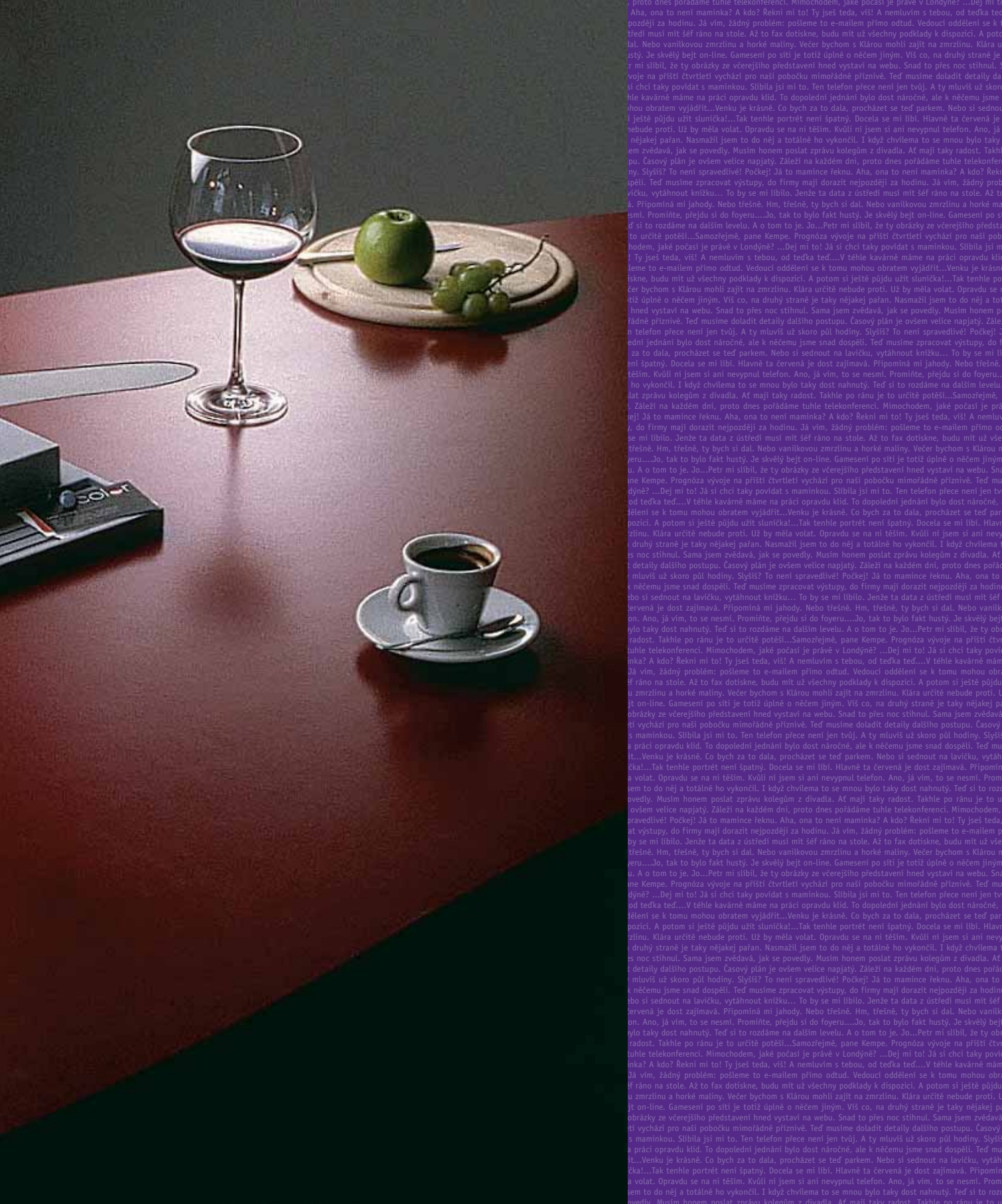


Annual Report 2003

with you
...all day





communication is, without doubt, science and technology has which, day by day, push back the frontiers of development of our potential and our dreams. Good communication connects people and brings them closer together. Quality telecommunications technology and services are an indispensable part of modern life.

Communication is, without doubt, one of the cornerstones of human civilisation. The application of science and technology has led to the development of modern telecommunications technologies which, day by day, push back the frontiers of our potential and our dreams.

Good communication connects people and brings them closer together.

Quality telecommunications technology and services are an indispensable part of modern life.

Communication is, without doubt, science and technology has which, day by day, push back the frontiers of development of our potential and our dreams. Good communication connects people and brings them closer together. Quality telecommunications technology and services are an indispensable part of modern life.

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Financial and operating 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.

	2003	2002	2001	2000	1999
Financials					
Revenues	51,476	52,856	55,900	57,224	51,902
EBITDA - Earnings before finance costs, tax, depreciation and amortisation	23,814	26,150	27,155	26,696	25,732
EBIT - Earnings/(Losses) before finance costs and tax	-5,539	7,088	10,115	12,071	12,323
EBT - Earnings/(Losses) before tax	-6,667	6,110	8,771	9,114	8,442
Net income/(Loss)	-1,780	4,276	6,072	6,356	6,171
Total assets	154,706	156,351	159,097	160,377	155,486
Property, plant and equipment	110,320	119,283	126,427	129,005	129,775
Equity	90,148	111,272	107,023	103,807	97,478
Loans	45,065	22,027	27,003	33,110	37,466
Investment expenditures ¹⁾	4,948	9,657	17,016	16,927	18,116
Operations					
Number of telephone lines installed (x1000)	3,586	3,661	3,842	3,854	3,839
- of which ISDN channels (x1000)	477	389	261	122	57
Internet - number of IOL and Quick customers (x1000) ²⁾	865	702	481	185	45
Fixed line penetration per population (in %)	36	36	37	37	37
Number of ČESKÝ TELECOM employees	10,901	13,717	15,194	17,322	20,115
Number of lines per ČESKÝ TELECOM employee	329	267	253	222	191
Number of Eurotel customers (x1000)	4,215	3,891	3,238	2,171	1,070
Mobile penetration per population (in %)	95	84	67	42	19
Number of Eurotel employees	2,442	2,447	2,420	2,121	1,627
Average number of customers per Eurotel employee	1,726	1,590	1,118	764	509
Ratios (in %)					
EBITDA/Revenues (EBITDA margin)	46	49	49	47	50
Net income/Revenues	-3	8	11	11	12
Investment expenditures/Revenues	11	18	30	30	35
ROA (Net income/Total assets)	-1	3	4	4	4
ROE (Net income/Equity)	-2	4	6	6	6
Gross gearing (Interest bearing debt/Equity)	50	20	25	32	38
Macroeconomic indicators ³⁾					
Population (in millions)	10.2	10.2	10.3	10.3	10.3
GDP (in %) ⁴⁾	2.9	2.0	3.1	3.3	0.5
Inflation (in %)	0.4	1.8	4.7	3.9	2.1
Unemployment (in %)	10.3	9.8	8.9	8.8	9.4
Exchange rate CZK/USD - average over the period	28.2	32.7	38.0	38.6	34.6
Exchange rate CZK/USD	25.7	30.1	36.3	37.8	36.0
Exchange rate CZK/EUR - average over the period	31.8	30.8	34.1	35.6	36.9
Exchange rate CZK/EUR	32.4	31.6	32.0	35.1	36.1

¹⁾ 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

²⁾ paid (IOL) and free (Quick) Internet access

³⁾ source: Czech Statistical Office, Czech Ministry of Finance, Czech National Bank

⁴⁾ in 1995 constant prices; the 2003 figure is an estimate

Letter from the Chairman of the Board of Directors and CEO



To Our Shareholders,

2003 was a period of major changes whose full impact will not be felt until future years. The company's top management, which underwent significant personnel changes in the third quarter, immediately introduced measures vital for the successful transformation of ČESKÝ TELECOM into a modern and dynamic telecommunications company. A new business management model was implemented, the number of management levels was significantly reduced, and many internal processes were streamlined. The workforce was cut by more than 20% compared to 2002. In 2003, we introduced an improved Broadband Internet Access service portfolio at very competitive prices and new price plans giving our customers more options for optimising their telecommunications services usage.

Despite some adverse trends on the fast-changing and fully liberalised telecommunications market, ČESKÝ TELECOM succeeded in maintaining its financial stability and industry leadership.

The results of 2003 attest to ČESKÝ TELECOM's solid performance in areas of EBITDA margin, cost efficiency, capital expenditure and, in particular, free cash flow. On the other hand, the results were affected by several extraordinary and non-recurring events that had a major impact on ČESKÝ TELECOM's consolidated results. We succeeded in countering the decline of revenues from traditional services by offering higher value-added services. Most costs went down, especially in the second half of the year, as a result of stringent controls. The overall performance of ČESKÝ TELECOM as measured by EBITDA margin is still above the industry average. Given the unfavourable regulatory environment, and in line with International Financial Reporting Standards, we had to post a one-off impairment charge on part of our assets, which, despite a tax saving due to amendments to the tax legislation in the Czech Republic and a lump-sum tax saving on dividends paid out in 2003, resulted in a consolidated net loss.

The acquisition of the remaining state in Eurotel Praha was undoubtedly a key event for the further development of our company. This has made the largest mobile operator our wholly-owned subsidiary, opening up space for exploiting the synergies of mobile and fixed communications to the full extent permissible in the regulatory environment.

A very important step in my opinion was the launch of our ADSL Broadband Internet Access service. By the end of the year, more than 15 thousand lines had been installed. In the area of Dial-up Internet, our 891 thousand customers still make us the largest provider. Given the rate of development of other services, it is evident that data services are – and will remain – one of the fastest-growing segments.

Much attention has been paid to trends in the area of convergence of the telecommunication and IT worlds. For corporate customers, we have designed a comprehensive integrated solution which we are launching bundled with our traditional voice services. Packages of voice and data services for SME clients were also positively received. It goes without saying that this client segment enjoys reliable solutions and follow-up support from ČESKÝ TELECOM, but we have not overlooked the importance of these matters in our most populous segment – residential customers. Before the year ended, we embarked on a process to simplify our procedures for ordering services and making changes to services subscribed, and to streamline our communication with customers.

Together with the new business management model, new criteria for evaluating the performance of employees were introduced, with the emphasis laid firmly on personal accountability for

results and commitment to the company. This customer-oriented approach – our priority – stems from a positive change in the behaviour and attitudes of our staff.

I would also like to point out that in 2003 ČESKÝ TELECOM became one of the first incumbent operators from the EU candidate countries to venture out onto foreign markets, starting wholesale operations in Slovakia, Austria and Germany. That said, I believe ČESKÝ TELECOM's presence in neighbouring countries makes a considerable contribution to the portfolio of services we are capable of offering to Czech and international customers.

Looking back at the year 2003, I cannot neglect to mention the important matter of the dividend payment in the aggregate value of CZK 18.5 billion, which represents CZK 57.50 per one share. It was the second dividend payment after 2001. Since 1995, in accordance with the Shareholders' Agreement, the owners of the company had refrained from distributing its profits, choosing instead to re-invest in future development. At the same time, shareholders at the General Meeting in June were presented principles which give them a clear idea of the principles that the Board of Directors will follow when making dividend payment proposals to the General Meeting in the next two years.

I would like to touch briefly on the financing of our acquisition of the remaining holding in Eurotel and the trust that the banks have vested in the financial profile of ČESKÝ TELECOM. We have benefited from the investment grade rating. At the same time, it is a proof of the banking sector's confidence in ČESKÝ TELECOM's ability to meet its commitments, with a very conservative level of debt.

Before I conclude my report, I want to bring up one area which has a considerable bearing on our business – market regulation. Despite its advanced liberalisation, the telecommunications market is still constrained by an undue amount of regulatory intervention. ČESKÝ TELECOM, as a major company on that market, cannot make use of all the standard instruments of commercial policy being exposed to the risk of sanctions by regulators. The issues most often debated in this context are the regulation of prices, where a decision is expected from the Czech Telecommunications Office (CTO), and compensation for the loss we incur for providing a universal service, which, following unsuccessful negotiations with CTO, we have decided to seek through the courts. By that we add to the number of other actions ČESKÝ TELECOM has had to file in the past against the decisions of the regulator.

The goals we have set for ourselves are, given the legislative environment, telecommunications market and the economic situation in the Czech Republic, challenges in their own right. The new management team has made a commitment to transform ČESKÝ TELECOM in line with our plans, to defend its position on the market, and to lay the foundations for future prosperity. With respect to the declared intention to privatise ČESKÝ TELECOM, the management is prepared to co-operate in bringing the transaction to a successful finish. Our goal is for ČESKÝ TELECOM to remain a viable investment for shareholders and the first choice for customers and employees alike.



Gabriel Berdár

CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

24 MARCH 2004

Letter from the Chairman of the Supervisory Board to the Shareholders



To Our Shareholders,

The past year, 2003, was in many respects a turning point for ČESKÝ TELECOM. We embarked upon changes that will have long-term effects and whose full benefits will be felt in the future. Let me emphasise, from the position of the Supervisory Board, the most fundamental of these changes.

In the first half of 2003, we subjected ČESKÝ TELECOM's governance and management model to a major overhaul, which has allowed us to further improve the corporate governance and management standards currently applied. At the General Meeting in June, the shareholders approved changes to the powers of the Board of Directors and the Supervisory Board of the company. This decision resulted in the Board of Directors becoming responsible for the management of the company. All its members are executive officers from the top management of the company and are elected directly by the Supervisory Board. In the second half of the year, we succeeded in developing a functional model of co-operation between the owners, whose interests – together with the interests of the employees – are represented by the Supervisory Board, and the top management of the company. We also started implementing strategic changes aimed at increasing the shareholder value of the company. The tangible evidence of this approach is the dividends paid from the company's pre-2003 profits, the transparent dividend policy, the consistent pressure to drive down both capital expenditure and operating costs, and in particular the company's ability to generate adequate free cash flow. Crucial to the future strategic direction of the company, in the Supervisory Board's view, is the development of data services, driven primarily by the development of broadband Internet access, and other services which require this infrastructure. This is a challenge to be faced jointly in 2004 and beyond by ČESKÝ TELECOM and Eurotel. The acquisition of Eurotel has considerably improved the consolidated financial structure and helped to safeguard ČESKÝ TELECOM against the further expected migration of voice services to mobile networks. In the medium term, the Supervisory Board and the management have set themselves the goal of transforming ČESKÝ TELECOM from a provider of communications services based on individual technology platforms into a leading provider of fully customer-oriented communication, information and transaction services. Another important challenge is to optimise the governance and management of the entire ČESKÝ TELECOM Group.

We believe that the new corporate governance and management model will prove more appropriate and effective for the company's development going forward, and that it will help you, the shareholders, to better control the process of building ČESKÝ TELECOM's value. In early 2004, the National Property Fund of the Czech Republic announced the Government's plan to privatise the state holding in ČESKÝ TELECOM. A tender was published to select a privatisation advisor to draw up the strategy and timetable for the privatisation. The advisor should be selected by the end of May 2004.

By way of conclusion, I would like to thank you for the trust you have vested in our company. At the same time, I want to use this opportunity to thank our employees. Without their committed work and support, the results achieved and changes launched would never have been possible.



Ondřej Felix

CHAIRMAN OF THE SUPERVISORY BOARD

24 MARCH 2004

Calendar 2003

1

January

- > ČESKÝ TELECOM prepares Reference Access Offer of Carrier Broadband services running on the ADSL platform to alternative operators and Internet Service Providers in the Czech Republic.
- > ČESKÝ TELECOM launches an „electronic mailroom“, for better and faster communication with customers.
- > Customers of Eurotel pre-paid services Fun Go and Quatro Go now enjoy per-second charging after the first whole minute.

2

February

- > ČESKÝ TELECOM presents its final offer for Broadband Internet Access. The company publishes its offer of ADSL services for end customers and concludes the first wholesale agreements with its partners.
- > As announced, ČESKÝ TELECOM, via its branch CZECH TELECOM Slovakia, s.r.o. obtains a license and starts to offer services running on its own infrastructure to other telecommunications companies in Slovakia.
- > As a result of its co-operation with Orange Slovakia, Eurotel becomes the first Czech operator, and one of the first operators in the world, to allow MMS messaging to and from a foreign operator.
- > Eurotel teams up with global telecoms equipment manufacturer Ericsson to become the first Czech operator to put a UMTS (3rd generation mobile services) test network into operation in the centre of Prague.
- > Eurotel becomes the only operator in the Czech Republic, and one of only few in the entire world, to offer to its customers the option of designing their own tariff according to their individual needs, call profile and service usage, branded as Eurotel Individual.

3

March

- > Broadband Internet Access is marketed as IOL Broadband and IOL Broadband Profi.
- > ČESKÝ TELECOM enters into an agreement for provision of international Frame Relay and ATM data services with Cable & Wireless, a leading multinational telecoms provider.
- > ČESKÝ TELECOM publishes its audited consolidated results for the fiscal year 2002 compiled under IFRS, attesting to ČESKÝ TELECOM's ability to face up to the increasingly tough competitive environment and challenging regulatory conditions on the Czech telecommunications market.

4

April

- > Approximately five weeks after the launch of ADSL-based Broadband Internet Access, ČESKÝ TELECOM concludes wholesale agreements for service provision with fourteen entities on the Czech telecommunications market.

> In addition to Slovakia, ČESKÝ TELECOM launches an active commercial presence in Germany and Austria. CZECH TELECOM Austria GmbH and CZECH TELECOM Germany GmbH obtain licences for telecommunications services, and ČESKÝ TELECOM thus completes preparations for commercial operation of its international infrastructure with points of presence in Vienna and in Frankfurt. This builds on the already existing Slovak operation with its point of presence in Bratislava.

> For a flat monthly fee, post-paid customers of Eurotel now enjoy unlimited access to the Internet via GPRS with the new Eurotel Data Nonstop service.

May

> ČESKÝ TELECOM carries the first digital mobile broadcast for Czech Television.

> ČESKÝ TELECOM entered into negotiations looking to expand on the first bond issue of its bond programme. A decision is made to expand the already issued bonds maturing in 2005 by bonds with a total nominal value of CZK 1 billion. After this issue, the aggregate nominal value of the issue with a 4.55% coupon is CZK 4 billion. The issue date is set at 9 June 2003.

June

> The Ordinary General Meeting of Shareholders is held on 13 June 2003. Among other things, it approves a proposal by the Board of Directors for the payment of dividends totalling CZK18.5 billion, i.e. CZK 57.50 per share; the conclusion of the Sale and Purchase Agreement for the remaining 49% holding in Eurotel for USD 1.05 billion; and a change in the corporate governance model, giving the Supervisory Board greater powers.

> The Board of Directors appoints Gabriel Berdár as the new Chief Executive Officer of the company. Berdár takes up his post on 15 June 2003.

> The Sale and Purchase Agreement on the acquisition of the remaining 49% holding in Eurotel is signed with Atlantic West B.V.

> Eurotel becomes the first, and at that time the only, operator to launch the innovative MMS Post Card service.

> For the first time ever, Eurotel owners decide to pay a dividend of CZK 10.978 billion.

July

> Under its bond programme, ČESKÝ TELECOM issues a second bond issue with the total nominal value of CZK 6 billion, maturing in 2008. The bonds bear fixed interest of 3.50%. The date of the issue is set at 9 July 2003.

> The number of ADSL customers in July grows by 30% on previous months; as at 30 July 2003, the service is subscribed by 8,270 customers in the whole Czech Republic.

> The number of Eurotel customers crosses the threshold of 4 million.

August

> On 8 August 2003, the Office for Protection of Economic Competition (Anti-Monopoly Authority) gives ČESKÝ TELECOM permission to purchase the remaining 49% holding in Eurotel Praha, spol. s r.o. from Atlantic West B.V.

> Eurotel records 60,000 MMS service customers.

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September

- > ADSL high-speed access to the Internet has been taken up by more than 10,000 customers from across the Czech Republic.
- > ČESKÝ TELECOM offers to increase the maximum speed of IOL Broadband up to three times for its end customers, without changing the price terms.
- > ČESKÝ TELECOM publishes a Reference Unbundling Offer (RUO) and Co-location Offer (CoO). The service allows other licensed operators to use ČESKÝ TELECOM's access networks to operate their data/voice services.
- > Eurotel pays its first-ever dividend to its owners.

10

October

- > On 6 October 2003, ČESKÝ TELECOM begins to pay dividends.
- > ČESKÝ TELECOM signs a mandate agreement with Bank Austria Creditanstalt AG, Citigroup, JP Morgan plc, KBC Bank N.V./ČSOB, a.s., and SANPAOLO IMI S.p.A. on the arrangement of a syndicated loan of EUR 850 million.
- > Eurotel's Data Nonstop service is honoured with two awards at the Inven Exhibition.
- > Extraordinary General Meeting of ČESKÝ TELECOM held on 23 October 2003.

11

November

- > ČESKÝ TELECOM unveils its new prices for ADSL high-speed Internet access. From January 2004, customers can choose from nine ADSL services. Flat monthly rates start at CZK 899 (CZK 1,097 inclusive of 22% VAT)
- > ČESKÝ TELECOM signs an agreement on the provision of a syndicated loan of EUR 850 million. The loan is used, among other things, to finance the acquisition of the remaining 49% holding in Eurotel.
- > On 28 November, ČESKÝ TELECOM pays the purchase price of USD 1.05 billion for the remaining 49% holding in Eurotel to Atlantic West B.V.

12

December

- > ČESKÝ TELECOM embarks on its Transformation Programme, scheduled to last 18 months, i.e. until mid-2005.
- > On 11 December 2003, ČESKÝ TELECOM receives notice from TelSource N.V., (which is 51% owned by KPN TELECOM B.V. and 49% by Swisscom AG) that as of 10 December 2003 this shareholder no longer holds any share of the voting rights in ČESKÝ TELECOM, having sold its shares in ČESKÝ TELECOM corresponding to 26.99% of the voting rights.
- > ČESKÝ TELECOM and Telenor Networks sign a Local Loop Unbundling and Co-location Agreement. Local loop unbundling is the last step towards creating a fully competitive environment on the Czech telecommunications market. The Czech Republic thus takes the lead among the EU candidate countries in terms of telecoms market liberalisation.
- > ČESKÝ TELECOM announces that in the first half of 2004 customers in an additional 100 locations will be able to access high-speed Internet via ADSL.
- > Eurotel enters into an agreement with the state postponing the launch of UMTS to 2006 in exchange for early payment of the licence fee in two instalments in 2004.
- > Eurotel records 133,000 MMS customers as at the end of the year.
- > Eurotel offers Eurotel Data Nonstop for CZK 649 with 100 free minutes. The offer stands until 30 June 2004 for all customers who activated the service between 3 December 2003 and 31 January 2004.

Board of Directors' report on business activity

5

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As at 31 December 2003, ČESKÝ TELECOM operated a total of 3,585,590 lines. As at the same date, Eurotel had 4,215 thousand customers. These figures attest to the leading positions of the two companies on the fixed line and wireless markets, respectively.

In all areas of its business, the Group strives to offer the broadest spectrum of telecommunications services. It pursues the goal of increasing the share of data, Internet and other higher value-added services in total revenues and reducing its dependency on revenues from traditional services provided via fixed line technology.

In November 2003, the management presented a new vision, mission and strategy of the Group. These define the framework for all goals, priorities and activities of ČESKÝ TELECOM going forward. In line with these documents, ČESKÝ TELECOM launched a Transformation Programme at the beginning of December 2003. This is scheduled to be implemented over 18 months and hence completed in mid-2005 (see Section 5.3. Restructuring of the Group).

The vision of the Group is to be the first choice for customers, employees and shareholders alike.

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5.2.2 | Mission

To implement its vision, the Group has formulated a mission statement:

- to be a leader on the electronic communications market in the Czech Republic and to offer its customers the best solutions to their telecommunications needs;
- to be a preferred employer for top professionals, whom it wants to motivate to build up value of the company further;
- to be a premium builder of shareholder value in the area of electronic communications;
- to be an active stakeholder in the development of the Czech community of which it is a part, and to promote outwardly the ethical and professional principles which it espouses and applies to its own development.

5.2.3 | Strategy

The strategy is to be the market leader in telecommunications. It strives to have a leading market position in every area of its business. The company has formulated the following strategic priorities:

- **Market positioning** – to be the number one in both the voice and data communications markets, making use of its wired and wireless infrastructure. In the area of data, the priorities are Narrowband and Broadband Internet, infrastructure services for distribution of interesting and popular content and other data services, including administration of customer telecommunications networks.
- **Customer orientation** – to focus primarily on establishing and maintaining positive customer relations, communicating with customers, addressing their needs and settling their complaints, and, last but not least, listening to their feedback. The priorities are a good value for money, positive and proactive approach, promptness, willingness and respect to the customer.
- **Synergies of ČESKÝ TELECOM with Eurotel** – these synergies relate to the gradual migration of voice traffic from fixed to mobile networks, in line with the global trend, and concern products and services, customer segmentation and service, and operating and capital expenditure and business processes. The co-operation between the two companies will continue to respect the principles of economic competition and the rules of the regulatory framework.
- **Operating performance** – to become, in two years' time, one of top performers amongst telecommunications companies in the EU accession countries of 2004 (measured by operating performance indicators in all respects), and in 10 years, to rank among the top performing telecommunications companies in the European Union (measured by operating performance indicators). Here, the Group intends to focus primarily on improving its operating performance in areas such as operating costs, capital expenditure and labour productivity, and on developing more transparent, efficient and flexible processes.

5.3 | Group restructuring

5.3.1 | Transformation Programme

The goal of the Transformation Programme is to transform the Group into a modern, streamlined and dynamic company capable of adapting quickly and effectively 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 of the company with a view to raising shareholder value by improving efficiency.

The Transformation Programme has defined the following objectives in individual areas:

• Financial objectives:

- To substantially mitigate the trend of declining revenues by 2005
- To keep the EBITDA margin well above the industry average
- To keep CAPEX under 12% of revenues in 2004 and 2005, unless attractive investment opportunities arise (outside the scope of the current Business Plan)

• Customer-related objectives:

- Bringing down the prices of services
- An individual approach to customers and their needs
- Delivering premium quality and further expanding the portfolio of telecommunications services
- Timely introduction of products and services onto the market; one contact point per customer; a multi-level approach to services; customer satisfaction index

• Operating objectives:

- Maximum efficiency of operating processes
- Workforce optimisation (no more than 9,500 employees as at the end of 2005)
- Streamlining of internal processes

• Corporate culture objectives:

- Open internal communication
- Shared corporate values
- Employee satisfaction index
- Transparency and open information policy (open door policy)

5.3.2 | Acquisition of Eurotel

Since 1991, ČESKÝ TELECOM has been the 51% owner of Eurotel. Eurotel generates substantial value for its owners by offering a premium service. At the same time Eurotel is the leading mobile operator in the Czech Republic.

In keeping with the Group's declared strategic goals, which focus on meeting customers' service needs in both the fixed line and mobile field, the General Meeting of Shareholders of 13 June 2003 approved the Sale and Purchase Agreement for transfer of a 49% ownership interest in Eurotel from ATLANTIC West B.V. (AWBV) to ČESKÝ TELECOM. The acquisition of the remaining holding in Eurotel had already been approved by ČESKÝ TELECOM's Board of Directors and Supervisory Board.

The Sale and Purchase Agreement with AWBV was signed on 18 June 2003. The price for the stake was USD 1.05 billion, and was financed from the company's own cash and by a syndicated loan.

On 8 August 2003, the Office for Protection of Economic Competition (OPEC) approved the transaction. The decision requires ČESKÝ TELECOM and Eurotel to refrain, in offering their services, from discriminating against any other telecommunications service provider or against consumers in the area of quality and prices.

On 14 October, ČESKÝ TELECOM signed a Mandate Agreement with Bank Austria Creditanstalt AG, Citigroup, JP Morgan plc, KBC Bank N.V., ČSOB, a.s., and SANPAOLO IMI S.p.A. on the arrangement of a syndicated loan of EUR 850 million. The Syndicated Loan Agreement with the lead arrangers was signed on 21 November 2003. In the course of the syndication, the leading arrangers were joined by ten other banks.

The loan of EUR 850 million consists of three parts: a EUR 300 million 364-day revolving loan with a term-out option (Tranche A), a EUR 300 million 5-year amortising term-loan (Tranche B), and a 5-year revolving loan (Tranche C), which is available in euro (EUR 145.3 million) and Czech crowns (CZK 3.6 billion).

The whole transaction was closed on 28 November 2003 when the purchase price was paid. As from 1 December 2003, Eurotel's results have been consolidated into financial results of the Group on a 100% basis, having been proportionally consolidated on a 51% basis for the first eleven months of the year.

The closing of the transaction changed the financial profile of the Group, opening to both companies unique opportunities on the Czech telecommunications market. The Group's profile has been improved and strengthened by the strong financial profile of Eurotel.

5.3.3 | Restructuring of subsidiaries

It is ČESKÝ TELECOM's goal to create a more efficient Group, with a more transparent management structure, in order to improve the quality of services. A part of this exercise is the gradual elimination of non-core businesses, including the subsidiaries of ČESKÝ TELECOM. With this goal in mind, ČESKÝ TELECOM began to restructure the portfolio of selected subsidiary companies in 2003.

ČESKÝ TELECOM decided to phase out the business of M.I.A., a.s., a provider of services in the area of Internet advertising and sponsored SMS, in 2003. In 2004, the process of liquidation should be completed.

All operations of CenTrade, a.s., an electronic market place, have been outsourced to ČESKÝ TELECOM since 1 November 2003.

At the beginning of 2003, a process to liquidate application services provider asp1000, s.r.o. was started. An application to have the company removed from the Commercial Register was made in the same year.

5.3.4 | Overview of the Group

A full list of the companies in which ČESKÝ TELECOM directly owned more than 10% of the registered share capital as at 31 December 2003 is given in the Corporate governance section on page 46 of the Annual Report.



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5.4 | Fixed line technology

5.4.1 | Fixed line technology market

The fixed line technology market in the Czech Republic is dynamic, with competition pressures growing in line with the advancing liberalisation. Unlike other fixed line technology markets, fixed line penetration of the population of the Czech Republic has not declined significantly, remaining at around 35%. Results of ČESKÝ TELECOM in the increasingly competitive environment driven by pressures from both fixed line and mobile operators – an area which surged much faster than in other countries – attest to ČESKÝ TELECOM's solid performance in 2003. The business of ČESKÝ TELECOM is, however, still continually affected by the regulation, from CTO and the Office for Protection of Economic Competition alike.

ČESKÝ TELECOM's portfolio for the fixed line technology market in 2003 was influenced in particular by the progressing liberalisation of the Czech fixed line market – Carrier Selection and Carrier Pre-selection. This lifting of barriers impacted primarily the traditional voice services, ISDN services and Dial-up Internet. Yet another important factor was the growing competition from other fixed line operators and the trend of fixed-to-mobile substitution. In the second half of 2003, mobile operators began to market unlimited flat-rate access to the Internet.

Based on public domain data, ČESKÝ TELECOM estimates its fixed line technology revenue market share in 2003 at 79%, compared to 84% in 2002.

Regulation

The regulatory environment on the Czech telecommunications market is laid down in Act No. 151/2000 Coll., on Telecommunications, as amended (the 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 discharge of regulation is mainly in the power of the CTO.

The purpose of regulation is to achieve and maintain competition, and to protect the telecommunications market and users of telecommunications services. In the Czech Republic, the telecommunications industry is subject to licensing – a telecommunications licence or a general licence issued by the CTO is required for the construction and operation of telecommunications networks and for the provision of public telephone services. Operation of other telecommunications activities under the general licence is permissible if notified to and registered with the CTO.

In 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 the Office for Protection of Economic Competition (OPEC). The company 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 former 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 telecom-

munications services from other states to the Czech Republic and from the Czech Republic to other states, including transit on the territory of the Czech Republic, to provide Other Licensed Operators access to its telecommunications network, and to provide a public telecommunications service of leased lines.

Effective from 20 August 2003, ČESKÝ TELECOM is obliged by Act No. 225/2003 Coll., amending the Telecommunications Act, to provide Other Licensed Operators access to the local loop (Local Loop Unbundling). Reference Unbundling Offer was published by ČESKÝ TELECOM in September 2003. In December 2003, the first Local Loop Unbundling Agreement was signed.



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

Universal service

The second licence stipulates primarily the duty to provide a Universal Service on the public telecommunications network. Its scope is set out in the Telecommunications Act. The goal here is to guarantee a basic service package of a certain quality for an acceptable price to all users across the entire Czech territory. ČESKÝ TELECOM is the only licensed provider of the Universal Service in the Czech Republic.

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, including a reasonable profit, 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 the Universal Service Provider may incur in connection with the provision of the Universal Service – the Universal Service Account – into which other licensed telecommunications 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, which, however, does not cover the complete spectrum of services provided as a part of the Universal Service package as laid down in the law. Applying the Regulation, the loss for 2001 has been quantified by the CTO but has not been compensated in full, as the Other Licensed Operators have not made all their contributions to the Universal Service Account.

In 2003, the MoI embarked on the preparation of an electronic communication bill aimed at implementing the European Union's new regulatory framework for electronic communication into the laws of the Czech Republic. The new regulatory framework is a response to technological progress and the convergence of information and communication technology. It is a step in the direction of further liberalisation of the market in electronic communication. EU member states were obliged to implement the new framework by July 2003. The goal was for the new Electronic Communication Act to come into force as of the date of accession of the Czech Republic to the EU. The new law will probably come into force in the Czech Republic at the end of 2004 at the earliest.

As at 31 December 2003, the number of fixed telephone lines (including ISDN channels) operated by ČESKÝ TELECOM stood at 3,585,590, of which 2,453,468 were residential lines, 1,105,671 business and service lines and 26,451 public pay-phones and other types of lines. The total number of telephone lines fell by 75,772 from the beginning of the year, although the trend was partly offset by growth of 88,270 in the number of ISDN channels (up by 23%) to a total of 477,276.

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ISDN revenues in 2003 reached CZK 5.1 billion, i.e. 12.5% more than in 2002. The largest shares in total revenues from ISDN were call revenues (CZK 3.3 billion) and monthly subscription (CZK 1.7 billion). Revenues from connections were CZK 91 million.

In 2003, ČESKÝ TELECOM introduced a portfolio of optional terminal equipment supplied with newly installed euroISDN services. A range of individually selected terminal equipment gradually replaced packages combining a service with a device – it gave customers greater choice from a broad range of terminal equipment that complies with the latest telecommunications trends, as well as superior price flexibility.

Voice services for residential customers

In May 2003, a number of alternative price programmes were introduced for home fixed lines. A price programme is a comprehensive package which includes the price plan, other free-of-charge utility services and PřeTelé (lower rates for calls to selected numbers). The new price plans are branded as Telefon. A new feature is the option to carry unused free call minutes over into the next period.

Voice services for SME customers

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Since 1 February 2003 SME customers with multiple numbers have had the option of subscribing for new voice service packages, branded as Benefit, offering a comprehensive solution to customer needs in the area of voice services.

On 1 April 2003 several new price plans branded as Business were introduced.

Several ISDN promotional campaigns for the SME segment were held in 2003, giving discounts on channel installation and the price of terminal equipment.



Voice services for corporate customers

ČESKÝ TELECOM's strategy in the area of voice services for the corporate segment is based on the increasingly prevalent perception of voice services as a commodity product. To counter the threat of Carrier Selection, ČESKÝ TELECOM introduced a comprehensive portfolio of telecommunications services which, in addition to voice services, includes services with comprehensive support for internal communications processes. For details of this portfolio please refer to page 27 of this section of the Annual Report – Comprehensive Integrated Solutions. ČESKÝ TELECOM estimates its share in total voice revenues in the corporate segment at 81%.

5.4.3 | Data services

ČESKÝ TELECOM offers a comprehensive and broad portfolio of data services, comprising traditional X.25 and FRAME RELAY services, ATM services enabled for multimedia and high-speed data transmission, and IP VPN services. The data services product segment is witnessing migration from traditional services on X.25 (PDS) or FRAME RELAY platforms to IP VPN services.

Given the above trend, ČESKÝ TELECOM is continuing to invest in the development of IP VPN services, in particular by introducing additional services and improving the guaranteed service parameters. As a result of the changes in the usage pattern of fixed lines in favour of data and value-added services, revenues from data and related services in 2003 grew 18% to CZK 1.6 billion.

