



**Half-Year Report 2002**

**CZECH  
TELECOM**

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**ČESKÝ TELECOM is a good business address. We are the largest provider of affordable and modern telecommunications services on the Czech market. We own the nation's largest and most reliable communication infrastructure, enabling us to offer complex telecommunications services targeted to meet our customer's individual needs.**

**As technologies advance, we intend to remain at the forefront of next-generation integrated telecommunications services. Our goals are to ensure the reliable fulfilment of customer needs, achieve our long-term business plans, and to increase market value. We continue to build transparent relationships based on reliability and the highest standards of professionalism with both local and international partners. In our efforts, we strive to be a good corporate citizen and positive member of Czech society, with a reputation for trustworthiness and stability in the eyes of the Czech public. We want to be an attractive investment for our current and future shareholders.**

## Calendar of events for the first half of 2002

The number of ČESKÝ TELECOM customers using paid and free dial-up Internet access services via a modem and telephone line reaches 500,000

We introduce the Local Leased Loops services Standard offer and the ISDN-Complete OLYMPIADA product package

Introduction of new prices and tariff packages

Launch of the first Public Information Terminal for public institutions

Operational launch of the Hosting centre, the largest virtual space facility of its kind in the Czech Republic

Eurotel Praha launches its new product and service line, Eurotel Mobile Telemetry

Launch of the Starter Kit software in cooperation with Microsoft

Launch of iBase.cz, a new portal for small and medium-sized companies

Introduction of the new videoRELACE service

Eurotel Praha expands its Eurotel GSM Banking service to include the largest Czech bank, Česká spořitelna

We are awarded another internationally recognized quality management certificate under the ISO 9001:2000 standard

Launch of the regionally limited IOL Platinum service

Introduction of TRICK, a next-generation multi-function chip telephone card

Eurotel Praha introduces the Eurotel Kombi SIM card

Launch of the pilot operation of the carrier selection service on June 3

Annual General Meeting takes place on June 14

Digitalisation of the network completed on June 27



## Joint Statement of the Chairman of the Board of Directors and the President & CEO to Shareholders



Dear Shareholders,

The first half of 2002 presented significant challenges for ČESKÝ TELECOM. Structural changes in the Czech telecommunications market caused by customer demands for complex telecommunications services continued and deepened. Competition from alternative carriers increased, as did the activity of the Czech Telecommunications Office (CTO), the market's regulator. Certain price and other decisions issued by the CTO led to business conditions which were unfavourable to ČESKÝ TELECOM. In the mobile telephony segment, the first half of 2002 brought stability to the market after a few years of rapid expansion. The mobile telephony market had already reached almost 70% penetration at the end of 2001, and thus the increase in mobile users in the first half of 2002 is immaterial in comparison with last year.

Structural changes to the telecommunications market can also be seen in the company's service profile and profitability. As in other developed European countries, basic telephone services in the Czech Republic have become a commodity, and telecommunications companies, including ČESKÝ TELECOM, increasingly focus on the rapid development of high value-added services. This is also reflected in the gradual change in the structure of telecommunications companies' financial results. The share of revenues from traditional telecommunications services, such as fixed-line revenues, is decreasing while revenues from data services, Internet services, e-Business platforms, and other value-added services are on the rise.

ČESKÝ TELECOM is also experiencing these changes, and our half-year results for 2002 demonstrate the ability of our company to adapt to these changing market conditions.

The overall business results of our company are influenced by the fact that the most important revenue category remains revenues from voice telecommunications services, despite an increasing share of modern services with development potential. Total consolidated revenues in comparison with the same period last year decreased by 7%. Nevertheless, EBITDA in absolute terms stood at same level, due to strict cost control measures, and the EBITDA margin increased to 51%.

As before, the first half of 2002 saw large expenditures to ensure the fulfilment of ČESKÝ TELECOM's obligations specified in the Czech Telecommunications Act, in particular carrier selection and number portability services. Most of this mandatory process should be completed by the end of this year. The provision of universal service also requires continual material investments into infrastructure.

ČESKÝ TELECOM is fully aware that structural changes in the market will continue to deepen, and that the company must create the conditions for further growth by actively addressing these changes. The company's business strategy meets this challenge. We anticipate continued growth in our market share of modern services by the continual innovation of our product portfolio, improvements in customer care processes, the increased effectiveness of traditional fixed line voice services, and increased synergy between fixed and mobile network services and between communication and information technologies. Services related to Internet access will remain an important source of revenue growth. The ADSL service presents a new area with strong future potential.

ČESKÝ TELECOM's newly amended mission and vision for the fully liberalised market address the company's ambition to be a permanently sought-after provider of complex, high-quality, and affordable telecommunications services for a wide range of customers and to become the most attractive telecommunications investment opportunity in Central Europe.

