

Real solutions



for everyday life

CZECH
TELECOM

Half-Year Report 2003

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Mission

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

Letter from the Chairman of the Board of Directors & CEO to shareholders



Dear Shareholders,

ČESKÝ TELECOM's long-term goal is to be the nation's preferred provider of comprehensive services for a wide range of customers in an already competitive environment. In order to be successful in the first half of this year, we have again produced good results in the highly competitive telecommunications services market.

The Czech telecommunications services market is almost fully liberalised. Carrier Pre-Selection and Number Portability services were implemented at the beginning of this year. The growth in the volume of data services continued, as did the continuing integration of information and telecommunications technologies in general. I view ČESKÝ TELECOM's introduction of ADSL-based broadband services as a crucial step in this direction. We intend to provide a wide range of services and products in this category to both companies and home users, and we expect this to be one of our fastest-growing service segments.

An event that is very significant as far as our company's further development is concerned is the signing of an agreement for ČESKÝ TELECOM's purchase of the remaining share of Eurotel to become the sole owner of the subsidiary. One hundred percent ownership of Eurotel's equity capital increases ČESKÝ TELECOM's value and opens the door to new possibilities for activities combining the advantages of mobile and fixed-line communication for the benefit of our customers.

Our company implemented another strategic decision in the first half of 2003. Based on customer demand, we are one of the first national operators from an EU candidate country to expand operations to international markets with the provision of wholesale services through our subsidiaries in Slovakia, Austria and Germany.

The General Meeting in June brought important changes to the company's statutory bodies. The new management's priorities are to maintain ČESKÝ TELECOM's leading position on the rapidly changing and liberalised Czech telecommunications market, to ensure maximum operational effectiveness and profitability, and to prepare the company for completion of the privatisation process. This means, among other things, the establishment of a management system that will enable ČESKÝ TELECOM to function as part of a multinational telecommunications company in the future.

We are witnessing a rapid increase of integrated solutions and the convergence of services within the telecommunications and IT sectors. ČESKÝ TELECOM is, and will be, part of a fully competitive market environment that is rapidly changing. At present, competition in the services field continues to grow in intensity. Another significant factor that will have a fundamental influence on the further development of the telecommunications market, and ČESKÝ TELECOM's future activities in particular, is the very rigorous scrutiny of the regulator. What does not change, however, is the fact that a company's success on the market depends primarily on its customers and their preferences.

To be able to fulfil the needs of our customers even better, we must undergo a number of changes. First, the current system of divisions will be changed to a management matrix system. This system enables the best integration of the implementation and development of services with the knowledge of individual customer segments and their needs. ČESKÝ TELECOM's workforce has the strong potential and drive necessary to participate in the company's future success. To me, this is the solid foundation from which we defend our leading position on the Czech telecommunications market and our results as one of the most successful telecommunications companies in Central Europe.



Gabriel Berdár

Chairman of the Board of Directors & Chief Executive Officer (CEO)

Comments to the financial results

In this section of the Half-Year Report, financial data are presented based on consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS).

ČESKÝ TELECOM's consolidated results for the first half of 2003 follow the trends of previous periods. As the national telecommunications provider, ČESKÝ TELECOM faced growing challenges in all its business areas as a result of the liberalisation of the Czech telecommunications market. Nevertheless, the company achieved solid consolidated results and reached the strategic goals it set for itself for the first half of this year. In comparison with most west European national telecommunications providers, ČESKÝ TELECOM enjoys the benefits of its stable and high EBITDA margin, its very low level of gearing, and its ability to generate positive free cash flows.

Changes in the Czech telecommunications market

In the first half of 2003 several important changes took place in the development of the Czech **fixed-line telecommunications market**, and ČESKÝ TELECOM was a key player in the implementation of these changes. As required by the Czech Telecommunications Act, from 1 January 2003, ČESKÝ TELECOM enabled the Carrier Pre-Selection

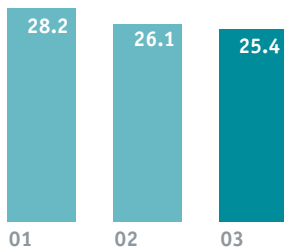
and Number Portability services. Another milestone was the introduction of broadband Internet access using ADSL technology, which is offered wholesale as well as to end users.

The **mobile telecommunications market** in the Czech Republic is one of the most advanced in the CEE region and is comparable to those in EU member states. The total number of customers of mobile operators in the Czech Republic increased, but the rate of growth has logistically slowed, due to the fact that market penetration has reached a level exceeding 85%. As a result, mobile operators are focusing more on the expansion of offered services and loyalty programs.

Revenues

ČESKÝ TELECOM's consolidated revenues for the first half of 2003 reached CZK 25.4 billion, compared to CZK 26.1 billion for the same period last year. ČESKÝ TELECOM's own revenues totalled CZK 18.8 billion. Consolidation of Eurotel's revenues totalled CZK 6.6 billion.

Half-year revenues from traditional voice services provided via the Public Switched Telephone



Revenues in CZK billions
(1.1.–30.6.)

Network (PSTN) decreased, while call revenues and subscription revenues reached nearly the same level: **call revenues** recorded a year-on-year drop of 26% to CZK 5.5 billion, while **subscription revenues** rose 3% to CZK 5.3 billion. As call charges and monthly subscription charges have remained at almost the same level since February 2002, the influence of the price development for voice services was neutral. However, the development in the number of fixed lines and, in particular, the structure of traffic generated by ČESKÝ TELECOM's customers, did have an impact. The total number of fixed lines dropped 3% to 3,617 thousand in comparison with the same period last year, but the number of ISDN channels and ADSL connections at the end of the first half of 2003 increased, to 444 thousand and 6 thousand respectively. Revenues from euroISDN and ADSL services are included as part of data service revenues. Regarding traffic structure, dial-up connection to the Internet comprised 53% of the total volume of 5.8 billion minutes during the first half of 2003; in the first half of 2002, dial-up connection to the Internet

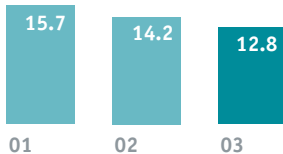
accounted for 46% of 6.0 billion minutes. Even though from July 2002 customers have been able to choose different operators for each call through the Carrier Selection service, and from the beginning of 2003 Carrier Pre-selection has been available, mobile operators remain ČESKÝ TELECOM's most serious competitors in the field of voice services.

The trend of ČESKÝ TELECOM's **revenues from other operators** changed compared to previous periods, when these revenues fell due to declining interconnection fees. On the contrary, over the first half of this year total revenues from other operators recorded an increase of 27% compared to the same period last year, to CZK 1.6 billion. **Revenues from domestic operators** rose 15% to CZK 663 million. Even though, due to the introduction of the LRAIC method, connection prices to fixed-line networks dropped compared to the first half of 2002, transit volume increased, particularly from mobile networks to networks abroad via ČESKÝ TELECOM's network. The introduction of the Carrier Selection and Carrier Pre-Selection services has begun to make a partial impact. **Revenues from international**

operators rose 37% to CZK 892 million, mainly due to the increase in transit volume from partners abroad, in particular to the networks of local mobile operators.

ČESKÝ TELECOM maintains a long-term focus on growth areas such as data and Internet services and as a result, revenues from these services show a continuing growth curve. During the first half of 2003, **revenues from data services** totalled CZK 4.1 billion, a 19% increase compared to the same period last year. The largest portion of these revenues, 63%, are **euroISDN service revenues**, which totalled CZK 2.6 billion for the first half of 2003, compared to CZK 2.1 billion for the same period last year. The revenue category showing the most rapid increase in the area of data services is **revenues from Internet services**, which recorded a 40% increase to CZK 279 million for the first half of 2003. **Revenues from leased lines** rose 1% to CZK 1.4 billion.

