ANNUAL REPORT #99

CZECH TELECOM

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MISSION Creating a world-class telecommunications company is about more than just technology. It's about offering customers a modern, reliable and efficient service. At ČESKÝ TELECOM, these are more than just words. We've turned them into a reality.

COMMITTED TO PROVIDING OUR CUSTOMERS WITH AN OUTSTANDING SERVICE

GREATER CHOICE

Our 3.8 million customers can choose from a broader selection of services than ever before. New additions in 1999 included INTERNET OnLine WIRELESS, virtual private networks, and our Memobox messaging service, an enhanced version of its predecessor, TelecomBox. Our portfolio of services now ranges from business and residential lines to leased lines and public payphones, through to cellular services and Internet and integrated data services.

QUALITY

77% of our customers have digital lines, compared to 64% in 1998. This gives them faster, more reliable connections and access to value-added services such as call forwarding and euroISDN.

VALUE FOR MONEY

New low-cost tariff structures have enabled more people to enjoy the benefits of ČESKÝ TELECOM more often. In some cases we have reduced our prices by up to 40%.

A NAME YOU CAN TRUST

We honoured our authorisation targets and often improved on them. For example, 99.7% of all operator assistance calls were answered within 20 seconds, against an authorisation limit of 97%.

FOCUSED ON THE FUTURE

Our goal is to remain the premier telecommunications company in the Czech Republic when our market is liberalised in 2001. We will do this by providing our customers with an exceptional state-of-the-art service, our investors with enhanced shareholder value and our employees with a positive working environment.

To signify our transformation into a company that can deliver these values, we have changed our name to ČESKÝ TELECOM with a new corporate identity. Previously we were SPT TELECOM, established as an independent telecommunications company by the Czech Government in 1993 and created as a joint-stock company in 1994. With our international strategic partner TelSource, we are poised to realise our full potential. And our customer's desires.

DELIVERING INCREASINGLY ATTRACTIVE RESULTS TO OUR SHAREHOLDERS

REVENUE RISES BY 13%

Our increasingly intense focus on multimedia channels and other rapidly growing markets, such as mobile telephony, played a central role in pushing up our revenue to CZK 51.9 billion.

EARNINGS BEFORE INTEREST, TAX AND DEPRECIATION (EBITDA) INCREASE BY 16%

Tighter cost control, allied to revenue growth, boosted EBITDA to CZK 25.7 billion. As a proportion of revenue, this equates to a margin of 50%, up from 48% in 1998.

SHARE PRICE SOARS BY 26%

Investors signalled their mounting confidence in our ability to sustain our progress by lifting our share price from CZK 458.8 to CZK 576.5 by the end of the year.

Revenues (in CZK millions)

96	32,483
97	39,992
98	45,893
99	51,902

EBITDA (in CZK millions)

96	14,176
97	18,297
98	22,209
99	25,732

Proportion of lines connected to digital exchanges (in %)

96	33
97	50
98	64
99	77

Development of share price (in CZK)

96	338.6
97	373.0
98	458.8
99	576.5

Our progress in 1999 was particularly remarkable given the market conditions in the Czech Republic. As well as operating in an economy with negative GDP growth, we had to contend with new competitors offering IP-telephone services. We not only successfully competed but also managed to increase our market share and improve many of our key financial indicators.

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	1999
Revenues	32,483	39,992	45,893	51,902
Earnings before interest, taxes and depreciation (EBITDA)	14,176	18,297	22,209	25,732
Earnings before interest and taxes (EBIT)	8,028	10,062	11,358	12,323
Earnings before taxes (EBT)	(971)	8,568	9,197	8,442
Net income	(483)	6,035	6,060	6,171
Total assets	106,167	127,856	146,811	155,915
Fixed assets	77,851	106,462	127,743	134,711
Equity	79,071	85,158	91,285	97,478
Share capital	32,209	32,209	32,209	32,209
Loans	16,025	26,411	39,170	37,442
Net cash used in investing activities [1]	30,133	35,248	33,232	18,116
Total number of employees (only ČESKÝ TELECOM)	26,314	22,938	21,815	20,115
FIXED LINE NETWORK				
Number of lines installed (x 1000)	2,815	3,274	3,734	3,839
Net number of new lines installed (x 1000)	417	459	459	105
Penetration per population (in %)	27	32	36	37
Penetration per households (in %)	50	60	70	72
Digitalisation (in %)	33	50	64	77
Waiting list (x 1000)	577	406	141	74
Lines per employee	107	143	171	191
RATIOS (IN %)				
EBITDA/revenues	44	46	48	50
EBIT/revenues	25	25	25	24
EBT/revenues	–	21	20	16
Net income/revenues	–	15	13	12
Income tax rate	39	39	35	35
Effective tax rate	–	30	34	27
Depreciation as % of revenues	19	21	24	26
Depreciation as % of average net fixed assets	12	11	11	11
CAPEX as % of revenues	93	88	72	35
ROA (Net income/total assets)	n/m	5	4	4
ROE (Net income/equity)	n/m	7	7	6
Gross gearing (Interest bearing debt/total equity)	20	31	43	38
Net gearing (Net debt/total equity)	neg.	20	35	29
MACROECONOMIC INDICATORS				
Population (in millions)	10.3	10.3	10.3	10.3
GDP (in %)	3.9	1.0	(2.7)	(0.2)
Inflation (in %)	8.8	8.5	10.7	2.1
Unemployment (in %)	3.5	5.2	7.5	9.4
Exchange rate CZK/USD – average during the period	27.1	31.7	32.3	34.6
Exchange rate CZK/USD	27.3	34.6	29.9	36.0
SHARES				
Number of shares at end of period (in millions) [2]	322.1	322.1	322.1	322.1
Net income per share (in CZK) [2]	n/m	18.7	18.8	19.2
Dividend per share (in CZK) [2]	0.0	0.0	0.0	0.0
Max. share price during period (in CZK) [3]	347.5	439.0	484.8	651.7
Min. share price during period (in CZK) [3]	259.5	285.0	352.5	376.2
Share price (in CZK) [3]	338.6	373.0	458.8	576.5
Market capitalisation (in CZK billions)	109.1	120.1	147.8	185.7

[1] excluding purchase of and proceeds from marketable securities
[2] number of shares 1996 – 1997 adjusted for 1:10 share split
[3] share price 1996 – 1997 adjusted for 1:10 share split
n/m = not meaningful

FIRST VICE CHAIRMAN'S STATEMENT

Despite a challenging economic climate ČESKÝ TELECOM produced another impressive performance in 1999, with double-digit growth in both revenues and Earnings Before Interest, Tax and Depreciation. This not only underlines the transformation of our company but also reinforces our confidence that we will be able to compete with the very best when the Czech Republic's telecommunications market is liberalised in 2001.

Two encouraging developments underpinned our results. First, we made considerable progress in meeting customers' demands for new and more flexible communication channels, notably through our Internet, ISDN, and data services as well as through our mobile phone subsidiary. These services fuelled our growth in revenue and demonstrated our ability to expand rapidly into non-traditional telephony services. Second, we made further advances in managing our capital and the growth of our operating costs, prerequisites for us to compete in 2001.

SATISFYING THE DEMAND FOR MULTIMEDIA

ČESKÝ TELECOM is now firmly on course to become a world-class company in a market that is rapidly moving towards the Internet and broadband multimedia applications, fixed line and mobile. Our accelerated digitalisation programme, which now covers 77% of all our lines, will be key to our success. To enhance our technological capability, we are investing heavily in the integration of voice, data and images and expanding our access points. Perhaps more significantly, we have acquired a virtual telecom solutions business, OMNICOM, and we agreed to acquire the online advertising specialist, M.I.A. These are small acquisitions but highlight our determination to expand our presence in these promising growth markets.

CUSTOMER-FOCUSED

Technological progress is important but even more important is that these benefits have to be delivered to our customers in a fast, efficient and human manner, tailored to their needs. We have to become more customer-focused. And we are rapidly moving in this direction, driven by two major IT-led programmes covering both our operational and internal business systems. Supported by extensive training, these integrated programmes will lead to greater economies of scale, faster line repairs and installations and enable us to introduce new services more rapidly and efficiently.
Already our customers are benefiting from these developments. In 1999, for example, we were able to introduce several innovative new services, including virtual private networks. Efficiency gains also enabled us to lower the prices of several of our services and to improve on virtually all our demanding Authorisation obligations.

NEW CORPORATE IDENTITY

There is still room for improvement but there is no doubt the company has changed radically since it was initially part-privatised in 1994. In effect, it is a new company. To reflect this transformation, we changed our name from SPT TELECOM to ČESKÝ TELECOM on January 1, 2000 and introduced a new corporate identity. Together these initiatives communicate that ČESKÝ TELECOM is a modern, customer-focused and reliable company. As our new strapline states, these are "More than just words". We are honouring our claims and delivering tangible benefits for both our customers and investors.

INVESTOR CONFIDENCE CONTINUES TO RISE

This was reflected in a sharp rise in our share price, a clear sign of investors' mounting confidence in our ability to sustain our progress and to provide a highly competitive service. During 1999, our share price increased by 26%, from CZK 459 to CZK 577, significantly higher than the Prague Stock Exchange PX-50 Index.
We intend to build on these achievements in 2000, giving our customers a higher quality service, our investors greater value and our staff an environment that will allow them to realise their full potential and, consequently, our customers' aspirations.
We hope to report further advances in these fields in our interim statement this summer.

André Frans Bessel Kok
First Vice Chairman of the Board of Directors
Chief Operating Officer

CHIEF EXECUTIVE'S STATEMENT

ČESKÝ TELECOM's transformation into a more dynamic, customer-focused company was rewarded with a 13% rise in total revenues to CZK 51.9 billion and a 16% increase in Earnings Before Interest, Tax and Depreciation (EBITDA) to CZK 25.7 billion. EBITDA as a proportion of revenue now stands at 50%, up from 48% the previous year.

Top-line growth was driven by significant increases in demand for our data transmission, Internet and ISDN services, as well as our cellular services. Consolidated revenues from EuroTel Praha, our mobile phone subsidiary, leapt by 44%, supported by an 82% increase in its customer base. This took its total number of customers over the 1 million mark. In line with global trends, our Internet business, branded INTERNET OnLine, also enjoyed an excellent year, doubling its customer base. Sales of euroISDN jumped by 235% to almost 60,000.

