



We started to build „Next Generation Networks“ that will allow us to provide customers with new multiplatform integrated services more effectively and to a higher standard of quality.

EuroTel Praha became the first company in the Czech Republic to successfully pilot GPRS on mobile phones. This will provide fast Internet connections for WAP-enabled phones and ensure customers only pay for the volume of data they exchange, not for the time they are connected.



We introduced free, unlimited and rapid Internet access via „QUICK.cz“ service.



We play an active role in supporting social and culture events in the Czech Republic. This involves sponsorship, providing equipment or technical assistance.



ČESKÝ TELECOM used the latest voice over IP technology to create Xcall, a new service that enables customers to make international calls more cheaply than ever before.

We are constantly investing in new technologies that will help us introduce faster, more reliable and integrated telecommunications solutions for our customers. Already we have one of the most sophisticated digital networks in Central and Eastern Europe.



## ANNUAL REPORT 2000

ČESKÝ TELECOM is the leading telecommunications company in the Czech Republic and one of the largest corporations in Central and Eastern Europe.



We provide a full spectrum of voice and data services, ranging from fixed-line and mobile phone services to Internet and data services including euroISDN services.

One-in-three of the Czech Republic's 10.3 million population has a ČESKÝ TELECOM line.





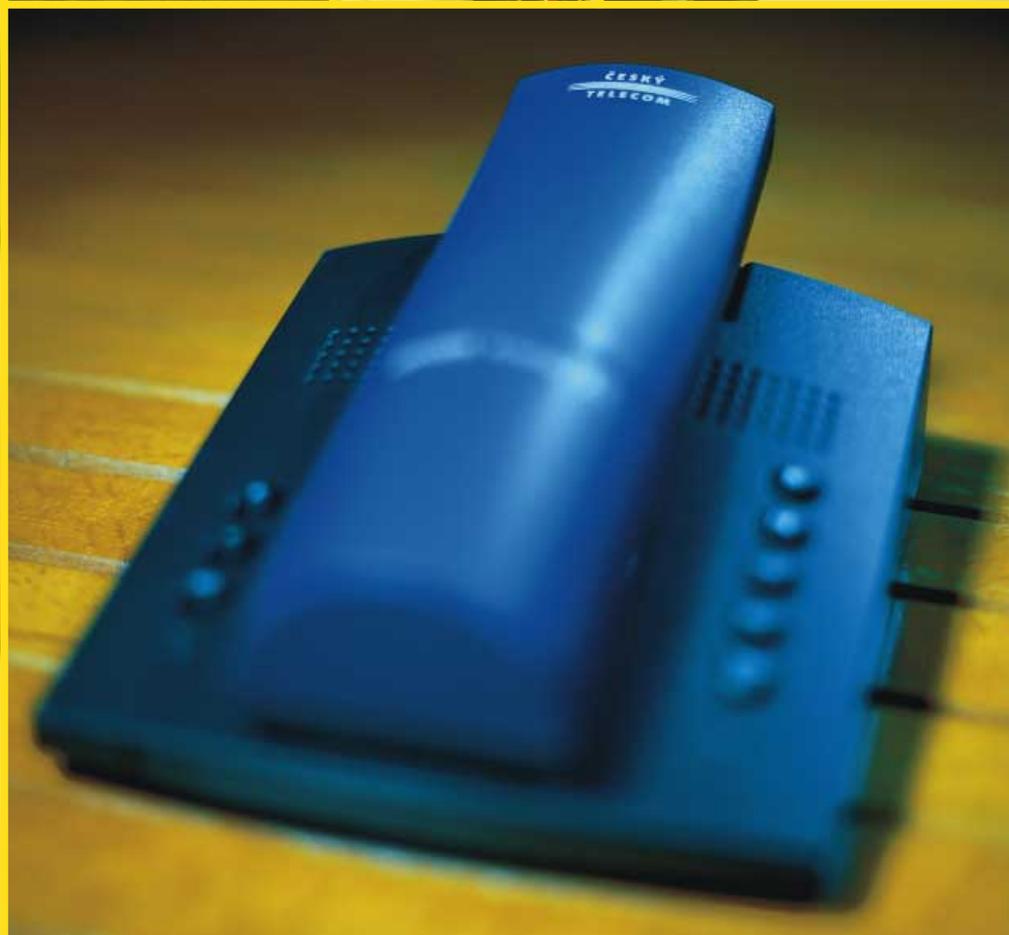
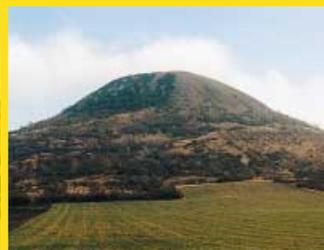
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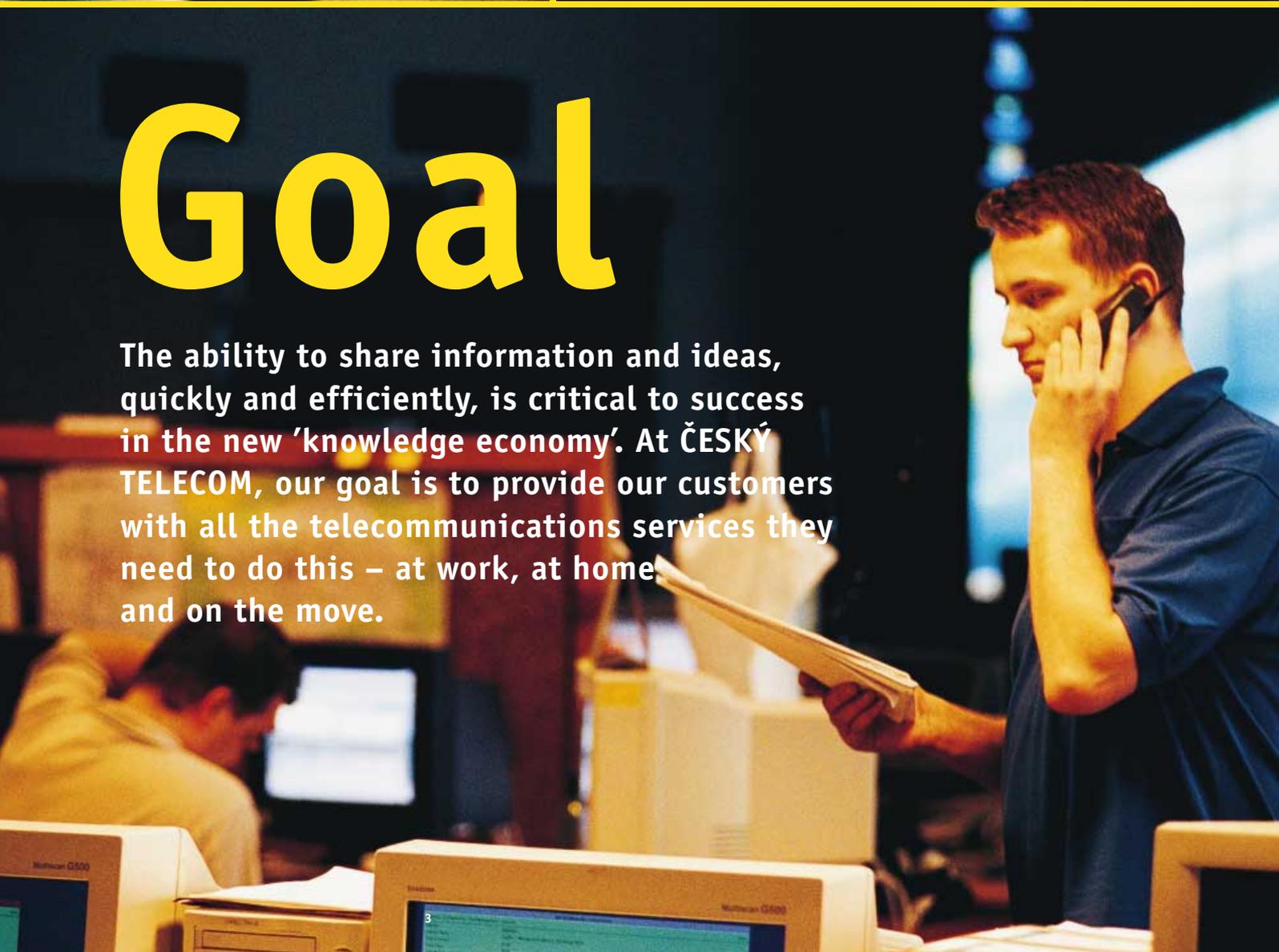
**CZECH**  
**TELECOM**





# Goal

The ability to share information and ideas, quickly and efficiently, is critical to success in the new 'knowledge economy'. At ČESKÝ TELECOM, our goal is to provide our customers with all the telecommunications services they need to do this – at work, at home and on the move.





We provide a comprehensive range of fast and reliable telecommunications solutions, spanning every link of the 'value chain', from fixed-line and mobile phone operations to Internet and data transmission services.

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We invest in state-of-the-art technology that makes our customers' lives more convenient and productive.

# Strategy

Create a competitive corporate culture and structure that can respond rapidly to customers' needs and anticipate future requirements.

Contribute to the Czech Republic's social and economic development – our success, and our ability to meet our customers' needs, depends on our country's success.

Generate the financial results required to satisfy our customers' future demands.

## ČESKÝ TELECOM at a Glance

### COMPANY BACKGROUND

ČESKÝ TELECOM is the leading telecommunications company in the Czech Republic and one of the largest corporations in Central and Eastern Europe. Originally formed in 1989 as a state enterprise, under the name Správa pošt a telekomunikací Praha we became SPT TELECOM state enterprise on 1 January 1993 and a joint stock company SPT TELECOM in January 1994. On 1 January 2000 we changed our name to ČESKÝ TELECOM.

### CUSTOMERS

Our 3.9 million phone lines serve both residential and business customers in the Czech Republic – equivalent to one line for every three members of the country's 10.3 million population. In addition, our 51% subsidiary EuroTel Praha has over 2 million mobile phone customers.

### SERVICES

We provide a full spectrum of voice and data services, ranging from fixed-line and mobile phone services to Internet services, including euroISDN services. 86% of our lines are connected to digital exchanges. We also operate public pay phones and sell phone equipment.

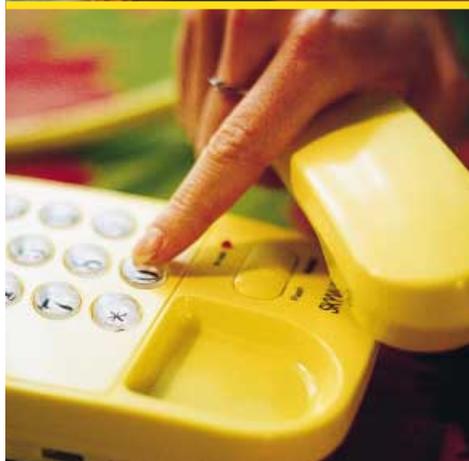
### STAFF

ČESKÝ TELECOM employs over 17,000 people. Nearly half are under the age of 40 and 16% have a university degree.

### SHAREHOLDERS

With a market capitalisation of CZK 163.4 billion at 31 December 2000, ČESKÝ TELECOM's shareholders in 2000 included: The National Property Fund of the Czech Republic (51.1% shareholding), TelSource (27%), KPN Royal Dutch Telecom (6.5%) and institutional and private shareholders (15.4%).

Over 3 million people use ČESKÝ TELECOM's lines. Our mobile phone subsidiary, EuroTel, has a further 2 million customers.





**Our competitive culture will ensure we continue to play a leading role in the Czech Republic's liberalised telecommunications market.**

## Revenues

(in CZK billions)

1996	32.5
1997	40.0
1998	45.9
1999	51.9
2000	57.2

## EBITDA

(in CZK billions)

1996	14.2
1997	18.3
1998	22.2
1999	25.7
2000	26.7

## Financial Highlights of 2000

### REVENUE INCREASES BY 10%

Revenue grew by 10% to CZK 57.2 billion, driven by a substantial increase in the contribution from our mobile phone subsidiary, EuroTel Praha, and a strong performance from our data-related services, notably euroISDN. Sales from deregulated services like these, including voice over IP, accounted for over 40% of our revenues in 2000, highlighting our ability to compete in a fully liberalised market in 2001.

### 47% EBITDA MARGIN

Significant efficiency gains, including a necessary 14% reduction in staff numbers, helped lift Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) by 4% to CZK 26.7 billion. However, EBITDA as a proportion of revenue edged down to 47%, compared to 50% in 1999, mainly due to the costs associated with doubling EuroTel Praha's mobile phone customer base. The benefits of this investment will feed through in 2001.

### PRUDENT FINANCIAL MANAGEMENT PRESERVES CREDIT RATING

At a time when many international telecommunications companies were facing downward pressure on their credit ratings, ČESKÝ TELECOM maintained its credit ratings from Standard & Poor's and Moody's, a measure of our tight financial control. Gross gearing fell from 38% to 32%, while net gearing declined from 29% to 25%.

### SOLID FINANCIAL FOUNDATIONS FOR SUSTAINED GROWTH

As the accounts at the end of this report demonstrate, ČESKÝ TELECOM has the capital reserves, cash flow and other financial resources required to fulfil our targets for 2001.

# Financial and Operational Highlights

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

	1996	1997	1998	1999	2000
<b>Financials</b>					
Revenues	32,483	39,992	45,893	51,902	57,224
Earnings before interest, taxes, depreciation and amortization (EBITDA)	14,176	18,297	22,209	25,732	26,696
Earnings before interest and taxes (EBIT)	8,028	10,062	11,358	12,323	12,071
Earnings before taxes (EBT)	(971)	8,568	9,197	8,442	9,114
Net income	(483)	6,035	6,060	6,171	6,356
Total assets	106,167	127,856	146,811	155,486	160,377
Fixed assets	77,851	106,462	127,743	134,614	141,525
Equity	79,071	85,158	91,285	97,478	103,807
Share capital	32,209	32,209	32,209	32,209	32,209
Loans	16,025	26,411	39,170	37,466	33,110
CAPEX <sup>1)</sup>	30,133	35,248	33,232	18,116	16,927
Total number of employees (only ČESKÝ TELECOM)	26,314	22,938	21,815	20,115	17,322

## Fixed line network

Number of lines installed (x 1000)	2,815	3,274	3,734	3,839	3,854
Net number of new lines installed (x 1000)	417	459	459	105	15
Penetration per population (in %)	27	32	36	37	37
Penetration per households (in %)	50	60	70	72	72
Digitalisation (in %)	33	50	64	77	86
Lines per employee	107	143	171	191	222

## Ratios (in %)

EBITDA/revenues	44	46	48	50	47
EBIT/revenues	25	25	25	24	21
EBT/revenues	—	21	20	16	16
Net income/revenues	—	15	13	12	11
Income tax rate	39	39	35	35	31
Effective tax rate	—	30	34	27	30
Depreciation as % of revenues	19	21	24	26	26
Depreciation as % of average net fixed assets <sup>5)</sup>	12	11	11	11	11
CAPEX as % of revenues	93	88	72	35	30
ROA (Net income/total assets)	—	5	4	4	4
ROE (Net income/equity)	—	7	7	6	6
Gross gearing (Interest bearing debt/total equity)	20	31	43	38	32
Net gearing (Net debt/total equity)	neg.	20	35	29	25

## Macroeconomic indicators <sup>4)</sup>

Population (in millions)	10.3	10.3	10.3	10.3	10.3
GDP (in %)	3.9	1.0	(2.7)	(0.2)	3.1
Inflation (in %)	8.8	8.5	10.7	2.1	3.9
Unemployment (in %)	3.5	5.2	7.5	9.4	8.8
Exchange rate CZK/USD - average during the period	27.1	31.7	32.3	34.6	38.6
Exchange rate CZK/USD	27.3	34.6	29.9	36.0	37.8

## Shares

Number of shares at end of period (in millions) <sup>2)</sup>	322.1	322.1	322.1	322.1	322.1
Net income per share (in CZK) <sup>2)</sup>	—	18.7	18.8	19.2	19.7
Dividend per share (in CZK) <sup>2)</sup>	0.0	0.0	0.0	0.0	0.0
Max. share price during period (in CZK) <sup>3)</sup>	347.5	439.0	484.8	651.7	965.9
Min. share price during period (in CZK) <sup>3)</sup>	259.5	285.0	352.5	376.2	381.3
Share price (in CZK) <sup>3)</sup>	338.6	373.0	458.8	576.5	507.2
Market capitalisation (in CZK billions)	109.1	120.1	147.8	185.7	163.4

<sup>1)</sup> net cash used in investment activities excluding purchase of and proceeds from marketable securities

<sup>2)</sup> number of shares 1996 - 1997 adjusted for 1:10 share split

<sup>3)</sup> share price 1996 - 1997 adjusted for 1:10 share split

<sup>4)</sup> source: CSO, MoF

<sup>5)</sup> excluding CIP and marketable securities



**GPRS enables**  
us to provide exceptionally  
fast data transmission.



## Key Customer Service Developments in 2000

### NEW SERVICES GIVE CUSTOMERS GREATER CHOICE AND CONVENIENCE

During the year, we harnessed the power of our advanced digital technology to expand our range of services:

**Voice services:** ČESKÝ TELECOM used the latest voice over IP technology to create Xcall, a new service that enables customers to make international calls more cheaply than ever before.

**Internet services:** We introduced free, unlimited and rapid Internet access via 'QUICK.cz' service together with [www.quick.cz](http://www.quick.cz), which concentrates 70,000 Czech web links.

**euroISDN services:** Six specialised euroISDN packages were rolled out, ranging from euroISDN@on-line to euroISDN@office. Several of these are designed for small businesses.

**Mobile phones:** EuroTel Praha unveiled the Czech Republic's first mobile Internet portal, branded Juice, offering a variety of WAP services. This was complemented by a new online 'virtual payment card', called Juice Pay, co-developed with Citibank. In addition, pre-paid GO customers were given the ability to recharge their phones via ATM machines and the Internet. To boost the speed of our mobile services, we introduced GPRS and HSCSD technologies. GPRS (General Packet Radio Service) provides customers with the Internet connections, WAP

services and remote access to corporate networks. HSCSD (High Speed Circuit Switched Data) transmits data at 43.2 Kbps, enabling you to send e-mails with large enclosures or complicated graphic and text files.

### LOWER PRICES PROVIDE EVEN BETTER VALUE FOR MONEY

Further price reductions helped to make our services even more competitive and attractive:

**Voice services:** Residential customers were given up to 82 free minutes of local off-peak calls per month. The cost of international calls was reduced on average by 15%. To provide greater price transparency, we also introduced Itemized bills which customers can tailor to their individual needs.

