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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.

Letter from the Chairman of the Board of Directors and CEO



Dear Shareholders,

Let me briefly comment on the activities of the ČESKÝ TELECOM Group in the first half of 2004. These include the Group's focus on the development and roll out of new growth services, improvement of operating and financial efficiencies to achieve operating and capital expenditures savings in order to protect margins, and generation of free cash flows. The dynamics of the telecommunication market and our results during this period confirmed that the Group is on track to achieve its transformation goals, as presented in November of last year, in order to further contribute to shareholders' value.

The first six months of 2004 showed a continuing growth of demand for Internet, data and other value-added services, both in the fixed line and mobile technology areas. The range of products and services of the ČESKÝ TELECOM Group has espoused the trend, while still being most accommodating to the ever-changing needs of our customers. One of the main goals of the Group continues to be providing quality services, thereby meeting customers' needs in the highly competitive and dynamic Czech telecommunications market.

In line with our efforts, in May, we launched INTERNET EXPRESS, a new broadband Internet service, which also offers attractive voice service programs bundled under a single monthly fee. To follow up on this service, we, as the first operator in Central and Eastern Europe to offer an entertainment service, launched a unique entertainment portal from which our customers can download movies and music. We believe that the expanded offer will help to increase our share of revenues from Internet and similar fixed line technology services, thus partly compensating for the declining revenues from traditional voice services.

Furthermore, the offering of Eurotel, our 100% subsidiary, which is fully consolidated in ČESKÝ TELECOM Group's results, focused primarily on the area of mobile data services. As an example, Eurotel is marketing music downloads, the first European mobile operator in history to offer this service. In addition, Eurotel's integrated web and mobile portal enables customers to set-up their handsets and services, and provides games, news, and other information services.

The first results of synergies between ČESKÝ TELECOM and Eurotel are beginning to emerge. INTERNET EXPRESS is also being sold through Eurotel's brand stores. Further, in the area of data services, both companies offer seamless wireless Wi-Fi Internet access by means of mutual roaming. The joint network covers 163 hot spots in the Czech Republic.

Full consolidation of Eurotel's results had a positive effect on the financial profile of the ČESKÝ TELECOM Group in the first half. Consolidated revenues grew 23% year on year to CZK 31 billion, while operating costs increased to CZK 16 billion over the same period, resulting in a consolidated EBITDA of CZK 15 billion and EBITDA margin of 49%. Performance of the ČESKÝ TELECOM Group, measured by EBITDA margin is still above the average of other companies in the telecommunications industry, despite the ongoing unfavorable regulatory environment.

These results are evidence of management's focus on improving operating and financial performance, operating and capital expenditure discipline, free cash generation and gradual debt reduction. The fixed line business has also achieved significant operating and workforce

improvement. Fixed line headcount was reduced by 26% compared to the same period last year, improving the operating efficiency indicator of lines per employee by 30% yoy to 368 as at the end of June 2004.

An important event for the company's shareholders in the first half of 2004 was the declaration of a dividend, which was approved by the General Meeting on June 24, 2004. The gross dividend amounts to CZK 5.476 billion, or CZK 17 per share, and is payable on October 20, 2004.

Goals of the company management for the second half of the year are based on the Transformation Program and follow the results of the first six months. One of the main objectives continues to be meeting our customers' needs while remaining focused on operating and financial performance, low capital expenditure and high free cash flows.

Gabriel Berdár

CHAIRMAN OF THE BOARD OF DIRECTORS AND CEO

28 JULY 2004

Calendar of Events – 1st Half of 2004

January

- > ČESKÝ TELECOM established 15 thousand ADSL connections over the country, less than 10 months since the launch of the service.
- > Eurotel introduced four new Top service packages of services for corporate and residential post-paid customers (Eurotel Top Minuty, Eurotel Top SMS, Eurotel Top Noc, Eurotel Top Pevná).

February

- > ČESKÝ TELECOM started the pilot operation of a flat-rate dial-up Internet access service.
- > ČESKÝ TELECOM announced its selected preliminary unaudited consolidated results for fiscal year 2003 prepared according to International Financial Reporting Standards. Eurotel extended its general partnership agreement with football club AC Sparta Praha fotbal, a.s., by another three years.