The installation of an additional 105,000 lines helped push call revenues up by 4% and extended our penetration of households to 72%, compared to 70% in 1998. The lower number of installations reflected our success in cutting our waiting list, slashed by nearly half to just 74,000.

GREATER EFFICIENCY

These advances were complemented by further improvements in efficiency. During 1999, we contained the growth in operating costs to 10%. This was predominantly achieved by an 8% reduction in headcount to just over 20,000. This increased our number of lines per employee – a key measure of productivity – by 12% to 191. We also reduced material costs by 38% and slowed the growth in energy, repairs and maintenance and other costs from 13% to 8%.

ENHANCING OUR STATE-OF-THE-ART NETWORK

To satisfy customers' increasing demands for more sophisticated and flexible services, we invested CZK 18.1 billion in the development of our telecommunications infrastructure. Central to this was a more intense effort to complete digitalisation process of our network by 2002. By the end of 1999, 77% of our 3.8 million lines were connected to digital exchanges, up from 64% the previous year. We also enhanced the foundations for our virtual private network, which underwent pilot tests, and started to operate an ATM-based backbone, permitting users to transmit data at speeds of up to 155 Mbps.

BROADENING OUR CHOICE OF SERVICES

The versatility of our digital network enabled us to introduce several new services. These included a relaunched prepaid card, Karta X, and an enhanced messaging facility, Memobox, formerly known as a TelecomBox, that allows customers to receive voice and fax messages. For businesses, INTERNET OnLine joined forces with IBM to create e-Store, enabling firms to set up secure e-commerce sites. We also unveiled INTERNET OnLine WIRELESS for small- to medium-size businesses requiring constant access to the Net without a phone line.

LOWER PRICES

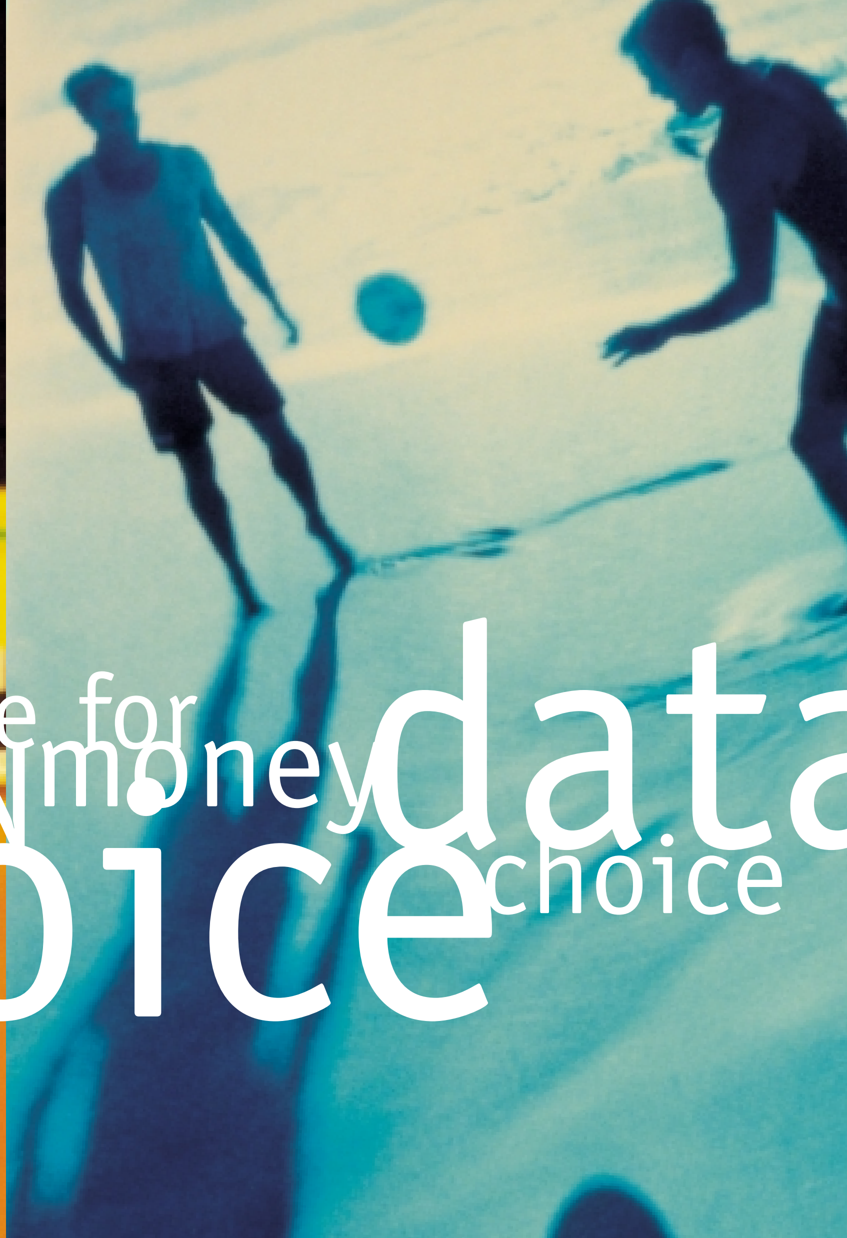
Lower prices sharpened the competitive edge of many of our services. We cut the costs of long distance and international calls by up to 40% and certain calls made from phone cards by up to 20%. Furthermore, we reduced our data service prices by 10%, supported by a simplified and more transparent tariff structure. To make Internet access more affordable, we introduced our low-tariff Internet 99 scheme for Internet Service Providers and ran special promotions for customers of INTERNET OnLine.

PUTTING OUR CUSTOMERS FIRST

On-going organisational changes will not only enable us to generate the efficiencies for further price reductions but also create a more customer-focused and responsive culture. On top of streamlining our internal processes, we are migrating our service and customer support to Call Centres. Business customers have dedicated support teams.

Transforming a company as large as ČESKÝ TELECOM takes time but this year's results clearly indicate we are moving in the right direction. Our goal of creating a world-class company is within sight. I would like to thank our customers, our partners and, above all, our staff for making this possible.

Přemysl Klíma
President & Chief Executive Officer

1:

MORE THAN JUST TELEPHONE SERVICES Since we were privatised in 1994 we have launched a wide array of new services, from INTERNET OnLine and mobile telephone services through to euroISDN for first-rate transmission of voice, data and images. During 1999 we offered our customers even greater choice and value for money.

MORE THAN JUST TELEPHONE SERVICES

THE STANDARD-BEARER OF QUALITY ON THE INTERNET

A two-fold increase in the number of customers using INTERNET OnLine highlighted the country's growing appetite for fast, reliable and high-quality Internet access. To reinforce our position as the Czech Republic's leading Internet Service Provider (ISP), we carried out several new initiatives:
New services: In addition to new Web hosting and housing facilities, we launched INTERNET OnLine WIRELESS for customers who want constant low-cost access to the Web without plugging into a phone line. For businesses moving into the promising world of e-commerce, we joined forces with IBM to create e-Store. Available since March 2000, this allows businesses to set up e-commerce sites with secure payment processing systems. Early in 2000, we signalled our intention to move into Internet content when we agreed to acquire the online advertising specialist, M.I.A.
Novel promotions: In conjunction with a major Czech newspaper, we offered access to INTERNET OnLine for just CZK 1 per month, while businesses and educational establishments had the opportunity to be connected via high-speed euroISDN lines. If customers bought a PC at a leading national retail chain, they received two years free access, 24 hours a day. We also appealed to younger audiences through a tie-in with a cult film and prepared a special INTERNET OnLine package for schools, including modems and software. This was supported by a new Web site for kids (www.majaky.cz).
Easier access: We expanded our access points to cover 113 towns and rolled out the Internet 99 low-cost tariff package for both our service and other ISPs using our network. Its successor, Internet 2000, was prepared.

VIRTUAL PRIVATE NETWORKS BECOME A REALITY

We have begun pilot trials of our virtual private network service. Using our "intelligent" network, this service gives customers special tariff options through private gateways, telephone number portability and a wide variety of other advantages providing greater value for money, ease of use and transparency. In effect, it allows you to tailor the network to your business's individual needs. Roll-out is scheduled for 2000.

euroISDN RACES AHEAD

Sales of euroISDN rocketed by 235% to nearly 60,000 installed channels. Available in two forms – basic euroISDN2 and primary euroISDN30 it enables businesses to transmit voice, data and images, including videoconferences, at high speed. This extra speed gives customers the opportunity to make significant cost savings. For businesses operating internationally, we have established euroISDN connections in more than 30 countries.

Number of euroISDN "B" channels (in thousands)

96	0
97	1
98	17
99	57

FASTER, MORE COMPETITIVE DATA SERVICES

Two promising new data transmission facilities entered the market:
VOICE VPN: Using our data network, businesses are able to transmit unlimited volumes of voice, fax and data between their locations for a fixed, monthly charge. A highly cost-effective option.
ATM: Our new ATM data service provides customers with a highly effective multimedia environment for transferring large amounts of data, as well as voice and video, in real time and to a very high standard. All this can be done via one line.
Prices for our data services as a whole were restructured and simplified, making them more competitive. A similar exercise was carried out on Leased Line services.

VOICE AND FAX MESSAGING SERVICE

You never have to miss a call again. If you're on the phone or away, people trying to call you can leave you a message in our Memobox service, formerly known as a TelecomBox. You can retrieve your messages from any touch-tone phone, anywhere in the world. For added convenience there are five versions of the service, from basic voice mail retrieval to the facility to receive faxes. By the end of 1999, over 114,000 voice mails were in operation.

PHONE CARDS

Calling from any of our public payphones that accept phone cards has been made even cheaper. In September 1999, we cut the price our chip phone cards by between 13% and 20% depending on the number of pulses on the card. We also relaunched a prepaid card, under the new brand name Karta X, enabling customers to make national and international calls from any telephone in the Czech Republic. Over 90,000 Karta Xs were issued in 1999.

