ČESKÝ TELECOM, a.s.
Olšanská 55/5, 130 34 Prague 3, Czech Republic
Tel.: +420 271 411 111, fax: +420 271 469 868
Telephone Services Centre: 800 123 456
CIN: 60193336
www.telecom.cz

Annual Report 2004

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CAUTIONARY STATEMENT: Any forward-looking statements concerning the future economic and financial performance of ČESKÝ TELECOM, a.s., contained in this Annual Report are based on assumptions and expectations of the future development of factors having material influence on the future economic and financial performance of ČESKÝ TELECOM, a.s. These factors include, but are not limited to, public regulation in the telecommunications sector, the future macroeconomic situation, and the development of market competition and related demand for telecommunications and other services. The actual development of these factors, however, may be different.
Consequently, the actual future results of the economic and financial performance of ČESKÝ TELECOM, a.s. could materially differ from those expressed in the forward-looking statements contained in this Annual Report.

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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 stated, are in CZK millions as at 31 December of each year.

	2004 [1]	2003	2002	2001	2000
Financials					
Revenues	62,141	51,476	52,856	55,900	57,224
EBITDA – Earnings before finance costs, tax, depreciation, amortisation and impairment charge [2]	29,065	23,814	26,150	27,155	26,696
EBIT – Earnings before finance costs and tax	8,317	(5,539)	7,088	10,115	12,071
EBT – Earnings before tax	7,914	(6,667)	6,110	8,771	9,114
Net income/(loss)	5,568	(1,780)	4,276	6,072	6,356
Total assets	134,203	154,706	156,351	159,097	160,377
Property, plant and equipment	98,835	110,320	119,283	126,427	129,005
Equity	90,199	90,157	111,317	107,062	103,807
Loans	25,482	45,065	22,027	27,003	33,110
Investment expenditures [3]	5,243	4,948	9,657	17,016	16,927
Operations					
Number of telephone lines installed (x 1000)	3,368	3,586	3,661	3,842	3,854
– of which ISDN channels (x A231000)	492	477	389	261	122
ADSL connections (x 1000)	101	15	0	0	0
Internet – number of IOL and Quick customers (x1000) [4]	1,040	865	702	481	185
Fixed line penetration per population (in %)	34	36	36	37	37
Number of CZECH TELECOM employees	8,794	10,901	13,717	15,194	17,322
Number of lines per CZECH TELECOM employee	383	329	267	253	222
Number of Eurotel customers (x 1000)	4,591	4,215	3,891	3,238	2,171
Number of CDMA customers (x 1000)	30	0	0	0	0
Mobile penetration per population (in %)	105	95	84	67	42
Number of Eurotel employees	2,483	2,442	2,447	2,420	2,121
Average number of customers per Eurotel employee	1,849	1,726	1,590	1,118	764
Ratios (in %)					
EBITDA/Revenues (EBITDA margin)	47	46	49	49	47
Net income/Revenues	9	(3)	8	11	11
Investment expenditures/Revenues	9	11	18	30	30
ROA (Net income/Total assets)	4	(1)	3	4	4
ROE (Net income/Equity)	6	(2)	4	6	6
Gross gearing (Interest bearing debt/Equity)	28	50	20	25	32
Macroeconomic indicators [5]					
Population (in millions)	10.2	10.2	10.2	10.3	10.3
GDP (in %) [6]	4.0	2.9	2.0	3.1	3.3
Inflation (in %)	2.8	0.4	1.8	4.7	3.9
Unemployment (in %)	10.2	9.9	9.2	8.5	9.0
Exchange rate CZK/USD – average over the period	25.7	28.2	32.7	38.0	38.6
Exchange rate CZK/USD	22.4	25.7	30.1	36.3	37.8
Exchange rate CZK/EUR – average over the period	31.9	31.8	30.8	34.1	35.6
Exchange rate CZK/EUR	30.5	32.4	31.6	32.0	35.1

[1] Consolidated financial statements in 2004 included the full consolidation of Eurotel, whereas until 30 November 2003 they included 51% proportional consolidation.
[2] In 2003 ČESKÝ TELECOM posted a one-off impairment charge of CZK 9.9 billion.
[3] Cash flows from investing activities except for proceeds from marketable securities and purchase of marketable securities and the acquisition of the ownership interest in Eurotel.
[4] Paid (IOL) and free (Quick) Internet access.
[5] Source: Czech Statistical Office, Czech Ministry of Finance, Czech National Bank.
[6] In 1995 constant prices; the 2004 figure is an estimate.

Letter from the Chairman of the Board of Directors and CEO

To Our Shareholders,

Let me briefly review the activities of ČESKÝ TELECOM Group in 2004.

Our principal emphasis was development of revenues and launch of new services in growth potential areas such as broadband Internet access, data services and other value added services. Furthermore, our activities focused on increasing operating and financial efficiency by means of operating and capital expenditure savings. These actions resulted in high margins and substantial volume of free cash flow generation in 2004.

The dynamics of the telecommunications market, as well as our results in this period, confirmed that the Group is on the right path towards accomplishing its transformation objectives presented in November and December 2003, the ultimate goal being to further increase shareholder value. In just twelve months we delivered on our declared goals, becoming the leader on the Czech broadband Internet market with more than 130 thousand customers. Despite not having the government support enjoyed by operators in other Central European countries, we achieved the fourth fastest growth in the number of high-speed Internet connections in the world. And, by working increasingly closely with Eurotel, it is our ambition to defend our leadership of this market and maintain the pace of growth going forward, which in turn will enable us to make a contribution to increasing the level of computer literacy in society.

Our successes were also reflected in the value of the company, which, measured by market capitalisation (ČESKÝ TELECOM's share price on the Prague Stock Exchange), grew by around 47% (including dividends paid) between the launch of the new Strategy and Transformation Programme in November 2003 and the end of 2004, representing an excellent return on shareholders' investments. This fact confirms that ČESKÝ TELECOM is a popular pick for both existing and potential investors and shows that we are successfully realising our Vision. By the end of 2005, we aim to be a leading telecommunications company not only on home turf, but also in the Central and Eastern European region, thereby proving that we are on track to achieve our ambition to become one of the best performing telecommunications providers in the whole of Europe.

The year 2004 saw continuing growth in demand for Internet, data and other value added services in both the fixed line and mobile areas. The Group's portfolio was adjusted to accommodate to the largest possible extent the ever-changing needs of our customers, being faithful to our Vision of becoming the operator of choice for customers.

In line with these efforts, ČESKÝ TELECOM Group began to market a family of high-speed Internet access products branded as Internet Expres and Eurotel Data Expres, with a high-speed connection to suit everybody.

In relation to these services, we became the first operator in Central and Eastern Europe to launch, and subsequently increase in capacity, a unique entertainment portal – StarZone.cz. This is one of the vehicles of our expansion into the area of content distribution. We are confident that this enlarged portfolio will increase revenues from Internet and data services as a percentage of total fixed line technology revenues, thus partially offsetting the declining revenues from traditional voice telephony.

Eurotel, our wholly owned subsidiary, also concentrated primarily on mobile data services, in particular high-speed Internet access, as mentioned above. Another example of Eurotel's leadership in the deployment of new technologies and products is downloading and replaying music on a mobile telephone, the first service of its kind in Europe. Eurotel also has an integrated web and mobile portal for handset configuration featuring games, news and practical information.

As I have already asserted, the financial results were directly affected by the results of the first synergistic activities and projects between ČESKÝ TELECOM and Eurotel. Representatives of the two companies actively share know-how and best practices in the development of new products and services. Distribution channels are gradually being integrated in order to simplify selection from the two companies' broad spectrum of products and services. In the area of data services, ČESKÝ TELECOM and Eurotel both operate, under the same conditions, wireless Internet access via Wi-Fi by means of mutual interconnection of their networks. This project helped to reduce both companies' expenditure in building the network, which, with its 163 hotspots, is the largest in the Czech Republic.

The full consolidation of Eurotel's results in 2004 had a positive effect on the financial profile of the ČESKÝ TELECOM Group. Consolidated revenues were CZK 62.1 billion, while operating costs grew to CZK 33.1 billion. Consolidated EBITDA was CZK 29 billion and the EBITDA margin reached 47%. The performance of the ČESKÝ TELECOM Group as measured by EBITDA margin and other selected financial and operating indicators remains above the average of other telecommunications companies, despite the still very unfavourable telecommunications regulatory environment.

The results attest to the fact that the Group's attentions are focused on operating and financial performance, operating and capital expenditure discipline, high cash flow generation and reduction of debt. In the field of fixed line technology, operating efficiency and human resources efficiency increased substantially. The number of employees in the fixed line technology department fell by 19.3% compared to the same period of last year, thus improving operating efficiency as measured by the number of fixed lines per employee by 16.5% to 383 as at the end of 2004. Productivity also rose – fixed line technology revenues per employee increased in 2004 by 18% year-on-year to CZK 3.48 million. These, as well as other key financial indicators, confirm ČESKÝ TELECOM's outstanding performance in comparison with other telecommunications operators in Central and Eastern Europe. Despite the substantial downsizing, we succeeded in retaining top industry professionals, whom we aim to support in their further professional development.

The strong financial results of the ČESKÝ TELECOM Group permitted a dividend payment totalling CZK 5.5 billion, i.e. CZK 17 per share, in 2004. Consolidated net profit and ČESKÝ TELECOM's profit in 2004 create solid ground for payment of dividends in 2005 as well.

An integral part of the management's efforts to increase the value of the company is its systematic dedication to implementing and refining the principles of good corporate governance in the company. ČESKÝ TELECOM scored a major success at the IR Magazine Awards 2004 (Central & Eastern Europe), winning the awards for Best Annual Report and Other Corporate Literature and Best Investor Relations in the Czech Republic.

ČESKÝ TELECOM Group also expects the new Electronic Communications Act, which takes effect on 1 May 2005, to conform to the EU Regulatory Framework. We expect that this law will foster a more transparent regulatory environment on the Czech telecommunications market, and believe that the Group will be able to benefit from its strengths and make additional investments in its telecommunications infrastructure. The expectations we have for the law are, however, conditional on its actual implementation by the relevant Czech authorities.

The management's goals for 2005 are based on the Strategy and the Transformation Programme projects published in late 2003 and build on the results for 2004. We are very confident that 2005 will be the year in which we prove that we fully deserve our leading position on the Czech telecommunications market and make ČESKÝ TELECOM Group stand out even higher above the other companies in the industry.

Gabriel Berdár
Chairman of the Board of Directors
and Chief Executive Officer
31 March 2005

Letter from the Chairman of the Supervisory Board to the Shareholders

To Our Shareholders,

The past year, 2004, saw ČESKÝ TELECOM continue with changes in pursuit of its goal of increasing the market value of the entire ČESKÝ TELECOM Group.

As the Chairman of the Supervisory Board constituted after the General Meeting in June 2004, I would like to stress that the Supervisory Board concentrated on those projects and tasks which have a major bearing on the company's shareholder value. And of course, matters relating to exercising the legitimate interests of all owners in the corporate governance of the Group were not left aside either. A number of decisions were adopted in order to promote the right approach to the corporate governance of Eurotel. I firmly believe that those decisions reflected positively on the solid performance of the Group and its consolidated business results.

The 2004 results show that the acquisition of the remaining 49% interest in Eurotel substantially helped to improve the consolidated financial structure and to make sufficient room for strategic decisions on the future direction of the Group and for exploiting the expected synergy effects of the fixed and mobile networks. In this respect I see it as important to continue exploring, effectively and quickly, the full potential of the possible synergies in the Group, with a view to gaining a competitive edge.

The Supervisory Board and its committees paid particular attention and care to monitoring and evaluating transformation projects. At a number of its meetings, as well as at the meetings of the Advisory Committee on Strategy and Capital Participations and in workshops, the Supervisory Board discussed in detail the individual versions of the projects and actively made comments and suggestions in relation to them.

The financial results of the company attest to ČESKÝ TELECOM's capacity to deliver strong financial performance, based on its strategy, transformation project implementation and good corporate governance. The company achieved a high EBITDA margin and a substantially greater volume of free cash flow based on results in both segments. The good financial performance of the company also fostered a considerable reduction of debt and provided the company with the potential to pay dividends.

Also, we regularly evaluated the experience of the first year of the new corporate governance model in practice. I can resonably conclude that the level of activity of all the governing bodies has been enhanced. These bodies jointly addressed the main issues relating to the business and functioning of ČESKÝ TELECOM.

By way of conclusion I would like to thank all our employees. Without their day-to-day dedication and support in the challenging environment of a transforming company we would never have achieved the results presented in this Annual Report.

I also want to thank you, our shareholders, for the trust you have vested in our company.

Jiří Hurych,
Chairman of the Supervisory Board
31 March 2005

Calendar 2004

January

In less than 10 months from the launch of the service, ČESKÝ TELECOM has installed 15 thousand broadband Internet access connections via ADSL across the country.

Eurotel begins to market four new Top packages to business and individual customers (Eurotel Top Minuty, Eurotel Top SMS, Eurotel Top Noc, Eurotel Top Pevná).

February

ČESKÝ TELECOM publishes its selected preliminary unaudited consolidated financial results for the fiscal year 2003 under International Financial Reporting Standards.

Eurotel becomes the first European mobile operator to launch a music portal – Eurotel Jukebox, which lets users download music and replay the files on their mobile telephones.

March

Users of dial-up Internet from ČESKÝ TELECOM can establish a data connection up to 30% faster on average.

ČESKÝ TELECOM publishes its audited consolidated financial results for the fiscal year 2003 under International Financial Reporting Standards. With revenues of CZK 51.5 billion, ČESKÝ TELECOM Group recorded a consolidated loss of CZK 1.8 billion, resulting in large part from the posting a one-off asset impairment charge of CZK 9.9 billion.

Eurotel launches Eurotel Live!, its first integrated web and mobile portal.

Eurotel wins the International Stevie Award in the Overall Design category for best corporate presentation on the Internet.

April

Almost 21,000 customers of ČESKÝ TELECOM are using high-speed ADSL Internet access.

ČESKÝ TELECOM approves the Deed of Incorporation of its subsidiary Eurotel Praha, spol. s r.o. The document replaces the Memorandum of Association concluded by the previous owners.

ČESKÝ TELECOM publishes its unaudited consolidated financial results for the first quarter of 2004 under International Financial Reporting Standards. The results consolidate in full the results of Eurotel, its wholly owned subsidiary.

Eurotel now has 50 thousand customers using Eurotel Data Nonstop, its unlimited mobile data service.

May

The Czech Telecommunications Office and the Television and Radio Broadcasting Board give ČESKÝ TELECOM permission for pilot operation of digital television broadcasting.

Customers of ČESKÝ TELECOM can now send SMS messages from their fixed lines for just one Czech crown.

ČESKÝ TELECOM launches Internet Expres, an unlimited high-speed Internet service.

ČESKÝ TELECOM becomes the first operator in Central and Eastern Europe to launch an entertainment portal – www.StarZone.cz.

A roaming agreement is signed between ČESKÝ TELECOM and Eurotel for sharing of Wi-Fi hotspots.

Eurotel pays its sole owner, ČESKÝ TELECOM, a CZK 4 billion share of its retained profits.

Eurotel presents to its corporate customers a unique Eurotel Office Connector service for remote access from a mobile telephone to corporate e-mail, calendar and contacts.

June

An Ordinary General Meeting of shareholders of ČESKÝ TELECOM is held. The shareholders approve, inter alia, the Board of Directors' proposal to pay a dividend from retained profits totalling CZK 5.476 billion, i.e. CZK 17 per share, for 2003.

High-speed Internet coverage increases to 63.5% of all ČESKÝ TELECOM's telephone lines. The service is available to 2,285 thousand customers.

The Czech Telecommunications Office extends ČESKÝ TELECOM's telecommunications licence for the construction and operation of a public telecommunications network to cover digital television and radio broadcasting via terrestrial transmitters. Another condition for ČESKÝ TELECOM to launch commercial operation of digital television broadcasting is thus met.

Eurotel Jukebox wins awards at the Mobile Entertainment Forum in London. Eurotel, together with multimedia software developer Chaoticom, walks away with MEF Best Contribution to Mobile Music 2004 and MEF Best in Show 2004.

Eurotel launches Go Data Nonstop, an unlimited Internet access service for customers of its prepaid Go service.

July

ČESKÝ TELECOM publishes a list of 75 new locations where Internet Expres is available.

ČESKÝ TELECOM substantially enhances capacity in 29 existing locations by building additional DSLAMs.

The record label BMG Czech Republic, s. r. o., signs a contract with StarZone.cz, the first entertainment portal of ČESKÝ TELECOM.

The Czech Telecommunications Office (CTO) allocates to ČESKÝ TELECOM frequency bands for the commercial launch of DVB-T (Digital Video Broadcasting-Terrestrial).

Eurotel confirms its leading position on the market in the first half of 2004, recording 8.2% year-on-year growth in customers to 4,320 thousand.

ČESKÝ TELECOM publishes its unaudited consolidated financial results for the first half of 2004.

August

ČESKÝ TELECOM sends an open letter to Other Licensed Operators whose networks host special tariff data numbers. The letter asks them for an expedient solution to dialler fraud, where data connections are redirected to a number billed at a much higher per-minute tariff.

ČESKÝ TELECOM launches pilot operation of digital television broadcasting in Prague.

The processes of ČESKÝ TELECOM's Marketing Unit are certified to the international quality assurance standard ČSN EN ISO 9001:2001.

Eurotel becomes the first mobile operator in the world to launch broadband mobile Internet via CDMA – Eurotel Data Expres.

T-Audit, a survey of telecommunications operators, confirms Eurotel as the leading service provider to the corporate segment: 77% of companies with more than 200 employees subscribe to Eurotel.

September

More than 50,000 customers of ČESKÝ TELECOM are using high-speed Internet via a fixed line. In the previous four months, the service became the fastest growing Internet product: the number of connections more than doubled in the period in question.

Internet Expres is available in 588 locations throughout the Czech Republic and is potentially available to 75% telephone lines operated by ČESKÝ TELECOM. The service is now available to 2.7 million customers in the Czech Republic.

ČESKÝ TELECOM launches pilot operation of digital television broadcasting in Brno.

Eurotel expands SMS messaging to fixed line numbers.

Eurotel becomes the first company in the Czech Republic to obtain integrated management system certification (quality assurance, environmental management, security management, occupational health protection and information security).

Eurotel joins Starmap Mobile Alliance, grouping 11 leading mobile operators together having more than 53 million customers.

October

ČESKÝ TELECOM and Eurotel present the Digital Home & Digital Business visionary concepts to visitors at the Invex fair.

ČESKÝ TELECOM launches the first interactive application for digital broadcasting (programme guide, voting, information news, etc.). ČESKÝ TELECOM broadcasts an experimental digital television signal from four terrestrial transmitters in Prague. ČESKÝ TELECOM also becomes the first operator to broadcast digitally from two transmitters in Brno.

The number of customers using ČESKÝ TELECOM's high-speed Internet Expres products and Eurotel's Data Expres service exceeds 73 thousand.

ČESKÝ TELECOM, as the sole owner, decides to distribute a part of Eurotel's retained profits totalling CZK 4 billion with payment by the end of 2004.

ČESKÝ TELECOM publishes its unaudited consolidated financial results for three quarters of 2004.

November

The first joint brand retail outlet of ČESKÝ TELECOM and Eurotel opens in a prime Prague location in Vysočany (Sokolovská 352/15, Praha 9).

Customers send and receive about 100 thousand SMS messages a week in ČESKÝ TELECOM's fixed line network. The service is gaining in popularity – the total number of messages sent has exceeded 1.3 million.

Over 100 thousand customers are now using the broadband Internet access products from ČESKÝ TELECOM and Eurotel. ČESKÝ TELECOM registers over 82 thousand users of fixed line high-speed Internet. More than 19 thousand customers have activated Eurotel Data Expres, an unlimited mobile Internet service.

Potential coverage by high-speed Internet has thus increased by an additional 100 thousand telephone lines, reaching a total of 3 million lines. The service can be ordered by around 88% of the company's customers.

ČESKÝ TELECOM receives the IR Magazine 2004 international awards for Best Annual Report and Other Corporate Literature and for Best Investor Relations in the Czech Republic.

December

The Government of the Czech Republic decides to sell the National Property Fund's 51.1% shareholding in ČESKÝ TELECOM by the "dual method", i.e. to sell either directly to a strategic investor or via the capital markets.

The number of broadband Internet connections reaches 101 thousand at the end of 2004, compared to 15 thousand in 2003. At the end of the year, ADSL coverage was 88% of all fixed lines.

Eurotel enhances its capacity and extends its CDMA coverage for broadband mobile Internet – the Eurotel Data Expres service – to approximately 80% of the Czech population.

In the five months from its commercial launch, Eurotel Data Expres has attracted 30 thousand customers.

Eurotel becomes the first mobile operator to bring "Push to Talk" technology, which acts as a radio transmitter in a mobile telephone, to the Czech market.

Eurotel acquires almost 100 thousand new customers in the Christmas period, the number of Eurotel's customers thus increased by 9% year-on-year. Eurotel confirms its leading position on the market with total number of customers amounting to 4.6 million.

Board of Directors' report on business activity

5.1 ČESKÝ TELECOM Group and the telecommunications market in the Czech Republic

5.1.1 Description of the business of the Group

ČESKÝ TELECOM Group (Group) comprises ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM), Eurotel Praha, spol. s r. o. (Eurotel) and several other companies specialising in the provision of telecommunications or related services. This strong telecommunications group, the only one in the Czech Republic, offers a complete portfolio of voice and data services of fixed line and mobile technologies, including the service of access to network infrastructure for operators and providers of both public and private networks and services. A complete overview of the Group is given in Section 6.2 of the Annual Report (page 48). As at 31 December 2004, ČESKÝ TELECOM operated a total of 3,368,325 fixed lines and Eurotel registered 4,591,471 customers, confirming the leading positions of the two companies on the fixed line and mobile technology markets respectively.

Most of the services of the Group are provided on the territory of the Czech Republic. Services are retailed to four main customer segments: residential, SME, corporate clients and government. Additionally, ČESKÝ TELECOM provides wholesale services to other public telecommunications network operators and providers of public telecommunications services in the Czech Republic and abroad.

The Group recognises the need for sustainable development as a strategic global environmental goal embodied in finding an economic development and growth path which promotes a fair and equitable society while considering the natural environment and preserving the world's scarce non-renewable resources for future generations. A key event of 2004, in the view of ČESKÝ TELECOM, was its accession to the ETNO (European Telecommunications Network Operators' Association) Charter for Sustainable Development.

5.1.2 Description of the telecommunications market

The telecommunications market in the Czech Republic ranks among the most developed in the Central and Eastern Europe region, making up approximately 4.3% of the gross national product of the Czech Republic (1.8% falling to the fixed line technology market and 2.5% to mobile technology). Relatively late modernisation and investment in the fixed line networks and the rapid arrival of mobile technology, in combination with certain unfavourable regulatory decisions, fostered aggressive substitution of fixed line technology by mobile technology.

The result of these trends is a fixed line penetration of around 34%, which has remained at a steady level for several years. Penetration of mobile SIM cards in 2004 exceeded 100% and looks set to grow further as the number of customers owning more than one SIM card for different purposes (private, business) rises.

Fixed line technology market

Total revenues on the fixed line technology market reached, according to public sources of information and to ČESKÝ Telecom's own estimates, approximately CZK 49 billion, which represents a circa 1.8% share in the GDP of the country. The liberalisation of the telecommunications market in the Czech Republic has attracted the attention of many alternative operators. In the past, most of them concentrated on servicing businesses. Via Carrier

Selection and Pre-Selection, they began to focus on providing voice services to residential customers and recently also on retailing Internet access. According to public domain information, the market share of alternative operators as at the end of 2004 in terms of revenues was approximately 28%.

In comparison with other countries in the region, the PC and Internet penetration of Czech households is relatively high. ČESKÝ TELECOM does not have public domain penetration figures for the end of 2004. Figures published during 2004 give a PC penetration of over 40% and an Internet penetration of around 25%. Given these indicators, the embryonic high-speed Internet market has good growth prospects. In the past, the development of high-speed Internet services lagged behind Poland and Hungary. In these two countries, government support was a major driver of high-speed Internet services, while the Czech Republic lacked any such impetus. The roll-out of high-speed Internet has accelerated in the last few months, especially after the Group launched its active marketing campaign in May 2004 and the branding of high-speed Internet was changed to Internet Expres and Eurotel Data Expres.

The prices of fixed line technology services, as in the whole of Europe and other developed markets, in the Czech Republic are under considerable competitive pressure. Wholesale prices in the Czech Republic are determined in large part by the decisions of the regulatory authority (CTO), mainly in the area of interconnection rates. Retail pricing is a product of direct intervention by the CTO on the one hand and the competitive environment on the other, the latter being affected by wholesale prices and interconnection rates. The regulatory and competitive pressures are leading to declining retail prices across the broad spectrum of voice and data services. Like other regional incumbents, ČESKÝ TELECOM is also trying to rebalance its tariff – away from usage-based fees to access-based prices (flat monthly subscriptions). Already for several years, the limits imposed by the regulator unfortunately have not allowed ČESKÝ TELECOM to increase its access-based prices and to offset the increase by reducing its usage charges, which are being driven down by competitive pressures and by decisions of the Regulator. As a result, ČESKÝ TELECOM is recording a substantial access deficit. For this reason, ČESKÝ TELECOM continues to interact with the CTO in favour of tariff rebalancing.

The Internet access market in the Czech Republic is being taken over by technology allowing high-speed Internet. In 2004, ČESKÝ TELECOM succeeded in acquiring a significant share of this market, owing mainly to the product branded as Internet Expres. As at the end of 2004, ČESKÝ TELECOM recorded 101,208 active connections, 78.2% of which were retail and 21.8% wholesale connections. Most of the other operators re-sell the wholesale services of ČESKÝ TELECOM. The only exceptions to the rule are Telenor and České radiokomunikace – companies which, after unbundling of the local loop, have invested in building of their own infrastructure, and GTS which uses its own network to provide ADSL services in selected locations (primarily in Prague). Cable TV providers are also competition to ČESKÝ TELECOM. The largest operators are UPC and Karneval. According to information from UPC Česká republika, the company registered 42,400 high-speed Internet customers as at the end of 2004. Information from Karneval was not available for the year-end 2004, but as at the end of June 2004 Karneval had 6,400 high-speed Internet customers.

On the dial-up Internet market, ČESKÝ TELECOM's 16% market share ranks the company among the largest dial-up access providers. The other major dial-up Internet providers are GTS, Option One, Aliatel, Contactel, TELE2 and Tiscali.

Mobile technology market

The size of the Czech mobile technology market in terms of revenues reached almost CZK 70 billion in 2004, which represents a ratio of revenues to GDP of approximately 2.5%.

This indicator ranks the Czech Republic at the top compared both to the other countries of Central and Eastern Europe and globally. The market has particularly high SIM card penetration, which at the end of 2004 exceeded 100%. As described above, this is due to a whole range of factors, including the relatively late construction and digitalisation of fixed line networks and the unfavourable regulatory environment on the one hand, and the rapid deployment of mobile technology, the high quality of mobile services and the relatively common use of more than one SIM card per customer on the other.

Three operators – Eurotel, T-Mobile and Oskar – are active on the Czech mobile communications market. With a 43% market share, Eurotel is maintaining its leading position, followed by T-Mobile with 40% and Oskar Mobil with 17%, measured by the number of the customers.

As in other countries, the fast growth in the number of mobile service users was accompanied by a decline in Average Revenue per User (ARPU), which is the result of the fact that new customers generate lower than average ARPU. Furthemore, users of the mobile services in the Czech Republic in many cases use more than one SIM card, and not only with one operator, which also reflects on ARPU. Usage prices on the mobile technology market are under significant pressure from the competitive environment and their overall development was affected in large part by the level of interconnection rates, which are regulated by decision of the CTO. On 1 April 2004, interconnection rates on calls to mobile networks were reduced from CZK 3.66 to CZK 3.19.

Data and Internet services running on the GPRS, CDMA, EDGE and UMTS technology platforms, and content services, are the main areas of growth potential on the Czech mobile technology market.

Regulation

The telecommunications market in the Czech Republic is one of the most liberalised in Central and Eastern Europe. The process of liberalisation officially commenced in 2001. Carrier Selection was introduced in June 2002, and Carrier Pre-selection and Number Portability were launched on 31 December 2002. Since 20 August 2003, ČESKÝ TELECOM has been obliged to grant Other Licensed Operators access to the local loop (Local Loop Unbundling). The Czech Republic has thus made major progress in the area of regulation, having implemented all of the fundamental liberalisation measures required by the European Union.

Despite this fact, the process of implementing the EU regulatory framework in the area of electronic communications failed to be completed by the original target date of 1 May 2004. An impediment is the non-adoption of the Act on Electronic Communications, which, in Ferbruary 2005, was approved by the Parliament of the Czech Republic and will come into effect from 1 May 2005. The bill is a continuation of the process towards full liberalisation and, as a result of the technological convergence of the telecommunications, media and information technology sectors, also bears relevance to these areas. The bill transposes a new EU law (the so-called Regulatory Framework) governing electronic communications into the Czech legislation. One of the most significant changes introduced by the bill is the application of the competition law by means of market analyses and application of the administrative procedure law to all procedures under this legislation, including price regulation, which is an inherent part of the regulatory duties. This will result in greater transparency and will introduce the right of appeal. In the area of the Universal Service, the scope of regulation will be reduced (e.g. regulation of usage prices), the individual components of the Universal Service will be provided based on analyses conducted by, and tenders published by, the Regulator, and the net cost of Universal Service provision, should it represent an undue burden on the provider, will be compensated from a Universal Service Account; the State will compensate losses incurred in offering special price plans for people with disability and people with special social needs. Collective management of the regulatory authority is being introduced (a five-member Board, including a President). The ceiling on sanctions is to be raised (to CZK 10 million), while maintaining the option of doubling the sanction imposed in the event of repeated violation within a period of two years. Another new principle is public consultation of proposals of general nature, fundamental decisions and selected documents issued by the regulatory authority. The new law also sets out the remit of the CTO and the Office for Protection of Economic Competition (OPEC).

The regulatory environment in the Czech telecommunications market is, till 1 may 2005, laid down in Act No. 151/2000 Coll., on telecommunications, as amended (Telecommunications Act). State administration in the field of telecommunications falls by law to the Ministry of Informatics of the Czech Republic (MoI) and the Czech Telecommunications Office (CTO). The authorities of the MoI lie mostly in the area of policy and international relations, whereas the exercise of regulation is mainly in the power of the CTO.

In carrying on its telecommunications business, ČESKÝ TELECOM is obliged to respect the duties set forth in the law, the regulations of the Ministry, government directives, telecommunications and general licences and the decisions of the CTO and OPEC.

ČESKÝ TELECOM holds two telecommunications licences:

1) for the construction and operation of a public telecommunications network,
2) for the provision of a public telephone service on a public fixed telecommunications network.

The first licence stipulates the duty to construct and operate, in the public interest, a public fixed telecommunications network, to interconnect the telecommunications network with the networks of Other Licensed Operators, to enter into agreements with international operators for interconnection of the public fixed telecommunications network with the telecommunications networks of Other Licensed Operators, to provide for international telecommunications services from other countries to the Czech Republic and from the Czech Republic to other countries, including transit on the territory of the Czech Republic, to provide Other Licensed Operators with access to its telecommunications network, and to provide a public telecommunications service of leased lines.

Furthermore, the company is obliged by law to give access to its services to any telecommunications service provider whose network is interconnected with the network of ČESKÝ TELECOM, either by means of fixed allocated numbers for Carrier Selection or by means of on-demand dial prefixes for Carrier Pre-selection.

The telecommunications licence for provision of a public telephone service on a public fixed telecommunications network stipulates primarily the duty of ČESKÝ TELECOM to provide a Universal Service on the public telecommunications network. Its scope is laid down in the Telecommunications Act. The goal is to guarantee a basic service package of a certain quality for an acceptable price to all users across the entire territory of the state. ČESKÝ TELECOM is the only licensed provider of the Universal Service in the Czech Republic pending the designation of the providers of individual services falling within the Univesal Service. The new law stipulates that will happen in nine months as of the law coming into effect.

Regulation of the Ministry of Transport and Communications of the Czech Republic No. 196/2000 Coll., as amended, stipulates the characteristics, parameters and service quality indicators for evaluating the quality of the Universal Service. A large majority of the quality parameters of the Universal Service are being complied with.

By law, ČESKÝ TELECOM, is entitled to compensation for legitimate losses incurred as a result of providing the individual listed components of the Universal Service package. A legitimate loss is the difference between the economically justified costs incurred as a result of complying with the duty to provide the Universal Service which ČESKÝ TELECOM would not have incurred had it not been bound by this duty, and the revenues of ČESKÝ TELECOM from the Universal Service. The law stipulates a mechanism for compensation of the loss that the Universal Service Provider may incur in connection with the provision of the Universal Service – the Universal Service Account – to which Other Licensed Operators are obliged to contribute. The loss calculation formula is laid down in Regulation No. 235/2001 Coll., of the Ministry of Transport and Communications of the Czech Republic. This, however, does not cover the complete spectrum of services provided under the Universal Service Package pursant to Act No. 151/2000 Coll. Losses of CZK 155,509,039 for 2002 and CZK 196,129,124 for 2003 have been quantified by the CTO on the basis of the Regulation but have not been compensated to ČESKÝ TELECOM in full, as the CTO was not able to collect the Other Licensed Operators' contributions to the Universal Service Account.

The CTO is also responsible for regulating the prices of telecommunications services. The CTO regulates the prices of the Universal Service and interconnection rates. As regards Universal Service prices, it should be pointed out that in 2004 the CTO again did not allow for a full rebalancing of ČESKÝ TELECOM's tariffs and rectification of monthly subscription and usage prices to fully reflect the costs. The CTO continued to regulate end prices of access to ČESKÝ Telecom's network way below the level of the actual cost of access. This situation puts ČESKÝ TELECOM at a disadvantage compared to alternative operators, which do not share the access deficit incurred by ČESKÝ TELECOM as a result of the regulation of the monthly subscription. The company is not compensated for this loss by the CTO.

At the same time, the regulation of interconnection rates allows other operators to exert competitive pressure on end user prices of voice services, thereby narrowing ČESKÝ TELECOM's scope for offsetting the losses arising in the access network from the voice services profit.

To meet the objectives of regulation, in particular market protection, providers of public telecommunications services have a statutory duty to keep separate accounts of costs, sales and revenues, and are banned from cross-financing of public telecommunications services.

Regulation in the mobile technology area is far more limited than for the fixed line technology business. Here, the CTO regulates primarily the interconnection rates to mobile networks. An overview of licences issued to Eurotel is given on page 36–37 of the Annual Report (see Section 5.4.2).

5.2 Description of the ČESKÝ TELECOM Group

5.2.1 Strategy, results of the Transformation Programme

In November 2003, the management unveiled a new vision, mission and strategy for ČESKÝ TELECOM. These define the framework for all goals, priorities and activities of the company for the future. Details of these policies were published on pages 12–14 of the Annual Report 2003.

In line with its new vision, mission and strategy, ČESKÝ TELECOM launched a Transformation Programme at the beginning of December 2003 – a major part of it should be implemented over a period of 18 months, i.e. by mid-2005.

The goal of the Transformation Programme in 2004 was to transform ČESKÝ TELECOM into a modern, flexible and dynamic company capable of adapting quickly and efficiently to changes in market conditions and customer demands, and a company generating maximum shareholder value. A satisfied customer is a key prerequisite for successful operation. The Transformation Programme is a package of key programmes and projects to be implemented across the company, introducing very detailed changes to each individual area of operation with a view to raising shareholder value by improving efficiency.

The Transformation Programme defines the following key objectives in individual areas:

- ➔ Financial performance,
- ➔ Customer satisfaction,
- ➔ Operating performance,
- ➔ Corporate culture.

These key objectives have been translated into specific objectives for individual transformation and synergy projects, programmes and initiatives, which are subject to regular review – their progress and outcomes are monitored and transparently reported.

The most important successes in meeting the individual objectives of the Transformation Programme in the area of operations and finance in 2004 include:

- ➔ Synergies between ČESKÝ TELECOM and Eurotel.
  - ➔ Joint development of new products and services (marketing high-speed Internet access under the brands Internet Expres and Eurotel Data Expres).
  - ➔ Convergence of distribution channels (the first joint brand store opened in November 2004).
  - ➔ Joint marketing of wireless Internet access under the same price terms by means of mutual interconnection of the Wi-Fi networks (together comprising 163 hotspots, making it the largest network in the Czech Republic).
  - ➔ Joint technology procurement.
- ➔ Downsizing of the company's vehicle fleet by approximately 30%. More than 2 thousand cars out of a total of 3.7 thousand cars are now leased.
- ➔ Reduction in office equipment, significant reduction in new purchases and the sale of old or obsolete equipment.
- ➔ Selected warehouse and storage space was vacated and outsourced; implementation of electronic processing of incoming and outgoing mail.
- ➔ Preparation for sale of selected real estate; decision to physically centralise employees to 6+1 strategic locations: Ústí nad Labem, Brno, České Budějovice, Hradec Králové, Ostrava, Plzeň and Prague; the goal is to free up substantial office space, allowing for the sale of unused office space and the sale and lease-back of the premises which are used.
- ➔ Centralisation of network control and management into one main and one back-up centre; the operation and external maintenance of networks was centralised to 6+1 strategic locations (from 39 locations originally) and network administration and documentation was centralised to 23 locations from 72 sites originally.
- ➔ Preparatory project to outsource network external maintenance and operation, which covers approximately 3 thousand employees; feasibility studies were conducted.

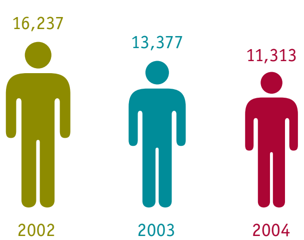
- Over 300 new ADSL points of access have been built (over 800 locations exist to date); ADSL technology now covers 3 million active lines operated by ČESKÝ TELECOM, representing over 88% coverage.
- A Customer Care Unit was formed and a 24/7 call centre was put in operation.
- Reduction in the number of ČESKÝ TELECOM employees by 19% to 8,794, in 2004, confirming the assumption that the target level of 7 thousand is likely to be achieved in 2005.

5.2.2 Human resources

Number of employees of the Group as at 31 December 2004:

	2004	2003	2002
ČESKÝ TELECOM	8,794	10,901	13,717
Eurotel	2,483	2,442	2,447
Other companies	36	34	73
Total employees	**11,313**	**13,377**	**16,237**

Number of employees of the Group



The total number of employees of the Group fell in 2004 by 2,064, representing a decline of 15%. While Eurotel's workforce edged up by 2%, ČESKÝ TELECOM's fell by more than 19%. This is one of the results of the ongoing transformation process, which, inter alia, sets out to reduce the workforce in the area of fixed line technology while increasing labour productivity to a level close to the best performers in the telecommunications industry. The goal is to reach a level of 7,000 employees by the end of 2005.

Out of the total of 2,879 employees who left ČESKÝ TELECOM in 2004, 79% left as a result of the reorganisation. Under the Collective Agreement, employees were entitled to severance pay depending on the duration of their employment in the company. In 2004, this was 8.46 times the average monthly wage on average. For employees who cannot find another position in the company, ČESKÝ TELECOM has developed an efficient re-training programme. The programme has contributed to maintaining the relationship between the management and representatives of the workforce organised in the trade unions at a very good level.

In 2004, a number of key activities were performed in the human resources area, including a management audit, the subsequent preparation and implementation of a new Leadership Academy qualification programme, reviews and updates of the performance evaluation system and the implementation of a rotation scheme for employees of ČESKÝ TELECOM and Eurotel.

Other development areas included working with key executives in the Stabilisation Programme, which focuses on sharing know-how and developing the potential of designated employees. Marketing specialists and the sales force, too, underwent regular training, chiefly in the area of products and new services. E-learning as a standard training method was used in ČESKÝ TELECOM's training programmes and was also commercially marketed to the company's customers.

Another key activity of the Human Resources Unit was a review and update of the performance evaluation system. The company applies a comprehensive, performance-oriented system for transparent remuneration and motivation (STROM). The remuneration was commensurate to delivering on both individual and corporate targets.

Eurotel, too, has created a motivating and dynamic working environment for its 2,483 employees. The employees enjoyed competitive salary packages, a wide range of bonuses and a corporate culture which provided for their personal and professional development.

In doing so, Eurotel efficiently expended financial resources and benefited from synergies in the ČESKÝ TELECOM Group. Management of personnel processes was effective, automated, and with a high standard of service for the employee as the internal customer.

Programmes of internships and employee rotation between individual units within ČESKÝ TELECOM and in the form of synergy projects between ČESKÝ TELECOM and Eurotel were launched in 2004.

Employee health and safety

ČESKÝ TELECOM has recognised the need for sustainable development in the area of employee welfare and health protection. The principles for implementing these requirements are laid down in an internal Occupational Health and Safety Directive.

All employees underwent several training courses on occupational health and safety requirements in relation to their jobs. At the same time, employees enjoyed regular preventive healthcare of a premium standard.

In co-operation with the trade unions and subject to the resources at its disposal, the company modernised and upgraded technical equipment in the workplace, hence improving aesthetic and cultural standards while providing for work hygiene.

5.2.3 Corporate social responsibility – the environment, security, sponsoring

Being the leader in the Czech telecommunications market, ČESKÝ TELECOM strives to maximise its positive influence on the community by also being a leader in the area of corporate social responsibility.

The environment

The main principles on which ČESKÝ TELECOM's relationship to the environment is based are contained in the ČESKÝ TELECOM Environmental Policy. The document was subject to regular reviews during audits of the Environmental Management System conducted by the management.

Subsequent audits conducted by Lloyd's Register Quality Assurance confirmed that the certified Environmental Management System implemented according to the ČSN EN ISO 14001 standard in a selected region was being adequately maintained. Also in 2004, ČESKÝ TELECOM continued to apply ever more evaluation criteria relating to environmental friendliness and the existence and quality of environmental management systems on the part of suppliers.

In 2004, we reduced the total volume of waste produced by almost 7% compared to 2003. From this amount, at least 12% were recyclable types of waste, and a substantial part of the other forms of waste could be put to some other use.

Compared to 2003, we curbed the total volume of pollutants released into the air from heat producing facilities by approximately 26%. This is attributed primarily to markedly lower consumption of fossil fuels (by more than 50%) and heating oils (by almost 25%). For its operations, ČESKÝ TELECOM used almost the same amount of heat in 2004 as in 2003, while the consumption of electricity fell by more than 2% on the year before. The volume of waste water produced has also gradually decreased.

Eurotel, too, implemented all possible measures to protect the environment. Eurotel is the only telecommunications operator in the Czech Republic certified to ISO 14001:1996 in the area of environmental protection. Eurotel applies environmental policies to all areas of operations and business, for instance when selecting base station locations and defining rules for storage of back-up power supply units for base stations or in the collection of used batteries from customers in all brand stores.

Security

In the process of expanding its portfolio of services, engaging in new business relations and improving its customer care system, ČESKÝ TELECOM pays close attention to the area of security. Security is regarded by the company as added value, giving the company a real competitive advantage in the marketplace and guaranteeing the quality of ČESKÝ TELECOM's services.

The Group is the holder of National Security Office security clearance for organisations up to the level of SECRET. The company has also an adequate number of employees with security clearance for the execution of government telecommunications services contracts involving access to classified information. ČESKÝ TELECOM uses the PKI (Public Key Infrastructure) tool, including the certified electronic signature function, for communication with its business partners and for protecting the personal data of its customers, telecommunications and commercial secrets and other sensitive information in compliance with the statutory requirements. The Group successfully operates a number of security systems to protect against unauthorised use of telecommunications services and unlawful enrichment at the expense of ČESKÝ TELECOM and its customers (e.g. Fraud Protect). The Group has a functional crisis management system put in place.

Sponsoring

ČESKÝ TELECOM has been sponsoring various projects for many years. Linka bezpečí is the company's flagship sponsoring project in the humanitarian area. The name of ČESKÝ TELECOM has for many years been associated with sponsorship of culture, and in particular theatre. We support renowned international festivals in the Czech Republic as well as regional theatre companies. ČESKÝ TELECOM is also a prominent partner of film. It supports the Karlovy Vary, Febiofest – the largest audiovisual event in the Czech Republic, and the Summer School of Film in Uherské Hradiště. In the field of sport, ČESKÝ Telecom's main sponsoring activities include supporting the national ice hockey league, the Czech National Olympic Team, well-known individual skiers and selected motor sport events.