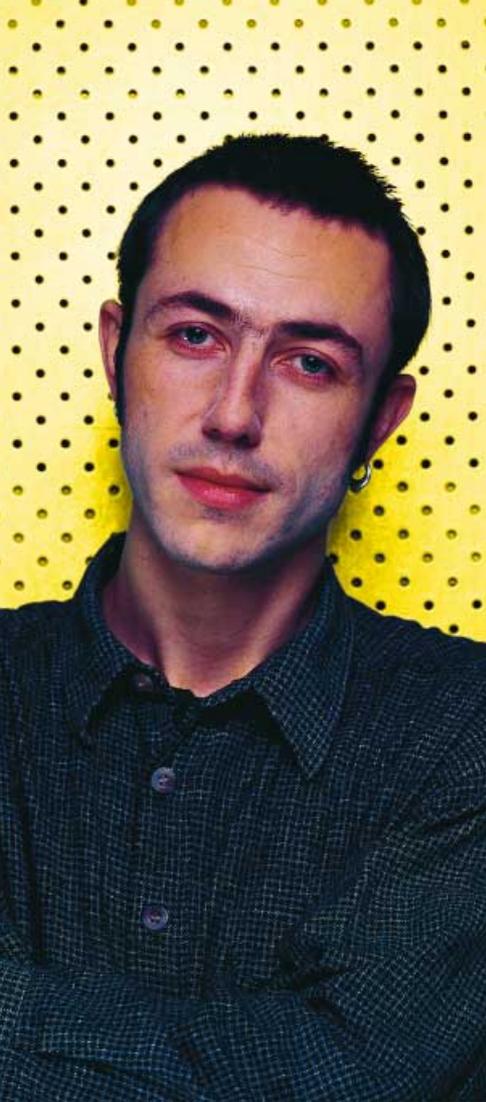
**Internet services:** Fixed-connection INTERNET OnLine prices were cut by 15% on average and special loyalty discounts introduced.

**euroISDN services:** euroISDN installation charges and monthly fees were lowered by up to 50% on average.

**Mobile phones:** Three low-cost mobile phone packages were launched: EuroTel Relax Plus, EuroTel Optimum and for pre-paid customers Go Quatro.

### EXPANDED CALL CENTRE BOOST SPEED AND QUALITY OF CUSTOMER SERVICE

To ensure our toll-free Call Centre continue to answer our customers' queries quickly and efficiently, we increased the number of staff at



# Organisational changes have sharpened our competitive edge.

these centres by 86% to 376 and launched the country's first Web-based call centre, free of charge for INTERNET OnLine customers.

We also ran a customer awareness training programme for Call Centre staff. Initiatives like these enabled us to exceed nearly all the stringent targets set by our regulatory authorities. 99.89% of all calls, for example, were connected within 20 seconds, compared to a regulatory target of 98%.

## ORGANISATIONAL CHANGES ENHANCE EFFICIENCY

During the year we made several important organisational changes that will help us roll out state-of-the-art services more quickly and cost-effectively:

- We divided the company into separate service and network units in order to provide a greater competitive focus.
- Our four regional divisions were consolidated into a central corporate structure, shortening communication times and enhancing the consistency of our service.
- To capitalise on the synergies of our Internet and e-commerce businesses, we integrated them into a single branch, e:tel (during 2001 it will be renamed IMAGINET).
- We increased the number of lines per employee – a key measure of efficiency - by

17% to 222 lines per employee, the fifth consecutive annual increase.

## LAYING THE TECHNOLOGICAL FOUNDATIONS FOR THE NEXT GENERATION OF SERVICES

We are constantly investing in new technologies that will help us introduce faster, more reliable and integrated telecommunications solutions for our customers. Already we have one of the most sophisticated digital networks in Central and Eastern Europe, with 86% of lines connected to digital exchanges at the end of 2000, up from 77% in 1999. Key technological advances during the year included:

- ADSL was successfully tested, giving us the opportunity to offer quicker, high-capacity broadband services, including rapid Internet connections and video-on-demand.
- We started to build "Next Generation Networks" that will allow us to provide our customers with new multiplatform integrated services more effectively and to a higher standard of quality.
- EuroTel Praha became the first company in the Czech Republic to successfully pilot GPRS on mobile phones. This will provide fast Internet connections for WAP-enabled phones and ensure that customers only pay for the volume of data they exchange, not for the time they are connected.



## Interview with the Chairman of the Board of Directors

**Ivan Pilný, who became ČESKÝ TELECOM's Chairman in June 2000, after heading up Microsoft's operations in the Czech Republic, answers key questions about the company's performance in 2000 and its future direction.**

By the time people read this annual report, which covers the year 2000, we will be in the year 2001 and the Czech telecommunications market will have been fully liberalised. What evidence is there that ČESKÝ TELECOM can compete in this new environment?

During 2000, ČESKÝ TELECOM outperformed many of the international telecommunications companies that are already operating in liberalised markets and might enter our market. For example we generated double-digit revenue growth, a healthy 47% EBITDA margin and strengthened our cash reserves and balance sheet, enabling us to preserve our credit ratings. Few of our peers achieved comparable results. Moreover, 40% of our revenues in 2000 came from markets that were already deregulated, including euroISDN, the Internet, Xcall and mobile phone services. Collectively, this is clear evidence that we can compete at the highest level.

What measures has the company taken to strengthen its competitive position and, in particular, to deliver higher levels of customer service?

Everything we do is designed to deliver the breadth and quality of services that our customers require to realise their full potential in the new 'knowledge economy'. And as this

environment is changing very rapidly, ČESKÝ TELECOM has to be equally nimble in order to respond to and satisfy new customer needs. To ensure we can do this, we continued to streamline and focus our organisation in 2000.

This involved two major initiatives. First, we absorbed our four regional business units into our corporate centre, producing further efficiencies and shortening communication lines. Second, and most importantly, we started to implement a new business model that will provide greater transparency and enable our businesses to concentrate on their respective strengths and roll out services more quickly and efficiently, while preserving the reliability of our network. A key part of this has been to separate ČESKÝ TELECOM into service and network units, mirroring the new business paradigm used by other successful international telecom operators.

Complementing these developments, we invested heavily in customer awareness training programmes, for example through our Client 2000 project, and significantly increased our free-phone Call Centre support staff, giving customers a faster, more convenient service. This included launching the country's first online call centre, for our INTERNET OnLine customers.

The Internet and related data services are a central plank of ČESKÝ TELECOM's strategy. At a time when this sector has fallen out of favour in other international markets, why are you still confident this is the way forward? We have already satisfied nearly all the "traditional" telecommunications needs of our customers: at the end of 2000 86% of our lines were connected to digital exchanges, up from 77% the year before; we are exceeding virtually all the high customer satisfaction targets set by our regulators, including operator response times; and we offer a comprehensive range of value-added services, from our highly popular Memobox voice mail service to our new Xcall facility for low-cost international calls. Traditional telecommunications services like these will remain our core business and we will continue to invest in them but there is strong customer demand for more versatile and productive technologies, including the Internet and related data transmission services. This was reflected in the impressive growth of our Internet and euroISDN businesses.

A major advantage that ČESKÝ TELECOM has over other players who have attempted to enter the Czech Internet market is that we have a large, established customer base of around 3.9 million to market our Internet services. To ensure we bring the benefits of the Net as rapidly as possible, we consolidated all our Internet-related businesses, including a new B2B electronic market place, called CenTrade, into a new business unit, branded e:tel. We also launched the country's fastest free Internet access, QUICK.cz, and a new Czech portal www.quick.cz amongst many other new services. In addition, our mobile phone subsidiary, EuroTel Praha, introduced a new WAP-based service, branded Juice, helping it to double its customer base, another key factor in our financial performance.

**How do you intend to provide customers with more advanced and flexible services, such as the facility to converge voice and data on their mobile phones and other devices?**

By continuing to invest in state-of-the-art technology. To converge voice and data, for example, we are currently building so-called "Next Generation Networks". We also successfully tested ADSL technology, enabling us to offer our customers valuable broadband services in the near future, including rapid Internet connections and video-on-demand. EuroTel Praha, meanwhile, has introduced GPRS technology – the first mobile phone company in Central Europe to provide this. This will allow our mobile customers to transmit data at high speeds and only pay for the data they exchange, not the connection time, a significant time and cost saving.

Keeping pace with customer demands in such a rapidly developing market isn't easy - new skills and resources will probably be needed. How do you intend to address this issue?

ČESKÝ TELECOM is fortunate in having a young and well-educated staff – an essential ingredient for a business to learn, adapt and innovate. Indeed, our results in 2000 demonstrate their ability to do this and I thank and congratulate them for their efforts and imagination. Inevitably, however, there will be times when we have to look outside for additional skills and, during the year under review, we showed our commitment to do this by forging partnerships with a variety of top-flight corporations, including Citibank and SAP. Further partnerships like these are being actively pursued. Similarly, where appropriate, we will use our strong balance sheet and credit rating to make acquisitions that take us into new growth markets and satisfy our customers' needs.

**Finally, what is the outlook for the current year, 2001?**

Trading is progressing well and in my interim report of 2001 I hope to announce further advances that will benefit both our customers and shareholders.



## Chief Executive's Statement

Rising customer satisfaction with the range and quality of ČESKÝ TELECOM's services was reflected in a 10% increase in revenue in 2000 to CZK 57.2 billion. Greater efficiency, in turn, enabled us to translate this gain into an 8% rise in Earnings Before Tax (EBT) to CZK 9.1 billion and a 3% increase in Net Income to CZK 6.4 billion.

A two-fold increase in EuroTel Praha's mobile phone customer base played a pivotal role in our revenue growth. Data related services, including euroISDN and Internet related business, also made important contributions, vindicating our decision to focus on these 'new economy' technologies. In addition, we benefited from a significant rise in income from subscription fees for our fixed-line services following further tariff rebalancing.

### EFFICIENCY GAINS UNDERPIN 47% EBITDA MARGIN

These achievements were matched by impressive improvements in efficiency, including a 17% increase in the number of lines per employee to 222. This was largely due to a 14% reduction in staff numbers, cutting our growth in staff costs from 8% to 2%, relative to 1999. However, despite our success in containing staff costs, the exceptional growth of EuroTel Praha's mobile

phone customer base, doubling to more than 2 million, substantially inflated material, sales and energy, repairs and maintenance costs, pushing total operating costs up by 17%. The net impact of these additional costs was a slight downturn in Earning Before Interest, Taxes, Depreciation and Amortization. As a proportion of revenue, EBITDA declined from 50% to 47% - still a robust margin. Nevertheless, we believe this is a small, short-term price to pay for the substantial growth in our mobile customers, which has given EuroTel Praha 50% of the country's burgeoning mobile phone market. Impressively, half of our new mobile customers were acquired in the final quarter of the year, a testimony to our marketing expertise and the quality of our service.

### NEW, ADVANCED SERVICES

The high demand for data related and mobile services characterised a general trend towards more sophisticated solutions and, in 2000, we satisfied this need by launching several important new services. These ranged from free Internet access via our QUICK.cz service, to six new euroISDN packages and our highly cost-effective Xcall service for international calls. EuroTel Praha also continued to break new ground, introducing its 'Juice' mobile Internet portal offering WAP services and a facility for its pre-paid GO mobile phone users to recharge their cards via the Internet or ATM machines.

#### **LOWER PRICES, HEIGHTENED CUSTOMER SATISFACTION**

To sharpen our competitive edge, we reduced the prices of many of our services and introduced special discounts. Residential customers, for example, have been given up to 82 free minutes of local off-peak calls per month, while euroISDN installation charges and monthly fees have been cut by up to 50% on average, amongst other price decreases. In addition, new Itemized bills have made our prices more transparent to customers. A new portfolio of business and residential tariff packages, which will be released in 2001, will give our customers even greater value for money and choice.

Surveys have shown that these initiatives, and others described in this report, have significantly improved customer satisfaction. We have also exceeded nearly all our regulatory authorities' demanding customer service targets, including time limits for line repairs, connections and operator responses. To provide an even higher standard of customer service, we invested nearly 120,000 man days in training, recruited higher-calibre employees and carried out a number of cultural change programmes. ČESKÝ TELECOM's new business model, mentioned in the Chairman's statement, will provide a further boost.

#### **PREPARING FOR A BRIGHTER FUTURE**

With these developments, coupled with our investment in cutting-edge technologies, such as Next Generation Networks, we are confident we can build on our achievements in 2000 and deliver what our customers require to optimise their social and economic potential. In the meantime, I would like to thank our staff for their energy and commitment and our Board of Directors and Supervisory Board for their guidance.



**Přemysl Klíma**  
President & Chief Executive Officer





# As our

business customers grow, so do we. To support their development, we provide the largest and most advanced portfolio of telecommunications services for businesses.



## Providing a Comprehensive Range of Fast and Reliable Telecommunications Services

### CHOICE AND AVAILABILITY OF FIXED-LINE VOICE SERVICES GROW

**Access to digital services increases:** The proportion of lines connected to digital exchanges leapt from 77% to 86%, enabling nearly 3.3 million customers to take advantage of value-added services such as call-forwarding and our new Itemized bills.

**Demand for voice mail services surges:** The convenience of our 24-hour Memobox service, which allows you to receive voice and fax messages if you are away from your phone or on the line, continued to fire the public's imagination. In 2000, there was a four-fold increase in the number of Memoboxes installed to nearly 500,000.

**Expanded free-phone network:** A special "payment holiday" promotion helped boost the number of our Zelená linka (toll-free service) 0800 lines by more than 60% to 1,704. In addition, these lines have recently been connected to an intelligent network, giving customers a greater choice of services, including call routing and call forwarding.

**More cost-effective international calls:** We not only reduced the price of calls to selected international countries on average by 15% but also introduced a new service, branded Xcall, that enables customers to call around 30 countries for as little as six crowns per minute, in some cases. Xcall, which uses the latest voice of IP technology, complements our other international services, Czech direct and Karta X. Czech direct allows you to call the Czech Republic from selected countries, 24 hours a day, and have the cost charged to your home or business bill. Karta X, which saw its sales rise by 50% in 2000 to 137,000, is a pre-paid calling card that can be used to make international calls to and from the Czech Republic and within the Czech Republic.

**New tariff packages planned for business and residential customers:** In 2001, we intend to introduce separate tariff packages for business and residential customers that will allow them to select a price schedule that suits their call volumes and patterns. These will be available from 1 April 2001.

**KEEPING OUR CUSTOMERS AT THE CUTTING EDGE OF THE INTERNET**  
ČESKÝ TELECOM strongly believes in the Internet's long-term social and economic potential. In 2000 we made substantial progress in this market, trebling our INTERNET OnLine (IOL) customer base to almost 200,000 and expanding our range of services.

**Free, unlimited access:** As an alternative to our feature-rich, fee-based IOL service, we launched QUICK.cz service, providing fast, free and unlimited access to the Internet. The service includes free email accounts, up to 10Mb of free Web page space and access to www.quick.cz portal, which has over 70,000 Czech links. It ranges with the largest portals in the Czech Republic.

**New fixed-connection service:** With IOL ACCESS DATA, customers can now have a new Internet connection via fixed line and pay a minimal fee, which includes the possibility to transfer 1 GB further.

**First WAP in the Internet:** In April ČESKÝ TELECOM offered, by means of INTERNET OnLine, web sites also for customers using mobile phones supporting WAP.

**First online Call Centre:** In June, we launched the country's first call centre for Internet users. ČESKÝ TELECOM's customers can contact our operator directly from the Internet and ask for other services offering solutions of all Web-related queries. Our operators answer about 60,000 questions per month, all for free.

**B2B electronic market place created:** Electronic commerce, in the broadest sense, offers huge opportunities to reduce inventory costs, pool buying power, streamline processes and improve scheduling and cycle times. To capitalise on these possibilities, ČESKÝ TELECOM has joined forces with Citibank to create the Czech Republic's first electronic business-to-business (B2B) market place, called CenTrade. Supported by SAP systems, it will give our customers and internal business units a powerful platform for reducing costs.

**IOL service prices reduced:** Prices of our fixed-connection IOL services were cut by 15% on average. In addition, a new loyalty programme for customers using IOL through modem or euroISDN, programme called IOL TOP, incorporates special discounts at our suppliers and co-operating companies.





Enjoy the benefits of INTERNET OnLine, including unrivalled speed, granted connections and loyalty discounts, plus free, 24-hour customer support.

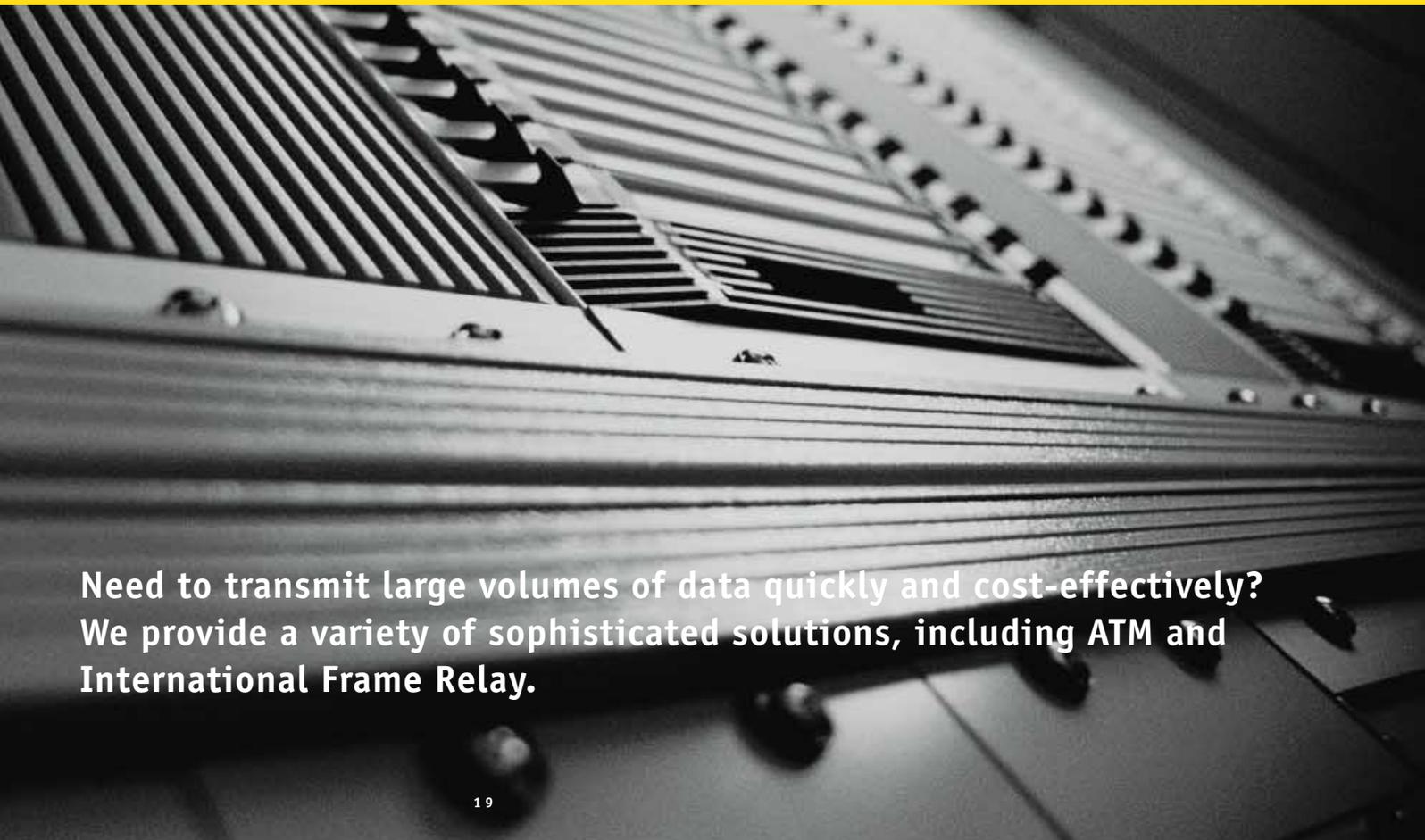
**Proportion of lines connected to digital exchanges**