OTHER FIXED-LINE SERVICES

- The number of toll-free and 0800 numbers increased by nearly 70% to 1,064.
- More than 320,000 customers took advantage of value-added services such as Outgoing Calls Restriction and Transfer of Tariff Impulses.

LEADING THE FIELD IN CELLULAR SERVICES

Our mobile phone subsidiary EuroTel Praha underlined its market leadership by launching the country's first WAP 14.4 Mobile Internet service for accessing the Internet over cellular phones. This was complemented by the introduction of EFR digital coding technology, giving customers crystal clear reception. They can also now send and receive data, including emails and faxes, at speeds of up to 14,400 bits per second, 50% faster than most other European operators. In fact, they can even view CNN's Mobile news service on their phones, another Czech first, or use their phones in the depths of Prague's busiest underground stations.
Other advances in 1999 included the introduction of GO ROAMING, the world's first roaming service for prepaid customers, and short text messaging facility for prepaid users (GO SMS). More flexible, attractive tariff plans were also rolled out. The EuroTel Relax scheme, for example, offers calls for just CZK 2.5 per minute from 4pm on weekdays, while EuroTel NetCall-55 provides cheaper international connections using a new IP-telephone gateway.
Awarded ISO9001 accreditation in 1999, EuroTel Praha finished the year with 1,070,000 customers, up 82% from the previous year.

Total number of EuroTel mobile users (in thousands)

96	173
97	348
98	588
99	1,070

MAKING IT EASIER TO BUY OUR SERVICES

A nationwide network of Customer Centres has been established, giving consumers a convenient single point of contact for buying our domestic and home-offices services and products. For small- to medium-size business (SME) we have Business Centres and Direct Sales representatives, while large customers enjoy the support of dedicated teams.


2:

MORE THAN JUST ANOTHER NETWORK Our goal is to create a world-class network that will allow the Czech Republic to exploit the full social and economic potential of telecommunications, today and in the future. We already have one of the most sophisticated digital networks in Europe and it's getting better by the day.

MORE THAN JUST ANOTHER NETWORK

DIGITALISATION GATHERS PACE

Our intention of achieving full digitalisation of the network by 2002 is within sight:
- In 1999 we increased the proportion of lines connected to digital exchanges from 64% to nearly 77%, equivalent to 2,940,000 lines. This included the addition of 105,000 new lines to our network, bringing our total customer base up to 3.8 million and extending our penetration of households to 72%, compared to 70% the previous year.
- Our ability to expand our digitalisation programme was boosted by installing 254 new digital exchanges, increasing our digital line capacity by nearly 850,000.
- This was underpinned by laying about 18,000 kilometres of metallic cables and over 2,400 optic cables, equivalent to more than 70,000 kilometres of optic fibres.

A MODERN, PROGRESSIVE NETWORK

Rapid transport: Over the last five years we have developed a high-speed national transport network, based on an extensive optical-cable infrastructure and modern SDH technology. This is monitored and maintained centrally using sophisticated network management systems. During 1999 we increased the network's capacity and reliability. The introduction of dense wave multiplex (DWDM) technology in 2000 will boost capacity further.
Data transmission accelerates: Our SDH and ATM networks, coupled with the largest multimedia network in the Czech Republic, enable us to satisfy the growing demand for FRAME RELAY and ATM services. We are focusing heavily on IP protocol-based services, which we expect to become increasingly important. These include broadband virtual private networks and integrated voice, data and multimedia transmission in real time.
Expanding our Internet capacity: Using our ATM backbone, we built a new IP network to support the growth in demand for INTERNET OnLine and related services. ČESKÝ TELECOM currently has the largest network of Internet access nodes in the Czech Republic, ensuring fast, reliable connections.
Connections for domestic and foreign operators: We are determined to create a level technological playing field for all operators by the time the Czech Republic's telecommunications market is liberalised in 2001. In the near future we plan to launch a new service that will give ISPs and data service providers a comprehensive, digital transit service within ČESKÝ TELECOM's infrastructure. By the end of 1999, we had connection agreements with seven telecommunications operators, generating an additional 1.5 billion minutes of calls.

Net number of new lines installed (in thousands)

96	417
97	459
98	459
99	105

RISK MANAGEMENT INTENSIFIES

To ensure a consistently high level of service for our customers, we are investing a considerable amount of effort in monitoring, evaluating and safeguarding against technological and operational risks. Particular attention is being paid to reinforcing the network's robustness against external threats and implementing SW products and technologies. A national network control centre and four customer supervisory centres have been established to oversee and coordinate this work.

MILLENNIUM BUG-FREE

Our three-year programme to check and rectify potential Year 2000 bugs proved to be a major success. When the clocks struck midnight on 31 December 1999, we encountered no problems and were able to maintain our high level of service and accessibility. Over 1,000 staff were on hand to deal with any issues.

Waiting List (in thousands)

96	577
97	406
98	141
99	74

3:

MORE FOCUSED ON OUR CUSTOMERS Major organisational changes are transforming ČESKÝ TELECOM into a more efficient and customer-focused company. Technology inevitably plays an important part in this but the driving force behind our continued success is the youth, motivation and expertise of our staff. We invest heavily in them.

ORGANISATIONAL CHANGES TAKE EFFECT

Two major organisational change programmes are being rolled out to improve our customer service.

– Our BSS (Business Support System) Project is streamlining and integrating many of our internal functions, leading to greater economies of scale and improved management control, amongst other benefits. Using the SAP R/3 platform, ČESKÝ TELECOM now has one of the most advanced systems in Europe for supporting internal decisions, rivalling first-line telecommunications companies. Extensive new functionality will be added in 2000 to drive forward ČESKÝ TELECOM's organisational transformation.
– Our OSS (Operational Support Systems) Programme will lead to simpler, more effective support for our customers, including faster executions of orders and repairs and more accurate invoices. During the year, the Customer Care and Billing system was converted to CDR-based (Call Detailed Record) billing, increasing its reliability. In 2000, new billing systems for data services and interconnect will be installed.

We are also restructuring our customer services into Call Centres that can be accessed through freephone numbers 0800 123456.

GREATER EFFICIENCY

The number of lines per employee, an important yardstick of efficiency, increased by 12% to 191. This was achieved by an 8% reduction in our staff numbers to 20,115. To help former employees find new jobs, we provide counselling services and fund retraining programmes.

We also made further advances in satisfying our Authorisation obligations, monitored by the Czech Telecommunication Office. For example:

Successful call completion rate: 97.7% of inter-urban calls were successfully completed (Authorisation limit: 90%).
Breakdown repair time: 99.2% of all line faults were repaired within 54 hours (Authorisation limit: 97%).
Operator response time: 99.7% of all operator assistance calls were answered within 20 seconds (Authorisation limit: 97%).

YOUNG AND FLEXIBLE

ČESKÝ TELECOM has the youth and vigour to adapt to the rapid changes sweeping through the telecommunications market. The average age of our employees is 40 and around 45% are between the ages of 21 and 40.

EDUCATED

Eleven per cent of our staff have university or college qualifications and nearly half have successfully completed their secondary education exams, well above the national average. Moreover, 16% of the new staff employed in 1999 were graduates, a measure of our determination to accelerate the company's progress.

DEVELOPING OUR STAFF'S SKILLS

Our aim is to create a positive, entrepreneurial environment that attracts the very best staff and enables them to realise their full potential, both as individuals and as members of the ČESKÝ TELECOM team. To enhance their professional and commercial skills, we increased the total amount of time invested in training by 67% to 59,000 training days at a cost of CZK 183 million. On average this equated to three days per employee at a cost of CZK 9,000 each. The major focus was on improving the professionalism and skills of our sales channels, including our Call Centres, retail shops and Branch Offices. Particular emphasis was placed on cross-selling growth services such as INTERNET OnLine.

ENCOURAGING OUR EMPLOYEES TO SHARE THEIR EXPERTISE

Spreading best practice and the best ideas depends on enabling staff to communicate and move between different locations. During 1999 the number of employees transferring between our regional operations increased, supported by a CZK 11 million investment in funding staff mobility.

MOTIVATIONAL REMUNERATION PACKAGES

Performance-related pay has been introduced for all management posts and plans are in place to extend this approach across other parts of the organisation.

HEALTHY LABOUR RELATIONS

Regular discussions were held with the Coordination Committee of the Trade Unions of ČESKÝ TELECOM Employees throughout the year. These resulted in a mutually beneficial collective agreement covering remuneration, working hours and social and employment policy, amongst other issues. A survey found that 98% of staff are either satisfied or very satisfied with the employee benefits in the social programme negotiated by ČESKÝ TELECOM and the unions.

4:

MORE THAN JUST AN IMAGE ČESKÝ TELECOM's new corporate identity is the visual expression of our transformation into a more modern, dynamic and customer-focused company. As a major Czech company, we want our country as a whole to benefit from our advances, socially and economically. Which is why we invest in the community.

A NEW IDENTITY, A NEW CHAPTER IN TELECOMMUNICATIONS

The world is on the brink of a revolution in telecommunications that will fundamentally change the way we work and live. Our new corporate identity and name clearly signals our intention to be a significant player in these developments, both in the Czech Republic and internationally. Launched at the end of 1999, with a nationwide advertising and promotional campaign, the identity is designed to communicate four key strengths:
– our leading technological edge
– our reliability
– our focus on providing customers with a fast, friendly service
– our pride in being a top Czech company, reflected in our new name, ČESKÝ TELECOM

Why change? We want people to know that we are a very different company to the one that was part-privatised in 1994. Rebranding is a powerful way to do this and increasingly common in the Czech Republic. Now is also an appropriate time to do this. We have entered a new Millennium and are close to breaking the 4 million customer mark. We have a lot to celebrate, not least our company's transformation.
What does the identity mean for customers? As our new strapline states, ČESKÝ TELECOM is "More than just words". You can trust us to deliver on our promises. And we will be delivering a lot more under the new brand in 2000.

