

# Real solutions



for everyday life



Annual Report 2002



## Mission

We are the **largest** provider of **telecommunications services** on the Czech market and are among the **leading** telecommunications companies **in Central Europe**. Our long-term experience, coupled with our **fully digitalised telephone network** and use of modern technologies, enable us to provide both our domestic and international customers with **comprehensive** and **affordable high-quality services**. We are a significant employer, and we place great emphasis on ensuring that our employees are satisfied, loyal and competent. We face **strong competition** in almost all segments of our business. **To succeed**, we focus on continuously developing new services and technologies, **customer relations**, and our system of **customer care**. Using this philosophy, we want to achieve our **long-term business goals** and increase company value, in order to be an **attractive investment** for our **current and future shareholders**.

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## Financial and operational highlights

Financial data are based on audited consolidated financial statements prepared in accordance with International Financial Reporting Standards. All figures, unless otherwise indicated, are in CZK millions as at 31 December of each year.

Financials	2002	2001	2000	1999	1998
Revenues	52,856	55,900	57,224	51,902	45,893
EBITDA - Earnings before finance costs, tax, depreciation and amortisation	26,150	27,155	26,696	25,732	22,209
EBIT- Earnings before finance costs and tax	7,088	10,115	12,071	12,323	11,358
EBT- Earnings before tax	6,110	8,771	9,114	8,442	9,197
Net income	4,276	6,072	6,356	6,171	6,060
Total assets	156,351	159,097	160,377	155,486	146,811
Fixed assets	131,210	140,822	141,525	134,614	127,743
Equity	111,272	107,023	103,807	97,478	91,285
Loans	22,027	27,003	33,110	37,466	39,170
Investment expenditures <sup>1)</sup>	9,657	17,016	16,927	18,116	33,232
Operations					
Number of telephone lines installed (x1000)	3,661	3,842	3,854	3,839	3,734
- of which ISDN channels (x1000)	389	261	122	57	17
Fixed-line penetration per population (in %)	36	37	37	37	36
Digitalisation (in %)	100	95	86	77	64
Internet - Number of IOL and Quick customers (x1000) <sup>2)</sup>	702	481	185	45	22
Number of ČESKÝ TELECOM employees	13,717	15,194	17,322	20,115	21,815
Lines per ČESKÝ TELECOM employee	267	253	222	191	171
Number of Eurotel customers (x1000)	3,891	3,238	2,171	1,070	588
Number of Eurotel employees	2,447	2,420	2,121	1,627	1,259
Ratios (in %)					
EBITDA/Revenues (EBITDA margin)	49	49	47	50	48
Net income/Revenues	8	11	11	12	13
Investment expenditure/Revenues	18	30	30	35	72
ROA (Net income/Total assets)	3	4	4	4	4
ROE (Net income/Equity)	4	6	6	6	7
Gross gearing (Interest-bearing debt/Equity)	20	25	32	38	43
Macroeconomic indicators <sup>3)</sup>					
Population (in millions)	10.2	10.3	10.3	10.3	10.3
GDP (in %) <sup>4)</sup>	2.0	3.1	3.3	0.5	(1.0)
Inflation (in %)	1.8	4.7	3.9	2.1	10.7
Unemployment (in %)	9.8	8.9	8.8	9.4	7.5
Exchange rate CZK/USD – average during the period	32.7	38.0	38.6	34.6	32.3
Exchange rate CZK/USD	30.1	36.3	37.8	36.0	29.9
Exchange rate CZK/EUR – average during the period	30.8	34.1	35.6	36.9	-
Exchange rate CZK/EUR	31.6	32.0	35.1	36.1	-

<sup>1)</sup> Cash flows from investing activities, with the exception of proceeds from marketable securities and purchase of marketable securities

<sup>2)</sup> Paid (IOL) and free (Quick) Internet access

<sup>3)</sup> Source: Czech Statistical Office, Czech Ministry of Finance, Czech National Bank

<sup>4)</sup> In 1995 fixed prices; the 2002 figure is an estimate



## Letter from the Chairman of the Board of Directors to shareholders

Dear Shareholders,

ČESKÝ TELECOM's overall financial results for 2002 fulfilled our expectations and demonstrate the company's stability and leading position on the Czech telecommunications market. When comparing our EBITDA margin with other European operators, we are one of the most successful telecommunications companies in the region.

ČESKÝ TELECOM's results reflect our ongoing improvements in customer care. The detailed segmentation of our extensive customer base enables us to satisfy diverse telecommunications needs. We offer a wide range of solutions, from basic telecommunications services designed for residential users to complex solutions for corporate clients and public administration institutions that combine telecommunications and information technologies. With the completion of our investments into technologies and infrastructure required by licence, we increasingly target investment into activities directly related to improving customer service, developing new products, and increasing company productivity. Over the last few years we have been working continuously to improve ČESKÝ TELECOM's operational efficiency by introducing modern internal processes and information technologies that enable cost reductions while simultaneously improving the flow of information.

Company results in 2002 are influenced by the almost complete liberalisation of the Czech telecommunications market. Though full liberalisation is due to be completed by the end of 2003, a fully competitive environment emerged at the end of 2002. This has led to price reductions, an increase in the volume of provided services, and the expansion of our product portfolio. The relationship between mobile and fixed-line telecommunications is also a strong factor influencing the development of the competitive environment on the Czech telecommunications market, even without pronounced regulatory measures. In most developed European countries, the fixed-line communications market, in both volume and financial costs, is larger than in the Czech Republic. By the end of 2002, the share of revenue from fixed-line voice services on the Czech voice services market was significantly below 50%, and mobile phone penetration was almost double that of fixed telephone lines. This market difference is primarily a consequence of the large-scale development of mobile telecommunications, which took place in the Czech Republic at a time when the fixed-lined infrastructure was still not fully developed. From the point of view of the market environment, 2002 was a turning point, considering the extensive development generated mainly by mobile services and the intensive development of broadband services.

The increased development of the fixed-line infrastructure has established the conditions for a new level of quality communication throughout the Czech Republic as the country moves toward a society based on the simple, economical and effective sharing and dissemination of information. This is a primary requirement to ensure the increased effectiveness of the Czech economy and its competitiveness within the European Union.

In 2003, we intend to focus on increasing the quality of customer relations and operational effectiveness. Together with other large telecommunications operators on the market, we also want to assist in the development and implementation of next-generation services based on high capacity transfer channels and integrated telecommunications services. Through these activities, we will support the further development of the Czech telecommunications market and help it reach the level of the European telecommunications environment.

We believe that our results reflect our commitment to create new value not only for millions of our customers, but also for you, our shareholders. ČESKÝ TELECOM intends to retain its leading position on the Czech telecommunications market, its unique position within the Czech economy, and to be the driving force behind the development of an information-based society in the Czech Republic. In conclusion, allow me also to thank you, our shareholders, for your trust, and our employees for their dedicated work.

A handwritten signature in black ink, appearing to read 'O. Felix', with a stylized flourish at the end.

**Ondřej Felix**

*Chairman of the Board of Directors*

## Comments to the financial results



Consolidated revenues  
in CZK billions

**Financial data are based on consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).**

Increased competition and the development of mobile telephony were the two key factors determining the dynamics of the Czech telecommunications market in 2002. As the largest telecommunications provider in the Czech Republic, ČESKÝ TELECOM's financial results in 2002 were influenced by these two external factors.

2002 and the beginning of 2003 saw a significant change in the **liberalisation** of the Czech telecommunications market. In accordance with the Telecommunications Act, ČESKÝ TELECOM, as the fixed-line network operator with the most significant market share, introduced the Carrier Selection service in July 2002 (access is via a short prefix number for individual calls). At the beginning of 2003, the Carrier Pre-Selection service began. Number Portability has also been implemented.

The **mobile telecommunications service market** made great advances in 2002. The rapid growth of mobile penetration continued: by the end of 2002 it was 84%, compared with 67% at the end of 2001. Unlike fixed-line penetration, which at 36% continues to be significantly lower than in EU countries, mobile penetration on the Czech market is comparable with EU levels.

**ČESKÝ TELECOM** is an active player on the Czech telecommunications market. As the fixed-line telecommunications market liberalises, we face increasingly competitive pressure to reduce prices. ČESKÝ TELECOM works actively to minimise this negative impact on revenues. We enact measures to preserve market share for individual service segments and focus on the quality and range of

services, the quality of customer relations, and the needs of all target customer groups. The company also implements consistent cost and investment controls and focuses on positive cash flow. With its 51% share in Eurotel Praha (Eurotel), the leading mobile telecommunications provider in the Czech Republic, ČESKÝ TELECOM participated in the further development of the mobile services segment. Internet services provided under the INTERNET OnLine (IOL) and Quick brands made ČESKÝ TELECOM the leader in this service segment.

**Consolidated revenues** reached CZK 52.9 billion in 2002. Total consolidated revenues recorded a decline of 5% compared to last year. ČESKÝ TELECOM's own revenues totalled CZK 39.0 billion. This was influenced, in particular, by decreased voice service revenues. On the contrary, revenues from leased circuits and data services, including Internet services, value-added services and euroISDN revenues, have been growing for several years. Consolidation of Eurotel's revenues did not record a significant change compared to last year.

The main factors behind the fall of revenues from voice services include the change of ČESKÝ TELECOM's pricing structure, the development in the number and structure of fixed telephone lines, and the change in the structure of outgoing traffic. Revenues were also influenced by the growing popularity of euroISDN services; the influence of competitors, especially mobile operators; regulatory decisions concerning prices for interconnection to the networks of other operators; and the renumbering process.

The **pricing structure** was changed in February 2002. ČESKÝ TELECOM created a pricing structure reflecting better the costs connected with the provision of



voice services. The price of connection for a new telephone line remained unchanged. Monthly subscription charges increased. Most prices for local, long-distance and international calls and dial-up Internet connection were lowered and call credits were introduced. The amount of call credit depends on the selected tariff package. ČESKÝ TELECOM offered a total of six tariff packages for home users and five basic tariff packages for business users in 2002. Three of these tariff packages are regulated.

Fixed telephone line users are changing their priorities and are shifting toward Internet and euroISDN services. ČESKÝ TELECOM offers dial-up connection rates that are cheaper than the normal voice call rate. At the end of 2002, dial-up connection to the Internet represented almost one-half of total **outgoing traffic** from the ČESKÝ TELECOM network; at the end of 2001 it was 39%. Because ISDN lines are used mostly for Internet and data services, we include euroISDN revenues into revenues from telex, data transmission and other telephony. The growing percentage of ISDN channels in the total number of phone lines influenced voice services revenues. The total **number of telephone lines**, including ISDN channels, recorded a 5% decrease compared to 2001, from 3.8 million to 3.7 million. However, the number of **ISDN channels** themselves rose from 261 thousand at the end of 2001 to 389 thousand at the end of 2002, an increase of 49%.

The **renumbering** of all public telephone networks in the Czech Republic, implemented in September 2002, was a success. As a result, the number of calling regions decreased from 159 to 14, which caused some calls that were previously long-distance to be charged as local calls. As of July 2002, ČESKÝ TELECOM

began to implement the Carrier Selection service. Its influence on the company's financial results, due to the brief period it has been in use, is minimal. Competitors focused in particular on customers in the small and medium enterprises segment in 2002, as well as on the corporate client segment. The largest competition in voice services in 2002 was, as in previous years, from mobile operators.

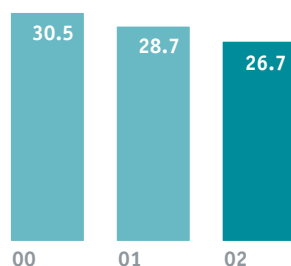
**Consolidation of revenues of the mobile operator Eurotel** for 2002 were recorded at CZK 13.9 billion, compared to CZK 14.0 billion in 2001. This development was caused by the decrease in interconnection charges for access to mobile networks, the reduced amount of new customers compared to 2001, and the continuing pressure to lower prices. Eurotel, with 3.9 million customers recorded at the end of 2002, remains the leading mobile operator in the Czech Republic. The increase in Eurotel customers compared to 2001 is 20%. Most new customers were recorded in the pre-paid services segment. The total number of minutes of use increased by 13% to 4.2 billion minutes in 2002. Because of the high mobile telephone penetration in the Czech Republic, this segment is becoming saturated and Eurotel is focusing on customer loyalty activities, the development of data services and value-added services, and the quick introduction of new mobile telephony technologies.

**Consolidated communications traffic revenues** totalled CZK 20.3 billion and **consolidated subscription revenues** totalled CZK 13.1 billion. ČESKÝ TELECOM's communication traffic revenues reached CZK 13.7 billion, 35% less than in the previous year. On the other hand, ČESKÝ TELECOM's own basic subscription revenues rose 46% to CZK 10.6 billion. **Consolidated connection charges** fell

50% to CZK 626 million, mainly due to the lower rate of increase of new Eurotel customers year-on-year, i.e., 653 thousand in 2002 compared to 1.1 million in 2001.

During 2002, the Czech Telecommunications Office (CTO) decided on several changes to interconnection fees. The LRAIC (long-run average incremental costs) method of calculating interconnection fees was introduced, replacing the previous FAC (fully allocated costs) method. As a result of this change, the **interconnection charges** for access to fixed networks fell on average by approximately 30% since September 2002, but the fee calculation by the regulatory body is still not fully transparent. The CTO also decided on prices for the Carrier Selection and Carrier Pre-Selection services. In comparison with 2001, the prices of interconnection to mobile networks were also lower. These prices were affected by the CTO's decision at the end of November 2001. International interconnection charges, a highly competitive area, continued to fall. These changes affected **consolidated revenues from other network operators**, which fell 26% to CZK 4.4 billion. Non-consolidated revenues from domestic operators, particularly mobile operators, fell 41% to CZK 1.1 billion in comparison with 2001. Revenues from international operators fell 27% to CZK 1.5 billion. The overall influence of these changes on EBITDA was softened by the trend of lowering interconnection costs.

The decrease in voice service revenues was mostly compensated by an increase in data services and leased circuits revenues. ČESKÝ TELECOM is the leading provider of these services in the Czech Republic. Total **consolidated revenues from telex, data transmission and other telephony** totalled CZK 9.2 billion. ČESKÝ TELECOM's own revenues



Consolidated operating expenses excluding depreciation and amortisation in CZK billions

from telex, data transmission and other telephony rose 37% to CZK 7.3 billion. Revenues from the euroISDN service, which increased 55% compared to the previous year, to CZK 4.5 billion, account for more than half of this amount. Internet service revenues, which totalled CZK 429 million in 2002, grew at the same rate. Revenues from data services, such as Frame Relay, ATM and other services, including the Internet for Schools project implemented by ČESKÝ TELECOM in cooperation with AutoCont On Line, a.s., recorded an increase of 21% to CZK 1.3 billion. ČESKÝ TELECOM's own revenues from value-added services and other telecommunications services remained at the same level and reached CZK 1.0 billion. Eurotel recorded an increase in revenues from data services and value-added services. In 2002, Eurotel customers sent more than 2 billion SMS messages, 43% more than in 2001. **Consolidated revenues from leased circuits** rose 12% to CZK 2.6 billion.

**Consolidated revenues from equipment sales and sales of materials** totalled CZK 1.1 billion. ČESKÝ TELECOM's own revenues from equipment sales and sales of materials increased 15% to CZK 514 million; however, Eurotel's revenues dropped year-on-year, due to the decreased rate in new customers.

**Consolidated revenues from other non-telecommunications services** increased 16% to CZK 1.5 billion.

**Consolidated operating expenses excluding depreciation and amortisation** decreased 7% from the previous year to CZK 26.7 billion. This reduction is attributable to the decrease in interconnection fees to fixed and mobile networks, a decrease in outgoing traffic, the reduction of ČESKÝ TELECOM's workforce,

and the reduction of Eurotel's operating expenses.

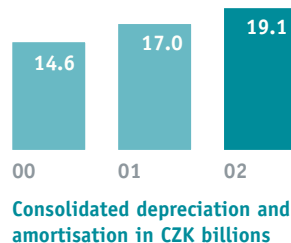
**Consolidated payments to domestic operators** fell 20% to CZK 3.9 billion, in particular due to the decline in interconnection fees. **Consolidated payments to international operators** declined 28% to CZK 1.8 billion, a result of the reduction in the prices of interconnection to international operator networks and the reduction of outgoing traffic from ČESKÝ TELECOM's network to international operator networks.

**Consolidated staff costs** did not change and were recorded at CZK 7.6 billion; ČESKÝ TELECOM's staff costs decreased, while Eurotel's staff costs increased. This is in line with, among others, the development in workforce numbers. The number of ČESKÝ TELECOM fixed-line employees decreased 10% compared to 2001, to 13,717 at the end of 2002; the number of Eurotel employees increased 1% to 2,447. The development in staff costs is influenced both by the development in the number of employees and by workforce structure. The percentage of employees with university degrees and better training is increasing.

**Consolidated equipment and material cost of sales** decreased 27% to CZK 1.8 billion. This was caused in particular by the decrease in the rate of new Eurotel customers.

**Other consolidated operating expenses**, including the costs of materials, energy, repairs and maintenance, marketing, consultancy and the lease of buildings and other operating expenses increased slightly, from CZK 11.4 billion to CZK 11.6 billion.

Consolidated earnings before finance costs, tax, depreciation and amortisation (**EBITDA**) in 2002 was CZK 26.2 billion. In absolute numbers, this is a year-on-



year reduction of 4%, but the consolidated **EBITDA margin**, expressed as the ratio of consolidated EBITDA to consolidated revenues, reached 49%, while ČESKÝ TELECOM and Eurotel margins were at approximately the same level. This shows that despite ČESKÝ TELECOM not being able to completely avoid the impact of market liberalisation and the general developments in telecommunications trends on its revenues, the company can control its operating effectiveness indicator. An EBITDA margin of 49% is one of the highest in comparison with similar international telecommunications companies.

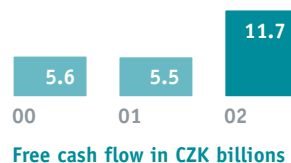
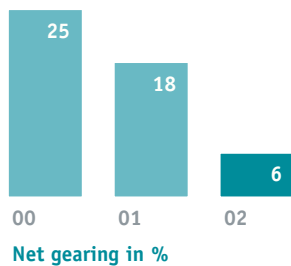
**Consolidated depreciation and amortisation** has been growing for several years. This trend continued in 2002: a year-on-year increase of 12% to CZK 19.1 billion was recorded. This is a result of large investment costs in ČESKÝ TELECOM's fixed network, most of which were made in 1995–1998. In 1999–2002, investment costs were lower and decreasing, but their structure was also changing. The share of investment into intangible fixed assets with shorter usage lives increased. In the last two years, ČESKÝ TELECOM was obliged to make obligatory investments in connection with its legal obligations. Eurotel also invested into the development of its own network in 1996–2002. Consolidated earnings before finance costs and tax (**EBIT**) dropped from CZK 10.1 billion to CZK 7.1 billion, largely due to the increase in consolidated depreciation and amortisation.

Total **consolidated finance costs** reached CZK 978 million in 2002, a 27% decrease from 2001. This was influenced by the decrease in interest expenses. Consolidated foreign exchange gains, including fair value losses/gains on financial instruments, reached CZK 230 million, compared to CZK 358 million in 2001.

Consolidated earnings before tax (**EBT**) dropped 30% to CZK 6.1 billion. The consolidated group result before minority interest was CZK 4.2 billion. The minority interest was CZK 51 million in 2002, and **net consolidated profit** reached CZK 4.3 billion.

ČESKÝ TELECOM ranks among the lowest geared operators on the telecommunications market. Two changes to ČESKÝ TELECOM's gearing were recorded in 2002. In February, ČESKÝ TELECOM prematurely paid off a bond issue in the amount of CZK 7 billion and a fixed interest rate of 11.3% p.a., with maturity in 2004. In May, ČESKÝ TELECOM started a bond issue programme in which it is authorised to issue individual bonds in the maximum amount of unpaid bond issues of CZK 20 billion, with a programme duration of 10 years and maturity of any bond issue within the programme of a maximum of 15 years. ČESKÝ TELECOM used the favourable conditions on the market and issued, as part of this bond issue programme, bonds in the amount of CZK 3 billion, with a fixed interest rate of 4.55% p.a., and maturity date in 2005. The gearing of Eurotel also changed in 2002. **Consolidated loans** decreased from CZK 27.0 billion at the end of 2001 to CZK 22.0 billion at the end of 2002; most of these loans are ČESKÝ TELECOM's. The amount of loans with short-term maturity was CZK 12.5 billion at the end of 2002, a significant part of which is represented by the eurobond issue issued in 1998 in the amount of DEM 750 million (equivalent to EUR 383 million, resp. CZK 12.1 billion as at 31 December 2002). This bond issue matures in May 2003.

**Gross gearing**, expressed as the ratio between consolidated loans and consolidated shareholder equity, was 20% as compared to 25% at the end of 2001.



**Net gearing** expressed as the ratio between consolidated loans less cash and cash equivalents, short-term available-for-sale investments and held-to-maturity investments, and consolidated shareholder equity dropped from 18% at the end of 2001 to 6% at the end of 2002. The total consolidated value of **cash and cash equivalents including short-term available-for-sale investments and held-to-maturity investments** increased from CZK 7.5 billion at the end of 2001 to CZK 15.3 billion at the end of 2002.

Due to the stable development of its financial indicators and low level of debt, ČESKÝ TELECOM retains its stable, high-level **credit rating**, which is A- from Standard & Poor's. This gives ČESKÝ TELECOM access to external financial sources within the Czech Republic and abroad under very favourable conditions. Because of its low level of debt, ČESKÝ TELECOM has debt capacity, giving it space for investment decisions requiring significant financial resources while maintaining a healthy level of gearing.

The consolidated value of **capital expenditure** in 2002 was CZK 11.3 billion, 40% less than in 2001. ČESKÝ TELECOM's capital expenditure was spent on the maintenance and improvement of its network and on the completion of the digitalisation process, renumbering, and fulfilment of its regulatory requirements. ČESKÝ TELECOM expanded its portfolio of euroISDN services and prepared for the introduction of ADSL and other new services and offered the Carrier Selection, Carrier Pre-Selection and Number Portability services. ČESKÝ TELECOM's own investment costs in 2002 totalled CZK 8.7 billion.

The development in investment cost volume corresponds with the company's strategy, which is focused on optimisa-

tion of operating and investment costs and the increase of generated **cash flow**. Consolidated net cash flows from operating activities showed almost no change and were CZK 21.4 billion in 2002. Due to the lower volume of consolidated cash flows from investing activities, excluding purchase of marketable securities and proceeds from marketable securities, the consolidated value of available free cash flow increased 112% to CZK 11.7 billion.

### Priorities of financial management in 2003

ČESKÝ TELECOM's 2002 results are evidence that cost and investment efficiencies are key to the company's ability to generate cash flow, while opportunities in data, Internet, and integrated solutions contribute to the protection of revenues. ČESKÝ TELECOM's management will therefore continue to focus on these areas, which are seen as the most important for increasing shareholder value.

With the completion of the majority of regulatory-driven investments in 2002, consolidated investment costs will continue to decrease, while consolidated depreciation is not expected to change in 2003.

Close attention will also be paid to the utilisation of assets created in 1995–2000 in accordance with ČESKÝ TELECOM's authorisation to establish and operate the unified telecommunications network and to provide public telephone services issued by the Czech Ministry of Economy in 1995. Management and the Board of Directors will continue to monitor the economic value of these assets to ensure their proper presentation in the financial statements.

## Key events in 2002

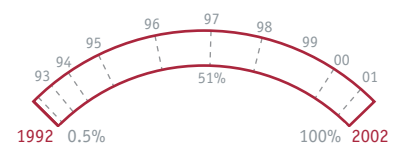
**January** First phase of ČESKÝ TELECOM's privatisation tender begins **February** Introduction of changes to billing and call charges **March** Introduction of the first Public Administration Information Systems terminal / Construction of the Nagano Hosting Centre begins **April** The Internet Show, focusing on the development and support of Internet usage, travels to 12 regional centres **May** Fixed-line to mobile network call rates reduced / Introduction of new euroISDN product packages **June** Introduction of the multifunctional TRICK telephone card; public pay-phone services expand to include SMS and e-mail capabilities / Digitalisation of the Public Telephone Network completed **July** Introduction of the Carrier Selection service **August** Approximately 120,000 telephone lines damaged by floods / Eurotel launches commercial operation of the MMS messaging service **September** 3.7 million telephone numbers across the Czech Republic are renumbered / 3,000 schools connected to the Internet as part of the Internet for Schools project / Eurotel is co-founder of the Mobile Payment Association / Construction of ČESKÝ TELECOM's international infrastructure begins **October** IP integrated services, IP Connect, offered to customers / Establishment of the Business Solutions Group; BSG provides complex customer solutions to public administration institutions / ČESKÝ TELECOM's Call Centre evaluated as the most accessible and as providing the highest quality of service by phone **November** The first phase of the Nagano Hosting Centre approved for use / Eurotel becomes the first mobile operator in the Czech Republic to offer video streaming services **December** Bohuslav Sobotka, Minister of Finance of the Czech Republic, confirms the interruption of ČESKÝ TELECOM's privatisation process by the Government / Pilot project for digital TV begins with the Czech Digital Group; project goals are the testing and preparation of services for digital TV (DVB-T) / Preparations for the introduction of Carrier Pre-Selection and Number Portability services completed / Pilot project for public wireless Internet access using Wi-Fi technology begins



**in record time**

steps toward digitalisation  
over the past 10 years

Our state-of-the-art, fully digitalised network infrastructure opens space for new services. We completed the digitalisation process more than two years before deadline. We also created the conditions for the implementation of the Carrier Selection, Number Portability and Carrier Pre-Selection services before the date prescribed by law.



## Significant events in 2002

2002 was rich in events with significant implications for the operation and future of the Czech telecommunications market. The completion of the upgrading of the telecommunications infrastructure, the reinforcement of the competitive environment, and the move toward greater market diversification can be considered the most important events. These developments are in keeping with the direction of Czech telecommunications policies and are prerequisites for the Czech Republic's successful entrance into EU structures.

ČESKÝ TELECOM's results for 2002 demonstrate the company's ability to react flexibly to market changes and maintain its position as the strongest and most stable operator in the Czech Republic. Despite competition in almost all business areas, the company reports consistent high performance. ČESKÝ TELECOM also participated in several unique projects that demonstrate the company's ability to bring demanding tasks to completion through its technological advances, professionalism and management.

### We completed full digitalisation of the telecommunications network

With the closure of the last analogue switchboard in Prague's Bílá Hora district on 27 June 2002, ČESKÝ TELECOM completed the full digitalisation of its entire telecommunications network, nearly two years before the original deadline. The modern, fully digitalised network infrastructure opens possibilities for the use of many new services and has raised the quality of Czech telecommunications to a world-class level. Completion of network digitalisation was a necessary prerequisite to implement the Carrier Selection, Number Portability and Carrier Pre-Selection services by deadlines specified in the Telecommunications Act.

### We changed all telephone numbers in the Czech Republic

Another important project undertaken by ČESKÝ TELECOM was the renumbering of all public fixed and mobile telecommunications networks in the Czech Republic. This task was carried out in September 2002. Renumbering was implemented by order of the CTO as a response to recommendations from the International Telecommunications Union. Its goal was to unify the Czech numbering system in accordance with EU standards, enable foreign operators to enter the Czech market, and provide room for the development of new services. This was a unique event: during the night of 21–22 September, the telephone numbers of almost 3.7 million telephone lines in ČESKÝ TELECOM's network were changed in 180 minutes. Eurotel renumbered 3.6 million mobile telephones in its network and ensured the functionality of emergency lines for the entire duration of the renumbering process. Between 10:30 p.m. and 5:15 a.m., Eurotel recorded a total of 2,063 calls to emergency lines diverted to its network. Thanks to sophisticated technical preparations and prior communication with the public, this demanding process was completed successfully and did not cause customers any significant problems.

### We dealt with the consequences of the August floods

During the devastating floods of August 2002, ČESKÝ TELECOM demonstrated its ability to cope with unexpected events and overcome crisis situations. Rising flood waters, which gradually swept through nine regions, 39 districts and more than 500 towns and cities,

	Number of phone lines out of service	Number of repaired lines	Percentage of repaired lines
August	126,257	-	-
End of September	28,957	97,300	77%
End of November	4,875	121,382	96.1%



damaged the telecommunications infrastructure. Approximately 120,000 ČESKÝ TELECOM telephone lines were affected. A total of 24 switchboards were out of service during the week of the floods. Thanks to the efforts of its employees, ČESKÝ TELECOM was able to repair 77% of damaged telephone lines by the end of September.

#### **We provided data for ČESKÝ TELECOM's privatisation process**

The privatisation process of the state's shares in ČESKÝ TELECOM began on 13 December 1999 based on a Government decision; the process has been governed by a total of 11 Government decisions. The privatisation process was terminated on 2 December 2002 by a Government decision to "cancel the privatisation of the state's share in ČESKÝ TELECOM."

The role of ČESKÝ TELECOM as the subject of sale was clearly defined: to ensure the provision of relevant information about the company to the National Property Fund of the Czech Republic as the selling party, to privatisation consultants, and through them to parties interested in the purchase of the state-held 51.1% of company shares.

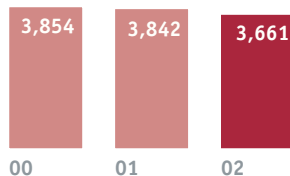
From the evaluation of the members of the Board of Directors of ČESKÝ TELECOM and comments from investor representatives, it can be concluded that the due diligence was professional in both its content and organisation.

### **We care about our customers and develop new services and partnerships**

ČESKÝ TELECOM is a customer-oriented company reacting to market conditions with the continuous ability to offer new and competitive products and services. We own the largest communications infrastructure in the Czech Republic, through which we offer comprehensive telecommunications services and solutions. In 2002, we operated 3.7 million telephone lines and expanded the selection of voice and Internet services available to fixed-line users and increased their availability. We also developed data services. Through Eurotel, we participated in the mobile telephony services market.

To be able to react to market requirements, we have defined three basic customer segments within which we monitor the specific needs of our customers and offer suitable solutions to them. Users in the residential market segment, primarily residential users, benefited mostly from voice services via fixed-line and dial-up Internet access services. The business segment, comprised of small and medium enterprises, benefited from our expanding offer of voice, IP and data services. We offered complex telecommunications solutions to corporate clients.

All customers are offered comprehensive Internet services, including e-commerce services and the services of large data centres. We offered an extensive array of services used increasingly by customers not only from the corporate segment, but also from the residential segment. We offered a wide array of advanced solutions, including multimedia services and international networks, e.g., using International Frame Relay. Through next-generation telecommunications networks, our customers benefited from the convergence of voice and data services. The emerging high-speed network based on optical fibre technology enabled us to offer high quality services in the voice, data and IP service segments. To increase the quality and competitiveness of our services, we entered selected international markets. ČESKÝ TELECOM continuously implements a management model fulfilling the requirements of ISO 9000:2000 international standards and is certified by Lloyd's Register Quality Assurance Limited. The following divisions have received certification: Wholesale



**Number of ČESKÝ TELECOM customers in thousands**

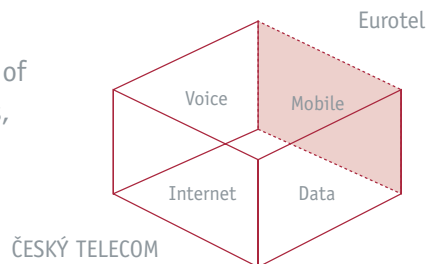


# One-stop

shopping – for everything you need

voice - data - Internet

To satisfy the growing communications needs of our customers requires us to continuously develop comprehensive solutions. We offer the ease of one-stop shopping and provide an array of telecommunications services, including integrated products in the voice, data and Internet areas.

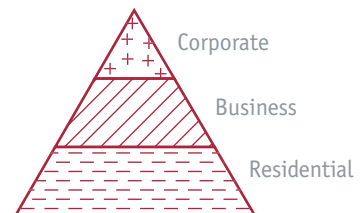


# Segments

enable us to target our services

our customer segments

Individual groups of users each have their own specific requirements for telecommunications services. We seek to enhance our differentiated approach to customer segments and provide the full range of state-of-the-art solutions at affordable prices for residential users, small and medium enterprises, and corporate clients.



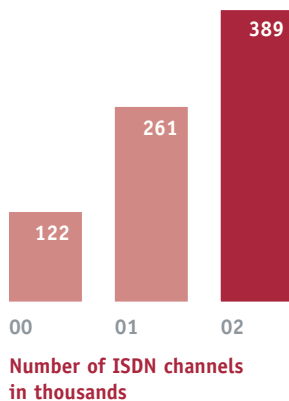
Services Group, Imaginet Group, Telecommunications Services Group (corporate client services), and Corporate Services Group (Purchase and Logistics).

### We know our customers' needs and tailor solutions to meet them

#### Residential market services

Within the residential market segment, we focused on advertising the fixed telephone line as a modern communication tool that enables not only voice services, but also the simultaneous use of data services, in particular through euroISDN. For this purpose, we prepared a wide array of products accompanied by special offers. We introduced the Internet 2002 tariff, which moves the start of the cheaper off-peak dial-up period from 7 p.m. to 6 p.m. We reduced charges for fixed-to-mobile calls. We implemented the new PřiTel service enabling reduced rates for calls to three selected numbers within our network. The Memobox voicemail service was extended to include several new services: Wake-up Call, the Reminder service, Call Back, and the attractive Memobox e-mail service, which enables voice messages to be sent to a specified e-mail address. In October, we introduced the e-billing solution (e-účt) for home and small business users, which is the electronic equivalent of an itemised bill. To increase customer communication possibilities, we created the TELEPOINT ON LINE website.

#### Small and medium enterprises services



The biggest news in the small and medium enterprises segment (business segment) was the introduction of wireless access to euroISDN connection points. During 2002, we offered a choice of two solutions in this area. The ORINOCO device enables a wireless Local Area Network (LAN), including a euroISDN Internet connection. Customers who do not need a wireless LAN but who appreciate the benefits of a wireless connection to euroISDN can make use of the euroISDN@Blue2lines product package, which was introduced in December. We also introduced the TeamTel service to this segment, which enables reduced-rate calls to three selected numbers within the ČESKÝ TELECOM network.

In 2002, customers showed great interest in euroISDN services and value-added services such as quality guarantee, active supervision services, and active Internet product management services. These euroISDN services were perceived in 2002 not only as a tool for fast Internet connection, but also as a voice telephony product offering many value-added services. We supported this trend with special product packages and customer services provided by sales personnel, the Call Centre, and the new small and medium enterprises Indirect Sales department. Special offers included the ISDN-Olympic, ISDN-SMS and ISDN Sprint product packages, the latter offering "Instant Internet Access".

#### Corporate client services

The liberalisation of the Czech telecommunications market had the greatest impact on the corporate client segment, where we have to compete for each contract. In 2002, we won 64% of tenders for the provision of telecommunications services held by Czech-based companies. The fact that a number of companies returned to ČESKÝ TELECOM after their experience with alternative providers is even more important.

This segment was most interested in our speciality Colour Lines and euroISDN30 products. The 33% penetration of the new e-billing (e-účt) product is another success. Companies selecting ČESKÝ TELECOM in their telecommunications provider tenders in 2002 include Kooperativa, pojišťovna, a.s., Budějovický Budvar, národní podnik, Fakultní nemocnice u sv. Anny in Brno, Živnostenská banka, a.s., Barum Continental, spol. s r. o., TIPSPORT, a.s., and AGIP Praha, a.s. Companies returning to ČESKÝ TELECOM from alternative opera-

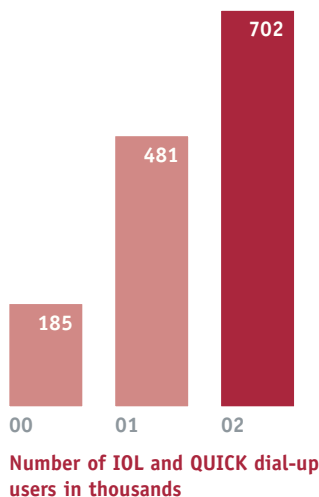
tors include Československá obchodní banka, a. s., BAŤA, akciová společnost, CZECH International, a.s., Skanska CZ a.s., Raiffeisen stavební spořitelna a.s., McKinsey & Company, Inc. Czech Republic, and Balírny Douwe Egberts, a.s.

In October, ČESKÝ TELECOM established a new organisational unit, the Business Solutions Group, which provides complex customer solutions to select public administration institutions. The Business Solutions Group took on ČESKÝ TELECOM's activities concerning the preparation of the public administration Intranet based on the public tender contract signed between the Public Administration Information Systems Office and ČESKÝ TELECOM in 2001. This area includes a number of projects, such as the provision of "universal connection points" in all public administration sites, authorised access services, central Internet access, central user support, management, administration and hosting of central registers and other services.

The Business Solutions Group is also responsible for the implementation of the Internet for Schools project. During the first stage of the project in 2002, IP connectivity and Internet access were provided to 3,620 schools across the Czech Republic. The company is also prepared to complete the connection of the remaining 2,000 schools as required by the Ministry of Education, Youth and Physical Education.

### We focus on the quality and range of provided services

#### We develop Internet services for all customer segments



In 2002, ČESKÝ TELECOM continued its focus on the growing potential of Internet services. The Imaginet Group offers an extensive portfolio of products and services oriented toward Internet access services and eBusiness solutions. Its strategic goal is to maximise the synergies of the communications services provided via our infrastructure. We offered complex business solutions, including Internet connectivity; web-hosting and Internet application services; integrated communication systems; data centre services using the most modern hosting facilities; and eBusiness and all related activities. We operated the INTERNET OnLine (IOL) and QUICK brand services and controlled the CenTrade, a.s., and M.I.A., a.s., subsidiaries.

According to independent audits, ČESKÝ TELECOM leads the dial-up Internet access market. Together with fixed-line Internet access, the company is the single largest provider of Internet connectivity in the Czech Republic. Our share of the connectivity market in 2002 was more than 20%.

