In its meetings, the supervisory board paid special attention to supervising and monitoring the company's finances, its business activities and performance, status of and returns on its investment portfolio and fulfilment of the company's 2010 financial and business plans.

At the beginning of 2010, the supervisory board had the following composition: Lorenzo Kravina and Vladimír Filip. This composition changed during 2010 so that (i) as of 25 January 2010 the sole shareholder recalled Vladimír Filip and nominated Petr Kopecký to the supervisory board and one day later on 26 January 2010 Ivan Vodička was nominated, (ii) as of 31 May 2010 the sole shareholder recalled Ivan Vodička, (iii) as of 1 August 2010 the sole shareholder nominated Pavel Řehák to the supervisory board.

The company's board of directors presented to the supervisory board for its consideration the regular financial statements of the company for the financial year 2010, verified by the auditor and the proposal for distribution of profits generated by the company in 2010. The supervisory board also received, for its review, a Report on Relations between associated entities for the financial year 2010, prepared in accordance with the provision of § 66a article 9 of the act No. 513/1991 Coll., Commercial Code, as amended (the "Commercial Code"). After having reviewed the company's financial results for 2010, 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 the financial year 2010 and related auditor's report and, in accordance with the auditor's statement, it has found no impediments. Based on the above-mentioned information, the supervisory board recommends that the general meeting of shareholders approves the regular financial statements of the company for the financial year 2010. The supervisory board of the company also recommends that the general meeting of shareholders adopts a decision on the distribution of profits generated by the company in 2010, as proposed by the company's board of directors.

Furthermore, the supervisory board of the company has reviewed the Report on Relations between associated entities for financial year 2010, prepared in accordance with the provision of § 66a article 9 of the Commercial Code and has found nothing that might stand out as a reason for the supervisory board to take a negative position with respect to the contents of the mentioned document.

In Prague on 30 March 2011



Pavel Řehák
Chairman of the Supervisory Board



Efficiently...

our work on expanding the portfolio of services on offer and improving its quality. Client satisfaction is the fundamental pillar of our success. Efficient solutions are a matter of course to us.



English Translation

Independent Auditor's Report



to the shareholder of Penzijní fond České pojišťovny, a.s.

We have audited the accompanying financial statements of Penzijní fond České pojišťovny, a.s., identification number 61858692, with registered office at Truhlářská 1106/9, Praha 1 ("the Company"), which comprise the balance sheet as at 31 December 2010, the income statement and statement of changes in equity for the year then ended and notes, including a summary of significant accounting policies ("the financial statements").

Statutory Representative's Responsibility for the Financial Statements

The Statutory Representative is responsible for the preparation of the financial statements that give a true and fair view in accordance with Czech accounting legislation, and for such internal controls as the Statutory Representative determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors of the Czech Republic, International Standards on Auditing and the related application guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2010 and its financial performance for the year then ended in accordance with Czech accounting legislation.

21 February 2011

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

Petr Kříž
Statutory Auditor, Licence No. 1140

Translation note

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

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Financial Section

2010

Annual Report

Balance Sheet

as at 31 December 2010

Assets	Note	31 December 2010 CZK'000	31 December 2009 CZK'000
1. Cash on hand		22	83
2. Due from banks	3	1,356,628	3,091,327
of which: a) payable on demand		920,393	1,058,635
b) other receivables		436,235	2,032,692
3. Debt securities	4	49,379,029	43,867,672
of which: a) issued by government institutions		39,104,574	35,121,574
b) issued by other entities		10,274,455	8,746,098
4. Shares and mutual fund shares	4	3,456,593	3,198,472
5. Intangible fixed assets	5	19,691	2,336
6. Tangible fixed assets	5	18,420	18,482
7. Other assets	6	565,689	491,256
8. Prepayments and accrued income	7	508,538	696,609
Total assets		55,304,610	51,366,237

Balance Sheet

as at 31 December 2010 (continued)

Liabilities	Note	31 December 2010 CZK'000	31 December 2009 CZK'000
1. Other liabilities	8	52,254,845	48,333,202
of which: a) policyholders' funds		52,124,745	47,955,471
aa) contributions from policyholders and state		48,978,646	44,735,576
ab) pension funds		63,032	54,063
ac) income from policyholders' contributions		3,022,093	2,935,263
ad) unallocated policyholders' contributions		50,608	90,361
ae) pension benefit payments		10,366	140,208
b) other		130,100	377,731
ba) trade payables		28,632	43,682
bb) payroll payables		4,961	8,252
bc) social insurance liabilities		1,911	3,522
bd) due to state budget – state contribution		9,697	7,211
be) due to state budget – tax liabilities		16,761	17,141
bf) estimated payables and other liabilities		68,138	297,923
2. Provisions	9	23,143	15,030
of which: a) for pensions and similar liabilities		15,975	10,781
b) other		7,168	4,249
3. Share capital – paid up	10	213,700	213,700
4. Share premium		50,000	50,000
5. Reserve funds and other funds from profit		330,747	300,297
of which: a) statutory reserve fund		323,397	292,447
b) other funds created from profits		7,350	7,850
6. Capital funds		745,567	1,745,567
of which: a) shareholder invested capital		725,753	1,725,753
b) other capital funds		19,814	19,814
7. Revaluation reserve of assets and liabilities		74,311	(313,574)
8. Retained earnings from previous periods		464,905	403,004
9. Profit for the accounting period		1,147,392	619,011
Total liabilities		55,304,610	51,366,237

Off-balance Sheet as at 31 December 2010

	Note	31 December 2010 CZK'000	31 December 2009 CZK'000
Off-balance sheet assets			
Receivables from term instruments	20	16,761,424	9,462,585
Assets managed by a third party	20	54,125,451	49,769,607
Total off-balance sheet assets		70,886,875	59,232,192
Off-balance sheet liabilities			
Payables from term instruments	20	16,697,453	9,102,193
Collateral received – securities	20	350,000	–
Total off-balance sheet liabilities		17,047,453	9,102,193

Income Statement

for the Year Ended 31 December 2010

	Note	2010 CZK'000	2009 CZK'000
1. Interest and similar income	11	1,818,957	1,917,872
of which: interest income from debt securities		1,810,725	1,901,431
2. Income from shares and other interests		56,895	60,494
3. Fee and commission expenses	12	(624,943)	(1,003,647)
4. Gains less losses from financial transactions	13	176,699	(46,306)
5. Other operating income	14	17,186	14,374
6. Other operating expenses	15	(3,744)	(8,044)
7. Administrative expenses	16	(269,789)	(280,133)
of which: a) staff costs		(93,357)	(87,262)
aa) wages and salaries		(72,460)	(68,918)
ab) social and health insurance		(20,897)	(18,344)
b) other administrative expenses		(176,432)	(192,871)
ba) business costs		(79,344)	(90,296)
bb) administration expenses		(97,088)	(102,575)
8. Depreciation and amortisation of tangible and intangible fixed assets	5	(15,756)	(16,912)
9. Write-off, additions to and utilisation of allowances for receivables		–	(10,735)
10. Additions and utilisations of other provisions	9	(8,113)	(7,952)
11. Profit on ordinary activities before taxation		1,147,392	619,011
12. Income tax	17	–	–
13. Profit for the accounting period after taxation		1,147,392	619,011