(in %)	
1996	33.0
1997	50.0
1998	64.0
1999	77.0
2000	86.0

**Number of IOL users**

(in thousands)	
1996	0
1997	4
1998	22
1999	45
2000	185

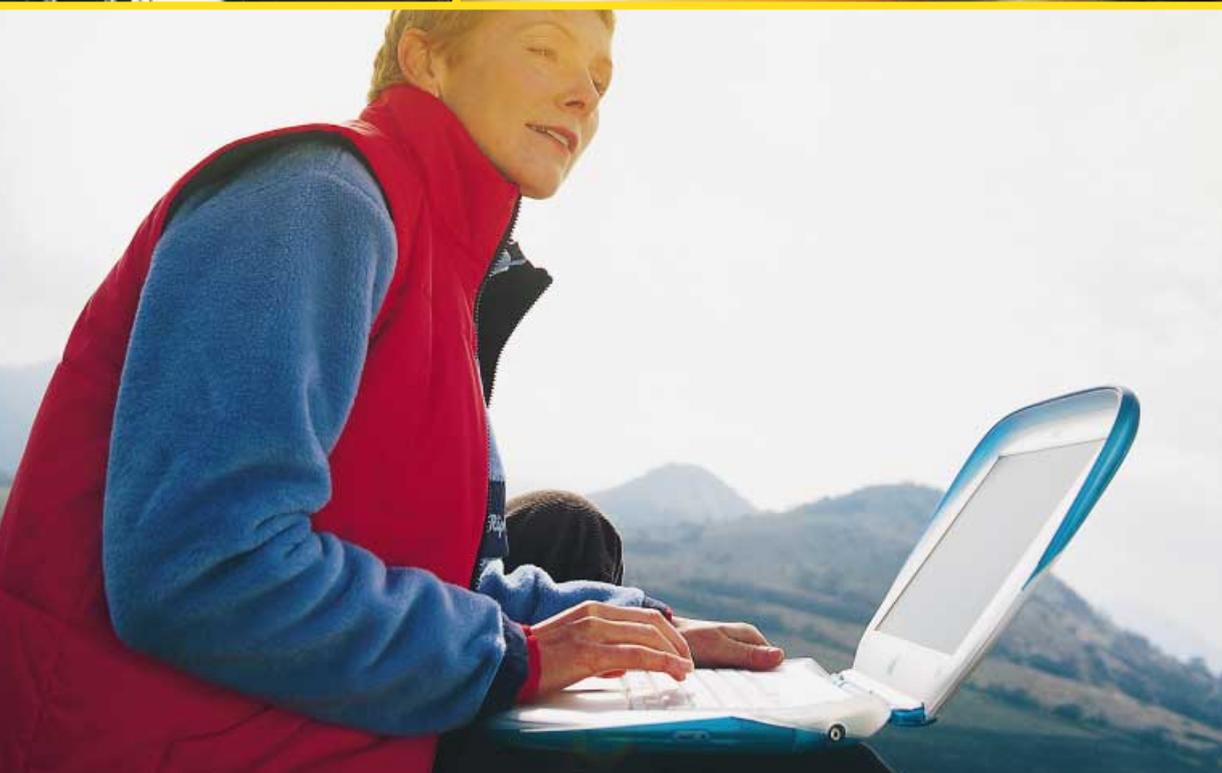
**Send and receive**  
voice, data and images at high speed with our broad range of euroISDN services.



Need to transmit large volumes of data quickly and cost-effectively? We provide a variety of sophisticated solutions, including ATM and International Frame Relay.



With an 0800 freephone line, you can give your customers another great incentive to contact your company.



**Number of euroISDN channels  
(in thousands)**

1996	0
1997	1
1998	17
1999	57
2000	122

**Total number of EuroTel Praha  
mobile users**

(in thousands)	
1996	168
1997	355
1998	588
1999	1,070
2000	2,171

## Access

the Web and our portal

[www.quick.cz](http://www.quick.cz) of over 70,000 Czech links for free via QUICK.cz. Browse for as long as you like. For a more sophisticated alternative, try our fee-based INTERNET OnLine service. If you have any questions, contact our free online Call Centre.



To meet the rising demand for international data transmission, we've introduced a new service – International Frame Relay.



#### NEW AND MORE COST-EFFECTIVE WAYS TO TRANSMIT DATA

The demand for euroISDN, which provides customers with fast and high-quality voice, data and image transmission capabilities, soared by 114% to 122,000 channels. Other data transmission services, including ATM and International Frame Relay, produced equally impressive results, which proved customers' concentration on modern products offering the greatest comfort. Major developments in the data arena included:

**New euroISDN packages:** Six new specialist euroISDN services were launched, many targeted at the country's growing small and medium business market. These included euroISDN@office, euroISDN@online, euroISDN@video, euroISDN@connect, euroISDN@connectPLUS and euroISDN@telefon.

**Low-volume facility:** We rolled out DIR-IS, a system that integrates euroISDN and packet data services to allow customers using payment terminals and other devices to transmit small volumes of data cost-effectively.

**Greater value for money:** We lowered the installation charge for our euroISDN channels by more than 50% and the monthly usage fee by as much as 35%.

#### MORE SOPHISTICATED MOBILE PHONE SERVICES

A series of innovations helped our mobile phone subsidiary, EuroTel Praha, increase its customer base by 103% in 2000, taking it beyond the

2 million customer mark and earning it 50% of the Czech Republic's total mobile phone market.

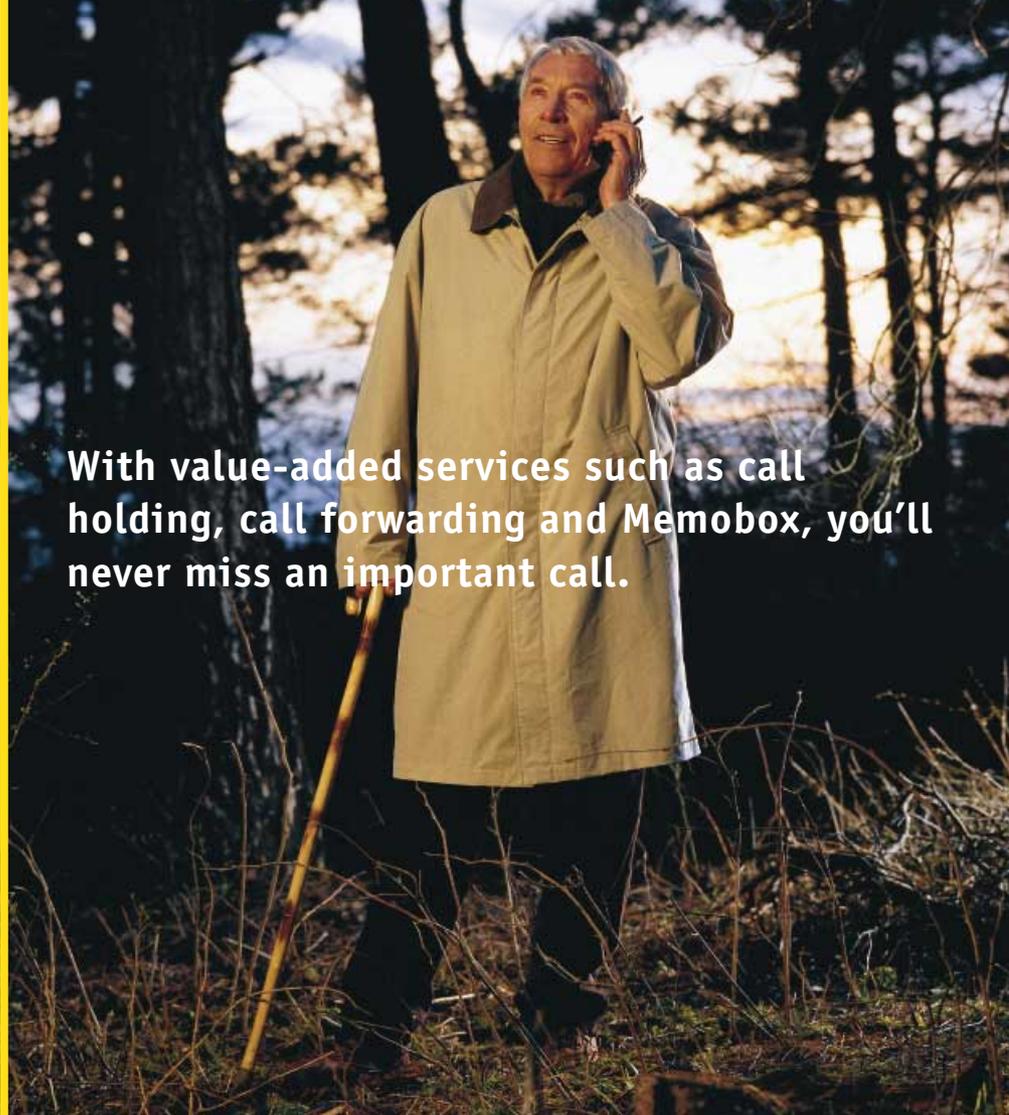
**Pioneering WAP services:** During the year, EuroTel Praha unveiled a suite of mobile Internet services under the brand name Juice. Through the Juice mobile Internet portal (wap.mobiljuice.cz), customers can tap into the latest news, entertainment events, transport schedules and business information, amongst other subjects. They can even buy goods and services, including tickets, over their phones via virtual payment card Juice Pay, thanks to a tie-up with TicketPro and Citibank – another first.

**High speed data services:** EuroTel Praha became the first mobile phone company in Central Europe to introduce HSCSD technology and GPRS, dramatically accelerating the speed at which data can be transmitted. HSCSD allows data to be sent at up to 43.2 Kbps. GPRS transfers data at up to 24 Kbps, growing potentially to 100 Kbps, and enables customers to pay for the volume or "packets" of data they transmit, not the connection time. In addition, EuroTel Praha launched a dual GSM 900 / 1800 Mhz network.

**Electronic recharging facilities for pre-paid customers:** For added convenience, our pre-paid Go mobile phone customers can now recharge their cards via the Internet or selected ATMs across the Czech Republic. Users of pre-paid services were also provided with the possibility of sending short text messages from abroad.

**More attractive prices:** Three low-cost tariff packages were created: EuroTel Relax Plus, EuroTel Optimum for Eurotel GSM customers and for the pre-paid customers Go Quatro.

Furthermore, customers of EuroTel GSM and TIP brands are now charged by the second after the first minute.



With value-added services such as call holding, call forwarding and Memobox, you'll never miss an important call.

## Investing in State-of-the-art Technology

### SUCCESSFUL ADSL PILOT OPENS POSSIBILITIES FOR PROVIDING BROADBAND SERVICES

In 2000 ADSL was successfully verified in network, giving ČESKÝ TELECOM the confidence to enter the market of broadband services using the quality of our copper-wire network. ADSL 'turns copper into gold'. More specifically, it enables very large volumes of data to be transmitted over copper wires at high speeds of up to 8 Mbitps. Once fully operational, ADSL technology will allow us to offer our customers broadband services such as video-on-demand and exceptionally fast Internet access.

### CONVERGING VOICE AND DATA VIA "NEXT GENERATION NETWORKS"

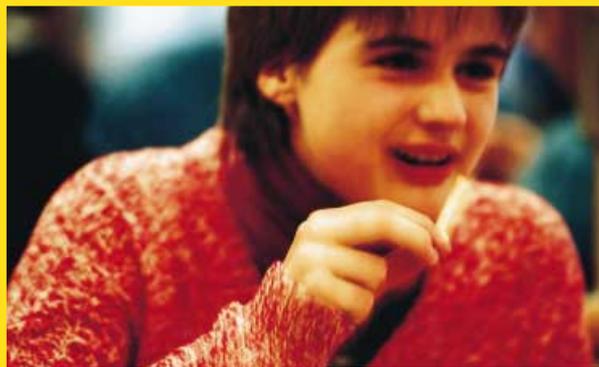
ČESKÝ TELECOM has started to lay the technological foundations for so-called 'Next Generation Networks' (NGN). This multifunctional network will enable our customers to use convergence of voice and data services including greater flexibility in usage and choice of services and their applications. In 2000, the following preparatory steps for NGN were taken:

- We started to create high-speed IP and ATM networks, using dense wavelength division multiplexing (DWDM). This will allow us to offer secure, high-quality packet-based services. Packet-based technology – as opposed to traditional switched circuit technology – is key to NGN.
- Our optic access and DWDM network was built to provide services requiring high transfer speed.
- The capacity of time division multiplexing (TDM) access technologies, using ATM technology in backbone part of network, was enormously increased.
- We piloted also point-to-point and point-to-multipoint systems, essential components for wireless applications.

### WHOLESALE – SERVICES FOR OTHER TELECOMMUNICATIONS COMPANIES

We carried out several initiatives that will help us to sell our network services more effectively to the new players expected to enter our market after it is liberalised from 1 January 2001:

- ČESKÝ TELECOM set up separate network unit, the unit of Network Services, developing and providing with specialised services intended for telecommunications companies, particularly



**Our** state-of-the-art digital network not only provides our residential customers with fast, high-quality connections but also makes their lives more convenient through value-added services such as call holding. Further technological investments will soon make video-on-demand and other broadband services a reality too.

licensed providers of public voice phone services, licensed providers of public telecommunications networks and providers of other telecommunications services. These market segments include both domestic and foreign operators operating in the Czech Republic and abroad. The services of telecommunications network interconnection, network access services and transit services are offered right to these segments. Interconnection of telecommunications networks is the key area of Network Services unit activity. Extending services based on IP protocol is being prepared at present. They are intended for mobile operators and providers of Internet access services (ISP) in particular.

- We started to develop a wholesale service based on IP protocol for Internet Service Providers (ISP). In 2000, there were 132 ISPs in the Czech Republic and seven of these offered a nation-wide service, including the largest player in the market, ČESKÝ TELECOM's INTERNET OnLine division. With our forthcoming wholesale service, ISPs will be able to rent IP network capacity from ČESKÝ TELECOM, ensuring larger flexibility in providing their services. As Internet traffic continues to grow strongly, the ISPs' demand for this type of service, for the complete outsourcing of network solutions, is expected to be high and to grow further in connection to Internet usage development in the Czech Republic.

## Creating a Competitive Corporate Culture and Structure

### GREATER CENTRALISATION BOOSTS SPEED AND EFFICIENCY

Over the last two years we have integrated many of ČESKÝ TELECOM's business processes, using SAP and other technological tools. In 2000, we took the next logical step: we dissolved our four regional business units – Northern Bohemia, Southern Bohemia, Prague and Moravia – and incorporated them in ČESKÝ TELECOM's nationwide organisational structure. This has created a more unified and efficient organisation capable of responding quickly and cost-effectively to the increasingly fluid world of telecommunications.

To improve our efficiency further, we carried out a wide range of other initiatives. These ranged from a necessary 14% reduction of our headcount to 17,322 at the end of 2000, increasing the number of lines per employee by 17% to 222. Another apparent example of increase in efficiency is the introduction of electronic timesheets via our CATS project.

### NEW BUSINESS UNIT UNDERLINES ČESKÝ TELECOM'S COMMITMENT TO E-BUSINESS

ČESKÝ TELECOM's goal is to become the number 1 or 2 player in each of the 'non-traditional markets' that it enters. A vital step in this direction was the creation of an independent business unit, called e:tel, responsible for all our Internet-related businesses. These include INTERNET OnLine division, EDINet.cz, M.I.A. - our newly acquired online advertising agency, and CenTrade, our new B2B electronic market place.

### CONCENTRATING EMPLOYEES' HEARTS AND MINDS ON CUSTOMER SERVICE

**Customer service training programmes:** To foster greater customer awareness, we ran a Client 2000 training programme for nearly 4,000 employees who come into direct contact with customers. Our Sales Channel Certification training programme, which certified the knowledge and skills required for individual sales channels, was equally important. Overall, we invested more than 117,000 man-days in training at a cost of CZK 173 million.  
**Performance-related pay:** Bonuses and other financial incentives have been introduced for certain tiers of management to motivate them to deliver higher standards of customer satisfaction.

**Recruiting higher-quality staff:** As a business with its sights set firmly on the 'knowledge economy', we recognise the need to employ high calibre individuals and we are prepared to invest

in them. This was reflected in 2000 by a 1% rise in staff costs at a time when staff numbers fell by 14% - equivalent to an 16% increase in average per capita costs. Nearly 16% of our staff are now university graduates. We are equally keen to cushion the blow of any redundancies. We do this through retraining schemes and severance packages that are in average three times over the statutory level. In addition, ČESKÝ TELECOM works closely with trade union representatives.

### NEW BUSINESS MODEL TO INTENSIFY COMPETITIVE FOCUS

We are introducing a new 'Company Business model', commonly applied in other successful international companies. Its main aims include:

- To create a customer-focused company, the strategy of which concentrates on permanent satisfying customer requirements and needs and increasing company value.
- To create a management model, which enables the company to be successful in a liberalised market.
- To create managing model, which will bring transparency into economic and microeconomic relations.
- To help us define our strategic direction and manage our finances more effectively.

This model will enable our basic business units and their supporting parts to focus on their own strengths. It will bring larger transparency into all internal relations, which will make it possible to define the strengths and weaknesses of our particular units.

The most important changes that the new model brings:

- The company is managed on the basis of its key businesses.
- The internal organisation units have been defined and divided into profit units (Profit Centre-Business Units) and cost units (Cost Centres).
- Profit units will focus on customer relations, including services, business support and other 'non-technical' activities. There will be three of these: Services telecommunications Group, Wholesale Services Group and e:tel – our new business Internet branch.
- Cost Centres provide infrastructural support and other forms of back-up to the Profit Units. These range from Network Group, ISS Group, Corporate Services Group and units of the Chief Executive Officer Group and Chief Operating Officer Group.

Each unit is responsible for the effective satisfaction of internal or external customers' needs and contribution to the company value increase.



Surf the Web on your WAP-enabled mobile with our new Juice service. On top of receiving the latest news and information, you can even buy tickets and other services via Juice.



### Number of telephone lines per employee

1996	107
1997	143
1998	171
1999	191
2000	222



Globalisation offers enormous possibilities for the Czech Republic, socially and economically. To help our customers tap into its potential, we provide a wide variety of international services for people calling from abroad and the Czech Republic.

## Contributing to the Czech Republic's Social and Economic Development

### PLAYING AN ACTIVE, SUPPORTIVE ROLE IN CZECH SOCIETY

As one of the largest corporations in the Czech Republic – an organisation that touches the lives of virtually every member of our society through our services, we recognise our responsibilities extend beyond the needs of our customers, employees and shareholders. That's why we play an active role in supporting social and cultural events in the Czech Republic. This can involve sponsorship, providing equipment or technical assistance or a combination of these.