In 2002, ČESKÝ TELECOM offered corporate clients professional Leased Line Internet access services, server and web hosting services, and company Intranet solutions based on IP VPN. Our growing number of clients is a testament to the quality and innovative character of our portfolio. In the data service segment, we acquired a number of new major clients, including HEWLETT-PACKARD s.r.o., GE Capital Bank, a.s., CE WOOD, a.s., and Shell Czech Republic a.s.

The number of users of the paid dial-up Internet access service IOL DIAL-UP reached 43.2 thousand at the end of 2002 and QUICK, our free dial-up Internet access service, recorded a 54% increase in the number of users, to 702 thousand by the end of 2002. The number of IOL FIXED Leased Line Internet access users experienced a significant increase of more than 60%. A total of 1,800 connection points were provided by the end of 2002. IOL and QUICK customers could also access the new iPlanet e-mail platform.



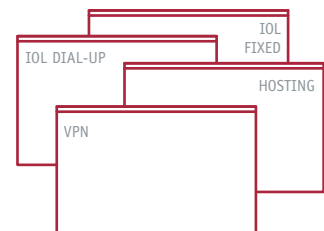


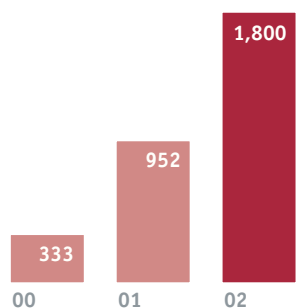
# Communication

via the Internet makes life easier

Imaginet's product portfolio

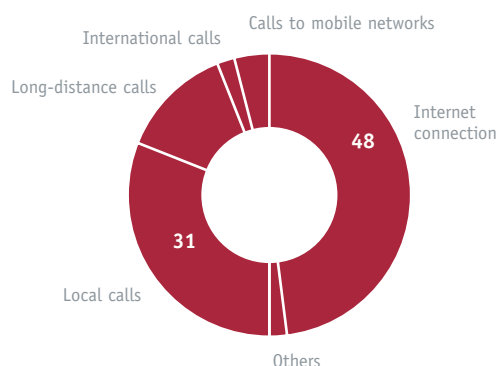
We provide and continuously develop a rich portfolio of Internet services. With comprehensive synergy, we offer products to meet all communication needs – from Internet connection to hosting services, Internet applications, integrated communications systems, data centre services, and e-business solutions.





**Number of IOL FIXED customers**

**We provide complex voice and data services to all customer segments**



**Outgoing traffic structure from our network in 2002 in %**

New IP VPN Remote services, the development and implementation of a new eStore marketplace, Storage Hosting, and Store OnLine services were oriented to the corporate segment. In cooperation with Microsoft, we also introduced the .net Technology project. The summer IOL Digital Sale brought a significant increase in sales of low-speed Leased Lines. The euroISDN product packages were also popular.

The first part of the Nagano Hosting Centre opened in November. This centre should become the leading neutral ePlatform for all important telecommunications and Internet service providers, large and medium enterprises, Internet companies, and for the public administration. In 2002, the first phase of implementation of a new operating system was completed; full operation is expected in the first half of 2003. Its main benefits for customers will include the faster introduction of new services and more flexible change processes.

Our subsidiary CenTrade, a.s., acquired an important order for the operation and provision of electronic marketplace services for public administration institutions. The CenTrade electronic marketplace provides a transparent environment for goods and services purchasing tenders held by public administration institutions. As part of the CenTrade electronic marketplace, we introduced solutions enabling automated purchase processes and the reduction of customer purchase costs.

Services in the electronic media and Internet marketing and advertising segments were provided in 2002 by our subsidiary M.I.A., a.s. Using the IMS Premium advertising network, M.I.A., a.s., contacted all important servers and actively participated in the development of Internet advertising in the Czech Republic.

The continuing trend of movement from voice to data (especially using Internet) communication has brought a change in the perception of customer communications needs. New market dynamics have also affected our approach to customers, which is based on the offer of comprehensive telecommunications services, including a supply of integrated products in the voice, data and Internet segments.

In February 2002, we implemented significant changes to call charges, continuing the trend of bringing prices as close as possible to actual costs. These changes affected all services – monthly subscription charges, long-distance and international calls, and dial-up Internet access. Call charges were reduced and monthly subscription fees were increased. Call credits were introduced. We also introduced several new tariff packages, including HOME INTERNET for Internet access. In July, we extended our portfolio to offer the credit-less price programs HOME ZERO and BUSINESS ZERO. As a reaction to the expansion of mobile services, we continued to lower the fixed-line to mobile network call prices.

During 2002, we installed 32 Public Information Terminals throughout the Czech Republic. These terminals can be used to access the Internet, send e-mails, or to make phone calls and send SMS messages from an integrated public telephone. As at 31 March 2003, there were nearly 40 of these terminals. In June 2002 we introduced the TRICK multi-function chip telephone card, which can be used not only for normal voice services, but also to send SMS messages and e-mails from public payphones and to surf the Internet from Public Information Terminals. In the future, the TRICK card should also be used as a payment tool for additional services. Within the first six months of the introduction of the TRICK card, over one million SMS messages and e-mails were sent from public payphones. More than one million TRICK cards were sold by the end of 2002. As part of our operator services, the 1180 phone directory information service was extended by adding the

Contact Call connection service. The customer is told the required number and is then automatically offered the choice of being connected to the number. The Contact Call connection service has become very popular for its convenience and speed and is used by more than half of the customers using the 1180 phone directory information service.

We continued to offer product packages making euroISDN services available to small businesses and residential customers in 2002. Since February, customers using euroISDN services have been able to choose from several price packages with varying monthly subscription fees, call credits, and calling charges. The portfolio was extended to include the euroISDN@PC and euroISDN@Notebook packages, which consist of a euroISDN2 line and a powerful desktop or notebook computer, including installation and service.

We also upgraded Memobox voicemail hardware and software. Intelligent Network services were given new settings and new Basic Areas as a result of the renumbering process. The Purpose Telephone Network service migrated to a digital environment. Costs of fixed and mobile calls to speciality Green lines were differentiated in August. Pilot operation of the Fraud Protect service began in July. The service protects customers against possible uneconomical use or misuse of their telecommunications devices. Commercial implementation of this service began in November 2002.

The 1TEL – Universal Personal Number pilot project also commenced in 2002. This is a completely new service that allows customers to be reachable at a single number regardless of where they are. Commercial operation of this service should begin in mid 2003.

The data services and Leased Loop services market saw the continuing increase in importance of native IP services (for data transfers) and their combination with voice transfer. The importance of an individual approach to customers and the influence of the competitive environment on price levels were also apparent. At the end of 2002, the project for connection to the optical infrastructure operated by Cable & Wireless was completed. ČESKÝ TELECOM expanded the list of countries to which Frame Relay and ATM international data services can be offered. We offered IP and integrated services to our customers. Two basic options were made available: IP Connect, an IP VPN based on MPLS technology; and IP Call, a service enabling Voice-Over IP outgoing international calls. The change in ATM withdrawal charges (due to competition between Česká spořitelna, a.s., and other banks) caused an increase both in the number of ATM's used and in ČESKÝ TELECOM's packet service revenues.

We maintained our market share in Frame Relay, ATM and Leased Loop services and increased revenues by offering new service attributes providing quality, safety, added value and customer satisfaction.

## Universal Service

The Telecommunications Act (no. 151/2000 Coll., as amended by later regulations) defined the concept of Universal Service and specified its scope, with the goal of providing access to telecommunications services of a defined quality to all users in the Czech Republic at an affordable price. Based on the decision of the CTO, ČESKÝ TELECOM was the sole provider of Universal Service in the Czech Republic.

ČESKÝ TELECOM's operational costs, including the depreciation of long-term assets, excluding input capital spent in 2001 related to the provision of Universal Services, reached CZK 28.5 billion. Demonstrable loss connected to the provision of the Universal Service during 2001, in keeping with Section 31 of the Telecommunications Act and regulation no. 235/2001 Coll., which prescribe the details concerning the calculation and payment for demonstrable loss in connection with the provision of the Universal Service by a

holder of a telecommunications license, was calculated by the CTO on 30 August 2002 to be CZK 264.7 million. Of this amount, ČESKÝ TELECOM's share was CZK 129 million and the shares of other telecommunications license holders totalled CZK 135.7 million. The total amount of contributions by other telecommunications license holders equals ČESKÝ TELECOM's claim for remuneration from the Universal Service account. The above regulation specifies that the calculation of demonstrable loss connected with the provision of the Universal Service will be periodically performed and evaluated based on required documents and data for the previous calendar year.

### **We are open to cooperation through partnerships**

#### **We continue to be a stable partner for other operators and Internet service providers**

For a number of years, we have been providing professional services to partners in the Czech Republic and abroad, in particular to telecommunications network operators and telecommunications service providers. We intend to support the development of the telecommunications market in the Czech Republic and to strengthen our position in the European wholesale market. Our goal is to become a significant carrier for telecommunications services between central and eastern European countries and western Europe.

In 2002, we successfully introduced a number of new specialised products for more than 100 domestic and 250 international wholesale customers. We increased the number of completed interconnection agreements with network operators and telecommunications service providers. We succeeded in benefiting from the capital expenditure program into modern telecommunications infrastructure and offer competitive telecommunications services.

Several important events influencing the provision of service to wholesale customers took place throughout the year. In June 2002, ČESKÝ TELECOM completed full digitalisation of the Public Telephone Network. The Carrier Selection service could therefore be implemented in July. In June, discussions on future Internet access technologies began, and in October a professional commission was delegated to resolve this issue.

By the end of the year, we completed preparations for the Number Portability and the Carrier Pre-Selection services. We focused on the preparation of the Local Loop Unbundling service and the wholesale offer of broadband connectivity based on ADSL technology. Both these activities will be key products in 2003.

The liberalisation of the Czech telecommunications market influenced the decrease in our outgoing and incoming international call traffic at the beginning of 2002. We also noted a long-term trend of reduced international voice traffic operator charges. However, our new marketing strategy has meant an increased share in the provision of international voice services for mobile operators.

Our local data services are based primarily on the lease of infrastructure. In 2002, we increased the number of leased circuits within the Carrier Line and Carrier Network services by 43%. We also extended the services provided to most clients among mobile and fixed operators and telecommunications services providers.

In September, we also began construction of ČESKÝ TELECOM's network in selected international markets. As part of this project, we are establishing our own Points of Presence in Slovakia, Austria and Germany. We registered subsidiary companies in Frankfurt am Main, Vienna and Bratislava. These subsidiaries acquired the necessary telecommunications licenses in all three countries. This is a response to currently existing business relations, which we intend to extend qualitatively (new services to existing clients) and



# World



at your fingertips

we are in 192 countries

We offer services to 225 destinations worldwide. We are the first national operator from the EU candidate countries to launch a project establishing our own telecommunications infrastructure with access points abroad. These will cover all neighbouring countries by the end of 2003.

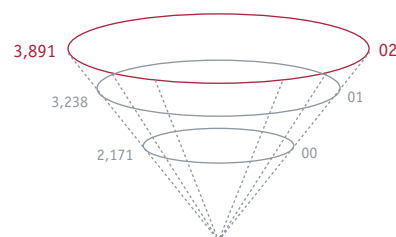


# More

out of life

increase in the number of customers,  
in thousands

Through Eurotel we participate in the mobile telecommunications market. In 2002, Eurotel maintained its leading position among local mobile operators and achieved a 20% increase in new customers. Eurotel offers customers a wide range of new and innovative services and is the first Czech operator to introduce the MMS and video streaming services.



quantitatively (acquisition of new customers). Full commercial operation of the international network is scheduled for the first half of 2003.

## We have a significant share of the mobile telephony market

Through its 51% share in Eurotel, ČESKÝ TELECOM participates in the mobile telecommunications services market. Eurotel is a joint venture of ČESKÝ TELECOM (51%) and Atlantic West B.V. (49%). Atlantic West B.V. is co-owned by Verizon Communications and AT&T Wireless Services.

Mobile phone penetration exceeded 70% in 2002. At the end of the year, the number of activated SIM cards per 100 citizens increased to approximately 84. Eurotel retained its leading position in the highly competitive mobile telecommunications services market, ending 2002 with 3,891 thousand customers. This figure represents an increase of 20% in comparison with 2001 and is approximately 45% of the Czech mobile telephony services market.

Compared to previous years, the rate of increase in the number of new customers is decreasing, and mobile operators are starting to focus on customer loyalty and the introduction of new value-added services.

In 2002, Eurotel once again presented itself as a dynamic and innovative company. It was the first operator to offer the MMS messaging service in the Czech Republic. This technology enables users of MMS-supporting telephones to send and receive photos, drawings, animated graphics, music and sound recordings. Since August 2002, Eurotel has prepared over 50 multimedia MMS services, including a news service with picture attachments, traffic and weather information, and snow reports from Czech mountains. Eurotel's customers can send and receive MMS messages not only to their own network, but also to and from the T-Mobile network since November. The Czech Republic is one of the first countries that allows MMS messages to be sent to the customers of other operators.

In 2002, Eurotel extended the Eurotel GSM Banking service to include Česká spořitelna and ČSOB banks. Eurotel is the only operator in the Czech Republic offering the Kombi card, which enables the use of two separate numbers on one SIM card.

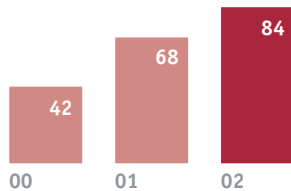
Eurotel also became the first mobile operator in the Czech Republic to offer video streaming services. The Eurotel Video service brings video sequences previously only available through TV broadcasting to mobile phones. This can be used to broadcast up-to-date news services, entertainment, film previews, or erotic content. The Eurotel Video service is offered in cooperation with Czech TV, Reuters, U-TURN, AS-Film, ATS Praha, Warner Brothers, Falcon, iComVision, Techno Publishing and Mondial Bohemia. In cooperation with Palace Cinemas movie theatres, Eurotel introduced the m-Payment service, enabling reservation and payment for cinema tickets anywhere and anytime using a mobile phone.

In cooperation with MultiMedia Computer, Eurotel expanded the Mobile Guide navigation and search service to include several new features, including the Find the Way service capable of searching for the quickest route between two points and sending route information via an SMS message.

Eurotel also introduced another entertainment service for mobile phones – JAVA games. Using selected mobile phones, customers can download games from five different categories, including logic, arcade, and action games.

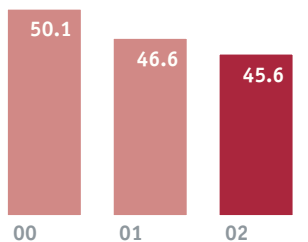
Eurotel introduced a unique service, the Eurotel Insurance Program, which limits the

## A successful joint venture



Mobile penetration in the Czech Republic at the end of 2002, in %

## Eurotel – pioneer in new services and technologies



**Eurotel's customer market share in %**

consequences of mobile phone theft. For an annual insurance fee starting at CZK 790, Eurotel customers (Eurotel, Go and T!P) can buy insurance to receive the same or equivalent telephone free of charge if their phone is stolen. Eurotel cooperates with MARSH, Generali Pojišťovna and IPB Pojišťovna on this product.

Go, the Eurotel prepaid service brand, recently started offering its customers the Go GPRS Instant service, which is also available abroad. It also introduced the unique xgenGo SMS game. The Go brand also brought its customers new lower call prices. The Quatro Go tariff now has cheaper off peak calls to fixed lines. For the Original Go tariff, peak/off peak billing was abolished.

Eurotel also strengthened its position on the corporate client market during 2002. According to a T-Audit survey by AISA, Eurotel has a 63% share of the market of companies with more than six employees (in companies with more than 200 employees, it has more than an 86% share). During the first six months of 2002, Eurotel won 78 out of 98 tenders for the supply of mobile telephone services to corporate clients (tenders called in keeping with legal or internal company regulations).

A new Eurotel Mobile telemetry product and service group was introduced. These services enable GSM communication with houses or cars and allow the switching on and off of devices or alarms. Eurotel Mobile telemetry reacts to the demand in the corporate client market for products enabling data collection and evaluation using the Eurotel GSM network. The possibilities of this new service will be appreciated especially by gas and heating energy providers, elevator maintenance companies, hotels, police departments, or centralised security control systems.

Eurotel has been offering its corporate clients a new service, Eurotel Cell Info, since June 2002. This service enables the sending of specific commercial messages to mobile phone displays. In cooperation with Microsoft, Eurotel introduced a new corporate customer service called Eurotel Mobile Office Profi. This service enables safe access to e-mail or other internal databases of Eurotel's corporate clients using WAP-enabled mobile phones and Pocket PC PDA's. Mobile Office Profi is designed particularly for managers, sales staff and technical personnel. Eurotel won the Crystal Disc award for this service at the Invex exhibition.

## **We take full advantage of state-of-the-art infrastructure and new technologies**

ČESKÝ TELECOM offers its services using a technically advanced and reliable network infrastructure. In addition to the Public Telephone Network, (PSTN, value-added voice services and euroISDN), it also operates the largest data network for the provision of data and Internet services and the largest Leased Line network within the Czech Republic. The entire network infrastructure is being expanded, controlled and maintained within predefined parameters and with an emphasis on cost-effectiveness in order for customers to receive the maximum possible quality and range of services.

Modernisation of the network infrastructure and availability of new telecommunications services were aided by the completion of the digitalisation of the network, which was accomplished in June. At the end of 2002, ČESKÝ TELECOM operated 140 digital host exchanges and 2,374 RSU (Remote Subscriber Units) across the Czech Republic, the total capacity of which is approximately 4.5 million phone lines. Total investment into network

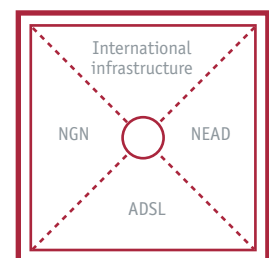


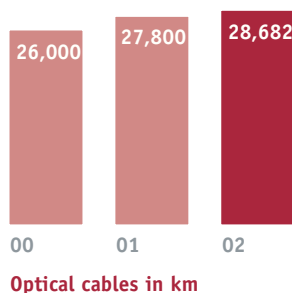


**technologies replace the old**

initiatives and projects

By providing reliable and advanced telecommunications services, we enhance the quality of our customers' lives. We continuously develop new products and technologies, so that we can always offer our customers sophisticated, state-of-the-art telecommunications services and solutions.





modernisation since 1995 reached CZK 160 billion, which includes not only digitalisation but also backbone and access networks.

In accordance with the time schedule set out in the Telecommunications Act, we ensured the technology conditions for the introduction of the Carrier Selection, Number Portability and Carrier Pre-Selection services. We also prepared conditions for the development of new ADSL technology-based services and continued to implement the NEAD information system, which will include a database of information on network conditions and will enable the Sales and Organisation units to react flexibly to customer needs. This process is accompanied by the replacement of the PORTA system by the construction of the 4TEL system in Central Bohemia and Prague.

Since September 2002, we have worked to establish our network on selected international markets in Frankfurt, Vienna, and Bratislava.

Within the Czech Republic, we operate a network of analogue and digital Leased Lines providing speeds ranging from 64 kb/s, 2 Mb/s to 2.5 Gb/s. We provide competitive services not only to our customers, but also to alternative and mobile operators. Our network infrastructure includes state-of-the-art interconnection with international telecommunications carriers and licensed national operators of mobile and fixed networks. By the end of 2002, a total of 28,682 km of optical cables were in use, an increase of 3%. The total length of optical fibres in use was 846,585 km, an increase of 3.9%. In 2002, we also implemented the national ATM Backbone LLNet (STM-1) Network project and the ATM Backbone (STM-16) and IP Backbone networks. The goal of these projects is to provide a high capacity data network, enabling technical conditions for the development of existing data services and the introduction of new projects such as Internet for Schools and Intranet for the Public Administration Information Systems. The infrastructure enables the introduction of new services (for example broadband services) and creates a next-generation network (NGN) environment. A robust network solution with back-up offers customers high quality, safe and reliable voice and data transfer in one environment.

We are preparing a distribution and contribution network for Czech Television, the goal of which is to develop systems to transfer the Czech TV signal between individual TV studios and transmitters using the ATM data network. By the end of 2002, the distribution system was enabled for 17 TV transmitters and at three studios (Prague, Brno and Ostrava). The first part of the contribution system was also enabled and connects the Prague, Brno and Ostrava TV studios. The project will be completed in August 2003.

The consolidation and centralisation of all information technology systems and assets into one group, the Information Systems Group (ISG), was also completed in 2002. This has brought better IT administration and control throughout the company and more effective use and administration of available resources. ISG provides support to other ČESKÝ TELECOM business units and divisions by developing standard application and development services. By opening its own division for its IT business activities, ČESKÝ TELECOM also started to play an active role on the external market.

## We optimise internal resources

A continuous process of automation and optimisation of internal information flow is underway at ČESKÝ TELECOM. This process includes the company purchase portal, BBP, through which most goods and services are purchased. This portal is directly linked to the SAP system. It simplifies and accelerates individual purchase processes.

# Responsibility

## education and motivation

The knowledge and skills of our employees are key to the success of our business on the liberalised Czech telecommunications market. We respect and value our employees and do our utmost to ensure that they feel satisfied as part of our company. We strive to enhance their professional and personal growth.

## employee structure







# Care

**brings growth**

theatre, film, children, skiing, ice hockey,  
tennis, athletics

We are dedicated to the support of community activities in the Czech Republic and strive to enhance the quality of life within Czech society by sponsoring the development of social projects, culture and sport. We have a long tradition of support for several activities, and we are always open to new initiatives to extend our sponsorship program.





The SAP Retail system (an upgrade of the SAP R/3 system for sales of goods in all segments) changed the possibilities for cost management, portfolio, and sales offers for end devices. The system is centralised and distributed via sales channels almost online. Implementation of the html application on SAP Retail, enabling the transparent presentation of end devices and price distribution via the company Intranet, was another positive change.

We also continued to increase the effectiveness of document and company information management and control. Goals in this area are achieved thanks to the eDMS (Electronic Document Management System), whose basic premise is to provide a safe, central archive for all documents and information and to enable users to work with them effectively.

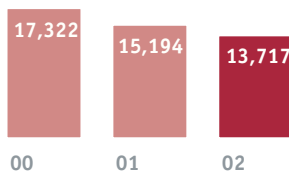
## We care about our workforce

ČESKÝ TELECOM retained its position as a sought-after and preferred employer in 2002. We are aware that the success of our business in a fully liberalised environment places new requirements on the knowledge and skills of our employees. At the end of 2002, we completed the preparation of an intellectual capital database, which gives us a comprehensive view of its actual condition and usage. We focused on the optimisation of the work behaviour of all employees, creating an environment for them to increase their work-related abilities and strengthen their self-motivation. The Virtual University training program played an important role in increasing the professional knowledge of our workforce.

The decision to change the remuneration and benefits system was formalised in the REWARD project. We introduced further links between remuneration and regular outputs through individual evaluations of the work output of each employee, the business results of individual groups, and the results of the entire company. Parallel with financial remuneration, motivational aspects of employee benefit programs were also addressed.

As far as educational structure is concerned, the share of university-educated employees is increasing. By the end of 2002, this share was more than 16% of the total number of employees. More than 46% of the total workforce is 40 years old or younger.

ČESKÝ TELECOM accentuated its focus on corporate culture and strived to find a balance between the interests of the company and its employees. This balance was demonstrated during collective negotiations between the unions and company management. Despite problems we could not avoid as a result of developments on the world markets and the cancellation of the privatisation process, we were able to preserve this balance and maintain a good relationship with employee trade unions despite the necessary workforce reductions.



Number of employees  
as at the end of the period

## We are wherever you need us

ČESKÝ TELECOM participates actively in events in the Czech Republic and strives to maintain the quality of life within Czech society by sponsoring the development of social projects, culture and sport. Most of our activities have a long tradition that we build upon, but we are also aware of new initiatives that are capable of bringing effective innovation to our sponsorship program. We have been a partner to theatre and fine arts for more than eight years. During 2003, we will expand our activities to include additional regional theatre ensemble support. The social situation in the Czech Republic is another area in

which we are interested. In 2002, we continued our support of the Our Child Foundation and the Umbilical Blood Bank. To propagate non-profit and philanthropy projects, Eurotel established the Eurotel Foundation. Its goal is to provide long-term support for children and youth projects across the Czech Republic. The Eurotel Foundation must, according to its Founding Charter, support projects beneficial to the healthy development of children and youth and their spiritual and physical advancement.

Our cooperation with the Child Safety Line has continued for eight years. In the small donations area, we began cooperation with the Open Society Fund in 2002. The idea of linking the possibilities offered by a commercial subject and the experience of a non-profit organisation for the financial support of public-benefit activities has proven successful. We also continue to donate outdated IT equipment.

The support of Czech theatre, both on the national and local levels, continued to be our priority in 2002. We connected our name with the prestigious Thalia dramatic arts award, the European Regional Theatre Festival in Hradec Králové (nicknamed the Czech Avignon), and the International Theatre Festival in Pilsen. Our activities in the area of the film industry have traditionally benefited from our partnership with the International Film Festival in Karlovy Vary, and in 2002 included support of the unique Febiofest festival and The Summer Film School. We also became partner of the documentary film "Nicholas Winton – The Power of Good" by Matěj Minář, the first Czech film nominated for the prestigious International Emmy TV Award, which it won on 25 November 2002 in New York.

We also supported the "Flight and Exile in Art" exhibition organised by the United Nations High Commission for Refugees.

In sports, our sponsoring activities were dominated by sponsorship of the Czech Ice Hockey League and cooperation with the Czech Olympic Team and the Davis Cup tennis team, including the Junior World Tennis Championships of players under 14 years of age. At the end of 2002, we became the main sponsor of the Czech Ski Association.

We reacted swiftly to the devastating floods in August 2002. In addition to an internal collection, which brought CZK 6.5 million to ČESKÝ TELECOM's employees affected by the floods, we also continued our cooperation with the People in Need - Czech TV Foundation and operated a charity telephone line. Individuals and organisations donated a total of CZK 20 million through this line. The People In Need Foundation distributed these resources to individuals, associations and institutions affected by the floods.

Eurotel provided services free of charge to more than 6,400 members of the Czech Republic's Integrated Rescue System. Firemen, police officers, professional rescuers, members of coordination committees, members of local governing bodies and other participants in rescue operations made more than 700,000 minutes of calls and sent hundreds of thousands of SMS messages between 12–29 August. Eurotel also donated 294 telephones to members of the Integrated Rescue System and delegated representatives to some of the 16 main coordination committees.

## **We stress an environmental approach**

We strive to create a business compatible with the principles of sustainability. We focus in particular on the handling of waste and chemical substances, on water and air protection, as well as on energy and raw material conservation methods and emergency situations. We also require our suppliers to meet environmental standards.

Simple compliance with legal requirements is a minimum. To strengthen our sensitive approach to environmental issues, we decided to implement an additional certification process beyond statutory requirements. By the end of 2002, we completed the implementation of an environmental management system according to the ČSN EN ISO 14001 standard within the Hradec Králové region. Following an audit by Lloyd's Register Quality Assurance, we were awarded an EMS certificate. We want to implement the same approach subsequently across the entire company.

Our subsidiary Eurotel was also certified for environmental protection under the ISO 14001 standard, which obliges its holder to maintain a sensitive approach to the environment and its protection. Eurotel is the only telecommunications operator and one of the few companies that holds this certificate for the entire Czech Republic. The ISO 14001 was issued by RWTÜV, a renowned company with a worldwide tradition of certifying management systems.

## **We facilitate development of the market**

ČESKÝ TELECOM will aid the development of an environment ensuring balanced and transparent conditions for all subjects on the Czech telecommunications market. We will continue to develop business relations with other subjects on the market so that we may support its overall growth, the penetration of telecommunications services into all customer segments, and the increasing business attractiveness of the entire market industry. These relations will be developed as mutually beneficial.

ČESKÝ TELECOM will deepen its differentiated customer approach. This will ensure an optimum product portfolio of telecommunications services for each customer segment, with corresponding quality and affordability. The differentiated customer approach also requires in-depth understanding of market needs and principles, both by us and by our partners as well as by institutions overseeing the business environment.

We will develop and support the use of the most common and most widely available type of Internet connection – the dial-up connection using a modem and a telephone line. We will strive to create a competitive environment between ISP's by making the price structure clearer, the payments for services more transparent, and by optimising the targeting of dial-up connection services to end customers.

We will target the effective use of investment into the fixed network and the potential of Leased Loops. The most important event in this area during 2003 should be the introduction of broadband Internet access services based on ADSL technology. The successful operation of these services in February 2003 was helped by constructive negotiations between ČESKÝ TELECOM, alternative operators, ISP's and other telecommunications subjects on the Czech market. As of March 2003, we have already signed 12 contracts with partners, and others are being prepared. Broadband Internet access services and broadband data services will enhance not only education and entertainment, but will also promote the fast remote access of employees into company networks from their homes, which will represent an important benefit for corporate clients. These developments will also aid the information society concept in public administration institutions. Use of broadband data services for the Public Administration Information Systems infrastructure will support the development of electronic communication among citizens, the business sector, and the public sector.

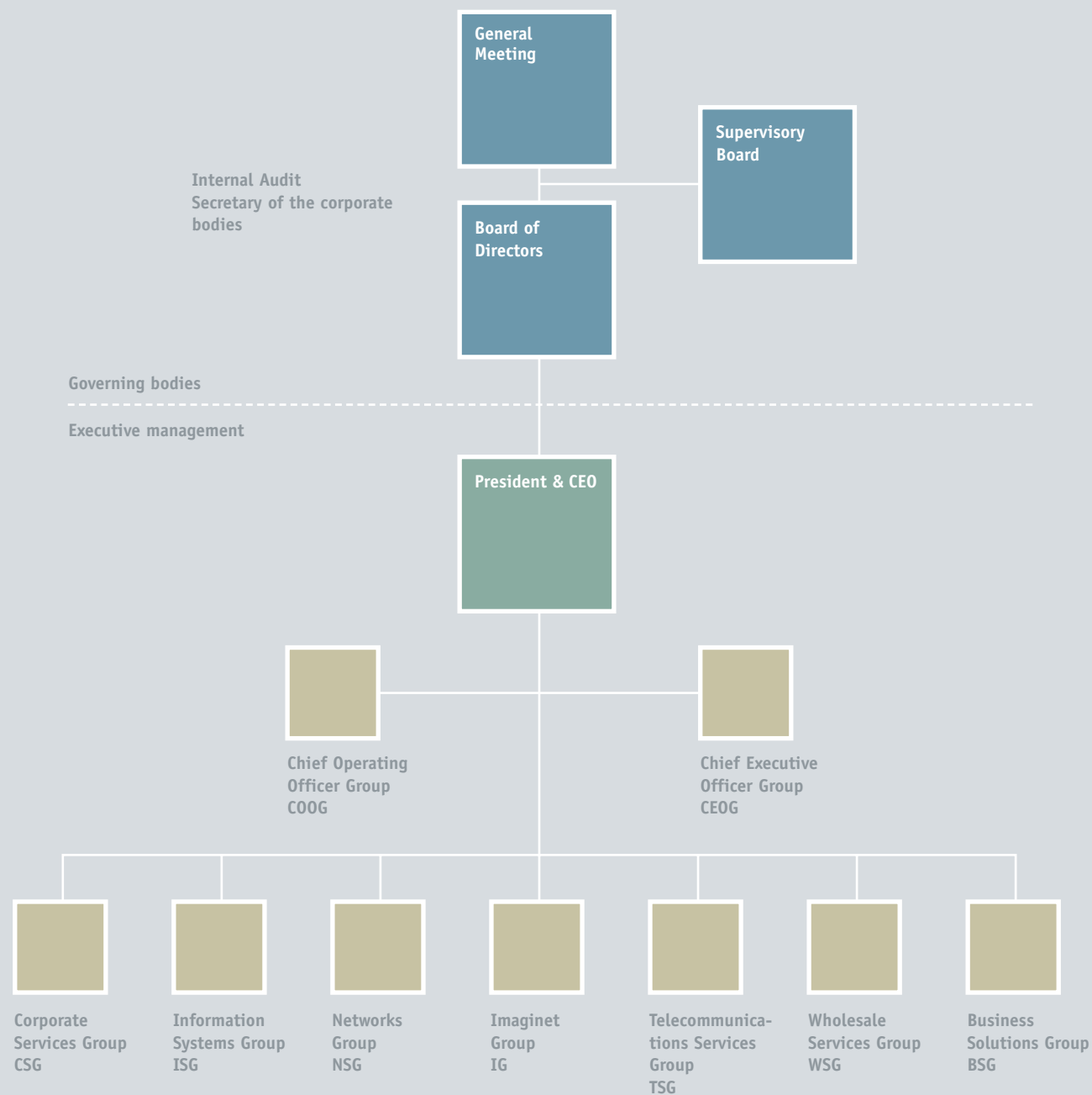
Through Eurotel, we will continue to offer mobile telecommunications services of the highest quality and bring our customers new value through innovative services, including entertainment and information services. Because of the high saturation of the mobile telecommunications market, we will not only target the acquisition of new customers, but also relations with existing customers using optimised service portfolios for each customer segment.

**Business entities in which ČESKÝ TELECOM  
directly owns more than 10% of registered capital**  
(As at 31 December 2002)

<div> <div>M.I.A., a.s.</div> <div>CZK 1,000,000</div> <div>100%</div> </div>	<div> <div>Eurotel Praha, spol. s r.o.</div> <div>CZK 1,211,000,000</div> <div>51%</div> </div>	<div> <div>SPT TELECOM (Czech Republic) Finance B.V.</div> <div>EUR 18,151</div> <div>100%</div> </div>
<div> <div>OMNICOM Praha, spol. s r.o.</div> <div>CZK 10,000,000</div> <div>100%</div> </div>	<div> <div>asp1000, s.r.o.</div> <div>CZK 71,443,000</div> <div>50.9%</div> </div>	<div> <div>CZECH TELECOM Austria GmbH.</div> <div>EUR 35,000</div> <div>100%</div> </div>
<div> <div>Vianet, spol. s r.o. <i>in liquidation</i></div> <div>CZK 100,000</div> <div>100%</div> </div>	<div> <div>AUGUSTUS, spol. s r.o.</div> <div>CZK 166,000</div> <div>39.6%</div> </div>	<div> <div>CZECH TELECOM Germany GmbH.</div> <div>EUR 25,000</div> <div>100%</div> </div>
<div> <div>EDINet.cz, s.r.o. <i>v likvidaci</i></div> <div>CZK 97,929,000</div> <div>100%</div> </div>	<div> <div>CenTrade, a.s.</div> <div>CZK 600,000,000</div> <div>86.5%</div> </div>	<div> <div>CZECH TELECOM Slovakia s. r. o.</div> <div>SK 200,000</div> <div>100%</div> </div>
<div> <div>Company name</div> <div>Registered capital</div> <div>ČESKÝ TELECOM share</div> </div>		

# Organisational structure of the company

(As at 31 December 2002)



## Corporate bodies

### General Meeting

The General Meeting, which is comprised of the company's shareholders, decides on fundamental economic, organisational and business matters. Its rights and authority are determined by the Commercial Code and ČESKÝ TELECOM's Articles of Association. As a rule, the 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 oversees the implementation of ČESKÝ TELECOM's Business Plan. Its composition, rights, and authority are determined by the Commercial Code and by ČESKÝ TELECOM's Articles of Association. The Supervisory Board meets at least once every three months, usually once a month.

### Board of Directors

The Board of Directors consists of nine members and is the statutory body governing and acting on behalf of ČESKÝ TELECOM. The Board of Directors decides on all matters other than those delegated to the General Meeting, pursuant to the law or the company's Articles of Association. The Board of Directors usually meets once a month and at least 12 times in a calendar year.

### President & CEO

The office of President & CEO is established within the company. The President & CEO is appointed and recalled by the Board of Directors. The President & CEO is authorised by the Board of Directors to execute the business management of the company and to implement decisions of the Board of Directors, the General Meeting, or the Supervisory Board if necessary. The President & CEO represents the company vis-à-vis third parties.



**The following changes in the composition of the Board of Directors took place in 2002**

**Miloslav Hejnák**  
suspended by the General Meeting  
of 14 June 2002  
**Jiří Němec**  
suspended by the General Meeting  
of 14 June 2002  
**Marten Pieters**  
co-opted on 16 January 2002; confirmed  
by the General Meeting of 14 June 2002;  
suspended by the General Meeting  
of 20 December 2002

**Robert Jan Terwiel**  
resigned on 16 January 2002  
**Ondřej Felix**  
confirmed by the General Meeting  
of 14 June 2002  
**Marcela Gůrtichová**  
confirmed by the General Meeting  
of 14 June 2002; suspended by the  
General Meeting of 20 December 2002

**Přemysl Klíma**  
suspended and re-elected by the  
General Meeting of 14 June 2002;  
resigned on 18 December 2002  
**Václav Srba**  
elected by the General Meeting  
of 14 June 2002; suspended by the  
General Meeting of 20 December 2002  
**Jan Škurek**  
elected by the General Meeting  
of 14 June 2002;  
resigned on 18 December 2002

**Adam Blecha**  
elected by the General Meeting  
of 20 December 2002  
**Hana Doležalová**  
elected by the General Meeting  
of 20 December 2002  
**Zdeněk Hrubý**  
elected by the General Meeting  
of 20 December 2002  
**Pavel Kuta**  
elected by the General Meeting  
of 20 December 2002



## Board of Directors (as at 30 April 2003)

### [1] Ondřej Felix (\*1954)

#### *Chairman of the Board of Directors*

Graduated from the Czech Technical University, Information Technologies. Worked for the Federal Statistical Office, the Czech branch of ICL, and APP Systems. Served as Managing Director of Oracle's branch in the Czech Republic and later as Director of Oracle's Public Services for Central and Eastern Europe. Member of the Association for Information Society and the Administrative Council of Masaryk University in Brno. Since 1 December 2001 he is Chairman of the Board of Directors of ČESKÝ TELECOM. Since 29 November 2002, he is the company's Chief Executive Officer.