Statement of Changes in Equity for the Year Ended 31 December 2010

	Share capital	Share premium	Reserve funds and other funds from profit	Capital funds	Revaluation reserve	Retained earnings	Net profit	Total
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
Balance as at 1 January 2009	213,700	50,000	296,342	1,745,567	(2,412,106)	394,868	81,354	369,725
Changes to revaluation reserve not included in net profit (Note 10)	–	–	–	–	(2,098,532)	–	–	2,098,532
Profit for the accounting period	–	–	–	–	–	–	619,011	619,011
Transfers to funds	–	–	4,068	–	–	8,136	(12,204)	–
Use of funds	–	–	(113)	–	–	–	–	(113)
Net profit distributed to policyholders	–	–	–	–	–	–	(69,150)	(69,150)
Balance as at 31 December 2009	213,700	50,000	300,297	1,745,567	(313,574)	403,004	619,011	3,018,005
Changes to revaluation reserve not included in net profit (Note 10)	–	–	–	–	387,885	–	–	387,885
Profit for the accounting period	–	–	–	–	–	–	1,147,392	1,147,392
Transfers to funds	–	–	30,950	–	–	61,901	(92,851)	–
Use of funds	–	–	(500)	–	–	–	–	(500)
Net profit distributed to policyholders	–	–	–	–	–	–	(526,160)	(526,160)
Decrease in capital funds	–	–	–	(1,000,000)	–	–	–	(1,000,000)
Balance as at 31 December 2010	213,700	50,000	330,747	745,567	74,311	464,905	1,147,392	3,026,622

Notes to Financial Statements for the Year Ended 31 December 2010

1. General Information

Penzijní fond České pojišťovny, a. s. (the "Company"), with its registered office at Truhlářská 1106/9, Prague 1, was established by its registration in the Commercial Register on 19 September 1994. The Company's identification number is 61858692.

The sole shareholder of the Company is Česká pojišťovna a.s. The Company's financial statements are part of the consolidated financial statements of Česká pojišťovna a.s., the Generali PPF Holding B.V. holding, based in the Netherlands, and Assicurazioni Generali S.p.A, based in Italy, which is the ultimate parent company.

The Company's main business activities are:

- collecting funds from pension plan policy holders ("policy holders") and from the state collected in favour of policy holders;
- asset management of the funds;
- distribution of pensions; and
- other activities directly related to defined pension insurance contributions.

The Company has the following organisational structure:

- Sales and marketing division
- Finance division
- Client services division
- IT division

Sales are realised by external brokers and through the branches of Česká pojišťovna a.s.

The Company's investment portfolio is managed by Generali PPF Asset Management a.s.

The Company's depository is UniCredit Bank Czech Republic, a.s. ("the Depository").

2. Accounting Standards

(a) Key accounting methods

The Company's financial statements, comprising the balance sheet, income statement, the statement of changes in equity and notes to financial statements are prepared in accordance with the Act on Accounting, implementing decrees of the Ministry of Finance of the Czech Republic and Czech Accounting Standards for financial institutions. The financial statements are prepared under the historical cost convention as modified by the revaluation of financial instruments at fair value through profit or loss and available-for-sale to fair values and held-to-maturity financial instruments at amortised cost.

The figures in the financial statements are rounded to thousands of Czech crowns ("CZK '000") unless stated otherwise.

Operating Environment

Due to the global financial crisis that affected the euro zone in the form of debt crisis, the financial environment remains very fragile. Although the economic conditions are gradually improving, over the next quarters the financial markets will still be vulnerable.

Although it is difficult to predict the financial market development in short term horizon, the Company's liabilities to its clients are guaranteed at any time by the Company's shareholder, Česká pojišťovna a.s.

When preparing financial plans, the Company's management properly incorporates the revised estimates of expected future cash flows. The Company assess asset impairment.

The fair values of quoted investments in active markets are based on current market prices (financial assets) or bid prices (financial liabilities). If there is no active market for a financial instrument, the Company establishes fair value using valuation techniques. These include the use of recent arm's length transactions, discounted cash-flow analyses, and other valuation techniques commonly used by market participants.

(b) Foreign currencies

Financial assets and liabilities denominated in foreign currencies are translated to Czech Crowns at the exchange rate announced by the Czech National Bank ("CNB") effective as at the balance sheet date. Resulting foreign exchange gains and losses are recognised in Gains less losses from financial transactions.

(c) Fair value of securities

The fair value of a security is determined as the market mid-price quoted by a relevant stock exchange or other active public market. In other cases, the fair value of a given security is determined as follows:

- present value of expected future cash flow of Shares and Mutual Fund Shares,
- or
- net present value of the cash flows considering risks in case of bonds.

In its models designed for determining of the fair value of the securities, the Company uses only observable market data. The valuation models consider current market conditions as at the date of the valuation which do not necessarily reflect the market situation before or after the valuation date. The management of the Company reviewed these models as at the balance sheet date and assured that the models adequately reflect the current market conditions including relative market liquidity and credit spread.

(d) Recognition and derecognition of financial assets and liabilities

The following rules apply to recognition of financial assets and liabilities:

The Company recognises a financial asset or a financial liability in its balance sheet when, and only when, the Company becomes a party to the transaction.

The following rules apply to derecognition of financial assets and liabilities:

The Company derecognises a financial asset or a part there of when it loses control over the asset or its part. It loses this control when the contractual rights to the cash flows from the financial asset expire, are used by the Company or the Company surrenders these rights.

The Company removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished – i.e. when the obligation specified in the contract is discharged or cancelled or expires. The difference between the carrying amount of a liability (or a portion thereof) extinguished or transferred and the amount paid for is recognised net in profit or loss for the period.

A regular way to purchase or sell financial assets shall be recognised and derecognised, as applicable, using settlement date accounting. Standard way purchases and sales are recognised only in the off-balance sheet in the period between trade date and settlement date.

(e) Securities at fair value through profit or loss

Securities at fair value through profit or loss have two subcategories: held-for-trading, and those designated at fair value through profit or loss at inception. Securities are classified as held-for-trading if they are acquired or incurred principally for the purpose of selling or repurchasing in the near term or if they are part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Any security that is a financial asset or liability can be designated at fair value through profit or loss at inception except for participation interests that are not publicly traded and their fair value of which cannot be reliably measured and securities issued by the Company.

Securities at fair value through profit or loss are initially recognised at cost, which includes expenses incurred in connection with their acquisition, and they are subsequently measured at fair value. All related gains and losses are included in gains less losses from financial transactions. Spot purchases and sales are recognised on a settlement date basis. Forward trades are treated as derivatives. Interest earned on securities at fair value through profit or loss is reported as interest income.

(f) Securities held-to-maturity

Securities held-to-maturity are securities with a fixed maturity designated by the Company into this category, provided the Company has both the intent and the ability to hold them to maturity. From 1 January 2009 they are measured at amortised cost.