The music festival Struny podzimu is one of Eurotel's main sponsorship activities. For many years, Eurotel has been the general partner of the Czech National Ice Hockey Team and the Sparta Prague football team. Eurotel also founded Nadace Eurotel to intensify support for non-profit and philanthropic projects. The foundation's mission is to provide support to projects whose beneficiaries are children and young people in the Czech Republic. In 2004 Eurotel was awarded the main prize of Via Bona for the activities of its Nadace Eurotel in corporate philanthropy. According to the prestigious Fórum dárců, in the cooperation with Czech Top 100, Eurotel also placed 3rd in the category TOP Corporate Philanthrope for the amount of its donations to the public sector in the year 2003.

5.3 Fixed line technology segment

5.3.1 Market developments in 2004

The fixed line technology market in the Czech Republic in 2004 was affected by several factors. The first was a change in value added tax on telecommunications services: the VAT rate was increased from 5% to 22% on 1 January 2004 then reduced to 19% on 1 May 2004. These changes resulted in higher end user prices. ČESKÝ TELECOM tried to offset the changes by introducing new services and price plans which meet customers' telecommunication needs more effectively and which partly mitigated the effect of the higher VAT rate.

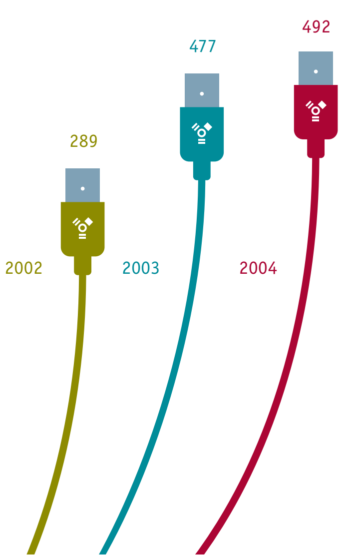
In the field of regulation, interconnection rates for calls to fixed line networks fell by an average of 20% on 8 January 2004 by decision of the CTO.

As regards competition, Other Licensed Operators recorded growth in activity, especially via Carrier Selection and Carrier Pre-selection. Traffic via these services increased to 1,322 million minutes in 2004, compared to 627 million minutes in 2003. From the second quarter of 2004 onwards, the previously growing volume of traffic via these services has been stagnant, attesting to a better competitive position of ČESKÝ TELECOM vis-à-vis alternative fixed line operators, despite the unfavourable regulatory environment. ČESKÝ TELECOM estimates that its share in the total revenues of the fixed line technology market was approximately 78% at the end of 2004.

5.3.2 Networks and technology

ČESKÝ TELECOM operates a completely digitalised network supporting PSTN, ISDN and IN voice services, an ADSL network with points of access in 834 locations, nationwide data networks with a broad portfolio of data and IP services running on IP/MPLS, FR and ATM networks, including leased lines (LL), and backbone transport networks on SDH and DWDM technology platforms providing for premium quality and reliability of all services.

Number of ISDN channels in thousand



A programme to modernise the access network was continued; the main part of the network consists of metal cables covering the whole of the country. The network additionally comprises optical cables and radio systems. The technology used by ČESKÝ TELECOM is subject to stringent testing and quality assurance procedures. A necessary pre-condition for the deployment and operation of technology is central control – as a result, ČESKÝ TELECOM has a quality and reliable network conforming to international standards. The total length of the optical fibre transmission network as at 31 December 2004 was 29,158 km. The total length of the fibres is 867,870 km.

The network comprises 138 HOST exchanges and 2,382 Remote Subscriber Units (RSU). The total switching capacity is 4,657,800 connections.

The capacity of the international optical SDH/WDM network was substantially enhanced. In addition to points of presence in Germany, Austria and Slovakia, international connectivity to Poland was added in co-operation with our alliance partners.

The year 2004 saw substantial investments in infrastructure for the broadband Internet Expres service. By the end of the year, a total of 132,596 ports were installed in 834 locations, bringing high-speed Internet to approximately 88% of all customers. The infrastructure can also be used to provide other services, such as Ethernet, LL Standard, SHDSL and IP TV.

In the area of data networks, substantial investments were made in the backbone data IP/MPLS network and the multi-service network (ATM, FR) in 2004. In 2004, ČESKÝ TELECOM launched experimental digital television broadcasting. On 27 April, the CTO awarded ČESKÝ TELECOM a licence to operate radio transmitters for experimental broadcasting in Prague and Brno. The experimental broadcasting began on 1 August 2004. On 15 July 2004, the CTO issued ČESKÝ TELECOM with a package of permits to operate radio transmission equipment, allowing the company to build the Multiplex C transmission network.

5.3.3 Voice services

As at 31 December 2004, the number of telephone lines (main telephone lines including ISDN channels) operated by ČESKÝ TELECOM was 3,368,325, of which 2,295,837 were residential lines, 985,099 business lines, 26,073 public payphones, 61,010 service stations and 306 lines in the special-purpose telephone network. The total number of main telephone lines fell by 219,086 compared to the beginning of the year. We recorded growth by 14,762 in the number of ISDN channels to a total of 492,038 (of which 366,938 were ISDN2 and 125,100 ISDN30).

On 1 May 2004, the company introduced a new service: SMS from a fixed line. In the first eight months of operation, the total number of users of the service reached 30 thousand, and 2.1 million SMS messages were sent and received.

InfoLimit, a new optional service available for main telephone lines, was introduced in November 2004 as an additional tool for combating dial-up Internet fraud (dialler programs).

Voice services – residential segment

Voice services rank among the company's basic products and are subscribed to by around 2.3 million residential customers. The most popular services are the traditional telephone line (with price plans), euroISDN connections and terminal equipment (particularly cordless telephones). Customers appreciate promotions, be they cheaper line installation, euroISDN packages, cheaper calls or upgrades of terminal equipment.

On 1 January 2004, ČESKÝ TELECOM introduced new price plans which allow customers to use their fixed lines more cost effectively. The plans marketed voice services branded Telefon, a package combining free domestic call minutes and dial-up Internet. Telefon Universal had the best rates on all types of calls, including dial-up Internet, while Telefon Universal dialog offered a universal rate of CZK 9.90 for the first hour of call. The price was applicable to all types of calls to all fixed line networks in the Czech Republic. The packages allow carry-over of unused domestic call minutes to the next period.

Voice services – SME segment

On 1 January 2004, ČESKÝ TELECOM introduced new price plans for this segment, which allowed customers to use their fixed lines more cost effectively and partly mitigate the impact of the higher VAT rate on revenues. At present, six packages, branded as Business, combining free domestic call minutes and dial-up Internet, are being offered. Business Universal has the best rates on all types of calls, including dial-up Internet, while Business Universal dialog offers a universal rate of CZK 9.90 for the first hour of call. The price is applicable to all types of calls to all fixed line networks in the Czech Republic. The packages allow carry-over of unused domestic call minutes to the next period.

Voice services – corporate clients

ČESKÝ TELECOM's strategy in the area of voice services for the corporate customer segment was based on the gradually prevailing perception of voice services as a commodity product. To defend against the threat of Carrier Selection on the merits of price only, ČESKÝ TELECOM has developed a comprehensive portfolio of services which, in addition to voice services, comprises services with the complete support of internal corporate communication processes. In the course of 2004, time-limited offers, most of them based on ISDN, were prepared for the corporate segment.

ČESKÝ TELECOM also offers its key customers, such as banks, a Fraud Protect service. In the Czech context, this is a wholly unique service which helps customers protect their telecommunication equipment against fraud or technical errors which could generate a large number of unwanted calls. The service can be configured to the customer's requirements in order to monitor specific parameters and technologies.

Intelligent voice services

Toll-free numbers (Barevné linky) are the most effective method of direct communication with customers. They operate on the Intelligent Network platform and belong to the suite of value added services. The flagship service of this group is Zelená linka, where call charges are borne in full by the called party. Modrá linka has a shared tariff – the call charges are divided between the calling and called party. Bílá linka allows for intelligent call routing to one unique number based on specific criteria. The call charges are billed to the calling party according to the type of line.

Audiotext services designed to disseminate various types of content at a premium tariff are another major category. Žlutá linka is a service for commercial use, Duhová linka for distribution of entertainment content and Linka 909 for distribution of entertainment content. Datarif is a service which brokers access to public data services at a special tariff.

In the course of 2004, time-limited offers, most of them based on ISDN, were prepared for the corporate segment. Furthermore, Audiotext services are now accessible from competing operators' networks.

5.3.4 Data services

ČESKÝ TELECOM can offer a comprehensive and broad portfolio of data services, comprising traditional X.25 and FRAME RELAY protocol services, the ATM service for multimedia and high-speed data transmission, and IP VPN services.

In the area of leased lines, analogue VOICEBAND lines, RADIO lines for radio modulation transmission at frequencies of up to 15 kHz and digital lines in two quality options – STANDARD and PREMIUM – are provided. In the area of data services, traditional X.25 (PDS) or FRAME RELAY services are gradually being replaced by IP VPN services. In 2004, the company recorded significant year-on-year growth (of 175%) in the number of IP Connect connections, due to higher demand for IP VPN services from corporate customers, and a 316% year-on-year increase in the number of IP VPN (KI ISVS) connections.

In connection with this migration, ČESKÝ TELECOM continues to develop IP VPN services, chiefly by expanding the portfolio of services and by introducing guarantees of higher quality.

New Ethernet data services – Ethernet, Carrier Ethernet Economy, Carrier Ethernet Profi and Carrier Line Ethernet – were introduced in 2004; DSL technology is used for lower speeds and SDH for higher speeds.

In 2004, a new version of the IP Connect service, branded as IP Connect Mini, was developed for the SME segment. In addition to this network service, a point-to-point Ethernet service was fully implemented. In October 2004, pilot operation of a network Ethernet service option, branded as Ethernet LAN, commenced. As a result of migration to better-quality digital services, data traffic in the corporate segment in 2004 recorded year-on-year growth. In large part, customers migrated from analogue lines to PREMIUM digital lines and from FRAME RELAY connections to the IP Connect data service. On 1 May 2004, ČESKÝ TELECOM and

Eurotel launched joint roaming of their public wireless networks for Wi-Fi Internet access. By means of mutual roaming of Wi-Fi networks, customers of ČESKÝ TELECOM's Wi-Fi Hot Spots service and Eurotel's WiFi Jet service can use the hot spots of both companies at the same rates. At present, the joint network covers 163 hot spots (of which 65 spots belong to ČESKÝ TELECOM), making it the largest network of its type in the Czech Republic.

In the course of 2004, ČESKÝ TELECOM began to offer its customers the possibility of entrusting the administration and security of their local computer networks to trained professionals, under the Managed LAN and Managed Security service packages.

The product portfolio of ČESKÝ TELECOM's hosting services includes regular Webhosting (provision of server space for web presentations), Server Hosting (lease of an area or racks in a hosting centre), Dedicated Hosting (lease of hardware for customer applications) and a number of additional services.

While Webhosting services recorded year-on-year growth of only 14% in 2004, Server Hosting and Dedicated Hosting showed a substantial 206% year-on-year increase. These services were used chiefly by customers from the government sector.

ČESKÝ TELECOM operates hosting centres in Prague and Brno. ČESKÝ TELECOM's hosting centre in Prague, Nagano, is one of the most modern data centres in Central Europe. ČESKÝ TELECOM's infrastructure, supervision systems, quality backbone network and service potential make the centre a universal platform for all types of customers – SMEs, corporate clients and wholesale clients.

5.3.5 Internet and other value added services

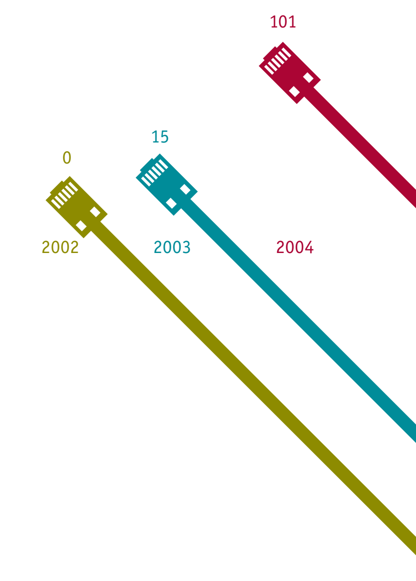
The year 2004 clearly confirmed that the demand for high-speed Internet was growing. ČESKÝ TELECOM, together with its subsidiary Eurotel, gained the position of leading player in this market and succeeded in defending it throughout the year. The Expres family of products made the ČESKÝ TELECOM Group the largest provider of high-speed fixed line and mobile Internet connection.

On 1 January 2004, ČESKÝ TELECOM introduced a new product to its portfolio for retail customers and also to the wholesale portfolio for alternative operators, with a nominal speed of 512/128 kb/s and currently the lowest monthly subscription and the lowest volume of data included in the monthly subscription fee (3 GB). In the retail portfolio of IOL Broadband products (renamed Internet Broadband from May 2004), the 512/128 kb/s variant became the fastest growing product in the family. Internet Expres, a service launched on 12 May 2004, instantly became the leading and most demanded high-speed Internet access product on the Czech market. At the time of the launch, ADSL coverage, and Internet Express coverage, respectively, was enhanced in commercially viable locations, which substantially contributed to the success of the ČESKÝ TELECOM's strategy in the area of broadband Internet services. On 2 August 2004, the Internet Expres product family received a new addition in the form of Internet Expres Start, an economy service with a nominal speed of 256/64 kb/s.

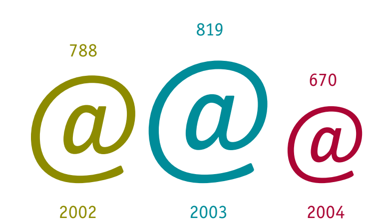
A promotion headlined "Za zkoušku nic nedáte" (It Costs Nothing to Try) was launched on 20 August 2004, offering a 14-day free trial of Internet Expres Start. On 1 November 2004, a similar campaign, this time called "10x rychlejší Internet na zkoušku zdarma" (Free Trial of 10 Times Faster Internet), began. Customers were given free use of the Internet Express service for 14 days, only this time the nominal speed was 512/128 kb/s.

At the end of the year, the total number of active ADSL connections reached 101,208, compared to 14,729 at the beginning of the same year, representing an increase of 587%. ADSL coverage in the Czech Republic also progressed at a fast rate. At the end of the year,

Number of ADSL channels in thousand



Numer of dial-up Internet access customers in thousand



ADSL technology was potentially available on 3 million telephone lines, i.e. 88% of all telephone lines operated by ČESKÝ TELECOM, compared to 60% at the beginning of the year.

A unique proposition to residential customers was the content distributed via StarZone, an entertainment portal. StarZone, the first portal of a telecommunications operator from Central and Eastern Europe, offers users of high-speed services downloads of films and music. The services are billed on the customer's regular telephone bill. From November 2004, each user of high-speed services of ČESKÝ TELECOM could see two films a month free-of-charge. The portal was visited on average by 10 thousand regular users. The content services are complemented with Gamezone, a gaming portal which ranks amongst the largest in Central and Eastern Europe. Gamezone features up to 23 online games in several dozen versions. Compared to 2003, ČESKÝ TELECOM recorded an increase in the number of minutes spent playing online games, from 116,472,284 in 2003 to 220,532,730 in 2004. The number of active players grew from 157,000 in 2003 to 256,385 in 2004.

High demand for Internet Expres was also registered in the SME segment. Access to the Internet is becoming a necessity for modern SMEs.

In the corporate segment, ČESKÝ TELECOM recorded a trend of client migration to higher connection speeds (in particular over 2 Mb/s), resulting in Internet market growth of 30% year-on-year in this segment, measured by revenues.

At the Invex fair, ČESKÝ TELECOM made access to the Internet even more attractive. ČESKÝ TELECOM and Eurotel jointly presented the visitors with their vision for the home and office of the future. At the DigitalHome & DigitalBusiness exhibition stall, both companies used interactive means to demonstrate to customers how modern technology addressed present and future needs for home entertainment and corporate communications alike.

The 2004 change in the trend of Internet services in favour of high-speed Internet access resulted in a slowdown in the area of dial-up Internet. The total volume of dial-up Internet traffic generated by ČESKÝ TELECOM customers in 2004 fell 19% on the year before, from 5,952 to 4,835 million minutes, while maintaining its 54% share in the total traffic. The number of dial-up Internet customers decreased by 18% from 819,285 in the year before to 670,209 at the end of 2004.

5.3.6 Wholesale

In the area of wholesale services, ČESKÝ TELECOM currently offers connection to other mobile and fixed line operators' networks and wholesale leases of telecommunications infrastructure to network and telecommunications service providers in the Czech Republic.

In the area of interconnection of telecommunications networks with other domestic telecommunications operators, the main accent was on provision of services required by the regulatory framework, in particular the implementation of Local Loop Unbundling and Co-location. By 31 December 2004, ČESKÝ TELECOM had executed in total 22 interconnection agreements with operators of other telecommunications networks. A new interconnection agreement was concluded with ČEZnet in 2004. Local loop unbundling and co-location agreements were signed with České Radiokomunikace.

On 1 January 2004, ČESKÝ TELECOM launched a new Carrier Broadband service, expanding the portfolio by new data packages. The total number of Carrier Broadband connections grew by 243% to 22,024 in 2004. In the first quarter of 2004, the CTO issued a new price decision, the first instrument regulating interconnection to ADSL technology. Contactel, Nextra, GTS Novera, Tiscali and Czech On Line were the largest Carrier Broadband customers.

Infrastructure lease services show a clear trend of customer migration towards higher transmission speeds, i.e. from 64 – 128 kb/s to higher speeds, especially 2 Mb/s. The number of digital lines leased to domestic operators did not change substantially in 2004, remaining at around 7,000. The total transmission capacity leased did, however, grow. At the beginning of 2004 it was 39 Gb/s, whereas at the end of the year the wholesale data services had a transmission capacity of around 46 Gb/s.

5.3.7 International services

ČESKÝ TELECOM has a fully digital international infrastructure interconnected with all major international operators. ČESKÝ TELECOM built this infrastructure on SDH/WDM technology between autumn 2002 and January 2003. The network has points of presence in Frankfurt (Germany), Vienna (Austria) and Bratislava (Slovakia). In 2004, the infrastructure capacity was increased. This was followed by a substantial strengthening of capacity to Poland, in co-operation with our alliance partners, with a view to accommodating the growing demand of wholesale partners for this capacity.

ČESKÝ TELECOM became one of the leading wholesale partners in Central and Eastern Europe in terms of transiting both fixed line and mobile traffic from across the world between individual telecommunications companies, winning large international accounts in the field of international data services.

International voice services

ČESKÝ TELECOM provides international voice services to more than 80 clients, mainly telecommunications operators from other countries who want to terminate voice traffic in the Czech Republic or to transit their traffic via ČESKÝ TELECOM's network (hubbing). Czech operators mostly demand termination in other countries. Competition in this market is still growing, which is strongly affecting the prices of services. The expanding number of international connections is a reaction to this trend.

ČESKÝ TELECOM is developing its transit services, concentrating on the Eastern European region. The company has a competitive edge in these markets thanks to its long-term and first-rate relations with the countries in question and its better knowledge of the market. Eastern markets are also less liberalised than in other regions.

International data services

International telecommunications operators – including mobile and alternative operators – are the key customers of international data services. ČESKÝ TELECOM interconnects its customers with other operators and provides their corporate customers with solutions and support. Leased lines make up 80% of the demand, the remaining 20% being IP services.

In the area of international wholesale data services, the total leased transmission capacity also recorded growth (from 3.27 Gb/s in December 2003 to 11.25 Gb/s in December 2004). The number of lines has also increased (from 100 to 147). ČESKÝ TELECOM has also become a major Central European operator in the field of data transit services, in both the west–east direction (Frankfurt–Bratislava and Frankfurt–Warsaw) and the north–south direction.

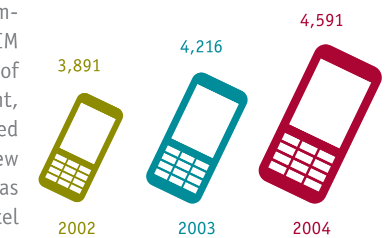
In this area, ČESKÝ TELECOM can offer a wide choice of destinations, a broad portfolio of services (IP VPN, FRAME RELAY, ATM, IP Tranzit) and premium quality 24/7 network supervision.

5.4 Mobile segment

5.4.1 Market developments in 2004

Eurotel's position on the mobile technology market

Number of Eurotel's customers in thousand



With almost 4.6 million registered customers, Eurotel is the largest provider of wireless voice and data services in the Czech Republic, and in 2004 it managed to entrench its position on the Czech mobile communications market even further. In the course of 2004, Eurotel accomplished even faster growth of its customer base compared to 2003, despite the fact that SIM card penetration in the Czech Republic broke through 100% at the end of the third quarter of the year and reached 105% at the end of 2004. In such a fiercely competitive environment, Eurotel succeeded not only in defending its leadership with the highest number of registered customers, but, approaching the end of the year, also in acquiring the highest number of new customers and thus maintaining its market share. The net increase in Eurotel customers was 377 thousand, up 17% on the 323 thousand customers last year. At the end of 2004, Eurotel registered a total of 4.59 million customers, 9% more than at the end of 2003.

New progressive data and Internet services were definitely a key factor behind Eurotel's success in defending its leading position on the mobile market. First among them was the launch of Eurotel Data Expres, for which Eurotel became the first mobile operator in Europe to deploy state-of-the-art CDMA2000 1xEV-DO technology for wireless Internet connection. Between its commercial launch on 2 August 2004 and the end of the year, the service attracted almost 30 thousand customers, helping Eurotel to significantly confirm its leadership in the marketplace.

The division of the market among mobile operators providing mobile technology services in the Czech Republic saw no change in 2004. Eurotel strengthened its position as the largest mobile operator, maintaining its share of the Czech market in terms of customers at 43%, the same as in 2003. The customers market shares of the other two mobile operators – T-Mobile and Oskar Mobil – were 40% and 17% respectively, compared to 41% and 16% respectively the year before.

In October 2004, T-Audit – a survey of the telecommunications operators' market conducted by AISA, the largest market research agency in the Czech Republic – confirmed Eurotel's leading position in the business segment of companies with more than 5 employees. The survey concluded that Eurotel's services were used by 78% of companies with over 200 staff and by 48% companies with over 5 staff. In the last quarter of 2004 alone, Eurotel acquired a number of large accounts and renewed contracts with thousands of existing customers. Eurotel concluded new framework agreements with AHOLD Czech Republic, ČEDOK, Mountfield, and ČEZ Group, to name but a few.

It is also worth mentioning that in September 2004 Eurotel joined Starmap Mobile Alliance, which currently groups 11 leading independent operators providing mobile voice and data services to more than 53 million customers. Starmap Mobile Alliance aims to increase penetration of coverage and services in key geographical areas and to safeguard sustainable growth in value for its customers. Eurotel will benefit from its membership of the Alliance in the areas of roaming, strategic purchasing, sales and marketing initiatives and promotions of key products and services of the Starmap Mobile Alliance.

Trends on the mobile technology market in 2004

The growth of the Czech mobile communications market continued to slow in 2004. Given the SIM card penetration of more than 100%, this trend was inevitable. In 2004, growth in the total number of SIM cards in the Czech Republic slowed to 11%, from 13% in 2003, 24% in 2002. In the future, the mobile technology market will therefore need to shift its focus to increasing revenues per customer. This can be accomplished with the aid of the above-mentioned new data and Internet services, content and value added services distributed via mobile technology.

The total number of SIM cards on the Czech market was 10.78 million at the end of 2004, compared to 9.71 million at the end of 2003. SIM card penetration in the Czech population thus increased to 105% at the end of 2004, from 95% in 2003. The total net adds of new customers on the Czech mobile market were 1.07 million, compared to 1.13 million in 2003. Market shares in net customers adds shifted in favour of Eurotel, which succeeded in boosting the growth in its customer base thanks mainly to a well prepared marketing campaign at the end of the year. Its market share in net customers adds in 2004 grew to 35% from 29% in 2003, while the share of its competitor, T-Mobile, remained almost unchanged at 38%, and the share of Oskar Mobil fell to 27% from the previous 32%.

Regulation and taxation

The telecommunications mobile technology market in the Czech Republic, as well as that of fixed line technology, was influenced by changes in the value added tax rate from 5% to 22% with effect from 1 January 2004, and a subsequent reduction to 19% as of the date of accession of the Czech Republic to the European Union. Eurotel, as well as ČESKÝ TELECOM, responded by launching new products and adjusting its price tariffs to minimise the price impact on the customer.

The main regulatory change in 2004 was a reduction in the maximum regulated price for interconnection to public mobile telecommunications networks by 13% to CZK 3.19 per minute, from CZK 3.66 per minute, exclusive of VAT (see Price Decision of the CTO No. 02/PROP/2004 of 18 March 2004).

5.4.2 Networks and technology

Eurotel was the first telecommunications operator to start providing mobile telecommunications services in the Czech Republic. In 1991, Eurotel obtained a licence to operate a 450 MHz network (NMT) and started operating it the same year. Five years later, in 1996, it obtained a licence for a 900 MHz network and in 1999 for an 1800 MHz network, both via GSM technology. The same technology is used by both competing mobile operators. Both Eurotel's licences were issued for 20 years.

At present, Eurotel uses mainly GSM technology for its voice services. In 2004, however, it began to use a 450 MHz NMT network for wireless data services, thus becoming the first European operator to use the latest CDMA2000 1xEV-DO technology for high-speed Internet access. Eurotel is marketing this service to its customers branded as Eurotel Data Expres.

Eurotel is the leading mobile Internet provider in the Czech Republic. GPRS, HSCSD (exclusively), CDMA2000 1xEV-DO and Wi-Fi technologies are used to offer a broad spectrum of Internet access services. The services are available to both post-paid customers and customers of the Go pre-paid service.

At present, Eurotel's 900/1800 MHz and 450 MHz networks cover 99% of the Czech population.

Eurotel also holds a licence to operate 3rd generation UMTS services. Eurotel obtained the licence in a tender published by the CTO in December 2001. The licence was issued for 20 years. The Licence Agreement stipulated a price of CZK 3.54 billion, but after Eurotel made a downpayment of CZK 1 billion upon signing, the outstanding amount was divided into 10 annual instalments.

In December 2003, Eurotel concluded an amendment to the Licence Agreement with the Czech government delaying the launch of the UMTS network by one year – to 1 January 2006 at the latest – and agreeing on prepayment of the licence fee in 2004. The outstanding UMTS licence fee of CZK 2,281 million was paid in full in two equal instalments in April and August 2004. At the beginning of 2005, on proposal of Eurotel, the CTO decided on additional delay in the network launch up to 1 January 2007.

Several years ago, Eurotel enhanced its network quality by implementing Frequency Hopping technology. The Call Setup Fail Rate and Call Drop Rate is now only 1%, the lowest among the Czech mobile operators. Eurotel also has superior indoor coverage, including all the metropolitan underground railway stations in Prague. Moreover, Eurotel uses SuperSound technology, which delivers superior sound fidelity.

5.4.3 Products

Services provided

Eurotel is the leading provider of wireless services in the Czech Republic in terms of number of customers and the scope of services and technologies available. Customers – both post-paid customers using one of the many post-paid tariffs and pre-paid Go card customers – can choose from an extensive portfolio of mobile voice and data services. Eurotel provides these services via its 450 MHz NMT network and 900/1800 MHz GSM network. At the same time, Eurotel uses advanced wireless data transmission technologies – GPRS, HSCSD, CDMA2000 1xEV-DO and Wi-Fi. Through these technologies, Eurotel offers not only voice and SMS services, but also mobile Internet access, WAP and a whole range of multimedia services and content, including video and MMS.

At the end of 2004, Eurotel had contracts with 376 roaming partners in 150 countries.

Given the more than 100% SIM card penetration in the population, customer orientation is the key in such a strongly competitive environment, which grew even stronger in 2004. Eurotel now puts even greater emphasis on needs and requirements which resonate not only with existing, but also with new or competitive customers.

Voice services

Voice services are the traditional services in Eurotel's portfolio. However, even this area has seen many innovations which give customers greater flexibility in choosing the specific parameters of their service portfolio. TOP packages were especially popular – at the beginning of the year Eurotel added six more top-up packages, four of which were for voice services. A TOP package lets each customer choose and pre-pay for additional call minutes to all networks or to fixed line numbers only, or cheaper calls at weekends or at night, or free SMS or MMS messages (Eurotel Top Volání, Top Minuty, Top Pevná, Top Noc, Top SMS and Top MMS).

Eurotel also introduced a unique price offer for its pre-paid Special Go customers – from February up to the end of 2004, they were able to call at weekends for CZK 1 per minute to the Eurotel or fixed line networks.

Other new Eurotel services launched in 2004 include Eurotel Star, which allows both post-paid and pre-paid Go customers to call any chosen number in all mobile and fixed line networks

20% cheaper. The service was in high demand – at the end of the year more than 412 thousand customers had it activated. Eurotel Praktik, a new economy tariff, came with a cheaper handset and was designed for students. In its Christmas campaign, Eurotel marketed attractive packages of free call minutes for six months both to existing customers (up to 1,800 minutes) and to new customers (up to 360 minutes) for a symbolic price of CZK 6.

Also, several new services were added to the portfolio for corporate customers. Eurotel offered a Eurotel Team service, with cheaper calls to selected company and other numbers for 12 months without subscription for customers who signed a framework contract.

Since April 2004, Eurotel has also been offering Zelená linka products (800 XXX XXX).

The new products propelled Eurotel further towards achieving a fully comprehensive suite of services for its customers – mobile voice and data services, value added services and Internet content and WAP services.

Data and Internet Services

In order to accommodate the ever-increasing demands and needs of customers and thereby maintain its leadership on the mobile market, Eurotel needs to support its traditional voice services with increasingly sophisticated data services. In addition to traditional SMS and increasingly popular MMS messaging, Eurotel is the only Czech mobile operator which lets customers choose between Internet access via GPRS or via HSCSD. Customers benefit from a comprehensive solution and high data transmission speed. In April 2003, Eurotel also became the first mobile operator in Europe to offer unlimited Internet access for a flat monthly fee – Eurotel Data Nonstop. Customers of this service can access the Internet and WAP anywhere that is covered by Eurotel's GSM signal. Since June 2004, the service has also been available to pre-paid customers under the brand of Go Data Nonstop. Since May 2004, Eurotel has been offering a credit of 60 free minutes for calls in the Czech Republic with Eurotel Data Nonstop. The number of customers using the service reached almost 60 thousand at the end of 2004.

In August 2004, Eurotel launched Eurotel Data Expres – a service offering unlimited high-speed Internet via CDMA2000 1xEV-DO. This technology allows the fastest mobile Internet access in the Czech Republic. Since its introduction, the service has been in high demand. By the end of 2004, just five months after its commercial launch, a total of 30 thousand users had subscribed to the service.

Given the high demand for the service, Eurotel concentrated on building the capacity and extending the coverage of the CDMA network. Less than six months after the launch of Eurotel Data Expres, 230 CDMA base stations had been built, and by the end of 2004 the network covered approximately 80% of the Czech population.

Wi-Fi wireless Internet connection is a relative novelty in the Czech Republic. The service is relatively common in other countries, especially in cafes, restaurants and hotels that offer their patrons unlimited Internet access. Eurotel has been marketing this service – branded as Eurotel WiFi Jet – since the end of 2002. The service is particularly useful to frequent travellers. Users can access the Internet via Wi-Fi hotspots installed throughout the country, with transmission speeds of up to 512 kb/s. Sharing of the hotspots of Eurotel and ČESKÝ TELECOM, which was introduced in May 2004, gives Eurotel unprecedented coverage. With a total of 163 hotspots, the Wi-Fi network is the largest in the country.

Eurotel introduced the same service, but with unlimited access for a flat monthly fee, in April 2004 via its competitively-priced Eurotel WiFi Jet Nonstop data tariff.

The number of users of unlimited Internet access from Eurotel grew considerably in 2004, thanks mainly to the success of Eurotel Data Expres and the Nonstop data tariffs offering unlimited Internet connectivity with excellent coverage (CDMA 80% of the population, GSM 99% of the population) at a reasonable price. As at the end of 2004, almost 90 thousand customers were using Internet connection (GPRS and CDMA-powered data products with a flat monthly fee).

At the end of 2004, Eurotel launched its "Push to Talk" technology, which acts as a walkie-talkie in a mobile telephone. Eurotel is the first mobile operator in the Czech Republic to offer this functionality. Corporate customers whose employees need to be in constant contact, even when travelling, will particularly appreciate the benefits of this service.

In order to ensure maximum quality and scope of services for its customers and to stimulate more demand for data services, Eurotel concentrated on building an interesting and broad spectrum of content services. Via its Eurotel Live! portal launched in March 2004, Eurotel distributes a varied mix of information, entertainment and services which can be used by mobile phone and Internet users alike. This is the first integrated web and WAP portal allowing customers to configure their handsets, activate or order services, or use services online via the Internet or WAP. Eurotel Live! distributes a wide range of content by SMS, MMS and WAP – including news from the world of sport, weather or current affairs, not to mention video and music downloads, games, chat, and SMS and MMS messaging via the Internet. Customers can access Eurotel Live! either directly from a mobile telephone or from a PC at www.eurotel-live.cz. At the end of 2004, the portal registered almost 110 thousand users. Eurotel Jukebox, which was launched in February 2004 and in June 2004 won the music category at the Mobile Entertainment Forum (MEF) in London, deserves a special mention.

Value added services

Eurotel also offers an extensive family of value added services, which in 2004 welcomed new additions designed primarily for corporate customers:

- Eurotel Asistent 1188–telephone directory services, timetables, cultural listings, etc.; since October 2004 also traffic information and company data searching.
- numerous value added services – voice mail, call waiting, conference calls, Who Called Me, etc.
- SIM card-embedded services – two telephone numbers on one SIM card or one number on two SIM cards
- an increase in the number of ATMs and banking terminals for charging pre-paid SIM cards (accounting for approximately 7% of total cards charged)
- itemised electronic bills
- SMS messaging not only in the GMS network, but also to fixed line numbers
- Eurotel Office Connector – offers corporate customers secure access to corporate e-mail applications (including Word and Excel attachments), calendars or corporate contacts from a mobile telephone
- Eurotel SMS Connector – a text messaging service facilitating corporate customers' communication with their business partners, clients or customers (e.g. reminders, product offers, order handling or consumer competitions)
- Eurotel SMS MobileChange – integrates corporate e-mail with an SMS gateway, so that the customer uses a single environment for sending and receiving e-mails and SMS messages. By means of SMS queries, the customer has access to information from his e-mail, calendar or address book, anytime and anywhere.

In 2004, Eurotel also expanded its network of ATMs for direct charging of Go credit to include Česká spořitelna and Euronet ATMs. Customers can now use over 1,650 ATMs and banking terminals throughout the Czech Republic for direct charging of credit. Furthermore, Eurotel signed agreements with new banks for the provision of GSM banking services. At the end of the year, Eurotel had such partnerships with the seven largest banks in the Czech Republic (Česká spořitelna, GE Capital, ČSOB, eBanka, Živnostenská banka, Raiffeisen Bank and – the most recent addition – Poštovní spořitelna).

5.5 Comments on the financial results

This section presents the financial results of the ČESKÝ TELECOM Group for 2004 prepared under International Financial Reporting Standards (IFRS).

Consolidated financial results

The consolidated financial results of the Group were strongly affected by the full consolidation of the results of Eurotel in 2004. The Group's financial profile thus substantially strengthened. In 2003, the consolidated financial results included 51% proportional consolidation of Eurotel's results for the first eleven months of the year and full consolidation from December 2003.

Consolidated revenues reached CZK 62.1 billion. Total consolidated operating costs (excluding depreciation and amortisation) amounted to CZK 33.1 billion, of which payments to other network operators made up CZK 9.2 billion. This resulted in a consolidated EBITDA of CZK 29 billion, representing an EBITDA margin of 47%. The first results of the transformation process and management's continuous effort to focus on prudent and efficient use of OPEX and CAPEX were the major contributors to the Group's above average consolidated EBITDA margin compared to other telecom operators in Europe.

The consolidated depreciation and amortisation charge reached CZK 20.7 billion in 2004 and was significantly influenced by the full consolidation of Eurotel.

Consolidated earnings before interest and tax (EBIT) reached CZK 8.3 billion in 2004 compared to the negative EBIT of CZK 5.5 billion in 2003, which was primarily a result of an impairment charge. Total consolidated financial expenses amounted to CZK 403 million, of which net interest expenses represented CZK 1.2 billion and net currency gains including fair value changes of financial instruments were CZK 835 million. Consolidated earnings before tax (EBT) were CZK 7.9 billion, while in 2003 the EBT was minus CZK 6.7 billion. EBIT and EBT losses were the result of the CZK 9.9 billion impairment charge in 2003. In 2004, the Group posted a consolidated income tax expense of CZK 2.3 billion, compared to an income tax benefit of CZK 4.9 billion in 2003. The tax benefit was a result of the reduction in the corporate tax rate, the deferred tax effect of the impairment charge and one-off tax credits related to dividends paid in 2003. According to the current tax legislation, ČESKÝ TELECOM was not allowed to exercise such tax credits on the dividend payment in 2004. Net consolidated profit amounted to CZK 5.6 billion in 2004.

In 2004, the Group continued in its prudent CAPEX policy. The total consolidated capital expenditure was CZK 5.8 billion, 18% down compared to 2003. The result is a ratio of total consolidated capital expenditure to total consolidated revenues of 9.3%.

[1] net cash flow from operations and net cash flow from investment activities, exclusive of acquisitions of ownership interests, purchase of securities and the sale of securities

Total consolidated free cash flow[1] generated by the Group reached CZK 19.5 billion, as a result of the high level of EBITDA and CAPEX efficiencies in both the fixed and mobile segments. This represents yield to revenues of 31%, ranking the Group among the highest performing operators in its peer group.

In addition to dividend payments of CZK 5.476 billion, significant consolidated free cash flows generated by the Group allowed for a reduction in total outstanding debt as at the year-end to CZK 25.5 billion. This resulted in a gross leverage of 28% and a net leverage of 27%, compared to 50% and 45% respectively at the 2003 year-end. The decrease in total consolidated debt by CZK 19.6 billion related mainly to the repayment of the acquisition financing of the purchase of the remaining 49% of Eurotel in November 2003. The strategy of the acquisition financing based on a favourable mid-term syndicated loan with a high level of repayment flexibility proved to be the right one. Thus ČESKÝ TELECOM was able to reduce the level of acquisition financing from an original amount of CZK 26 billion in November 2003 to CZK 8.4 billion at 2004 year-end, without a need for refinancing. This enables ČESKÝ TELECOM to use this capacity for potential investments or other purposes in the future.

[2] fixed line technology segment comprises data for ČESKÝ TELECOM and minor subsidiaries, before consolidation adjustments between segments

Fixed line technology segment overview[2]

Results in the fixed line technology segment in 2004 confirmed the growing demand for data and Internet services in the Czech Republic. Revenues in the fixed line technology segment fell by 6% in 2004 to CZK 34.4 billion, mainly as a result of declining revenues from traditional voice services, which were not offset in full by the growing revenues from Internet, data services and value added services products. The decline in revenues is also attributable to the still unfavourable regulatory environment.

Revenues from the Internet, data services, value added services and other telecommunications services grew by 12% in total to CZK 3.7 billion year on year, mainly due to revenues from broadband services, which in 2004 grew by 232% to CZK 484 million. This growth was caused by a rise in the number of ADSL connections – by 573% to a total of 101 thousand in 2004. Revenues from the Internet grew by 2% to CZK 586 million year on year.

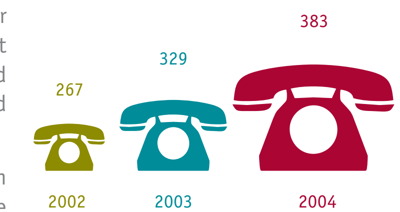
Revenues from other network operators grew by 22% year on year to CZK 3.8 billion, chiefly due to a 33% rise in revenues from domestic network operators to CZK 2 billion. The main reason was an increase in traffic via alternative fixed line operators which, in 2004, compensated for the decline in interconnection charges. However growth in the traffic has been gradually stagnating in the second half of 2004, which is a positive factor underlying the improved competitive position of ČESKÝ TELECOM vis-à-vis alternative operators in the fixed line business in spite of adverse regulatory decisions. Also revenues from international network operators recorded a substantial increase of 13% to CZK 1.8 billion in 2004. In the highly competitive market environment in the area of international services, ČESKÝ TELECOM managed to strengthen its business activities, which resulted in the increased traffic terminated or transited via ČESKÝ TELECOM's network. Revenues from leased lines increased by 2% year-on-year to CZK 2.8 billion.

Revenues from communications voice services declined by 25% year-on-year to CZK 10 billion, as a result of a 28% decrease in communications traffic revenues on PSTN lines year-on-year to CZK 7.3 billion, and a 17% decrease in communications traffic revenues on ISDN lines to CZK 2.7 billion. This decline was caused mainly by lower traffic measured by the number of outgoing minutes generated by ČESKÝ TELECOM customers, which declined by 18% in 2004. Revenues from subscription and connection charges decreased moderately by 4% to CZK 12 billion. The decrease in the number of PSTN lines led to a decline of PSTN driven revenues by 5% year-on-year to CZK 10.1 billion, while revenues from subscription and connection charges on ISDN lines grew by 4% to CZK 1.9 billion. While the overall number of fixed lines of ČESKÝ TELECOM stood at 3,368 thousand, down 6% year-on-year compared to 2003 year-end, the number of ISDN lines grew by 3% to 492 thousand in the same period.

Other revenues including revenues from equipment sales and sales of materials amounted to CZK 2 billion and recorded a substantial 36% year-on-year growth compared to the previous year. This item includes CZK 844 million of one-off items, such as insurance settlements (CZK 179 million), proceeds from the sale of cars (CZK 314 million), and compensation of the Universal Service loss (CZK 351 million).

Management's effort to increase the operating costs efficiency in the fixed line business led to a 10% year-on-year decrease to CZK 19.1 billion in 2004. Operating costs directly controlled by the company (operating costs excluding costs of sales) declined by 16% during this period.

Number of fixed lines per epmloyee



The 19% year-on-year headcount reduction in 2004 resulted in a reduction in staff costs to CZK 5.9 billion (down from CZK 6.9 billion in 2003), a 15% year-on-year saving. This item also includes CZK 485 million severance payments and a CZK 105 million released provision for severance payments. The total number of fixed line business employees amounted to 8,830 at 2004 year-end. The decrease in the headcount improved ČESKÝ TELECOM's efficiency measured by fixed lines per employee by 17% to 383 at the year-end and productivity measured by revenues per employee increased by 18% year-on-year to CZK 3.478 million.

Similarly to the staff costs, other directly controllable costs decreased in 2004, with the exception of lease payments and consultancy costs. The most significant decreases were material and energy consumption, which reduced by 11% year-on-year to CZK 931 million, marketing and sales, which fell by 10% year-on-year to 554 million and repairs and maintenance, which decreased by 4% year-on-year to CZK 1.8 billion. Operating lease payments increased by 6% to 575 million and consultancy costs by 44% to CZK 425 million, of which CZK 268 million was related to the transformation process. Other directly controllable costs decreased by 33% year-on-year and totalled CZK 2.9 billion. There are several one-off and exceptional charges included in this item, which amounted to a total of CZK 1.7 billion. These related mainly to the net book value of cars disposed of within a sale and leaseback transaction (CZK 210 million), the contingency reserve against the compensation of the Universal Service loss (CZK 351 million) and additional provisions reflecting regulatory decisions and court cases.

Management assumed a prudent approach in assessing the amounts of the provisions and is, nevertheless, confident it has, in a number of cases, strong defensive arguments to eliminate or mitigate their negative impact on the company. In connection with the action of TELE2 against ČESKÝ TELECOM, the company has not been officially notified with action until the day of 2004 financial audited results announcement. The total amount of the action is CZK 2,142 million (excluding interest). Although the Board of Directors of ČESKÝ TELECOM believes, based on the limited information currently available, that the action of TELE2 is unjustified, due to the early stage, it is not possible to estimate the final outcome. For this reason, no provision has been made in the financial statements for this matter. However the Board of Directors is satisfied that it has acted appropriately and will rigorously defend its position in its proceeding as and when further information becomes available.

Payments to other operators in 2004 remained at the same level as in 2003 and reached CZK 4.9 billion. While the payments to international operators recorded a 49% year-on-year increase to CZK 1.8 billion, payments to domestic operators decreased by 17% year-on-year to CZK 3.1 billion.

Equipment and material costs of sales increased by 69% year-on-year to CZK 575 million, which was the result of increased sales of the new equipment mainly for data services and unused material stock sales. Commissions and subcontractors increased by 37% to CZK 496 million in 2004.

EBITDA in the fixed line business reached CZK 15.3 billion in 2004, the same as in the previous year, representing an above average 45% EBITDA margin.

