

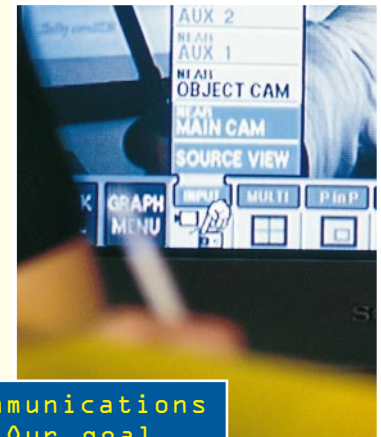
#98

> ANNUAL
REPORT >

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SPT TELECOM is on course to become one of the most competitive players in the Czech Republic's telecommunications market when it is liberalised in 2001. As this annual report shows, our determination to provide our customers with a world-class service - and our investors with sustained shareholder value - is stronger than ever before.



> SPT TELECOM AT A GLANCE >

SPT TELECOM is the Czech Republic's largest telecommunications company, providing voice, data and other services. Our goal is to remain the country's top supplier of these services after the telecommunications market in the country is liberalised in 2001.

HISTORY: In 1989, the Czech Government created Správa pošt a telekomunikací - SPT Praha, the state-owned monopoly supplier of postal and telecommunications services. An independent telecommunications company, SPT TELECOM, was formed on January 1, 1993 and, one year later, this was transformed into a joint-stock company, SPT TELECOM, a.s. In 1995, the Company established a strategic alliance with the international consortium TelSource.

MARKET CAPITALISATION: CZK 148 billion (December 31, 1998).



MARKET : SPT TELECOM focuses on the Czech Republic. With a population of more than 10 million, the country has one of the highest levels of GDP per capita in Central and Eastern Europe. 36% of the population has telephone lines and more than 9% has mobile phones.

CUSTOMERS : 3.7 million customers use our telephone network. Business lines account for around one third of our network.



SHAREHOLDERS : At the end of 1998, our shares were jointly owned by the National Property Fund (51.1%); TelSource (27%), a strategic partner comprising KPN Royal Dutch Telecom, Swisscom and non-equity support from AT&T; individual shareholders and investment funds (21.9%). From December 19, TelSource together with KPN Royal Dutch Telecom account for 33.5% of SPT TELECOM's capital. SPT TELECOM itself has a 51% stake in EuroTel, one of the Republic's two licensed mobile phone operators.

SERVICES : SPT TELECOM provides telephony services to business and residential customers, operates pay phones, provides cellular phone services (through our majority shareholding in EuroTel), euroSDN, leased lines, Internet and data services, telephone equipment and other services.

STAFF : SPT TELECOM has just under 22,000 staff, making us one of the country's largest employers.

(All financials in this report are according to International Accounting Standards)

> HIGHLIGHTS OF THE YEAR >

SPT TELECOM produced another impressive performance in 1998. We not only expanded our digital network by a record amount but also generated a substantial increase in profits through greater efficiency and tighter cost controls. All profits will be reinvested in our network, creating an even better service platform for our customers.

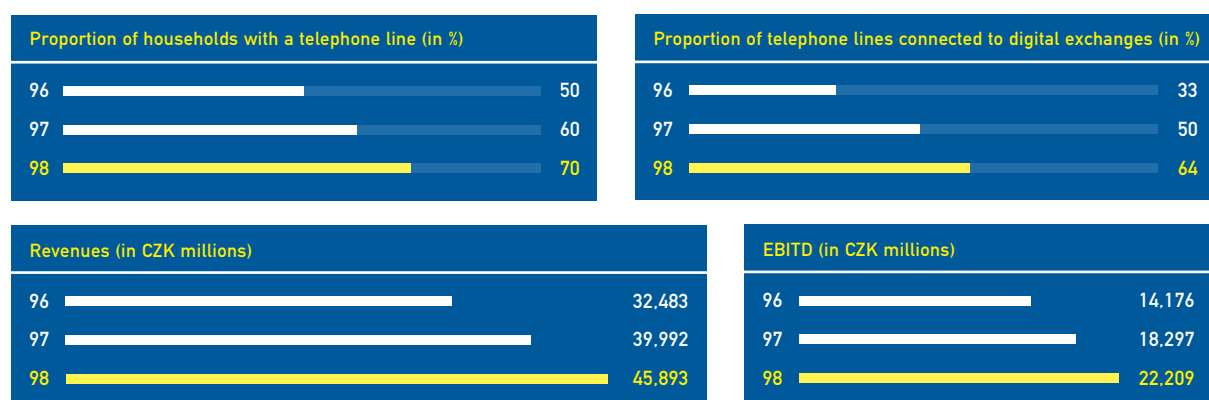
EXPANDED NETWORK BOOSTS REVENUE BY 15% Despite declining GDP in the Czech Republic, we managed to increase our revenue to CZK 45.9 billion. This was mainly due to a 14% expansion of our telephone network to 3.73 million lines, exceeding our regulatory targets for the third year running. 70% of households are now connected to the network, up 17% on the previous year.

GREATER EFFICIENCY LIFTS EBITD BY 21% Earnings Before Interest, Tax and Depreciation (EBITD) leapt by more than one-fifth to CZK 22.2 billion, while EBITD as a proportion of revenue rose from 46% to 48%. A 9% reduction in staff costs played a key role in these achievements, providing further evidence that SPT TELECOM is driven to become an Operationally Excellent Company.

MAJOR INVESTMENTS PUSH DIGITALISATION UP BY 28% TO 64% OF ALL LINES More than six out of 10 telephone lines are now connected to digital exchanges - one of the highest levels in Central and Eastern Europe. This was just one of the products of CZK 33 billion investment in the network in 1998. Extensive investments also enhanced our Internet capability and prepared the technological foundations for 'virtual private networks' and other state-of-the-art services.

MOBILE PHONE AND INTERNET SUBSCRIPTIONS SOAR At the end of 1998 the number of users of mobile phones, provided through our cellular services subsidiary EuroTel, jumped by 69% to 587,500 - another record. The number of customers using our Internet service also increased four-fold, making us one of the country's top Internet Service Providers.

SHARE PRICE RISES BY 23% SPT TELECOM's share price rose by 23% despite a 20% drop in the Prague Stock Exchange PX-50 Index over the course of the year. Our credibility in international and domestic financial markets was given a further boost when we issued a fully subscribed DEM 750 million Eurobond, rated Baa1 by Moody's and increased by 50% to take advantage of investor demand. Our strategic partner KPN Royal Dutch Telecom also underlined its confidence in SPT TELECOM by increasing its stake in the Company by 6.5%.



FINANCIAL RESULTS

Financial results prepared under International accounting standards, audited and consolidated.
All data, unless specified otherwise, in CZK millions and as of December 31.

FINANCIALS	1996	1997	1998
Revenues	32,483	39,992	45,893
Earnings before interest, taxes and depreciation (EBITD)	14,176	18,297	22,209
Earnings before interest and taxes (EBIT)	8,028	10,062	11,358
Earnings before taxes (EBT)	(971)	8,568	9,197
Net income	(483)	6,035	6,060
Total assets	106,167	127,856	146,811
Fixed assets	77,851	106,462	127,743
Equity	79,071	85,158	91,285
Share capital	32,209	32,209	32,209
Loans	16,025	26,411	39,170
Net cash used in investing activities	30,133	35,248	33,232
Total number of employees (only SPT TELECOM)	26,314	22,938	21,815
FIXED LINE NETWORK			
Number of lines installed (x 1000)	2,815	3,274	3,734
Net number of new lines installed (x 1000)	417	459	459
Penetration per population (in %)	27	32	36
Penetration per households (in %)	50	60	70
Digitalisation (in %)	33	50	64
Waiting list (x 1000)	577	406	141
Lines per employee	107	143	171
RATIOS (in %)			
EBITD/revenues	44	46	48
EBIT/revenues	25	25	25
EBT/revenues	n/m	21	20
Net income/revenues	n/m	15	13
Income tax rate	39	39	35
Effective tax rate	n/m	30	34
Depreciation as % of revenues	19	21	24
Depreciation as % of average net fixed assets	12	11	11
CAPEX as % of revenues	93	88	72
ROA (net income/total assets)	n/m	5	4
ROE (net income/equity)	n/m	7	7
Gross gearing (interest bearing debt/total equity)	20	31	43
Net gearing (net debt/total equity)	neg.	20	35
MACROECONOMICS INDICATORS			
Population (in millions)	10.3	10.3	10.3
GDP (in %)	3.9	1.0	(2.7)
Inflation (in %)	8.8	8.5	10.7
Unemployment (in %)	3.5	5.2	7.5
Exchange rate CZK/USD - average during the period	27.1	31.7	32.3
Exchange rate CZK/USD	27.3	34.6	29.9
SHARES			
Number of shares at end of period (in millions)	322.1	322.1	322.1
Net income per share (in CZK) ¹⁾	n/m	18.7	18.8
Dividend per share (in CZK) ¹⁾	0.0	0.0	0.0
Max. share price during period (in CZK) ²⁾	347.5	439.0	484.8
Min. share price during period (in CZK) ²⁾	259.5	285.0	352.5
Share price (in CZK) ²⁾	338.6	373.0	458.8
Market capitalisation (in CZK billions)	109.1	120.1	147.8

¹⁾ number of shares 1996 - 1997 adjusted for 1:10 share split ²⁾ share price 1996 - 1997 adjusted for 1:10 share split
n/m = not meaningful

> FIRST VICE CHAIRMAN'S STATEMENT >



ANDRÉ FRANS
BESSEL KOK
First Vice Chairman of the Board
of Directors

With just under two years to go until the Czech Republic's telecommunications industry is liberalised, SPT TELECOM has moved considerably closer towards its goal of becoming a world-class company that can capitalise on the challenges and opportunities that competition will present.

Our results, described in more detail in the following pages, speak for themselves. These include a record increase in digital lines, healthy growth in EBITD and revenues, and greater customer satisfaction reflected in the fact that we met or exceeded nearly all our regulators' stiff performance targets. More encouragingly, we reduced growth in total operating costs by half, a prerequisite for us to compete.

These are welcome advances and vindicate our Operational Excellence Programme, now in its third year. However, we cannot afford to be complacent. Although we will have one of the most advanced telephone networks in Europe by 2001, with nearly 100% digitalisation, we need to make further progress in our efficiency and customer-orientation if we are to remain the country's top supplier of telecommunications services after our market is liberalised.

TRANSFORMATION OF THE ORGANISATION GATHERS PACE

During 1998, we underlined our determination to accelerate the transformation of SPT TELECOM into a more customer-focused and competitive company by initiating two major organisational change programmes. With the support of our international strategic partner, TelSource, these two IT-driven programmes (BSS and OSS) will radically alter our customer care and business support processes, leading to greater economies of scale, tighter financial control and faster line installations and repairs, as well as swifter launches of new value-added services, amongst other benefits.

PREPARING FOR THE EU

Further steps have also been taken to rebalance our tariffs to reflect their true costs. This is not only essential for us to compete but one of the requirements for the Czech Republic to become a member of the European Union (EU). Effective April 1, 1998 we increased the average price levels of our seven regulated telephone services by 1.9% on average and secured an average 3.9% rise for 1999, effective January 1, 1999. We realize the financial pressures this places on certain customers and have tried to alleviate these by lowering international charges and certain peak and off-peak long-distance calls. Nevertheless, tariff increases over the last two years have been less than one third the rate of inflation. Although we have been able to partly compensate for this shortfall through substantial gains in efficiency, further tariff rises, especially for our monthly line rentals, are necessary if we are to compete.