Revenues from equipment sales and sales of materials totalled CZK 138 million, 39% less than in the first half of 2002. ČESKÝ TELECOM's **other revenues** rose 30% to CZK 741 million.



Number of employees in thousands (as at 30.6.)

Eurotel remains the leader of the Czech mobile operator market, and its revenues contribute significantly to ČESKÝ TELECOM's total consolidated revenues.

The consolidation of Eurotel revenues, totalling CZK 6.6 billion and representing 26% of ČESKÝ TELECOM's total consolidated revenues, experienced almost no change in comparison with the same period last year. Eurotel's total revenues reached CZK 14.1 billion, an increase of 2%. Eurotel's recurring revenues rose 4% to CZK 13.5 billion, but non-recurring revenues dropped 24% to CZK 671 million due to the slower rate of growth in new customers. At the end of the first half of 2003, Eurotel had a total of 3,993 thousand clients, an increase of 12% compared to the same period last year.

Operating expenses

In the first half of 2003, ČESKÝ TELECOM continued to fulfil its goal of reducing operating expenses that the company is able to influence. Total **consolidated operating expenses excluding depreciation and amortisation** experienced a slight increase of 1% to CZK 12.9 billion. This was due to the

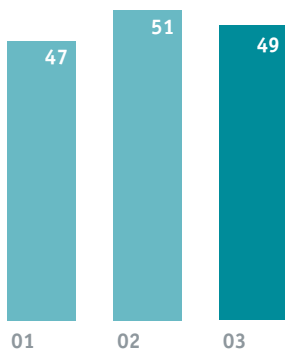
increase of consolidated payments to other operators by 24%, to CZK 3.3 billion, which is partially a result of regulatory decisions. **Consolidated payments to domestic operators** rose 32% to CZK 2.4 billion. This is attributable to two main factors: regulatory payments for Internet interconnection; and a rise in transit traffic, particularly to mobile networks via ČESKÝ TELECOM's network. Payments to other operators for transit via ČESKÝ TELECOM's network increased, as did revenues from other operators. **Consolidated payments to international operators** rose 6% to CZK 888 million.

Consolidated staff costs did not change and were recorded at CZK 3.7 billion. The number of ČESKÝ TELECOM's employees dropped 10% to 12,788 as at 30 June 2003. The number of Eurotel's employees remained almost unchanged at 2,439. The structure of employees had a greater influence on the development of staff costs than did the number of employees.

Other operating expenses decreased in comparison with the same period last year. **Consolidated equipment and mate-**



Depreciation and amortisation in CZK billions (1.1.–30.6.)



EBITDA margin in % (1.1.–30.6.)

rial cost of sales dropped 19% to CZK 762 million. **Other consolidated operating expenses**, including costs of materials, repairs and maintenance, energy, marketing, consultancy services, and other operating expenses dropped 6% to CZK 5.2 billion.

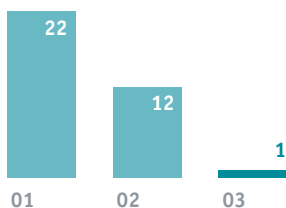
This year, the trend in the development of **consolidated depreciation and amortisation** reversed. In contrast with previous periods, when these expenses increased, in the first half of this year they decreased 1% in comparison with the same period last year, to CZK 9.2 billion. As investment costs have been decreasing over the past years, this trend should continue in the future.

EBITDA, EBIT and net profit
 ČESKÝ TELECOM again recorded a very high **EBITDA margin**: the ratio of consolidated revenues to consolidated earnings before finance costs, tax, depreciation and amortisation (EBITDA) for the first half of 2003 totalled 49%. In absolute figures, the consolidated **EBITDA** value is CZK 12.5 billion, compared to CZK 13.3 billion for the first half of last year. Consolidated earnings before finance costs and tax

(**EBIT**) totalled CZK 3.2 billion, compared to CZK 4.0 billion last year. Consolidated finance costs were influenced by loan changes and the higher value of cash and cash equivalents compared to the same period last year. The net value of consolidated interest expenses dropped 33% compared to the same period last year, to CZK 427 million. However, the value of foreign exchange gains decreased. Consolidated earnings before tax (**EBT**) dropped 23% to CZK 3.0 billion. The consolidated group **net profit** after the inclusion of the minority interest of CZK 7 million totalled CZK 2.3 billion, compared to CZK 2.6 billion for the first half of 2002.

Loans

In May of this year, ČESKÝ TELECOM repaid its five-year eurobonds initially issued in the value of DEM 750 million, representing at the time of maturity an equivalent of approximately CZK 12 billion. For the purpose of partially refinancing its debt portfolio, ČESKÝ TELECOM increased last year's first issue of bonds with maturity in 2005 and a fixed coupon of 4.55% p.a., issued within the scope of the local bond programme, by



Net gearing in %
(as at 30.6.)



Capital expenditure in CZK billions (1.1.–30.6.)



Free cash flows in CZK billions (1.1.–30.6.)

CZK 1 billion to CZK 4 billion. Beginning in July 2003, ČESKÝ TELECOM utilised favourable market conditions and issued, within the scope of the same bond programme, a second issue of bonds totalling CZK 6 billion maturing in 2008 with a fixed coupon of 3.50% p.a.

At the end of the first half of 2003, **consolidated loans** totalled CZK 11.3 billion, compared to CZK 18.1 billion at the end of the same period last year; the consolidated value of cash and cash equivalents totalled CZK 10.6 billion compared to CZK 5.4 billion last year. **Gross gearing**, expressed as the ratio between consolidated loans and consolidated shareholder equity, was 12%. **Net gearing**, expressed as the ratio between consolidated loans less cash and cash equivalents and consolidated shareholder equity, decreased to less than 1%.

Investments

In line with our strategy of reducing and optimising the volume of capital expenditures, **consolidated capital expenditures** decreased 38% compared to last year, from CZK 4.4 billion to CZK 2.7 billion, while ČESKÝ

TELECOM's own capital expenditures decreased 43% to CZK 2.0 billion. During the first half of 2003, investments were directed toward the maintenance of existing network parameters and to new projects such as ADSL and Local Loop Unbundling (LLU), the result of an amendment this year to the Telecommunications Act. During the first half of 2002, investment volume was higher due to regulatory requirements, in particular the introduction of the Carrier Selection service and the renumbering process, both of which required the completion of network digitalisation. Investments are subject to very strict return and efficiency analyses for each project.

Based on the reduction of capital expenditures, ČESKÝ TELECOM has been able to generate positive free cash flows. During the first half of 2003, consolidated net cash flows from operating activities totalled CZK 8.5 billion. After the deduction of consolidated cash flows from investing activities, excluding the purchase of marketable securities and proceeds from marketable securities, the value of **consolidated free cash flows** increased from CZK 4.3 billion last year to

CZK 6.1 billion for the first half of 2003.

Dividends and the acquisition of Eurotel

At the General Meeting of 13 June 2003, the shareholders decided inter alia on two very financially important issues. The first was the decision to pay dividends from the 2002 financial result from retained earnings, in the total amount of CZK 18.5 billion. The payment of dividends is scheduled for 6 October 2003.