### [2] André Frans Bessel Kok (\*1941)

#### *First Vice-Chairman of the Board of Directors*

Studied economics at the University of Amsterdam. Served as Chief Executive Officer of S.W.I.F.T. (Society for Worldwide Interbank Financial Telecommunication) and BELGACOM. Since 1995, he is Chief Executive Officer of TelSource N.V. He serves as Chief Operating Officer of ČESKÝ TELECOM.

### [3] Adam Blecha (\*1966)

#### *Member of the Board of Directors*

Graduated from Hautes Etudes Commerciales, Paris, International Finance. From 1988–1990, worked as a consultant at Corporate Value Associates, London, and later at the Financial Directorate of Credit Lyonnais, Paris. Since 1993, he works as a founding partner of Corsum in the area of mergers and acquisitions in Central Europe. Since 1994, he serves as Vice-President of LARI (the Lagardere Group) and is also Chairman of the Supervisory Board of Frekvence 1, a.s. He is a member of the Board of Directors of several companies of the ODKOLEK a.s. Group and a member of the Supervisory Boards of MASSAG, a.s. and HERMES PRAGUE, a.s. He is a partner of Corsum Group, s.r.o., and Even Media, s.r.o.

### [4] Hana Doležalová (\*1961)

#### *Member of the Board of Directors*

Graduated from the University of Agriculture, Brno, School of Business Administration, and later did postgraduate study at the Prague School of Economics, Valuation of Corporations. In 1998 she was appointed to the list of bankruptcy administrators, and in 2000 she was granted a certificate of accounting and tax expertise by the Czech Chamber of Tax Advisors. She has over 10 years' experience with bookkeeping and tax consultancy. She has worked since 1995 as an auditor and since 1998 as a bankruptcy administrator. In 1995 she became the responsible representative of MAIN AUDIT, s.r.o.

### [5] Zdeněk Hrubý (\*1956)

#### *Member of the Board of Directors*

Graduated from the Czech Technical University, Electro-technical Faculty, Cybernetics, Prague and holds a PhD. in Economics. Worked at the Prognostic Institute of the Czechoslovak Academy of Sciences. He has worked as a teacher and scientist at the Institute of Economic Studies of the Faculty of Social Sciences at Charles University and at the Electro-technical Faculty of the Czech Technical University. He has also worked at Konsolidační banka Praha, and at universities and research institutes in Great Britain and Germany. He coordinated a number of international projects. He was the Head of the expert team for the assessment of the Temelín nuclear power station and he worked as OECD consultant for telecommunications. In 1999–2000 he was Deputy for Economic Policy to the Deputy Prime Minister and Government Representative to the Annual Meetings of the World Bank and IMF. He is currently Deputy Minister of Finance of the Czech Republic and Vice-Chairman of the Executive Committee of the National Property Fund. He is a member of the Board of Directors of Sokolovská uhelná, a.s., Vice-Chairman of the Supervisory of ČEZ, a. s., and member of the Supervisory Board of ČSA, a. s.

### [6] Jan Juchelka (\*1971)

#### *Member of the Board of Directors*

Graduated from the Silesian University in Karviná, Business and Enterprise Faculty. Since 1995 he has worked for the National Property Fund of the Czech Republic and since 1 November 2002 he is Chairman of the Executive Committee of the National Property Fund. He is a member of the Supervisory Board of Komerční banka, a.s., and ČEZ, a. s.

### [7] Pavel Kuta (\*1968)

#### *Member of the Board of Directors*

Studied at the Prague School of Economics, 1986–1989. Graduated from the Master's College, Santa Clarita, CA (B.A., Business Administration, 1993) and the London Business School (M.B.A., 2002). In 1994–1999, he worked at Patria Finance, a.s., Prague, in corporate finance and capital markets. In 2000 he worked at Schroder Salomon Smith Barney, London, as a Senior Associate in the Investment Banking department. In summer 2001 he joined Lehman Brothers, London, in the Telecommunications and Media department for European investment banking. He is currently Vice-Chairman of the Executive Committee of the National Property Fund of the Czech Republic. He is a member of the Supervisory Board of Unipetrol, a.s.

### [8] Günter Heinz Pfeiffer (\*1958)

#### *Member of the Board of Directors*

Graduated in Economics from the University of Bonn. Worked as a researcher at the University of Cologne, where he specialised in telecommunications economics. He also worked at Detecon GmbH, T-Mobile and VEBA Telecom GmbH. Since 2000 he has been the Head of the Participation Management Division at Swisscom AG. He serves as Chairman of the Supervisory Board of TelSource N.V., member of the Supervisory Board of debitel AG, and as member of the Board of Directors of Swisscom Multimedia B.V.



## Supervisory Board Report

In 2002, the Supervisory Board of ČESKÝ TELECOM, in accordance with the company's Articles of Association, 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 compliance with the law, the Articles of Association, and the principles and policies approved at the General Meeting.

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

During its meeting on 27 March 2003, the Supervisory Board reviewed the audited annual financial statements for 2002 (before consolidation and after consolidation) based on international and Czech accounting standards and recommended it to the General Meeting for approval.

Prague, 3 April 2003

A handwritten signature in dark ink, appearing to read 'Michal Frankl', written in a cursive style.

**Michal Frankl**

*Chairman of the Supervisory Board*

## Supervisory Board (as at 30 April 2003)

### The following changes in the composition of the Supervisory Board took place in 2002

**Luboš Vaněk**

suspended by the General Meeting of 14 June 2002

**Louis Johan Lampe**

suspended by the General Meeting of 14 June 2002

**Jan Škurek**

resigned on 13 June 2002; elected by the General Meeting of 20 December 2002

**Michal Tošovský**

suspended by the General Meeting of 20 December 2002

**Eduard Janota**

elected by the General Meeting of 14 June 2002;

suspended by the General Meeting of 20 December 2002

**Eric Maria Johannes Werner de Jong**

elected by the General Meeting of 14 June 2002;

suspended by the General Meeting of 20 December 2002

**Vladimír Měšťan**

suspended by the General Meeting of 20 December 2002

**Zdeněk Švrček**

suspended by the General Meeting of 20 December 2002

**Jiří Weigl**

elected by the General Meeting of 14 June 2002;

suspended by the General Meeting of 20 December 2002

**Michal Frankl**

elected by the General Meeting of 20 December 2002

**Vladimír Šiška**

elected by the General Meeting of 20 December 2002

**Petr Zatloukal**

elected by the General Meeting of 20 December 2002

**Miloslav Hala**

elected by the General Meeting of 20 December 2002

**Michal Švorc**

elected by the General Meeting of 20 December 2002

### The following changes in the composition of the Supervisory Board took place in 2003

**Gerardus Johannes Klein Bluemink**

resigned on 6 February 2003

**Eric Maria Johannes Werner de Jong**

co-opted on 6 February 2003 and also elected

First Vice-Chairman of the Supervisory Board

**Michal Frankl**

elected Chairman of the Supervisory Board

on 6 February 2003

**Michal Frankl**

*Chairman of the Supervisory Board*

First Deputy Minister of Information

Technology of the Czech Republic.

**Eric Maria Johannes Werner de Jong**

*First Vice-Chairman of the Supervisory*

*Board*

Director of International Participations

at Royal KPN N.V. He is responsible for

most international participations of

Royal KPN N.V.

**Lubomír Vinduška**

*Second Vice-Chairman of the Supervisory*

*Board*

Head of Transport and Mechanisation for

the Prague region, ČESKÝ TELECOM. Vice-

Chairman of the Company Coordination

Trade Union Committee of employees of

ČESKÝ TELECOM, and Chairman of the

Coordination Committee of the Trade

Union of ČESKÝ TELECOM, Prague region.

**Dominik Louis Böhler**

Participation Manager at Swisscom AG

for ČESKÝ TELECOM. Member of the

Supervisory Boards of TelSource N.V. and

TelSource Services B.V.

**Miloslav Hala**

In 2001, Country manager of

Compass Ltd.; currently a consultant.

**Pavel Heršтик**

Head of Management, Organisation

and Administration, ČESKÝ TELECOM.

Chairman of the Company Coordination

Trade Union Committee of employees of

ČESKÝ TELECOM.

**Miloslav Krch**

Director of the Prague Local Operations

Area, ČESKÝ TELECOM.

**Zdeněk Šámal**

Chairman of the Trade Unions of Postal,

Telecommunications and Newspaper

Services.

**Jan Schwarzer**

Manager, KSZ (Regional Operation Area,

Moravskoslezsko), ČESKÝ TELECOM.

**Vladimír Šiška**

Deputy Minister of Information

Technology and Director of a division

of the Ministry of Information and

Technology of the Czech Republic.

**Jan Škurek**

Head of the Strategic Privatisation

Department of the National Property Fund

of the Czech Republic. A member of the

Supervisory Board of Středočeská

energetika, a.s., and a member of the

Board of Directors of OSINEK, a.s.

**Michal Švorc**

Director of the Legislative department,

Ministry of Finance of the Czech Republic.

**Václav Wagner**

Deputy Director (till March) of the Price

Policy of the Ministry of Finance of the

Czech Republic.

**Petr Zatloukal**

Director of the Department of Communi-

cations and Information Services of the

Ministry of Interior of the Czech Republic.

**Ladislav Zelinka**

Deputy Minister of Finance of the Czech

Republic. Chairman of the Board of

Directors of Česká exportní banka, a.s.,

Exportní garanční a pojišťovací

společnost, a.s. and SDF, a.s.



**Members of Executive Management (as at 30 April 2003)**

Ondřej Felix  
 André Frans Bessel Kok  
 Jana Berglová  
 David Fox  
 George J. Jankovic  
 Pavel Jiroušek  
 Petr Slováček  
 Radek Soušek  
 Juraj Šedivý

## Executive management

### [1] Jana Berglová

Graduated from Charles University, Prague, Faculty of Mathematics and Physics in Information Science. Worked at the Agricultural University, Prague as a Systems Engineer. She later joined the Software Development department of the Research Institute of Mathematical Machines in Prague in the Computer Graphics section. In 1990–1991 she worked for the Information department of the Ministry of Education, heading its international activities and information science projects. In 1991, she joined IBM Czech Republic and became Director of the Czech Automated Taxation System (ADIS), later becoming IBM Sales Director for the Government and Telco. She became the General Manager of DATASYS s.r.o. and held the position of Sales Director and later Vice-President for Strategic Development of ICZ a.s. In 2002 she joined ČESKÝ TELECOM as the Executive Director of Sales and Solution Design for key Government customers. She is currently acting Executive Vice-President of the Business Solutions Group (BSG).

### [2] David Fox

Graduated from Trinity College, Dublin in Computer Science and Dublin City University (MBA). In 1981 worked at the Department of Posts and Telegraphs, Ireland as Technical Support Manager. He was later promoted to Head of Software Development. In 1985 he joined Telecom Eireann, Ireland, first as Assistant Director of Engineering, then as Director of Customer Care and Billing, and later as Director of Residential Sales and Marketing. He concluded his cooperation at Telecom Eireann in 1999 as Executive Director of IT and joined Eircom plc, Ireland, as Director of Group Information Technology and became Managing Director of Broadband and Data Business. Since 2001 he has worked for ČESKÝ TELECOM as Executive Vice-President of the Information Systems Group (ISG).

### [3] George J. Jankovic

Graduated from the University of Western Ontario, Canada with a degree in marketing. Joined Procter & Gamble, Canada and until 1990 worked in assignments of increasing responsibilities across Canada and the US. In 1990 he transferred to Czechoslovakia to start-up P&G operations. In 1993 he joined Pepsi-Cola Co. as Area Vice-President with responsibility for the Czech and Slovak Republics. In 1997 he joined Seagram Co. as CEO & President of Korean Operations in Seoul. In 1999 he joined Alberto-Culver Co. as Group Vice-President for Emerging Markets based in Chicago and London. He joined ČESKÝ TELECOM in October 2000. In May 2001 he became Executive Vice-President of the Telecommunications Services Group (TSG).

### [4] Pavel Jiroušek

Studied at the University of Western Bohemia, Computer Systems and Technical Cybernetics. Studied at the Institute of Information Technology and Automation. In 2000 he earned an MBA degree at the University of Pittsburgh. From 1992–1997 he worked as Director of Marketing and Product Management for EuroTel Praha, spol. s r.o., and later at SPT TELECOM, a.s. – NEXTEL, o.z. Since 1997 he has been active within ČESKÝ TELECOM. In May 2001, he became Executive Vice-President of the Wholesale Services Group (WSG).

### [5] Petr Slováček

Graduated from the Czech Technical University of Prague, Electrical Technology and Telecommunications. Worked at the Research Institute for Telecommunications in Prague. In 1989 he joined SPT TELECOM, a.s. (now ČESKÝ TELECOM) and specialised in switching technology exchanges, technical development, network management projects and the OSS project. Since 1999 he has served as Executive Vice-President of

the Networks Group (NSG). He earned a Master of Business Telecommunications (M.B.T.) degree at the Technical University in Delft, the Netherlands.

### [6] Radek Soušek

Graduated from the Technical University of Prague, Technical Cybernetics. Worked at OKD Ostrava in the area of research micro-processor communications systems. From 1991 to 2001 he specialised in the issue of technical support and sales of ICT systems of microprocessor communications systems. In 2002 he joined ČESKÝ TELECOM. He currently serves as Executive Vice-President of the Imagnet Group (IG). He successfully completed postgraduate studies at the Czech Technical University, Electro-technical faculty, in the field of microprocessors and microcomputers and research study at the Technical University in Ostrava.

### [7] Juraj Šedivý

Graduated from the College of Mechanical Engineering in Nitra in 1984 and Comenius University in Bratislava in 1990. He worked as an assistant professor and research associate in the area of vehicle mechanics until 1991. He received an MBA from the Rochester Institute of Technology, NY in 1992 and joined Johnson & Johnson Consumer Products, Inc. in New Jersey, where he worked as a financial analyst and then as a Controller of Professional Products, Czech and Slovak Republics division, Prague. In 1996–1997 he worked as the CFO of Globtel, a. s. In 1997, he joined ČESKÝ TELECOM as the Executive Director of Planning and Controlling and later became the Executive Director of Finance. He currently serves as CFO and Executive Vice-President of the Corporate Services Group (CSG).

## Corporate governance

ČESKÝ TELECOM's long-term aspiration is to be a member of the prestigious group of public share issuers based not only on its business results, but also in recognition of the quality of the company's corporate governance. We are aware that the trust of our current shareholders and the interest of future investors is the basic condition for the successful development of our business.

ČESKÝ TELECOM sees its good name as one of its greatest assets. The building and maintenance of ČESKÝ TELECOM's good reputation is the goal of the corporate bodies and all company employees. As part of company activities serving this goal, ČESKÝ TELECOM strengthens its commitment to honour and observe international and local best practice principles, including the main rules and recommendations issued by the regulators of international share markets as a reaction to the failure of the governing bodies of a number of large companies in the United States in 2002.

In 2002, ČESKÝ TELECOM has significantly advanced the process of its corporate governance. The decision of the General Meeting held in June 2002 on compensation for members of governing bodies and the six-month non-competition obligation after the completion of their term as a member of the Board of Directors or Supervisory Board (a ban on acting in favour of a company or institution engaged in activities within the area of ČESKÝ TELECOM's main business) has introduced a system corresponding to OECD corporate governance standards. In autumn 2002, stricter rules concerning the external auditor's work in non-audit (consulting) activities were introduced into ČESKÝ TELECOM's corporate governance. After the initial steps taken to actively control the risks implemented during the previous year within individual company divisions, the Board of Directors adopted a decision to create an integrated risk management system for ČESKÝ TELECOM in January 2003. In February 2003, it delegated a prominent Czech manager as Chief Risk Officer and agreed on the outlook of the risk management system. Risk Management, together with Internal Audit, is a complex tool for the company's corporate bodies to implement independent control and evaluation of conditions and trends in the company's development, especially as far as management of significant business risks is concerned. The founding of a separate Corporate Governance Office under the Board of Directors, chaired by the Secretary of the corporate bodies from 1 January 2003, was also a significant step to support the administrative activities of ČESKÝ TELECOM's corporate bodies. The office employs, among other professionals, independent consultants providing services to the Chairmen of the corporate bodies, non-executive members of the Board of Directors, and members of the Supervisory Board. In February 2003, the Board of Directors accepted ČESKÝ TELECOM's Ethical Code, in which the members of the corporate bodies and company employees pledge to abide by the business ethics and principles of professional behaviour.



## Declaration of ČESKÝ TELECOM on the compliance of its corporate governance with the Code of Proper Corporate Governance based on OECD guidelines

The Board of Directors and Supervisory Board of ČESKÝ TELECOM undertake to continue introducing into practice the principles of proper corporate governance which ČESKÝ TELECOM adopted in its 2001 Annual Report. The company's corporate bodies aim to fulfil all Commercial Code criteria within three years. The proper corporate governance tools and activities directly under the control of the corporate bodies (i.e., those not under direct influence of shareholders) have already been incorporated into the governance process and will be further cultivated and developed.

### A. Corporate governance

As part of the personnel changes to ČESKÝ TELECOM's corporate bodies in 2002 and continuing until the end of April 2003, ČESKÝ TELECOM's shareholders chose persons with the professional and personal qualities necessary to serve as members of the company's corporate bodies.

In accordance with its Articles of Association, the company's nine-member **Board of Directors** consisted, for most of 2002, of seven non-executive members and two members of management (the CEO and the Chief Operating Officer). As at the extraordinary General Meeting of 20 December 2002, the Board of Directors consists of seven non-executive members and the Chairman of the Board of Directors, Ondřej Felix, who also acts as the company's CEO. One executive position has been left unoccupied until 30 April 2003. The combination of the Chairman of the Board of Directors and CEO functions is only temporary and was necessitated by the dismissal of the former CEO, Přemysl Klíma, by decision of the Board of Directors on 27 November 2002. This situation will be remedied by the appointment of a new CEO.

Personnel changes to the Board of Directors decided by the ordinary General Meeting in June 2002 and the extraordinary General Meeting in December 2002 and by the resignation of members of corporate bodies resulted in the following changes. In June 2002, Jiří Němec was replaced by Jan Škurek, an employee of the National Property Fund of the Czech Republic specialising in capital operations; Miloslav Hejnák resigned and was replaced by Václav Srba, Deputy Minister of Finance and later Deputy Minister of Industry. In December 2002, four members of the Board of Directors (Marcela Gürlichová, Jan Škurek, Václav Srba and Marten Pieters) were replaced by new members. Pavel Kuta and Zdeněk Hrubý are financial professionals holding positions in the structures controlling the majority share of the company (Pavel Kuta is Second Vice-Chairman of the Executive Committee of the National Property Fund of the Czech Republic; Zdeněk Hrubý is the Deputy Minister of Finance of the Czech Republic). The remaining two new members are from the private sector. Hana Doležalová contributes her knowledge as an auditor and external consultant. Adam Blecha has more than ten years' experience in representing foreign investors in many corporate bodies of joint-stock companies.

As in 2001, the Board of Directors had full operational ability in 2002 and to the date of publication of this Annual Report, as defined in the company's Articles of Association and in other basic governance documents. Members of the Board of Directors are elected and dismissed by the company's General Meeting.

The company's Supervisory Board had the same number of members in 2002 (15 members), one-third of whom were delegated by company employees. Changes to the members

of the Supervisory Board representing the shareholders were brought by the ordinary General Meeting of 14 June 2002 and the extraordinary General Meeting of 20 December 2002. In June, the Supervisory Board received three new members (replacing Luboš Vaněk, who was dismissed, and Louis Johan Lampe and Jan Škurka, who resigned). Two of these new members, Eduard Janota and Eric Maria Johannes Werner de Jong, work for the main shareholders. Eduard Janota is the Deputy Minister of Finance of the Czech Republic. Eric Maria Johannes Werner de Jong is the International Property Participation manager for Royal KPN N.V. Jiří Weigl, the third new member, does not represent the main shareholders.

In December 2002, the extraordinary General Meeting made significant changes to the members of the Supervisory Board. Six members were dismissed (Eduard Janota, Jiří Weigl, Vladimír Měšťan, Zdeněk Švrček, Michal Tošovský and Eric Maria Johannes Werner de Jong). Six new members were delegated to these positions, five of whom (Michal Frankl, Vladimír Šiška, Michal Švorc, Petr Zatloukal and Jan Škurek) hold different positions in the main shareholders' structures. The remaining member, Miloslav Hala, is active in the private sector and does not have any direct links to the main shareholders. Michal Frankl and Miloslav Hala are experts in finance, and Michal Švorc is an experienced lawyer. Petr Zatloukal is a professional in security issues. Vladimír Šiška has experience in the telecommunications business. In February 2003, Gerardus Johannes Klein Bluemink resigned from the Supervisory Board and was replaced by Eric Maria Johannes Werner de Jong.

Compared to the previous year, the number of independent members of the Supervisory Board decreased. The eventual change of this situation is within the main shareholders' power.

No changes occurred in the scope of activities of the Board of Directors or in the validity of other provisions concerning the functionality of the company's corporate bodies and the Secretary of the corporate bodies in 2002 or as at the date of the publication of this Annual Report. No changes occurred, as the company's Articles of Association did not change (with the exception of the update to the subject of business of the company following new telecommunications licenses). Other administration and management documents also did not change. Beginning in 2003, the Supervisory Board has intensified its activities in the area of supervising the Board of Directors and the realisation of the company's business activities. It will cooperate more closely with the Audit Committee and will meet every month.

The Board of Directors met for 12 sessions and four specialised workshops. The Supervisory Board met a total of five times.

ČESKÝ TELECOM has an effective administration and organisational support system for the corporate bodies, controlled by the Secretary of the corporate bodies, who provides members of the Board of Directors and Supervisory Board necessary information and material within deadlines specified by the rules governing the corporate bodies. Members of the Board of Directors are given documentation usually seven and at least three days prior to the meeting; Supervisory Board members are sent documentation usually ten days prior to a meeting. Members of corporate bodies also receive all important information, news and data on the company, including its functioning and business activities. Information concerning meetings and presented materials is given to the members of the Board of Directors and Supervisory Board upon request or automatically by the Secretary of the corporate bodies, who also collects internal company information requested by members of the corporate bodies. Since January 2003, members of the corporate bodies may consult with two independent advisors to the Secretary of the corporate bodies.

The support functions of ČESKÝ TELECOM's governing bodies have included the Internal Audit department since 1998. It was established in accordance with OECD standards in the corporate governance area. Internal Audit's goal is to provide an independent evaluation function for the corporate bodies and objective statements concerning the adequacy and effectiveness of the integrated company control functions. Internal Audit's independence is ensured by the fact that it is directly responsible to the Board of Directors, by eliminating internal auditors from executive or operational activities, and by the method of evaluating their results. Internal Audit is controlled by the Board of Directors, in particular through the Audit Committee.

The support system for the corporate bodies is completed by the newly introduced Risk Management department, which is directly responsible to the Board of Directors and enables the identification, evaluation and effective control of the company's business risks.

## **B. Shareholder relations**

ČESKÝ TELECOM strives for an open information policy toward the capital markets, i.e., investors and other participating parties. The same transparent approach is taken by ČESKÝ TELECOM toward the company's shareholders, and the company particularly respects the equal approach to all shareholders while observing the specific legal rights of minority shareholders. All mechanisms for ensuring proper corporate governance vis-à-vis shareholders (e.g., answering shareholder questions at the General Meeting related to its agenda; the presence of members of corporate bodies and committee chairmen at the General Meeting; access of authorised shareholder representatives at the General Meeting; provision of full and timely information to shareholders regarding company activities) have been maintained for 2002 and 2003. The Board of Directors answered a total of six questions from shareholders at the ordinary General Meeting on 14 June 2002 and nine shareholder queries at the extraordinary General Meeting on 20 December 2002. Supervisory Board members were not asked any questions at either of the meetings.

ČESKÝ TELECOM's long-term goal is to enhance its information openness toward existing shareholders and potential new investors. The company's website will remain the main communication channel for this purpose. Shareholder and potential investor information is regularly updated and available in Czech and English.

## **C. Transparency and open information policy issues**

ČESKÝ TELECOM ensures that price-sensitive information is not misused by members of the company's corporate bodies, management, or employees.

The Conflict of Interest Committee did not have to resolve any insider trading or non-competition issues in 2002 or later.

Members of the Board of Directors and the Supervisory Board refrain from voting when matters for which their neutrality could be questioned are decided upon.

ČESKÝ TELECOM publishes its preliminary financial results quarterly. The company fulfils its information duties by publishing all price-sensitive and other relevant share value information as required by the relevant legislation.

## **D. Committees established by the Board of Directors**

ČESKÝ TELECOM views these committees as an important part of corporate governance and dedicates continuous attention to their effective functioning. The individual committees' range of activities was left principally unchanged in 2002, although there were changes in the structure, number and identity of members of the corporate bodies' committees, as described below.

#### Committees established by the Board of Directors

- The Nominations and Remuneration Committee
- The Audit Committee
- The Conflict of Interest Committee
- The Security Committee
- The Strategic Affairs Committee

#### E. Company policy toward participating parties

In November 2002, the Nomination Committee was established by the Board of Directors (primarily for the delegation of the new CEO and candidates for top management positions). Based on the Board of Directors' decision of January 2003, this committee merged with the Remuneration Committee into the new **Nominations and Remuneration Committee**. This key committee's activities are participated in by the Supervisory Board, which is represented by its chairman. This committee is established as a permanent committee and uses the services of a well-known recruiting agency. Members of the Nominations and Remuneration Committee are: the Chairman of the Board of Directors, Ondřej Felix, the Chairman of the Supervisory Board, Michal Frankl, and members of the Board of Directors André Frans Bessel Kok, Jan Juchelka and Zdeněk Hrubý.

The **Audit Committee** was extended to include two new member positions, one filled by a member of the Board of Directors and one by a member of the Supervisory Board. The new members of this committee are: Michal Frankl, Chairman of the Supervisory Board, who was elected committee chairman; Hana Doležalová, member of the Board of Directors; and Miloslav Hala, representative of the Supervisory Board. The Board of Directors' decision of November 2002 extended the mandate of the Audit Committee in the evaluation of non-audit (consulting) activities performed by ČESKÝ TELECOM's external auditor for ČESKÝ TELECOM, which places ČESKÝ TELECOM among companies that have integrated one of the essential principles recommended by both international standards for corporate governance and the Czech Securities Commission into the governance process. The Audit Committee usually meets monthly. The Audit Committee regularly met with external auditors. During these meetings, the progress of audit work achieved was discussed, including (among others) the audit plan, results of the audit, and the auditors' recommendations.

The **Conflict of Interest Committee** now has fewer members, and the influence of members of the Supervisory Board in it is stronger (one member of the Board of Directors resigned). Since January 2003, this committee has three members, with the Board of Directors holding one position and the Supervisory Board holding two. Members of the Conflict of Interest Committee are: Adam Blecha from the Board of Directors and Václav Wagner and Zdeněk Šámal from the Supervisory Board. In 2002, two committee meetings were held; no conflicts of interest were confirmed.

All three previously established committees – the Security Committee, the Strategic Affairs Committee (formerly the Strategic Investment Committee) and the Legislative and Regulatory Issues Committee – provided specialised support to the Board of Directors during 2002. At the end of September 2002, in connection with the last phase of ČESKÝ TELECOM's privatisation process, the Transition Management Committee was established by the Board of Directors as a temporary committee to control the contractual obligations and financial, human resource and property activities of the company. This committee was dismissed and replaced by executive management mechanisms in February 2003. The Board of Directors also dismissed the Legislative and Regulatory Issues Committee and transferred its activities to the CEO.

This declaration and other parts of the Annual Report demonstrate the commitment of ČESKÝ TELECOM to continue to fulfil all legal obligations toward participating parties in a proper and timely manner and that its position and values aim to make it a sought-after and reliable partner for its investors, business partners, employees and the general public.

ČESKÝ TELECOM, a.s.



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## General information

ČESKÝ TELECOM, a.s. (the “Group”) consists of ČESKÝ TELECOM, a.s. (the “Company”), its subsidiaries, SPT TELECOM (Czech Republic) Finance B.V., M.I.A., a.s., OMNICOM Praha, spol. s r.o., CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, CZECH TELECOM Slovakia, s.r.o., asp1000, s.r.o., CenTrade, a.s. and the proportionally consolidated joint venture, Eurotel Praha, spol. s r.o. (“Eurotel”), including its subsidiary, a 100% owned Hungarian registered limited liability company, Trigo Global Services Ltd. The Company is the principal supplier of telecommunication services in the Czech Republic and Eurotel is one of three suppliers of mobile telephone services in the Czech Republic. Other subsidiaries, except SPT TELECOM (Czech Republic) Finance B.V., provide internet-related and data network services.

The average number of employees in the Group was 15,640 in 2002 (2001: 17,037 and 2000: 19,669).

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 55/5, Prague 3, 130 34, Czech Republic.

The Company’s shares are traded on the Prague Stock Exchange and London Stock Exchange (GDRs).

### Relationship with the Czech state

The Czech state is, through the National Property Fund of the Czech Republic (the “NPF”), the majority shareholder of the Company. As the majority shareholder the NPF has the power to control decisions at shareholders’ meetings, including the election of the members of the Board of Directors and the approval of dividend payments, except specific decisions as defined by the Status of the Company.

The Group supplies telecommunication services to and acquires services from various state-owned entities, agencies and companies in which the Czech state holds majority shareholding. All such transactions are made within normal customer/supplier relationships on terms and conditions no more favourable than those available to other customers and suppliers. In aggregate, the state-owned entities, agencies and companies comprise one of the Group’s largest customers. In providing services to these entities, agencies and companies, ČESKÝ TELECOM, a.s. conducts business with them as separate customers. Services provided to any one governmental entity, agency or state-owned company do not represent a significant component of the Group’s revenues.

## 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. and its subsidiaries ("the Group") as at 31 December 2002, and the related consolidated statements of income and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

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

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2002, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

26 March 2003

**PricewaterhouseCoopers Audit, s.r.o.**

*represented by partner*

**Petr Šobotník**

*Auditor, Licence No. 113*

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**PRICEWATERHOUSECOOPERS**

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40, 120 00 Praha 2, Czech Republic, phone: +420 251 151 111, fax +420 251 156 111, IČO 40765521

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## Consolidated income statement

(in CZK millions)	Notes	Year ended		
		31 December 2002	31 December 2001	31 December 2000
Revenue	2	52,856	55,900	57,224
Operating expenses	3	(45,768)	(45,785)	(45,153)
<b>Operating profit</b>		<b>7,088</b>	<b>10,115</b>	<b>12,071</b>
Contributed services	4	-	-	(634)
Finance costs (net)	5	(978)	(1,344)	(2,323)
<b>Profit before tax</b>		<b>6,110</b>	<b>8,771</b>	<b>9,114</b>
Tax	6	(1,885)	(2,699)	(2,758)
<b>Group profit before minority interest</b>		<b>4,225</b>	<b>6,072</b>	<b>6,356</b>
Minority interest	29	51	-	-
<b>Net profit</b>		<b>4,276</b>	<b>6,072</b>	<b>6,356</b>
Earnings per share (CZK) – basic*	7	13	19	20

\* There is no dilution of earnings as no convertible instruments have been issued by the Company.

## Consolidated balance sheet

(in CZK millions)	Notes	31 December 2002	31 December 2001	31 December 2000
<b>ASSETS</b>				
Property, plant and equipment	8	119,498	126,630	129,005
Intangible assets	9	11,341	13,169	9,336
Available-for-sale investments	12	241	1,023	3,184
Held-to-maturity investments	12	130	-	-
<b>Non-current assets</b>		<b>131,210</b>	<b>140,822</b>	<b>141,525</b>
Inventories	10	1,409	1,925	1,804
Receivables and prepayments	11	8,431	8,857	9,480
Available-for-sale investments	12	5,529	2,147	5,834
Held-to-maturity investments	12	1,431	-	-
Cash and cash equivalents	13	8,341	5,346	1,734
<b>Current assets</b>		<b>25,141</b>	<b>18,275</b>	<b>18,852</b>
<b>Total assets</b>		<b>156,351</b>	<b>159,097</b>	<b>160,377</b>
<b>EQUITY AND LIABILITIES</b>				
Ordinary shares	23	32,209	32,209	32,209
Share premium		30,816	30,816	30,816
Retained earnings and reserves		48,247	43,998	40,782
<b>Share capital and reserves</b>		<b>111,272</b>	<b>107,023</b>	<b>103,807</b>
<b>Minority interest</b>	29	<b>45</b>	<b>39</b>	<b>-</b>
Borrowings	15	9,514	19,202	29,629
Deferred taxes	16	11,632	11,184	10,046
<b>Non-current liabilities</b>		<b>21,146</b>	<b>30,386</b>	<b>39,675</b>
Borrowings	15	12,513	7,801	3,481
Trade and other payables	14	11,375	13,848	13,260
Provisions for liabilities and charges	18	-	-	154
<b>Current liabilities</b>		<b>23,888</b>	<b>21,649</b>	<b>16,895</b>
<b>Total liabilities</b>		<b>45,034</b>	<b>52,035</b>	<b>56,570</b>
<b>Total equity and liabilities</b>		<b>156,351</b>	<b>159,097</b>	<b>160,377</b>

These consolidated financial statements were approved by the Board of Directors on 26 March 2003 and were signed on its behalf by:



**Ondřej Felix**  
Chairman of  
the Board of Directors



**Juraj Šedivý**  
Executive Vice President  
Corporate Services Group

## Consolidated statement of changes in shareholders' equity

(in CZK millions)	Notes	Share capital	Share Premium	Hedging reserve	Foreign exchange translation reserve	Retained earnings	Total
Balance at 1 January 2000		32,209	30,798	-	-	34,471	97,478
Changes in statutory reserves and other movements		-	18	-	-	(45)	(27)
Net profit		-	-	-	-	6,356	6,356
<b>Balance at 31 December 2000</b>		<b>32,209</b>	<b>30,816</b>	<b>-</b>	<b>-</b>	<b>40,782</b>	<b>103,807</b>
Balance at 1 January 2001		32,209	30,816	-	-	40,782	103,807
Effect of adopting IAS 39 – net		-	-	(10)	-	(427)	(437)
<i>Balance at 1 January 2001</i>							
– restated for effect of adopting IAS 39		32,209	30,816	(10)	-	40,355	103,370
Net fair value gains (net of tax)							
– cash flow hedges	24	-	-	10	-	-	10
Changes in statutory reserves and other movements		-	-	-	-	(13)	(13)
<i>Net loss not recognized in net profit</i>		-	-	10	-	(13)	(3)
Dividend		-	-	-	-	(2,416)	(2,416)
Net profit		-	-	-	-	6,072	6,072
<b>Balance at 31 December 2001</b>		<b>32,209</b>	<b>30,816</b>	<b>-</b>	<b>-</b>	<b>43,998</b>	<b>107,023</b>
Net fair value gains (net of tax)							
– cash flow hedges	24	-	-	6	-	-	6
Currency translation differences							
– amount arising in year		-	-	-	(1)	-	(1)
Changes in statutory reserves and other movements		-	-	-	-	(32)	(32)
<i>Net loss not recognized in net profit</i>		-	-	6	(1)	(32)	(27)
Net profit		-	-	-	-	4,276	4,276
<b>Balance at 31 December 2002</b>		<b>32,209</b>	<b>30,816</b>	<b>6</b>	<b>(1)</b>	<b>48,242</b>	<b>111,272</b>

## Consolidated cash flow statement

			Year ended	
(in CZK millions)	Notes	31 December 2002	31 December 2001	31 December 2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations	25	25,976	26,016	26,175
Interest paid		(2,910)	(2,587)	(2,690)
Income tax paid		(1,698)	(880)	(986)
Net cash from operating activities		21,368	22,549	22,499
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(9,059)	(12,732)	(12,438)
Purchase of intangible fixed assets		(2,032)	(5,219)	(4,950)
Purchase of marketable securities		(6,898)	(428)	(11,998)
Disposal of tangible fixed assets		356	467	119
Proceeds from marketable securities		2,911	6,061	5,223
Interest received		1,078	468	342
Net cash used in investing activities		(13,644)	(11,383)	(23,702)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		3,548	575	1,300
Repayment of borrowings		(8,191)	(5,733)	(5,667)
Additional contribution of minority shareholders to equity of CenTrade		57	-	-
Dividends – paid		-	(2,413)	-
Net cash used in financing activities		(4,586)	(7,571)	(4,367)
Net increase/(decrease) in cash and cash equivalents		3,138	3,595	(5,570)
Cash and cash equivalents at beginning of year		5,162	1,676	7,114
Effects of exchange rate changes		5	(109)	132
Cash and cash equivalents at end of period	13	8,305	5,162	1,676



## Accounting policies

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## **[A] Basis of preparation**

The consolidated financial statements of the Group for the year ended 31 December 2002 have been prepared in accordance with and comply with International Financial Reporting Standards (IFRS) as prescribed by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention except for financial derivatives and available-for-sale investment securities, which are carried at fair values.

In 2001, the Group adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised in the consolidated statement of changes in shareholders' equity, and further information is disclosed in Accounting Policies Note F Investments and P Financial instruments and also in Notes 19 and 24.

The amounts shown in these financial statements are presented in Czech Crowns (if not stated otherwise).

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the amounts reported in the financial statements and notes thereto. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

## **[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 control is transferred to the Group and are no longer consolidated from the date when the Group ceases to have control. 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 the jointly controlled entity is accounted for by proportionate consolidation. Under this method, the Group combines its proportion (51%) of income, expenses, assets and liabilities of the joint venture on a line-by-line basis with similar items in the Group financial statements. Where necessary, accounting policies for the joint venture have been changed to ensure consistency with the policies adopted by the Group. Portions of all intercompany transactions and balances attributable to the Group's interest in the joint venture have been eliminated. Further details about the joint venture are shown in Note 27.

### **[3] Foreign currencies**

Items included in the financial statements of each entity included in the Group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Czech Crowns, which is the measurement currency of the parent.

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transaction. 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.

The income and cash flows statements of foreign entities are translated into the Group's reporting currency at the average exchange rates for the year and their balance sheets are translated at the exchange rates ruling on 31 December. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings and other currency instruments designated as hedges of such investments are taken to shareholders' equity. When a foreign entity is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

[C]    **Property, plant and equipment**

All property, plant and equipment is initially recorded at cost and, except for land, is subsequently stated at cost less depreciation and impairment charges. Land is subsequently stated at cost less impairment charges.