ENHANCING VALUE FOR MONEY

In return our customers can look forward to greater value for money. On top of further digitalisation, we are investing heavily in new technologies that will enable us to offer our customers a wider choice of services. Particular emphasis is being placed on services that merge voice and data - the key to our further growth. During the year, for instance, we laid the technological foundations for intelligent networks and enhanced our Internet capability, where we are now one of the leaders in the Czech Republic.

INVESTOR CONFIDENCE RISES

Our investors clearly have confidence in our strategic direction and ability to deliver results. In 1998, our share price increased by 23% from CZK 373 to CZK 459. International financial markets also signalled their approval when we issued a highly successful DEM 750 million Eurobond, rated Baa1 by Moody's.

A HEALTHY FUTURE

SPT TELECOM is firmly on track to achieve its ambitious targets and its commitment to its strategy remains undimmed. This will ultimately give our customers a world-class service and our investors sustained shareholder value. Although we have to exercise caution in the current economic climate, I hope to report further progress in the interim statement in summer 1999.

Prague, April 14, 1999



ANDRÉ FRANS BESSEL KOK
First Vice Chairman of the Board of Directors
Chief Operating Officer

> FOREWORD BY THE CHIEF EXECUTIVE OFFICER - OPERATIONAL REVIEW OF 1998 >



SVATOSLAV NOVÁK
President & CEO

During 1998, SPT TELECOM continued to prepare for the liberalisation of the telecommunications market. This was mirrored in a 15% rise in revenues to CZK 45.9 billion and a 21% increase in Earnings Before Interest, Tax and Depreciation to CZK 22.2 billion. EBITD as a proportion of revenue now stands at 48%, up from 46% the previous year.

A 14% increase in the number of telephone lines installed lay at the heart of our growth in turnover, stimulating a 14% rise in call revenues. Revenues from our mobile phone subsidiary, EuroTel, also played an increasingly important role, jumping by 41%. In addition, our Internet services began to reveal their true potential. Although their financial contribution was relatively small, the number of customers using these services grew rapidly, propelling SPT TELECOM into the number one position in this growth market.

HIGHER EFFICIENCY, IMPROVED COST CONTROL

Underpinning these developments and our growth in EBITD was a significant improvement in efficiency. This was spurred on by further 5% reduction of our workforce to 21,815, cutting staff costs by 9% and boosting the number of lines per employee - a key measure of efficiency - by 20% to 171. Tighter cost control also led to a reduction in the growth of our maintenance, repair and energy costs from 21% to 13%.

DIGITALISATION PROGRAMME EXPANDS

By the end of 1998, 64% of all telephone lines were connected to modern digital exchanges, one of the highest results in Central and Eastern Europe region. With the backbone of our digital transmission network largely in place, our investment was concerned with building up our local access network, enabling us to connect even more customers to digital local exchanges more rapidly. This will not only give them access to higher quality connections but also allow us to introduce further new enhanced services and centralise network control and management.

WAITING LIST FALLS BY 65%

We also reduced our waiting list by 65% to 141,000, the biggest drop ever. Our goal is to cut the line installation time from the current average of around 50 days to just 10.

AUTHORISATION TARGETS EXCEEDED

Meeting the development targets set out in the Authorisation for provision of telecommunications services is one of SPT TELECOM's key objectives. As regular internal measurements have shown, based on very strict criteria, we have either met or significantly exceeded nearly all the parameters monitored by the regulator, the Czech Telecommunication Office. These include both qualitative and quantitative performance criteria. Successful compliance with these is the best indicator of the dynamic development of telecommunications in the Czech Republic and SPT TELECOM's success.

NEW SERVICES

New services launched in 1998 included a prepaid card that allows customers to call from any telephone in the Czech Republic to anywhere in the world, and a voice-box facility. In addition, SPT TELECOM introduced *euroISDN* services and INTERNET OnLine ISDN services which offer digital connection to Internet network. The most dynamic developments, especially in the last half of the year, occurred in our *euroISDN* services. After price changes, the number of *euroISDN* accesses increased considerably. In 1998 we started to implement an intelligent network, allowing a platform that will enable us to launch new services more quickly as the necessary software changes will be made centrally, rather than at exchange level. Using this platform, we intend to roll out virtual private networks for businesses in the middle of 1999.

CREATING A MORE CUSTOMER-RESPONSIVE CULTURE

To ensure we deliver these services at a consistently high standard and anticipate future customer requirements, in 1998, we made further substantial investments in training and other initiatives designed to create a customer-focused culture. Special services and support teams have been set up for different types of customers. For example, in the frame of the Company there is a group (LAG) that looks after large, key accounts, while Branch Offices communicate with the most important clients in regions. Individual customers, meanwhile, now have access to a free-phone number (0800 123456), providing information about our products and services. On a longer term note, plans are in place to dramatically improve our customer care through new processes and technologies, spearheaded by our Operational Support Systems (OSS) programme.

WORLD-CLASS ASPIRATIONS

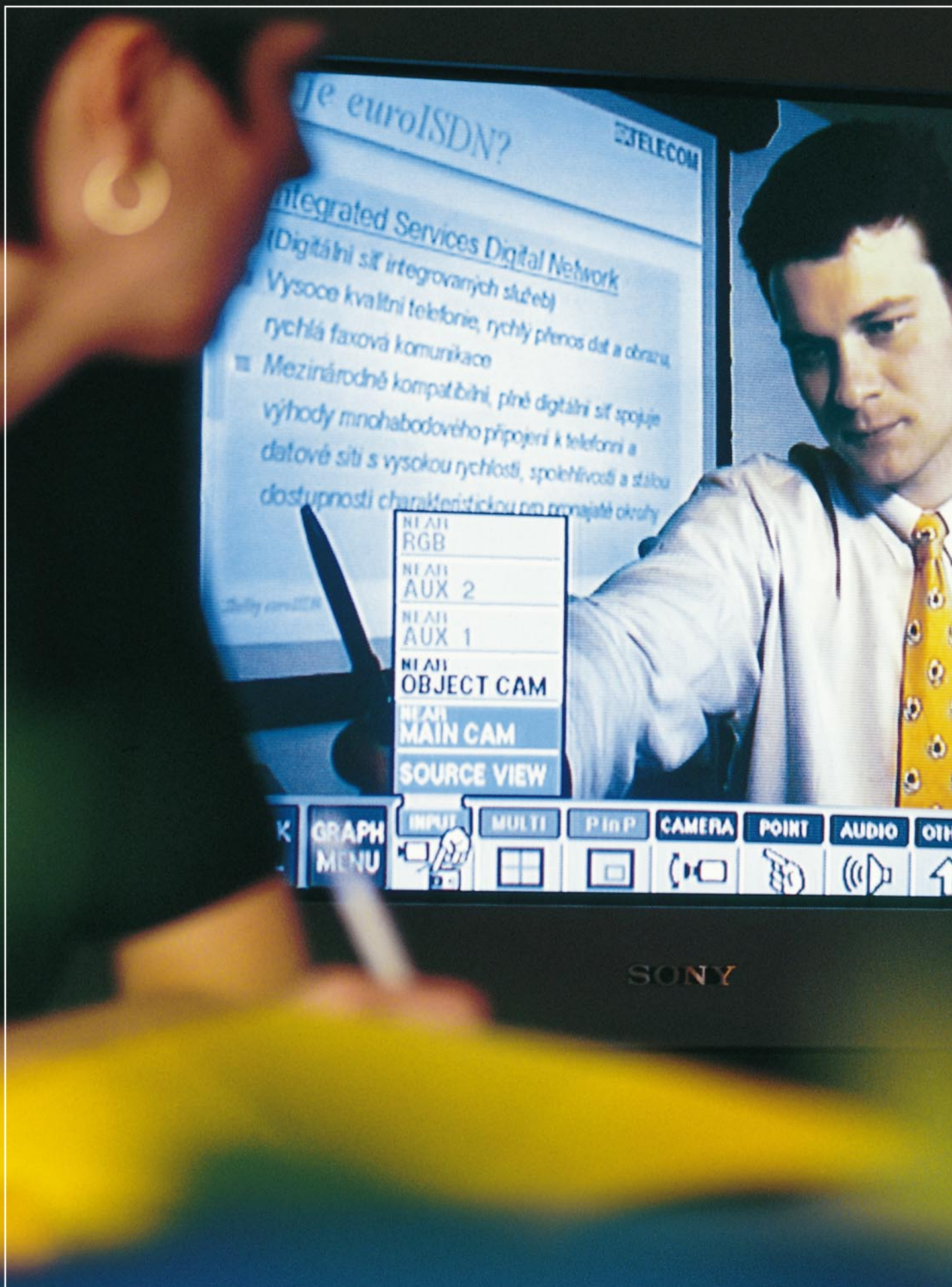
Initiatives like these are rapidly transforming SPT TELECOM into an organisation that can provide its customers with the same high levels of service offered by international operators. Provided we sustain our momentum - and there is little that can stop it - SPT TELECOM has the capability to become a world-class player that competes with the best operators after 2000. This is in the economic interests of our customers, SPT TELECOM and the Czech Republic. In the meantime, we would like to thank our customers, shareholders and, above all, our staff for their continued support.

Prague, April 14, 1999



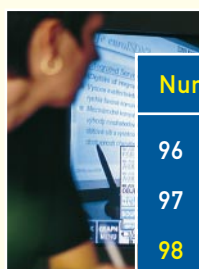
SVATOSLAV NOVÁK

President & Chief Executive Officer



Thanks to major investments in our digital network, our customers enjoy one of the most advanced telecommunication's systems in Central and Eastern Europe. Soon it will be one of the best in the world.

> DEVELOPING A STATE-OF-THE-ART NETWORK >



Number of *euro*SDN "B" channels (in thousands)

96	0
97	1
98	17

During the year we invested over CZK 33 billion - equivalent to 72% of our revenue - in our network, expanding and improving it. A major part of our capital expenditure has been invested in further digitalisation of the network. SPT TELECOM has also developed state-of-the-art services such as Internet access and intelligent networks.

TELEPHONE NETWORK GROWS BY 14%

An even higher proportion of the population can now tap into SPT TELECOM's widening portfolio of services. In 1998, we expanded our number of telephone lines by 14% to 3,734,000, increasing our penetration of the country's 10 million population from 32% to 36%.

- * Residential lines increased by 16% to 2.6 million, bringing the proportion of households with a telephone up to 70%, compared to 60% in the previous year. In the Prague and Central Bohemia region 85% have lines.
- * The number of business lines grew by 9% to 1.1 million.
- * To help people not yet connected to SPT TELECOM, we increased the number of pay telephones by 5% to nearly 30,000.

Growth in telephone lines (in thousands)		
96	<div></div>	417
97	<div></div>	459
98	<div></div>	459

100% DIGITALISATION WITHIN SIGHT

SPT TELECOM's goal is to have nearly all its customers connected to digital exchanges by the year 2002. This will not only give them faster connection but also access to a broader range of value-added services, such as call forwarding, call waiting and voice mail facilities. During the year we made considerable progress towards achieving this objective:

- * the proportion of lines connected to digital exchanges rose to 64%, up from 50%
- * extensive investments in new exchanges, cabling and other infrastructural developments boosted the number of lines connected to the digital exchanges to 2.38 million. During 1998 we built 10 additional HOST exchanges, 547 remote exchanges, laid more than 5,800 kilometres of fibre optic cables and approximately 53,000 kilometres of metallic cables in the access network

INTERNET ACCESS ENHANCED

The Internet and its associated technologies provide unrivalled opportunities for us to offer our customers new services and merge voice and data - the engine for future growth. In 1998, we underlined our commitment to this market by expanding our INTERNET OnLine service and making it cheaper and easier to access for every kind of customer. These and other initiatives generated an impressive increase in the number of customers using this service, making us the country's top Internet Service Provider (ISP).