Initiatives that ČESKÝ TELECOM supported in 2000 included:

**Culture:** ČESKÝ TELECOM was a major backer of "Prague – European City of Culture 2000". We were active also in the area of theatre and film. We sponsored over 20 drama festivals across the country, as well as the annual celebration of Czech theatre, the Thalie Awards Ceremony. Key domestic film festivals such as the International Film Festival in Karlovy Vary, Febiofest, also received continued support.  
**Sport:** Our support for the Czech ice hockey extraleague, Czech Olympic team and Czech Davis Cup tennis team underlined our commitment to teamwork, excellence and competitive values.

**Education:** Our Planet Internet project demonstrates our confidence in the power of the Net to raise educational standards. With this

scheme, schools receive a full range of Internet connections and services for around 25% less than our standard price and the price on the market. For university students we prepare "Step Ahead" project.

**Humanitarian:** ČESKÝ TELECOM continues to support the free children's Safety Line (0800 155555), run by Our Child Foundation. In June 2000, this service received its 3 millionth call, just six years after it was established. INTERNET OnLine also operates, in conjunction with the Charter 77 Foundation, the highly popular "Majaky" Web site for children, the largest of its kind in the Czech Republic. In addition, ČESKÝ TELECOM funds the Umbilical Blood Bank for children with the blood condition haematopoiesis.

### A NEW CORPORATE IDENTITY FOR A NEW CZECH COMPANY

During the year, we implemented a new corporate identity to reflect the fact that our organisation has been transformed into a more reliable, technologically advanced and customer-oriented company. We also changed our company's name from SPT TELECOM to ČESKÝ TELECOM to underline our pride in our Czech roots. The new identity is now visible on signage, vehicles, marketing materials and everywhere we have a presence. It not only communicates our values, it reinforces our image as a unified business focused on delivering outstanding customer satisfaction.



If you're out and about without a mobile phone, you can still make calls through our network of 30,180 public pay phones.

## Generating the Financial Results to Satisfy our Customers' Future Requirements

### REVENUES INCREASE BY 10% TO CZK 57.2 BILLION

A strong performance from EuroTel Praha spearheaded a 10% rise in total consolidated revenues to CZK 57.2 billion in 2000. This was underpinned by impressive increases in revenue from subscriptions and data transmission services, notably euroISDN.

Consolidation of revenues of the subsidiary EuroTel Praha resulted in additional revenue of CZK 12.1 billion, which now represents more than a 21% share of the total consolidated revenues of ČESKÝ TELECOM.

Further tariff rebalancing boosted subscription revenues of ČESKÝ TELECOM by 33% to CZK 6.9 billion. A two-fold increase in euroISDN channels and revenues, to CZK 2 billion, helped lift total ČESKÝ TELECOM revenues from data transmission and other telephony services by 30% to CZK 4.5 billion. This included a 34% rise in Internet-related revenues to CZK 223 million, highlighting the commercial potential of this rapidly developing market for businesses like ČESKÝ TELECOM, with large, well-established customer bases.

### OPERATING COSTS RISE BY 17%

Tight cost control, including a 14% reduction in staff, enabled us to restrain many costs. However the powerful growth of EuroTel Praha's customer base, coupled with steep increases in the demand for mobile phone services in the Czech Republic in general, drove some costs higher than expected. Overall this led to a 17% rise in total operating costs to CZK 30.5 billion.

Consolidated staff costs grew by only 2% to CZK 7.7 billion. Savings from a 14% reduction in ČESKÝ TELECOM staff numbers were partially offset by a 30% increase in EuroTel Praha's staff base to meet rapidly rising demand for its services.

Payments to 'other network operators' increased by 18% to CZK 8.2 billion, primarily driven by mobile phone interconnect payments to domestic operators. These payments grew by 43% to CZK 5.1 billion.

EuroTel Praha's success in doubling its customer base had a substantial impact on ČESKÝ TELECOM's operating costs. Equipment and material costs of sales, for example, increased by 87% to CZK 3.8 billion, while material consumed grew by 28% to 1.5 billion.

### EBITDA REMAINS HEALTHY AT 47%

A rise in costs in the last quarter of the year, when EuroTel Praha acquired over 50% of its new customers in 2000, resulted in an EBITDA of



### Development of staff cost

(in %)	
1996	29
1997	22
1998	(9)
1999	8
2000	2

### EBITDA as a proportion of revenue

(in %)	
1996	44
1997	46
1998	48
1999	50
2000	47

### Market capitalisation

(in CZK billions)	
1996	109
1997	120
1998	148
1999	186
2000	163

### Development of average revenues /fixed line per employee

(in CZK thousands)	
1996	1,236
1997	1,624
1998	2,051
1999	2,476
2000	3,057



**ČESKÝ TELECOM** has maintained its positive credit rating, underlining the company's success and financial stability.

CZK 26.7 billion and an EBITDA margin of 47%, compared to 50% the previous year.

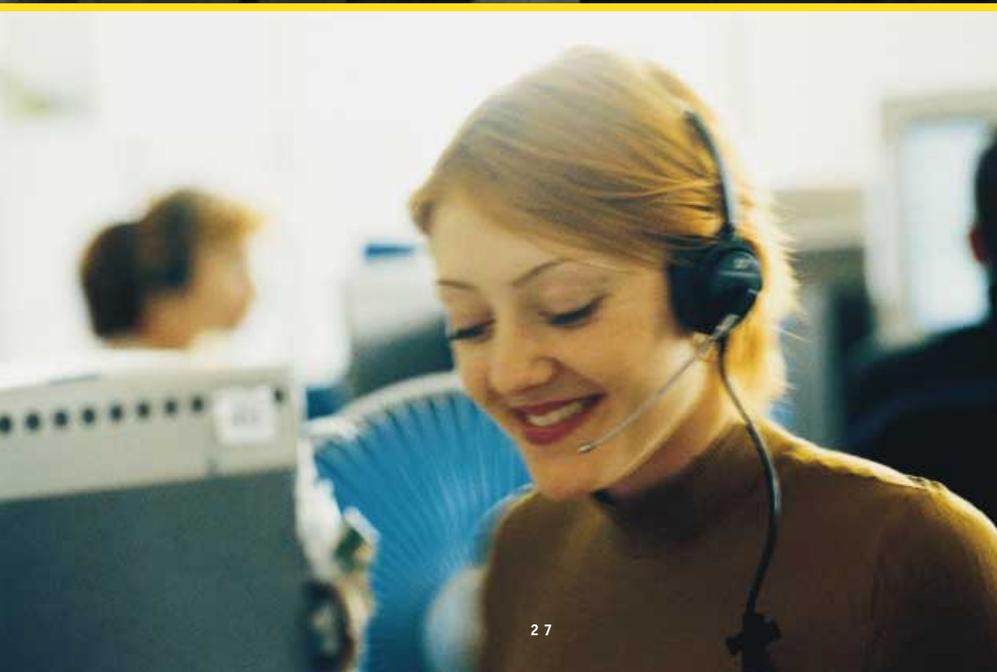
Depreciation grew by 9% to CZK 14.6 billion, reducing EBIT to CZK 12.1 billion. Profit before tax increased by 8% to CZK 9.1 billion, due to a reduction in interest payments and a small net currency profit. Profit after tax reached CZK 6.4 billion, a 3% rise on the previous year.

#### CAPITAL EXPENDITURES SLOW DOWN AND THEIR STRUCTURE CHANGES

In 2000 net cash invested, excluding purchase of and proceeds from the sale of marketable securities reached CZK 16.9 billion, a 7% less compared to the previous year. A significant decrease of investments into long-term assets, apparent since 1999, and the direction of costs towards modern technologies influence also the dynamics of depreciation development.

#### STABLE RATING

Factors such as the quality of our results, low debts and the sufficiency of finances are reflected in ČESKÝ TELECOM's stable positive rating. Net gearing, represented by the quotient of net debt and total equity, was reduced from 29% in 1999 to 25% at the end of 2000.





Ivan Pilný



André Frans Bessel Kok



Přemysl Klíma

## Board of Directors

(as of April 1, 2001)

### IVAN PILNÝ (\*1944)

*Chairman of the Board of Directors*

He graduated from the Electrical and Technical Faculty at the Czech University of Technology specialising in computers. From 1992 to 1998 he was a Director General of the Czech branch of Microsoft's Czech subsidiary, one of its most successful operations world-wide. He co-founded the Association of Information and Communications Companies called "SPIS" later becoming its President. Since June 2000 he has been the Chairman of the Board of Directors of ČESKÝ TELECOM.  
B. I. N.: 440706/013  
P. A.: Za Pohořelcem 696/6,  
169 00 Praha 6

### ANDRÉ FRANS BESSEL KOK (\*1941)

*First Vice-Chairman of the Board of Directors*

Studied Economics at the University of Amsterdam. In 1973 he co-founded S.W.I.F.T. (Society for Worldwide Interbank Financial Telecommunication). In 1990 he was appointed by the Belgian Government as Chief Executive Officer of BELGACOM, which he exercised until 1995. From May 1995 till the end of 1997, he held the position of the President of TelSource (a joint company of PTT Telecom Netherlands and Swiss Telecom), the Strategic Partner of ČESKÝ TELECOM (formerly SPT TELECOM). He was a member of the Board of Directors of TelSource until June 1998. Since 1995 he has been Chief Executive Officer of TelSource. Now he is the Chief Operating Officer of ČESKÝ TELECOM.  
Date of Birth: 13. 12. 1941  
P. A.: Avenue Hamoir 17a,  
1180 Brussels, Belgium

### PŘEMYSL KLÍMA (\*1943)

*Second Vice-Chairman of the Board of Directors*

Graduated from the Faculty of Natural History at Charles University in 1965. He became a scientific assistant at the University of Chemical Technologies in Prague. Between 1972 and 1991 he worked in the Research Institute of Media Technology as a co-ordinator of state research, later becoming Director of the Wide band networks division. In 1991 he has founded DATTEL company and became its Chairman of the Board of Directors and the CEO. He joined ČESKÝ TELECOM (formerly SPT TELECOM) on 1 March 1999 and from 15 July 1999 he has held the position of CEO.  
B. I. N.: 431119/071  
P. A.: Hněvkovského 10,  
140 00 Praha 4



Marcela Gürlichová

**MARCELA GŮRLICHOVÁ (\*1941)**

*Member of the Board of Directors*

In 1967 she completed her university degree at the University of Transport, division operation and economics of communications. In 1975 she completed her studies at the University of Economics in Prague. From 1975 to 1991 she worked in the technical development of Assembly Communications Company. Between 1991 and 1992 she worked at the Federal Ministry of Communications, from 1993 to January 1995 at the Ministry of Economics, between February 1995 and August 1996 in ČESKÝ TELECOM (formerly SPT TELECOM) and from September 1996 to August 1998 at the Ministry of Transport and Communications of the Czech Republic – Czech Telecommunications Office. Currently she is the Deputy Minister of Transport and Communications of the Czech Republic for division of Post Services, Telecommunications and Information Systems.

B. I. N.: 416117/074

P. A.: Bítovská 1218/24, 140 00 Praha 4



Miloslav Hejnák

**MILOSLAV HEJNÁK (\*1957)**

*Member of the Board of Directors*

A graduate of University of Economics in Prague, he graduated in 1980. From 1980 until 1993 he worked as a scientist, later as a Senior scientist in the Institute of Economics of the Czech Academy of Science in Prague. He dealt with issues of international benchmarking and after internal studies he defended a dissertation and obtained the degree CSc (PhD). Since 1998 he has held the position of the Deputy Minister of Finance of the Czech Republic, which includes managing the Section of Banking, Insurance, Methodology and Price Regulation.

B. I. N.: 570205/0409

P. A.: Slezská 119, 130 00 Praha 3



Jan Juchelka

**JAN JUCHELKA (\*1971)**

*Member of the Board of Directors*

He graduated from the Silesian University in Karviná, Business and Enterprise Faculty in 1995. In June 1995 he joined the National Property Fund of the Czech Republic (hereinafter NPF CR) as a broker and independent officer for the Securities Department. Since September 1996 to March 1999 he was the head of the Securities Department. In November 1999 he was elected the member of the executive committee and head of the ownership shares by the presidium of the NPF CR. In April 2000 he became the Vice-Chairman of the executive committee of the NPF CR. He has remained in this position until today. In the course of holding the position in the NPF CR he became a member of the Supervisory Board of Sokolovská uhelná, of Severočeská energetika, of Komerční banka and member of the Board of Directors of ČESKÝ TELECOM.

B. I. N.: 710919/5148

P. A.: Jižní 1339, 290 01 Poděbrady, okr. Nymburk

B. I. N. = Birth Identification Number  
P. A. = Permanent Address



Jiří Němec



Lorne Rupert Somerville



Robert Jan Terwiel

**JIŘÍ NĚMEC (\*1946)**

*Member of the Board of Directors*

Graduated as an engineer from the Electrical and Technical Faculty of VUT (Technical University) in Brno in 1970, Department of Telecommunications. From 1971 he worked for the Directorate of Post Offices and Communications in Brno. From 1988 to 1990 he worked for SDK Prague (Administration of Long Distance Cable), which was later integrated into ČESKÝ TELECOM (formerly Správa pošt a telekomunikací) as "Přenosová technika o.z.". In 1991 he successfully passed the contest proceeding for the position of the Director of the newly established ČESKÝ TELECOM (formerly Správa pošt a telekomunikací) – Brno region. On 1 December 1991 he became the Director of this regional unit. With respect to the fusion of regional organisational units as of 1 January 1998 he became the Director of Morava o.z. and he remained in this position until the Morava region was abolished in 2000 in relation to the transformation of ČESKÝ TELECOM. Currently he works as senior advisor in the COO division.

In 1993 he was the Chairman of the Supervisory Board of ČESKÝ TELECOM (formerly formerly SPT TELECOM). From 1994 to 1995 he was a member of the Board of Directors of ČESKÝ TELECOM (formerly SPT TELECOM) and in 1995 he became its Chairman until the 1st regular General Meeting in August 1995. In 1999 he was elected member of the Board of Directors by the General Meeting of ČESKÝ TELECOM (formerly SPT TELECOM).

B. I. N.: 461210/450

P. A.: U Pošty 5, 625 00 Brno

**LORNE RUPERT SOMERVILLE (\*1963)**

*Member of the Board of Directors*

Holds a Master of Arts degree in Natural and Computer Sciences from Cambridge University, UK (Joint Honours) and a Master of Business Administration from I.M.D., Lausanne, Switzerland. From 1986 to 1990 he was a consultant for Pan-European Operations, A.T. Kearney Limited, London, UK. Between 1991 and 1993 Managing Director, Videolink Business Communications Limited, London UK.

From 1993 – 1994, he was Vice-President, Operations and Technology, in U.S. Narrow Networks, Inc., New York, USA. From 1996 to 1997 he was a Principal Consultant, Value Management Group SA, Nyon, Switzerland. Between 1997 and 1998 – Swiss Telecom PPT/Swisscom AG, Bern, Head of Strategy and Acquisitions, Swisscom International. Since November 1998 Head of Swisscom International. He is a member of the Supervisory Board of TelSource, AUCS N. V., member of the Board of Directors of SCNA.

Date of Birth: 30. 11. 1963

P. A.: Gerechtigkeitsgasse 50/52, 3011 Bern, Switzerland

**ROBERT JAN TERWIEL (\*1948)**

*Member of the Board of Directors*

He studied at the University of Delft where he graduated in Applied Physics in 1971. His first employer was a small Information Technology company in Amsterdam but after a couple of years he joined Shell in the Hague. He stayed with this company for some seventeen years of which nine were spent living and working in the UK. He held various management positions mainly in the field of Information Technology. In 1992 he joined KPN Royal Dutch Telecom (formerly PTT Telecom Netherlands) where he became a board member of the Network Services division in 1995 with responsibility for network and services development and the leased lines business line. In May 2000 he was appointed Senior Vice-President International Participations mainly in Central and Eastern Europe. He is also responsible for the International Consultancy department of KPN Royal Dutch Telecom and the office of this company in the U.S. He is the chairman of the Board of Directors of PanTel Rt. and of PAGI S.A.

Date of Birth: 25. 9. 1948

P. A.: Dennenlaan 9b, 2244 AK Wassenaar, The Netherlands

#### BOARD OF DIRECTORS FROM 1 JANUARY 2000 TO 8 JUNE 2000

KAREL ZEMAN — *Chairman – resignation 9 February 2000*  
ANDRÉ FRANS BESSEL KOK — *I. Vice-Chairman*  
PŘEMYSL KLÍMA — *II. Vice-Chairman*  
MARKÉTA GABRIELOVÁ  
MARCELA GÜRLICHOVÁ  
MILOSLAV HEJNÁK  
JAN JUCHELKA — *co-optation 8 March 2000*  
JIŘÍ NĚMEC  
MARTEN PIETERS  
LORNE RUPERT SOMERVILLE

#### BOARD OF DIRECTORS FROM 8 JUNE 2000 TO 31 DECEMBER 2000

IVAN PILNÝ — *Chairman*  
ANDRÉ FRANS BESSEL KOK — *I. Vice-Chairman*  
PŘEMYSL KLÍMA — *II. Vice-Chairman*  
MARCELA GÜRLICHOVÁ  
MILOSLAV HEJNÁK  
JAN JUCHELKA  
JIŘÍ NĚMEC  
MARTEN PIETERS  
LORNE RUPERT SOMERVILLE

#### CHANGES IN THE BOARD OF DIRECTORS SINCE 1 JANUARY 2001

MARTEN PIETERS — *resignation 16 January 2001*  
ROBERT JAN TERWIEL — *co-optation 16 January 2001*

### Supervisory Board

**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.  
B. I. N.: 510216/035  
P. A.: Vestec 225, 252 42 Jesenice u Prahy

**JOHN KLEIN BLUEMINK (\*1960)**  
*First Vice-Chairman of the Supervisory Board*  
KPN Telecom's Country Manager for the Czech Republic, including board positions in KPN Telecom's Czech ventures; President of TelSource.  
Date of Birth: 14. 2. 1960  
P. A.: Koningin Julianaweg 122, 2264 BE Leidschendam, The Netherlands

**LUBOMÍR VINDUŠKA (\*1956)**  
*Second Vice-Chairman of the Supervisory Board*  
Vice-Chairman of the Co-ordination Committee of the Trade Union of employees of ČESKÝ TELECOM; Chairman of the Co-ordination Committee of the Trade Union of ČESKÝ TELECOM's Prague employees.  
B. I. N.: 561201/0624  
P. A.: Madridská 750/26, 100 00 Praha 10

**ZDENĚK ŠÁMAL (\*1941)**  
*Member of the Supervisory Board*  
Vice-President of the Trade Union of Postal, Telecommunications and Newspaper Services, Member of the Co-ordination Committee of the Trade Union of employees of ČESKÝ TELECOM.  
B. I. N.: 410610/026  
P. A.: Vrbenského 1497/44, 170 00 Praha 7

**JIŘÍ SCHWARZER (\*1953)**  
*Member of the Supervisory Board*  
Manager of Local Operations Area Nový Jičín, ČESKÝ TELECOM.  
B. I. N.: 530515/102  
P. A.: B. Benešové 1610/11, 741 11 Nový Jičín

**PAVEL HERŠTÍK (\*1951)**  
*Member of the Supervisory Board*  
Head of the Management and Administration of Managing Documents in CEOG of ČESKÝ TELECOM.  
B. I. N.: 510130/049  
P. A.: Šimonova 1100/12, 160 00 Praha 6 – Řepy

**LOUIS JOHAN LAMPE (\*1941)***Member of the Supervisory Board*

General Manager of TelSource N. V., Prague

Branch; board member of the Netherlands-Czech Trade Association in Prague.