(g) Securities available-for-sale

Available-for-sale securities are securities that the Company designates into this category or does not meet the terms of any other category. They comprise mainly debt securities held for liquidity management and shares.

Available-for-sale securities are initially recognised at cost which includes expenses incurred in connection with their acquisition and are subsequently measured at fair value.

Any subsequent gains and losses arising from changes in the fair value of available-for-sale securities are recognised directly in equity (net of any tax effect) until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity should be recognised in the income statement.

Interest calculated using the linear interest rate method, dividends and foreign exchange differences on debt securities are recognised in the income statement. Foreign exchange differences on equity securities are recognised in the revaluation reserve in equity.

(h) Transfers between portfolios

Transfers between portfolios are generally allowed if management intentions are changed, except as follows:

- transfers to and from the at fair value through profit or loss portfolio are not allowed; and
- on the sale or transfer of any securities held-to-maturity, the Company must transfer the rest of the portfolio of securities held-to-maturity to available-for-sale securities and no securities can be classified as held-to-maturity within the two following accounting periods. Exceptions to this rule are allowed for sales within the last three months before maturity of the security or in the case of a significant deterioration in an issuer's creditworthiness.

(i) Financial derivatives and hedging

Derivative financial instruments and foreign exchange contracts are initially recognised on balance sheet at cost and are subsequently remeasured at their fair value.

Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models using only observable market data as appropriate. The valuation models reflect current market conditions at the measurement date which may not be representative of market conditions either before or after the measurement date. As at the balance sheet date, management has reviewed its models to ensure they appropriately reflect current market conditions, including the relative liquidity of the market and credit spreads.

All derivatives are presented in Other assets or in Other liabilities when their fair value is positive or negative, respectively.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss.

Changes in the fair value of derivatives held-for-trading are included in Gains less losses from financial transactions.

The Company designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge).

Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) the derivative is in compliance with the Company's risk management strategy;
- (ii) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (iii) the hedge documentation proves that it is expected to be highly effective in offsetting the risk in the hedged item at inception and throughout the reporting period;
- (iv) the hedge is effective on an ongoing basis; and
- (v) the hedged item is not a security classified as at fair value through the profit or loss.

Changes in the fair value of derivatives that qualify as effective fair value hedges are recorded in the income statement, along with the corresponding change in fair value of the hedged asset or liability that is attributable to that specific hedged risk.

Changes in the fair value of the hedging instruments are recorded in the income statements and the corresponding changes in the fair value of the hedged items (as a result of the hedged risk) are also recorded in the income statement.

Certain derivatives, although providing effective financial hedging of opened positions of the Company from the risk management point of view, do not fulfil the criteria of hedge accounting based on applicable Czech Accounting Standards. Therefore these derivatives are accounted as trading derivatives. Gains less losses from the revaluation of these derivatives are recorded in the income statement.

(j) Interest income and expenses, dividend income

Interest income and expense are recognised for all interest bearing instruments on an accruals basis using the linear interest rate method, eventually using the effective interest rate based on the acquisition cost for the held-to-maturity portfolio.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows until maturity or the nearest change of interest rate to the net carrying amount of the financial asset or financial liability.

The linear interest rate method is used as the approximation of the effective interest rate for available-for-sale securities and for securities at fair value through profit or loss. Interest income includes the accrued interests, discount and premium for all fixed income instruments.

Dividend income is recorded as at ex-dividend date. Pension funds are not subject to dividend income tax.

(k) Receivables and allowances

Receivables are stated at nominal value less a provision for doubtful amounts created on the basis of an individual recoverability assessment.

Irrecoverable receivables are written off upon completion of bankruptcy proceedings against the debtor.

(l) Pension insurance policyholders' contributions

Pension insurance policyholders' contributions and state subsidy, including revenues from these contributions, are recognised at nominal value.

(m) Value added tax

The Company is registered as a value-added-tax ("VAT") payer. Due to the nature of the Company's business, the Company cannot claim back the input VAT and therefore any input VAT paid is considered part of the related expenses.

(n) Deferred taxation

A deferred tax liability is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base using the full liability method. A deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available against which this asset can be utilised.

The approved tax rate for the period in which the Company expects to utilise the asset or realise the liability is used for the deferred taxation calculation. Deferred tax related to fair value remeasurement of available-for-sale securities, which are charged or credited directly to equity, is also credited or charged directly to equity.

(o) Provisions

Provisions are recognised when the Company has a present obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. All provisions are presented in liabilities.

Additions to provisions are recognised in the income statement, their utilisation is recognised together with expenses or losses, for which purpose they were created in the income statement. Release of provisions in case they are no longer necessary is recognised as income.

Provisions are set aside in the currency in which settlement is expected to be made.

Provisions for future pension distributions

When needed, the Company creates a provision for future pension distributions based on the net carrying value of the expected pension payments calculated by an actuary less total funds allocated in favour of pension beneficiaries as at the calculation date.

(p) Tangible and intangible fixed assets

Tangible and intangible fixed assets are valued at acquisition cost. Depreciation/ amortisation periods used for each category of tangible and intangible fixed asset are as follows:

Software	individually based on the useful life – max. 20 years
Low-value fixed assets	3 years
Machines and equipment	3–4 years
Cars	3 years
Furniture	6 years
Air-conditioning	5–15 years
Safes	12–15 years

Costs related to repair and maintenance of the tangible fixed assets are recorded to expenses. Technical improvements on the individual assets are capitalised and depreciated.

(q) Staff costs, supplementary pension plan and social fund

Staff costs are included in Administrative expenses and they also include board emoluments.

The Company makes contributions on behalf of its employees to a defined contribution pension plan. Contributions paid by the Company are accounted for directly as an expense.

Regular contributions are made to the State to fund the national pension plan.

(r) Related parties

Related parties are defined as follows:

- board members and senior management of the Company, being persons responsible for management functions based on employment or other contracts and powers and responsibilities defined in the Company's statute ("senior management");
- relatives (direct family members) of the board members, senior management of the Company and of entities controlling the Company;
- entities in which the board members of the Company, senior management or the sole shareholder of the Company hold at least a 10% equity investment; and
- the sole shareholder of the Company and entities controlled by him, his shareholders with at least a 10% shareholding and the management of these entities.

Material transactions, outstanding balances and pricing policies with related parties are disclosed in Note 19.