Property, plant and equipment include all costs directly attributable to bringing the asset to working condition for its intended use. With respect to the construction of the network, this comprises all expenditure up to customers’ premises, including the cost of contractors, materials, direct labour costs and interest cost incurred during the course of construction.

Repairs and maintenance are expensed as incurred. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

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.

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 as follows:

	Years
Freehold buildings	up to 40
Cable and other related plant	15 to 20
Exchanges and related equipment	up to 10 years
Other fixed assets	3 to 10

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

[D]    **Intangible assets**

Intangible assets include computer software, purchased goodwill and licenses. Computer software mainly represents the external acquisition costs of the Group’s information systems that are intended for use within the Group. Generally, costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. However, costs that are directly associated with identifiable and unique software products controlled by the Group and that have a probable economic benefit exceeding the cost beyond one year, are recognised as intangible assets. Computer software costs recognised as assets are amortised using the straight-line method over their useful lives, generally two to five years.

Acquired licences are capitalized and amortised using the straight-line method over the life of the licence (i.e. over 15 to 20 years), starting when the network becomes operational.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group’s share of the net assets acquired at the date of acquisition. Goodwill is amortized using the straight-line method over its estimated useful life, not exceeding 15 years. At each balance sheet date, the Group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

[E]    **Impairment of assets**

Property, plant and equipment and other assets, including goodwill and intangible assets, are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset’s net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

## **[F] Investments**

At 1 January 2001, the Group adopted IAS 39 and classified its investments into the following categories: trading, held-to-maturity and available-for-sale.

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. During 2001 and 2002, the Group did not hold any investments in this category.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are disclosed as current or non-current assets, depending on the period in which the sale will take place.

Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date or unless they will need to be sold to raise operating capital, in which case they are included in current assets.

Management determines the appropriate classification of its investments at the time of the purchase and re-evaluates such designation on a regular basis.

All purchases and sales of investments are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset. The cost of purchase includes all transaction costs. Trading and available-for-sale investments are subsequently carried at fair value, whilst held-to-maturity investments are carried at amortised cost using the effective yield method. Realised and unrealised gains and losses arising from changes in the fair value of trading investments and of available-for-sale investments are included in the income statement in the period in which they arise.

Prior to the adoption of IAS 39, the Group had recorded its marketable securities at cost with provision made to reflect the reduction in the value of the securities when the market value was lower than cost.

## **[G] Leases**

Leases under which a significant portion of 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 that is required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

## **[H] 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.

## **[I] Trade receivables**

Trade receivables are carried at original invoice amount less provision made for impairment of these receivables. Such provision for impairment of trade receivables is established if there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected cash flows, discounted at the initial market rate of interest for similar borrowers. Cash flows relating to short-term receivables are usually not discounted.

## **[J] Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are included within borrowings in current liabilities on the balance sheet.

## **[K] 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.

Interest costs on borrowings used to finance the acquisition and construction of qualifying assets are capitalized during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

## **[L] 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 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 the deferred income tax.

The principal temporary differences arise from differences in the tax and accounting values of property, plant and equipment, impairment of receivables and inventories and tax losses, which may offset future tax profits.

## **[M] Employee benefits**

Contributions are made to the Government's health, retirement benefit and unemployment schemes at the statutory rates applicable during the period and are based on gross salary payments. The arrangements of the Government's health, retirement benefit and unemployment schemes correspond to the arrangements for defined contribution plans. The expense for the contributions is charged to the income statement in the same period as the related salary expense. The Group also makes contributions to defined contribution schemes operated by external pension companies. These contributions are charged to the income statement in the period to which the contributions relate.

## **[N] Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

## **[O] Revenue recognition**

Revenue of the Group comprises charges for 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. Subscription charges are recognised in the month when the service is provided to subscribers. Revenues earned from connecting subscribers to the fixed or mobile network are recognized upon service activation. Regarding the mobile segment, the equipment revenue from sales to dealers is recognised at the time of sale.

The Group receives payments from domestic and foreign network operators for incoming telephone services and other traffic that utilises the Group's network. The Group 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.

## [P] Financial instruments

The Group adopted IAS 39 – Financial Instruments: Recognition and Measurement, on 1 January 2001. Financial instruments carried on the balance sheet include cash and bank balances, investments, receivables, payables, borrowings and derivatives.

The effect of adoption of IAS 39 is summarised in the consolidated statement of changes in equity. Information about accounting for derivative financial instruments and hedging activities is included in the following section, “Financial Risk Management”. For discussion of the effects of IAS 39 on investments, refer to above Note F Investments.

### Financial risk management

The Group’s activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group’s overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as forward foreign exchange contracts, currency swaps, interest rate swaps, forward rate agreements and currency options to hedge certain exposures.

Risk management is carried out by the treasury department under approved policies. The Board provides written principles for overall risk management. In line with these principles, policies exist for specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and investing excess liquidity.

#### [i] Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the Euro and US Dollar.

The treasury department is responsible for hedging the net position in each currency by using currency borrowings, external forward foreign exchange contracts, currency swaps and currency options.

The Group primarily hedges the foreign currency exposure of its contract commitments to purchase network technology and other operating expenses from European Union countries. The forward contracts used in its programme mature in 6 months or less, consistent with the related purchase commitments.

Additionally, the Group hedges the foreign currency exposure of its borrowings in foreign currencies. The Group’s objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

The exchange rate derivatives (including forward exchange contracts, currency swaps and currency options) are designed to match anticipated foreign currency transactions (interest rate payments or principal payments).

#### [ii] Interest rate risk

The Group’s income and operating cash flows are substantially independent of changes in market interest rates. The Group sometimes borrows at variable rates and uses interest rate swaps and forward rate agreements as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates. The interest rate swaps and forward rate agreements allow the Group to raise long-term borrowings at floating rates and swap them into fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

#### [iii] Credit risk

Concentrations of credit risk, with respect to trade accounts receivable, are limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic. Although the Group does not currently foresee higher credit risk associated with these receivables, repayment is dependent upon the financial stability of the national economy.

Derivative counterparties and cash transactions are limited to high credit quality financial institutions. The Group has policies that limit the amount of credit exposure to any one financial institution.

#### [iv] Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of money market (committed and uncommitted) credit facilities and the ability to close out market positions. The treasury department aims to maintain flexibility in funding by keeping money market credit lines available.



### **Accounting for derivative financial instruments and hedging activities**

Derivative financial instruments are initially recognised in the balance sheet at cost and subsequently are remeasured at their fair value. The method of recognising the resulting gain or loss is dependent on the nature of the item being hedged. On the date a derivative contract is entered into, the Group designates certain derivatives as either (1) a hedge of the fair value of a recognised asset or liability (fair value hedge), or (2) a hedge of a forecasted transaction or of a firm commitment (cash flow hedge).

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective are recorded in the income statement, along with any changes in the fair value of the hedged asset or liability that is attributable to the hedged risk.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that are highly effective are recognised in equity. Where the forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise, amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the same periods during which the hedged firm commitment or forecasted transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, either do not qualify for hedge accounting under the specific rules in IAS 39 or the Group has elected not to apply the specific IAS 39 hedge accounting provisions. Changes in the fair value of such derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the committed or forecasted transaction ultimately is recognised in the income statement. However, if a committed or forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific firm commitments or forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

Prior to adoption of IAS 39 – Financial Instruments: Recognition and Measurement, on 1 January 2001, the derivative financial instruments were not generally recognised in the primary financial statements. Gains and losses on foreign exchange forward contracts were recognised in the income statement on the same basis as the corresponding expense or income on the settled liability or asset. Any differential to be paid or received on an interest rate swap agreement was 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) was recognised as a component of interest income or expense over the period of the agreement. Gains and losses on forward rate agreements were recognised in the income statement at the same time as the underlying interest expense or income they aim to fix. Net premiums payable on purchased option contracts were recognised as a creditor and asset in the balance sheet of the Group. The asset was taken to the income statement over the life of the instrument. The creditor was settled by cash payments when they fell due according to the terms of the agreements.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 19. Movements on the hedging reserve in shareholder's equity are shown in Note 24.

### **Fair value estimation**

Except for currency options, the fair values of the derivative financial instruments reflect estimates based on calculations performed using the Group's own discounted cash flow models (using market rates). The fair value of currency options is based on information obtained from external parties, including the Group's bankers.

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## [1] Segment information

The Group comprises two main business segments, as follows:

- Fixed – Network communications services using a fixed network provided by ČESKÝ TELECOM, a.s. and other consolidated subsidiaries
- Mobile – Mobile communications services provided by Eurotel Praha, spol. s r.o.

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

Year ended 31 December 2002 (in CZK millions)	Fixed	Mobile	Group
Revenues	38,995	14,688	53,683
Inter segment sales	(204)	(623)	(827)
<i>Total consolidated revenues</i>	<i>38,791</i>	<i>14,065</i>	<i>52,856</i>
Operating profit	2,829	4,259	7,088
Finance cost - net			(978)
<i>Profit before tax</i>			<i>6,110</i>
Tax			(1,885)
<i>Group profit after tax</i>			<i>4,225</i>
Minority interest			51
<b><i>Net profit</i></b>			<b><i>4,276</i></b>
Segment assets	135,790	20,561	156,351
Segment liabilities	(8,067)	(3,308)	(11,375)
Unallocated liabilities			(33,659)
<b><i>Total liabilities</i></b>			<b><i>(45,034)</i></b>
Capital expenditure	8,745	2,566	11,311
Depreciation	13,401	2,306	15,707
Amortisation	3,345	10	3,355

Year ended 31 December 2001 (in CZK millions)	Fixed	Mobile	Group
Revenues	41,881	15,444	57,325
Inter segment sales	(452)	(973)	(1,425)
<i>Total consolidated revenues</i>	<i>41,429</i>	<i>14,471</i>	<i>55,900</i>
Operating profit	5,876	4,239	10,115
Finance cost – net			(1,344)
<i>Profit before tax</i>			<i>8,771</i>
Tax			(2,699)
<b><i>Net profit</i></b>			<b><i>6,072</i></b>
Segment assets	141,095	18,002	159,097
Segment liabilities	(10,440)	(3,408)	(13,848)
Unallocated liabilities			(38,187)
<b><i>Total liabilities</i></b>			<b><i>(52,035)</i></b>
Capital expenditure	13,836	4,953	18,789
Depreciation	12,623	2,100	14,723
Amortisation	2,309	8	2,317

Year ended 31 December 2000 (in CZK millions)	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
Finance cost – net (incl. contributed services)			(2,957)
<i>Profit before tax</i>			<i>9,114</i>
Tax			(2,758)
<b><i>Net profit</i></b>			<b><i>6,356</i></b>
Segment assets	144,812	15,565	160,377
Segment liabilities	(9,899)	(3,361)	(13,260)
Unallocated liabilities			(43,310)
<b><i>Total liabilities</i></b>			<b><i>(56,570)</i></b>
Capital expenditure	14,464	4,100	18,564
Depreciation	12,211	1,593	13,804
Amortisation	804	17	821

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

Inter-segment pricing between the mobile and the fixed segment is based on rates agreed upon between ČESKÝ TELECOM, a.s. and Eurotel Praha, spol. s r.o., or based on a decision of the Czech Telecommunication Authority (Český telekomunikační úřad). The rates applied in 2000, 2001 and 2002 years were determined on the same basis as rates applicable for other mobile operators and are consistent with rates applied for pricing with other mobile operators. The 2001 price amendment to an agreement governing interconnect arrangements with Eurotel has not yet been agreed upon (see Note 20 for more information).

Capital expenditures comprise additions to property, plant and equipment and intangible fixed assets.

## [2] Revenue

(in CZK millions)	31 December 2002	Year ended	
		31 December 2001	31 December 2000
Communications traffic revenues	20,310	27,464	30,218
Connection charges	626	1,249	2,028
Subscription charges	13,123	9,838	9,515
Revenue from other network operators	4,426	5,954	6,590
Telex, data transmission and other telephony	9,221	6,831	4,476
Equipment sales and sales of materials	1,069	970	1,244
Leased circuits	2,623	2,332	1,982
Other revenues	1,458	1,262	1,171
<b>Total revenues</b>	<b>52,856</b>	<b>55,900</b>	<b>57,224</b>

Commencing in February 2002, the Company launched customer tariff packages whereby subscription charges include free minutes. This resulted in the reduction of “Communications traffic revenue” and a corresponding increase in “Subscription charges”. Continuing liberalization of the Czech telecommunication market further influenced the decrease of “Communications traffic revenue”.

Revenues from related parties are disclosed in Note 26.

### [3] Operating expenses

The following items have been included to arrive at operating profit:

(in CZK millions)	31 December 2002	Year ended	
		31 December 2001	31 December 2000
Wages and salaries	5,428	5,395	5,418
Social security contributions	1,767	1,785	1,906
Staff welfare costs	368	374	397
<i>Total staff costs</i>	<i>7,563</i>	<i>7,554</i>	<i>7,721</i>
Depreciation of tangible fixed assets	15,707	14,723	13,804
Amortization of intangible fixed assets (including impairment charge)	3,355	2,317	821
Payments to other network operators	5,728	7,403	8,152
Equipment and material cost of sales	1,779	2,430	3,753
Repairs and maintenance	2,567	2,179	1,635
Advertising and promotion	1,432	1,527	1,634
Operating lease payments	1,022	719	640
Consultancy	866	1,149	1,015
Trade receivables – impairment charge for bad and doubtful debts	579	517	490
Other operating expenses	5,170	5,267	5,488
<b>Total operating expenses</b>	<b>45,768</b>	<b>45,785</b>	<b>45,153</b>

Expenses in the amount of CZK 1,466 million and CZK 1,064 million for 2001 and 2000, respectively, that were previously presented in Other operating expenses were reclassified to Repairs and maintenance. Similarly, expenses of CZK 115 million and CZK 100 million for 2001 and 2000, respectively, that were previously presented in Other operating expenses were reclassified to Consultancy.

Purchases from related parties are disclosed in Note 26.

### [4] Contributed Services

As part of the 1995 agreement between the National Property Fund and the strategic investor, TelSource N.V., the Company was entitled to receive contributed services and assets with a total value of CZK 3,500 million free of charge over a period of five years. The value of the assets or services was capitalized or charged to income as appropriate in the period in which the contributions were received.

(in CZK millions)	31 December 2002	Year ended	
		31 December 2001	31 December 2000
Services	-	-	634
Assets	-	-	49
	-	-	<b>683</b>

## [5] Finance costs (net)

(in CZK millions)	31 December 2002	Year ended 31 December 2001	31 December 2000
Interest expense			
Interest incurred on loans and bonds	1,507	2,113	2,510
Other financial charges	60	115	272
Interest capitalized	(91)	(59)	(92)
<i>Net interest expense</i>	<i>1,476</i>	<i>2,169</i>	<i>2,690</i>
Interest income	(268)	(467)	(342)
Fair value losses / (gains) on financial instruments:			
Derivative financial instruments	(93)	1,105	-
Available-for-sale investments	(20)	-	-
Held-to-maturity investments	13	-	-
Net foreign exchange transaction gains	(130)	(1,463)	(25)
<b>Net finance costs</b>	<b>978</b>	<b>1,344</b>	<b>2,323</b>

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

## [6] Tax

(in CZK millions)	31 December 2002	Year ended 31 December 2001	31 December 2000
Total income tax expense is made up of:			
Current income tax charge	1,440	1,369	992
Deferred income tax charge (Note 16)	445	1,330	1,766
	<b>1,885</b>	<b>2,699</b>	<b>2,758</b>

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)	31 December 2002	Year ended 31 December 2001	31 December 2000
Profit before tax	6,110	8,771	9,114
Income tax expense calculated at the statutory rate of 31%	1,894	2,719	2,825
Income not subjected to tax	(143)	(437)	(717)
Expenses not deductible for tax purposes	287	665	890
Other	(15)	(59)	-
Investments allowances	(138)	(189)	(240)
<b>Income tax expense</b>	<b>1,885</b>	<b>2,699</b>	<b>2,758</b>

The effective tax rate was 31% in 2002 (2001: 31% and 2000: 30%).



## [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.

(in CZK millions)	31 December 2002	Year ended	
		31 December 2001	31 December 2000
Number of ordinary shares in issue	322,089,900	322,089,900	322,089,900
Net profit attributable to shareholders (CZK million)	4,276	6,072	6,356
Basic earnings per share (in CZK)	13	19	20

## [8] Property, plant and equipment

(in CZK millions)	Land and buildings	Duct, cable and other plant*	Communication exchanges and related equipment	Other fixed assets	Capital work in progress	Total
<b>YEAR ENDED 31 DECEMBER 2002</b>						
Opening net book amount	13,772	65,211	38,291	3,491	5,865	126,630
Additions	1,123	1,583	6,152	2,172	9,192	20,222
Disposals and other movements	(218)	(37)	(372)	10	(11,030)	(11,647)
Depreciation charge	(618)	(4,608)	(8,776)	(1,705)	-	(15,707)
<b>Closing net book amount</b>	<b>14,059</b>	<b>62,149</b>	<b>35,295</b>	<b>3,968</b>	<b>4,027</b>	<b>119,498</b>
<b>At 31 DECEMBER 2002</b>						
Cost	18,180	95,685	77,829	11,393	4,027	207,114
Accumulated depreciation	(4,121)	(33,536)	(42,534)	(7,425)	-	(87,616)
<b>Net book amount</b>	<b>14,059</b>	<b>62,149</b>	<b>35,295</b>	<b>3,968</b>	<b>4,027</b>	<b>119,498</b>

<b>YEAR ENDED 31 DECEMBER 2001</b>						
Opening net book amount	13,566	68,297	36,791	3,734	6,617	129,005
Additions	1,100	1,476	8,858	2,109	12,791	26,334
Disposals and other movements	(270)	(4)	692	(861)	(13,543)	(13,986)
Depreciation charge	(624)	(4,558)	(8,050)	(1,491)	-	(14,723)
<b>Closing net book amount</b>	<b>13,772</b>	<b>65,211</b>	<b>38,291</b>	<b>3,491</b>	<b>5,865</b>	<b>126,630</b>
<b>At 31 DECEMBER 2001</b>						
Cost	17,530	94,642	77,671	9,933	5,865	205,641
Accumulated depreciation	(3,758)	(29,431)	(39,380)	(6,442)	-	(79,011)
<b>Net book amount</b>	<b>13,772</b>	<b>65,211</b>	<b>38,291</b>	<b>3,491</b>	<b>5,865</b>	<b>126,630</b>

<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)
<b>Closing net book amount</b>	<b>13,566</b>	<b>68,297</b>	<b>36,791</b>	<b>3,734</b>	<b>6,617</b>	<b>129,005</b>
<b>At 31 DECEMBER 2000</b>						
Cost	16,887	93,535	70,401	9,344	6,617	196,784
Accumulated depreciation	(3,321)	(25,238)	(33,610)	(5,610)	-	(67,779)
<b>Net book amount</b>	<b>13,566</b>	<b>68,297</b>	<b>36,791</b>	<b>3,734</b>	<b>6,617</b>	<b>129,005</b>

\* Other plants refer to assets relating to cabling

Land and buildings, plant and equipment with a carrying value of CZK 5,985 million (2001: CZK 7,424 million and 2000: CZK 7,587 million) have been pledged as collateral for CZK 5,300 million (2001: CZK 5,300 million and 2000: CZK 5,400 million) of borrowings (see Note 15).

Borrowing costs of CZK 10 million (2001: CZK 59 million, 2000: CZK 92 million) were capitalized during the year and are included in "Additions" in the tables noted above. A capitalization rate of 5.99% (2001: 7.28%, 2000: 8.22%) was used.

## [9] Intangible fixed assets

(in CZK millions)	Goodwill	Licences	Software	Total
<b>YEAR ENDED 31 DECEMBER 2002</b>				
Opening net book amount	52	1,932	11,185	13,169
Additions	-	82	1,828	1,910
Disposals and other movements	-	-	(383)	(383)
Amortisation charge	(6)	(9)	(3,235)	(3,250)
Impairment charge	(46)	-	(59)	(105)
<b>Closing net book amount</b>	<b>-</b>	<b>2,005</b>	<b>9,336</b>	<b>11,341</b>
<b>AT 31 DECEMBER 2002</b>				
Cost	92	2,027	16,474	18,593
Accumulated amortisation	(92)	(22)	(7,138)	(7,252)
<b>Net book amount</b>	<b>-</b>	<b>2,005</b>	<b>9,336</b>	<b>11,341</b>

<b>YEAR ENDED 31 DECEMBER 2001</b>				
Opening net book amount	58	138	9,140	9,336
Additions	-	1,803	4,382	6,185
Disposals and other movements	-	-	(35)	(35)
Amortisation charge	(6)	(9)	(2,302)	(2,317)
<b>Closing net book amount</b>	<b>52</b>	<b>1,932</b>	<b>11,185</b>	<b>13,169</b>
<b>AT 31 DECEMBER 2001</b>				
Cost	92	1,946	15,331	17,369
Accumulated amortisation	(40)	(14)	(4,146)	(4,200)
<b>Net book amount</b>	<b>52</b>	<b>1,932</b>	<b>11,185</b>	<b>13,169</b>

<b>YEAR ENDED 31 DECEMBER 2000</b>				
Opening net book amount	65	-	4,653	4,718
Additions	-	143	5,353	5,496
Disposals and other movements	-	-	(57)	(57)
Amortisation charge	(7)	(5)	(809)	(821)
<b>Closing net book amount</b>	<b>58</b>	<b>138</b>	<b>9,140</b>	<b>9,336</b>
<b>AT 31 DECEMBER 2000</b>				
Cost	92	143	11,250	11,485
Accumulated amortisation	(34)	(5)	(2,110)	(2,149)
<b>Net book amount</b>	<b>58</b>	<b>138</b>	<b>9,140</b>	<b>9,336</b>

The impairment charge is a result of the underperformance of subsidiaries and units of the Company operating in non-traditional business.

Acquired licences are represented by rights to operate UMTS and GSM cellular network. According to the license conditions, the Group has to commence network operations for UMTS (Third Generation Services) by 2005. Since the licence is not yet available for use, the management has performed an impairment review. The Group has compared the asset's carrying value with the estimated discounted cash flows that are expected to be generated by the asset and came to the conclusion that the licence was not impaired. Therefore, no impairment loss is recognised.

Additionally, the Group owns a licence for rights to operate a NMT cellular network. This licence was granted to the Group for no consideration and is not recognised as an intangible asset.

Borrowing costs of CZK 81 million were capitalized during the year and are included in "Additions" in the tables noted above. A capitalization rate of 6.10% was used. No interest was capitalized during 2001 and 2000.

## [10] Inventories

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Engineering inventories	417	498	591
Cable	463	563	580
Other inventory including goods for resale	529	864	633
	<b>1,409</b>	<b>1,925</b>	<b>1,804</b>

The inventories noted above are stated net of a provision of CZK 364 million (2001: CZK 306 million and 2000: CZK 271 million), reducing the value of the inventories to their net realisable value.

## [11] Receivables and prepayments

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Domestic trade receivables	5,885	6,930	6,260
Foreign currency trade receivables	740	335	292
Other debtors	677	385	1,653
Prepayments	593	665	594
Derivative instruments	83	1	-
Income tax receivable	-	-	211
VAT receivable	453	541	470
	<b>8,431</b>	<b>8,857</b>	<b>9,480</b>

Domestic trade receivables are stated net of a provision for impaired receivables of CZK 2,886 million (2001: CZK 2,695 million and 2000: CZK 2,261 million).

Receivables from related parties are disclosed in Note 26.

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

## [12] Available-for-sale and held-to-maturity investments

Available-for-sale investments (in CZK millions)	31 December 2002	31 December 2001	31 December 2000
At beginning of year	3,170	9,018	2,225
Reclassification	(657)	-	-
<i>At beginning of year after reclassification</i>	<i>2,513</i>	<i>9,018</i>	<i>2,225</i>
Exchange differences	142	(260)	18
Revaluation surplus/(deficit)	20	-	-
Additions	6,006	428	11,998
Disposals	(2,911)	(6,016)	(5,223)
<b>At end of year</b>	<b>5,770</b>	<b>3,170</b>	<b>9,018</b>
Non-current	241	1,023	3,184
Current	5,529	2,147	5,834
	<b>5,770</b>	<b>3,170</b>	<b>9,018</b>

Held-to-maturity investments (in CZK millions)	31 December 2002	31 December 2001	31 December 2000
At beginning of year	-	-	-
Reclassification	657	-	-
<i>At beginning of year after reclassification</i>	<i>657</i>	<i>-</i>	<i>-</i>
Exchange differences	25	-	-
Revaluation surplus/(deficit)	(13)	-	-
Additions	892	-	-
Matured	-	-	-
<b>At end of year</b>	<b>1,561</b>	<b>-</b>	<b>-</b>
Non-current	130	-	-
Current	1,431	-	-
	<b>1,561</b>	<b>-</b>	<b>-</b>

Available-for-sale investments, principally comprising marketable securities, are fair valued annually at the close of business on 31 December. For investments traded in active markets, the fair value is determined by reference to quoted bid prices. For other investments, the fair value is estimated by reference to the current market value of similar instruments or by reference to the discounted cash flows of the underlying net assets.

## [13] Cash and cash equivalents

	31 December 2002	31 December 2001	31 December 2000
Cash balances	3,408	196	249
Short term bank deposits	4,933	5,150	1,485
<b>Cash and cash equivalents</b>	<b>8,341</b>	<b>5,346</b>	<b>1,734</b>

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

	31 December 2002	31 December 2001	31 December 2000
Cash and cash equivalents	8,341	5,346	1,734
Bank overdrafts and other short-term borrowings (Note 15)	(36)	(184)	(58)
<b>Balance at the end of period</b>	<b>8,305</b>	<b>5,162</b>	<b>1,676</b>

## [14] Trade and other payables

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Trade creditors in local currency	3,666	4,116	5,358
Trade creditors in foreign currencies	872	917	1,146
Other taxes and social security	253	703	323
Deferred income	639	591	266
Employee wages and benefits	400	358	370
Income tax payable	19	278	-
Accruals and other creditors	4,582	5,753	5,797
Derivative instruments	944	1,132	-
	<b>11,375</b>	<b>13,848</b>	<b>13,260</b>

Payables to related parties are disclosed in Note 26.

## [15] Borrowings

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Bank loans and overdrafts in local currency <sup>[a]</sup>	27	367	1,347
Other loans in local currency	1,164	1,293	-
International financial institution loans in foreign currencies	1,731	2,046	2,567
Bank loans and overdrafts in foreign currencies <sup>[a]</sup>	4,052	4,099	8,970
Bonds in local currency	3,000	7,000	7,000
Bonds in foreign currency <sup>[b]</sup>	12,053	12,198	13,226
	<b>22,027</b>	<b>27,003</b>	<b>33,110</b>
Repayable:			
<i>Within one year</i>	<i>12,513</i>	<i>7,801</i>	<i>3,481</i>
Between one and two years	420	12,622	2,994
Between two and five years	4,259	1,269	21,192
After five years	4,835	5,311	5,443
<i>Total non current</i>	<i>9,514</i>	<i>19,202</i>	<i>29,629</i>
	<b>22,027</b>	<b>27,003</b>	<b>33,110</b>

[a] Bank loans and overdrafts include overdrafts of CZK 23 million denominated in the local currency (2001: CZK 173 million and 2000: CZK 58 million) and CZK 13 million in foreign currencies (2001: CZK 11 million and 2000: CZK 0 million).

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

At 31 December 2002, the Group had approximately CZK 2,000 million of available undrawn credit facilities (2001: CZK 7,000 million and 2000: CZK 21,000 million).

Loans and bonds denominated in a foreign currency have total value of EUR 391 million and are due for repayment within one year (2001: EUR 9 million, 2000: EUR 22 million and USD 70 million).

In 2002, the Company redeemed issued bonds of CZK 7,000 million with an interest rate of 11.3% p.a.

In 2002, the Company issued CZK 3,000 million of bonds. The interest rate is 4.55% p.a. and the bonds will mature on 15 July 2005.

For all borrowings, interest has been charged at commercial rates.

After taking account of the interest rate swaps, the interest rate exposure of the Group was as follows:

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
At fixed rate	20,823	25,511	27,343
At floating rate	1,204	1,492	5,767
<b>Total</b>	<b>22,027</b>	<b>27,003</b>	<b>33,110</b>

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

31 December 2002 (in CZK millions)	Carrying amounts	Fair values
Bank loans	5,770	6,748
Bonds	15,053	15,223
<b>Total</b>	<b>20,823</b>	<b>21,971</b>

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the directors expect would be available to the Group at the balance sheet date, except for the fair value of the issued bonds, which are based on the actual bond market pricing. The carrying amounts of short-term borrowings approximate their fair value.

Effective interest rates	31 December 2002	31 December 2001	31 December 2000
Bank loans and overdrafts in local currency	3.05%	4.95%	5.95%
Other loans in local currency	4.10%	6.10%	-
International financial institution loans in foreign currencies	6.81%	6.82%	6.82%
Bank loans and overdrafts in foreign currencies	6.633%	6.635%	6.12%
Bonds in local currency	4.55%	11.30%	11.30%
Bonds in foreign currency	5.125%	5.125%	5.125%

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

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Land and buildings	1,447	1,449	1,555
Plant and equipment	4,538	5,975	6,032
<b>Total</b>	<b>5,985</b>	<b>7,424</b>	<b>7,587</b>

## [16] Deferred income taxes

A deferred tax liability is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base. A deferred tax asset is recognised if it is beyond reasonable doubt that sufficient future taxable profit will be available against which the asset can be utilized. Deferred income taxes are calculated using a principal tax rate of 31% (2001: 31%, 2000: 31%).

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
At 1 January	11,184	10,046	8,280
Effect of adopting IAS 39	-	(192)	-
Income statement charge (Note 6)	445	1,330	1,766
Tax on fair value gains	3	-	-
<b>At the end of period</b>	<b>11,632</b>	<b>11,184</b>	<b>10,046</b>

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 offsetting, are shown in the consolidated balance sheet:

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Deferred tax assets	(1,255)	(1,036)	(549)
Deferred tax liabilities	12,887	12,220	10,595
	<b>11,632</b>	<b>11,184</b>	<b>10,046</b>

The deferred tax asset includes CZK 154 million recoverable after more than twelve months (2001: CZK 694 million and 2000: CZK 380 million) and the deferred tax liability includes CZK 12,079 million recoverable after more than twelve months (2001: CZK 12,220 million and 2000: CZK 10,595 million).

The amounts shown in the balance sheet relate to the temporary differences arising from unused tax losses and other tax credits, the tax bases and the carrying amounts of the following assets and liabilities:

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Property, plant and equipment and intangible assets	12,177	11,385	10,595
Unused tax losses and other tax credits	(170)	-	-
Trade receivables, inventories and other items	(375)	(201)	(549)
	<b>11,632</b>	<b>11,184</b>	<b>10,046</b>

## [17] Government social security and pension schemes

The Group is legally required to make contributions to government health, retirement benefit and unemployment schemes. During 2002, 2001 and 2000, the Group 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 charged as operating expense in respect of this scheme was CZK 1,767 million in 2002 (2001: CZK 1,785 million and 2000: CZK 1,906 million). Employees contribute 12.5% (2001 and 2000: 12.5%) of their gross salaries.

The Group has a voluntary pension plan for employees under which the Group makes contributions on behalf of the Group's employees to approved pension plan providers, under the defined contribution schemes. The Group's contribution depends upon the number of employees joining the scheme and their age profile. During the year, the Group made contributions of CZK 105 million (2001: CZK 109 million and 2000: CZK 80.9 million). These contributions were charged as an operating expense.

In accordance with an annually renegotiated collective labour agreement, the Company is required to pay CZK 15,000 or CZK 90,000 on retirement depending on the length of the employee's service, beginning with at least five years continuous service. These benefits are restricted to those employees who retire during the period for which the labour agreement is in place. The Company is not under a legal or constructive obligation to continue providing such benefits beyond the period of such agreement and therefore, no provisions beyond the period of the agreement are recognised in the financial statements. Payments made during the year 2002 related to retirement amounted to CZK 2.6 million (2001: CZK 4.7 million and 2000: CZK 3.8 million) and were charged as an operating expense.

All amounts discussed in the above note are included in staff costs (see Note 3).

## [18] Provisions for liabilities and charges

(in CZK millions)	2002	Restructuring provision	2000
At 1 January	-	154	477
Additional provisions	-	-	154
Unused amounts reversed	-	-	-
Charged to income statement	-	-	154
Utilised during period	-	(154)	(477)
<b>At 31 December</b>	<b>-</b>	<b>-</b>	<b>154</b>



## [19] Financial instruments

The Group adopted IAS 39 on 1 January 2001; the impact on shareholders' equity and on various balance sheet captions as at 1 January 2001 is shown below. In accordance with IAS 39, the comparative financial statements for the year ended 31 December 2000 were not restated.

Summary of impact of adopting IAS 39 at 1 January 2001

(in CZK millions)	Hedging reserve	Retained earnings	Total
Securities and derivatives non-qualifying for hedges			
– remeasured to fair value	-	(427)	(427)
Derivatives qualifying for hedges	(10)	-	(10)
<b>Total, net of deferred income taxes</b>	<b>(10)</b>	<b>(427)</b>	<b>(437)</b>

The Group recorded a net loss of CZK 10 million (net of deferred income taxes) in the hedging reserve (equity) to recognise all derivatives designated as cash flow hedging instruments at fair value.

Upon the adoption of IAS 39, the Group also recognised certain derivatives not qualifying as hedges and measured them at fair value. The Group recorded a net loss CZK 427 million in retained earnings (net of deferred income taxes of CZK 188 million) to recognise the difference between the carrying values and fair values of these derivatives.

### Net fair values of derivative financial instruments

At the balance sheet date, the total net fair values of derivative financial instruments were as follows:

Contracts with positive fair value (in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Instruments not qualifying as hedges			
- Interest rate swaps	-	-	6
- Forward foreign exchange contracts	74	1	197
- Zero coupon swaps	-	-	10
Cash flow hedges			
- Forward foreign exchange contracts	9	-	-
<b>Total (Note 11)</b>	<b>83</b>	<b>1</b>	<b>213</b>

Contracts with negative fair value (in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Instruments not qualifying as hedges			
- Interest rate swaps	-	2	3
- Cross currency interest rate swaps	-	-	29
- Structures involving currency options	35	169	175
- Forward foreign exchange contracts	-	54	254
- Zero coupon swaps	901	905	336
- Forward rate agreements	-	2	6
Cash flow hedges			
- Interest rate swaps	8	-	6
- Forward foreign exchange contracts	-	-	4
<b>Total (Note 14)</b>	<b>944</b>	<b>1,132</b>	<b>813</b>

There were no derivative financial instruments designated as fair value hedges as at 31 December 2002, 31 December 2001 or 31 December 2000.

## [20] Contingencies

### Interconnect arrangements

The Group has not agreed a 2001 price amendment to an agreement with the mobile operators in the Czech Republic governing interconnect arrangements. During the year 2001, the Group applied the interconnection rates that it expects will be paid to calculate the relevant expenses. During 2002, no agreement was reached regarding the 2001 interconnect arrangements. The Group has not recognised any additional costs or reductions in costs during 2002. Any additional costs arising from the final agreement with the mobile operators would be recognised in the period they become probable and any reductions in costs would be recognised when virtually certain. However, management does not expect to bear additional costs after the amendments to the final agreement.

### Floods

The August 2002 floods affected the Group's assets. All identifiable damages on assets are recognised in the financial statements for 2002. The Group, in accordance with its internal policies, only recognise those reimbursements from the insurance companies that were confirmed by the balance sheet date. Additional reimbursements from the insurance companies are expected in 2003. Due to the uncertainty regarding the final amount, a related contingent asset is not disclosed.

## [21] Commitments

### Operating leases

The aggregate future minimum lease payments under operating leases are as follows:

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
No later than 1 year	593	581	592
Later than 1 year and not later than 5 years	1,297	1,505	1,607
Later than 5 years	1,046	835	86
<b>Total</b>	<b>2,936</b>	<b>2,921</b>	<b>2,285</b>

### Capital commitments

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Capital expenditure contracted			
but not provided for in the financial statements	1,721	1,653	3,644
Capital commitments not contracted	418	2,893	5,000

The majority of contracted amounts relate to the telecommunications network.

The portion of the contracted capital commitments of the Company is CZK 1,602 million (2001: CZK 1,155 million and 2000: CZK 2,628 million). The remaining amount relates to Eurotel and is explained in Note 27.

## [22] Service Concession Arrangements

The Group operates telecommunication services in accordance with licences that were granted for provision of telecommunication services:

### **The Company:**

The Company provides its services based on the certificate of the registration in accordance with General licences for provision of telecommunication services (validity until the end of 2009) and in accordance with Telecommunication licences (validity until 2022). Telecommunication licences replaced the Authorisation for installation and operation of unified telecommunications network and provision of telecommunication services, effective since 1995.

In accordance with these non-exclusive licences, the Company has the right to install and operate public fixed telecommunication network in the entire territory of the Czech Republic and to use limited resources (for example, frequencies and numbers).

In accordance with the above stated licences and regulatory framework, the Company is obliged to fulfil the following:

- Provide universal service (including fulfilment of quality indicators)
- Provide telex and telegraph services until the end of 2005
- Enable access to public telecommunication services, which are provided by other authorised providers of telecommunication services
- Enable direct and indirect connection to other authorised operators of telecommunication network and to providers of telecommunication services
- Provide public telecommunication services of lease of telecommunication circuits
- Construct and modernise telecommunication network

Select telecommunication services are subject to price regulation.

The Czech Telecommunication Authority (Český telekomunikační úřad) is the regulatory body of the telecommunication market (responsible for price regulation, awarding, changing and withdrawing licences) in the Czech Republic. It is an independent institution established by the state. In 2002, there were no changes that had a significant impact on granted licences, with the exception of price changes for regulated services.