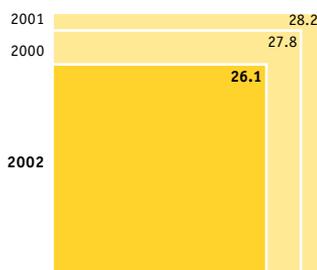


**Přemysl Klíma**  
*President & CEO*



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

## Overview of financial results



Consolidated revenues  
in CZK billions (as at 30.6.)

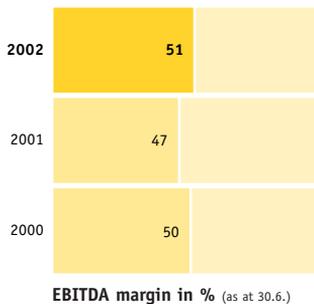
ČESKÝ TELECOM's financial results for the first half of 2002 reflect the further development of the Czech telecommunications market and the advancement of telecommunications technologies. Continuing pressure on revenues was offset by effective cost control measures, which resulted in the EBITDA margin rising in comparison with the first half of 2001 from 47% to 51%.

**Total consolidated revenues**, recorded at CZK 26.1 billion, were down 7% from the same period in 2001. In February, ČESKÝ TELECOM implemented a new tariff structure further rebalanced with higher monthly subscription fees, reduced call charges, and the introduction of call credits. Home and business users can now choose between a number of tariff packages, three of which are regulated. Due to the fact that free call credits are not included in **revenues from monthly subscription charges** and the change in tariff structure, these revenues rose 40% compared to the same period in 2001 to CZK 5.2 billion. This, however, had the opposite effect on **call revenues from the Public Switched Telephone Network (PSTN)**, which fell 35% compared to the first half of 2001, to

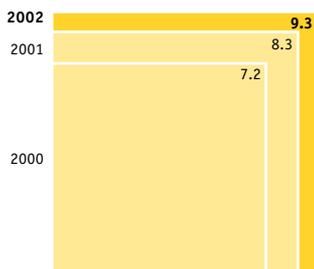
CZK 7.4 billion. Overall monthly subscription charges and call revenues were also influenced by changes in the number of telephone lines and the structure of telephone traffic. The number of telephone lines, including ISDN channels, decreased almost 3%, from 3,839,000 at the end of the first half of 2001 to 3,738,000.

The volume of telephone traffic did not change from last year and remained at 6 billion minutes, but traffic structure changed. While traffic generated by local, long distance, and international calls declined as in previous years, there was an increase in traffic generated by the cheaper Internet dial-up connection.

The volume of call and subscription revenues was also influenced by the rise in euroISDN service revenues, which are reported as part of data service revenues, due to the fact that euroISDN's are mainly used for Internet access. At the end of the first half of 2002, ČESKÝ TELECOM operated a total of 358,000 ISDN channels, a 109% increase from the end of the first half of 2001. **Revenues from data services** rose 33% to CZK 3.4 billion, of which **euroISDN service revenues** represented CZK 2.1 billion, an increase of



EBITDA margin in % (as at 30.6.)



Depreciation in CZK billions (as at 30.6.)

55% from the same period in 2001. Data services revenues also include **Internet service revenues**, which increased 55% to CZK 200 million. This was influenced by increased interest in these services, including VPN and hosting services.

**Revenues from domestic operators** fell 46% from the same period in 2001 to CZK 577 million as a result of increased mobile penetration. Mobile operator customers can make calls within their own networks that are cheaper than calls to ČESKÝ TELECOM's network. This decrease in revenues from domestic operators was also influenced by the fact that prices for interconnection with local alternative operators of fixed networks and mobile operators were lowered in comparison with the first half of last year. **Revenues from international operators** fell 38% to CZK 650 million, reflecting the continuing decline in international interconnection charges, strong competition, new technologies, and the strength of the Czech crown.

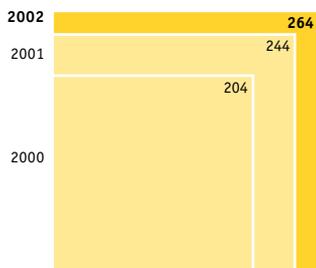
**Revenues from leased circuits** rose 18% in comparison with the first half of 2001 to CZK 1.4 billion. **Revenues from the sale of equipment and material** rose 11% to

CZK 228 million; **other revenues** rose 14% to CZK 569 million.

**The consolidation of Eurotel Praha** revenues, which stood at CZK 6.7 billion for the first half of 2002, rose 5% in comparison with the first half of 2001 and represents 25% of ČESKÝ TELECOM's total consolidated revenue. Eurotel Praha's customer base rose 34% year on year to 3,567,000 at the end of the first half of 2002. Most new customers were recorded in the pre-paid service segment. Eurotel Praha remains the largest mobile telephone operator in the Czech Republic.