In the field of data services, ČESKÝ TELECOM recorded a dynamic growth in the volume of transmitted data. Corporate customers – mostly companies with 200 or more employees – are the largest users of data services, with a take-up of just under 40%. (Source: Data service market. NFO AIS, June 2003.) Fierce competition in the corporate segment is putting considerable downward pressure on prices. This trend is driving down operators' profitability, forcing them to improve performance and cost-efficiency. The segment showed most demand for Leased Lines, IP Connect and Ethernet protocol-based services.

In 2003, corporate customers enjoyed a series of data services promotions, e.g. 2NA2 for local leased lines, A + B = L – leased lines within a 20 km radius for the price of local lines,

IP START – new IP Connect networks with discounted installation, and START na prázdniny – new Frame Relay networks without installation charges at discounted subscription.

ČESKÝ TELECOM's plan for the future is to develop a portfolio of customer solutions in the area of data services which combine a broad spectrum of stand-alone products and services – both voice and (IP-based) data and Internet services – and to further develop its functionality by means of new xDSL-based Ethernet services, IT applications, etc. IP Connect in its simpler and more economical form, branded as Basic, is the flagship service for corporate clientele. In 2003, additional services (UserView, Reporting provozu, eWatch and Info o alarmu) were introduced to complement the existing FRAME RELAY, ATM and IP Connect services, adding value to them and giving the customer ultimate comfort of use. Moreover, an IP-enabled FRAME RELAY service was launched, building on and expanding the functionality of the existing FRAME RELAY services.

5.4.4 | Internet, ADSL, other value-added services

To counteract the declining revenues from traditional voice services, ČESKÝ TELECOM focused its attention on services with growth potential, which primarily include Internet services. From March 2003 ČESKÝ TELECOM is offering ADSL-enabled Broadband Internet Access to Other Licensed Operators and Internet Service Providers, as well as to the public at large.

An important moment in the area of Dial-up Internet in 2003 was the launch of Broadband Internet Access by other operators as part of the Carrier Selection and Carrier Pre-selection service. Mobile operators began to market Internet Access for a flat monthly subscription fee in the second half of 2003.

Dial-up Internet

In the product portfolio of Internet services provided by ČESKÝ TELECOM, Dial-up was the core and most widespread form of accessing the Internet by end customers in 2003. The service is integrated into the voice price plans. As at 31 December 2003, the number of customers subscribed to Home Internet was 107,936. The price plans are marketed together with Internet Access price packages containing free usage minutes and discounted usage rates.

The total volume of Dial-up Internet via traditional telephony and ISDN in 2003 was 5.95 billion minutes, accounting for 54% of the total volume of traffic generated by ČESKÝ TELECOM's customers. In 2002, the figures had been 5.71 billion minutes and 48% respectively. Dial-up Internet revenues for 2003 were CZK 2.9 billion, 1% more than in 2002. The number of Dial-up Internet users grew year-on-year by 4% (from 787,878 in December 2002 to 819,285 in December 2003).

Broadband Internet

On 3 March 2003 ČESKÝ TELECOM started marketing an ADSL-enabled Broadband Internet Access service. Branded as IOL Broadband, it gave a choice of two speeds 192/64 kb/s and 320/128 kb/s, and branded as IOL Broadband Profi three speeds 256/64 kb/s, 512/128 kb/s and 1024/256 kb/s. The IOL Broadband package includes installation, lease of terminal equipment, an e-mail box (30 MB as standard) and webhosting space of 30 MB. The volume of transmitted data is unlimited.

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On 15 September 2003, ČESKÝ TELECOM increased the speed of ADSL services for the standard IOL Broadband service from 192/64 kb/s to 512/128 kb/s and from 320/128 kb/s to 1024/256 kb/s at an unchanged price. For both IOL Broadband options, limits on the volume of transmitted data were introduced (10 GB and 20 GB respectively), with a charge of CZK 399 for every 10 GB over the limit. Customers can now also buy terminal equipment and order a self-installation package. This cuts the installation cost and shortens the lead time for ADSL installation from 21 to 17.1 working days, or to just 10.7 working days when the self-installation package is used.

On 26 November 2003 ČESKÝ TELECOM introduced a time-limited promotion until the end of 2003 offering ADSL installation for CZK 1 and free usage for the first month. At the same time, it presented four new IOL Broadband alternatives to go on the market on 1 January 2004 with new limits for transmitted data (3 GB and 6 GB for 512/128 kb/s, and 6 GB and 12 GB for 1024/256 kb/s). Prices of existing ADSL services were reduced by up to 50% from the beginning of 2004. The cheapest ADSL service is available for CZK 899 exclusive of VAT.

The total number of retail ADSL channels (IOL Broadband) installed as at 31 December 2003 was 9,215, of which 8,947 were active (6,373 business and 2,574 residential). ADSL retail revenues of CZK 86.4 million were posted in 2003.

ADSL is now available in 296 locations. As at the end of 2003, 1,678 thousand fixed telephone lines – 44% of all lines operated by ČESKÝ TELECOM in the Czech Republic – were in reach of ADSL. In the first half of 2004, the number of locations will go up by approximately 100 and the ADSL service will be potentially available to 2,280 thousand customers, i.e. 66% of all telephone lines operated by ČESKÝ TELECOM.

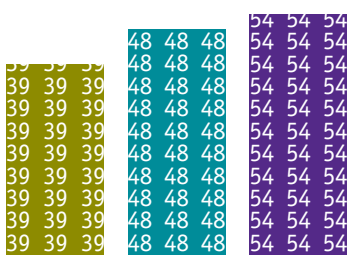
Fixed Internet Access

ČESKÝ TELECOM offers Fixed Internet Access via the IOL FIXED service or via a digital data circuit (IOL DIGITAL) or on reserved capacity optical fibre cables (IOL ETHERNET). Frame Relay or ATM protocol (IOL ACCESS) is also used for Fixed Internet Access. Users of ČESKÝ TELECOM data services are also offered IOL Frame Relay or IOL ATM services, giving them Internet access over a virtual channel.

In 2003, ČESKÝ TELECOM began to market several new products that increased the speed of Internet access (IOL ETHERNET), expanded the range of options offered by satellite technology (IOL SAT) or built on existing services to develop bespoke customer solutions (SLA, IOL Monitoring Single).

The total number of Fixed Internet connections rose 10% in 2003 compared to 2002 to 1,981. The main driver of this trend was the surge in modern xDSL services in 2003. However, revenues grew 49% compared to 2002, reaching CZK 332 million. At the same time, the average monthly revenue per subscriber fell 7% to CZK 13,766.

ČESKÝ TELECOM further developed its activities in the content area. In February 2003, the revamped QUICK.CZ portal was put into operation. Among other things this offers an exclusive Telefonní seznam directory service and a Czech gaming server called Game Zone. Telefonní seznam is the only service capable of providing information on the address of the person sought. Moreover, each entry has a link to a map with a location search for business and residential addresses. Game Zone has earned a privileged position on the Internet market of online gaming portals. Users can play any of 20 games with other online users and the server hosts regular gaming championships. In 2003, QUICK.CZ launched a Virtual Shopping Mall Virtuální obchodní dům, a property search engine REALITY.quick.cz and a financial service FINANCE.quick.cz. The visitor rate of the portal in 2003 measured by the number of unique visitors grew by 40% compared to 2002. Measured by the number of pages viewed the increase was 133%.



Share of Dial-up Internet in the total volume of traffic in %



Revenues from Other Licensed Operators in billions CZK



Hosting

The product portfolio of hosting services ranges from simple server hosting (lease of space or frames in the hosting centre) to dedicated hosting (lease of hardware for customer applications), offering an array of complementary services.

Dedicated Connectivity (Dedikovaná konektivita), Load balancing and IP Connect Hosting were the 2003 additions to the hosting services portfolio.

ČESKÝ TELECOM's hosting centre Nagano is one of the most modern data centres in Central Europe. The backing of ČESKÝ TELECOM, supervision systems, a quality backbone network and service options make it a universal platform for all types of customers – SME, corporate and wholesale alike.

Comprehensive integrated solutions

ČESKÝ TELECOM has responded to a new market opportunity in the corporate segment stemming from the demand for services with comprehensive support for corporate communication processes aimed at improving efficiency. These solutions are gradually being introduced onto the market in synergy with traditional services such as voice, data and Internet.

Comprehensive integrated solutions cover the spectrum of regular transactions commonly carried out in a company, e.g. document management, customer data management, procurement and logistics, personnel data management and supervision activities. Individual systems are being developed to meet the requirements of contemporary corporate processes. Comprehensive integrated solutions generate added value, cost savings and efficient use of resources at the same time. This is accomplished largely by way of introducing greater transparency into internal corporate processes, increasing labour productivity and providing for faster take-up of new technology.

5.4.5 | Wholesale

Wholesale operations were substantially expanded in 2003, particularly in the area of international data and voice services for Other Licensed Operators in the Czech Republic and abroad. Branches were incorporated in Germany, Austria and Slovakia, and international infrastructure connecting these countries was put into operation in spring 2003. At present, in addition to international services, wholesale encompasses national interconnection services for networks of other mobile and fixed line operators, as well as commercial leases of telecommunications infrastructure to other network operators and telecommunications service providers in the Czech Republic.

In the area of interconnection of networks with other national telecommunications operators, key emphasis was laid on provision of the services demanded by regulation, in particular Carrier Pre-selection and Number Portability. While on 31 December 2002 ČESKÝ TELECOM had

8 Carrier Selection contracts, as at the same date in 2003 it had 14 Carrier Selection and Pre-selection contracts with Other Licensed Operators. The total volume of traffic increased from 18.7 million minutes in 2002 to 98.5 million minutes in 2003. Total revenues from other telecoms network operators in 2003 reached CZK 3.1 billion, of which CZK 1.6 billion from international operators and CZK 1.5 billion from national operators. Revenues from Other Licensed Operators grew 21% compared to 2002.

At the beginning of 2003, the CTO issued a decision on interconnection for the Transit to Internet service. The decision raised interconnection rates to a level that is not economically justified and thus substantially increased the amount of payments to other operators for transit Internet traffic.

In 2003, an amendment to the Telecommunications Act came into force. This stipulates the duty to unbundle the Local Loop (LLU) and led ČESKÝ TELECOM to publish a Reference Unbundling Offer (RUO) and Co-location Offer (CoO). The first LLU and Co-location Agreement was signed in December 2003.

In 2003, wholesale activities also concentrated on expanding the portfolio of data, leased lines and transmission capacity services. The efforts produced a stronger position for ČESKÝ TELECOM in the area of backbone network services, high-capacity lines and wholesale broadband services based on ADSL technology.

ČESKÝ TELECOM estimates its share of the data, leased line and transmission capacity market in 2003 at about 35%.

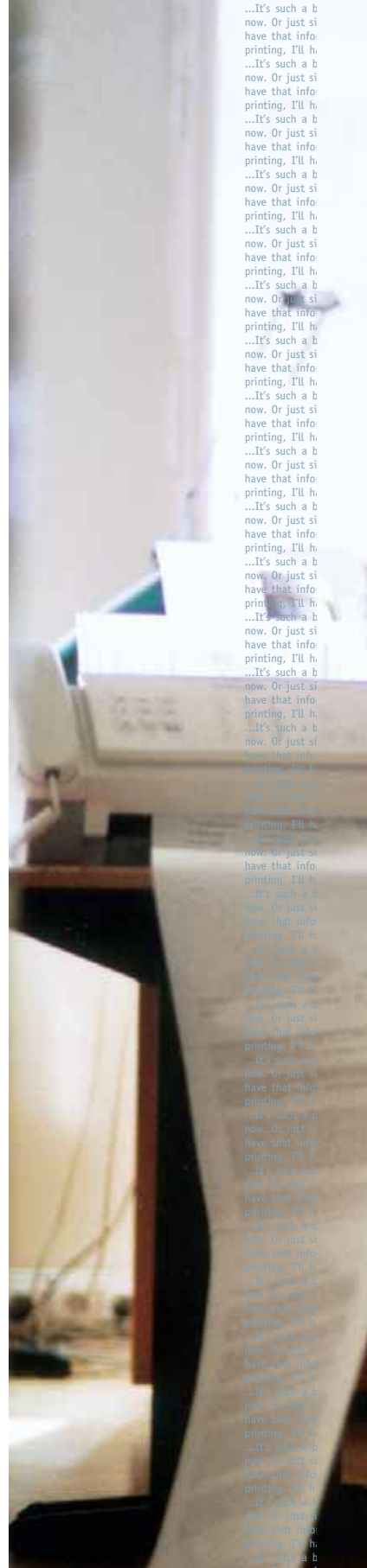
In 2003, the market saw much pressure on prices for high-speed backbone capacity, as a result of tougher competition, relative market saturation and a shift of demand from low-speed to high-speed services. This trend is a result of end customers' growing expectations of fast Internet and higher quality data and voice transmission. The stronger position in the area of backbone services is due to the quality service parameters guaranteed in the Service Level Agreements (SLAs).

In 2003, ČESKÝ TELECOM rolled out a new wholesale model for Broadband Internet Access using ADSL, branded as Carrier Broadband. In January 2003, a Reference Access Offer (RAO) to other operators and service providers was made. By the end of the year, a total of 25 wholesale partners had entered into agreements for Carrier Broadband or had concluded relevant amendments to existing agreements with ČESKÝ TELECOM.

The number of wholesale ADSL channels for other ISPs was 6,128 as at 31 December 2003, of which 5,719 were active. Revenues from Wholesale Broadband Internet Access for 2003 reached CZK 59.5 million.

In the area of international wholesale voice and data services, ČESKÝ TELECOM regards the commissioning of proprietary international infrastructure with points of presence in Prague, Frankfurt, Vienna and Bratislava, followed by the introduction of new international data services (International Carrier Line and International IP Transit), as the main achievements in 2003.

The company provides international data services not only to its own points of presence abroad, but also throughout Central and Eastern Europe. In alliance with strong partners it offers lease of lines to, for instance, Poland and Hungary, and recently also to Serbia and Montenegro, Romania, Bulgaria, Ukraine and other popular destinations in the region. Unlike in the area of national





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leased lines, the demand here concentrates mainly on the high transmission capacity of the backbone.

ČESKÝ TELECOM is a traditional provider of international voice services to all global destinations. Its proprietary infrastructure helped the company to further build on its position in Central and Eastern Europe. In 2003, the number of new contracts with other fixed line and mobile operators in the region grew considerably. This in turn reinforced ČESKÝ TELECOM's position on the international voice – and particularly transit – services market.

5.5 | Mobile technology

5.5.1 | Developments on the Czech mobile market in 2003

The mobile services market in the Czech Republic is very advanced, as is evidenced by a high SIM card penetration, which grew from 84% to 95% in 2003. This figure is much higher than the CEE average and the average in many West European countries.

The Czech mobile market is served by three operators: Eurotel Praha, spol. s r.o. (Eurotel), T-Mobile Czech Republic a.s. (T-Mobile) and Český Mobil, a.s. (Český Mobil). Eurotel is maintaining its lead on the mobile services market in the Czech Republic. Its market share of the total number of 9.7 million of activated SIM cards in the Czech Republic as at the end of 2003 was around 43%, compared to 41% for T-Mobile and 16% for Český Mobil. In terms of share of total revenues of mobile operators, Eurotel accounted for 45%, T-Mobile 38% and Český Mobil the remaining 17%.

The year-on-year growth in the number of SIM cards in the Czech Republic was 13% in 2003, compared to 24% in 2002 and 60% in 2001. This reflects a slowdown in the growth dynamics of the customer base – something which is inevitable in the highly penetrated Czech mobile market.

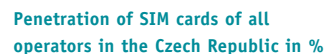
Regulation of the mobile market saw no substantial changes in 2003. The maximum price for interconnection to public mobile telecommunications networks of CZK 3.66 (exclusive of VAT) per 1 minute of traffic (Price Decision No. 09/PROP/2001 issued by the CTO on 27 November 2001) remained in force.

5.5.2 | Eurotel revenue streams and products in 2003

In terms of revenues, Eurotel is the leading provider of mobile services on the Czech market. It was Eurotel that started to write the history of mobile communication in the Czech Republic in 1991 when it obtained a licence for the 450 MHz frequency and began to operate the NMT network. In 2002, the company was issued with an amended licence for 450 MHz allowing it to offer any internationally recognised public mobile services in the 450 MHz frequency band. As at 31 December 2003, Eurotel's 450 MHz licence had eight years left to run.

Eurotel secured GSM licences for 900 MHz in 1996 and 1800 MHz in 1999. These two GSM licences were consolidated into one in 2002. As at 31 December 2003, Eurotel's GSM licence had 13 years left to run.

In December 2001, Eurotel was awarded a 20-year UMTS licence for a fee of CZK 3.535 billion. It paid CZK 1 billion upon signing the Licence Agreement and the remaining part of the licence fee was divided into ten yearly instalments. In December 2003, after reaching agreement with the CTO, Eurotel signed an amendment to the Licence Agreement changing the method of payment of the remaining part of the UMTS licence fee. The payment will now take form of two instalments in 2004. The date on which Eurotel is required to launch



commercial operation was at the same time postponed by one year, i.e. to 1 January 2006. In 2003, Eurotel began to operate a UMTS test network for pilot operation of all key UMTS services.

Eurotel holds also two FWA licences for the construction and operation of a public telecommunications network by means of fixed wireless access networks in a reserved frequency band of 3.5 GHz.

In 2003, for the first time in its history, Eurotel paid its owners a dividend in the total amount of CZK 10.978 billion.

Eurotel operates a modern, efficient and reliable infrastructure which uses the latest state-of-the-art technology. Every year it invests in the construction of new base stations, which means Eurotel offers unprecedented capacity, which can be also used for data services, and premium quality. The Eurotel GSM Global and Eurotel T!P (NMT) networks now cover 99% of the Czech population.

The Call Setup Fail Rate (CSFR) is only 1% and the Call Drop Rate (CDR) less than 1%. These are the best measured results of any Czech operator. Several years ago, Eurotel improved its network quality by implementing Frequency Hopping technology. Eurotel also offers premium indoor coverage. Eurotel's voice services are powered by SuperSound technology, which delivers superior sound fidelity. At the end of 2003 Eurotel had a total of 330 roaming partners in 134 countries around the world.



An increasing number of Eurotel's customers are using the full spectrum of mobile services, including data, where Eurotel has the most comprehensive solutions and data transmission speeds, not least because it is the only Czech operator to give its customers a choice between GPRS (General Packet Radio Service) and HSCSD (High Speed Circuit Switched Data). In addition to its post-paid service, Eurotel provides a pre-paid service branded as Go, Mobile Internet and a number of other multimedia services, such as Mobile Video, SMS, MMS and WAP.

As in previous years, in 2003, Eurotel's premium technical and technological platform, broad spectrum of services and professional treatment of customers helped it to achieve a solid performance and maintain its leading position on the Czech mobile market.

Eurotel's total number of customers increased in 2003 from 3,891 thousand to 4,215 thousand, i.e. by 8%. In 2003, the GSM post-paid segment showed an increase of 15% to a total of 857 thousand post-paid customers. Despite of the highly competitive environment, the churn rate of post-paid customers in 2003 was only 11%, compared to 13% in 2002. In the GSM pre-paid segment, the number of customers grew 7% to 3,321 thousand. The total volume of incoming and outgoing traffic in 2003 was 4.3 billion minutes, compared to 4.2 billion the year before, with incoming traffic rising faster than outgoing traffic. MOU (Minutes of Use –

average call minutes per month per customer) was 90 minutes in 2003, compared to 98 minutes in 2002.

Eurotel's revenues for 2003 totalled CZK 29.1 billion, an increase of 1% on the year before. The fastest-growing revenue category was Revenues from SMS and MMS, data and value-added services. In 2003, Eurotel customers received and sent almost 2.3 billion SMS messages – 11% more than in 2002. As at the end of 2003, almost 150,000 customers had MMS activated. The volume of transmitted data also increased considerably, chiefly as a result of the launch of the Unlimited Internet Access service. In the course of 2003, GPRS traffic grew by 8,245% to almost 32 thousand GB.

Eurotel's total revenues from mobile services increased by 3% to CZK 27.6 billion. Revenues from mobile services from customers declined by 1% to CZK 19.0 billion. Roaming revenues on the other hand recorded a 9% increase to CZK 3.1 billion, and, as a result of the increasing trend in the volumes of incoming minutes of traffic, SMS and MMS from networks of other operators to the network of Eurotel, Revenues from other operators increased by 15% to a total of CZK 5.5 billion. ARPU (Average Revenue Per User from mobile services exclusive of roaming visitors per month) was CZK 551 in 2003, compared to CZK 607 the year before.

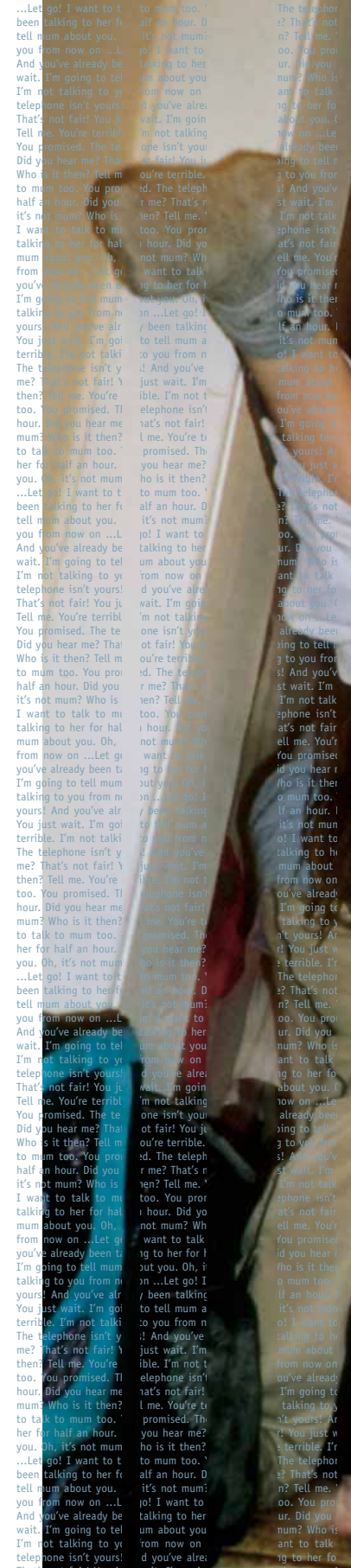
In 2003, the net increase in the number of activated SIM cards was 323 thousand, compared to 653 thousand in 2002 and 1,067 thousand in 2001. The slowdown in the rate of new activations impacted on revenues from activation and sales of mobile handsets, accessories and other sales, which recorded a year-on-year decline of 24% to CZK 1.5 billion. The lower number of new activations was offset to a large extent by the demand of existing customers for new mobile handsets and accessories.

Eurotel responds in a flexible way to customers' needs and changes in the Czech mobile telecommunications market. In 2003, Eurotel's customers enjoyed a large number of new additions to the portfolio of services. To accommodate the growing customer demand for data and value-added services, Eurotel on 1 April 2003 became the first operator not only in the Czech Republic, but in Europe, to start operating an unlimited GPRS mobile access to Internet services for a flat monthly fee. At the end of 2003, the service, Eurotel Data Nonstop, was subscribed by almost 32 thousand customers. At the same time, Eurotel reduced prices of most existing data services, both for pre-paid and post-paid customers.

In June 2003 the Czech Republic saw the premiere of MMS Postcard, a service which allows MMS messages be sent in the form of a standard postcard delivered to the recipient's postal address. MMS Roaming also allows MMS postcards to be sent from abroad, in most cases for the same price as from the Czech Republic. Eurotel came out with many other entertainment and information SMS- and MMS-based services.

In July 2003 Eurotel introduced a new generation of SIM cards – Eurotel SMART SIM card and Go SMART SIM card. As compared to the older type, the new 64 kB SMART SIM cards offer more capacity and updated Eurotel GSM Banking software, as well as the brand new SIM applications Personal SMS and PIN Manager.

Eurotel offers its customers a choice of a wide range of tariffs. The basic offer contains seven tariffs and covers the most common combinations of require-



17:40



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ments. In addition to the basic tariff, customers can subscribe for a number of top-up packages, loyalty schemes and seasonal promotions. Customers who want a truly tailor-made tariff appreciate Eurotel Individual post-paid tariff. The customer can choose from five types of services – minutes of use, SMS, MMS, WAP or Internet, with usage also decided by the customer. Eurotel began to offer Eurotel Individual in February 2003 and since then almost 70 thousand customers have activated the tariff.

In the course of 2003, Eurotel rolled out a number of innovations to the existing services in its extensive portfolio. Frequent travellers who need to have access to e-mail or corporate Intranet when on the road are the target group for Eurotel Global Access, a service offering simple, economical and reliable data connection from abroad.

Yet another innovation for corporate customers is the Eurotel Partner Programme which improves corporate productivity using mobile applications. Under the Programme, Eurotel offers technical support to systems integration and software development companies developing corporate applications based on mobile communications in their efforts to sell installations of these partner solutions to corporate customers.

Corporate customers with a general contract with Eurotel can enjoy the benefits of the Eurotel Team service. Each corporate customer can designate up to five telephone numbers and call them at preferential rates. A step in the direction of facilitating communication between post-paid and pre-paid customers was the introduction of Eurotel Duet. The service brings cheaper calls between post-paid and pre-paid numbers, and can be activated by both pre-paid and post-paid service customers.

Eurotel Tandem is yet another innovation for post-paid customers – in addition to his or her existing SIM card, a customer can have up to three „daughter” SIM cards and call and send SMS and MMS messages between those numbers at cheaper rates and still pay only one monthly subscription fee.

In 2003, Eurotel again proved its strong position in the business customer segment. It succeeded in acquiring numerous new customers and extended contracts with present important large accounts. In 2003, Eurotel acquired, among others, the Czech branch of Procter & Gamble Czech Republic, ING Bank Nationale Nederlanden, Delvita, Plzeňský Prazdroj and UPC Czech Republic. Eurotel is also proud of the loyalty of its customers. Many companies – Česká spořitelna, Komerční banka, Unilever ČR, Johnson & Johnson, Henkel, Léčiva, Glaxo-SmithKline, Pivovary Staropramen, Coca-Cola Beverages ČR, ABB, Barum Continental, Feronia Tesco Stores ČR, Ahold Czech Republic, the Czech branches of Microsoft, Hewlett-Packard and AutoCont, GTS, České dráhy, ČEZ, VZP, ČSA and a number of ministries, to name but a few – are long-standing customers of Eurotel.

Users of pre-paid services can choose from four basic tariffs. In addition, there are seasonal promotions and a loyalty scheme. Innovations in the pre-paid area also include changes in charging for the tariffs Fun Go and Quattro Go, implemented by Eurotel at the beginning of 2003. After the first minute of the call, all calls are charged on a per-second basis. As a part of its Christmas campaign in November 2003 Eurotel introduced a new pre-paid tariff Special Go, which offers cheaper calls than other Go tariffs. Special Go was a limited offer – customers could activate it until the end of 2003. In the course of the two months, more than 201 thousand pre-paid service users activated the tariff.

In connection with the change in the applicable VAT rate for telecommunications services from 5% to 22%, Eurotel made a gesture to its pre-paid customers and compensated for the difference in price. On midnight 31 December 2003, Eurotel increased the balance of usage



Eurotel revenues in billions CZK

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credits by 17% as a one-off measure. Likewise, it will raise the usage credit on coupons purchased before the end of 2003 and charged up anytime after 1 January 2004.

5.5.3 | Strategy in the area of mobile technology

Eurotel's strategy for 2004 builds on the results achieved in the previous period, taking into account the broader context of both the local market conditions and global trends in mobile technology. Eurotel's strategy clearly reflects its mission – to give its customers more out of life.



The goal of the company is to maintain its position on the Czech mobile telecommunications market, to increase its market share in the key customer segments and to preserve existing market shares in other segments, and to generate more value for its customers. Eurotel strives for maximum efficiency of its processes.

In 2003, Eurotel successfully completed its testing of the UMTS network, on which it will provide third-generation services. In compliance with the licence, Eurotel intends to reach the required UMTS coverage by 1 January 2006.

Eurotel plans to launch CDMA (Code Division Multiple Access), a modern digital network which is to become a platform for Broadband Internet Access and a number of other state-of-the-art wireless services.

5.6 | Fixed line network technology

ČESKÝ TELECOM operates a fully digital network enabled for IN services, an ADSL network with 296 points of presence, country-wide LL, ATM and IP/MPLS networks, an SDH backbone network and D WDM networks – all guaranteeing premium quality and reliability of all services. None of the alternative fixed line technology operators can rival its territorial coverage. The total length of the optical fibre transmission network as at 31 December 2003 was 29,035 km, with 860,862 km of fibre in total.

In the area of voice services, the alternative operators largely use ČESKÝ TELECOM's infrastructure by means of Carrier Selection.

The network incorporates 140 HOST exchanges. The capacity of all the exchanges is 4,719,392 lines, with 3,585,590 active lines as at 31 December 2003. The number of ISDN2 B-channels at the end of 2003 was 357,456 – 27% more than in 2002 (an increase of 76,810 B-channels). The number of ISDN30 B-channels at the end of the year was 119,820 – 10.5% more than at the beginning of 2003 (an increase of 11,460 B-channels).

ČESKÝ TELECOM operates a fully digital international telecommunications network interconnected with networks of all major international operators. In the period between autumn 2002 and January 2003, ČESKÝ TELECOM constructed a proprietary international optical network on the SDH/WDM technology platform with its own points of presence in all countries bordering on the Czech Republic. In 2003 ČESKÝ TELECOM opened branches in Bratislava, Vienna and Frankfurt.

In the area of technology and networks, ČESKÝ TELECOM in 2003 made substantial investments in platforms and systems for an increase of provision of value-added services, such as NGA (Next Generation Applications) technology, which combines voice and data services. To increase general ADSL availability, investment in the construction of new locations housing DSLAM equipment was approved in the second half of 2003. Investment in the network area followed the main objectives of preserving the quality parameters of existing services and creating new attractive services such as A0/DI, ADSL Broadband Access, CLIP and Teleworking.

In compliance with the Telecommunications Act, ČESKÝ TELECOM began commercial operation of Number Portability and Carrier Pre-selection at the end of 2002. Development of Local Loop Unbundling (LLU) was completed in the second half of 2003, and in September Reference Unbundling Offer was presented to the CTO for publication. To accommodate the developments, all core IT systems automating the relevant processes were modified.

5.7 | Human resources

Employees

Number of employees of the Group as at 31 December:

	2003	2002	2001
ČESKÝ TELECOM	10,901	13,717	15,194
Eurotel	2,442	2,447	2,420
Other companies	34	73	45
Total employees	13,337	16,237	17,659

2003 saw a continuation of the long-term process of workforce streamlining, aimed at raising labour productivity to a level closer to the best telecommunications providers around the world. This is being achieved through rigorous application of workforce planning methods, which led to a reduction of 2,816 in the number of ČESKÝ TELECOM's employees compared to 2002, to 10,901 as at 31 December 2003. In 2003, a total of 3,298 employees left the company, 86% as a result of the reorganisation.

Social and retraining programmes

For employees who cannot find another position in the company, ČESKÝ TELECOM has developed a social and retraining programme. This programme helps outgoing employees to cope better with the negative effects of this difficult situation. It has helped to maintain the relationship between the management and employee representatives at a very good level.



20:30



Management improves relations with the trade unions

At a time when ČESKÝ TELECOM faces greater competitive pressures on the dynamically evolving telecommunications market in the Czech Republic, and when a major reorganisation exercise is ongoing inside the organisation, relations between the management and trade unions are of paramount importance.

In keeping with the corporate vision and mission, ČESKÝ TELECOM wants to employ and maintain top professionals motivated to build shareholder value. In promoting and implementing its strategy, the management has from the outset worked very closely with the trade union organisation. All matters having a direct impact on the company's employees are regularly consulted with trade union representatives. This includes not only the issues stipulated by law, but also matters relating to the recently commenced corporate transformation which concern the employees.

This has fostered a positive shift in the relations between the management and employee representatives in the direction of a balanced partnership. The common interest of both parties is a satisfied and motivated employee.

In addition to the good relations with the trade unions on the subject of workforce streamlining, another positive step in bringing the management and trade unions closer together was the campaign for the election of employee representatives to the Supervisory Board of the company.

As at 31 December 2003, the trade union organisation of ČESKÝ TELECOM had 5,237 members.

New corporate culture

In connection with ČESKÝ TELECOM's new vision, several major changes were made to the strategy and style of work in the human resource area during 2003. The management's priority is to change the corporate culture in a way that will not only foster a strong motivation in each employee, but also encourage an active personal approach to improving the company's performance and, consequently, its value.

The fundamental principles of the new corporate culture are laid down in three key documents adopted in 2003:

- Code of Conduct for ČESKÝ TELECOM Employees;
- Principles of Labour Law Relations Banning Discrimination and Degradation of Human Dignity;
- Settlement of Employee Complaints Concerning Rights and Obligations under Labour Law Relations.

The main instrument for motivating employees in 2003 was the implementation of the Transparent Remuneration and Motivation System (STROM). The system also provides for allocation of employee benefits.

5.8 | Corporate social responsibility

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. Corporate social responsibility is one of the vehicles for presenting ČESKÝ TELECOM's long-term strategy and is a value shared equally by customers, shareholders and the whole company.



Sponsoring

ČESKÝ TELECOM has been sponsoring humanitarian, cultural and sports activities for many years. Linka bezpečí has for nine years now been the flagship humanitarian project of the company.

The relationship between ČESKÝ TELECOM and culture has long taken the form of sponsorship of theatre and film. In 2003, the largest Czech theatre festivals were in the limelight. In the cinematic arts, the focus was on independent film – the International Film Festival in Karlovy Vary, Febiofest and the Summer Film Academy in Uherské Hradiště.

In the world of sport, sponsorship activities respected tradition in that they centred on ice hockey, one of the most popular sports in the Czech Republic. Being a partner to, and supporting, the Czech Olympic Team, which will culminate at the Summer Olympic Games in Athens in 2004, was an equal focus of attention for ČESKÝ TELECOM.

As one of the largest corporations in the Czech Republic, Eurotel is also a long-standing partner of cultural, sporting and humanitarian endeavours.

In culture, in 2003 Eurotel gave its patronage to the music festival Pražské jaro (Prague Spring), and the International Film Festival in Karlovy Vary, to name but a few.

In sports, Eurotel is a partner, for instance, of the Czech National Ice Hockey Team and AC Sparta Praha football team.

Nadace Eurotel supports projects in the area of healthy development of children and youth.

Caring for the environment

Being a provider of wide-ranging telecommunications services, ČESKÝ TELECOM is aware of its commitments to the environment.

The company's main environmental protection principles are contained in the updated version of the ČESKÝ TELECOM Environmental Policy, which was approved by the Chief Executive Officer at the end of 2003. The Policy aims to organise protection of the environment so that it respects the character, scope and environmental impacts of ČESKÝ TELECOM's operations, taking into account pollution prevention and a sustainable improvement in care for the environment and the workplace, as well as providing for the economic prosperity of the company. The Environmental Policy creates a clear framework for defining and implementing specific objectives and programmes in the environmental area, as well as mechanisms for informing employees and the public of the progress with its implementation.

In 2003 ČESKÝ TELECOM complied, without major problems, with all statutory requirements in the area of air, water, soil and nature protection and waste management. As in previous years, it successfully continued its trend of reducing the volume of waste generated. In 2003, it produced almost 19% less waste than in 2002. Out of this volume, at least 10% was recyclable and most of the rest could be used for other purposes. The volume of hazardous waste remained at practically the same level, although this represents only 3% of the total volume of waste.

Total emissions from heat production were decreased by 16% compared to 2002, chiefly as a result of a lower usage of solid fuel (by 34%) and heating oils (by almost 55%). Compared to 2002, ČESKÝ TELECOM used less internally produced heat (by 0.6%) and less purchased heat (by 2%), while maintaining almost the same level of power consumption. The volume of fuel consumed decreased considerably, by 7% overall. The volume of waste water discharged also decreased gradually.

In pursuing its environmental goals, ČESKÝ TELECOM also places demands on its suppliers and business partners. The terms and conditions of tender procedures for procurement of materials and services now contain environmental evaluation criteria.

In the region of East Bohemia, ČESKÝ TELECOM developed an Environmental Management System implemented in accordance with standard ČSN EN ISO 14001 and certified by Lloyd's Register of Quality Assurance.

In the area of international co-operation, ČESKÝ TELECOM, together with other European telecommunications operators, assisted in preparing the Sustainability Charter of the European Telecommunications Network Operators' Association.