Penetration per households (in %)

96	50
97	60
98	70
99	72

INVESTING IN THE CZECH COMMUNITY

ČESKÝ TELECOM is one of the Czech Republic's biggest sponsors of cultural and sporting events. Our cultural programmes highlight our focus on communication, while sporting events underline our readiness to compete. Both have international dimensions. Specific programmes that we supported in 1999 included:
Theatre: We provided financial support for 28 theatre festivals including the Thalie Awards, the Theatre European Regions, the Slovak Theatre in Prague Festival and the On The Border International Theatre Festival.
Film: We sponsored 10 film festivals, from The International Febiofest 99, through to The International Film Festival in Karlovy Vary and the Summer Film School 99.
Sport: ČESKÝ TELECOM has teamed up with the Czech Olympic squad, from 1997 to 2000, including this summer's Olympics in Sydney, Australia. A gold medal for the country's ice hockey team in the 1998 Winter Olympics was one of the highlights of this initiative. We also sponsor the ice hockey premier league, mirroring our aspiration to be the best.
Supporting students: We provide low-cost internet access for schools and participate in the STEP AHEAD program, which helps students prepare for their future careers.

HELPING THE NEXT GENERATION

We pay particular attention to children. This includes funding Our Child Foundation's Safety Line and the Pennywort Blood Bank for children with blood-forming disorders. In 1999 Safety Line (0800 155555) received more than one million calls from young people throughout the Czech Republic, a record number. On average, 66,000 children dialed the toll-free number each month, a rise of 3,000 calls per month compared to the previous year.
Through INTERNET OnLine we also created a unique server for children suffering from long-term illnesses, free of charge. It is the only one its kind in Europe.

Safety line – number of calls (monthly average)

96	16,896
97	46,793
98	63,594
99	66,114

evenues share price

arnings per share

financial results

EBITDA

record levels

Depreciatio

Earnings Before Interes

5:

MORE ENCOURAGING FINANCIAL RESULTS For the fourth consecutive year ČESKÝ TELECOM has achieved significant increases in revenues and Earnings Before Interest, Tax and Depreciation. This has translated into further rises in earnings per share and helped take our share price to record levels.

MORE ENCOURAGING FINANCIAL RESULTS

EMERGING TECHNOLOGIES DRIVE UP REVENUES BY 13%

Revenues grew by 13% to CZK 51.9 billion, propelled by our non-traditional telephony services, reflecting a global trend towards multimedia applications. Tariff re-balancing also contributed to this increase.

- Revenues per employee rose by 21% in the wake of an 8% reduction in our headcount.
- The consolidated revenue contribution from our mobile phone subsidiary EuroTel leapt by 44% to CZK 7.9 billion on the back of an 82% increase in its customer base.
- Revenues from data transmission and other telephony services increased by 40% to CZK 3.5 billion, fuelled by the growing demand for value-added services and other innovative solutions, including ISDN and INTERNET OnLine services.
- Higher volumes of mobile phone traffic in the Czech Republic led to a 31% increase in revenues from domestic operators terminating calls through our network.
- Tariff re-balancing coupled with net new lines installed boosted revenues from subscription charges by 37%.

Development of revenues/employee (in %)

96	21
97	26
98	32
99	21

OPERATING COSTS GREW BY JUST 10%

Further staff reductions and tighter cost controls enabled ČESKÝ TELECOM to restrict its growth in operating costs to 10%.

- Growth in energy, repairs, maintenance and other operating costs was reduced from 13% to 8%, thanks to the greater efficiency of our digital network.
- Fewer line installations, coupled with greater cost control, helped cut material costs by 38%.
- Consolidated staff costs grew by 8% reflecting our increasing emphasis on hiring high-calibre employees, the development of a stronger management team and the implementation of performance-related pay. Further recruitment at EuroTel, our burgeoning mobile phone subsidiary, contributed to this increase. An 8% cut in ČESKÝ TELECOM's headcount helped suppress total staff costs.

Development of staff cost (in %)

96	29
97	22
98	(9)
99	8

EBITDA MARGIN JUMPS TO NEARLY 50%

EBITDA as a proportion of revenue increased to almost 50%, a 2% rise on the previous year. EBITDA per employee increased by 24%. Our bottom line was affected by the weakening of the Czech Crown, leading to nearly CZK 596 million in unrealised foreign currency losses.

EBITDA as a proportion of revenues (in %)

96	44
97	46
98	48
99	50

CAPITAL EXPENDITURE SLOWS

With the backbone of our network largely in place, we were able to reduce our historically high levels of capital expenditure to CZK 18.1 billion, nearly 46% lower than in the previous year. These funds were mainly used for enhancing our switching capacity and digitalising the network.

CASH POSITIVE

ČESKÝ TELECOM's cash flow moved into the 'black' for the first time since the company started its heavy investment programme in 1995. At the end of 1999, we had generated an additional cash balance of CZK 7.0 billion despite repaying part of our outstanding debt. This was primarily achieved by a reduction in capital expenditure.

NET GEARING REDUCED

Positive cash flow, coupled with a slight decrease in our total debt, enabled us to reduce our net gearing to 29% of our total equity, compared to 35% in 1998. This gives us the latitude to increase our gearing if a suitable business opportunity arises.

MARKET CAPITALISATION INCREASES BY 26%

By 31 December 1999, our market capitalisation had grown by 26% to CZK 185.7 billion, thanks to a commensurate increase in our share price, from CZK 458.8 to CZK 576.5. Net income per share nudged forward from CZK 18.8 to 19.2.

Market capitalisation (in CZK billions)

96	109
97	120
98	148
99	186

BOARD OF DIRECTORS
(AS OF APRIL 1, 2000)


A. F. Bessel Kok

André Frans Bessel Kok (*1941)
First Vice Chairman of the Board of Directors
Chief Executive Officer of TelSource (a joint company of KPN Royal Dutch Telecom and Swisscom), the strategic partner of ČESKÝ TELECOM.

Přemysl Klíma (*1943)
Second Vice Chairman of the Board of Directors
President & CEO of ČESKÝ TELECOM.

Markéta Gabrielová (*1970)
Member of the Board of Directors
Employed by the Department of Receivables Recovery of the National Property Fund of the Czech Republic.


P. Klíma

Marcela Gürlichová (*1941)
Member of the Board of Directors
Deputy of the Minister of Transport and Communications of the Czech Republic for the division of Post, Telecommunications and Information Systems.

Miloslav Hejnák (*1957)
Member of the Board of Directors
Deputy of the Minister of Finance of the Czech Republic, managing the Section of Banking, Insurance, Methodology and Price Regulation.

Jiří Němec (*1946)
Member of the Board of Directors
Director of ČESKÝ TELECOM, Moravia Region.


M. Gabrielová

Marten Pieters (*1953)
Member of the Board of Directors
Executive Vice President of KPN International responsible for its activities in Europe and the U.S.A; member of the Board of Directors of Eircom, Ireland; of the Supervisory Board of KPNQwest (the Netherlands); of the Supervisory Board of Pannon GSM, Hungary; of the Supervisory Board of TelSource (Czech Republic) and Chairman of the Board of Directors of Pantel (Hungary).

Lorne Rupert Somerville (*1963)
Member of the Board of Directors
Senior Vice President of Swisscom AG; Head of Swisscom International; Chairman of the Supervisory Board of TelSource (Czech Republic); member of the Board of Directors of UniSource N.V., AUCS N.V., various international Swisscom subsidiaries.


M. Gürlichová

Jan Juchelka (*1971)
Member of the Board of Directors
Second Vice Chairman of the Executive Board of the National Property Fund of the Czech Republic.


M. Hejnák

Board of Directors January 1, 1999 – June 18, 1999

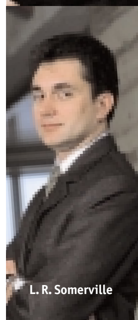
André Frans Bessel Kok	First Vice Chairman
Svatoslav Novák	Second Vice Chairman
Zdenek Bakala	
Jan Dědič	
Marcela Gürlichová	
Antonín Kalda	
Marten Pieters	
Lorne Rupert Somerville	
Karel Zeman	


J. Němec

Board of Directors June 18, 1999 – December 31, 1999

Karel Zeman	Chairman (resigned February 9, 2000)
André Frans Bessel Kok	First Vice Chairman
Přemysl Klíma	Second Vice Chairman
Markéta Gabrielová	
Marcela Gürlichová	
Miloslav Hejnák	
Jiří Němec	
Marten Pieters	
Lorne Rupert Somerville	


M. Pieters


L. R. Somerville


J. Juchelka

SUPERVISORY BOARD

(AS OF APRIL 1, 2000)

Michal Tošovský (*1951)
Chairman of the Supervisory Board
Member of the Presidium of the National Property Fund of the Czech Republic; works in a private medical care centre.

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 ČESKÝ TELECOM, Moravia Region.

Pavel Herštík (*1951)
Member of the Supervisory Board
Head of the ŘOS section – ČESKÝ TELECOM, Prague Region.

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 N.V., Prague Branch.

Lars Losinger (*1961)
Member of the Supervisory Board
Deputy Head of Swisscom International, dealing with Legal, Quality Management, Communications and Management Support.

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 ČESKÝ TELECOM, South Bohemia Region.

Zdeněk Švrček (*1956)
Member of the Supervisory Board
Vice Chairman of the Committee for Economics and Subcommittee for Post, Telecommunications and Information Systems.

Luboš Vaněk (*1964)
Member of the Supervisory Board
Manager of the Office of the Chairman of the Executive Committee of the National Property Fund of the Czech Republic.

Lubomír Vinduška (*1956)
Member of the Supervisory Board
Head of Transport and Mechanisation Section for ČESKÝ TELECOM, Prague Region; Chairman of Trade Unions of Prague;
Vice Chairman of the Corporate Trade Union Committee of ČESKÝ TELECOM.

Jaroslav Vrána (*1949)
Member of the Supervisory Board
Deputy of Minister of Transport and Communications of the Czech Republic.

Václav Wagner (*1936)
Member of the Supervisory Board
Director of the Price Regulation Department at the Ministry of Finance of the Czech Republic.