**Consolidated operating expenses** fell 14% from the first half of 2001 to CZK 12.8 billion. Effective cost control of operating expenses is one of the basic strategic goals of the company, especially with the changes on the Czech telecommunications market and increased pressure on revenues. The implementation of this goal will be possible thanks to ČESKÝ TELECOM's previous investment into support systems, which enable gradual workforce reductions and the optimisation of processes.

**Consolidated staff costs**, recorded at CZK 3.7 billion, were down 1% from the first half of



Number of telephone lines per employee (as at 30.6.)

2001. ČESKÝ TELECOM continued to reduce its workforce. At the end of the first half of 2002, ČESKÝ TELECOM had a total of 14,158 fixed-line employees, 10% less than at the end of the first half of 2001. Eurotel Praha's workforce rose by 6% in the same period, to a total of 2,435.

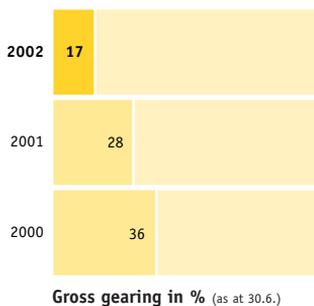
The largest decrease in operational costs resulted from the decrease in consolidated payments to other network operators. **Consolidated payments to domestic operators** fell 28% in comparison with the first half of 2001 to CZK 1.8 billion. **Consolidated payments to international operators** fell 37% to CZK 835 million. **Consolidated equipment and material cost of sales** fell 3% to CZK 937 million. **Consolidated material consumed** fell 5% to CZK 444 million, and **other consolidated costs** fell 12% to CZK 5.1 billion.

ČESKÝ TELECOM's EBITDA margin has been very stable for a number of years and is one of the highest on the European telecommunications market. **Consolidated EBITDA** did not change in comparison with the first half of 2001 and stood at CZK 13.3 billion at the end of the first half of 2002. The **EBITDA margin**, which stood

at 51% at the end of the first half of 2002, was 4% higher than at the end of the same period last year. Consolidated depreciation rose 13% to CZK 9.3 billion, which led to a fall in **EBIT** of 22% to CZK 4.0 billion. Interest expenses fell 93% to CZK 57 million, thanks to lower debt and the strong Czech crown. Consolidated **EBT** was CZK 3.9 billion, and **consolidated net income** was recorded at CZK 2.6 billion, a 10% decrease from the first half of 2001.

Our debt level decreased during the first half of 2002, in particular due to the decision to prematurely pay a local bond issue of CZK 7 billion with a fixed interest rate of 11.3%. The value of **consolidated loans** at the end of the first half of 2002 was CZK 18.1 billion, compared to CZK 29.3 billion at the end of the first half of 2001. **Gross gearing** (consolidated interest-bearing loans/consolidated shareholder equity) therefore decreased from 28% to 17%. Thanks to ČESKÝ TELECOM's financial health, our **rating** has remained A- from Standard & Poor's and Baa1 from Moody's for several years.

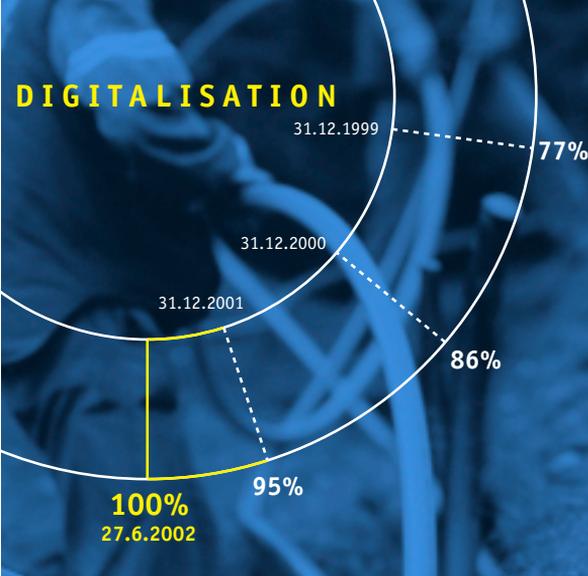
In March, ČESKÝ TELECOM introduced a local bond program, which enables us to issue bonds