### **Eurotel:**

The company has individual non exclusive Telecommunication licences for the installation and operation of the public mobile telecommunication network in the band of 450 MHz (validity until 2011, granted in 1991, renewed in 2002), for installation and operation of public mobile telecommunication network in the GSM standard in the band of 900 and 1800 MHz (validity until 2016, granted in 2002 based on merger of separate licences for the individual bands of 900 and 1800 MHz), for installation and operation of public mobile network in the UMTS standard (valid until 2021) and a licence for provision of public telephone services via the public mobile telecommunication network (validity until 2021).

Furthermore, the company has licences for the installation, operation of public fixed telecommunication network in the band of 3.5 GHz with the use of access networks of the P - MP type and licence for provision of public telephone services via public fixed telecommunication network. Nevertheless, these licences are not yet legally valid.

In accordance with these granted licences, the company is obliged to fulfil the following:

- Secure transmission of free-of-charge emergency calls
- Provide minimum coverage of population
- Start operation in accordance with the UMTS licence by 1 January 2005 upon fulfilment of minimum coverage

In accordance with the licences, the company has the right to install and operate their network in the territory of the Czech Republic, to conclude agreements with domestic and foreign subjects concerning connection, and in case of GSM and UMTS licences, it has the possibility to exchange bands with other operators in the same standard.

No additional expenses connected with renewal of the individual licences, nor any limitations connected with the renewal of licences, are expected in accordance with the existing interpretation of regulatory provisions.

## [23] Share capital and reserves

	31 December 2002	31 December 2001	31 December 2000
Nominal value per ordinary share (CZK)	100	100	100
Number of ordinary shares	322,089,900	322,089,900	322,089,900
Ordinary shares (CZK million)	32,209	32,209	32,209

At 31 December 2002, shareholdings in the Company were as follows:

The National Property Fund of the Czech Republic	51.1%
TelSource N.V.	27.0%
KPN TELECOM B.V.	6.5%
Other shareholders	15.4%

TelSource N.V. is jointly owned by KPN TELECOM B.V. and Swisscom AG. Together, TelSource N.V. and KPN TELECOM B.V. control 33.5% of the Group.

Retained earnings include a statutory reserve fund of CZK 5,471 million (2001: CZK 5,406 million and 2000: CZK 5,220 million) that is not distributable under ruling legislation.

## [24] Hedging reserve

(in CZK millions)	
Balance at 1 January 2001	
- as previously reported	-
- effect of adopting IAS 39 (net)	(10)
- as restated	(10)
Fair value gains in period	14
Tax on fair value gains	(4)
<b>Balance at 31 December 2001</b>	<b>-</b>
Fair value gains in period	33
Fair value gains transfer to net profit	(24)
Tax on fair value gains	(3)
<b>Balance at 31 December 2002</b>	<b>6</b>

## [25] Cash generated from operating activities

(in CZK millions)	31 December 2002	Year ended 31 December 2001	31 December 2000
Net profit	4,276	6,072	6,356
Adjustments for:			
Minority interest (Note 29)	(51)	-	-
Tax (Note 6)	1,885	2,699	2,758
Depreciation (Note 3)	15,707	14,723	13,804
Amortization (Note 3)	3,355	2,317	821
Disposals of obsolete assets	419	284	470
Profit on fixed asset sales	(169)	(124)	(46)
Net interest and other charges	1,036	1,778	2,347
Foreign exchange gains/losses	(279)	(1,987)	(77)
Fair value changes	(141)	536	-
Contributed services (Note 4)	-	-	634
Increase/(decrease) in provisions	304	679	(316)
<b>Operating cash flow before working capital changes</b>	<b>26,342</b>	<b>26,977</b>	<b>26,751</b>
Increase in trade and other receivables	(288)	(995)	(971)
Decrease/(increase) in inventories	(490)	(1,425)	157
Increase in trade and other creditors	412	1,459	238
<b>Cash generated from operations</b>	<b>25,976</b>	<b>26,016</b>	<b>26,175</b>

## [26] Related party transactions

The Group provides services to State departments and businesses 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 of services and goods

(in CZK millions)	31 December 2002	Year ended 31 December 2001	31 December 2000
Eurotel – interconnect, wholesale and retail services	391	886	1,605
Swisscom AG – interconnect services	96	45	63
KPN TELECOM B.V. – interconnect services	38	119	71
TelSource N.V. – services	-	26	4
	<b>525</b>	<b>1,076</b>	<b>1,743</b>

### [b] Purchases of services and goods

(in CZK millions)	31 December 2002	Year ended 31 December 2001	31 December 2000
Eurotel – interconnect services, others	1,318	1,907	2,950
Swisscom AG – interconnect services	18	21	51
KPN TELECOM B.V. – interconnect services	26	65	63
TelSource N.V. – services	66	126	21
KPN Czech Republic, s.r.o. – services	21	148	229
	<b>1,449</b>	<b>2,267</b>	<b>3,314</b>

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

### [c] Outstanding balances

The Company has an outstanding net payable balance to Eurotel for CZK 716 million (2001: CZK 677 million and 2000: CZK 212 million), to TelSource N.V. for CZK 5 million (receivable 2001: CZK 12 million and 2000: CZK 22 million) and to KPN Czech Republic, s.r.o. for CZK 0 million (2001: CZK 34 million and 2000: CZK 17 million). The net receivable balance from Swisscom AG was CZK 32 million (2001: CZK 11 million and 2000: CZK 0 million) and from KPN TELECOM B.V., it was CZK 1 million (payable 2001: CZK 2 million and 2000: CZK 0 million).

All amounts in this note relating to Eurotel are stated gross.

## [27] Interest in joint ventures

### Joint venture

Eurotel Praha, spol. s r.o. was incorporated on 21 February 1991 and is a limited liability company incorporated and domiciled in the Czech Republic, providing mobile telephone services in the Czech Republic. The Group has a 51% interest in Eurotel. The management and operations of Eurotel are governed by a joint venture agreement, which specifies that the Company and the other party to the joint venture exercise control jointly and neither party has unilateral control over major decisions affecting the joint venture. The financial results of Eurotel are included in the Group's financial statements using the proportionate consolidation method and are stated in accordance with the accounting policies of the Group. A summary of the Group's interest (51%) in the net assets and results as presented below is before inter-segment transaction eliminations:

(in CZK millions)	31 December 2002	31 December 2001	31 December 2000
Property, plant and equipment	15,019	14,955	12,057
Current assets	6,130	3,572	3,690
Long term liabilities	(2,461)	(2,545)	(3,818)
Current liabilities	(3,662)	(4,172)	(3,309)
<b>Net assets</b>	<b>15,026</b>	<b>11,810</b>	<b>8,620</b>
Revenue	14,688	15,444	14,447
Operating expenses	(10,010)	(10,687)	(10,919)
Income tax expense	(1,437)	(1,424)	(942)
<b>Profit after tax</b>	<b>3,211</b>	<b>3,190</b>	<b>2,468</b>

There are no contingencies relating to the Group's interest in the joint venture. The capital commitments of Eurotel (gross) are CZK 602 million (2001: CZK 1,157 million and 2000: CZK 1,992 million) and the operating lease commitments of Eurotel (gross) are CZK 3,607 million (2001: CZK 2,527 million and 2000: CZK 1,332 million). The average number of employees employed by Eurotel was 2,442 (2001: 2,289 and 2000: 1,880).

As of 20 December 2001 Eurotel acquired a 100% ownership interest in a Hungarian registered limited liability company, Trigo Global Services Ltd ("Trigo") for CZK 1 million. Trigo is engaged in the contracting of labour services to Eurotel. Trigo qualifies for Hungarian offshore regime tax status and as such, it is subject to taxation in Hungary at the reduced rate of 3%.

## [28] Principal subsidiary undertakings

Name	Group's interest	Country of incorporation	Activity
1. M.I.A., a.s.	100%	Czech Republic	Internet services
2. OMNICO Praha, spol. s r.o.	100%	Czech Republic	Network and consultancy services in telecommunications
3. SPT TELECOM (Czech Republic) Finance B.V.	100%	Netherlands	Financing other entities in the Group
4. CZECH TELECOM Germany GmbH	100%	Germany	Data transmission service provisioning
5. CZECH TELECOM Austria GmbH	100%	Austria	Data transmission service provisioning
6. CZECH TELECOM Slovakia, s.r.o.	100%	Slovakia	Data transmission service provisioning
7. asp1000, s.r.o.	50.9%	Czech Republic	Application services for middle size companies
8. CenTrade, a.s.	86.5%	Czech Republic	E-business company providing market place services

The subsidiaries ViaNet, spol. s r.o. v likvidaci and EDINet.cz, s.r.o. v likvidaci, incorporated in the Czech Republic, are not consolidated, as these companies are dormant and immaterial to the Group.

Based on the decision of its shareholders, asp1000, s.r.o. entered into liquidation proceedings on 1 March 2003.

## [29] Minority interest

(in CZK millions)	2002	2001	2000
At 1 January	39	-	-
Acquisition*	57	39	-
Share of net loss of subsidiaries	(51)	-	-
<b>At 31 December</b>	<b>45</b>	<b>39</b>	<b>-</b>

\* Acquisition represents an increase of share of minority shareholders on equity of CenTrade, a.s.

## [30] Post balance sheet events

The Antimonopoly Office (UOHS) initiated administrative proceedings against the Company alleging breach of provisions of the Act on the Protection of Competition. The proceedings relate to the creation of unfair barriers against development of competition on the market through the application of some specific price plans for business customers. No ruling has been issued by UOHS in this respect yet. At the date of signature of these financial statements, it is not possible to estimate the amount and the impact of any potential fine. No provisions have been recognised in this respect.

## [31] Privatisation

In November 2001, the Czech government approved the sale of at least a 51.1% interest in the Company by way of a tender co-ordinated by the National Property Fund of the Czech Republic (the "NPF"). Pursuant to an agreement concluded between TelSource N.V., its owners and the NPF, the total stake offered in the tender may amount up to 78.1% of the Company's share capital, depending on whether TelSource N.V. opts to contribute its shares to the offer. The tender was finalized in December 2002 without reaching any agreement with the selected bidder. In accordance with the government resolution of 17 February 2003, it is expected that a new privatisation bid will take place in 2004 - 2005. It is not possible to establish at this stage the effects, if any, of future developments on the values of the assets and liabilities of the Group.



ČESKÝ TELECOM, a.s.



Financial statements for the year ended 31 December 2002

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## Report of independent auditors to the shareholders of ČESKÝ TELECOM, a.s.

We have audited the accompanying balance sheet of ČESKÝ TELECOM, a.s. ("the Company") as at 31 December 2002, the related income statement and notes, including the statement of cash flows and the statement of changes in shareholders' equity, for the year then ended presented in the annual report of the Company on pages 86–122 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing 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 accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of ČESKÝ TELECOM, a.s. as at 31 December 2002, and the results of its operations, its cash flows and its changes in equity for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 3–35 and 125–146, which does not form part of the financial statements for the year ended 31 December 2002, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

26 March 2003



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



**Petr Šobotník**  
*Auditor, Licence No. 113*

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**PRICEWATERHOUSECOOPERS** 

**PricewaterhouseCoopers Audit, s.r.o.**, Kateřinská 40, 120 00 Praha 2, Czech Republic, phone: +420 251 151 111, fax +420 251 156 111, IČO 40765521

PricewaterhouseCoopers Audit, s.r.o. is registered in the Commercial Register with the Municipal Court in Prague, part C, section No 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 21.

## Balance sheet

Ref.	ASSETS	Row number	Current accounting period			2001	2000
			Gross	Provision	Net	Net	Net
a	b	c	1	2	3	4	5
	TOTAL ASSETS (row 02+03+30+57) = row 63	001	<b>226,803,673</b>	<b>(89,200,756)</b>	<b>137,602,917</b>	<b>143,563,435</b>	<b>145,767,559</b>
A.	Receivables for subscribed capital	002					
B.	Fixed assets (row 04+12+22)	003	<b>204,411,413</b>	<b>(86,954,425)</b>	<b>117,456,988</b>	<b>127,807,936</b>	<b>130,493,002</b>
B. I.	Intangible fixed assets (rows 05 - 11)	004	<b>16,058,775</b>	<b>(6,947,901)</b>	<b>9,110,874</b>	<b>11,103,579</b>	<b>9,057,298</b>
	1. Establishment costs	005					
	2. Research & development	006	410,407	(174,694)	235,713	63,374	5,859
	3. Software	007	15,118,204	(6,692,437)	8,425,767	9,171,518	5,295,284
	4. Royalties	008	206,896	(80,770)	126,126	3,952	7,949
	5. Other intangible fixed assets	009					
	6. Intangible assets in the course of construction	010	310,722		310,722	1,758,901	3,684,890
	7. Advances paid for intangible assets	011	12,546		12,546	105,834	63,316
B.II.	Tangible fixed assets (rows 13 - 21)	012	<b>185,908,642</b>	<b>(79,441,905)</b>	<b>106,466,737</b>	<b>113,670,236</b>	<b>117,163,390</b>
	1. Land	013	592,042		592,042	631,452	769,039
	2. Constructions	014	110,169,099	(37,221,009)	72,948,090	76,066,134	79,331,488
	3. Equipment	015	71,986,534	(42,124,117)	29,862,417	32,081,670	31,891,039
	4. Cultivated areas	016					
	5. Livestock	017					
	6. Other tangible fixed assets	018	5,303		5,303	8,088	8,092
	7. Tangible assets in the course of construction	019	3,049,169		3,049,169	4,636,208	5,058,064
	8. Advances paid for tangible fixed assets	020	14,948	(5,232)	9,716	194,655	47,517
	9. Adjustment to acquired fixed assets	021	91,547	(91,547)		52,029	58,151
B.III.	Long-term investments (rows 23 - 29)	022	<b>2,443,996</b>	<b>(564,619)</b>	<b>1,879,377</b>	<b>3,034,121</b>	<b>4,272,314</b>
	1. Investments in subsidiaries	023	828,541	(564,619)	263,922	78,669	95,121
	2. Investments in associates	024	233,843		233,843	233,843	233,843
	3. Other long-term investments in securities	025	1,374,582		1,374,582	2,714,489	3,936,110
	4. Intragroup loans	026	6,850		6,850	6,850	6,850
	5. Other financial investments	027	180		180	270	390
	6. Long-term investments in progress	028					
	7. Advances paid for long-term investments	029					

## Balance sheet

Ref.	ASSETS	Row number	Current accounting period			2001	2000
			Gross	Provision	Net	Net	Net
a	b	c	1	2	3	4	5
C.	Current assets (row 31+38+44+52)	030	<b>20,389,031</b>	<b>(2,246,331)</b>	<b>18,142,700</b>	<b>13,087,169</b>	<b>13,539,106</b>
C. I.	Inventories (rows 32 - 37)	031	<b>1,226,164</b>	<b>(270,090)</b>	<b>956,074</b>	<b>1,212,700</b>	<b>1,270,597</b>
	1. Raw materials	032	1,150,242	(270,090)	880,152	1,090,056	1,170,905
	2. Work in progress and semi-finished products	033					
	3. Finished goods	034					
	4. Livestock	035					
	5. Goods for resale	036	75,922		75,922	122,630	99,692
	6. Prepayments for inventory	037				14	
C.II.	Long-term receivables (rows 39 - 43)	038	<b>191,113</b>		<b>191,113</b>	<b>190,621</b>	<b>39,965</b>
	1. Long-term trade receivables	039	119,510		119,510	116,304	4,223
	2. Long-term receivables from shareholders/owners	040					
	3. Long-term receivables from subsidiaries	041					
	4. Long-term receivables from associates	042					
	5. Other long-term receivables	043	71,603		71,603	74,317	35,742
C.III.	Short-term receivables (rows 45 - 51)	044	<b>8,323,703</b>	<b>(1,976,241)</b>	<b>6,347,462</b>	<b>6,243,512</b>	<b>6,518,791</b>
	1. Trade receivables	045	7,487,075	(1,879,449)	5,607,626	5,385,968	5,465,103
	2. Receivables from shareholders/owners	046	123,812		123,812	123,812	123,812
	3. Receivables for social security	047					
	4. Taxes and state subsidies receivable	048	503,695		503,695	512,591	536,094
	5. Receivables from subsidiaries	049					
	6. Receivables from associates	050					
	7. Other receivables	051	209,121	(96,792)	112,329	221,141	393,782
C.IV.	Financial assets (row 53 - 56)	052	<b>10,648,051</b>		<b>10,648,051</b>	<b>5,440,336</b>	<b>5,709,753</b>
	1. Cash in hand	053	61,019		61,019	42,344	(14,452)
	2. Cash at bank	054	525,737		525,737	27,906	243,594
	3. Short-term investments	055	10,061,295		10,061,295	5,370,086	5,480,611
	4. Short-term investments in progress	056					
D.	Other assets (rows 58 - 62)	057	<b>2,003,229</b>		<b>2,003,229</b>	<b>2,668,330</b>	<b>1,735,451</b>
D. I.	Accruals and deferrals (rows 59 - 61)	058	<b>374,211</b>		<b>374,211</b>	<b>959,975</b>	<b>991,902</b>
	1. Prepaid expenses	059	233,286		233,286	243,539	236,329
	2. Accrued revenue	060	1,339		1,339	465,068	77,771
	3. Unrealized exchange rate losses	061	139,586		139,586	251,368	677,802
D.II.	Anticipated assets	062	1,629,018		1,629,018	1,708,355	743,549

## Balance sheet

Ref.	LIABILITIES AND EQUITY	Row number	Current accounting period	2001	2000
a	b	c	6	7	8
	TOTAL LIABILITIES AND EQUITY (row 64+82+108) = row 001	063	<b>137,602,917</b>	<b>143,563,435</b>	<b>145,767,559</b>
A.	Equity (row 65+69+74+78+81)	064	<b>94,624,239</b>	<b>93,922,144</b>	<b>95,159,835</b>
A.I.	Registered capital (rows 66 - 68)	065	<b>32,208,990</b>	<b>32,208,990</b>	<b>32,208,990</b>
	1. Registered capital	066	32,208,990	32,208,990	32,208,990
	2. Own shares held	067			
	3. Changes in registered capital not yet registered	068			
A.II.	Capital contributions (rows 70 - 73)	069	<b>30,501,382</b>	<b>31,483,483</b>	<b>31,486,980</b>
	1. Share premium	070	29,343,185	29,343,185	29,343,185
	2. Other capital contributions	071	2,120,641	2,140,298	2,143,795
	3. Assets and liabilities revaluation	072	(962,444)		
	4. Merger revaluation reserve	073			
A.III.	Reserve funds (row 75+76+77)	074	<b>5,442,453</b>	<b>5,382,594</b>	<b>5,182,769</b>
	1. Statutory reserve fund	075	5,409,049	5,344,458	5,158,053
	2. Non-distributable reserves	076			
	3. Statutory and other reserves	077	33,404	38,136	24,716
A.IV.	Retained earnings (row 79+80)	078	<b>24,691,099</b>	<b>23,555,267</b>	<b>22,553,006</b>
	1. Retained profits	079	24,691,099	23,555,267	22,553,006
	2. Accumulated losses	080			
A.V.	Profit (loss) for the current period row 01-(65+69+74+78+82+108) = row 62 of unabridged income statement	081	<b>1,780,315</b>	<b>1,291,810</b>	<b>3,728,090</b>
B.	Liabilities (row 83+88+95+104)	082	<b>34,191,891</b>	<b>38,954,101</b>	<b>45,581,305</b>
B.I.	Provisions (rows 84 - 87)	083	<b>9,665,916</b>	<b>10,268,587</b>	<b>9,468,157</b>
	1. Tax-deductible provisions	084			4,691
	2. Income tax provision	085			
	3. Non-deductible provisions	086	174,174	1,300,678	824,676
	4. Deferred tax liability	087	9,491,742	8,967,909	8,638,790

## Balance sheet

Ref.	LIABILITIES AND EQUITY	Row number	Current accounting period	2001	2000
a	b	c	6	7	8
B.II.	Long-term liabilities (rows 89 - 94)	088	<b>3,000,000</b>	<b>12,197,931</b>	<b>20,383,986</b>
1.	Long-term liabilities to subsidiaries	089		12,197,931	13,383,986
2.	Long-term liabilities to associates	090			
3.	Long-term advances received	091			
4.	Debentures and bonds issued	092	3,000,000		7,000,000
5.	Long-term bills of exchange payable	093			
6.	Other long-term liabilities	094			
B.III.	Short-term liabilities (rows 96 - 103)	095	<b>15,719,524</b>	<b>3,270,920</b>	<b>5,523,356</b>
1.	Trade payables	096	2,268,459	2,517,313	4,558,288
2.	Liabilities to shareholders/owners	097	2,331	2,705	
3.	Payroll payable and other liabilities to employees	098	281,701	256,369	311,702
4.	Liabilities for social insurance	099	155,582	158,357	193,659
5.	Taxes and state subsidies payable	100	73,472	63,244	104,236
6.	Liabilities to subsidiaries	101	12,052,990		
7.	Liabilities to associates	102			
8.	Other payables	103	884,989	272,932	355,471
B.IV.	Bank loans & overdrafts (rows 105 - 107)	104	<b>5,806,451</b>	<b>13,216,663</b>	<b>10,205,806</b>
1.	Long-term bank loans	105	5,770,682	6,133,898	7,052,713
2.	Short-term bank loans and overdrafts	106	35,769	82,765	3,153,093
3.	Other short-term borrowings	107		7,000,000	
C.	Other liabilities (rows 109 - 113)	108	<b>8,786,787</b>	<b>10,687,190</b>	<b>5,026,419</b>
C.I.	Accruals and deferrals (rows 110 - 112)	109	<b>3,232,771</b>	<b>4,208,109</b>	<b>2,359,798</b>
1.	Accruals	110	595,730	1,723,634	1,496,947
2.	Deferred revenue	111	43,549	68,104	265,650
3.	Unrealized exchange rate losses	112	2,593,492	2,416,371	597,201
C.II.	Anticipated liabilities	113	5,554,016	6,479,081	2,666,621



## Income statement

Ref.	DESCRIPTION	Row number	2002	Accounting period	
a	b	c	2001	2000	
			1	2	3
I.	Sales of goods	01	320,619	340,662	306,361
A.	Cost of goods sold	02	438,063	428,031	269,492
+	Gross profit (row 01-02)	03	<b>(117,444)</b>	<b>(87,369)</b>	<b>36,869</b>
II.	Sales of production (row 05+06+07)	04	<b>38,587,619</b>	<b>41,910,818</b>	<b>45,289,629</b>
1.	Sales of own products and services	05	37,690,869	40,787,649	44,120,702
2.	Change in inventory of finished goods and work in progress	06			
3.	Own work capitalised	07	896,750	1,123,169	1,168,927
B.	Cost of sales (row 09+10)	08	<b>11,817,325</b>	<b>13,872,641</b>	<b>15,840,070</b>
1.	Raw materials and consumables	09	2,233,889	2,510,049	2,791,871
2.	Services	10	9,583,436	11,362,592	13,048,199
+	Added value (row 03+04-08)	11	<b>26,652,850</b>	<b>27,950,808</b>	<b>29,486,428</b>
C.	Staff costs (row 13 - 16)	12	<b>6,634,352</b>	<b>6,773,532</b>	<b>7,490,003</b>
1.	Wages and salaries	13	4,775,415	4,897,538	5,066,682
2.	Emoluments of board members	14	19,250	14,788	16,422
3.	Social security costs	15	1,556,805	1,605,074	1,867,152
4.	Other social costs	16	282,882	256,132	539,747
D.	Taxes and charges	17	129,442	122,320	49,806
E.	Depreciation of long-term assets	18	16,630,118	15,028,701	13,186,752
III.	Sale of long-term assets and raw materials	19	900,683	559,572	217,935
F.	Net book amount of long-term assets and raw materials sold	20	638,416	351,996	180,646
IV.	Provisions written back to operating income	21	13	4,690	2,584
G.	Provisions for operating liabilities and charges	22	93,114		2,625
V.	Amounts written back to operating assets	23	604,364	295,979	420,265
H.	Amounts written off operating assets	24	1,008,186	663,003	529,451
VI.	Other operating income	25	415,410	117,906	81,502
I.	Other operating charges	26	673,609	530,768	932,660
VII.	Adjustments to operating income	27			
J.	Adjustments to operating expense	28			
*	Operating result				
	[row 11-12-17-18+19-20+21-22+23-24+25-26+(-27)-(-28)]	29	<b>2,766,083</b>	<b>5,458,635</b>	<b>7,836,771</b>

## Income statement

Ref.	DESCRIPTION	Row number	Accounting period		
			2002	2001	2000
a	b	c	1	2	3
VIII.	Income from sales of securities and shares	30	2,092,980	843,590	160
K.	Securities and shares sold	31	2,093,054	824,426	610
IX.	Income from long-term investments (row 33+34+35)	32	<b>76,606</b>	<b>224,288</b>	<b>70,457</b>
1.	Income from investments in subsidiaries	33			
2.	Income from investments in other participating interests	34	76,079	223,761	26,933
3.	Income from other long-term investments	35	527	527	43,524
X.	Income from short-term investments	36	159,750	187,083	238,832
L.	Loss on investments	37	13,037		
XI.	Gain on revaluation of securities	38			
M.	Loss on revaluation of securities	39			
XII.	Provisions written back to financial income	40	1,295,018	665,017	623,019
N.	Provisions for financial liabilities and charges	41	75,413	1,295,018	665,017
XIII.	Amounts written back on investments	42	660,046	13,138	95,133
O.	Amounts written off investments	43	430,394	396,751	380,610
XIV.	Interest income	44	10,931	44,439	17,676
P.	Interest expense	45	1,414,341	2,269,676	2,702,435
XV.	Other financial income	46	372,554	2,028,378	920,819
Q.	Other financial expense	47	586,538	3,048,483	906,246
XVI.	Adjustments to financial income	48			
R.	Adjustments to financial expense	49			
*	Financial result				
	[row 30-31+32+36-37+38-39+40-41+42-(-45)+(-46)]	50	<b>55,108</b>	<b>(3,828,421)</b>	<b>(2,688,822)</b>
S.	Tax on profit or loss on ordinary activities (row 52+53)	51	<b>986,935</b>	<b>496,933</b>	<b>1,712,165</b>
1.	- current	52	49,232	167,814	205,516
2.	- deferred	53	937,703	329,119	1,506,649
**	Profit or loss on ordinary activities after taxation (row 29+50-51)	54	<b>1,834,256</b>	<b>1,133,281</b>	<b>3,435,784</b>
XVII.	Extraordinary income	55	120,738	175,041	1,090,054
T.	Extraordinary charges	56	174,679	4,244	789,590
U.	Tax on extraordinary profit or loss (row 58+59)	57		<b>12,268</b>	<b>8,158</b>
1.	- current	58		12,268	8,158
2.	- deferred	59			
*	Profit (loss) on extraordinary items after taxation (row 55-56-57)	60	<b>(53,941)</b>	<b>158,529</b>	<b>292,306</b>
W.	Profit (loss) share apportioned to partners [partnership only]	61			
***	Net profit (loss) for the financial period (row 54+60-61)	62	<b>1,780,315</b>	<b>1,291,810</b>	<b>3,728,090</b>
	Profit (loss) before taxation (row 29+50+55-56)	63	<b>2,767,250</b>	<b>1,801,011</b>	<b>5,448,413</b>

## Statement of changes in shareholders' equity

	Registered capital CZK '000	Share premium CZK '000	Other capital funds CZK '000	Funds from profit CZK '000	From it statutory reserve fund CZK '000	Revaluation reserve CZK '000	Retained earnings CZK '000	Total CZK '000
At 1 January 2000	32,208,990	29,324,161	2,148,836	4,987,940	4,937,568	-	22,915,768	91,585,695
Profit distribution	-	-	-	355,485	220,485	-	(355,485)	-
Dividend paid	-	-	-	-	-	-	(7,277)	(7,277)
Other increase	-	19,024	252	-	-	-	-	19,276
Withdrawals of social fund, other	-	-	(5,293)	(160,656)	-	-	-	(165,949)
Net profit for the financial period	-	-	-	-	-	-	3,728,090	3,728,090
<b>At 31 December 2000</b>	<b>32,208,990</b>	<b>29,343,185</b>	<b>2,143,795</b>	<b>5,182,769</b>	<b>5,158,053</b>	<b>-</b>	<b>26,281,096</b>	<b>95,159,835</b>
Profit distribution	-	-	-	302,905	186,405	-	(302,905)	-
Dividend paid	-	-	-	-	-	-	(2,422,924)	(2,422,924)
Other increase	-	-	2,821	-	-	-	-	2,821
Withdrawals of social fund, other	-	-	(6,318)	(103,080)	-	-	-	(109,398)
Net profit for the financial period	-	-	-	-	-	-	1,291,810	1,291,810
<b>At 31 December 2001</b>	<b>32,208,990</b>	<b>29,343,185</b>	<b>2,140,298</b>	<b>5,382,594</b>	<b>5,344,458</b>	<b>-</b>	<b>24,847,077</b>	<b>93,922,144</b>

## Statement of changes in shareholders' equity

	Registered capital CZK '000	Share premium CZK '000	Other capital funds CZK '000	Funds from profit CZK '000	From it statutory reserve fund CZK '000	Revaluation reserve CZK '000	Retained earnings CZK '000	Total CZK '000
At 1 January 2002	32,208,990	29,343,185	2,140,298	5,382,594	5,344,458	-	24,847,077	93,922,144
Effect of changes in accounting policies*)	-	-	-	-	-	(1,166,280)	-	(1,166,280)
Fair value gains / (losses)								
- financial derivatives	-	-	-	-	-	206,086	-	206,086
- investments	-	-	-	-	-	(2,250)	-	(2,250)
Profit distribution	-	-	-	149,591	64,591	-	(149,591)	-
Dividend paid	-	-	-	-	-	-	(6,387)	(6,387)
Other increase	-	-	3,242	-	-	-	-	3,242
Withdrawals of social fund, other	-	-	(22,899)	(89,732)	-	-	-	(112,631)
Net profit for the financial period	-	-	-	-	-	-	1,780,315	1,780,315
<b>At 31 December 2002</b>	<b>32,208,990</b>	<b>29,343,185</b>	<b>2,120,641</b>	<b>5,442,453</b>	<b>5,409,049</b>	<b>(962,444)</b>	<b>26,471,414</b>	<b>94,624,239</b>

\*) Arising from the amendment to the Act on Accounting and accounting guidelines for entrepreneurs. See Note 2 [p]

## Cash Flow Statement

	2002 CZK '000	2001 CZK '000	2000 CZK '000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Net profit on ordinary activities before tax</b>	<b>2,821,191</b>	<b>1,630,214</b>	<b>5,147,949</b>
A.1 Adjustments for non-cash movements:	16,739,235	17,891,549	14,001,111
A.1.1 Depreciation and amortization of fixed assets	16,730,076	15,049,959	13,213,571
A.1.2 Change in provisions	(957,453)	1,211,791	(1,541,537)
A.1.3 (Profit) from disposal of fixed assets	(188,895)	(184,066)	(46,499)
A.1.5 Net interest expense and income	1,155,507	1,813,865	2,375,576
<b>A * Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items</b>	<b>19,560,426</b>	<b>19,521,763</b>	<b>19,149,060</b>
A.2 Working capital changes:	(3,391,023)	4,965,826	(2,766,570)
A.2.1 (Increase)/decrease in receivables and prepayments	746,305	(1,642,056)	(841,104)
A.2.2 Increase/(decrease) in short-term payables and accruals	960,018	2,682,024	793,967
A.2.3 (Increase)/decrease in inventories	171,329	127,071	1,767,100
A.2.4 (Increase)/decrease in short-term investments	(5,268,675)	3,798,787	(4,486,533)
<b>A ** Net cash flow from ordinary activities before tax and extraordinary items</b>	<b>16,169,403</b>	<b>24,487,589</b>	<b>16,382,490</b>
A.3 Interest paid	(2,900,780)	(2,484,257)	(2,933,661)
A.4 Interest received	1,066,142	467,935	582,809
A.5 Income tax on ordinary activities paid	(165,946)	(210,008)	28,681
A.6 Cash movements relating to extraordinary profit	82,287	98,530	39,426
<b>A *** Net cash flow from ordinary activities</b>	<b>14,251,106</b>	<b>22,359,789</b>	<b>14,099,745</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
B.1 Acquisition of fixed assets	(10,708,015)	(14,004,718)	(17,879,697)
B.2 Proceeds from sale of fixed assets	630,643	739,351	119,221
B.3 Loans to related parties	-	-	(6,850)
<b>B *** Net cash flow from investing activities</b>	<b>(10,077,372)</b>	<b>(13,265,367)</b>	<b>(17,767,326)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
C.1 Change in long and short-term liabilities	(4,370,924)	(2,806,699)	(3,973,823)
C.2 Changes in equity	(96,119)	(2,526,004)	(167,933)
C.2.5 Direct payments from reserves	(96,119)	(110,330)	(167,933)
C.2.6 Dividends paid	-	(2,415,674)	-
<b>C *** Net cash flow from financing activities</b>	<b>(4,467,043)</b>	<b>(5,332,703)</b>	<b>(4,141,756)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(293,309)</b>	<b>3,761,719</b>	<b>(7,809,337)</b>
<b>Cash and cash equivalents at the beginning of the year</b>	<b>4,984,939</b>	<b>1,223,220</b>	<b>9,032,557</b>
<b>Cash and cash equivalents at the end of the year</b>	<b>4,691,630</b>	<b>4,984,939</b>	<b>1,223,220</b>

[1] General Information

ČESKÝ TELECOM, a.s. (hereinafter referred to as “the Company” or “ČESKÝ TELECOM”) is a joint stock company that was founded on 1 January 1994 and recorded in the Commercial Register. The registered address of the Company is Olšanská 55/5, Praha 3, 130 34. The Company is the principal supplier of fixed telecommunication services in the Czech Republic.

The Directors as at 31 December 2002 were as follows:

	Position
Ondřej Felix	Chairman
André Frans Bessel Kok	1st Vice Chairman
Jan Juchelka	Member
Günter Heinz Pfeiffer	Member
Adam Blecha	Member
Hana Doležalová	Member
Zdeněk Hrubý	Member
Pavel Kuta	Member

During 2002, the following changes occurred in the Board of Directors:

Marten Pieters	Co-opted on 16 January 2002, elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Robert Jan Terwiel	Resigned on 16 January 2002
Ondřej Felix	Elected at annual General Meeting on 14 June 2002
Marcela Gürlichová	Elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Přemysl Klíma	Suspended and re-elected at annual General Meeting on 14 June 2002, resigned on 18 December 2002
Miloslav Hejnák	Suspended at annual General Meeting on 14 June 2002
Jiří Němec	Suspended at annual General Meeting on 14 June 2002
Václav Srba	Elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Jan Škurek	Elected at annual General Meeting on 14 June 2002, resigned on 18 December 2002
Adam Blecha	Elected at annual General Meeting on 20 December 2002
Hana Doležalová	Elected at annual General Meeting on 20 December 2002
Zdeněk Hrubý	Elected at annual General Meeting on 20 December 2002
Pavel Kuta	Elected at annual General Meeting on 20 December 2002

The members of the supervisory board as at 31 December 2002 were as follows:

	<b>Position</b>
Gerardus Johannes Klein Bluemink	1st Vice Chairman
Lubomír Vinduška	2nd Vice Chairman
Dominik Louis Böhler	Member
Pavel Herštlík	Member
Miloslav Krch	Member
Jan Schwarzer	Member
Zdeněk Šámal	Member
Jan Škurek	Member
Václav Wagner	Member
Ladislav Zelinka	Member
Michal Frankl	Member
Miloslav Hala	Member
Vladimír Šiška	Member
Michal Švorc	Member
Petr Zatloukal	Member

During 2002, the following changes occurred in the Supervisory Board:

Luboš Vaněk	Suspended at annual General Meeting on 14 June 2002
Louis Johan Lampe	Suspended at annual General Meeting on 14 June 2002
Jan Škurek	Resigned on 13 June 2002, elected at annual General Meeting on 20 December 2002
Michal Tošovský	Suspended at annual General Meeting on 20 December 2002
Eduard Janota	Elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Eric Maria Johannes Werner de Jong	Elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Vladimír Měšťan	Suspended at annual General Meeting on 20 December 2002
Zdeněk Švrček	Suspended at annual General Meeting on 20 December 2002
Jiří Weigl	Elected at annual General Meeting on 14 June 2002, suspended at annual General Meeting on 20 December 2002
Michal Frankl	Elected at annual General Meeting on 20 December 2002
Vladimír Šiška	Elected at annual General Meeting on 20 December 2002
Petr Zatloukal	Elected at annual General Meeting on 20 December 2002
Miloslav Hala	Elected at annual General Meeting on 20 December 2002
Michal Švorc	Elected at annual General Meeting on 20 December 2002

Changes in 2003:

Gerardus Johannes Klein Bluemink	Resigned on 6 February 2003 (not yet recorded in the Commercial Register)
Eric Maria Johannes Werner de Jong	Co-opted on 6 February 2003 and elected as the 1st Vice Chairman of the Supervisory Board (not yet recorded in the Commercial Register)
Michal Frankl	Elected on 6 February 2003 as the Chairman of the Supervisory Board (not yet recorded in the Commercial Register)

Additional changes in the Commercial Register during 2002 are as follows:

- On 28 January 2002, the deletion of proxies proceeded.
- On 15 May 2002, the change of permanent residency of Přemysl Klíma was recorded, the managing director of the division ČESKÝ TELECOM, a.s. - Imaginet, o.z., James Frederick Ledbetter, was terminated and replaced by Radek Soušek.
- On 29 July 2002, liquidation of the ČESKÝ TELECOM, a.s. - Imaginet, o.z. division was recorded.



- On 6 November 2002, changes to the Company's business line as a result of the issued telecommunications licences was recorded, the business activity title "Installation, repairs, revision of dedicated electrical equipment" was changed; and the transfer of the registered share, only upon the consent of the Board of Directors, was included in other matters.
- On 20 December 2002, an extraordinary General Meeting was assembled, a proposal for changes in the Commercial Register was submitted as a result of the meeting and the proposed changes were recorded in the Commercial Register on 3 March 2003.