Supervisory Board January 1, 1999 – June 18, 1999

Evžen Kočenda	Chairman of the Supervisory Board
Gerardus Johannes Klein Bluemink	First Vice Chairman of the Supervisory Board
Radomír Šenkýř	Second Vice Chairman of the Supervisory Board
Čestmír Čejka	
Pavel Herštík	
Domique Samuel Koechlin	resignation February 4, 1999
Miroslav Kristlík	
Louis Johan Lampe	cooptation December 21, 1998
Lars Losinger	cooptation February 4, 1999
Vladimír Měšťan	
Jaroslav Skala	
Vladimír Sokolík	
Zdeněk Švrček	
Michal Tošovský	
Lubomír Vinduška	
Václav Wagner	

Supervisory Board June 18, 1999 – December 31, 1999

Michal Tošovský	Chairman of the Supervisory Board (as of August 25, 1999)
Gerardus Johannes Klein Bluemink	First Vice Chairman of the Supervisory Board
Radomír Šenkýř	Second Vice Chairman of the Supervisory Board
Karel Březina	elected by the General Meeting on June 18, 1999, resignation March 23, 2000
Pavel Herštík	
Miroslav Kristlík	
Louis Johan Lampe	elected by the General Meeting on June 18, 1999
Lars Losinger	elected by the General Meeting on June 18, 1999
Vladimír Měšťan	
Jaroslav Skala	
Zdeněk Švrček	
Luboš Vaněk	elected by the General Meeting on June 18, 1999
Lubomír Vinduška	
Jaroslav Vrána	elected by the General Meeting on June 18, 1999
Václav Wagner	

SUPERVISORY BOARD REPORT

In 1999 the Supervisory Board of ČESKÝ 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 ČESKÝ TELECOM's business activities are performed in agreement with the law, regulations, principles and policies approved at the General Meeting.
In 1999 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 1999 from the Board of Directors of the Company and its management.
During their meeting on March 30, 2000, the Supervisory Board reviewed the audited financial statements, based on international and Czech accounting standards, reviewed the proposal for the division of the 1999 Company profit and recommended it for the General Meeting approval.


M. Tošovský

Prague, April 4, 2000

Michal Tošovský
Chairman of the Supervisory Board

OPERATING COMMITTEE
(AS OF APRIL 1, 2000)


P. Klíma


A. F. Bessel Kok


P. Slováček


J. S. Hubley


U. Kamber

Přemysl Klíma (*1943)
President & Chief Executive Officer

André Frans Bessel Kok (*1941)
Chief Operating Officer
Chief Executive Officer of TelSource (a joint company of KPN Royal Dutch Telecom and Swisscom), ČESKÝ TELECOM's strategic partner.

Petr Slováček (*1957)
Executive Vice President, Networks Group

James S. Hubley (*1945)
Executive Vice President, Telecommunications Services Group
Executive at AT&T Communications Services.

Urs Kamber (*1952)
Executive Vice President, Corporate Services Group
Director at F. S. KAMBER AG; Board Member at BERBERAT AG and LASERSHOT AG.

Operating Committee
(as of December 31, 1999)

Přemysl Klíma (as of July 15, 1999)
André Frans Bessel Kok
Petr Slováček (as of September 17, 1999)
James S. Hubley
Urs Kamber

GOVERNING BODIES OF THE COMPANY

In accordance with the Commercial Code and the Company Articles of Association, approved by the annual General Meeting of June 18, 1999, the Company is governed by the following bodies:

GENERAL MEETING

SUPERVISORY BOARD

BOARD OF DIRECTORS

OPERATING COMMITTEE

President & CEO
Chief Operating Officer
Executive Vice President Networks Group
Executive Vice President Telecommunications Services Group
Executive Vice President Corporate Services Group

GENERAL MEETING

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

SUPERVISORY BOARD

The Supervisory Board has 15 members and supervises the activities of the Board of Directors as well as overseeing the implementation of the business plans of ČESKÝ 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 ČESKÝ 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 an 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 ČESKÝ TELECOM. As a rule, the Operating Committee meets once a week.

ORGANISATIONAL STRUCTURE
(UP TO FEBRUARY 9, 2000)

- President & CEO
  - President & CEO Group
  - Chief Operating Officer Group
    - Specialised Branch Unit
      - **ČESKÝ TELECOM** Business Network Services
  - Networks Group
  - Telecommunications Services Group
    - Regional Branch Units
      - **ČESKÝ TELECOM** Prague Region
      - **ČESKÝ TELECOM** South Bohemia Region
      - **ČESKÝ TELECOM** North Bohemia Region
      - **ČESKÝ TELECOM** Moravia Region
  - Corporate Services Group

ČESKÝ TELECOM, a.s. (FORMERLY SPT TELECOM, a.s.)

CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 1999

PREPARED IN ACCORDANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

REPORT OF THE AUDITORS TO THE SHAREHOLDERS OF ČESKÝ TELECOM, a.s.

We have audited the accompanying consolidated balance sheet of ČESKÝ TELECOM, a.s., as at December 31, 1999, and the related consolidated 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 consolidated financial statements give a true and fair view of the financial position of the Company at December 31, 1999 and of the results of its operations and its cash flows for the year ended in accordance with International Accounting Standards.

March 22, 2000

PricewaterhouseCoopers
Registered Auditors
Prague
Licence No. 21

INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1999

(in CZK millions)	**Notes**	**1999**	**1998**
Revenue	*16*	*51,902*	*45,893*
Personnel costs		(7,567)	(6,976)
Depreciation and amortization of assets		(13,409)	(10,851)
Other operating expenses		(18,603)	(16,708)
Total operating expenses	*17*	*(39,579)*	*(34,535)*
Operating profit		12,323	11,358
Contributed services		(544)	(933)
Net finance charges	19	(3,337)	(1,228)
Profit before tax		*8,442*	*9,197*
Income tax expense	20	(2,271)	(3,137)
Net profit		**6,171**	**6,060**
Earnings per share (CZK) – basic		*19*	*19*

The accompanying notes form an integral part of these consolidated financial statements.

BALANCE SHEET AT DECEMBER 31, 1999

(in CZK millions)	**Notes**	**Dec 31, 1999**	**Dec 31, 1998**
ASSETS			
Property, plant and equipment	2	129,872	126,382
Intangible fixed assets	3	4,718	1,339
Other Investments	4	121	22
Non-current assets		*134,711*	*127,743*
Inventories	7	2,558	2,511
Receivables and prepayments	8	9,294	9,363
Marketable securities	5	2,225	6,528
Cash and cash equivalents	22	7,127	666
Current assets		*21,204*	*19,068*
Total assets		**155,915**	**146,811**
EQUITY AND LIABILITIES			
Ordinary shares	9	32,209	32,209
Share premium		30,798	30,768
Retained earnings		27,790	21,619
Other reserves	9	6,681	6,689
Share capital and reserves		*97,478*	*91,285*
Borrowings	11	35,086	35,921
Deferred taxes	14	8,284	6,847
Non-current liabilities		*43,370*	*42,768*
Borrowings	11	2,356	3,249
Trade and other payables	12	11,387	7,686
Current tax liabilities		195	441
Finance leases obligations	13	24	49
Provisions for liabilities and charges	15	1,105	1,333
Current liabilities		*15,067*	*12,758*
Total equity and liabilities		**155,915**	**146,811**

The accompanying notes form an integral part of these consolidated financial statements.
These financial statements were approved by the Board of Directors on March 22, 2000 and were signed on its behalf by:

A. F. Bessel Kok
First Vice Chairman
The Board of Directors

Přemysl Klíma
President & CEO

Urs Kamber
Executive Vice President
Corporate Services Group

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(in CZK millions)	Share capital	Share premium	Other reserves	Retained earnings	Total
Balance at January 1, 1998	32,209	30,717	6,673	15,559	85,158
Net gains/(losses) not recognised in income statement	0	51	16	0	67
Net profit	0	0	0	6,060	6,060
Balance at December 31, 1998	**32,209**	**30,768**	**6,689**	**21,619**	**91,285**
Balance at January 1, 1999	32,209	30,768	6,689	21,619	91,285
Net gains/(losses) not recognised in income statement	0	30	(8)	0	22
Net profit	0	0	0	6,171	6,171
Balance at December 31, 1999	**32,209**	**30,798**	**6,681**	**27,790**	**97,478**

The accompanying notes form an integral part of these consolidated financial statements.

CASH FLOW STATEMENT FOR THE YEAR ENDED DECEMBER 31, 1999

(in CZK millions)	Notes	1999	1998
Net cash from operating activities	*21*	*22,182*	*17,540*
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash purchase of property, plant and equipment		(15,118)	(32,812)
Cash purchase of intangible fixed assets		(3,439)	(1,091)
Cash purchase of marketable securities		0	(9,227)
Proceeds from sale of tangible fixed assets		28	34
Proceeds from marketable securities		4,241	8,228
Interest received		413	637
Net cash used in investing activities		*(13,875)*	*(34,231)*
CASH FLOWS FROM FINANCING ACTIVITIES			
Draw down of loan facilities		1,000	13,324
Repayment of loan facilities		(2,670)	(282)
Payment of finance lease liabilities		(25)	(49)
Net cash (used in)/provided by financing activities		*(1,695)*	*12,993*
Net increase/(decrease) in cash and cash equivalents		*6,612*	*(3,698)*
MOVEMENTS IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		127	3,484
Increase/(decrease)		6,612	(3,698)
Effects of exchange rate changes		375	341
Cash and cash equivalents at end of year	**22**	**7,114**	**127**

The accompanying notes form an integral part of these consolidated financial statements.

1. THE COMPANY AND ACCOUNTING POLICIES

Effective January 1, 2000 SPT TELECOM, a.s. changed its name to ČESKÝ TELECOM, a.s.
ČESKÝ TELECOM, a.s. ("The Group") consists of ČESKÝ TELECOM, a.s. ("the Company"), the proportionally consolidated joint venture EuroTel Praha, spol. s r.o. ("EuroTel") and its subsidiary SPT TELECOM (Czech Republic) Finance B.V. The Company is the principal supplier of telecommunication services in the Czech Republic and EuroTel Praha, spol. s r.o. is one of 3 suppliers of mobile telephone services in the Czech Republic.
ČESKÝ TELECOM, a.s. is a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Olšanská 5, Prague 3, 130 34, Czech Republic.
The Company is listed on the Prague Stock Exchange.
EuroTel Praha, spol. s r.o. is a limited liability company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Sokolovská 855, Prague 9, 190 00, Czech Republic.
SPT TELECOM (Czech Republic) Finance B.V. is a limited liability company, incorporated in the Netherlands.