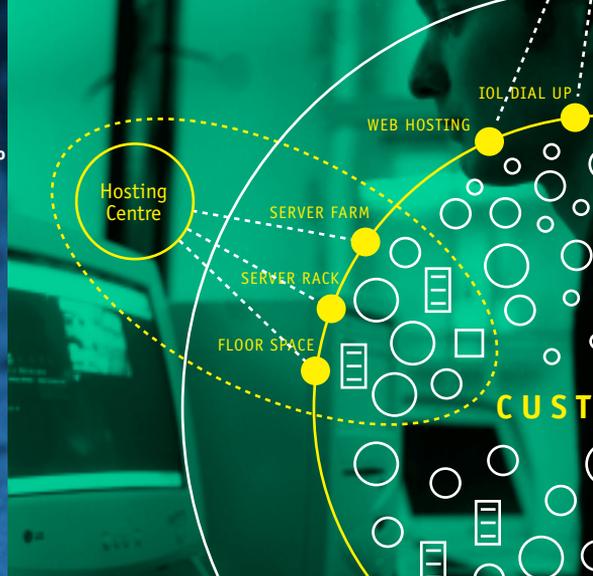
up to the value of CZK 20 billion within a period of 10 years. ČESKÝ TELECOM has used favourable market conditions to re-finance its debt portfolio and issued the first bond issue on 15 July 2002 under this program. The balance sheet for the first half of 2002 could not reflect this issue. The total value of this issue is CZK 3 billion, with a fixed interest rate of 4.55% and maturity in 2005. The issue, which has been allocated ISIN number CZ0003501306, is listed on the secondary market of the Prague Stock Exchange. **Consolidated investment** stood at CZK 4.4 billion, a 21% drop compared to the end of the first half of 2001. During the first half of 2002, ČESKÝ TELECOM's non-consolidated investment was CZK 3.5 billion, 14% less than in the first half of 2001. These investments were directed into network development and into meeting the requirements of the Telecommunications Act, in particular **carrier selection**, which was enabled by 1 July 2002. Completion of the digitalisation of our network was a necessary prerequisite for the introduction of the carrier selection service. In September 2002, the **renumbering** of all telephone numbers within the public telecom-

munications network in the Czech Republic will occur. From January 2003, **carrier pre-selection and number portability** must be enabled. Fulfilment of these legal requirements is also reflected in investments during the first half of 2002. Eurotel Praha's investments were directed into network development.

The main **goal of the company for the second half of 2002** remains the continuation of our good financial performance on the changing Czech telecommunications market, with its increasing competitive pressure on revenues. Our revenue structure will continue to change, especially in the direction of data services, value-added services, Internet, and complex customer solutions. Financial results will also be influenced by regulatory decisions on the compensation of the access deficit, the decision on interconnection charges calculated according to Long Run Average Incremental Costing (LRAIC), especially in connection with the introduction of the carrier selection service and the interconnection mode for the provision of Internet services. Financial results in the second half of 2002 may also be influenced by the development of the exchange rate of the Czech crown.



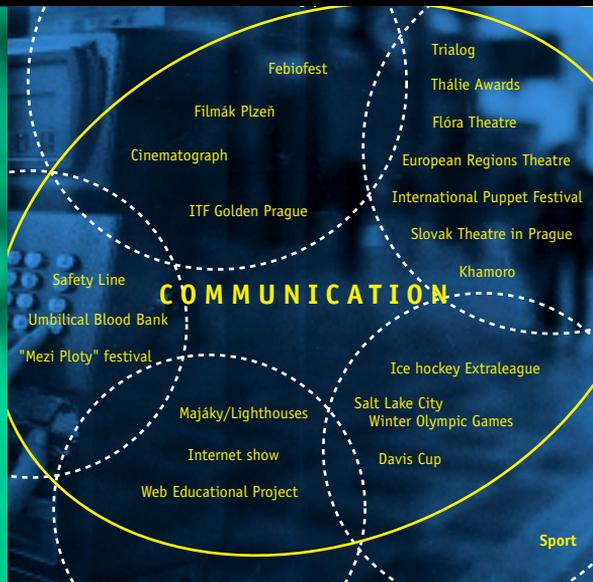
-- As at 27.6.2002, 100% of telephone lines are connected to a digital exchange.



-- Hosting Centre represents the largest virtual space in the Czech Republic.



-- Number of Eurotel Praha customers exceeds 3.5 million.



-- Projects which ČESKÝ TELECOM supported in the first half of 2002, among others.

## Operational overview

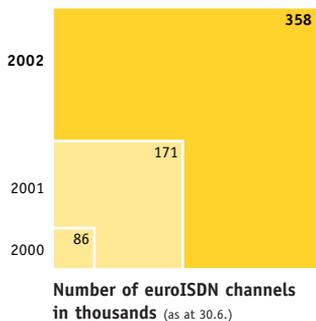
The first half of 2002 saw the continuation of previous developments and trends on the Czech telecommunications market. Attempts to create a truly competitive environment, the dynamic development of technologies, and the continued increase of customer requirements influenced all telecommunications services providers. ČESKÝ TELECOM actively participated in these changes and confirmed its position as the largest telecommunications provider in the Czech Republic.