Mobile technology segment overview [1]

[1] mobile technology segment comprises data for Eurotel, before consolidation adjustments between segments

Eurotel maintained a strong financial and operational performance in 2004 in the competitive environment of the saturated Czech mobile market.

Eurotel's total revenues grew by a moderate 1% year-on-year to CZK 29.5 billion in 2004. The increasing popularity of data and Internet services and value added services led to a 16% year-on-year increase in revenues from SMS, MMS, Internet, data services and value added services to CZK 3.8 billion. The number of sent and received SMS increased moderately by 2% year-on-year to 2,292 million in 2004. Revenues from SMS and MMS increased in 2004 from CZK 1.5 billion to CZK 2.8 billion. The total number of Eurotel Data Nonstop (unlimited mobile Internet access service based on GPRS technology) customers was 59 thousand, an increase of 84% year-on-year. The growth in demand for data and Internet services and value added services together with the addition of new customers contributed to demand for new handsets and equipment. This resulted in an increase of equipment sales and sales of material by 25% year-on-year to CZK 1.3 billion. Subscription and connection charges increased in total by 12% year-on-year to CZK 5.8 billion. The highly competitive environment on the Czech mobile market, the decrease in interconnection charges and the growth of the VAT charge increase the pressure on call charges for end-users. As a result, communication traffic revenues decreased by 8% year-on-year to CZK 11.7 billion, in spite of the overall traffic increase of 3%. In 2004, MOU (average minutes of use per user per month) was 86 minutes, and ARPU (average service revenue excluding roaming visitors per user per month) was CZK 504, compared to 90 minutes and CZK 551 in the previous year. Revenues from other operators increased slightly by 1% year-on-year to CZK 6.6 billion, which was influenced by a decline in interconnection charges. While revenues from international operators remained at the same level as in 2003 and amounted to CZK 1.6 billion, revenues from domestic operators decreased by 2% year-on-year to CZK 5 billion.

Operating costs (excluding depreciation and amortisation) increased by 7% year-on-year to CZK 15.8 billion and reflected the dynamics of Eurotel's customer base development and the Czech mobile market development. Directly controlable operating costs (total operating cost excluding costs of sales) on the other hand decreased by 2% year-on-year in 2004. Payments to other operators represented the largest cost category and increased slightly by 1% year-on-year to CZK 5.6 billion. While payments to international operators grew by 6% year-on-year to CZK 1.6 billion, payments to domestic operators showed a 1% year-on-year decrease to CZK 4 billion. As a result of higher gross adds in registered customers and the number of new contracts, equipment and material cost of sales increased by 39% year-on-year to CZK 3.3 billion in 2004. Commissions and subcontractors increased by 54% to CZK 371 million.

The number of employees reached 2,483 at 2004 year-end, up 2% year-on-year and Eurotel recorded a 7% year-on-year increase in staff costs to CZK 1.7 billion. Marketing and sales decreased by 10% year-on-year to CZK 1.2 billion, repairs and maintenance increased slightly by 1% year-on-year to CZK 956 million, while material and energy consumption increased by 6% year-on-year to CZK 661 million. Other operating costs, including operating lease payments, consultancy costs and other costs, decreased in total by 8% year-on-year to CZK 2.1 billion.

Eurotel's EBITDA reached CZK 13.6 billion in 2004, down 4% year-on-year, and represents an impressive EBITDA margin of 46%.

Outlook for 2005

The ČESKÝ TELECOM Group will continue to actively address the changes and trends in the current telecommunication market in the areas of Internet, data and other value added services with the primary goal to best meet customer needs. The ČESKÝ TELECOM Group will continue to concentrate on revenue growth in voice and traditional data services areas and aggressively pursue the opportunities in growth areas, mainly broadband Internet and up to date data services. The strategic effort of the management is to maintain its leading position in the Czech telecommunication market. Management will remain focused on the achievement of above average EBITDA margins, efficient CAPEX levels and strong free cash flows, supported by continuing the transformation plan and ultimately driving shareholders' value.

The ČESKÝ TELECOM Group expects an improvement in the regulatory environment of the Czech Republic. The new Act on Electronic Communications, which should come in force from May 1st 2005, will be in line with the EU regulatory framework. This should make the regulatory environment of the Czech telecommunication market more transparent, thus enabling the ČESKÝ TELECOM Group to capitalise on its core competencies and should facilitate further investments into the modern telecommunication infrastructure with adequate returns.

Corporate Governance

6.1 Corporate Governance of the ČESKÝ TELECOM Group

The ČESKÝ TELECOM Group comprises ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM), Eurotel Praha, spol. s r.o. (Eurotel) and other subsidiary companies listed in the table below. Compared to the situation as at 26 March 2004 published in the 2003 Annual Report, the list of subsidiary companies no longer includes EDINet.cz, spol. s r.o., asp1000, s.r.o., and M.I.A., a.s., whose liquidation was concluded in the course of 2004 and in January 2005.

The ownership rights of ČESKÝ TELECOM with respect to Eurotel are exercised by the Board of Directors of ČESKÝ TELECOM as the Sole Member, and with respect to other subsidiaries by persons with a remit given by the parent company's Board of Directors and within the scope of the powers approved by the parent company's Board of Directors. Personnel changes in the statutory and supervisory bodies of the subsidiaries (in positions reserved for ČESKÝ TELECOM's officers) are proposed by the Board of Directors of the parent company, and in accordance with ČESKÝ TELECOM's Articles of Association they are subject to prior approval by the Supervisory Board of the ČESKÝ TELECOM.

6.2 Subsidiary companies

Subsidiaries in which ČESKÝ TELECOM has direct ownership of more than 10% of the registered capital (as at 15 April 2005):

CORPORATE NAME	REGISTERED CAPITAL	OWNERSHIP INTEREST OF ČESKÝ TELECOM
Eurotel Praha, spol. s r.o.	CZK 1,211,000,000	100%
SPT TELECOM (Czech Republic) Finance B.V.	EUR 18,151	100%
OMNICOM Praha, spol. s r.o.	CZK 10,000,000	100%
CZECH TELECOM Austria GmbH	EUR 35,000	100%
CZECH TELECOM Germany GmbH	EUR 25,000	100%
CZECH TELECOM Slovakia s.r.o.	SK 200,000	100%
CenTrade, a.s.	CZK 600,000,000	86.5%
AUGUSTUS, spol. s r.o.	CZK 166,000	39.76%

6.3 Organisation chart of ČESKÝ TELECOM

Internal Audit
Office of Corporate Governance
Risk Management

General Meeting

Board of Directors

Supervisory Board

CORPORATE GOVERNANCE

EXECUTIVE MACRO-STRUCTURE

Legal Affairs
Top Management Support
Office

Chief Executive Officer

Security
Internal and External Communication
Regulation and Interconnect

Finance ..... FU	Operation ..... OU 1)	International Business ..... IBU	Network ..... NU
Sales ..... SU	Marketing ..... MU	Human Recources .... HRU	Transformation ..... TU

1) Informaion Systems Unit (ISU) until 31 March 2005

6.4 Governing Bodies

General Meeting

The General Meeting, which comprises the company's shareholders, decides on fundamental business, organisational and operating matters. Its authority and powers are determined by the Commercial Code and the company's Articles of Association. As a rule, the Board of Directors convenes the General Meeting once a year. Basic information on the General Meeting and its status and authority can be found in Articles 8–14 of the Articles of Association.

Supervisory Board

The Supervisory Board has fifteen members and supervises the discharge of the Board of Directors' powers and the running of the company's business. Its composition, authority and powers are determined by the Commercial Code and the company's Articles of Association. As a rule, the Supervisory Board meets once every calendar month, but at least twelve times in the course of a calendar year. Two thirds of the Supervisory Board members are elected and recalled by the General Meeting, one third of the Supervisory Board members are elected and recalled by employees of the company. Members of the Supervisory Board are elected for tenure of three years. Basic information on the Supervisory Board and its authority can be found in Articles 21–26 of the Articles of Association.

Board of Directors

The five-member Board of Directors is a statutory body which manages the business of the company and acts on its behalf. The Board of Directors decides on all corporate affairs which, by law or in the Articles of Association, are not reserved for the General Meeting or the Supervisory Board. As a rule, the Board of Directors meets once every calendar month, but at least twelve times in the course of a calendar year. Members of the Board of Directors are elected and recalled by the Supervisory Board. The tenure of a member of the Board of Directors is three years. Basic information on the Board of Directors and its authority can be found in Articles 15–20 of the Articles of Association.

Committees of the Supervisory Board

Under its powers, the Supervisory Board sets up committees as its advisory and initiative bodies. Committees of the Supervisory Board are an inherent part of corporate governance. These always include a Staff and Remuneration Committee and a Finance and Audit Committee. Members of committees are elected and recalled by the Supervisory Board. The tenure of a member of a committee is one year. Committees established by the Supervisory Board can comprise only members of the Supervisory Board. The scope of authority of the Supervisory Board's committees is set out in Article 27 of the Articles of Association.

Staff and Remuneration Committee
Finance and Audit Committee
Advisory Committee on Strategy and Capital Participations
Ethics and Social Responsibility Committee

6.5 Board of Directors of ČESKÝ TELECOM

(as at 15 April 2005)

Gabriel Berdár (*1965)
Chairman of the Board of Directors

Graduated from the Technical University of Košice. In 1990 and 1991, he worked at Strojimport, and after that at IBM and Digital Equipment. From 1994 to September 1995, he was CEO and a member of the Board of Directors of IDOM. From 1995 to 1998, he was CEO of Xerox CR. From 1998 until June 2003, he was CEO of Dell Computers, s.r.o, responsible for the markets of the Czech Republic, Slovakia, and, later Poland, Finland and Greece. He has been CEO of ČESKÝ TELECOM since 15 June 2003.

Juraj Šedivý (*1962)
First Vice Chairman of the Board of Directors

Graduated from the Faculty of Mechanical Engineering at Nitra University in 1984 and from Comenius University, Bratislava in 1990. He worked as an assistant professor and research associate in the field of vehicle mechanics until 1991. He went on to get his MBA degree from the Rochester Institute of Technology, NY, in 1993 and in the same year joined Johnson & Johnson Inc., USA. His involvement in the telecommunications industry dates back to 1996, when he became Financial Director of Globtel (now Orange), a subsidiary of France Telecom in the Slovak Republic. In late 1997, he joined ČESKÝ TELECOM, working in various positions in financial management. Now he holds the position of Chief Financial Officer. Since 2002 J. Šedivý has been First Vice Chairman of the Board of Directors of ČESKÝ TELECOM.

Petr Slováček (*1959)
Second Vice Chairman of the Board of Directors

Graduated from the Technical University, Prague, with a degree in telecommunications from the Faculty of Electro-technical Engineering. Also holds a postgraduate Master of Business Telecommunications (MBT) degree from the Technical University of Delft in the Netherlands. After graduation he joined the Telecommunications Research Institution, Prague. He joined SPT TELECOM (a legal predecessor of ČESKÝ TELECOM) in 1989, working in switching, technical development, network management projects and OSS. At present, he is ČESKÝ TELECOM's Chief Networks Officer.

Marcela Malivánková (*1973)
Member of the Board of Directors

Graduated in finance, marketing, management and economic from Silesian University, in Karviná. From 1996 she worked at Coopers & Lybrand Czech Republic, was responsible for statutory audit under the Czech and German accounting standards and under IFRS; later she worked in the same area at PricewaterhouseCoopers (1998–2001). Graduated from ACCA (Association of Chartered Certified Accountants) in 1999. She joined Eurotel Praha in April 2001 and worked as Internal Audit Manager, deputy Chief Financial Officer and in September 2004 she was appointed Chief Financial Officer. She has been Eurotel´s Statutory Representative since November 2004.

Michal Heřman (*1964)
Member of the Board of Directors

Graduated from the Faculty of Business Administration at the University of Economics, Prague. Also holds an MBA from CMC. In the past he held various positions in EuroTel Praha and EuroTel Bratislava. In 2001–2002 he was Executive Vice-President for Finance at Komerční banka, and a member of the Supervisory Boards of Komerční banka's subsidiaries Reflexim and MÚZO. In 2003 he was Financial Director of Alfa Bank, Russia. From September 2003 to October 2004 he was Chief Transformation Officer and member of the Board of Directors of ČESKÝ TELECOM. From May 2004 he has been Statutory Representative of Eurotel Praha, from 1 July 2004 he was the acting Chief Executive Officer of the company and on 26 October 2004 he was appointed Chief Executive Officer of Eurotel.

CHANGES IN THE PERSONNEL COMPOSITION OF THE BOARD OF DIRECTORS DURING 2004:

Michal Heřman
recalled by the Supervisory Board from the post of member of the Board of Directors on 27 October 2004
Pavel Klimuškin
elected by the Supervisory Board to the post of member of the Board of Directors on 27 October 2004; the membership was terminated by resignation on 13 December 2004
Marcela Malivánková
elected by the Supervisory Board to the post of member of the Board of Directors on 27 October 2004
Roman Stupka
membership was terminated by resignation on 6 October 2004

CHANGES IN THE PERSONNEL COMPOSITION OF THE BOARD OF DIRECTORS DURING 2004:

Michal Heřman
elected by the Supervisory Board to the post of member of the Board of Directors on 2 February 2005

6.6 Executive management of ČESKÝ TELECOM
(as at 15 April 2005)

Miroslav Antl (*1955)

Graduated from the Faculty of Law, Charles University, Prague, and completed qualification courses at the FBI and DEA. He worked as a public prosecutor for 22 years in Hradec Králové and elsewhere. In 2001, he became Director of the Czech Police's Office of Investigation for the Czech Republic. He went on to become Deputy Police President for Criminal Proceedings. Before joining ČESKÝ TELECOM, he lectured criminal law in the capacity of visiting professor at the Police Academy of the Czech Republic. Since 26 July 2003, he has been Chief Security Officer at ČESKÝ TELECOM.

Gabriel Berdár (*1965)

Résumé on page 50.

Simon Burckhardt (*1962)

Graduated in economics from John Brooks University, Oxford, and in marketing from the Chartered Institute of Marketing, London. In 1994–2001 he worked in various management positions at British Telecom – marketing, communication, strategic planning and corporate development in Europe. For a year and a half, he was Marketing Director of Clarity Blue, a software company, and before joining ČESKÝ TELECOM, he worked as Director of ROUTE 30, a UK consulting firm in the field of telecommunications. Since 1 January 2005 he has been Chief Marketing Officer at ČESKÝ TELECOM.

Pavla Činátlová (*1975)

Graduated from the Faculty of Law, Charles University. Also studied at Purley College, London. She held the position of Brand Manager at Kraft Jacobs Suchard and later worked at MARK/BBDO and Pragma Communications. Before joining ČESKÝ TELECOM, she was Marketing and Business Director and a member of the Board of Directors of Setuza. Since 22 September 2003, she has been Chief External and Internal Communication Officer at ČESKÝ TELECOM.

Rostislava Gordon-Smith (*1949)

Studied HR management at universities in the United Kingdom, Canada and Australia. Worked as Director of PeopleImpact, a consulting firm. Also worked as Vice President for Human Resources and Marketing at APP Group and as Senior HR Manager at KPMG. In 2000 she was ranked in TOP 50 HR professionals in the world. She became a member of the global history research company WHO'S WHO in 2004. She is also on the Board of the Czech Society for Human Resources Development. Since 7 February 2005 she has been Chief Human Resources Officer at ČESKÝ TELECOM.

Jakub Chytil (*1961)

Graduated from the Faculty of Law, Charles University, Prague. In 1990–1991, he was a member of the Legal Department, Office of the President, Czech Republic. In 1991–1995, he was a junior associate and, later on (1994), an attorney specialising in commercial and civil law, working with international law firms. In 1995–2000, he was Corporate Legal Counsel for the Czech and Slovak Republics at Philip Morris ČR. and Kraft Foods. In 2000–2003, he was the Senior Counsel of Philip Morris International, Lausanne, Switzerland, where he was responsible for all the legal affairs of Philip Morris International's subsidiaries. Since 1 December 2003, he has been Chief Legal Officer at ČESKÝ TELECOM.

Pavel Jiroušek (*1963)

Graduated from the Department of Computer Systems and Technical Cybernetics at the University of Western Bohemia. In 2000, he earned his MBA at the University of Pittsburgh. From 1992 to 1995, he worked as Director for Marketing and Product Management for Eurotel and later at SPT TELECOM – NEXTEL. He joined ČESKÝ TELECOM in 1997 and currently he holds the office of Chief International Business Officer.

Zdeněk Kaplan (*1966)

Graduated from the Faculty of Mathematics and Physics, Charles University, and from University of Economics, Prague. In the early 90's he worked in various civil service positions. Later he worked as a billing manager at Aliatel and later as IS Security Director at APP (now NESS). In 1998–2003 he was CIO at ČSOB. In 2000–2001 he was a member of the Board of Directors of PVT. Since the end of 2003 he has been a member of the Supervisory Board of ČSOB's Penzijní fond Progres, a pension fund. He is a member of the KIT scientific board at the University of Economics, on the board of editors of Data Security Management and has publishing and lecturing activities. He has been at ČESKÝ TELECOM. since 2004, and at present he is Chief Operating Officer.

Petr Křeček (*1972)

Graduated from the University of Economics, Prague, and later studied marketing and management at the Czechoslovak Management Centre, Czech Republic, and Copenhagen Business School, Denmark. In 1995 he got his MBA degree in Finance and Strategic Management from University of Pittsburgh, US. He began his professional career in 1992 in market research at Trade Center Prague, Ltd. In 1996 he joined A.T. Kearney where he worked in various positions and countries until 2004. From 2003 he participated in preparation and implementation of the Transformation Programme and Synergic Programme of ČESKÝ TELECOM and Eurotel Praha as A.T. Kearney consultant. Since December 2004 he has been Chief Transformation Officer at ČESKÝ TELECOM.

George Makowski (*1954)

Graduated in engineering from University of Surrey, UK, and got his MBA degree from Cranfield Institute of Management. In 1986–1993 he worked for the Bull Group as Director of the Retail and Distribution Group in Paris. From 1993 he worked in Poland, first as Vice President for Sales and Marketing at Ameritech International/PTK Centertel. Until 2000 he was Vice President for Sales and Marketing at Netis. Later he worked for Energis, a UK company, as Managing Director of their Polish affiliated branch. In 2002 he founded his own consultancy in the field of telecommunications. He has been Chief Sales Officer at ČESKÝ TELECOM since October 2004.

Petr Slováček (*1959)

Résumé on page 50.

Juraj Šedivý (*1962)

Résumé on page 50.

David Šita (*1969)

Graduated from the Technical University, Prague, in 1990. In 1998 he graduated from the University of Economics, Prague. In the same year he got his MBA from Rochester Institute of Technology, New York. After graduation from the Technical University, Prague, he started his own trading and shipping company. From 1994 to 1998 he was Director at a small brokerage company, working on the capital markets. In 1998 he joined GE Capital Bank where he was in charge of transformation projects. Since 2000 he has been at ČESKÝ TELECOM working in various positions in finance. From 2003 he was Director for Regulation. At present he is Chief Regulation and Interconnect Officer.

6.7 Governing bodies and executive management of Eurotel
(as at 15 April 2005)

Governing bodies of Eurotel:

General Meeting (Sole Partner) – the Board of Directors of ČESKÝ TELECOM discharges the functions of this body.

Statutory Representatives – a statutory body of Eurotel, the company has three Statutory Representatives.

Supervisory Board – established in April 2004 with five members elected for three years. The Supervisory Board always sets up a Finance and Audit Committee as an advisory, controlling and initiative body; the committee has five members elected for a period of one year.

Basic information on the position, scope of authority and powers of the governing bodies and the Finance and Audit Committee of Eurotel is set forth in Eurotel´s Deed of Incorporation which, from March 2005, is published on Eurotel´s website (www.eurotel.cz, "About Us").

Personnel composition of the governing bodies and executive management of Eurotel:

Statutory Representatives – Michal Heřman, Chief Executive Officer; Martin Bek, Chief Operating Officer; Marcela Malivánková, Chief Financial Officer.

Supervisory Board – Jiří Hurych, Chairman; Zdeněk Hrubý, Vice Chairman; Jan Juchelka, Martin Kovář and Petr Zatloukal, members.

Finance and Audit Committee – Jiří Hurych (Chairman of the Supervisory Boards of ČESKÝ TELECOM and Eurotel), Chairman; Juraj Šedivý (Chief Financial Officer and First Vice Chairman of the Board of Directors of ČESKÝ TELECOM), Vice Chairman; Jakub Chytil (Chief Legal Officer of ČESKÝ TELECOM), Petr Jurák (Chief Internal Auditor of ČESKÝ TELECOM) and Petr Zatloukal (member of the Supervisory Board of Eurotel), members.

Executive management of Eurotel:

Michal Heřman	Chief Executive Officer
Martin Bek	Chief Operating Officer
Tomáš David	Chief Strategy Officer
Diana Dobálová	Chief Internal and External Communications Officer
Josef Fidler	Chief Human Resources Officer
Tomáš Ječný	Chief Sales Officer
Jaroslav Kubišta	Chief External Relations Officer
Marcela Malivánková	Chief Financial Officer
Petr Příhoda	Chief Legal Officer
Andrei Marc Torriani	Chief Marketing Officer

Statutory Representatives:

Michal Heřman Statutory Representative, Chief Executive Officer. Résumé on page 50

Marcela Malivánková Statutory Representative, Chief Financial Officer. Résumé on page 50

Martin Bek (*1969) Statutory Representative, Chief Operating Officer

Studied the University of Economics, Prague, and completed his studies at the European Business School, France. He worked for ABC International, DRT International, Guérard Viala Prague. From 1996, he worked at ČESKÝ TELECOM as Executive Director for Taxes and Accounting, later as Executive Director for Planning and Controlling. In April 2004 he was appointed Statutory Representative of Eurotel and since September 2004 has been Chief Operating Officer.

6.8 ČESKÝ TELECOM Supervisory Board Report

In keeping with the company's Articles of Association, the Supervisory Board of ČESKÝ TELECOM in 2004 supervised the discharge of the Board of Directors' powers and the running of the company's business. Supervisory Board members have the power to inspect all documents and records concerning the company's activities; ensure that the accounting records are properly maintained; determine whether the business of ČESKÝ TELECOM is done in compliance with the law, the Articles of Association and the instructions of the General Meeting.

The Supervisory Board continuously monitored the activities of ČESKÝ TELECOM and key decisions made by the Board of Directors and the management. Further, the Supervisory Board dealt with the suggestions raised by its committees and its members individually. The Board of Directors and the management provided the Supervisory Board with the documentation and information necessary for the discharge of its functions in accordance with the legislation and the Articles of Association.

At its meeting of 23 March 2005, the Supervisory Board examined the audited annual financial statements for 2004 (unconsolidated and consolidated) prepared under international and Czech accounting standards, and recommended them to the Regular General Meeting for approval.

Jiří Hurych
Chairman of the Supervisory Board
Signed in Prague on 23 March 2005

6.9 Supervisory Board of ČESKÝ TELECOM
(as at 15 April 2005)

Jiří Hurych (*1968)
Chairman of the Supervisory Board

Graduated from Construction Secondary School in Mělník. In 1991–1994, he studied at the Graham School of Management, Saint Xavier University, Chicago. Completed a number of international courses and internships in the area of management and marketing. At present, student of U. S. Business School – Rochester Institute of Technology, Prague. He began his professional career in 1994 in Kaučuk Kralupy. From 1995, he worked in management positions in Komerční banka: Division Director for Segments and Products, Deputy Division Director for Financial Markets, Deputy Division Director for Management of Commercial Divisions. He was involved in marketing, restructuring of various units, crisis management and mergers and acquisitions. In 2002–2004, he was the Chairman of the Board of Directors and Chief Executive Officer in Škoda Praha. He is the Chairman of the Supervisory Board of Eurotel.

Zdeněk Hrubý (*1956)
First Vice Chairman of the Supervisory Board

Graduated in cybernetics from the Faculty of Electrotechnical Engineering of the Czech Technical University, Prague. Also holds a postgraduate degree in economics. In 1999–2000, he was Assistant Deputy Prime Minister for Economic Policy and Government Commissioner for the Annual Meetings of the World Bank and the International Monetary Fund. Until 15 April 2005 he held the officies of the Deputy Minister of Finance of the Czech Republic and the Vice Chairman of the Presidium of the National Property Fund of the Czech Republic. He lectures and researches at the Institute of Economic Studies at the Faculty of Social Sciences of Charles University. He is a member of the Supervisory Board of ČEZ and Vice Chairman of the Supervisory Board of Eurotel.

Lubomír Vinduška (*1956)
Second Vice Chairman of the Supervisory Board

Graduated in radio and communication from the Electronic Secondary School. In 1974–1979 he worked as a TV repairman and later as an electrical technician at Okresní kovopodnik Praha-východ (Prague-East Regional Metal Works), then at TESLA Strašnice and Czechoslovak Radio. In 1979 he joined ČESKÝ TELECOM as an electrician. Later he worked as an energy operations foreman, head of energy operations and head of territorial transport and mechanisation, Prague. At present he holds the position of Transport and Mechanisation Specialist. He is Deputy Chairman for Telecommunications of the Post, Telecommunications and Newspaper Services Employees Trade Union, Deputy Chairman of the Trade Union Steering Committee at ČESKÝ TELECOM, and Chairman of the Prague Trade Union Steering Committee.

Vlastimil Barbořák (*1953)
Member of the Supervisory Board

Qualified at the Secondary Vocational School, Ostrava-Poruba, specialising in switched communications. He has been with ČESKÝ TELECOM and its legal predecessors since 1971: until 1975 – exchange and pabx assembly, Vsetín; until 1994 – analogue exchange mechanic, Kaplice; until 1999 – specialist and head of OMC Department, České Budějovice; until 2003 – manager of decentralised EWSD-J maintenance. Since November 2003, he has been manager of External Maintenance of Switching Systems, Plzeň. Studied at the Czech Institute of Directors training course, he was certified with a title of Corporate Governance "Director" in 2004.

Stanislav Bělehrádek (*1943)
Member of the Supervisory Board

Graduated from the Faculty of Engineering, the Technical University, Brno in 1967. Between 1967 and 1985 worked in various management positions in Minerva Boskovice and Karborundum Kunštát. He headed the non-agricultural division of ZD Lysice until 1989, and later went into politics. In the last 14 years, he has been in many high political positions, e.g. Deputy in the Chamber of Deputies of the Czech Parliament, Minister for Economic Competition and Senator. In 1992–1998, he has been President of the Office for Protection of Economic Competition. Until 21 November 2004, he was verifier of the Committee for Regional Development, Public Administration and Environment, verifier of the Senate and member of the standing delegation of the Czech Parliament to the Parliamentary Assembly of the Organisation for Security and Co-operation in Europe.

Martin Fassmann (*1964)
Member of the Supervisory Board

Graduated from the Faculty of National Economy, University of Economics, Prague. After graduation he worked for the Central Planning Commission. In 1990–1992, he worked at the Federal Ministry of Economy. From mid-1992 to the present, he heads the Macroeconomic Analyses and Prognoses Department of the Trade Union Confederation of Bohemia and Moravia (ČMKOS). In 1998–2002, he was advisor to the Deputy Prime Minister for national economic policy, to the Minister of Finance and Minister of Labour and Social Affairs. In 2002–2004, he was advisor to the Prime Minister and external advisor to the Minister of Finance of the Czech Republic for reform of public finances. At present, he is advisor to the Minister of Labour and Social Affairs. From 1999 until the end of privatisation in 2001, he was a member of the Supervisory Board of Komerční banka.

Pavel Herštík (*1951)
Member of the Supervisory Board

Graduated in communication technology from the Secondary Technology School of Electro-technical Engineering. From 1970 to 1972 he worked as a technician at Tesla Hloubětín. In 1972, he started working as a telephone test centre technician in Ředitelství telekomunikací Praha (Telecommunications Headquarters, Prague). For the next 20 years (1975–1995), he was a standardisation officer and later a chief standardisation officer. From 1995 to 1996, he was Head of Information Management and went on to become Head of the Management,

CHANGES IN THE PERSONNEL COMPOSITION OF THE SUPERVISORY BOARD DURING 2004:

Adam Blecha
his membership was terminated by resignation on the day of the General Meeting of 24 June 2004

Stanislav Bělehrádek
elected a member of the Supervisory Board by the General Meeting of 24 June 2004

Hana Doležalová
co-opted as a member of the Supervisory Board on 28 January 2004, the membership was terminated by resignation on the day of the General Meeting of 24 June 2004

Martin Fassmann
co-opted as a member of the Supervisory Board on 28 April 2004; the membership was confirmed by the General Meeting of 24 June 2004

Ondřej Felix
his membership was terminated by resignation on the day of the General Meeting of 24 June 2004

Michal Frankl
his membership terminated by resignation on 28 January 2004 with effect from 15 February 2004

Zdeněk Hrubý
recalled from the position of Second Vice Chairman of the Supervisory Board on 20 May 2004, elected First Vice Chairman of the Supervisory Board on 20 May 2004

Jiří Hurych
elected a member of the Supervisory Board by the General Meeting of 24 June 2004, elected Chairman of the Supervisory Board on 29 June 2004

Ivana Krynesová-Gage
elected a member of the Supervisory Board by the General Meeting of 24 June 2004

Petr Polák
his membership was approved by the General Meeting of 24 June 2004

Lubomír Vinduška
elected Second Vice Chairman of the Supervisory Board on 20 May 2004

Organisation and Administration Department. At present, he is a Senior Specialist in the area of management and administration of management documents in the Transformation Unit at ČESKÝ TELECOM. He is Chairman of the Trade Union Steering Committee of ČESKÝ TELECOM.

Jan Juchelka (*1971)
Member of the Supervisory Board

Graduated from the Silesian University in Karviná, Faculty of Business Administration and Enterprise. Since 1995, he has been working at the National Property Fund of the Czech Republic, and since 1 November 2002 he has been Chairman of the Executive Committee of the National Property Fund of the Czech Republic. He is a member of the Supervisory Boards of Komerční banka, ČEZ, Eurotel and PPP Centrum.

Martin Kovář (*1967)
Member of the Supervisory Board

Graduated with a Ph.D. from Charles University in 2000. Professional engagements: teacher; a member of the Government Committee for Foreign Policy Affairs; advisor to the Minister of Labour and Social Affairs; leader (on behalf of the Czech Republic) of MOLSA, a joint government project of the Czech and British governments in the field of community planning; project leader – Computers against Barriers, Microsoft – Charta 77 Foundation. He was active in a number of projects for children, e.g. With the Internet to France, Bull; Lighthouses, IOL – Charta 77 Foundation; appointed to chair the Strategic Partners' Board of the Internet to Schools project. In 2002–2004 he was adviser to the Prime Minister for ICT and Sports. An active athlete (he represented the Czech Republic in the national swimming team at the Paralympics in Atlanta and Sydney – world record, gold and bronze medals). Actively involved in foundations and a member of the supervisory bodies of civil associations in the NGO sector. He is a member of the Supervisory Board of Eurotel.

Miloslav Krch (*1958)
Member of the Supervisory Board

Graduated from the Faculty of Electro-Technical Engineering at the University of Technical Engineering, Plzeň. Has been working at ČESKÝ TELECOM and its legal predecessors since 1986. His first position with ČESKÝ TELECOM was a technician at the E10 Exchange in Vlašim in 1986. From 1987–1995, he worked as the head of the ATÚ Vlašim telecommunications centre. Later he held the following positions in ČESKÝ TELECOM – specialist in the Department of the Regional Director of MTTÚ RBU Prague; Head of the Maintenance Management Department and Deputy Director for operation of switching and access network systems, Prague.; Director of Local Operations, Prague Area. Since January 2004, he has been Manager of Operations, Prague Area.

Ivana Krynesová-Gage (*1948)
Member of the Supervisory Board

Graduated from the University of Economics, Prague, and qualified as a registered securities broker with FSA, London. From 1980 to 2003 she was living in the United Kingdom and the United States where she held several senior positions in investment banking departments of Citibank, Lehman Brothers and Morgan Stanley. Since summer 2003 she has been advisor to the Minister of Finance. She participated in the following large projects of the Czech Ministry of Finance: inaugural issue of bonds for the Czech Republic, split of Aero Vodochody and Boeing, privatisation of ČESKÝ TELECOM, and many other privatisation and financial projects.

Pavel Kuta (*1968)
Member of the Supervisory Board

Studied at the University of Economics in Prague from 1986 to 1989. Graduated from The Master's College in Santa Clarita, USA (B.A., Business Administration, 1993) and the London Business School, London, United Kingdom (MBA, 2002). From 1994, he worked at Patria Finance, Prague, in corporate finance and the capital markets. In 2000, he worked as Senior Associate in the Investment Banking Department of Schroder Salomon Smith Barney, London. In summer 2001, he joined the telecommunications and media department of the European investment banking arm of Lehman Brothers, London. At present, he is Vice Chairman of the Executive Committee of the National Property Fund of the Czech Republic. He is a member of the Supervisory Boards of Unipetrol, Vice Chairman of the Supervisory Board of MERO and a member of the Board of Directors of Severočeské doly.

Petr Polák (*1973)
Member of the Supervisory Board

IS/IT Director at EKO-KOM since the beginning of 2002. At the same time he is advisor to the Minister of Education, Youth and Sports for the IT area, is a member of the Board of Directors of STAZAP, and since February 2005 has been Chairman of the Board of Directors of AGM Prior to joining EKO-KOM, he worked as an external IS consultant for four years, and previously as market information manager and project manager at Coca-Cola Beverages. He started his career as PR analyst at AMI COMMUNICATIONS and software specialist and Software Director at Skodex International.

Dušan Stareček (*1956)
Member of the Supervisory Board

Graduated in electronic and electrical technology from the Technical and Engineering Secondary School in Rožnov p. Radhoštěm. In 1975, he started work as a technician at Long-distance Cables Administration, Prague (a legal predecessor of ČESKÝ TELECOM). In 1992, he was promoted to the position of Head of External Maintenance in the Transmission Technology Unit. At present, he works as a Senior Specialist in the External Maintenance of Fixed Lines Department in Ostrava. He is a member of the Trade Union Steering Committee of ČESKÝ TELECOM.

Petr Zatloukal (*1970)
Member of the Supervisory Board

Graduated from the Transport and Communications University in Žilina. From 1994 to 2001, he worked at MICOS Prostějov as Head of the Bidding Department and later as Head of the Commercial Department, and in 1997 went on to manage the whole division. From 2001 till February 2005, he was Director of the Department for Communications and Information Services of the Czech Interior Ministry. He is a member of the Supervisory Board of Eurotel.

6.10 ČESKÝ TELECOM's Declaration of Compliance with the Code of Good Corporate Governance based on OECD Principles

Acting on its undertaking to abide by the principles of good corporate governance – an undertaking it made by espousing the Code of Good Corporate Governance in its Annual Reports for 2001, 2002 and 2003 – ČESKÝ TELECOM made progress in developing and improving its corporate governance practices in 2004, and will continue in this effort.

Based on the conclusions of an analysis of the implementation of the principles and recommendations of the updated Code (the 2004 Code of Good Corporate Governance based on OECD Principles, as published by the Czech Securities Commission) in ČESKÝ TELECOM, we can conclude that the undertaking made by the company in its Declaration in the 2002 Annual Report, i.e. to meet all the criteria of the Code within three years, is being fulfilled. Compliance with the Principles of good corporate governance which fall outside the direct control of ČESKÝ TELECOM's bodies (in particular increasing the number of "independent" members of the Supervisory Board as stipulated in the Code) is conditional on the decisions of the company's owners, in particular the majority shareholder.

Corporate governance

In 2004, ČESKÝ TELECOM continued to implement the corporate governance model approved by the decision of the shareholders to amend the Articles of Association of the company in June 2003. This model of corporate governance is based on synergistic collaboration between the executive Board of Directors, comprising exclusively the top managers of ČESKÝ TELECOM and Eurotel (an implicit part of the model is the combination of the Chief Executive Officer's function and the function of Chairman of the Board of Directors) and the Supervisory Board, which forms committees and whose powers to give "prior approvals" and "prior standpoints", and thus to participate in the decisions on the principal affairs of the company, have been strengthened. At the same time, the company continued to improve its corporate governance standards by gradually applying corporate governance to the whole ČESKÝ TELECOM Group. Following the acquisition of the remaining ownership interest in Eurotel, the Memorandum of Association of Eurotel was replaced by a Deed of Incorporation, which was amended three times by the end of March 2005 in order to fine-tune the corporate governance system in the subsidiary company and incorporate best practices into this key governance document. The establishment of a Supervisory Board in Eurotel, together with the strengthening – in terms of both personnel and authorities – of the Finance and Audit Committee (for details see Section 6.7), were among the corporate governance mechanisms and instruments introduced at Eurotel.

6.10.1 Organisation of corporate governance

The corporate governance model applied in ČESKÝ TELECOM ensured that throughout 2004 the company had adequate strategic management and the management's actions were effectively monitored by the Board of Directors and the Supervisory Board, thus providing for the responsible discharge of the duties of the governing bodies towards the company and its shareholders.

The Ordinary General Meeting of the company held on 24 June 2004 approved an amendment to ČESKÝ TELECOM's Articles of Association in the wording proposed by the Board of Directors. The amendment reflected the recent changes in the legislation and the revised scope of authorities and division of powers between the statutory and supervisory body of the company, including a new specification of the authorities of the mandatory committees of the Supervisory Board (the Finance and Audit Committee and the Staff and Remuneration Committee). The objects of the company's business were also amended to include the construction and operation of radio and television transmitters. A detailed overview of the conclusions of the General Meeting is contained in ČESKÝ TELECOM's 2004 Mid-Year Report and is also available on the company's website.

An Extraordinary General Meeting of ČESKÝ TELECOM's shareholders, convened at the request of the majority shareholder, the National Property Fund of the Czech Republic, was held on 3 February 2005. The General Meeting approved the majority shareholder's proposal to amend the rules for the remuneration of ČESKÝ TELECOM's Supervisory Board members – a motivation bonus for the members of this governing body (approved by the Ordinary General Meeting of 24 June 2004) was cancelled. The other components of the remuneration of the Supervisory Board members remain in place. The General Meeting did not make any changes to the rules for the remuneration of the members of ČESKÝ TELECOM's Board of Directors.

In 2004, the Board of Directors held 41 meetings (the Articles of Association prescribe a minimum of twelve meetings). The higher than usual number of Board of Directors meetings in 2004 is related to, for instance, the implementation of the Transformation Programme in ČESKÝ TELECOM and the implementation of good corporate governance practices in Eurotel. One of the actions taken to improve the corporate governance of the ČESKÝ TELECOM Group was the implementation of a three + two formula for the staffing of the Board of Directors – three members of the Board of Directors are top managers of ČESKÝ TELECOM (the Chief Executive Officer is also the Chairman of the Board of Directors) and two members of the Board of Directors are top executives of Eurotel. For a complete overview of all personnel changes in the Board of Directors in 2004 and in the first quarter of 2005, including a complete listing of its members (as at 15 April 2005), please refer to page 50 of the Annual Report. The résumés of the members of the Board of Directors, attesting to their competence, professional skills and practical experience, are on page 50.

The Supervisory Board was partially replaced in 2004. The General Meeting voted to confirm the membership of the previously co-opted members of the Supervisory Board – Petr Polák (co-opted in November 2003) and Martin Fassmann (in April 2004 he filled the vacancy left after the resignation of Michal Frankl in February 2004) – and elected three new members: Ivana Krynesová-Gage, Stanislav Bělehrádek and Jiří Hurych. These new members replaced Ondřej Felix, Adam Blecha and Hana Doležalová, who resigned from the Supervisory Board and terminated their membership of this body with consent of the Supervisory Board as of the date of the General Meeting.

For a complete overview of the personnel changes in the Supervisory Board in 2004 and in the first quarter of 2005, including a complete listing of its members (as at 15 April 2005), please refer to pages 58–61 of the Annual Report. The résumés of all the members of the body are on page 60 and 61. All the members of the Supervisory Board elected by the General Meeting were nominated by the majority shareholder.

As at 31 December 2004, the Supervisory Board comprised the following members who qualify as independent under the Code: Stanislav Bělehrádek, Martin Fassmann, Jiří Hurych, Martin Kovář and Petr Polák.

The Supervisory Board met regularly every month, and several extraordinary meetings were also called – a total of sixteen meetings were held. The invitations to and the agenda of the meeting have to be distributed to the Supervisory Board members at least seven days prior to the meeting, usually together with the documents to be discussed at the meeting.

As part of the whole process of implementing corporate governance principles, and in line with international practice, the position of **Company Secretary** was introduced into the system of corporate governance in ČESKÝ TELECOM by an amendment to the Articles of Association. In addition to the tasks performed previously by the Secretary to the Corporate Bodies, the Company Secretary now provides effective support for corporate governance processes, including corporate governance affairs in the ČESKÝ TELECOM Group, as well as performing other related functions.

In addition to the Company Secretary and the Office of Corporate Governance, which reports to him, ČESKÝ TELECOM's corporate governance structure comprised the functions of Internal Audit and Risk Management.

Internal Audit, which is established both in ČESKÝ TELECOM and Eurotel, provides the governing and executive bodies of both companies with an independent and professional assessment of the internal control systems in these companies and the situation and trends in the given area compared to current best practice, the rules and regulations in force, and work orders and instructions issued – by doing so, the Internal Audit contributes to the ongoing improvement of the companies' internal control systems. In 2004, Internal Audit carried out audits and a number of other ad hoc controls based on the requirements of the governing bodies and the senior management. The audit conclusions were used by the management of ČESKÝ TELECOM and Eurotel to formulate actions to redress the issues identified. The progress of their implementation is regularly monitored and reported on by the Internal Audit to the governing bodies of both companies and their senior management.

In relation to the ongoing implementation of selected provisions of the Sarbanes Oxley Act, approval of an amended Statute of Internal Audit (March 2005) and other measures to improve the effectiveness of the internal audit function, the corporate bodies and the Finance and Audit Committee are presently discussing the issue of suitable configuration and optimisation of relations between the Internal Audit, the Board of Directors, the Supervisory Board and the Finance and Audit Committee in ČESKÝ TELECOM's present corporate governance model.

In the area of risk management, additional methodological, procedural and organisation prerequisites for effective application of the standard risk management system for optimal risk management in ČESKÝ TELECOM were created in the course of 2004 and in January 2005. At the end of 2004 the system was extended to cover Eurotel as well. We are striving to develop a standard risk management system which conforms to international practice and to the nature of business of the ČESKÝ TELECOM Group.

In 2004, both the functions and the content of the Corporate Governance Information Portal continued to develop – the application was extended to Eurotel, and, in addition to having access to archived and current documents for discussion at meetings and in committees, members of the governing bodies can use the Portal to get information on the conclusions of Internal Audit and to access the risk management system. By continually improving and expanding this tool, ČESKÝ TELECOM has met the requirement of the Code and of best practice for delivery of timely and sufficient information to the governing bodies as an input for their decision-making process.

6.10.2 Shareholder relations

Also in 2004, ČESKÝ TELECOM took great care to observe all statutory shareholder rights and comply with the principle of equal treatment of all shareholders, while respecting the specific statutory rights of minority shareholders. The mechanisms and procedures for the support and administration of governance are permanently configured to ensure that shareholders get timely and complete information on the company in the course of the year (above and beyond the statutory disclosure duty) and to enable them to attend General Meetings without hindrance or limitation (e.g. with regard to time and location).

The company thus protects shareholders' rights and facilitates the exercise thereof. Using the instruments detailed below, the corporate governance model provides for consistently fair treatment of all shareholders.

The Rules of Procedure of the General Meeting, approved at each meeting of this supreme governing body, allow shareholders to participate effectively in decision-making on fundamental changes in the company and to ask questions and seek information on matters included on the agenda of the General Meeting. In addition to members of the Board of Directors and the Supervisory Board, shareholder meetings are always attended by the chairpersons of the committees of the governing bodies established under the Articles of Association, and shareholders may address them with questions.

The Board of Directors answered a total of seven questions put by shareholders at the Ordinary General Meeting of 24 June 2004, and a total of seven questions put by shareholders at the Extraordinary General Meeting of 3 February 2005. No questions were put to members of the Supervisory Board or the committee chairpersons at either of these two shareholder meetings.

6.10.3 Transparency and open information policy

In line with the directives of the Czech Securities Commission, the recommendations of the European Union and the OECD for corporate governance and the principles of the Code of Corporate Governance, ČESKÝ TELECOM provides shareholders and potential investors with all vital information on its business, financial standing, ownership structure and governance issues. Furthermore, ČESKÝ TELECOM is very scrupulous in seeing that all price-sensitive information and facts are published in a timely manner.