Eurotel also respects international standards for consumer and environmental protection. It has implemented an Integrated Management System (IMS), which consists of a Quality Management System (QMS) and an Environmental Management System (EMS).

IMS complies with the international standards ČSN EN ISO 9001 and 14001. It was audited by external auditors from RW TÜV ANLAGETECHNIK GMBH, Prague office, an independent certification authority. RW TÜV ANLAGETECHNIK GMBH, Prague office, issued two certificates for the two systems (QMS in 2001 and EMS in 2002).

Every year, the certification authority performs a control audit, during which the examined company must demonstrate the ongoing functioning of the implemented systems and compliance with international standards. The last control audit, conducted in October 2003, confirmed the validity of both certificates.

5.9 | Comments on the financial results

This section presents an overview of the consolidated financial results of the Group, prepared in accordance with International Financial Reporting Standards (IFRS) for 2003. In preparing the consolidated financial results, the financial results of Eurotel for the period from January to November 2003 were consolidated on a pro rata basis of 51%. Starting from December, the consolidation is on a 100% basis.

2003 was the third year of the **fully liberalised telecommunications market** in the Czech Republic. The market saw further growth in competition in both fixed line and mobile technology. Fixed line penetration was flat at 35% with the other licensed fixed line operators focused on providing their services via Carrier Selection and Pre-selection. On the other hand, active SIM card penetration continued to grow, reaching approximately 95% at the end of 2003, compared to 84% in 2002.

After the closure of the transaction for the purchase of the remaining 49% holding in Eurotel, **the Group** is now in an ideal position to make best use of all financial and operating opportunities on both the fixed line and mobile technology markets. The full consolidation of the results of Eurotel, a leader in mobile technology in the Czech Republic, will also have a considerable positive effect on the overall consolidated results of ČESKÝ TELECOM. This is set to become one of the main driving factors of the company's value.

The new management appointed by the end of September 2003 made compensation for the declining revenues from traditional voice services by offering higher value-added services, particularly Internet and data services, improvement of operating and capital cost efficiency by stringent cost control and preservation of above-average EBITDA and free cash flows, its **financial management priority**.

Consolidated revenues reached CZK 51.5 billion in 2003, down 3% from the previous year. ČESKÝ TELECOM's unconsolidated revenues were CZK 36.5 billion, a decline of almost 6%. This is mainly a result of a fall in traditional voice revenues.

Consolidated connection charges fell by 29% year-on-year to CZK 517 million in 2003. More than 80% of the revenues came from connection to the traditional fixed telephone network (PSTN) and from Eurotel's activation fees.

An increase of 3% was recorded in 2003 for **consolidated subscription revenues**, which totalled CZK 14.8 billion.

The structure of consolidated revenues for 2003 revealed a decline in **consolidated call revenues**. These fell from CZK 23.5 billion in 2002 to CZK 20.1 billion, which represents a deterioration of 14%. The decline was due largely to falling consolidated call revenues, confirming the trend of diminishing usage of fixed line technology for traditional voice services in favour of data services. Consolidated ISDN call revenues, on the other, showed a year-on-year increase of 2%.

Consolidated revenues from other network operators grew by 25% year-on-year to CZK 6 billion in 2003. Revenues from international network operators recorded an increase of only 13% (from CZK 2.2 billion in 2002 to CZK 2.5 billion in 2003). Revenues from domestic network operators grew by 34%, reaching CZK 3.5 billion, the driving force being the greater volume of transit traffic from other operators' networks.

A 3% increase was recorded in **consolidated revenues from leased lines**, which went up from CZK 2.6 billion to CZK 2.7 billion in 2003.

Consolidated revenues from Internet and data services showed a radical 39% increase in 2003 compared to 2002, reaching CZK 2.5 billion. **Consolidated revenues from Fixed Internet Access** in 2003 increased by 34% to CZK 573 million. Significant growth of 30% was recorded in **consolidated revenues from data services**, which reached CZK 1.7 billion in 2003 compared to CZK 1.3 billion in 2002. In March 2003, ČESKÝ TELECOM started to provide Broadband Internet Access. **Consolidated revenues from ADSL Broadband Internet Access** totalled CZK 146 million in 2003.

At CZK 1.5 billion, **consolidated SMS and MMS revenues** generated exclusively by Eurotel were up 12% in 2003 on the year before.

Consolidated revenues from value-added services, which are made up mostly of revenues from leasing and maintenance of customer premises equipment and revenues from the Zelená linka service (toll free calls), stood at CZK 1.2 billion in 2003, thus remaining at their 2002 level.

Consolidated revenues from the sale of materials and equipment recorded a year-on-year fall of 14% to CZK 919 million in 2003.

Other consolidated revenues fell by 16% in 2003 compared to 2002, to CZK 1.2 billion.

Consolidated personnel costs grew by 3% year-on-year, reaching CZK 7.8 billion in 2003. The figure includes a one-off cost of CZK 673 million incurred as a result of workforce downsizing in the area of fixed lines.

There was a marked, 21% increase in **consolidated payments to other operators**, which totalled CZK 7 billion. The main drivers of this rise were considerably higher operating costs for Dial-up Internet vis-a-vis other Internet Service Providers, given the economically unjustified rates set by the Regulator, and greater transit traffic volumes to the networks of other licensed operators. Consolidated payments to domestic operators grew by 31% to CZK 5 billion, while consolidated payments to international operators recorded a 3% increase to CZK 2 billion.

In 2003, **consolidated costs of materials and goods** sold were at the same level as in 2002, i.e. CZK 1.8 billion.

Other consolidated operating costs, inclusive of costs of repair and maintenance, energy and materials consumed, marketing, consulting services, lease of buildings and other operating costs, fell by 4% to CZK 11.1 billion in 2003. The category of other operating costs includes also a one-off item of CZK 935 million relating to additional reserves for the impacts of the regulatory decisions. ČESKÝ TELECOM has used all available legal means to mitigate the impact of such decisions.

Consolidated earnings before interest, tax, depreciation and amortisation (**EBITDA**) reached CZK 23.8 billion in 2003, which translates into a decline of CZK 2.3 billion (9%) in absolute terms. The consolidated **EBITDA margin** – the ratio of consolidated EBITDA to consolidated revenues – was 46%. Exclusive of one-off items in consolidated operating costs, however, the margin would have been 49%, the same as in 2002. Despite this fall, ČESKÝ TELECOM's performance measured by consolidated EBITDA margin remains above average compared to the global peer group, especially when one takes into account the advanced market liberalisation and unfavourable regulatory environment on the Czech telecommunications market.

Consolidated depreciation and amortisation reached CZK 19.4 billion in 2003, up 3% on the year before. This amount includes an item of CZK 343 million relating to accelerated depreciation of a part of assets.

In 2003, in accordance with International Accounting Standard 36, which stipulates the need to value assets in a manner which reflects the recoverable amount, ČESKÝ TELECOM posted a one-off **impairment charge** of CZK 9.9 billion. This accounting treatment reflects the unfavourable regulatory environment, which prevented – and still prevents – ČESKÝ TELECOM from rebalancing its tariffs, which has set an economically unjustified interconnection rates for Dial-up Internet, and which, last but not least, continues to tolerate a lack of transparency in numerous regulatory decisions, including the decision on interconnection charges. The present regulatory conditions and uncertain future regulatory environment have a major negative bearing on the estimated return on past regulatory driven investments made on the basis of the Authorisation issued by the Ministry of Economy of the Czech Republic in 1995 and the State Telecommunications Policy.

Growth of consolidated depreciation and amortisation and, more importantly, the one-off impairment charge in 2003 fostered a decline in consolidated earnings before interest and tax (EBIT) to a loss of CZK 5.5 billion, compared to the previous year's profit of CZK 7.1 billion.

Total **consolidated finance costs** amounted to CZK 1.1 billion in 2003, compared to CZK 978 million in 2002, which represents a year-on-year increase of 15%. The main driver of this trend was consolidated exchange rate losses inclusive of fair value losses/gains on financial instruments, which were CZK 334 million in 2003 as against CZK 230 million of comparable consolidated gains in 2002.

Consolidated earnings before tax (**EBT**) recorded a loss of CZK 6.7 billion in 2003, compared to a profit of CZK 6.1 billion in 2002.

In the 2003 accounting period, ČESKÝ TELECOM recorded a **consolidated income tax saving** of CZK 4.9 billion. The saving is a result of changes in the field of corporate income taxation in the Czech Republic (which in effect reduce ČESKÝ TELECOM's deferred tax liability), a one-off tax saving on dividends paid in 2003, and the effect of the impairment charge on deferred tax.

The company posted a **net consolidated loss** of CZK 1.8 billion for 2003.

At the end of 2003, the total **consolidated loans** of ČESKÝ TELECOM amounted to CZK 45.1 billion, compared to CZK 22 billion as at the end of 2002. **Gross gearing** (the ratio of consolidated loans to consolidated shareholder equity) was 50% and **net gearing** (the ratio of consolidated loans less cash and cash equivalents, short-term available-for-sale investments and short-term held-to-maturity investments to consolidated shareholder equity) was 45%.

The growing debt primarily reflects a loan of EUR 850 million for the acquisition of the remaining 49% holding in Eurotel and for general corporate use. In the course of the year, ČESKÝ TELECOM also issued bonds with a total nominal value of CZK 7 billion. Bonds with a nominal value of CZK 1 billion were issued to expand on an existing issue of 4.55% p.a. fixed-interest bonds issue maturing in 2005. Bonds with a nominal value of CZK 6 billion bearing fixed interest of 3.50% p.a. and maturing in 2008 were issued as second issue in ČESKÝ TELECOM's bond programme.

One of the principal indicators of shareholder value is **consolidated free cash flows**¹, which reached CZK 14.9 billion in 2003, i.e. 29% of total consolidated revenues, elevating ČESKÝ TELECOM to the ranks of the highest performing operators in the industry as measured by this criterion.

In line with the decision of the shareholders at the General Meeting held on 13 June 2003, ČESKÝ TELECOM on 6 October 2003 paid a dividend of CZK 18.5 billion from the 2002 net profit and from a part of retained earnings.

Consolidated current liabilities rose by CZK 7.9 billion to total CZK 31.8 billion at the end of 2003, largely due to the maturing bridging portion of the EUR 850 million loan, while consolidated current assets declined by CZK 10 billion to CZK 15.1 billion in the same period as a result of sale of securities and a reduction in consolidated cash and cash equivalents. The consolidated balance sheet as at 31 December 2003 showed net current liabilities of CZK 16.7 billion. Given the substantial free cash flows generated by ČESKÝ TELECOM, this situation is only temporary and does not pose any threat to the company's capacity to repay its current liabilities.

In the challenging conditions of the competitive market and regulatory environment, ČESKÝ TELECOM succeeded in cutting **consolidated capital expenditure** to CZK 7 billion in 2003, i.e. 38% less than the CZK 11.3 billion in 2002. The ratio of consolidated capital expenditure to total consolidated revenues for 2003 was 14%. The investment was channelled mainly into further improving the existing communications infrastructure, with the aim of launching services demanded by the market (e.g. ADSL, virtual private networks, data networks and

1) Net cash flow from operations and net cash flow from investment activities, exclusive of acquisitions of ownership interests, purchase of securities and proceeds from the sale of securities.

value-added services). To comply with regulations, an initial investment was made into a platform for the Local Loop Unbundling (LLU) service.

Financial management priorities in 2004 – in 2004, ČESKÝ TELECOM will build on the foundations laid in 2003. Closure of the Eurotel acquisition strengthened the consolidated financial profile of ČESKÝ TELECOM. Operating and financial performance is still in the focus of our attention, while we do the utmost to meet the needs of our customers in the fast-changing telecommunications market. ČESKÝ TELECOM Group's financial management priorities will continue to be an above-average EBITDA margin, a stringent investment policy providing for adequate returns on investment, and an emphasis on free cash flow generation.

The new top management embarked on a major restructuring programme in November 2003, scheduled for completion in mid-2005, which aims to improve the company's performance.

Corporate governance

6

6.1 | Corporate governance of the Group

The ČESKÝ TELECOM Group comprises ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM, the parent company), Eurotel Praha, spol. s r.o. (Eurotel) and the other subsidiary companies listed in the table below. Compared to the situation as at 31 December 2002, the list of subsidiaries no longer includes Vianet, spol. s r.o., whose liquidation was concluded in the course of 2003.

The ownership rights of ČESKÝ TELECOM with respect to its subsidiaries are exercised 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 the ČESKÝ TELECOM's Articles of Association they are subject to prior approval by the Supervisory Board of the parent company.

6.2 | Subsidiary companies

as at 26 March 2004

EDINet.cz, spol. s r.o. CZK 97,929,000 100% in liquidation	Eurotel Praha, spol. s r.o. CZK 1,211,000,000 100%	SPT TELECOM (Czech Republic) Finance B.V. EUR 18,151 100%
asp1000, s.r.o. CZK 71,443,000 50.90% in liquidation	OMNicom Praha, spol. s r.o. CZK 10,000,000 100%	CZECH TELECOM Austria GmbH EUR 35,000 100%
M.I.A., a.s. CZK 1,000,000č 100% in liquidation	CenTrade, a.s. CZK 600,000,000 86.50%	CZECH TELECOM Germany GmbH EUR 25,000 100%
AUGUSTUS, spol. s r.o. CZK 166,000 39.76%		CZECH TELECOM Slovakia s.r.o. SK 200,000 100%

LEGEND
corporate name
registered capital
ownership interest of ČESKÝ TELECOM

6.3 | Organisation chart of ČESKÝ TELECOM

as at 26 March 2004



6.4 | Company bodies of ČESKÝ TELECOM

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 is to 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. Basic information on the Supervisory Board and its authority is to 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. Basic information on the Board of Directors and its authority is to be found in Articles 15–20 of the Articles of Association.

Committees established by the Supervisory Board

Under its powers, the Supervisory Board sets up committees as its advisory and initiative bodies. These include a Staff and Remuneration Committee and a Finance and Audit Committee. 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



1 |



2 |

6.5 | Board of Directors of ČESKÝ TELECOM

Gabriel Berdár | *1965 | 1

CHAIRMAN OF THE BOARD OF DIRECTORS

Graduated from the Technical University of Košice. In 1990 and 1991, he worked at Strojimport, a.s., and after that at IBM, s.r.o. and Digital Equipment, s.r.o. From 1994 to September 1995, he was Director of IDOM – UNISOFT s.r.o. and a partner of IDOM, a.s. From 1995 to 1998, he was CEO of Xerox CR, s.r.o. 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 the Chairman of the Board of Directors of ČESKÝ TELECOM since 13 June 2003, and the company's CEO since 15 June 2003.

Juraj Šedivý | *1962 | 2

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 Consumer Products, Inc., USA. His involvement in the telecommunications industry dates back to 1996, when he became Financial Director of Globtel, a.s. (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. Since 2002 he has been Chief Financial Officer and since 13 June 2003 also First Vice Chairman of the Board of Directors of ČESKÝ TELECOM.

Petr Slováček | *1959 | 3

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 and Technology (MBT) degree from the Technical University of Delft in Holland. After graduation he joined the Telecommunications Research Institution, Prague. He joined ČESKÝ TELECOM in 1989, working in switching, technical development, network management projects and OSS. At present, he is ČESKÝ TELECOM's



4 |



5 |



3 |

Chief Operation Officer. Since 13 June 2003 he has been also Second Vice Chairman of the Board of Directors.

Michal Heřman | *1964 | 4

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 has held the positions of Chief Financial Officer, Eurotel Praha (June 1996 – December 2000), Financial Director, Eurotel Praha and Eurotel Bratislava (June 1993 – May 1996) and Business Planning Manager, Eurotel Praha and Eurotel Bratislava (May 1991

–May 1993). Before joining ČESKÝ TELECOM, a.s., he was Financial Director of Alfa Bank, Moscow; Executive Vice-President for Finance at Komerční banka, a. s. (2/2001–11/2002) and was a member of the Supervisory Boards of Komerční banka's subsidiaries Reflexim (Chairman) and MÚZO. At present, he is Chief Transformation Officer at ČESKÝ TELECOM.

Roman Stupka | *1961 | 5

MEMBER OF THE BOARD OF DIRECTORS

Graduated from the University of Economics, Prague. Also holds an MBA from Katz University, CMC/Pittsburgh. In 1990–1992, he founded and managed

IHR Consulting s.r.o. In 1992 he became Managing Director of CONVATEC division of Bristol Mayers Squibb, s.r.o., and in 1995 he was appointed Chief Executive officer of Bristol Mayers Squibb, s.r.o. In 1999 he worked as Director of Press and Business Publishing at RINGIER CZ, a.s. In 2000–2003 he was Vice-President for Sales and Marketing CEO at Česká pojišťovna a.s. He is a member of the Board of Directors of Penzijní fond ČP, a.s., a pension fund. Since 17 September 2003, he has been ČESKÝ TELECOM's Chief Sales Officer.

CHANGES IN THE PERSONNEL COMPOSITION OF THE BOARD OF DIRECTORS DURING 2003:

Ondřej Felix	on 13 June 2003 resigned from the post of Chairman of the Board of Directors
André Frans Bessel Kok	on 13 June 2003 resigned from the post of First Vice Chairman and member of the Board of Directors
Adam Blecha	on 13 June 2003 resigned from the post of member of the Board of Directors
Hana Doležalová	on 24 September 2003 recalled by the Supervisory Board from the post of member of the Board of Directors
Zdeněk Hrubý	on 13 June 2003 resigned from the post of member of the Board of Directors
Jan Juchelka	on 13 June 2003 resigned from the post of member of the Board of Directors
Pavel Kuta	on 13 June 2003 resigned from the post of member of the Board of Directors
Günter Heinz Pfeiffer	on 13 June 2003 resigned from the post of member of the Board of Directors
Gabriel Berdár	on 13 June 2003 elected a member of the Board of Directors by the Supervisory Board; on 13 June 2003 elected Chairman of the Board of Directors
Juraj Šedivý	on 13 June 2003 elected a member of the Board of Directors by the Supervisory Board; on 13 June 2003 elected First Vice Chairman of the Board of Directors
Petr Slováček	on 13 June 2003 elected a member of the Board of Directors by the Supervisory Board; on 13 June 2003 elected Second Vice Chairman of the Board of Directors
Michal Heřman	elected a member of the Board of Directors by the Supervisory Board, effective from 1 September 2003,
Roman Stupka	on 24 September 2003 elected a member of the Board of Directors by the Supervisory Board

THERE WERE NO CHANGES IN THE PERSONNEL COMPOSITION OF THE BOARD OF DIRECTORS IN THE FIRST QUARTER OF 2004.



6.6 | Executive management of ČESKÝ TELECOM

Chief Executive Officer

The company has a function of Chief Executive Officer. The Chief Executive Officer is appointed and recalled by the Board of Directors after consultation with the Supervisory Board. In performing his duties, the Chief Executive Officer is subject to the law, the Articles of Association of ČESKÝ TELECOM and other internal rules and regulations, as well as the instructions of the Board of Directors. The Chief Executive Officer is not a body of the company.

Miroslav Antl | *1955 | 1

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 on 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 | 2

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Pavla Činátlová | *1975 | 3

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.

David Duroň | *1974 | 4

Graduated from the University of Economics, Prague, Faculty of Finance and Accounting. From 1998 to 2000, he was a Business and Strategy Analyst in the Marketing and CRM Departments of Radiomobil, a.s. Before joining ČESKÝ TELECOM, he worked in GTS Czech, first as Marketing Director and later as Commercial Division Director and a member of the Board of Directors of the company. Since 1 September 2003, he has been Chief Marketing Officer at ČESKÝ TELECOM.

David Fox | *1955 | 5

Graduated in computer science from Trinity College in Dublin. Also holds an MBA from City University. He started his career in 1981 in the Department of Posts and Telegraphs, Ireland, as a Technical Support Manager. Later he was promoted to Head of Software Development. In 1985, he joined Telecom Eireann, Ireland, first as Assistant Director of Engineering and later



as Customer Care and Billing Director. He subsequently became Director for Residential Sales and Marketing, and left the company in 1999 from the position of Executive Director for IT. In 1999, he joined Eircom plc, Ireland, first as Director of Group Information Technology and later becoming Managing Director, Broadband and Data Business. Since 2001, he has been Chief Information Officer at ČESKÝ TELECOM.

Imrich Gombar | *1950 | 6

Graduated with a Ph.D. in psychology from the University of P. J. Safarik, Košice. Licensed by the American Psychological Association in 1988. In the past he has worked for KPMG, Washington, USA (1998–1999) as HR consultant for development and transformation of organisations. In KPMG and Coca-Cola, he was involved mainly in acquisitions and post-acquisition integration. From 1993 to 1997, he worked at KMART, USA in the position of HR, Organisation Development and PR Director for Europe. From 1991 to 1993, he worked as R&D Director in the consulting firm Spectrum Global, Allentown, USA. Before joining ČESKÝ

TELECOM, he was the International Employee, Trade Union and Organisation Relations Officer at Coca-Cola, Atlanta, USA. Since 2000, he has been Chief HR Officer at ČESKÝ TELECOM.

Michal Heřman | *1964 | 7

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Jakub Chytil | *1961 | 8

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 a.s. and Kraft Foods s.r.o. 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) | 9

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 Praha and later at SPT TELECOM, a.s. – NEXTEL, o.z. He joined ČESKÝ TELECOM in 1997 and at present is Chief Wholesale and Regulation Officer.

Petr Slováček | *1959 | 10

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Roman Stupka | *1961 | 11

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Juraj Šedivý | *1962 | 12

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6.7 | Executive management of Eurotel



Terrence Valeski |*1946 |

MANAGING DIRECTOR

Graduated from the University of Arizona. Worked in various executive positions in telecommunications companies; for instance as Executive Director for Operations in Blu of Italy and Telfort, a Dutch mobile and fixed line operator owned by BT. Later was President and Managing Director of Pacific Bell of US, responsible for Northern California. Before joining Eurotel, he was Executive Director for Marketing in BT Wireless (British Telecom). Became Managing Director of Eurotel in 2000. He is also a member of governing bodies of American Chamber of Commerce, Mobile Payments Association CR, CMC Business management School, Junior Achievement CR, ADVENTIS Corp., Nadace Eurotel, Prague Spring Music Festival.

Robert Bowker |*1967 |

CHIEF FINANCIAL OFFICER

Rhodes University (South Africa) • Johnson & Johnson, Summerpride Foods (South Africa), PricewaterhouseCoopers, EuroTel Bratislava (Slovakia) • with Eurotel since 2000

Paul Long |*1958 |

CHIEF OPERATING OFFICER

University Newcastle upon Tyne (Great Britain) • British Telecom Cellnet (Great Britain), Blu (Italy), Telfort (Netherlands), British Telecom (Great Britain) • with Eurotel since 2000, first as Executive Director for Strategic Development; in 2001

Garrison Marci |*1963 |

CHIEF COMMERCIAL OFFICER

Syracuse University (USA) • Saatchi & Saatchi, Young & Rubicam, Pacific Bell Corporation, Southwestern Bell, Mobex Communications (USA) • with Eurotel since 2002

Josef Fidler |*1958 |

EXECUTIVE DIRECTOR HUMAN RESOURCES

Charles University Law Faculty (Czech Republic) • McDonald's (Czech Republic), Unilever (Czech Republic) • with Eurotel since 1998 as Director of Human Resources; in 2001 appointed Executive Director Human Resources

Ľuboš Bôrik |*1968 |

GENERAL COUNSEL

Charles University Law Faculty (Czech Republic), Vrije Universiteit Brussel (Belgium) • attorney, Dewey Ballantine (USA) • with Eurotel since 1998 as Director of Legal Division; in 2001 appointed General Counsel

Pavel Kolář |*1961 |

CHIEF TECHNICAL OFFICER

Czech Technical University, Faculty of Electrical Engineering (Czech Republic), TESTCOM (Telecommunications Research Institute) • long-term internship in France • with Eurotel since 1991; appointed Acting Chief Technical Officer on 1 October 2003 and in December 2003 confirmed CTO, effective as of 1 January 2004

As at 24 March 2004, the position of Chief Sales Officer was not appointed.

6.8 | ČESKÝ TELECOM Supervisory Board Report

In keeping with the company's Articles of Association, the Supervisory Board of ČESKÝ TELECOM in 2003 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 reports concerning the company's activities; check whether the accounting records are kept to reflect the reality; determine whether the business of ČESKÝ TELECOM is done in compliance with the law, Articles of Association and 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 members. The Board of Directors and the management provided the Supervisory Board with the documentation and information necessary for the discharge of its functions.

At its meeting of 24 March 2004, the Supervisory Board examined the audited annual financial statements for 2003 (unconsolidated and consolidated) prepared under the international and Czech accounting standards, and recommended them to the Regular General Meeting for approval.

Done in Prague on 24 March 2004



Ondřej Felix
CHAIRMAN OF THE SUPERVISORY BOARD





6.9 | Supervisory Board of ČESKÝ TELECOM

Ondřej Felix | *1954 | 1
CHAIRMAN OF THE SUPERVISORY BOARD

Zdeněk Hrubý | *1956 | 2
SECOND VICE CHAIRMAN
OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD

Vlastimil Barbořák | *1953 | 3

Adam Blecha | *1966 | 4

Hana Doležalová | *1961 | 5

Pavel Herštlík | *1951 | 6

Jan Juchelka | *1971 | 7

Martin Kovář | *1967 | 8

Pavel Kuta | *1968 | 9

Miloslav Krch | *1958 | 10

Petr Polák | *1973 | 11

Dušan Stareček | *1956 | 12

Lubomír Vinduška | *1956 | 13

Petr Zatloukal | *1970 | 14

one position is vacant | 15

Résumés of Supervisory Board members
on page 164–167.



CHANGES IN THE PERSONNEL COMPOSITION OF THE SUPERVISORY BOARD DURING 2003:

Gerardus Johannes Klein Bluemink	resigned on 6 February 2003	Vlastimil Barbořák	elected a member of the Supervisory Board by employees, effective from 28 June 2003
Michal Frankl	on 6 February 2003 elected Chairman of the Supervisory Board; on 25 June resigned from the post of Chairman of the Supervisory Board; on 25 June 2003 elected First Vice Chairman of the Supervisory Board	Adam Blecha	elected a member of the Supervisory Board at the General Meeting of 13 June 2003
Eric Maria Johannes Werner de Jong	on 6 February 2003 co-opted and at the same time elected First Vice Chairman of the Supervisory Board; his membership of the Supervisory Board terminated on 13 June 2003 – the General Meeting did not confirm his co-option.	Pavel Herštík	his mandate as a member of the Supervisory Board expired on 8 June 2003; re-elected a member of the Supervisory Board by employees, effective from 28 June 2003
André Frans Bessel Kok	elected a member of the Supervisory Board by the General Meeting of 13 June 2003; on 25 June 2003 elected Second Vice Chairman of the Supervisory Board; on 22 October 2003 resigned from the post of Second Vice Chairman and member of the Supervisory Board	Zdeněk Hrubý	elected a member of the Supervisory Board by the General Meeting of 13 June 2003; on 26 November 2003 elected Second Vice Chairman of the Supervisory Board
Dominik Louis Böhler	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Jan Juchelka	elected a member of the Supervisory Board by the General Meeting of 13 June 2003
Miloslav Hala	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Ondřej Felix,	elected a member of the Supervisory Board by the General Meeting of 13 June 2003; on 25 June 2003 elected Chairman of the Supervisory Board
Zdeněk Šámal	his mandate as member of the Supervisory Board expired on 8 June 2003; his tenure was terminated by the election of a new member of the Supervisory Board on 28 June 2003	Miloslav Krch	his mandate as a member of the Supervisory Board expired on 8 June 2003; re-elected a member of the Supervisory Board by employees, effective from 28 June 2003
Jan Schwarzer	his mandate as member of the Supervisory Board expired on 8 June 2003; his tenure was terminated by the election of a new member of the Supervisory Board on 28 June 2003	Petr Kučera	elected a member of the Supervisory Board by the General Meeting of 13 June 2003; resigned on 26 November 2003
Vladimír Šiška	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Pavel Kuta	elected a member of the Supervisory Board by the General Meeting of 13 June 2003
Jan Škurek	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Günter Heinz Pfeiffer	elected a member of the Supervisory Board by the General Meeting of 13 June 2003; resigned on 26 November 2003
Michal Švorc	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Dušan Stareček	elected a member of the Supervisory Board by employees, effective from 28 June 2003
Václav Wagner	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Lubomír Vinduška	his mandate as a member of the Supervisory Board expired on 8 June 2003; re-elected a member of the Supervisory Board by employees, effective from 28 June 2003
Ladislav Zelinka	recalled by the General Meeting from the post of member of the Supervisory Board on 13 June 2003	Petr Polák	co-opted as a member of the Supervisory Board on 26 November 2003
		Martin Kovář	elected a member of the Supervisory Board by the Extraordinary General Meeting of 23 October 2003

CHANGES IN THE FIRST QUARTER OF 2004:

Michal Frankl	resigned on 28 January 2004, effective from 15 February 2004
Hana Doležalová	co-opted as a member of the Supervisory Board on 28 February 2004

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

Acting on its undertaking to follow the principles of good corporate governance – an undertaking it made by espousing the Code of Good Corporate Governance in its Annual Report for 2001 – ČESKÝ TELECOM will continue to develop and improve its corporate governance practices. The main task for the immediate future is to finalise ČESKÝ TELECOM's corporate governance model. Efforts will also go into stepping up the activities of the Staff and Remuneration Committee (see Section 6.10.4) in the area of systematic development and periodic activation of the knowledge of members of governing bodies, as well as into improving the processes for evaluating the performance of the Board of Directors, Supervisory Board, committees and the individual members of these bodies. The ultimate goal is for ČESKÝ TELECOM and each of its wholly-owned subsidiaries to comply with all the good corporate governance practices laid down in the Code and in the standards of advanced countries. 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.

In 2003, ČESKÝ TELECOM underwent a major change of corporate governance model – it adopted the German model for joint-stock companies. It simultaneously continued to improve its standards of corporate governance.

ČESKÝ TELECOM's efforts in the area of implementation and improvement of good corporate governance practice in the past period were rewarded in the form of prestigious awards for open information policy, investor services and corporate governance system presentation. In June 2003, ČESKÝ TELECOM was awarded the First Prize Signum Temporis 2002 for open information policy. In November 2003, it won the prestigious IR Magazine Award for Best Annual Report and Corporate Publications and for Best Web Pages (first prize – Best Investor Relations in the Czech Republic; eighth place in the main category – Best Investor Relations in Central and Eastern Europe; and the only Czech company to rank in the top ten awarded companies). In the same month, ČESKÝ TELECOM was honoured with a special award for “Premium Quality Corporate Governance Presentation” in the TOP 100 “Best Annual Report for 2002” competition.

Information on the main developments of the past year in the area of corporate governance of ČESKÝ TELECOM and on the degree of compliance with the good practice of corporate governance is contained in the following chapters of Declaration.

6.10.1 | Organisation of corporate governance

In the first half of the year (until the ordinary General Meeting of 13 June 2003), the company bodies of ČESKÝ TELECOM worked under the original corporate governance model, with the same number of members and the same powers as described in the Declaration in ČESKÝ TELECOM's Annual Reports for 2001 and 2002. In the aforementioned period there were no personnel changes in the Board of Directors or the Supervisory Board as compared to the situation described in the 2002 Annual Report. Regular meetings of the Board of Directors and the Supervisory Board were convened on a monthly basis. Five regular and four extraordinary meetings of the Board of Directors and six meetings of the Supervisory Board were held.

The ordinary General Meeting of the company held on 13 June 2003 approved a proposal made by the majority shareholder – the National Property Fund of the Czech Republic – to amend ČESKÝ TELECOM's Articles of Association. A corporate governance model was adopted whereby the Board of Directors, comprising executive members (top managers), is involved principally in running and managing the business of the company and is fully accountable for building shareholder value. Under this model, the Supervisory Board continues to perform its supervisory and control functions. Additionally, it plays an advisory role to the Board of Directors in the management of the company and the preparation of business plans and strategies (by providing opinions on designated matters) and takes part in the decision-making process on fundamental issues concerning the company (the Board of Directors is obliged to seek prior approval of the Supervisory Board).

The main changes in the authorities of the governing bodies and the work of the Board of Directors and the Supervisory Board as compared to ČESKÝ TELECOM's previous corporate governance model are as follows:

- Members of the Board of Directors are not elected and recalled by the General Meeting but by the Supervisory Board. The Supervisory Board now has the power to approve agreements on discharge of an office by members of the Board of Directors and the discretionary benefits of members of the Board of Directors, as well as to discuss resignations of members of the Board of Directors;
- As a result of the greater powers given to the Supervisory Board, the frequency of its meetings has changed – the Supervisory Board now meets at least twelve times in the course of a calendar year;
- The Supervisory Board has the exclusive power to establish committees, and only members of the Supervisory Board may be members of committees (see the Declaration, Section 6.10.4 below);
- The Board of Directors is obliged to seek the approval of the Supervisory Board on a whole range of issues (e.g. disposal of corporate assets over a certain value, acceptance of loans over a certain limit, personnel changes in the governing bodies of subsidiary companies, the wording of manager contracts, and salary packages for the CEO and executive managers who are members of the Board of Directors), or to seek its position on certain issues (e.g. the annual financial plan and the activity plan, and personnel changes in designated management positions), or to inform the Supervisory Board of certain issues (e.g. commitment to contracts with a contract value over a certain limit, principles of collective bargaining, and monthly reporting on business development);
- The number of members of the Board of Directors has been reduced from nine to five.

Shareholders and future investors can find the current wording of the Articles of Association, together with a full listing of the powers of the corporate bodies and other relevant principles for the functioning and administration of ČESKÝ TELECOM's corporate governance system, at its website (www.telecom.cz).

The Board of Directors of ČESKÝ TELECOM was gradually entirely replaced after the ordinary General Meeting and transformed into a fully executive membership. From the members who were in the statutory body before the ordinary General Meeting in June, only Hana Doležalová went on to become a member of the new Board of Directors; in September 2003 she was recalled by the Supervisory Board following the election of the last executive member. ČESKÝ TELECOM's corporate governance model combines the functions of Chief Executive Officer and Chairman of the Board of Directors, as is usual under the German model. For a rundown of all the changes in the Board of Directors and a listing of its members as at the end of 2003, please refer to page 48 and 49.

The résumés of the members of the Board of Directors – attesting to their competencies, professional capabilities and experience – are to be found on page 48 and 49. In the period between the date of the General Meeting and the end of 2003, there were twenty meetings of the Board of Directors in total; the Articles of Association prescribe a minimum of twelve meetings of the statutory body per calendar year. However, the experience to date shows that it is useful to convene two meetings a month as a rule. The agenda and documents for the meeting must be delivered to the members of the Board of Directors at least three days prior to the meeting.

The Supervisory Board kept the same number of members (i.e. fifteen), one-third of whom (i.e. five) are elected by the employees. As a result of the change in the corporate governance model, a large proportion of the members of the Supervisory Board elected by the General Meeting were replaced. The former members of Board of Directors Adam Blecha, Ondřej Felix, Zdeněk Hrubý, Jan Juchelka, André Frans Bessel Kok, Pavel Kuta and Günter Heinz Pfeiffer became new members of the Supervisory Board. Employee elections held in June 2003 also brought some membership changes. Further changes in the Supervisory Board resulted from the departure of Telsource N.V. from the company's shareholder structure (with André Frans Bessel Kok and Günter Heinz Pfeiffer submitting their resignations). Petr Kučera resigned his membership in November and Michal Frankl did likewise in February 2004. For a complete listing of the members as at the end of 2003 and an overview of personnel changes in the Supervisory Board, as well as the résumés of all its members as at 26 March 2004, please refer to pages 164–167 of the Annual Report. One position in the Supervisory Board remained vacant. The professional profiles of the members of the Supervisory Board show that the discharge of all the powers of the body is provided for to the highest standard. All members of the Supervisory Board elected by the General Meeting were nominated by the majority shareholder. As at 31 December 2003, the Supervisory Board comprised three members who, according to the Code, qualify as independent – Adam Blecha, Martin Kovář and Petr Polák. In January 2004, Hana Doležalová was added to their number.

In the second half of 2003 (after the ordinary General Meeting), nine meetings of the Supervisory Board were held. The agenda and documents for discussion must be delivered to the Supervisory Board members at least seven days prior to the meeting.