LOWER PRICES: We introduced a new tariff structure, enabling customers to tailor our service to their financial circumstances. They can choose from a low-cost MAIL – e-mail only facility, BASIC – access to the Internet during evenings and weekends, or STANDARD – unlimited access.

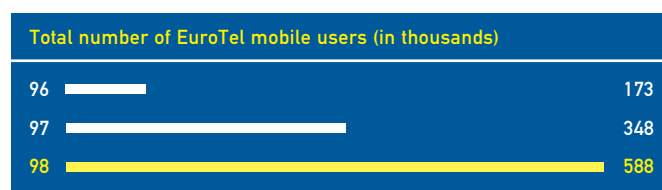
FASTER. EASIER ACCESS: Our newly launched INTERNET OnLine ISDN service means that customers can send and receive information over the Internet much faster than before. In 1998 SPT TELECOM became a member of NIX, the Czech Republic's ISP association. This allows us to route domestic Internet traffic directly to local ISPs, without participation of international counterparts. In addition, we increased our number of POPs for our standard Internet service by 53% to 89, enabling more customers to use our service at local call rates.

'INTELLIGENT NETWORKS' BECOME A REALITY

Businesses will soon be able to create their own virtual private networks (VPNs) across the Czech Republic, with individually defined phone numbers, tariffs and other bespoke features. Due to be rolled out in the second half of 1999, VPNs are just one of the advantages of the intelligent network service developed by SPT TELECOM over the last 12 months. Other benefits include the ability to integrate greater value-added services into prepaid phone cards. More generally, intelligent networks will enable us to launch new services more swiftly and cost-effectively as the necessary software alterations can be done centrally.

MOBILE PHONE SERVICES ENLARGED

EuroTel reinforced its position as the country's top supplier of cellular phone services by launching several new facilities, which provide business users with greater cost control, lower tariffs and additional features. The Company also made it easier for its users to access information by introducing Smart Messaging and providing detailed account information over the Internet, amongst other new services. Developments like these helped EuroTel win a record 240,000 new users or, on average, about 4,600 each week - a 69% increase which brought its total user base up to 587,500.

**INTERNATIONAL *euro*ISDN CONNECTIONS ADDED**

The commercial advantages of our *euro*ISDN services, including videoconferencing and the ability to transmit large volumes of data quickly and cost-effectively, attracted a record number of new customers. In 1998 we installed 16,000 new *euro*ISDN 'B' channels, bringing the total up to 17,000. Our new flagship service, *euro*ISDN, was launched in 1997 and is available in the form of basic access *euro*ISDN2 or primary access *euro*ISDN30. To give businesses operating internationally greater flexibility, we established *euro*ISDN connections with 16 countries.

DATA SERVICES MOVE FORWARD

The backbone for ATM connectivity was put in place, providing customers using our data services with greater choice, speed and security. Available in nine cities from 1999, ATM technology allows customers to send and receive voice, data and video at 155 Mb/s. The way the system is configured also means that data can be sent reliably, avoiding bottlenecks and other hurdles.

GREATER SECURITY AND RELIABILITY

Further steps were taken to ensure our customers receive secure and reliable connections, now and into the next century:




YEAR 2000 COMPLIANCE: We initiated a programme to combat the potential threats of the 'Millennium bug'. Supported by a company-wide educational campaign, we mapped out all systems that could be affected by the bug, prioritised these and developed a strategy to achieve Year 2000 (Y2K) readiness. Testing of mission critical systems, including exchange software provided by external suppliers, is expected to be complete by June 1999. Contingency plans for electricity cuts and other potential Y2K problems, internal and external, are currently being prepared.

MINIMISING CONGESTION: Nearly half of our local HOST exchanges were connected to two transit exchanges (TE), rather than just one. This will allow us to reroute traffic via the second TE if the first has reached full capacity, reducing delays and unsuccessful connections. Our optical cables have also been made more robust by changes to their configuration.

OTHER DEVELOPMENTS

NEW SERVICES: We launched new services such as a voice-box, and a pre-paid card. Voice-box is available free of charge to customers connected to a digital exchange, while the pre-paid card is targeted at foreign visitors, enables people to call anywhere in the world from the Czech Republic and to receive operator assistance in foreign languages.

FREEPHONE LINES DOUBLED: The number of '0800' Freephone lines doubled to 634, while the volume of calls made via this service quadrupled to more than 12 million calls in the year 1998. With this facility, companies pay us to offer their customers a Freephone number and the caller pays nothing. This encourages their customers to ring, boosting their potential sales.

Numbers of Freephone lines		
96		96
97		331
98		634



We improved our efficiency and lowered certain prices, giving our customers greater value for money.

> SHARPENING ITS EFFICIENCY >

Number of telephone lines per employee



If we are to compete with the new players expected to enter our market when it is liberalised in 2001, we need to lower our costs to comparable levels. This means increasing our efficiency and rebalancing our tariffs to reflect our true costs. In 1998, we made further advances in these fields, sharpening our competitive edge.



WE EXCEEDED THE OBLIGATIONS SET IN THE AUTHORISATION FOR THE TELECOMMUNICATIONS SERVICES OPERATION

We surpassed objectives and obligations set by the Authorisation for telecommunications services operation and monitored by the regulatory body - Czech Telecommunication Office - in almost all indicators.

For example:

- * successful call completion rate - 94.18% of total attempted interurban telephone calls were successfully completed (Authorisation limit is 83%)
- * breakdown repair time - 97.54% of all breakdowns of main telephone stations were repaired within 58 hours (Authorisation limit: 97%)
- * operator response time - the staff providing the information on the traffic and subscribers numbers were ready to provide the service to customers in 96.66% of cases within 20 seconds from accepting a control ringing tone (Authorisation limit: 95%)
- * total number of public payphones - there were 29,877 public payphones in operation at the end of 1998 (Authorisation limit: 29,000)
- * total number of lines - there were 3,734,000 lines in operation at the end of 1998 (Authorisation limit: 3,574,000)

Total number of telephone lines (in millions)		
96		2.815
97		3.274
98		3.734

LINES PER EMPLOYEE UP 20 %

We increased the number of lines per employee - a key measure of efficiency - by nearly 20% to 171. This was achieved by expanding our telephone network and reducing our workforce by 5% to 21,815 staff. As one of the country's largest employers, we are acutely aware of the social and economic impact of redundancies. To help staff deal with this situation, we actively support counselling services and fund retraining.

TARIFFS BROUGHT CLOSER TO TRUE COSTS

Historically we have had to use revenues from our international and long-distance calls to cross-subsidise under-priced local call rates and fixed monthly line rentals. Over the last few years we have been working to correct this imbalance and bring our prices closer to their true costs. In 1998, following a series of difficult negotiations, the regulators agreed that the maximum prices of regulated telecommunications services could be increased by 3.9% for the year 1999. This included a 25% average increase in the local call charge. To ease the impact of these increases we took a number of steps, effective January 1, 1999:

- * International call charges were lowered by an average of 25%.
- * Long-distance rates were cut by 10% on average. The reductions in off-peak charges are particularly steep, saving customers up to 40% in the third long-distance band.
- * The number of monthly discounted pulses (charged at CZK 1.05 per pulse) for households was increased by 50% to 15 pulses.

Despite these changes, the monthly line rental, which rose by 35% from January 1, 1999, still falls substantially below its true cost. According to a recent study, our rental charges are about one third of the European average. The Czech Republic desires to become an EU member: The European Commission expressly recommends that new members bring telecommunications rates in line with actual costs and cease subsidising fees and prices.

STREAMLINED DIRECTORY ASSISTANCE

We improved the productivity of our directory assistance service by consolidating our 11 regional Directory Assistance Centres (phone number 120) into four centres, based at our four Regional Business Units. Although enquiry volumes rose by 20% to 44 million, we managed to answer 98% of calls within 20 seconds with 28% fewer staff.

THE BSS PROJECT SPEARHEADS GREATER BUSINESS EFFICIENCY

The BSS Project (Business Support System) has laid the foundations for substantial improvements in the efficiency of the Company's business support functions, including more timely and accurate management information.

Major achievements during the implementation were:

- ✱ accounting - standardised accounting processes and electronic scanning and approval of invoices, leading to higher quality financial information
- ✱ planning and control - standardisation of performance indicators and reporting structures, facilitating comparisons across organisational units
- ✱ purchasing and logistics - increased centralisation of purchasing leading to more efficient spending; a new logistics infrastructure was also put in place, improving reliability
- ✱ human resources - standardisation of processes and centralisation of payroll processing

The BSS Project has integrated these support functions through the SAP R/3 platform, replacing a large number of unintegrated legacy systems. This substantially reduced overheads. Approximately 3,500 employees, plus a further 500 at EuroTel, are expected to use the system by the end of the year 2000. Over 2,500 of these have already been trained.

WORLD-CLASS PERFORMANCE TARGETS SET

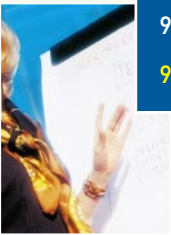
Our aim is to become a world-class telecommunications company that can exploit the global potential of our industry. To ensure we can compete with the world's top operators and remain the number one player in the Czech Republic, we conducted an extensive international benchmarking exercise to establish the performance targets expected from a top-flight telecommunications company. These goals have been adopted by SPT TELECOM and cover virtually every activity, from billing to the time it takes an engineer to repair or install a line. In all cases, these targets exceed our regulatory obligations.



Organisational changes will help us to respond more rapidly and effectively to our customers' needs.

> CREATING A MORE CUSTOMER-ORIENTED COMPANY >

Our drive to transform SPT TELECOM into a more customer-oriented company gathered pace. This was partly done through training and other initiatives designed to change our culture. More significantly, we laid the foundations for a new technological platform that will improve the speed and quality of our customer support, from installing new lines to repairing faults and billing. Plans to change the Company's operational structure will make us even more responsive.



Waiting List (in thousands)		
96	<div></div>	577
97	<div></div>	406
98	<div></div>	141

FOSTERING A NEW CORPORATE CULTURE

Efforts to create a more customer-oriented corporate culture intensified, driven forward by an ambitious training programme involving 35,000 man days. A large proportion of the courses were designed to make staff think from a business, not just a technical, perspective. Particular emphasis was placed on customer care. One of the main initiatives was an intensive training programme for employees in Call Centres, Branch Offices and Teleset shops. This covered both 'soft' and 'hard' skills, from how to be more 'customer-friendly' and responsive, to how to sell our services.

Management training in fields such as communications skills, project management and techniques for motivating staff, also accelerated. To motivate our managers to achieve higher levels of customer satisfaction, we introduced performance-related pay. We also established Assessment Centres to screen and evaluate the skills of managers and other staff, existing and prospective, ensuring we recruit high-calibre individuals and provide them with appropriate training.

OSS PROGRAMME ENHANCES CUSTOMERS SERVICE

The OSS (Operational Support Systems) Programme will help transform SPT TELECOM into a customer-oriented, competitive company by enabling us to sharpen our management efficiency and offer higher quality services to clients. Launched at the end of 1998, the programme includes new information systems; more powerful, reliable, and efficient business processes; and, above all, direct, simple, and better communication with clients.

FASTER LINE INSTALLATIONS: Clients can contact any sales outlet or central SPT TELECOM registration office to place orders or report line failures. All information will immediately be transmitted electronically in the relevant network section, incorporated in the work plan, and handled instantly.

MORE ACCURATE INVOICES MATCHED TO CUSTOMERS' REQUIREMENTS: The new automated invoicing system will help us meet customers demands for more precise invoices, tailored to their needs.

LOWER PRICES: More widespread automation will lead to greater economies of scale, enabling us to offer more competitively priced services.

IMPROVED CALL COMPLETION RATES: With centralised network management, calls can be rerouted through exchanges with sufficient capacity, ensuring higher completion rates.