Date of Birth: 7. 11. 1941

P. A.: Margharethastraat 18,

ZW 2011 PM Haarlem, The Netherlands

**GÜNTER HEINZ PFEIFFER (\*1958)***Member of the Supervisory Board*

Head of Participation Management &amp; Controlling at Swisscom Ltd.

Date of Birth: 1. 8. 1958

P. A.: Seestrass 176, 3654 Gunten, Switzerland

**VLADIMÍR MĚŠŤAN (\*1953)***Member of the Supervisory Board*

Director of Control of the Ministry of Transport and Communications of the Czech Republic.

B. I. N.: 530919/358

P. A.: Betáňská 783/18, 140 00 Praha 4

**MILOSLAV KRCH (\*1958)***Member of the Supervisory Board*

Director of Operations Area Prague, ČESKÝ TELECOM.

B. I. N.: 581009/0946

P. A.: Velišská 1344, 258 01 Vlašim

**ZDENĚK HRUBÝ (\*1956)***Member of the Supervisory Board*

Active in the Institute of Economic Studies of the Faculty of Social Studies of Charles University in Prague.

B. I. N.: 560809/0411

P. A.: Dr. Zikmunda Wintra 768/20,

160 00 Praha 6

**ZDENĚK ŠVRČEK (\*1956)***Member of the Supervisory Board*

Member of the House of Representatives of the Parliament of the Czech Republic: Vice-Chairman of the Committee for Economics.

B. I. N.: 560318/1727

P. A.: Karlovice 380, district of Bruntál

**LUBOŠ VANĚK (\*1964)***Member of the Supervisory Board*

Manager of the Secretariat of the First Vice-Chairman of the Executive Committee of the National Property Fund of the Czech Republic.

B. I. N.: 640325/2658

P. A.: U Židovského hřbitova 1047/18, 104 00 Praha 10 – Uhřetěves

**VÁCLAV WAGNER (\*1936)***Member of the Supervisory Board*

Deputy Director of the Price Policy of the Ministry of Finance of the Czech Republic.

B. I. N.: 360203/017

P. A.: Keplerova 215/14, 118 00 Praha 1

**JIRÍ HAVEL (\*1957)***Member of the Supervisory Board*

Chairman of the Executive Committee of the National Property Fund of the Czech Republic; Chairman of the Control Committee of the Czech Economic Association; member of EIPA (European Insolvency Practitioners Association); member of the Supervisory Boards of Komerční banka and Unipetrol.

B. I. N.: 570820/0113

P. A.: Na Balkáně 2118/130, 130 00 Praha 3

**SUPERVISORY BOARD FROM 1 JANUARY 2000 TO 8 JUNE 2000**

MICHAL TOŠOVSKÝ

— *Chairman*

JOHN KLEIN BLUEMINK

— *First Vice-Chairman*

RADOMÍR ŠENKÝŘ

— *Second Vice-Chairman*

KAREL BŘEZINA

— *resignation 30 March 2000*

PAVEL HERŠTÍK

MIROSLAV KRISTLÍK

LOUIS JOHAN LAMPE

LARS LOSINGER

VLADIMÍR MĚŠŤAN

JAROSLAV SKALA

ZDENĚK ŠVRČEK

LUBOŠ VANĚK

LUBOMÍR VINDUŠKA

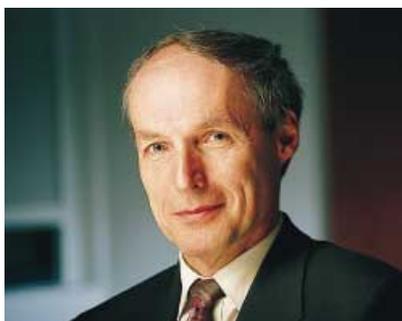
JAROSLAV VRÁNA

VÁCLAV WAGNER

#### CHANGES IN THE SUPERVISORY BOARD FROM 8 JUNE 2000 TO 31 DECEMBER 2000

MIROSLAV KRISTLÍK	— resignation 8 June 2000
JAROSLAV SKALA	— resignation 8 June 2000
RADOMÍR ŠENKÝŘ	— resignation 8 June 2000
MICHAL TOŠOVSKÝ	— dismissed and re-elected at General Meeting on 8 June 2000
LUBOŠ VANĚK	— dismissed and re-elected at General Meeting on 8 June 2000
JAROSLAV VRÁNA	— dismissed on 8 June 2000
VÁCLAV WAGNER	— dismissed and re-elected at General Meeting on 8 June 2000
VLADIMÍR MĚŠŤAN	— dismissed and re-elected at General Meeting on 8 June 2000
ZDENĚK ŠVRČEK	— dismissed and re-elected at General Meeting on 8 June 2000
LOUIS JOHAN LAMPE	— dismissed and re-elected at General Meeting on 8 June 2000
JOHN KLEIN BLUEMINK	— dismissed and re-elected at General Meeting on 8 June 2000
LARS LOSINGER	— dismissed and re-elected at General Meeting on 8 June 2000
JIŘÍ HAVEL	— elected at General Meeting on 8 June 2000
ZDENĚK HRUBÝ	— elected at General Meeting on 8 June 2000
PAVEL HERŠTÍK	— resignation 8 June 2000 and elected by employees on 8 June 2000
MILOSLAV KRCH	— elected by employees on 8 June 2000
ZDENĚK ŠÁMAL	— elected by employees on 8 June 2000
JAN SCHWARZER	— elected by employees on 8 June 2000
LUBOMÍR VINDUŠKA	— resignation 8 June 2000 and elected by employees on 8 June 2000
LARS LOSINGER	— resignation 7 December 2000
GÜNTER HEINZ PFEIFFER	— co-optation 7 December 2000

The members of the Supervisory Board has remained the same since 1 January 2001



### Supervisory Board Report

In 2000 the Supervisory Board of ČESKÝ TELECOM, in agreement with the Articles of Association 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, Articles of Association, principles and policies approved at the General Meeting.

The Supervisory Board monitored on an ongoing basis the activities of ČESKÝ TELECOM and key decisions carried out by the Board of Directors and management, and addressed the initiatives of its members. All materials and information necessary for performance of its activities were provided to the Supervisory Board by the Board of Directors and management.

During its meeting on 28 March, 2001, the Supervisory Board reviewed the audited annual financial statements for 2000 (before consolidation and after consolidation), based on international and Czech accounting standards, and recommended it to the General Meeting for approval. The Supervisory Board reviewed also the Control Agreements concluded with the affiliates where ČESKÝ TELECOM owns 100% share of the basic capital, and on the basis of which there was established a contractual holding. The Supervisory Board did not find any reasons that would inhibit from their conclusion. At its meeting held on April 26, 2001 the Supervisory Board reviewed the Board of Directors' proposal for the distribution of profit of the Company for 2000 and did not raise any comments upon it.

Prague, 26 April 2001

A handwritten signature in dark ink, appearing to read 'Tošovský'.

Michal Tošovský  
Chairman of the Supervisory Board



Přemysl Klíma



André Frans Bessel Kok



Petr Slováček



James S. Hubley



Urs Kamber

## Operating Committee

**PŘEMYSL KLÍMA (1943)**

*President & Chief Executive Officer*

– see Board of Directors

**ANDRÉ FRANS BESSEL KOK (1941)**

*Chief Operating Officer*

– see Board of Directors

**PETR SLOVÁČEK (1959)**

*Executive Vice-President Networks Group (NSG)*

He graduated in 1983 from the ČVÚT (Czech University of Technology) in the field of telecommunications and started to work for the Research Institute of Telecommunications in Prague. In 1997 he completed postgraduate studies MBT at Technical University in Delft, Netherlands. In 1989 he joined ČESKÝ TELECOM (formerly Správa pošt a telekomunikací Praha), he participated in a project called Digital Overlay Network and bore responsibility for the National Competition Centre for Alcatel Digital Exchange. From 1996 he conducted the project of network operation and maintenance, since 1997 he has been responsible for the network operation. In 1998 he was responsible for an extensive program dealing with operational support systems. Since September 1999 he has held the position of the Vice-President and has been responsible for development, planning and network operation, including wholesale services and network interconnection.

**JAMES S. HUBLEY (1945)**

*Executive Vice-President Telecommunications Services Group (TSG)*

He is a graduate of the Uppsala College (where he majored in mathematics and physics) and the Seaton Hall University (where he obtained an MBA in Marketing and Operations Research). Prior to taking the above-mentioned position with ČESKÝ TELECOM (formerly SPT TELECOM), he served as Vice-President for New Business Development with AT&T in New Jersey, U.S.A. (1994 - 1995) and President & CEO of AT&T Jens Inc., Tokyo, Japan (1985 - 1994). Since 12 December 1998 he has been representative of AT&T Communications Services, s.r.o.

**URS KAMBER (1952)**

*Executive Vice-President Finance & Administration Group (CSG)*

He obtained a degree of a Certified Public Accountant in Zurich, Switzerland. Between 1985 and 1988 he was first a divisional Chief Financial Officer and later the Head of an internal controlling unit with Ascom, Switzerland. Between 1989 and 1993 he served as President and Chief Executive Officer of Ascom, U.S.A. He is presently also the Chairman of F.S.KAMBER AG and a member of the Board of Directors of BERBERAT AG and LASERSHOT AG.

Changes in Operating Committee from 1 January 2001:

James S. Hubley – resignation 31 March 2001

George J. Jankovic – elected on 1 April 2001

## Governing Bodies of the Company

**GENERAL MEETING**  
**SUPERVISORY BOARD**  
**BOARD OF DIRECTORS**  
**OPERATING COMMITTEE**

Chief Executive Officer  
Chief Operating Officer  
Executive Vice President Networks Group  
Executive Vice President Telecommunications Services Group  
Executive Vice President Finance & Administration 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 Articles of Association. The Board of Directors meets at least once a month.

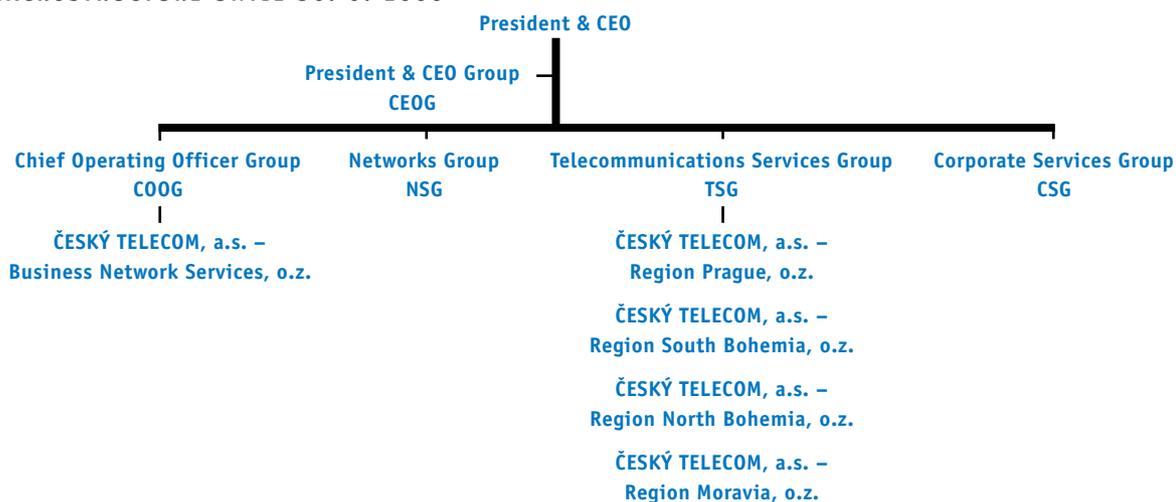
**OPERATING COMMITTEE**  
The Operating Committee is an executive managing body of the company and is established by the Board of Directors. The Operating Committee manages the business activities and day-to-day operations of the Company in accordance with the business plan and development program. The 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.

### GOVERNING BODIES OF THE COMPANY

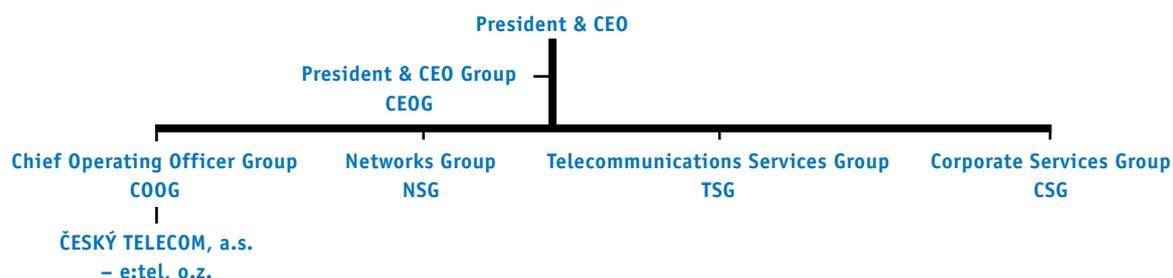


## Organisational Macrostructure of the Company in 2000

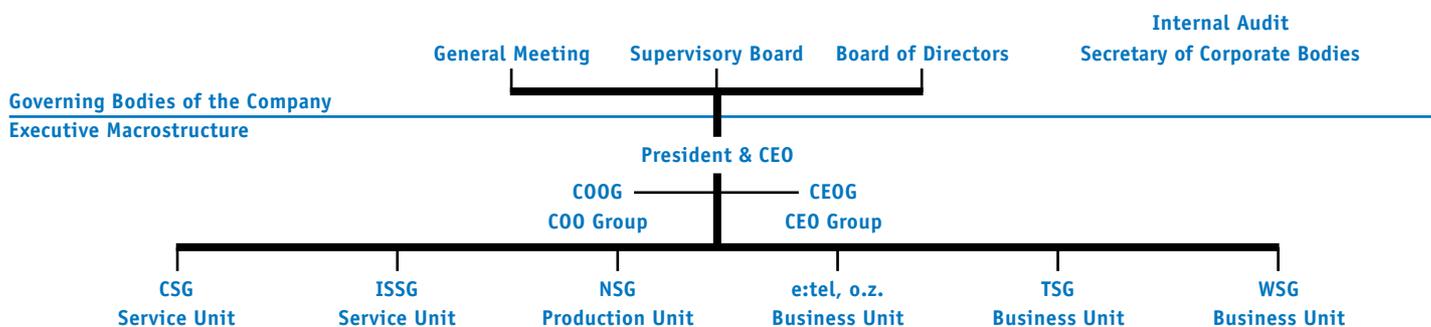
### EXECUTIVE MACROSTRUCTURE UNTIL 30. 6. 2000



### EXECUTIVE MACROSTRUCTURE UNTIL 31. 12. 2000



### PLANNED TARGET MACROSTRUCTURE AS OF 30. 6. 2001



ČESKÝ TELECOM, a.s., holding company includes the following companies:

EDINet.cz, spol. s r.o., M.I.A., a.s., OMNICOM Praha, spol. s r.o., EuroTel Praha, spol. s r.o., Vianet, spol. s r.o., SPT TELECOM (Czech Republic), Finance B. V., AUGUSTUS spol. s r.o.

Note: ISSG – Information Support Systems Group  
WSG – Wholesale Services Group

**ČESKÝ TELECOM, a. s.**

**CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2000**

**Prepared in accordance with international accounting standards**

### Contents

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## General information

On January 1, 2000 the business name of the Company was changed to ČESKÝ TELECOM, a.s. and the trademark "ČESKÝ TELECOM" was adopted.

ČESKÝ TELECOM, a.s. (the "Group") consists of ČESKÝ TELECOM, a.s. (the "Company") and its subsidiaries, SPT TELECOM (Czech Republic) Finance B.V., EDINet.cz, s.r.o., M.I.A., a.s. and OMNICOM Praha, spol. s r.o. and the proportionally consolidated joint venture, EuroTel Praha, spol. s r.o. ("EuroTel"). The Company is the principal supplier of telecommunication services in the Czech Republic and EuroTel Praha, spol. s r.o. is one of three suppliers of mobile telephone services in the Czech Republic. Other subsidiaries provide internet and data network services.

The average number of employees in the group was 19,319 in 2000 (1999: 21,653).

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 and London Stock Exchange.

## REPORT OF INDEPENDENT AUDITORS

### TO THE SHAREHOLDERS OF ČESKÝ TELECOM, a.s.

We have audited the accompanying consolidated balance sheet of ČESKÝ TELECOM, a.s. as at 31 December 2000, and the related consolidated statements of income, changes in equity 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 as to 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 audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of ČESKÝ TELECOM, a.s. as at 31 December 2000, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Accounting Standards.

21 March 2001

*PricewaterhouseCoopers*

PricewaterhouseCoopers Audit, s.r.o.