At 31 December 2002, the Company was organised as follows:

Chief Executive Officer

- Chief Executive Officer Group (CEOG)
- Chief Operating Officer Group (COOG)
- Imaginet (IG)
- Network Services Group (NSG)
- Telecommunications Services Group (TSG)
- Wholesale Services Group (WSG)
- Corporate Services Group (CSG)
- Information Support Systems Group (ISG)
- Business Solutions Group (BSG)

## **[2] Accounting Policies**

### **[a] Basis of accounts**

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic. The financial statements have been prepared under the historical cost convention except regarding derivatives and trading and available for sale securities, which are shown at the fair values as disclosed in the accounting policies [e] and [i].

In 2002, the Company adopted new accounting principles introduced by the Act on Accounting and supporting accounting legislation of the Czech Republic effective 1 January 2002. The effects of adopting these new principles are summarised in the statement of changes in shareholders' equity and further information is disclosed in the policy Note 2 [p] Extraordinary items and changes in the accounting policies.

### **[b] Intangible fixed assets**

Purchased intangible assets are recorded at cost and amortised using the straight-line method over a period of 2–5 years depending on their economic useful lives. Software on exchanges is included in the exchanges purchase price.

Intangible assets with a useful life longer than one year and a unit cost of less than CZK 60,000 are treated as a service cost and are expensed upon acquisition.

A provision for impairment is established where the carrying value of an asset is greater than its estimated recoverable amount.

### **[c] Tangible fixed assets**

Acquired tangible assets are recorded at cost, which includes costs incurred in bringing the assets to their present location and condition. Own work capitalised is recorded at cost.

Tangible assets are depreciated applying the straight-line method over their estimated useful lives. The rates used differ from those allowable for taxation purposes.

Depreciation plan:

	Useful lives in years	Yearly depreciation rate in %
Buildings	40	2.5
Cables and other external equipment	15 - 20	5 - 6.7
Telecommunication equipment:		
- transmission equipment	10	10
- exchanges	max. 10	min. 10
Other equipment	3 - 10	10 - 33

Selected tangible assets (e.g. computers including accessories, modems, pay phones, fixed GSM equipment etc.) with useful life longer than one year and a unit cost of less than CZK 40,000 are depreciated according to the Company's depreciation plan.

Other tangible assets with a useful life longer than one year and a unit cost of less than CZK 40,000 are treated as inventory and are expensed upon consumption.

Repairs and maintenance expenditures of tangible assets are charged to expense as incurred. A provision for expected significant repairs was made through the end of the year 2000. Enhancements of tangible fixed assets exceeding CZK 40,000 per item and year are capitalised.

A provision for impairment is established where the carrying value of an asset is greater than its estimated recoverable amount.

#### **[d] Investments in subsidiary and associated undertakings**

A subsidiary is an enterprise that is controlled by the Company, which means that the Company has the power to govern the financial and operating policies as to obtain benefits from its activities.

An associated undertaking is an enterprise where the Company has significant influence, which is the power to participate in the financial and operating policy decisions, but not control.

Equity investments in subsidiaries and associates are recorded at cost less a provision for diminution in value. No consolidation of subsidiaries or associates has been performed as these financial statements are presented on a stand-alone basis. In accordance with the dictation of Act on Accounting, the Company presents consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

#### **[e] Other securities and investments**

Effective 1 January 2002, the Company classifies securities and investments, other than investments in subsidiaries and associated undertakings, into the following categories: trading, available-for-sale and held-to-maturity. Prior to 1 January 2002, securities and investments were not classified in the above categories and were recorded at cost less a provision for diminution in value.

Investments with a fixed maturity that management has the intent and ability to hold to maturity are classified as held-to-maturity and are included in non-current assets, unless the maturity falls within 12 months of the balance sheet date.

Investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, or unless they may need to be sold to raise operating capital, in which case they are included in current assets. Management determines the appropriate classification of its investments at the time of purchase. The classification is reviewed on a regular basis.

All securities and investments are initially recorded at cost, which includes transaction costs. Held-to-maturity investments are subsequently carried at amortized cost. Other investments are carried at fair value. Measurement of non-traded securities is based on management estimates or expert valuations. The fair value is determined as the market value of the securities at the close of business on the balance sheet date.

Gains and losses arising from changes in the fair value of trading instruments are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised as a movement in equity.

A provision for impairment is established for held-to-maturity investments where the carrying value is greater than the estimated recoverable amount.

**[f] Inventory**

Inventories are stated at the lower of cost and net realisable amount. Cost includes appropriate overheads incurred to bring inventory to its present state and location. The weighted average method is applied for all disposals.

A provision for slow-moving and obsolete inventory is created on the basis of an analysis of turnover and an individual evaluation of inventories at the year-end.

**[g] Receivables**

Receivables are stated at nominal value less a provision for doubtful amounts. The provision is based on an aged analysis of the receivables and the payment capabilities of customers. If identified as uncollectible, receivables are written off.

**[h] Foreign currency translation**

Transactions denominated in a foreign currency are translated and recorded at the rate of exchange ruling at the date of the transaction.

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. The unrealised exchange losses are recorded in the profit and loss account. Unrealised exchange gains and unrealised exchange losses on cash and short-term investments are recorded in the profit and loss account. The remaining unrealised gains are deferred until realised.

The investments in subsidiary and associated undertakings, and the investments and securities denominated in a foreign currency, which are not fair valued are translated at the year-end exchange rate as published by the Czech National Bank. The translation difference is booked to equity with the exception of investments with fixed maturity date, where the translation difference is recorded in the profit and loss account. Where the investments and securities are fair valued, the foreign exchange translation is considered to be a part of the fair value of the investments.

Effective 1 January 2003, exchange losses and gains on the translation of receivables, liabilities and investments with fixed maturity over 12 month will be recorded in the income statement.

**[i] Derivative financial instruments**

The Company has derivative financial instruments that reduce the exposure to fluctuations in foreign currency exchange and interest rates. Foreign exchange forward contracts and currency options protect the Company from movements in exchange rates by establishing the rate at which a foreign currency asset or liability will be settled. Interest rate cross currency swaps and interest rate swaps protect the Company from movements in interest rates and foreign exchange rates.

Effective 1 January 2002, derivative financial instruments are initially recognised at cost on the balance sheet and are subsequently remeasured at their fair value.

The Company only used hedging derivatives. The hedging derivatives are either fair value hedges or cash flow hedges and the Company applies hedge accounting provided that qualifying criteria in relation to documentation and hedge effectiveness are met.

Changes in the fair value of derivatives and hedged items in fair value hedges are recognised in equity, unless they hedge currency risks in assets and liabilities. If hedging covers assets and/or liabilities where movements in their valuation are debited to expenses or credited to revenues and concurrently it involves a hedging derivative which is traded on a public market or such the derivative will be contractually settled and terminated no later than the end of the following accounting period, then movements in the fair values in hedging derivatives are fully recognized in the income statement. If a derivative is not publicly traded or does not mature within one year, changes in the fair value of the derivative are recognised in the income statement up to an amount equal to the opposite change in the fair value of the hedged item and the remaining portion is recognised in equity.

The fair value of forwards and swaps is calculated as the present value of the estimated future cash flows (using market interest rates). The fair value of currency options is based on information obtained from the Company's bankers.

**[j] Revenues**

Revenue of the Company comprises charges in respect of services provided and proceeds from the sale of equipment. Revenue for services is recognised in the period in which the services are rendered, net of value-added tax and discounts. Monthly charges are recognised in the month when the service is provided to subscribers.

The Company receives payments from domestic and foreign network operators for incoming telephone services and other traffic that use the Company's network. The Company pays a proportion of the revenue it receives for outgoing traffic to transit and destination network operators. These revenues and costs are stated gross in the income statement.

**[k] Finance and operating leases**

The costs of assets held under both finance and operating leases are not recorded in the balance sheet and are recorded as expenses evenly over the life of the lease. Amounts payable in future periods not yet due are disclosed but not recorded in the balance sheet.

**[l] Provisions**

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. In 2000 and periods prior, the Company recognised a legal provision relating to the future repair of property, plant and equipment, which is regulated by the Act on Provisions for the purpose of deriving Income Tax base.

**[m] Pension plans**

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

The Company provides additional pension contributions to its employees by means of payments to insurance companies under the framework of an existing pension plan. These costs are recognised in the profit and loss account in the period when they are due.

**[n] Deferred taxation**

A deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base and unclaimed tax losses credits carried forward. Deferred tax assets are recognised if it is probable that sufficient future taxable profit will be available against which the assets can be utilised.

**[o] Related parties**

The Company's related parties are considered to be as follows:

- companies which form a Group of companies with the Company
- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders,
- members of the Company's statutory and supervisory bodies and management and parties close to such members, including the subsidiaries and associates of the members and their close parties,
- companies with the same member of management

Material transactions and outstanding balances with related parties are disclosed in Notes 17 and 18. Transactions with the state owned companies (owned by the National Property Fund of the Czech Republic) are not presented.

**[p] Extraordinary items and changes in accounting policies**

Extraordinary items include one-off effects of events not directly relating to the Company's core activities and the effects of changes in accounting policies.

The Company has adopted changes in accounting policies prospectively; therefore comparative financial information has not been restated.

Where the classification of balance sheet items has changed, comparatives for 2001 and 2000 were reclassified to provide information consistent with the presentation in 2002. The changes are a result of the adoption of the principles required by the Act on Accounting effective 1 January 2002.

The changes in accounting policies that affected the equity as at 1 January 2002 are as follows:

	CZK '000
Equity as at 1 January 2002 (as previously reported)	93,922,144
Effects of changes in accounting policies included in retained earnings	
Remeasurement of derivatives at fair value	(1,043,650)
Remeasurement of securities at fair value	(38,601)
Remeasurement of options at fair value	(608,010)
Deferred tax	523,981
<b>Pro-forma equity as at 1 January 2002 (reflecting these effects)</b>	<b>92,755,864</b>
Effects of changes in accounting policies included in items of income statement	
Release of hedging reserve	1,043,650
Release of provisions to options	608,010
Release of provisions to securities	13,745
<b>Effects of changes on income statement</b>	<b>1,665,405</b>

The following is a summary of all changes in accounting policies on the financial statements, resulting from the adoption of the principles required by the Act on Accounting effective 1 January 2002 with no effect on the earnings and equity (these changes have been reflected in comparatives for 2001 and 2000):

- Low value assets previously classified under “Other tangible assets” and “Other intangible assets” were reclassified in the appropriate categories within fixed assets.
- The deferred tax liability is classified within “Provisions”
- Certain revenues and expenses (e.g. shortages and damages of inventories, claims from insurance companies, etc.) previously classified as extraordinary are classified within ordinary activities, primarily as “Other operating charges” and “Other operating income”.

The following is a summary of all changes in the cash flow statement. The comparatives were reclassified according to the 2002 rules:

- Write-offs of receivables are included in the line “Change in receivables and prepayments” for the year ended 31 December 2002. They were included in the line “Depreciation of fixed assets, write-off of receivables” in the previous years.
- Changes in other assets are included in the line “change in receivables and prepayments” for the year ended 31 December 2002. They were included in the line “Change in general provisions, accruals and prepayments” in the previous years.
- Changes in other liabilities are included in the line “Change in short-term payables and accruals” for the year ended 31 December 2002. They were included in the line “Change in general provisions, accruals and prepayments” in the previous years.

#### **[q] Research and development costs**

All research costs are expensed. Certain development costs are capitalised as intangible assets at the lower of cost and future economic value, if the future economic value can be reasonably estimated. All other costs are expended as incurred.

#### **[r] Subsequent events**

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

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

### [3] Intangible fixed assets

	Software CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>				
At 1 January 2002	13,126,340	188,573	1,864,735	15,179,648
Additions	-	-	1,518,776	1,518,776
Disposals	423,295	4,842	-	428,137
Transfers	2,626,671	433,572	(3,060,243)	-
Reclassification	(211,512)	-	-	(211,512)
<b>At 31 December 2002</b>	<b>15,118,204</b>	<b>617,303</b>	<b>323,268</b>	<b>16,058,775</b>
<b>ACCUMULATED AMORTISATION</b>				
At 1 January 2002	3,954,822	121,247	-	4,076,069
Additions	3,014,575	139,059	-	3,153,634
Disposals	137,932	4,842	-	142,774
Reclassification	(197,028)	-	-	(197,028)
<b>At 31 December 2002</b>	<b>6,634,437</b>	<b>255,464</b>	<b>-</b>	<b>6,889,901</b>
<b>ADJUSTING ITEMS TO INTANGIBLE FIXED ASSETS</b>				
<b>At 31 December 2002</b>	<b>58,000</b>	<b>-</b>	<b>-</b>	<b>58,000</b>
<b>NET BOOK AMOUNT</b>				
At 1 January 2002	9,171,518	67,326	1,864,735	11,103,579
<b>At 31 December 2002</b>	<b>8,425,767</b>	<b>361,839</b>	<b>323,268</b>	<b>9,110,874</b>

\*) Capital work in progress includes intangible assets in course of construction and advance payments made relating to intangible assets.

	Software CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>				
At 1 January 2001	7,222,423	129,684	3,748,206	11,100,313
Additions	-	-	4,356,021	4,356,021
Disposals	168,090	33,028	-	201,118
Transfers	6,147,575	91,917	(6,239,492)	-
Reclassification	(75,568)	-	-	(75,568)
<b>At 31 December 2001</b>	<b>13,126,340</b>	<b>188,573</b>	<b>1,864,735</b>	<b>15,179,648</b>
<b>ACCUMULATED AMORTISATION</b>				
At 1 January 2001	1,927,139	115,876	-	2,043,015
Additions	2,240,270	38,399	-	2,278,669
Disposals	165,200	33,028	-	198,228
Reclassification	(47,387)	-	-	(47,387)
<b>At 31 December 2001</b>	<b>3,954,822</b>	<b>121,247</b>	<b>-</b>	<b>4,076,069</b>
<b>NET BOOK AMOUNT</b>				
At 1 January 2001	5,295,284	13,808	3,748,206	9,057,298
<b>At 31 December 2001</b>	<b>9,171,518</b>	<b>67,326</b>	<b>1,864,735</b>	<b>11,103,579</b>

\*) Capital work in progress includes intangible assets in course of construction and advance payments made relating to intangible assets.

	Software CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>				
At 1 January 2000	1,871,314	115,661	4,001,456	5,988,431
Additions	-	-	5,159,658	5,159,658
Disposals	46,066	2,340	-	48,406
Transfers	5,397,150	16,363	(5,412,908)	605
Reclassification	25	-	-	25
<b>At 31 December 2000</b>	<b>7,222,423</b>	<b>129,684</b>	<b>3,748,206</b>	<b>11,100,313</b>
<b>ACCUMULATED AMORTISATION</b>				
At 1 January 2000	1,204,874	115,499	-	1,320,373
Additions	767,888	2,717	-	770,605
Disposals	45,648	2,340	-	47,988
Reclassification	25	-	-	25
<b>At 31 December 2000</b>	<b>1,927,139</b>	<b>115,876</b>	<b>-</b>	<b>2,043,015</b>
<b>NET BOOK AMOUNT</b>				
At 1 January 2000	666,440	162	4,001,456	4,668,058
<b>At 31 December 2000</b>	<b>5,295,284</b>	<b>13,808</b>	<b>3,748,206</b>	<b>9,057,298</b>

\*) Capital work in progress includes intangible assets in course of construction and advance payments made relating to intangible assets.

Adjusting items to intangible fixed assets at 31 December 2002 can be analysed as follows:

	2002 CZK '000
Opening balance at 1 January	-
Additions during the year	58,000
<b>Closing balance at 31 December</b>	<b>58,000</b>

## [4] Tangible fixed assets

	Land and buildings CZK '000	Cables CZK '000	Telecom. equipment CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>						
At 1 January 2002	14,760,724	94,721,253	64,084,994	7,924,611	4,864,285	186,355,867
Additions	5,376	-	1,563	9,573	6,848,892	6,865,404
Disposals	318,926	540,679	6,051,525	531,432	81,579	7,524,141
Transfers	547,324	1,583,174	4,874,942	1,562,041	(8,567,481)	-
Reclassification	2,895	-	197,031	11,586	-	211,512
<b>At 31 December 2002</b>	<b>14,997,393</b>	<b>95,763,748</b>	<b>63,107,005</b>	<b>8,976,379</b>	<b>3,064,117</b>	<b>185,908,642</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2002	3,290,251	29,494,141	34,700,381	5,167,365	-	72,652,138
Additions	453,715	4,616,248	6,965,203	1,336,326	-	13,371,492
Disposals	135,885	503,227	5,741,868	502,516	-	6,883,496
Reclassification	5,766	-	181,725	9,537	-	197,028
<b>At 31 December 2002</b>	<b>3,613,847</b>	<b>33,607,162</b>	<b>36,105,441</b>	<b>6,010,712</b>	<b>-</b>	<b>79,337,162</b>
<b>ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS</b>						
At 1 January 2002	-	-	71	-	33,422	33,493
<b>At 31 December 2002</b>	<b>-</b>	<b>-</b>	<b>53,603</b>	<b>45,908</b>	<b>5,232</b>	<b>104,743</b>
<b>NET BOOK AMOUNT</b>						
At 1 January 2002	11,470,473	65,227,112	29,384,542	2,757,246	4,830,863	113,670,236
<b>At 31 December 2002</b>	<b>11,383,546</b>	<b>62,156,586</b>	<b>26,947,961</b>	<b>2,919,759</b>	<b>3,058,885</b>	<b>106,466,737</b>

\*) Capital work in progress includes tangible assets in course of construction and advance payments made relating to tangible fixed assets.

	Land and buildings CZK '000	Cables CZK '000	Telecom. equipment CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>						
At 1 January 2001	14,809,464	93,613,885	60,662,720	6,382,066	5,182,120	180,650,255
Additions	10,051	326	2,456	7,440	9,632,228	9,652,501
Disposals	451,975	370,665	2,484,808	560,806	154,203	4,022,457
Transfers	400,243	1,475,841	5,828,759	2,091,017	(9,795,860)	-
Reclassification	(7,059)	1,866	75,867	4,894	-	75,568
<b>At 31 December 2001</b>	<b>14,760,724</b>	<b>94,721,253</b>	<b>64,084,994</b>	<b>7,924,611</b>	<b>4,864,285</b>	<b>186,355,867</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2001	3,029,401	25,258,862	30,537,957	4,549,410	-	63,375,630
Additions	453,485	4,565,885	6,494,875	1,135,210	-	12,649,455
Disposals	191,525	331,319	2,379,657	517,833	-	3,420,334
Reclassification	(1,110)	713	47,206	578	-	47,387
<b>At 31 December 2001</b>	<b>3,290,251</b>	<b>29,494,141</b>	<b>34,700,381</b>	<b>5,167,365</b>	<b>-</b>	<b>72,652,138</b>
<b>ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS</b>						
At 1 January 2001	-	34,559	137	-	76,539	111,235
<b>At 31 December 2001</b>	<b>-</b>	<b>-</b>	<b>71</b>	<b>-</b>	<b>33,422</b>	<b>33,493</b>
<b>NET BOOK AMOUNT</b>						
At 1 January 2001	11,780,063	68,320,464	30,124,626	1,832,656	5,105,581	117,163,390
<b>At 31 December 2001</b>	<b>11,470,473</b>	<b>65,227,112</b>	<b>29,384,542</b>	<b>2,757,246</b>	<b>4,830,863</b>	<b>113,670,236</b>

\*) Capital work in progress includes tangible assets in course of construction and advance payments made relating to tangible fixed assets.



	Land and buildings CZK '000	Cables CZK '000	Telecom. equipment CZK '000	Other CZK '000	Capital work in progress*) CZK '000	Total CZK '000
<b>COST</b>						
At 1 January 2000	14,202,464	90,205,116	58,678,811	5,869,228	7,074,611	176,030,230
Additions	1,991	25	124	637	9,506,516	9,509,293
Disposals	112,465	942,455	3,409,446	421,242	3,032	4,888,640
Transfers	735,354	4,351,164	5,426,543	882,311	(11,395,975)	(603)
Reclassification	(17,880)	35	(33,312)	51,132	-	(25)
<b>At 31 December 2000</b>	<b>14,809,464</b>	<b>93,613,885</b>	<b>60,662,720</b>	<b>6,382,066</b>	<b>5,182,120</b>	<b>180,650,255</b>
<b>ACCUMULATED DEPRECIATION</b>						
At 1 January 2000	2,507,535	21,635,670	27,606,743	3,994,558	-	55,744,506
Additions	551,150	4,466,242	6,165,728	940,923	-	12,124,043
Disposals	30,648	843,068	3,215,771	403,407	-	4,492,894
Reclassification	1,364	18	(18,743)	17,336	-	(25)
<b>At 31 December 2000</b>	<b>3,029,401</b>	<b>25,258,862</b>	<b>30,537,957</b>	<b>4,549,410</b>	<b>-</b>	<b>63,375,630</b>
<b>ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS</b>						
At 1 January 2000	-	-	338	-	-	338
<b>At 31 December 2000</b>	<b>-</b>	<b>34,559</b>	<b>137</b>	<b>-</b>	<b>76,539</b>	<b>111,235</b>
<b>NET BOOK AMOUNT</b>						
At 1 January 2000	11,694,929	68,569,446	31,071,730	1,874,670	7,074,611	120,285,386
<b>At 31 December 2000</b>	<b>11,780,063</b>	<b>68,320,464</b>	<b>30,124,626</b>	<b>1,832,656</b>	<b>5,105,581</b>	<b>117,163,390</b>

\*) Capital work in progress includes tangible assets in course of construction and advance payments made relating to tangible fixed assets.

Other tangible fixed assets include means of transport, office fixtures and fittings, other tangible assets and goodwill relating to acquired assets.

Adjusting items to tangible fixed assets may be analysed as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Opening balance at 1 January	33,493	111,235	338
Additions during the year	104,743	33,019	111,098
Released during the year	(2,737)	(870)	-
Written off to depreciation	(30,756)	(109,891)	(201)
<b>Closing balance at 31 December</b>	<b>104,743</b>	<b>33,493</b>	<b>111,235</b>

The total cost of low-value tangible and intangible assets not recorded in the balance sheet (recorded in off balance sheet evidence), including assets acquired after the termination of financial lease contracts is CZK 704,207 thousand at 31 December 2002 (at 31 December 2001: CZK 739,097 thousand; at 31 December 2000: CZK 774,794 thousand).

For information regarding pledged assets, see Note 13.

The Company also uses assets acquired under finance lease contracts, which have not been recorded as fixed assets in the financial statements until the expiration of the lease.

The leases may be analysed as follows:

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Amounts already paid on current finance lease contracts	1,630	8,728	8,200
Outstanding amounts payable within one year	1,248	82	384
Outstanding amounts payable after more than one year	3,970	-	82
<b>Total amounts payable on current finance lease contracts</b>	<b>6,848</b>	<b>8,810</b>	<b>8,666</b>

## [5] Investments in subsidiary undertakings

Investments in subsidiary undertakings comprise ordinary shares and are stated at cost less a provision for diminution in value.

At 31 December 2002, these investments are as follows:

	Number of shares	Nominal value	Cost CZK '000	Book value CZK '000	% of capital	2002 net profit/(loss) [Unaudited]	Net assets [Unaudited]
<b>Foreign subsidiaries</b>		<b>EUR</b>				<b>EUR'000</b>	<b>EUR'000</b>
SPT TELECOM (Czech Republic) Finance B. V. (Holland)		18,151	574	574	100%	185	1,000
CZECH TELECOM Germany GmbH		25,000	29,388	29,388	100%	(86)	840
CZECH TELECOM Austria GmbH		35,000	11,218	11,218	100%	(78)	277
		<b>SKK</b>				<b>SKK'000</b>	<b>SKK'000</b>
CZECH TELECOM Slovakia s.r.o.		200,000	150	150	100%	(49)	161
<b>Czech subsidiaries</b>		<b>CZK '000</b>				<b>CZK '000</b>	<b>CZK '000</b>
M.I.A., a. s.	100	1,000	83,150	-	100%	(10,329)	(9,504)
EDINet.cz, s.r.o. v likvidaci		97,929	79,323	-	100%	in liquidation	-
ViaNet, spol. s r.o. v likvidaci		100	20,050	-	100%	in liquidation	-
OMNICOM Praha, spol. s r.o.		10,000	29,790	-	100%	2,972	13,540
asp1000, s.r.o.*)		36,364	55,898	-	50.9%	(19,769)	28,607
CenTrade, a.s.	865	519,000	519,000	222,592	86.5%	(139,668)	460,902
			<b>828,541</b>	<b>263,922</b>			

\*) The company asp1000, s.r.o. went on 1 March 2003 to liquidation.

At 31 December 2001, investments are as follows:

	Number of shares	Nominal value	Cost CZK '000	Book value CZK '000	% of capital	2001 net profit/(loss)	Net assets
<b>Foreign subsidiaries</b>		<b>EUR</b>				<b>EUR'000</b>	<b>EUR'000</b>
SPT TELECOM (Czech Republic) Finance B. V. (Holland)		18,151	581	581	100%	191	815
<b>Czech subsidiaries</b>		<b>CZK '000</b>				<b>CZK '000</b>	<b>CZK '000</b>
M.I.A., a. s.	100	1,000	83,150	44,047	100%	(15,538)	(14,646)
EDINet.cz, s.r.o.		97,929	79,323	23,597	100%	(16,841)	26,798
ViaNet, spol. s r.o.		100	20,050	-	100%	(13)	21
OMNICOM Praha, spol. s r.o.		10,000	29,790	10,444	100%	(1,320)	10,703
			<b>212,894</b>	<b>78,669</b>			

On 19 September 2001, the Company concluded an agreement for the purchase of a 50.9% share in asp1000, s.r.o. In accordance with the agreement mentioned above, the Company made a bank transfer of CZK 56 million corresponding to the agreed share increase of capital of asp1000, s.r.o. This increase of capital was not entered into the Commercial Register at 31 December 2001, and therefore, it was included in ČESKÝ TELECOM's balance sheet as an investment in subsidiary undertakings after the registration was processed in 2002. As at 31 December 2001, the amount paid was presented as a receivable.

On 2 November 2001, the Company concluded a set up agreement to become a shareholder in a new company, CenTrade, a.s. In accordance with the agreement mentioned above, the Company made a bank transfer of CZK 156 million, the amount corresponding to the agreed share of registered capital of CenTrade, a.s. The new legal entity was not entered into the Commercial Register as at 31 December 2001, and therefore the corresponding balance was disclosed in ČESKÝ TELECOM's balance sheet as an investment in subsidiary undertakings after the registration was processed in 2002. As at 31 December 2001, the amount paid was presented as a receivable.

At 31 December 2000, investments were as follows:

	Number of shares	Nominal value	Cost CZK '000	Book value CZK '000	% of capital	2000 net profit/(loss)	Net assets
<b>Foreign subsidiaries</b>		<b>EUR</b>				<b>EUR'000</b>	<b>EUR'000</b>
SPT TELECOM (Czech Republic) Finance B. V. (Holland)		18,151	637	637	100%	200	624
<b>Czech subsidiaries</b>		<b>CZK '000</b>				<b>CZK '000</b>	<b>CZK '000</b>
M.I.A., a. s.	100	1,000	83,150	47,369	100%	(7,916)	(7,024)
EDINet.cz, s.r.o.		97,929	79,323	45,001	100%	(26,854)	43,641
ViaNet, spol. s r.o.		100	20,050	100	100%	(6)	34
OMNICOM Praha, spol. s r.o.		210	20,000	2,014	100%	(4,980)	2,233
			<b>203,160</b>	<b>95,121</b>			

The Company has concluded controlling agreements with the following subsidiaries:

- OMNICO Praha, spol. s r.o.
- M.I.A., a.s.
- ViaNet, spol. s r.o. v likvidaci
- EDINet.cz, s.r.o. v likvidaci

Controlling agreements were concluded in December 2000 and have become effective as of 1 January 2001, amendments to the controlling agreements were concluded on 21 March 2001 to reflect changes in Commercial Code, and were approved by the Company's annual general meeting on 15 June 2001 and sent to be filed with the Commercial Register thereafter. The controlling agreements are effective in 2002.

SPT TELECOM (Czech Republic) Finance B.V. was established on 9 April 1998 in Amsterdam, the Netherlands. During the year 1998, SPT TELECOM (Czech Republic) Finance B. V. issued bonds denominated in German marks on behalf of SPT TELECOM, a.s. (effective 1 January 2000 ČESKÝ TELECOM, a.s.) at a total value of DEM 750 million, with an interest rate of 5.125% p.a. The income from the issue of the bonds was loaned to the Company by SPT TELECOM (Czech Republic) Finance B.V. as an interest-bearing loan. See Note 13.

The change in the provision for diminution in value for investments in subsidiaries and associated undertakings may be analysed as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Opening balance at 1 January	134,225	108,039	-
Charge for the year	430,394	26,186	108,039
<b>Closing balance at 31 December</b>	<b>564,619</b>	<b>134,225</b>	<b>108,039</b>

The Company did not receive any dividend income or share on profit from investments in subsidiary undertakings in 2002, 2001 and 2000.

## [6] Investments in joint ventures and associates

At 31 December 2002, investments in joint ventures and associates are as follows:

	Nominal value CZK '000	Cost CZK '000	Book value CZK '000	% of capital	2002 net profit/(loss) CZK '000	Net assets CZK '000
<b>Czech companies</b>						
Eurotel Praha, spol. s r.o. *)	233,771	233,771	233,771	51%	6,361,546	29,432,675
AUGUSTUS, spol. s r.o.	66	72	72	40%	**)	**) )
		<b>233,843</b>	<b>233,843</b>			

\*) Eurotel Praha, spol. s r.o. is a joint venture with Atlantic West B.V.

\*\*) Data for 2002 not available at the date of preparation of financial statements

At 31 December 2001, investments in joint ventures and associates are as follows:

	Nominal value CZK '000	Cost CZK '000	Book value CZK '000	% of capital	2001 net profit/(loss) CZK '000	Net assets CZK '000
<b>Czech companies</b>						
Eurotel Praha, spol. s r.o.*)	233,771	233,771	233,771	51%	6,299,534	23,069,925
AUGUSTUS, spol. s r.o.	66	72	72	40%	(3,464)	(10,772)
		<b>233,843</b>	<b>233,843</b>			

\*) Eurotel Praha, spol. s r.o. is a joint venture with Atlantic West B.V.

At 31 December 2000, investments in joint ventures and associates are as follows:

	Nominal value CZK '000	Cost CZK '000	Book value CZK '000	% of capital	2000 net profit/(loss) CZK '000	Net assets CZK '000
<b>Czech companies</b>						
Eurotel Praha, spol. s r.o.*)	233,771	233,771	233,771	51%	4,674,709	16,770,391
AUGUSTUS, spol. s r.o.	66	72	72	40%	(1,522)	(7,308)
		<b>233,843</b>	<b>233,843</b>			

\*) Eurotel Praha, spol. s r.o. is a joint venture with Atlantic West B.V.

The Company did not receive any dividend income or share on profit from investments in joint venture and associates in 2002, 2001 and 2000.

## [7] Other investments and short-term financial assets

### Long-term financial assets

At 31 December 2002, long-term financial assets are as follows:

	Available-for-sale investments (fair value) CZK '000	Held-to-maturity investments (costs) CZK '000
Bonds in foreign currency	-	951,982
Bonds in local currency	422,575	-
	422,575	951,982
Other long-term financial assets	25	-
<b>Total</b>	<b>422,600</b>	<b>951,982</b>

At 31 December 2001 and 2000, long-term financial assets are as follows:

	31 December 2001 (costs) CZK '000	31 December 2000 (costs) CZK '000
Bonds in foreign currency	1,200,504	1,487,465
Bonds in local currency	388,755	598,520
Promissory notes	1,138,682	1,859,583
	2,727,941	3,945,568
Provision for diminution in value	(13,567)	(13,068)
<i>Net book value of bonds and promissory notes</i>	<i>2,714,374</i>	<i>3,932,500</i>
Other long-term financial assets	115	3,610
<b>Total net book value</b>	<b>2,714,489</b>	<b>3,936,110</b>

The total investment income from other long-term securities and investments was as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Income from long-term bonds and promissory notes	<b>76,079</b>	<b>223,761</b>	<b>69,950</b>

### Short-term financial assets

At 31 December 2002, short-term financial assets are as follows:

	Available-for-sale investments (fair value) CZK '000	Held-to-maturity investments (costs) CZK '000
Bonds in foreign currency	-	369,765
Bonds in local currency	576,163	-
Promissory notes	6,811,938	2,303,429
<b>Total</b>	<b>7,388,101</b>	<b>2,673,194</b>

At 31 December 2001 and 2000, short-term financial assets are as follows:

	31 December 2001 (costs) CZK '000	31 December 2000 (costs) CZK '000
Bonds in foreign currency	127,567	383,837
Bonds in local currency	1,877,436	-
Promissory notes	3,365,262	5,096,844
	5,370,265	5,480,681
Provision for diminution in value	(179)	(70)
<b>Net book value of bonds and promissory notes</b>	<b>5,370,086</b>	<b>5,480,611</b>

The total investment income from securities included in other short-term investments was as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Income from short term bonds and promissory notes	<b>159,750</b>	<b>187,083</b>	<b>238,832</b>

## [8] Inventory

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Raw materials	1,150,242	1,274,849	1,296,398
Goods for resale	75,922	122,630	99,692
Advances paid for inventory purchases	-	14	-
	1,226,164	1,397,493	1,396,090
Provision for diminution in value	(270,090)	(184,793)	(125,493)
<b>Net book amount</b>	<b>956,074</b>	<b>1,212,700</b>	<b>1,270,597</b>

The change in the provision for obsolete and slow moving inventory may be analysed as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Opening balance at 1 January	184,793	125,493	334,648
Additions during the year	332,344	194,711	55,393
Released during the year	(247,047)	(135,411)	(264,548)
<b>Closing balance at 31 December</b>	<b>270,090</b>	<b>184,793</b>	<b>125,493</b>

## [9] Receivables

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Trade receivables			
- current	4,183,137	3,714,295	4,252,021
- overdue	3,423,448	3,541,641	2,597,073
	7,606,585	7,255,936	6,849,094
Other receivables			
- current	695,855	1,533,635	1,335,720
- overdue	212,376	44,657	43,765
	8,514,816	8,834,228	8,228,579
Provision for doubtful receivables			
- trade	(1,879,449)	(1,753,664)	(1,379,768)
Provision for doubtful receivables			
- other	(96,792)	(646,431)	(290,055)
	(1,976,241)	(2,400,095)	(1,669,823)
<b>Net receivables</b>	<b>6,538,575</b>	<b>6,434,133</b>	<b>6,558,756</b>



Trade receivables include long-term receivables of CZK 119,510 thousand (2001: CZK 116,304 thousand, 2000: CZK 4,233 thousand). Other receivables include long-term other receivables of CZK 71,603 thousand (2001: CZK 74,317 thousand, 2000: CZK 35,742 thousand).

The Company does not have any receivables secured by a lien or any other method.

Changes in the provision for doubtful debts can be analysed as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Opening balance at 1 January	2,400,095	1,669,823	1,248,360
Additions during the year	506,977	780,078	576,980
Written off during the year	(224,490)	(32,124)	(126,713)
Released during the year	(706,341)	(17,682)	(28,804)
<b>Closing balance at 31 December</b>	<b>1,976,241</b>	<b>2,400,095</b>	<b>1,669,823</b>

## [10] Equity

	31 December 2002		31 December 2001		31 December 2000	
Authorised and issued capital	No.	CZK '000	No.	CZK '000	No.	CZK '000
Bearer shares with nominal value CZK 100 fully paid	322,089,890	32,208,989	322,089,890	32,208,989	235,125,640	23,512,564
Personal shares with nominal value CZK 100 fully paid	-	-	-	-	86,964,250	8,696,425
Share with special rights according to section 10a article 4 letter b) of act 92/1991 with nominal value CZK 1,000	1	1	1	1	1	1
	<b>322,089,891</b>	<b>32,208,990</b>	<b>322,089,891</b>	<b>32,208,990</b>	<b>322,089,891</b>	<b>32,208,990</b>

Company shareholders	31 December 2002	31 December 2001	31 December 2000
The National Property Fund of the Czech Republic	51.1% (including 1 share with special rights)	51.1% (including 1 share with special rights)	51.1% (including 1 share with special rights)
TelSource N.V.	27.0%	27.0%	27.0%
KPN TELECOM B.V.	6.5%	6.5%	6.5%
Individual shareholders and investment funds	15.4%	15.4%	15.4%

The Consortium TelSource includes companies KPN TELECOM B.V. and Swisscom AG with the support of AT&T without share interest.

The Company had no convertible bonds in issue at 31 December 2002.

The legal reserve fund can only be used to cover losses. In accordance with Czech Commercial Law, on an annual basis, the Company creates a legal reserve fund of 5% from profit until the level of this legal reserve fund represents 20% of share capital.

## [11] Provision for liabilities and charges

	Legal reserves CZK '000	Reserve for exchange rate losses CZK '000	Reserve for hedging activities CZK '000	Reserve for restructuring and other CZK '000	Deferred tax liability CZK '000	Total CZK '000
Opening balance at 1 January 2000	4,649	533,475	89,544	959,992	7,156,611	8,744,271
Additions during the year	2,625	519,768	145,248	154,000	1,482,179	2,303,820
Unused amounts reversed during the year	-	(533,475)	(89,544)	(48,000)	-	(671,019)
Utilised during the year	(2,583)	-	-	(906,332)	-	(908,915)
<b>Closing balance at 31 December 2000</b>	<b>4,691</b>	<b>519,768</b>	<b>145,248</b>	<b>159,660</b>	<b>8,638,790</b>	<b>9,468,157</b>
Additions during the year	-	1,295,018	-	-	329,119	1,624,137
Unused amounts reversed during the year	(759)	(519,768)	(145,248)	-	-	(665,775)
Utilised during the year	(3,932)	-	-	(154,000)	-	(157,932)
<b>Closing balance at 31 December 2001</b>	<b>-</b>	<b>1,295,018</b>	<b>-</b>	<b>5,660</b>	<b>8,967,909</b>	<b>10,268,587</b>
Additions during the year	-	75,413	-	93,114	523,833	692,360
Unused amounts reversed during the year	-	(1,295,018)	-	-	-	(1,295,018)
Utilised during the year	-	-	-	(13)	-	(13)
<b>Closing balance at 31 December 2002</b>	<b>-</b>	<b>75,413</b>	<b>-</b>	<b>98,761</b>	<b>9,491,742</b>	<b>9,665,916</b>

In 2001 and 2000, the reserve for restructuring and other business risks was used as follows:

	2001 CZK '000	2000 CZK '000
Costs of reducing the number of employees	154,000	476,914
Other cost associated with liquidation of inventory	-	332,174
Other cost associated with liquidation of unused fixed assets	-	97,244
<b>Total</b>	<b>154,000</b>	<b>906,332</b>

The creation and usage of the reserve associated with restructuring was accounted for as extraordinary income and charges.