Under the new corporate governance model, the governing units of the company (Internal Audit, Risk Management and Corporate Governance) preserved their autonomy by being subordinated directly to the Supervisory Board. The independence of the Secretary of Company Bodies is provided for in the Articles of Association. The Secretary provides administration and support for governance activities to both the governing bodies and acts as secretary in all Supervisory Board committees except for the Advisory Committee on Strategy and Capital Participations (see Section 6.10.4). In discharging their duties, Supervisory Board members can still draw on the consulting services of two internal consultants who are independent of the executive management and work in the Office of Corporate Governance. Their professional expertise covers the whole spectrum of business of ČESKÝ TELECOM.

The existing instruments supporting the process of corporate governance in ČESKÝ TELECOM, as described in previous years' Annual Reports (Declaration), were expanded to include electronic applications and communications solutions for effective management of administrative processes – while still meeting all the statutory requirements – and successful handling of all good corporate governance processes. In June 2003, an electronic voting system was used for the first time, allowing for efficient and reliable processing of votes cast by employees in elections to the Supervisory Board and creating conditions for the highest possible election turnout at ČESKÝ TELECOM, whose operations are scattered throughout the

Czech Republic. A Corporate Governance information portal was put into regular operation in January 2004. This is used, among other things, to convene meetings of the bodies (including distribution of invitations and documents for discussion). Moreover, it gives all members of the company bodies (including non-executive members) secure access to current and archived documents and information, anytime and anywhere, helping the bodies to function and members of the Board of Directors and the Supervisory Board to discharge their duties in an efficient manner.

Internal Audit provides the company's governing and executive bodies with independent and professional assessment of the internal control system in the company and the situation and trends of the given area compared to current best practice, the rules and regulations in force, and work orders and instructions issued.

Audits of selected areas and processes were performed in 2003, for instance: contractual risk exposure of the parent company and certain of its subsidiaries, identification of customer needs, selected areas of accounting, the universal service, the internal certification authority, the electronic election system and the TCTV 112 emergency call centre (the 112 line). Audits and monitoring of a number of other areas and processes were performed at the request of the governing bodies of the company and the Chief Executive Officer. The management of the company used the audit conclusions to formulate corrective measures to redress the problems identified. Internal Audit monitors their implementation and reports on progress to the governing bodies and top management of the company.

Internal Audit helps the company to continually improve its internal control system.

ČESKÝ TELECOM understands that doing business on telecommunications markets naturally carries some risk. As part of its policy toward its shareholders, the company puts emphasis on properly identifying these risks and on adopting adequate measures to handle them. Via the **Risk Management**, the company wants to provide its shareholders with adequate protection of their investment.

To achieve these goals, the Board of Directors adopted a Risk Management Policy in 2003. This declares the goals and stipulates that the company's bodies and entire management structure have an obligation to duly identify and mitigate risks. Another of the company's instruments is the function of a dedicated risk manager, independent of the executive management of the company. Acting on the experience with risk management in 2003, the Board of Directors at the beginning of 2004 approved an updated formal procedure for risk management and a corresponding electronic application allowing the keeping of a catalogue of corporate risks backed up with full documentation and an audit function. In the months ahead these procedures will be fully implemented at all levels of management, thereby raising risk management to a higher standard.

6.10.2 | Shareholder relations

ČESKÝ TELECOM takes 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 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 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, 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 (at least in numbers which guarantee a quorum of these bodies as per the Articles of Association), 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 thirteen questions put by shareholders at the ordinary General Meeting of 13 June 2003, and a total of four questions put by shareholders at the General Meeting of 23 October 2003. 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 Commission 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 bi-lingual website to inform its shareholders (the site contains information in both Czech and English). 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. In 2003, the Articles of Association were published on the company website, giving shareholders and future investors alike the chance to become acquainted with this fundamental framework of corporate governance in ČESKÝ TELECOM.

Both the Corporate Governance Section and the Financial Section (Financial Statements and Report of Independent Auditors) of the Annual Report contain information on the remuneration and other emoluments to members of ČESKÝ TELECOM's governing bodies and on the company shares in the possession of these persons. Disbursement of remuneration and discretionary benefits to members of the Supervisory Board is governed by rules approved by the General Meeting. As a result of the adoption of the German corporate governance model, the remuneration of Board of Directors members – which, in general terms, is governed by rules approved by the General Meeting – was reduced in the second half of 2003 at the recommendation of the Staff and Remuneration Committee to a single-component monthly package (i.e. the amount is not dependent on the number of meetings of the Board of Directors). The Supervisory Board decided that, out of the types of discretionary benefits, Board of Directors members may only use liability insurance for damage caused while discharging the office of statutory body member. The total of the emoluments which can be paid to statutory body members is set separately for each body by the General Meeting on a year by year basis.

In November 2003, the Directive of the Board of Directors governing the rules of disposal of securities issued by ČESKÝ TELECOM or its controlled entities was substantially amended. This document identifies so-called „obligated persons“ in the ČESKÝ TELECOM Group (members of governing bodies, proxies, executive managers, the Secretary of Company Bodies and other employees having access to share price-sensitive information) and the conditions under which these persons may or may not dispose of the securities issued by ČESKÝ TELECOM or its subsidiaries. The aim is to prevent unauthorised use of confidential information on ČESKÝ TELECOM Group and its individual members.

An integral part of the decision-making processes and practices in ČESKÝ TELECOM's company 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 interests 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 (until the General Meeting of 2003 the Conflict of Interest Committee, and thereafter the Ethics and Social Responsibility Committee). The standard group of persons obliged to make written affirmations of the absence of conflict of interests comprises members of governing bodies and all managers in what are referred to as „designated positions“. In January 2004, this group was extended to cover members of the statutory and supervisory bodies of ČESKÝ TELECOM's subsidiaries.

As so as to ensure the objectiveness of our external auditor, in 2003 we announced a tender to select an auditing firm to conduct the external audit of our financial results in 2003 and potentially in following years. The tender, prepared under supervision of the Audit Committee and seen through with the assistance of selected Supervisory Board members, attracted four renowned bidders and had a clear winner – PricewaterhouseCoopers, the present auditor of ČESKÝ TELECOM.

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 the first half of 2003 (until the ordinary General Meeting of 13 June 2003), all the Board of Directors' previously established standing committees addressing issues of governance were functioning: the Staff and Remuneration Committee, the Audit Committee and the Conflict of Interest Committee, with the same scope of authority and the same personnel composition as described in the Declaration in the Annual Report for 2002. The Staff and Remuneration Committee, which met five times, dealt mainly with the process of selection of the new Chief Executive Officer, during which it worked in co-operation with a respected executive search agency. The Audit Committee met three times and the Conflict of Interest Committee once in the aforementioned period. The Expert Working Committees of the Board of Directors also continued their work in the first half of the year, the Strategic Affairs Committee meeting once and the Security Committee meeting three times.

As a result of the implementation of the German corporate governance model and the decision of the General Meeting to amend the Articles of Association, all the committees of the Board of Directors ceased to exist and new committees were established by the Supervisory Board. The new committees include the mandatory committees, whose existence and authority is laid down in the Articles of Association (i.e. the Staff and Remuneration Committee and the Finance and Audit Committee), and two other committees (successors to the work of the previous committees) – the Advisory Committee on Strategy and Capital Participations and the Ethics and Social Responsibility Committee. The Articles of Association are clear on the point that committees can only be established by the Supervisory Board. The committees act as advisory and initiative bodies to the Supervisory Board, meeting at least once every quarter. The scope of authority of each Supervisory Board committee is laid down in writing in its Rules of Procedure and the Statutes.

The Finance and Audit Committee (FAC) has five members. Three changes had occurred in the personnel composition of the committee by the end of March 2004. Two of these were a direct consequence of the personnel changes in the Supervisory Board, and one position on FAC was made vacant by resignation. At present, the FAC has the following composition: Adam Blecha (Chairman), Hana Doležalová (Vice Chair) and Pavel Herščík, Petr Polák and Lubomír Vinduška (members). Three of its members – Hana Doležalová, Adam Blecha and Petr Polák –

qualify as independent. Hana Doležalová is a chartered accountant (working as an auditor and financial advisor), thus ensuring compliance with the latest good corporate governance requirements, which demand that at least one FAC member should have a demonstrable knowledge of accounting practices and rules. The committee usually meets once a month, 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. In the second half of 2003, the FAC met five times.

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 top managers (members of the Board of Directors). The SRC also evaluates the performance of the governing bodies and committees as a whole and of their individual members. The SRC meets as required, but at least once every quarter. In the second half of 2003, the committee met six 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: Ondřej Felix (Chairman) and Jan Juchelka, Zdeněk Hrubý and Adam Blecha (members). There is one temporary vacancy. Adam Blecha qualifies as an independent member of the SRC.

The Ethics and Social Responsibility Committee (ESRC) has five members and has taken over from the Board of Directors' previous committee for conflict of interests. 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 Heršтик (Chairman), Vlastimil Barbořák and Dušan Stareček. The other members are Martin Kovář and Petr Zatloukal (Vice-Chairman). Between its inception and the end of 2003, the committee met five times. The structure of the ESRC underwent only one change, this being directly related to the personnel changes in the Supervisory Board. As far as conflicts of interests are concerned, the committee reviewed the affirmations of the members of the company's governing bodies and, at the request of the Supervisory Board, the affirmations of top and senior management as well. 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 key areas in which the SAC issued recommendations and position proposals for the Board of Directors to the Supervisory Board were the issue of trends and risks on the Czech and global telecommunications markets and the business and financial plans of ČESKÝ TELECOM and Eurotel for 2004. It also addressed the impacts of regulation on ČESKÝ TELECOM and helped to finalise the governance model for the ČESKÝ TELECOM Group in connection with the acquisition of the remaining ownership interest in Eurotel. The committee was established with six members, and in December 2003 the number was raised to seven. In the original composition of six members only one change was made, this being a result of the changes in the composition of the Supervisory Board. The SAC now consists of: Ondřej Felix (Chairman), Vlastimil Barbořák, Martin Kovář, Miloslav Krch, Pavel Kuta, Zdeněk Hrubý and Petr Polák. The committee met five times in the second half of 2003. The SAC draws on the expertise of independent consultants from the team of the Secretary to Company Bodies (Office of Corporate Governance).

6.10.5 | Company policy toward partners

One of the core values espoused by ČESKÝ TELECOM is the company's good name with its business partners, financial institutions, employees and other stakeholders. This is something the company has built and can maintain going forward only by carefully observing all statutory duties and ethical principles. ČESKÝ TELECOM feels part of the communities in which it has a presence and therefore wants to continue being a reliable and transparent partner to them. This policy is deep-rooted in the business practices of the company, in the way it meets its obligations, and, for instance, in its approach to sponsoring and donor activities, which reflect its key corporate values.

7

7.1 | Consolidated financial statements for the year ended 31 December 2003

Prepared in accordance with International Financial Reporting
Standards

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

The average number of employees in the Group was 14,120 in 2003 (2002: 15,640 and 2001: 17,037).

ČESKÝ TELECOM, a.s. is a joint stock company and is incorporated and domiciled in the Czech Republic. The address of its registered office is Olšanská 55/5, Prague 3, 130 34, Czech Republic.

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

Relationship with the Czech state

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

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

We have audited the accompanying consolidated balance sheet of ČESKÝ TELECOM, a.s. and its subsidiaries („the Group“) as at 31 December 2003, and the related consolidated statements of income, cash flows and changes in shareholders' equity for the year then ended („the consolidated financial statements“). The 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 present fairly, in all material respects, the financial position of the Group as of 31 December 2003, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

24 March 2004



PricewaterhouseCoopers Audit, s.r.o.
represented by



Petr Kříž
Partner and Auditor, Licence No. 1140

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Consolidated income statement

		Year ended		
(in CZK million)	Notes	31 December 2003	31 December 2002	31 December 2001
Revenue	2	51,476	52,856	55,900
Operating expenses	3	(27,662)	(26,706)	(28,745)
Depreciation and amortisation	8,9	(19,444)	(18,957)	(17,040)
Impairment loss	8,9	(9,909)	(105)	-
Operating profit/(loss)		(5,539)	7,088	10,115
Interest (net)	4	(741)	(1,148)	(1,587)
Other financial (costs)/income (net)	4	(387)	170	243
Profit/(loss) before tax		(6,667)	6,110	8,771
Tax credit/(charge)	5	4,856	(1,885)	(2,699)
Profit/(loss) before minority interest		(1,811)	4,225	6,072
Minority interest	30	31	51	-
Net profit/(loss)		(1,780)	4,276	6,072
Earnings per share (CZK) – basic*	6	(6)	13	19

* 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 2003	31 December 2002	31 December 2001
ASSETS				
Property, plant and equipment	8	110,320	119,283	126,427
Intangible assets	9	28,971	11,556	13,372
Available-for-sale investments	13	182	241	1,023
Held-to-maturity investments	13	116	130	-
Investments		10	-	-
Non-current assets		139,599	131,210	140,822
Inventories	11	1,100	1,409	1,925
Receivables and prepayments	12	9,081	8,431	8,857
Available-for-sale investments	13	251	5,529	2,147
Held-to-maturity investments	13	17	1,431	-
Cash and cash equivalents	14	4,658	8,341	5,346
Current assets		15,107	25,141	18,275
Total assets		154,706	156,351	159,097
EQUITY AND LIABILITIES				
Ordinary shares	24	32,209	32,209	32,209
Share premium		30,816	30,816	30,816
Retained earnings and reserves		27,123	48,247	43,998
Total equity		90,148	111,272	107,023
Minority interest	30	9	45	39
Borrowings	16	25,044	9,514	19,202
Deferred taxes	17	7,674	11,632	11,184
Non-current liabilities		32,718	21,146	30,386
Borrowings	16	20,021	12,513	7,801
Trade and other payables	15	10,980	11,049	13,671
Provisions for liabilities and charges	19	830	326	177
Current liabilities		31,831	23,888	21,649
Total liabilities		64,549	45,034	52,035
Total equity and liabilities		154,706	156,351	159,097

These consolidated financial statements were approved by the Board of Directors on 24 March 2004 and were signed on its behalf by:



Gabriel Berdár
Chairman of the Board of Directors



Juraj Šedivý
Chief Financial Officer

Consolidated statement of changes in shareholders' equity

(in CZK million)	Notes	Share capital	Share premium	Hedging reserve	Foreign exchange translation reserve	Retained earnings	Total
Balance at 1 January 2001, as reported		32,209	30,816	-	-	40,782	103,807
Effect of adopting IAS 39 – net		-	-	(10)	-	(427)	(437)
<i>Balance at 1 January 2001, as restated</i>		<i>32,209</i>	<i>30,816</i>	<i>(10)</i>	<i>-</i>	<i>40,355</i>	<i>103,370</i>
Fair value gains (net of tax)							
– cash flow hedges	25	-	-	10	-	-	10
Changes in statutory reserves and other movements		-	-	-	-	(13)	(13)
<i>Net loss not recognised in net profit</i>		-	-	10	-	(13)	(3)
Dividends related to the year 2000	7	-	-	-	-	(2,416)	(2,416)
Net profit		-	-	-	-	6,072	6,072
Balance at 31 December 2001		32,209	30,816	-	-	43,998	107,023
Fair value gains (net of tax)							
– cash flow hedges	25	-	-	6	-	-	6
Currency translation differences							
– amount arising in year		-	-	-	(1)	-	(1)
Changes in statutory reserves and other movements		-	-	-	-	(32)	(32)
<i>Net loss not recognised in net profit</i>		-	-	6	(1)	(32)	(27)
Net profit		-	-	-	-	4,276	4,276
Balance at 31 December 2002		32,209	30,816	6	(1)	48,242	111,272
Fair value gains (net of tax)							
– cash flow hedges	25	-	-	(8)	-	-	(8)
Currency translation differences							
– amount arising in year		-	-	-	10	-	10
Changes in statutory reserves and other movements		-	-	-	-	14	14
<i>Net profit not recognised in net profit</i>		-	-	(8)	10	14	16
Dividends related to the year 2002	7	-	-	-	-	(19,360)	(19,360)
Net loss		-	-	-	-	(1,780)	(1,780)
Balance at 31 December 2003		32,209	30,816	(2)	9	27,116	90,148

Consolidated cash flow statement

(in CZK million)	Notes	31 December 2003	Year ended 31 December 2002	31 December 2001
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash generated from operations	26	24,155	25,976	26,016
Interest paid		(2,186)	(2,910)	(2,587)
Income tax paid		(2,154)	(1,698)	(880)
Net cash from operating activities		19,815	21,368	22,549
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of property, plant and equipment		(5,608)	(9,059)	(12,732)
Purchase of intangible assets		(920)	(2,032)	(5,219)
Purchase of marketable securities		(357)	(6,898)	(428)
Purchase of additional equity interest (49% stake in Eurotel) 27		(29,220)	-	-
Disposal of property, plant and equipment		510	356	467
Proceeds from marketable securities		7,078	2,911	6,061
Interest received		1,070	1,078	468
Net cash used in investing activities		(27,447)	(13,644)	(11,383)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from borrowings		46,679	3,548	575
Repayment of borrowings		(25,048)	(8,191)	(5,733)
Additional contribution of minority shareholders to equity of CenTrade		-	57	-
Dividends – paid		(19,349)	-	(2,413)
Net cash generated from/(used in) financing activities		2,282	(4,586)	(7,571)
Cash obtained from purchase of additional equity interest 27		1,688	-	-
Net increase/(decrease) in cash and cash equivalents		(3,662)	3,138	3,595
Cash and cash equivalents at beginning of year		8,305	5,162	1,676
Effects of exchange rate changes		6	5	(109)
Cash and cash equivalents at the year end	14	4,649	8,305	5,162

Accounting policies

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A | Basis of preparation

The consolidated financial statements of the Group for the year ended 31 December 2003 have been prepared in accordance with and comply with International Financial Reporting Standards („IFRS“) as prescribed by the International Accounting Standards Board (IASB).

The consolidated financial statements have been prepared under the historical cost convention except for financial derivatives, available for sale investment securities and certain assets and liabilities acquired during business combinations, as disclosed in the accounting policies below.

In 2001, the Group adopted IAS 39 – Financial Instruments: Recognition and Measurement. The effect of adopting this standard is summarised in the consolidated statement of changes in shareholders' equity, and further information is disclosed in Accounting Policies Note F Investments and P Financial instruments and also in Notes 20 and 25.

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

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

Estimates are used principally when accounting for interconnect income, provision for impairment of receivables, payables due to telecommunication operators where contractual arrangements have not been finalized, depreciation, determination of the fair value of subsidiaries assets and liabilities acquired, goodwill amortisation, impairment of fixed and intangible assets, provisions for liabilities and charges and taxes.

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 Accounting Policy Note D Intangible assets and also in Note 9.

All intercompany transactions and balances between Group companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

(2) Joint venture

The Company's interest in the jointly controlled entity (Eurotel) 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. Portions of all intercompany transactions and balances attributable to the Company's interest in the jointly controlled entity have been eliminated.

(3) Foreign currencies

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

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the date of the transaction. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges. Such balances are translated at year-end exchange rates.

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

C | Property, plant and equipment

All property, plant and equipment is initially recorded at cost and, except for freehold land, is subsequently stated at cost less depreciation and impairment charges. 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. The cost of major renovations is included in the carrying amount of the asset when it is probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset will flow to the Group. Major renovations are depreciated over the remaining useful life of the related asset.

Items of property, plant and equipment that are retired, or otherwise disposed of, are eliminated from the balance sheet, along with the corresponding accumulated depreciation. Any gain or loss arising from retirement or disposal is included in net operating income.

Items of property, plant and equipment, excluding freehold land, are depreciated from the time they are available for use, using the straight-line method.

Estimated useful lives adopted in these financial statements are as follows:

	Years
Freehold buildings	up to 40
Cable and other related plant	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.

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 depreciation and impairment charges and depreciated over their estimated life. Specifically, trade names are depreciated over 20 years, and the customer base over the period of the remaining average terms of the binding contracts (only the prepaid customer base is recognised as a separate intangible asset).

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

Goodwill, 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.

F | Investments

Investment in subsidiary undertakings, associates and joint venture are stated in the balance sheet of the Company at cost less amounts written off. Costs consist of cash or cash equivalents paid or the fair value, at the date of exchange, of the other purchase consideration given plus any costs directly attributable to the purchase.

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

Investments that are acquired principally for the purpose of generating a profit from short-term fluctuations in price are classified as trading investments and included in current assets. During 2001, 2002 and 2003, the Group did not hold any investments in this category.

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

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

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

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 rental obligations, net of finance charges, are included in other long-term payables. 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. 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.

J | Cash and cash equivalents

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

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 inventories, non tax deductible provisions and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

M | Employee benefits

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

N | Provisions

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

O | Revenue recognition

Revenue, 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 for services is recognised in the period in which the services are rendered.

Revenues are shown gross in these financial statements.

(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.

Connection fees

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

(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.

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.

(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. 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. These revenues are recognised in the income statement at the time when the call is received in the Group's network.

(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.

P | Financial instruments

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

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

Financial risk management

The Group's activities expose it to a variety of financial risks, including the effects of changes in debt and equity market prices, foreign currency exchange rates and interest rates. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to 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 exchange contracts, currency swaps and currency options) are designed to match anticipated foreign currency transactions (interest rate payments or principal payments).

(ii) Interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. The Group sometimes borrows at variable rates and uses interest rate swaps and forward rate agreements as cash flow hedges of future interest payments, which have the economic effect of converting borrowings from floating rates to fixed rates. The interest rate swaps and forward rate agreements allow the Group to raise long-term borrowings at floating rates and swap them into fixed rates.

Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals, the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts.

(iii) *Credit risk*

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

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

(iv) *Liquidity risk*

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

Accounting for derivative financial instruments and hedging activities

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

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

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

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

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

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

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 20. Movements on the hedging reserve in shareholder's equity are shown in Note 25.

Fair value estimation

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

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1 | Segment information

The Group comprises two main business segments, as follows:

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

Revenue of the Group is predominantly derived from domestic trading activities and as a result, segment reporting is only shown on the basis of business segments.

Year ended 31 December 2003 (in CZK million)	Fixed	Mobile	Group
Revenues	36,507	15,837	52,344
Inter segment sales	(199)	(669)	(868)
<i>Total consolidated revenues</i>	<i>36,308</i>	<i>15,168</i>	<i>51,476</i>
Costs	(20,172)	(8,358)	(28,530)
Inter segment purchases	669	199	868
<i>Total consolidated costs</i>	<i>(19,503)</i>	<i>(8,159)</i>	<i>(27,662)</i>
Depreciation	(12,722)	(2,524)	(15,246)
Amortisation	(3,840)	(358)	(4,198)
Impairment loss	(9,909)	-	(9,909)
<i>Operating profit/(loss)</i>	<i>(9,666)</i>	<i>4,127</i>	<i>(5,539)</i>
Interest and other financial costs (net)			(1,128)
<i>Loss before tax</i>			<i>(6,667)</i>
Tax			4,856
<i>Loss after tax</i>			<i>(1,811)</i>
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
Trade and other payables	(6,287)	(4,693)	(10,980)
Loans obtained to acquire additional ownership interest in Eurotel	-	(26,151)	(26,151)
Other liabilities	(21,204)	(6,214)	(27,418)
Total liabilities	(27,491)	(37,058)	(64,549)
Capital expenditure	4,404	2,591	6,995

Year ended 31 December 2002 (in CZK million)	Fixed	Mobile	Group
Revenues	38,995	14,688	53,683
Inter segment sales	(204)	(623)	(827)
<i>Total consolidated revenues</i>	<i>38,791</i>	<i>14,065</i>	<i>52,856</i>
Costs	(19,839)	(7,694)	(27,533)
Inter segment purchases	623	204	827
<i>Total consolidated costs</i>	<i>(19,216)</i>	<i>(7,490)</i>	<i>(26,706)</i>
Depreciation	(13,401)	(2,135)	(15,536)
Amortisation	(3,240)	(181)	(3,421)
Impairment loss	(105)	-	(105)
<i>Operating profit</i>	<i>2,829</i>	<i>4,259</i>	<i>7,088</i>
Interest and other financial costs (net)			(978)
<i>Profit before tax</i>			<i>6,110</i>
Tax			(1,885)
<i>Profit after tax</i>			<i>4,225</i>
Minority interest			51
Net profit			4,276
Assets	135,790	20,561	156,351
Trade and other payables	(8,067)	(2,982)	(11,049)
Other liabilities	(31,065)	(2,920)	(33,985)
Total liabilities	(39,132)	(5,902)	(45,034)
Capital expenditure	8,745	2,566	11,311

Year ended 31 December 2001 (in CZK million)	Fixed	Mobile	Group
Revenues	41,881	15,444	57,325
Inter segment sales	(452)	(973)	(1,425)
<i>Total consolidated revenues</i>	<i>41,429</i>	<i>14,471</i>	<i>55,900</i>
Costs	(21,595)	(8,575)	(30,170)
Inter segment purchases	973	452	1,425
<i>Total consolidated costs</i>	<i>(20,622)</i>	<i>(8,123)</i>	<i>(28,745)</i>
Depreciation	(12,623)	(1,923)	(14,546)
Amortisation	(2,306)	(188)	(2,494)
<i>Operating profit</i>	<i>5,878</i>	<i>4,237</i>	<i>10,115</i>
Interest and other financial costs (net)			(1,344)
<i>Profit before tax</i>			<i>8,771</i>
Tax			(2,699)
Net profit			6,072
Assets	141,095	18,002	159,097
Trade and other payables	(10,440)	(3,231)	(13,671)
Other liabilities	(35,233)	(3,131)	(38,364)
Total liabilities	(45,673)	(6,362)	(52,035)
Capital expenditure	13,836	4,953	18,789

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

Inter-segment pricing between the mobile and the fixed segment is based on rates agreed upon between ČESKÝ TELECOM, a.s. and Eurotel Praha, spol. s r.o., or based on a decision of the Czech Telecommunication Authority (Český telekomunikační úřad). The rates applied in 2001, 2002 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.

2 | Revenue

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Call and airtime revenues	20,122	23,494	29,889
Subscription and access revenues	14,849	14,348	10,274
Connection fees	517	726	1,343
SMS and MMS	1,479	1,316	1,034
Internet and Data services	2,468	1,771	1,382
Value added services	1,207	1,252	1,189
Interconnect revenues	5,986	4,799	6,224
Leased circuits	2,700	2,623	2,332
Equipment sales and sales of materials	919	1,069	970
Other revenues	1,229	1,458	1,263
	51,476	52,856	55,900

Continuing liberalization of the Czech telecommunication market further influenced the decrease of „Communications traffic revenue“.

Commencing in February 2002, the Company launched customer tariff packages whereby subscription charges include free minutes. This resulted in the reduction of „Communications traffic revenue“ and a corresponding increase in „Subscription charges“. In accordance with Accounting policy Note 0 Revenue recognition, revenues are recognised net of any free minutes provided to customers.

Revenues from related parties are disclosed in Note 28.

3 | Operating expenses

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

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Wages and salaries	5,705	5,412	5,401
Social security contributions (Note 18)	1,750	1,769	1,787
Staff welfare costs	339	381	383
<i>Total staff costs</i>	<i>7,794</i>	<i>7,562</i>	<i>7,571</i>
Payments to other network operators	6,952	5,728	7,403
Material and energy consumed	1,416	1,702	1,700
Equipment and material cost of sales	1,781	1,777	2,430
Repairs and maintenance	2,525	2,459	2,332
Advertising and promotion	1,363	1,368	1,601
Operating lease payments	895	1,011	994
Consultancy	502	867	898
Trade receivables – impairment charge for bad and doubtful debts	257	579	517
Other operating expenses*	4,177	3,653	3,299
Total operating expenses	27,662	26,706	28,745

* Other operating expenses in 2003 include costs reflecting regulatory decisions of CZK 935 million.

Purchases from related parties are disclosed in Note 28.

4 | Interest and other financial costs (net)

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Interest expense			
Interest incurred on loans and bonds	1,041	1,507	2,113
Interest capitalized	-	(91)	(59)
<i>Net interest expense</i>	<i>1,041</i>	<i>1,416</i>	<i>2,054</i>
Interest income	(300)	(268)	(467)
Other financial charges	53	60	115
Fair value losses/(gains) on financial instruments:			
Derivative financial instruments	(812)	(93)	1,105
Available-for-sale investments	8	(20)	-
Other losses/(gains) on financial instruments:			
Held-to-maturity investments	6	13	-
Net foreign exchange transaction (gains)/losses	1,132	(130)	(1,463)
Net finance costs	1,128	978	1,344

5 | Tax

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Total income tax expense is made up of:			
Current income tax charge	1,591	1,440	1,369
Deferred income tax (credit)/charge (Note 17)	(6,447)	445	1,330
	(4,856)	1,885	2,699

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)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Profit/(loss) before tax	(6,667)	6,110	8,771
Income tax (credit)/charge calculated at the statutory rate of 31% (all periods)	(2,067)	1,894	2,719
Income not subjected to tax	(816)	(143)	(437)
Expenses not deductible for tax purposes	758	287	665
Reduction of deferred taxes resulting from reduction in tax rate (Note 17)	(1,769)	-	-
Other*	(882)	(15)	(59)
Investments allowances	(80)	(138)	(189)
Income tax (credit)/charge	(4,856)	1,885	2,699

* „Other“ includes tax credit on dividends in the amount CZK 1,217 million (2002: CZK 0 million and 2001: CZK 127 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.

	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Number of ordinary shares in issue	322,089,900	322,089,900	322,089,900
Net profit/(loss) attributable to shareholders (in CZK million)	(1,780)	4,276	6,072
Basic earnings per share (CZK)	(6)	13	19

7 | Dividends

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Dividends (including withholding tax)	19,360	-	2,416

Dividends include withholding tax on dividends paid by the Company to its shareholders and withholding tax on dividends paid by Eurotel to the Company. There has been no interim dividend paid in respect of 2003. Approval of the 2003 loss and decision regarding the amount of any dividend payment for the 2003 financial year will take place at the Annual General Meeting scheduled for 19 June 2004.

8 | Property, plant and equipment

(in CZK million)	Land and buildings	Duct, cable and related plant	Communication exchanges and related equipment	Other fixed assets	Capital work in progress	Total
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 27)	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
YEAR ENDED 31 DECEMBER 2002						
Opening net book amount	13,772	65,211	38,291	3,288	5,865	126,427
Additions	1,123	1,583	6,152	2,032	9,052	19,942
Disposals and other movements	(218)	(37)	(372)	(33)	(10,890)	(11,550)
Depreciation charge	(618)	(4,608)	(8,776)	(1,534)	-	(15,536)
Closing net book amount	14,059	62,149	35,295	3,753	4,027	119,283
AT 31 DECEMBER 2002						
Cost	18,180	95,685	77,829	10,550	4,027	206,271
Accumulated depreciation	(4,121)	(33,536)	(42,534)	(6,797)	-	(86,988)
Net book amount	14,059	62,149	35,295	3,753	4,027	119,283
YEAR ENDED 31 DECEMBER 2001						
Opening net book amount	13,566	68,297	36,791	3,481	6,617	128,752
Additions	1,100	1,476	8,858	1,962	12,644	26,040
Disposals and other movements	(270)	(4)	692	(841)	(13,396)	(13,819)
Depreciation charge	(624)	(4,558)	(8,050)	(1,314)	-	(14,546)
Closing net book amount	13,772	65,211	38,291	3,288	5,865	126,427
AT 31 DECEMBER 2001						
Cost	17,530	94,642	77,671	9,273	5,865	204,981
Accumulated depreciation	(3,758)	(29,431)	(39,380)	(5,985)	-	(78,554)
Net book amount	13,772	65,211	38,291	3,288	5,865	126,427

Land and buildings, plant and equipment with a carrying value of CZK 4,486 million (2002: CZK 5,985 million and 2001: CZK 7,424 million) have been pledged as collateral for CZK 5,300 million (2002: CZK 5,300 million and 2001: CZK 5,300 million) of borrowings (see Note 16).

Borrowing costs of CZK 0 million (2002: CZK 10 million, 2001: CZK 59 million) were capitalized during the year and are included in „Additions“ in the property, plant and equipment tables above. A capitalization rate of 0.00% (2002: 5.99%, 2001: 7.28%) was used.

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

9 | Intangible assets

(in CZK million)	Goodwill	Licences	Software	Other	Total
YEAR ENDED 31 DECEMBER 2003					
Opening net book amount	-	2,005	9,551	-	11,556
Additions	-	(46)	1,135	-	1,089
Acquisition of subsidiary (Note 27)	14,087	3,881	373	2,829	21,170
Disposals and other movements	-	-	(53)	-	(53)
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

YEAR ENDED 31 DECEMBER 2002					
Opening net book amount	52	1,932	11,388	-	13,372
Additions	-	82	2,011	-	2,093
Disposals and other movements	-	-	(383)	-	(383)
Amortisation charge	(6)	(9)	(3,406)	-	(3,421)
Impairment loss	(46)	-	(59)	-	(105)
Closing net book amount	-	2,005	9,551	-	11,556

AT 31 DECEMBER 2002					
Cost	92	2,027	17,317	-	19,436
Accumulated amortisation	(92)	(22)	(7,766)	-	(7,880)
Net book amount	-	2,005	9,551	-	11,556

(in CZK million)	Goodwill	Licences	Software	Other	Total
YEAR ENDED 31 DECEMBER 2001					
Opening net book amount	58	138	9,395	-	9,591
Additions	-	1,803	4,530	-	6,333
Disposals and other movements	-	-	(58)	-	(58)
Amortisation charge	(6)	(9)	(2,479)	-	(2,494)
Closing net book amount	52	1,932	11,388	-	13,372
AT 31 DECEMBER 2001					
Cost	92	1,946	15,991	-	18,029
Accumulated amortisation	(40)	(14)	(4,603)	-	(4,657)
Net book amount	52	1,932	11,388	-	13,372

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

The impairment loss that was recorded in 2002 was as a result of the underperformance of subsidiaries and units of the Company operating in non-traditional businesses.

Acquired licences are represented by rights to operate UMTS, GSM and NMT cellular network. According to the license conditions, the Group is required to commence network operations for UMTS (Third Generation Services) by 2006.

Borrowing costs of CZK 0 million (2002: CZK 81 million, 2001: CZK 0 million) were capitalized during the year and are included in „Additions“ in the intangible assets tables above. A capitalization rate of 0.00% (2002: 6.10%, 2001: 0.00%) was used.

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 have 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 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 of the CGU has been determined as its value in use as the net selling price is not able to be reliably determined.

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

The impairment loss has been apportioned over the CGU fixed 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 2003	31 December 2002	31 December 2001
Construction material	150	417	498
Cable	384	463	563
Other inventory including goods for resale	566	529	864
	1,100	1,409	1,925

The inventories noted above are stated net of a provision of CZK 471 million (2002: CZK 364 million and 2001: CZK 306 million), reducing the value of the inventories to their net realisable value.

12 | Receivables and prepayments

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Domestic trade receivables	5,702	5,885	6,930
Foreign currency trade receivables	903	740	335
Other debtors	887	677	385
Prepayments	754	593	665
Derivative instruments (Note 20)	-	83	1
Income tax receivable	589	-	-
VAT receivable	246	453	541
	9,081	8,431	8,857

Domestic trade receivables are stated net of a provision for impaired receivables of CZK 3,343 million (2002: CZK 2,886 million and 2001: CZK 2,695 million).

Receivables from related parties are disclosed in Note 28.

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.

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

Available-for-sale investments (in CZK million)	31 December 2003	31 December 2002	31 December 2001
At beginning of year	5,770	3,170	9,018
Reclassification to Held-to-maturity investments	-	(657)	-
<i>At beginning of year after reclassification</i>	<i>5,770</i>	<i>2,513</i>	<i>9,018</i>
Exchange differences	-	142	(260)
Revaluation surplus/(deficit)	(8)	20	-
Additions	197	6,006	428
Disposals	(5,526)	(2,911)	(6,016)
At end of year	433	5,770	3,170
Non-current	182	241	1,023
Current	251	5,529	2,147
	433	5,770	3,170
Held-to-maturity investments (in CZK million)	31 December 2003	31 December 2002	31 December 2001
At beginning of year	1,561	-	-
Reclassification from Available-for-sale investments	-	657	-
<i>At beginning of year after reclassification</i>	<i>1,561</i>	<i>657</i>	<i>-</i>
Exchange differences	(147)	25	-
Revaluation deficit	(6)	(13)	-
Additions	160	892	-
Matured	(1,435)	-	-
At end of year	133	1,561	-
Non-current	116	130	-
Current	17	1,431	-
	133	1,561	-

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

14 | Cash and cash equivalents

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Cash balances	389	3,408	196
Short term bank deposits	4,269	4,933	5,150
Cash and cash equivalents	4,658	8,341	5,346

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

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Cash and cash equivalents	4,658	8,341	5,346
Bank overdrafts and other short-term borrowings (Note 16)	(9)	(36)	(184)
Balance at the end of period	4,649	8,305	5,162

15 | Trade and other payables

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Trade creditors in local currency	3,758	3,763	4,154
Trade creditors in foreign currencies	793	872	1,119
Other taxes and social security	240	253	703
Deferred income	1,681	639	591
Employee wages and benefits	475	400	358
Income tax payable	-	19	278
Accrued expenses	566	721	1,374
Other creditors	146	89	138
Accruals	3,319	3,349	3,824
Derivative instruments (Note 20)	2	944	1,132
	10,980	11,049	13,671

Payables to related parties are disclosed in Note 28.