(s) Subsequent events

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

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

3. Receivables from Banks

	31 December 2010 CZK'000	31 December 2009 CZK'000
Current bank accounts	262,393	255,635
Term deposits	744,221	2,835,692
Repo transactions	350,014	–
	1,356,628	3,091,327

4. Securities

	Debt securities as at 31 December		Shares and mutual fund shares as at 31 December	
	2010 CZK'000	2009 CZK'000	2010 CZK'000	2009 CZK'000
Fair value through profit or loss	–	–	448,650	553,208
Available-for-sale	34,391,274	31,162,887	3,007,943	2,645,264
Held-to-maturity	14,987,755	12,704,785	–	–
	49,379,029	43,867,672	3,456,593	3,198,472

(a) Securities at fair value through profit or loss – trading securities

Shares and mutual fund shares

	31 December 2010 CZK'000	31 December 2009 CZK'000
Traded on the primary or secondary market of the Prague Stock Exchange (PSE)	–	17,530
Foreign stock exchanges	448,650	535,678
	448,650	553,208

(b) Securities available-for-sale

Debt securities including zero-coupon bonds

	31 December 2010 CZK'000	31 December 2009 CZK'000
Traded on the primary or secondary PSE market	23,016,092	21,963,855
Foreign stock exchanges	11,375,182	9,199,032
	34,391,274	31,162,887

Shares and mutual fund shares

	31 December 2010 CZK'000	31 December 2009 CZK'000
Traded on the primary or secondary PSE market	284,068	659,143
Foreign stock exchanges	2,723,875	1,986,121
	3,007,943	2,645,264

(c) Securities held-to-maturity

Debt securities

	31 December 2010 CZK'000	31 December 2009 CZK'000
Traded on the primary or secondary PSE market	14,987,755	12,704,785

The fair value of debt securities held-to-maturity as at 31 December 2010 is CZK 15,695,892,000 (2009: CZK 13,045,105,000).

5. Tangible and Intangible Fixed Assets

Intangible fixed assets

	Software CZK'000	Valuable rights CZK'000	Total CZK'000
As at 1 January 2009			
Acquisition cost	38,808	16,295	55,103
Accumulated amortisation	(35,046)	(11,898)	(46,944)
Net book value	3,762	4,397	8,159
Year ended 31 December 2009			
Net book value – opening balance	3,762	4,397	8,159
Additions	878	–	878
Amortisation	(2,453)	(4,248)	(6,701)
Net book value – closing balance	2,187	149	2,336
As at 31 December 2009			
Acquisition cost	39,685	16,295	55,980
Accumulated amortisation	(37,498)	(16,146)	(53,644)
Net book value	2,187	149	2,336
Net book value – opening balance	2,187	149	2,336
Additions	23,358	0	23,358
Amortisation	(5,936)	(67)	(6,003)
Net book value – closing balance	19,609	82	19,691
As at 31 December 2010			
Acquisition cost	63,044	16,295	79,339
Accumulated amortisation	(43,435)	(16,213)	(59,648)
Net book value	19,609	82	19,691

Tangible fixed assets

	Vehicles	Machines and equipment	Furniture and fixtures and low-value assets	Total
	CZK'000	CZK'000	CZK'000	CZK'000
As at 1 January 2009				
Acquisition cost	17,174	34,555	19,195	70,924
Accumulated depreciation	(8,958)	(28,500)	(14,315)	(51,773)
Net book value	8,216	6,055	4,880	19,151
Year ended 31 December 2009				
Net book value – opening balance	8,216	6,055	4,880	19,151
Additions	5,294	5,168	2,582	13,044
Disposals	(3,501)	–	–	(3,501)
Depreciation	(2,869)	(4,701)	(2,642)	(10,212)
Net book value – closing balance	(7,140)	6,522	4,820	18,482
As at 31 December 2009				
Acquisition cost	13,822	38,540	20,978	73,340
Accumulated depreciation	(6,682)	(32,018)	(16,158)	(54,858)
Net book value	7,140	6,522	4,820	18,482
Year ended 31 December 2010				
Net book value – opening balance	7,140	6,522	4,820	18,482
Additions	3,249	5,025	1,906	10,180
Disposals	(425)	(1)	(63)	(489)
Depreciation	(4,185)	(2,835)	(2,733)	(9,753)
Net book value – closing balance	5,779	8,711	3,930	18,420
As at 31 December 2010				
Acquisition cost	11,802	39,320	21,526	72,648
Accumulated depreciation	(6,023)	(30,609)	(17,596)	(54,228)
Net book value	5,779	8,711	3,930	18,420

6. Other Assets

	31 December 2010	31 December 2009
	CZK'000	CZK'000
Receivables from unsettled securities transactions	92,246	115,681
Other debtors	27,348	26,309
Due from State (Note 8)	366,795	359,671
Financial derivatives (Note 18(c))	95,324	3,140
Cash equivalents	433	611
Due to and from state budget	1,715	4,013
Other receivables	28	31
	583,889	509,456
Allowances to receivables	(18,200)	(18,200)
	565,689	491,256

7. Prepayments and Accrued Income

The Company has deferred expenses and accrued income in the total amount of CZK 508,538,000 (2009: CZK 696,609,000) which includes CZK 505,277,000 (2009: CZK 695,661,000) as deferred acquisition cost of insurance contracts and CZK 3,261,000 (2009: CZK 948,000) as other deferred expenses and accrued income.

8. Other Liabilities

	31 December 2010 CZK'000	31 December 2009 CZK'000
Trade payables	28,632	43,682
Payables to employees and social insurance	6,872	11,774
Financial derivatives (Note 18(c))	33,426	259,215
Liabilities from the sale of securities	2,172	–
Tax payable	16,761	17,141
Estimated liabilities	32,541	38,708
Other payables	9,696	7,211
	130,100	377,731

Estimated liabilities in the amount of CZK 32,541,000 (2009: 38,708,000) include mainly bonuses for year 2010 payable in January and services purchased in 2010 that have not been invoiced yet. Tax payable mainly represents withholding tax from pension benefit payments in the amount of CZK 11,958,000 (2009: 15,378,000) and payroll tax for the period of December 2010.

Policyholders' funds

Balances and movements in policyholders' funds can be analysed as follows:

	Balance at 1 January 2010 CZK'000	Additions CZK'000	Disposals CZK'000	Balance at 31 December 2010 CZK'000
Policyholders' contributions	38,193,504	7,904,059	4,864,959	41,232,604
Shared profit	2,935,263	946,604	859,774	3,022,093
State contributions	6,826,704	1,509,162	465,818	7,870,048
Policyholder funds in total	47,955,471	10,359,825	6,190,551	52,124,745

	Balance at 1 January 2009 CZK'000	Additions CZK'000	Disposals CZK'000	Balance at 31 December 2009 CZK'000
Policyholders' contributions	34,722,569	8,772,981	(5,302,046)	38,193,504
Shared profit	3,277,593	148,907	(491,237)	2,935,263
State contributions	6,154,394	1,577,993	(905,683)	6,826,704
Policyholder funds in total	44,154,556	10,499,881	(6,698,966)	47,955,471

The above-mentioned overview of the balances and changes in the policyholders' funds includes estimated state contributions for the last calendar quarters in the respective years. This contribution was estimated at CZK 366,795,000 as at 31 December 2010 (31 December 2009: CZK 359,671,000). The share in profit also includes relevant portions of the policyholders' funds transferred from other funds.