## [12] Payables

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Trade payables			
- current	2,071,188	2,180,411	4,190,858
- overdue	197,271	336,902	367,430
	2,268,459	2,517,313	4,558,288
Other payables			
- current	13,451,065	753,607	965,068
<b>Total short-term payables</b>	<b>15,719,524</b>	<b>3,270,920</b>	<b>5,523,356</b>

The Company does not have any payables secured by the assets of the Company.

## [13] Loans and bonds

	31 December 2002	31 December 2001	31 December 2000
	CZK '000	CZK '000	CZK '000
Bank loans and overdrafts in local currency	23,250	72,189	50,933
International financial institutions loans in foreign currency	1,731,476	2,046,119	2,567,463
Bank loans in foreign currency	16,104,715	16,296,286	20,971,396
Bonds in local currency	3,000,000	7,000,000	7,000,000
<b>Total</b>	<b>20,859,441</b>	<b>25,414,594</b>	<b>30,589,792</b>
Repayable within 1 year	12,379,087	7,376,584	3,475,483
after 1 year up to 2 years	290,328	12,491,750	322,390
after 2 years up to 5 years	3,870,984	881,457	21,351,160
after 5 years	4,319,042	4,664,803	5,440,759
<b>Total</b>	<b>20,859,441</b>	<b>25,414,594</b>	<b>30,589,792</b>
<i>Of which: Total due after more than 1 year</i>	<i>8,480,354</i>	<i>18,038,010</i>	<i>27,114,309</i>

Loans are provided in CZK and EUR. The weighted average interest rate of these loans at 31 December 2002 was 5.5% (2001: 7.2%, 2000: 7.1%).

The bank loans in foreign currency include a loan from SPT TELECOM (Czech Republic) Finance B.V. which should be repaid in 2003 (at 31 December 2002: CZK 12,052,990 thousand; at 31 December 2001: CZK 12,197,931 thousand; at 31 December 2000: CZK 13,383,986 thousand). The interest rate of the loan is 5.25% p.a.

The bonds issued may be analysed as follows:

	Coupon rate	31 December 2002	31 December 2001	31 December 2000
	%	CZK '000	CZK '000	CZK '000
Local bonds issued 11.3% / 2004 in CZK	11.3	-	7,000,000	7,000,000
Local bonds issued 4.55% / 2005 in CZK	4.55	3,000,000	-	-
<b>Total loans</b>		<b>3,000,000</b>	<b>7,000,000</b>	<b>7,000,000</b>

Based on the Company's decision, the bonds issue of 11.3% / 2004 was redeemed on 6 February 2002 at 100.75% of nominal value.

The fair values of bonds in issue are as follows:

	31 December 2002	31 December 2001	31 December 2000
	CZK '000	CZK '000	CZK '000
Local bonds issued 11.3% / 2004 in CZK	-	7,073,500	7,444,850
Local bonds issued 4.55% / 2005 in CZK	3,073,500	-	-
<b>Total loans</b>	<b>3,073,500</b>	<b>7,073,500</b>	<b>7,444,850</b>

International financial institutions loans are secured on movable and immovable fixed assets. The value of pledged assets is as follows:

	31 December 2002	31 December 2001	31 December 2000
	CZK '000	CZK '000	CZK '000
Land and buildings	1,446,616	1,448,754	1,554,512
Plant and equipment	4,538,231	5,974,964	6,032,322
<b>Total</b>	<b>5,984,847</b>	<b>7,423,718</b>	<b>7,586,834</b>

The loans have certain applicable financial covenants. Violation of these covenants would accelerate the maturity date of the debt.

## [14] Derivative financial instruments

The fair value of derivatives is presented in “Other receivables” if positive, or in “Other payables” if negative.

These can be analysed at 31 December 2002 as follows:

	Fair value		Notional amount
	Positive CZK '000	Negative CZK '000	CZK '000
<b>Cash flow hedging derivatives:</b>			
Cross currency interest rate swaps	-	46,771	7,728,000
<b>Fair value hedging derivatives:</b>			
Cross currency interest rate swaps	-	853,957	13,000,500
Forward foreign exchange contracts	73,760	-	2,135,675
Currency options	-	34,863	2,647,500
	<b>73,760</b>	<b>888,820</b>	<b>17,783,675</b>

Effective 1 January 2002, derivatives are recognised. The Company's derivative transactions, providing effective economic hedges under the Company's risk management positions to hedge against the foreign exchange risk associated with its foreign currency payables, qualify for hedge accounting under the specific Czech accounting rules (fair value hedging). The impact on the shareholder's equity regarding the adoption of new accounting policies commencing 1 January 2002 is described in Note 2 [p].

Nominal values of open hedging contracts at 31 December 2001 and 2000 are as follows:

	31 December 2001 CZK '000	31 December 2000 CZK '000
Cross currency interest rate swaps	14,458,000	477,250
Currency options	2,647,500	2,647,500
Forward foreign exchange contracts	352,000	2,488,207
Zero coupon swaps	6,270,500	6,270,500
<b>Total</b>	<b>23,728,000</b>	<b>11,883,457</b>

## [15] Taxation

The tax expense is comprised of the following:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Current tax expense	49,232	180,082	213,674
Deferred tax expense	937,703	329,119	1,506,649
	<b>986,935</b>	<b>509,201</b>	<b>1,720,323</b>

Current tax may be analysed as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Net profit before taxation	2,767,250	1,801,011	5,448,413
Non – tax deductible costs	1,891,403	2,318,418	2,865,511
Non taxable income	(2,434,584)	(1,410,740)	(2,374,163)
Difference between acc. and tax depreciation	(2,436,778)	(1,476,047)	(4,935,467)
10% deduction for investments tax credits	-	(391,100)	(341,124)
<b>Net taxable profit</b>	<b>(212,709)</b>	<b>841,542</b>	<b>663,170</b>
Corporate taxation at 31%	-	260,878	205,583
Dividends discount	-	(127,398)	-
Other adjustments	49,232	46,602	8,091
<b>Total tax expense</b>	<b>49,232</b>	<b>180,082</b>	<b>213,674</b>

The Company paid corporate income tax advances of CZK 169,037 thousand in 2002 (2001: CZK 181,730 thousand, 2000: CZK 295,329 thousand).

The deferred tax asset / (liability) is valued at 31% and may be analysed as follows:

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Difference between net book value and tax value of fixed assets	33,289,597	31,176,785	29,507,447
Non-deductible provision to inventory*)	(145,279)	(25,863)	(63,493)
Non-deductible provision for bad debts*)	(398,732)	(923,326)	(548,391)
Other material timing differences	(1,577,694)	(1,298,857)	(1,028,498)
Tax loss credits carry forward, deduction for investments tax credit	(549,371)	-	-
<b>Total timing differences</b>	<b>30,618,521</b>	<b>28,928,739</b>	<b>27,867,065</b>
Tax rate	31%	31%	31%
<b>Deferred tax liability</b>	<b>9,491,742</b>	<b>8,967,909</b>	<b>8,638,790</b>

\*) The Company deems that this portion of the non-deductible provisions will be deducted in next periods.

## [16] Revenue analysis

Revenue from ordinary activities has been generated as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Sales of services	36,052,589	38,535,016	40,795,127
- Domestic			
- Foreign	1,608,252	2,208,162	3,268,538
Including: telecommunications	35,456,135	38,096,861	40,417,589
- Domestic			
- Foreign	1,598,070	2,203,543	3,227,416
Sales of goods	320,619	340,662	306,361
- Domestic			
Sales of own products	30,028	44,471	57,037
- Domestic			
<b>Total operating revenues</b>	<b>38,011,488</b>	<b>41,128,311</b>	<b>44,427,063</b>

## [17] Employee analysis

	2002	2001	2000
Average number of management	242	252	211
Average number of other staff	14,080	15,573	18,491
<b>Total</b>	<b>14,322</b>	<b>15,825</b>	<b>18,702</b>

Management includes executive members of the Board of Directors, executive Vice-Presidents, Executive Directors and Directors of the Company.

	Management CZK '000	Other staff CZK '000	Total CZK '000
<b>2002</b>			
Wages and salaries	446,530	4,328,885	4,775,415
Social security costs	121,728	1,424,823	1,546,551
Remuneration for members of the Company's statutory bodies*)	15,601	-	15,601
Other costs	35,857	257,279	293,136
	<b>619,716</b>	<b>6,010,987</b>	<b>6,630,703</b>

\*) In 2002 the members of the Company's statutory bodies received cash allowances of CZK 3,649 thousand for the assumption of the non-competition obligation (2001: CZK 0 thousand, 2000: CZK 0 thousand).

	Management CZK '000	Other staff CZK '000	Total CZK '000
<b>2001</b>			
Wages and salaries	446,375	4,451,163	4,897,538
Social security costs	134,107	1,460,517	1,594,624
Remuneration for members of the Company's statutory bodies	13,538	-	13,538
Other costs	10,177	257,655	267,832
	<b>604,197</b>	<b>6,169,335</b>	<b>6,773,532</b>

	Management CZK '000	Other staff CZK '000	Total CZK '000
<b>2000</b>			
Wages and salaries	315,729	4,750,953	5,066,682
Social security costs	115,872	1,739,709	1,855,581
Remuneration for members of the Company's statutory bodies	13,591	-	13,591
Other costs	7,153	546,996	554,149
	<b>452,345</b>	<b>7,037,658</b>	<b>7,490,003</b>

In addition to legally required insurance contributions, the Company also makes contributions to a supplementary pension fund for its employees according to the Collective Agreement.

Company managers were provided with other benefits as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Outstanding loans	20,303	21,055	6,126
Company cars + fuel (the amount is subject to personal income tax)	20,304	19,828	15,155
Accountability insurance	843	-	-
Capital life insurance	88	701	331
	<b>41,538</b>	<b>41,584</b>	<b>21,612</b>

The members of the Board of Directors were provided with other benefits as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Capital life insurance	1,918	1,371	7,790
Company cars + fuel (the amount is subject to personal income tax)	123	188	101
Accountability insurance	784	348	-
	<b>2,825</b>	<b>1,907</b>	<b>7,891</b>

The members of the Supervisory Board were provided with other benefits as follows:

	2002 CZK '000	2001 CZK '000	2000 CZK '000
Capital life insurance	-	5,310	-
Company cars + fuel (the amount is subject to personal income tax)	74	100	-
Accountability insurance	1,513	502	-
	<b>1,587</b>	<b>5,912</b>	<b>-</b>

## [18] Related party transactions

The Company was involved in the following related party transactions:

		2002 CZK '000	2001 CZK '000	2000 CZK '000
Sales of services and goods	Eurotel Praha, spol. s r.o.	390,688	886,306	1,604,669
	Swisscom AG	96,100	44,673	62,773
	KPN TELECOM B.V.	38,401	118,501	70,577
	TelSource N.V.	-	26,201	3,870
	Other companies within the Group	229,607	11,903	11,826
		<b>754,796</b>	<b>1,087,584</b>	<b>1,753,715</b>
Purchases of services and goods	Eurotel Praha, spol. s r.o.	1,318,251	1,906,819	2,949,801
	Swisscom AG	17,849	20,951	51,148
	KPN TELECOM B.V.	26,074	65,393	62,529
	TelSource N.V.	65,974	126,093	20,631
	KPN Czech Republic, s.r.o.	20,886	147,771	229,136
	Other companies within the Group	54,463	19,945	15,415
		<b>1,503,497</b>	<b>2,286,972</b>	<b>3,328,660</b>
Interest received	Other companies within the Group	527	903	2,740
	SPT TELECOM (Czech Republic)			
Interest paid	Finance B.V.	<b>571,601</b>	<b>683,409</b>	<b>720,594</b>

Outstanding balances are as follows:

		2002 CZK '000	2001 CZK '000	2000 CZK '000
Receivables	Eurotel Praha, spol. s r.o.	33,585	44,794	22,336
	Swisscom AG	31,715	11,104	-
	KPN TELECOM B.V.	7,032	2,999	-
	TelSource N.V.	-	30,990	33,476
	Other companies within the Group	232,406	17,374	11,252
		<b>304,738</b>	<b>107,261</b>	<b>67,064</b>
Payables	Eurotel Praha, spol. s r.o.	749,848	721,561	233,541
	Swisscom AG	131	170	-
	KPN TELECOM B.V.	6,440	4,592	-
	TelSource N.V.	4,651	19,446	11,451
	KPN Czech Republic, s.r.o.	-	34,324	16,539
	Other companies within the Group	16,903	1,441	2,263
		<b>777,973</b>	<b>781,534</b>	<b>263,794</b>

The loan payable to SPT TELECOM (Czech Republic) Finance B.V. (Holland) amounted CZK 12,053 million as at 31 December 2002 (31 December 2001: CZK 12,198 million; 31 December 2000: CZK 13,384 million) and accrued interest relating to this loan was CZK 408 million (31 December 2001: CZK 448 million; 31 December 2000: CZK 467 million).

The loans receivable and payable bear interest at market interest rates. Trade receivables and payables arose under the same terms and conditions as for unrelated parties. Receivables from related parties have not been provided for.

No loans or guarantees have been provided to the shareholders of the Company.

## [19] Commitments

Capital commitments entered into by the Company are summarised as follows:

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Contracted	1,602,002	1,154,911	2,628,296
Not contracted	236,250	2,800,847	5,000,000
	<b>1,838,252</b>	<b>3,955,758</b>	<b>7,628,296</b>

The majority of contracted amounts relate to the telecommunications network.

The Company has the following commitments resulting from operating leases:

	31 December 2002 CZK '000	31 December 2001 CZK '000	31 December 2000 CZK '000
Due within 1 year	343,977	336,647	386,000
Due within period 1 - 5 years	824,473	1,091,886	1,219,000
Due after more than 5 years	162,338	204,312	-
	<b>1,330,788</b>	<b>1,632,845</b>	<b>1,605,000</b>



## **[20] Research and development**

In 2002, the Company spent in total CZK 351,607 thousand (in 2001: CZK 81,399 thousand, in 2000: CZK 113,775 thousand) for development, of which CZK 19,069 thousand was capitalised (in 2001: CZK 44,247 thousand, in 2000: CZK 61,914 thousand). The development expenses include externally developed information systems and technology, data and system architecture and applications integration.

## **[21] Contingent liabilities**

### **Interconnect arrangements**

The Company has not agreed a 2001 price amendment to an agreement with the mobile operators in the Czech Republic governing interconnect arrangements. During the year 2001, the Company applied the interconnection rates that it expects will be paid to calculate the relevant expenses. During 2002, no agreement was reached regarding the 2001 interconnect arrangements. The Company has not recognised any additional costs or reductions in costs during 2002. Any additional costs arising from the final agreement with the mobile operators would be recognised in the period they become probable and any reductions in costs would be recognised when virtually certain. However, management does not expect to bear additional costs after the amendments to the final agreement.

### **Floods**

The August 2002 floods affected the Company's assets. All identifiable damages on assets are recognised in the financial statements for 2002. The Company, in accordance with its internal policies, only recognise those reimbursements from the insurance companies that were confirmed by the balance sheet date. Additional reimbursements from the insurance companies are expected in 2003. Due to the uncertainty regarding the final amount, a related contingent asset is not disclosed.

## **[22] Privatisation**

In November 2001, the Czech government approved the sale of at least a 51.1% interest in the Company by way of a tender co-ordinated by the National Property Fund of the Czech Republic (the "NPF"). Pursuant to an agreement concluded between TelSource N.V., its owners and the NPF, the total stake offered in the tender may amount up to 78.1% of the Company's share capital, depending on whether TelSource N.V. opts to contribute its shares to the offer. The tender was finalized in December 2002 without reaching any agreement with the selected bidder. In accordance with the government resolution of 17 February 2003, it is expected that a new privatisation bid will take place in 2004 - 2005. It is not possible to establish at this stage the effects, if any, of future developments on the values of the assets and liabilities of the Company.

## **[23] Extraordinary items**

Extraordinary items presented by the Company primarily represent damages on property caused by natural disasters and insurance policies claimed associated with these damages. In 2002, extraordinary items include damages due to the fire of the telephone exchange in Prague 2 in January 2002 and damages on property due to the floods in August 2002 and associated income from insurance claims (in 2000, damages were due to the fire of telephone exchange in Frýdek-Místek). Extraordinary items included the addition of and utilisation of the Company's restructualisation reserve in 2001 and 2000 (see Note 11). Extraordinary items are tax deductible based on the fulfilment of the Income Tax Act stipulations.

## **[24] Subsequent events**

The Antimonopoly Office (UOHS) initiated administrative proceedings against the Company alleging breach of provisions of the Act on the Protection of Competition. The proceedings relate to the creation of unfair barriers against development of competition on the market through the application of some specific price plans for business customers. No ruling has been issued by UOHS in this respect yet. At the date of signature of these financial statements, it is not possible to estimate the amount and the impact of any potential fine. No provisions have been recognised in this respect.

## [25] Cash flow statement

The Company has prepared the cash flow statement following the indirect method. Cash equivalents represent short-term liquid investments, which are readily convertible for a known amount of cash. Cash and cash equivalents disclosed in the cash flow statement can be reconciled as follows:

	31 December 2002	31 December 2001	31 December 2000
	CZK '000	CZK '000	CZK '000
Cash on hand and in transit	61,019	42,344	(14,452)
Cash in bank	489,968	(54,859)	185,936
Overdrafts included in short-term bank loans	35,769	82,765	57,658
Cash equivalents included in short-term investments*)	4,104,874	4,914,689	994,078
<b>Cash and cash equivalents</b>	<b>4,691,630</b>	<b>4,984,939</b>	<b>1,223,220</b>

\*) Amount of CZK 5,956,421 thousand as at 31 December 2002 (31 December 2001: CZK 455,397 thousand; 31 December 2000: CZK 4,486,533 thousand) from short-term financial assets is not included in cash equivalents because it relates to securities repayable over 3 months.

### Approval of financial statements

The financial statements have been approved by the Board of Directors and have been signed below on their behalf.

26 March 2003



**Ondřej Felix**  
*Chairman of the Board of Directors*



**Juraj Šedivý**  
*Executive Vice President  
Corporate Services Group*

## Report of the Board of Directors on company business activity and property status



(part of the Annual Report 2002 pursuant to Section 192, Para. 2 of the Commercial Code)

125	Business activity
125	Consolidated financial results and property status of ČESKÝ TELECOM in 2002 (according to IFRS)

## Business activity

- The business activity of ČESKÝ TELECOM in 2002 was focused on maintaining company stability and long-term competitiveness on the fully liberalised telecommunications market. Even though full liberalisation will be legally completed in 2003, a fully competitive environment already existed in 2002.
- At the end of 2002, the total number of telephone lines was 3.66 million (equivalent of main fixed-line numbers), which is approximately 180,000 less than in 2001. The reduction in the number of fixed phone lines is partially compensated by the increase in ISDN channels, which increased to 389,000 in comparison with 261,000 in 2001. Penetration of mobile telephones has reached 84%.
- The company dedicated significant attention to the improvement of customer support and new services intended to target the needs of the Czech Republic's customers, which were divided into individual market segments, and to the increase of operating effectiveness.
- Another important task was the completion of the obligatory investment into infrastructure and technologies, in particular the completion of 100% digitalisation of the network, the introduction of Carrier Selection and Carrier Pre-Selection services, the enabling of Number Portability, and the complete renumbering of the Czech telephone network.
- Commercial introduction of broadband services based on xDSL technologies had to be interrupted as a result of the CTO's decision and was only implemented at the beginning of 2003. This technology enables customers to use broadband data transfer and Internet access over the existing telephone infrastructure while keeping the telephone or ISDN line free.
- Eurotel has retained its leading position on the mobile telecommunications services market and increased the number of its customers to 3.89 million in 2002. These customers sent a total of 2 billion SMS messages, which is almost a 70% increase in comparison with the previous year. Compared to previous years, mobile operators focused not only on the acquisition of new customers, but increasingly on customer loyalty and the introduction of new value-added services. Eurotel has confirmed its position as a dynamic and innovative company in this area.

## Consolidated financial results and property status of ČESKÝ TELECOM in 2002 (according to IFRS)

- ČESKÝ TELECOM demonstrated its business and financial stability in the face of increasing competition during 2002 and retained its favourable A- rating from Standard & Poor's.

### Revenue overview

- ČESKÝ TELECOM's total consolidated revenue reached CZK 52.9 billion in 2002, in comparison with CZK 55.9 in the previous year. Increased competition on the telecommunications market, the high penetration of mobile services, and decisions of regulatory institutions had the biggest influence on revenues. This has negatively influenced the revenues from call charges and revenues from other network operators and international operators. However, all types of Internet services, ISDN and data services recorded dynamic growth.
- Consolidated revenues of the subsidiary Eurotel reached CZK 13.9 billion, a 0.1 billion decrease in comparison with 2001. This represents a 26% share of the total consolidated revenues of ČESKÝ TELECOM, in comparison with 25% in the previous year. At the end of 2002, Eurotel had 3.891 million customers, which represented approximately a 45% share of the mobile telecommunications services market.
- In 2002, thanks to the partial rebalancing of the telephone tariff structure to reflect their costs, revenues from monthly subscription charges increased 46% in comparison with the previous year to CZK 10.6 billion. On the contrary, revenues from call charges dropped 35% to CZK 13.7 billion. The transition to value-added services was also apparent, in particular in the ISDN services segment. ISDN revenues increased 55% to CZK 4.5 billion, and the number of ISDN channels reached 389,000 at the end of 2002, which is a 46% increase from the previous year. The use of fixed lines for dial-up access to the Internet increased significantly. The volume of this traffic increased 26% in comparison with the previous year and now represents 48% of the total volume of outgoing traffic.
- Increased data transfer volume has also brought an increase in leased loops revenues by 12%, to CZK 2.6 billion. Revenues from Internet services, provided under the brand name of INTERNET OnLine and through the QUICK.CZ portal, rose even more, by 55% to CZK 429 million.
- Revenues from other network providers fell 34% to CZK 2.6 billion. Revenues from international operators fell 27% to CZK 1.5 billion. The decrease in revenues can be attributed to the CTO's decision on the interconnection of networks and on the decrease in prices for international interconnection.

### Overview of costs

- In 2002, total operating costs excluding depreciation reached CZK 26.7 billion, which represents an annual decrease of CZK 2.0 billion. ČESKÝ TELECOM thus proves the continuous increase of its operating efficiency. Lower costs are also a result of lower payments to other network operators.
- Consolidated payments to other network operators were down 23% in comparison with last year, to CZK 5.7 billion. This was mostly the result of the lower interconnection charges for local mobile networks enforced by the CTO. Thanks to greater competition on the market, consolidated payments to international operators fell 28% to CZK 1.8 billion.
- Consolidated staff costs have not changed in comparison with 2001 and were CZK 7.6 billion. This is a result of changes in employment structure, with the ratio of employees with university education increasing. ČESKÝ TELECOM reduced its workforce by 10% in comparison with 2001 to 13,717. Eurotel's workforce increased by 1% to 2,447.

### Earnings before finance costs, tax, depreciation and amortisation (EBITDA), Net profit

- Earnings before finance costs, tax, depreciation and amortisation were CZK 26.2 billion, which is a 3.7% drop in comparison with 2001. Even with this adverse development, ČESKÝ TELECOM managed to maintain one of the highest EBITDA margins among all international telecommunications companies (49%).
- The consolidated depreciation and amortisation value increased to CZK 19.1 billion, compared with CZK 17.0 billion in 2001. The 2002 figure includes one-time depreciation and assets implemented in the last quarter.
- The consolidated investment value decreased 40% in comparison with 2001, to CZK 11.3 billion, in particular due to the completion of demanding obligatory investment.
- Consolidated earnings before tax fell to CZK 6.1 billion, a 30% decrease in comparison with the previous year. This is caused by the drop in overall earnings and also by the increase of the depreciation and amortisation value.
- In 2002, ČESKÝ TELECOM generated consolidated net earnings in the amount of CZK 4.3 billion, a 30% decrease in comparison with 2001.

### Status of corporate property (according to IFRS)

- The company's assets decreased in 2002 from CZK 159.1 billion to CZK 156.4 billion. In terms of liabilities, there was a decline in the company's payables by 13%, to CZK 45 billion. The company's registered capital (shareholder equity) increased by 4% to CZK 111.3 billion, chiefly due to an increase in reserves. The company's gross gearing decreased to 20%, and net gearing decreased to 6%.
- Market capitalisation and trading volume make ČESKÝ TELECOM one of the leading companies on the Czech capital market. Company shares are traded, in the form of GDR's (Global Depositary Certificates) on the London Stock Exchange. ČESKÝ TELECOM's credit ratings from renowned international agencies are continuously among the highest possible for Czech companies.
- Development of the company's share price was influenced primarily by external factors in 2002. The maximum share price was CZK 383.50, and the minimum share price was CZK 210.80. The difference between the highest and lowest values is CZK 172.70, compared to CZK 385.10 in 2001. The main reasons for price fluctuation included the Czech Government's decisions on the company's privatisation and the developments on the main international telecommunications and technology capital markets. The company's earnings had little influence on share price changes and corresponded with the market's expectations.

The majority ownership structure of ČESKÝ TELECOM did not change in 2002.

The company's financial statements were subject to an external audit by PricewaterhouseCoopers. As in previous years, the audit results are without reservations.

Information on the registered security issuer



129	[1] Information on the registered security issuer
134	[2] Information on the subject of business of the registered security issuer
139	[3] Information on the financial position of the registered security issuer
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Note: Information in this section is based on financial statements prepared in accordance with the provisions of the Czech Accounting Act and other relevant legislation, unless otherwise indicated.



## [1] Information on the registered security issuer

### Basic information

Business firm:	ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM)
Registered address:	Olšanská 55/5, 130 34 Prague 3
IČ [Identification Number]:	60193336
DIČ: [VAT Registration Number]:	003-60193336
Company founded:	16 December 1993
Company incorporated:	1 January 1994
Duration of the company:	The company is established for an indefinite period of time
Legal form:	Joint-stock company
Legal regulation according to which the company was established:	The provisions of Section 171 (1) and Section 172 (2), (3) of the Commercial Code
Commercial Court:	Prague Municipal Court
Commercial Court Record number:	Section B., file 2322

### Subject of business

Basic subject of business (activity) of the company shall be:

- [1] According to the Telecommunications Licence for the provision of a public telephone service via the public fixed telecommunications network, within the scope and under the conditions stipulated in this Licence:
- [a] to provide, in the public interest, via the public fixed telecommunications network
    - [aa] the Universal Service, so that the availability of the services provided within the Universal Service is ensured throughout the whole territory of the Czech Republic at a reasonable price and in the following extent:
      - public telephone service, including facsimile and data transfer within all telephone circuits in the territory of the Czech Republic, and national and international public telephone service via the public fixed telecommunications network;
      - operator services;
      - free and continuous access for users to emergency call numbers without use of coins or cards;
      - information service on the telephone numbers of public telephone service subscribers;
      - regular issue of telephone directories with the numbers of public telephone service subscribers and availability of the directories;
      - public payphone services;
      - discounts for holders of ZTP cards because of total or general deafness, or discounts for ZTP/P cardholders;
      - discounts for persons who are acknowledged as disabled by a doctor of the respective district social security administration;
    - [ab] public telex and public telegraph service until the end of 2005;
    - [ac] mediation of access to public telecommunications services provided by other authorised telecommunications services providers.
  - [b] to provide services throughout the territory of the Czech Republic and to conclude agreements with foreign entities for the purpose of providing international telecommunications services from other countries to the Czech Republic and from the Czech Republic to other countries;
  - [c] to meet the obligations arising from legal regulations approved in order to provide for the state's defence and security and economic measures for critical states;
  - [d] to provide public telephone service via the public fixed telecommunications network, so that it would enable, if technically feasible, the provision of telecommunications services preferentially for the needs of state administration bodies, autonomy bodies, the armed forces, armed safety forces and rescue groups, and legal and natural entities determined by a special legal regulation who meet tasks concerning the state's defence and security.

- [2] According to the Telecommunications Licence for the provision and operation of the public telecommunications network, to the extent and under the conditions stipulated in this Licence:
- [a] to establish and operate the public fixed telecommunications network through which telecommunications services will be provided throughout the territory of the Czech Republic;
  - [b] to interconnect the telecommunications network with the telecommunications networks of other authorised operators;
  - [c] to conclude agreements with foreign entities for the purpose of interconnection of telecommunications networks operated by the Telecommunications Licence holder with the telecommunications networks of other authorised operators for the provision of international telecommunications services from other countries to the Czech Republic and from the Czech Republic to other countries, including transit via the territory of the Czech Republic;
  - [d] to enable other authorised operators of telecommunications networks and providers of telecommunications services to interconnect directly or indirectly with public telecommunications network operated by the company, in compliance with the relevant legislation;
  - [e] to provide, in the public interest, the public telecommunications service of leased telecommunications lines, so that its availability is ensured throughout the territory of the Czech Republic;
  - [f] to use frequency bands for the provision of services.

For detailed specifications of the subject of business of the company, see Article 3 of the company's Articles of Association.

### Securities issued

[1] Shares

As at 31 December 2002

The company's registered capital is CZK 32,208,990,000. The registered capital is fully paid up.

The registered capital is broken down as follows:

[a] Type:	ordinary shares
Form:	bearer shares
Kind:	booked
Number:	322,089,890 pc
Nominal value:	CZK 100
Total issue volume:	CZK 32,208,989,000
ISIN:	CZ0009093209
[b] Type:	ordinary shares
Form:	registered shares
Kind:	booked
Number:	1 pc
Nominal value:	CZK 1,000
Total issue value:	CZK 1,000

One registered share to which special rights are attached pursuant to the provisions of Art.4(2) of Act no. 210/1993 Coll., amending Act no. 92/1991 Coll., on the Conditions of the Transfer of State Property to Other Persons, as amended, and other Acts (Act no. 210/1993 Coll.). To transfer a registered share, authorisation of the Board of Directors is necessary. The Board of Directors is obliged to decide within two months of the day of receipt of a written application at the company's registered address. The Board of Directors shall not deny authorisation of the transfer of a registered share without sufficient reason.

Names of public markets where shares of ČESKÝ TELECOM were admitted for trading:

Name of market	Note
PSE*	On the main market
RM-S**	
LSE***	In the form of Global Depositary Receipts (GDR). The depositary for the GDR is The Bank of New York, ADR division, registered at 101 Barclay Street, New York, NY 10286, USA. The custodian is Komerční banka, a.s., registered at Na Příkopě 33, no. 969, 114 07 Prague 1.

\* PSE [Burza cenných papírů Praha] - Prague Stock Exchange

\*\* RM-S [RM-SYSTÉM] - Czech share trading system

\*\*\* LSE - London Stock Exchange

A full wording of the Terms and Conditions of the Share Issue, from which only important information has been selected, is available at the registered address of the issuer.

Changes during 2002:

[a] On 18 January 2002, the PSE Quotations Committee evaluated and authorised the company's request to increase the issue of ČESKÝ TELECOM's ISIN CZ0009093209 shares on the main stock exchange market. The application was submitted in keeping with the decision of the issuer's General Meeting of 15 June 2001 on the change of form of 86,964,250 of the company's ordinary shares from registered shares with restricted transferability to bearer shares with unrestricted transferability. On 12 September 2001, the change was registered with the Municipal Court of Prague and at the Commercial Register, effective 13 September 2001.

[b] On 22 February 2002, the issue of shares on the PSE was increased.

[c] On 25 February 2002, the issue of shares on the RM-S was increased.

[2] Bonds

As at 31 December 2002

Bond programme	
Maximum amount of outstanding bonds:	CZK 20,000,000,000
Programme duration:	10 years
Maturity of issues within the programme:	maximum of 15 years
Bonds issued as part of the bond programme	
ISIN:	CZ 0003501306
Total nominal issue value:	CZK 3,000,000,000
Nominal value of the bond:	CZK 10,000
Interest rate:	As at 15 July 2002, the bonds had a fixed interest rate of 4.55% p.a.; interest is paid by 15 July of each year for the previous year
Form:	bearer
Kind:	booked
Issue date:	15 July 2002
Payable on:	15 July 2005
Option of the issuer for prior redemption:	-
Administrator:	Československá obchodní banka, a.s.
Administrator's registered address:	Na Příkopě 14, 115 20 Prague 1

## Markets on which ČESKÝ TELECOM bonds were accepted for trading

Name of market	Note
Prague Stock Exchange	On the secondary market

A full wording of the Terms and Conditions of the Bond Issue, from which only important information has been selected, is available at the registered address of the issuer, and the administrator agreement is available at the registered address of the administrator.

## Changes during 2002:

- [a] On 4 February 2002, in connection with realising the option for early redemption of bond issue no. ISIN CZ 0003500787 as at 6 February 2002, trading with these bonds on the PSE's main market was closed. On 6 February 2002, all administrator branches began to disburse payments.

ISIN:	CZ 0003500787
Total nominal issue value:	CZK 7,000,000,000
Nominal value of the bond:	CZK 10,000
Interest rate:	As at 6 February 1997, the bonds had a fixed interest rate of 11.3% p.a.; interest is paid by 6 February of each year for the previous year
Form:	bearer
Kind:	certificated
Issue date:	6 February 1997
Payable on:	6 February 2004
Option of the issuer for prior redemption:	6 February 2002 for 100.75% of the nominal value 6 February 2003 for 100.50% of the nominal value
Administrator:	Česká spořitelna, a.s.
Administrator's registered address:	Olbrachtova 1929/62, 140 00 Prague 4.

- [b] The issuer commenced a bond programme based on which it is authorised to issue from time to time individual debt securities issues subject to compliance with all applicable legislation. The aggregate nominal value of all outstanding bonds issued under the programme shall not exceed CZK 20,000,000,000 at any time. The duration of the programme during which the issuer can issue bonds is 10 years, and maturity of any bond issue under the programme shall not exceed 15 years. The terms and conditions that will apply to all individual issues of the bonds under the programme and its prospectus were approved by the Czech Securities Commission in accordance with the Bonds Act and Securities Act on 21 May 2002 in decision no. 45/N/520/2002/1, which came into force on 22 May 2002. The ISIN number of each individual bond issue issued as part of the programme will be allocated by the Czech Securities Commission separately and will be set forth in the relevant Pricing Supplement.

## Company structure

Main shareholders of ČESKÝ TELECOM (as at 31 December 2002)

Name	Address	Registered capital share
The National Property Fund of the Czech Republic (Fond národního majetku České republiky)	Rašínovo nábřeží 42 128 00 Prague 2	51.1%
TelSource N.V.	Maanplein 55, TP-5 kmr 252, 2516 CK's-Gravenhage, Netherlands	27.0%
KPN TELECOM B.V.	Maanplein 55 TP5/8.11 2516 CK's-Gravenhage, Netherlands	6.5%
Investment funds and individual owners	-	15.4%

Shareholders of TelSource N.V. (as at 31 December 2002)

Name	Address	Registered capital share
KPN TELECOM B.V.	Maanplein 55 TP5/8.11 2516 CK's-Gravenhage, Netherlands	51.0%
Swisscom AG	Alte Tiefenaustrasse 6 3050 Bern, Switzerland	49.0%

**Entities which control the issuer, or which could control the issuer, including details on their share which entitles them to vote (for those known to the issuer)**

- [1] Business firm: The National Property Fund of the Czech Republic  
registered at the Commercial Register administered by the Prague Municipal Court, Section A.LXII, File 174  
Registration date: 2 August 1991  
Registered address: Rašínovo nábřeží 42, 128 00 Prague 2  
Identification Number: 41692918  
The controlling entity owns shares of the controlled entity whose total nominal value represents 51.1% of the registered capital of the controlled entity.  
Total share of voting rights of the controlled entity according to the provisions of Art.183d of the Commercial Code is 84.58%.
- [2] Business firm: TelSource N.V.  
Registered address: Maanplein 55 TP-5 kmr 252  
2516 CK's-Gravenhage, Netherlands  
The controlling entity owns shares of the controlled entity, whose total nominal value represents 27% of the registered capital of the controlled entity.  
Total share of voting rights of the controlled entity according to the provisions of Art.183d of the Commercial Code is 84.58%.
- [3] Business firm: KPN TELECOM B.V.  
Registered address: Maanplein 55 TP5/8.11  
2516 CK's-Gravenhage, Netherlands  
The controlling entity owns shares of the controlled entity, whose total nominal value represents 6.48% of the registered capital of the controlled entity.  
Share of voting rights of the controlled entity according to the provisions of Art.183d Para.1 of the Commercial Code is 6.48%.  
Total share of voting rights of the controlled entity according to the provisions of Art.183d of the Commercial Code is 84.58%.
- [4] Business firm: Swisscom AG  
Registered address: Alte Tiefenaustrasse 6  
3050 Bern, Switzerland  
Total share of voting rights of the controlled entity according to the provisions of Art.183d Para.1 of the Commercial Code is 0%.  
Total share of voting rights of the controlled entity according to the provisions of Art.183d of the Commercial Code is 84.58%.
- [5] Business firm: Royal KPN N.V. (former Royal DUTCH TELECOM N.V.)  
Registered address: Maanplein 55 TP5/8.11  
2516 CK's-Gravenhage, Netherlands  
Total share of voting rights of the controlled entity according to provisions of Art.183d Para.1 of the Commercial Code is 0%.  
Total share on voting rights of the controlled entity according to provisions of Art.183d of the Commercial Code is 84.58%.