In addition to the information channels and publication procedures provided for by law and in its Articles of Association, ČESKÝ TELECOM makes great use of its website (where its Articles of Association and other governance documents are available) to inform its shareholders. This helps international institutional investors in particular to access information on the company and be fully and actively involved in the decision-making on the company's affairs.

Both the Corporate Governance Section and the Financial Section (the Financial Statements and the Report of Independent Auditor) and further in Section 8 (Information on the Listed Security Issuer) of the Annual Report contain information on the remuneration and other emoluments paid to members of ČESKÝ TELECOM's governing bodies and on the company shares in the possession of these persons. Disbursement of remuneration to members of the Board of Directors and of the Supervisory Board and disbursement of discretionary benefits to members of the Supervisory Board is governed by rules approved by the General Meeting, which the shareholders can find on the company's website from March 2005.

An integral part of the decision-making processes and practices in ČESKÝ TELECOM's governing bodies is a rule that members of these bodies should refrain from voting on matters where their neutrality could be questioned ("affiliated transactions").

Potential conflicts of interest arising from membership in the statutory bodies of other companies, involvement in commercial transactions and other selected instances are examined in ČESKÝ TELECOM twice a year by a dedicated committee established by the governing bodies – the Ethics and Social Responsibility Committee (for details, see section 6.10.4).

As per the External Auditor's recommendations, preparations for the implementation of selected provisions of the Sarbanes Oxley Act began in December 2004. This exercise will also include formal documentation of the controls in the company and the implementation of a Control Self Assessment.

Also in 2004, ČESKÝ TELECOM won local and international recognition for its efforts in the area of implementing and improving good corporate governance practices. ČESKÝ TELECOM scored a major success at the IR Magazine Awards 2004 (Central & Eastern Europe), winning the awards for Best Annual Report and Other Corporate Literature and for Best Investor Relations (citation: "Czech Telecom has the best corporate governance in the CR").

6.10.4 Committees established by the governing bodies of the company

The governing bodies' committees have been an integral part of ČESKÝ TELECOM's system of corporate governance since 1996 and continue to play a major role in discharging the powers of the governing bodies. In 2004, implementation of the new corporate governance model successfully progressed also in this area.

The Finance and Audit Committee (FAC) has five members. Changes occurred in the personnel composition of the committee in 2004 – some of them were related to personnel changes in the Supervisory Board, and one vacant position in the FAC opened as a result of resignation of a member. At present, the FAC meets in the following composition: Ivana Krynesová-Gage, Chair; Martin Fassmann, Vice Chair; Pavel Herštík, Jiří Hurych and Petr Polák, members. Three members of the committee – Martin Fassmann, Jiří Hurych and Petr Polák qualify as independent. No qualified accountant is a member of the committee after personnel changes in the Supervisory Board. The committee usually meets once a month, always before a scheduled meeting of the Supervisory Board, primarily to monitor financial statements and accounting practices, discuss internal audit reports and make recommendations concerning internal audit to the Supervisory Board. It works with the company's external auditor and monitors the system of management of financial and other risks. The FAC also invokes a process of closed consultation with the external auditor. The committee operates a process of reviewing the external audit activities. In 2004, the committee met fifteen times and discussed more than one hundred agenda items, including conclusions of audits and the actions taken by the management in response to the findings of the internal audits. The FAC gave its independent standpoints to the Supervisory Board in respect of the quality of financial management in the company – the opinions are drawn from the committee´s experience in supervising financial reporting and accounts, as well as internal governance and controlling mechanisms.

The Staff and Remuneration Committee (SRC) has five members and concentrates on reviewing personnel changes in ČESKÝ TELECOM's Board of Directors and committees and in the governing bodies of its subsidiary companies, as well as on matters relating to the remuneration of members of ČESKÝ TELECOM's governing bodies, reviewing the manager contracts and salary packages of the Chief Executive Officer and other members of the Board of Directors. In 2004, the committee met twenty times. Two changes were made to the SRC's composition as a direct result of the personnel changes in the Supervisory Board. The SRC consists of: Jiří Hurych, Chair; Zdeněk Hrubý, Vice Chair, and members Martin Fassmann, Jan Juchelka and Petr Polák, of whom three members – Jiří Hurych, Petr Polák and Martin Fassmann qualify as independent members. The SRC duly performed its duties stipulated by the Code of Corporate Governance and the usual tasks of committees of this kind and purpose.

The Ethics and Social Responsibility Committee (ESRC) has six members. In addition to issues concerning conflicts of interests, the committee monitors compliance with the Code of Ethics by ČESKÝ TELECOM employees and reviews the ethical conduct and social responsibility of the company as a whole. The majority of the ESRC's members are employee delegates to the Supervisory Board (Pavel Herštík, Chairman, Vlastimil Barbořák and Dušan Stareček). Other members are Petr Zatloukal, Vice Chairman, Stanislav Bělehrádek and Martin Kovář. In the course of 2004, the committee met six times. As far as conflicts of interests are concerned, the committee twice reviewed the affirmations of the members of the company's governing bodies and of managers in the so-called designated positions, as well as of members of the statutory bodies and supervisory bodies of ČESKÝ TELECOM´s subsidiary companies. No questionable issues suggesting a conflict of interest were identified.

The Advisory Committee on Strategy and Capital Participations (SAC) is the Supervisory Board's platform of expertise for matters relating to business planning in ČESKÝ TELECOM and its subsidiaries, reviewing strategic risks and fundamental business decisions. The committee was established to have six members, but in December 2004, the number of members was increased to eight. The members are Jiří Hurych, Chair, Zdeněk Hrubý, Vice Chair, and members Vlastimil Barbořák, Martin Kovář, Miloslav Krch, Pavel Kuta, Petr Polák and Petr Zatloukal (Ivana Krynesová-Gage was a member in 2004, later replaced by Petr Zatloukal in 2005). In 2004, the SAC met eight times.

6.10.5 Company policy towards partners

ČESKÝ TELECOM wants to be actively involved in the development of the society where it has a presence. Preserving and improving the company's good image with its business partners, financial institutions, employees and other stakeholders is one of the principal instruments for accomplishing this goal. ČESKÝ TELECOM is aware that the company's value and its systematic building depend on careful observance of ethical and professional principles and, of course, on full conformity with the law. ČESKÝ TELECOM aspires to be a sought-after employer to top professionals who want to drive the company's performance forward and to dedicate their skill and knowledge to that end. ČESKÝ TELECOM also wants to continue to be a credible and transparent partner of first choice to investors, business associates and contractors. ČESKÝ TELECOM is aware of the implications its business decisions have on the community, fully respecting its position in the communities where it has a presence. This is reflected also in the business activities of ČESKÝ TELECOM, the way the company reliably delivers on its obligations and in its public relations, sponsoring and donor policy. ČESKÝ TELECOM promotes active co-operation with stakeholders, and recognises their rights, with the goal of building the company´s value in harmony with its environment.

Financial section

7.1 Consolidated financial statements for the year ended 31 December 2004

Prepared in accordance with International Financial Reporting Standards

Content

General information

ČESKÝ TELECOM, a.s. Group (the "Group") consists of ČESKÝ TELECOM, a.s. (the "Company"), its subsidiaries, SPT TELECOM (Czech Republic) Finance B.V., OMNICOM Praha, spol. s r.o., CenTrade, a.s., CZECH TELECOM Germany GmbH, CZECH TELECOM Austria GmbH, CZECH TELECOM Slovakia, s.r.o., and Eurotel Praha, spol. s r.o. ("Eurotel"), including its subsidiary, a 100% owned Hungarian registered limited liability company, Trigo Global Services Ltd. (in process of voluntary liquidation). 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.

As a result of acquiring a further 49% ownership interest in Eurotel in November 2003 the financial statements for 2004 and 2003 are not directly comparable. Please refer to Note 28 for a description of the consolidation treatment pre and post acquisition.

The average number of employees in the Group was 12,215 in 2004 (2003: 14,120).

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).

These consolidated financial statements have been approved for issue by the Board of Directors on 21 March 2005.

Relationship with the Czech state

The Czech state, through the National Property Fund of the Czech Republic (the "NPF"), is the majority shareholder of the Company. As the majority shareholder, the NPF has the power to control certain decisions taken at shareholders' meetings, including the election of the members of the Supervisory Board and the approval of dividend payments.

The Group supplies telecommunication services to and acquires services from various state-owned entities, agencies and companies in which the Czech state holds the majority shareholding. All such transactions are made on normal commercial terms and conditions that are 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 2004, and the related consolidated statements of income and cash flows and changes in shareholders' equity 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 accompanying consolidated financial statements give a true and fair view, in all material respects, of the financial position of the Group as of 31 December 2004, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

21 March 2005

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner and Auditor, Licence No. 1140

Consolidated income statement

(in CZK million)	Notes	Year ended 31 December 2004	Year ended 31 December 2003
Revenue	2	62,141	51,476
Operating expenses	3	(33,076)	(27,662)
Depreciation and amortisation	8,9	(20,748)	(19,444)
Impairment loss	10	-	(9,909)
Operating profit/(loss)		**8,317**	**(5,539)**
Interest expense (net)	4	(1,156)	(753)
Other financial income/(costs)	4	753	(375)
Profit/(loss) before income tax		**7,914**	**(6,667)**
Taxes on income (charge)/credit	5	(2,349)	4,856
Profit/(loss) for the year		**5,565**	**(1,811)**
Attributable to:			
Equity holders of the Company		**5,568**	**(1,780)**
Minority interest	31	(3)	(31)
Earnings per share (CZK) – basic*	6	17	(6)

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

Consolidated balance sheet

(in CZK million)	Notes	31 December 2004	31 December 2003
ASSETS			
Property, plant and equipment	8	98,835	110,320
Intangible assets	9	24,937	28,971
Available-for-sale investments	13	59	182
Held-to-maturity investments	13	31	116
Investments in associate	30	12	10
Non-current assets		**123,874**	**139,599**
Inventories	11	843	1,100
Receivables and prepayments	12	8,645	8,492
Income tax receivable		166	589
Available-for-sale investments	13	117	251
Held-to-maturity investments	13	78	17
Cash and cash equivalents	14	480	4,658
Current assets		**10,329**	**15,107**
Total assets		**134,203**	**154,706**
EQUITY AND LIABILITIES			
Ordinary shares	24	32,209	32,209
Share premium		30,816	30,816
Retained earnings and reserves		27,168	27,123
		90,193	**90,148**
Minority interest	31	**6**	**9**
Total equity		**90,199**	**90,157**
Borrowings	16	16,817	25,044
Deferred taxes	17	6,567	7,674
Non-current liabilities		**23,384**	**32,718**
Borrowings	16	8,665	20,021
Trade and other payables	15	8,787	10,045
Income tax liability		736	-
Provisions for liabilities and charges	19	2,432	1,765
Current liabilities		**20,620**	**31,831**
Total liabilities		**44,004**	**64,549**
Total equity and liabilities		**134,203**	**154,706**

These consolidated financial statements were approved by the Board of Directors on 21 March 2005 and were signed on its behalf by:

Gabriel Berdár
Chairman of the Board of Directors
and Chief Executive Officer

Juraj Šedivý
1st Vice Chairman of the Board of Directors
and Chief Financial Officer

Consolidated statement of changes in shareholders' equity

(in CZK million)	Note	Share capital	Share premium	Hedging reserve	Foreign exchange translation reserve	Retained earings*	Minority interest	Total
Balance at 1 January 2003		32,209	30,816	6	(1)	48,242	45	111,317
Fair value losses (net of tax) – cash flow hedges	26	-	-	(8)	-	-	-	(8)
Currency translation differences – amount arising in year		-	-	-	10	-	-	10
Changes in statutory reserves and other movements		-	-	-	-	14	(5)	9
Net income/(expense) recognised directly in equity		*-*	*-*	*(8)*	*10*	*14*	*(5)*	*11*
Dividends related to the year 2002	7	-	-	-	-	(19,360)	-	(19,360)
Net loss		-	-	-	-	(1,780)	-	(1,780)
Minority interest		-	-	-	-	-	(31)	(31)
Balance at 31 December 2003		**32,209**	**30,816**	**(2)**	**9**	**27,116**	**9**	**90,157**
Fair value losses (net of tax) – cash flow hedges	26	-	-	(45)	-	-	-	(45)
Currency translation differences – amount arising in year		-	-	-	4	-	-	4
Changes in statutory reserves and other movements		-	-	-	-	(6)	-	(6)
Net income/(expense) recognised directly in equity		*-*	*-*	*(45)*	*4*	*(6)*	*-*	*(47)*
Dividends related to the year 2003	7	-	-	-	-	(5,476)	-	(5,476)
Net profit		-	-	-	-	5,568	-	5,568
Minority interest		-	-	-	-	-	(3)	(3)
Balance at 31 December 2004		**32,209**	**30,816**	**(47)**	**13**	**27,202**	**6**	**90,199**

* Refer Note 24 regarding amounts not available for distribution.

Consolidated cash flow statement

(in CZK million)	Notes	Year ended 31 December 2004	Year ended 31 December 2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	27	28,628	24,155
Interest paid		(1,248)	(2,186)
Income tax paid		(2,655)	(2,154)
Net cash from operating activities		**24,725**	**19,815**
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(5,428)	(5,608)
Purchase of intangible assets		(508)	(920)
Purchase of marketable securities		-	(357)
Purchase of additional equity interest (49% stake in Eurotel)	28	-	(29,220)
Proceeds from sales of property, plant and equipment		618	510
Proceeds from marketable securities		265	7,078
Interest received		75	1,070
Net cash used in investing activities		**(4,978)**	**(27,447)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		20,942	46,679
Repayment of borrowings		(39,374)	(25,048)
Dividends – paid		(5,479)	(19,349)
Net cash (used in)/arising from financing activities		**(23,911)**	**2,282**
Cash obtained from purchase of additional equity interest	28	-	1,688
Net decrease in cash and cash equivalents		**(4,164)**	**(3,662)**
Cash and cash equivalents at beginning of year		4,649	8,305
Effects of exchange rate changes		(5)	6
Cash and cash equivalents at the year end	14	**480**	**4,649**

Accounting policies

Index to accounting policies

A Basis of preparation

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all years presented, unless otherwise stated.

The consolidated financial statements of the Group for the year ended 31 December 2004 have been prepared in accordance 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 non-current assets held for sale, financial derivatives, available-for-sale investment securities, share-based payment liability and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note T.

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

Early adoption of standards

In 2004, the Group early adopted the IFRS below, which are relevant to its operations. The 2003 comparative figures have been restated as required, in accordance with the relevant requirements.

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after Balance Sheet Date
IAS 16 (revised 2003) Property, Plant and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The effects of Changes in Foreign Exchange Rates
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 28 (revised 2003) Investments in Associates
IAS 33 (revised 2003) Earnings per Share
IFRS 2 (issued 2004) Share-based Payments

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 27, 28, 33 and IFRS 2 before the effective date did not result in substantial changes to the Group's accounting policies:
IAS 1 has affected the presentation of minority interest and other disclosures.
IAS 2, 8, 10, 16, 17, 27 and 33 had no material effect on the Group's policies.
IAS 21 – had no material effect on the Group's policies. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as their measurement currency. The Group's presentation currency is the same as the parent's functional currency, which is the CZK. The financial statements of the foreign entities have been translated into the presentation currency.

The early adoption of IFRS 2 has resulted in a change in the accounting policy for share-based payments. Since the adoption of IFRS 2, the Group measures the fair value of the liability for cash settled share-based payment transaction with any change in the value recognised in the income statement for the period (Note 25).

The Group did not have any share appreciation rights prior to the application of IFRS 2.

All changes in the accounting policies have been made in accordance with the transition provisions or have been applied retrospectively in accordance with the respective standards.

All standards adopted by the Group require retrospective application other than:
IAS 16 – the exchange of property, plant and equipment is accounted at fair value prospectively. There has been no substantial exchange of property, plant and equipment during the years 2003 and 2004.
IAS 21 – the prospective accounting for goodwill and fair value adjustments as part of foreign operations.

Adoption of new and revised standards from 1 January 2005

The Group will adopt these revised and new standards from 1 January 2005:
IAS 24 (revised 2003) Related Party Disclosures
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets
IAS 39 (revised 2004) Financial Instruments: Recognition and Measurement
IFRS 3 (issued 2004) Business Combinations
IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations
IFRS 3 requires simultaneous adoption with IAS 36 and IAS 38.
IAS 39 requires simultaneous adoption with IAS 32.

The later adoption of the above-mentioned standards will result in the following changes:
IAS 24 (revised 2003) will affect the identification of related parties and some other related party disclosures including the disclosure of key management personnel compensation. In addition as the Company is currently majority owned by the National Property Fund of the Czech Republic, the implementation of this standard will require disclosure of transactions with entities, where the National Property Fund has majority ownership or significant influence.

IAS 39 (revised 2004) will result in a change in the fair value measurement of Available-for-sale financial assets whereby the Group will be required to recognise gains and losses resulting from fair value measurement directly in equity.

IFRS 3, IAS 36 (revised 2004), IAS 38 (revised 2004) will result in the Group changing its accounting policy for goodwill. Until 31 December 2004 goodwill is:

- Amortised on a straight line basis over a period of 20 years, and
- Assessed for an indication of impairment at each balance sheet date.

In accordance with the provisions of IFRS 3:

- The Group will cease amortisation of the previously recognized goodwill from 1 January 2005. The amount of the annual amortization charge is CZK 708 million.
- Accumulated amortisation as at 31 December 2004 will be eliminated with a corresponding decrease in the cost of goodwill (CZK 767 million).
- From the year ending 31 December 2005 onwards, goodwill will be tested annually for impairment, as well as when there are indications of impairment.

The Group will reassess the useful lives of its intangible assets and the categorisation of previously recognized intangible assets in accordance with the provisions of IAS 38 and IFRS 3. The useful lives of intangible assets will be assessed at the individual asset level as having either a finite or indefinite life. Intangible assets having indefinite useful lives will not be amortised. The Group will not adjust the corresponding carrying amount and any change will be accounted for as a change in accounting estimate in accordance with IAS 8.

IFRS 5 will require assets that meet the criteria of held for sale to be measured at the lower of carrying amount and fair value less costs to sell and depreciation of such assets will cease. Assets that meet the criteria of held for sale will be presented separately on the face of the balance sheet and the results of discontinued operations presented separately in the income statement.

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.

A business combination is accounted for using the purchase method of accounting. An acquisition is accounted for at its cost, being the amount of cash and cash equivalents paid in exchange for control over the net assets of an acquired company, plus any costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill. More information is disclosed in Note D Intangible assets and also in Note 9.

Intercompany transactions and balances between Group companies are eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies for subsidiaries are changed, where necessary, to ensure consistency with the policies adopted by the Group.

(2) Joint venture

The Company's interest in jointly controlled entities, namely Eurotel until the end of November 2003 (refer Note 28), is accounted for by proportionate consolidation. Under this method, the Group combines its proportion of income, expenses, assets and liabilities of the jointly controlled entity on a line-by-line basis with similar items in the Group financial statements. The proportionate consolidation is used from the date on which effective joint control is established and the jointly controlled entity is no longer proportionally consolidated from the date on which joint control over a jointly controlled entity ceases to exist. Where necessary, accounting policies for the jointly controlled entity have been changed to ensure consistency with the policies adopted by the Group. The relevant portions of all intercompany transactions and balances attributable to the Company's interest in the jointly controlled entity have been eliminated.

(3) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements of each entity included in the Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Czech Crowns ("CZK"), which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the date of the transaction. Foreign exchange 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, except when deferred in equity as qualifying cash flow hedges. Such balances are translated at period end exchange rates.

(iii) Group companies

The income and cash flow 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 freehold land, is subsequently carried at its cost less any accumulated depreciation and accumulated impairment losses. Freehold land is subsequently stated at cost less impairment charges.

Property, plant and equipment acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less depreciation and 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 the 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.

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 consolidated financial statements are as follows:

	Years
Freehold buildings	up to 40
Cable and other related plant	5 to 25
Exchanges and related equipment	up to 10
Other fixed assets	2 to 10

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater then its estimated recoverable amount (refer Note E Impairment of assets).

D Intangible assets

Intangible assets include computer software, purchased goodwill, licenses, trade names, customer base and roaming contracts. 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 one to five years.

Intangible assets acquired in business combinations are stated at their acquisition costs (which are equal to their fair value at the date of acquisition) less amortisation and impairment charges and amortised on a straight-line basis over their estimated useful lives. Specifically, trade names are amortised over 20 years, roaming contracts over the remaining period of the binding contracts and the customer base over the period of the remaining average terms of the binding contracts (only the postpaid customer base is recognised as a separate intangible asset).

Acquired licences are recorded at cost and amortised on a straight-line method basis over the remaining life of the licence (i.e. over 15 to 20 years), from the start of commercial service, which best reflects the pattern by which the economic benefits of the intangible assets will be utilised by the Group.

Goodwill, arising from the purchase of subsidiary undertakings and interests in associates and joint ventures, represents the excess of the fair value of the purchase consideration over the fair value of the net assets acquired. Goodwill is amortised on the straight-line basis from the time of acquisition over its useful economic life. The economic life is normally presumed to be a maximum of 20 years.

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, or at least on an annual basis for intangibles not yet in use. 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 (cash-generating units).

F Investments

The Group classifies 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 are included in current assets. During 2003 and 2004, 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 settlement 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, as required under IAS 39.

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 interest rate 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.

An associated undertaking is an enterprise where the Group has significant influence, which is the power to participate in the financial and operating policy decisions, but not exercise control. On the grounds of immateriality equity investments in associates are recorded at cost less a provision for diminution in value.

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.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalized at the inception of the lease at the lower of the fair value of the leased property or the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in other long-term payables (depending on maturity). The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset or the lease term.

H Inventories

Inventory is stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). 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 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. The amount of the provision is recognized in the income statement.

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 shown 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 interest rate 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.

Borrowings are classified as current liabilities unless the Group has unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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 calculated using the liability method applied to all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. Currently enacted tax rates and laws expected to apply when the asset is realised or the liability is settled 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 provision for obsolete and slow moving inventories, non tax deductible provisions, unused tax credits, unused tax losses carried forward and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

The Group accounts for the tax consequences of transactions and other events in the same way that it accounts for the transactions and other events themselves. Thus, for transactions and other events recognised in the income statement, any related tax effects are also recognised in the income statement. For transactions and other events recognised directly in equity, any related tax effects are also recognised directly in equity. Similarly, the recognition of deferred tax assets and liabilities in a business combination affects the amount of goodwill.

M Employee benefits

(1) Pension obligations

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 Group has no further payment obligations once the contributions have been paid. 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.

(2) Redundancy and termination benefits

Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Group recognises redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Benefits falling due more than 12 months after the balance sheet date are discounted to present value. There are no redundancy and termination benefits falling due more than 12 months after balance sheet date.

(3) Bonus plans

The Group recognises a liability for bonuses based on a formula that takes into consideration certain performance related measures, such as turnover or free cash flow, after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

N Share-based compensation

The Company operates a cash-settled, share-based compensation plan for members of the Board of Directors and the Supervisory Board (see Note 32). The fair value of the services received in exchange for the grant of the rights is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted. At each balance sheet date, the Company revises its estimates of the number of rights that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement.

O 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.

P Revenue recognition

Revenue, shown net of Value Added Tax and any discounts (including free minutes), and after eliminating sales within the Group, comprises goods sold and services provided.

Revenue is recognized as follows:

(i) Fixed line telephony revenues

Domestic and international call revenues
Domestic and international call revenues are recognised in the income statement at the time the call is made.

Subscription revenues
Revenue from subscriptions is recognised in the income statement in the period in which the services are rendered.

Revenues from sales of prepaid cards
Prepaid call card sales are deferred until the customer uses the stored value on the card to pay for the relevant calls. The expiry date for prepaid cards is not longer than 24 months.

Connection fees
Connection fees are recognised in full in the income statement upon connection of the customers to the Company's network.

Equipment sales
Revenue from the sale of telephone equipment and accessories is recognised at the time of sale.

(ii) Mobile telephony revenues

Airtime revenues
Airtime revenues for post-paid customers are recognised in the income statement at the time the call is made. Prepaid call card sales are deferred until the customer uses the stored value in the card to pay for the relevant calls. The expiry date for prepaid cards is either not prescribed (cards issued prior 1 January 2004) or not longer than 24 months.

Access revenues
Access revenues are billed once a month in arrears and are recognised when earned.

Roaming revenues
Roaming airtime revenues represent either airtime provided to other operator's subscribers or mobile services received by own subscribers in other operator's network and are recorded as the airtime is used.

Connection fees
Connection fees are recognised in full in the income statement upon connection of the customers to the Company's network.

Equipment sales
Revenue from the sale of mobile telephone equipment and accessories is recognised at the time of sale.

(iii) Interconnect revenues

Interconnect revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but use the Group's network. These revenues are recognised in the income statement at the time when the call is received in the Group's network. The Group pays a proportion of the call revenue it collects from its customers to other domestic and foreign operators' for calls and other traffic that originate in the Group's network but use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled on a regular basis.

(iv) Internet and data services

The Group earns revenue from providing Internet services. Revenue from such services is recognised at the time the service is provided.

(v) Dividend income

Dividend income is recognized when the right to receive payment is established.

R Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

S Financial instruments

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

Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt 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 minimize 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.

The Group does not conduct any speculative trading activities.

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 foreign 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 significantly impacted by 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 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.

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in shareholder's equity are shown in Note 26.

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.

T Critical accounting estimates and judgments

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The estimates and assumptions that might have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are discussed below:

(1) Income taxes and deferred taxes

The Group created a provision for current income taxes and in consideration of the temporary differences also for deferred tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business and the measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects to recover or settle the carrying amount of assets and liabilities. Where the final tax-deductible expenses are different from the amounts that were calculated, such differences will impact the current income and deferred tax provisions in the period in which such determination is made. The total amount of provision for current income taxes is CZK 2,616 million, the net deferred tax liability is CZK 6,567 million.

(2) Goodwill

The Group assesses at each reporting date whether there is any indication that goodwill may be impaired taking into consideration both internal and external sources of information. As a result of management's assessment it was determined that no indication of impairment existed as at 31 December 2004 and accordingly the Group did not estimate the recoverable amount of the asset. However goodwill does not generate cash flows independently of other assets or groups of assets and the assessment of its carrying value is significantly impacted by management's assessment of the performance and expected future performance of the operation to which the goodwill relates. From 1 January 2005 the Group will implement IFRS 3, which will require goodwill to be tested annually for its recoverable amount, as well as when there are indications of impairment. The carrying amount of goodwill is CZK 13,320 million.

(3) Impairment of fixed line network and UMTS licence

The Group has invested significant amounts in its telephony network and telephony licenses. As at 31 December 2004 the Group was required to test the recoverable amount of its fixed line segment assets, because indicators of further impairment were present, and its UMTS licence (as part of the mobile cash generating unit), because it is an intangible asset that is not yet in use. The ability of an intangible asset to generate sufficient future economic benefits to recover its carrying amount is usually subject to greater uncertainty before the asset is available for use than after it is available for use.

In performing these assessments of recoverable amount a significant number of estimates and judgments were required including but not limited to:

- an estimate of future cash flows expected to derive from the assets,
- expectations about possible variations in the amount or timing of those future cash flows,
- the designation of the cash generating unit for which future cash flows are derived,
- the time value of money represented by weighted average cost of capital.

The Group recognized an impairment loss on its fixed line segment assets in 2003 (refer to Note 10). The carrying amount of the fixed line segment assets and mobile segment assets was CZK 87,620 million and CZK 46,583 million respectively as at 31 December 2004 and no impairment adjustment was necessary in 2004.

(4) Provisions and contingent liabilities

As set out in Note 21 the Group is a participant in several lawsuits and administrative proceedings including those related to its pricing policies. The Group's treatment of obligations with uncertain timing and amount depends on the management's estimation of the amount and timing of the obligation and probability of an outflow of resources embodying economic benefits that will be required to settle the obligation (both legal or constructive). A provision is recognised when the Group has a present 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 can be made of the amount of the obligation. Contingent liabilities are not recognised because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent liabilities are assessed continually to determine whether an outflow of resource embodying economic benefits has become probable. If it becomes probable that an outflow of future economic benefits will be required for an item previously dealt with as a contingent liability, a provision is recognised in the financial statements of the period in which the change in probability occurs.

U Reclassifications

Certain reclassifications have been made to prior period balances in order to make the presentation consistent with the current period. These reclassifications have no impact on consolidated net income or shareholders equity.

Index to the notes to the consolidated financial statements

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.

Year ended 31 December 2004 (in CZK million)	Fixed	Mobile	Group
Revenues	34,369	29,071	63,440
Inter-segment sales	(395)	(904)	(1,299)
Total consolidated revenues	*33,974*	*28,167*	*62,141*
Costs	(18,620)	(15,755)	(34,375)
Inter-segment purchases	904	395	1,299
Total consolidated costs	*(17,716)*	*(15,360)*	*(33,076)*
Depreciation	(11,275)	(4,224)	(15,499)
Amortisation	(3,045)	(2,204)	(5,249)
Operating profit	*1,938*	*6,379*	*8,317*
Interest and other financial costs (net)			(403)
Profit before tax			*7,914*
Tax			(2,349)
Profit after tax			*5,565*
Minority interest			3
Net profit			**5,568**
Assets (excluding Goodwill)	87,620	33,263	120,883
Goodwill on purchase of additional ownership interest in Eurotel	-	13,320	13,320
Total assets	**87,620**	**46,583**	**134,203**
Trade and other payables	(4,446)	(4,341)	(8,787)
Loans obtained to acquire additional ownership interest in Eurotel	-	(8,378)	(8,378)
Other liabilities	(23,844)	(2,995)	(26,839)
Total liabilities	**(28,290)**	**(15,714)**	**(44,004)**
Capital expenditure	2,569	3,205	5,774

Year ended 31 December 2003 (in CZK million)	Fixed	Mobile	Group
Revenues	36,507	15,837	52,344
Inter-segment sales	(199)	(669)	(868)
Total consolidated revenues	*36,308*	*15,168*	*51,476*
Costs	(20,172)	(8,358)	(28,530)
Inter-segment purchases	669	199	868
Total consolidated costs	*(19,503)*	*(8,159)*	*(27,662)*
Depreciation	(12,722)	(2,524)	(15,246)
Amortisation	(3,840)	(358)	(4,198)
Impairment loss	(9,909)	-	(9,909)
Operating profit/(loss)	*(9,666)*	*4,127*	*(5,539)*
Interest and other financial costs (net)			(1,128)
Loss before tax			*(6,667)*
Tax			4,856
Loss after tax			*(1,811)*
Minority interest			31
Net loss			**(1,780)**
Assets (excluding Goodwill)	101,776	38,902	140,678
Goodwill on purchase of additional ownership interest in Eurotel	-	14,028	14,028
Total assets	**101,776**	**52,930**	**154,706**
Trade and other payables	(5,352)	(4,693)	(10,045)
Loans obtained to acquire additional ownership interest in Eurotel	-	(26,151)	(26,151)
Other liabilities	(22,285)	(6,068)	(28,353)
Total liabilities	**(27,637)**	**(36,912)**	**(64,549)**
Capital expenditure	4,404	2,591	6,995

Inter-segment sales and purchases represent sales and purchases to the 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 Office (Český telekomunikační úřad). The rates applied in 2004 and 2003 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.

Capital expenditures comprise additions to property, plant and equipment and intangible assets (excluding Eurotel goodwill).

2 Revenue

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Call and airtime revenues	21,481	20,122
Subscription and access revenues	17,154	14,849
Connection fees	719	517
SMS and MMS	2,750	1,479
Internet and Data services	3,572	2,468
Value added services	1,191	1,207
Interconnect revenues	9,180	5,986
Leased circuits	2,739	2,700
Equipment sales and sales of materials	1,681	919
Other revenues*	1,674	1,229
Total revenues	**62,141**	**51,476**

* Other revenues in 2004 include several non-recurring items including insurance settlements, the proceeds from the sale of motor vehicles, and universal service compensation in the total amount CZK 844 million (2003: CZK 340 million).

Revenues from related parties are disclosed in Note 29.

3 Operating expenses

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

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Wages and salaries*	5,144	5,050
Redundancy payments	380	655
Social security contributions (Note 18)	1,784	1,750
Staff welfare costs	299	339
Total staff costs	*7,607*	*7,794*
Payments to other network operators	9,225	6,952
Equipment and material cost of sales	3,877	1,781
Commissions	760	507
Subcontractors	107	-
Material and energy consumed	1,592	1,416
Repairs and maintenance	2,789	2,525
Advertising and promotion	1,733	1,363
Operating lease payments and building expenses	1,294	895
Consultancy	686	502
Trade receivables – impairment charge for bad and doubtful debts	253	257
Other operating expenses**	3,153	3,670
Total operating expenses	**33,076**	**27,662**

* Certain Group employees (including the Board of Directors) with specialised know-how, or who have access to business secrets, or who are considered important to the development of the business, are bound by non-competition restrictions, for a maximum period of 12 months from the date of termination of their employment with the Group. The Group paid CZK 23 million in relation to such non-competition clauses in 2004 (2003: CZK 5 million).

** Other operating expenses in 2004 include costs reflecting regulatory decisions of CZK 436 million (2003: CZK 935 million), the net book value of motor vehicles disposed and the contingency reserve against the compensation of universal service in the total amount of CZK 562 million (2003: CZK 18 million).

Purchases from related parties are disclosed in Note 29.

4 Interest and other financial costs (net)

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Interest expense		
Interest incurred on loans and bonds	1,236	1,041
Interest capitalized	-	-
Net interest expense	*1,236*	*1,041*
Interest income	(80)	(288)
Interest expense (net)	**1,156**	**753**
Other financial charges	82	41
Fair value losses/(gains) on financial instruments:		
Derivative financial instruments	132	(812)
Available-for-sale investments	7	8
Other investments	3	-
Other losses on financial instruments:		
Held-to-maturity investments	-	6
Net foreign exchange transaction (gains)/losses	(977)	1,132
Other financial (income)/costs	**(753)**	**375**
Net finance costs	**403**	**1,128**

In 2003 the difference between interest paid and received as stated in the cash flow statement and interest expense and income as stated in the income statement is caused by the hedging treatment adopted and also timing differences.

5 Tax

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Total income tax expense is made up of:		
Current income tax charge	3,735	1,591
Deferred income tax credit (Note 17)	(1,386)	(6,447)
Income tax charge/(credit)	**2,349**	**(4,856)**

The tax on the Group's profit/(loss) 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 million)	Year ended 31 December 2004	Year ended 31 December 2003
Profit/(loss) before tax	7,914	(6,667)
Income tax charge/(credit) calculated at the statutory rate of 28% (2003: 31%)	2,216	(2,067)
Income not subjected to tax	(82)	(816)
Expenses not deductible for tax purposes	637	758
Reduction of deferred taxes resulting from reduction in tax rate (Note 17)	(227)	(1,769)
Other*	(131)	(882)
Investments allowances	(64)	(80)
Income tax charge/(credit)	**2,349**	**(4,856)**

* "Other" includes tax credit on dividends in the amount of CZK 0 million (2003: CZK 1,217 million).

6 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.

	Year ended 31 December 2004	Year ended 31 December 2003
Number of ordinary shares in issue	322,089,900	322,089,900
Net profit/(loss) attributable to shareholders (in CZK million)	5,568	(1,780)
Basic earnings per share (CZK)	17	(6)

7 Dividends

(in CZK million)	2004	2003
Dividends (including withholding tax)	5,476	19,360

Dividends include withholding tax on dividends paid by the Company to its shareholders and withholding tax on dividends paid by Eurotel to the Company (applicable only in 2003). There has been no interim dividend paid in respect of 2004. Approval of the 2004 profit and the decision regarding the amount of any dividend payment for the 2004 financial year will take place at the Annual General Meeting scheduled for 23 June 2005.

8 Property, plant and equipment

(in CZK million)	Land and buildings	Duct, cables and related plant	Communication exchanges and related equipment	Other fixed assets	Capital work in progres	Total
Year ended 31 December 2004						
Opening net book amount	16,143	53,415	34,223	3,736	2,803	110,320
Additions	564	1,041	3,183	807	4,515	10,110
Disposals and other movements	(198)	(3)	(62)	(206)	(5,627)	(6,096)
Depreciation charge	(844)	(4,159)	(8,891)	(1,605)	-	(15,499)
Closing net book amount	**15,665**	**50,294**	**28,453**	**2,732**	**1,691**	**98,835**
At 31 December 2004						
Cost	22,096	97,990	84,637	11,221	1,726	217,670
Accumulated depreciation	(6,431)	(47,696)	(56,184)	(8,489)	(35)	(118,835)
Net book amount	**15,665**	**50,294**	**28,453**	**2,732**	**1,691**	**98,835**
Year ended 31 December 2003						
Opening net book amount	14,059	62,149	35,295	3,753	4,027	119,283
Additions	796	1,758	3,826	1,432	5,781	13,593
Acquisition of subsidiary (Note 28)	3,182	-	5,719	549	807	10,257
Disposals and other movements	(242)	(44)	(132)	(21)	(7,812)	(8,251)
Depreciation charge	(626)	(4,652)	(8,238)	(1,730)	-	(15,246)
Impairment loss	(1,026)	(5,796)	(2,247)	(247)	-	(9,316)
Closing net book amount	**16,143**	**53,415**	**34,223**	**3,736**	**2,803**	**110,320**
At 31 December 2003						
Cost	21,786	97,117	82,679	11,325	2,803	215,710
Accumulated depreciation	(5,643)	(43,702)	(48,456)	(7,589)	-	(105,390)
Net book amount	**16,143**	**53,415**	**34,223**	**3,736**	**2,803**	**110,320**

Land and buildings, plant and equipment with a carrying value of CZK 2,648 million (2003: CZK 4,486 million) have been pledged as collateral for CZK 5,300 million of provided borrowings (see Note 16).

No borrowing costs were capitalized during the years 2004 and 2003.

Details regarding the impairment loss that was recorded in 2003 are described in Note 10.

9 Intangible assets

(in CZK million)	Goodwill	Licences	Software	Other	Total
Year ended 31 December 2004					
Opening net book amount	14,028	5,820	6,384	2,739	28,971
Additions	-	-	1,215	-	1,215
Amortisation charge	(708)	(152)	(3,352)	(1,037)	(5,249)
Closing net book amount	**13,320**	**5,668**	**4,247**	**1,702**	**24,937**
At 31 December 2004					
Cost	14,179	5,862	19,430	2,829	42,300
Accumulated amortisation	(859)	(194)	(15,183)	(1,127)	(17,363)
Net book amount	**13,320**	**5,668**	**4,247**	**1,702**	**24,937**
Year ended 31 December 2003					
Opening net book amount	-	2,005	9,551	-	11,556
Additions	-	-	1,135	-	1,135
Acquisition of subsidiary (Note 28)	14,087	3,881	373	2,829	21,170
Disposals and other movements	-	(46)	(53)	-	(99)
Amortisation charge	(59)	(20)	(4,029)	(90)	(4,198)
Impairment loss	-	-	(593)	-	(593)
Closing net book amount	**14,028**	**5,820**	**6,384**	**2,739**	**28,971**
At 31 December 2003					
Cost	14,179	5,862	18,581	2,829	41,451
Accumulated amortisation	(151)	(42)	(12,197)	(90)	(12,480)
Net book amount	**14,028**	**5,820**	**6,384**	**2,739**	**28,971**

Details regarding the impairment loss that was recorded in 2003 are described in Note 10.

Acquired licences are represented by rights to operate the UMTS, GSM and NMT cellular networks. According to the licence conditions, the Group is required to commence network operations for UMTS (Third Generation Services) by 2007.

No borrowing costs were capitalized during the years 2004 and 2003.

10 Impairment of fixed assets

During 2003, external factors relating to the telecommunication market and regulatory environment namely uncertainty regarding tariff rebalancing, termination charges for internet dial-up interconnection charges and other regulatory decisions in the Czech Republic led management to assess the recoverable amount of the fixed line segment assets. The fixed line segment assets constitute one cash-generating unit ("CGU").

An impairment loss was calculated as the difference between the net book value of the Company's fixed line network related tangible and intangible assets and their recoverable amount. The recoverable amount of the CGU was determined as its value in use as the net selling price was not able to be reliably determined.

The total amount of the impairment loss recognised in the financial statements in 2003 was CZK 9,909 million.

The impairment loss was apportioned over the CGU tangible and intangibles assets on a proportionate basis based on their net book values as at 31 December 2003.

The impact of the impairment loss on individual asset categories is described in Note 8 Property, plant and equipment and Note 9 Intangible assets. The impact on the fixed line segment is described in Note 1 Segment information.

11 Inventories

(in CZK million)	31 December 2004	31 December 2003
Construction material	187	150
Cables	181	384
Other inventory including goods for resale	475	566
	843	**1,100**

The inventories noted above are stated net of a provision of CZK 328 million (2003: CZK 471 million), reducing the value of the inventories to their net realisable value.

12 Receivables and prepayments

(in CZK million)	31 December 2004	31 December 2003
Domestic trade receivables (net)	6,455	5,896
Foreign currency trade receivables (net)	648	903
Other debtors (net)	657	693
Prepayments	875	754
VAT receivable	10	246
	8,645	**8,492**

Trade receivables are stated net of a provision for impaired receivables of CZK 3,376 million (2003: CZK 3,343 million). In order to preserve the tax-deductible status of the bad debt expense, the Group's trade receivables are not written off and removed from the primary books and records until certain statutory collection requirements have been satisfied.

Receivables from related parties are disclosed in Note 29.

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.

Trade and other receivables in total of CZK 268 million (2003: CZK 289 million) are expected to be recovered or settled in more then 12 months.

13 Available-for-sale and held-to-maturity investments

Available-for-sale investments (in CZK million)	2004	2003
At beginning of year	433	5,770
Revaluation deficit	(7)	(8)
Additions	13	197
Disposals	(263)	(5,526)
At end of year	**176**	**433**
Non-current	59	182
Current	117	251
	176	**433**

Held-to-maturity investments (in CZK million)	2004	2003
At beginning of year	133	1,561
Exchange differences	-	(147)
Revaluation deficit	-	(6)
Additions	5	160
Matured	(29)	(1,435)
At end of year	**109**	**133**
Non-current	31	116
Current	78	17
	109	**133**

Available-for-sale investments, principally comprising marketable securities, are fair valued annually at the balance sheet date. 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.

14 Cash and cash equivalents

(in CZK million)	31 December 2004	31 December 2003
Cash balances	242	389
Short- term bank deposits	238	4,269
Cash and cash equivalents	**480**	**4,658**

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

(in CZK million)	31 December 2004	31 December 2003
Cash and cash equivalents	480	4,658
Bank overdrafts and other short-term borrowings (Note 16)	-	(9)
Balance at the end of period	**480**	**4,649**

15 Trade and other payables

(in CZK million)	31 December 2004	31 December 2003
Trade creditors in local currency (net)	3,728	3,758
Trade creditors in foreign currencies (net)	719	793
Other taxes and social security	226	240
Deferred revenue	908	1,681
Employee wages and benefits	431	475
VAT payable	368	-
Accrued expenses	340	566
Other creditors	83	146
Other liabilities	1,817	2,384
Derivative instruments (Note 20)	167	2
	8,787	**10,045**

Payables to related parties are disclosed in Note 29.

Trade and other payables in total of CZK 1 million (2003: CZK 0 million) are expected to be paid or settled in more then 12 months.

16 Borrowings

(in CZK million)	31 December 2004	31 December 2003
Bank loans and overdrafts in local currency (a)	2,100	3,013
Other loans in local currency	-	2,281
International financial institution loans in foreign currencies	1,110	1,478
Bank loans and overdrafts in foreign currencies (a)	12,272	28,293
Bonds in local currency (b)	10,000	10,000
	25,482	**45,065**
Repayable:		
Within one year	*8,665*	*20,021*
Between one and two years	2,565	6,728
Between two and five years	10,358	14,082
After five years	3,894	4,234
Total non-current	*16,817*	*25,044*
	25,482	**45,065**

(a) Bank loans and overdrafts include overdrafts of CZK 0 million denominated in the local currency (2003: CZK 8 million) and CZK 0 million in foreign currencies (2003: CZK 1 million).

In November 2003, the Company raised a syndicated credit facility in the total amount of EUR 850 million equivalent, with a final maturity day on 21 November 2008. The purpose of the loan was to finance the acquisition of the remaining 49% ownership interest in Eurotel (Note 28) and general corporate purposes of the Group. As at 31 December 2004 the outstanding amount of the loans under the credit facility was EUR 275 million (2003: EUR 745 million) and CZK 0 million (2003: CZK 2,000 million) with a weighted average interest rate of 2.61% p.a. (2003: 2.55% p.a.). The terms and conditions of the credit facility agreement, inter alia, require the Group to maintain certain gearing and interest cover ratios of earnings before interest, tax, depreciation and amortisation to net borrowings and interest payable.