The most important event of the first half of 2002 was the completion of the digitalisation of ČESKÝ TELECOM's telecommunications network, which was not only the prerequisite for the provision of modern services but also one of the key conditions for the full liberalisation of the Czech telecommunications market. We have fulfilled the requirements of the Czech Telecommunications Act, and since June 30 we have enabled the full implementation of the carrier selection service.

As required by the schedule included in the Telecommunications Act, we have been working intensively on technology resources for other services—number portability, carrier pre-selection, and preparation for the overall renumbering of telephone numbers. In keeping with our long-term business plans, we have continued to reshape the customer orientation of our company. The increased array of voice, data, Internet, mobile, and wholesale services, supported by the development of the technical infrastructure, address individual customers' needs, both in terms of service quality and affordability.

## Voice, data, Internet and wholesale services

On 1 January 2002, we changed the structure and expanded the array of our tariff programs. We began offering monthly tariffs with free call credit to residential segment customers. Another Internet change saw the shift of off-peak hours to start at 6 PM. The new PřiTel service for residential segment customers and its equivalent TeamTel for business segment customers enable up to a 15% reduction for calls to three selected local or long dis-



tance numbers. Other attractive offers demonstrating the high user value of fixed lines include the Akce 10+10 promotion, where customers receive an additional ten free minutes after ten minutes on the phone. New items introduced during the first half of 2002 also include the TRICK multi-function chip phone card, which enables customers not only to make calls, but also to send emails or short text messages (SMS) from public phones. On average, almost 5,000 emails or SMS's are sent daily from the 14,200 TRICK-enabled public phones (out of a total of 27,302 public phones). We also continued to expand the TELEPOINT sales network. As of 30 June, 34 TELEPOINT locations were open in 27 cities and towns, with an additional 55 TELEPOINT PARTNER locations in 53 cities and towns. 2.5 million customers were served in ČESKÝ TELECOM's call centre in the first half of 2002, a 20% increase compared to the same period last year.

The most dynamically developing service in the first half of 2002 was euroISDN. We continued to offer product packages for attractive prices. At the beginning of the year, the most popular package was ISDN-Complete OLYMPIADA. In May 2002, we introduced a new video conference service called videoRELACE. This service provides high quality voice and image communication between two locations using euroISDN.

The existing offer of data services was expanded to include Operational Reporting for the ATM and Frame Relay services and Userview for Leased Loops services. The quality of ČESKÝ TELECOM's data services was confirmed by our winning of the tender to be the supplier of data services for Česká pošta. By the end of 2002, we will provide connection between approximately 1,700 Česká pošta branches as well as their Internet access. We will also provide back up of individual loops and Service Level Agreement (SLA) quality assurance. Using the new communications network based on Frame Relay technology, we will provide interconnection for all Delvita chain supermarkets in the Czech Republic and Slovakia. We will also provide voice services for Delvita.

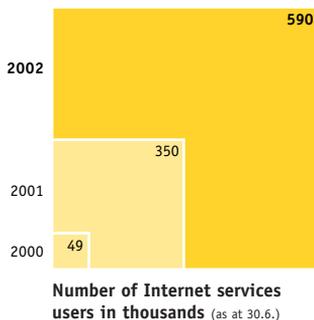
During the first half of 2002, we began implementation of the Internet for Schools project. The project is ahead of the official schedule and in its

first phase, which will be completed by the end of November 2002, 3,620 schools will have access to the communications infrastructure. The schools are being connected to ČESKÝ TELECOM's network using Multi Protocol Label Switching (MPLS) technology. As of 30 June 2002, 1,500 schools were connected. The communications infrastructure for the Information Systems in Public Institutions project also began in the first half of 2002. Individual customer projects began at the same time (TCTV 112, preparation of the integration of the Ministry of Employment and Social Affairs, and implementation of IP VPN for the Supreme Control Office, the Ministry of Justice, and the State Agriculture Intervention Fund).

ČESKÝ TELECOM was awarded its third ISO 9001:2000 quality management certificate, this time for the processes of design and development and for the provision of telecommunications products and services to corporate customers. The certificate was issued by Lloyd's Register Quality Assurance in the UK. Obtaining this internationally recognized quality assurance certificate according to the new standards of ISO 9000:2000 places us among the first telecommunications carriers in the world to be certified under the new standards.

In the e-Business area, which is experiencing a permanent boom, we continue to maintain the leading position among the Czech Republic's Internet services and applications providers. In February we introduced more transparent and easier to read Internet access tariffs using minute charging, and we also decreased the number of time zones from three to two. As expected, the growth in the numbers of users of our free Internet dial-up service continued. By the end of the first half of 2002, the service had 590,000 users, an increase of 69% in comparison with the first half of 2001.