Shareholders also approved the closing of a contract for the purchase of the remaining 49% of Eurotel's equity capital from Atlantic West B.V. for USD 1.05 billion. The agreement was signed in June, though finalisation is contingent upon certain conditions, including the approval from the Office for the Protection of Competition. Finalisation of the transaction therefore should occur at the end of 2003 or the beginning of 2004. Once the transaction is finalised, ČESKÝ TELECOM will begin full consolidation of Eurotel in its financial accounts.

The payment of ČESKÝ TELECOM dividends will be financed out of the company's own resources.

The acquisition of Eurotel will be financed via external resources, and the chosen strategy has been selected in such a way that ČESKÝ TELECOM's rating would remain the same, which is A- from Standard & Poor's.

In connection with the approval of ČESKÝ TELECOM's acquisition of the remaining share of Eurotel, Eurotel's owners decided on the first profit distribution in the company's history, with CZK 10.98 billion to be paid out before finalisation of the acquisition.

Priorities of financial management during the second half of 2003

ČESKÝ TELECOM's management will continue to emphasise the efficiency of operational and investment expenditures, provisions for the protection of earnings, and the development of opportunities in the field of data and Internet services, which are vital for ČESKÝ TELECOM's ability to generate cash flows as one of the important parameters driving shareholder value. Supporting the attainment of this goal, in particular, are changes to ČESKÝ TELECOM's management model which will be implemented in the

beginning of the second half of 2003. The further reduction of the number of ČESKÝ TELECOM employees will also be part of this process.

Consolidated capital expenditure during the second half of 2003 will be at approximately the same level as during the first half of the year. Total consolidated capital expenditure for 2003 is not expected to exceed 15% of consolidated revenues. The expected consolidated value of depreciation and amortisation should develop in a similar way as in the first half of 2003, i.e., a slight decrease in comparison with the previous period.

In the second half of 2003, close attention will also be paid to the utilisation of assets created in 1995–2000 in accordance with the 1995 authorisation from the Ministry of Economy to establish and operate a unified telecommunications network and to provide public telephone services. Management and representatives of the statutory bodies will monitor the development of the economic value of these assets to ensure their proper presentation in the company's financial statements.

Key events in the first half of 2003

January In accordance with the provisions of the Telecommunications Act, we start to provide two new services, Carrier Pre-Selection and Number Portability / Implementation of the first stage of GovNet, a government network which is part of a larger public administration information systems and communications infrastructure project / Negotiations on wholesale ADSL-based broadband services begin; at the end of the first half of 2003, 22 wholesale agreements had been signed

February Introduction of the new Telekonto service enabling customers to call "from anywhere, as if they were calling from their own phone at home" / Launch of a portfolio of carrier services on the Slovak market / Eurotel becomes the only operator in the Czech Republic, and one of a few in the world, to offer individual customised tariffs / Eurotel, together with Ericsson, launch test operations of a UMTS network in the centre of Prague

March Provision of broadband Internet access to other operators and to direct customers begins as part of the IOL Broadband and IOL Broadband Profi services / ČESKÝ TELECOM connects to the international high-speed Cable & Wireless data network to provide International Frame Relay and ATM services

April Introduction of new tariff packages with accumulative free minutes and other benefits to complement our tariff packages for small and medium enterprises / Launch of a portfolio of carrier services on the Austrian market / Eurotel begins offering a new “Data Nonstop” tariff program providing post-paid customers with unlimited GPRS Internet access for a fixed monthly fee

May Introduction of four new tariff packages with a number of new services and advantages to complement our existing tariff packages for home users: Telefon 120, Telefon 120 Plus, Telefon 240, and Telefon 240 Plus / Implementation of the first successful mobile digital TV link for Czech Television

June Launch of a portfolio of carrier services on the German market / ČESKÝ TELECOM’s General Meeting approves the Board of Directors’ proposal to pay dividends totalling CZK 18.5 billion, i.e., CZK 57.50 per share / ČESKÝ TELECOM signs a contract with ATLANTIC West B.V. (AWBV) to purchase this company’s 49% share in Eurotel / Gabriel Berdár is elected Chairman of the Board of Directors & CEO

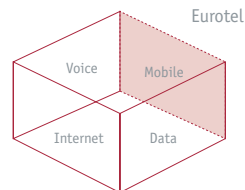


Improving

in every area

voice - data - Internet

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



ČESKÝ TELECOM

We care about our customers and are developing new services and products

In January 2003, in keeping with the Telecommunications Act, we began the provision of the Carrier Pre-Selection and Number Portability services. This has created fully competitive conditions in all customer segments, including the residential market segment. ČESKÝ TELECOM continues to focus on the quality, range and availability of services. We are enhancing our customer-differentiated approach and are able to provide all customers, from home users to small and medium enterprises to corporate clients, with affordable high-quality services.

ČESKÝ TELECOM's communications solutions include integrated product packages combining voice, data and Internet services. These services are based on our technically advanced network infrastructure, our wide geographic availability, and our knowledge of the market and its expectations. ČESKÝ TELECOM strives to achieve the maximum effectiveness of investment into network modernisation. We focus on areas directly related to the improvement of service quality, the development of new products, and the ability to respond to individual customer needs.

We react to our customers' needs

Residential segment services

The most important event on the residential market was the introduction of new tariff packages, which include transferable free minutes, competitive prices, and free supplemental services. In the first half of 2003 we introduced a number of new services, including the PřáTelé (Friends) service, with a 10% discount on calls to five selected numbers; Telekonto, a charge card enabling customers to make calls from any fixed-line telephone or public payphone with the corresponding connection charge added to their monthly telephone bill; and the Perličky (Pearls) service, which began by offering voice postcards and the CLIP service.

We reduced the installation fee for a new fixed line to CZK 1,500. When ordering a new line through this program, the customer is obliged

Small and medium enterprises services – Business segment

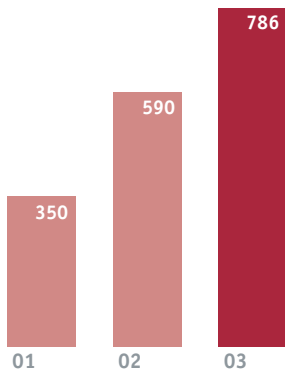
to pay for the line for 24 months. As part of the 3+1 promotion, every fourth minute of off-peak long-distance and international calling is free of charge. For March, to promote the Xcall service, we lowered the per call charge to CZK 3.80. The TELEPOINT and TELEPOINT PARTNER retail centres offered regular monthly discounts on terminal devices.

The Voice-SMS service and the sending of SMS messages to fixed lines was enabled on public payphones. We also implemented the Last Impulse service, which enables customers to use the entire amount of their telephone cards. The share of proactive telemarketing of total traffic at our Telephone Services Centre (TCS) increased to 18.5% in the first half of 2003, compared to 4.3% in 2002.

In the Internet service segment, we introduced ADSL-based broadband Internet access services. We also introduced a new service portfolio that focuses on the specific needs of individual customer groups. IOL Broadband Standard/Profi services were offered to the residential market segment. We implemented a connectivity guarantee for dial-up connection using a modem and a telephone line.

Customers in the small and medium enterprises segment were most interested in euroISDN services in the first half of 2003. This was also a result of two promotional campaigns, SPRINT and Digital World, during which we offered a euroISDN connection and selected terminal devices at bargain prices. Customers also appreciated the new Telekonto service.