## [2] Information on the subject of business of the registered security issuer

### Main business activity areas, new products and services

ČESKÝ TELECOM is the owner, builder and operator of the major part of the unified telecommunications network in the Czech Republic. The basic area of business activity of the issuer is the provision of public telephone services using the Public Switched Telecommunications Network. See pages 14–28 of this Annual Report for a more detailed description.

### Issuer's revenues for the last three accounting periods according to type of activity (in CZK thousands)

		2002	2001	2000
Sales of services	- domestic	36,052,589	38,535,016	40,795,127
	- foreign	1,608,252	2,208,162	3,268,538
- including telecommunications	- domestic	35,456,135	38,096,861	40,417,589
	- foreign	1,598,070	2,203,543	3,227,416
Sales of goods	- domestic	320,619	340,662	306,361
Sales of own products	- foreign	30,028	44,471	57,037
Total operating revenues		38,011,488	41,128,311	44,427,063

### Registered address of organisational units with at least 10% share of total company turnover

The issuer does not have any independent organisational unit registered in the Commercial Register which would have at least a 10% share of the total turnover, production, or services provided by the issuer.

### Description of immovable property owned by the company

The issuer owns immovable property used mostly to realise its business objectives for which it is licensed under existing legislation.

As at 31 December 2002 (in CZK thousands)	Purchase price	Accumulated depreciation	Net book value
Land	592,042	0	592,042
Buildings and structures	110,169,099	(37,221,009)	72,948,090
- Buildings and houses	13,597,553	(2,976,853)	10,620,700
- Public telephone booths	807,798	(636,994)	170,804
- Above-ground and underground telecommunications cables	95,032,186	(33,289,868)	61,742,318
- Other	731,562	(317,294)	414,268

As at 31 December 2002	Number	Area in m2
Buildings	2,649	1,226,799
Land	4,585	2,145,801

### Book value of pledged property

As at 31 December 2002	in CZK thousands
Immovable property	1,446,616
Movables	4,538,231
Total	5,984,847

See Loans and bond issues on page 139 of this Annual Report

### Details on issuer's dependency on patents or licenses and industrial, trading, or financial contracts which have a significant impact on the issuer's business activities

#### [1] Patents and licenses

License contracts for the use of the following software products are significant for the issuer's business activities: database interface (ORACLE); operating systems (Hewlett-Packard, SUN and UNIX); workstation software (Microsoft); customer care and billing - a new billing system with the option of detailed itemised bills (Amdocs); and BSS (Business Support System) for increased effectiveness (SAP).

#### [2] Industrial and trading contracts

The issuer maintains a diversified portfolio of technology suppliers. The main goal of the issuer in relation to its suppliers is to maintain competition. All important contracts for supplies of technology are signed after tender proceedings.

Main suppliers of active elements are: Alcatel, Siemens, Lucent Technologies, TTC Marconi, Cisco Systems International BV and Nortel Networks Europe S.A.; of optical cables: Samsung; of copper cables: Kabelovna Děčín and NK Cables. Suppliers of IT include Sun Microsystems Czech, Hewlett-Packard and the purchases of products from Amdocs, Alcatel Czech, NextiraOne (formerly Alcatel e-business distribution).

None of the above trading contracts or any other contract with a recipient of services supplied by the issuer exceeds 5% of the trading property of the issuer in its volume.

#### [3] Financial contracts

See Loans and bond issues on page 139 of this Annual Report

### Details on legal, administrative, or arbitrary proceedings commenced during the last two accounting periods which had or could have significant impact on the issuer's financial position

In connection with its business activities, the issuer has entered into a number of legal and administrative proceedings. These proceedings also relate to disputes arising from interconnection agreements with authorised operators of public telecommunications networks. The most important proceedings are held against RadioMobil, a.s. and Eurotel Praha, spol. s r.o. and concern interconnection charges during 2001.

The Office for the Protection of Economic Competition (ÚOHS) has commenced administrative proceedings against ČESKÝ TELECOM concerning two cases of alleged breach of the Economic Competition Protection Act. They concern the provision of Internet access using ADSL technology for other authorised operators of public telecommunications networks and the alleged barriers to the development of competition on the market as a result of enforcing selected tariff programs for the business sector.

In March 2003, the ÚOHS issued a decision concerning the use of ADSL technology by other authorised operators in which ČESKÝ TELECOM was fined CZK 23 million. ČESKÝ TELECOM appealed against this decision. In the second proceeding (enforcing of selected tariff programs), no decision was issued as of the publication date of this Annual Report. The amount and impact of an eventual sanction could not be estimated by the date of the accounting book closure. No reserves were entered into the books in connection with these proceedings.

### Main investments

Issuer's main investments for the last three accounting periods (in CZK millions)	2002	2001	2000
Switching technology	1,880	2,875	1,811
Transmission technology	1,661	1,715	1,479
Access network	1,088	1,939	3,094
Buildings	590	725	704
Data network	683	891	732
Other – support systems	2,378	5,694	6,872
Total investment (non-financial)	8,280	13,839	14,692

All main investments of the issuer were located in the Czech Republic and were financed from the company's own resources and from loans.

During 2002, investment was directed mainly into completion of the digitalisation of the telecommunications network and the fulfilment of the requirements of the Telecommunications Act, i.e., Carrier Selection, Pre-Selection and Number Portability. In the area of installation and operation of euroISDN channels, the growth trend from previous years continued, with approximately 128,000 new channels installed and the total number of operated euroISDN channels reaching 389,000.

Issuer's financial investment for the last three accounting periods (in CZK millions)	2002	2001	2000
Financial investment	947	90	3,967

#### Main future investments

The majority of investment directed into the fulfilment of regulatory requirements was completed in 2002. For this reason, investment expenditures will be reduced in the future. During 2003–2005, investment will be directed mainly to create additional possibilities for the generation of new services and products reflecting customer needs. This means that investment will be directed into infrastructure and the quality and reliability of network development, with the gradual introduction of new technologies necessary for the development of the Next Generation Network (NGN) and to enable the convergence of voice, data and multimedia services.

#### Information on research and development policy for new products or methods during the accounting period

In 2002, ČESKÝ TELECOM spent a total of CZK 351,607,000 (in 2001: CZK 81,399,000; in 2000: CZK 113,775,000) on development, of which CZK 19,069,000 was capitalised (in 2001: CZK 44,247,000; in 2000: CZK 61,914,000). Development expenses included externally developed information systems and technology, data system architecture and applications integration.

#### Main risk factors in the company's financial management

See Financial risk management on page 62 of this Annual Report.

#### Details on the interruption of business activity

As a result of the floods in August 2002, 113 technology buildings were affected, out of which 43 were out of service (RSU – Remote Subscriber Unit, HOST – Main Switchboard). A total of approximately 213,000 phone lines were temporarily out of service. The floods also affected commercial places, storage, administration and other ČESKÝ TELECOM buildings. ČESKÝ TELECOM has an insurance coverage for this kind of insurance claim. Even though the damages were not fully calculated at the end of 2002, it is clear that overall damage will not have material influence on company financials.

#### Implementation of takeover offers

N/A

#### Average number of employees

Business activity	2002	2001	2000
Managerial and administrative positions	5,246	5,771	6,252
Operation and maintenance of telecommunications network	6,320	6,757	8,307
Construction and installation	1	5	151
IT	568	514	528
Transport	92	133	211
Supply and logistics	330	382	492
Sales and marketing	1,512	1,846	2,119
Maintenance of buildings	82	139	202
Other support activities	171	278	440
Total	14,322	15,825	18,702



## Statutory and supervisory bodies of the company

As at 31 December 2002	Position	Name
Board of Directors	Chairman	Ondřej Felix
	First Vice-Chairman	André Frans Bessel Kok
	member	Jan Juchelka
	member	Günter Heinz Pfeiffer
	member	Pavel Kuta
	member	Zdeněk Hrubý
	member	Hana Doležalová
Supervisory Board	member	Adam Blecha
	First Vice-Chairman	Gerardus Johannes Klein Bluemink
	Second Vice-Chairman	Lubomír Vinduška
	member	Dominik Louis Böhler
	member	Pavel Herštík
	member	Miloslav Krch
	member	Jan Schwarzer
	member	Zdeněk Šámal
	member	Jan Škurek
	member	Václav Wagner
	member	Ladislav Zelinka
	member	Michal Frankl
	member	Vladimír Šiška
	member	Petr Zatloukal
	member	Miloslav Hala
	member	Michal Švorc

### Changes in the composition of the Board of Directors and Supervisory Board during 2002 and first quarter 2003 and curriculum vitae of new members of the Board of Directors

See pages 38, 39 and 41 of this Annual Report.

New members of the Board of Directors

#### Michal Frankl (\*1963)

*Chairman of the Supervisory Board*

He began his career as a programmer and IT systems designer at the IT Centre of the Brno Regional Administration. Since 1991, he has been an active businessman, partner and manager of an audit and consulting company. In 1996 he became Member of Parliament of the Czech Republic, and between 1997 and 1998, he served as Deputy Minister of Finance. Between 1998 and 2002, he worked as a financial and tax advisor at MAIN Consulting, s.r.o. During 2002, he also served as Deputy Director of the Public Information Systems Office. Currently, he holds the position of First Deputy Minister of Information Technology of the Czech Republic.

#### Eric Maria Johannes Werner de Jong (\*1948)

*First Vice-Chairman of the Supervisory Board*

Having completed his studies at HTS Telecommunications in 1971, he held a number of offices and positions in Royal KPN N.V., namely in public telephony, in the area of managerial consultancy, and worked as a sales manager and Vice-President for strategy. He graduated in organisational sociology from Erasmus University, Rotterdam, in 1982, and from the Harvard Advanced Management Program in 2000. At present, he holds the position of Director of International Participations and is thus responsible for most international participations of Royal KPN N.V.

#### Miloslav Hala (\*1953)

*Member of the Supervisory Board*

He graduated from the University of Economics in Prague. He began his career at Strojimport Prague. Between 1991 and 1992, he was the financial director of the EC PHARE Programme for Privatisation and Restructuring. Since 1992, he has also worked for Ernst&Young CS Consulting, first as Marketing Manager of its Prague branch, later as the CEO of Ernst&Young Audit Bratislava. Between 1995 and 1999, he held the position of Audit Management Partner in Ernst&Young s.r.o. Prague. Since 2001, he has worked as Country Manager of Compass Ltd. He currently works as a consultant.

**Vladimír Šiška (\*1965)**

*Member of the Supervisory Board*

Between 1991 and 2000, he was Manager and Partner of the Telecommunications division of CONE, spol. s r.o. In 2000, he held the position of Strategic Project Manager at CEZtel, a.s. Since 2001, he has worked at the Public Information Systems Office, first as the Head of the Information Systems of the Public Administration of the Czech Republic - Program Division and later as the Deputy Chairman of the Office. Currently, he is Deputy Minister and Section Head at the Ministry of Information Technology of the Czech Republic.

**Michal Švorc (\*1965)**

*Member of the Supervisory Board*

After graduating from the Law School of the Charles University, he began his career at the Federal Ministry of Finance in 1987. In 1993, after the dissolution of the Federation, he became Head of the Legislative division of the Ministry of Finance of the Czech Republic.

**Petr Zatloukal (\*1970)**

*Member of the Supervisory Board*

He graduated from the Transport and Communication University in Žilina. He began his career at MICOS spol. s r.o. Prostějov, where he held the positions of Head of the Tender department and Head of the Sales department between 1994–2001 and, since 1997, he served as Head of the company's division. Since 2001, he has been Head of the Communication and Information Services department of the Ministry of Interior of the Czech Republic.

**Jan Škurek (\*1971)**

*Member of the Supervisory Board*

He graduated from the Silesian University in Opava, Faculty of Business Administration in Karvina. In 1995, he joined the Credit department of Bank SKALA, a.s. He held the same position at Evrobanka, a.s. in 1996. Between 1997 and 1998, he worked as Head of the Sales department at Union Banka, a.s. Since 1999, he has worked at the National Property Fund of the Czech Republic in the Analytic and Corporate Finances department and as Head of the Corporate Finances department. Since 2002, he has been the Head of the Strategic Privatisation section of the National Property Fund of the Czech Republic. He is a member of the Supervisory Board of Středočeská energetika a.s. and a member of the Board of Directors of OSINEK, a.s.

**Remunerations to statutory bodies or its members or members of supervisory bodies of the issuer (in CZK thousands)**

	Financial proceeds	Of which royalties	Other revenues
Board of Directors*	13,011	3,141	2,825
Supervisory Board*	8,977	3,246	1,587
Company management**	81,801	0	4,025

- \* In 2002, members of the Board of Directors and Supervisory Board received cash allowances of CZK 3,649 thousand for the assumption of the non-competition obligation.

\*\* Company management includes remuneration to managers whose positions fulfil the conditions of the provisions of Section 27 (5) of the Labour Code. Remunerations to members of the Board of Directors who are also listed under company management are divided between both groups. Board of Directors includes remuneration for the position of member of the Board of Directors. Company management lists income connected to positions in company management.

**Remunerations to statutory bodies or its members or members of supervisory bodies paid by entities within the entire corporation in the Czech Republic, including remunerations by the issuer (in CZK thousands)**

	Financial proceeds	Of which royalties	Other revenues
Board of Directors*	13,011	3,141	2,825
Supervisory Board*	8,977	3,246	1,587

- \* In 2002, members of the Board of Directors and Supervisory Board received cash allowances of CZK 3,649 thousand for the assumption of the non-competition obligation.

**Number of company shares owned by members of the Board of Directors, Supervisory Board and management of the issuer**

	Number of shares
Board of Directors*	6,959
Supervisory Board	150
Company management**	100

- \* Includes the number of shares belonging to members of the Board of Directors who also are members of company management (these shares are not included in the shares owned by company management).

\*\* Company management includes managers whose positions fulfil the conditions of the provisions of Section 27 (5) of the Labour Code.

### [3] Information on the financial position of the registered security issuer

#### Changes in equity in the last three accounting periods (in CZK thousands)

Year	2002	2001	2000
Registered capital	32,208,990	32,208,990	32,208,990
Share premium	29,343,185	29,343,185	29,343,185
Other capital funds	2,120,641	2,140,298	2,143,795
Funds from profit	5,442,453	5,382,594	5,182,769
- of which statutory reserve fund	5,409,049	5,344,458	5,158,053
Revaluation reserve	(962,444)	0	0
Retained earnings	24,691,099	23,555,267	22,553,006
Profit (loss) for the current period	1,780,315	1,291,810	3,728,090
Total equity	94,624,239	93,922,144	95,159,835

#### Profit from ordinary activities after taxation of the issuer per one share

	2002	2001	2000
Profit from ordinary activities after taxation (in CZK thousands)	1,834,256	1,133,281	3,435,784
Number of ordinary shares in issue*	322,089,900	322,089,900	322,089,900
Profit from ordinary activities after taxation per one share with nominal value of CZK 100 (in CZK)	5.7	3.5	10.7

\* Due to comparability, one registered share with a nominal value of CK 1,000 was included as 10 shares with a nominal value of CZK 100.

#### Consolidated profit per one share (based on International Financial Reporting Standards)

	2002	2001	2000
Net profit attributable to shareholders (in CZK millions)	4,276	6,072	6,356
Number of ordinary shares in issue*	322,089,900	322,089,900	322,089,900
Net profit per one share with nominal value of CZK 100 (in CZK)	13.3	18.9	19.7

\* Due to comparability, one registered share with a nominal value of CK 1,000 was included as 10 shares with a nominal value of CZK 100.

#### Dividends for the last three accounting periods

During the 1999 accounting period, no dividends were paid by the issuer. For the 2000 accounting period, the General Meeting of 15 June 2001 decided to pay dividends in the amount of CZK 7.50 (before tax) per one issuer share with a nominal value of CZK 100 and CZK 75 (before tax) per one share with a nominal value of CZK 1,000. During the 2001 accounting period, no dividends were paid by the issuer. Dividends for the 2002 accounting period will be decided by the General Meeting on 13 June 2003 in Prague.

#### Loans and bond issues

Loans and bond issues, divided to short- and long-term:

As at 31 December 2002	(in CZK thousands)
Short-term	12,379,087
Long-term	8,480,354
Total	20,859,441

## Overview of loans and bond issues

	Currency	Total loan value in that currency	Balance in currency as at 31 December 2002	Balance in CZK as at 31 December 2002	Date due
European Investment Bank – Loan I*	EUR	65,000,000	34,906,953	1,103,059,726	2008
European Investment Bank – Loan II*	EUR	30,000,000	19,886,595	628,416,416	2009
Morgan Stanley – loan instrument	EUR	127,822,970	127,822,970	4,039,205,861	2012
SPT Telecom (Czech Republic) Finance B.V. (Loan from issue of eurobonds)**	EUR	381,423,743	381,423,743	12,052,990,291	2003
Issue of bonds (managed by Česká spořitelna, a.s. and Československá obchodní banka, a.s.)	CZK	3,000,000,000	3,000,000,000	3,000,000,000	2005

Exchange rate of EUR and CZK used in the table (as at 31 December 2002) is CZK 31.6 / EUR

\* Loans are collateralised by the movable and immovable property of ČESKÝ TELECOM.

\*\* In May 1998, the Dutch company SPT TELECOM (Czech Republic) Finance B.V., of which the issuer holds 100% of shares, issued eurobonds in the total value of DEM 750,000,000 (equivalent to EUR 383,468,911) with a fixed coupon of 5.125% and with a five-year maturity. The issuer provided an unconditional and irrevocable guarantee in respect of the liabilities from this issue. A contract for a loan in the amount of DEM 746,000,000 (equivalent to EUR 381,423,743) was signed between SPT TELECOM (Czech Republic) Finance B.V. (payee) and the issuer (debtor) in connection with the issue of the eurobonds.

The above loans are being re-paid according to the relevant loan contracts or according to issue conditions. ČESKÝ TELECOM did not have any loan not paid by the due date as at 31 December 2002.

### Business entities in which the issuer holds directly or indirectly at least 10% of the consolidated equity or at least 10% of consolidated net profit (loss)

Business firm:	Eurotel Praha, spol. s r.o.
Registered address:	Vyskočilova 1442/1b, 140 21 Praha 4
Identification Number:	15268306
Subject of business:	Installation and operation of public mobile telecommunications network and provision of mobile telecommunications services within the scope and under the conditions listed in the authorisation
Registered capital:	CZK 1,211,000,000
ČESKÝ TELECOM share:	Direct interest in the amount of 51.0%

## Business entities in which the issuer directly owns more than 10% of the registered capital

(as at 31 December 2002)

Business entity Registered address	Business activity	Identification number	Registered capital	Issuer's share of registered capital in %
CZECH ENTITIES				
asp1000, s.r.o.* Koněvova 2755/65a, 130 00 Prague 3	Application services for SME customers	26192659	CZK 71,443,000	50.9
AUGUSTUS, spol. s r.o. Na zájezdu 5, 100 00 Prague 10	Advisory and intermediary services in non-telecommunications business area	49356160	CZK 166,000	39.57
CenTrade, a.s. Křižíkova 237, 186 00 Prague 8	E-business services and maintenance of electronic trade platform	26513731	CZK 600,000,000	86.5
EDINet.cz, s.r.o. in liquidation Olšanská 5, 130 00 Prague 3	Data transmission services	25746367	CZK 97,929,000	100
Eurotel Praha, spol. s r.o. Vyskočilova 1442/1b, 140 21 Prague 4	(described above)	15268306	CZK 1,211,000,000	51
M.I.A., a.s. Thámová 289 and 183, 186 00 Prague 8	Internet services	25606298	CZK 1,000,000	100
OMNICOM Praha, spol. s r.o. Bartáková 1121/3, 140 00 Prague 4	Data services and telecommunications consulting	45797111	CZK 10,000,000	100
Vianet, spol. s r.o. in liquidation Olšanská 5, 130 00 Prague 3	Liquidation completed; the court decided to delete the company from the Commercial Register; the decision is not yet in force	62912054	CZK 100,000	100
FOREIGN ENTITIES				
SPT TELECOM (Czech Republic) Finance B.V. Drentestraat 24 1083 HK Amsterdam, Netherlands	Financing of other group members		EUR 18,151	100
CZECH TELECOM Austria GmbH.** Shuttleworthsstrasse 4-8, Bld. 50 1210 Vienna, Austria	Data transmission services	FN 229578s	EUR 35,000	100
CZECH TELECOM Germany GmbH.*** Gutleutstrasse 120 60327 Frankfurt am Main, Germany	Data transmission services	045235334587	EUR 25,000	100
CZECH TELECOM Slovakia s.r.o.**** Kutlíkova 17 852 50 Bratislava 5-Petržalka, Slovakia	Data transmission services	35848863	SK 200,000	100

\* Based on the decision of the shareholders, the company entered liquidation on 1 March 2003.

\*\* Entered in the Commercial Register on 20 December 2002; applications for a license and general license in Austria were submitted, but the licenses were not issued as at the date of publication of this Annual Report.

\*\*\* Entered in the Commercial Register on 21 November 2002; applications for a license and general license in Germany were submitted, but the licenses were not issued as at the date of publication of this Annual Report.

\*\*\*\* Entered in the Commercial Register on 22 December 2002; the decision on issuing the preliminary conditions for telecommunications business and the provision of telecommunications services took effect on 20 February 2003.

None of the above companies, with the exception of Eurotel Praha, spol. s r.o., operate public telecommunications networks or provide public telecommunications services as of yet, but the companies in Austria, Germany and Slovakia will provide public telecommunications services after obtaining the relevant licenses.

More Information - See the Report of the Independent Auditors and financial statements for the year ended 31 December 2002, Note 5 – “Investments into subsidiary undertakings” and Note 6 – “Investments in joint-ventures and associates” which is attached to and forms an integral part of this Annual Report.

Business entities where the issuer indirectly owns more than 10% of the registered capital

(as at 31 December 2002)

Business entity		Registered capital	Issuer's share of the registered capital in %
Registered address	Subject of business		
Trigo Global Services Consulting Ltd.* Sombathely 9700 Málom 7, Hungary	Services in the area of Human Resources, consulting, property management and other unspecified services	USD 10,000	Eurotel Praha, spol. s r.o., holds 100% of the registered capital

\* On 20 December 2001, Eurotel became the 100% owner of Trigo Property Management Limited liability company. The company was founded on 29 December 2000. On 16 September 2002, its name was changed from Trigo Property Management Limited liability company to Trigo Global Services Consulting Ltd.

Details on expected business and financial situation for the next year

See pages 10 and 33 of this Annual Report.

[4] Information on the people responsible for the Annual Report

Ondřej Felix, Chairman of the Board of Directors and President & CEO, ČESKÝ TELECOM, a.s.  
André Frans Bessel Kok, First Vice-Chairman of the Board of Directors, ČESKÝ TELECOM, a.s.

Hereby declare that the information listed in this Annual Report is accurate and that no significant information which could influence the correct and accurate evaluation of the registered security issuer was omitted.



**Ondřej Felix**  
*Chairman of the Board of Directors and President & CEO*



**André Frans Bessel Kok**  
*First Vice-Chairman of the Board of Directors*







## Shareholder information

### Shareholders\*

National Property Fund of the Czech Republic	51.1%
TelSource N.V.	27.0%
KPN Telecom B.V.	6.5%
Investment funds and individual shareholders	15.4%

\* as at 31 December 2002

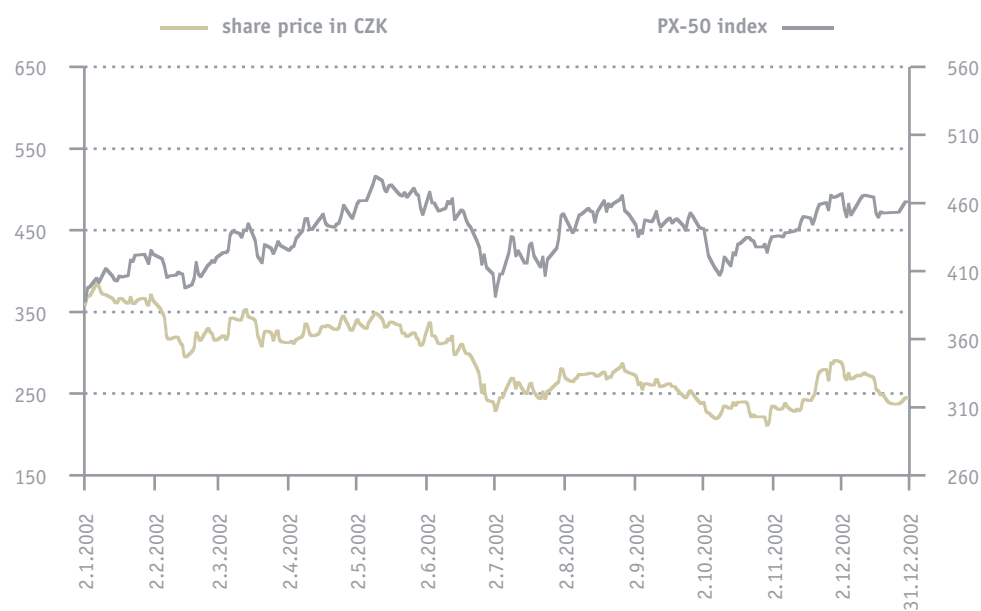
### Shares

	2002	2001	2000
Number of shares (in millions)	322.1	322.1	322.1
Net profit per share (in CZK)**	13.3	18.9	19.7
Maximum share price (in CZK)	383.5	569.1	965.9
Minimum share price (in CZK)	210.8	184.0	381.3
Share price at the end of the period (in CZK)	244.7	362.5	507.2
Market capitalisation (in CZK billions)	78.8	116.8	163.4

\*\* consolidated net profit under IFRS

ČESKÝ TELECOM was, according to its market capitalisation and trading volume, among the most important companies on the Czech capital markets in 2002. The total volume of trade in company shares on the Prague Stock Exchange (PSE) in 2002 was CZK 32.8 billion. Market capitalisation as at 31 December 2002 was CZK 78.8 billion. ČESKÝ TELECOM's share price at the end of 2002 was CZK 244.70, 32% lower than on the last day of trading on the PSE in 2001. The share price reached its maximum value, CZK 383.50, on 7 January 2002 and its minimum value, CZK 210.80, on 30 October 2002.

Price of ČESKÝ TELECOM shares on the PSE in 2002



Trading on the London Stock Exchange (LSE), in the form of Global Depository Certificates (GDR), took a similar course. The price of GDR's was down 19.1% in comparison with last year's value.

Price of GDR on the LSE in 2002



**Dividends**

At the General Meeting of 14 June 2002, the shareholders decided that no dividends would be paid for 2001.

**General Meeting of shareholders**

The annual General Meeting of shareholders will be held on 13 June 2003.

**Financial calendar**

Date of earnings announcement

For the first half of 2003	End of July 2003
For three quarters of 2003	End of October 2003
For the entire year of 2003	Preliminary results – February 2004 Audited results – end of March 2004
For the first quarter of 2004	End of April 2004

**Institutional investors and shareholders may contact**

**Investor Relations**

Tel.: +420 271 463 784  
Fax: +420 271 469 877  
E-mail: investor.relations@ct.cz  
Website: www.telecom.cz  
Address: ČESKÝ TELECOM, a.s.  
Olšanská 5/55  
130 34 Prague 3  
Czech Republic



## GLOSSARY OF TERMS

**ADR-index** *American Depository Receipts; index of depository receipts*

**ADSL** *Asymmetric Digital Subscriber Line; technology which enables the addition of high-speed digital channels to normal fixed lines, allowing them to be used for data transmission or Internet connection*

**Arcade** *a new type of electronic game*

**ASP** *Application Service Provider*

**ATM** *Asynchronous Transfer Mode; services using ATM protocol are based on the transmission of short cells and are used for the transmission of data, graphics and voice*

**ATM (STM-16)** *Synchronous Transport Mode; capacity 2.56 Gb/s*

**ATM LLNet (STM-1)** *Synchronous Transport Mode; capacity 155 Mb/s*

**B2B** *Business-to-Business; services for all firms and corporate clients*

**Basic Areas** *Basic areas for intelligent network services*

**BBP** *Business-to-Business Procurement*

**B-channel** *digital transmission channel with capacity of 64 kb/s*

**BSG** *Business Solution Group; business unit*

**BSS** *Business Support Systems*

**Business Model** *new management and organisational model of ČESKÝ TELECOM*

**Carrier Line** *transmission service of ČESKÝ TELECOM network with capacity from 2,048 kb/s*

**Carrier Network** *transmission service of ČESKÝ TELECOM network with capacity from 1,536 kb/s*

**CenTrade** *brand for the electronic marketplace provided by the company CenTrade.*

**CEOG** *Chief Executive Officer Group*

**chat** *discussion within certain groups, mostly via Internet, but newly via SMS using mobile telephones*

**CNB** *Czech National Bank*

**COOG** *Chief Operating Officer Group*

**CSAV** *Czech Academy of Sciences*

**CSG** *Corporate Services Group; service unit*

**CSO** *Czech Statistical Office*

**CTO** *Czech Telecommunications Office; public authority for the state administration and regulation of the Czech telecommunications industry*

**Czech direct** *after dialing the access number from abroad, this assistance service provided by ČESKÝ TELECOM connects the caller with the desired number in Czech Republic*

**ČESKÝ TELECOM** *ČESKÝ TELECOM, a.s.*

**ČSN EN ISO 14001** *type of Czech environmental standard; quality management standard for treatment of the environment*

**ČSOB** *Československá obchodní banka, a.s.*

**DEM** *the German mark*

**Direct** *permanent connection to ČESKÝ TELECOM data network through fixed lines and X.25 protocol*

**dotcom** *label for a company providing services closely connected to the Internet*

**DWDM** *Dense Wave Digital Multiplexing*

**EBIT** *earnings before finance cost and tax*

**EBITDA** *earnings before finance cost, tax, depreciation and amortisation*

**EBITDA margin** *margin of EBITDA of total operational revenues*

**EBT** *earnings before tax*

**eDMS** *Electronic Document Management System*

**E-mail notification** *notification via e-mail that the Memobox contains a new message; the message in the Memobox can also be an attachment of the notification*

**EMS** *Environmental Management System*

**EU** *the European Union*

**EUR** *the euro*

**euroISDN** *internationally respected European standard of ISDN network guaranteeing the compatibility of the network, equipment and accessories*

**euroISDN30** *primary line with 30 digital channels*

**Eurotel Praha** *company in which ČESKÝ TELECOM has 51% ownership interest*

**FAC** *Fully Allocated Costs*

**Frame Relay** *communication protocol and name of service; services using the Frame Relay protocol enable the connection of LANs through WAN, with a capacity of 64 2.048 kb/s*

**Gb** *gigabit*

**GDR** *Global Depository Receipts; form in which ČESKÝ TELECOM shares are traded on the London Stock Exchange*

**GO** *prepaid services brand of Eurotel Praha*

**GPRS** *General Packet Radio Service; technology for mobile data transmission which reduces the time necessary for the establishment of data connection, as users are permanently connected to the network; the maximum theoretical capacity of transmission is 115.2 kb/s*

**GPRS Instant** *see GPRS – enables instant Internet access*

**GSM** *Global System for Mobile Communication; the widest-spread digital wireless communication standard working worldwide on frequencies 450, 900, 1,800, and 1,900 MHz, and in the Czech Republic on frequencies 900 and 1,800 MHz*

**GSM Banking** *see GSM – enables on-line banking services*

**HOST** *main parent exchange*

**Hosting Centre** *location where hosting services are provided*

**HR** *human resources; Human Resources department*

**HRIS** *Human Resources Information System*

**HSCSD** *High-Speed Circuit Switched Data; technology for mobile data transmission enabling a transmission capacity of 57.6 kb/s; currently using the capacity of 43.2 kb/s*

<b>HTS</b>	main telephone unit	<b>NEAD</b>	Network Administration
<b>ICG</b>	Internet Content Group	<b>NGN</b>	Next Generation Network
<b>ICT</b>	information and communications technologies	<b>NMT</b>	Nordic Mobile Telephony; analogue communication wireless standard for the wireless mobile system working on the frequency 450 MHz; services based on this system are offered by Eurotel Praha under the brand T!P
<b>IFRS</b>	International Financial Reporting Standards	<b>NPF</b>	National Property Fund of the Czech Republic
<b>IG</b>	Imaginet Group; business unit	<b>NSG</b>	Network Services Group; production unit
<b>IMS</b>	Internet Media Service; advertising chain of main Czech Internet servers	<b>OECD</b>	Organisation for Economic Cooperation and Development
<b>International Frame Relay</b>	modification of the Frame Relay service enabling international communication between LANs	<b>ORINOCO</b>	Congress equipment connected to euroISDN brand
<b>Intranet</b>	a company's internal communications system	<b>OSF</b>	Open Society Fund
<b>IOL DIAL-UP</b>	service enabling Internet connection through a modem and standard telephone line or euroISDN line	<b>OSS</b>	Operations Support Systems
<b>IOL FIXED</b>	service enabling dedicated connection to the Internet through a fixed line	<b>p.a.</b>	per annum; yearly
<b>IP</b>	Internet Protocol; Internet transmission protocol	<b>PoP</b>	Point of Presence; network access point
<b>IP/ATM</b>	Asynchronous Transfer Mode	<b>PSE</b>	Prague Stock Exchange
<b>IP Call</b>	international voice communications service over IP via ČESKÝ TELECOM's network	<b>PSTN</b>	Public Switched Telephone Network
<b>IP Connect</b>	service enabling access to ČESKÝ TELECOM's IP backbone network and connection of individual locations via IP	<b>PX-50</b>	official index of the Prague Stock Exchange, which consists of 50 main stocks based on market capitalisation, liquidity and also on industry sector classification; investment funds are not included in the index
<b>iPlanet</b>	e-mail platform	<b>Refile/Hubbing</b>	transition service for international operators who require termination of international calls with guaranteed quality
<b>IP VPN</b>	Internet Protocol Virtual Private Network; the Internet protocol for the virtual private networks service enables internal data transfers and eventually voice communication within a company via IP	<b>ROA</b>	Return on Assets
<b>ISDN</b>	Integrated Services Digital Network; publicly accessible, fully digitalised network for modern and quality telephone services; fast Internet connection, high-speed data transmission, transmission of voice and moving pictures	<b>Roaming</b>	usage of mobile services through operators other than the contracted operator; the widest spread is international roaming
<b>ISG</b>	Information Systems Group; service unit	<b>ROE</b>	Return on Equity
<b>ISO</b>	International Standards Organisation	<b>SAP</b>	System Applications Products; software solution provided by SAP Czech Republic
<b>ISP</b>	Internet Service Provider	<b>SDH</b>	Synchronous Digital Hierarchy
<b>JAVA</b>	programming language	<b>SERVER HOSTING</b>	service providing technological space for the location of customer servers and equipment connected directly to the Internet through the backbone network
<b>Juice</b>	Eurotel Praha's umbrella brand for interactive services and WAP supported services	<b>SIM card</b>	Subscriber Identification Module; card activating a mobile telephone's functions, including the telephone number
<b>Juice Easy</b>	Eurotel Praha service enabling easy access to information services from a mobile telephone display through the easily remembered code, *111*#	<b>SMS</b>	Short Message Service; messages sent from one mobile telephone to another, or via e-mail or Internet to a mobile phone
<b>Karta X</b>	prepaid calling card	<b>Staffing</b>	a modern human resources strategy; positions are filled by candidates who hold specific professional skills; the strategy is based on finding the best position for each employee
<b>kb</b>	kilobit	<b>SuperSound</b>	Eurotel Praha brand for super clean transmission of sound
<b>LAN</b>	Local Area Network	<b>T!P</b>	Eurotel Praha brand provided via NMT
<b>LLNet</b>	Leased Line Network	<b>TELEPOINT ON LINE</b>	ČESKÝ TELECOM's on-line sales points
<b>Lloyd's Register Quality Assurance</b>	certificate authority	<b>TSG</b>	Telecommunication Services Group; business unit
<b>LLU</b>	Local Loop Unbundling	<b>UMTS</b>	Universal Mobile Telecommunication System; standard for third generation mobile networks; UMTS networks enable a wide range of multimedia services, e.g., videoconferences and high-speed data transmission
<b>LRAIC</b>	Long-Run Average Incremental Costs		
<b>Mb</b>	megabit		
<b>MMS</b>	Multi-Media System; multi-media messages sent from one mobile telephone to another, or via e-mail or Internet to a mobile phone		
<b>MPLS</b>	Security technology used in ČESKÝ TELECOM's backbone network		

**Voice VPN** *voice virtual private network enabling voice and data transmission via individual local data connections; superstructure above Frame Relay and ATM*

**VoIP** *Voice over Internet Protocol*

**VPN** *Virtual Private Network*

**WAN** *Wide Area Network; large, mainly long-distance or international computer network, mostly used for LAN*

**WAP** *Wireless Application Protocol; protocol enabling access to selected web sites on the mobile phone display; the web site needs to be coded in WML*

**WEB HOSTING** *services for placement of Internet presentations and applications on ISP servers*

**WebAuction, WebSurvey, WorkTeam, WorkTeam CRM** *services provided by asp1000*

**Wi-Fi** *Wireless Fidelity*

**WML** *Wireless Mark-up Language; language for the coding of web sites accessible by mobile phones supporting WAP*

**WSG** *Wholesale Services Group; business unit*

**USD** *the US dollar*

**Xcall** *service enabling calls to most European and other countries at special rates*

**Act on the Protection of Confidential Information** *Act No. 148/1998 Coll., from 11.6.2002, valid from 1.11.1998*

**Act on Telecommunications** *Act No. 151/2000 Coll., from 16.5.2000, valid from 1.7.2000*

**02/PROP/2001** *CTO decision from 12.1.2001, which sets maximum prices for connections to public telecommunications networks*

**03/PROP/2001** *CTO decision from 13. 2. 2001, which extends CTO price decision 02/PROP/2001 from 12.1.2001*

**09/PROP/2001** *CTO decision from 27.11.2001, which determines the calculation method and maximum prices for connections to public mobile telecommunications networks*









**ČESKÝ TELECOM, a.s.**

Olšanská 55/5, 130 34 Prague 3, Czech Republic

tel.: +420 271 411 111 fax: +420 271 469 868

[www.telecom.cz](http://www.telecom.cz)