ORGANISATIONAL CHANGES BENEFIT CUSTOMERS

SPT TELECOM's determination to provide a higher quality service was reinforced through further centralisation and specialisation. Following the consolidation of our 11 Regional Business Units into four in 1997, we are planning to focus our regional units on two distinct operational functions: supplying services to customers and operating the network. This will allow us to concentrate more effectively on our customers and provide operators wishing to use our network with greater transparency.

NEW COMPANY. NEW NAME

SPT TELECOM has changed enormously over the last four years. We have become more modern, efficient and customer-focused. To reflect these developments, we have decided to change our name to Czech Telecom, from January 1, 2000. Supported by a fresh visual identity, our new name won't just signal that we are a new company, it will also highlight our strong commitment to the Czech Republic and its citizens.

SUPPORTING THE CZECH COMMUNITY

As a Czech company that plays a vital role in the lives of millions people in our country, we recognise that we have social as well as commercial responsibilities. That's why we support a number of cultural and humanitarian projects.

CULTURAL PROJECTS: Culture is not just an important part of our national heritage, it is a valuable way to enhance understanding and communication between people. During 1998, we helped to strengthen the country's cultural roots by supporting 16 film and 30 theatre initiatives.

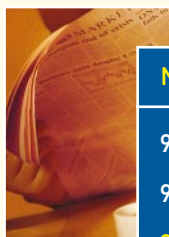
HUMANITARIAN PROGRAMMES: Children are the Czech Republic's future. To help them overcome life's obstacles, we support The Safety Line – Our Child Foundation. Thanks to SPT TELECOM, children in the Czech Republic can call this line for free and discuss their problems with trained counsellors. In 1998 Safety Line received over 18,000 calls.

WORKING WITH STUDENTS AND SCHOOLS: Our aim is to enable students to develop their talents and skills and realise their ideas. One way we do this is by supplying technical equipment to a wide range of schools.



SPT TELECOM has the financial strength to continue to invest in its network and services which will benefit both our customers and our shareholders.

> FINANCIAL REVIEW >



Net cash used in investing activities (in CZK millions)

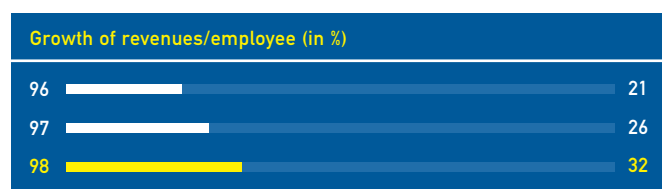
96		30,133
97		35,248
98		33,232

Tighter financial controls, coupled with a healthy increase in call revenues from our enlarged network, were rewarded with another satisfying increase in earnings. As our market penetration rises and new organisational structures and processes are introduced, we expect to make further financial progress in 1999.

REVENUES RISE BY 15% BOOSTED BY MOBILE PHONE CONTRIBUTIONS

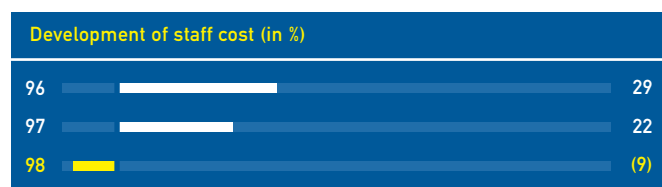
A 15% increase in revenues was predominantly fuelled by a 14% lift in call revenues, matching an equivalent rise in the number of telephone lines installed. However, a number of other factors also contributed, including an exceptional performance from our mobile subsidiary EuroTel.

- * EuroTel's consolidated revenue contribution soared by 41% to CZK 5.5 million. Income from international and domestic operators also grew by 20%.
- * Contributions from our Internet and data transmission services, as well as related telephone facilities, were equally encouraging, although small in absolute financial terms, increasing by 19% to CZK 2.5 billion. Substantial long-term growth in these fields is anticipated.
- * Revenues per employee rose by 32%, thanks to continued downsizing and our enlarged telephone network.

**GROWTH IN OPERATING COSTS HALVED**

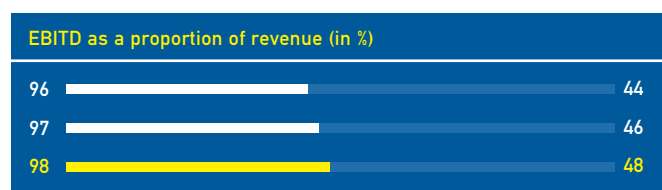
Reductions in our headcount and greater efficiency helped to slow the growth in total operating costs (excluding depreciation), from 19% in 1997 down to 9% in 1998.

- * Staff costs were cut by 9%, reversing a 22% rise in the previous year. They now account for 29% of total operating costs (excluding depreciation), compared to 35% in 1997, and further reductions are scheduled in the current financial year.
- * Rigorous financial controls also played an important part in making our cost base more competitive in the run up to market liberalisation in 2001. During 1998, we managed to reduce the growth in costs for repairs, maintenance, energy and other operating costs from 21% to 13%. With our new SAP business system, which integrates financial and administrative data, we expect to make larger efficiency gains and to be in a stronger position to monitor and control costs.



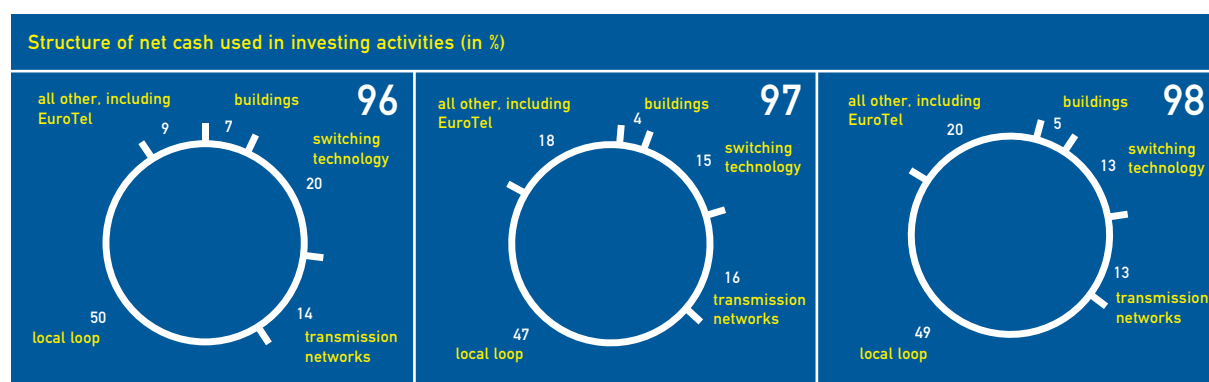
EBITD AS A PROPORTION OF REVENUE INCREASES TO 48%

The combined effect of lower cost growth and higher revenue ensured Earnings Before Interest, Tax and Depreciation (EBITD) rose by 21% to CZK 22.2 billion, exceeding revenue growth once again. Equally impressively, EBITD as a proportion of revenue grew for the third successive year to 48%, up from 46% in 1997. Changes in the Czech Republic's tax regime increased our effective tax rate from 29.6% to 34.1%. This was due to the reduction and removal of certain investment-related deductions as well as the introduction of corporate tax on items previously charged at a flat rate of 25%. On a positive note, the corporate tax rate was reduced from 39% to 35%.



CAPITAL EXPENDITURE FOCUSED ON NETWORK CONNECTIONS

Capital investments in the backbone of our network, including exchanges and switching systems, are largely complete. During 1998, investments shifted increasingly towards establishing the local loops required to connect residential and business customers to our network. Net cash used in investing activities was CZK 33 billion.



EXTERNAL FUNDING REQUIREMENTS FULFILLED

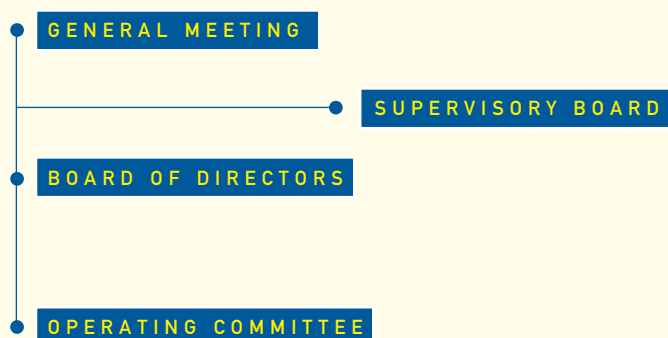
International investors gave a strong vote of confidence in SPT TELECOM when we launched a DEM 750 million Eurobond, which was oversubscribed. This concluded our external funding exercise related to the extensive development of the network.

MARKET CAPITALISATION UP 23% TO CZK 148 BILLION

The price of SPT TELECOM's shares, listed on the Prague Stock Exchange, ended the year 23% up, valuing the Company at CZK 148 billion at the end of 1998. To bring the financial benefits of our business to a wider range of investors, we successfully completed a 10-for-1 share split and introduced a two-way Global Depository Receipt Programme on the London Stock Exchange. SPT TELECOM's strong performance also encouraged KPN Royal Dutch Telecom, part of our strategic partner, TelSource, to increase its stake in our company by 6.5%. Together with TelSource, our strategic partners' shareholdings now account for 33.5% of our capital.

> GOVERNING BODIES OF THE COMPANY >

In accordance with the Commercial Code and the Articles of Association of SPT TELECOM, approved by the annual General Meeting of June 19, 1998, the Company is governed by the following bodies:



President & CEO
Chief Operating Officer
Executive Vice President Network & Value Added Services Group
Executive Vice President Telephony Services Group
Executive Vice President Finance & Administration Group

GENERAL MEETING

The General Meeting, which involves shareholders, makes decisions regarding the fundamental economic, organisational and business matters entrusted to it by the Commercial Code and the Articles of Association of the Company. As a rule, a General Meeting is convened by the Board of Directors once a year.

SUPERVISORY BOARD

The Supervisory Board consists of fifteen members and supervises the activities of the Board of Directors as well as overseeing the implementation of the business plans of SPT TELECOM. The composition, authority and powers of the Supervisory Board are regulated by the Commercial Code and the Articles of Association of the Company. The Supervisory Board meets at least once every three months.

BOARD OF DIRECTORS

The Board of Directors consists of nine members and is the statutory body that governs and acts on behalf of SPT TELECOM. The Board of Directors decides all matters other than those delegated to the Annual General Meeting, pursuant to the law and the Company's Articles of Association. The Board of Directors meets at least once a month.

OPERATING COMMITTEE

The Operating Committee is the executive managing body of the company and is established by the Board of Directors. The Operating Committee manages the business activities and day-to-day operations of the Company in accordance with the business plan and development program. The Operating Committee consists of five members. The Chairman of the Operating Committee is the President & CEO of SPT TELECOM. As a rule, the Operating Committee meets once a week.

> BOARD OF DIRECTORS > as of December 31, 1998



**ANDRÉ FRANS
BESSEL KOK**
First Vice Chairman of the Board
of Directors

ANDRÉ FRANS BESSEL KOK (*1941)

Chief Executive Officer of TelSource

(a joint company of KPN Royal Dutch Telecom and Swisscom), the strategic partner of SPT TELECOM.



SVATOSLAV NOVÁK
Second Vice Chairman of the Board
of Directors

SVATOSLAV NOVÁK (*1959)

Member of the Board of the Association of Cable TV Operators; Czech BIAC Committee - advisory committee for commerce and industry working in Paris with OECD; member of the Board of Association for Information Society; and a member of the Administrative Board of the Foundation for the Modern Art Collection.



ZDENEK BAKALA
Member of the Board of Directors

ZDENEK BAKALA (*1961)

Chairman of the Board of Directors of Patria Finance; Chairman of the Board of Directors of Česká akciová společnost; member of the Supervisory Board of Patria Finance CF; agent of Hartig and Big Green Financial; member of the Exchange Chamber of PSE (Prague Stock Exchange).