In product development, we focused on provided services using new technological elements in our network. Using this platform, we intend to offer integrated solutions customised to meet our customers' needs. A new "Business" line of tariff packages was introduced in the voice service segment. We launched a pilot operation of the ProFi+ loyalty program, which was tested successfully by 30,000 customers. In the data service segment, the most important event in the first half of 2003 was the introduction of the IP Connect service. A number of additional value-added services were also introduced, making our services more technologically advanced than those of our competitors. As part of our expansion of data services, we implemented additional services such as Userview IP. Between the first and second



**Internet users (IOL & Quick)
in thousands (as at 30.6.)**

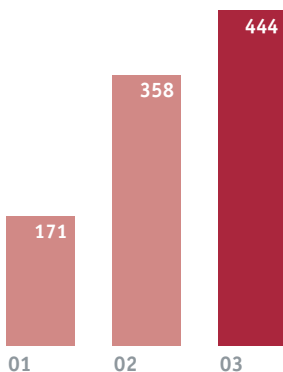
Corporate client services

halves of 2003, a new xDSL Ethernet-based service was introduced, offering fixed point-to-point connection of LAN's or single PC's. This service, offered in a wide range of connectivity, from 64 kbps to 2 Mbps, is intended for the small and medium enterprise segment and for corporate clients. The Ethernet service's higher connection speed – up to 100 Mbps – is ensured by the use of SDH technology.

IOL Broadband Profi and Standard high-speed broadband Internet access services were introduced in this segment as well. We also implemented a fast and intuitive system that gives our customers access to shared customer information and calendars, as well as strategic project management and new product development. Special Internet connection packages are offered to this segment. We concentrate on the maximum use of our infrastructure while offering connectivity and hosting services. Also, in co-operation with partners, we offer application outsourcing and the creation of a transparent environment for paid content.

At the beginning of 2003, we successfully launched a matrix of products under the name Comprehensive Integrated Solutions. These are solutions covering a number of various activities, mainly in the areas of IT, document management, CRM, ERP, video surveillance, control systems, and human resource management, etc. Customers gain added value in terms of cost savings, the efficient utilisation of resources, a greater degree of transparency of internal processes, increased labour productivity and adaptability to new technologies.

In the area of voice services, corporate clients in the first half of 2003 showed the greatest interest in VAVS (Value-Added Voice Services), products from the range of speciality Colour Lines, and TOP Price Plans. The Telekonto service has also been appreciated by this customer segment. Increases were also recorded for euroISDN30 and euroISDN2. The main innovations prepared in the first half of 2003 for corporate clients also include Private Telekonto, Datarif (a service with a special tariff), and SLA for euroISDN30. Customers benefited from a range of promotions for IN services and packages offering euroISDN lines.



**ISDN channels
in thousands (as at 30.6.)**

In the first half of 2003, we upgraded our Frame Relay services and introduced several additional attractive services for customers of IP Connect, for example Userveview IP.

For corporate clients, we also prepared special offers that enable our customers to optimise business data networks based on the technology of leased line services, as well as IP START, a new IP Connect network with discounted set-up charges, and the START Holiday offer, a new Frame Relay service without set-up charges and a discounted subscription fee.

As part of our long-term strategy, we place great emphasis on comprehensive solutions consisting of integrated products from the voice, data, Internet, software, hardware, finance, insurance, and comprehensive outsourcing areas. From our perspective, our greatest achievement in the corporate client segment has been our success in retaining most of our revenues through the delivery of comprehensive solutions.

We also continued our projects comprising services and comprehensive customer solutions for the governmental segment. This area includes the provision of “universal lines” to public and governmental authorities, authorised access services, centralised Internet access, centralised user support, management, supervision and hosting of central registers, and other services. We commissioned the first phase of the GovNet 1 government network into operation, allowing for interconnection of the Czech Statistical Office, the State Agricultural and Intervention Fund, and the Ministry of Information. More than 350 public agencies have entered into implementation agreements with us for the provision of communication services via the government Intranet. At the end of the first half of the year, we also launched a pilot operation of the Voice Virtual Private Network for the government. For corporate clients we prepared a solution for the implementation of a virtual university (e-learning).

We continue to be open partners at home and abroad

In the first half of 2003 we expanded our international wholesale business activities. We completed the construction of the international

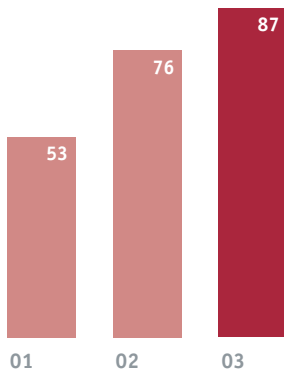
infrastructure that we began building in the third and fourth quarters of 2002. We obtained telecommunications licences for the commercial launch of our carrier services in Slovakia, Austria and Germany. In these countries, we launched a new portfolio of international data services operating on our own infrastructure, and we delivered on our first contracts. We also made strategic alliances with strong partners for the provision of international services (e.g., in Poland), and we entered into a number of negotiations with partners in other locations.

We were able to maintain the trend of increasing international voice traffic via the ČESKÝ TELECOM network. Our new Points of Presence (PoPs) abroad allowed us to accelerate the increase in the volume of traffic from the networks of international partners via our network to international destinations. We also maintained the trend of growing transit traffic from foreign partners to networks of other operators in the Czech Republic, in particular mobile networks, and from networks of domestic mobile operators to international destinations.

As required by the Telecommunications Act, we launched Carrier Pre-Selection and Number Portability services within our network, and we concluded required addenda to interconnection agreements with local operators. We began to provide wholesale broadband services on the ADSL platform, and to date we have signed wholesale agreements for these services with 22 companies, consisting of alternative operators (OLOs) as well as Internet service providers (ISPs). In comparison with other European countries, this is the highest number of such contracts to be concluded thus far. With OLOs, we have also agreed on conditions for the provision of our Transit service to the Internet.

We participate in the development of mobile services

In the first half of 2003, Eurotel confirmed its leading position on the Czech mobile services market. As at the end of the first half of the year, it had 3,993 thousand customers, a 12% increase compared to 30 June 2002. Eurotel emphasises the provision of innovative and value-added services. It continues to be the only Czech mobile operator to offer its customers a choice between two cutting-edge tech-



Growth in the Czech mobile market - number of MT per 100 inhabitants (as at 30.6.)

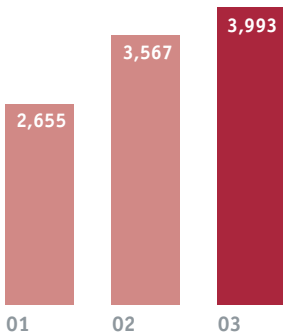
nologies for mobile (wireless) data transfer: GPRS and HSCSD. In cooperation with Orange, a Slovak operator, in February Eurotel became the first Czech operator (and one of the first operators in the world) to enable its customers to send and receive MMS messages to and from customers of a foreign operator.

In March, Eurotel launched a new SMS gateway, allowing all Internet and e-mail users to continue sending SMS messages free of charge. Sponsors will cover operating costs in exchange for the inclusion of their product and service promotions within the SMS messages.

From June, Eurotel is offering a new Missed Calls service, which informs Eurotel customers, free of charge, about callers that tried to reach them when their mobile phone was switched off. Eurotel was the first Czech operator to introduce a new MMS Postcard service, enabling users to send MMS messages as standard postcards, which recipients receive at a given postal address. Thanks to MMS Roaming, it is possible to send MMS postcards from 32 countries on three continents, usually at lower prices than those paid for sending a standard postcard through the postal service. As the general partner of the Czech National Ice Hockey Team, Eurotel brought its customers exclusive coverage from the 2003 World Championship in Finland. Services included a Eurotel Infoline where callers could learn Czech players' feelings before and after the match, as well as leave a ten-second voice message or SMS message for the Czech team. All Eurotel customers had the opportunity to receive updated information from the 2003 World Championship via SMS or MMS messages.