16 | Borrowings

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Bank loans and overdrafts in local currency (a)	3,013	27	367
Other loans in local currency	2,281	1,164	1,293
International financial institution loans in foreign currencies	1,478	1,731	2,046
Bank loans and overdrafts in foreign currencies (a)	28,293	4,052	4,099
Bonds in local currency (b)	10,000	3,000	7,000
Bonds in foreign currency (b)	-	12,053	12,198
	45,065	22,027	27,003
Repayable:			
<i>Within one year</i>	<i>20,021</i>	<i>12,513</i>	<i>7,801</i>
Between one and two years	6,728	420	12,622
Between two and five years	14,082	4,259	1,269
After five years	4,234	4,835	5,311
<i>Total non-current</i>	<i>25,044</i>	<i>9,514</i>	<i>19,202</i>
	45,065	22,027	27,003

(a) Bank loans and overdrafts include overdrafts of CZK 8 million denominated in the local currency (2002: CZK 23 million and 2001: CZK 173 million) and CZK 1 million in foreign currencies (2002: CZK 13 million and 2001: CZK 11 million).

In November 2003, the Company raised a syndicated loan in the amount of EUR 850 million 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 (Note 27) and general corporate purposes. As at 31 December 2003 the Company had drawn down EUR 745 million and CZK 2,000 million of this loan facility with a weighted average interest rate of 2.55% p.a. The terms and conditions of this loan facility, inter alia, 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.

Loans with a due date for repayment within one year and denominated in a foreign currency have a total value of EUR 454 million (2002: EUR 391 million including bonds, 2001: EUR 9 million).

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

In 2003, the Company rolled over CZK 1,000 million of bonds 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 2003, the Group had approximately CZK 3,883 million of available undrawn credit facilities (2002: CZK 2,000 million and 2001: CZK 7,000 million).

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

The interest rate exposure of the Group after taking into account interest rate swaps was as follows:

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
At fixed rate	45,051	20,823	25,511
At floating rate	14	1,204	1,492
Total	45,065	22,027	27,003

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

31 December 2003 (in CZK million)	Carrying amounts	Fair values
Bank loans	35,051	36,153
Bonds	10,000	9,827
Total	45,051	45,980

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

Effective interest rates	31 December 2003	31 December 2002	31 December 2001
Bank loans and overdrafts in local currency	2.36%	3.05%	4.95%
Other loans in local currency	0.00%	4.10%	6.10%
International financial institution loans in foreign currencies	6.80%	6.81%	6.82%
Bank loans and overdrafts in foreign currencies	3.147%	6.633%	6.635%
Bonds in local currency	3.92%	4.55%	11.30%
Bonds in foreign currency	-	5.125%	5.125%

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

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Land and buildings	1,321	1,447	1,449
Plant and equipment	3,165	4,538	5,975
Total	4,486	5,985	7,424

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 28%, long term deferred taxes were calculated at 26% and 24%. The reduction in the deferred tax liability of CZK 1,769 million (Note 5) is attributable to the change in enacted tax rates for future periods.

(in CZK million)	2003	2002	2001
At 1 January	11,632	11,184	10,046
Effect of adopting IAS 39	-	-	(192)
Income statement (credit)/charge (Note 5)	(6,447)	445	1,330
Acquisition of subsidiary (Note 27)	2,461	-	-
Tax on fair value gains	(3)	3	-
Other movements not recognised in the consolidated income statement	31	-	-
At the end of period	7,674	11,632	11,184

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 2003	31 December 2002	31 December 2001
Deferred tax assets	(1,199)	(1,255)	(1,036)
Deferred tax liabilities	8,873	12,887	12,220
	7,674	11,632	11,184

The deferred tax asset includes CZK 796 million recoverable after more than twelve months (2002: CZK 154 million and 2001: CZK 694 million) and the deferred tax liability includes CZK 8,079 million recoverable after more than twelve months (2002: CZK 12,079 million and 2001: CZK 12,220 million).

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

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Property, plant and equipment and intangible assets	8,550	12,177	11,385
Unused tax losses and other tax credits	-	(170)	-
Trade receivables, inventories and other items	(876)	(375)	(201)
	7,674	11,632	11,184

18 | Government social security and pension schemes

The Group is legally required to make contributions to government health, retirement benefit and unemployment schemes. During 2003, 2002 and 2001, the Group paid contributions at a rate of 35% of gross salaries and is not required to make any contributions in excess of this statutory rate. The total amount charged as operating expense in respect of this scheme was CZK 1,750 million in 2003 (2002: CZK 1,769 million and 2001: CZK 1,787 million). Employees contribute 12.5% (2002 and 2001: 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 102 million (2002: CZK 105 million and 2001: CZK 109 million). These contributions were charged as an operating expense.

In accordance with an annually renegotiated collective labour agreement, the Company is required to pay CZK 15,000 or CZK 90,000 on retirement depending on the length of the employee's service, 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 2003 relating to employee retirement amounted to CZK 0.9 million (2002: CZK 2.6 million and 2001: CZK 4.7 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

(in CZK million)	2003	2002	2001
At 1 January	326	177	349
Additional provisions			
– provision for employee redundancy costs	109	-	-
– provision for VAT assessments	105	81	-
– provision for employee benefits	730	220	146
– other provisions	71	25	-
<i>Charged to income statement</i>	<i>1,015</i>	<i>326</i>	<i>146</i>
Acquisition of subsidiary (Note 27)	334	-	-
Utilised during period	(845)	(177)	(318)
At 31 December	830	326	177

20 | Financial instruments

The Group adopted IAS 39 on 1 January 2001; the impact on shareholders' equity and on various balance sheet captions as at 1 January 2001 is shown below.

Summary of impact of adopting IAS 39 at 1 January 2001:

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

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

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

Net fair values of derivative financial instruments

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

Contracts with positive fair value (in CZK million)	31 December 2003	31 December 2002	31 December 2001
Instruments not qualifying as hedges			
– Forward foreign exchange contracts	-	74	1
Cash flow hedges			
– Forward foreign exchange contracts	-	9	-
Total (Note 12)	-	83	1
Contracts with negative fair value (in CZK million)	31 December 2003	31 December 2002	31 December 2001
Instruments not qualifying as hedges			
– Interest rate swaps	-	-	2
– Structures involving currency options	-	35	169
– Forward foreign exchange contracts	-	-	54
– Zero coupon swaps	-	901	905
– Forward rate agreements	-	-	2
Cash flow hedges			
– Interest rate swaps	-	8	-
– Forward rate agreements	2	-	-
Total (Note 15)	2	944	1,132

There were no derivative financial instruments designated as fair value hedges as at 31 December 2003, 2002 or 2001.

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 favor of the amount claimed by T-Mobile Czech Republic a.s. The Company subsequently obtained adjournment of the decision execution and lodged an appeal. 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 prosecuted by AUGUSTUS spol. s r.o. for an alleged loss of profit in the 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 an administrative proceeding by the Office for the Protection of Economic Competition (UOHS) relating to the creation of unfair barriers against development of competition on the market through the application of certain specific price plans for business customers. In a decision issued in January 2004 the UOHS found against the Company. The Company lodged an appeal with the UOHS and requested adjournment of the decision execution. 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 lawsuits and administrative proceedings including those related to the Company's pricing policies and local loop unbundling. Based on the information available, management is satisfied that there is no material unprovided liability arising from these lawsuits and administrative proceedings.

Following a tax audit of Value Added Tax returns for 1998 and 1999, Eurotel received additional assessments of value added tax of CZK 158 million in January 2002. Eurotel filed an appeal with the Financial Directorate for Prague which was refused in January 2003 and hence full provision was created in the 2002 financial statements and the amount was subsequently paid in full during 2003. In March 2003, Eurotel filed suits relative to the VAT assessments for 1998 and 1999. Interest and penalties on the assessed VAT totaled CZK 185 million as of 31 December 2003 and full provision was created in the 2003 financial statements. No decision has been issued by the Ministry of Finance in respect of penalties or interest to date.

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 and 2003. The Group, in accordance with its internal policies, only recognises reimbursements from insurance companies that were confirmed by the balance sheet date. Additional reimbursements from insurance companies are expected in 2004, however due to the uncertainty regarding the final amount, a related contingent asset is not disclosed.

22 | Commitments

Operating leases

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

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
No later than 1 year	1,031	593	581
Later than 1 year and not later than 5 years	1,971	1,297	1,505
Later than 5 years	1,714	1,046	835
Total	4,716	2,936	2,921

Capital commitments

(in CZK million)	31 December 2003	31 December 2002	31 December 2001
Capital expenditure contracted but not provided for in the financial statements	872	1,721	1,653
Capital commitments not contracted	1,118	418	2,893

The majority of contracted amounts relate to the telecommunications network.

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 Telecommunication licences (validity until 2022). Telecommunication licences replaced the Authorisation for installation and operation of unified telecommunications network and provision of telecommunication services, effective since 1995.

In accordance with these non-exclusive licences, the Company has the right to install and operate a public fixed telecommunication network in the entire territory of the Czech Republic and to operate and utilise certain frequencies and numbers.

In accordance with the afore mentioned 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.

Select telecommunication services are subject to price regulation.

The Czech Telecommunication Authority (Český telekomunikační úřad) is the regulatory body of the telecommunication market (responsible for price regulation, awarding, changing and withdrawing licences) in the Czech Republic. It is an independent institution established by the state. In 2003, there were no changes that had a significant impact on granted licences, with the exception of price changes for regulated services.

Eurotel:

The company has individual non exclusive Telecommunication licences for the installation and operation of 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 January 1, 2006 upon fulfilment of minimum coverage.

If Eurotel does not commence operations in accordance with the terms of its UMTS licence by January 1, 2006, 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 2003	31 December 2002	31 December 2001
Nominal value per ordinary share (CZK)	100	100	100
Number of shares	322,089,890	322,089,890	322,089,890
Nominal value per share with special rights (CZK)*	1,000	1,000	1,000
Number of shares*	1	1	1
Ordinary shares (CZK million)	32,209	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 2003, shareholdings in the Company were as follows:

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

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

The Company received notification from TelSource N.V. that with effect from 10 December 2003 TelSource N.V. reduced its shares and voting rights in the Company from 27.0% to 0.00%. Consequently, TelSource N.V., whose 51% shareholder is KPN TELECOM B.V. and 49% shareholder Swisscom AG, does not, as of 10 December 2003, hold any shares or voting rights in the Company.

Retained earnings include a statutory reserve fund of CZK 5,619 million (2002: CZK 5,471 million and 2001: CZK 5,406 million) that is not distributable under ruling legislation.

25 | Hedging reserve

(in CZK million)	
Balance at 1 January 2001	
– as previously reported	-
– effect of adopting IAS 39 (net)	(10)
– as restated	(10)
Fair value gains in period	14
Tax on fair value gains	(4)
Balance at 31 December 2001	-
Fair value gains in period	33
Fair value gains transfer to net profit	(24)
Tax on fair value gains	(3)
Balance at 31 December 2002	6
Fair value losses in period	(23)
Fair value losses transfer to net profit	12
Tax on fair value losses	3
Balance at 31 December 2003	(2)

26 | Cash generated from operating activities

(in CZK million)	Year ended		
	31 December 2003	31 December 2002	31 December 2001
Net profit/(loss)	(1,780)	4,276	6,072
Adjustments for:			
Minority interest (Note 30)	(31)	(51)	-
Tax (Note 5)	(4,856)	1,885	2,699
Depreciation (Note 8)	15,246	15,536	14,546
Amortisation (Note 9)	4,198	3,421	2,494
Impairment loss (Note 8,9)	9,909	105	-
Disposals of obsolete assets	342	419	284
Profit on fixed asset sales	(93)	(169)	(124)
Net interest and other charges	721	1,036	1,778
Foreign exchange (gains)/losses	235	(279)	(1,987)
Fair value changes	(794)	(141)	536
Increase in provisions	1,525	304	679
<i>Operating cash flow before working capital changes</i>	<i>24,622</i>	<i>26,342</i>	<i>26,977</i>
Increase in trade and other receivables	(302)	(288)	(995)
Increase in inventories	(217)	(490)	(1,425)
Increase in trade and other payables	52	412	1,459
Cash generated from operations	24,155	25,976	26,016

27 | 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 has 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 accordance with International Financial Reporting Standards comparative balances have not been adjusted.

In order to assist in the determination of the fair value of the net assets acquired, Management 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
<i>Assets acquired</i>	<i>17,857</i>	<i>3,502</i>	<i>21,359</i>
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
<i>Liabilities assumed</i>	<i>5,496</i>	<i>735</i>	<i>6,231</i>
Fair value of net assets acquired			15,128
Cost of acquisition (cash)*			29,215
Goodwill (Note 9)			14,087

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

28 | Related party transactions

The Group provides services to State departments and businesses on normal commercial terms. Sales and purchase transactions with related parties are based on contractual agreements negotiated on normal commercial terms and conditions and at market prices.

The following transactions were carried out with related parties:

a) Sales of services and goods

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Swisscom AG – interconnect services	81	96	45
KPN TELECOM B.V. – interconnect services	21	38	119
TelSource N.V. – services	-	-	26
	102	134	190

b) Purchases of services and goods

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Swisscom AG – interconnect services	50	18	21
KPN TELECOM B.V. – interconnect services	24	26	65
TelSource N.V. – services	23	66	126
KPN Czech Republic, s.r.o. – services	-	21	148
	97	131	360

c) Net receivables / (payables)

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Swisscom AG	-	32	11
KPN TELECOM B.V.	-	1	(2)
TelSource N.V.	-	(5)	12
KPN Czech Republic, s.r.o.	-	-	(34)

TelSource N.V. 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. For further information see Note 24.

d) Transactions with the Company's Supervisory and Board of Directors

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

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Remuneration– excluding royalties*	3	10	8
Capital life insurance	3	2	1
Personal indemnification insurance	1	1	-
	7	13	9

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

(in CZK million)	31 December 2003	Year ended	
		31 December 2002	31 December 2001
Remuneration – excluding royalties*	8	6	5
Capital life insurance	-	-	5
Personal indemnification insurance	2	2	1
	10	8	11

* In 2003 members of the Company's statutory bodies received cash payments in the amount of CZK 5 million for the assumption of non-competition obligations (2002: CZK 4 million, 2001: CZK 0 million).

29 | 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. M.I.A., a.s.	100%	Czech Republic	Internet services
3. OMNICOm Praha, spol. s r.o.	100%	Czech Republic	Network and consultancy services in telecommunications
4. SPT TELECOM (Czech Republic) Finance B.V.	100%	Netherlands	Financing other entities in the Group
5. CZECH TELECOM Germany GmbH	100%	Germany	Data transmission services
6. CZECH TELECOM Austria GmbH	100%	Austria	Data transmission services
7. CZECH TELECOM Slovakia, s.r.o.	100%	Slovakia	Data transmission services
8. 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 is engaged in the contracting of labour services to Eurotel. Trigo qualifies for Hungarian offshore regime tax status and as such, it is subject to taxation in Hungary at the reduced rate of 3%.

The subsidiaries EDINet.cz, s.r.o. v likvidaci and asp1000, s.r.o. v likvidaci, incorporated in the Czech Republic, are not consolidated as they are in liquidation.

Based on the decision of its shareholders, M.I.A., a.s. entered into liquidation proceedings on 1 March 2004.

30 | Minority interest

(in CZK million)	2003	2002	2001
At 1 January	45	39	-
Acquisition*	-	57	39
Elimination impact**	(5)	-	-
Share of net loss of subsidiaries	(31)	(51)	-
At 31 December	9	45	39

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

** Impact of the elimination of asp1000, s.r.o. v likvidaci from consolidation as a result of its liquidation.

31 | Post balance sheet events

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2003.

32 | Privatisation

In January 2004, the Czech Government announced via its agency, the National Property Fund of Czech Republic, a tender to select an advisor for the privatisation of its stake in ČESKÝ TELECOM, a.s. It is expected that the selection of an advisor will be completed by May 2004 and thereafter a decision on any further privatisation steps is expected to be taken. 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 2003

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

We have audited the accompanying balance sheet of ČESKÝ TELECOM, a.s. („the Company“) as at 31 December 2003, 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 110–151 („the financial statements“). The financial statements and underlying accounting records are the responsibility of the Company's Board of Directors. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion the accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of ČESKÝ TELECOM, a.s. as at 31 December 2003, 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 3–63 and 155–178, which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Company. In our opinion, this 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 entities and between the Company and the other parties controlled by the same controlling entities („the Report“) on pages 185–204. 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.

26 March 2004

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

Petr Kříž
Auditor, Licence No. 1140

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PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No 021.

Balance sheet

ASSETS		31.12.2003		31.12.2002	31.12.2001
	Gross	Provision	Net	Net	Net
	CZK'000	CZK'000	CZK'000	CZK'000	CZK'000
TOTAL ASSETS	241,256,918	(109,075,480)	132,181,438	137,602,917	143,563,435
A. Receivables for subscribed capital	-	-	-	-	-
B. Fixed assets	229,687,299	(106,925,184)	122,762,115	117,456,988	127,807,936
B. I. Intangible fixed assets	16,537,486	(10,891,418)	5,646,068	9,110,874	11,103,579
B. I. 1. Establishment costs	-	-	-	-	-
2. Research & development	715,794	(411,274)	304,520	235,713	63,374
3. Software	15,533,817	(10,437,003)	5,096,814	8,425,767	9,171,518
4. Royalties	44,669	(43,141)	1,528	126,126	3,952
5. Goodwill	-	-	-	-	-
6. Other intangible fixed assets	-	-	-	-	-
7. Intangible assets in the course of construction	233,306	-	233,306	310,722	1,758,901
8. Advances paid for intangible assets	9,900	-	9,900	12,546	105,834
B. II. Tangible fixed assets	182,957,972	(95,306,605)	87,651,367	106,466,737	113,670,236
B. II. 1. Land	552,597	-	552,597	592,042	631,452
2. Constructions	111,580,719	(48,709,381)	62,871,338	72,948,090	76,066,134
3. Equipment	69,484,010	(46,500,445)	22,983,565	29,862,417	32,081,670
4. Cultivated areas	-	-	-	-	-
5. Livestock	-	-	-	-	-
6. Other tangible fixed assets	5,174	-	5,174	5,303	8,088
7. Tangible assets in the course of construction	1,147,189	-	1,147,189	3,049,169	4,636,208
8. Advances paid for tangible fixed assets	96,736	(5,232)	91,504	9,716	194,655
9. Adjustment to acquired fixed assets	91,547	(91,547)	-	-	52,029
B. III. Long-term investments	30,191,841	(727,161)	29,464,680	1,879,377	3,034,121
B. III. 1. Investments in controlled entities / subsidiaries	29,824,965	(727,161)	29,097,804	263,922	78,669
2. Investments in associates	72	-	72	233,843	233,843
3. Other long-term investments in securities	366,713	-	366,713	1,374,582	2,714,489
4. Intragroup loans - subsidiaries and associates	-	-	-	6,850	6,850
5. Other financial investments	91	-	91	180	270
6. Long-term investments in progress	-	-	-	-	-
7. Advances paid for long-term investments	-	-	-	-	-

ASSETS		Gross CZK'000	31.12.2003 Provision CZK'000	Net CZK'000	31.12.2002 Net CZK'000	31.12.2001 Net CZK'000
C.	Current assets	11,206,001	(2,150,296)	9,055,705	19,771,718	14,795,524
C. I.	Inventories	1,005,259	(410,006)	595,253	956,074	1,212,700
C. I. 1.	Raw materials	944,268	(410,006)	534,262	880,152	1,090,056
	2. Work in progress and semi-finished products	-	-	-	-	-
	3. Finished goods	-	-	-	-	-
	4. Livestock	-	-	-	-	-
	5. Goods for resale	60,991	-	60,991	75,922	122,630
	6. Prepayments for inventory	-	-	-	-	14
C. II.	Long-term receivables	172,946	-	172,946	191,113	190,621
C. II. 1.	Trade receivables	118,089	-	118,089	119,510	116,304
	2. Intragroup receivables	-	-	-	-	-
	3. Receivables - associates	-	-	-	-	-
	4. Receivables from shareholders / owners	-	-	-	-	-
	5. Anticipated assets	-	-	-	-	-
	6. Other receivables	54,857	-	54,857	71,603	74,317
	7. Deferred tax asset	-	-	-	-	-
C. III.	Short-term receivables	8,155,933	(1,740,290)	6,415,643	7,976,480	7,951,867
C. III. 1.	Trade receivables	6,645,066	(1,545,968)	5,099,098	5,607,626	5,385,968
	2. Intragroup receivables	61,569	-	61,569	-	-
	3. Receivables - associates	-	-	-	-	-
	4. Receivables from shareholders/owners	116,093	-	116,093	123,812	123,812
	5. Receivables for social security and health insurance	-	-	-	-	-
	6. Taxes and state subsidies receivable	184,880	-	184,880	503,695	512,591
	7. Other advances paid	-	-	-	-	-
	8. Anticipated assets	925,885	-	925,885	1,629,018	1,708,355
	9. Other receivables	222,440	(194,322)	28,118	112,329	221,141
C. IV.	Financial assets	1,871,863	-	1,871,863	10,648,051	5,440,336
C. IV. 1.	Cash in hand	49,061	-	49,061	61,019	42,344
	2. Cash at bank	33,802	-	33,802	525,737	27,906
	3. Short-term investments	1,789,000	-	1,789,000	10,061,295	5,370,086
	4. Short-term investments in progress	-	-	-	-	-
D. I.	Accruals and deferrals	363,618	-	363,618	374,211	959,975
D. I. 1.	Prepaid expenses	361,937	-	361,937	372,872	494,907
	2. Complex prepaid expenses	-	-	-	-	-
	3. Accrued revenue	1,681	-	1,681	1,339	465,068

Balance sheet

LIABILITIES AND EQUITY		31.12.2003 CZK'000	31.12.2002 CZK'000	31.12.2001 CZK'000
TOTAL LIABILITIES AND EQUITY		132,181,438	137,602,917	143,563,435
A.	Equity	75,819,604	94,624,239	93,922,144
A. I.	Share capital	32,208,990	32,208,990	32,208,990
A. I. 1.	Share capital	32,208,990	32,208,990	32,208,990
	2. Own shares held	-	-	-
	3. Changes in registered capital not yet registered	-	-	-
A. II.	Capital contributions	31,438,658	30,501,382	31,483,483
A. II. 1.	Share premium	29,343,185	29,343,185	29,343,185
	2. Other capital contributions	2,127,599	2,120,641	2,140,298
	3. Assets and liabilities revaluation	(32,126)	(962,444)	-
	4. Merger revaluation reserve	-	-	-
A.III.	Reserve funds, non-distributable reserves and other reserves	5,531,914	5,442,453	5,382,594
A. III. 1.	Statutory reserve fund, non-distributable reserves	5,498,065	5,409,049	5,344,458
	2. Statutory and other reserves	33,849	33,404	38,136
A. IV.	Retained earnings	7,801,307	24,691,099	23,555,267
A. IV. 1.	Retained profits	7,801,307	24,691,099	23,555,267
	2. Accumulated losses	-	-	-
A. V.	Profit (loss) for the current period	(1,161,265)	1,780,315	1,291,810
B.	Liabilities	55,458,273	39,745,907	45,433,182
B. I.	Provisions	2,223,678	174,174	1,300,678
B. I. 1.	Tax-deductible provisions	-	-	-
	2. Provisions for pensions and similar liabilities	-	-	-
	3. Income tax provision	-	-	-
	4. Other provisions	2,223,678	174,174	1,300,678
B. II.	Long-term liabilities	14,068,506	12,491,742	21,165,840
B. II. 1.	Trade payables	-	-	-
	2. Intragroup liabilities	-	-	12,197,931
	3. Liabilities (associates)	-	-	-
	4. Liabilities (shareholders / owners)	-	-	-
	5. Advances received	408	-	-
	6. Debentures and bonds issued	10,000,000	3,000,000	-
	7. Bills of exchange payable	-	-	-
	8. Anticipated liabilities	-	-	-
	9. Other liabilities	-	-	-
	10. Deferred tax liability	4,068,098	9,491,742	8,967,909

LIABILITIES AND EQUITY		31.12.2003 CZK'000	31.12.2002 CZK'000	31.12.2001 CZK'000
B. III.	Short-term liabilities	6,389,845	21,273,540	9,750,001
B. III.	1. Trade payables	958,079	2,170,850	2,431,908
	2. Intragroup liabilities	-	12,052,990	-
	3. Liabilities - associates	-	-	-
	4. Liabilities to shareholders/owners	13,750	2,331	2,705
	5. Liabilities to employees	227,061	281,701	256,369
	6. Liabilities for social security and health insurance	130,995	155,582	158,357
	7. Taxes and state subsidies payable	69,271	73,472	63,244
	8. Advances received	168,034	97,609	85,405
	9. Debentures and bonds issued	-	-	-
	10. Anticipated liabilities	4,759,080	5,554,016	6,479,081
	11. Other payables	63,575	884,989	272,932
B. IV.	Bank loans & overdrafts	32,776,244	5,806,451	13,216,663
B. IV.	1. Long-term bank loans	22,049,040	5,770,682	6,133,898
	2. Short-term bank loans and overdrafts	10,727,204	35,769	82,765
	3. Other short-term borrowings	-	-	7,000,000
C. I.	Accruals and deferrals	903,561	3,232,771	4,208,109
C. I.	1. Accruals	373,817	595,730	1,723,634
	2. Deferred revenue	529,744	2,637,041	2,484,475

Income statement

		Accounting period		
		2003	2002	2001
		CZK'000	CZK'000	CZK'000
I.	Sales of goods	264,480	320,619	340,662
A.	Cost of goods sold	297,579	438,063	428,031
+	Gross profit	(33,099)	(117,444)	(87,369)
II.	Sales of production	36,214,182	38,587,619	41,910,818
II. 1.	Sales of own products and services	35,530,241	37,690,869	40,787,649
	2. Change in inventory of finished goods and work in progress	-	-	-
	3. Own work capitalised	683,941	896,750	1,123,169
B.	Cost of sales	11,493,588	11,817,325	13,872,641
B. 1.	Raw materials and consumables	1,733,845	2,233,889	2,510,049
	2. Services	9,759,743	9,583,436	11,362,592
+	Added value	24,687,495	26,652,850	27,950,808
C.	Staff costs	6,689,553	6,634,352	6,773,532
C. 1.	Wages and salaries	4,884,842	4,775,415	4,897,538
	2. Emoluments of board members	16,159	19,250	14,788
	3. Social security costs	1,508,721	1,556,805	1,605,074
	4. Other social costs	279,831	282,882	256,132
D.	Taxes and charges	87,266	129,442	122,320
E.	Depreciation of long-term assets	26,372,514	16,630,118	15,028,701
III.	Sale of long-term assets and raw materials	455,167	900,683	559,572
III. 1.	Sale of long-term assets	418,375	707,429	452,277
	2. Sale of raw materials	36,792	193,254	107,295
F.	Net book amount of long-term assets and raw materials sold	354,119	638,415	351,996
F. 1.	Net book amount of long-term assets sold	314,328	518,535	287,386
	2. Net book amount of raw materials sold	39,791	119,880	64,610
G.	Increase / (decrease) in operating provisions and complex prepaid expenses	1,968,054	496,924	362,334
IV.	Other operating income	80,551	415,410	117,906
H.	Other operating charges	849,281	673,609	530,768
V.	Adjustments to operating income	-	-	-
I.	Adjustments to operating expense	-	-	-
*	Operating result	(11,097,574)	2,766,083	5,458,635

Income statement

		Accounting period		
		2003	2002	2001
		CZK'000	CZK'000	CZK'000
VI.	Income from sales of securities and shares	7,116,873	2,092,980	843,590
J.	Securities and shares sold	7,131,669	2,093,054	824,426
VII.	Income from long-term investments	4,788,497	76,606	224,288
VII.	1. Income from investments in controlled entities / subsidiaries and associates	4,758,768	-	-
	2. Income from investments in other participating interests	18,276	76,079	223,761
	3. Income from other long-term investments	11,453	527	527
VIII.	Income from short-term investments	151,114	159,750	187,083
K.	Loss on investments	6,202	13,037	-
IX.	Gain on revaluation of securities and derivatives	153,904	-	-
L.	Loss on revaluation of securities and derivatives	1,132,690	-	-
M.	Increase / (decrease) in financial provisions	94,354	(1,449,257)	1,013,614
X.	Interest income	43,698	10,931	44,439
N.	Interest expense	1,040,943	1,414,341	2,269,676
XI.	Other financial income	2,792,740	372,554	2,028,378
O.	Other financial expense	1,501,199	586,538	3,048,483
XII.	Adjustments to financial income	-	-	-
P.	Adjustments to financial expense	-	-	-
*	Financial result	4,139,769	55,108	(3,828,421)
Q.	Tax on profit or loss on ordinary activities	(5,597,563)	986,935	496,933
Q.	1. – current	239,951	49,232	167,814
	2. – deferred	(5,837,514)	937,703	329,119
**	Profit or loss on ordinary activities after taxation	(1,360,242)	1,834,256	1,133,281
XIII.	Extraordinary income	217,570	120,738	175,041
R.	Extraordinary charges	18,593	174,679	4,244
S.	Tax on extraordinary profit or loss	-	-	12,268
S.	1. – current	-	-	12,268
	2. – deferred	-	-	-
*	Profit (loss) on extraordinary items after taxation	198,977	(53,941)	158,529
T.	Profit (loss) share apportioned to partners [partnership only]	-	-	-
***	Net profit (loss) for the financial period	(1,161,265)	1,780,315	1,291,810

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 2001	32,208,990	29,343,185	2,143,795	5,158,053	24,716	-	26,281,096	95,159,835
Profit distribution	-	-	-	186,405	116,500	-	(302,905)	-
Dividends paid	-	-	-	-	-	-	(2 422,924)	(2,422,924)
Other increase	-	-	2,821	-	-	-	-	2,821
Withdrawals of social fund, other	-	-	(6,318)	-	(103,080)	-	-	(109,398)
Net profit for the financial period	-	-	-	-	-	-	1,291,810	1,291,810
At 31 December 2001	32,208,990	29,343,185	2,140,298	5,344,458	38,136	-	24,847,077	93,922,144
Effect of changes in accounting policies*)	-	-	-	-	-	(1,166,280)	-	(1,166,280)
Fair value gains / (losses)								
– financial derivatives	-	-	-	-	-	206,086	-	206,086
– investments	-	-	-	-	-	(2,250)	-	(2,250)
Profit distribution	-	-	-	64,591	85,000	-	(149,591)	-
Dividends paid	-	-	-	-	-	-	(6,387)	(6,387)
Other increase	-	-	3,242	-	-	-	-	3,242
Withdrawals of social fund, other	-	-	(22,899)	-	(89,732)	-	-	(112,631)
Net profit for the financial period	-	-	-	-	-	-	1,780,315	1,780,315
At 31 December 2002	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	-	-	-	-	-	-	(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

*) Arising from the amendment to the Act on Accounting and accounting guidelines for entrepreneurs.

Cash flow statement

	2003 CZK'000	2002 CZK'000	2001 CZK'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net profit/(loss) on ordinary activities before tax	(6,957,805)	2,821,191	1,630,214
A.1 Adjustments for non-cash movements:			
A.1.1 Depreciation and amortisation of fixed assets	26,431,292	16,730,076	15,049,959
A.1.2 Change in provisions	2,056,287	(957,453)	1,211,791
A.1.3 Profit from disposal of fixed assets	(104,047)	(188,895)	(184,066)
A.1.5 Net interest expense and income	978,969	1,155,507	1,813,865
A.* Net cash flow from ordinary activities before tax, changes in working capital and extraordinary items	22,404,696	19,560,426	19,521,763
A.2 Working capital changes:			
A.2.1 (Increase)/decrease in receivables and prepayments	1,499,007	746,305	(1,642,056)
A.2.2 Increase/(decrease) in short-term payables and accruals	(2,536,015)	960,018	2,682,024
A.2.3 (Increase)/decrease in inventories	220,905	171,329	127,071
A.2.4 (Increase)/decrease in short-term investments	5,757,671	(5,268,675)	3,798,787
A.** Net cash flow from ordinary activities before tax and extraordinary items	27,346,264	16,169,403	24,487,589
A.3 Interest paid	(2,186,360)	(2,900,780)	(2,484,257)
A.4 Interest received	968,693	1,066,142	467,935
A.5 Income tax on ordinary activities paid	(163,925)	(165,946)	(210,008)
A.6 Cash movements relating to extraordinary profit	212,084	82,287	98,530
A*** Net cash flow from ordinary activities	26,176,756	14,251,106	22,359,789
CASH FLOWS FROM INVESTING ACTIVITIES			
B.1 Acquisition of fixed assets*)	(33,003,480)	(10,708,015)	(14,004,718)
B.2 Proceeds from sale of fixed assets	471,642	630,643	739,351
B*** Net cash flow from investing activities	(32,531,838)	(10,077,372)	(13,265,367)
CASH FLOWS FROM FINANCING ACTIVITIES			
C.1 Change in long and short-term liabilities	21,917,211	(4,370,924)	(2,806,699)
C.2 Changes in equity:			
C.2.5 Direct payments from reserves	(60,477)	(96,119)	(110,330)
C.2.6 Dividends paid	(18,520,169)	-	(2,415,674)
C*** Net cash flow from financing activities	3,336,565	(4,467,043)	(5,332,703)
Net increase/(decrease) in cash and cash equivalents	(3,018,517)	(293,309)	3,761,719
Cash and cash equivalents at the beginning of the year	4,691,630	4,984,939	1,223,220
Cash and cash equivalents at the end of the year	1,673,113	4,691,630	4,984,939

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

Notes to the financial statements

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 2003 were as follows:

	<i>Position</i>
Gabriel Berdár	Chairman
Juraj Šedivý	1st Vice Chairman
Petr Slováček	2nd Vice Chairman
Michal Heřman	Member
Roman Stupka	Member

During 2003, the following changes occurred in the Board of Directors:

Ondřej Felix	resigned on 13 June 2003 as Chairman and member of the Board of Directors
André Frans Bessel Kok	resigned on 13 June 2003 as 1st Vice Chairman and member of the Board of Directors
Adam Blecha	resigned on 13 June 2003 as member of the Board of Directors
Hana Doležalová	recalled by the Supervisory Board as member of the Board of Directors on 24 September 2003
Zdeněk Hrubý	resigned on 13 June 2003 as member of the Board of Directors
Jan Juchelka	resigned on 13 June 2003 as member of the Board of Directors
Pavel Kuta	resigned on 13 June 2003 as member of the Board of Directors
Günter Heinz Pfeiffer	resigned on 13 June 2003 as member of the Board of Directors
Gabriel Berdár	elected by the Supervisory Board as member of the Board of Directors on 13 June 2003, elected as Chairman on 13 June 2003
Juraj Šedivý	elected by the Supervisory Board as member of the Board of Directors on 13 June 2003, elected as 1st Vice Chairman on 13 June 2003
Petr Slováček	elected by the Supervisory Board as member of the Board of Directors on 13 June 2003, elected as 2nd Vice Chairman on 13 June 2003
Michal Heřman	elected by the Supervisory Board as member of the Board of Directors with effect from 1 September 2003
Roman Stupka	elected by the Supervisory Board as member of the Board of Directors on 24 September 2003

As at the date these financial statements were issued there were no changes in the composition of the Board of Directors during 2004.