JAN DĚDIČ
Member of the Board of Directors

JAN DĚDIČ (*1952)

Head of the Department of law at the Prague College of Economics, member of the Supervisory Boards of IPF Komerční banka, INTER LEX, ORLIČAN CHOCEŇ, EXPANDIA and KÖGEL Choceň.



**MARCELA
GŮRLICOVÁ**
Member of the Board of Directors

MARCELA GŮRLICOVÁ (*1941)

Deputy of the Minister of Transport and Communications of the Czech Republic for division of Posts, Telecommunications and Information Systems.



ANTONÍN KALDA
Member of the Board of Directors

ANTONÍN KALDA (*1951)

He worked as a manager in SPT TELECOM, Prague Region.



MARTEN PIETERS
Member of the Board of Directors

MARTEN PIETERS (*1953)

Executive Vice President of KPN International, responsible for Satellite Communication and KPN's activities in Ireland and Middle and Eastern Europe; member of the Board of Directors of Telecom Eireann (Ireland); of the Supervisory Board of Pannon GSM (Hungary); Jasztel (Hungary); of the Supervisory Board of TelSource (Czech Republic) and Chairman of the Supervisory Board of Isysspol (Slovakia) and of the Board of Directors of Pantel (Hungary).



LORNE RUPERT SOMERVILLE
Member of the Board of Directors

LORNE RUPERT SOMERVILLE (*1963)

Senior Vice President of Swisscom AG, Head of Swisscom International.



KAREL ZEMAN
Member of the Board of Directors

KAREL ZEMAN (*1956)

Vice Chairman of Executive Committee of the National Property Fund of the Czech Republic.

SPT TELECOM had no Chairman of the Board of Directors as of December 31, 1998.

> BOARD OF DIRECTORS > June 19, 1998 (General Meeting) -
December 9, 1998 (Extraordinary General Meeting)

Luboš Řežábek
André Frans Bessel Kok
Svatoslav Novák
Zdenek Bakala
Jan Dědič

Michel Faingold (resigned on September 9, 1998)
Jeffrey Hedberg (resigned on November 11, 1998)
Marten Pieters (co-opted on October 14, 1998)
Lorne Rupert Somerville (co-opted on December 7, 1998)
Oldřich Zapletal

> SUPERVISORY BOARD > as of December 31, 1998

EVŽEN KOČENDA, Ph.D., M.A. (*1963)

Chairman of the Supervisory Board
Member of the Editorial Board of Finance and Credit magazine; lectures in CERGE Institute of Charles University.

GERARDUS JOHANNES KLEIN BLUEMINK (*1960)

First Vice Chairman of the Supervisory Board
KPN Royal Dutch Telecom's Country Manager for the Czech Republic, including board positions in KPN Royal Dutch Telecom's Czech ventures; President of TelSource.

RADOMÍR ŠENKÝŘ (*1958)

Second Vice Chairman of the Supervisory Board
Director for Network in SPT TELECOM, Moravia Region.

ČESTMÍR ČEJKA (*1928)

Member of the Supervisory Board
Adviser to the Board of Directors of FINOP.

ALAN GIBBS (*1946)

Member of the Supervisory Board
(resigned December 21, 1998)

PAVEL HERŠTÍK (*1951)

Member of the Supervisory Board
Head of the ŘOS - SPT TELECOM, Prague Region.

DOMINIQUE SAMUEL KOECHLIN (*1959)

Member of the Supervisory Board
Head of Development Division in Swisscom; member of the Executive Committee of Swisscom.

MIROSLAV KRISTLÍK (*1942)

Member of the Supervisory Board
Active in the Trade Union of Employees of the Postal, Telecommunications and Newspaper Services.

LOUIS JOHAN LAMPE (*1941)

Member of the Supervisory Board
General manager of TelSource, Prague Branch.

VLADIMÍR MĚŠŤAN (*1953)

Member of the Supervisory Board
Director of Control of the Ministry of Transport and Communications of the Czech Republic.

JAROSLAV SKALA (*1946)

Member of the Supervisory Board
Head of Internal Maintenance in SPT TELECOM, South Bohemia Region.

VLADIMÍR SOKOLÍK (*1945)

Member of the Supervisory Board
Deputy Minister of Transport and Communications of the Czech Republic.

ZDENĚK ŠVRČEK (*1956)

Member of the Supervisory Board
Member of the Parliament of the Czech Republic, Vice Chairman of the Committee for Economics and Subcommittee for Posts, Telecommunications and Information Systems.

MICHAL TOŠOVSKÝ (*1951)

Member of the Supervisory Board
Member of the Presidium of the National Property Fund of the Czech Republic.

LUBOMÍR VINDUŠKA (*1956)

Member of the Supervisory Board
Head of Transport and Mechanisation for SPT TELECOM, Prague Region; Chairman of Trade Unions of Prague Region; Vice Chairman of the Corporate Trade Union Committee of SPT TELECOM.

VÁCLAV WAGNER (*1936)

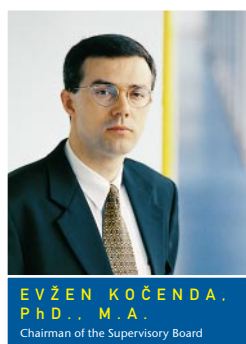
Member of the Supervisory Board
Director of Price Regulation at the Ministry of Finance of the Czech Republic.

> SUPERVISORY BOARD > June 19, 1998 (General Meeting) -
December 9, 1998 (Extraordinary General Meeting)

Anton Zima - Chairman of the Supervisory Board
Marten Pieters - First Vice Chairman of the Supervisory Board
(resigned on September 30, 1998)
Radomír Šenkýř - Second Vice Chairman of the Supervisory Board
Čestmír Čejka
Alan Gibbs
Pavel Herštlík
Evžen Kočenda, PhD., M.A.

Dominique Koechlin
Miroslav Kristlík
Petr Polák
Jaroslav Skala
Jan Švejnar, PhD.
Michal Tošovský
Lubomír Vinduška
Václav Wagner

> SUPERVISORY BOARD REPORT >



In 1998 the Supervisory Board of SPT TELECOM, in agreement with the regulations of the Company, oversaw the activities of the Board of Directors, and the fulfilment of the Company's business plan. The members of the Supervisory Board are authorised to check whether SPT TELECOM's business activities are performed in agreement with the law, regulations, principles and policies approved at the General Meeting.

In 1998 the Supervisory Board regularly went through the economic results of the Company based on quarterly financial results provided by the Board of Directors.

The Supervisory Board did not find any significant errors during 1998 from the Board of Directors of the Company and its management.

During their meeting on April 8, 1999, the Supervisory Board reviewed the audited financial statements, based on international and Czech accounting standards, reviewed the proposal for the division of the 1998 Company profit and recommended it for the General Meeting approval.

Prague, April 14, 1999

A handwritten signature in blue ink, appearing to read "Evžen Kočenda".

EVŽEN KOČENDA, PhD., M.A.
Chairman of the Supervisory Board

> OPERATING COMMITTEE > as of March 1, 1999



SVATOSLAV NOVÁK
President & CEO

SVATOSLAV NOVÁK (*1959)

Member of the Board of the Association of Cable TV Operators; Czech BIAC Committee – advisory committee for commerce and industry working in Paris with the OECD; member of the Board of Association for Information Society; and a member of the Administrative Board of the Foundation for the Modern Art Collection.



**ANDRÉ FRANS
BESSEL KOK**
Chief Operating Officer

ANDRÉ FRANS BESSEL KOK (*1941)

Chief Executive Officer of TelSource (a joint company of KPN Royal Dutch Telecom and Swisscom), the strategic partner of SPT TELECOM.



JAMES S. HUBLEY
Executive Vice President Telephony
Services Group

JAMES S. HUBLEY (*1945)

Representative of AT&T Communications Services.



URS KAMBER
Executive Vice President Finance
& Administration Group

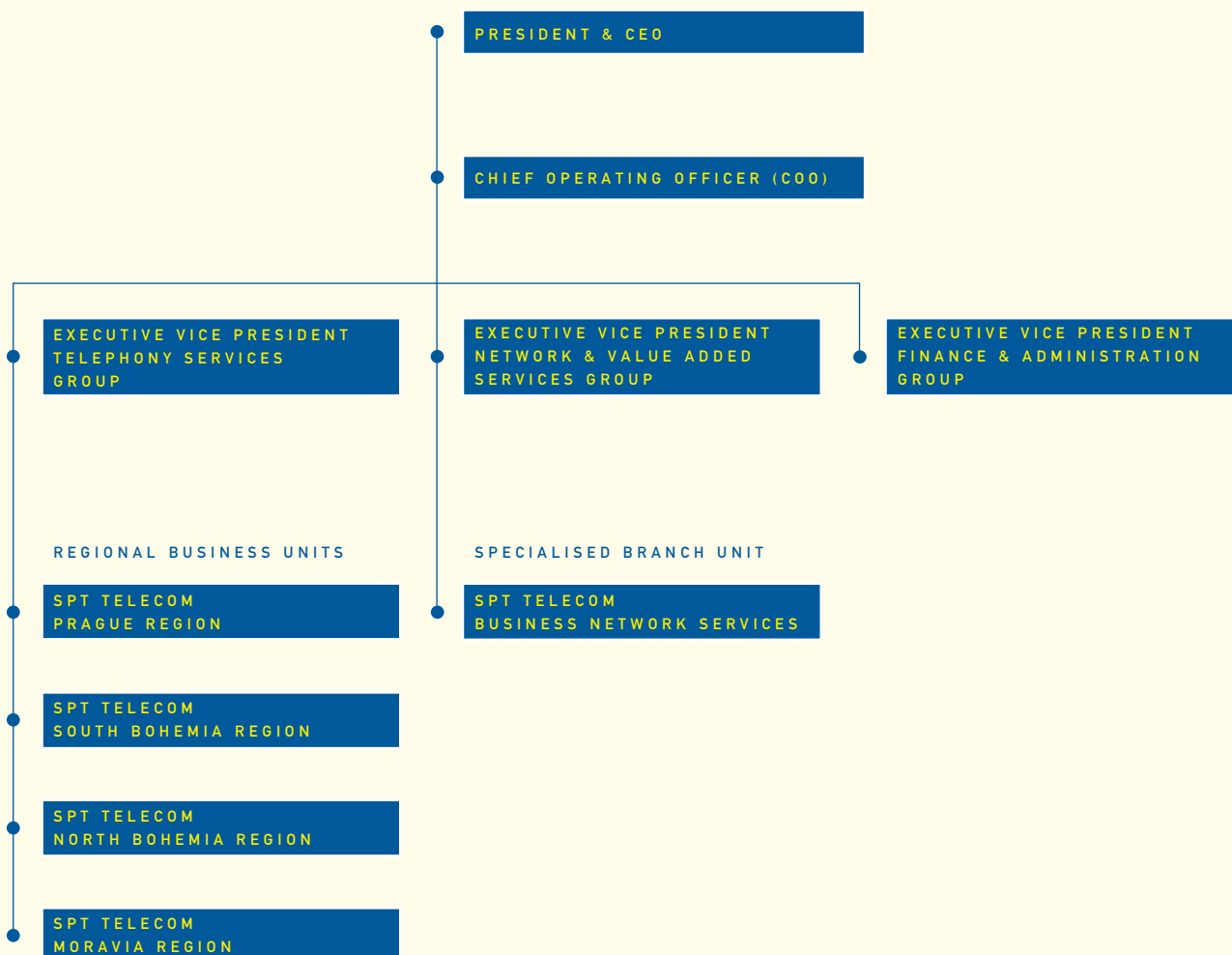
URS KAMBER (*1952)

Chairman of F. S. KAMBER AG; member of the Board of Directors of BERBERAT AG and LASERSHOT AG.