## Consolidated income statement

(in CZK millions)	Notes	Year ended 31 December	
		2000	1999
Revenue	2	57,224	51,902
Operating expenses	3	(45,153)	(39,579)
<i>Operating profit</i>		12,071	12,323
Contributed services	4	(634)	(544)
Finance costs	5	(2,323)	(3,337)
<i>Profit before tax</i>		9,114	8,442
Tax	6	(2,758)	(2,271)
<i>Net profit</i>		6,356	6,171
<i>Earnings per share (CZK) – basic</i>	7	20	19

## Consolidated balance sheet

(in CZK millions)	Notes	Dec 31, 2000	Dec 31, 1999
<b>ASSETS</b>			
Property, plant and equipment	8	129,005	129,775
Intangible assets	9	9,336	4,718
Marketable securities	13	3,184	121
<i>Non-current assets</i>		141,525	134,614
Inventories	11	1,804	2,226
Receivables and prepayments	12	9,480	9,294
Marketable securities	13	5,834	2,225
Cash and cash equivalents	14	1,734	7,127
<i>Current assets</i>		18,852	20,872
<i>Total assets</i>		160,377	155,486
<b>EQUITY AND LIABILITIES</b>			
Ordinary shares	23	32,209	32,209
Share premium	23	30,816	30,798
Retained earnings	23	40,782	34,471
<i>Share capital and reserves</i>		103,807	97,478
Borrowings	16	29,629	35,086
Deferred taxes	17	10,046	8,284
<i>Non-current liabilities</i>		39,675	43,370
Borrowings	16	3,481	2,380
Trade and other payables	15	13,260	11,781
Provisions for liabilities and charges	19	154	477
<i>Current liabilities</i>		16,895	14,638
<i>Total liabilities</i>		56,570	58,008
<i>Total equity and liabilities</i>		160,377	155,486

These financial statements were approved by the Board of Directors on 21 March 2001 and were signed on its behalf by:



**IVAN PILNÝ**  
Chairman  
the Board of Directors



**PŘEMYSL KLÍMA**  
President & CEO



**URS KAMBER**  
Executive Vice President  
Corporate Services Group

## Consolidated statement of changes in shareholders' equity

	Share capital	Share premium	Retained earnings	Total
Balance at 1 January 1999	32,209	30,768	28,308	91,285
Net gains/(losses) not recognised in income statement	—	30	(8)	22
Net profit	—	—	6,171	6,171
<i>Balance at 31 December 1999</i>	<i>32,209</i>	<i>30,798</i>	<i>34,471</i>	<i>97,478</i>
Balance at 1 January 2000	32,209	30,798	34,471	97,478
Net gains/(losses) not recognised in income statement	—	18	(45)	(27)
Net profit	—	—	6,356	6,356
<i>Balance at 31 December 2000</i>	<i>32,209</i>	<i>30,816</i>	<i>40,782</i>	<i>103,807</i>

## Consolidated cash flow statement

	Notes	Year ended 31 December	
		2000	1999
<b>Cash flow from operating activities</b>			
Cash generated from operations	24	26,175	26,990
Interest paid		(2,690)	(3,023)
Tax paid		(986)	(1,785)
<i>Net cash from operating activities</i>		<i>22,499</i>	<i>22,182</i>
<b>Investing activities</b>			
Purchase of property, plant and equipment		(12,438)	(15,118)
Purchase of intangible fixed assets		(4,950)	(3,439)
Purchase of marketable securities		(11,998)	—
Disposal of tangible fixed assets		119	28
Proceeds from marketable securities		5,223	4,241
Interest received		342	413
<i>Net cash used in investing activities</i>		<i>(23,702)</i>	<i>(13,875)</i>
<b>Financing activities</b>			
Proceeds from borrowings		1,300	1,000
Repayment of borrowings		(5,667)	(2,695)
<i>Net cash (used in)/ financing activities</i>		<i>(4,367)</i>	<i>(1,695)</i>
<i>Net increase/(decrease) in cash and cash equivalents</i>		<i>(5,570)</i>	<i>6,612</i>
Cash and cash equivalents at beginning of year		7,114	127
Effects of exchange rate changes		132	375
<i>Cash and cash equivalents at end of year</i>	14	<i>1,676</i>	<i>7,114</i>

## ACCOUNTING POLICIES

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## Accounting Policies

### A) BASIS OF PREPARATION

The consolidated financial statements of the Group for the year ended 31 December 2000 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) GROUP ACCOUNTING

#### 1) 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.

#### 2) Joint venture

The Group's interest in jointly controlled entity is accounted for by proportionate consolidation. 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 transactions and balances have been eliminated. Further details about the joint venture are shown in Note 10.

#### 3) Foreign currencies

Foreign currency transactions in Group companies are accounted for at the daily 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.

### C) PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment is initially recorded at cost and is stated at historical cost less depreciation.

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the 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.

Repairs and maintenance are expensed as 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 net operating income.

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.

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)	2000	1999
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

Land is not depreciated as it is deemed to have an indefinite life.

### D) INTANGIBLE ASSETS

Intangible assets in the Group include computer software and purchased goodwill. Computer software represents mainly the external costs incurred in connection with development and acquisition of the information systems which are 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 no longer than 15 years.

#### **E) 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 penalty is recognised as an expense in the period in which termination takes place.

#### **F) INVENTORIES**

Inventory is stated at the lower of cost or net realisable value. The cost of inventory is determined using weighted average cost. 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.

#### **G) TRADE RECEIVABLES**

Trade receivables 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.

#### **H) 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 borrowings in current liabilities.

#### **I) MARKETABLE SECURITIES**

Marketable securities 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.

#### **J) BORROWINGS**

Borrowings are recognised initially at the proceeds received, net of transaction costs incurred. In subsequent periods, borrowings are stated at amortised cost using the effective yield method; any difference between proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings.

#### **K) DEFERRED INCOME TAXES**

Taxation expense represents both current and deferred taxation where appropriate. Deferred income 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 provisions.

#### **L) EMPLOYEE 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.

#### **M) 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.

## financial part

### N) REVENUE RECOGNITION

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

In respect of mobile segment the equipment revenue from sale to dealers is recognised at the time of sale. EuroTel 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. EuroTel recognises such differences in the financial statements, at the time the equipment is sold to the end user.

### O) FINANCIAL INSTRUMENTS

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

The Group uses derivative financial instruments to reduce its exposure to fluctuations in foreign currency exchange and interest rates and thus its financial risk. These instruments are not generally recognised in the primary financial statements. See Note 20.

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. Gains and losses are recognised in the income statement on the same basis as the corresponding expense or income on the settled liability or asset.

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 income or expense over the period of the agreement.

Forward rate agreements protect the Group from movements in interest rates. Gains and losses are recognised in the income statement at the same time as the underlying interest expense or income they aim to fix.

Net premiums payable on bought options contracts are 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 payments when they fall due according to the terms of the agreements.

### P) NEW ACCOUNTING DEVELOPMENTS

The Group implemented in 2000 the following International Accounting Standards:

IAS 37	Provisions, Contingent Liabilities and Contingent Assets
IAS 38	Intangible Assets
IAS 10 (revised)	Events Occurring After the Balance Sheet Date
IAS 16 (revised)	Property, Plant and Equipment
IAS 22 (revised)	Business Combinations

IAS 36 (Impairment of Assets) was early adopted in 1999.

For the consolidated financial statements for 2001, a new International Accounting Standard IAS 39 'Financial Instruments: Recognition and Measurement' will come into effect. The Standard requires all financial assets and financial liabilities to be recognised on the balance sheet, including all derivatives. The Group's financial statements will be affected by the introduction of fair value accounting for certain marketable securities and derivatives. For certain marketable securities that are remeasured to fair value the Group currently intends to recognise the changes in fair value in equity until the asset is sold. The Standard also establishes hedge accounting criteria and guidelines. The Group's activities that will be most affected by the new Standard have been identified.

Specifically, the use of derivatives to hedge its debt (both in terms of interest rate and foreign currency risk) will be affected by the Standard.

The assessment of the impact of IAS 39 on the Group's financial position as of 1 January 2001 will be reported in the 2001 consolidated financial statements as an adjustment to retained earnings at 1 January 2001, with no restatement of previously reported amounts for the year ended 31 December 2000. The estimated effect on retained earnings is CZK 548 million.

In addition, the IASC has also recently issued IAS 40 "Investment Property" also effective for financial statements covering periods beginning on or after 1 January 2001. The Group expects that IAS 40 will not have any effect on the Group's financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## financial part

### 1) SEGMENT INFORMATION

Revenue of the Group is predominantly from domestic trading activities, segmental reporting is therefore only shown on the basis of business segments. All mobile segment information is attributable to the proportionally consolidated joint venture.

(in CZK millions)			
Year ended 31 December 2000	Fixed	Mobile	Group
Revenues	45,120	14,447	59,567
Inter segment sales	(839)	(1,504)	(2,343)
<i>Total consolidated revenues</i>	<i>44,281</i>	<i>12,943</i>	<i>57,224</i>
Operating profit	9,218	2,853	12,071
Contributed services	(634)	—	(634)
Finance cost	(2,205)	(118)	(2,323)
<i>Profit before tax</i>	<i>6,379</i>	<i>2,735</i>	<i>9,114</i>
Tax	(1,816)	(942)	(2,758)
<i>Net profit</i>	<i>4,563</i>	<i>1,793</i>	<i>6,356</i>
Segment assets	144,812	15,565	160,377
Segment liabilities	(49,625)	(6,945)	(56,570)
Capital expenditure	14,464	4,100	18,564
Depreciation	12,211	1,593	13,804
Amortisation	804	17	821
Year ended 31 December 1999			
Revenues	44,011	10,144	54,155
Inter segment sales	(813)	(1,440)	(2,253)
<i>Total consolidated revenues</i>	<i>43,198</i>	<i>8,704</i>	<i>51,902</i>
Operating profit	9,577	2,746	12,323
Contributed services	(544)	—	(544)
Finance cost	(3,126)	(211)	(3,337)
<i>Profit before tax</i>	<i>5,907</i>	<i>2,535</i>	<i>8,442</i>
Tax	(1,390)	(881)	(2,271)
<i>Net profit</i>	<i>4,517</i>	<i>1,654</i>	<i>6,171</i>
Segment assets	143,845	11,641	155,486
Segment liabilities	(52,519)	(5,489)	(58,008)
Capital expenditure	17,304	2,893	20,197
Depreciation	11,691	1,119	12,810
Amortisation	553	46	599

Inter-segment sales represent sales to Group companies belonging to another segment.

The Group comprises of two main business segments:

- Fixed — telephone services using fixed telephone network provided by ČESKÝ TELECOM, a.s. and other consolidated subsidiaries
- Mobile — mobile telephone services provided by EuroTel Praha, spol. s r.o.

Capital expenditure comprises additions to property, plant and equipment and intangible fixed assets.

### 2) REVENUE

(in CZK millions)	Year ended 31 December	
	2000	1999
Call revenues	30,218	30,207
Connection charges	2,028	1,664
Subscription charges	9,515	7,701
Revenue from other network operators	6,590	5,416
Telex, data transmission and other telephony	4,476	3,453
Equipment sales and sales of materials	1,244	808
Leased circuits	1,982	1,847
Other revenues	1,171	806
	<i>57,224</i>	<i>51,902</i>

### 3) OPERATING EXPENSES

The following items have been included in arriving at operating profit:

	Year ended 31 December	
(in CZK millions)	2000	1999
Wages and salaries	5,418	5,327
Social security contributions	1,906	1,948
Staff welfare costs	397	292
<i>Total staff costs</i>	<i>7,721</i>	<i>7,567</i>
Depreciation of tangible fixed assets	13,804	12,810
Amortization of intangible fixed assets	821	599
Payments to other network operators	8,152	6,912
Equipment and material cost of sales	3,753	2,003
Repairs and maintenance	571	477
Advertising and promotion	1,634	1,105
Operating lease payments	640	615
Other operating expenses	8,057	7,491
<i>Total operating expenses</i>	<i>45,153</i>	<i>39,579</i>

### 4) CONTRIBUTED SERVICES

As part of agreement between National Property Fund and strategic investor TelSource N. V. in 1995 the Company is receiving contributed services and assets with a total value of approximately 130 million USD (CZK 3.5 billion as at the date of the agreement) free of charge over a period of five years. The outstanding balance amount is included within receivables (see Note 12). The value of the assets or services is capitalised or charged to income as appropriate in the period in which the contributions are received.

	Year ended 31 December	
(in CZK millions)	2000	1999
Services	634	544
Assets	49	524
	<i>683</i>	<i>1,068</i>

### 5) FINANCE COSTS

	Year ended 31 December	
(in CZK millions)	2000	1999
Interest expense		
Interest incurred on loans and bonds	2,418	2,949
Other financial (income) / charges	272	205
<i>Interest expense</i>	<i>2,690</i>	<i>3,154</i>
Interest income	(342)	(413)
Net foreign exchange transaction losses/(gains)	(25)	596
<i>Net finance expenses</i>	<i>2,323</i>	<i>3,337</i>

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

### 6) TAX

	Year ended 31 December	
(in CZK millions)	2000	1999
Total income tax expense is made up of:		
Current income tax charge	992	841
Deferred income tax charge	1,766	1,430
	<i>2,758</i>	<i>2,271</i>

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)	Dec 31, 2000	Dec 31, 1999
Profit before tax	9,114	8,442
Income tax expense/(credit) calculated at the statutory rate of 31% (1999 of 35%)	2,825	2,955
Income not subjected to tax	(717)	(384)
Expenses not deductible for tax purposes	890	1,151
Fixed asset allowances	(240)	(381)
Impact of change in income tax rate on deferred tax charge	—	(1,070)
<i>Income tax expense/(credit)</i>	<i>2,758</i>	<i>2,271</i>

The effective tax rate was 30% in 2000 (1999: 27%). The main reason for the difference in effective tax rate is change of deferred tax balances 1999 due to change in income tax rate to 31% from 35%.

## financial part

### 7) EARNINGS PER SHARE

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

	Dec 31, 2000	Dec 31, 1999
Number of ordinary shares in issue	322,089,900	322,089,900
Net profit attributable to shareholders (in CZK millions)	6,356	6,171
Basic earnings per share (CZK)	20	19

### 8) PROPERTY, PLANT AND EQUIPMENT

(in CZK millions)	Land and buildings	Duct, cable and other plant	Telephone exchanges and related equipment	Other fixed assets	Capital work in progress	Total
<b>Year ended 31 December 2000</b>						
Opening net book amount	13,131	68,535	36,180	3,611	8,318	129,775
Additions	1,236	4,351	8,171	1,302	13,359	28,419
Disposals and other movements	(102)	(96)	(210)	83	(15,060)	(15,385)
Depreciation charge	(699)	(4,493)	(7,350)	(1,262)	—	(13,804)
<i>Closing net book amount</i>	<i>13,566</i>	<i>68,297</i>	<i>36,791</i>	<i>3,734</i>	<i>6,617</i>	<i>129,005</i>
<b>At 31 December 2000</b>						
Cost or valuation	16,887	93,535	70,401	9,344	6,617	196,784
Accumulated depreciation	(3,321)	(25,238)	(33,610)	(5,610)	—	(67,779)
<i>Net book amount</i>	<i>13,566</i>	<i>68,297</i>	<i>36,791</i>	<i>3,734</i>	<i>6,617</i>	<i>129,005</i>
<b>Year ended 31 December 1999</b>						
Opening net book amount	12,260	62,639	33,511	4,047	13,925	126,382
Additions	1,364	10,098	9,526	915	16,296	38,199
Disposals and other movements	(10)	(15)	(103)	35	(21,903)	(21,996)
Depreciation charge	(483)	(4,187)	(6,754)	(1,386)	—	(12,810)
<i>Closing net book amount</i>	<i>13,131</i>	<i>68,535</i>	<i>36,180</i>	<i>3,611</i>	<i>8,318</i>	<i>129,775</i>
<b>At 31 December 1999</b>						
Cost or valuation	15,778	90,125	65,692	8,449	8,318	188,362
Accumulated depreciation	(2,647)	(21,590)	(29,512)	(4,838)	—	(58,587)
<i>Net book amount</i>	<i>13,131</i>	<i>68,535</i>	<i>36,180</i>	<i>3,611</i>	<i>8,318</i>	<i>129,775</i>

Land and buildings, plant and equipment in carrying amount at CZK 7.6 billion (1999: CZK 7.7 billion) have been pledged as collateral for CZK 5.4 billion (1999: CZK 5.4 billion) of borrowings.

In connection with the adoption of IAS 37 (see Note "P" in the Accounting policies) an amount of CZK 97 million against asset impairments was reclassified from "Provisions for liabilities and charges" in the 31 December 1999 corresponding figures to fixed assets and is included in depreciation (see Note 19).

## 9) INTANGIBLE FIXED ASSETS

(in CZK millions)	Goodwill	Software	Total
<b>Year ended 31 December 2000</b>			
Opening net book amount	65	4,653	4,718
Additions	—	5,496	5,496
Disposals and other movements	—	(57)	(57)
Amortisation charge	(7)	(814)	(821)
<i>Closing net book amount</i>	<i>58</i>	<i>9,278</i>	<i>9,336</i>
<b>At 31 December 2000</b>			
Cost	92	11,393	11,485
Accumulated amortisation	(34)	(2,115)	(2,149)
<i>Net book amount</i>	<i>58</i>	<i>9,278</i>	<i>9,336</i>
<b>Year ended 31 December 1999</b>			
Opening net book amount	71	1,268	1,339
Additions	—	3,971	3,971
Disposals and other movements	—	7	7
Amortisation charge	(6)	(593)	(599)
<i>Closing net book amount</i>	<i>65</i>	<i>4,653</i>	<i>4,718</i>
<b>At 31 December 1999</b>			
Cost	92	5,988	6,080
Accumulated amortisation	(27)	(1,335)	(1,362)
<i>Net book amount</i>	<i>65</i>	<i>4,653</i>	<i>4,718</i>

## 10) INVESTMENTS

### Joint venture

EuroTel Praha, spol. s r.o. was incorporated on 21 February 1991 and is a limited liability company and is incorporated and domiciled in the Czech Republic. 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 financial results of EuroTel are included using the proportional consolidation method and are stated in accordance with the accounting policies of the Group. A summary of the Group's interest in the net assets and results as presented below and is before inter-segment transaction eliminations:

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Property, plant and equipment	12,057	9,613
Current assets	3,690	2,180
Long term liabilities	(3,818)	(3,465)
Current liabilities	(3,309)	(2,176)
<i>Net assets</i>	<i>8,620</i>	<i>6,152</i>
Revenue	14,447	10,144
Operating expenses	(10,919)	(6,771)
Income tax expense	(942)	(881)
Profit after tax	2,468	2,281

There are no contingencies relating to the Group's interest in the joint venture.

The capital commitments of EuroTel are CZK 1,992 million (1999: CZK 4,530 million).

The average number of employees in EuroTel in 2000 was 1,880 (1999: 1,445).

### Principal subsidiary undertakings

- EDINet.cz, s.r.o. is a limited liability company and is incorporated and domiciled in the Czech Republic. EDINet was incorporated on 17 March 1999. The Group's interest in EDINet is 100%.
- M.I.A., a.s. is a joint stock company and is incorporated and domiciled in the Czech Republic. M.I.A. was incorporated in 1997 and was acquired by the Group on 28 February 2000. The Group's interest in M.I.A. is 100%.
- OMNICOM Praha, spol. s r.o. is a limited liability company and is incorporated and domiciled in the Czech Republic. Omnicom was incorporated in 1992 and was acquired by the Group on 12 May 1999. The Group's interest in OMNICOM Praha, spol. s r.o. is 100%.
- SPT TELECOM (Czech Republic) Finance B.V. was incorporated on 9 April 1998 and is a limited liability company, incorporated in the Netherlands. The Group's interest in SPT TELECOM (Czech Republic) Finance B.V. is 100%.

## financial part

### 11) INVENTORIES

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Construction material	591	791
Cable	580	934
Other inventory including goods for resale	633	501
	1,804	2,226

The inventories above are stated net of provision for obsolete and slow moving stock of CZK 271 million (1999: CZK 745 million). In connection with the adoption of IAS 37 (see Note "P" in the Accounting policies) an amount of CZK 332 million for the net realisable value of inventory was reclassified from "Provision for liabilities and charges" to inventories in the corresponding figures increasing the provision from CZK 413 million as previously presented to CZK 745 million (see Note 19).

### 12) RECEIVABLES AND PREPAYMENTS

(in CZK millions)	Dec 31, 2000	31 Dec, 1999
Domestic trade receivables	6,260	5,788
Foreign currency trade receivables	292	232
Other debtors	1,653	1,699
Prepayments	594	513
Income tax receivable	211	369
VAT receivable	470	693
	9,480	9,294

Domestic trade receivables are stated net of provision for doubtful debts of CZK 2,514 million (1999: 1,929 million). Other debtors include an amount due from TelSource N.V. for contributed services of approximately CZK 23 million, which will be received during the year 2001 (31 December 1999: CZK 658 million).