Portfolio of policyholders:

	2010	2009
Number of policyholders as at 31 December	1,179,881	1,160,915
Average monthly policyholder contribution (CZK)	590	665

Analysis of payments to policyholders:

	2010	2009
Pension benefit payments		
Policyholders' and employers' contributions	4,279,559	3,909,456
Shared profit	420,849	402,608
State contributions	657,874	580,546
Payments in total	5,358,282	4,892,610
Number of payments	108,025	87,310
Policyholders' and employers' contributions	377,291	998,902
Shared profit	39,183	82,302
State contributions	70,782	200,338
Transfers to other pension funds in total	487,256	1,281,542
Refunds		
Policyholders' and employers' contributions	208,109	393,688
Shared profit	5,786	6,327
State contributions	131,118	124,799
Refunds in total	345,013	524,814

9. Reserves

The Company creates reserves for pension payments in accordance with the methods specified in Note 2(o):

	Pension reserves CZK'000	Other reserves CZK'000	Total reserves CZK'000
Balance as at 1 January 2010	10,781	4,249	15,030
Creation	5,733	2,919	8,652
Utilisation	(539)	–	(539)
Balance as at 31 December 2010	15,975	7,168	23,143

For the calculation as at 31 December 2010, the following key economic and actuarial assumptions were used:

- The Pension Fund's cost model was derived from the actual administrative, capital and acquisition costs. The annual cost inflation, based on market conditions, was used for this projection.
- For the projection of future income and for the determination of the discount rates, the most reasonable estimation of the fund's future income were used as at 31 December 2010. In accordance with the existing procedure, the model expected the participants to be credited with 85% of the annual profit.
- Decrements used to simulate the outflow of participants:
 1. Likelihoods of mortality are based on demographic tables of the Czech Bureau of Statistics 2009, as modified by the tendency of improving population mortality.
 2. The percentage of participants opting for pension benefits instead of a lump-sum settlement and the percentage likelihood of participants leaving the pension fund (transfer to another pension fund or cancellation) are based on the Company's experience. The simulation works with the current situation and with gradual increases in the percentage of the participants opting for pension benefits.

10. Equity and Profit Distributions

Share capital

Česká pojišťovna a.s., with its registered office at Spálená 75/16, 113 04 Prague 1, is the sole shareholder of the Company as at 31 December 2010, holding 213,699,560 shares stated at a par value of CZK 1 each.

Profit distribution

	Proposal for 2010 CZK'000	2009 CZK'000
Transfer to the statutory reserve fund	57,370	30,950
Profit shared with policyholders	975,283	526,160
Transfer to retained earnings	114,739	61,901
Total profit for the period	1,147,392	619,011
Annual yield	2.0%	1.2%

According to Act No. 42/1994 Coll., on pension insurance with state contribution as amended, at least 85% of the profit for the accounting period has to be allocated in favour of the policyholders. The annual yield is calculated on the basis of the methodology approved by the Association of Pension Funds of the Czech Republic.

The annual yield in 2010 is based on the assumption that the proposed distribution of profit shall be approved by the sole shareholder of the Company.

Revaluation reserve

	31 December 2010 CZK'000	31 December 2009 CZK'000
Deferred tax	(3,911)	–
Shares and mutual fund shares	6,566	(721,197)
Debt securities – government	262,313	667,111
Debt securities – other	(190,657)	(259,488)
	74,311	(313,574)

In compliance with the valid legislation, revaluation differences are fully recognised in equity although at least 85% will be allocated to policyholders as a part of the profit distribution when the differences are realised. The distributable portion represents an implicit liability to policyholders.

11. Interest and Similar Income

	2010 CZK'000	2009 CZK'000
Current accounts	1,841	3,125
Term deposits	6,391	13,316
Debt securities	1,810,725	1,901,431
	1,818,957	1,917,872

12. Fee and Commission Expenses

	2010 CZK'000	2009 CZK'000
Commissions to agents	466,062	879,159
Bank fees	10,593	5,429
Portfolio management fees (external)	129,526	108,931
Commissions – motivation	18,762	10,133
	624,943	1,003,652

The increase in the commissions to agents in 2009 is due to the change in the amortisation period to 4 years.

13. Gains Less Losses from Financial Transactions

	2010 CZK'000	2009 CZK'000
Gains less losses from trading with securities	(1,845)	(199,782)
Other foreign exchange differences	38,874	(6,014)
Gains less losses from trading derivatives	139,670	181,428
Other transactions	–	65
Impairment – bonds	–	(14,352)
Impairment – shares	–	(7,651)
	176,699	(46,306)

14. Other Operating Income

	2010 CZK'000	2009 CZK'000
Insurance benefit	958	770
Gains on sale of tangible assets	1,382	4,095
Policyholders' contributions	14,707	9,029
Other	139	480
	17,186	14,374

15. Other Operating Expenses

	2010 CZK'000	2009 CZK'000
Damages	557	918
Net book value of tangible assets sold	490	3,049
Policyholders' contributions	86	112
Utilisation of reserves for guaranteed return and allocation to pension reserve	2,503	2,084
Other	108	1,881
	3,744	8,044

16. Administrative Expenses

	2010 CZK'000	2009 CZK'000
Staff costs	93,357	87,262
Rent and facility maintenance	20,412	20,797
Tax and legal advisory services	9,080	9,291
Audit services – statutory audit	1,390	1,512
Other audit services – translations	41	24
Postal and telecommunication charges	33,930	36,797
Consumed material	73,312	88,605
Advertising and promotion	17,578	17,795
Maintenance and software support	6,561	5,126
Employee training	2,470	2,733
Documentation scanning and archiving	687	197
Other administration expenses	10,971	9,994
	269,789	280,133

Staff costs can be analysed as follows:

	2010 CZK'000	2009 CZK'000
Salaries and bonuses to members of the Board of Directors	1,439	1,403
Salaries and bonuses to members of the Supervisory Board	341	742
Salaries, personnel costs and bonuses to senior management	13,412	14,673
Salaries, personnel costs and bonuses to other employees	54,069	49,118
Other social expenses	3,199	2,983
Social security and health insurance	20,897	18,343
	93,357	87,262

Employees Statistics	2010	2009
Number of members of the Board of Directors	5	5
Number of members of the Supervisory Board	3	6
Average number of senior management	4	5
Average number of other employees	108	100

17. Income Tax

Income tax payable was calculated as follows:

	2010 CZK'000	2009 * CZK'000
Profit before tax	1,147,390	619,011
Non-taxable income	(1,942,508)	(1,946,384)
Non-deductible expenses	155,518	149,305
Net taxable profit	–	–
Corporate income tax at 5%	–	–

* based on tax return

The deferred tax liability and potential deferred tax asset is calculated at 5% (the rate for pension funds enacted in the period of expected realisation of deferred tax) of the tax base.

Deferred tax liability was calculated as follows:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Revaluation reserve for available-for-sale securities (Note10)	3,911	–

Potential deferred tax asset was calculated as follows:

	31 December 2010 CZK'000	31 December 2009 CZK'000
Tax loss for the current period	31,980	58,903
Unused tax losses	136,020	135,946
Revaluation differences	–	15,679
Reserves and provisions	2,586	2,180
	170,586	212,708

Potential deferred tax asset was not recognised as it is not probable that the Company will generate sufficient future taxable income against which the deferred tax asset could be utilised.