The members of the Supervisory Board as at 31 December 2003 were as follows:

	<i>Position</i>
Ondřej Felix	Chairman
Michal Frankl	1st Vice Chairman
Zdeněk Hrubý	2nd Vice Chairman
Vlastimil Barbořák	Member
Adam Blecha	Member

Pavel Herštlík	Member
Jan Juchelka	Member
Martin Kovář	Member
Miloslav Krch	Member
Pavel Kuta	Member
Petr Polák	Member
Dušan Stareček	Member
Lubomír Vinduška	Member
Petr Zatloukal	Member

During 2003, the following changes occurred in the Supervisory Board:

Gerardus Johannes Klein Bluemink	resigned on 6 February 2003
Michal Frankl	elected as Chairman of the Supervisory Board on 6 February 2003, resigned as Chairman of the Supervisory Board on 25 June 2003, elected as 1st Vice Chairman of the Supervisory Board on 25 June 2003
Eric Maria Johannes Werner de Jong	co-opted on 6 February 2003 and elected as 1st Vice Chairman of the Supervisory Board, duties as member of the Supervisory Board ended on 13 June 2003 - annual general meeting did not approve co-optation
André Frans Bessel Kok	elected as member of the Supervisory Board at annual general meeting on 13 June 2003, elected as 2nd Vice Chairman of the Supervisory Board on 25 June 2003, resigned on 22 October 2003 as 2nd Vice Chairman and member of the Supervisory Board
Dominik Louis Böhler	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Miloslav Hala	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Zdeněk Šámal	duties as member of the Supervisory Board expired on 8 June 2003, term of office expired by the election of a new member of the Supervisory Board on 28 June 2003
Jan Schwarzer	duties as member of the Supervisory Board expired on 8 June 2003, term of office expired by the election of a new member of the Supervisory Board on 28 June 2003
Vladimír Šiška	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Jan Škurek	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Michal Švorc	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Václav Wagner	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Ladislav Zelinka	recalled as member of the Supervisory Board by annual general meeting on 13 June 2003
Vlastimil Barbořák	elected as the member of the Supervisory Board by employees on 28 June 2003
Adam Blecha	elected as the member of the Supervisory Board at annual general meeting on 13 June 2003
Pavel Herštlík	duties as member of the Supervisory Board expired on 8 June 2003, re-elected by employees as member of the Supervisory Board with effect from 28 June 2003
Zdeněk Hrubý	elected as member of the Supervisory Board at annual general meeting on 13 June 2003, elected as 2nd Vice Chairman of the Supervisory Board on 26 November 2003
Jan Juchelka	elected as member of the Supervisory Board at annual general meeting on 13 June 2003,
Ondřej Felix	elected as member of the Supervisory Board at annual general meeting on 13 June 2003, elected as Chairman of the Supervisory Board on 25 June 2003
Miloslav Krch	duties as member of the Supervisory Board expired on 8 June 2003, re-elected as member of the Supervisory Board by employees with effect from 28 June 2003

Petr Kučera	elected as member of the Supervisory Board at annual general meeting on 13 June 2003, resigned on 26 November 2003
Pavel Kuta	elected as member of the Supervisory Board at annual general meeting on 13 June 2003,
Günter Heinz Pfeiffer	elected as member of the Supervisory Board at annual general meeting on 13 June 2003, resigned on 26 November 2003
Dušan Stareček	elected as member of the Supervisory Board by employees with effect from 28 June 2003
Lubomír Vinduška	duties as member of the Supervisory Board expired on 8 June 2003, re-elected as member of the Supervisory Board by employees with effect from 28 June 2003
Petr Polák	co-opted as member of the Supervisory Board on 26 November 2003
Martin Kovář	elected as member of the Supervisory Board at extraordinary annual general meeting on 23 October 2003
Changes in 2004:	
Michal Frankl	resigned on 28 January 2004 with effect from 15 February 2004
Hana Doležalová	co-opted as a member of the Supervisory Board on 28 January 2004

Additional changes in the Commercial Register during 2003 were as follows:

- on 17 February 2003 with effect from 3 March 2003 an individual was registered as able to act and to sign in the name of the Company for matters as determined by the Act No. 148/1998 Sb.
- on 1 October 2003 with effect from 6 October 2003 a change was registered in the individual who is able to act and to sign in the name of the Company for matters as determined by the Act No. 148/1998 Sb.
- on 1 October 2003 with effect from 6 October 2003 it was registered in the Section of other facts, that in stock transfers of nominative shares a prior approval of the Board of Directors and the Supervisory Board of the Company is necessary. An alteration in the Company's business activities in accordance with the statutes of the Company was also registered.
- on 27 November 2003 with effect from 10 December a new permanent residence of Pavel Herštík, member of the Supervisory Board, was registered. With effect from the same date, the business activities were modified by adding two missing words to the wording in accordance with the statutes of the Company and also the title of Ing. Ondřej Felix, CSc. was modified.

As at 31 December 2003, the Company was organised as follows:

Chief Executive Officer

Units

- Networks (NU)
- Sales (SU)
- Wholesale and Regulation (WRU)
- Marketing (MU)
- Finance (FU)
- Information Systems (ISU)
- Human Resource (HRU)
- Transformation (TU)

Departments managed directly by CEO

- Security
- Legal Affairs
- External and Internal Communications
- Office for Top Management Support

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 (e) and (i).

In 2002, the Company adopted new accounting principles introduced by the Act on Accounting and supporting accounting legislation of the Czech Republic effective 1 January 2002. The effects of adopting these new principles are summarised in the statement of changes in shareholders' equity.

(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.

(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) 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).

(e) Other securities and investments

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

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

Investments intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates, are classified as available-for-sale; these are included in non-current assets unless management has the express intention of holding the investment for less than 12 months from the balance sheet date, or unless they may need to be sold 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 carried at amortized cost. Other investments are carried at fair value. Measurement of non-traded securities is based on management estimates or expert valuations. The fair value is determined as the market value of the securities at the close of business on the balance sheet date.

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

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

(f) Inventory

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

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

(g) Receivables

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

(h) Foreign currency translation

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

All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rates as published by the Czech National Bank. The unrealised exchange gains and losses arising from cash, bank accounts and short-term financial assets translation as at 2002 and 2001 year-end were recorded in the profit and loss account, while the unrealised gains and losses arising from the receivables and payables and bonds held-to-maturity longer than twelve months were recorded by means of the foreign exchange loss provision.

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 year-end 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.

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

(i) Derivative financial instruments

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

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

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

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

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

(j) Revenues

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

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

(k) Finance and operating leases

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

(l) Provisions

Provisions are recognised when the Company has a present obligation, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

(m) Pension plans

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

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

(n) 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.

(o) Related parties

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

- companies which form a Group of companies with the Company;
- shareholders, of which the Company is a subsidiary or an associate, directly or indirectly, and subsidiaries and associates of these shareholders;

- members of the Company's statutory and supervisory bodies and management and parties close to such members, including the subsidiaries and associates of the members and their close parties;
- companies with the same member of management.

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

(p) Extraordinary items and changes in accounting policies

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

The Company has adopted changes in accounting policies prospectively; therefore comparative financial information has not been restated. Where the classification of balance sheet items has changed, comparatives for 2002 and 2001 were reclassified to provide information consistent with the presentation in 2003.

(q) Research and development costs

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

(r) Subsequent events

The effects of events, which occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements 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 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.

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

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

*) 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:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Opening balance at 1 January	58,000	-	-
Additions during the year	-	58,000	-
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 on a proportionate basis 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 intangible fixed assets.

4 | Tangible fixed assets

	Land and buildings CZK'000	Cables CZK'000	Telecom. equipment CZK'000	Other CZK'000	Capital work in progress*) CZK'000	Total CZK'000
COST						
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.

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 2002	14,760,724	94,721,253	64,084,994	7,924,611	4,864,285	186,355,867
Additions	5,376	-	1,563	9,573	6,848,892	6,865,404
Disposals	318,926	540,679	6,051,525	531,432	81,579	7,524,141
Transfers	547,324	1,583,174	4,874,942	1,562,041	(8,567,481)	-
Reclassification	2,895	-	197,031	11,586	-	211,512
At 31 December 2002	14,997,393	95,763,748	63,107,005	8,976,379	3,064,117	185,908,642

ACCUMULATED DEPRECIATION

At 1 January 2002	3,290,251	29,494,141	34,700,381	5,167,365	-	72,652,138
Additions	453,715	4,616,248	6,965,203	1,336,326	-	13,371,492
Disposals	135,885	503,227	5,741,868	502,516	-	6,883,496
Reclassification	5,766	-	181,725	9,537	-	197,028
At 31 December 2002	3,613,847	33,607,162	36,105,441	6,010,712	-	79,337,162

ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS

At 1 January 2002	-	-	71	-	33,422	33,493
At 31 December 2002	-	-	53,603	45,908	5,232	104,743

NET BOOK VALUE

At 1 January 2002	11,470,473	65,227,112	29,384,542	2,757,246	4,830,863	113,670,236
At 31 December 2002	11,383,546	62,156,586	26,947,961	2,919,759	3,058,885	106,466,737

*) 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 2001	14,809,464	93,613,885	60,662,720	6,382,066	5,182,120	180,650,255
Additions	10,051	326	2,456	7,440	9,632,228	9,652,501
Disposals	451,975	370,665	2,484,808	560,806	154,203	4,022,457
Transfers	400,243	1,475,841	5,828,759	2,091,017	(9,795,860)	-
Reclassification	(7,059)	1,866	75,867	4,894	-	75,568
At 31 December 2001	14,760,724	94,721,253	64,084,994	7,924,611	4,864,285	186,355,867

ACCUMULATED DEPRECIATION

At 1 January 2001	3,029,401	25,258,862	30,537,957	4,549,410	-	63,375,630
Additions	453,485	4,565,885	6,494,875	1,135,210	-	12,649,455
Disposals	191,525	331,319	2,379,657	517,833	-	3,420,334
Reclassification	(1,110)	713	47,206	578	-	47,387
At 31 December 2001	3,290,251	29,494,141	34,700,381	5,167,365	-	72,652,138

ADJUSTING ITEMS TO TANGIBLE FIXED ASSETS

At 1 January 2001	-	34,559	137	-	76,539	111,235
At 31 December 2001	-	-	71	-	33,422	33,493

NET BOOK VALUE

At 1 January 2001	11,780,063	68,320,464	30,124,626	1,832,656	5,105,581	117,163,390
At 31 December 2001	11,470,473	65,227,112	29,384,542	2,757,246	4,830,863	113,670,236

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

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

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Opening balance at 1 January	104,743	33,493	111,235
Additions during the year	-	104,743	33,019
Released during the year	(6,121)	(2,737)	(870)
Written off to depreciation	(53,603)	(30,756)	(109,891)
Closing balance at 31 December	45,019	104,743	33,493

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 682,322 thousand as at 31 December 2003 (as at 31 December 2002: CZK 704,207 thousand; as at 31 December 2001: CZK 739,097 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 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Amounts already paid on current finance lease contracts	3,605	1,630	8,728
Outstanding amounts payable within one year	2,596	1,248	82
Outstanding amounts payable after more than one year	4,933	3,970	-
Total amounts payable under current finance lease contracts	11,134	6,848	8,810

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 2003:

	Number of shares	Nominal value	Cost CZK'000	Book value CZK'000	% of capital	2003 net profit/(loss) unaudited	Net assets unaudited
Foreign subsidiaries		EUR				EUR'000	EUR'000
SPT TELECOM (Czech Republic)							
Finance B.V. (Netherlands)		18,151	588	588	100	129	1,129
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	4,518	4,679
Czech subsidiaries		CZK'000				CZK'000	CZK'000
M.I.A., a.s. *)	100	1,000	83,150	-	100	(7,224)	(6,333)
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. ČESKÝ TELECOM, a.s. Group accounts have been prepared and audited as at 31 December 2003.

As at 31 December 2002:

	Number of shares	Nominal value	Cost CZK'000	Book value CZK'000	% of capital	2002 net profit/(loss)	Net assets
Foreign subsidiaries		EUR				EUR'000	EUR'000
SPT TELECOM (Czech Republic)							
Finance B.V. (Netherlands)		18,151	574	574	100	185	1,000
CZECH TELECOM Germany GmbH		25,000	29,388	29,388	100	(86)	840
CZECH TELECOM Austria GmbH		35,000	11,218	11,218	100	(78)	277
		SKK				SKK'000	SKK'000
CZECH TELECOM Slovakia s.r.o.		200,000	150	150	100	(49)	161
Czech subsidiaries		CZK'000				CZK'000	CZK'000
M.I.A., a.s.	100	1,000	83,150	-	100	(11,207)	(10,315)
EDINet.cz, s.r.o. v likvidaci		97,929	79,323	-	100	in liquidation	-
ViaNet, spol. s r.o. v likvidaci		100	20,050	-	100	in liquidation	-
OMNICOM Praha, spol. s r.o.		10,000	29,790	-	100	4,362	14,931
asp1000, s.r.o.		36,364	55,898	-	50.9	(19,769)	28,607
CenTrade, a.s.	865	519,000	519,000	222,592	86.5	(351,178)	249,392
			828,541	263,922			

As at 31 December 2001:

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

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

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

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:

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

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

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

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Opening balance at 1 January	564,619	134,225	108,039
Charge for the year	182,592	430,394	26,186
Disposal for the year	(20,050)	-	-
Closing balance at 31 December	727,161	564,619	134,225

In 2003 the Company received a dividend payment from its share in Eurotel Praha, spol. s r.o. in the net amount of CZK 4,758,768 thousand (in years 2002 and 2001 no dividends were received).

6 | Investments in joint ventures and associates

As at 31 December 2003:

	Nominal value CZK'000	Cost CZK'000	Book value CZK'000	% of capital	2003 net profit/(loss) CZK'000	Net assets CZK'000
Czech companies						
AUGUSTUS spol. s r.o.	66	72	72	40	*)	*)

As at 31 December 2002:

	Nominal value CZK'000	Cost CZK'000	Book value CZK'000	% of capital	2003 net profit/(loss) CZK'000	Net assets CZK'000
Czech companies						
Eurotel Praha, spol. s r.o. **)	233,771	233,771	233,771	51	6,361,546	29,432,675
AUGUSTUS spol. s r.o.	66	72	72	40	(1,172)	(11,944)
		233,843	233,843			

*) Data for 2003 not available at the date of preparation of financial statements.

**) Prior to 28 November 2003 Eurotel Praha, spol. s r.o. was a joint venture with Atlantic West B.V. (see Note 5).

As at 31 December 2001:

	Nominal value CZK'000	Cost CZK'000	Book value CZK'000	% of capital	2003 net profit/(loss) CZK'000	Net assets CZK'000
Czech companies						
Eurotel Praha, spol. s r.o. *)	233,771	233,771	233,771	51	6,299,534	23,069,925
AUGUSTUS spol. s r.o.	66	72	72	40	(3,464)	(10,772)
		233,843	233,843			

*) Prior to 28 November 2003 Eurotel Praha, spol. s r.o. was a joint venture with Atlantic West B.V. (see Note 5).

With the exception of the dividend received from Eurotel (see Note 5) the Company has not realized any proceeds from its interests in associates and joint ventures in 2003, 2002 and 2001.

7 | Other investments and short-term financial assets

Long-term financial assets

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

As at 31 December 2002:

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

As at 31 December 2001:

	31 December 2001 (costs) CZK'000
Bonds in foreign currency	1,200,504
Bonds in local currency	388,755
Promissory notes	1,138,682
	2,727,941
Provision for diminution in value	(13,567)
<i>Net book value of bonds and promissory notes</i>	<i>2,714,374</i>
Other long-term financial assets	115
Total net book value	2,714,489

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Income from long-term bonds and promissory notes	18,276	76,079	223,761

Short-term financial assets

As at 31 December 2003:

	Available-for-sale investments (fair value) CZK'000	Available-for-sale investments (costs) CZK'000
Promissory notes	198,750	1,590,250

As at 31 December 2002:

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

As at 31 December 2001:

	31 December 2001 (costs) CZK'000
Bonds in foreign currency	127,567
Bonds in local currency	1,877,436
Promissory notes	3,365,262
	5,370,265
Provision for diminution in value	(179)
Net book value of bonds and promissory notes	5,370,086

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Income from short term bonds and promissory notes	151,114	159,750	187,083

8 | Inventory

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Raw materials	944,268	1,150,242	1,274,849
Goods for resale	60,991	75,922	122,630
Advances paid for inventory purchases	-	-	14
	1,005,259	1,226,164	1,397,493
Provision for diminution in value	(410,006)	(270,090)	(184,793)
Net book amount	595,253	956,074	1,212,700

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Opening balance at 1 January	270,090	184,793	125,493
Additions during the year	376,123	332,344	194,711
Released during the year	(236,207)	(247,047)	(135,411)
Closing balance at 31 December	410,006	270,090	184,793

9 | Receivables

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Trade receivables			
– current	4,518,926	4,183,137	3,714,295
– overdue	2,244,229	3,423,448	3,541,641
	6,763,155	7,606,585	7,255,936
Other receivables			
– current	1,357,331	2,324,873	3,241,990
– overdue	208,393	212,376	44,657
	8,328,879	10,143,834	10,542,583
Provision for doubtful receivables			
– trade	(1,545,968)	(1,879,449)	(1,753,664)
– other	(194,322)	(96,792)	(646,431)
	(1,740,290)	(1,976,241)	(2,400,095)
Net receivables	6,588,589	8,167,593	8,142,488

Trade receivables include long-term receivables of CZK 118,089 thousand (2002: CZK 119,510 thousand, 2001: CZK 116,304 thousand). Other receivables include long-term other receivables of CZK 54,857 thousand (2002: CZK 71,603 thousand, 2001: CZK 74,317 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:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Opening balance at 1 January	1,976,241	2,400,095	1,669,823
Additions during the year	420,281	506,977	780,078
Written off during the year	(467,854)	(224,490)	(32,124)
Released during the year	(188,378)	(706,341)	(17,682)
Closing balance at 31 December	1,740,290	1,976,241	2,400,095

10 | Equity

Authorised and issued capital						
	31 December No. 2003 CZK'000		31 December No. 2002 CZK'000		31 December No. 2001 CZK'000	
Bearer shares with nominal value CZK 100 fully paid	322,089,890	32,208,989	322,089,890	32,208,989	322,089,890	32,208,989
Share with special rights according to section 10a article 4 letter b) of Act No. 92/1991 with nominal value CZK 1,000	1	1	1	1	1	1
	322,089,891	32,208,990	322,089,891	32,208,990	322,089,891	32,208,990
Company shareholders						
	31 December 2003		31 December 2002		31 December 2001	
FNM ČR	51.1% (including 1 share with special rights)		51.1% (including 1 share with special rights)		51.1% (including 1 share with special rights)	
TelSource N.V.	-		27.0%		27.0%	
KPN TELECOM B.V.	-		6.5%		6.5%	
Individual shareholders and investment funds	48.9%		15.4%		15.4%	

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

The Company has received notification from TelSource N.V. that with effect from 10 December 2003 TelSource N.V. reduced its shares and voting rights in the Company from 27.0% to 0.00%. Consequently, TelSource N.V., whose 51% shareholder is KPN TELECOM B.V. and 49% shareholder Swisscom AG, does not, as of 10 December 2003, hold any shares or voting rights in the Company. The Company had no convertible bonds in issue at 31 December 2003.

Statutory reserves are not able to 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.

11 | Provision for liabilities and charges

	Legal reserves CZK'000	Reserve for foreign exchange losses CZK'000	Reserve for hedging activities CZK'000	Reserve for restructuring and other CZK'000	Total CZK'000
Opening balance at 1 January 2001	4,691	519,768	145,248	159,660	829,367
Additions during the year	-	1,295,018	-	-	1,295,018
Unused amounts reversed during the year	(759)	(519,768)	(145,248)	-	(665,775)
Utilised during the year	(3,932)	-	-	(154,000)	(157,932)
Closing balance at 31 December 2001	-	1,295,018	-	5,660	1,300,678
Additions during the year	-	75,413	-	93,114	168,527
Unused amounts reversed during the year	-	(1,295,018)	-	-	(1,295,018)
Utilised during the year	-	-	-	(13)	(13)
Closing balance at 31 December 2002	-	75,413	-	98,761	174,174
Additions during the year	-	-	-	2,593,613	2,593,613
Unused amounts reversed during the year	-	(75,413)	-	(111,784)	(187,197)
Utilised during the year	-	-	-	(356,912)	(356,912)
Closing balance at 31 December 2003	-	-	-	2,223,678	2,223,678

In 2001, the reserve for restructuring and other risks of CZK 154,000 thousand was used for costs of reducing the number of employees. The creation and usage of the reserve associated with restructuring was accounted for as extraordinary income and charges.

12 | Payables

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Trade payables			
– current	898,449	1,973,579	2,095,006
– overdue	59,630	197,271	336,902
	<i>958,079</i>	<i>2,170,850</i>	<i>2,431,908</i>
Other payables			
– current	5,431,766	19,102,690	7,318,093
Total short-term payables	6,389,845	21,273,540	9,750,001

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

13 | Loans and bonds

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Bank loans and overdrafts in local currency	3,005,186	23,250	72,189
International financial institutions loans in foreign currency	1,477,858	1,731,476	2,046,119
Bank loans in foreign currency	28,293,200	16,104,715	16,296,286
Bonds in local currency	10,000,000	3,000,000	7,000,000
Total	42,776,244	20,859,441	25,414,594
Repayable within 1 year	17,732,506	12,379,087	7,376,584
after 1 year up to 2 years	6,728,099	290,328	12,491,750
after 2 years up to 5 years	14,081,472	3,870,984	881,457
after 5 years	4,234,167	4,319,042	4,664,803
Total	42,776,244	20,859,441	25,414,594
<i>Of which: Total due after more than 1 year</i>	<i>25,043,738</i>	<i>8,480,354</i>	<i>18,038,010</i>

The Company's loans are denominated in CZK and EUR. The weighted average interest rate of these loans as at 31 December 2003 was 3.4% (2002: 5.5%, 2001: 7.2%).

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 2003 the Company had drawn down EUR 745,273 thousand and CZK 2,000,000 thousand of this loan facility with a weighted average interest rate of 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 2003, the Company had approximately CZK 1,360,000 thousand of available undrawn credit facilities.

In prior periods bank loans in foreign currency included a loan from SPT TELECOM (Czech Republic) Finance B.V., that was repaid in May 2003 (at 31 December 2002: CZK 12,052,990 thousand; at 31 December 2001: CZK 12,197,931 thousand). The interest rate of the loan was 5.25% p.a.

Bonds issued may be analysed as follows:

	Coupon rate %	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Local bonds issued 11.3% / 2004 in CZK	11.3	-	-	7,000,000
Local bonds issued 4.55% / 2005 in CZK	4.55	4,000,000	3,000,000	-
Local bonds issued 3.50% / 2008 in CZK	3.50	6,000,000	-	-
Total loans		10,000,000	3,000,000	7,000,000

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

The fair values of bonds in issue are as follows:

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Local bonds issued 11.3% / 2004 in CZK	-	-	7,073,500
Local bonds issued 4.55% / 2005 in CZK	4,070,000	3,073,500	-
Local bonds issued 3.50% / 2008 in CZK	5,757,000	-	-
Total bonds	9,827,000	3,073,500	7,073,500

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

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Land and buildings	1,321,092	1,446,616	1,448,754
Plant and equipment	3,164,649	4,538,231	5,974,964
Total	4,485,741	5,984,847	7,423,718

The Company's loans are governed by certain applicable financial covenants. Violation of these covenants may result in the acceleration 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 2003 as follows:

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

The Company's derivatives can be analysed at 31 December 2002 as follows:

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

Effective 1 January 2002, derivatives are recognised in the Company's financial statements. The Company's derivative transactions are intended to provide effective economic hedges in accordance with the Company's risk management policies to hedge against the foreign exchange risk associated with its foreign currency payables, qualify for hedge accounting under the specific Czech accounting rules (fair value hedging).

The nominal values of the Company's open hedging contracts as at 31 December 2001 was as follows:

	31 December 2001 CZK'000
Cross currency interest rate swaps	14,458,000
Currency options	2,647,500
Forward foreign exchange contracts	352,000
Zero coupon swaps	6,270,500
Total	23,728,000

15 | Taxation

Tax expense is comprised of the following:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Current tax expense	239,951*)	49,232	180,082
Deferred tax expense	(5,837,514)	937,703	329,119
	(5,597,563)	986,935	509,201

Current tax may be analysed as follows:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Net profit before taxation	(6,758,828)	2,767,250	1,801,011
Non - tax deductible costs	2,821,755	1,891,403	2,318,418
Non taxable income	(4,795,790)	(2,434,584)	(1,410,740)
Difference between accounting and tax depreciation	12,182,625	(2,436,778)	(1,476,047)
10% deduction for investments tax credits	(183,062)	-	(391,100)
Tax expense	3,266,700	(212,709)	841,542
Corporate taxation at 31%	1,012,677	-	260,878
Withholding tax	(1,003,455)	-	(127,398)
Other adjustments	(9,571)	49,232	46,602
Total tax expense	-	49,232	180,082

*) The amount includes expenses related to additional tax returns for previous periods assessed in 2003.

The Company paid corporate income tax advances of CZK 202,889 thousand in 2003 (2002: CZK 169,037 thousand, 2001: CZK 181,730 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% (used for the valuation of the deferred tax as at 31 December 2002 and 2001) to 28%, 26% and 24% for the fiscal years ending in 2004, 2005 and 2006 (respectively).

Short term deferred taxes were calculated at 28%, long term deferred taxes were calculated at 26% and 24%. The reduction in the deferred tax liability of CZK 1,166 million is attributable to the change in enacted tax rates for future periods.

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Difference between net book value and tax value of fixed assets	20,214,277	33,289,597	31,176,785
Non-deductible provision for inventory*)	(410,007)	(145,279)	(25,863)
Non-deductible provision for bad debts*)	(710,429)	(398,732)	(923,326)
Other timing differences	(2,211,104)	(1,577,694)	(1,298,857)
Tax loss credits carry forward, deduction for investments tax credit	-	(549,371)	-
Total timing differences	16,882,737	30,618,521	28,928,739
Tax rate	24.095%	31%	31%
Deferred tax liability	4,068,098	9,491,742	8,967,909

*) 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 2003 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:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Sales of telecommunications services			
- Domestic	33,275,314	35,456,135	38,096,861
- Foreign	1,719,132	1,598,070	2,203,543
Sales of other services			
- Domestic	481,972	596,454	438,155
- Foreign	12,379	10,182	4,619
Sales of goods			
- Domestic	264,480	320,619	340,662
Sales of own products			
- Domestic	40,876	30,028	44,471
- Foreign	568	-	-
Total operating revenues	35,794,721	38,011,488	41,128,311

17 | Employee analysis

Number of employees	2003	2002	2001
Average number of management	162	242	252
Average number of other staff	12,441	14,080	15,573
Total	12,603	14,322	15,825

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

	Management CZK'000	Other staff CZK'000	Total CZK'000
2003			
Wages and salaries	360,341	4,524,501	4,884,842
Social security costs	102,640	1,400,767	1,503,407
Remuneration for members of the Company's statutory bodies – excluding royalties*)	11,654	-	11,654
Other costs	7,821	277,324	285,145
	482,456	6,202,592	6,685,048
2002			
Wages and salaries	446,530	4,328,885	4,775,415
Social security costs	121,728	1,424,823	1,546,551
Remuneration for members of the Company's statutory bodies – excluding royalties*)	15,601	-	15,601
Other costs	35,857	257,279	293,136
	619,716	6,010,987	6,630,703
2001			
Wages and salaries	446,375	4,451,163	4,897,538
Social security costs	134,107	1,460,517	1,594,624
Remuneration for members of the Company's statutory bodies – excluding royalties*)	13,538	-	13,538
Other costs	10,177	257,655	267,832
	604,197	6,169,335	6,773,532

*) In 2003 members of the Company's statutory bodies received cash payments in the amount of CZK 4,505 thousand for the assumption of non-competition obligations (2002: CZK 3,649 thousand, 2001: CZK 0 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.

Company management was provided with other benefits as follows:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Outstanding loans	12,558	20,303	21,055
Company cars + fuel (the amount is subject to personal income tax)	13,188	20,304	19,828
Personal indemnification insurance	2,481	843	-
Capital life insurance	1,926	88	701
	30,153	41,538	41,584

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Capital life insurance	3,107	1,918	1,371
Company cars + fuel (the amount is subject to personal income tax)	-	123	188
Personal indemnification insurance	411	784	348
	3,518	2,825	1,907

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

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Capital life insurance	-	-	5,310
Company cars + fuel (the amount is subject to personal income tax)	99	74	100
Personal indemnification insurance	1,525	1,513	502
	1,624	1,587	5,912

18 | Related party transactions

The Company was involved in the following related party transactions:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Sales of services and goods			
Eurotel Praha, spol. s r.o.	374,355	390,688	886,306
Swisscom AG	80,943	96,100	44,673
KPN TELECOM B.V.	20,922	38,401	118,501
TelSource N.V.	-	-	26,201
Other companies within the Group	31,762	551,073	11,903
	507,982	1,076,262	1,087,584
Purchases of services and goods			
Eurotel Praha, spol. s r.o.	1,231,992	1,318,251	1,906,819
Swisscom AG	50,075	17,849	20,951
KPN TELECOM B.V.	24,266	26,074	65,393
TelSource N.V.	22,705	65,974	126,093
KPN Czech Republic, s.r.o.	-	20,886	147,771
Other companies within the Group	111,211	54,463	19,945
	1,440,249	1,503,497	2,286,972
Interest received			
Other companies within the Group	1,627	527	903
Interest paid			
SPT TELECOM (Czech Republic) Finance B.V.	218,750	571,601	683,409

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. For more information see Note 10.

Outstanding balances are as follows:

	2003 CZK'000	2002 CZK'000	2001 CZK'000
Receivables			
Eurotel Praha, spol. s r.o.	370,383	33,585	44,794
Swisscom AG	-	31,715	11,104
KPN TELECOM B.V.	-	7,032	2,999
TelSource N.V.	-	-	30,990
Other companies within the Group	65,745	280,148	17,374
	436,128	352,480	107,261
Payables			
Eurotel Praha, spol. s r.o.	1,082,303	749,848	721,561
Swisscom AG	-	131	170
KPN TELECOM B.V.	-	6,440	4,592
TelSource N.V.	-	4,651	19,446
KPN Czech Republic, s.r.o.	-	-	34,324
Other companies within the Group	22,303	16,903	1,441
	1,104,606	777,973	781,534

The Company's loan from SPT TELECOM (Czech Republic) Finance B.V. (Netherlands) was fully repaid in May 2003 including interest (balance outstanding as at 31 December 2002: CZK 12,053 million and as at 31 December 2001: CZK 12,198 million, related interest payable was as at 31 December 2002: CZK 408 million and as at 31 December 2001: CZK 448 million).

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 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Contracted	611,067	1,602,002	1,154,911
Non-contracted	499,035	236,250	2,800,847
	1,110,102	1,838,252	3,955,758

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

The majority of non-contracted commitments relate to obligations regarding local loop unbundling, collocations, investments required for internet DialUp tariff, enabling of traffic transfer to other operator and switch adjustments (e.g. Points of Interconnect).

The Company has the following commitments resulting from operating leases:

	31 December 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Due within 1 year	327,844	357,376	336,647
Due within period 1 - 5 years	881,983	861,741	1,091,886
Due after more than 5 years	303,471	255,509	204,312
	1,513,298	1,474,626	1,632,845

20 | Research and Development

In 2003, the Company spent in total CZK 11,132 thousand (in 2002: CZK 351,607 thousand, in 2001: CZK 81,399 thousand) for development, of which no amounts were capitalised (in 2002: CZK 19,069 thousand, in 2001: CZK 44,247 thousand). The Company's development expenses include externally developed information systems and technology, data and system architecture and applications integration.

21 | Contingencies

Litigations

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 Eurotel Praha, spol. s r.o. and T-Mobile Czech Republic a.s. The Company subsequently obtained adjournment of the decision execution and lodged an appeal. 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 prosecuted by AUGUSTUS spol. s r.o. for an alleged loss of profit in the amount of approximately CZK 183 million relating to the years 1995 - 2001. The management of the Company 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 an administrative proceeding by the Office for the Protection of Economic Competition (UOHS) relating to the creation of unfair barriers against development of competition on the market through the application of certain specific price plans for business customers. In a decision issued in January 2004 the UOHS found against the Company. The Company lodged an appeal with the UOHS and requested adjournment of the decision execution. 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 lawsuits and administrative proceedings including those related to the Company's pricing policies and local loop unbundling. 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 and 2003. The Company, in accordance with its internal policies, only recognises reimbursements from insurance companies that were confirmed by the balance sheet date. Additional reimbursements from insurance companies are expected in 2004, however due to the uncertainty regarding the final amount, a related contingent asset is not disclosed.

22 | Privatisation

In January 2004, the Czech Government announced via its agency, the National Property Fund of Czech Republic, a tender to select an advisor for the privatisation of its stake in ČESKÝ TELECOM, a.s. It is expected that the selection of an advisor will be completed by May 2004. Thereafter a decision on any further privatisation steps is expected to be taken. 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. In 2002, extraordinary items include damages incurred due to a fire at the telephone exchange in Prague 2 in January 2002 and damage to property due to the floods in August 2002 and associated income from insurance claims. Extraordinary items include the addition of and utilisation of the Company's restructualisation reserve in 2001 (see Note 11). Extraordinary items are tax deductible based on the fulfilment of the relevant Income Tax Act stipulations.

24 | Post balance sheet events

There were no events, which have occurred subsequent to the year-end, which would have a material impact on the financial statements at 31 December 2003.

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 2003 CZK'000	31 December 2002 CZK'000	31 December 2001 CZK'000
Cash on hand and in transit	49,061	61,019	42,344
Cash in bank	28,097	489,968	(54,859)
Overdrafts included in short-term bank loans	5,705	35,769	82,765
Cash equivalents included in short-term investments*)	1,590,250	4,104,874	4,914,689
Cash and cash equivalents	1,673,113	4,691,630	4,984,939

*) Amount of CZK 198,750 thousand as at 31 December 2003 (31 December 2002: CZK 5,956,421 thousand; 31 December 2001: CZK 455,397 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.

24 March 2004



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



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

Information on the registered security issuer

8

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Note.: Information in this section of the Annual Report for 2003 is based on financial statements prepared in accordance with the provisions of the Czech Accounting Act and other relevant legislation of the Czech Republic, unless otherwise indicated.

1 | Information on the registered security issuer

Basic information:

Corporate name:	ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM)
Registered address:	Olšanská 55/5, 130 34 Prague 3,
Company identification number:	60193336
Taxpayer identification number:	003-60193336
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,
 - call centre 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,
 - bb) the public telex and telegraph service, until the end of 2005,
 - cc) 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.

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 2003

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

The share capital of the company is made up as follows:

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 a 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
the Prague Stock Exchange (Burza cenných papírů Praha, a.s.)	On the main market
RM-SYSTÉM, a.s.	
the London Stock Exchange	in the form of Global Depositary Receipts (GDRs). 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.

ČESKÝ TELECOM's Board of Directors decided, by its resolution dated 2 December 2003, to enable a secondary offering of shares and Global Depositary Receipts (GDRs) issued on the basis of shares of ČESKÝ TELECOM to qualified American institutional buyers in accordance with Rule 144A of U.S. Securities Act of 1933 exclusively through provision of information to the extent required by the said Rule. The aforesaid possibility of secondary offering applies to all shareholders and holders of GDRs.

B. Bonds:

As at 31 December 2003

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:	CZ 0003501306
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:	CZ 0003501355
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 2003 :

- i. 9 June 2003 – according to the Terms and Conditions of the Bonds Issue ISIN CZ 0003501306, the issuer issued other fungible bonds in the total nominal value of CZK 1,000 000,000. The total nominal value of the issue is now CZK 4,000,000,000.
- ii. 9 July 2003 – under the existing bond programme, the issuer issued a second issue of bonds ISIN CZ 0003501355, in the total nominal value of CZK 6,000,000,000 as at the date of the issue, with the option to issue further fungible bonds up to the total nominal value of CZK 9,000,000,000 within two years of the issue.