Loans with a maturity within one year and denominated in a foreign currency have a total value of EUR 84 million (2003: EUR 454 million).

(b) In 2003, the Company rolled over CZK 1,000 million of bonds (as additional issue to CZK 3,000 million of bonds from 2002) with an interest rate of 4.55% p.a. and a maturity date of 15 July 2005.
During 2003, the Company issued CZK 6,000 million of bonds with an interest rate of 3.50% p.a. and a maturity date of 9 July 2008.

At 31 December 2004, the Group had approximately CZK 9,386 million of available undrawn credit facilities (2003: CZK 3,883 million).

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

The Group´s loan interest rate allocation after taking into account interest rate swaps was as follows:

(in CZK million)	31 December 2004	31 December 2003
At fixed rate	25,482	45,051
At floating rate	-	14
Total	**25,482**	**45,065**

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

31 December 2004 (in CZK million)	Carrying amounts	Fair values
Bank loans	15,482	16,503
Bonds	10,000	9,984
Total	**25,482**	**26,487**

The fair values are based on discounted cash flows using a discount rate based upon the borrowing rate that the Board of 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 actual bond market pricing. The carrying amounts of short-term borrowings approximate their fair value.

Effective interest rates	31 December 2004	31 December 2003
Bank loans and overdrafts in local currency	2.79%	2.36%
Other loans in local currency	0.00%	0.00%
International financial institution loans in foreign currencies	6.80%	6.80%
Bank loans and overdrafts in foreign currencies	3.88%	3.15%
Bonds in local currency	3.92%	3.92%

International financial institution loans in foreign currencies are secured by the Czech Republic (represented by the Ministry of Finance of the Czech Republic) and certain movables and real estates. Other loans are not secured. The carrying value of assets pledged is as follows:

(in CZK million)	31 December 2004	31 December 2003
Land and buildings	687	1,321
Plant and equipment	1,961	3,165
Total	**2,648**	**4,486**

17 Deferred income taxes

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. In December 2003, the Czech government enacted legislation, by which the corporate income tax rate was reduced from 31% to 28%, 26% and 24% for the fiscal years ending in 2004, 2005 and 2006 (respectively).

Short-term deferred taxes were calculated at 26% (28% in 2003), long term deferred taxes were calculated at 24% (26% and 24% in 2003). The reduction in deferred tax liability of CZK 227 million (2003: CZK 1,769 million) is attributable to the change in enacted tax rates for future periods.

(in CZK million)	2004	2003
At 1 January	7,674	11,632
Income statement credit (Note 5)	(1,386)	(6,447)
Acquisition of subsidiary (Note 28)	-	2,461
Tax on fair value gains	(3)	(3)
Other movements*	282	31
At the end of period	**6,567**	**7,674**

* 2004 disclosure represents other impacts due to differences between actual and booked estimate of current income tax payable in 2003.

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 million)	31 December 2004	31 December 2003
Deferred tax assets	(1,559)	(1,199)
Deferred tax liabilities	8,126	8,873
Total	**6,567**	**7,674**

The deferred tax asset includes CZK 369 million (2003: CZK 403 million) recoverable in less than twelve months and CZK 1,190 million (2003: CZK 796 million) recoverable after more than twelve months. The deferred tax liability includes CZK 749 million (2003: CZK 794 million) payable in less than twelve months and CZK 7,377 million (2003: CZK 8,079 million) payable in more than twelve months.

The deferred tax amounts shown in the balance sheet relate to temporary differences arising from the tax bases and carrying amounts of assets and liabilities as follows:

(in CZK million)	31 December 2004	31 December 2003
Property, plant and equipment and intangible assets	6,992	8,550
Trade receivables, inventories and other items	(425)	(876)
Total	**6,567**	**7,674**

18 Government social security and pension schemes

The Group is legally required to make contributions to government health, retirement benefit and unemployment schemes. During 2004 and 2003, 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 to operating expenses in respect of this scheme was CZK 1,784 million in 2004 (2003: CZK 1,750 million). Employees contribute 12.5% (2003: 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 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 81 million (2003: CZK 102 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 25,000 or CZK 90,000 on retirement depending on the length of the employee's service, who have completed not less than 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 any 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 2004 relating to employee retirement amounted to CZK 0.1 million (2003: CZK 0.9 million) and were charged as an operating expense.

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

19 Provisions for liabilities and charges

	Regulatory and court decisions	Employee redundancy costs	Employee-related costs	Share-based compensation	VAT assessments	Customer benefits	Other	Total
At 1 January 2003	-	-	-	-	81	220	25	326
Additions during the year	935	109	-	-	105	730	71	1,950
Utilised during the year	-	-	-	-	(81)	(676)	(88)	(845)
Acquisition of subsidiary	-	-	-	-	80	223	31	334
At 31 December 2003	**935**	**109**	**-**	**-**	**185**	**497**	**39**	**1,765**
Additions during the year	674	-	186	60	-	489	277	1,686
Utilised during the year	(43)	(109)	-	-	(185)	(497)	(185)	(1,019)
At 31 December 2004	**1,566**	**-**	**186**	**60**	**-**	**489**	**131**	**2,432**

With the exception of the provision for employee-related costs and regulatory and court decisions for which the expected timing of payments is not certain all other provisions are expected to be utilised within next 12 months.

Provision for customer benefits constitute costs associated with customer retention programs such as the customer loyalty programs that are in place in the Group.

Employee-related costs include expected costs associated with certain performance bonuses attributable to management and provision for termination payments.

20 Financial instruments

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 million)	31 December 2004	31 December 2003
Total	-	-

Contracts with negative fair value (in CZK million)	31 December 2004	31 December 2003
Instruments not qualifying as hedges		
– Forward foreign exchange contracts	4	-
Cash flow hedges		
– Interest rate swaps	11	-
– Forward rate agreements	-	2
– Forward foreign exchange contracts	27	-
Fair value hedges		
– Structures involving currency options	8	-
– Forward foreign exchange contracts	117	-
Total (Note 15)	**167**	**2**

21 Contingencies

Litigation

The Company has not yet agreed a 2001 price amendment to an agreement with mobile operators in the Czech Republic governing interconnect arrangements. In December 2003 the Czech Telecommunication Office (CTU) effectively ruled in favour of the amount claimed by T-Mobile Czech Republic a.s. The Company subsequently obtained adjournment of the decision execution and lodged an appeal. Whilst management believes that all risks, which may arise as a result of this litigation, are adequately provided for in the financial statements no further disclosure is deemed appropriate as it could prejudice the Company's position in the dispute.

Eurotel's price amendments have also not yet been finalised with other Czech mobile operators for the period from 1 January 2002. Management has provisioned these arrangements at the minimum fixed and determinable rates and cash settlement has been concluded for interconnect transactions with other telecommunications operators in respect to 2002, 2003 and 2004.

The Company is prosecuted by AUGUSTUS spol. s r.o. for an alleged loss of profit in the principal amount of approximately CZK 183 million relating to the years 1995–2001. The management believes that all risks, which may arise as a result of this litigation, are adequately provided for in the financial statements.

The Company is subject to administrative proceedings by the Office for the Protection of Economic Competition (UOHS) relating to the alleged creation of unfair barriers against development on the market through the application of certain specific price plans for residential customers. No decision has been issued by the UOHS as of the date of these consolidated financial statements. The management believes that all risks, which may arise as a result of this litigation, are adequately provided for in the financial statements.

The Company is a participant in several other lawsuits and administrative proceedings including those related to the Company's pricing policies. Based on the information available, management is satisfied that there is no material unprovided liability arising from these lawsuits and administrative proceedings.

Eurotel is a defendant in a case filed by Oskar Mobil, a.s. in May 2004 asserting causes for alleged breach of the antitrust law by the company. No hearing has yet been ordered. Based on the currently available information, management does not believe the resolution of this legal proceeding will have a material adverse effect on net income.

Floods

The August 2002 floods affected the Group's assets. All identifiable damages regarding the Group's assets and known reimbursements from insurance companies have been recognised in the financial statements for 2002, 2003 and 2004. The Group, in accordance with its internal policies, only recognises reimbursements from insurance companies that were confirmed by the balance sheet date. No additional reimbursements from insurance companies regarding 2002 floods are expected after 2004.

22 Commitments

Operating leases

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

(in CZK million)	31 December 2004	31 December 2003
No later than 1 year	1,093	1,031
Later than 1 year and not later than 5 years	1.995	1,971
Later than 5 years	1,644	1,714
Total	**4.732**	**4,716**

In 2004 the Group entered into a sale and lease back transaction and now leases the majority of its car fleet under operating leases. There are no contingent rent obligations. The lease arrangements include an option to renew the lease after the initial period.

Lease payments are fixed and determinable, however they may be increased to reflect inflation and other market conditions such as interest rates changes (e.g. an increase in PRIBOR by more than 2% over a half year). There are no significant restrictions imposed by these lease arrangements, such as those concerning dividends, additional debt and further leasing.

Total future lease payments relating to this contract in 2004 were CZK 353 million (2003: CZK 0 million).

Capital commitments

(in CZK million)	31 December 2004	31 December 2003
Capital expenditure contracted but not provided for in the financial statements	1,948	1,491

The majority of contracted amounts relate to the telecommunications network and service contracts.

23 Service concession arrangements

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

The Company:
The Company provides its services based on a certificate of registration in accordance with General licences for the provision of telecommunication services (validity until the end of 2009) and in accordance with two 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 two non-exclusive licences, the Company has the right to install and operate a public fixed telecommunication network (including network for Radio and TV broadcasting) in the entire territory of the Czech Republic and to operate and utilise certain frequencies and numbers, and to provide public telephone service by means of public fixed telecommunications network.

In accordance with the aforementioned licences and regulatory framework, the Company is obliged to satisfy the following requirements:

- Fulfil its universal service obligations (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 networks and to providers of telecommunication services;
- Provide public telecommunication services of lease of telecommunication circuits;
- Construct and modernise a telecommunication network;
- Fulfil the obligations in the cases of crisis situation.

Selected telecommunication services are subject to price regulation.

The Czech Telecommunication Office (Český telekomunikační úřad) is the regulatory body of the telecommunication market (responsible for price regulation, regulation of services, awarding, changing and withdrawing licences) in the Czech Republic. It is an independent institution established by the state. In 2004, there were no changes that had a significant impact on granted licences, with the exception of price changes for regulated services and the amendment No. 1 of the Telecommunication licence for installation and operation of public fixed telecommunications network that allows the Company also to install and operate network of radio and television transmitters.

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

Furthermore, the company has a licence for the installation and operation of a public fixed telecommunication network in the band 3.5 GHz with the use of access networks of the P - MP type and a licence for the provision of public telephone services via public fixed telecommunication network.

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;
- Commence operations in accordance with the terms of its UMTS licence by 1 January 2007 upon fulfilment of minimum coverage.

If Eurotel does not commence operations in accordance with the terms of its UMTS licence by 1 January 2007, the licence may be withdrawn without reimbursement and Eurotel may incur penalties from the Czech Telecommunication Office of up to CZK 10 million.

In accordance with the terms of its licences, the company has the right to install and operate its network in the territory of the Czech Republic, to conclude agreements with domestic and foreign operators concerning connection, and in the 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.

24 Share capital and reserves

	31 December 2004	31 December 2003
Nominal value per ordinary share (CZK)	100	100
Number of shares	322,089,890	322,089,890
Nominal value per share with special rights (CZK)*	1,000	1,000
Number of shares*	1	1
Ordinary shares (in CZK million)	32,209	32,209

* One share owned by The National Property Fund of the Czech Republic bears special decision-making rights in accordance with the statutes of the Company. These special rights include namely decisions regarding the liquidation of the Company, changes in the Company's activities, sale or lease of the Company or of its assets.

At 31 December 2004, shareholdings in the Company were as follows:

The National Property Fund of the Czech Republic	51.1%
Other shareholders	48.9%

Retained earnings include a statutory reserve fund of CZK 5,620 million (2003: CZK 5,619 million) that is not distributable under ruling legislation.

25 Share-based payments

On 24 June 2004 the Group granted 2,207,000 share appreciation rights (SARs) to selected members of the Board of Directors and the Supervisory Board (see note 32) in accordance with the Compensation Plan approved by the annual general meeting of shareholders. The SARs provide those eligible, at the date the rights are exercised, the right to receive cash payments calculated based on a formula reflecting any appreciation in the Company's share price (preceding six-month average) from the inception date of the plan. The inception date for the determination of the option base price is 31 December 2003 (preceding six months average). The SARs are conditional on the board member remaining in the employment of the Company throughout the vesting period. The SARs vest and are exercisable during 2005 and 2006 unless there is a decrease or cessation of the NPF ownership of shares in ČESKÝ TELECOM or a board member's employment with the Company is terminated for reasons other than personal decision or breach of duty. In these events the SARs are exercisable immediately. The SARs are settled once exercised.

The conditions, numbers, terms and estimated fair and intrinsic value of vesting and exercise are as follows:

Condition and numbers

Type of arrangement	Share appreciation rights (SARs)
Date of grant (approval of the Compensation Plan by general meeting)	24 June 2004
Number granted	2,207,000 (300,000 SARs were granted on 27 October 2004)
Exercise price	n/a
Option base price at the base date	CZK 270.50 (base date 31 December 2003) CZK 337.70 (base date 27 October 2004)
Contractual life	between 9 and 30 months
Vesting conditions	being member of the Board of Directors / Supervisory Board over the contractual life
Settlement	Cash
Expected volatility*	29.3%
Expected risk-free interest rate**	2.6 – 3.2%
Expected departures – forfeitures	0.0%
Expected dividend (dividend yield)***	0.0%
Valuation method	Monte Carlo
Valuation model	Black-Scholes

* The expected volatility for the SARs is based on historical volatility determined from daily share price movements over past year.
** Expected daily risk-free rates are assumed to be constant and equal to daily forward rates calculated from zero-coupon CZK yield curve.
*** Measurement of the SARs fair value considers net dividends paid in 2004.

Numbers, terms, fair and intrinsic value as at 31 December 2004

The granted SARs become exercisable in eight fixed terms during the year 2005, 2006 at eight equal portions of granted rights.

Date of expiration	31 March 2005	30 June 2005	31 October 2005	31 December 2005
Number of rights granted (24 June 2004)	238,375	238,375	238,375	238,375
Fair value (CZK)	83.62	97.99	101.98	104.63
Number of rights granted (27 October 2004)	37,500	37,500	37,500	37,500
Fair value (CZK)	17.8	36.95	49.16	54.28

Date of expiration	31 March 2006	30 June 2006	31 October 2006	31 December 2006
Number of rights granted (24 June 2004)	238,375	238,375	238,375	238,375
Fair value (CZK)	109.13	113.18	118.18	120.20
Number of rights granted (27 October 2004)	37,500	37,500	37,500	37,500
Fair value (CZK)	61.23	67.15	74.23	77.27

The intrinsic value of rights granted on 24 June 2004 is CZK 76.62 for each right and CZK 9.41 for rights granted on 27 October 2004.

The adoption of IFRS 2 resulted in the following amounts being included in share-based compensation (see Note 19):

Employee benefit expenses (wages and salaries) (in CZK million)	2004	2003
SARs granted to the Board of Directors and Supervisory Board	60	-
Closing balance of provision for share-based compensation	60	-

26 Hedging reserve

(in CZK million)	
Balance at 1 January 2003	6
Fair value losses in period	(23)
Fair value losses transfer to net profit	12
Deferred tax on fair value losses	3
Balance at 31 December 2003	**(2)**
Fair value losses in period	(50)
Fair value losses transfer to net profit	2
Deferred tax on fair value losses	3
Balance at 31 December 2004	**(47)**

27 Cash generated from operating activities

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Net profit/(loss)	5,568	(1,780)
Adjustments for:		
Minority interest (Note 31)	(3)	(31)
Tax (Note 5)	2,349	(4,856)
Depreciation (Note 8)	15,499	15,246
Amortisation (Note 9)	5,249	4,198
Impairment loss (Note 10)	-	9,909
Disposals of obsolete assets	195	342
Profit on sale of property, plant and equipment	(245)	(93)
Net interest and other charges	1,202	721
Foreign exchange (gains)/losses	(1,183)	235
Fair value changes	134	(794)
Increase in provisions	932	1,525
Operating cash flow before working capital changes	*29,697*	*24,622*
Decrease/(increase) in trade and other receivables	308	(302)
Increase in inventories	(138)	(217)
(Decrease)/increase in trade and other payables	(1,239)	52
Cash generated from operations	**28,628**	**24,155**

28 Acquisition

On 28 November 2003, the Company fulfilled all conditions relevant under a purchase agreement for the acquisition of a further 49% ownership interest in Eurotel and thereby increased its total ownership interest to 100%.

Consolidation treatment prior to acquisition of a further 49% ownership interest in Eurotel

Prior to 1 December 2003 the Company's interest in Eurotel was accounted for as a joint venture using the proportionate method of consolidation whereby until this date the Group consolidated 51% of Eurotel's income, expenses, assets and liabilities on a line-by-line basis with similar items in the Group financial statements.

Consolidation treatment after acquisition of a further 49% ownership interest in Eurotel

As a result of the change of its ownership interest in Eurotel the Group prepared the consolidated financial statements for 2003 using a combination of the proportionate consolidation method for its 51% ownership interest in the joint venture Eurotel from 1 January 2003 to 30 November 2003 and the full consolidation method for its 100% ownership interest in the subsidiary Eurotel from 1 December 2003 to 31 December 2003.

In order to assist in the determination of the fair value of the net assets acquired, the Company employed the services of an independent third party professional valuer.

The assets and liabilities arising from the acquisition are set out in the following table:

(in CZK million)	Net book value (49%)	Fair Value Adjustment (49%)	Fair value at acquisition (49%)
Intangible assets (Note 9)	2,529	4,554	7,083
Property, plant and equipment (Note 8)	11,309	(1,052)	10,257
Investments	5	-	5
Inventories	254	-	254
Receivables and prepayments	2,072	-	2,072
Cash and cash equivalents	1,688	-	1,688
Assets acquired	*17,857*	*3,502*	*21,359*
Borrowings	1,119	-	1,119
Deferred taxes (Note 17)	1,458	1,003	2,461
Trade and other payables	2,585	(268)	2,317
Provisions (Note 19)	334	-	334
Liabilities assumed	*5,496*	*735*	*6,231*
Fair value of net assets acquired			**15,128**
Cost of acquisition (cash)*			29,215
Goodwill (Note 9)			**14,087**

* The Group acquired additional equity interest in other companies in total for CZK 5 million in 2003.

29 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.

KPN TELECOM B.V. had reduced its direct holding of shares and voting rights in the Company from 6.5% to 0.00% with effect from 19 June 2003.

TelSource N.V., whose 51% shareholder is KPN TELECOM B.V. and 49% shareholder Swisscom AG, did not hold any shares in the Company after 10 December 2003, and accordingly the respective related party sales and purchases have been prepared for period from 1 January 2003 to 10 December 2003. There were no outstanding balances as at 31 December 2003.

The following transactions were carried out with related parties:

a) Sales of services and goods

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Swisscom AG – interconnect services	-	81
KPN TELECOM B.V. – interconnect services	-	21
TelSource N.V. – services	-	-
	-	**102**

b) Purchases of services and goods

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Swisscom AG – interconnect services	-	50
KPN TELECOM B.V. – interconnect services	-	24
TelSource N.V. – services	-	23
KPN Czech Republic, s.r.o. – services	-	-
	-	**97**

c) Net receivables/(payables)

(in CZK million)	31 December 2004	31 December 2003
Swisscom AG	-	-
KPN TELECOM B.V.	-	-
TelSource N.V.	-	-
KPN Czech Republic, s.r.o.	-	-

d) Key management compensation

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Salaries and other short-term benefits	140	37
Board share on profit	-	7
Stock appreciation rights (Note 25)	60	-
Non-competition clause	2	5
Capital life insurance	9	7
Personal indemnification insurance	14	4
Total	**225**	**60**

e) Loans to related parties

Loans to members of Board of Directors and Supervisory Board:

(in CZK million)	Year ended 31 December 2004	Year ended 31 December 2003
Beginning of the year	1	3
Loans advanced during the year	-	-
Loans repayments received	(1)	(2)
Interest charged	-	-
Interest received	-	-
End of the year	**-**	**1**

No other loan was provided to related parties by the Company.

30 Principal subsidiary undertakings

Name	Group's interest	Country of incorporation	Activity
1. Eurotel Praha, spol. s r.o.	100%	Czech Republic	Mobile telephony and internet services
2. OMNICOM 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 services
5. CZECH TELECOM Austria GmbH	100%	Austria	Data transmission services
6. CZECH TELECOM Slovakia, s.r.o.	100%	Slovakia	Data transmission services
7. CenTrade, a.s.	86.5%	Czech Republic	E-business company providing market place services

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 was engaged in the contracting of labour services to Eurotel for periods prior to January 2004. In September 2004, Trigo commenced the process of voluntary liquidation.

On 29 January 2004 Eurotel acquired a 23.25% ownership in a Czech joint stock company, První certifikační autorita, a.s. ("PCA") for CZK 10 million, which was recorded as an associate investment. PCA is engaged in the development and implementation of information systems, electronic signatures certification and safety solutions for e-business for the third parties.

M.I.A. a.s., a subsidiary of the Company entered into liquidation proceedings on 1 March 2004. The liquidation was finalized on 13 January 2005. This fact was not reflected in the Commercial register as of the date of the preparation of these consolidated financial statements.

31 Minority interest

(in CZK million)	2004	2003
At 1 January	9	45
Elimination impact*	-	(5)
Share of net loss of subsidiaries	(3)	(31)
At 31 December	**6**	**9**

* Impact of the elimination of liquidated companies from consolidation.

32 Post balance sheet events

The Company is a defendant in a case filed by TELE2 s.r.o. on 3 February 2005 asserting causes for alleged breach of anti competition law by the Company in connection with offering pricing plans since January 2002. The amount of the claim is CZK 2,142 million (excluding interest). In accordance with procedural rules the Company has not yet been officially notified of the claim nor has it been provided with the full claim documentation. Whilst the Board of Directors believe, based on the limited information currently available, that the claim of TELE2 s.r.o. is without merit and will not be substantiated, due to the early stage of the case it is not possible to estimate the final outcome. As a result, no provision has been made in the financial statements for this matter. However the Board of Directors is satisfied that it has acted appropriately and will rigorously defend its position in this proceeding as and when further information becomes available.

An extraordinary general meeting of the shareholders of ČESKÝ TELECOM, a.s., took place on 3 February 2005. The General Meeting approved changes to the rules governing remuneration for members of the Supervisory Board of ČESKÝ TELECOM, a.s., whereby it cancelled the compensation plan (see Note 25) for the members of this corporate body of the Company. No adjustment for this has been included in these financial statements.

The Board of Directors approved (and the Supervisory Board acknowledged) a motivational bonus program for executive directors, which is aimed at increasing performance and maximising shareholder value. This plan is based on key performance characteristics of the Group and is effective from 1 January 2005. As a result no provision for amounts that are expected to be payable under this plan are reflected in these consolidated financial statements.

33 Privatisation

In June 2004 the Czech Government, via its agency, the National Property Fund, selected a consortium CSFB and Česká spořitelna, a.s. to act as an advisor for the privatisation of its 51.1% stake in ČESKÝ TELECOM, a.s.

In December 2004 based on the advisor recommendation, the Czech government approved the start of the privatisation process via a so-called „dual track“. The 51.1% stake would be first offered to investors via a M&A sale process and if this does not lead to the selection of a buyer, the equity stake will be sold in the capital markets via a secondary equity offering. The privatisation process is currently in progress. It is not possible to determine at this stage the effects, if any, of possible future developments on the values of the assets and liabilities of the Group.

7.2 Report of independent auditors and financial statements for the year ended 31 December 2004

Content

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 2004, the related income statement, statement of changes in shareholders' equity, cash flow statement and notes for the year then ended presented in the annual report of the Company on pages 122–162 ("the financial statements"). The financial statements, which include description of the activities of the Company, 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 the International Standards on Auditing. 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 the Company as at 31 December 2004, and the results of its operations, its changes in equity and its cash flows 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 5–67 and 167–189, which does not form part of the financial statements for the year ended 31 December 2004, 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. In addition we have reviewed the Company's declaration as to the extent of its compliance with the code of good corporate governance based on the OECD principles and did not note any material factual inaccuracy.

In addition we have also reviewed the accompanying report on relations between the Company and its controlling party and between the Company and the other parties controlled by the same controlling party on pages 199–214 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the Report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

30 April 2005

PricewaterhouseCoopers Audit, s.r.o.
represented by

Petr Kříž
Partner and Auditor, Licence No. 1140

Balance sheet

	ASSETS	31. 12. 2004 Gross CZK'000	Provision CZK'000	Net CZK'000	31. 12. 2003 Net CZK'000
	TOTAL ASSETS	**237,798,342**	**120,314,715**	**117,483,627**	**132,181,438**
A.	**Receivables for subscribed capital**	**-**	**-**	**-**	**-**
B.	**Fixed assets**	**228,658,357**	**118,200,048**	**110,458,309**	**122,762,115**
B. I.	**Intangible fixed assets**	**16,745,763**	**13,660,730**	**3,085,033**	**5,646,068**
B. I. 1.	Establishment costs	-	-	-	-
2.	Research & development	731,197	495,828	235,369	304,520
3.	Software	15,695,079	13,130,853	2,564,226	5,096,814
4.	Royalties	35,297	34,049	1,248	1,528
5.	Goodwill	-	-	-	-
6.	Other intangible fixed assets	-	-	-	-
7.	Intangible assets in the course of construction	284,190	-	284,190	233,306
8.	Advances paid for intangible assets	-	-	-	9,900
B. II.	**Tangible fixed assets**	**181,940,114**	**103,907,378**	**78,032,736**	**87,651,367**
B. II. 1.	Land	541,735	-	541,735	552,597
2.	Constructions	112,383,526	53,061,328	59,322,198	62,871,338
3.	Equipment	68,297,469	50,749,271	17,548,198	22,983,565
4.	Cultivated areas	-	-	-	-
5.	Livestock	-	-	-	-
6.	Other tangible fixed assets	5,016	-	5,016	5,174
7.	Tangible assets in the course of construction	611,790	-	611,790	1,147,189
8.	Advances paid for tangible fixed assets	9,031	5,232	3,799	91,504
9.	Adjustment to acquired fixed assets	91,547	91,547	-	-
B.III.	**Long-term investments**	**29,972,480**	**631,940**	**29,340,540**	**29,464,680**
B.III. 1.	Investments in controlled entities/subsidiaries	29,687,216	631,940	29,055,276	29,097,804
2.	Investments in associates	72	-	72	72
3.	Other long-term investments in securities	285,134	-	285,134	366,713
4.	Intragroup loans - subsidiaries and associates	-	-	-	-
5.	Other financial investments	58	-	58	91
6.	Long-term investments in progress	-	-	-	-
7.	Advances paid for long-term investments	-	-	-	-

	ASSETS	31. 12. 2004 Gross CZK'000	Provision CZK'000	Net CZK'000	31. 12. 2003 Net CZK'000
C.	**Current assets**	**8,786,020**	**2,114,667**	**6,671,353**	**9,055,705**
C. I.	**Inventories**	**656,436**	**260,196**	**396,240**	**595,253**
C. I. 1.	Raw materials	625,079	256,536	368,543	534,262
2.	Work in progress and semi-finished products	-	-	-	-
3.	Finished goods	-	-	-	-
4.	Livestock	-	-	-	-
5.	Goods for resale	31,357	3,660	27,697	60,991
6.	Prepayments for inventory	-	-	-	-
C. II.	**Long-term receivables**	**152,273**	**-**	**152,273**	**172,946**
C. II. 1.	Trade receivables	2,440	-	2,440	301
2.	Intragroup receivables	-	-	-	-
3.	Receivables - associates	-	-	-	-
4.	Receivables from shareholders/owners	-	-	-	-
5.	Other advances paid	252	-	252	117,788
6.	Anticipated assets	-	-	-	-
7.	Other receivables	149,581	-	149,581	54,857
8.	Deferred tax asset	-	-	-	-
C.III.	**Short-term receivables**	**7,763,132**	**1,854,471**	**5,908,661**	**6,415,643**
C.III. 1.	Trade receivables	5,862,376	1,318,444	4,543,932	4,954,587
2.	Intragroup receivables	29,246	-	29,246	61,569
3.	Receivables - associates	-	-	-	-
4.	Receivables from shareholders/owners	116,093	-	116,093	116,093
5.	Receivables for social security and health insurance	-	-	-	-
6.	Taxes and state subsidies receivable	100,543	-	100,543	184,880
7.	Other advances paid	113,164	-	113,164	144,511
8.	Anticipated assets	990,198	-	990,198	925,885
9.	Other receivables	551,512	536,027	15,485	28,118
C. IV.	**Short-term financial assets**	**214,179**	**-**	**214,179**	**1,871,863**
C. IV. 1.	Cash in hand	6,782	-	6,782	49,061
2.	Cash at bank	85,506	-	85,506	33,802
3.	Short-term investments	121,891	-	121,891	1,789,000
4.	Short-term investments in progress	-	-	-	-
D. I.	**Accruals and deferrals**	**353,965**	**-**	**353,965**	**363,618**
D. I. 1.	Prepaid expenses	353,129	-	353,129	361,937
2.	Complex prepaid expenses	-	-	-	-
3.	Accrued revenue	836	-	836	1,681

Balance sheet

		LIABILITIES AND EQUITY	31. 12. 2004 CZK'000	31. 12. 2003 CZK'000
		TOTAL LIABILITIES AND EQUITY	**117,483,627**	**132,181,438**
A.		**Equity**	**78,380,948**	**75,819,604**
A. I.		**Share capital**	**32,208,990**	**32,208,990**
A. I.	1.	Share capital	32,208,990	32,208,990
	2.	Own shares held	-	-
	3.	Changes in registered capital not yet registered	-	-
A. II.		**Capital contributions**	**31,423,233**	**31,438,658**
A. II.	1.	Share premium	29,343,185	29,343,185
	2.	Other capital contributions	2,127,328	2,127,599
	3.	Assets and liabilities revaluation	(47,280)	(32,126)
	4.	Merger revaluation reserve	-	-
A.III.		**Reserve funds, non-distributable reserves and other reserves**	**5,519,770**	**5,531,914**
A.III.	1.	Statutory reserve fund, non-distributable reserves	5,498,065	5,498,065
	2.	Statutory and other reserves	21,705	33,849
A. IV.		**Retained earnings**	**1,137,513**	**7,801,307**
A. IV.	1.	Retained profits	1,137,513	7,801,307
	2.	Accumulated losses	-	-
A. V.		**Profit/(loss) for the current period**	**8,091,442**	**(1,161,265)**
B.		**Liabilities**	**38,738,692**	**55,458,273**
B. I.		**Provisions**	**3,920,783**	**2,223,678**
B. I.	1.	Tax-deductible provisions	-	-
	2.	Provisions for pensions and similar liabilities	-	-
	3.	Income tax provision	831,824	-
	4.	Other provisions	3,088,959	2,223,678
B. II.		**Long-term liabilities**	**9,528,558**	**14,068,506**
B. II.	1.	Trade liabilities	-	-
	2.	Intragroup liabilities	-	-
	3.	Liabilities - associates	-	-
	4.	Liabilities - shareholders/owners	-	-
	5.	Advances received	817	408
	6.	Debentures and bonds issued	6,000,000	10,000,000
	7.	Bills of exchange payable	-	-
	8.	Anticipated liabilities	-	-
	9.	Other liabilities	2,549	-
	10.	Deferred tax liability	3,525,192	4,068,098

		LIABILITIES AND EQUITY	31. 12. 2004 CZK'000	31. 12. 2003 CZK'000
B.III.		**Short-term liabilities**	**9,807,868**	**6,389,845**
B.III.	1.	Trade payables	4,492,563	958,079
	2.	Intragroup liabilities	-	-
	3.	Liabilities - associates	-	-
	4.	Liabilities to shareholders/owners	10,254	13,750
	5.	Liabilities to employees	200,695	227,061
	6.	Liabilities for social security and health insurance	115,831	130,995
	7.	Taxes and state subsidies payable	217,098	69,271
	8.	Advances received	19,611	168,034
	9.	Debentures and bonds issued	4,000,000	-
	10.	Anticipated liabilities	593,170	4,759,080
	11.	Other payables	158,646	63,575
B. IV.		**Bank loans & overdrafts**	**15,481,483**	**32,776,244**
B. IV.	1.	Long-term bank loans	13,381,483	22,049,040
	2.	Short-term bank loans and overdrafts	2,100,000	10,727,204
	3.	Other short-term borrowings	-	-
C. I.		**Accruals and deferrals**	**363,987**	**903,561**
C. I.	1.	Accruals	338,905	373,817
	2.	Deferred revenue	25,082	529,744

Income statement

			Accounting period 2004 CZK'000	2003 CZK'000
I.		Sales of goods	353,599	264,480
A.		Cost of goods sold	360,687	297,579
+		**Gross profit**	**(7,088)**	**(33,099)**
II.		**Sales of production**	**33,240,379**	**36,214,182**
II.	1.	Sales of own products and services	32,789,285	35,530,241
	2.	Change in inventory of finished goods and work in progress	-	-
	3.	Own work capitalised	451,094	683,941
B.		**Cost of sales**	**11,092,178**	**11,493,588**
B.	1.	Raw materials and consumables	1,381,301	1,733,845
	2.	Services	9,710,877	9,759,743
+		**Added value**	**22,141,113**	**24,687,495**
C.		**Staff costs**	**5,698,149**	**6,689,553**
C.	1.	Wages and salaries	4,155,644	4,884,842
	2.	Emoluments of board members	17,695	16,159
	3.	Social security costs	1,293,029	1,508,721
	4.	Other social costs	231,781	279,831
D.		Taxes and charges	121,716	87,266
E.		Depreciation of long-term assets	14,313,690	26,372,514
III.		**Sale of long-term assets and raw materials**	**619,021**	**455,167**
III.	1.	Sale of long-term assets	592,720	418,375
	2.	Sale of raw materials	26,301	36,792
F.		**Net book amount of long-term assets and raw materials sold**	**548,354**	**354,119**
F.	1.	Net book amount of long-term assets sold	347,961	314,328
	2.	Net book amount of raw materials sold	200,393	39,791
G.		Increase/(decrease) in operating provisions and complex prepaid expenses	871,254	1,968,054
IV.		Other operating income	605,842	80,551
H.		Other operating charges	794,067	849,281
V.		Adjustments to operating income	-	-
I.		Adjustments to operating expense	-	-
*		**Operating result**	**1,018,746**	**(11,097,574)**

			Accounting period 2004 CZK'000	2003 CZK'000
VI.		Income from sales of securities and shares	-	7,116,873
J.		Securities and shares sold	135,221	7,131,669
VII.		**Income from long-term investments**	**8,042,374**	**4,788,497**
VII.	1.	Income from investments in controlled entities/subsidiaries and associates	8,000,000	4,758,768
	2.	Income from invenstments in other participating interests	18,864	18,276
	3.	Income from other long-term investments	23,510	11,453
VIII.		Income from short-term investments	5,442	151,114
K.		Loss on investments	-	6,202
IX.		Gain on revaluation of securities and derivatives	15	153,904
L.		Loss on revaluation of securities and derivatives	124,296	1,132,690
M.		Increase/(decrease) in financial provisions	(102,446)	94,354
X.		Interest income	6,568	43,698
N.		Interest expense	1,236,403	1,040,943
XI.		Other financial income	1,268,626	2,792,740
O.		Other financial expense	422,798	1,501,199
XII.		Adjustments to financial income	-	-
P.		Adjustments to financial expense	-	-
*		**Financial result**	**7,506,753**	**4,139,769**
Q.		**Tax on profit or loss on ordinary activities**	**432,897**	**(5,597,563)**
Q.	1.	- current	973,425	239,951
	2.	- deferred	(540,528)	(5,837,514)
**		**Profit or loss on ordinary activities after taxation**	**8,092,602**	**(1,360,242)**
XIII.		Extraordinary income	130	217,570
R.		Extraordinary charges	1,290	18,593
S.		**Tax on extraordinary profit or loss**	**-**	**-**
S.	1.	- current	-	-
	2.	- deferred	-	-
*		**Profit/(loss) on extraordinary items after taxation**	**(1,160)**	**198,977**
T.		Profit/(loss) share apportioned to partners (partnership only)	-	-
		Net profit/(loss) for the financial period	**8,091,442**	**(1,161,265)**
***		**Profit/(loss) before taxation**	**8,524,339**	**(6,758,828)**

Statement of changes in shareholders' equity

	Registered capital CZK'000	Share premium CZK'000	Other capital funds CZK'000	Statutory reserve fund CZK'000	Other funds from profit CZK'000	Revaluation reserve CZK'000	Retained earnings CZK'000	Total CZK'000
At 1 January 2003	32,208,990	29,343,185	2,120,641	5,409,049	33,404	(962,444)	26,471,414	94,624,239
Profit distribution	-	-	-	89,016	53,520	-	(142,536)	-
Dividends paid and board share on profit	-	-	-	-	-	-	(18,527,571)	(18,527,571)
Other increase	-	-	9,751	-	-	930,318	-	940,069
Withdrawals of social fund, other	-	-	(2,793)	-	(53,075)	-	-	(55,868)
Net loss for the financial period	-	-	-	-	-	-	(1,161,265)	(1,161,265)
At 31 December 2003	**32,208,990**	**29,343,185**	**2,127,599**	**5,498,065**	**33,849**	**(32,126)**	**6,640,042**	**75,819,604**
Profit distribution	-	-	-	-	27,000	-	(27,000)	-
Dividends paid and board share on profit	-	-	-	-	-	-	(5,475,529)	(5,475,529)
Other decrease	-	-	(276)	-	-	(15,154)	-	(15,430)
Withdrawals of social fund, other	-	-	5	-	(39,144)	-	-	(39,139)
Net profit for the financial period	-	-	-	-	-	-	8,091,442	8,091,442
At 31 December 2004	**32,208,990**	**29,343,185**	**2,127,328**	**5,498,065**	**21,705**	**(47,280)**	**9,228,955**	**78,380,948**

Cash flow statement

		2004 CZK'000	2003 CZK'000
CASH FLOWS FROM OPERATING ACTIVITIES			
	Net profit on ordinary activities before tax	**8,525,499**	**(6,957,805)**
A.1	Adjustments for non-cash movements:		
A.1.1	Depreciation and amortisation of fixed assets	14,485,563	26,431,292
A.1.2	Change in provisions	762,684	2,056,287
A.1.3	Profit from disposal of fixed assets	(244,759)	(104,047)
A.1.4	Dividends and profit shares received	(8,000,000)	(4,758,768)
A.1.5	Net interest expense and income	1,210,971	978,969
A.1.6	Other adjustments for non-currency operations	123,851	-
A.*	**Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items**	**16,863, 809**	**17,645,928**
A.2	Working capital changes:		
A.2.1	Decrease in receivables and prepayments	322,823	1,499,007
A.2.2	Increase/(decrease) in short-term payables and accruals	2,921,310	(2,536,015)
A.2.3	Decrease in inventories	348,823	220,905
A.2.4	Decrease in short-term investments	280,328	5,757,671
A.**	**Net cash flow from ordinary activities before tax and extraordinary items**	**20,737,093**	**22,587,496**
A.3	Interest paid	(1,247,350)	(2,186,360)
A.4	Interest received	29,079	968,693
A.5	Income tax on ordinary activities paid	(71,062)	(163,925)
A.6	Cash movements relating to extraordinary profit	130	212,084
A.7	Dividends and profit shares received	8,000,000	4,758,768
A ***	**Net cash flow from ordinary activities**	**27,447,890**	**26,176,756**
CASH FLOWS FROM INVESTING ACTIVITIES			
B.1	Acquisition of fixed assets*	(2,704,732)	(33,003,480)
B.2	Proceeds from sale of fixed assets	607, 879	471,642
B***	**Net cash flow from investing activities**	**(2,096,853)**	**(32,531,838)**
CASH FLOWS FROM FINANCING ACTIVITIES			
C.1	Change in long and short-term liabilities	(21,291,803)	21,917,211
C.2	Changes in equity:		
C.2.5	Direct payments from reserves	(39,144)	(60,477)
C.2.6	Dividends paid	(5,479,024)	(18,520,169)
C***	**Net cash flow from financing activities**	**(26,809,971)**	**3,336,565**
	Net decrease in cash and cash equivalents	**(1,458,934)**	**(3,018,517)**
	Cash and cash equivalents at the beginning of the year	**1,673,113**	**4,691,630**
	Cash and cash equivalents at the end of the year	**214,179**	**1,673,113**

* In 2003, acquisition of fixed assets includes the acquisition of 49% stake in Eurotel.

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 members of the Board of Directors as at 31 December 2004 were as follows:

	Position
Gabriel Berdár	Chairman
Juraj Šedivý	1st Vice Chairman
Petr Slováček	2nd Vice Chairman
Marcela Malivánková	Member

During 2004, the following changes occurred in the Board of Directors:

Michal Heřman	recalled by the Supervisory Board as member of the Board of Directors on 27 October 2004
Pavel Klimuškin	elected by the Supervisory Board as member of the Board of Directors on 27 October 2004, resigned on 13 December 2004
Marcela Malivánková	elected by the Supervisory Board as member of the Board of Directors on 27 October 2004
Roman Stupka	resigned on 6 October 2004 as member of the Board of Directors

Changes in 2005:

Michal Heřman	elected by the Supervisory Board as member of the Board of Directors on 2 February 2005

The members of the Supervisory Board as at 31 December 2004 were as follows:

	Position
Jiří Hurych	Chairman
Zdeněk Hrubý	1st Vice Chairman
Lubomír Vinduška	2nd Vice Chairman
Jan Juchelka	Member
Vlastimil Barbořák	Member
Pavel Herštík	Member
Miloslav Krch	Member
Dušan Stareček	Member
Petr Zatloukal	Member
Martin Kovář	Member
Petr Polák	Member
Martin Fassman	Member
Stanislav Bělehrádek	Member
Ivana Krynesová-Gage	Member
Pavel Kuta	Member

During 2004, the following changes occurred in the Supervisory Board:

Ondřej Felix	Resigned as the member of the Supervisory Board on 24 June 2004
Martin Fassman	co-opted as the member of the Supervisory Board on 28 April 2004, annual general meeting approved co-optation on 24 June 2004
Stanislav Bělehrádek	elected as the member of the Supervisory Board at annual general meeting on 24 June 2004
Ivana Krynesová-Gage	elected as the member of the Supervisory Board at annual general meeting on 24 June 2004
Hana Doležalová	co-opted as the member of the Supervisory Board on 28 January 2004, resigned on 24 June 2004
Lubomír Vinduška	elected as 2nd Vice Chairman of the Supervisory Board on 20 May 2004
Adam Blecha	resigned as the member of the Supervisory Board on 24 June 2004
Zdeněk Hrubý	recalled as 2nd Vice Chairman of the Supervisory Board on and appointed as 1st Vice Chairman of the Supervisory Board on 20 May 2004
Jiří Hurych	elected as the member of the Supervisory Board on 24 June 2004, elected as Chairman of the Supervisory Board on 29 June 2004
Michal Frankl	resigned on 28 January 2004 with effect from 15 February 2004
Petr Polák	annual general meeting approved co-optation on 24 June 2004

No other changes took place as of the date of the financial statements.

Additional changes in the Commercial Register during 2004 were as follows:
– on 15 December 2004 a change in the way of acting on behalf the Company was approved: „The member of the Board of Directors Ing. Gabriel Berdár, birth certificate number 650525/6890 and the member of the Board of Directors Ing. Petr Slováček, birth certificate number 590515/0955 are individually able act and to sign in the name of the Company exclusively for matters as determined by the Act No. 148/1998". This change was not recorded in the Commercial Register.

As at 31 December 2004, the Company was organised as follows:

Chief Executive Officer

Units
– Networks (NU)
– Sales (SU)
– Marketing (MU)
– Finance (FU)
– Information Systems (ISU)
– Human Resources (HRU)
– Transformation (TU)
– Regulation & Interconnect (RIU)
– International Businnes (IBU)
– Legal Affairs (LU)
– Security (SeU)
– External and Internal Communications (CU)

Departments managed directly by CEO
– Office for Top Management Support (OF)

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 fair value as disclosed in accounting policies (f) and (j).

According to the relevant articles of the Act on Accounting the Company will prepare the financial statements for the period beginning 1 January 2005 in accordance with the International Financial Reporting Standards (IFRS). This change will not have any negative influence on receivables, liabilities and equity as at 1 January 2005.