Go, a brand of Eurotel pre-paid services, introduced a change in calling charges in January. The Fun Go and Quatro Go tariffs now charge on a per-second basis after the first calling minute for all calls to mobile and fixed networks in the Czech Republic. Mobile communication with Go pre-paid services has thus become more effective. Go users may now use GPRS Instant for connecting to the Internet. Before, they could only use WAP for this purpose.

Eurotel is the only Czech operator (and one of a few operators in the world) that is now offering its customers the option of creating their own customised tariff program, Eurotel Individual, according to their individual needs and calling profiles, thus reducing costs. Since



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

the beginning of April, Eurotel post-paid customers have been able to benefit from a new tariff, Data Nonstop, which offers unlimited GPRS-enabled Internet access for a fixed monthly fee.

All Eurotel corporate clients who have a Framework Agreement now have the option to subscribe to the new Eurotel Team service, which allows all corporate clients to call at preferential rates, not only within the company, but also to the most frequently called numbers outside the company. Eurotel also launched the Eurotel Global Access service which, from February, provides a simple, cost-effective and reliable mobile data connection to subscribers when abroad. Designed for anyone requiring access to e-mail and information while on the road, Global Access provides reliable links to the Internet or company Intranets.

In the first half of 2003, Eurotel further expanded the network of its roaming partners. Eurotel customers may now call and send SMS messages within the networks of 279 mobile operators in 126 countries around the world. Thanks to GPRS roaming, they may also send MMS messages accompanied by an audio recording or text in 32 countries. Additionally, in 21 countries, customers may use HSCSD roaming for e-mail or Internet use.

At the start of February, Eurotel, together with Ericsson, one of the leading manufacturers of telecommunications networks, launched a UMTS (third-generation mobile services) trial network in the centre of Prague. Although this network is not yet available to the public, it allows for the testing of all key UMTS services. It supports video calls, multi-player multimedia gaming, and Internet access at speeds of up to 360 kbps.

From the start of 2003, Eurotel has entrenched its position in the corporate client segment. It gained a number of major companies and renewed contracts with thousands of its current corporate clients.

We take advantage of modern infrastructure and new technologies

In the first half of 2003, we continued to prepare the Local Loop Unbundling service (LLU). We implemented the vast Emergency Call Centre TCTV 112 project, which, in co-operation with state authorities,

provides a comprehensive system for handling emergency calls from throughout the whole territory of the Czech Republic. We continued working on the Contribution and Distribution System for the Czech Television project, including the implementation of mobile broadcasting units. We invested in the preparation of a CRM system and its interface with the order management system for leased lines.

We stress an environmental approach

We continue in our commitment to the ETNO Environmental Charter. Following the successful certification for the environmental management system according to the ČSN EN ISO 14001 standard in the Královéhradecký region, a presentation was made on ETNO structures. The course taken by ČESKÝ TELECOM in implementing the Charter was appreciated, not least due to the fact that it puts corporate conduct in line with the principles of sustainable development.

We support charities, culture and sport

In the first half of 2003 we continued our scheduled activities in the area of charities, culture and sport. We began a new project as part of our traditional partnership with Czech theatre. Nine Thalia nominee theatre troupes were selected, and we pledged to support one production out of their schedule for the 2003-04 season. The aim of this sponsorship is to spread support to Czech theatre over more regions and to increase opportunities for the public to enjoy the dramatic arts. For the ninth year in a row, ČESKÝ TELECOM supported the Safety Line emergency help-line for children.

Representatives of the Eurotel Foundation announced the second year of the Regional Grants Programme, which will distribute a total of CZK 11 million. The Programme focuses on children and youth development. Eurotel Foundation grants will aid children disadvantaged by their social or health conditions, supporting the implementation of projects aimed at the active usage of leisure time and education. The Regional Grant Programme will also help to resolve problems that children and youth have with communication.

Our plans for the second half of 2003

We want to continue to offer good conditions for all players on the market

Our company intends to remain the leading operator on the Czech telecommunications market and, prior to privatisation, we want to become the most attractive investment opportunity in Central Europe. In the second half of 2003, we will continue to develop business relations with other entities to support the overall growth of the market and the penetration of telecommunications services to all customer segments. These relations will follow the principles of mutual profitability.

Maintenance of ČESKÝ TELECOM's position on the local telecommunications market will be supported by changes in the principles of corporate governance in line with the resolutions of the General Meeting of shareholders of 13 June 2003. These changes aim to improve the company's performance and to keep pace with the dynamic and rapidly evolving telecommunications market. We will also prepare and motivate our employees to be flexible enough to meet our customers' needs and to gain financial advantages for the company.

We intend to further deepen our differentiated approach to customers in line with our Market and Operating Strategies for individual market segments. Our existing range of telecommunications products will be complemented by IT products and services, content services, new value-added services, and wholesale activities beyond the territory of the Czech Republic. We want to develop optimally and support standard dial-up Internet access for residential customers in particular, thus continuing to increase the level of information literacy within society at large. We want to enter new areas of the telecommunications market selectively, particularly by providing broadband Internet access products, wired (xDSL) as well as wireless access, and by offering virtual private network services.

ČESKÝ TELECOM will continue to develop partnerships with other licensed operators, Internet service providers and other players on the local telecommunications market. In doing so, we want to follow up on the successful start of such co-operation in the area of ADSL-based broadband Internet access in the first half of 2003.

Through Eurotel, we will continue to provide premium mobile telecommunications services and will bring our customers increased value by means of innovative services, including information, entertainment and data services. Due to the high penetration of mobile services, we will continue to focus not only on the acquisition of new customers, but increasingly on caring for existing customers by means of our optimised service offers for each customer segment.

Corporate governance

The Board of Directors (as at 31 July 2003)

Gabriel Berdár

Chairman of the Board of Directors

Juraj Šedivý

First Vice-Chairman of the Board of Directors

Petr Slováček

Second Vice-Chairman of the Board of Directors

Hana Doležalová

Member of the Board of Directors

One member position has been left open

The Supervisory Board (as at 31 July 2003)

Ondřej Felix

Chairman of the Supervisory Board

Míchal Frankl

First Vice-Chairman of the Supervisory Board

André Frans Bessel Kok

Second Vice-Chairman of the Supervisory Board

Adam Blecha

Member of the Supervisory Board

Pavel Kuta

Member of the Supervisory Board

Jan Juchelka

Member of the Supervisory Board

Zdeněk Hrubý

Member of the Supervisory Board

Günter Heinz Pfeiffer

Member of the Supervisory Board

Petr Kučera

Member of the Supervisory Board

Lubomír Vinduška

Member of the Supervisory Board

Pavel Heršтик

Member of the Supervisory Board

Miloslav Krch

Member of the Supervisory Board

Petr Zatloukal

Member of the Supervisory Board

Dušan Stareček

Member of the Supervisory Board

Vlastimil Barbořák

Member of the Supervisory Board

At the regular General Meeting of 13 June 2003, the shareholders approved the financial statements based on the recommendation of the Supervisory Board and resolved to approve the Board of Directors' proposal for the payment of dividends in the total amount of CZK 18.5 billion, i.e., CZK 57.50 per share. Shareholders received information on ČESKÝ TELECOM's Dividend Policy, which the Board of Directors intends to observe in the future when making proposals for the distribution of profits to shareholders at General Meetings. For fiscal years 2003 and 2004, the Policy provides that dividends will be in an amount corresponding to 50–70% of consolidated net profit according to International Financial Reporting Standards. A precondition for the payment of dividends in the amount envisaged by the Dividend Policy is, among others, that the rating of the company will not be reduced below the present level.