Holding structure:

Structure of majority shareholders of ČESKÝ TELECOM (As at 31 December 2003):

	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 2003 :

- i. 24 June 2003 – KPN TELECOM B.V. informed the issuer that on 19 June 2003, as a result of a sale of shares of the issuer in held by KPN TELECOM B.V., the share of KPN TELECOM B.V. in the voting rights of the issuer reduced from 6.48 % to 0.00 %. As per the announcement, KPN TELECOM B.V. has not held a share in the voting rights of the issuer since 19 June 2003.
- ii. 2 December 2003 – TelSource N.V. informed the issuer that as of 1 December 2003 it has terminated its acting in concert with the National Property Fund of the Czech Republic with respect to the issuer. As per the announcement, TelSource N.V., as of 1 December 2003, continued to hold 26.99 % share and the National Property Fund of the Czech Republic 51.1 % share in the voting rights of the issuer, respectively.
- iii. 11 December 2003 – TelSource N.V. informed the issuer that on 10 December 2003, as a result of a sale of shares of the issuer in held by TelSource N.V. the share of TelSource N.V. in the voting rights of the issuer reduced from 26.99 % to 0.00 %. As per the announcement, TelSource N.V. has not held a share in the voting rights of the issuer since 10 December 2003.

2 | Information on the objects of the registered security issuer

Main areas of business of the issuer, new products and services:

ČESKÝ TELECOM owns, constructs and operates of 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 Business Overview Section of the Annual Report.

Revenues of the issuer for the three accounting periods broken down by activity type (in CZK thousands):

		2003	2002	2001
Sales of telecommunications services	– Domestic	33,275,314	35,456,135	38,096,861
	– Foreign	1,719,132	1,598,070	2,203,543
Sales of other services	– Domestic	481,972	596,454	438,155
	– Foreign	12,379	10,182	4,619
Sales of goods	– Domestic	264,480	320,619	340,662
Sales of own goods	– Domestic	40,876	30,028	44,471
	– Foreign	568	–	–
Operating revenues – total		35,794,721	38,011,488	41,128,311

Registered address of organisation units 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 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 2003 (in CZK thousands)	Cost	Accumulated depreciation	Net book value
Land	552,597	0	552,597
Buildings and structures	111,580,719	(48,709,381)	62,871,338
– Buildings and houses	13,594,618	(4,223,485)	9,371,133
– Public pay-phone booths	790,305	(705,281)	85,024
– Telecommunications cables, overground and underground	96,500,683	(43,416,612)	53,084,071
– Other	695,113	(364,003)	331,110

As at 31 December 2003	Number	Area in m ²
Buildings and structures	2,451	1,221,881
Land	4,318	1,646,940

Net book value of mortgaged property:

As at 31 December 2003	(in CZK thousands)
Immovable property	1,321,092
Movable property	3,164,649
Total	4,485,741

See Loans and bonds on page 141 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, Siemens, Amdocs CR, Hewlett-Packard, Lucent Technologies, Micos, TietoEnator, Cisco Systems International BV, TTC Marconi, NextiraOne Czech and Draka NK Cables.

The volume of neither any of the above commercial contracts nor contracts for services provided by the issuer exceed 5% of the issuer's corporate assets.

3 | Financial contracts

See Loans and bond issues on page 141 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 Report of independent auditors and financial statements for the year ended 31 December 2003, see point 21 on page 149 of the Annual Report.

Investments:**Principal investments of the issuer for the three last accounting periods (in CZK millions)**

	2003	2002	2001
Switching equipment	525	1,880	2,875
Transmission equipment	766	1,661	1,715
Access network	1,147	1,088	1,939
Buildings and structures	299	590	725
Data network	348	683	891
Other – support systems	1,251	2,378	5,694
Total investments (non-financial)	4,336	8,280	13,839

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 2003, the declining trend of capital expenditure as a result of completion of the network digitalisation in the previous period has taken hold. 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). The first approximately 15,000 applications for the ADSL service were satisfied. The number of existing euroISDN channels as at the end of 2003 was 477,276. In terms of compliance with regulation, initial investment was made to accommodate the Local Loop Unbundling (LLU) service.

Financial investments of the issuer for the last three accounting periods (in CZK millions)

	2003	2002	2001
Financial investments	28,782	947	90

Major investments in the future

In the period 2004–2006, 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 comprehensive customer solutions. Next generation network (NGN) elements will be implemented gradually, enabling the convergence of voice, data and multimedia services. To comply with requirements of the regulation, it is envisaged investments will go in the direction of Local Loop Unbundling, according to demands of individual alternative operators.

Information on the research and development policy in the current accounting period:

In 2003, ČESKÝ TELECOM expended the total of CZK 11,132 thousand (2002: CZK 351,607 thousand, 2001: CZK 81,399 thousand). No costs were capitalised (2002: CZK 19,069 thousand were capitalised, 2001: CZK 44,247 thousand were capitalised). The expenditure include also 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 80–81 of the Consolidated Financial Statements for the year ended 31 December 2003, which form a part of the Annual Report .

Interruption of business:

No interruption of business occurred.

Acting on offers for take-over:

N/A

Average number of employees:

Type of operation	2003	2002	2001
Management and administration	4,937	5,246	5,771
Operation and maintenance	5,407	6,320	6,757
Construction and installation	0	1	5
Information technology	547	568	514
Transport	67	92	133
Procurement and logistics	314	330	382
Sales and marketing	1,268	1,512	1,846
Maintenance of buildings	19	82	139
Other support and auxiliary operations	44	171	278
Total	12,603	14,322	15,825

Information on statutory and supervisory corporate bodies, as at 31 December 2003:

	Position	Name
Board of Directors	Chairman	Gabriel Berdár
	First Vice Chairman	Juraj Šedivý
	Second Vice Chairman	Petr Slováček
	member	Roman Stupka
	member	Michal Heřman
Supervisory Board	Chairman	Ondřej Felix
	First Vice Chairman	Michal Frankl
	Second Vice Chairman	Zdeněk Hrubý
	member	Vlastimil Barbořák
	member	Adam Blecha
	member	Pavel Herštík
	member	Jan Juchelka
	member	Martin Kovář
	member	Miloslav Krch
	member	Pavel Kuta
	member	Petr Polák
	member	Dušan Stareček
	member	Lubomír Vinduška
	member	Petr Zatloukal
	member *	

* as at 31 December 2003, one member position in the Supervisory Board was unoccupied

Changes in the composition of the Board of Directors and the Supervisory Board in 2003 and at the beginning of 2004:

See the Report of independent auditors and financial statements for the year ended 31 December 2003, Note no. 1 – General information which forms a part of the Annual Report.

Résumés of members of the Board of Directors are on pages 48–49 of the Annual Report.

Résumés of members of the Supervisory Board as at 26 March 2004:**Ondřej Felix (*1954)**

Chairman of the Supervisory Board

Graduated in information technology from the Czech Technical University. He worked at the Federal Statistical Office, later joined the Czech branch of ICL and then moved to APP Systems. He went on to become Managing Director of Oracle Czech Republic, then Oracle's Director for Public Services for Central and Eastern Europe. He is a member of the Board of Directors of the Association for the Information Society, and a member of the Management Board of Masaryk University in Brno. From 1 December 2001, he was Chairman of the Board of Directors of ČESKÝ TELECOM, and from 29 November 2002 until 14 June 2003 he was also the company's Chief Executive Officer.

Zdeněk Hrubý (*1956)

Second Vice Chairman of the Supervisory Board

Graduated in cybernetics from the Faculty of Electrotechnical Engineering of the Czech Technical University, Prague. Also holds a post-graduate 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. At present, he is 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 Board of Directors of Sokolovská uhelná a.s., and a member of the Supervisory Board of ČEZ, a.s. and the Supervisory Board of ČSA, a.s.

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. He is a member of the Trade Union Steering Committee of ČESKÝ TELECOM and Chairman of the Trade Union Steering Committee in Southern Bohemia.

Adam Blecha (*1966)

Member of the Supervisory Board

Graduated in international finance from Hautes Etudes Commerciales, Paris. In 1988 – 1990 he worked as a consultant at Corporate Value Associates in London, and later for two years at the Financial Directorate of Credit Lyonnais in Paris. From 1993, he worked in the field of mergers and acquisitions in Central Europe as a founding member of Corsum. Since 1994, he has been the Vice-President of LARI (the French group Lagardere, by virtue of which he is Chairman of the Supervisory Board of Frekvence 1, a.s.). He is a member of the Board of Directors of Odkolek and of several companies in the Odkolek Group, and a member of the Supervisory Board of Massag,a.s., and Hermes Prague, a.s. He is also Company Secretary of Corsum Group, s.r.o., and Even Media s.r.o.

Hana Doležalová (*1961)

Member of the Supervisory Board

Graduated from the University of Agriculture, Brno, Faculty of Business Administration, and later did postgraduate studies in the field of corporate valuations at the University of Economics, Prague. A certified tax advisor and auditor, registered as a bankruptcy trustee in 1998, and in 2000 certified as an accounting and tax expert with the Chamber of Tax Advisors. Since 1991, she has worked as an accountant, and since 1992 also as a tax advisor. From 1995 to the present, she has been practising as an auditor and since 1998 she has been a trustee in bankruptcy. In 1995, she became a partner of MAIN – AUDIT s. r. o. From 20 December 2002 until 24 September 2003, she was a member of the Board of Directors of ČESKÝ TELECOM.

Pavel Herštlík (*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, 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, a.s. and ČEZ, a.s.

Martin Kovář (*1967)

Member of the Supervisory Board

Graduated from the Faculty of Physical Education and Sport, Charles University, Prague, and gained a Ph.D. from Charles University in 2000. Previously 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 – Charta77 Foundation. He was active in a number of projects for children, e.g. With the Internet to France, Bull – Charta77 Foundation; Lighthouses, IOL – Charta77 Foundation; appointed to chair the Strategic Partners' Board of the Internet to Schools project. Since 2002 he has been 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.

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 to 1999, 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 and Sokolovská uhelná.

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.

Petr Polák (*1973)

Member of the Supervisory Board

IS/IT Director at EKO-KOM, a.s. since 2002. At the same time he is advisor to the Minister of Education, Youth and Sports for the IT area, Chairman of the Board of Directors of AGM, a.s., and since early 2003 a member of the Board of Directors of STAZAP. 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, spol. s r.o., PR analyst at AMI COMMUNICATIONS, spol. s r.o., and software specialist and Software Director at Skodex International, spol. s r.o. He started his career as a press analyst and secretary of the parliamentary club of a political party.

Dušan Stareček (*1956)

Member of the Supervisory Board

Graduated in electronic and electrical technology from the Technical and Engineering Secondary School in Rožnov pod 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.

Lubomír Vinduška (*1956)

Member 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 in a regional department. 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, a.s., and Chairman of the Prague Trade Union Steering Committee.

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 spol. s r.o. 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. Since 2001, he has been Director of the Department for Communications and Information Services of the Czech Interior Ministry.

Remuneration to statutory bodies or their members and to members of supervisory bodies of the issuer (in CZK thousands):

	Financial emoluments	Of which royalties	In-kind emoluments
Board of Directors ¹⁾	6,435	3,137	3,518
Supervisory Board ¹⁾	12,621	4,265	1,624
Management ²⁾	79,583	0	6,296

¹⁾ In 2003, members of the Board of Directors and of the Supervisory Board received also cash allowances of CZK 4,505 thousand for the undertaking of non-competition.

²⁾ 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 divided into the two categories. Board of Directors therefore includes only emoluments awarded only on the grounds of being a member of the Board of Directors. Management includes emoluments awarded on the grounds of holding a management position.

Emoluments paid to statutory bodies or its members and to members of the Supervisory Board granted by entities in the holding on the territory of the Czech Republic, including emoluments granted by the issuer (in CZK thousands):

	Financial emoluments	Of which royalties	In-kind emoluments
Board of Directors	6,435	3,137	3,518
Supervisory Board	12,621	4,265	1,624

Information on the number of shares of the company held by members of the issuer's Board of Directors, Supervisory Board and top management:

	Number of shares
Board of Directors ¹⁾	50
Supervisory Board	150
Management ²⁾	100

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.

3 | Information on the financial position of the registered security issuer

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

Year	2003	2002	2001
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	2,127,599	2,120,641	2,140,298
Funds from profit	5,531,914	5,442,453	5,382,594
inclusive of the statutory reserve fund	5,498,065	5,409,049	5,344,458
Revaluation gains/losses on assets and payables	(32,126)	(962,444)	0
Retained profit of the past periods	7,801,307	24,691,099	23,555,267
Profit/Loss for the current period	(1,161,265)	1,780,315	1,291,810
Total equity	75,819,604	94,624,239	93,922,144

Profit/loss on ordinary activities after tax, per share (in CZK):

	2003	2002	2001
Profit/ (Loss) on ordinary activities after tax (in CZK thousands)	(1,360,242)	1,834,256	1,133,281
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 in the nominal value of CZK 100 (in CZK)	(4.2)	5.7	3.5

¹⁾ the registered share in the nominal value of CZK 1,000 was, for the sake of comparability, accounted for as 10 shares in the nominal value of CZK 100.

Consolidated profit/loss after tax (under IFRS), per share (in CZK):

	2003	2002	2001
Profit/ (Loss) on ordinary activities after tax (in CZK millions)	(1,780)	4,276	6,072
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 in the nominal value of CZK 100 (in CZK)	(5.5)	13.3	18.9

¹⁾ the registered share in the nominal value of CZK 1,000 was, for the sake of comparability, accounted for as 10 shares in the nominal value of CZK 100.

Dividends for the last three periods:

The issuer's General Meeting held on 15 June 2001 decided to pay dividends for the accounting period 2000 of CZK 7.50, before tax, per 1 share of the issuer in the nominal value of CZK 100, and of CZK 75, before tax, per 1 share in the nominal value of CZK 1,000. 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 in the nominal value of CZK 100, and of CZK 575, before tax, per 1 share in the nominal value of CZK 1,000. Potential dividends for the accounting period 2003 will be decided by the issuer's General Meeting to be held on 24 June 2004 in Prague.

Loans and bonds:

Loans and bonds, divided to short- and long-term:

As at 31 December 2003 (in CZK thousands)	
Short-term loans and bonds (maturing within 1 year)	17,732,506
Long-term loans	25,043,738
Total	42,776,244

Loans and bonds issued:

	Currency	Total loan in the currency	Outstanding in the currency as at 31 December 2003	Outstanding in CZK as at 31 December 2003	Due date
European Investment Bank – Loan I ¹⁾	EUR	65,000,000	28,560,235	925,494,401	2008
European Investment Bank – Loan II ¹⁾	EUR	30,000,000	17,045,653	552,364,393	2009
Morgan Stanley – loan instrument	EUR	127,822,970	127,822,970	4,142,103,353	2012
Bond issue (lead managers: Česká spořitelna, a.s., Československá obchodní banka, a.s.)	CZK	4,000,000,000	4,000,000,000	4,000,000,000	2005
Bond issue (leadmanagers: Česká spořitelna, a.s., Československá obchodní banka, a.s., HVB Bank Czech Republic a.s.)	CZK	6,000,000,000	6,000,000,000	6,000,000,000	2008
Syndicated loan ²⁾	EUR	745,273,206	745,273,206	24,150,578,241	2008
	CZK	3,360,000,000 ³⁾	2,000,000,000	2,000,000,000	

EUR/CZK exchange used in the table for conversion purposes (as at 31 December 2003) is CZK 32.405 / EUR.

¹⁾ Loans are secured by immovable and movable property of ČESKÝ TELECOM

²⁾ Lead arrangers of the syndicated loan: Bank Austria Creditanstalt AG, Československá obchodní banka, a.s., Citigroup, J. P. Morgan plc, KBC Bank, N. V. a SANPAOLO IMI S. p. A, Agent: Citibank a.s.

³⁾ In 2003, CZK 2,000 million were drawn from the syndicated loan of CZK 3,360 million tranche denominated in Czech crowns

Changes in 2003:

- i. 6 May 2003 – a loan of DEM 746,000,000 (EUR equivalent 381,423,743) of SPT TELECOM (Czech Republic) Finance B.V., a wholly owned subsidiary of the issuer, was repaid in full. The loan was released in May 1998, following on an issue of 5-year eurobonds by SPT TELECOM (Czech Republic) Finance B.V., in the total nominal value of DEM 750,000,000 (EUR equivalent 383,468,911). The issuer gave his unconditional and irrevocable guarantee on obligations from this issue. SPT TELECOM (Czech Republic) Finance B.V. redeemed the eurobond issue on 7 May 2003.
- ii. 28 November 2003 – the issuer drew a syndicated loan to finance the acquisition of the remaining 49 % holding in Eurotel and for general corporate use. The loan was disbursed in three CZK- and EUR-denominated tranches. The total loan is for EUR 745,273,206 and CZK 3,360,000,000.

The loans are repaid in accordance with the relevant loan agreements or the Terms and Conditions of Issue. As at 31 December 2003, 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

Changes in 2003:

- i. As a result of signature of the Sale and Purchase Agreement for transfer of the ownership interest of ATLANTIC West B.V. (AWBV) in Eurotel Praha, spol. s r.o. to ČESKÝ TELECOM, a.s. on 18 June 2003, and following the payment of the purchase price of USD 1.05 billion on 28 November 2003, the issuer became the sole partner in Eurotel Praha, spol. s r.o.

Commercial undertakings in which the issuer directly owns more than 10 % of the registered/share capital:

(As at 31 December 2003)

Corporate name	Registered address	Object	Identification number	Registered/ share capital	Share of the issuer in the registered/ share capital (in %)
Domestic companies					
asp1000, s.r.o. v likvidaci	Koněvova 2755/65a, 130 00 Prague 3, Žižkov	Application services for medium-sized enterprises	26192659	CZK 71,443,000	50.9 %
AUGUSTUS, spol. s r.o.	Na zájezdu 1935/5, 101 00 Prague 10, Vinohrady	Consulting and brokerage activity in non-telecommunication disciplines	49356160	CZK 166,000	39.76 %
CenTrade, a.s.	Křížíkova č.p. 237, 186 00 Prague 8	e-business and electronic marketplace services	26513731	CZK 600,000,000	86.5 %
EDINet.cz, s.r.o. v likvidaci	Olšanská 5, 130 00 Prague 3	Data transmission services	25746367	CZK 97,929,000	100 %
Eurotel Praha, spol. s r.o.	Vyskočilova 1442/1b, 140 21 Prague 4	See above	15268306	CZK 1,211,000,000	100 %
M.I.A., a.s.	Přístavní 321/14, 170 00 Prague 7, Holešovice	Internet services	25606298	CZK 1,000,000	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 %

Foreign companies					
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.	Kutlikova 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 licenses for provision of public telecommunications services.

For more information see the Report of independent auditors and financial statements for the year ended 31 December 2003, 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 2003)

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.

Information on expected business and financial situation in 2004:

See page 12–14, 35, 44 of the Annual Report.

4 | Information on persons responsible for the Annual Report and verification of the financial statements

Ing. Gabriel Berdár, Chairman of the Board of Directors and Chief Executive Officer, ČESKÝ TELECOM, a.s.

Ing. Juraj Šedivý, First 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.



Ing. Gabriel Berdár
Chairman of the Board
of Directors and CEO



Ing. Juraj Šedivý
First Vice Chairman of the Board
of Directors and CFO

Information for shareholders

9

Information for shareholders

Shareholders¹

National Property Fund of the Czech Republic (FNM)	51.1 %
Investment funds and individual shareholders	48.9 %

¹ as at 31 December 2003

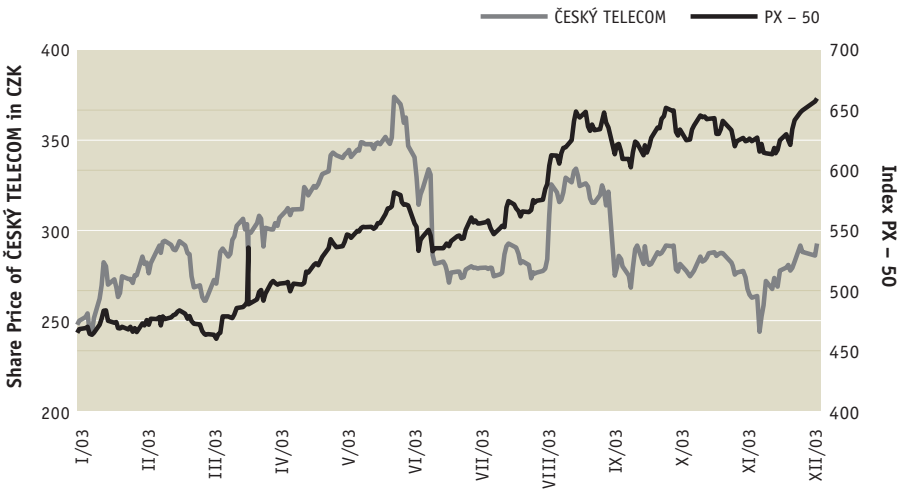
Shares

	2003	2002	2001
Number of shares (in millions)	322.1	322.1	322.1
Net profit per share (in CZK) ²	-5.5	13.3	18.9
Maximum share price (in CZK)	373.8	383.5	569.1
Minimum share price (in CZK)	243.4	210.8	184.0
Share price at the end of the period (in CZK)	292.6	244.7	362.5
Market capitalisation (in CZK billions)	94.2	78.8	116.8

² consolidated net profit under IFRS

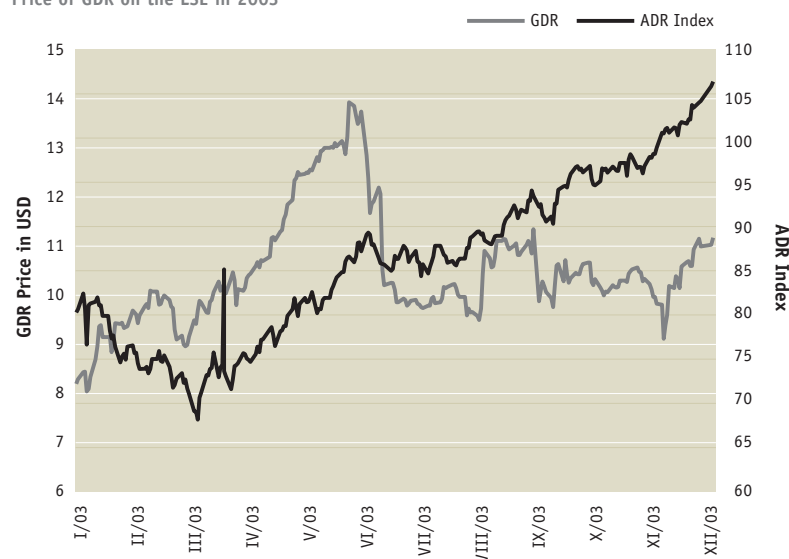
ČESKÝ TELECOM, a.s. (ČESKÝ TELECOM), ranked according to its market capitalisation and trading volume amongst the most important companies on the Czech capital markets in 2003. The total volume of trade in company shares on the main market of the Prague Stock Exchange (PSE) in 2003 was CZK 63.2 billion, and market capitalisation as at 31 December 2003 was CZK 94.2 billion. The share price of ČESKÝ TELECOM as at the end of 2003, compared to the closing price on the last PSE trading day in 2002, grew by 19.6 % to CZK 292.60. The share price reached its maximum of CZK 373.80 on 6 June 2003, and its minimum of CZK 243.40 on 9 January 2003. The average share price was CZK 295.10 in 2003.

Price of Czech Telecom shares on PSE in 2003



Trading on the London Stock Exchange (LSE), in the form of Global Depository Receipts (GDR), followed a similar trend – the average price being USD 10.50, and as at the end of 2003 it closed on USD 11.30, representing a year-on-year increase of 38.3%.

Price of GDR on the LSE in 2003



Dividends

At the General Meeting of 13 June 2003 held in Prague, shareholders decided that dividends to be paid from the net profit of ČESKÝ TELECOM in 2002 and from a part of retained earnings of previous periods, in the total amount of CZK 18.5 billion, i.e. CZK 57.50 per one share in the nominal value of CZK 100, before tax, and CZK 575 per one share in the nominal value of CZK 1,000, before tax. The record day for the payment of dividends was set by the shareholders at 27 June 2003, and the disbursement date at 6 October 2003, respectively.

General Meeting of Shareholders

The annual General Meeting of Shareholders of ČESKÝ TELECOM will be held on 24 June 2004.

Financial Calendar

Date of announcement of running results:

For the first half of 2004		End of July 2004
For three quarters of 2004		End of October 2004
For the entire year 2004	– Preliminary results	End of February 2005
	– Audited results	End of March 2005
For the first quarter of 2005		End of April 2005

Institutional investors and shareholders may contact

Investor Relations

Tel.: +420 271 463 784 | Fax: +420 271 469 877 | E-mail: investor.relations@ct.cz

Address: ČESKÝ TELECOM, a.s., Olšanská 5/55, 130 34 Praha 3, Czech Republic

URL: www.telecom.cz

ADSL > Asymmetric Digital
and voice transmission
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ČESKÝ TELECOM allowi
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Glossary of terms and acronyms

10

ADSL > Asymmetric Digital
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ADSL	Asymmetric Digital Subscriber Line
ATM	Asynchronous Transfer Mode used for data, video and voice transmission
CAPEX	Capital Expenditure
CDMA	Code Division Multiple Access, a modern digital network for Broadband Internet and wireless technologies
Co-location	a service of ČESKÝ TELECOM allowing authorised providers to situate equipment necessary for Local Loop Unbundling in the premises of ČESKÝ TELECOM, and to operate services on the unbundled local loop.
CTO	Czech Telecommunications Office
DCS	Digital Communication System
EBIT	Earnings before Interest and Tax
EBITDA	Earnings before Interest, Tax, Depreciation and Amortisation
EBT	Earnings before Tax
EU	European Union
Frame Relay	a protocol and a service used particularly for LAN networking
GDR	Global Depository Receipt, the form in which ČESKÝ TELECOM shares are traded on the London Stock Exchange
GPRS	General Packet Radio Service, a technology for mobile data transmission
GSM	Global System for Mobile Communication; the most widely deployed digital wireless communication standard for the digital mobile system 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.
HSCSD	High Speed Circuit Switched Data, a technology for mobile data transmission
ICT	information and communication technology
IOL Broadband	a service of ČESKÝ TELECOM for Broadband Internet Access for households and the small office/home office segment
IOL Broadband Profi	a service of ČESKÝ TELECOM for Broadband Internet Access for businesses, companies and institutions

IP	Internet Protocol
IP VPN	Internet Protocol Virtual Private Network, a service for intra-corporate data or voice over IP
ISDN	Integrated Services Digital Network, a digital network powering modern and quality services of telephony, Fast Internet and High-speed Data Transmission
ISP	Internet Service Provider
LL	Leased Lines
LRIC	Long Run Incremental Cost
MMS	a multi-media format for mobile data transmission
NGA	Next Generation Applications, a technology allowing to combine voice and data services
NPF	National Property Fund of the Czech Republic
PSE	the Prague Stock Exchange
QMS	Quality Management System
RAO	Reference Access Offer
SDH	Synchronous Digital Hierarchy
SMS	a format for short messages used in mobile telephony
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 multi-media services (e.g. videoconferencing and high-speed data transmission)
OPEC	Office for Protection of Economic Competition, an anti-monopoly authority
WAP	Wireless Application Protocol, a protocol for displaying selected Internet pages on a mobile telephone display
DWDM	Dense Wave Digital Multiplexing

Schedules required under the provisions the laws of the Czech Republic

1. Board of Director's report on the business activity of the company and the status of its assets

(pursuant to Section 192 (2) of the Commercial Code)

**The Report is contained in Chapter 5 – Board of Directors'
report on the business activity of the company on pages
11–44 of the Annual Report**

2. 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

(pursuant to provisions of Section 66a of Act No. 513/1991
Coll., the Commercial Code, as amended)

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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 2003 and ended 31 December 2003.

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:	60 19 33 36
Legal form:	Joint-stock company

Section II. – Identification details of the controlling entities

Entities acting in concert:

In the course of accounting period 2003 the share interest of shareholders TelSource N.V. and KPN TELECOM B.V. in ČESKÝ TELECOM, a.s. was sold. This fact is taken into consideration and described in the identification details of controlling entities below. The situation concerning shareholders acting in concert changed compared to accounting period 2002.

(a) corporate name:	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
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Registration date:	2 August 1991
Registered address:	Rašínovo nábřeží 42, 128 00 Prague 2
Identification number:	41 69 29 18

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 %.

An additional share in the voting rights of the controlled entity pursuant to Section 183d (4) c) of the Commercial Code was 33.48 % until 18 June 2003, and in the period from 1 December 19 June 2003 to 10 December 2003, an additional share in the voting rights was 26.99 % and became extinct on 10 December 2003.

The total share in the voting rights of the controlled entity under the provisions of Section 183d of the Commercial Code was 84.58 % until 18 June 2003, and in the period from 19 June 2003 to 30 November 2003 it was 78.09 %, and from 1 December 2003 it has been 51.1 %.

(b) Name:	TelSource N.V.
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Registered address: Maanplein 55, TP-5 kmr 252, 2516 CK s - Gravenhage, the Netherlands

Until 10 December 2003, the controlling entity held shares of the controlled entity in the aggregate nominal value of 26.99 % of the share capital of the controlled entity.

A share in the voting rights of the controlled entity pursuant to the provisions of Section 183d (1) of the Commercial Code was 26.99 % until 10 December 2003 when the shareholding was sold.

An additional share in the voting rights of the controlled entity under the provisions of Section 183d '4) c) of the Commercial Code was 51.1 % until 1 December 2003 when the shareholding was sold.

The total share in the voting rights of the controlled entity under the provisions of Section 183d of the Commercial Code was 78.09 % until 18 June 2003, in the period from 19 June 2003 to 9 December 2003 it was 26.99% and from 10 December 2003 it has been 0.00 %.

(c) Name KPN TELECOM B.V.

Registered address: Maanplein 55, TP-5 kmr 252, 2516 CK s - Gravenhage, the Netherlands

Until 19 June 2003, the controlled entity held shares of the controlled entity in the aggregate nominal value of 6.48 % of the share capital of the controlled entity.

A share in the voting rights of the controlled entity pursuant to the provisions of Section 183d (1) of the Commercial Code was 6.48 % until 19 June 2003 when the shareholding was sold.

An additional share in the voting rights of the controlled entity under the provisions of Section 183d (4) b) of the Commercial Code was 26.99 % until 10 December 2003 when the shareholding was sold.

Pursuant to the provisions of Section 183d (4) c) of the Commercial Code, an additional share in the voting rights of the controlled entity was 51.1 % until 1 December 2003 when the shareholding was sold.

The total share in the voting rights of the controlled entity under the provisions of Section 183d of the Commercial Code was 84.58 % until 18 June 2003, in the period from 19 June 2003 to 30 November 2003 it was 78.09 %, from 1 December 2003 to 9 December 2003 it was 26.99 % and from 10 December. 2003 it has been 0.00 %.

(d) Name: Swisscom AG

Registered address: Alte Tiefenastrasse 6, 3050 Bern, Switzerland

The total share in the voting rights of the controlled entity pursuant to the provisions of Section 183 (1) of the Commercial Code is now 0.00 %.

A share in the voting rights of the entity under the provisions of Section 183 (4) b) of the Commercial Code was 26.99 % until 10 December 2003 when the shareholding was sold.

Pursuant to the provisions of Section 183d (4) c) of the Commercial Code, an additional share in the voting rights of the controlled entity was 51.1 % until 1 December 2003 when the shareholding was sold.

The total share in the voting rights of the controlled entity under the provisions of Section 183d of the Commercial Code was 84.58 % until 18 June 2003, in the period from 19 June 2003 to 30 November 2003 to 10 December 2003 it was 78.09 %, from 1 December 2003 to 9 December 2003 it was 26.99 % and from 10 December. 2003 it has been 0.00 %.

(e) Name: Koninklijke KPN N.V. (formerly Royal KPN N.V)

Registered address: Maanplein 55, TP-5 kmr 252, 2516 CK s - Gravenhage, the Netherlands.

The total share in the voting rights of the controlled entity pursuant to the provisions of Section 183 (1) of the Commercial Code is now 0.00 %.

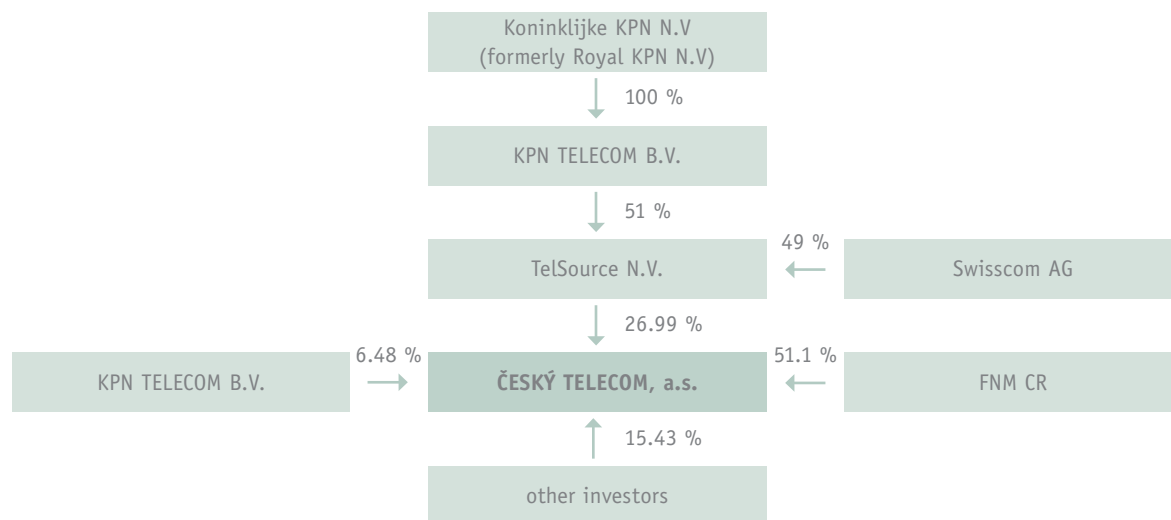
A share in the voting rights of the entity under the provisions of Section 183 (4) b) of the Commercial Code was 26.99 % until 10 December 2003 when the shareholding was sold.

Pursuant to the provisions of Section 183d (4) c) of the Commercial Code, an additional share of Koninklijke KPN N.V. in the voting rights of the controlled entity was 51.1 % until 1 December 2003 when the shareholding was sold.

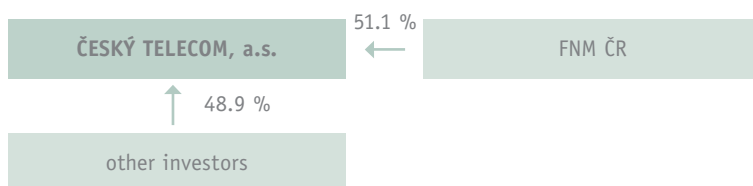
The total share in the voting rights of the controlled entity under the provisions of Section 183d of the Commercial Code was 84.58 % until 18 June 2003, in the period from 19 June 2003 to 30 November 2003 to 10 December 2003 it was 78.09 %, from 1 December 2003 to 9 December 2003 it was 26.99 % and from 10 December. 2003 it has been 0.00 %.

Structure of interconnection of the controlling entities

* Prior to the sale of shares held by TelSource N.V. and KPN TELECOM B.V.



** After the sale of shares held by TelSource N.V. and KPN TELECOM B.V



Section III. Interconnected entities

Entities controlled by the National Property Fund of the Czech Republic

- 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.
- 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 grounds for performance provided thereunder in the applicable accounting period

Section I. Contracts and agreements between the controlled entities and controlling entities or entities controlled by them

A contract between TelSource Services s.r.o. and the controlled entity for provision of consulting services concluded on 19 December 2001, inclusive of Amendment No. 1 concluded on 30 September 2002, was in force in the applicable period.

Conclusion

The controlled entity has incurred no damage in connection with the contract concluded between the controlled entity and the controlling entity which was in force and effective in the applicable period. Performances and counter-performances thereunder are shown in the Note No.1 to the financial statements for 2003.

Section II. Contracts and agreements between the controlled entity and other interconnected 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;
- Internet Access;
- Internet 2003 – 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.

Media supply

Contracts for supply of electricity, natural gas and water were concluded in 2003 and in the years before with interconnected entities listed in Schedule No. 3; the type of medium supplied depends on the respective object of the interconnected entity. The controlled person provided pecuniary counter-performance for this performance, according to current 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 persons listed in Schedule No. 4 in 2003 and prior to 1 January 2003.

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 persons listed in Schedule No. 4 in 2003 and prior to 1 January 2003.

Construction and assembly work

In 2003, 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 entity for pecuniary performance provided by the controlled entity.