ACCOUNTING POLICIES

a) Basis of preparation
The consolidated financial statements of the Company, subsidiary and joint venture company (the "Group") for the year ended December 31, 1999 have been prepared in accordance with and comply with International Accounting Standards ("IAS") as prescribed by the International Accounting Standards Committee (IASC).
The consolidated financial statements have been prepared under the historical cost convention.
The amounts shown in these financial statements are presented in Czech Crowns.

b) Consolidation
Subsidiary undertakings, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date of disposal. All intercompany transactions and balances between group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

c) Joint Ventures
The Company has a 51% interest in EuroTel providing mobile telephone services in the Czech Republic. The management and operations of EuroTel, 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 Group adopts the proportional consolidation method to account for joint ventures. Under this method the Company includes its share of the joint venture's individual income and expenses, assets and liabilities in the relevant components of the financial statements. All intercompany balances and transactions are eliminated. See Note 4.

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

Cost
Property, plant and equipment includes all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the Group network this comprises all expenditure up to the final distribution points to customers' premises, including the cost of contractors, materials, direct labour costs and interest costs.
Significant enhancement costs are capitalised if they extend the life of the asset or increase its value. Expenditure on repairs and maintenance made to restore or maintain future economic benefits expected from the assets is recognised as an expense when incurred.
Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.
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 the net operating income.
Interest costs on borrowings to finance the construction of property, plant and equipment are capitalised as part of the cost of the asset, during the period of time that is required to complete and prepare the property for its intended use.

Depreciation
Items of property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight line method.
Estimated useful lives adopted in these financial statements are:

(in years)	1999	1998
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

e) Accounting for leases

Leases of property, plant and equipment under which the Group 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. Assets acquired under finance leasing contracts 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 is expensed in the income statement over the lease period.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of a penalty is recognised as an expense in the period in which termination takes place.

f) Intangible assets

Intangible assets in the Group include computer software and purchased goodwill. Computer software represents mainly purchased software which is intended for use within the Group.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions is reported in the balance sheet as an intangible asset and is amortised using the straight-line method over its estimated useful life.

Purchased goodwill is amortised over 15 years.

g) Inventory

Inventory is stated at the lower of cost or net realisable value. The cost of inventory is determined using the weighted average cost formula. Net realisable value is the estimate of the selling price in the ordinary course of business, less the costs of completion and selling expenses. A provision is made for slow-moving and obsolete items.

h) Accounts receivable

Accounts receivable are carried at anticipated realisable value. An estimate is made for doubtful receivables based on a review of all outstanding amounts at the year end.

i) Provisions

Provisions are recognised when the Group will be required to settle a current obligation, and a reliable estimate of the amount of the obligation can be made.

j) 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. Cash and cash equivalents are stated without deduction of bank overdrafts repayable on demand. In the balance sheet, bank overdrafts are included in current borrowings.

k) Marketable securities

Marketable securities consist of bonds and T-bills and are recorded at cost 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 cost.

On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the income statement.

l) Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, leases and borrowings. The Group also has financial instruments that reduce exposure to fluctuations in foreign currency exchange and interest rates. These instruments are not generally recognised in the financial statements. See Note 6.

The purpose of these instruments is to reduce risk. Foreign exchange forward contracts protect the Group 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 and cross currency swap agreements are designed to protect the Group from movements in interest and foreign exchange rates. Any differential to be paid or received on an interest rate swap agreement is recognised as a component of interest income or expense over the period of the agreement. Interest rate differential from cross currency swaps (including zero coupon swaps) is recognised as a component of interest or income or expense over the period of the agreement.

Forward rate agreements protect the Group from movements in interest rates. Gains and losses on forward rate agreements are charged to income statement. Premium from options contracts is recognised as a creditor and asset in the balance sheet of the Group. The asset is taken to the income statement over the life of the instrument. The creditor is settled by cash premium payments.

m) Revenue recognition

Revenue of the Group comprises charges in respect of services provided and proceeds from the sale of equipment.
Revenue for services is recognised in the period in which the services are rendered, net of value added tax and discounts. Sales within the Group are eliminated.
The Company receives payments from domestic and foreign network operators for incoming telephone 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.
In respect of the mobile segment the equipment revenue from sale to dealers is recognised at the time of sale. The Company provides a price protection policy to its dealers when prices of cellular equipment for end users are discounted below the buying costs of the dealers. The company recognises such differences in the financial statements, at the time the equipment is sold to the end user.

n) Operating expenses

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

o) 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 8). The value of the assets or services is capitalised or charged to income as appropriate in the period in which the contributions are received.

p) Interest and foreign currency transactions

Interest costs are expensed as incurred unless they relate to borrowings that fund capital projects under construction, 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 1999 was 0.3% of the average value of construction in progress for tangible fixed assets (1998: 1.47%).
Foreign currency transactions in Group companies are accounted for at the fixed monthly exchange rates. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the income statement. Such balances are translated at year-end exchange rates unless hedged by forward foreign exchange contracts, in which case the rates specified in such forward contracts are used.
Exchange gains and losses and hedging costs arising on contracts entered into as hedges of specific revenue or expense transactions and of anticipated future transactions are deferred until the date of such transactions at which time they are included in the determination of such revenue and expenses.
All other exchange gains and losses relating to hedge transactions are recognised in the income statement in the same period as the exchange differences on the items covered by the hedge transactions. Costs on such contracts are amortised over the life of the hedge contract. Gains and losses on contracts which are no longer designated as hedges are included in the income statement.

q) Tax

Taxation expense represents both current and deferred taxation where appropriate. Deferred taxation is provided using the liability method applied to all significant temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates are used to determine deferred income tax.
The principal temporary differences arise from differences in the tax and accounting values of property, plant and equipment and in restructuring provisions.

r) 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.

s) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year. In particular, the comparatives have been adjusted or extended to take into account the requirements of the following revised or new International Accounting Standards which the Group implemented in 1999:

IAS 1	(revised 1997)	Presentation of financial statements
IAS 14	(revised 1997)	Segment reporting
IAS 17	(revised 1997)	Leases
IAS 19	(revised 1998)	Employee benefits
IAS 35	(1998)	Discontinuing operations

In addition the Group implemented in 1999 the following International Accounting Standard in advance of its effective date:

IAS 36	(1998)	Impairment of assets

2. PROPERTY, PLANT AND EQUIPMENT

1999 (in CZK millions)	Land and buildings	Duct, cable and other plant	Telephone exchanges and related equipment	Other fixed assets	Capital work in progress	Total
COST						
At January 1, 1999	14,420	80,288	58,125	7,918	13,925	174,676
Additions	–	–	12	–	16,296	16,308
Disposals	(32)	(266)	(2,005)	(319)	–	(2,622)
Transfers	1,364	10,098	9,526	915	(21,903)	–
Reclassifications	26	5	34	(65)	–	–
At December 31, 1999	*15,778*	*90,125*	*65,692*	*8,449*	*8,318*	*188,362*
ACCUMULATED DEPRECIATION						
At January 1, 1999	2,160	17,649	24,614	3,871	–	48,294
Charge for the year	483	4,187	6,754	1,386	–	12,810
Disposals	(10)	(247)	(1,878)	(479)	–	(2,614)
Reclassifications	14	1	22	(37)	–	–
At December 31, 1999	*2,647*	*21,590*	*29,512*	*4,741*	–	*58,490*
Net book value at December 31, 1999	**13,131**	**68,535**	**36,180**	**3,708**	**8,318**	**129,872**

1998 (in CZK millions)	Land and buildings	Duct, cable and other plant	Telephone exchanges and related equipment	Other fixed assets	Capital work in progress	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**

Included in tangible fixed assets are assets under finance leases with a net book value of CZK 58 million (December 31, 1998: CZK 111 million). For information on future obligations arising under the finance leases see Note 13. The value of assets, pledged as collateral for loans and other borrowings, is disclosed in Note 11.
The amount of interest capitalised in the year was CZK 115 million (1998: CZK 658 million).

3. INTANGIBLE FIXED ASSETS

1999 (in CZK millions)	Goodwill	Software	Capital work in progress	Total
COST				
At January 1, 1999	92	1,352	684	2,128
Additions	0	654	3,971	4,625
Disposals	0	(19)	(654)	(673)
At December 31, 1999	*92*	*1,987*	*4,001*	*6,080*
ACCUMULATED AMORTIZATION				
At January 1, 1999	21	768	–	789
Charge for the year	6	593	–	599
Disposals	0	(26)	–	(26)
At December 31, 1999	*27*	*1,335*	–	*1,362*
Net book value at December 31, 1999	**65**	**652**	**4,001**	**4,718**

1998 (in CZK millions)	Goodwill	Software	Capital work in progress	Total
COST				
At January 1, 1998	90	736	238	1,064
Additions	2	644	1,090	1,736
Disposals	–	(28)	(644)	(672)
At December 31, 1998	*92*	*1,352*	*684*	*2,128*
ACCUMULATED AMORTIZATION				
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**	**584**	**684**	**1,339**

4. INVESTMENTS

Joint ventures

The Company has a 51% joint venture interest in EuroTel Praha, spol. s r.o. The financial results of EuroTel are included using the proportional 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 as presented below and is before inter-segment transaction eliminations:

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Property, plant and equipment	9,613	7,739
Current assets	2,180	1,588
Long term liabilities	(3,465)	(3,661)
Current liabilities	(2,176)	(1,797)
Net assets	**6,152**	**3,869**
Revenue	10,144	7,459
Operating expenses	(6,771)	(4,726)
Income tax expense	(881)	(860)
Profit after tax	2,281	1,711

There are no contingencies relating to the Group's interest in the joint venture. The average number of employees in EuroTel in 1999 was 1,445 (1998: 1,137).

Principal subsidiary undertakings

The Company also has a 100% interest in SPT TELECOM (Czech Republic) Finance B.V. which is incorporated in the Netherlands.