Shareholders approved the conclusion of the Sale and Purchase Agreement for the transfer of ATLANTIC West B.V.'s share in Eurotel to ČESKÝ TELECOM. The transaction is contingent on meeting other conditions, including an approval by the Office for the Protection of Economic Competition. After the close of the transaction, ČESKÝ TELECOM will be the 100% owner of Eurotel.

By approving the decision on an amendment to the company's Articles of Association, the General Meeting decided on changing the company's corporate governance model to the "German model," which gives significantly greater powers to the Supervisory Board. The Articles of Association as amended provide that members of the Board of Directors are elected and recalled not by the General Meeting but by the Supervisory Board. This change is followed by some adjustments to the powers of the General Meeting and the Supervisory Board as envisioned in Czech legislation, including changes resulting from the Supervisory Board's stronger position in the company. As a result of the new corporate governance model, the Board of Directors is required to seek approval of the Supervisory Board for a number of actions (e.g., disposal of company assets whose value exceeds a certain threshold), or to request the Supervisory Board's opinion on cer-

tain matters (e.g., for stipulation of the annual financial budget, the annual capital budget and the annual operating budget), or to inform the Supervisory Board of its actions (e.g., entering into contracts whose value exceeds a certain threshold). The Board of Directors has five members as opposed to the nine it had in the past, and the Supervisory Board has the same number of members (15). In order to support the execution of its activities, the Supervisory Board has the right to establish committees as advisory and initiative bodies. As per the Articles of Association, the Supervisory Board always appoints the Staff and Remuneration Committee and a Finance and Audit Committee. As a result of its greater powers, the Supervisory Board will now meet not on a quarterly basis, but at least twelve times in a calendar year.

As a result of the changes in ČESKÝ TELECOM's corporate governance, changes occurred in the composition of the company's Supervisory Board and Board of Directors through resignations from the office of a member of the Board of Directors, by a decision of the General Meeting to recall and elect members of the Supervisory Board, and by a decision of the Supervisory Board to elect members of the Board of Directors. At the end of June 2003, elections for those members of the Supervisory Board that are elected by employees took place, which resulted in a partial change of those members of the Supervisory Board. The chairing positions in the Board of Directors and the Supervisory Board were also changed. As at 15 June, based on a decision of the Board of Directors on appointment, Mr. Gabriel Berdár is the company's Chief Executive Officer.

Consolidated financial statements prepared in accordance with IFRS



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

Consolidated income statement

	30.6.2003	30.6.2002	30.6.2001
Revenue	25,410	26,134	28,196
Operating expenses	(22,164)	(22,160)	(23,110)
Operating profit	3,246	3,974	5,086
Finance costs (net)	(236)	(57)	(833)
Profit before tax	3,010	3,917	4,253
Tax	(740)	(1,286)	(1,322)
Group profit before minority interest	2,270	2,631	2,931
Minority interest	7	-	-
Net profit	2,277	2,631	2,931

Consolidated balance sheet

	30.6.2003	31.12.2002	31.12.2001
ASSETS			
Property, plant and equipment	114,231	119,498	126,630
Intangible assets	9,824	11,341	13,169
Available-for-sale investments	236	241	1,023
Held-to-maturity investments	115	130	-
Non-current assets	124,406	131,210	140,822
Inventories	1,046	1,409	1,925
Receivables and prepayments	9,367	8,431	8,857
Available-for-sale investments	1,022	5,529	2,147
Held-to-maturity investments	16	1,431	-
Cash and cash equivalents	9,567	8,341	5,346
Current assets	21,018	25,141	18,275
Total assets	145,424	156,351	159,097
EQUITY AND LIABILITIES			
Ordinary shares	32,209	32,209	32,209
Share premium	30,816	30,816	30,816
Retained earnings and reserves	31,475	48,247	43,998
Share capital and reserves	94,500	111,272	107,023
Minority interest	33	45	39
Borrowings	10,365	9,514	19,202
Deferred taxes	11,260	11,632	11,184
Non-current liabilities	21,625	21,146	30,386
Borrowings	931	12,513	7,801
Trade and other payables	28,335	11,375	13,848
Provisions for liabilities and charges	-	-	-
Current liabilities	29,266	23,888	21,649
Total liabilities	50,891	45,034	52,035
Total equity and liabilities	145,424	156,351	159,097

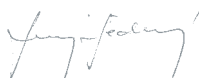
Consolidated cash flow statement

	30.6.2003	30.6.2002	30.6.2001
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	10,787	11,211	11,291
Interest paid	(1,165)	(1,990)	(1,113)
Income tax paid	(1,106)	(445)	(474)
Net cash from operating activities	8,516	8,776	9,704
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(2,956)	(4,709)	(4,672)
Purchase of intangible fixed assets	(430)	(669)	(2,866)
Purchase of marketable securities	(160)	(1,122)	(357)
Disposal of tangible fixed assets	169	277	280
Proceeds from marketable securities	6,057	2,289	2,275
Interest received	776	649	137
Net cash used in investing activities	3,456	(3,285)	(5,203)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings	1,416	637	0
Repayment of borrowings	(12,190)	(7,746)	(3,236)
Additional contribution of minority shareholders to equity of CenTrade	0	57	0
Net cash used in financing activities	(10,774)	(7,052)	(3,236)
Net increase/(decrease) in cash and cash equivalents	1,198	(1,561)	1,265
Cash and cash equivalents at beginning of year	8,305	5,162	1,676
Effects of exchange rate changes	5	(68)	71
Cash and cash equivalents at end of period	9,508	3,533	3,012

These consolidated financial statements were approved by the Board of Directors and were signed on its behalf on 23 July 2003 by:



Gabriel Berdár
Chairman of the Board of Directors
& CEO



Juraj Šedivý
First Vice-Chairman of the Board of Directors
and Chief Financial Officer

Financial Statements of ČESKÝ TELECOM, a.s.



Financial statements were prepared in accordance with the Act on Accounting and other relevant legislation of the Czech Republic. These statements are unaudited. All amounts are in CZK thousands.

Note: Figures for previous years are presented for comparison in accordance with current legislation valid since 1.1.2003.