The Group's historical experience in collection of accounts receivable falls within the recorded allowances. Due to these factors, management believes that no additional credit risk beyond amounts provided for collection losses are inherent in the Group's trade receivables.

### 13) MARKETABLE SECURITIES

Interest bearing marketable securities (in CZK millions)	Dec 31, 2000	Dec 31, 1999
Current marketable securities	5,834	2,225
Long-term marketable securities	3,184	121
Total marketable securities	9,018	2,346

Proceeds from maturity and disposal of marketable securities comprise:

(in CZK millions)	Year ended 31 December	
	2000	1999
Net book amount	5,223	4,255
Loss on sale	—	(14)
	5,223	4,241

### 14) CASH AND CASH EQUIVALENTS

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Cash balances	249	310
Short term bank deposits	1,485	6,817
Cash and cash equivalents	1,734	7,127

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

(in CZK millions)	31 December 2000	31 December 1999
Cash and cash equivalents	1,734	7,127
Bank overdrafts and other short-term borrowings (Note 16)	(58)	(13)
Balance at 31 December	1,676	7,114

## 15) TRADE AND OTHER PAYABLES

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Trade creditors in local currency	5,358	5,413
Trade creditors in foreign currencies	1,146	714
Other taxes and social security	323	241
Deferred income	266	83
Employee wages and benefits	370	317
Accruals and other creditors	5,797	5,013
	<b>13,260</b>	<b>11,781</b>

In connection with the adoption of IAS 37 (see Note "P" in the Accounting policies) an amount of CZK 199 million for foreign exchange losses and for social fund payments and other items was reclassified from "Provision for liabilities and charges" to trade and other payables in the corresponding figures and is included in accruals and other creditors (see Note 19).

## 16) LOANS AND OVERDRAFTS

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Bank loans and overdrafts in local currency (a)	1,347	3,097
International financial institution loans in foreign currency	2,567	2,976
Bank loans and overdrafts in foreign currency	8,970	10,797
Bonds in local currency	7,000	7,000
Bonds in foreign currency (b)	13,226	13,596
	<b>33,110</b>	<b>37,466</b>
Repayable:		
<i>Within one year</i>	3,481	2,380
Between one and two years	2,994	5,067
Between two and five years	21,192	24,085
<i>After five years</i>	5,443	5,934
Total non current	29,629	35,086
	<b>33,110</b>	<b>37,466</b>

a) Bank loans and overdrafts include overdrafts of CZK 58 million (1999: CZK 13 million).

b) In 1998 the Group issued DEM 750 million bonds which are redeemable at par in 2003 and which pay a coupon of 5.125%.

c) At 31 December 2000 the Group had available approximately CZK 21 billion of undrawn loan facilities.

d) In 2001 loans in foreign currency of total value USD 70 million and DEM 43 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, 2000	Dec 31, 1999
At fixed rate	27,343	32,850
At floating rate	5,767	4,616
<i>Total</i>	<b>33,110</b>	<b>37,466</b>

The carrying amounts and fair values of non-current fixed interest rate loans are as follows:

31 December 2000 (in CZK millions)	Carrying amounts	Fair values
Bank loans	7,117	7,741
Bonds	20,226	20,579
<i>Total</i>	<b>27,343</b>	<b>28,320</b>

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.

Average interest rates (in CZK millions)	Dec 31, 2000	Dec 31, 1999
Bank loans and overdrafts in local currency	5.95 %	8.17 %
International financial institution loans in foreign currency	6.82 %	6.82 %
Bank loans and overdrafts in foreign currency	6.12 %	5.42 %
Bonds in local currency	11.30 %	11.38 %
Bonds in foreign currency	5.125%	5.125%

## financial part

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

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Land and buildings	1,555	1,536
Plant and equipment	6,032	6,215
<i>Total</i>	<i>7,587</i>	<i>7,751</i>

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, bank IPB, a.s. and the Company. During 2000 Company asked the Ministry of Finance of the Czech Republic and IPB, a.s. to reduce the pledge in accordance with repayment of loans but the procedure was not completed at the balance sheet date.

Land and buildings, plant and equipment with carrying value of CZK 7.6 billion (1999: CZK 7.7 billion) have been pledged as collateral for CZK 5.4 billion (1999: CZK 5.4 billion) of borrowings.

### 17) DEFERRED INCOME TAXES

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
At 1 January	8,284	6,847
Additional provisions charged to income statement	1,762	1,437
<i>At 31 December</i>	<i>10,046</i>	<i>8,284</i>

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Deferred tax assets	(549)	(473)
Deferred tax liabilities	10,595	8,757
	<i>10,046</i>	<i>8,284</i>

The deferred tax asset includes CZK 380 million recoverable after more than twelve months and deferred tax liability includes CZK 10,595 million recoverable after more than twelve months.

The amounts shown in the balance sheet include the following:

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Difference in carrying amounts of tangible and intangible assets	10,595	8,757
Provisions and other items	(549)	(473)
	<i>10,046</i>	<i>8,284</i>

### 18) GOVERNMENT SOCIAL SECURITY AND PENSION SCHEMES

The Company is legally required to make contributions to Government health, retirement benefit and unemployment schemes. During 2000 and 1999 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 1,783 million (1999: CZK 1,973 million). Employees contribute 12.5% (1999: 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 80.9 million (1999: CZK 77.1 million). There is a further plan under which the Company will make lump sum payments to employees who retire prior to 2015. Payments during the year related to early retirement, which are accounted for on a cash basis, amounted to CZK 3.8 million (1999: CZK 5.6 million).

### 19) PROVISIONS FOR LIABILITIES AND CHARGES

(in CZK millions)	Restructuring provision
At 31 December 1999	477
Additional provisions	154
Unused amounts reversed	—
<i>Charged to income statement</i>	<i>154</i>
Utilised during year	(477)
<i>At 31 December 2000</i>	<i>154</i>

Provisions as previously presented in the financial statements for the year ended 31 December 1999 amounted CZK 906 million, which included CZK 97 million for asset impairments resulting from network reconfiguration, a CZK 332 million provision for net realisable value of inventory arising from logistical restructuring, and CZK 477 million redundancy costs on restructuring. In connection with the adoption of IAS 37 (see Note "P" in the Accounting policies), the impairment losses and net realisable value of inventory have been reclassified in the corresponding figures to fixed assets (Note 8) and inventory (Note 11) respectively. The remaining value of CZK 477 million for redundancy provisions on restructuring was fully utilised during the year ended 31 December 2000. The balance at 31 December 2000 was created for further redundancy costs on restructuring. Other provisions as previously presented in the financial statements for the year ended 31 December 1999 amounted to CZK 199 million included CZK 90 million for foreign exchange losses and CZK 109 million for social fund payments and other items. In connection with the adoption of IAS 37 (see Note "P" in the Accounting policies), these amounts have been reclassified to "Accruals and other creditors" (Note 15).

## 20) FINANCIAL INSTRUMENTS

### Objectives and significant terms and conditions

The Group has entered into a number of derivative financial instrument contracts in order to reduce its 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 relate to transactions entered into to reduce foreign exchange and interest rate risk on the Group's underlying exposure. Transactions specifically prohibited include 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 structures involving bought and sold 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 are:

31 December 2000 (in CZK millions)	Less than one year	One to five years	Total
Interest rate swaps	507	295	802
Cross currency interest rate swaps	477	—	477
Structures involving currency options	—	2,648	2,648
Forward foreign exchange contracts	5,608	325	5,933
Zero coupon swaps	—	6,271	6,271
Forward rate agreements	937	968	1,905
	7,529	10,507	18,036

31 December 1999 (in CZK millions)	Less than one year	One to five years	Total
Interest rate swaps	3,447	1,065	4,512
Cross currency interest rate swaps	647	462	1,109
Structures involving 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
Interest rate options	188	—	188
	9,840	10,987	20,827

Notional amounts are calculated at the year end exchange rates.

The notional amount of certain types of financial instruments do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Group's exposure to credit or price risks. The derivative instruments have a positive or negative fair value as a result of fluctuation in market interest rates of foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments as at the Balance Sheet date, the extent to which instruments are favourable or unfavourable and, thus the aggregate fair values of derivative financial assets and liabilities can fluctuate significantly from time to time. The fair values of derivative instruments as at the Balance Sheet date during the year are set out in the following table.

### 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)	Dec 31, 2000	Dec 31, 1999
Interest rate swaps	6	4
Cross currency interest rate swaps	—	—
Structures involving currency options	—	292
Forward foreign exchange contracts	197	361
Zero coupon swaps	10	—
Forward rate agreements	—	3
	213	660

Contracts with negative fair value (in CZK millions)	Dec 31, 2000	Dec 31, 1999
Interest rate swaps	9	63
Cross currency interest rate swaps	29	213
Structures involving currency options	175	9
Forward foreign exchange contracts	258	322
Zero coupon swaps	336	299
Forward rate agreements	6	11
	813	917

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

## financial part

### Credit Risk

Concentrations of credit risk with respect to trade receivables are limited due to the Group's large number of customers, who are internationally dispersed, cover the spectrum of manufacturing and distribution and have a variety of end markets in which they sell. Derivative instruments are entered into with and cash is placed with reputable financial institutions. The credit exposure for 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, marketable securities, trade receivables and payables, short term borrowings and long term borrowings with floating interest rate. Fair values of non-current fixed interest rate loans are disclosed in the Note 16.

### 21) CONTINGENCIES

Interconnection agreements with a number of other telephony operators have lapsed and are currently subject to renegotiation. The Company has applied the ruling interconnection rates that it expects will be agreed in calculating revenue and expenses. If agreement is not reached, the Czech Telecommunication Office ("CTU") will act as an arbitrator. In the event that interconnection tariffs are agreed at rates other than that expected by the Company or interconnection tariffs are subject to arbitration by the CTU, a payment to or receipt from other operators may arise. The effect such payment would be recognised in the period it becomes probable and any revenue would be recognised when virtually certain.

### 22) COMMITMENTS

#### Operating leases

The Company has no significant operating lease commitments.

#### Capital commitments

(in CZK millions)	Dec 31, 2000	Dec 31, 1999
Capital expenditure contracted but not provided for in the financial statements	3,644	5,370
Capital commitments not contracted	5,000	—

The majority of contracted amounts relate to the telecommunications network.

The portion of the contracted capital commitments of the Company is CZK 2,628 million (1999: CZK 3,073 million). The remainder relating to EuroTel is set out in Note 10.

#### Capital commitments not contracted

Based on the new Telecommunication Act the Company has an obligation to start to provide number portability at latest from 1 January 2003 and carrier selection at latest from 1 July 2002. According to management's assessment, implementation of these services will require additional investment of CZK 5.0 billion of which CZK 3.7 billion need to be invested in 2001. Management expects that in compliance with the existing Telecommunication Act these costs will be recovered from a "Fund of Universal Service".

### 23) SHARE CAPITAL AND RESERVES

Authorised and issued fully paid share capital	Dec 31, 2000	Dec 31, 1999
Nominal value per ordinary share (in CZK)	100	100
Number of ordinary shares	322,089,900	322,089,900
Ordinary shares (in CZK million)	32,209	32,209

At 31 December 2000 shareholdings in the Company were as follows:

National Property Fund	51.1%
TelSource N.V.	27.0%
KPN Royal Dutch Telecom	6.5%
Other shareholders	15.4%

TelSource N.V. is owned jointly by KPN Royal Dutch Telecom and Swisscom together with AT&T which has a non-financial interest. TelSource N.V. and KPN Royal Dutch Telecom control together 33.5%.

The rights of shareholders are subject to an agreement between the parties.

Retained earnings include a statutory reserve fund of CZK 5,220 million that is not distributable under ruling legislation.

## 24) CASH GENERATED FROM OPERATIONS

	Year ended 31 December	
(in CZK millions)	2000	1999
Profit before taxation	9,114	8,442
Adjustments for:		
Depreciation and amortization	14,625	13,409
Disposals of obsolete assets	470	97
Profit on fixed asset sales	(46)	(20)
Net interest and other charges	2,347	2,887
Foreign exchange losses/(gains)	(77)	449
Contributed services	634	544
(Decrease)/increase in provisions	(316)	(845)
<i>Operating cash flow before working capital changes</i>	<i>26,751</i>	<i>24,963</i>
Increase in trade and other receivables	(971)	(678)
Decrease in inventories	157	87
Increase in trade and other creditors	238	2,618
<i>Cash generated from operations</i>	<i>26,175</i>	<i>26,990</i>

## 25) RELATED PARTY TRANSACTIONS

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

Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices.

The following transactions were carried out with related parties:

### a) Sales

#### Sales of services

	Year ended 31 December	
(in CZK millions)	2000	1999
EuroTel	1,605	1,594
Swisscom	63	85
KPN Royal Dutch Telecom	71	79
TelSource N.V.	4	7
	<i>1,743</i>	<i>1,765</i>

### b) Purchases

#### Purchased services

	Year ended 31 December	
(in CZK millions)	2000	1999
EuroTel	2,950	2,824
Swisscom	51	40
KPN Royal Dutch Telecom	63	61
TelSource N.V.	21	—
	<i>3,085</i>	<i>2,925</i>

For information relating to contributed services provided by TelSource N.V. see Note 4.

### c) Outstanding balances

The Company has outstanding payable balance to EuroTel in amount of CZK 212 million as at 31 December 2000 (31 December 1999: CZK 278 million). The net receivable balance from TelSource N.V. as at 31 December 2000 was CZK 22 million (31 December 1999: CZK 647 million).

## 26) POST BALANCE SHEET EVENTS

New tariffs for domestic telecommunication services effective from 1 January 2001 were approved in price assessment 01/2001 of the Czech Telecommunication Office. Previously used pulse-based tariffs will be replaced by time-based billing.

### Information on the security issuer

Additional information for Investors in accordance with the Act on Accounting, No. 563/1991 Coll., as subsequently amended, and the Securities Act, No. 591/1992 Coll., as subsequently amended.

#### A. BASIC INFORMATION ON THE ISSUER

Business Name:	ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM)
Registered office:	Olšanská 55/5 130 34 Praha 3 The Czech republic
Identification no.:	60193336
Date of establishment:	16. 12. 1993
Date of registration:	1. 1. 1994
Duration:	The company has been established for an indefinite period
Legal form:	Joint stock company
Established in accordance with:	Section 171 (1) and Section 172 (2),(3) of the Commercial Code, No. 513/91 Coll.
Registration court:	Municipal Court in Prague
Number of registration:	Section B, Enclosure 2322
Subject of business activity:	Articles of the Association as amended by changes approved by the regular General Meeting of the Company held on 8.6.2000 – Article 3

#### B. REGISTERED CAPITAL DATA

##### Holding Structure:

Domestic companies	ČESKÝ TELECOM's interest
AUGUSTUS spol. s r.o.	39.76%
EDINet.cz, spol. s r.o.	100%
EuroTel Praha, spol. s r.o.	51%
M.I.A., a.s.	100%
OMNICOM Praha, spol. s r.o.	100%
Vianet, spol. s r.o.	100%
International company	
SPT TELECOM (Czech Republic) Finance B.V.	100%

##### Changes in the Registered Capital during last 3 years:

The 10 for 1 share split of ČESKÝ TELECOM's shares with a nominal value of CZK 1,000 into shares with a nominal value of CZK 100 became effective as of 1 June, 1998. The trading on the Prague Stock Exchange started on 3 June, 1998. The total value of company's shares, and any individual portfolio, remained the same. The ISIN changed from CZ000905852 to CZ0009093209.

The application for a listing on the London Stock Exchange ("LSE") of Global Depository Receipts ("GDRs") has been approved by the LSE Listing Committee and the GDRs commenced trading on 3 June, 1998. Each GDR represents one share and can be issued or cancelled at any time depending on demand. No new capital was raised and no dilution for existing shareholders resulted from the programme.

##### Shareholders of ČESKÝ TELECOM:

The National Property Fund of The Czech Republic	51.1%
TelSource N.V.	27.0%
KPN Royal Dutch Telecom <sup>1)</sup>	6.5%
Investment Funds and individual shareholders	15.4%

<sup>1)</sup> At the end of 1998 KPN Dutch Telecom upped its interest in ČESKÝ TELECOM with an additional 6.5%. KPN Dutch Telecom, jointly with the consortium TelSource (owned by KPN Royal Dutch Telecom (51%) and Swisscom (49%)), controls 33.5% share in ČESKÝ TELECOM.

#### C. SECURITIES DATA

##### C.1 SHARES

The registered capital of the Company shall amount to CZK 32,208,990,000. The registered capital of the Company shall be represented by:  
a) 235,125,640 bearer common shares with a nominal value of CZK 100 per share, ISIN CZ 0009093209.

The shares are listed on the main market of Prague Stock Exchange and on London Stock Exchange in the form of GDRs. The depository for GDRs is the Bank of New York with its registered office at 101 Barclay Street, New York 10286, and the Custodian is Komerční banka, a.s., with its registered office at Na Příkopě 33, 11 407 Praha 1, the Czech Republic.

Total number of 49,667,200 of these shares are publicly tradeable and this represents 15.4% of company's registered capital,

- b) 86,964,250 registered common shares with a nominal value of CZK 100 per share, and
- c) 1 registered share connected with special rights pertaining thereto with a nominal value of CZK 1,000 according to Section 10a(4)(b) of Act No. 92/1991 Coll., on conditions of transfer of state property to the other persons, as amended.

All shares of the Company have been issued in booked form and fully paid.

No transfer of registered shares shall be valid unless the prior consent of the Board of Directors is given. The Board of Directors shall be obliged to decide within three months of the day of delivery of written application to the registered office of the Company. The Board of Directors shall be obliged to withhold its consent to the transfer of registered shares in case of the share connected with special rights.

The rights and obligations arising from a share of ČESKÝ TELECOM:

- The rights and obligations of a shareholder shall be set forth by the legal regulations and by the Articles of Association. A shareholder of the Company may be either a Czech or a foreign national, a legal entity or a natural person.
- A shareholder shall be entitled to attend the General Meeting, to vote at it, to ask for and receive explanations of matters concerning the Company which are subject to negotiation at the General Meeting and to submit proposals and counter-proposals.
- A shareholder shall be entitled to a proportion of the Company profits (a dividend), assigned for distribution by the General Meeting on the basis of the Company's financial results. This proportion shall be determined by the ratio between the nominal value of shareholder's shares and the nominal value of shares of all shareholders. A shareholder shall not be bound to refund to the Company any dividend accepted in good faith.
- A shareholder shall not be authorized to request the return of his/her investment during the term of the Company even in the event that it has been wound up.
- After winding up of the Company, the shareholders shall have the right to a share in the liquidation balance. This proportion shall be determined in the same manner as in par.(3) and it shall be proceeded with in accordance with Section 220 of the Commercial Code.

A full wording of the Terms and conditions of the Shares Issue, from which only important information was selected, is available at registered office of the Issuer.