> OPERATING COMMITTEE > as of December 31, 1998

Svatoslav Novák
André Frans Bessel Kok
Michal Čupa
James S. Hubley
Urs Kamber

> ORGANISATIONAL STRUCTURE > up to December 31, 1998



SPT TELECOM
Annual Report 1998

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>CONSOLIDATED FINANCIAL STATEMENTS OF SPT TELECOM
FOR THE YEAR ENDED DECEMBER 31, 1998>

PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

> REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS
OF SPT TELECOM >

We have audited the accompanying balance sheet of SPT TELECOM as at December 31, 1998, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 1998 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.



PRICEWATERHOUSECOOPERS

Registered Auditors

Prague

April 14, 1999

>CONSOLIDATED FINANCIAL STATEMENTS OF SPT TELECOM
FOR THE YEAR ENDED DECEMBER 31, 1998>

PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

> REPORT OF THE AUDITORS TO THE BOARD OF DIRECTORS
OF SPT TELECOM >

We have audited the accompanying balance sheet of SPT TELECOM as at December 31, 1998, and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements give a true and fair view of the financial position of the Company at December 31, 1998 and of the results of its operations and its cash flows for the year then ended in accordance with International Accounting Standards.

A handwritten signature in blue ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

PRICEWATERHOUSECOOPERS

Registered Auditors

Prague

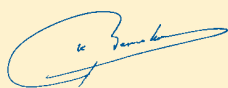
April 14, 1999

> BALANCE SHEET AT DECEMBER 31, 1998 >

(IN CZK MILLIONS)	NOTES	DECEMBER 31, 1998	DECEMBER 31, 1997
ASSETS			
Property, plant and equipment	3	126,382	105,908
Intangible fixed assets	4	1,339	533
Investments	5	22	21
Fixed assets		127,743	106,462
Inventories	8	2,511	2,374
Receivables	9	9,363	9,928
Cash and cash equivalents	23	7,194	9,092
Current assets		19,068	21,394
Total assets		146,811	127,856
EQUITY AND LIABILITIES			
Share capital	10	32,209	32,209
Reserves	12	59,076	52,949
Share capital and reserves		91,285	85,158
Loans and overdrafts	13	39,170	26,411
Creditors	14	8,127	10,388
Finance lease obligations	15	49	98
Provisions for liabilities and charges	16	8,180	5,801
Liabilities		55,526	42,698
Total equity and liabilities		146,811	127,856

The balance sheet is to be read in conjunction with the notes to and forming part of these financial statements.

These financial statements were approved by the Board of Directors on March 23, 1999 and were signed on its behalf by:



ANDRÉ FRANS BESSEL KOK
First Vice Chairman
of the Board of Directors



SVATOSLAV NOVÁK
President & CEO



URS KAMBER
Executive Vice President
Finance & Administration Group

> INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1998 >

(IN CZK MILLIONS)	NOTES	1998	1997
Revenue	17	45,893	39,992
Operating expenses	18	(34,535)	(29,930)
Operating profit		11,358	10,062
Contributed services	2	(933)	(1,027)
Net interest and other income/(charges)	20	(1,228)	(467)
Profit/(loss) before tax		9,197	8,568
Income tax (expense)/credit	21	(3,137)	(2,533)
Profit/(loss) after tax		6,060	6,035

The income statement is to be read in conjunction with the notes to and forming part of these financial statements.

Earnings per share are disclosed in Note 11.

> CASH FLOW STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 1998 >

(IN CZK MILLIONS)	NOTES	1998	1997
NET CASH FROM OPERATING ACTIVITIES	22	17,540	18,670
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash purchase of property, plant and equipment		(32,812)	(35,750)
Cash purchase of intangible fixed assets		(1,091)	(366)
Proceeds from sale of tangible fixed assets		34	48
Interest received		637	820
Net cash used in investing activities		(33,232)	(35,248)
CASH FLOWS FROM FINANCIAL ACTIVITIES			
Net draw down of loan facilities		13,042	9,203
Payment of finance lease liabilities		(49)	(121)
Net cash provided by financing activities		12,993	9,082
Movements on balances of cash held in foreign currencies		276	310
Net (decrease)/increase in cash and cash equivalents		(2,423)	(7,186)
Cash and cash equivalents at beginning of year		9,078	16,264
Cash and cash equivalents at end of year	23	6,655	9,078

The cash flow statement is to be read in conjunction with the notes to and forming part of these financial statements.

> NOTES TO THE FINANCIAL STATEMENTS >

1. BASIS OF PREPARATION

SPT TELECOM, a.s. ("the Company") was established in the Czech Republic on January 1, 1994. The Company is the principal supplier of telecommunication services in the Czech Republic.

The financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") for the year ended December 31, 1998. They have been prepared under the historical cost convention.

The accounting records of the Company have been maintained in accordance with Czech law and their statutory accounts are drawn up in accordance with the accounting requirements of Czech law and Czech accounting practice. When preparing these financial statements adjustments have been made for differences between Czech accounting requirements and IAS.

2. ACCOUNTING POLICIES

The significant accounting policies adopted by the Company are as follows:

JOINT VENTURES

The Company has a 51% interest in EuroTel Praha, a joint venture company providing mobile telephone services in the Czech Republic. The management and operations of EuroTel Praha, are governed by a joint venture agreement which specifies that control is exercised jointly by the Company and the other party to the joint venture. The Company adopts the proportionate consolidation method to account for joint ventures. All intercompany balances and transactions are eliminated.

PROPERTY, PLANT AND EQUIPMENT

Items of property, plant and equipment, other than land, are initially recorded at cost and depreciated as outlined below.

COST The cost of property, plant and equipment includes all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the Company's network this comprises all expenditure up to the final distribution points to customers' premises. This includes the cost of contractors, materials, direct labour costs and interest costs.

Significant enhancement costs are capitalised if these extend the life of the asset or increase its value. Expenditure on repairs and maintenance of property, plant and equipment made to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.

Items of property, plant and equipment that are retired, or otherwise disposed of, are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

DEPRECIATION Items of property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, so as to write down the cost to their estimated residual values over their remaining economic lives.

Estimated useful lives adopted in these financial statements are:

(IN YEARS)	1998	1997
Freehold buildings	40	40
Cable and other related plant	15 to 20	15 to 20
Exchanges and related equipment	up to 10 years	up to 10 years
Other fixed assets	3 to 10	3 to 10

No depreciation is provided on freehold land.

LEASED ASSETS Leases of plant and equipment under which the Company assumes substantially all of the risks and benefits of ownership are classified as finance leases. Assets under finance leases are capitalised as part of property, plant and equipment. An asset and a lease liability equal to the capital element of finance lease payments are recorded at the inception of the lease. Leased assets are depreciated on a straight line basis over the life of the asset while the lease liabilities are reduced by the capital element of lease payments. The interest component of the lease payments are expensed in the income statement.

INTANGIBLE ASSETS

Intangible assets in the Company include computer software and purchased goodwill.

Computer software is recorded at historical cost and amortised on a straight line basis over the estimated useful life, generally two years. Software which is integral to, and acquired as part of, digital exchange equipment is recorded with the related tangible fixed asset.

Goodwill arising on the purchase of a business is amortised on a straight line basis over a period of fifteen years.

INVENTORY

Inventory is stated at the lower of cost and net realisable value. The cost of inventory is determined using the weighted average cost formula. A provision is made for slow-moving and obsolete items.

ACCOUNTS RECEIVABLE

Accounts receivable are valued at expected realisable value net of a provision made for bad and doubtful accounts.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash on hand, bank account balances, short term deposits and liquid investments with an original maturity of three months or less upon their acquisition. Cash and cash equivalents are stated net of overdrafts repayable on demand.

The weighted average of the effective interest rates on short term bank deposits was 12.62% (1997: 14.33%) for CZK and 1.8% for DEM in 1998 (1997: 1.55%).

MARKETABLE SECURITIES

Marketable securities consist of bonds and T-bills and are recorded at costs as at the date of purchase. A provision is made to reduce the value of the securities in the financial statements when the market value is lower than costs.

Proceeds from the sale of securities is charged directly to the income statement.

FINANCIAL INSTRUMENTS

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, leases and borrowings.

The Company also has financial instruments that reduce exposure to fluctuations in foreign currency exchange and interest rates. These instruments, which are specified in note 7 are not recognised in the financial statements.

The purpose of these instruments is to reduce risk. Foreign exchange forward contracts protect the Company from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled. The realised gains and losses are charged to income statement.

Interest rate swap agreements protect the Company from movements in interest rates. Any differential to be paid or received on an interest rate swap agreement is recognised as a component of interest revenue or expense over the period of the agreement.

Realised gains and losses on forward rate agreements are charged to income statement. Premium from options contracts paid is recognised in balance sheet of the Company. When contract mature option premium is charged to income statement. Provision for losses is created for known potential losses in the financial statements of the Company.

REVENUE RECOGNITION

Revenue of the Company includes fees in respect of services provided and proceeds from the sale of equipment and excludes value added tax.

Revenue for services is recognised in the period in which the services are rendered.

The Company receives payments from domestic and foreign network operators for incoming telephony services and other traffic that use the Company's network. The Company pays a proportion of the revenue it receives for such traffic to transit and destination network operators. These revenues and costs are stated gross in the income statement. Amounts payable to and receivable from the same operator are stated net in the balance sheet.

OPERATING EXPENSES

Operating expenses are recognised in the period in which they are incurred.

CONTRIBUTED SERVICES

As part of the merger with TelSource N. V. in 1995, the Company is receiving contributed services and assets with a total value of approximately USD 130 million (CZK 3.5 billion as at the date of the merger) free of charge over a period of five years. The outstanding balance amount is included within receivables (see note 9) and reduced as services or assets are received. The value of the assets or services is capitalised or charged to income as appropriate in the period in which the contributions are received. The amount CZK 933 million of contributed services received and expensed is shown separately in the income statement (1997: CZK 1,027 million). There were no assets capitalised as part of contributed services during the year.

INTEREST

Interest costs are expensed as incurred unless relating to borrowings that fund capital projects in which case they are capitalised as part of the costs of these projects. The average rate used for capitalization of interest during the year 1998 was 1.47% of the value of the assets (1997: 1.43%).

FOREIGN CURRENCIES

Transactions denominated in foreign currencies are translated into CZK at the rate ruling at the time of the transaction. Outstanding monetary items at the balance sheet date are reported at the closing rate. Non-monetary items are reported using the exchange rate at the date of the transaction.

Both realised and unrealised foreign exchange differences are recognised as income or expenses in the period in which they are incurred. Foreign exchange differences incurred as part of the operating activities are included with operating revenues and expenses or, if incurred as part of financial activities, with net interest and other charges.

INCOME TAX

Taxation expense represents both current and deferred taxation where appropriate. Deferred taxation is provided in accordance with IAS 12 (revised) using the liability method applied to all significant temporary differences between the tax and accounting carrying amounts of assets and liabilities.

SOCIAL SECURITY AND RETIREMENT BENEFITS

Contributions are made to the Government's health, retirement benefit and unemployment schemes at the statutory rates appropriate during the period and are based on gross salary payments. The expense for social security payments is taken in the same period as the related salary expense. The Company also makes payments to defined contribution schemes provided by external pension companies. These payments are expensed in the period in which the contributions are due to be paid.