Balance Sheet – full version as at 30 June 2003

Ref.	ASSETS	Row number	30.6.2003			31.12.2002	31.12.2001
			Gross	Provision	Net	Net	Net
a	b	c	1	2	3	4	5
	TOTAL ASSETS	001	223,539,729	(93,886,685)	129,653,044	137,602,917	143,563,435
A.	Receivables for subscribed capital	002					
B.	Fixed assets	003	201,816,277	(91,710,568)	110,105,709	117,456,988	127,807,936
B.I.	Intangible fixed assets	004	16,182,238	(8,573,843)	7,608,395	9,110,874	11,103,579
	1. Establishment costs	005					
	2. Research & development	006	493,600	(266,270)	227,330	235,713	63,374
	3. Software	007	15,393,508	(8,222,134)	7,171,374	8,425,767	9,171,518
	4. Royalties	008	235,048	(85,439)	149,609	126,126	3,952
	5. Goodwill	009					
	6. Other intangible fixed assets	010					
	7. Intangible assets in the course of construction	011	60,082		60,082	310,722	1,758,901
	8. Advances paid for intangible assets	012				12,546	105,834
B.II.	Tangible fixed assets	013	184,224,498	(82,503,156)	101,721,342	106,466,737	113,670,236
	1. Land	014	582,540		582,540	592,042	631,452
	2. Constructions	015	110,668,687	(39,516,832)	71,151,855	72,948,090	76,066,134
	3. Equipment	016	70,539,383	(42,889,546)	27,649,837	29,862,417	32,081,670
	4. Cultivated areas	017					
	5. Livestock	018					
	6. Other tangible fixed assets	019	5,216		5,216	5,303	8,088
	7. Tangible assets in the course of construction	020	2,248,704		2,248,704	3,049,169	4,636,208
	8. Advances paid for tangible fixed assets	021	88,422	(5,232)	83,190	9,716	194,655
	9. Adjustment to acquired fixed assets	022	91,547	(91,547)			52,029
B.III.	Long-term investments	023	1,409,541	(633,569)	775,972	1,879,377	3,034,121
	1. Investments in subsidiaries	024	808,468	(633,569)	174,899	263,922	78,669
	2. Investments in associates	025	233,843		233,843	233,843	233,843
	3. Other long-term investments in securities	026	367,110		367,110	1,374,582	2,714,489
	4. Intragroup loans	027				6,850	6,850
	5. Other long-term financial investments	028	120		120	180	270
	6. Long-term investments in progress	029					
	7. Advances paid for long-term investments	030					
C.	Current assets	031	21,375,349	(2,176,117)	19,199,232	19,771,718	14,795,524
C.I.	Inventories	032	1,141,688	(202,571)	939,117	956,074	1,212,700

Ref.	ASSETS	Row number c	30.6.2003			31.12.2002	31.12.2001
			Gross 1	Provision 2	Net 3	Net 4	Net 5
a	b						
	1. Raw materials	033	1,056,583	(202,571)	854,012	880,152	1,090,056
	2. Work in progress and semi-finished products	034					
	3. Finished goods	035					
	4. Livestock	036					
	5. Goods for resale	037	85,105		85,105	75,922	122,630
	6. Prepayments for inventory	038					14
C.II.	Long-term receivables	039	184,836		184,836	191,113	190,621
	1. Long-term trade receivables	040	118,117		118,117	119,510	116,304
	2. Long-term receivables from subsidiaries	041					
	3. Long-term receivables from associates	042					
	4. Long-term receivables from shareholders/owners	043					
	5. Anticipated assets	044					
	6. Other long-term receivables	045	66,719		66,719	71,603	74,317
	7. Deferred tax asset	046					
C.III.	Short-term receivables	047	14,735,896	(1,973,546)	12,762,350	7,976,480	7,951,867
	1. Trade receivables	048	5,218,355	(1,885,399)	3,332,956	5,607,626	5,385,968
	2. Receivables from subsidiaries	049	59,992		59,992		
	3. Receivables from associates	050					
	4. Receivables from shareholders/owners	051	123,812		123,812	123,812	123,812
	5. Receivables from social security and health insurance	052					
	6. Taxes and state subsidies receivable	053	238,607		238,607	503,695	512,591
	7. Other prepayments	054					
	8. Anticipated assets	055	8,156,302		8,156,302	1,629,018	1,708,355
	9. Other receivables	056	938,828	(88,147)	850,681	112,329	221,141
C.IV.	Short-term financial assets	057	5,312,929		5,312,929	10,648,051	5,440,336
	1. Cash in hand	058	9,137		9,137	61,019	42,344
	2. Cash at bank	059	36,643		36,643	525,737	27,906
	3. Short-term investments	060	5,267,149		5,267,149	10,061,295	5,370,086
	4. Short-term investments in progress	061					
D.I.	Accruals and deferrals	062	348,103		348,103	374,211	959,975
	1. Prepaid expenses	063	346,765		346,765	372,872	494,907
	2. Complex prepayments	064					
	3. Accrued revenue	065	1,338		1,338	1,339	465,068

Balance Sheet – full version as at 30 June 2003

Ref.	LIABILITIES AND EQUITY	Row number	30.6.2003	31.12.2002	31.12.2001
a	b	c	6	7	8
	TOTAL LIABILITIES AND EQUITY	066	129,653,044	137,602,917	143,563,435
A.	Equity	067	83,219,675	94,624,239	93,922,144
	Registered capital	068	32,208,990	32,208,990	32,208,990
1.	Registered capital	069	32,208,990	32,208,990	32,208,990
2.	Own shares held	070			
3.	Changes in registered capital not yet registered	071			
A.II.	Capital contributions	072	31,809,099	30,501,382	31,483,483
1.	Share premium	073	29,343,185	29,343,185	29,343,185
2.	Other capital contributions	074	2,120,644	2,120,641	2,140,298
3.	Assets and liabilities revaluation	075	345,270	(962,444)	
4.	Merger revaluation reserve	076			
A.III.	Reserve fund, non-distributable reserves and other funds from profit	077	5,556,142	5,442,453	5,382,594
1.	Statutory reserve fund / non-distributable funds	078	5,498,065	5,409,049	5,344,458
2.	Statutory and other reserves	079	58,077	33,404	38,136
A.IV.	Retained earnings	080	7,801,296	24,691,099	23,555,267
1.	Retained profits	081	7,801,296	24,691,099	23,555,267
2.	Accumulated losses	082			
A.V.	Profit (loss) for the current period	083	5,844,148	1,780,315	1,291,810
B.	Liabilities	084	45,923,238	39,745,907	45,433,182
B.I.	Provisions	085	539,678	174,174	1,300,678
1.	Reserves based on special legal acts	086			
2.	Pensions and other post retirement obligations	087			
3.	Income tax	088	270,812		
4.	Other provisions	089	268,866	174,174	1,300,678
B.II.	Long-term liabilities	090	13,905,612	12,491,742	21,165,840
1.	Long-term trade liabilities	091			12,197,931
2.	Long-term liabilities to subsidiaries	092			
3.	Long-term liabilities to associates	093			
4.	Long-term liabilities to shareholders	094			
5.	Long-term advances received	095			
6.	Debentures and bonds issued	096	4,000,000	3,000,000	
7.	Long-term bills of exchange payable	097			
8.	Anticipated liabilities	098			
9.	Other long-term liabilities	099			
10.	Deferred tax liability	100	9,905,612	9,491,742	8,967,909

Ref.	LIABILITIES AND EQUITY	Row number	30.6.2003	31.12.2002	31.12.2001
a	b	c	6	7	8
B.III.	Short-term liabilities	101	25,384,322	21,273,540	9,750,001
1.	Trade payables	102	158,985	2,170,850	2,431,908
2.	Liabilities to subsidiaries	103		12,052,990	
3.	Liabilities to associates	104			
4.	Liabilities to shareholders/owners	105	18,522,481	2,331	2,705
5.	Payroll payable and other liabilities to employees	106	3,124	281,701	256,369
6.	Liabilities to social security and health insurance	107		155,582	158,357
7.	Taxes and state subsidies payable	108	77	73,472	63,244
8.	Short-term advances received	109	184,279	97,609	85,405
9.	Debentures and bonds issued	110			
10.	Anticipated liabilities	111	6,446,609	5,554,016	6,479,081
11.	Other payables	112	68,767	884,989	272,932
B.IV.	Bank loans & overdrafts	113	6,093,626	5,806,451	13,216,663
1.	Long-term bank loans	114	5,621,067	5,770,682	6,133,898
2.	Short-term bank loans and overdrafts	115	472,559	35,769	82,765
3.	Other short-term borrowings	116			7,000,000
C.I.	Accruals and deferrals	117	510,131	3,232,771	4,208,109
1.	Accruals	118	432,706	595,730	1,723,634
2.	Deferred revenue	119	77,425	2,637,041	2,484,475