5. MARKETABLE SECURITIES

INTEREST BEARING MARKETABLE SECURITIES

(in CZK millions)	1999	1998
Opening balance	6,528	5,594
Additions	0	9,227
Disposals	(4,255)	(8,246)
Decrease in market value	(48)	(47)
Closing balance	**2,225**	**6,528**

Proceeds from disposal of marketable securities comprise:

(in CZK millions)	1999	1998
Net book amount	4,255	8,246
Loss on sale	(14)	(18)
	4,241	**8,228**

6. FINANCIAL INSTRUMENTS

Objectives and significant terms and conditions

The Group has entered into a number of derivative financial instrument contracts in order to reduce the exposure to foreign currency and interest rate fluctuations. The Group has entered into cross currency interest rate swaps, FRAs, foreign exchange forwards, interest rate swaps, currency options, interest rate options and zero coupon swaps.

The Group's permitted treasury activities are those relating to underlying exposure and resulting in reduced financial risk to the Group. Transactions specifically excluded from the permitted ones are those constituting margin trading or position taking for profit.

The Group has entered into interest rate swaps, FRA and interest rate options in order to fix and limit the interest rate exposure on existing floating rate debt.

The Group has also entered into forward foreign exchange contracts, zero coupon swaps and currency options to reduce its exposure to currency fluctuations arising from foreign currency denominated debt and also from foreign currency denominated supplier contracts. Currency hedging aims to manage fluctuations in foreign currency exchange rates, primarily the EURO against CZK.

Cross currency interest rate swaps are used to hedge both currency and interest rate exposure on existing debt.

Overview of the transactions

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

December 31, 1999 (in CZK millions)	Less than 1 year	1 to 5 years	Total
Interest rate swaps	3,447	1,065	4,512
Cross currency interest rate swaps	647	462	1,109
Currency options	317	2,771	3,088
Forward foreign exchange contracts	2,807	1,147	3,954
Zero coupon swaps	–	5,542	5,542
Forward rate agreements	2,434	–	2,434
Foreign exchange swaps	–	–	–
Interest rate options	188	–	188
	9,840	**10,987**	**20,827**

December 31, 1998 (in CZK millions)	Less than 1 year	1 to 5 years	Total
Interest rate swaps	–	3,012	3,012
Cross currency interest rate swaps	–	1,146	1,146
Currency 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
	5,492	**13,582**	**19,074**

Notional amounts are calculated at the year end exchange rates.

Net Fair Values
Net fair values of the Group's derivative financial instruments at the balance sheet date were:

CONTRACTS WITH POSITIVE FAIR VALUE

(in CZK millions)	1999
Interest rate swaps	4
Cross currency interest rate swaps	–
Currency options	292
Forward foreign exchange contracts	361
Zero coupon swaps	–
Forward rate agreements	3
Foreign exchange swaps	–
Interest rate options	–

CONTRACTS WITH NEGATIVE FAIR VALUE

(in CZK millions)	1999
Interest rate swaps	63
Cross currency interest rate swaps	213
Currency options	9
Forward foreign exchange contracts	322
Zero coupon swaps	299
Forward rate agreements	11
Foreign exchange swaps	–
Interest rate options	–

The fair values of the above derivative financial instruments have been calculated using rates quoted by the Group's bankers or by using the Group's own evaluation models.

Credit Risk
Trade receivables consist of a large number of small balances. The Company and the Group have no significant concentrations of credit risk. Derivative instruments are entered into with and cash is placed with substantial financial institutions. The credit exposure of derivatives is represented by the net fair values of the contracts as disclosed above.

Fair Values
The carrying amounts of the following financial assets and liabilities approximate to their fair value: cash, investments, trade receivables and payables, finance lease obligations, short term borrowings and long term borrowings with floating interest rate.
The carrying amounts and fair values of non-current fixed interest loans are as follows:

1999 (in CZK millions)	Carrying amounts	Fair values
Bank loans	8,938	8,845
Bonds	20,855	21,513

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate which the directors expect would be available to the Group at the balance sheet date.

7. INVENTORIES

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Construction material	791	789
Cable	1,266	1,178
Other inventory including goods for resale	501	544
	2,558	**2,511**

The inventories above are stated net of provision for obsolete and slow moving stock of CZK 413 million (1998: CZK 193 million).

8. RECEIVABLES

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Domestic trade receivables	5,788	6,007
Foreign currency trade receivables	232	93
Other debtors	1,699	2,130
Prepayments	513	554
Income tax receivable	369	–
VAT receivable	693	579
	9,294	**9,363**

Domestic trade receivables are stated net of provision for doubtful debts of CZK 1,929 million (1998: CZK 1,516 million).
Other debtors include an amount due from TelSource N.V. for contributed services of approximately CZK 658 million (see Note 1; 25), which will be received during the year 2000 (December 31, 1998: CZK 1,516 million).

9. SHARE CAPITAL AND RESERVES

AUTHORISED AND ISSUED FULLY PAID SHARE CAPITAL

	Dec 31, 1999	Dec 31, 1998
Nominal value per ordinary share (in CZK)	100	100
Number of ordinary shares	322,089,900	322,089,900
Ordinary shares (in CZK millions)	32,209	32,209

At December 31, 1999 shareholdings in the Company were as follows:
- National Property Fund 51.1% (incl. 1 share with special rights)
- TelSource N.V. 27.0%
- Other shareholders 21.9%

TelSource N.V. is owned jointly by KPN Royal Dutch Telecom and Swisscom together with AT&T which has a non-financial interest. In December 1998 KPN Royal Dutch Telecom increased its interest in the Company by 6.5% and together with TelSource they now control 33.5%.
Other reserves comprise mainly of a statutory reserve fund, a non distributable reserve.

10. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year.

	Dec 31, 1999	Dec 31, 1998
Number of ordinary shares in issue	322,089,900	322,089,900
Net profit attributable to shareholders (in CZK millions)	6,171	6,060
Basic earnings per share (in CZK)	19	19

11. LOANS AND OVERDRAFTS

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Bank loans and overdrafts in local currency	2,002	2,891
International financial institution loans in foreign currency	2,976	3,098
Bank loans and overdrafts in foreign currency	11,857	11,760
Bills of exchange in foreign currency	11	97
Bonds in local currency	7,000	8,000
Bonds in foreign currency	13,596	13,324
	37,442	**39,170**
REPAYABLE:		
Within one year	2,356	3,249
Between one and two years	5,067	1,330
Between two and five years	24,085	21,534
After five years	5,934	13,057
Total non current	*35,086*	*35,921*
	37,442	**39,170**

Bank loans and overdrafts in local and foreign currency include overdrafts of CZK 13 million (1998: CZK 539 million).
In 1998 the Group issued DEM 750 million bonds which are redeemable at par in 2003 and which pay a coupon of 5.125%.
In 1999 the Company redeemed bonds in local currency with a book value of CZK 1 billion. For their refinancing the Company drew a short-term loan of the same value.
At December 31, 1999 the Group had available approximately CZK 18 billion of undrawn loan facilities.
In 2000 loans in local currency of total value CZK 2 billion and loans in foreign currency of DEM 18 million fall due for repayment.
Interest has been charged on all borrowings at commercial rates.
After taking account of interest rate swaps, the interest rate exposure of the Group was as follows:

TOTAL BORROWINGS

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
At fixed rate	35,319	36,753
At floating rate	2,123	2,417
Total	**37,442**	**39,170**

AVERAGE INTEREST RATES

(in %)		
Bank overdrafts	8.25	9.25
Bank borrowings	6.95	7.69
Bonds	7.33	9.73
Other borrowings	6.61	5.25

The Company owns fixed assets which have been pledged as collateral on loans. The value of assets pledged is as follows:

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Land and buildings	1,301	1,330
Plant and equipment	3,360	4,119

The valuation of the above assets was made in 1991, 1992 and 1996 in connection with collateral agreements between the Ministry of Finance of the Czech Republic, IPB, a.s. and the Company.
Land and buildings, plant and equipment valued at CZK 4.7 billion (1998: CZK 5.4 billion) have been pledged as collateral for CZK 5.4 billion (1998: CZK 5.4 billion) of borrowings.

12. CREDITORS

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Trade creditors in local currency	5,413	2,648
Trade creditors in foreign currencies	714	855
Other taxes and social security	24	316
Deferred income	83	523
Employee wages and benefits	317	41
Accruals and other creditors	*4,619*	*3,303*
	11,387	**7,686**

13. FINANCE LEASE OBLIGATIONS

Finance lease payments are payable as follows:

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Within 1 year	29	33
Between one and two years	–	29
	29	*62*
Less future lease finance charges	(5)	(13)
Total lease liability	**24**	**49**

14. DEFERRED TAXES

(in CZK millions)	1999	1998
At January 1	6,847	4,672
Additional provisions charged to income statement	1,437	2,175
Utilised during year	–	–
At December 31	**8,284**	**6,847**

The deferred taxation balance consists mainly of the following items: temporary differences between the tax and accounting carrying amounts of property, plant and equipment and the provision for restructuring.
Deferred tax provision is expected to crystalise more than one year after the balance sheet date.
Restructuring and other provisions are expected to crystalise less than one year after the balance sheet date.

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Difference in carrying amounts of tangible and intangible assets	8,757	7,306
Provision for restructuring and other	(473)	(459)
	8,284	**6,847**

15. PROVISIONS FOR LIABILITIES AND CHARGES

(in CZK millions)	Restructuring provision	Other	Total
At December 31, 1998	803	530	1,333
Additional provisions	–	745	745
Unused amounts reversed	–	(463)	(463)
Charged to income statement	–	282	282
Utilised during year	(302)	(208)	(510)
At December 31, 1999	**501**	**604**	**1,105**

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, 1999 the remaining balances of these provisions are CZK 377 million (1998: CZK 554 million) and CZK 124 million (1998: CZK 249 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.

16. REVENUE

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Call revenues	30,207	27,936
Connection charges	1,664	1,921
Subscription charges	7,701	5,631
Revenue from other network operators	5,416	4,518
Telex, data transmission and other telephone services	3,453	2,462
Equipment sales and sales of materials	808	1,290
Leased circuits	1,847	1,670
Other revenues	806	465
	51,902	**45,893**

17. OPERATING EXPENSES

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Wages and salaries	5,327	4,901
Social security contributions	1,948	1,794
Staff welfare costs	292	281
Total staff costs	*7,567*	*6,976*
Depreciation of tangible fixed assets	12,810	10,521
Amortization of intangible fixed assets	599	330
	13,409	*10,851*
Material consumed	1,154	1,851
Payments to other network operators	6,912	5,224
Equipment and material cost of sales	2,003	1,741
Other operating costs, including energy costs and repairs and maintenance	8,534	7,892
	18,603	*16,708*
Total operating expenses	**39,579**	**34,535**

Pension contribution (see Note 24) is included in the line Social security contribution.