During the first half of 2002 we acquired 32 new important customers for our hosting products, a 26% increase when compared to the same period last year. On 18 February 2002 we also introduced new technology resources for the Internet community—IOL SERVER HOSTING and IOL DEDICATED HOSTING in Brno. Customers of IOL FIXED and IOL IP VPN services can also use several types of SLA quality assurance services. In the Internet Content

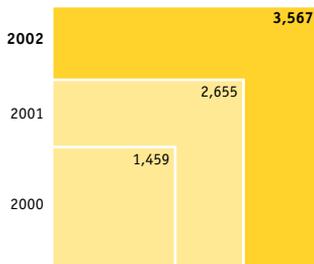


area, we launched the full-time operation of our Internet centre for services to small and medium-sized businesses, called iBase.cz. The same website also offers our Starter Kit software, developed in cooperation with Microsoft and other partners.

In the wholesale segment, we signed five additional contracts for the interconnection of public fixed telecommunication networks with alternative carriers. During the first half of 2002, interconnection charges decreased as a result of price decision 02/PROP/2002 issued by the Czech Telecommunications Office (CTO) on 21 March 2002. ČESKÝ TELECOM filed suit in 2002 against the CTO's price decision 03/PROP/2002 issued 21 May 2002, which sets the prices for the interconnection for dial-up Internet access. We strongly believe that this decision harmed not only ČESKÝ TELECOM, but also all Internet users in the Czech Republic. From May to June 2002, seven alternative operators requested the carrier selection service, and contracts with two of them were signed in early July 2002. The CTO's price decision 05/PROP/2002 issued 14 June 2002 sets the method for the calculation of prices for the interconnection of public fixed telecommunication networks for this service. We also signed additional interconnection agreements with international carriers, and as of 30 June, 65 direct interconnection agreements were in effect. Thanks to four new agreements, we can provide international ISDN services to 44 destinations. We have thus increased additional calling possibilities to another 225 destinations worldwide.

## Mobile telecommunications services

In the first half of 2002, Eurotel Praha continued its quest to bring its customers the highest quality mobile services under its "More Out of Life" campaign and confirmed its number one position on the Czech mobile telephony market. A new group of tracking and control services, called Eurotel Mobile Telemetry, was introduced in the first half of 2002. These services allow customers to monitor buildings, security systems, and cars, and to switch on and off machinery and alarms. Eurotel Praha also expanded its Eurotel GSM

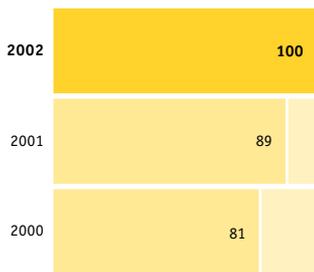


**Number of Eurotel Praha customers in thousands**  
(as at 30.6.)

Banking service to include Česká spořitelna, the largest Czech bank. In cooperation with Microsoft, Eurotel Praha introduced the Eurotel Mobile Office Professional service for its corporate customers. This service provides secure access to corporate customers' internal databases. Eurotel Praha also offered the new Eurotel Cell Info service to its corporate customers. The service enables commercial messages to be displayed on mobile telephone displays. As the first and only provider in the Czech Republic, Eurotel Praha began to offer its Eurotel Kombi SIM card as of 1 June 2002. The unique technology of this SIM card enables the use of two independent telephone numbers on one SIM card, with different services for each.

The Go GPRS Instant service was expanded to offer customers international roaming, and is currently available in the Austrian Connect Austria network. Go, the pre-paid mobile service brand, introduced the virtual SMS game xgenGo and offered its customers a price reduction for the Quatro Go and Original Go tariffs. At the end of June 2002, Eurotel Praha had 3,567,000 customers, a 34% increase in comparison with the first half of 2001.

## Technology

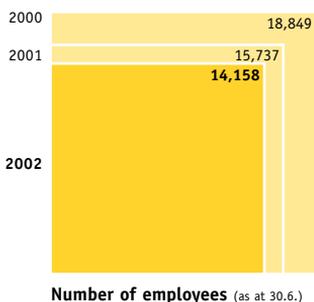


**Number of telephone lines connected to a digital exchange in %**  
(as at 30.6.)

The development of ČESKÝ TELECOM's technical infrastructure concentrated on the full digitalisation of the network in the first half of 2002. Digitalisation is the prerequisite for the further liberalisation of the Czech telecommunications market and at the same time our important competitive advantage for the future. On 27 June 2002, 100% of ČESKÝ TELECOM's customers were connected to digital telephone exchanges. The last analogue telephone exchange in Prague (Bílá Hora) was closed on that day. Our telecommunications network consists of 2,507 digital telephone exchanges, which are interconnected by 28,224 km of optical cable. The ČESKÝ TELECOM network has parameters comparable to those of the most important telecommunication providers worldwide. The introduction of the carrier selection service has been under development by expert teams and external suppliers since 2000. In cooperation with Aliatel, pilot operation was success-

fully launched on 3 June 2002 in the Jihlava telephone node and on 13 June 2002 in UTO Tábor. New software was implemented into all digital telephone exchanges, enabling us to fulfil our obligations prescribed by the Telecommunications Act, especially the introduction of carrier pre-selection and number portability services. As of 30 June, all technology conditions for the provision of the carrier selection service in the Czech Republic were implemented. ČESKÝ TELECOM fulfilled its obligations and contributed to the development of the Czech telecommunications market.