Sale of goods and services

In 2003, 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 2003, 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 repairs and purchase of spare parts for motor vehicles, maintenance check-ups of transformers, training, accommodation, for pecuniary performance provided by the controlled entity.

Revision of instrumentation and equipment

In 2003, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 8 for revision of instrumentation and equipment by the interconnected entities, for pecuniary performance provided by the controlled entity.

Project and geodetic services

In 2003, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 9 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 2003, contracts were concluded between the controlled entity and interconnected entities listed in Schedule No. 10 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.

Printing and bill enveloping services

Based on a contract concluded on 15 September 1997 between the controlled entity and Východočeská energetika, a.s., an interconnected entity, performance in the form of printing and enveloping services and pecuniary performance was provided.

Based on a contract concluded on 2 April 1998 between the controlled entity and Východočeská energetika, a.s., an interconnected entity, performance in the form of printing and enveloping services and pecuniary performance was provided.

Other services

The controlled entity as the client and some interconnected entities listed in Schedules No. 12 as contractors, contracts for work were concluded in 2003, for instance for installation of a fire seal or for repair of a freight vehicle.

Conclusion

Details of contracts concluded are regarded by the controlled party 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 2003 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 2003 under contracts and agreements concluded prior to 1 January 2003.

Part D | Legal acts between holding entities in accounting period 2003

In accounting period 2003, 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 2003

In accounting period 2003, 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 16 March 2004.
- (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 respect 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 26 March 2004

ČESKÝ TELECOM, a.s. – controlled entity

Board of Directors



Ing. Gabriel Berdár
Chairman of the Board of Directors



Ing. Juraj Šedivý
First Vice Chairman of the Board of Directors

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 2003 and 31 December 2003

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousand	% held by NPF	Note
Severočeské mlékárny a.s., adjudicated bankrupt	48291749	30,228.000	12,326.000	40.78	
EGO, a.s., adjudicated bankrupt	45534560	181,069.000	75,103.000	41.48	
KONAX a.s., adjudicated bankrupt	46347801	90,671.000	39,989.000	44.10	
Ormilak a.s., in liquidation	60109092	183,070.000	86,028.000	46.99	as of 21 April 1998 adjudicated bankrupt
Severočeská energetika, a.s.	49903179	3,257,667.000	1,565,344.000	48.05	transfer of shares on 1 April 2003, as of then zero holding
Západočeská energetika, a.s.	49790463	1,605,615.000	775,245.000	48.28	transfer of shares on 1 April 2003, as of then zero holding
Severomoravská energetika, a.s.	47675691	3,407,265.000	1,657,783.000	48.65	transfer of shares on 1 April 2003, as of 1 April 2003 (strip certificate for shares from 17. 6. 2002)
Sokolovská uhelná, a.s.	49790072	6,782,994.000	3,302,594.000	48.69	
NOVÁ HUŤ a.s.	45193258	11,465,873.000	7,710 973.000	67.25	transfer of shares on 31 January 2003, from 31 January 2003 or 7 May 2003, respectively
ISPAT NOVÁ HUŤ, a.s.		12,390,257.000	1,719 881.000	13.88**	
Východočeská energetika, a.s.	60108720	2,549,544.000	1,265,178.000	49.62	transfer of shares on 1 April 2003, as of then zero holding

* the corporate name changed effective from 11 April 2003

** share holder rights exercised by LNM Holdings N.V.

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousand	% held by NPF	Note
ČESKÝ TELECOM, a.s.	60193336	32,208,990.000	16,458,795.000	51.10	
ŠKODA PRAHA, a.s.	00128201	557,524.000	305,351.000	54.77	
Severočeské doly, a. s.	49901982	9,000,055.000	4,985,692.000	55.40	Share capital changed on 5 February 2003
České aerolinie, a.s.	45795908	2,735,510.000	1,556,980.000	56.92	Articles of Association limit the voting rights of NPF CR to 49.9 %

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousand	% held by NPF	Note
Středočeská energetická, a.s.	60193140	3,210,369.000	1,871,746.000	58.30	transfer of shares on 1 April 2003, as of then zero holding
AERO HOLDING a.s. in liquidation	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., adjudicated bankrupt	46708944	146,643.000	96,960.000	66.12	
VÍTKOVICE, a.s.	45193070	13,279,203.000	8,937,854.000	67.31	transfer of shares on 19 September 2003, as of then zero holding
ČEZ, a.s.	45274649	59,221,084.300	40,040,789.700	67.61	
Teplotechna Praha, a.s., adjudicated bankrupt	60192933	129,681.000	95,345.000	73.52	
SEVAC, a.s., in liquidation	60192968	211,849.000	167,054.000	78.86	adjudicated bankrupt on 30 February 2002
HOLDING Kladno, a.s., adjudicated bankrupt	45144419	7,500,000.000	7,263,533.000	96.85	
Interhot. Transit Pha a.s.	60193956	12,503.000	12,128.000	97.00	
LACMO, a.s., adjudicated bankrupt	63475863	64,966.000	63,232.000	97.33	
Stasis, stavební a silniční stroje a.s., adjudicated bankrupt	45350329	166,257.000	166,257.000	100.00	
STAZAP, a.s.	45280100	69,180.000	69,180.000	100.00	
Silnice Teplice, a.s., adjudicated bankrupt	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	Share capital changed on 3 November 2003

Name of the joint-stock company	Identification number	Share capital in CZK thousands	NPF share in CZK thousand	% held by NPF	Note
KRAS, a.s.	00013455	37,469.000	37,469.000	100.00	Share capital changed on 22 December 2003
PAL, a.s.	00211222	493,362.000	493,362.000	100.00	
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	
Dřevařské závody Borohrádek-F, a.s.	25288016	48,500.000	48,500.000	100.00	
PřelouNo. poliklinika a.s.	60917415	17,246.000	17,246.000	100.00	
FORTE a.s.	25322303	42,309.000	42,309.000	100.00	Share capital changed on 4 March 2003

Schedule No. 2

Interconnected entities and entities controlled by them

1. ČEPRO a.s. Identification number 60193531, in accounting period 2003 it was a controlling entity with respect to company

BAUFELD – ekologické služby s.r.o.	Identification number 49681036	(share interest 49 %)
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2. VÍTKOVICE, a.s., Identification number 45193070, in accounting period 2003 it was a controlling entity with respect to the following companies

Vítkovické slévárny, spol. s.r.o.	Identification number 25362810	(share interest 100% – until 19 December 2003)
VÍTKOVICE Lisovna, spol. s.r.o. in liquidation	Identification number 62305492	(share interest 100 %)
VÍTKOVICE – STAMONT, spol. s.r.o.	Identification number 64617874	(share interest 100 %)
VÍTKOVICE CAD/CAM Systémy, spol. s.r.o.	Identification number 61972576	(share interest 100 %)
Hotel ATOM Ostrava, spol. s.r.o.	Identification number 25386727	(share interest 100 % – until 7 April 2003)
VÍTKOVICE – Realizácia projektov Košice, spol. s.r.o.	Identification number 31692389	(share interest 100 %)
VÍTKOVICE – Export, a.s.	Identification number 00549070	(share interest 100 %)
VÍTKOVICE – Zkušebny a laboratoře, spol. s.r.o.	Identification number 25870556	(share interest 100 %)
VÍTKOVICE – Údržba, spol. s.r.o.	Identification number 25871587	(share interest 100 %)
VÍTKOVICE – Výzkum a vývoj, spol. s.r.o.	Identification number 25870807	(share interest 100 % – until 31 March 2003)
VÍTKOVICE Ozubárna, a.s.	Identification number 25877933	(share interest 100 %)
VÍTKOVICE STROJÍRENSTVÍ, a.s.	Identification number 25877950	(share interest 100 %)
VÍTKOVICE Doprava, a.s.	Identification number 25909339	(share interest 100 %)
VÍTKOVICE International GmbH		(share interest 33.33 % – until 15 August 2003)
LANGFANG PANWEI ENVIRONMENTAL		
ENGINEERING CO. LTD. China		(share interest 58.5 %)

3. KRAS, a.s. Identification number 00013455, has a 32.66 % share interest in the registered share capital of company

KRÁLOVOPOLSKÁ, a.s.	Identification number 46347267	
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4. České aerolinie a.s., Identification number 45795908, in accounting period 2003 it was a controlling entity with respect to the following companies

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. in liquidation		(share interest 100 %)

České aerolinie a.s., has also shares in companies (but not as a controlling entity)

Walter a.s.		(0.0664 %)
Boeing Česká s.r.o.		(0.011 %)

5. Západočeská energetika, a.s., Identification number 49790463, in accounting period 2003 it was a controlling entity with respect to the following companies

Enerfin, a.s.	Identification number 25751344	(share interest 84.62 %)
ESMOS, s.r.o.	Identification number 62620673	(share interest 80 %)
PRO ENERGO Plzeň, spol. s.r.o.	Identification number 64356591	(share interest 80 %)
EN-DATA a.s.	Identification number 62621084	(share interest 100 %)
LINDRONE, spol. s.r.o.	Identification number 49786105	(share interest 100 %)
Energoreal s.r.o.	Identification number 25226924	(share interest 100 % until 15 December 2003; subsequently 26 %)
EN projekt, spol. s.r.o.	Identification number	(share interest 100 % until 30 November 2003; subsequently 50 %)
GAZELA plus s.r.o.	Identification number 26339404	(share interest 50 %)
LIC technika, s.r.o.	Identification number	(share interest 50 %)
SEG s.r.o.	Identification number	(share interest 66.66 % until 25 November 2003; subsequently 33.33 %)

6. UNIPETROL, a.s., Identification number 61672190, in accounting period 2003 it was a controlling entity with respect to the following companies

KAUČUK, a.s.	Identification number 25053272	(share interest 100 %). controls other companies
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 %; until 9 June 2003 the corporate name was INCHEM GROUP, a.s.)
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 other companies
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
POLYMER INSTITUTE BRNO, spol. s.r.o.	Identification number 60711990	(share interest 50 %)
ALIACHEM a.s.	Identification number 60108916	(share interest 38.903 %, acting in concert with AGROBIOCEMIE a.s. which has a 51.17 % share interest in ALIACHEM a.s. and where UNIPETROL, a.s. holds a 50% share in the voting rights) – controls other companies

7. MERO ČR, a.s., Identification number 60193468, in accounting period 2003 it was a controlling entity with respect to company

MERO Pipeline GmbH	(Germany; share interest 100 %)
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8. OSINEK, a.s. Identification number 00012173 in accounting period 2003 it was a controlling entity with respect to the following companies

VÍTKOVICE STEEL, a.s.	Identification number 25874942	(share interest 98 %) controls other companies
ČEPS, a.s.	Identification number 25702556	(share interest 51 % from 1 April 2003) controls another company

9. Sokolovská uhelná, a.s., Identification number 49790072 in accounting period 2003 it was a controlling entity with respect to the following companies

Malé Versailles, s.r.o.	Identification number 63505312	(share interest 100 %)
SOMET ENERGY a.s.	Identification number 25107623	(share interest 100 %) 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 %)

10. Východočeská energetika, a.s., Identification number 60108720 in accounting period 2003 it was a controlling entity with respect to the following companies

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 %)

11. Severočeské doly a.s., Identification number 49901982 in accounting period 2003 it was a controlling entity with respect to the following companies

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 %)
SHD – SOFT(ware), a.s.	Identification number 62241958	(share interest 50.82 %)
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 %)

12. Středočeská energetická, a.s. Identification number 60193140, in accounting period 2003 it was a controlling entity with respect to the following companies

STE – obchodní služby spol. s.r.o.	Identification number 49826182	(share interest 76.16 %)
ELTRAF, a.s.	Identification number 46357483	(share interest 51 %)

13. Severočeská energetika, a.s., Identification number 49903179 (controlled by ČEZ, a.s. from 1 April 2003) in accounting period 2003 it was a controlling entity with respect to the following companies

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 %)
Energetická montážní společnost Louny, s.r.o.	Identification number 62742868	(share interest 100 %)
Energodrož, s.r.o.	Identification number 64653382	in liquidation (share interest 50 %)
ESS s.r.o.	Identification number 25013271	(share interest 50 %)
ENERGOKOV, s.r.o.	Identification number 25015621	adjudicated bankrupt (share interest 100 %)
Energokonstrukce s.r.o.	Identification number 25412159	in liquidation, deleted from the Commercial Register on 13 March. 2003 (share interest 49 %)

14. ČEZ, a.s., Identification number 45274649, in accounting period 2003 it was a controlling entity with respect to the following companies

AB Michle s.r.o.	Identification number 26206803	(share interest 99.99 %)
CEZTel, a.s.	Identification number 25107950	(share interest 100 %)
ČEPS, a.s.	Identification number 25702556	(controlled until 31 March 2003 through a share interest of 34 %) controls another company
ČEZ ENERGOSERVIS spol. s.r.o.	Identification number 60698101	(share interest 100 %)
ČEZ FINANCE B.V.		(the Netherlands; share interest 100 %)
Energetické opravny, a.s.	Identification number 25040707	(100 %)
GAPROM, s.r.o.,	Identification number 64939111	in liquidation (share interest 50 %)
rpg Energiehandel GmbH		(Germany; share interest 100 %)
HYDROČEZ, a.s.	Identification number 63079852	(share interest 100 %)
I & C Energo s.r.o.	Identification number 49433431	(share interest 100 %) controls other companies
ESE, s.r.o.	Identification number 60701935	(share interest 34 %)
KOTOUČ ŠTRAMBERK, spol. s.r.o.	Identification number 47972165	(share interest 64.87 %)
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 %)
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 % from 1 April 2003) controls other companies
Severočeská energetika, a.s.	Identification number 49903179	(share interest 51 %) controls other companies
Severomoravská energetika, a.s.	Identification number 4767569	(share interest 59.08 %) controls other companies
Východočeská energetika, a.s.	Identification number 60108720	(share interest 98.82 % from 1 April 2003) controls other companies
Západočeská energetika, a.s.	Identification number 49790463	(share interest 99.13 %) controls other companies

15. PAL, a.s., Identification number: 00 21 12 22, in accounting period 2003 it was a controlling entity with respect to the following companies

Výzkumný a zkušební letecký ústav, a.s.,	Identification number: 00010669	(share interest 44.61 %)
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16. ŠKODA PRAHA a.s., Identification number: 00 12 82 01, in accounting period 2003 it was a controlling entity with respect to the following companies

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: 34 128 956	(share interest 62.81 %)

Other controlled companies II.

– indirect control (entities controlled by controlled entities listed above)

17. The following entities controlled by UNIPETROL, a.s., Identification number 61672190, were in accounting period 2003 controlling entities with respect to companies listed below

1. ČESKÁ RAFINÉRSKÁ, a.s., Identification number 62741772, in accounting period 2003 it was a controlling entity with respect to the following companies		
ČESKÁ RAFINÉRSKÁ SLOVAKIA s.r.o.	Identification number 35777087	(share interest 100 %)
CRC POLSKA Sp. z o.o.		(share interest 100 %)
2. PARAMO, a.s., Identification number 48173355, in accounting period 2003 it was a controlling entity with respect to the following companies		
KORAMO, a.s.	Identification number 46357289	(share interest 100 %; on 31 October 2003 deleted from the Commercial Register as a result of a merger with PARAMO, a.s.)
Paramo Trysk, a.s.	Identification number 64259790	(share interest 100 %)
MOGUL SERVIS, a.s.	Identification number 25634151	(share interest 100 %)
MOGUL MORAVA, a.s.	Identification number 60742160	(share interest 100 %)
MOGUL TANK-PLUS a.s.	Identification number 62526774	(share interest 98.33 %)
MOGUL SLOVAKIA, s.r.o.	Identification number 36222992	(share interest 100 %)
FORTE, a.s.	Identification number 31627188	in liquidation (share interest 100 %)
PETRA SLOVAKIA s.r.o.	Identification number 31600191	(share interest 70 %)
MOGUL POLSKA Sp. z o. o.		(share interest 100 %)
MOGUL OIL, o.o.o. – Moskva		(share interest 70 %)
MOGUL PETROL a.s.	Identification number 60792884	(share interest 100 %; merged with MOGUL MORAVA, a.s. on 31 January 2003)
PENSION KORAMO, spol. s r.o.	Identification number 25275275	in liquidation (share interest 100 %; deleted from the Commercial Register on 18 March. 2003)
MOGUL PROM, a.s.	Identification number 60755245	(share interest 80.00 %; do 14. 11. 2003)
MOGUL NOCC, a.s.,	Identification number 43004211	(share interest 70 % until 7 October 2003)
MOGUL KORAK, a.s.	Identification number 25013408	(share interest 100 % until 7 October 2003)
MOGUL OK OIL, a.s.	Identification number 25061755	(share interest 51.00 % until 20 November 2003)

MOGUL TRAD OIL, a.s.	Identification number 25651412	(share interest 51 % until 19 December 2003)
DP MOGUL UKRAJINA		(share interest 100 % until 3 April 2003)
MOGUL HUNGARIA, R.t.		(share interest 74.50 % until 15 December 2003)
MOGUL BEOGRAD, d.o.o.		(share interest 70 % until 29 December 2003)
MOGUL, d.o.o.		(share interest 100 % until 12 March 2003)

3. BENZINA a.s. Identification number 60193328, in accounting period 2003 it was a controlling entity with respect to the following companies:

BENZINA Trade a.s.	Identification number 26135710	(share interest 100 %)
PETROTRANS, a.s.	Identification number 25123041	(share interest 100 %)
BENZINA SLOVAKIA, a.s.	Identification number 35685654	in liquidation (share interest 100 %)
ČS Žilina s.r.o.	Identification number 35807539	(share interest 100 %)
ČS Smižany s.r.o.	Identification number 35808306	(share interest 100 %)
ČS Milhošť s.r.o.	Identification number 35807547	(share interest 100 %)
ATRANS a.s.	Identification number 63078376	(share interest 100 %; on 24 September 2003 deleted from the Commercial Register for reasons of a merger with PETROTRANS, a.s.)

4. CHEMOPETROL, a.s., Identification number 25003887, in accounting period 2003 it was a controlling entity with respect to the following companies

B.U.T., s.r.o.	Identification number 25005120	(share interest 100 %)
CHEMOPETROL BM, a.s.	Identification number 25021877	(share interest 100 %)
UNIPETROL DOPRAVA, a.s.	Identification number 64049701	(share interest 100 %)
HC CHEMOPETROL, a.s.	Identification number 64048098	(share interest 70.95 %)
CELIO a.s.	Identification number 48289922	(share interest 40.53 %; 10.53 % held by UNIPETROL, a.s.)
CELIOINVEST a.s.	Identification number 48289931	in liquidation indirect control a share interest of 100 % held by CELIO a.s. the company was deleted from the Commercial Register on 4 October 2003)
CHEMOPETROL – CHEMTEZ, a.s.	Identification number 25018434	(share interest 100 %; on 31 December 2003 deleted from the Commercial Register as a result of a merger with CHEMOPETROL, a.s.)
CHEMODATA, a.s.	Identification number 25019180	(share interest 100 % until 27 May 2003)

5. KAUČUK, a.s. Identification number 25053272, in accounting period 2003 it was a controlling entity with respect to the following companies

K-PROTOS, a.s.	Identification number 25617214	direct control (share interest 100 %)
NERASERVIS, spol. s.r.o.	Identification number 25712811	indirect control (K-PROTOS, a.s. holds 100%)

6. SPOLANA a.s., Identification number 45147787, in accounting period 2003 it was a controlling entity with respect to the following companies

NeraAgro, spol. s.r.o.	Identification number 26133733	(share interest 100 %)
NeraPharm, spol. s.r.o.	Identification number 26499258	(share interest 100 %)
NERASERVIS, spol. s.r.o.	Identification number 25712811	(share interest 100 % until 11 September 2003)
SPOLSIN, spol. s.r.o.	Identification number 62063545	(share interest 50 % until 4 June 2003)

7. UNIPETROL TRADE a.s., Identification number 25056433, in accounting period 2003 it was a controlling entity with respect to the following companies

ALIACHEM ITALIA S.r.l.		(share interest 90 %)
CHEMAPOL SCANDINAVIA AB		direct control (share interest 51 %)
CHEMAPOL Scandinavia A/S		indirect control (a share interest of 100 % held by CHEMAPOL SCANDINAVIA AB)
OY Chemapol Scandinavia AB		indirect control (share interest of 100 % held by CHEMAPOL SCANDINAVIA AB)
Trans Europe Chemicals s.r.o.	Identification number 25680978	indirect control (100% share interest held by CHEMAPOL SCANDINAVIA AB)
UNIPETROL POLSKA Sp. z o.o.		(share interest 100 %)
MOGUL, d.o.o. – Slovenia		(share interest 100 % until 12 March 2003)
DP MOGUL UKRAJINA		(share interest 100 % until 3 April 2003)
ALIACHEM VERWALTUNGS GmbH		(share interest 100 %)
UNIPETROL DEUTSCHLAND GmbH		indirect control (share interest of 100% held by ALIACHEM VERWALTUNGS GmbH)
ALIAPHARM GmbH FRANKFURT		indirect control (share interest of 100 % held by ALIACHEM VERWALTUNGS GmbH)
UNIPETROL CHEMICAL IBERICA S.A.		(share interest 100 %)
CHEMAPOL (SCHWEIZ) AG		(share interest 100 %)
UNIPETROL AUSTRIA H??mbH		(share interest 100 %)
UNIPETROL (UK) Ltd.		(share interest 100 %)
ALIACHEM BENELUX B.V.		(share interest 100 %)
UNIPETROL FRANCE S.A.		(96.72 %)

8. ALIACHEM a.s., Identification number 60108916, in accounting period 2003 it was a controlling entity with respect to the following companies

LANOCU s.r.o.	Identification number 25937421	(share interest 100 %)
Chemoinvest, s.r.o.	Identification number 64613097	in liquidation (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 %)
OSTACOLOR POLSKA Sp. z o.o.		indirect control (a share interest of 100% held by OSTACOLOR, a.s.)
Výzkumný ústav organických syntéz a.s.,	Identification number 60108975	(share interest 98.74 %)
ZLATÝ JELEN, spol. s r.o.	Identification number 60738006	adjudicated bankrupt (share interest 91 %)
PLASTFLOOR, spol. s r.o.	Identification number 48911267	in liquidation (share interest 65.71 %)
FATRA-IZOLFA, s.r.o.	Identification number 47917563	in liquidation (share interest 60 %)
Explosia a.s.	Identification number 25291581	(share interest 100 % until 12 September 2003)
MORAVIAN CHEMICALS GmbH		in liquidation (share interest 100 %; deleted from the Commercial Register on 3 January 2003)
ALIARESIN a.s.	Identification number 25351371	in liquidation (share interest 100 %; deleted from the Commercial Register on 25 September 2003)
Plastcentrum, s.r.o.	Identification number 64507891	(share interest 71 %; deleted from the Commercial Register on 12 July 2003)

18. The following entities controlled by OSINEK, a.s., Identification number 00012173, were in accounting period 2003 controlling entities with respect to the following companies

a. VÍTKOVICE STEEL, a.s., Identification number 25874942, in accounting period 2003 it was a controlling entity with respect to the following companies		
VÍTKOVICE – Servis Centrum, a.s.	Identification number 25824341	(share interest 97.96 %)
VÍTKOVICE STEEL Polska Sp. z o.o.		(share interest 100 %)
VÍTKOVICE INTERNATIONAL GmbH		(Germany; share interest 100 %)
b. ČEPS, a.s., Identification number 25702556, in accounting period 2003 it was a controlling entity with respect to company		
ENIT, a.s.	Identification number 25426796	(share interest 100 %)

19. SOMET ENERGY a.s., Identification number 25107623, an entity controlled by Sokolovská uhelná, a.s., Identification number 49790072, in accounting period 2003 it was a controlling entity with respect to company

STŘELNICE Sokolov, s.r.o.	Identification number 26348721	(share interest 100 %)
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20. The following entities controlled by ČEZ, a.s., Identification number 45274649, were in accounting period 2003 controlling entities with respect to the following companies

a. I(C Energo s.r.o., Identification number 49433431, in accounting period 2003 it was a controlling entity with respect to the following companies		
AHV, s.r.o.	Identification number 49973762	(share interest 75 %)
Ústav aplikované mechaniky Brno, s.r.o.	Identification number 60715871	(share interest 40 %)
b. AHV, s.r.o., Identification number 49973762, in accounting period 2003 it was a controlling entity with respect to the following companies		
ESE, s.r.o.	Identification number 60701935	(share interest 66 %) indirectly controlled by I(C ENERGO s.r.o.)

- c. Ústav jaderného výzkumu Řež a.s., Identification number 46356088, in accounting period 2003 it was a controlling entity with respect to the following companies

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 %)
Nuclear Safety (Technology Centre s.r.o.	Identification number 27091490	(share interest 100 % from 1 October 2003)

- d. Středočeská energetická a.s.

(see above)

- e. Severočeská energetika, a.s.

(see above)

- f. Severomoravská energetika, a.s., Identification number 47675691, in accounting period 2003 it was a controlling entity with respect to the following companies

MSEM, a.s.	Identification number 64610080	(share interest 100 %)
Elektrozvaděče, s.r.o.	Identification number 25393537	indirect control (a share interest of 60 % held by MSEM, a.s.)
ELEKTROPOLEČNOST B.D. spol. s.r.o.	Identification number 44739486	indirect control (share interest of 50 % held by MSEM, a.s.)
ELTOM, s.r.o.	Identification number 25837117	indirect control until 27 January.2003 (share interest of 60 % had previously been held by MSEM, a.s.)
STMEM, a.s.	Identification number 64610098	(share interest 100 %)
Energetika Vítkovice, a.s.	Identification number 25854712	(Evi, a.s.) (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 %)
g. Východočeská energetika, a.s.		(see above)
h. Západočeská energetika		(see above)

21. EGI, a.s., controlled by ŠKODA PRAHA, a.s., in accounting period 2003 it was a controlling entity with respect to

EGI machine, s.r.o.	Identification number: 26434075	(share interest 100%)
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Schedule No. 3

List of interconnected entities with which contracts were concluded in 2003 for supply of electricity and which received performance under contract concluded prior to 1 January 2003

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 2003 and prior to 1 January 2003

Západočeská energetika, a.s.
Severomoravská energetika, a.s.

Středočeská energetická, a.s.
VÍTKOVICE, a.s.

Schedule No. 5

List of interconnected entities with which contracts were concluded in 2003 for delivery of construction and assembly work performed by the interconnected entity

Severomoravská energetika, a.s.
Západočeská energetika, a.s.

Schedule No. 6

List of interconnected entities with which contracts were concluded in 2003 for sale of goods and services by the interconnected entity

Čepro, a.s.	EN projekt, spol. s.r.o.	SD – Humatex, a.s.
Baufeld – ekologické služby s.r.o.	GAZELA polus s.r.o.	SD – 1. Strojírenská, a.s.
VÍTKOVICE, a.s.	LIC technika, s.r.o.	SD – Kolejová doprava, a.s.
Vítkovické slévárny, spol. s.r.o.	SEG, s.r.o.	SHD – KOMES, a.s.
VÍTKOVICE – Lisovna, spol. s.r.o.	UNIPETROL, a.s.	PRODECO, a.s.
VÍTKOVICE – STAMONT, spol. s.r.o.	KAUČUK, a.s.	ENETECH a.s.
VÍTKOVICE CAD/CAM Systémy, spol. s.r.o.	CHEMOPETROL, a.s.	STE – obchodní služby spol. s.r.o.
Hotel ATOM Ostrava, spol.s.r.o.	BENZINA, a.s.	ELTRAF, a.s.
VÍTKOVICE – Realizacia projektov Košice, spol. s.r.o.	UNIPETROL RAFINÉRIE, a.s.	Energetická montážní společnost
VÍTKOVICE – Export, a.s.	Výzkumný ústav anorganické chemie, a.s.	Ústí nad Labem s.r.o.
VÍTKOVICE – Zkušebny a laboratoře, spol. s.r.o.	UNIPETROL TRADE a.s.	Energetická montážní společnost
VÍTKOVICE – Údržba, spol. s.r.o.	SPOLANA, a.s.	Česká Lípa s.r.o.
VÍTKOVICE – Výzkum a vývoj, spol. s.r.o.	PARAMO, a.s.	Energetická montážní společnosti
VÍTKOVICE – Ozubárna, a.s.	ČESKÁ RAFINÉRSKÁ, a.s.	Louny, s.r.o.
VÍTKOVICE STROJÍRENSTVÍ, a.s.	POLYMER INSTITUTE BRNO, a.s.	Energetická montážní společnosti
VÍTKOVICE Doprava, a.s.	ALIACHEM, a.s.	Liberec, s.r.o.
VÍTKOVICE International GmbH	MERO ČR, a.s.	Energodrož, s.r.o.
KRAS, a.s.	MERO Pipeline GmbH	ESS, s.r.o.
KRÁLOVOPOLSKÁ, a.s.	OSINEK, a.s.	ENERGOKOV, s.r.o.
České aerolinie, a.s.	VÍTKOVICE STEEL, a.s.	Energokonstrukce s.r.o.
ČSA Airtours a.s.	ČEPS, a.s.	ČEZ, a.s.
Slovak Air Services s.r.o.	Sokolovská uhelná, a.s.	AB Michle s.r.o.
Amadeus Marketing CSA, s.r.o.	Malé Versailles, s.r.o.	CEZTeL, a.s.
CSA Services, s.r.o.	SOMET ENERGY a.s.	ČEZ ENERGOSERVIS spol. s.r.o.
ČSA Support s.r.o.	REO-SUAS, s.r.o.	ČEZ FINANCE B. V.
Slovenská konzultačná firma s.r.o.	EKOSOLARIS, a.s.	Energetické opravny, a.s.
v likvidaci	SATER – CHODOV spol.s.r.o.	GAPROM, s.r.o.
Walter a.s.	VČE – montáže, a.s.	rpg Energiehandel GmbH
Boeing Česká s.r.o.	VČE – elektrárny, s.r.o.	HYDROČEZ, a.s.
Enerfin, a.s.	VČE – měřicí technika, s.r.o.	I & C Energo s.r.o.
ESMOS, s.r.o.	VČE – transformátory, s.r.o.	ESE, s.r.o.
PRO ENERGO Plzeň, spol. s.r.o.	ENEST, s.r.o.	KOTOUČ ŠTRAMBERK, spol. s.r.o.
EN – DATA a.s.	Severočeské doly a.s.	LOMY MOŘINA, spol. s.r.o.
LIDRONE, spol. s.r.o.	Skládka Tušimice, a.s.	ČEZnet, a.s.
Energoreal s.r.o.	SD – Vrtné a trhací práce, a.s.	OSC, a.s.
	SD – Autodoprava, a.s.	SIGMA – ENERGO s.r.o.
	SHD – SOFT(ware), a.s.	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.
 UNIPETROL, a.s.
 ČESKÁ RAFINÉRSKÁ, a.s.
 ČESKÁ RAFINÉRSKÁ SLOVAKIA s.r.o.
 CRC POLSKA Sp. Z.o.o.
 PARAMO, a.s.
 KORAMO, a.s.
 Paramo Trysk a.s.
 MOGUL SERVIS, a.s.
 MOGUL MORAVA, a.s.
 MOGUL TANK – PLUS a.s.
 FORTE, a.s.
 PETRA SLOVAKIA s.r.o.
 MOGUL POLSKA Sp. Z.o.o.
 MOGUL OIL, o.o.o.
 MOGUL PETROL a.s.
 PENSION KARAMO, spol. s.r.o.
 MOGUL PROM, a.s.
 MOGUL NOCC, a.s.
 MOGUL KORAK, a.s.
 MOGUL OK IOL, a.s.
 MOGUL TRAD OIL, a.s.
 DP MOGUL UKRAJINA
 MOGUL HUNGARIA, R.t.
 MOGUL BEOGRAD, d.o.o.
 MOGUL, d.o.o.
 BENZINA Trade, a.s.
 PETROTRANS, a.s.
 BENZINA SLOVAKIA, a.s.
 ČS Žilina s.r.o.
 ČS Smižany s.r.o.
 ČS Milhošť s.r.o.
 ATRANS a.s.
 CHEMOPETROL,a.s.
 B.U.T., s.r.o.
 CHEMOPETROL BM,a.s.
 UNIPETROL DOPRAVA, a.s.
 HC CHEMOPETROL, a.s.
 CELIO a.s.
 CELIONVEST a.s.

CHEMOPETROL – CHEMTEZ, a.s.
 CHEMODATA, a.s.
 KAUČUK,a.s.
 K-PROTOS, a.s. – přímé ovl.
 NERASERVIS, spol s.r.o.
 NeraAgro, spol. s.r.o.
 NeraPharm, spol. s.r.o.
 NERASERVIS, spol s.r.o.
 SPOLSIN, 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.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 H??mbH
 UNIPETROL (UK) Ltd.
 ALIACHEM BENELUX B.V.
 UNIPETROL FRANCE S.A.
 LANOCU s.r.o.
 Chemoinvest, s.r.o.
 FATRA – HIF, s.r.o.
 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. (adjudicated
 bankrupt)
 PLASTFLOOR, spol. s.r.o.
 FATRA – IZOLFA, s.r.o.
 Explosia a.s.
 MORAVIAN CHEMICALS GmbH
 – in liquidation, deleted from the
 Commercial Register on 3 January 2003
 ALIARESIN a.s.
 Plastcentrum, s.r.o.
 VÍTKOVICE – Servis Centrum, a.s.
 VÍTKOVICE STEEL Polska Sp. Z.o.o.
 VÍTKOVICE International GmbH
 ENIT, a.s.
 Sokolovská uhelná, a.s.
 SOMET ENERGY a.s.

STŘELNICE Sokolov s.r.o.
 AHV, s.r.o.
 Ústav aplikované mechaniky Brno, s.r.o.
 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.
 Nuclear Safety & Technology Centre, s.r.o.
 MSEM, a.s.
 Elektrozvadače, s.r.o.
 ELEKTROSPOLEČNOST B.D. spol. s.r.o.
 ELTOM, s.r.o.
 STMEM, a.s.
 Energetika Vítkovice, a.s.
 ePRIM, a.s.
 Union Leasing, a.s.
 Beskydská energetická, a.s.
 SINIT, a.s.
 ŠKODA PRAHA, a.s.
 EGI machine, s.r.o.
 ISPAT NOVÁ HUŤ, a.s.
 NOVÁ HUŤ 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. (adjudicated bankrupt)
 KONAX a.s. (adjudicated bankrupt)
 Ormilk a.s. (in liquidation)
 Severočeské mlékárny a.s. (adjudicated
 bankrupt)
 AERO HOLDING a.s. (in liquidation)
 PRESTA výr. st. hmot a.s. (adjudicated
 bankrupt)
 Teplotechna Praha a.s. (adjudicated
 bankrupt)
 SEVAC, a.s. (in liquidation)
 HOLDING KLADNO a.s. (adjudicated
 bankrupt)
 LACMO a.s. (adjudicated bankrupt)
 Stasis, stavební a silniční stroje a.s.
 (adjudicated bankrupt)
 Silnice Teplice a.s. (adjudicated bankrupt)

Schedule No. 7

List of interconnected entities with which contracts were concluded in 2003 for sale of goods and services by the interconnected entity

I & C Energo s.r.o.	MSEM, a.s.	Východočeská energetika, a.s.
Benzína, a.s.	Severočeská energetika, a.s.	Severočeské doly, a.s.
VČE – montáže, a.s.	Západočeská energetika, a.s.	Středočeská energetická, a.s.
Ústav jaderného výzkumu Řež, a.s.	Severomoravská energetika, a.s.	Hotel ATOM Ostrava, s.r.o.

Schedule No. 8

List of interconnected entities with which contracts were concluded in 2003 for revision of instrumentation and equipment by the interconnected entity

Západočeská energetika, a.s.

Schedule No. 9

List of interconnected entities with which contracts were concluded in 2003 for project and geodetic services supplied by the interconnected entity

Severočeská energetika, a.s.
Západočeská energetika, a.s.
Středočeská energetická, a.s.

Schedule No. 10

List of interconnected entities with which contracts were concluded in 2003 for repair and maintenance of buildings and for facility management performed by the interconnected entity

I & C Energo s.r.o.

Schedule No. 11

List of interconnected persons with which contracts were concluded in 2003 for work done by the interconnected entity

MSEM, a.s.
VČE – montáže, a.s.
I & C Energo s.r.o.

Schedule No. 12

List of interconnected persons with which contracts were concluded in 2003 for printing and enveloping of bills by the controlled entity

Východočeská energetika, a.s.