(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. Computer software relating to telephone exchanges is included in the purchase price of the relevant exchange.

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.

An internally generated asset is recognised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably.

(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 depreciation rates used differ from those allowable for taxation purposes.

Depreciation plan

	Useful lives in years	Yearly depreciation rate in %
Buildings	max. 40	min. 2.5
Cables and other external equipment	5 - 25	4 - 20
Telecommunication equipment:		
– transmission equipment	max. 10	min. 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 a 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 expenditure relating to tangible assets are expensed as incurred. Enhancements of tangible fixed assets exceeding CZK 40,000 per item per annum are capitalised.

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

(d) 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, or at least on an annual basis for intangibles not yet in use. 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 (cash-generating units).

(e) 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 so 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 exercise 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 requirements of the Act on Accounting, the Company prepares consolidated financial statements in accordance with International Financial Reporting Standards (IFRS).

(f) Other securities and investments

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.

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 in order 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 arried 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.

(g) Inventory

Inventory is stated at the lower of cost or net realisable value. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties and insurance). 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.

(h) Receivables

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

(i) 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 rates as published by the Czech National Bank. The unrealised exchange gains and losses were recorded in the profit and loss account.

Investments in subsidiaries and associated undertakings and other investments and securities denominated in a foreign currency, which are not accounted for at fair value are translated at the balance-sheet date exchange rate as published by the Czech National Bank. Any translation difference is recognised in equity, with the exception of bonds, where the translation difference is recognised in the profit and loss account. When investments and securities are measured at fair value, any foreign exchange translation difference is considered to be part of the fair value remeasurement.

(j) Derivative financial instruments

Derivative financial instruments including foreign exchange contracts, forward rate agreements, currency and interest rate swaps, currency and interest rate options are initially recognised on balance sheet at cost and subsequently are remeasured at their fair value. Fair values are obtained from quoted market prices, discounted cash-flow models and options pricing models as appropriate. All derivatives are presented in other receivables or in other payables when their fair value is positive or negative, respectively.

Changes in the fair value of derivatives held for trading are included in net profit or loss from financial transactions.

The Company designates prospectively certain derivatives as either a hedge of the fair value of a recognised asset or liability (fair value hedge) or a hedge of a future cash flow attributable to a recognised asset or liability, a forecasted transaction or a firm commitment (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided the following criteria are met:

- (i) formal documentation of the general hedging strategy, hedged risk, hedging instrument, hedged item and their relationship is prepared before hedge accounting is applied;
- (ii) the hedge documentation proves that it is experted to be highly effective in offseting the risk in the hedges item at inception and throught the reporting period;
- (iii) the hedge is effective on an ongoing basis;
- (iv) the hedge item is not a security classified as held for trading.

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

Changes in the fair value of derivatives that qualify as effective cash flow hedges are recorded in the hedging reserve in equity. Where a hedged forecasted transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in the hedging reserve are transferred from the hedging reserve and form a part of the cost of the asset or liability. Otherwise, amounts deferred in the hedging reserve are transferred from equity to the income statement and classified as income or expense in the periods during which the hedged item affects the economic result.

(k) Revenues

Revenue of the Company comprises charges in respect of services provided and proceeds from the sale of equipment. Revenue for services and goods 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.

Revenue is recognized gross as follows:

(i) Fixed line telephony revenues

Domestic and international call revenues

Domestic and international call revenues are recognised in the income statement at the time the call is made.

Subscription revenues

Revenue from subscriptions is recognised in the income statement in the period in which the services are rendered.

Revenues from sales of prepaid cards

Prepaid call card sales are deferred until the customer uses the stored value on the card to pay for the relevant calls. The expiry date for prepaid cards is not longer than 24 months.

Connection fees
Connection fees are recognised in full in the income statement upon connection of the customers to the Company's network.

(ii) Interconnect revenues
Interconnect revenues are derived from calls and other traffic that originate in other domestic and foreign operators' network but use the Company's network. These revenues are recognised in the income statement at the time when the call is received in the Company's network. The Company pays a proportion of the call revenue it collects from its customers to other domestic and foreign operators' for calls and other traffic that originate in the Company's network but use other domestic and foreign operators' network. Amounts receivable from and payable to other domestic and foreign operators are netted and settled on a regular basis.

(iii) Internet and data services
The Company earns revenue from providing Internet services. Revenue from such services is recognised at the time the service is provided.

(iv) Dividend income
Dividend income is recognized when the right to receive payment is established.

(l) 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.

(m) 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.

(n) Employee benefits
(i) Pension obligations
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 Company has no further payment obligations once the contributions have been paid. The expense for the contributions is charged to the income statement in the same period as the related salary expense.

The Company 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.

(ii) Redundancy and termination benefits
Redundancy and termination benefits are payable when employment is terminated before the normal retirement or contract expiry date. The Company recognises provision for redundancy and termination benefits when it is demonstrably committed to terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal. Redundancy and termination benefits due within a period longer than 12 months are discounted at their present value. However, the Company has no obligations regarding the redundancy and termination benefits due within a period longer than 12 months.

(iii) Bonus plans
The Company recognises a liability for bonuses based on a formula that takes into consideration certain performance related measures. The Company recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(o) Share-based compensation
The Company operates a cash-settled, share-based compensation plan for members of the Board of Directors and the Supervisory Board. The fair value of the services received in exchange for the grant of the rights is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the rights granted. At each balance sheet date, the Company revises its estimates of the number of rights that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement.

(p) Deferred taxation
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.

(q) 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 state owned companies (owned by the National Property Fund of the Czech Republic) are not presented.

(r) 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.

(s) 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 expensed as incurred.

(t) 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 where 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 the issuance of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not otherwise reflected in the financial statements.

3 Intangible fixed assets

COST	Software CZK'000	Other CZK'000	Capital work in progress* CZK'000	Total CZK'000
At 1 January 2004	15,533,817	760,463	243,206	16,537,486
Additions	-	-	482,174	482,174
Disposals	236,546	39,656	-	276,202
Transfers	390,882	50,308	(441,190)	-
Reclassification	6,926	(4,621)	-	2,305
At 31 December 2004	**15,695,079**	**766,494**	**284,190**	**16,745,763**
ACCUMULATED AMORTISATION				
At 1 January 2004	10,379,003	454,415	-	10,833,418
Additions	2,929,812	115,118	-	3,044,930
Disposals	236,483	39,656	-	276,139
Reclassification	521	-	-	521
At 31 December 2004	**13,072,853**	**529,877**	**-**	**13,602,730**
ADJUSTING ITEMS TO INTANGIBLE FIXED ASSETS				
At 1 January 2004	58,000	-	-	58,000
At 31 December 2004	**58,000**	**-**	**-**	**58,000**
NET BOOK VALUE				
At 1 January 2004	5,096,814	306,048	243,206	5,646,068
At 31 December 2004	**2,564,226**	**236,617**	**284,190**	**3,085,033**

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

COST	Software CZK'000	Other CZK'000	Capital work in progress* CZK'000	Total CZK'000
At 1 January 2003	15,118,204	617,303	323,268	16,058,775
Additions	-	-	779,891	779,891
Disposals	241,920	12,301	19,492	273,713
Transfers	657,788	182,673	(840,461)	-
Reclassification	(255)	(27,212)	-	(27,467)
At 31 December 2003	**15,533,817**	**760,463**	**243,206**	**16,537,486**
ACCUMULATED AMORTISATION				
At 1 January 2003	6,634,437	255,464	-	6,889,901
Additions	3,986,719	238,463	-	4,225,182
Disposals	241,898	12,301	-	254,199
Reclassification	(255)	(27,211)	-	(27,466)
At 31 December 2003	**10,379,003**	**454,415**	**-**	**10,833,418**
ADJUSTING ITEMS TO INTANGIBLE FIXED ASSETS				
At 1 January 2003	58,000	-	-	58,000
At 31 December 2003	**58,000**	**-**	**-**	**58,000**
NET BOOK VALUE				
At 1 January 2003	8,425,767	361,839	323,268	9,110,874
At 31 December 2003	**5,096,814**	**306,048**	**243,206**	**5,646,068**

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

Adjusting items to intangible fixed assets can be analysed as follows:

	2004 CZK'000	2003 CZK'000
Opening balance at 1 January	58,000	58,000
Additions during the year	-	-
Closing balance at 31 December	**58,000**	**58,000**

During 2003, external factors relating to the telecommunication market and regulatory environment namely uncertainty regarding tariff rebalancing, termination charges for internet dial-up interconnection charges and other regulatory decisions in the Czech Republic have led management to assess the recoverable amount of the Company's fixed line network assets. An impairment loss has been calculated as the difference between the net book value of the Company's fixed line network related fixed and intangible assets and their recoverable amount. The recoverable amount has been determined as its value in use.

The total amount of the impairment loss recognised in the financial statements in 2003 is CZK 9,909 million and was booked as extraordinary depreciation and amortisation of tangible and intangible fixed network assets using the pro rata method based on net book values as at 31 December 2003.

The impact of the impairment loss was CZK 9,316 million for tangible fixed assets and CZK 593 million for intanglible assets. There was no addition impairment charge (to the impairment 2003) recognized in 2004.

4 Tangible fixed assets

COST	Land and buildings CZK'000	Cables CZK'000	Telecom. equipment CZK'000	Other CZK'000	Capital work in progress* CZK'000	Total CZK'000
At 1 January 2004	14,937,520	97,195,796	60,765,054	8,815,677	1,243,925	182,957,972
Additions	691	-	-	831	2,081,891	2,083,413
Disposals	253,026	168,141	1,236,506	1,419,779	21,514	3,098,966
Transfers	172,049	1,041,386	1,031,535	438,511	(2,683,481)	-
Reclassification	(1,040)	26	11,629	(12,920)	-	(2,305)
At 31 December 2004	**14,856,194**	**98,069,067**	**60,571,712**	**7,822,320**	**620,821**	**181,940,114**
ACCUMULATED DEPRECIATION						
At 1 January 2004	4,928,765	43,780,616	40,061,367	6,490,838	-	95,261,586
Additions	432,302	4,158,609	5,601,442	1,070,984	-	11,263,337
Disposals	111,139	164,270	1,213,327	1,201,564	-	2,690,300
Reclassification	2,930	(24)	4,096	(7,523)	-	(521)
At 31 December 2004	**5,252,858**	**47,774,931**	**44,453,578**	**6,352,735**	**-**	**103,834,102**
ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS						
At 1 January 2004	-	-	-	39,787	5,232	45,019
At 31 December 2004	**34,378**	**-**	**-**	**33,666**	**5,232**	**73,276**
NET BOOK VALUE						
At 1 January 2004	10,008,755	53,415,180	20,703,687	2,285,052	1,238,693	87,651,367
At 31 December 2004	**9,568,958**	**50,294,136**	**16,118,134**	**1,435,919**	**615,589**	**78,032,736**

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

COST	Land and buildings CZK'000	Cables CZK'000	Telecom. equipment CZK'000	Other CZK'000	Capital work in progress* CZK'000	Total CZK'000
At 1 January 2003	14,997,393	95,763,748	63,107,005	8,976,379	3,064,117	185,908,642
Additions	7,149	351	6,150	1,044	3,617,304	3,631,998
Disposals	372,235	328,875	4,646,479	1,220,979	41,567	6,610,135
Transfers	305,524	1,757,853	2,280,458	1,052,094	(5,395,929)	-
Reclassification	(311)	2,719	17,920	7,139	-	27,467
At 31 December 2003	**14,937,520**	**97,195,796**	**60,765,054**	**8,815,677**	**1,243,925**	**182,957,972**
ACCUMULATED DEPRECIATION						
At 1 January 2003	3,613,847	33,607,162	36,105,441	6,010,712	-	79,337,162
Additions	1,446,108	10,456,811	8,524,714	1,666,033	-	22,093,666
Disposals	131,120	283,648	4,593,174	1,188,766	-	6,196,708
Reclassification	(70)	291	24,386	2,859	-	27,466
At 31 December 2003	**4,928,765**	**43,780,616**	**40,061,367**	**6,490,838**	**-**	**95,261,586**
ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS						
At 1 January 2003	-	-	53,603	45,908	5,232	104,743
At 31 December 2003	**-**	**-**	**-**	**39,787**	**5,232**	**45,019**
NET BOOK VALUE						
At 1 January 2003	11,383,546	62,156,586	26,947,961	2,919,759	3,058,885	106,466,737
At 31 December 2003	**10,008,755**	**53,415,180**	**20,703,687**	**2,285,052**	**1,238,693**	**87,651,367**

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

As at 31 December 2003 the impact of the impairment loss on tangible fixed assets was CZK 9,316 million. See Note 3 for more information. There was no addition impairment charge (to the impairment 2003), recognized in 2004.

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

Movements in Adjusting items to tangible fixed assets are analysed as follows:

	2004 CZK'000	2003 CZK'000
Opening balance at 1 January	45,019	104,743
Additions during the year	119,378	-
Released during the year	(91,121)	(6,121)
Written off to depreciation	-	(53,603)
Closing balance at 31 December	**73,276**	**45,019**

The total cost of low-value tangible and intangible assets not recorded in the balance sheet (recorded in off balance sheet items), including assets acquired after the termination of financial lease contracts is CZK 596,543 thousand as at 31 December 2004 (as at 31 December 2003: CZK 682,322 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.

These leases may be analysed as follows:

	31 December 2004 CZK'000	31 December 2003 CZK'000
Amounts already paid on current finance lease contracts	6,209	3,605
Outstanding amounts payable within one year	2,596	2,596
Outstanding amounts payable later than 1 year and not later than 5 years	2,329	4,933
Outstanding amounts payable later than 5 years	-	-
Total amounts payable under current finance lease contracts	**11,134**	**11,134**

5 Investments in subsidiary undertakings

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

As at 31 December 2004:

	Number of shares	Nominal value	Cost CZK'000	Book value CZK'000	% of capital	2004 net profit/(loss) (unaudited)	Net assets (unaudited)
Foreign subsidiaries		**EUR**				**EUR'000**	**EUR'000**
SPT TELECOM (Czech Republic) Finance B.V. (Netherlands)		18,151	553	553	100	-	1,074
CZECH TELECOM Germany GmbH		25,000	28,333	28,333	100	22	933
CZECH TELECOM Austria GmbH		35,000	10,815	10,815	100	114	385
		SKK				**SKK'000**	**SKK'000**
CZECH TELECOM Slovakia s.r.o.		200,000	165	165	100	2,094	4,200
Czech subsidiaries		**CZK'000**				**CZK'000**	**CZK'000**
M.I.A., a.s. v likvidaci*	100	1,000	83,150	-	100	in liquidation	-
OMNICOM Praha, spol. s r.o.		10,000	29,790	-	100	4,350	24,239
CenTrade, a.s.	865	519,000	519,000	-	86,5	(111,332)	1,859
Eurotel Praha, spol. s r.o.**		1,211,000	29,015,410	29,015,410	100	9,184,655	27,638,577
			29,687,216	**29,055,276**			

* M.I.A., a.s. went to liquidation on 1 March 2004. The liquidation was finalized on 13 January 2005. This fact was not reflected in the Commercial register as of the date of the preparation of these financial statements.

** Eurotel Praha, spol. s r.o. – audited data were prepared for the period of 15 months ending 31 March 2004.

As at 31 December 2003:

	Number of shares	Nominal value	Cost CZK'000	Book value CZK'000	% of capital	2003 net profit/(loss)	Net assets
Foreign subsidiaries		**EUR**				**EUR'000**	**EUR'000**
SPT TELECOM (Czech Republic) Finance B.V. (Netherlands)		18,151	588	588	100	73	1,073
CZECH TELECOM Germany GmbH		25,000	30,137	30,137	100	73	913
CZECH TELECOM Austria GmbH		35,000	11,504	11,504	100	(6)	272
		SKK				**SKK'000**	**SKK'000**
CZECH TELECOM Slovakia s.r.o.		200,000	165	165	100	3,375	2,107
Czech subsidiaries		**CZK'000**				**CZK'000**	**CZK'000**
M.I.A., a.s.*	100	1,000	83,150	-	100	(7,761)	(6,869)
EDINet.cz, s.r.o. v likvidaci		97,929	79,323	-	100	in liquidation	-
OMNICOM Praha, spol. s r.o.		10,000	29,790	-	100	4,957	19,888
asp1000, s.r.o. v likvidaci		36,364	55,898	-	50.9	in liquidation	-
CenTrade, a.s.	865	519,000	519,000	40,000	86.5	(136,201)	113,191
Eurotel Praha, spol. s r.o.**		1,211,000	29,015,410	29,015,410	100	7,206,969	25,660,830
			29,824,965	**29,097,804**			

* M.I.A., a.s. went to liquidation on 1 March 2004.
** Eurotel Praha, spol. s r.o. is a wholly owned subsidiary since 28 November 2003. The Group´s accounts have been prepared and audited as at 31 December 2003.

On 28 November 2003, the Company fulfilled all conditions relevant under a purchase agreement for the acquisition of a further 49% ownership interest in Eurotel and thereby increased its total ownership interest to 100%.

The Company has concluded controlling agreements with the following subsidiaries:
– OMNICOM Praha, spol. s r.o.,
– M.I.A., a.s. v likvidaci.

The movement in the provision for diminution in value of investments in subsidiaries and associated undertakings are analysed as follows:

	2004 CZK'000	2003 CZK'000
Opening balance at 1 January	727,161	564,619
Charge for the year	40,000	182,592
Disposal for the year	(135,221)	(20,050)
Closing balance at 31 December	**631,940**	**727,161**

In 2004 the Company received a dividend payment from its share in Eurotel Praha, spol. s r.o. in the net amount of CZK 8,000,000 thousand (2003: CZK 4,758,768 thousand).

6 Investments in associates

AUGUSTUS spol. s r.o. (Czech company):

	Nominal value CZK'000	Cost CZK'000	Book value CZK'000	% of capital	Net profit/(loss) CZK'000	Net assets CZK'000
As at 31 December 2004	66	72	72	40	*	*
As at 31 December 2003	66	72	72	40	(618)	(12,561)

* Data for 2004 not available at the date of preparation of financial statements.

The Company has not realized any proceeds from its interests in associates and joint ventures in 2004 and 2003.

7 Other investments and short-term financial assets

Long-term financial assets

As at 31 December 2004:

	Available-for-sale investments (fair value) CZK'000	Held-to-maturity investments (costs) CZK'000
Bonds in foreign currency	-	109,032
Bonds in local currency	176,078	-
	176,078	*109,032*
Other long-term financial assets	24	-
Total	**176,102**	**109,032**

As at 31 December 2003:

	Available-for-sale investments (fair value) CZK'000	Held-to-maturity investments (costs) CZK'000
Bonds in foreign currency	-	132,750
Bonds in local currency	233,938	-
	233,938	*132,750*
Other long-term financial assets	25	-
Total	**233,963**	**132,750**

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

	2004 CZK'000	2003 CZK'000
Interest income from long-term bonds and promissory notes	18,864	18,276

Short-term financial assets

Domestic promissory notes:

	Available-for-sale investments (fair value) CZK'000	Held-to-maturity investments (costs) CZK'000
As at 31 December 2004	-	121,891
As at 31 December 2003	198,750	1,590,250

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

	2004 CZK'000	2003 CZK'000
Income from short term bonds and promissory notes	5,442	151,114

8 Inventory

	31 December 2004 CZK'000	31 December 2003 CZK'000
Raw materials	625,079	944,268
Goods for resale	31,357	60,991
	656,436	*1,005,259*
Provision for diminution in value	(260,196)	(410,006)
Net book amount	**396,240**	**595,253**

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

	2004 CZK'000	2003 CZK'000
Opening balance at 1 January	410,006	270,090
Charge for the year	1,288,500	376,123
Released during the year	(1,438,310)	(236,207)
Closing balance at 31 December	**260,196**	**410,006**

9 Receivables

	31 December 2004 CZK'000	31 December 2003 CZK'000
Trade receivables		
– current	3,920,509	4,518,926
– overdue	2,057,723	2,244,229
	5,978,232	*6,763,155*
Other receivables		
– current	1,389,977	1,357,331
– overdue	547,196	208,393
	7,915,405	*8,328,879*
Provision for doubtful receivables		
– trade	(1 318 444)	(1,545,968)
– other	(536 027)	(194,322)
	(1,854,471)	*(1,740,290)*
Net receivables	**6,060,934**	**6,588,589**

Trade receivables include long-term receivables of CZK 2,692 thousand (2003: CZK 118,089 thousand). Other receivables include long-term other receivables of CZK 149,581 thousand (2003: CZK 54,857 thousand).

Receivables due in more then 5 years were as at 31 December 2004 in amount of CZK 116,444 thousand (as at 31 December 2003: CZK 117,788 thousand).

The Company does not have any receivables secured by a lien or any other form of security.

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

	2004 CZK'000	2003 CZK'000
Opening balance at 1 January	1,740,290	1,976,241
Additions during the year	502,086	420,281
Written off during the year	(190,970)	(467,854)
Released during the year	(196,935)	(188,378)
Closing balance at 31 December	**1,854,471**	**1,740,290**

10 Equity

Authorised and issued capital

	No.	31 December 2004 and 2003 CZK'000
Bearer shares with nominal value CZK 100 fully paid	322,089,890	32,208,989
Share with special rights according to Section10a article 4 letter b) of Act No. 92/1991, with nominal value CZK 1,000	1	1
	322,089,891	**32,208,990**

Company shareholders

	31 December 2004 and 2003
FNM ČR	51.1% (including 1 share with special rights)
Individual shareholders and investment funds	48.9%

The Company had no convertible bonds in issue at 31 December 2004 and 2003.

Statutory reserves can not be distributed to shareholders, but may be used to offset losses. The Company is required by law to transfer 5% of its annual net profits to the statutory reserve until the balance of this reserve reaches 20% of the issued share capital.

The net loss after taxation of CZK 1,161,265 thousand for 2003 was approved by the General Meeting of shareholders on 14 June 2004 and it was settled from retained earnings. In addition part of the retained earnings was distributed as follows:

	2004 CZK'000
Allocated to statutory reserve	-
Allocated to social fund	27,000
Allocated to members of the Board of Directors	-
Allocated to members of the Supervisory Board	-
Dividends	5,475,528

No proposal regarding 2004 profit allocation was made at the date of the financial statements. Approval of and decision regarding 2004 profit allocation will be made at the Annual General Meeting scheduled for 23 June 2005.

11 Provisions for liabilities and charges

	Provision for foreign exchange losses CZK'000	Provision for court & regulatory decisions CZK'000	Provision for severance payment CZK'000	Provision for management bonuses CZK'000	Provision for share-based compensations CZK'000	Provision for income tax CZK'000	Other provisions CZK'000	Total CZK'000
At 1 January 2003	75,413	-	-	-	-	-	98,761	174,174
Additions during the year	-	1,978,700	445,418	-	-	-	169,495	2,593,613
Released during the year	(75,413)	-	-	-	-	-	(111,784)	(187,197)
Utilised during the year	-	-	(336,034)	-	-	-	(20,878)	(356,912)
At 31 December 2003	**-**	**1,978,700**	**109,384**	**-**	**-**	**-**	**135,594**	**2,223,678**
Additions during the year	-	893,000	74,829	186,000	59,509	831,824	25,705	2,070,867
Released during the year	-	(9,000)	-	-	-	-	(99,086)	(108,086)
Utilised during the year	-	(33,321)	(184,213)	-	-	-	(48,142)	(265,676)
At 31 December 2004	**-**	**2,829,379**	**-**	**186,000**	**59,509**	**831,824**	**14,071**	**3,920,783**

12 Payables

	31 December 2004 CZK'000	31 December 2003 CZK'000
Trade payables		
– current	4,416,145	1,066,483
– overdue	96,029	59,630
	4,512,174	*1,126,113*
Other payables		
– current	5,295,694	5,263,732
Total short-term payables	**9,807,868**	**6,389,845**

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

Payables due after more than 5 years totalled as at 31 December 2004 CZK 817 thousand (31 December 2003: CZK 408 thousand).

The Company did not have either overdue tax payables or overdue health insurance and social security payables as at 31 December 2004 and 31 December 2003.

13 Loans and bonds

	31 December 2004 CZK'000	31 December 2003 CZK'000
Bank loans and overdrafts in local currency	2,100,000	3,005,186
International financial institutions loans in foreign currency	1,109,481	1,477,858
Other bank loans in foreign currency	12,272,002	28,293,200
Bonds in local currency	10,000,000	10,000,000
Total	**25,481,483**	**42,776,244**
Repayable within 1 year	8,664,775	17,732,506
after 1 year up to 2 years	2,564,775	6,728,099
after 2 years up to 5 years	10,357,806	14,081,472
after 5 years	3,894,127	4,234,167
Total	**25,481,483**	**42,776,244**
Of which: Total due after more than 1 year	*16,816,708*	*25,043,738*

The Company's loans are denominated in CZK and EUR. The weighted average interest rate of these loans as at 31 December 2004 was 3.9% (2003: 3.4%).

Effective interest rates	31 December 2004	31 December 2003
Bank loans and overdrafts in local currency	2.79%	2.36%
International financial institution loans in foreign currencies	6.80%	6.80%
Other bank loans and overdrafts in foreign currencies	3.88%	3.15%
Bonds in local currency	3.92%	3.92%

In November 2003, the Company raised a syndicated loan in the amount of EUR 850,000 thousand, which is repayable over a five-year period until 21 November 2008. The purpose of the loan was to finance the acquisition of the remaining 49% ownership interest in Eurotel and general corporate purposes. As at 31 December 2004 the Company had drawn down EUR 275,000 thousand (2003: EUR 745,273 thousand) and CZK 0 thousand (2003: CZK 2,000,000 thousand) of this loan facility with a weighted average interest rate of 2.61% p.a. (2003: 2.55% p.a.). The terms and conditions of this loan facility amongst others require the Company to maintain certain gearing and interest cover ratios of earnings before interest, tax, depreciation and amortisation to net borrowings and interest payable.

At 31 December 2004, the Company had approximately CZK 7,785,748 thousand (2003: CZK 1,360,000) of available undrawn credit facilities.

Bonds issued may be analysed as follows:

	Coupo rate %	31 December 2004 CZK'000	31 December 2003 CZK'000
Local bonds issued 4.55%/2005 in CZK	4.55	4,000,000	4,000,000
Local bonds issued 3.50%/2008 in CZK	3.50	6,000,000	6,000,000
Total loans		**10,000,000**	**10,000,000**

The fair values of bonds in issue are as follows:

	31 December 2004 CZK'000	31 December 2003 CZK'000
Local bonds issued 4.55%/2005 in CZK	4,036,000	4,070,000
Local bonds issued 3.50%/2008 in CZK	5,947,800	5,757,000
Total bonds	**9,983,800**	**9,827,000**

International financial institution loans in foreign currencies are secured by the Czech Republic (represented by the Ministry of Finance of the Czech Republic) and certain movables and real estates. Other loans are not secured.

The carrying value of assets pledged is as follows:

	31 December 2004 CZK'000	31 December 2003 CZK'000
Land and buildings	686,822	1,321,092
Plant and equipment	1,961,501	3,164,649
Total	**2,648,323**	**4,485,741**

The Company's loans are governed by certain applicable financial covenants. Violation of these covenants may result in the acceleration of the maturity date of the relevant loan.

14 Derivative financial instruments

The fair value of derivatives is presented in "Other receivables" where positive, or in "Other payables" where negative.

The Company's derivatives can be analysed at 31 December 2004 as follows:

	Fair value		Notional
	Positive CZK'000	Negative CZK'000	amount CZK'000
Cash flow hedging derivatives:			
Forward rate agreements	-	(57)	2,887,625
Interest rate swaps	-	(11,190)	4,091,625
Fair value hedging derivatives:			
Forward foreign exchange contracts	-	(116,620)	4,081,735
Currency options – bought	15	-	319,500
Currency options – sold	-	(7,675)	311,500
	15	**(135,542)**	**11,691,985**

The Company's derivatives can be analysed at 31 December 2003 as follows:

	Fair value		Notional
	Positive CZK'000	Negative CZK'000	amount CZK'000
Cash flow hedging derivatives:			
Forward rate agreements	**-**	**1,944**	**8,046,750**

15 Taxation

Tax expense is comprised of the following:

	2004 CZK'000	2003 CZK'000
Current tax expense	973,425*	239,951*
Deferred tax credit	(540,528)	(5,837,514)
	432,897	**(5,597,563)**

Current tax may be analysed as follows:

	2004 CZK'000	2003 CZK'000
Profit before taxation	8,524,339	(6,758,828)
Tax non-deductible costs	2,247,308	2,821,755
Non-taxable income	(8,049,928)	(4,795,790)
Difference between accounting and tax depreciation	345,192	12,182,625
10% deduction for investments tax credits	(69 955)	(183,062)
Tax base	**2,996,956**	**3,266,700**
Corporate taxation at 28% (2003: 31%)	839,148	1,012,677
Discount - dividends	-	(1,003,455)
Other adjustments	134,277	(9,571)
Total tax expense	**973,425**	**-**

* The amount includes expenses related to the final settlement of the tax liability related to the previous year and additional tax returns for previous periods.

Settlement of the previous year tax liability and additional tax returns for previous periods totalled in 2004 CZK 141,601 thousand (2003: CZK 239,951 thousand).

The Company paid corporate income tax advances of CZK 90,874 thousand in 2004(2003: CZK 202,889 thousand).

Deferred income taxes are calculated using currently enacted tax rates expected to apply when the asset is realized or the liability settled. In December 2003, the Czech government enacted legislation, by which the corporate income tax rate was reduced from 31% to 28%, 26% and 24% for the fiscal years ending in 2004, 2005 and 2006 (respectively).

Short term deferred taxes were calculated at 26% (2003: 28%), long term deferred taxes were calculated at 24% (2003: calculated at 26% and 24%). The reduction in the deferred tax liability of CZK 89 million is attributable to the change in enacted tax rates for future periods.

	31 December 2004 CZK'000	31 December 2003 CZK'000
Difference between net book value and tax value of fixed assets	19,374,299	20,214,277
Non-deductible provision for inventory*	(256,536)	(410,007)
Non-deductible provision for bad debts*	(848,101)	(710,429)
Other timing differences	(3,575,164)	(2,211,104)
Total timing differences	*14,694,498*	*16,882,737*
Tax rate**	24,007%	24,095%
Deferred tax liability	**3,527,570**	**4,068,098**
Temporary differences from fair value adjustments booked in the balance sheet	*(9,849)*	-
Tax rate**	24,154%	-
Deferred tax liability	**(2,378)**	**-**
Total deferred tax liability	**3,525,192**	**4,068,098**

* The Company expects that this portion of the non-deductible provisions will be deducted in future periods.

** The tax rate used for the calculation of deferred tax in 2004 has been determined as the weighted average of the tax rates applicable to the individual items in year of their expected realization.

16 Revenue analysis

Revenue from ordinary activities has been generated as follows:

	2004 CZK'000	2003 CZK'000
Sales of telecommunications services		
– Domestic	30,310,597	33,275,314
– Foreign	1,978,628	1,719,132
Sales of other services		
– Domestic	469,433	481,972
– Foreign	4,653	12,379
Sales of goods		
– Domestic	353,599	264,480
Sales of own products		
– Domestic	25,974	40,876
– Foreign	-	568
Total operating revenues	**33,142,884**	**35,794,721**

17 Employee analysis

Number of employees	2004	2003
Average number of management	71	162
Average number of other staff	9 641	12,441
Total	**9 712**	**12,603**

Management includes executive members of the Board of Directors, executive directors and directors.

	Management CZK'000	Other staff CZK'000	Total CZK'000
2004			
Wages and salaries*	158,136	3,997,508	4,155,644
Social security costs	51,509	1,241,520	1,293,029
Remuneration for members of the Company's statutory bodies – excluding board share on profit**	10,454	5,745	16,199
Other social costs	3,157	228,624	231,781
	223,256	**5,473,397**	**5,696,653**
2003			
Wages and salaries*	360,341	4,524,501	4,884,842
Social security costs	53,656	1,455,065	1,508,721
Remuneration for members of the Company's statutory bodies – excluding board share on profit**	11,654	-	11,654
Other social costs	4,276	275,555	279,831
	429,927	**6,255,121**	**6,685,048**

* Certain Company employees (including the Board of Directors) with specialised know-how, or who have access to business secrets, or who are considered important to the development of the business, are bound by non-competition restrictions, for a maximum period of 12 months from the date of termination of their employment with the Company. The Company paid to its employees (except of members of the Board of Directors and the Supervisory Board) CZK 9,785 thousand in relation to such non-competition clauses in 2004 (2003: CZK 0 thousand).

** In 2004 members of the Company's statutory bodies received cash payments in the amount of CZK 2,288 thousand or the assumption of non-competition obligations (2003: CZK 4,505 thousand).

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.

Members of the Board of Directors and of the Supervisory Board of the Company were provided with benefits as follows:

	2004 CZK'000	2003 CZK'000
Salaries and other short-term benefits	139,847	36,622
Board share on profit	-	7,402
Stock appreciation rights	59,509	-
Non-competition clause	2,288	4,505
Capital life insurance	8,578	7,034
Personal indemnification insurance	14,360	4,588
Total	**224,582**	**60,151**

Loans to members of Board of Directors:

	2004 CZK'000	2003 CZK'000
Beginning of the year	849	2,521
Loans advanced during the year	-	-
Loans repayments received	(428)	(1,672)
Interest charged	37	137
Interest received	(82)	(137)
End of the year	**376**	**849**

Share-based payments

On 24 June 2004 the Company granted 2,207,000 share appreciation rights (SARs) to selected members of the Board of Directors and the Supervisory Board in accordance with the Compensation Plan approved by the annual general meeting of shareholders. The SARs provide those eligible, at the date the rights are exercised, the right to receive cash payments calculated based on a formula reflecting any appreciation in the Company's share price (preceding six-month average) from the inception date of the plan. The inception date for the determination of the option base price is 31 December 2003 (preceding six months average). The SARs are conditional on the board member remaining in the employment of the Company throughout the vesting period. The SARs vest and are exercisable during 2005 and 2006 unless there is a decrease or cessation of the NPF ownership of shares in ČESKÝ TELECOM or a board member's employment with the Company is terminated for reasons other than personal decision or breach of duty. In these events, the SARs are exercisable immediately. The SARs are settled once exercised.

In connection with the share appreciation rights scheme, the Company created the provision in the financial statemenmts in amount of CZK 60 million.

18 Related party transactions

The Company was involved in the following related party transactions:

	2004 CZK'000	2003 CZK'000
Sales of services and goods		
Eurotel Praha, spol. s r.o.	388,447	374,355
Swisscom AG	-	80,943
KPN TELECOM B.V.	-	20,922
TelSource N.V.	-	-
Other companies within the Group	36,649	31,762
	425,096	**507,982**
Purchases of services and goods		
Eurotel Praha, spol. s r.o.	898,850	1,231,992
Swisscom AG	-	50,075
KPN TELECOM B.V.	-	24,266
TelSource N.V.	-	22,705
KPN Czech Republic, s.r.o.	-	-
Other companies within the Group	106,859	111,211
	1,005,709	**1,440,249**
Interest received		
Other companies within the Group	**950**	**1,627**
Interest paid		
SPT TELECOM (Czech Republic) Finance B.V.	**-**	**218,750**

TelSource N.V., whose 51% shareholder is KPN TELECOM B.V. and 49% shareholder Swisscom AG, did not hold any shares in the Company after 10 December 2003, and accordingly the respective related party sales and purchases have been disclosed for period from 1 January 2003 to 10 December 2003. There were no outstanding balances as at 31 December 2003.

The Company´s loan from SPT TELECOM (Czech Republic) Finance B.V. (Netherlands) was fully repaid in May 2003 including interest.

Outstanding balances are as follows:

	2004 CZK'000	2003 CZK'000
Receivables		
Eurotel Praha, spol. s r.o.	79,057	63,917
Other companies within the Group	52,605	65,745
	131,662	**129,662**
Payables		
Eurotel Praha, spol. s r.o.	834,768	774,097
Other companies within the Group	23,779	22,303
	858,547	**796,400**

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 2004 CZK'000	31 December 2003 CZK'000
Contracted	430,884	611,067

The majority of contracted amounts relate to the Company's telecommunications network.

The majority of non-contracted commitments relate to obligations given by the Telecommunication Act and the Act on Electronic Communications.

The Company has the following commitments resulting from operating leases:

	31 December 2004 CZK'000	31 December 2003 CZK'000
Due within 1 year	332,446	327,844
Due within period 1 - 5 years	971,332	881,983
Due after more than 5 years	148,774	303,471
Total	**1,452,552**	**1,513,298**

20 Research and development

In 2004, the Company spent in total CZK 9,755 thousand (in 2003: CZK 11,132 thousand) for development, of which no amounts were capitalised. The Company's development expenses include externally developed information systems and technology, data and system architecture and applications integration.

21 Contingencies

Litigation

The Company has not yet agreed a 2001 price amendment to an agreement with mobile operators in the Czech Republic governing interconnect arrangements. In December 2003 the Czech Telecommunication Office (CTU) effectively ruled in favour of the amount claimed by T-Mobile Czech Republic a.s. The Company subsequently obtained adjournment of the decision execution and lodged an appeal. Whilst management believes that all risks, which may arise as a result of this litigation, are adequately provided for in the financial statements no further disclosure is deemed appropriate as it could prejudice the Company's position in the dispute.

The Company is prosecuted by AUGUSTUS spol. s r.o. for an alleged loss of profit in the principal amount of approximately CZK 183 million relating to the years 1995 – 2001. The management believes that all risks, which may arise as a result of this litigation, are adequately provided for in the financial statements.

The Company is subject to administrative proceedings by the Office for the Protection of Economic Competition (UOHS) relating to the alleged creation of unfair barriers against development on the market through the application of certain specific price plans for residential customers. No decision has been issued by the UOHS as of the date of these financial statements. The management believes that all risks which may arise as a result of this litigation are adequately provided for in the financial statements.

The Company is a participant in several other lawsuits and administrative proceedings including those related to the Company's pricing policies. Based on the information available, management is satisfied that there is no material unprovided liability arising from these lawsuits and administrative proceedings.

Floods

The August 2002 floods affected the Company's assets. All identifiable damages regarding the Company's assets and known reimbursements from insurance companies have been recognised in the financial statements for 2002, 2003 and 2004. The Company, in accordance with its internal policies, only recognises reimbursements from insurance companies that were confirmed by the balance sheet date. No additional reimbursements from insurance companies regarding 2002 floods are expected after 2004.

22 Privatisation

In June 2004 the Czech Government, via its agency, the National Property Fund, selected a consortium CSFB and Česká spořitelna, a.s. to act as an advisor for the privatisation of its 51.1% stake in ČESKÝ TELECOM, a.s.

In December 2004 based on the advisor recommendation, the Czech government approved the start of the privatization process via a so-called „dual track". The 51.1% stake would be first offered to investors via a M&A sale process and if this does not lead to the selection of a buyer, the equity stake will be sold in the capital markets via a secondary equity offering. The privatization process is currently in progress. It is not possible to determine at this stage the effects, if any, of possible future developments on the values of the assets and liabilities of the Company.

23 Extraordinary items

Extraordinary items primarily represent damages on property caused by natural disasters and insurance policy claims associated with these damages. In 2003, extraordinary items include in particular other income from insurance claims in connection with floods in 2002.

Extraordinary items are tax deductible based on the fulfilment of the relevant Income Tax Act stipulations.

24 Post balance sheet events

The Company is a defendant in a case filed by TELE2 s.r.o. on 3 February 2005 asserting causes for alleged breach of anti competition law by the Company in connection with offering pricing plans since January 2002. The amount of the claim is CZK 2,142 million (excluding interest). In accordance with procedural rules the Company has not yet been officially notified of the claim nor has it been provided with the full claim documentation. Whilst the Board of Directors believe, based on the limited information currently available, that the claim of TELE2 s.r.o. is without merit and will not be substantiated, due to the early stage of the case it is not possible to estimate the final outcome. As a result, no provision has been made in the financial statements for this matter. However the Board of Directors is satisfied that it has acted appropriately and will rigorously defend its position in this proceeding as and when further information becomes available.

An extraordinary general meeting of the shareholders of ČESKÝ TELECOM, a.s., took place on 3 February 2005. The General Meeting approved changes to the rules governing remuneration for members of the Supervisory Board of ČESKÝ TELECOM, whereby it cancelled the special motivation remuneration for the members of this corporate body of the Company. No adjustment has been included in these financial statements.

The Board of Directors approved (and the Supervisory Board acknowledged) a motivational bonus program for executive directors, which is aimed at increasing performance and maximising shareholder value. This plan is based on key performance characteristics of the Company and is effective from 1 January 2005. As a result no provision for amounts that are expected to be payable under this plan are reflected in these consolidated financial statements.

In accordance with the relevant requirements of the Act on Accounting, the Company will from the financial period beginning 1 January 2005 prepare its financial statements in accordance with International Financial Reporting Standards (IFRS). This change will not have an adverse effect on receivables, payables and equity at 1 January 2005, however, several ammendmends of the accounting valuation policies including the structure of the financial statements is expected.

25 Cash flow statement

The Company has prepared the cash flow statement using 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 2004 CZK'000	31 December 2003 CZK'000
Cash on hand and in transit	6,782	49,061
Cash in bank	85,506	28,097
Overdrafts included in short-term bank loans	-	5,705
Cash equivalents included in short-term investments*	121,891	1,590,250
Cash and cash equivalents total	**214,179**	**1,673,113**

* Amount of CZK 0 thousand as at 31 December 2004 (31 December 2003: CZK 198,750 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.

21 March 2005

Gabriel Berdár
Chairman of the Board of Directors
and Chief Executive Officer

Juraj Šedivý
1st Vice Chairman of the Board of Directors
and Chief Financial Officer

Information on the listed security issuer

Content

Note: Information in this section of the Annual Report for 2004 is based on financial statements prepared in accordance with the provisions of the Czech Accounting Act, the Capital Market Undertakings Act and other relevant legislation of the Czech Republic, unless otherwise indicated.

1 Information on the listed security issuer

Basic information:

Corporate name:	ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM, company)
Registered address:	Olšanská 55/5, 130 34 Prague 3,
Company identification number:	60193336
Taxpayer identification number:	CZ60193336
Date of incorporation:	16 December 1993
Legally existing from:	1 January 1994
Duration of the company:	the company was founded for an indefinite period of time
Legal form:	joint-stock company
Statute of law under which the issuer was incorporated:	provisions of Section 171 (1) and Section 172 (2) and (3) of the Commercial Code
Commercial court:	Prague Municipal Court
Commercial court record number:	Section B, Enclosure 2322

Company's object:

The main object of the company's business is:

1. Under a Telecommunications Licence for provision of a public telephone service on a public fixed telecommunications network, in the scope and under conditions set forth herein:
   a) to provide, in public interest, on a public fixed telecommunications network,
      aa) the Universal Service so that all services provided as a part of the Universal Services on the whole territory of the state are provided at reasonable prices, and in the following scope:
         – the public telephone service, including facsimile transmission and data transmission in all telephone districts on the territory of the Czech Republic, the national and international public telephone services on the public fixed telecommunications network,
         – operator services,
         – a free-of-charge and round-a-clock access of all users to emergency numbers, without the need to use a coin or a pre-paid card,
         – directory services,
         – regular publication of telephone directories and their distribution,
         – public pay-phone services,
         – discounts to persons who are legitimately disabled (holders of ZTP disability certificate) – totally or generally deaf, or to holders of ZTP/P disability certificate,
         – discounts to persons who are certified helpless by the physician of the relevant social security service,
      ab) the public telex and telegraph service, until the end of 2005,
      ac) mediation of access to the public telephone service of Other Licensed Operators of telecommunications services,
   b) to provide services on the whole territory of the Czech Republic, to enter into agreements with foreign entities for the provision of international telecommunications services from other states to the Czech Republic and from the Czech Republic to other states,
   c) to honour obligations arising from legislation in the area of national defence and security and economic measures for the state of emergency,

d) to provide the public telephone service on the public fixed telecommunications network so that, wherever technically feasible, a priority is given to the needs of state and local government, armed forces, armed security forces and rescue corps, legal and natural entities who, as provided in a separate act of law, carry out missions in the area of state defence and security.

2. Under the Telecommunications Licence for operation of the public fixed telecommunications network, in the scope and under conditions laid down herein:
a) to build and operate the public fixed telecommunications network which is used for provision of telecommunications services on the whole territory of the Czech Republic,
b) to interconnect the telecommunications network with telecommunications networks of Other Licensed Operators,
c) to enter into agreements with foreign entities for the interconnection of telecommunications networks in order to provide international telecommunications services from other states to the Czech Republic and from the Czech Republic to other states, including traffic transiting the territory of the Czech Republic,
d) to allow Other Licensed Operators of telecommunications network and telecommunications service providers to interconnect, either directly or indirectly, with the telecommunications network operated by the company, according to the law,
e) to provide, in public interest, the public telecommunications service of lease of telecommunications lines with full availability of the service on the whole territory of the Czech Republic,
f) to use frequency bands for service provision,
g) to build and operate the public fixed telecommunications network, including a network of radio and television transmitters and transceivers, for provision of telecommunications services on the whole territory of the Czech Republic.