## Man and society



In the first half of 2002, we focused on the professional training of our staff, which we view as the key to our success on the liberalized telecommunications market. The qualification program for our employees combines standard training and e-learning methods. Our Virtual University welcomed 2,500 students from the ranks of ČESKÝ TELECOM's employees, and courses at the Management Academy were frequented by 250 key company employees. Our efforts toward the permanent increase of work effectiveness has brought a further reduction in our workforce. Redundant employees could benefit from the "outplacement" package, including consultations with Job Centre employees, psychologists, lawyers, and free training courses.

## Administration and management of the company (Corporate Governance)

### ----- Board of Directors (as at 31.7.2002)

**Ondřej Felix**

*Chairman of the Board*

**André Frans Bessel Kok**

*First Vice-Chairman of the Board*

**Přemysl Klíma**

*Second Vice-Chairman of the Board*

**Marcela Gúrtichová**

**Jan Škurek**

**Václav Srba**

**Jan Juchelka**

**Marten Pieters**

**Günter Heinz Pfeiffer**

### Supervisory Board (as at 31.7.2002)

**Michal Tošovský**

*Chairman of the Supervisory Board*

**John Klein Bluemink**

*First Vice-Chairman*

*of the Supervisory Board*

**Lubomír Vinduška**

*Second Vice-Chairman*

*of the Supervisory Board*

**Miloslav Krch**

**Pavel Heršтик**

**Eduard Janota**

**Eric Maria Johannes Werner de Jong**

**Dominik Louis Böhler**

**Vladimír Měšťan**

**Zdeněk Šámal**

**Ladislav Zelinka**

**Zdeněk Švrček**

**Jiří Weigl**

**Jan Schwarzer**

**Václav Wagner**

At the General Meeting of ČESKÝ TELECOM held on 14 June 2002, shareholders approved the financial statements and the suggestion of the majority shareholder to distribute profits without dividend payout. The shareholders also authorised the issue of one and several emissions of bond issues as part of the company's bond issue program and decided on personnel changes in the Statutory and Supervisory Boards of the company. Jan Škurek and Václav Srba were voted onto the Board of Directors. Eric Maria J. W. de Jong, Jiří Weigl, and Eduard Janota were voted onto the Supervisory Board. The General Meeting also approved the contracts between the company and the members of the Board of Directors and the Supervisory Board, which brings the obligation not to work for any competitor for six months from the day of completion of service as a member of a company body into ČESKÝ TELECOM's corporate governance. The shareholders also approved changes to the company's Articles of Association, harmonizing it with the new Commercial Code and determining the company's subject of business according to the content of the telecommunication licenses granted to ČESKÝ TELECOM by the CTO.

A person is seen from behind, sitting at a desk and working on a laptop. There are several other computer monitors on the desk, some displaying data or charts. The entire scene is overlaid with a semi-transparent blue filter. The text "Financial Overview" is centered in the middle of the image in a yellow, bold font.

## Financial Overview

## Consolidated financial statements prepared in accordance with International Accounting Standards

These consolidated financial statements have been prepared in accordance with International Accounting Standards (IAS). These statements are unaudited. Eurotel Praha has been consolidated on a proportional basis. All amounts are in CZK millions.

### Consolidated balance sheet

(in CZK millions)	30 June 2002	31 December 2001
<i>Fixed assets</i>	134,725	140,822
Property, plant and equipment	118,094	120,765
Construction in progress	4,899	5,865
Intangible assets	11,387	13,169
Available-for-sale investments	345	1,023
<i>Current assets</i>	15,334	18,275
Inventories	1,582	1,925
Receivables	8,340	8,857
Available-for-sale investments	1,802	2,147
Cash and cash equivalents	3,610	5,346
<b>Total assets</b>	<b>150,059</b>	<b>159,097</b>
<i>Equity</i>	109,619	107,023
Share capital	32,209	32,209
Reserves	77,410	74,814
<i>Minority interest</i>	96	39
<i>Liabilities</i>	40,344	52,035
Loans and overdrafts	18,095	27,003
Creditors	12,164	13,848
Deferred tax	10,085	11,184
<b>Total equity and liabilities</b>	<b>150,059</b>	<b>159,097</b>