18. Financial Risks

(a) Strategy in using financial instruments

The Company's investment strategy is to achieve market appreciation of policyholders' funds subject to a minimum level of investment portfolio market risks. The basic instruments for risk management are limits on investments instruments in the Company's portfolio as defined by Act No. 42/1994 Coll. on pension insurance with state subsidy as amended and the Company's investment strategy, which is set in accordance with legal requirements.

(b) Market risk

The Company takes on exposure to market risks as a consequence of its investment strategy in compliance with the Statutes. Market risk arises from open positions in interest rate, currency and equity products that face market fluctuations.

The Company acquires funds from the pension insurance policyholders and invests them in quality assets.

Geographical segmentation of assets

31 December 2010	Domestic CZK'000	European union excluding Czech Republic CZK'000	USA CZK'000	Other CZK'000	Total CZK'000
Financial assets					
Due from banks	1,356,628	–	–	–	1,356,628
Debt securities	39,659,475	6,410,861	3,087,743	220,950	49,379,029
Shares and mutual fund shares	284,068	1,161,481	2,011,044	–	3,456,593
	41,300,171	7,572,342	5,098,787	220,950	54,192,250

31 December 2009	Domestic CZK'000	European union excluding Czech Republic CZK'000	USA CZK'000	Other CZK'000	Total CZK'000
Financial assets					
Due from banks	3,091,327	–	–	–	3,091,327
Debt securities	36,373,886	5,984,572	1,407,249	101,965	43,867,672
Shares and mutual fund shares	357,652	1,095,434	1,466,099	279,287	3,198,472
	39,822,865	7,080,006	2,873,348	381,252	50,157,471

(c) Financial derivatives

FX forwards	31 December 2010 CZK'000	31 December 2009 CZK'000
Trading agreements	48,086	451
Fair value hedging agreements	26,811	66
Positive fair value of financial derivatives (Note 6)	74,897	517

FX forwards	31 December 2010 CZK'000	31 December 2009 CZK'000
Trading agreements	8,440	200,870
Fair value hedging agreements	–	58,346
Negative fair value of financial derivatives (Note 8)	8,440	259,216

Interest rate swaps	31 December 2010 CZK'000	31 December 2009 CZK'000
Trading agreements	20,427	2,623
Positive fair value of financial derivatives (Note 6)	20,427	2,623

Interest rate swaps	31 December 2010 CZK'000	31 December 2009 CZK'000
Trading agreements	24,986	–
Negative fair value of financial derivatives (Note 8)	24,986	–

The financial instruments held by the Company can be analysed as follows:

	31 December 2010			31 December 2009		
	Nominal value CZK'000	Positive fair value CZK'000	Negative fair value CZK'000	Nominal value CZK'000	Positive fair value CZK'000	Negative fair value CZK'000
FX forwards	13,212,590	74,897	(8,440)	8,463,693	517	(259,215)
Interest rate swaps	3,484,863	20,427	(24,986)	638,500	2,623	–
Total	16,697,453	95,324	(33,426)	9,102,193	3,140	(259,215)

(d) Currency risks

The Company takes on exposure resulting from fluctuations in the prevailing foreign currency exchange rates to its financial position and cash flows. The Board of Directors sets limits on the level of exposure by currency and in total for both overnight and intra-day positions, which are monitored regularly.

The table below summarises the Company's exposure to currency risk. The table includes the Company's assets and liabilities at carrying amounts, categorised by currency.

As at 31 December 2010

	CZK CZK'000	EUR CZK'000	USD CZK'000	Other CZK'000	Total CZK'000
Assets					
Cash on hand	22	–	–	–	22
Due from Banks	1,227,849	93,181	34,231	1,367	1,356,628
Debt securities available-for-sale	24,671,720	5,499,585	3,087,743	1,132,226	34,391,274
Securities held-to-maturity	14,987,755	–	–	–	14,987,755
Shares and mutual fund shares	284,068	1,131,341	2,011,044	30,140	3,456,593
Other assets	1,031,529	31,872	31,777	17,160	1,112,338
	42,202,943	6,755,979	5,164,795	1,180,893	55,304,610
Liabilities					
Policyholders' funds	52,124,745	–	–	–	52,124,745
Other liabilities	96,674	13,495	11,532	8,399	130,100
Reserves	23,143	–	–	–	23,143
Equity	3 027 622	–	–	–	3,027,622
	55,271,184	13,495	11,532	8,399	55,304,610
Net balance sheet assets/liabilities (-)	(13,068,241)	6,742,484	5,153,263	1,172,494	–
Net off-balance sheet currency positions	12,895,071	(7,067,871)	(4,990,016)	(768,654)	68,530
Net opened currency position	(173,170)	(325,387)	163,247	403,840	68,530

As at 31 December 2009

	CZK CZK'000	EUR CZK'000	USD CZK'000	Other CZK'000	Total CZK'000
Assets					
Cash on hand	83	–	–	–	83
Due from Banks	3,051,754	16,508	21,047	2,018	3,091,327
Debt securities available-for-sale	24,879,475	3,640,705	1,981,157	661,550	31,162,887
Securities held-to-maturity	12,704,785	–	–	–	12,704,785
Shares and mutual fund shares	562,387	1,033,124	1,542,542	60,419	3,198,472
Other assets	1,204,309	3,565	797	12	1,208,683
	42,402,793	4,693,902	3,545,543	723,999	51,366,237
Liabilities					
Policyholders' funds	47,955,471	–	–	–	47,955,471
Other liabilities	377,731	–	–	–	377,731
Reserves	15,030	–	–	–	15,030
Equity	3,018,005	–	–	–	3,018,005
	51,366,237	–	–	–	51,366,237
Net balance sheet assets/ liabilities (-)	(8,963,444)	4,693,902	3,545,543	723,999	–
Net off-balance sheet currency positions	8,821,462	(4,115,054)	(3,647,577)	(701,062)	357,769
Net opened currency position	(141,982)	578,848	(102,034)	22,937	357,769

(e) Interest rate risks

The Company is exposed to the effects of fluctuations in the prevailing levels of market interest rates on its financial positions and cash flows. As a result of such changes, interest margins may increase, decrease or generate losses in the event of unexpected movements. The Board of Directors determines the limits of the interest rate differences that are acceptable. These limits are monitored on a daily basis.

The table below summarises the Company's exposure to interest rate risk. The table includes the Company's assets and liabilities at carrying amounts, categorised by the earlier of the settlement, re-pricing or maturity dates. The table includes only interest-rate-sensitive assets, therefore it is not identical with the data presented in the balance sheet of the Company.

As at 31 December 2010

Assets	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Due from banks	1,356,628	–	–	–	1,356,628
Debt securities	6,394,648	7,099,681	13,776,468	22,108,232	49,379,029
	7,751,276	7,099,681	13,776,468	22,108,232	50,735,657

As at 31 December 2009

Assets	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Total CZK'000
Due from banks	3,091,327	–	–	–	3,091,327
Debt securities	4,230,890	7,364,325	15,970,212	16,302,245	43,867,672
	7,322,217	7,364,325	15,970,212	16,302,245	46,958,999

The Company did not have any liabilities exposed to the effects of market interest rate fluctuations as at 31 December 2010 and 2009.