The full listing of the company's objects is contained in Article 3 of the Articles of Association, as amended.

Securities issue:

A. Shares

As at 31 December 2004
The company's share capital is CZK 32,208,990,000. The share capital is fully paid up.

A.	Type:	ordinary share
	Form:	bearer share
	Kind:	booked
	Number of shares:	322,089,890 pcs
	Nominal value:	CZK 100
	Total issue volume:	32,208,989,000
	ISIN:	CZ0009093209
B.	Type:	ordinary share
	Form:	registered share
	Kind:	booked
	Number of shares:	1 pc
	Nominal value:	CZK 1,000
	Total issue volume:	CZK 1,000

The one registered share to which special rights are attached pursuant to the provisions of Article IV (2) of Act no. 210/1993 Coll., amending the Act no.92/1991 Coll., on the conditions of transfer of state property to other entities, as amended, and other acts (hereinafter the Act no. 210/1993 Coll.). The registered share can be transferred only with the prior approval of the Board of Directors. The Board of Directors is obliged to decide within two months as of the receipt of the written application at the company's registered address. The Board of Directors shall not unreasonably deny its approval of the registered share.

Public markets where the shares of ČESKÝ TELECOM are listed for trading:

Market	Note
Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	On the main market
RM-SYSTÉM, a.s.	
London Stock Exchange	In the form of Global Depository Receipts (GDR). The depository for the GDR is The Bank of New York, ADR Division, 101 Barclay Street, West New York, NY 10286, USA; the custodian is Komerční banka, a.s., Na Příkopě 33, čp. 906, 114 07 Prague 1.

A full wording of the Terms and Conditions of the Share Issue – the document which is the source of this summary – is available at the registered address of the security issuer.

B. Bonds

As at 31 December 2004 **Bond programme:**	
Maximum volume of unredeemed bonds:	CZK 20,000,000,000
Programme duration:	2002–2012
Maturity of issues in the programme:	maximum of 15 years

Bonds issued under the bond programme:	
Bond:	Dluhopis ČESKÝ TELECOM 4.55%/2005
ISIN:	CZ0003501306
Total nominal value of the issue:	CZK 4,000,000,000
Nominal value of the bond:	CZK 10,000
Interest rate:	The bonds accrue a fixed interest of 4.55% per annum from 15 July 2002 inclusive, the interest is paid once a year for the previous year on 15 July of each year
Form:	bearer bond
Kind:	booked
Date of issue:	15 July 2002
Redeemable on:	15 July 2005
Issuer's option for prior redemption:	–
Administrator:	Československá obchodní banka, a.s.
Address:	Na Příkopě 14, 115 20 Prague 1

Bonds issued under the bond programme:	
Bond:	Dluhopis ČESKÝ TELECOM 3.50%/2008
ISIN:	CZ0003501355
Total nominal value of the issue:	CZK 6,000,000,000
Nominal value of the bond:	CZK 1,000,000
Interest rate:	The bonds accrue a fixed interest of 3.50% per annum from 9 July 2003 inclusive, the interest is paid once a year for the previous year on 9 July of each year
Form:	bearer bond
Kind:	booked
Date of issue:	9 July 2003
Redeemable on:	9 July 2008
Issuer's option for prior redemption:	–
Administrator:	Česká spořitelna, a.s.
Address:	Národní 27, 110 00 Prague 1

Public markets where the bonds of ČESKÝ TELECOM are listed for trading:

Market	Note
the Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	On the secondary market

A full wording of the Prospectus and the Terms and Conditions of the Bond Issue – the documents which are the sources of this summary – are available at the registered address of the security issuer and at the listed addresses of the administrators.

Changes in 2004:
No changes occurred in the course of the year.

Holding structure:

Structure of main shareholders of ČESKÝ TELECOM (as at 31 December 2004):

	Shareholder	Address	Share in the capital
1	The National Property Fund of the Czech Republic	Rašínovo nábřeží 42 128 00 Prague 2	51.1%
2	Investment funds and individual shareholders	-	48.9%

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

a)	Corporate name:	The National Property Fund of the Czech Republic registered at the Commercial Register of 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 holds shares of the controlled entity in the aggregate nominal value of 51.1% of the share capital of the controlled entity. The total share in the voting rights of the controlled entity pursuant to Section 183d of the Commercial Code is 51.1%.

Changes in 2004:
No changes occurred in the course of the year.

URL:
www.telecom.cz

2 Information on the objects of the listed security issuer

Main areas of business of the issuer, new products and services:
ČESKÝ TELECOM owns, constructs and operates a prevalent part of the uniform telecommunications network in the Czech Republic. The main area of the issuer's business is the provision of public telephone services on the public fixed telecommunications network. For details please refer to the Board of Directors' Report of the Annual Report.

Revenues of the issuer for the three accounting periods broken down by activity type (in CZK thousand):

		2004	2003	2002
Sales of services	- domestic	30,780,030	33,757,286	36,052,589
	- international	1,983,281	1,731,511	1,608,252
- of which telecommunications services	- domestic	30,310,597	33,275,314	35,456,135
	- international	1,978,628	1,719,132	1,598,070
Sales of goods	- domestic	353,599	264,480	320,619
Sales of own goods	- domestic	25,974	40,876	30,028
	- international	-	568	-
Revenues from operations total		**33,142,884**	**35,794,721**	**38,011,488**

Registered address of establishments with more than 10% share in the company's total revenues:
The issuer does not have any organisation units registered in the Commercial Register which would hold at least a 10% share in the total revenues, production or services provided by the issuer.

Immovable property in ownership of the company:

The issuer owns immovable property used mostly for operating the company's business for which it is licensed under the existing legislation.

As at 31 December 2004 (in CZK thousand)	Cost	Accumulated depreciation and adjusting items	Net book value
Land	541,735	-	541,735
Buildings and structures	112,383,526	(53,061,328)	59,322,198
- Buildings and houses	13,527,855	(4,540,869)	8,986,986
- Public pay-phone booths	786,604	(745,528)	41,076
- Telecommunications cables, overground and underground	97,378,894	(47,388,306)	49,990,588
- Other	690,173	(386,625)	303,548

As at 31 December 2004	Number	Area in m²
Buildings and structures	2,167	1,197,517
Land	4,239	1,607,339

Net book value of mortgaged property:

As at 31 December 2004	in CZK thousand
Land and buildings	686,822
Plant and equipment	1,961,501
Total	**2,648,323**

See Loans and bonds on page 151–153 of this section of the Annual Report.

Details on issuer's dependency on patents or licenses, industrial, commercial or financial contracts which have a significant bearing on the issuer's business:

1. Patents and licenses

The issuer has licence agreements for the following software products: database environment (ORACLE), operating systems (Hewlett-Packard, SUN and UNIX), workstation software (Microsoft), customer care and billing software (Amdocs) and BSS (SAP).

2. Industrial and commercial contracts

The issuer maintains a diverse portfolio of technology suppliers. The main objective of the issuer with respect to the contracted suppliers is to have competition on the supply side. All principal technology supply contracts are awarded by tender.

At present, the main suppliers of technology and related services to the issuer are Alcatel Czech, Vegacom, Autocont, Siemens, Amdocs Development Limited, Hewlet-Packard, Lucent Technologies, Micos, SAP ČR, Huawei Technologies Co., Cisco Systems International BV, NextiraOne and Siebel Systems Ireland.

3. Financial contracts

See Loans and bonds on page 151–153 of this section of the Annual Report.

Information on litigation, administrative proceedings or arbitration instigated in the course of the last two accounting periods which had or could have a significant bearing on the issuer's financial situation.

Information on litigation, administrative proceedings or arbitration instigated in the course of the last two accounting periods, which had or could have a significant bearing on the issuer's financial situation is listed in the Notes to the Consolidated Financial Statements for the year ended 31 December 2004, see point 21 on page 160 of the Annual Report.

Investments:

Principal investments of the issuer for the last three accounting periods (in CZK million)

	2004	2003	2002
Switching equipment	154	525	1,880
Transmission equipment	525	766	1,661
Access network	756	1,147	1,088
Buildings and structures	188	299	590
Data network	187	348	683
Other – support systems	733	1,251	2,378
Total investments (non-financial)	**2,543**	**4,336**	**8,280**

All of the above major investments of the issuer were made in the Czech Republic and financed from the issuer's own cash and from loans.

In 2004, the declining trend of capital expenditure has continued, both as a result of measures taken to achieve higher efficiency of spending, and the regulatory environment, which did not allow for an acceptable level of return on investment. Capital expenditure was directed mainly into improvements of the existing telecommunications infrastructure to accommodate new services demanded by the market (e.g. ADSL, virtual private networks, data networks, value-added services). Broadband Internet access via ADSL experienced a boom – circa 100 thousand ADSL connections were installed as at the end of 2004. In terms of compliance with regulation, further investment was made to accommodate the Local Loop Unbundling (LLU) service.

Financial investments of the issuer for the last three accounting periods (in CZK million)

	2004	2003	2002
Financial investments	-	28,782	947

Major investments in the future

In the period 2005–2007, we do not envisage any substantial changes in the volume of investments. Investment will go mostly into further capacity building, improvement of quality and reliability of network infrastructure, so that it supports a portfolio of IP-based products and services (voice and data), xDSL, WiFi and intelligent network (IN) services, as well as DigiHome and DigiBusiness concepts. Capital expenditure will also go towards supporting comprehensive customer solutions. To comply with the requirements of the regulation, it is envisaged investments will go in the direction of Local Loop Unbundling, according to the demands of individual alternative operators. Further capital expenditure in this area is expected in connection with the coming into effect of the Electronic Communications Act.

Information on the research and development policy in the current accounting period:

In 2004, ČESKÝ TELECOM spent the total of CZK 9,755 thousand (2003: CZK 11,132 thousand), and no costs were capitalised. The expenditure included external development services in the area of information technology and information systems, data and system architecture and application integration.

Main risk factors in the financial management of the Group:

See Financial Risk Management on page 88–89 of the Consolidated Financial Statements for the year ended 31 December 2004, which form a part of the Annual Report.

Interruption of business:

No interruption of business occurred.

Acting on bids for take-over:

N/A

Average number of employees:

Type of operation	2004	2003	2002
Management and administration	3,424	4,937	5,246
Operation and maintenance	3,860	5 407	6,320
Construction and installation	-	-	1
Information technology	433	547	568
Transport	43	67	92
Procurement and logistics	296	314	330
Sales and marketing	1,618	1,268	1,512
Maintenance of buildings	29	19	82
Other support and auxiliary operations	9	44	171
Total	**9,712**	**12,603**	**14,322**

Information on statutory bodies and their members, and on members of the supervisory corporate bodies and the executive management, as at 31 March 2005:

See Sections 6.5 and 6.6 of the Annual Report (pages 50–55).

3 Information on the financial position of the registered security issuer

Changes in equity in the last three accounting periods (in CZK thousand):

Year	2004	2003	2002
Share capital	32,208,990	32,208,990	32,208,990
Share premium	29,343,185	29,343,185	29,343,185
Other equity funds	2,127,328	2,127,599	2,120,641
Funds from profit	5,519,770	5,531,914	5,442,453
inclusive of the statutory reserve fund	5,498,065	5,498,065	5,409,049
Revaluation gains/(losses) on assets and payables	(47,280)	(32,126)	(962,444)
Retained profit of the past periods	1,137,513	7,801,307	24,691,099
Profit/(loss) for the current period	8,091,442	(1,161,265)	1,780,315
Total equity	**78,380,948**	**75,819,604**	**94,624,239**

Profit/loss on ordinary activities after tax, per share:

	2004	2003	2002
Profit/(loss) on ordinary activities after tax (in CZK thousand)	8,092,602	(1,360,242)	1,834,256
Number of shares [1)]	322,089,900	322,089,900	322,089,900
Profit/(loss) on ordinary activities of the issuer after tax attributable to one share of nominal value of CZK 100 (in CZK)	25.1	(4.2)	5.7

[1)] the registered share of nominal value of CZK 1,000 was, in order to be comparable, accounted for as 10 shares of nominal value of CZK 100.

Consolidated profit/loss after tax (under IFRS), per share:

	2004	2003	2002
Profit/(loss) on ordinary activities after tax (in CZK million)	5,568	(1,780)	4,276
Number of shares [1)]	322,089,900	322,089,900	322,089,900
Profit/(loss) on ordinary activities of the issuer after tax attributable to one share of nominal value of CZK 100 (in CZK)	17.3	(5.5)	13.3

[1)] the registered share of nominal value of CZK 1,000 was, in order to be comparable, accounted for as 10 shares of nominal value of CZK 100

Dividends for the last three periods:

No dividends were paid by the issuer for the accounting period 2001. The issuer's General Meeting held on 13 June 2003 decided to pay dividends for the accounting period 2002 of CZK 57.50, before tax, per 1 share of the issuer of nominal value of CZK 100, and of CZK 575, before tax, per 1 share of nominal value of CZK 1,000. The issuer's General Meeting held on 24 June 2004 decided to pay dividends for the accounting period 2003 of CZK 17, before tax, per 1 share of the issuer of nominal value of CZK 100, and of CZK 170, before tax, per 1 share of the issuer of nominal value of CZK 1,000. Potential dividends for the accounting period 2004 will be decided by the issuer's General Meeting to be held on 23 June 2005 in Prague.

Loans and bond issues:

Loans and bonds, divided into short- and long-term:

As at 31 December 2004	in CZK thousand
Short-term loans and bonds (maturing within 1 year)	8,664,775
Long-term loans	16,816,708
Total	**25,481,483**

Loans and bonds issued:

	Currency	Total loan in the currency	Outstanding in the currency as at 31 December 2004	Outstanding in CZK as at 31 December 2004	Due date
European Investment Bank - Loan I [1]	EUR	65,000,000	22,213,516	676,734,758	2008
European Investment Bank - Loan II [1]	EUR	30,000,000	14,204,711	432,746,521	2009
Private Placement – loan instrument	EUR	127,822,970	127,822,970	3,894,126,790	2012
Bond issue (Dluhopisy 4.55 % / 2005) [2]	CZK	4,000,000,000	4,000,000,000	4,000,000,000	2005
Bond issue (Dluhopisy 3.50 % / 2008) [3]	CZK	6,000,000,000	6,000,000,000	6,000,000,000	2008
Syndicated loan [4]	EUR	745,273,206	275,000,00	8,377,875,000	2008
	CZK	3,360,000,000	-	-	

The EUR/CZK exchange rate used in the table for conversion purposes (as at 31 December 2004) is CZK 30,465/EUR.

1) Loans are secured by a state guarantee; in return for issuing the state guarantee, the issuer established a right of lien to the issuer's movable and immovable property for the benefit of the Czech state (represented by the Ministry of Finance of the Czech Republic).
2) Česká spořitelna, a.s., and Československá obchodní banka, a.s., were the lead managers of the bond issue
3) Česká spořitelna, a.s., Československá obchodní banka, a.s., and HVB Bank Czech Republic a.s. were the lead managers of the bond issue
4) Lead arrangers of the syndicated loan: Bank Austria Creditanstalt AG, Československá obchodní banka, a.s., CITIBANK, N.A., J.P. MORGAN PLC, KBC BANK, N.V., and SANPAOLO IMI S.p.A., Agent: CITIBANK a.s.

Changes in 2004:

No new loans were taken or bonds issued.

The loans are being repaid in accordance with the relevant loan agreements or the Terms and Conditions of Issue. As at 31 December 2004, ČESKÝ TELECOM had no overdue loan obligations.

Entities in which the issuer directly or indirectly owns at least 10% of the consolidated equity or at least 10% of the consolidated profit or loss of the consolidated whole:

Corporate name:	Eurotel Praha, spol. s r.o.
Registered address:	Vyskočilova 1442/1b, 140 21 Prague 4
Identification number:	15268306
Object:	Construction and operation of the public mobile telecommunications network and provision of mobile telecommunications services in the scope and under conditions laid down in the Licence
Registered capital:	CZK 1,211,000,000
Interest share:	direct 100.0% ownership

Commercial undertakings in which the issuer directly owns more than 10% of the registered/share capital:

As at 31 December 2004

Corporate name	Registered address	Object	Identification number	Registered/ share capital	Share of the issuer in the registered/ share capital (in %)
Companies incorporated in the Czech Republic					
AUGUSTUS, spol. s r.o.	Na zájezdu 5, 101 00 Prague 10	Consulting and brokerage activity in non-telecommunication disciplines	49356160	CZK 166,000	39.76%
CenTrade, a.s.	Křižíkova č.p. 237, 186 00 Prague 8	e-business and electronic marketplace services	26513731	CZK 600,000,000	86.5%
Eurotel Praha, spol. s r.o.	Vyskočilova 1442/1b, 140 21 Prague 4	See previous paragraph	15268306	CZK 1,211,000,000	100%
OMNICOM Praha, spol. s r.o.	Bartákova 1121/3, 140 00 Prague 4	Data services and telecommunications consulting	45797111	CZK 10,000,000	100%

As at 31 December 2004

Corporate name	Registered address	Object	Identification number	Registered/ share capital	Share of the issuer in the registered/ share capital (in %)
Companies incorporated in other countries					
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 Wien, Austria	Data transmission services	FN 229578s	EUR 35,000	100%
CZECH TELECOM Germany GmbH	Gutleutstrasse 120, 60327 Frankfurt am Main, Germany	Data transmission services	HRB 51503	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%

Eurotel Praha, spol. s r.o. is a provider of public telecommunications services; companies in Austria, Germany and Slovakia also hold licences for provision of public telecommunications services.

Changes in 2004:

Based on the relevant rulings of the Commercial Court, after settlement of all obligations and conclusion of the liquidation process, the companies asp1000, s.r.o., v likvidaci and EDINet.cz., s.r.o., v likvidaci were deleted from the Commercial Register.

For more information see the Report of independent auditors and Notes to the financial statements for the year ended 31 December 2004, Note no. 5 – Investments in subsidiary undertakings and Note no. 6 – Investments in joint ventures and associates, which form a part of the Annual Report.

Commercial undertakings in which the issuer indirectly owns more than 10% of the registered capital:

As at 31 December 2004

Corporate name	Registered address	Object	Identification number	Registered capital	Issuer's share in the registered/ capital (in %)
Trigo Global Services Consulting Ltd. [1]	Sombathely 9700, Malom u. 7. I./3, Hungary	Recruitment services, consulting, property management and other unspecified services	–	10 000 USD	Eurotel Praha, spol. s r.o., holds 100% of the registered capital of the company

[1] On 20 December 2001, Eurotel became 100% owner of Trigo Property Management Limited liability company. The company was incorporated on 29 December 2000. On 16 September 2002, the company changed its name from Trigo Property Management Limited liability company to Trigo Global Services Consulting Ltd. The company embarked on a process of voluntary liquidation in September 2004.

4 Information on the business and financial situation expected in the next accounting period

See page 45 of the Annual Report.

5 Information on all pecuniary and in-kind income accepted in the accounting period by executive managers and Supervisory Board members from the issuer and from entities controlled by the issuer

The information is shown summarily for all members of the Board of Directors, summarily for all other executive managers, summarily for all members of the Supervisory Board.

This information is disclosed in accordance with the amendment of Section 118, Par.3, Letter c of the Act No. 256/2004 Coll., stated in Article II, Par. 1, of the Act No. 179/2005 Coll., which was issued in the Collection of Laws of the Czech Republic on April 30, 2005.

(in CZK thousand)	Financial emoluments	Of which rayalties	In-kind emoluments
Board of Directors total	52,040	-	4,876
– of which on the ground of being a member of the Board of Directors	2,410	-	4,095
Supervisory Board total	27,665	-	16,848
– of which on the ground of being a member of the Supervisory Board	17,199	-	16,561
Management [1]	52,989	-	2,541

[1] The Management category includes income of managers whose positions meet the definition of Section 27(5) of the Labour Code. Income of those members of the Board of Directors who, at the same time, qualify as Management are included in the Board of Directors total category.

6 Information on the number of shares issued by the issuer held by statutory bodies or their members, other executive managers of the issuer and by Supervisory Board members, including persons related to these persons, information on option and similar agreements whose underlying assets are securities issued by the issuer and whose parties are the said persons, or which were concluded for the benefit of these persons

The information is shown summarily for all members of the Board of Directors, summarily for all other executive managers, summarily for all members of the Supervisory Board, and summarily for all persons related to these persons.

This information is disclosed in accordance with the amendment of Section 118, Par.3, Letter d of the Act No. 256/2004 Coll., stated in Article II, Par. 2, of the Act No. 179/2005 Coll., which was issued in the Collection of Laws of the Czech Republic on April 30, 2005.

	Number of shares
Board of Directors [1]	50
Supervisory Board	150
Management [2]	160

[1] This category includes also shares held by members of the Board of Directors who are at the same time managers of the company (these shares are not included in the Management category).
[2] The Management category includes income of managers whose positions meet the definition of Section 27(5) of the Labour Code.

7 Principles of remuneration of executive managers of the issuer and of the Supervisory Board

1. Board of Directors and the Chief Executive Officer

a) remuneration

Members of the Board of Directors are remunerated in accordance with the Rules for Remuneration of Members of the ČESKÝ TELECOM Board of Directors which were approved by the Ordinary General Meeting of 24 June 2004. The Rules envisage that the remuneration will consist of three components

– a flat remuneration for discharge of office of a member of the Board of Directors
– an extraordinary bonus for performance of office of a member of the Board of Directors
– a special motivation bonus – for details of this components see point b) below

Actual amounts of the flat remuneration and of the extraordinary bonus are determined by the Supervisory Board acting on recommendation of the Staff and Remuneration Committee. The flat remuneration and the extraordinary bonus for 2004 could total a maximum (for the whole Board of Directors) of CZK 2,500,000, an amount approved by the Ordinary General Meeting of the company held on 24 June 2004. The same aggregate amount is applicable also to 2005 unless the General Meeting decides otherwise.

As per the Rules, the extraordinary bonus is given for performance of special assignments.

The Chief Executive Officer is entitled to remuneration for discharge of the office; the bonus comprises the following components:

– basic gross salary
– performance-related bonus
– disbursement of the balance between the health insurance benefits and 100% of the average daily wage

The performance-related bonus is granted to the Chief Executive Officer conditional on delivering on targets set for the CEO for the calendar year in question. The performance-related bonus may, in aggregate for the calendar year, reach 66.6666% of the basic gross salary per annum.

In the event of temporary work incapacity as a result of an illness or injury, the company will pay to the Chief Executive Officer, for each working day of the work incapacity, the balance between the health insurance benefits and 100% of the average daily wage, for a period of up to 12 weeks of continuous work incapacity.

b) special motivation bonus

The special motivation bonus for members of the Board of Directors is provided in the Rules for Remuneration of Members of the ČESKÝ TELECOM Board of Directors which were approved by the Ordinary General Meeting of 24 June 2004.

The special motivation bonus was designed to motivate the members of the Board of Directors to contribute to the company´s growth expressed as the growth of its share price, and is based on the following principles:

– Members of the Board of Directors are allocated fictitious stock (Phantom Shares). The allocation of Phantom Shares is decided by the Supervisory Board. The total number of Phantom Shares which can be allocated to members of the Board of Directors is 1,650,000. By 15 April 2005, members of the Board of Directors were allocated a total (for the whole Board of Directors) of 1,650,000 Phantom Shares.
– Members of the Board of Directors exercise their right to the special motivation bonus by means of redeeming Stock Options attached to the Phantom Shares. The special motivation bonus is then determined as a multiple of (i) the number of Phantom Shares to which the Stock Options are attached, and (ii) the balance between the average price of the company´s shares in the period prior to the exercise of the Stock Option and the average historic price.
– A Stock Option can be redeemed not more than 8 times a year on the so-called Regular Redemption Day which always falls on the last day of the calendar quarter in 2005 and 2006. On the Regular Redemption Day, a member of the Board of Directors can redeem the Stock Option to the proportional part of their Phantom Shares.
– A member of the Board of Directors may redeem also at a single occasion (in relation to all outstanding Phantom Shares of the member in question), on an Extraordinary Redemption Day, which can be:
• the day of the company´s "privatisation" (the day of transfer of the company´s shares held by the National Property Found of the Czech Republic), or
• the day of expiration of tenure of the member of the Board of Directors in questions for reasons other than reasons on his part
– this does not apply to instances when the tenure expires prior to 31 March 2005.

The company and the Chief Executive Officer negotiated the entitlement to a so-called target performance bonus. The target performance bonus was designed to motivate the CEO to contribute to the company´s growth expressed as cumulative cash flow in 2004 and 2005 projected in the 2004 and 2005 Business Plan, approved in the planning period started in 2003.

The target performance bonus is based, inter alia, on the following principles:

– The actual amount of the target performance bonus is directly proportionate to the delivery on the cumulative free cash flow target – if the performance of the target is less than 90%, the CEO loses the entitlement to the bonus, and if the free cash flow target is delivered on by over 150%, the CEO is entitled to a target performance bonus commensurate to a 150% performance.
– In the event that, prior to 2006, the company is "privatised", only cumulative free cash flow for the period preceding the "privatisation" will be taken into consideration; in such an instance, the target performance bonus will be raised by a defined coefficient (1.08).
– Prior to the payment of the target performance bonus, the amount of cumulative free cash flow must be approved by the company´s bodies.

c) compensation for commitment to the non-competition covenant

A member of the Board of Directors may, in their agreement for discharge of the office of a member, commit to the so-called non-competition covenant, i.e. a pledge not to do business, after the termination of the office, either individually or for the benefit of another person, in the field of telecommunications in the Czech Republic (nor in the field of advisory or consulting services related to the telecommunications industry). The agreement for discharge of the office of a member (including the non-competition covenant) must be approved by the General Meeting.

Compensation for commitment to the non-competition covenant is based on the following principles:

– The non-competition covenant is accepted for a period of 6 months as of the termination of office.
– The company is obliged to provide to the member of the Board of Directors in question, for committing to the non-competition covenant, compensation corresponding to a half of the proportional share (i) of the total annual amount of remuneration to members of the Board of Directors approved by the General Meeting, and (ii) the number of members of the Board of Directors as per the company´s Articles of Association.

All 5 present members of the Board of Directors accepted the non-competition covenant.

The company and the Chief Executive Officer negotiated a non-competition covenant – for a period of 12 months commencing upon his termination of employment with the company, the CEO will refrain from any activity which is the main object of, or is in competition with the company´s business. With regard to the negotiation of the said non-competition covenant, the CEO has been granted an entitlement to severance pay in the amount of 18 times his total monthly salary, and to non-pecuniary compensation in the form of the CEO´s option to buy from the company, after termination of his office, the car, mobile telephone and computing equipment which he had been using at the moment of recall from his office, for a net book price.

d) in-kind benefits

Damage liability insurance

The company, as the policy holder, contracted an insurance policy covering against damage caused in relation to the performance of designated functions; the insured persons (i.e. persons whose functions are covered by the policy) can be also members of the Board of Directors.

The total insurance premium paid by the company is evenly divided amongst the insured persons and the amount calculated per insured person constitutes their income.

Endowment insurance

No endowment insurance has been contracted for members of the Board of Directors in relation to the discharge of their office.

The company contracted endowment insurance for the benefit of the Chief Executive Officer in relation to the discharge of his office.

Car

In relation to the discharge of their office Members of the Board of Directors are not provided with cars for private use.

As per the Rules approved by the General Meeting, the Chief Executive Officer is provided with a car both for work and private use.

2. Supervisory Board

a) remuneration

Members of the Supervisory Board are remunerated in accordance with the Rules for Remuneration of Members of the ČESKÝ TELECOM Supervisory Board which were approved by the Ordinary General Meeting of 24 June 2004. The Rules envisage that the remuneration will consist of four components:
– a flat remuneration for discharge of office of a member of the Supervisory Board
– remuneration for work in committees of the Supervisory Board
– an extraordinary bonus for performance of office of a member of the Supervisory Board
– a special motivation bonus – for details of this components see point b) below

Actual amounts of the flat remuneration, remuneration for work in the committees of the Supervisory Board and of the extraordinary bonus are determined by the Supervisory Board acting on recommendation of the Staff and Remuneration Committee. The flat remuneration and the extraordinary bonus for 2004 could total a maximum (for the whole Supervisory Board) of CZK 17,500,000, an amount approved by the Ordinary General Meeting of the company held on 24 June 2004. The same aggregate amount is applicable also to 2005 unless the General Meeting decides otherwise.

As per the Rules, the extraordinary bonus is given for performance of special assignments.

b) special motivation bonus

The special motivation bonus for members of the Supervisory Board is provided in the Rules for Remuneration of Members of the ČESKÝ TELECOM Supervisory Board which were approved by the Ordinary General Meeting of 24 June 2004.

A part of the Rules governing the provision of the special motivation bonus was cancelled at the Extraordinary General Meeting of 3 February 2005.

c) compensation for commitment to the non-competition covenant

A member of the Supervisory Board of Directors may, in their agreement for discharge of the office of a member, commit to the so-called non-competition covenant, i.e. a pledge not to do business, after the termination of the office, either individually or for the benefit of another person, in the field of telecommunications in the Czech Republic (nor in the field of advisory or consulting services related to the telecommunications industry). The agreement for discharge of the office of a member (including the non-competition covenant) must be approved by the General Meeting.

Compensation for commitment to the non-competition covenant is based on the following principles:
– The non-competition covenant is accepted for a period of 6 months as of the termination of office.
– The company is obliged to provide to the member of the Supervisory Board in question, for committing to the non-competition covenant, compensation corresponding to a half of the proportional share (i) of the total annual amount of remuneration to members of the Supervisory Board approved by the General Meeting, and (ii) the number of members of the Supervisory Board as per the company´s Articles of Association.

All 15 present members of the Supervisory Board accepted the non-competition covenant.

Jiří Hurych	Chairman of the Supervisory Board
Zdeněk Hrubý	First Vice Chairman of the Supervisory Board
Lubomír Vinduška	Second Vice Chairman of the Supervisory Board
Vlastimil Barbořák	member of the Supervisory Board
Stanislav Bělehrádek	member of the Supervisory Board
Martin Fassmann	member of the Supervisory Board
Pavel Herštík	member of the Supervisory Board
Jan Juchelka	member of the Supervisory Board
Martin Kovář	member of the Supervisory Board
Miroslav Krch	member of the Supervisory Board
Ivana Krynesová-Gage	member of the Supervisory Board
Pavel Kuta	member of the Supervisory Board
Petr Polák	member of the Supervisory Board
Dušan Stareček	member of the Supervisory Board
Petr Zatloukal	member of the Supervisory Board

d) in-kind benefits

Damage liability insurance

The company, as the policy holder, contracted an insurance policy covering against damage caused in relation to the performance of designated functions; the insured persons (i.e. persons whose functions are covered by the policy) can be also members of the Supervisory Board.

The total insurance premium paid by the company is evenly divided amongst the insured persons and the amount calculated per insured person constitutes their income.

Endowment insurance

The company, as the policy holder, contracted endowment insurance for the benefit of some members of the Supervisory Board. As per the Rules approved by the Ordinary General Meeting of 13 June 2003, endowment insurance may be contracted up to a maximum of twice the annual remuneration of a member of the Supervisory Board.

Details of the insurance are determined by the Supervisory Board; the following applies at present:
– The upper limit for determination of the insured amount is calculated as a share of (i) the total annual remuneration for members of the Supervisory Board, and (ii) the total number of members of the Supervisory Board, multiplied by two.
– Endowment insurance can be requested by a person who has been a member of the Supervisory Board of a minimum of 6 months.
– The insurance contract is concluded for a minimum period of 5 years.
– After termination of office of the member of the Supervisory Board, the insurance policy is changed – the policy holder (and payer of the premium) will be the person who has hitherto been member of the Supervisory Board.

In 2004 and for the first four months of 2005, 11 present members were the beneficiaries of the endowment insurance.

Car
As per the Rules approved by the General Meeting, the Chairman and Vice Chairmen of the Supervisory Board are provided with a car of higher medium class for work and personal use.

Other benefits
The company also provided members of the Board of Directors (including the CEO) and members of the Supervisory Board with the following benefits:
– service residential telephone lines
– mobile telephones
– computing equipment
– VISA payment card
– Access to medical services

The benefits listed above were given to the relevant persons in order to facilitate performance of duties arising from their office.

The complete set of principles of remuneration of members of the Board of Directors and the Supervisory Board is available at the company's web site.

8 Information on fees paid to auditors in the accounting period

ČESKÝ TELECOM paid the following fees to PricewaterhouseCoopers for 2004:

Type of service	Fees (in CZK thousand)
Audit	8,158
Other audit-related advisory services	9,796
Other expenses	1,871
Total	**19,825**

ČESKÝ TELECOM Group paid the following fees to PricewaterhouseCoopers for 2004:

Type of service	Fees (in CZK thousand)
Audit	15,577
Other audit-related advisory services	15,532
Other expenses	2,262
Total	**33,371**

9 Information on the persons responsible for the Annual Report and for verification of the financial statements

Gabriel Berdár, Chairman of the Board of Directors and Chief Executive Officer, ČESKÝ TELECOM, a.s.
Juraj Šedivý, 1st Vice Chairman of the Board of Director and Chief Financial Officer, ČESKÝ TELECOM, a.s.

hereby declare that the information contained in this Annual Report is accurate and that no significant facts which could influence the accurate and correct evaluation of the registered security issuer were omitted.

Gabriel Berdár
Chairman of the Board of Directors
and Chief Executive Officer

Juraj Šedivý
1st Vice Chairman of the Board of Directors
and Chief Financial Officer

Information for shareholders

Shareholders [1]

National Property Fund of the Czech Republic (NPF)	51.1%
Investment funds and individual shareholders	48.9%

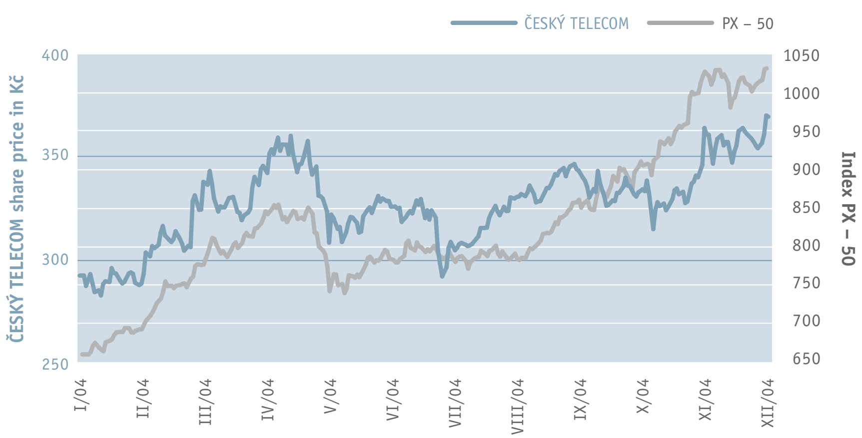
[1] as at 31 December 2004

Shares

	2004	2003	2002
Number of shares (in millions)	322.1	322.1	322.1
Net profit per share (in CZK) [2]	17.3	(5.5)	13.3
Maximum share price (in CZK)	369.8	373.8	383.5
Minimum share price (in CZK)	283.5	243.4	210.8
Share price at the end of the period (in CZK)	369.2	292.6	244.7
Market capitalisation (in CZK billions)	118.9	94.2	78.8

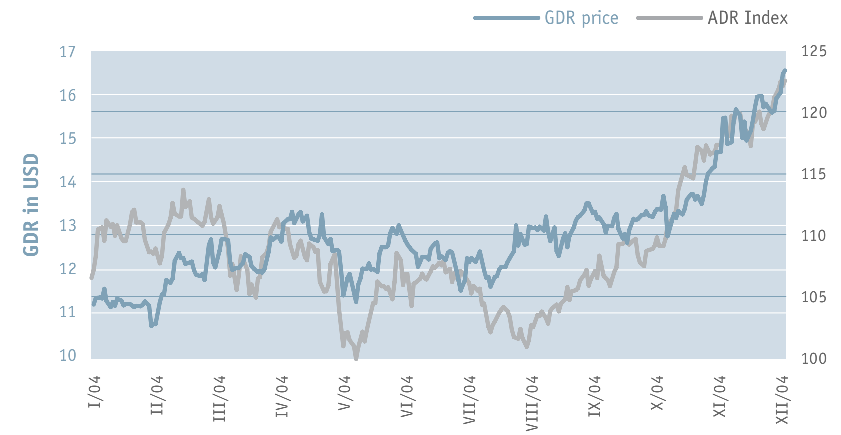
[2] consolidated net profit under IFRS

In 2004, ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM), once again ranked among the most important companies on the Czech capital markets according to market capitalisation and trading volumes. The total volume of trades in company shares on the main market of the Prague Stock Exchange (PSE) in 2004 was CZK 109.8 billion compared to CZK 63.2 billion in 2003, and market capitalisation was CZK 118.9 billion as at 31 December 2004 compared to CZK 94.2 billion at the end of 2003. The share price of ČESKÝ TELECOM as at the end of 2004, compared to the closing price on the last PSE trading day in 2003, grew by 26.2% to CZK 369.20. The share price reached its maximum of CZK 369.80 on 29 December 2004, and its minimum of CZK 283.50 on 8 and 12 January 2004. The average share price was CZK 326.90 in 2004.



ČESKÝ TELECOM's share price on PSE in 2004

Trading on the London Stock Exchange (LSE), in the form of Global Depository Receipts (GDR), followed a similar trend – the average price being USD 12.76, and it closed on USD 16.54 at the end of 2004, representing a year-on-year increase of 46%.



GDR price on LSE in 2004

Dividend

The company did not pay any dividend in 2002.

At the General Meeting of 13 June 2003 held in Prague, the shareholders approved a dividend payment from the 2002 net profit of ČESKÝ TELECOM and part of the retained earnings from previous years, in the total amount of CZK 18.5 billion, i.e. CZK 57.50 per share of nominal value of CZK 100 and CZK 575 per share of nominal value of CZK 1,000. The relevant record day for the dividends payment was 27 June 2003 and the disbursement date 6 October 2003.

At the Ordinary General Meeting of 24 June 2004 held in Prague, the shareholders approved dividends for 2003 totalling CZK 5.476 billion, i.e. CZK 17 per share of nominal value of CZK 100 and CZK 170 per share of nominal value of CZK 1,000. The record day for the payment of dividends was 9 July 2004 and the disbursement date 20 October 2004.

General Meeting of Shareholders

The annual General Meeting of Shareholders of ČESKÝ TELECOM will be held on 23 June 2005.

Financial Calendar

Date of announcement of running results		
For the first half of 2005		end of July 2005
For three quarters of 2005		end of October 2005
For the entire year 2005	– Preliminary results	end of February 2006
	– Audited results	end of March 2006
For the first quarter of 2006		end of April 2006

Institutional investors and shareholders may contact
Investor Relations
Tel.: +420 271 462 120   Fax: +420 271 469 877   E-mail: investor.relations@ct.cz
URL: www.telecom.cz
Address: ČESKÝ TELECOM, a.s., Olšanská 5/55, 130 34 Praha 3

Glossary of terms and acronyms

ADSL	Asymmetric Digital Subscriber Line
ARPU	(Average Renevue Per User) average monthly revenues from mobile services per user, excluding roaming visitors
ATM	(Asynchronous Transfer Mode) used for data, video and voice transmission
Benefit	a customer loyalty programme for post-paid customers of Eurotel, offering a range of bonuses on a point-based system
Business	a price plan package of ČESKÝ TELECOM designed for the SME segment, with free domestic voice and dial-up Internet minutes
Business Universal	a price plan of ČESKÝ TELECOM designed for the SME segment, offering the best rates on all types of calls, including dial-up Internet
Business Universal Dialog	a price plan of ČESKÝ TELECOM designed for the SME segment, offering a set price of CZK 9.90 for the first hour of call; the price is applicable to all types of calls (local and long-distance, peak and off-peak) to all fixed line networks in the Czech Republic
Carrier Broadband	a data service of ČESKÝ TELECOM
Carrier Ethernet Economy	a new Ethernet service
Carrier Ethernet Profi	a new Ethernet service
Carrier Line Ethernet	a new Ethernet service
Carrier Pre-selection	a service of a short individual code dialled to access the service of any provider of telecommunications services
Carrier Selection	a service of fixing codes for individual calls to access the service of any provider of telecommunications services
CDMA2000 1xEV-DO	(Code Division Multiple Access Data Only) a modern digital network for Broadband Internet and wireless technologies
CTO	Czech Telecommunications Office
Data Nonstop	see Eurotel Data Nonstop
Datarif	a service of access to public data services with a special tariff
Dedicated hosting	rental of hardware for customer applications
DSL	Digital Subscriber Line
DWDM	Dense Wave Digital Multiplexing
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EBT	Earnings before Tax
EDGE	(Enhanced Data Rates for GSM Evolution) a fast data transmission technology
Ethernet	a new Ethernet service of ČESKÝ TELECOM
Ethernet LAN	a network version of the Ethernet service
Eurotel Data Expres	a service of Eurotel for high-speed Internet access
Eurotel Data Nonstop	a price plan of Eurotel for post-paid customers, offering unlimited mobile Internet access via GPRS for a flat monthly fee
Eurotel Jukebox	a service for downloading music directly to a mobile telephone
Eurotel Live!	A portal for Eurotel´s entertainment and information content services distributed via WAP, SMS, MMS or video; allows also for instant ordering of these and other services online at www.eurotel-live.cz or via WAP
Eurotel Office Connector	a service of Eurotel designed for corporate customers, allowing access to corporate e-mail systems, calendar, contacts and memos from a mobile telephone, based on customers´ individual needs
Eurotel SMS Connector	a service of Eurotel designed for corporate customers, helping them improve communication with their customers, business partners and employees; it is a service for SMS distribution and reception via corporate applications
Eurotel Top Minuty	a new top-up package of Eurotel designed for post-paid customers, doubling the number of free minutes (the service could be activated by 30 June 2004 only)
Eurotel Top MMS	a new top-up package of Eurotel designed for post-paid customers, with 10 multimedia messages per month, regardless of type
Eurotel Top Noc	a new top-up package of Eurotel designed for post-paid customers, with 150 free minutes of calls to the Eurotel network and to the domestic fixed line network from 7 pm to 7 am on weekdays
Eurotel Top Pevná	a new top-up package of Eurotel designed for post-paid customers, with 150 free minutes of calls to domestic fixed line numbers
Eurotel Top SMS	a new top-up package of Eurotel designed for post-paid customers, with free SMS on weekdays, holidays and weekend to all networks
Eurotel Top Volání	a new top-up package of Eurotel designed for post-paid customers, with 60 minutes of calls to all networks without restriction per month
Eurotel VPN Nonstop	a service of Eurotel designed for corporate customers, with unlimited free calls within a corporate VPN network for a flat monthly fee
Eurotel WiFi Jet Basic	a service of Eurotel offering wireless Internet access by means of mutual roaming with ČESKÝ TELECOM, designed for Wi-Fi users of less than 90 hours per month
Eurotel WiFi Jet Nonstop	a service of Eurotel offering wireless Internet access by means of mutual roaming with ČESKÝ TELECOM, offering unlimited high-speed wireless access for a flat monthly fee
FR	see FRAME RELAY
FRAME RELAY	a protocol and service used particularly for LAN networking
Fraud Protect	a security system of ČESKÝ TELECOM, protecting against telecommunications fraud and unlawful profiting at the expense of the company and its customers
Frequency Hopping	a technology based on very fast frequency hopping during call transmission between a mobile telephone and a base station; prevents interference in the GSM network, improves quality of transmission and allows for building a denser network of base stations
GameZone.cz	a gaming portal, ranking among the largest in Central and Eastern Europe
Go bod	a programme for Eurotel´s pre-paid Go card customers – with each charge-up, the customer is credited with points which can be claimed against call minutes, SMS and MMS
Go Data Nonstop	a service package of Eurotel for pre-paid Go card customers, combining the Data Nonstop tariff of unlimited mobile Internet access via GPRS and 30 free minutes of calls in the Czech Republic
GPRS	(General Packet Radio Service) a technology for mobile data transmission

GSM	Global System for Mobile Communications the most widely deployed standard for digital mobile communication which globally uses frequencies of 450, 900, 1,800 and 1,900 MHz, and frequencies of 900 and 1,800 MHz in the Czech Republic
Hot Spots	a point of access for wireless Internet connecting via Wi-Fi technology, see also Wi-Fi Hot Spots
HSCSD	High-Speed Circuit-Switched Data, a technology for mobile data transmission in the GSM network
MTL	main telephone line
IFRS	International Financial Reporting Standards
InfoLimit	an additional service to a main telephone line, and one of the tools for combating dial-up Internet fraud
Internet Broadband	a Broadband Internet access service of ČESKÝ TELECOM designed for residential customers and small enterprises (formerly IOL Broadband)
Internet Broadband Profi	a Broadband Internet access service of ČESKÝ TELECOM designed for businesses, corporations and institutions (formerly IOL Broadband Profi)
Internet Expres	a Broadband Internet access service of ČESKÝ TELECOM, combined with economical voice tariffs, all for one flat monthly fee
Internet Expres Start	a promotion offering 14 days of free trial of Internet Expres
IP Connect	a service for IP protocol based data communication
IP Connect Mini	a new version of the IP Connect service, designed for the SME segment
ISDN	(Integrated Services Digital Network) a digital network powering modern and quality services of telephony, Fast Internet and high-speed data transmission
IP VPN	(Internet Protocol Virtual Private Network) a service of intra-corporate data or voice over IP communication
Jukebox	a service of Eurotel for downloading music to a mobile telephone and replaying whole tracks; it was developed jointly by Eurotel and Chaoticom, a technology and software development company
Leadership Academy	a new training programme of ČESKÝ TELECOM
LL	Leased Lines
Managed LAN	a service for local network management
Managed Security	a service for local network security
MI	Ministry of Informatics of the Czech Republic
MMS	a multimedia format for mobile data transmission
MOU	an indicator – average minutes of use per month per customer
NMT	(Nordic Mobile Telephony) a standard for mobile telephony networks using the 450 MHz frequency, such as the Eurotel Tip! Network
OPEC	Office for Protection of Economic Competition, an anti-monopoly authority
PKI	Public Key Infrastructure, a tool for protection of personal data
PREMIUM	a digital leased line
PSE	Prague Stock Exchange
PSTN	Public Switched Telephony Network
Push To Talk	a technology simulating a short-wave radio in a mobile telephone

RADIO	leased lines for transmission of radio modulation in frequencies up to 15 kHz
RSU	Remote Subscriber Unit
SDH	Synchronous Digital Hierarchy
Server hosting	lease of area capacity or racks in a hosting centre
SMS	a format for short text messages used in mobile telephony
STANDARD	a digital leased line
StarZone.cz	a unique entertainment portal of ČESKÝ TELECOM where users connected via ČESKÝ TELECOM´s service can download films and music from the Internet
Stabilisation Programme	a programme of ČESKÝ TELECOM for sharing of know-how and developing the potential of selected employees
STROM	a comprehensive, performance-oriented system of ČESKÝ TELECOM for transparent remuneration and motivation
Telefon	a price plan package of ČESKÝ TELECOM designed for residential customers, with free domestic call and dial-up Internet minutes
Telefon Universal	a price plan of ČESKÝ TELECOM designed for the residential segment, offering the best rates on all types of calls, including dial-up Internet
Telefon Universal Dialog	a price plan of ČESKÝ TELECOM designed for the residential segment, offering a set price of CZK 9.90 for the first hour of call; the price is applicable to all types of calls (local and long-distance, peak and off-peak) to all fixed line networks in the Czech Republic
Top Minuty	see Eurotel Top Minuty
Top MMS	see Eurotel Top MMS
Top Noc	see Eurotel Top Noc
Top SMS	see Eurotel Top SMS
Top Pevná	see Eurotel Top Pevná
Top Volání	see Eurotel Top Volání
Transformation Programme	a package of key programmes and projects of ČESKÝ TELECOM implemented across the company, pursuing the goal of a complete transformation of its individual functions, improving its efficiency and building shareholder value
UMTS	(Universal Mobile Telecommunications System) a standard for the so-called 3rd generation mobile networks approved for use in Europe; the UMTS network will support a wide range of multimedia services (e.g. videoconferencing and high-speed data transmission)
VOICEBAND	leased analogue lines for voice transmission
WAP	(Wireless Application Protocol) a protocol for displaying selected web pages on a mobile telephone display
WDM	Wave Digital Multiplexing
Webhosting	lease of server capacity for web presentation
Wi-Fi	(Wireless Fidelity) a technology for wireless Internet access
Wi-Fi Hot Spots	a service of ČESKÝ TELECOM for wireless Internet access using mutual roaming with Eurotel
WiFi Jet	see also Eurotel WiFi Jet Basic and WiFi Jet Nonstop
Xcall	a service of ČESKÝ TELECOM, with economical rates on off-peak international calls

Report on relationships between the controlling and the controlled entity and on relationships between the controlled entity and other entities controlled by the same controlling entity for 2003 (pursuant to provisions of Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended)

Table of Contents

Part A Applicable period

The report pursuant to Section 66a of Act No. 513/1991 Coll., the Commercial Code, as amended (Commercial Code) on relationships between the controlling and the controlled entity and on relationships between the controlled entity and other entities controlled by the same controlling entity (Report) is prepared for the last accounting period, i.e. for the period started 1 January 2004 and ended 31 December 2004.