## Consolidated income statement

<b>(in CZK millions)</b>	<b>30 June 2002</b>	<b>30 June 2001</b>
Call revenues	10,602	14,665
Other revenues	15,532	13,531
<i>Total revenues</i>	<i>26,134</i>	<i>28,196</i>
Staff costs	(3,732)	(3,770)
Other operating costs	(9,086)	(11,057)
<i>Total operating expenses</i>	<i>(12,818)</i>	<i>(14,827)</i>
<i>EBITDA</i>	<i>13,316</i>	<i>13,369</i>
Depreciation	(9,342)	(8,283)
<i>EBIT</i>	<i>3,974</i>	<i>5,086</i>
Interest expense	(725)	(1,412)
Interest income	83	255
Currency gains / (losses) and fair value	585	324
<i>Profit before tax</i>	<i>3,917</i>	<i>4,253</i>
Income tax	(1,286)	(1,322)
<b>Net profit after tax</b>	<b>2,631</b>	<b>2,931</b>

## Consolidated cash flow statement

<b>(in CZK millions)</b>	<b>30 June 2002</b>	<b>30 June 2001</b>
<i>Net cash from operating activities</i>	<i>8,776</i>	<i>9,612</i>
<i>Cash flows from investing activities</i>	<i>(3,285)</i>	<i>(6,011)</i>
- Cash purchase of tangible fixed assets	(4,709)	(4,672)
- Cash purchase of intangible fixed assets	(669)	(2,866)
- Marketable securities	1,167	1,110
- Other	926	417
Net cash outflow before financing	5,491	3,601
<i>Net cash from financing activities</i>	<i>(7,153)</i>	<i>(3,236)</i>
Effects of exchange rate changes	(68)	146
<b>Net cash increase / (decrease)</b>	<b>(1,730)</b>	<b>511</b>

These consolidated financial statements were approved by the Board of Directors and were signed on its behalf on 24 July 2002 by:



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



**Přemysl Klíma**  
President & CEO



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

## Shareholder information

### Institutional investors and shareholders may contact:

Investor Relations  
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 Olšanská 55/5  
 130 34 Prague 3  
 Czech Republic  
 Tel.: +420 271 463 784  
 Fax: +420 271 469 877  
 E-mail: investor.relations@ct.cz  
 www.telecom.cz

ČESKÝ TELECOM's market capitalization and trading volume make it one of the leading companies on the Czech capital market. Company shares are also traded on the London Stock Exchange in the form of Global Depository Certificates (GDRs).

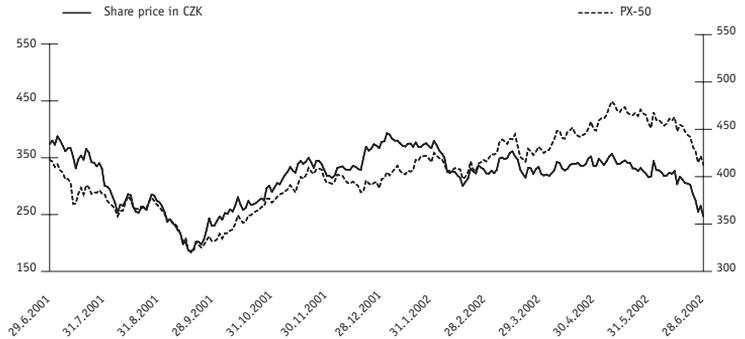
### Shareholders structure of ČESKÝ TELECOM as at 30 June 2002

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

<sup>1)</sup> TelSource is a Dutch-Swiss consortium owned by KPN Telecom B.V. (51%) and Swisscom AG (49%).

### Price of ČESKÝ TELECOM shares

The price of ČESKÝ TELECOM shares stood at CZK 243 as at 28.6.2002. This represents a 33.4% decrease compared to 29.6.2001, when the share price was CZK 365. This drop in ČESKÝ TELECOM's share price was predominantly influenced by the global downturn on technology share markets, led by the drop on the American Nasdaq technology index. Despite ČESKÝ TELECOM's financially stable position and the fact that it has one of the lowest gearing ratios among telecommunications operators in Europe, the company's share price was influenced by this global market trend.



### Dividends

ČESKÝ TELECOM's General Meeting held in Prague on 14.6.2002 decided that no dividends would be paid from 2001 profits.

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**ČESKÝ TELECOM, a.s.**

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Telephone Services Centre: 0800 123456 (after 22.9.2002 only 800 123 0456)

CIN: 60193336

[www.telecom.cz](http://www.telecom.cz)

Company founded: 16.12.1993

Company incorporated: 1.1.1994

Duration of the company: The company is established for an indefinite period of time

Legal form: Joint-stock company

Legal regulation according to which the Issuer was established: The provisions of Section 172 (2), (3) of the Commercial Code

Registration Court: Prague Municipal Court

Registration Court record number: Section B, Enclosure 2322

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Half-Year Report 2002

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