## C.2 BONDS

ISIN:	CZ 0003500787
The aggregate nominal amount of the Bonds:	CZK 7,000,000,000
Nominal value:	CZK 10,000
Coupon:	The Bonds bear interest from, and including, 6. 2. 1997 at the rate of 11.3 per cent. per annum. Interest shall be payable annually in arrears on 6. 2. of each year .
Form:	Bearer
Type:	Certified
Issue date:	6. 2. 1997
Maturity	6. 2. 2004
Issuer's option of premature Redemption date:	6. 2. 2002 for 100.75% of the nominal value 6. 2. 2003 for 100.50% of the nominal value

Status of the Bonds:

The Bonds constitute unsubordinated, unconditional and (except for the condition of negative obligation) unsecured obligations of the Issuer which (a) rank pari passu among themselves and (b) will at all times rank at least pari passu with all other present and future unsecured, unsubordinated and unconditional obligations of the Issuer, save for those whose preferred status ensues from mandatory provisions of applicable law.

Prescription periods:

Claims from the Bonds shall become void within ten (10) years of the due date for redemption of the Bonds.

Issue Administrator:

Česká spořitelna, a.s. the Administrator's office shall be Olbrachtova 1929/62, 140 00 Praha 4. The places of payment of the Administrator shall be regional offices of the Administrator in Prague and District offices of the Administrator in the Czech Republic.

Meetings of Bondholders may be convened in accordance with the provisions of the Administrator Agreement and Terms and Conditions of the Bonds Issue by the Issuer or the Bondholders to consider matters affecting their interests, including any changes to these Conditions permitted by applicable law.

## financial part

The issue of the Bonds and the tradeability of the Bonds in the public securities markets in the Czech Republic have been approved pursuant to Acts No. 530/1990. Coll., the Bonds Act, as amended, and No. 591/1992 Coll., the Securities Act, as amended, by the Ruling of the Ministry of Finance of the Czech Republic dated January 9, 1997, Reg. No. 103/84 975/1996. The Bonds are governed by, and shall be construed in accordance with, the laws of the Czech Republic. Any disputes arising out of or in connection with these Conditions shall be submitted for final resolution to the Arbitration Tribunal attached to the Economic Chamber of the Czech Republic and the Agrarian Chamber of the Czech Republic in accordance with the effective rules of the Chamber.

Bonds are listed on the main market the Prague Stock Exchange.

A full wording of the Terms and conditions of the Bonds Issue, from which only important information was selected, is available at the registered office of the Issuer and Administrator Agreement is available at Administrator's office.

### C.3

In May 1998 the 100% owned subsidiary of ČESKÝ TELECOM SPT TELECOM (Czech Republic) Finance B.V. (Issuer) issued a DEM 750,000,000 five-year Eurobonds carrying coupon of 5.125%. These Bonds are unconditionally and irrevocably guaranteed by ČESKÝ TELECOM. There was signed the loan agreement between SPT TELECOM (Czech Republic) Finance B.V. and ČESKÝ TELECOM amounting DEM 746,000,000.

### D. DATA ABOUT THE ACTIVITY

ČESKÝ TELECOM is the owner, establisher and operator of a predominant part of the Uniform Telecommunications System ("UTS") in the Czech Republic. Until December 31, 2000, it was the exclusive establisher and operator of the international and long distance telephony service in the Czech Republic. In addition, ČESKÝ TELECOM is the provider of a number of non-exclusive telecommunications services in the area of local fixed line telephony, public data services and installation and lease of telecommunications circuits in the Czech Republic. Through a joint venture with Atlantic West B.V. (under the business name EuroTel Praha, spol. s r.o.), ČESKÝ TELECOM participates also in the installation and operation of the 450 MHz public analogue wireless telephone network (NMT) and a 900 MHz and 1800 MHz public digital wireless telephone network (GSM).

ČESKÝ TELECOM owns the real estate used mostly for ensuring business activity for which the Company is authorised according to the applicable law.

License Agreements for use of software products with ORACLE, UNIX and AMDOCS have substantial importance for the Company's business activity.

The Company is not the party in and/or the party to any litigation, administrative or arbitration proceedings. No such proceedings affect financial situation of the Issuer.

#### Development of Revenues during last 3 years (in CZK millions):

Revenues <sup>1)</sup>	1998	1999	2000
Call revenues <sup>2)</sup>	27,936	30,207	30,218
Revenues from Other Network Operators	4,518	5,416	6,590
Subscription charges	5,631	7,701	9,515
Connection charges	1,921	1,664	2,028
Equipment sales and sales of materials	1,290	808	1,244
Leased circuits	1,670	1,847	1,982
Data transmission and other telephony <sup>3)</sup>	2,462	3,453	4,476
Other revenues	465	806	1,171
Total	45,893	51,902	57,224

<sup>1)</sup> Vast majority of them are domestic

<sup>2)</sup> excl. ISDN call revenues

<sup>3)</sup> ISDN, Internet, DNS, Telex, data transmission and other telephony

#### Overview of Investment during last 3 years (in CZK millions):

	1998	1999	2000
Cash used in investing activities			
Cash purchase of property, plant and equipment	(32,812)	(15,118)	(12,438)
Cash purchase of intangible fixed asstets	(1,091)	(3,439)	(4,950)
Cash purchase of marketable securities	(9,227)	0	(11,998)
Proceeds from sale of tangible fixed asstes	34	28	119
Proceeds from marketable securities	8,228	4,241	5,223
Interest received	637	413	342
Net cash used in investing activities	(34,231)	(13,875)	(23,702)

Rem: Marketable securities consist of bonds and T-bills.

## E. DATA ABOUT ISSUER'S ASSETS AND FINANCIAL SITUATION

### Changes in own equity capital during last 3 years (in CZK millions):

	1998	1999	2000
Ordinary shares	32,209	32,209	32,209
Share premium	30,768	30,798	30,816
Retained earnings	28,308	34,471	40,782
Share capital and reserves	91,285	97,478	103,807

### Entities with revenues of at least 10% of the consolidated annual net profit:

Business Name:	EuroTel Praha, spol. s r.o.
Registered office:	Sokolovská 885/225 190 00 Praha 9 The Czech Republic
Subject of business activity:	The installation and operation of the 450 MHz public analogue wireless telephone network in the Czech Republic (NMT) and a 900 MHz and 1800 MHz public digital wireless telephone network (GSM).
Capital share in CZK:	CZK 617,610,000. It is fully paid.
Capital share in %:	51%
Share in revenues:	see Annex to the consolidated financial statements in accordance with IAS, Note No. 1 - Segment Information

## F. STATUTORY AND SUPERVISORY BODIES OF THE ISSUER

All financial and non-financial incomes and royalties received last year by the Statutory bodies, their members and Supervisory Board members and Directors from the Issuer and from the companies controlled by the Issuer:

### Amount of company incomes accounted (bonuses, non-financial income, royalties, income from labour law relations):

Board of Directors <sup>1)</sup>	CZK 27,386,171
Supervisory Board	CZK 9,108,000
Management <sup>2)</sup>	CZK 6,387,496

There were no relevant businesses, loans and guarantees or other financial relations between the Issuer and the Statutory bodies and Supervisory Board and their members and Directors.

### Number of company shares in the ownership of members of the Board of Directors and Supervisory Board and Directors of the company.

Board of Directors <sup>2)</sup>	2,720 shares
Supervisory Board	150 shares
Management <sup>3)</sup>	0 shares

<sup>1)</sup> this includes personnel expenses of members of Board of Directors who are also members of Management (these expenses are not included in revenues of the management bodies)

<sup>2)</sup> this includes number of shares of members of Board of Directors who are also members of Management (these shares are not included in number of shares of the management bodies)

<sup>3)</sup> Operating Committee members and other managers appointed by the Board of Directors

Employees can participate in own equity capital of the Issuer only as shareholders, i.e. owners of shares, and they are obliged to follow the valid Code of Dealing with securities by Obligated Persons in ČESKÝ TELECOM.

Rem: All financials included in this part of Annual Report were prepared under International accounting standards, consolidated, audited.

## G. DATA ABOUT PERSONS RESPONSIBLE FOR ANNUAL REPORT AND AUDITED FINANCIAL STATEMENT

We declare that the information presented in the annual report is factual and no material circumstances that could influence the precise and correct evaluation of the security issuer were omitted.

ČESKÝ TELECOM, a.s.

Board of Directors



Ivan Pilný

Chairman of the Board of Directors



Přemysl Klíma

President & Chief Executive Officer

Auditor: Jitka Žaloudková, B.I.N.: 685724/1490, PricewaterhouseCoopers Audit, s.r.o. Kateřinská 40/466, 120 00 Praha 2, ID No. 40765521, Licence No. 021

### Report of the Board of Directors on Company Business Activity and Property Status (Part of the Annual Report for 2000 pursuant to Section 192, par. 2, of the Commercial Code)

#### BUSINESS ACTIVITIES

The business activity of ČESKÝ TELECOM in 2000 was focused on strengthening the leading position of the company in the Czech telecommunications market and creation of preconditions for its long-term competitiveness and prosperity. The company systematically focused on the implementation of the newest technologies, expanding of the portfolio of services and development of business activities in other than voice areas of the telecommunications business (data services, Internet, e-commerce). Important implemented and prepared changes in the organisational structure and design of processes of ČESKÝ TELECOM were an inseparable part of the development in 2000. Their primary goal is to increase the efficiency, expand the skills to meet customer needs and achieve a synergic effect.

ČESKÝ TELECOM paid significant attention to the fulfilment of obligations resulting from the new Telecommunications Law and actively supported creation of conditions for functioning liberalised market.

In 2000 technological basis for the new generation of services continued to be built - 86% of all lines were connected to digital exchanges in comparison with 77% in 1999. ČESKÝ TELECOM successfully tested the ADSL technology which will enable to offer faster and more comprehensive broadband services through the existing telephone network (including major acceleration of Internet access, content provision etc.) The intelligent network platform will enable to provide customers with an integrated services of up-to-date standard.

In 2000 the number of operated main telephone lines was in total 3,854,000. The small net increment, in comparison with the status in 1999, is a result of several factors, mainly the relatively high degree of satisfaction of applications for telephone line installation, as well as decreased demand for telephone lines due to the trend of partial substitution of the traditional voice service via fixed lines by mobile communication. Last but not least, it was the last aftermath of the Czech economy stagnation which resulted in reduced purchase activity of business and residential customers and also influenced the small increase in the number of operated main telephone lines.

In 2000 ČESKÝ TELECOM paid high attention to strengthening and improving the sales network. There was a significant increase in the staff number in Call Centres and the first telephone centre based on the web interface in the Czech Republic was founded for IOL customers. ČESKÝ TELECOM pays increased attention to the improvement of customer care and therefore in 2000 it ensured training in the area of customer orientation for approximately 4,000 employees within the Client 2000 programme.

ČESKÝ TELECOM offered in 2000 a broad spectrum of services:

- in the area of traditional voice telephony customers were offered mainly favourable prices, but also e.g. detailed call correspondence. The Xcall service using the IP protocol became very popular. The demand for Memobox voicemail service experienced a large growth (in 2000 the number of installed Memoboxes quadrupled up to almost 500 thousand) and the popularity of the so-called Green lines increased as well; their number grew by 60% to 1,704;
- in the area of Internet QUICK, the portal, met with a large response from customers. This portal allows unlimited free Internet access. ČESKÝ TELECOM offered its customers the WAP access to its web sites as the first provider of Internet services. An online telephone centre was established for the Internet users;
- in the area of data the demand for euroISDN service recorded a steep increase (in comparison with 1999 by 114%, also other data services, including ATM and International Frame Relay, received a good response from customers;
- the offer of services to other providers recorded large expansion both towards new telecommunications operators and suppliers of Internet services /ISP/.

EuroTel Praha, a subsidiary, increased the number of its customers in 2000 in comparison with the previous year to double (2,171,000). Its business success was supported by new advanced services as e.g. WAP service spectrum provided under the brand name Juice, charging the prepaid cards via Internet or through selected ATMs and new attractive services. EuroTel Praha confirmed its technological edge by implementing high-speed data services based on HSCSD and GPRS technologies.

#### CONSOLIDATED FINANCIAL RESULTS AND PROPERTY STATUS OF ČESKÝ TELECOM IN 2000 (ACCORDING TO IAS)

ČESKÝ TELECOM managed to maintain the EBITDA margin at a good level (47%). In the area of revenues the highest dynamics is recorded in mobile telephony. Its expansion, however, caused also growth of related costs of EuroTel Praha, a subsidiary. The parent company, ČESKÝ TELECOM managed to keep its operating costs under control in 2000.

Good results of ČESKÝ TELECOM were reflected in maintaining high credit rating in the evaluations by Standard & Poor's and Moody's which is a clear signal of continuous financial stability of ČESKÝ TELECOM.

The asset structure of the company did not change in 2000 with respect to the major shareholders.

In 2000 ČESKÝ TELECOM created a consolidated net profit in the amount of approx. 6.4 billion CZK, which means as increase by 3% in comparison with 1999. The consolidated profit before tax grew annually by 8% to 9.1 billion CZK and the decreased cost interest and small net exchange rate gains could be regarded as the reasons.

In 2000 the share price of ČESKÝ TELECOM reflected the pessimistic opinions of the investors about technological titles. The share price development was driven by the negative development of the Nasdaq technological index which was caused by long-term problems of unfulfilled profitability of the dot.com companies as well as financial exhaustion of a number of telecommunications companies in UMTS licence tenders. This viewpoint of the market, which to a various extent affected all telecommunications titles, had its impact also on the development of the share price of ČESKÝ TELECOM in 2000 and thus also on the amount of the shareholders' value (163.4 billion CZK as of 31 December 2000, in comparison with approx. 186 billion CZK as of 1998). This happened in spite of the consistently very good corporate performance and financial results.

## REVENUE OVERVIEW

The total consolidated revenues of ČESKÝ TELECOM achieved in 2000 the amount of 57.2 billion CZK, which represents a 10% increase over the previous financial period.

Revenues of EuroTel Praha together with the revenues from monthly fees and revenues from the data transmission and other telephony services, especially revenues from euroISDN, have most significantly contributed to the total growth.

Consolidation of revenues of the subsidiary EuroTel Praha resulted in additional revenue of CZK 12.1 billion, a 53% growth in comparison to last year. This amount represents more than a 21% share of the total consolidated revenues of ČESKÝ TELECOM.

Revenues from monthly fees of ČESKÝ TELECOM meant an annual growth by 33% and were up to 6.9 billion CZK, which reflects the results of the effort invested in the area of tariff re-balancing in 1999.

Revenues from data transmission and other telephony services of ČESKÝ TELECOM grew by 30% up to 4.5 billion CZK. EuroISDN services were the main challenging force for the growth in this area. The number of euroISDN channels grew by 114% up to 122,000. Revenues then grew by 109% up to 2 billion CZK.

In 2000 there also was a significant development of Internet services. The total revenues from the Internet grew by 34% up to 223 million CZK.

## OVERVIEW OF COSTS

In 2000 the total operating costs were up to 30.5 billion CZK, which represents an annual growth by 17%. The consolidated expenses were to a great extent influenced by a permanent emphasis put on the control of costs, while the development of the mobile market of telecommunications in the Czech Republic led to a higher increase of some categories of costs than it had been expected (as a result of double increment of the number of customers of EuroTel Praha). The contribution of these increased costs will be reflected in 2001 in a positive way.

The consolidated costs per employee annually increased only by 2% up to 7.7% billion CZK, which is a decent result, highlighted by the staff downsizing in ČESKÝ TELECOM by 14% down to 17,322 employees, whereas the number of employees of EuroTel Praha increased annually by 30%. As a consequence the efficiency indicator improved. This indicator achieved 222 fixed telephone lines per employee, which is an annual increase by 17%.

Payments to operators of other networks grew annually by 18% and achieved the amount of 8.2 billion CZK. Within these the payments for domestic interconnect prevailed. As a result of the unprecedented boom in the mobile telecommunications the consolidated payments to the domestic operators grew by 5.1 billion CZK, which means an annual growth by 43%.

By getting new customers in the last quarter of the year, the successes of EuroTel Praha had a much larger impact upon the consolidated costs of ČESKÝ TELECOM in 2000 in comparison with the previous periods of that year. It resulted in the growth of costs of material and goods sold by 87% up to 3.8 billion CZK, and the material consumed grew by 28% up to 1.5 billion CZK.

## FINANCIAL RESULTS BEFORE EBITDA, NET PROFIT

With respect to the seasonal growth of costs in the last quarter of the year, the financial results before EBITDA were 26.7 billion CZK. In comparison with the last year the EBITDA share in the total revenues for 2000 declined down to 47% from 50% reached last year.

Depreciations annually grew by 9% and are 14.6 billion CZK in 2000, which caused a decline in the consolidated operating financial results before interest and tax down to 12.1 billion CZK. The profit before tax grew annually by 8% up to 9.1 billion CZK, which may be ascribed to the decline of cost interests and small net exchange rate gains. Profit after tax was 6.4 billion CZK, which is by 3% more than in the previous year.

## STATUS OF THE CORPORATE PROPERTY (IAS BASED)

Assets of the company in 2000 increased from 155,486 million CZK up to 160,377 million CZK. On the side of liabilities there was a decline in the volume of payables of the company, which may be documented by the ratio of interest credits to equity that declined from 38% down to 32%, whereas the ratio of net interest credits to equity declined from 29% down to 25%. The equity (equity capital) of the company increased from 97,478 million CZK up to 103,807 million CZK, mainly thanks to the inventories growth.

ČESKÝ TELECOM is one of the most significant companies in the Czech capital market thanks to its market capitalisation and business volume. The company's shares are traded also at the London Stock Exchange in the GDR form. The rating of ČESKÝ TELECOM is permanently one of the highest which the Czech firms may get from the prestigious international rating agencies. Unlike other telecommunications companies, ČESKÝ TELECOM managed to maintain a high credit rating, thanks to its financial stability.

THE FINANCIAL STATEMENTS OF THE COMPANY WERE EXTERNALLY AUDITED IN DETAIL BY PRICEWATERHOUSECOOPERS. AS IT HAS BEEN SO FAR, THE STATEMENT OF THE AUDITOR IS AGAIN "NO OBJECTIONS".

ČESKÝ TELECOM won a prize in the Paegas Signum Temporis survey run for the sixth year. This prize was granted to ČESKÝ TELECOM for the most information-open company in the domestic capital market last year. In this category experts assessed companies within the major and minor Prague Stock Exchange, at which the obligation to provide information is the strictest. The assessment included public voting of approximately one thousand specialists and the media representatives as well as expert commission.

## SHAREHOLDER INFORMATION

### General Meeting of Shareholders

The annual General Meeting of Shareholders will take place on June 15, 2001 at the Žofín Cultural and Social Centre in Prague.

### Date of earnings announcements

Half year results 2001: end of July 2001  
Third quarter results 2001: end of October 2001  
Full year results 2001: preliminary results – February 2002  
Audited results – end of March 2002  
First quarter 2002: end of April 2002

### Investor relations

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### Share price

At the end of 2000 ČESKÝ TELECOM share closed trading at CZK 507,2 per share, which was a decrease of 12% compared to the last business day of 1999.