(f) Liquidity risk

The Company is exposed to liquidity risk as a consequence of calls on available cash resources related to pension liabilities, one-off settlements, severance payments and transfers of the policyholders' funds to other pension funds.

The Company regularly assesses the liquidity risk, mainly by monitoring the changes in the inflow and outflow of the participants' funds. The Company, in line with its liquidity risk strategy, holds part of the assets in highly liquid financial instruments such as government treasury bills and similar government bonds.

The table below allocates the assets and liabilities of the Company into relevant maturity bands based on the remaining period as at the balance sheet date to the contractual maturity date. At present, one-off settlements, severance payments, pensions and transfers to other pension funds are being financed continuously, i.e., from interest income from financial placement and contributions paid by the policyholders.

The Company reports the participants' contributions, state contributions and contributions from third parties as liabilities. The shareholders' equity is a minority source of capital. For supplementary pension insurance, it is not possible to determine the remaining maturity of the liabilities due to the characteristics of the product and due to the possibility of asking for the pension benefit payment any time after the occurrence of the claim or to ask for the payment of the surrender after 12 months of the insured period. The Company carried the amount of CZK 11,786,898,000 (2009: CZK 8,770,300,000) on these liability accounts in favour of the participants who have met the conditions for claiming the pension but have not asked for the benefit.

As at 31 December 2010

Assets	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Not specified CZK'000	Total CZK'000
Cash on hand	22	–	–	–	–	22
Due from banks	1,356,628	–	–	–	–	1,356,628
Debt securities	353,832	5,827,656	17,950,118	25,247,423	–	49,379,029
Shares and mutual fund shares	–	–	–	–	3,456,593	3,456,593
Other assets	565,689	–	–	–	546,649	1,112,338
	2,276,171	5,827,656	17,950,118	25,247,423	4,003,242	55,304,610

Liabilities	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Not specified CZK'000	Total CZK'000
Payables to policyholders	11,786,898	3,460,055	13,542,316	23,335,476	–	52,124,745
Other liabilities	130,100	–	–	–	–	130,100
Provisions	–	23,143	–	–	–	23,143
Equity	–	–	–	–	3,026,622	3,027,622
	11,916,998	3,483,198	13,542,316	23,335,476	3,026,622	55,304,610
Net assets/ liabilities (-)	(9,640,827)	2,344,458	4,407,802	1,911,947	976,620	–

As at 31 December 2009

Assets	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Not specified CZK'000	Total CZK'000
Cash on hand	83	–	–	–	–	83
Due from banks	3,091,327	–	–	–	–	3,091,327
Debt securities	810,483	5,114,802	16,505,559	21,436,828	–	43,867,672
Shares and mutual fund shares	–	–	–	–	3,198,472	3,198,472
Other assets	491,256	–	–	–	717,427	1,208,683
	4,393,149	5,114,802	16,505,559	21,436,828	3,915,899	51,366,237
Liabilities	Within 3 months CZK'000	3 – 12 months CZK'000	1 – 5 years CZK'000	Over 5 years CZK'000	Not specified CZK'000	Total CZK'000
Payables to policyholders	8,770,300	5,374,589	12,769,103	21,041,479	–	47,955,471
Other liabilities	377,731	–	–	–	–	377,731
Provisions	–	15,030	–	–	–	15,030
Equity	–	–	–	–	3,018,005	3,018,005
	9,148,031	5,389,619	12,769,103	21,041,479	3,018,005	51,366,237
Net assets/ liabilities (-)	(4,754,882)	(274,817)	3,736,456	395,349	897,894	–

19. Related Party Transactions

	31 December 2010 CZK'000	31 December 2009 CZK'000
Liabilities		
Česká pojišťovna a.s.	16,301	7,419
ČP Zdraví a.s.	534	–
Home Credit a.s.	1,842	–
Generali penzijní fond a.s.	–	325
Generali PPF Asset Management a.s.	3,544	3,453
Generali PPF Holding B.V., organizační složka	375	375
Receivables		
Česká pojišťovna a.s.	179	–
Generali penzijní fond a.s.	–	42
Generali PPF Services s.r.o.	800	–
Revenues		
Česká pojišťovna a.s.	961	941
Home Credit Finance Bank o.o.o.	119,841	122,470
Home Credit a.s.	–	15,659
Generali Development s.r.o.	91	–
Generali penzijní fond a.s.	19	249
NOMOS CAPITAL PLC.	24,002	867

Expenses

Česká pojišťovna a.s.	22,743	18,112
Česká pojišťovna ZDRAVÍ a.s.	558	325
ČP Invest a.s.	10	–
Generali PPF Asset Management a.s.	129,488	108,882
Generali PPF Holding B.V., organizační složka	4,500	4,500
Generali PPF Services s.r.o.	9,228	–
Home Credit a.s.	4,646	–

These transactions were based on the realised costs and profit margin.

Securities purchased:

ISIN	Group entity	2010		2009	
		No. of shares	Market value CZK'000	No. of shares	Market value CZK'000
XS0371442822	Home Credit Finance Bank o.o.o.	17,400	338,074	17,400	324,005
XS0380161645	Home Credit Finance Bank o.o.o.	47,723	970,704	47,723	929,029
XS0473293701	NOMOS CAPITAL PLC.	14,150	281,172	14,150	262,231

The contributions to the pension insurance accounts of the Company's management were made under the standard terms of the Company available to all policyholders.

20. Off-balance Sheet

(a) Off-balance sheet financial instruments

Term currency instruments	Contracted amount		Fair value	
	2010 CZK'000	2009 CZK'000	2010 CZK'000	2009 CZK'000
Term currency transaction – purchase	13,281,120	8,821,462	66,457	–
Term currency transaction – sale	13,212,590	8,463,693	–	(258,698)
Interest rate swap – receivables	3,480,304	641,123	–	2,623
Interest rate swap – payables	3,484,863	638,500	(4,559)	–

Term currency and interest rate instruments were agreed on the interbank market (OTC).

(b) Managed assets

	31 December 2010 CZK'000	31 December 2009 CZK'000
Bank accounts and term deposits	1,137,858	2,843,857
Debt securities	49,379,029	43,867,672
Shares and mutual fund shares	3,456,593	3,198,472
Coupons and dividends due	90,073	115,681
Fair value of derivatives	61,898	(256,075)
	54,125,451	49,769,607

21. Subsequent Events

No events occurred subsequent to the balance sheet date that would have a material impact on the Company's financial statements as at 31 December 2010.