3. PROPERTY, PLANT AND EQUIPMENT

1998 (IN CZK MILLIONS)	LAND AND BUILDINGS	DUCT. CABLE AND OTHER PLANT	TELEPHONE EXCHANGES AND RELATED EQUIPMENT	OTHER FIXED ASSETS	CAPITAL WORK IN PROGRESS INCLUDING ADVANCES	TOTAL
COST						
At January 1, 1998	12,103	56,334	50,373	5,777	21,619	146,206
Additions	11	-	134	3	30,972	31,120
Disposals	(33)	(267)	(2,097)	(253)	-	(2,650)
Transfers	1,964	24,596	9,616	2,490	(38,666)	-
Reclassifications	375	(375)	99	(99)	-	-
At December 31, 1998	14,420	80,288	58,125	7,918	13,925	174,676
ACCUMULATED DEPRECIATION						
At January 1, 1998	1,696	14,769	20,968	2,865	-	40,298
Charge for the year	414	3,170	5,545	1,271	-	10,400
Disposals	(7)	(234)	(1,940)	(223)	-	(2,404)
Reclassifications	57	(56)	41	(42)	-	-
At December 31, 1998	2,160	17,649	24,614	3,871	-	48,294
Net book value						
at December 31, 1998	12,260	62,639	33,511	4,047	13,925	126,382

1997 (IN CZK MILLIONS)	LAND AND BUILDINGS	DUCT. CABLE AND OTHER PLANT	TELEPHONE EXCHANGES AND RELATED EQUIPMENT	OTHER FIXED ASSETS	CAPITAL WORK IN PROGRESS INCLUDING ADVANCES	TOTAL
COST						
At January 1, 1997	10,097	38,026	39,701	5,661	18,072	111,557
Additions	11	23	-	123	36,589	36,746
Disposals	(50)	(291)	(1,443)	(272)	(41)	(2,097)
Transfers	2,173	18,408	10,106	2,314	(33,001)	-
Reclassifications	(128)	168	2,009	(2,049)	-	-
At December 31, 1997	12,103	56,334	50,373	5,777	21,619	146,206
ACCUMULATED DEPRECIATION						
At January 1, 1997	1,377	12,844	17,633	2,322	-	34,176
Charge for the year	332	2,134	4,192	1,272	-	7,930
Disposals	(9)	(276)	(1,329)	(194)	-	(1,808)
Reclassifications	(4)	67	472	(535)	-	-
At December 31, 1997	1,696	14,769	20,968	2,865	-	40,298
Net book value						
at December 31, 1997	10,407	41,565	29,405	2,912	21,619	105,908

Included in tangible fixed assets are assets under finance leases with a net book value of CZK 111 million (December 31, 1997: CZK 199 million). The value of assets (excluding those subject to finance leases), pledged as security for loans and other borrowings is disclosed in note 13.

The amount of interest capitalised in the year was CZK 658 million (1997: CZK 553 million).

4. INTANGIBLE FIXED ASSETS

1998 (IN CZK MILLIONS)	GOODWILL	SOFTWARE	TOTAL
COST			
At January 1, 1998	90	974	1,064
Additions	2	1,745	1,747
Disposals	-	(683)	(683)
At December 31, 1998	92	2,036	2,128
ACCUMULATED DEPRECIATION			
At January 1, 1998	15	516	531
Charge for the year	6	324	330
Disposals	-	(72)	(72)
At December 31, 1998	21	768	789
Net book value at December 31, 1998	71	1,268	1,339

1997 (IN CZK MILLIONS)	GOODWILL	SOFTWARE	TOTAL
COST			
At January 1, 1997	90	657	747
Additions	-	370	370
Disposals	-	(53)	(53)
At December 31, 1997	90	974	1,064
ACCUMULATED DEPRECIATION			
At January 1, 1997	9	266	275
Charge for the year	6	299	305
Disposals	-	(49)	(49)
At December 31, 1997	15	516	531
Net book value at December 31, 1997	75	458	533

5. INVESTMENTS

JOINT VENTURES

The Company has a 51% interest in a joint venture in EuroTel Praha. The financial results of EuroTel Praha are included using the proportionate consolidation method and are stated in accordance with the accounting policies of the Company. A summary of the Company's interest in the net assets and results is presented below:

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Property, plant and equipment	7,736	5,934
Current assets	1,476	1,434
Share capital and reserves	3,616	2,168
Total liabilities	5,346	5,196
	1998	1997
Revenue	5,467	5,307
Operating expenses	(1,935)	(3,674)
Income tax expense	(860)	(429)
Profit after tax	1,711	807

The Company also has a 100% interest in SPT TELECOM (Czech Republic) Finance B.V. This company was incorporated April 9, 1998 in Amsterdam, the Netherlands. During the course of 1998, SPT TELECOM (Czech Republic) Finance B.V. issued bonds denominated in German marks on behalf of SPT TELECOM. SPT TELECOM (Czech Republic) Finance B.V. has no employees. Apart from the issue of bonds there were no other transactions. The bonds issued are accounted for in the financial statements of the Company.

6. MARKETABLE SECURITIES

INTEREST BEARING MARKETABLE SECURITIES	1998	1997
(IN CZK MILLIONS)		
Opening balance	5,594	-
Additions	18,579	32,167
Disposals	(17,624)	(26,573)
Closing balance	6,549	5,594

7. FINANCIAL INSTRUMENTS

SPT TELECOM and its subsidiary EuroTel Praha have each individually entered into a number of financial contracts in order to reduce the exposure on foreign currency and interest rates. Thus, both companies have entered into cross currency interest rate swaps, FRAs, foreign exchange forwards, interest rate swaps, foreign exchange options, interest rate options, zero coupon swaps and foreign exchange swaps.

Companies' policy on derivatives constitutes written documents in both companies approved and revised from time to time by the companies' representatives. Their basic rules are:

1. "permitted treasury activities are those relating to an underlying exposure and resulting in reduced financial risk to the Company. Transactions specifically excluded from the permitted ones are those constituting margin trading or position taking for profit."
2. "no counterparty can have an exclusive access to Company's transactions. At least two counterparties must be asked for quotes at the same time unless characteristics of a particular transaction or market condition do not allow such an approach. In such cases market levels must be used as a benchmark and evidenced in the transaction documentation."

Other aspects of companies' hedging activities, e.g. procedures, limits, authorisations, responsibilities, permitted transactions, benchmarks etc. are also part of the documents.

OVERVIEW OF THE TRANSACTIONS

The remaining terms and notional principal amounts of the outstanding derivative contracts:

DECEMBER 31, 1998 (IN CZK MILLIONS)	LESS THAN ONE YEAR	ONE TO FIVE YEARS	FIVE TO TEN YEARS	TOTAL
Interest rate swaps	-	3,012	-	3,012
Cross currency interest rate swaps	-	1,146	-	1,146
Options	91	2,648	-	2,739
Forward foreign exchange contracts	1,257	2,714	-	3,971
Zero coupon swaps	-	3,523	-	3,523
Forward rate agreements	3,362	357	-	3,719
Foreign exchange swaps	782	-	-	782
Interest rate options	-	182	-	182

DECEMBER 31, 1997 (IN CZK MILLIONS)	LESS THAN ONE YEAR	ONE TO FIVE YEARS	FIVE TO TEN YEARS	TOTAL
Interest rate swaps	-	-	-	-
Cross currency interest rate swaps	-	-	-	-
Currency options	-	-	-	-
Forward foreign exchange contracts	2,408	-	-	2,408
Zero coupon swap	-	-	-	-
Forward rate agreement	3,171	-	-	3,171
Foreign exchange swap	1,731	-	-	1,731
Interest rate options	-	-	-	-

The transactions have been used to reduce risk mainly on external fundings but also on supplier contracts.

8. INVENTORIES

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Construction material	789	809
Cable	1,178	1,114
Other inventory including goods for resale	544	451
	2,511	2,374

9. RECEIVABLES

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Domestic trade receivables	6,007	4,647
Foreign currency trade receivables	93	369
Other debtors	2,130	3,545
Prepayments	554	486
Income tax receivable	-	-
VAT receivable	579	881
	9,363	9,928

Other debtors include an amount due from TelSource N.V. for contributed services of approximately CZK 1.5 billion (December 31, 1997: CZK 2.6 billion) (see note 2), which will be received over the period to the year 2000.

10. SHARE CAPITAL

AUTHORISED AND ISSUED FULLY PAID SHARE CAPITAL	DECEMBER 31, 1998	DECEMBER 31, 1997
Nominal value per ordinary share (in CZK)	100	1,000
Number of ordinary shares	322,089,900	32,208,990
Ordinary shares (in CZK millions)	32,209	32,209

The company brought to effect a one-for-ten share split on June 20, 1998.

At December 31, 1998 significant shareholdings in the Company were as follows:

(IN %)	
National Property Fund	51.1
	(1 share with special rights)
TelSource N.V.	27.0
Chase Nominees Limited	10.4

In December 1998 KPN N.V. (one of the participants in TelSource) increased its interest in SPT TELECOM by 6.5% and together with TelSource they now control of 33.5%.

11. EARNINGS PER SHARE

	DECEMBER 31, 1998	DECEMBER 31, 1997
Number of shares	322,089,900	32,208,990
Nominal value of 1 share (in CZK)	100	1,000
Net profit (in CZK millions)	6,060	6,035
Earnings per share (in CZK)	19	187

12. RESERVES

1998 (IN CZK MILLIONS)	RETAINED EARNINGS	SHARE PREMIUM	OTHER RESERVES	TOTAL
Balance at January 1, 1998	15,559	30,717	6,673	52,949
Net profit for 1998	6,060	-	-	6,060
Other movements	-	51	16	67
Balance at December 31, 1998	21,619	30,768	6,689	59,076

1997 (IN CZK MILLIONS)	RETAINED EARNINGS	SHARE PREMIUM	OTHER RESERVES	TOTAL
Balance at January 1, 1997	9,566	30,623	6,673	46,862
Net profit for 1997	6,035	-	-	6,035
Other movements	(42)	94	-	52
Balance at December 31, 1997	15,559	30,717	6,673	52,949

Other reserves comprise the reserve fund established on the formation of the Company and capital contributions. Share premium arises on the issue of shares during 1995 less costs directly associated with the issue of these shares. The treatment of contributed services is discussed in note 2.

13. LOANS AND OVERDRAFTS

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Bank loans and overdrafts in local currency	2,891	2,015
International financial institution loans in foreign currency	3,098	3,471
Bank loans in foreign currency	11,760	12,677
Bills of exchange in foreign currency	97	248
Bonds in local currency	8,000	8,000
Bonds in foreign currency	13,324	-
	39,170	26,411
Repayable:		
Within one year	3,249	271
Between one and two years	1,330	3,699
Between two and five years	21,534	8,541
After five years	13,057	13,900
Total non current	35,921	26,140
	39,170	26,411

In 1998 the Company issued DEM 750 million bonds which are redeemable at par in 2003 and carry a coupon of 5.125%. At December 31, 1998 the Company had total undrawn loan facilities available of approximately CZK 15.2 billion (1997: CZK 21.2 billion).

CZK 1 billion bonds are redeemable in 1999, as well as a part of the loans in value of CZK 1 billion and a part of the loans in foreign currency in value of DEM 12.4 million. The rest of the bonds in the value of CZK 7 billion is redeemable in 2004. Interest has been charged on all borrowings at commercial rates.

After taking account of interest rate swaps, the interest rate exposure of SPT TELECOM and EuroTel Praha was as follows:

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
TOTAL BORROWINGS		
At fixed rates	36,753	17,764
At floating rates	2,417	8,647
Total	39,170	26,411
(IN %)		
AVERAGE INTEREST RATES		
Bank overdrafts	9.25	14.82
Bank borrowings	7.69	6.52
Bonds	9.73	9.64
Other borrowings	5.25	6.00

SPT TELECOM owns fixed assets which have been pledged as security on loans. The value of assets pledged is as follows.