Part B Entities forming the Holding

Section I. Identification details of the controlled entity – ČESKÝ TELECOM, a.s.

The company is registered in the Commercial Register of the Municipal Court in Prague, Section B, Enclosure 2322.

Registration date:	1 January 1994
Corporate name:	ČESKÝ TELECOM, a.s.
Registered address:	Olšanská 55/5, 130 34 Prague 3
Identification number:	60193336

Legal form: Joint-stock company

Section II. Identification details of the controlling entities

Compared to the accounting period 2003, changes occurred on the part of the controlling entities.

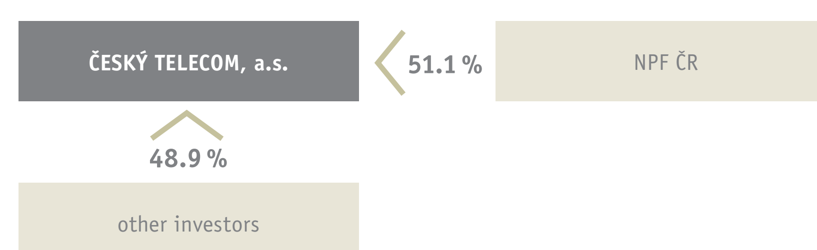
In 2004, the only controlling entity was the National Property Fund of the Czech Republic (NPF CR) registered in the Commercial Register of the Municipal Court in Prague, Section A.LXII, Enclosure 174

Registration date:	2 August 1991
Registered address:	Rašínovo nábřeží 42, 128 00 Prague 2
Identification number:	41692918

The controlling entity holds shares of the controlled entity in the aggregate nominal value of 51.1 % of the share capital of the controlled entity.

A share in the voting rights of the controlled entity pursuant to Section 183d (1) of the Commercial Code is 51.1 %.

Structure of interconnection with the controlled entity:



Section III. Interconnected entities

Entities controlled by the National Property Fund of the Czech Republic

(a) List of entities controlled by the National Property Fund of the Czech Republic forms Schedule No. 1 of this Report. The list was compiled from inputs sent by the National Property Fund of the Czech Republic and verified using information from the Commercial Register.

(b) List of entities controlled by entities controlled by the National Property Fund of the Czech Republic forms Schedule No. 2 of this Report. The list was compiled from available information.

**

Part C Contracts and agreements between holding entities which were concluded in the accounting period of 2003, and contracts and agreements concluded in the past and which were the ground for performance provided thereunder in the applicable accounting period

Section I. Contracts and agreements between the controlled entity and the controlling entity with entities controlled by the controlling entity

In the period in question, no such contract/agreement was in force or effective.

Section II. Contracts and agreements between the controlled entity and other entities controlled by the National Property Fund of the Czech Republic

Telecommunications services

As a part of its object, the controlled entity provided the following telecommunications services to some of the entities listed in Schedules No. 1 and 2 of this Report, for which it received pecuniary counter-performance, and the price was set according to the current price list as a regulated or unregulated price. The services were the following:

- public telephony service and other services additional to the telephony service as a part of the universal service, for instance call centre services and directory services;
- other value-added telecommunications services, for instance Zelená linka, Memobox, Barevné linky, audiotex;
- publication of telephone directories;
- euroISDN;
- lease of digital and analogue lines;
- data services, for instance ATM, Frame Relay, packet-switched services;
- access/high-speed access to the Internet;
- Internet 2004 – for Internet Service Providers (ISP);
- lease of terminal equipment.

Information on contractual partners and contracts concluded in provision of telecommunications services are regarded by the controlled entity as trade secret according to the Commercial Code and internal governance regulations. Execution of these agreements for provision of telecommunication services for consideration to the controlled entity did not result in any damage incurred by the controlled entity.

Supply of media

Contracts for supply of electricity, natural gas and water were concluded in 2004 and in the years before with interconnected entities listed in Schedule No. 3. The controlled entity provided pecuniary counter-performance for this performance, according to applicable price lists.

Other leases

In a limited scope, contracts for lease, in particular of poles for telecommunications lines, were concluded between the controlled entity as the lessee and interconnected entities listed in Schedule No. 4 in 2004 and prior to 1 January 2004.

In a limited scope, contracts for lease, in particular of cable duct holes, cable ducts and collectors, were concluded between the controlled entity as the lessor and interconnected entities listed in Schedule No. 4 in 2004 and prior to 1 January 2004.

Construction and assembly work

In 2004, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 5 for delivery of construction and assembly work by the interconnected entities for pecuniary performance provided by the controlled entity.

Sale of goods and services

In 2004, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 6 for sale of goods and services by the controlled entity, for instance sale of terminal equipment, for pecuniary performance provided by the interconnected entities.

In 2004, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 7 for sale of goods and services by the interconnected entity, for instance for a buy-back of network, repairs and purchase of spare parts for motor vehicles, maintenance check-ups of transformers, training, accommodation, for pecuniary performance provided by the controlled entity.

Project and geodetic services

In 2004, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 8 for project and geodetic services, for instance for geodetic surveys of standard utility networks, supplied by the interconnected entities, for pecuniary performance provided by the controlled entity.

Repairs and maintenance of buildings, facility management

In 2004, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 9 for repairs and maintenance of buildings, for instance for connection to and disconnection from the power mains and facility management, supplied by the interconnected entities, for pecuniary performance provided by the controlled entity.

Conclusion

Details of contracts concluded are regarded by the controlled entity as trade secret, according to the Commercial Code and other internal governance documents. The controlled entity has not suffered any damage in connection with contracts and agreements concluded in 2004 between the controlled entity and other interconnected entities, under which performance and counter-performance was given, or in connection with provision of performance and counter-performance in 2004 under contracts and agreements concluded prior to 1 January 2004.

Part D Legal acts between holding entities in accounting period 2004

In accounting period 2004, no legal acts were done between the controlled entity and the controlling and interconnected entities in the interest of or instigated by these controlling or interconnected entities, resulting in a damage or profit, advantage or disadvantage.

Part E Measures between holding entities in accounting period 2004

In accounting period 2004, no measures were done between the controlled entity and the controlling and interconnected entities in the interest of or instigated by these controlling or interconnected entities, resulting in a damage or profit, advantage or disadvantage.

Part F Conclusion

(a) The Report was prepared by the Board of Directors of the controlled entity, ČESKÝ TELECOM, a.s., and approved at the meeting of the Board of Directors held on 12 March 2005.
(b) The Report was prepared using data and information obtained from the controlling and other interconnected entities, information from the Commercial Register, other available documents, and using results of examinations of relationships between the controlled entity and the controlling and other interconnected entities. The Board of Directors of the controlled entity, ČESKÝ TELECOM, a.s., declares that it proceeded with due professional diligence of a manager when collecting the data and information.
(c) With regard to the fact that the controlled entity, ČESKÝ TELECOM, a.s., is obliged by law to make an Annual Report pursuant to Act No. 563/1991 Coll., on accounting, as amended, this Report will be attached to the Annual Report for 2003. Shareholders will have the opportunity to read the Report at the same time and under the same conditions as the financial statements.

Done in Prague, on 31 March2005

ČESKÝ TELECOM, a.s. – controlled entity

On behalf of the Board of Directors

Gabriel Berdár
Chairman of the Board of Directors
and Chief Executive Officer

Juraj Šedivý
1st Vice Chairman of the Board of Directors
and Chief Financial Officer

Schedule No. 1

List of joint-stock companies controlled by NPF CR with a share interest of 40 – 100% in the period between 1 January 2004 and 31 December 2004

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousands	% held by NPF	Note
Severočeské mlékárny a.s., v konkursu	48291749	30,228.000	12,326.000	40.78	
EGO, a.s., v konkursu	45534560	181,069.000	75,103.000	41.48	Transfer of shares on 6 December 2004, as of then zero holding
KONAX a.s., v konkursu	46347801	90,671.000	39,989.000	44.10	
Ormilk a.s., v likvidaci	60109092	183,070.000	86,028.000	46.99	
Sokolovská uhelná, a.s.	49790072	6,782,994.000	3,302,594.000	48.69	Transfer of shares on 18 June 2004, as of then zero holding

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousands	% held by NPF	Note
ČESKÝ TELECOM, a.s.	60193336	32,208,990.000	16,458,795.000	51.10	
UNITEX, a.s.	49969358	51,707.000	26,887.000	52.00	Acquisition of shares by decision of the Municipal Court in Prague of 10 October 2003 and by decision of the Higher Court in Prague of 20 April 2004
ŠKODA PRAHA, a.s.	00128201	557,524.000	305,351.000	54.77	Share capital until on 14 January 2004
		1,257,524.000		24.28	Share capital changed on 14 January 2004
Severočeské doly, a. s.	49901982	9,000,055.000	4,985,692.000	55.40	
České aerolinie, a.s.	45795908	2,735,510.000	1,556,980.000	56.92	NPF CR´s voting rights limited by the Articles of Association to 49.9%
AERO HOLDING a.s. v likvidaci	00002127	1,572,580.000	972,332.800	61.83	
UNIPETROL, a.s.	61672190	18,133,476.400	11,422,403.800	62.99	
PRESTA výr. st. hmot a.s., v konkursu	46708944	146,643.000	96,960.000	66.12	
ČEZ, a.s.	45274649	59,221,084.300	40,040,789.700	67.61	
Teplotechna Praha, a.s., v konkursu	60192933	129,681.000	95,345.000	73.52	
SEVAC, a.s., v likvidaci	60192968	211,849.000	167,054.000	78.86	In bankruptcy since 30 February 2002
HOLDING KLADNO, a.s., v konkursu	45144419	7,500,000.000	7,263,533.000	96.85	

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousands	% held by NPF	Note
Interhotel Transit Praha a.s.	60193956	12,503.000	12,128.000	97.00	Deleted from the Commercial Register on 27 April 2004
LACMO, a.s., v konkursu	63475863	64,966.000	63,232.000	97.33	Deleted from the Commercial Register on 14 September 2004
Stasis, stavební a silniční stroje a.s., v konkursu	45350329	166,257.000	166,257.000	100.00	Transfer of shares on 6 December 2004, as of then zero holding
STAZAP, a.s.	45280100	69,180.000	69,180.000	100.00	
Silnice Teplice, a.s., v konkursu	47285583	7,347.000	7,347.000	100.00	
MERO ČR, a.s.	60193468	8,430,921.000	8,430,921.000	100.00	
ČEPRO, a.s.	60193531	2,660,000.000	2,660,000.000	100.00	
OSINEK, a. s.	00012173	15,833,918.000	15,833,918.000	100.00	

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousands	% held by NPF	Note
KRAS, a.s.	00013455	37,469.000	37,469.000	100.00	*PPP Centrum, a.s. Praha – the copany name and the registered address changed on 29 June 2004, and the changes were entered in the Commercial Register on 9 November 2004
PAL, a.s.	00211222	493,362.000	493,362.00 237,006.00	100.00	Share capital changed on 26 June 2004
LETKA, a.s.	25134132	961,000.000	961,000.000	100.00	
THERMAL – F, a.s.	25401726	439,550.000	439,550.000	100.00 100.00	
Dřevařské závody Borohrádek-F, a.s.	25288016	48,500.000	48,500.000	100.00	
Přeloučská poliklinika a.s.	60917415	17,246.000	17,246.000	100.00	Transfer of shares on 23 March 2004, as of then zero holding
FORTE a.s.	25322303	42,309.000	42,309.000	100.00	Transfer of shares on 7 December 2004, as of then zero holding

Schedule No. 2

Interconnected entities and entities controlled by them

1. ČEPRO a.s., identification number 60193531, in accounting period 2004 it was a controlling entity with respect to

BAUFELD – ekologické služby s.r.o.	identification number 49681036	(share interest 49%).

2. České aerolinie, a.s., identification number 45795908, in accounting period 2004 it was a controlling entity with respect to

ČSA Airtours a.s.	identification number 61860336	(share interest 100%)
Slovak Air Services s.r.o.	identification number 31373844	(share interest 100%)
Amadeus Marketing CSA, s.r.o.	identification number 49680030	(share interest 65 %)
CSA Services, s.r.o.	identification number 25085531	(share interest 100%)
ČSA Support s.r.o.	identification number 25674285	(share interest 100%)
Slovenská konzultačná firma s.r.o., v likvidaci		(share interest 100% – deleted from the Commercial Register on 9 December 2004)

3. UNIPETROL, a.s., identification number 61672190, in accounting period 2004 it was a controlling entity with respect to

KAUČUK, a.s.	identification number 25053272	(share interest 100%) – controls another company
CHEMOPETROL, a.s.	identification number 25003887	(share interest 100%) – controls other companies
BENZINA a.s.	identification number 60193328	(share interest 100%) – controls other companies
UNIPETROL RAFINÉRIE a.s.	identification number 25025139	(share interest 100%)
Výzkumný ústav anorganické chemie, a.s.	identification number 62243136	(share interest 100%)
UNIPETROL TRADE a.s.	identification number 25056433	(share interest 100%) – controls other companies
SPOLANA a.s.	identification number 45147787	(share interest 81.78%) – controls another company
PARAMO, a.s.	identification number 48173355	(share interest 73.5%) – controls other companies
ČESKÁ RAFINÉRSKÁ, a.s.	identification number 62741772	(share interest 51%) – controls other companies
ALIACHEM a.s.	identification number 60108916	(share interest 45.08% – acting in concert with AGROBOHEMIE a.s.) – controls other companies
CELIO a.s.	identification number 48289922	(share interest 59.47% – acting in concert with CHEMOPETROL, a.s.)

The following entities controlled by UNIPETROL, a.s., identification number 61672190, were, in accounting period 2004, controlling entities with respect to the following companies:

3.1. ČESKÁ RAFINÉRSKÁ, a.s., identification number 62741772, in accounting period 2004 it was a controlling entity with respect to

ČESKÁ RAFINÉRSKÁ SLOVAKIA s.r.o.	identification number 35777087	(share interest 100%)
CRC POLSKA Sp. z.o.o., v likvidaci		(share interest 100%)

3.2. PARAMO, a.s., identification number 48173355, in accounting period 2004 it was a controlling entity with respect to

Paramo Trysk, a.s.	identification number 64259790	(share interest 100%)
MOGUL SERVIS, a.s., v likvidaci	identification number 25634151	(share interest 100%)
MOGUL MORAVA, a.s., v likvidaci	identification number 60742160	(share interest 100%)

MOGUL TANK-PLUS a.s., v likvidaci	identification number 62526774	(share interest 98.33%)
MOGUL SLOVAKIA, s.r.o.	identification number 36222992	(share interest 100%)
FORTE, a.s., v likvidaci	identification number 31627188 v likvidaci	(share interest 100% - deleted from the Commercial Register on 25 March 2004)
PETRA SLOVAKIA s.r.o., v likvidaci	identification number 31600191	(share interest 70%)
MOGUL POLSKA Sp. z. o. o. v likvidaci		(share interest 100% – deleted from the Commercial Register on 16 November 2004)
MOGUL OIL, o.o.o. – Moskva		(share interest 70% – until 29 January 2004)

3.3. BENZINA a.s., identification number 60193328, in accounting period 2004 it was a controlling entity with respect to

BENZINA Trade a.s.	identification number 26135710	(share interest 100%)
PETROTRANS, a.s.	identification number 25123041	(share interest 100%)
BENZINA SLOVAKIA, a.s., v likvidaci	identification number 35685654	(share interest 100% – deleted from the Commercial Register on 29 September 2004)
ČS Žilina s.r.o.	identification number 35807539	(share interest 100%)
ČS Smižany s.r.o.	identification number 35808306	(share interest 100%)
ČS Milhosť s.r.o.	identification number 35807547	(share interest 100%)

3.4. CHEMOPETROL, a.s., identification number 25003887, in accounting period 2004 it was a controlling entity with respect to

B.U.T., s.r.o.	identification number 25005120	(share interest 100%)
CHEMOPETROL BM, a.s.	identification number 25021877	(share interest 100% – deleted from the Commercial Register on 30 September 2004 following a merger)
UNIPETROL DOPRAVA, a.s.	identification number 64049701	(share interest 100%)
HC CHEMOPETROL, a.s.	identification number 64048098	(share interest 70.95%)
Chemická servisní, a.s.	identification number 25492110	(share interest 100% – from 11 August 2004)
POLYMER INSTITUTE BRNO, spol. s r. o.	identification number 60711990	(share interest 100% – from 5 August 2004)

3.5. KAUČUK, a.s., identification number 25053272, in accounting period 2004 it was a controlling entity with respect to

K-PROTOS, a.s.	identification number 25617214	(share interest 100%)
NERASERVIS, spol. s r. o.	identification number 25712811	(share interest 100% – deleted from the Commercial Register on 5 September 2004 following a merger)

3.6. SPOLANA a.s., identification number 45147787, in accounting period 2004 it was a controlling entity with respect to

NeraAgro, spol. s r. o.	identification number 26133733	(share interest 100% – until 28 July 2004)
NeraPharm, spol. s r. o.	identification number 26499258	(share interest 100%)

3.7. UNIPETROL TRADE a.s., identification number 25056433, in accounting period 2004 it was a controlling entity with respect to

ALIACHEM ITALIA S.r.l.		(share interest 90%)
CHEMAPOL SCANDINAVIA AB – direct control		(share interest 51% until 8 October 2004)
CHEMAPOL Scandinavia A/S – indirect control		(CHEMAPOL SCANDINAVIA AB holds a 100% share interest until 8 October 2004)
OY Chemapol Scandinavia AB – indirect control		(CHEMAPOL SCANDINAVIA AB holds a 100% share interest until 8 October 2004)
Trans Europe Chemicals s.r.o. – indirect control	identification number 25680978	(CHEMAPOL SCANDINAVIA AB holds a 100% share interest until 8 October 2004)
UNIPETROL POLSKA Sp. z.o.o.		(share interest 100%)
MOGUL, d.o.o. – Slovinsko		(share interest 100%)
DP MOGUL UKRAJINA		(share interest 100%; from 3 April 2003)
ALIACHEM VERWALTUNGS GmbH		(share interest 100%)
UNIPETROL DEUTSCHLAND GmbH – indirect control		(100% share interest is held by ALIACHEM VERWALTUNGS GmbH)
ALIAPHARM GmbH FRANKFURT – indirect control		(share interest 100% is held by ALIACHEM VERWALTUNGS GmbH)
UNIPETROL CHEMICAL IBERICA S.A.		(share interest 100%)
CHEMAPOL (SCHWEIZ) AG		(share interest 100%)
UNIPETROL AUSTRIA GmbH		(share interest 100%)
UNIPETROL (UK) Ltd.		(share interest 100%)
ALIACHEM BENELUX B.V., v likvidaci		(share interest 100%)
UNIPETROL FRANCE S.A.		(share interest 96.72%)

3.8. ALIACHEM a.s., identification number 60108916, in accounting period 2004 it was a controlling entity with respect to

OSTACOLOR s.r.o.	identification number 25937421	(share interest 100% until 8 November 2004 LANOCU s.r.o.)
SYNTHESIA a.s.	identification number 26014343	(share interest 100% from 30 July 2004 to 8 November 2004 SynBiol, a.s.).
Chemoinvest, s.r.o., v likvidaci	identification number 64613097	(share interest 100%)
FATRA-HIF, s.r.o.	identification number 48584355	(share interest 100%)
Energetika Chropyně, a.s.	identification number 25517074	(share interest 100%)
OSTACOLOR, a.s.	identification number 00011878	(share interest 100% – deleted from the Commercial Register on 31. August 2004 following a merger)
OSTACOLOR POLSKA Sp. z.o.o. – indirect control		(100% share interest held by OSTACOLOR, a.s.)
Výzkumný ústav organických syntéz a.s.	identification number 60108975	(share interest 98.74%)
ZLATÝ JELEN, spol. s r. o. – adjudicated bankrupt	identification number 60738006	(share interest 91%)
PLASTFLOOR, spol. s r. o. – v likvidaci, adjudicated bankrupt since 2 June 2004	identification number 48911267	(share interest 65.71%)
FATRA-IZOLFA, s.r.o. – v likvidaci	identification number 47917563	(share interest 60%)
FATRA, a.s.	identification number 27465021	(share interest 100% from 16 November 2004)

4. MERO ČR, a.s., identification number 60193468, in accounting period 2004 it was a controlling entity with respect to

MERO Pipeline GmbH		(Germany; share interest 100%)

5. OSINEK, a.s., identification number 00012173, in accounting period 2004 it was a controlling entity with respect to

VÍTKOVICE STEEL, a.s.	identification number 25874942	(share interest 98%) – controls other companies
ČEPS, a.s.	identification number 25702556	(share interest 51%) – controls another company

The following entities controlled by OSINEK, a.s. identification number 00012173, were, in accounting period 2004, controlling entities with respect to

5.1. VÍTKOVICE STEEL, a.s., identification number 25874942, in accounting period 2004 it was a controlling entity with respect to

VÍTKOVICE – Servis Centrum, a.s. v likvidaci	identification number 25824341	(share interest 97.96%)
VÍTKOVICE STEEL Polska Sp. z.o.o.		(share interest 100%)
VÍTKOVICE INTERNATIONAL GmbH		(Germany; share interest 100%)

5.2. ČEPS, a.s., identification number 25702556, in accounting period 2004 it was a controlling entity with respect to

ENIT, a.s.	identification number 25426796	(share interest 100%)

6. Sokolovská uhelná, a.s., identification number 49790072, in accounting period 2004 it was a controlling entity with respect to

Malé Versailles, s.r.o.	identification number 63505312	(share interest 100%)
Golf Sokolov a.s.	identification number 25107623	(share interest 100% – until 5 February 2004 SOMET ENERGY a.s.) – controls another company
REO-SUAS, s.r.o.	identification number 63505401	(share interest 100%)
EKOSOLARIS, a.s.	identification number 25535668	(share interest 51.05%)
SATER-CHODOV spol. s r. o.	identification number 62584961	(share interest 51%)
PRODECO, a.s.	identification number 25020790	(share interest 49.50%)
KOUPALIŠTĚ MICHAL, s.r.o.	identification number 26348721	(share interest 50% – from 18 March 2004)

6.1. Golf Sokolov, a.s., identification number 25107623, an entity controlled by Sokolovská uhelná, a.s. identification number 49790072, was a controlling entity in accounting period 2004 with respect to

KOUPALIŠTĚ MICHAL, s.r.o.	identification number 26348721	(share interest 100%)

7. Severočeské doly a.s., identification number 49901982, in accounting period 2004 it was a controlling entity with respect to

Skládka Tušimice, a.s.	identification number 25005553	(share interest 98%)
SD – Vrtné a trhací práce, a.s.	identification number 25022768	(share interest 100%)
SD – Autodoprava, a.s.	identification number 25028197	(share interest 100%)
SD – Humatex, a.s.	identification number 25458442	(share interest 100%)
SD – 1. strojírenská, a.s.	identification number 25437127	(share interest 100%)
SD – Kolejová doprava, a.s.	identification number 25438107	(share interest 100%)
SHD-KOMES a.s.	identification number 44569891	(share interest 46.32%)
PRODECO, a.s.	identification number 25020790	(share interest 50.5%)
ENETECH a.s.	identification number 25448731	(share interest 50%)

8. ČEZ, a.s., identification number 45274649, in accounting period 2004 it was a controlling entity with respect to

ČEZ Správa Majetku, s.r.o.	identification number 26206803	(share interest 100% – until 22 September 2004 AB Michle s.r.o.)
CEZTel, a.s.	identification number 25107950	(share interest 100%)
ČEZ ENERGOSERVIS spol. s r. o.	identification number 60698101	(share interest 100%)
ČEZ FINANCE B.V.		(the Kingdom of Netherlands; share interest 100%)
Energetické opravny, a.s.	identification number 25040707	(100%)
GAPROM, s.r.o., v likvidaci	identification number 64939111	(share interest 50% – deleted from the Commercial Register on 19 November)
rpg Energiehandel GmbH		(Germany; share interest 100%)
HYDROČEZ, a.s.	identification number 63079852	(share interest 100%)
I & C Energo a.s.	identification number 49433431	(share interest 100%) – controls other companies
ČEZData, s.r.o	identification number 27151417	(share interest 100%)
ČEZ Zákaznické služby, s.r.o.	identification number 26376547	(share interest 100%)
KOTOUČ ŠTRAMBERK, spol. s r. o.	identification number 47972165	(share interest 64.87%)
ČEZ Logistika, a.s.	identification number 26840065,	(share interest 100%)
LOMY MOŘINA spol. s r. o.	identification number 61465569	(share interest 51.05%)
ČEZnet, a.s.	identification number 26470411	(share interest 100%)
OSC, a.s.	identification number 60714794	(share interest 66.67%)
SIGMA – ENERGO s.r.o.	identification number 60702001	(share interest 51%)
Škoda Praha a.s.	identification number 00128201	(share interest 68.9%) – controls other companies
Ústav jaderného výzkumu Řež a.s.	identification number 46356088	(share interest 52.46%) – controls other companies
Středočeská energetická a.s.	identification number 60193140	(share interest 97.72%) – controls other companies
Severočeská energetika, a.s.	identification number 49903179	(share interest 56.93%) – controls other companies
Severomoravská energetika, a.s.	identification number 4767569	(share interest 89.38%) – controls other companies
Východočeská energetika, a.s.	identification number 60108720	(share interest 98.82%) – controls other companies
Západočeská energetika, a.s.	identification number 49790463	(share interest 99.13%) – controls other companies

The following entities controlled by ČEZ, a.s., identification number 45274649, were, in accounting period 2004, controlling entities with respect to

8.1. Západočeská energetika, a.s., identification number 49790463, in accounting period 2004 it was a controlling entity with respect to

Enerfin, a.s.	identification number 25751344	(share interest 100%)
ESMOS, s.r.o.	identification number 62620673	(share interest 100%)
PRO ENERGO Plzeň, spol. s r. o.	identification number 64356591	(share interest 80%)
Plzeňská energetika, a.s.	identification number 25240668	(share interest 50%)
LINDRONE, spol. s r. o.	identification number 49786105	(share interest 100%)
Energoreal s.r.o.	identification number 25226924	(share interest 100%)
EN projekt, spol. s r. o.	identification number 25217852	(share interest 100%)
GAZELA plus s.r.o.	identification number 26339404	(share interest 50%)
SEG s.r.o.	identification number 46883657	(share interest 66.66% until 25 November 2003; afterwards 33.33%)
První energetická a.s.	identification number 61860948	(share interest 100% – STE, VČE, SČE, ZČE)

8.2. Východočeská energetika, a.s., identification number 60108720, in accounting period 2004 it was a controlling entity with respect to

VČE – montáže, a.s.	identification number 25938746	(share interest 100%)
VČE – elektrárny, s.r.o.	identification number 25938924	(share interest 100%)
VČE – měřicí technika, s.r.o.	identification number 25938878	(share interest 100%)
VČE – transformátory, s.r.o.	identification number 25938916	(share interest 100%)
ENEST, s.r.o.	identification number 64791327	(share interest 67%)
MojeEnergie.CZ, s.r.o.	identification number 27114791	(share interest 51%)

8.3. Středočeská energetická, a.s., identification number 60193140, in accounting period 2004 it was a controlling entity with respect to

STE – obchodní služby spol. s r. o.	identification number 49826182	(share interest 76,16 %)
ELTRAF, a.s.	identification number 46357483	(share interest 51%)

8.4. Severočeská energetika, a.s., identification number 49903179, in accounting period 2004 it was a controlling entity with respect to

Energetická montážní společnost Ústí nad Labem, s.r.o.	identification number 62743317	(share interest 100%)
Energetická montážní společnost Česká Lípa, s.r.o.	identification number 62743333	(share interest 49%)
Energetická montážní společnost Liberec, s.r.o.	identification number 62743325	(share interest 100%)
Energozdroj, s.r.o., v likvidaci	identification number 64653382	(share interest 50%)
ENERGOKOV, s.r.o., v konkursu	identification number 25015621	(share interest 100%)
ESS s.r.o.	identification number 25013271	(share interest 51%)
ENPROSPOL, s.r.o. Děčín	identification number 25488767	(share interest 100%)

8.5. Ústav jaderného výzkumu Řež a.s., identification number 6356088, in accounting period 2004 it was a controlling entity with respect to

Centrum výzkumu Řež s.r.o.	identification number 26722445	(share interest 100%)
LACOMED, spol. s r. o.	identification number 46348875	(share interest 62.50%)
Ústav aplikované mechaniky Brno, s.r.o.	identification number 60715871	(share interest 60%)
Ústav jaderných informací Zbraslav, a.s.	identification number 45270902	(share interest 51%)
ENERGOPROJEKT SLOVAKIA, a.s.	identification number 31381570	(share interest 100%)
WADE a.s.	dentification number 25523520	(share interest 50%)

8.6. Severomoravská energetika, a.s., identification number 47675691, in accounting period 2004 it was a controlling entity with respect to

MSEM, a.s. – it also controls ELEKTROSPOLEČNOST B.D. spol. s r. o.	identification number 64610080 identification number 44739486	(share interest 100%) (share interest 50%.)
ENPRO, a.s.	identification number 26831848	(share interest 100%)
Energetika Vítkovice, a.s.	identification number 25854712	(share interest 100%)
ePRIM, a.s.	identification number 25889567	(share interest 100%)
Union Leasing, a.s.	identification number 60792710	(share interest 100%)
Beskydská energetická, a.s.	identification number 25829491	(share interest 100%)
SINIT, a.s.	identification number 25397401	(share interest 100%)
Elektrovod Holding, a.s. – it also controlled ELV Projekt, a.s. ELV-SERVIS, spol. s r. o. Elektrovod Stav, s.r.o. Elektrovod Osvetlenie, s.r.o. Elekrovod Rozvádzače, s.r.o. ELTODO Slovakia, s.r.o. Elektrovod Polska Sp. z o.o. Elektrovod-MATIC d.o.o.	identification number 35834111 identification number 35768584 identification number 35702095 identification number 35872241 identification number 36170151 identification number 35801859 identification number 31662030 identification number 1837621	(share interest 50%) (share interest 100%), (share interest 83%), (share interest 50%), (share interest 50%), (share interest 70%), (share interest 50 %), (share interest 50%), (share interest 100%).

8.7. I & C Energo a.s., identification number 49433431, in accounting period 2004 it was a controlling entity with respect to

AHV, s.r.o.	identification number 49973762	(share interest 75%)
ESE, s.r.o.	identification number 60701935	(share interest 66%)

9. Společnost PAL, a.s., identification number 00211222, in accounting period 2004 it was a controlling entity with respect to

Výzkumný a zkušební letecký ústav, a.s.	identification number 00010669	(share interest 44.61%)

10. Společnost ŠKODA PRAHA a.s., identification number 00128201, in accounting period 2004 it was a controlling entity with respect to

EGI, a.s.	identification number 60721332	(share interest 100%) – controls another company
EGI servis, s.r.o.	identification number 26423316	(share interest 100%)
ENERGOSERVIS TRNAVA a.s.	identification number 34128956	deleted from the commercial register on 22th september (share interest 62.81%)

10.1. EGI, a.s., controlled by ŠKODA PRAHA, a.s., was in accounting period 2004 a controlling entity with respect to

EGI machine, s.r.o.	identification number 26434075	(share interest 100%)

11. LETKA, a.s., identification number 25134132, in accounting period 2004 it was a controlling entity with respect to

AERO Vodochody, a.s.	identification number 00010545	(share interest 53.30%)

Schedule No. 3

List of interconnected entities with which contracts were concluded in 2004 for supply of electricity and which received performance under contract concluded prior to 1 January 2004

Východočeská energetika, a.s.
Severomoravská energetika, a.s.
Středočeská energetická, a.s
Severočeská energetika, a.s.
Západočeská energetika, a.s.

Schedule No. 4

List of interconnected entities-lessors with which lease contracts were concluded in 2004 and prior to 1 January 2004

Západočeská energetika, a.s.
Středočeská energetická, a.s.
Sokolovská uhelná, a.s.
Kaučuk a.s.
ČEZ, a.s.
Severočeské doly a.s.
Ústav jaderného výzkumu Řež a.s.
SDH-KOMES a.s.
Aliachem a.s.

Schedule No. 5

List of interconnected entities with which contracts were concluded in 2004 for delivery of construction and assembly work performed by the interconnected entity

I & C Energo a.s.
Středočeská energetika

Schedule No. 6

List of interconnected entities with which contracts were concluded in 2004 for sale of goods and services by a controlled entity

Čepro, a.s.
Baufeld – ekologické služby s.r.o.
KRAS, a.s.
České aerolinie, a.s.
ČSA Airtours a.s.
Slovak Air Services s.r.o.
Amadeus Marketing CSA, s.r.o.
CSA Services, s.r.o.
ČSA Support s.r.o.
Slovenská konzultačná firma s.r.o., v likvidaci
Enerfin, a.s.
ESMOS, s.r.o.
PRO ENERGO Plzeň, spol. s r. o.
Energoreal s.r.o.
EN projekt, spol. s r. o.
GAZELA polus s.r.o.
SEG, s.r.o.
UNIPETROL, a.s.
KAUČUK, a.s.
CHEMOPETROL, a.s.
BENZINA, a.s.
UNIPETROL RAFINÉRIE, a.s.
Výzkumný ústav anorganické chemie, a.s.
UNIPETROL TRADE a.s.
SPOLANA, a.s.
PARAMO, a.s.
ČESKÁ RAFINÉRSKÁ, a.s.
ALIACHEM, a.s.
MERO ČR, a.s.
MERO Pipeline GmbH
OSINEK, a.s.
VÍTKOVICE STEEL, a.s.
ČEPS,a.s.
Sokolovská uhelná, a.s.
Malé Versailles, s.r.o.
GOLF SOKOLOV, a.s.
REO-SUAS, s.r.o.
EKOSOLARIS, a.s.
SATER – CHODOV spol. s r. o.
VČE – montáže, a.s.
VČE – elektrárny, s.r.o.
VČE – měřicí technika, s.r.o.
VČE – transformátory, s.r.o.
ENEST, s.r.o.
MojeEnergie.CZ, s.r.o.
Severočeské doly a.s.
Skládka Tušimice, a.s.
SD – Vrtné a trhací práce, a.s.
SD – Autodoprava, a.s.
SHD – SOFT(ware), a.s.
SD – Humatex, a.s.
SD – 1. Strojírenská, a.s.
SD – Kolejová doprava, a.s.
SHD – KOMES, a.s.
PRODECO, a.s.
ENETECH a.s.
STE – obchodní služby spol. s r. o.
ELTRAF, a.s.
Energetická montážní společnost Ústí nad Labem s.r.o.
Energetická montážní společnost Česká Lípa s.r.o.
Energetická montážní společnost Liberec, s.r.o.
ESS, s.r.o.
ČEZ, a.s
CEZTel, a.s.
ČEZ ENERGOSERVIS spol. s r. o.
ČEZ FINANCE B. V.
GAPROM, s.r.o.
rpg Energiehandel GmbH
HYDROČEZ, a.s.
I & C Energo a.s.
KOTOUČ ŠTRAMBERK, spol. s r. o.
LOMY MOŘINA, spol. s r. o.
ČEZnet, a.s.
OSC, a.s.
SIGMA – ENERGO s.r.o.
Středočeská energetická a.s.
Severočeská energetika, a.s.
Severomoravská energetika, a.s.
Východočeská energetika, a.s.
Západočeská energetika, a.s.
PAL, a.s.
Výzkumný a zkušební letecký ústav, a.s.
ŠKODA PRAHA, a.s.
EGI, a.s.
EGI servis, s.r.o.
ENERGOSERVIS TRNAVA a.s.
EGI machine, s.r.o.
UNIPETROL, a.s.
ČESKÁ RAFINÉRSKÁ, a.s.
PARAMO, a.s
Paramo Trysk a.s., v likvidaci
MOGUL SERVIS, a.s., v likvidaci
MOGUL MORAVA, a.s., v likvidaci
MOGUL TANK – PLUS a.s., v likvidaci
FORTE, a.s., v likvidaci
PETRA SLOVAKIA s.r.o., v likvidaci
MOGUL POLSKA Sp. Z.o.o., v likvidaci
MOGUL OIL, o.o.o.
BENZINA Trade, a.s.
PETROTRANS, a.s.
BENZINA SLOVAKIA, a.s.
ČS Žilina s.r.o.
ČS Smižany s.r.o.
ČS Milhosť s.r.o.
CHEMOPETROL,a.s.
B.U.T., s.r.o.
CHEMOPETROL BM,a.s.
UNIPETROL DOPRAVA, a.s.
HC CHEMOPETROL, a.s.
KAUČUK,a.s.
K-PROTOS, a.s.
NERASERVIS, spol s.r.o.
NeraAgro, spol. s r. o.
NeraPharm, spol. s r. o.
ALIACHEM ITALIA S. r. l.
CHEMAPOL SCANDINA VIA AB
CHEMAPOL Scandinavia A/S
OY Chemapol Scandinavia AB
Trans Europe Chemicals s.r.o.
UNIPETROL POLSKA Sp. Z.o.o.
MOGUL, d.o.o.

DP MOGUL UKRAJINA
ALIACHEM VERWALTUNGS GmbH
UNIPETROL DEUTSCHLAND GmbH
ALIAPHARM GmbH FRANKFURT
UNIPETROL CHEMICAL IBERICA S.A.
CHEMAPOL (SCHWEIZ) AG
UNIPETROL AUSTRIA GmbH
UNIPETROL (UK) Ltd.
ALIACHEM BENELUX B.V.
UNIPETROL FRANCE S.A.
Chemoinvest, s.r.o., v likvidaci
Energetika Chropyně, a.s.
OSTACOLOR, a.s.
OSTACOLOR POLSKA Sp. z.o.o.
Výzkumný ústav organických syntéz a.s.
ZLATÝ JELEN, spol. s r. o. – v konkursu
PLASTFLOOR, spol. s r. o.
FATRA – IZOLFA, s.r.o.
ENIT, a.s.
Sokolovská uhelná,a.s.
Ústav jaderného výzkumu Řež, a.s.
Centrum výzkumu Řež, s.r.o.
LACOMED, spol. s r. o.
Ústav jaderných informací Zbraslav, a.s.
ENERGOPROJEKT SLOVAKIA, a.s.
MSEM, a.s.
Energetika Vítkovice, a.s.
SINIT, a.s.
STAZAP, a.s.
LETKA a.s.
THERMAL-F, a.s.
Dřevařské závody Borohrádek-F a.s.
Přeloučská poliklinika a.s.
FORTE a.s.
Interhotel Transit Pha, a.s.
EGO, a.s. (v konkursu)
KONAX a.s. (v konkursu)
Ormilk a.s. (v likvidaci)
Severočeské mlékárny a.s. (v konkursu)
AERO HOLDING a.s. (v likvidaci)
PRESTA výr. st. hmot a.s. (v konkursu)
Teplotechna Praha a.s. (v konkursu)
SEVAC, a.s. (v likvidaci)
LACMO a.s. (v konkursu)
Stasis, stavební a silniční stroje a.s. (v konkursu)
Silnice Teplice a.s. (v konkursu)

Schedule No. 7

List of interconnected entities with which contracts were concluded in 2004 for sale of goods and services by the interconnected entity

I & C Energo a.s.
Benzina, a.s.
Ústav jaderného výzkumu Řež, a.s.
Severočeská energetika, a.s.
Západočeská energetika, a.s.
Severomoravská energetika, a.s.
Východočeská energetika, a.s.
Severočeské doly, a.s.
Středočeská energetická, a.s.

Schedule No. 8

List of interconnected entities with which contracts were concluded in 2004 for project and geodetic services supplied by the interconnected entity.

Středočeská energetická, a.s.

Schedule No. 9

List of interconnected entities with which contracts were concluded in 2004 for repair and maintenance of buildings and for facility management performed by the interconnected entity.

I & C Energo a.s.