Approval of the financial statements

These financial statements have been approved by the Company's Board of Directors for submission to the sole shareholder acting in the competence of the General Meeting:

Date of preparation

Signature of the statutory
representativePerson responsible
for the accounting recordsPerson responsible
for the financial statements


Tomáš Matoušek



Pavel Šoukal



Blanka Jarošová

16 February 2011

Translation of Report on Relations

The board of directors of Penzijní fond České pojišťovny, a.s., with its registered office at Truhlářská 1106/9, 110 00 Prague 1, Registered No. 61858692 (hereinafter referred to as the "Company"), is required to prepare a report on related-party transactions for the 2010 accounting period in accordance with Section 66a(9) of Act No. 513/1991, the Commercial Code, as amended. Throughout the period of 2010, the ownership structure was as follows:



- The following contractual documents were concluded between the Company and Česká pojišťovna a. s., with its registered office at Spálená 75/16, 113 04 Prague 1, Registered No. 45272956:
 - Intermediary contract of 21 December 2010 for the mediation of cooperation with Česká pošta;
 - Agreement on Incentive Competition of 21 December 2010, under which the Company co-funded the incentive project ČP Kariéra, and was given assistance in dealing with legal matters related to its business;
 - Agreement on Marketing Cooperation of 30 April 2010, under which Česká pojišťovna undertook to advertise the Company's products within its internal network;
 - Addendum No. 1 to the Agreement on Marketing Cooperation of 21 December 2010, under which the marketing cooperation activities were extended;
 - Agreement on Cooperation in Providing Internal Audit of 20 August 2010, which regulates the cooperation between the Company and Česká pojišťovna in conducting the internal audit and improving internal audit know-how;
 - Agreement of 25 January 2010 setting out the manner in which the funds from Česká pojišťovna, which Česká pojišťovna granted in line with the measures to support its accident insurance products, are sent to the participants' accounts at the Company;
 - Insurance Contracts for Package Insurance of Vehicles Nos. 53012489-15, 53012303-28, 53012095-10, 53912264-12, 53911670-28, 54111127-28, and 50378921-16.

- The following contractual document was concluded between the Company and Česká pojišťovna a.s., with its registered office at Spálená 75/16, 113 04 Prague 1, Registered No. 45272956; Generali PPF Holding B.V., with its registered office in the Netherlands, at Strawinskyaan 933, 1077XX Amsterdam; Generali Pojišťovna a.s., with its registered office at Bělehradská 132, 120 84 Prague 2, Registered No. 61859869; Generali Servis s.r.o., with its registered office at Bělehradská 132, 120 84 Prague 2, Registered No. 61509540; Generali penzijní fond a.s., with its registered office at Bělehradská 132, 120 84 Prague 2, Registered No. 63998475; ČP INVEST investiční společnost, a.s., with its registered office at Na Pankráci 1658/121, 140 21 Prague 4, Registered No. 43873766; Generali PPF Services a.s., with its registered office at Na Pankráci 1720/123, 140 21 Prague 4, Registered No. 27108562; Česká pojišťovna ZDRAVÍ a.s., with its registered office at Litevská 1174/8, 100 05 Prague 10, Registered No. 49240749; Generali PPF Asset Management a.s., with its registered office at Evropská 2690/17, 160 41 Prague 6, Registered No. 25629123; Pankrác services s.r.o., with its registered office at Na Pankráci 1658/121, 140 21 Prague 4, Registered No. 28256859; Univerzální správa majetku a.s., with its registered office at Na Pankráci 1658/121, 40 21 Prague 4, Registered No. 60192330; Generali Development s.r.o., with its registered office at Bělehradská 132, 120 84 Prague 2, Registered No. 44795084; and Generali International Business Solutions – Societá Consortile a responsabilita limitata, with its registered office at Via Marocchesa 14, 31021 Mogliano Veneto (TV), Italy:
 - Addendum No. 2 to the Agreement on Obligations Resulting from Participation in Group, where Generali International Business Solutions – Societá Consortile a responsabilita limitata, with its registered office at Via Marocchesa 14, 31021 Mogliano Veneto (TV), Italy, joined the contract on 1 June 2010.
- The following contractual document was concluded between the Company and Česká pojišťovna ZDRAVÍ a.s., with its registered office at Litevská 1174/8, 100 05 Prague 10, Registered No. 49240749:
 - Insurance Contract No. 19101016 of 1 November 2010 for group insurance in the event of illness.
- The following contractual documents were concluded between the Company and Generali PPF Asset Management a.s., with its registered office at Evropská 2690/17, 160 41 Prague 6 – Dejvice, Registered No. 25629123:
 - Addendum No. 5 to the Company Asset Management Agreement of 17 April 2010;
 - Addendum No. 6 to the Company Asset Management Agreement of 22 December 2010, which takes effect on 1 January 2011.
- The following contractual document was concluded between the Company and Generali PPF Services a.s., with its registered office at Na Pankráci 1720/123, 140 21 Prague 4, Registered No. 27108562:
 - Agreement on Cooperation and Providing Services According to Prepayments of Letter Posts of 12 May 2010.
- The following contractual document was concluded between the Company and Generali Development s.r.o., with its registered office at Bělehradská 299/132, 120 84 Prague 2, Registered No. 44795084:
 - Agreement on Disposal of Computer Equipment and Furniture of 1 June 2010.

All of the abovementioned contracts were concluded on an arm's-length basis; all considerations under these contracts were also provided and received on an arm's-length basis, and the Company suffered no detriment or loss under these contracts.

The Company did not take any measures or execute any other legal acts on behalf of or at the behest of related parties in the 2010 accounting period. The Company's governing body declares that it has prepared this report with due professional care, and that the information disclosed herein is correct and complete.

Prague, 15 March 2011

Tomáš Matoušek

Chief Executive Officer

Chairman of the Board of Directors

English Translation

Independent Auditor's Report



to the shareholder of Penzijní fond České pojišťovny, a.s.

We have audited the financial statements of Penzijní fond České pojišťovny, a.s., identification number 618 58 692, with registered office at Truhlářská 1106/9, Praha 1 ("the Company") for the year ended 31 December 2010 disclosed in the annual report on pages 18-44 and issued the opinion dated 21 February 2011 and disclosed on pages 16–17.

Report on the Annual Report

We have verified that the other information included in the annual report of the Company for the year ended 31 December 2010 is consistent with the financial statements referred to above. The Statutory Representative is responsible for the accuracy of the annual report. Our responsibility is to express an opinion on the consistency of the annual report with the financial statements based on our verification procedures.

Auditor's Responsibility

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

Opinion

In our opinion, the other information included in the annual report of the Company for the year ended 31 December 2010 is consistent, in all material respects, with the financial statements.

The maintenance and integrity of the Company's website is the responsibility of its Board of Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

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Report on review of the Report on Relations

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other persons controlled by the same controlling party for the year ended 31 December 2010 (the "Report"). The completeness and accuracy of the Report is the responsibility of the Statutory Representative of the Company. Our responsibility is to express our opinion on the Report based on performed review.

Scope of Review

We conducted our review in accordance with Audit standard 56 of the Chamber of Auditors of the Czech Republic. This standard requires that we plan and perform the review to obtain limited assurance as to whether the Report is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel, analytical procedures and examination, on a test basis, of factual accuracy of data. A review therefore provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects, in accordance with the requirements of Article 66a of the Commercial Code.


13 May 2011

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

Petr Kříž
Statutory Auditor, Licence No. 1140

Translation note

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



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