18. EMPLOYEES

	1999	1998
The average number of employees during the year	**21,653**	**23,317**

19. NET FINANCE EXPENSES

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
INTEREST EXPENSE		
Interest incurred on loans and bonds	3,053	2,860
Finance leases	11	16
Commissions and other bank charges	191	513
Total interest payable and other charges	3,255	3,389
Interest capitalised	(115)	(658)
Interest expense	3,140	2,731
Interest income	(413)	(637)
MARKETABLE SECURITIES:		
Dividend income	–	–
Loss on sale of marketable securities	14	18
Net foreign exchange losses/(gains)	596	(884)
Net finance expenses	**3,337**	**1,228**

Net foreign exchange differences relate mainly to cash deposits and borrowings denominated in GBP, USD and EUR.

20. INCOME TAX EXPENSES

(in CZK millions)	1999	1998
TOTAL INCOME TAX EXPENSE IS MADE UP OF:		
Current income tax charge	841	1,057
Deferred income tax charge	1,430	2,080
	2,271	**3,137**

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the basic tax rate of the home country of the Group as follows:

(in CZK millions)	1999	1998
Profit before tax	8,442	9,197
Income tax expense/(credit) calculated at the statutory rate of 35%	2,955	3,225
Expenses not deductible for tax purposes	767	254
Impact on income tax expense/(credit) due to 10% deduction for property, plant and equipment brought into use	(381)	(342)
Impact of change in income tax rate on deferred tax charge	(1,070)	–
Income tax expense/(credit)	**2,271**	**3,137**

The effective tax rate was 27% in 1999 (1998: 34%). The main reason for the decrease in the effective tax rate is a change of deferred tax balances due to the change in income tax rate applicable in 2000 (31% from 35% in 1999).

21. NET CASH FLOWS FROM OPERATING ACTIVITIES

(in CZK millions)	1999	1998
Profit before taxation	8,442	9,197
ADJUSTMENTS FOR:		
Depreciation	13,409	10,851
Profit on fixed asset sales	(20)	(2)
Net interest and other charges	2,887	2,112
Foreign exchange losses/(gains)	449	(870)
Contributed services	544	933
(Decrease)/increase in provisions	(217)	185
Operating cash flow before working capital changes	25,494	22,406
Increase in trade and other receivables	(678)	(859)
Increase in inventories	(245)	(137)
Increase in trade and other creditors	2,419	15
Cash generated from operations	26,990	21,425
Interest, commissions and other charges paid	(3,023)	(2,558)
Income taxes paid	(1,785)	(1,327)
Net cash from operating activities	**22,182**	**17,540**

22. CASH AND CASH EQUIVALENTS

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Cash balances	310	666
Short term bank deposits	6,817	–
Cash and cash equivalents	**7,127**	**666**

For the purposes of the cash flow statement, the year-end cash and cash equivalents comprise the following:

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Cash and cash equivalents	7,127	666
Bank overdrafts and other short-term borrowings (Note 11)	(13)	(539)
Balance at December 31	**7,114**	**127**

Increase of the cash and cash equivalents in comparison to year 1998 refers to different types of securities purchased by the Group in 1999. In 1998 cash available was invested in goverment bonds which are not included as cash equivalents. These bonds are classified as marketable securities. In 1999 cash available was invested in depository bills of exchange recognised within cash and cash equivalents.

23. COMMITMENTS

Operating leases

The Company has no significant operating lease commitments.

CAPITAL COMMITMENTS

(in CZK millions)	Dec 31, 1999	Dec 31, 1998
Capital expenditure contracted but not provided for in the financial statements	5,370	9,210

The majority of contracted amounts relate to the telecommunications network.

The portion of the capital commitments of the Company is CZK 3,073 million (1998: CZK 8,084 million). The remainder relates to EuroTel totalling CZK 2,297 million (1998: CZK 1,126 million).

24. GOVERNMENT SOCIAL SECURITY AND PENSION SCHEMES

The Company is legally required to make contributions to Government health, retirement benefit and unemployment schemes. During 1999 and 1998 the Company paid contributions at a rate of 35% of gross salaries and is not required to make any contributions in excess of this statutory rate. The total amount paid in respect of this was CZK 1,973 million (1998: CZK 1,804 million). Employees contribute 12.5% (1998: 12.5%) of gross salaries.

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 scheme. During the year the Company made contributions of CZK 77.1 million (1998: CZK 69 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 relating to early retirement, which are accounted for on a cash basis, amounted to CZK 5.6 million (1998: CZK 19 million).

25. RELATED PARTY TRANSACTIONS

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

The Group receives revenues and makes payments to its joint venture 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 1 under contributed services.

The following transactions were carried out with related parties:

a) Sales

SALES OF SERVICES

(in CZK millions)	1999	1998
EuroTel	1,594	1,412
Swisscom	85	76
KPN Royal Dutch Telecom	79	67
TelSource N.V.	7	10
	1,765	**1,565**

Sales to all of related parties were carried out on normal commercial terms and conditions and at market prices.

b) Purchases

CONTRIBUTED SERVICES

(in CZK millions)	1999	1998
Services	544	933
Assets	524	52
	1,068	**985**

PURCHASED SERVICES

(in CZK millions)		
EuroTel	2,824	2,494
Swisscom	40	29
KPN Royal Dutch Telecom	61	45
	2,925	**2,568**

c) Outstanding balances arising from sale/purchase of goods/services

RECEIVABLES FROM RELATED PARTIES

(in CZK millions)	1999	1998
EuroTel	10	–
Swisscom	–	–
KPN Royal Dutch Telecom	–	–
TelSource N.V.	1	2
TelSource N.V. – contributed services	658	1,516
	669	**1,518**

PAYABLES TO RELATED PARTIES

(in CZK millions)		
EuroTel	288	–
Swisscom	–	–
KPN Royal Dutch Telecom	–	–
TelSource N.V.	11	–
	299	**–**

d) Remuneration to directors

Compensation paid and accrued for services rendered as members of the Board of Directors and Supervisory Board amounted to:

- remuneration CZK 12 million (1998: CZK 12 million)
- tantiems CZK 7 million (1998: CZK 6 million)
- capital life insurance CZK 10 million (1998: CZK 2 million)

26. CONTINGENCIES

The Group does not have any material contingencies requiring disclosure in the financial statements.

27. POST BALANCE SHEET EVENTS

New tariffs for domestic telecommunication services effective from January 1, 2000 were approved in the price assessment 01/2000 of the Ministry of Finance of the Czech Republic on November 30, 1999.

On January 1, 2000 a change of business name of the Company was made to ČESKÝ TELECOM, a.s. at the Regional Commercial Court in Prague. Together with the new company name the Company is also presented by a new trade mark ČESKÝ TELECOM.

28. SEGMENT INFORMATION

Revenue of the Group is predominantly from domestic trading activities, segmental reporting is therefore only shown on the basis of business segments.

Year ended December 31, 1999 (in CZK millions)	Fixed	Mobile	Elimination	Group
Revenues	44,011	10,144	(2,253)	51,902
Inter-segment sales	(813)	(1,440)	2,253	–
Total consolidated revenues	*43,198*	*8,704*	–	*51,902*
Segment result	9,577	2,746	–	12,323
Contributed services	(544)	–	–	(544)
Finance cost	(3,126)	(211)	–	(3,337)
Profit before tax	5,907	2,535	–	8,442
Tax	(1,390)	(881)	–	(2,271)
Net profit	**4,517**	**1,654**	**–**	**6,171**
Segment assets	144,528	11,387	–	155,915
Segment liabilities	(52,947)	(5,489)	–	(58,436)
Capital expenditure	17,304	2,893	–	20,197
Depreciation	11,691	1,119	–	12,810
Amortisation	553	46	–	599

Year ended December 31, 1998 (in CZK millions)	Fixed	Mobile	Elimination	Group
Revenues	40,426	7,459	(1,992)	45,893
Inter-segment sales	(720)	(1,272)	1,992	–
Total consolidated revenues	*39,706*	*6,187*	–	*45,893*
Segment result	9,177	2,181	–	11,358
Contributed services	(933)	–	–	(933)
Finance cost	(1,066)	(162)	–	(1,228)
Profit before tax	7,178	2,019	–	9,197
Tax	(2,277)	(860)	–	(3,137)
Net profit	**4,901**	**1,159**	**–**	**6,060**
Segment assets	137,849	8,962	–	146,811
Segment liabilities	(50,180)	(5,346)	–	(55,526)
Capital expenditure	29,078	2,449	–	31,527
Depreciation	9,765	756	–	10,521
Amortisation	287	43	–	330

Inter-segment sales represents sales to Group companies belonging to another segment. Transfer prices are set on an arm's length basis. The Group comprises two main business segments:

- Fixed – telephone services using the fixed telephone network provided by ČESKÝ TELECOM, a.s.
- Mobile – mobile telephone services provided by EuroTel Praha, spol. s r.o.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities, taxation and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment and intangible fixed assets.

SHAREHOLDER INFORMATION

GENERAL MEETING OF SHAREHOLDERS

The annual General Meeting of Shareholders will take place on June 8, 2000 at the Žofín Cultural and Social Center in Prague.

DATE OF EARNINGS ANNOUNCEMENTS

Half year results 2000	end of July 2000
Third quarter results 2000	end of October 2000
Full year results 2000	preliminary results – February 2001
	audited results – end of March 2001
First quarter 2001	end of April 2001

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SHARE PRICE

At the end of 1999 ČESKÝ TELECOM shares closed trading at CZK 576.5 per share, which was an increase of 26% over the last business day of 1998.

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Annual Report 1999

Published by **ČESKÝ TELECOM**
Consulting and production:
B.I.G. Prague (Business Information Group)
Design: dept. of Design