Income statement – full version for the six-month period ending 30 June 2003

Ref.	DESCRIPTION	Row number	Accounting period		
			30.6.2003	30.6.2002	30.6.2001
a	b	c	1	2	3
I.	Sales of goods	01	118,905	139,811	161,586
A.	Cost of goods sold	02	157,098	233,096	148,930
+	Gross profit	03	(38,193)	(93,285)	12,656
II.	Sales of production	04	18,436,960	19,350,858	21,662,811
1.	Sales of own products and services	05	18,162,835	18,848,283	21,281,111
2.	Change in inventory of finished goods and work in progress	06			
3.	Own work capitalised	07	274,125	502,575	381,700
B.	Cost of sales	08	6,025,224	5,625,909	7,330,806
1.	Raw materials and consumables	09	821,782	1,157,629	1,093,164
2.	Services	10	5,203,442	4,468,280	6,237,642
+	Added value	11	12,373,543	13,631,664	14,344,661
C.	Staff costs	12	3,268,249	3,286,412	3,424,913
1.	Wages and salaries	13	2,354,784	2,371,393	2,495,632
2.	Emoluments of board members	14	4,935	6,663	8,812
3.	Social security costs	15	764,759	757,277	793,905
4.	Other social costs	16	143,771	151,079	126,564
D.	Taxes and charges	17	44,677	61,608	33,713
E.	Depreciation of long-term assets	18	8,081,598	8,167,380	7,295,143
III.	Sale of long-term assets and raw materials	19	181,738	362,496	323,688
1.	Sale of long-term assets	20	162,800	274,712	279,922
2.	Sale of raw materials	21	18,938	87,784	43,766
F.	Net book amount of long-term assets and raw materials sold	22	141,299	103,314	228,676
1.	Net book amount of long-term assets	23	128,648	92,099	189,301
2.	Raw material sold	24	12,651	11,215	39,375
G.	Change in provisions and reserves including complex prepayments (operating)	25	44,276	420,770	214,575
IV.	Other operating income	26	129,174	78,280	12,447
H.	Other operating charges	27	254,793	140,623	106,669
V.	Adjustments to operating income	28			
I.	Adjustments to operating expense	29			
*	Operating result	30	849,563	1,892,333	3,377,107
VI.	Income from sales of securities and shares	31	6,593,934	1,842,773	551,189
J.	Securities and shares sold	32	6,608,718	1,842,884	551,199
VII.	Income from long-term investments	33	4,766,971	34,846	117,859

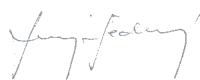
Ref.	DESCRIPTION	Row number	Accounting period		
			30.6.2003	30.6.2002	30.6.2001
a	b	c	1	2	3
	1. Income from investments in subsidiaries	34	4,758,769		
	2. Income from investments in other participating interests	35	8,179	7,866	68,405
	3. Income from other long-term investments	36	23	26,980	49,454
VIII.	Income from short-term investments	37	106,177	34,486	117,922
K.	Loss on investments	38	6,202	5,671	
IX.	Gain on revaluation of securities and derivatives	39			
L.	Loss on revaluation of securities and derivatives	40	556,276		
M.	Change in provisions and reserves (financial)	41	(4,377)	(1,848,206)	80,219
X.	Interest income	42	62,031	3,905	12,248
N.	Interest expense	43	621,307	703,422	1,172,045
XI.	Other financial income	44	2,871,220	4,281,331	309,119
O.	Other financial expense	45	1,118,497	2,913,463	1,027,160
XII.	Adjustments to financial income	46			
P.	Adjustments to financial expense	47			
*	Financial result	48	5,493,710	2,580,107	(1,722,286)
Q.	Tax on profit or loss on ordinary activities	49	487,634	1,443,759	532,639
	1. Current	50	487,634	1,443,759	532,639
	2. Deferred	51			
**	Profit or loss on ordinary activities after taxation	52	5,855,639	3,028,681	1,122,182
XIII.	Extraordinary charges	53	216,467	27,191	173,244
R.	Extraordinary income	54	227,958	1,154	128,127
S.	Tax on extraordinary profit or loss	55			
	1. Current	56			
	2. Deferred	57			
*	Profit (loss) on extraordinary items after taxation	58	(11,491)	26,037	45,117
T.	Profit (loss) share apportioned to partners (partnership only)	59			
***	Net profit (loss) for the financial period	60	5,844,148	3,054,718	1,167,299

These financial statements were approved by the Board of Directors and were signed on its behalf on 23 July 2003 by:



Gabriel Berdár

*Chairman of the Board of Directors
& CEO*



Juraj Šedivý

*First Vice-Chairman of the Board of Directors
and Chief Financial Officer*

Shareholder information

Market capitalisation and trading volume make ČESKÝ TELECOM one of the leading companies on the Czech capital market. Company shares are also traded on the London Stock Exchange (LSE) in the form of Global Depository Receipts (GDR's).

Share price of ČESKÝ TELECOM shares

At the end of the first half of 2003, the price of ČESKÝ TELECOM shares on the Prague Stock Exchange (PSE) was CZK 282.50, representing a year-on-year growth of 16%. Market capitalisation was, as at the same date, CZK 91 billion. The development of ČESKÝ TELECOM's share price was influenced by the volatile global and, in particular, European capital markets. Share price fluctuations in June are attributable to the announcement of the dividend and the terms and conditions of the acquisition of the remaining 49% of Eurotel. In connection with the publication of these facts, the share price peaked at CZK 373.80 on 6 June 2003.

Dividends

At the General Meeting of 13 June 2003 in Prague, shareholders decided to pay dividends from the company's profit of 2002 and from a part of the retained earnings of previous periods, in the amount of CZK 57.50 before tax per one share in the nominal value of CZK 100, or CZK 575 before tax per one share in the nominal value of CZK 1,000. The record date for the establishment of the right to a dividend was set as 27 June 2003. Dividends will be paid on 6 October 2003. The dividend will be paid to shareholders through Československá obchodní banka, a.s.

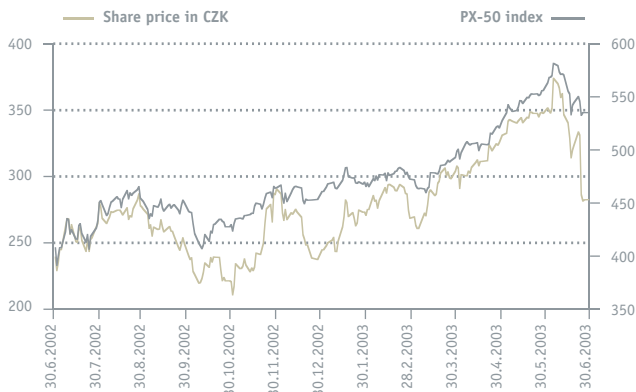
Institutional investors and shareholders may contact:

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ČESKÝ TELECOM's shareholders	as at 30 June 2003
National Property Fund of the Czech Republic	51.1%
TelSource N.V. ¹⁾	27.0%
Investment funds and individual shareholders ²⁾	21.9%

- 1) TelSource N.V. is a Dutch-Swiss consortium owned by KPN Telecom B.V. (51%) and Swisscom AG (49%)
- 2) On 24 June 2003, ČESKÝ TELECOM received notification by KPN Telecom B.V. on the reduction of its share in the voting rights in the joint-stock company ČESKÝ TELECOM from 6.48% to 0.00%. The effective date of the change is 19 June 2003.

Share Price of ČESKÝ TELECOM Shares on the Prague Stock Exchange





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