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Land and buildings	1,330	1,330
Plant and equipment	4,119	4,119

As at December 31, 1998 assets pledged relate to an agreement with the Ministry of Finance of the Czech Republic and with IPB; all obligations to Komerční banka from 1996 have been discharged.

Land and buildings, plant and equipment valued at CZK 5.4 billion (1997: CZK 5.4 billion) have been pledged as security for CZK 5.4 billion (1997: CZK 3.5 billion) of borrowings.

14. CREDITORS

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Trade creditors in local currency	2,648	2,398
Trade creditors in foreign currencies	855	1,650
Other taxes and social security	316	99
Deferred income	523	892
Employee wages and benefits	41	53
Income tax payable	441	428
Accruals and other creditors	3,303	4,868
	8,127	10,388

15. FINANCE LEASE OBLIGATIONS

Finance lease payments are payable as follows:

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Within 1 year	62	74
Between one and two years	-	43
Between two and five years	-	-
	62	117
Less future lease finance charges	(13)	(19)
Total lease liability	49	98

16. PROVISIONS FOR LIABILITIES AND CHARGES

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Deferred taxation	6,847	4,673
Provision for restructuring	803	1,055
Other	530	73
	8,180	5,801

In 1996 the Company adopted a business improvement plan to fundamentally change the way it performs business by the year 2000. The implementation of this plan requires significant reductions in the number of staff necessary for service provision and network operation. In 1996 an amount of CZK 1,204 million was provided for the costs of reducing the number of employees and CZK 548 million for other costs associated with the restructuring. By December 31, 1998 the remaining balances of these provisions are CZK 554 million (1997: CZK 684 million) and CZK 249 million (1997: CZK 374 million) respectively. The provision for employee redundancies consists of both the statutory termination payments as well as additional payments as part of the Company's redundancy scheme.

Other provisions include provisions for financial instruments.

The balance of deferred taxation consists mainly of the temporary differences between the tax and accounting carrying amounts of property, plant and equipment and the provision for restructuring set out below.

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Difference in carrying amounts of tangible and intangible assets	7,306	5,534
Provision for restructuring and other	(459)	(861)
	6,847	4,673

17. REVENUE

(IN CZK MILLIONS)	1998	1997
Call revenues	27,936	23,972
Connection charges	1,921	1,726
Subscriptions charges	5,631	4,314
Revenue from other network operators	4,518	3,576
Telex, data transmission and other telephony	2,462	2,061
Equipment sales and sales of materials	1,290	1,528
Leased circuits	1,670	1,489
Other revenues	465	1,326
	45,893	39,992

18. OPERATING EXPENSES

(IN CZK MILLIONS)	1998	1997
Wages and salaries	4,901	5,323
Social security contributions	1,794	1,969
Staff welfare costs	281	333
Total staff costs	6,976	7,625
Material consumed	1,851	1,333
Depreciation of tangible and intangible fixed assets	10,851	8,235
Payments to other network operators	5,224	3,783
Equipment and material cost of sales	1,741	1,961
Other operating costs, including energy costs and repairs and maintenance	7,892	6,993
	34,535	29,930

For pension contribution see note 25.

19. EMPLOYEES

	1998	1997
The average number of employees during the year	23,317	26,183

A one-off early retirement package, made available December 1997 effective January 1, 1998, was accepted by 2,100 eligible employees.

20. NET INTEREST AND OTHER INCOME/(CHARGES)

(IN CZK MILLIONS)	1998	1997
Interest expense		
Interest incurred on loans and bonds	2,860	1,901
Finance leases	16	23
Commissions and other bank charges	531	386
Total interest payable and other charges	3,407	2,310
Interest capitalised	(658)	(553)
Interest expense	2,749	1,757
Interest income	(637)	(820)
Net foreign exchange (gains)/losses	(884)	(470)
Net interest and other (income)/charges	1,228	467

Net foreign exchange differences relate mainly to cash deposits and borrowings denominated in USD and DEM (see note 23).

21. INCOME TAX EXPENSE/(CREDIT)

(IN CZK MILLIONS)	1998	1997
Profit/(loss) before tax	9,197	8,568
Income tax expense/(credit) calculated at the statutory rate of 35% (1997: 39%)	3,225	3,334
Impact on income tax expense/(credit) due to non tax deductible/assessable items	254	(141)
Impact on income tax expense/(credit) due to 10% deduction for property, plant and equipment brought into use	(342)	(319)
Restatement of deferred tax balances due to change in income tax rate		(341)
Income tax expense/(credit)	3,137	2,533
Total income tax expense/(credit) is made up of:		
Current income tax charge	1,057	800
Deferred income tax charge	2,080	1,733
	3,137	2,533

The effective tax rate was in 1998 34% (1997: 30%). The increase in the effective tax rate reflects changes in legislation increasing the tax burden on certain investment income, which were previously taxed at 25% and are now subject to the normal corporate income tax rate (35%).

22. NET CASH FLOWS FROM OPERATING ACTIVITIES

(IN CZK MILLIONS)	1998	1997
Profit/(loss) before taxation	9,197	8,568
Adjustments for:		
Depreciation	10,851	8,235
(Profit)/loss on fixed asset sales	(2)	2
Net interest and other (income)/charges	2,112	1,075
Foreign exchange (gains)/losses	(870)	262
Contributed services	933	1,027
Increase/(decrease) in provisions	185	(722)
Operating cash flow before working capital changes	22,406	18,447
Increase in trade and other receivables	(859)	(1,948)
Increase in inventories	(137)	(242)
Increase in trade and other creditors	15	3,501
Cash generated from operations	21,425	19,758
Interest, commissions and other charges paid	(2,558)	(1,375)
Income taxes received	(1,327)	287
Net cash from operating activities	17,540	18,670

23. CASH AND CASH EQUIVALENTS

(IN CZK MILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Cash balances	7,194	9,092
Bank overdrafts and other short-term borrowings	(539)	(14)
Balance at December 31	6,655	9,078

Cash balances at December 31, 1998 include deposits of CZK 196 million (December 31, 1997: CZK 2 billion) held in USD and DEM.

24. COMMITMENTS

OPERATING LEASES The Company has no significant operating lease commitments.

CAPITAL COMMITMENTS

(IN CZK BILLIONS)	DECEMBER 31, 1998	DECEMBER 31, 1997
Capital expenditure contracted but not provided for in the financial statements	9.2	22.2

The majority of contracted amounts relate to the telecommunications network and are payable within one year.

The portion of the capital commitments of the Company itself is CZK 8.1 billion (1997: CZK 18.6 billion) the rest relates to joint venture interest in EuroTel Praha.

25. GOVERNMENT SOCIAL SECURITY AND PENSION SCHEMES

The Company is legally required to make contributions to Government health, retirement benefit and unemployment schemes. The Company pays a rate of 35% (1997: 35%) of gross salaries and is not required to make any contributions in excess of this statutory rate. The amount paid in respect of this was CZK 1,804 million (1997: CZK 1,969 million). Employees contribute 12.5% (1997: 13%).

The company has a voluntary pension plan for employees under which the Company makes contributions on behalf of employees to approved pension plan providers, under defined contribution schemes. The Company's contribution depends upon the number of employees joining the scheme, the age profile and the gender of the members of the schemes. During the year the Company made contributions of CZK 69 million (1997: CZK 79 million).

There is a further plan under which the Company will make lump sum payments to employees who retire prior to 2015 on a decreasing scale based on year of retirement. Payments during the year related to early retirement, which are accounted for on a cash basis, amounted to CZK 19 million (1997: CZK 32 million).

26. RELATED PARTY TRANSACTIONS

The Company provides services to State departments and businesses, in general on normal commercial terms.

The Company receives revenues and makes payments to its joint venture and former associated companies in the normal course of business. These transactions are based on contractual agreements negotiated on normal commercial terms.

Contributions of assets and services by TelSource N.V. in relation to the share purchase agreement are described in note 2 under contributed services.

27. POST BALANCE SHEET EVENTS

Effective January 1, 1999 new tariffs are approved for domestic telecommunication services. The impact of these changes is expected to be an average price increase of 3.9%.

28. CONTINGENCIES

The Company does not have any material contingencies which would need to be disclosed for in the financial statements.

> SHAREHOLDER INFORMATION >

GENERAL MEETING OF SHAREHOLDERS

The annual General Meeting of Shareholders will take place on June 18, 1999 at the Žofín Cultural and Social Center in Prague.

DATE OF EARNINGS ANNOUNCEMENTS

- six months 1999 - at the end of July 1999
- nine months 1999 - at the end of October 1999
- full 1999 - preliminary results - February 2000
- audited results - at the end of March 2000
- first quarter 2000 - at the end of April 2000

INVESTOR RELATIONS

Institutional investors may contact:

SPT TELECOM, a.s.

Investor Relations

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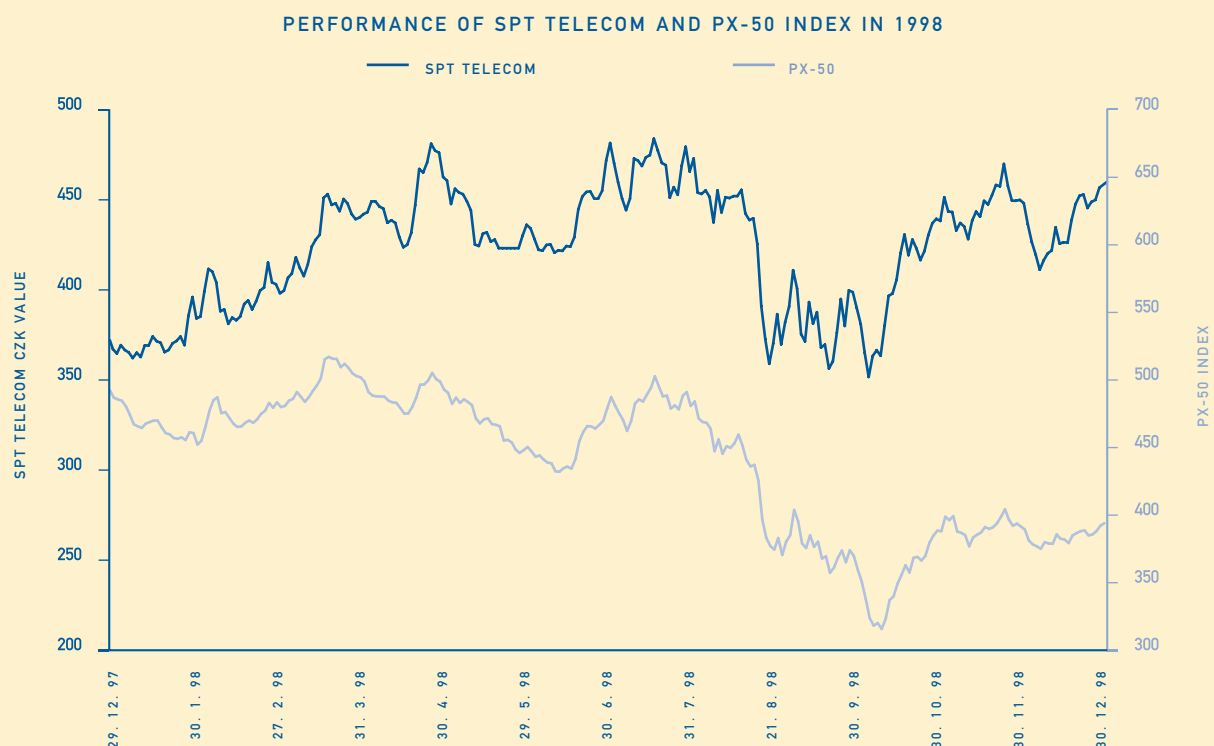
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SHARE PRICE

At the end of 1998 SPT TELECOM shares closed trading at CZK 459 per share, which was an increase of 23% over the last business day of 1997.



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