March

- > Users of dial-up Internet access service of ČESKÝ TELECOM can now establish a data connection 30% faster on average.
- > ČESKÝ TELECOM announced its audited consolidated financial results for fiscal year 2003 prepared according to International Financial Reporting Standards. With revenues of CZK 51.5 billion, the ČESKÝ TELECOM Group showed a consolidated loss of CZK 1.8 billion, mainly due to the one-off impairment charge of CZK 9.9 billion.
- > Eurotel launched Eurotel Live!, its first integrated web and mobile portal.
- > Eurotel became the winner of the International Stevie Award in the “Overall Design” category for the Best Corporate Website.
- > Eurotel became the sponsor of World Ice Hockey Championship 2004.

April

- > ČESKÝ TELECOM approved the Founder’s Deed of subsidiary company Eurotel Praha, spol. s r.o. The document replaced the previously valid Articles of Association between the owners.
- > ČESKÝ TELECOM, Siemens and T-Systems agreed on co-operation in the area of electronic toll systems.
- > ADSL Internet access has been taken up by almost 21 thousand ČESKÝ TELECOM customers.
- > ČESKÝ TELECOM announced its unaudited consolidated financial results for the first quarter of 2004. The results were prepared under International Financial Reporting Standards and include the full consolidation of Eurotel, a wholly owned subsidiary company.

May

- > ČESKÝ TELECOM customers can now send SMS messages from their fixed lines for CZK 1.
- > ČESKÝ TELECOM obtained a permission for pilot operation of digital television broadcasting from the Czech Telecommunications Office.
- > ČESKÝ TELECOM launched INTERNET EXPRESS, unlimited data broadband Internet service.
- > ČESKÝ TELECOM is the first operator in Central and Eastern Europe to launch a unique entertainment portal www.starzone.cz.
- > ČESKÝ TELECOM and Eurotel concluded a roaming agreement, providing for mutual sharing of Wi-Fi Hot Spots.
- > Eurotel paid ČESKÝ TELECOM part of the retained profits from previous periods, amounting to CZK 4 billion.

June

- > ČESKÝ TELECOM’s Regular General Meeting was held, attended by shareholders owning 65.8% of shares. The shareholders approved a proposal of the Board of Directors for the payment of a dividend for 2003 of CZK 17 per share from a part of retained profits from previous years, in a total amount of CZK 5.476 billion.
- > Potential coverage of broadband Internet access increased to 63.5% of all telephone lines of ČESKÝ TELECOM. The service is now available to 2,285,000 customers.
- > The Czech Telecommunications Office extended ČESKÝ TELECOM’s telecommunications license for public telecommunications network operation by including digital television and radio signal broadcasting via terrestrial transmitters. ČESKÝ TELECOM has fulfilled another condition to launch its own commercial digital television broadcasting.
- > Eurotel, together with Chaoticom, a music service provider, was awarded MEF Best Contribution to Mobile Music 2004 and MEF Best in Show 2004 for Jukebox service.

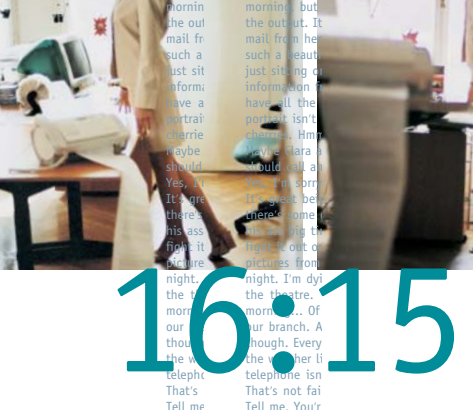
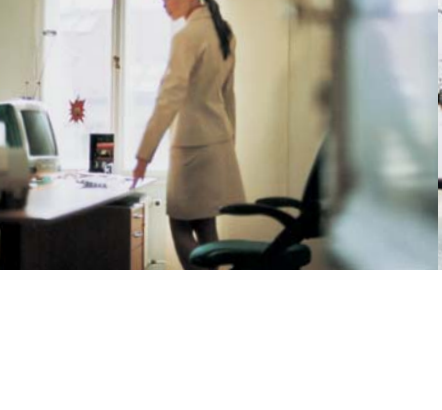
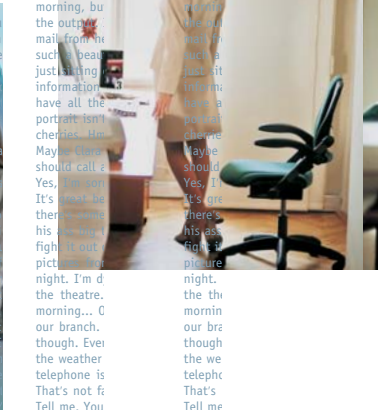
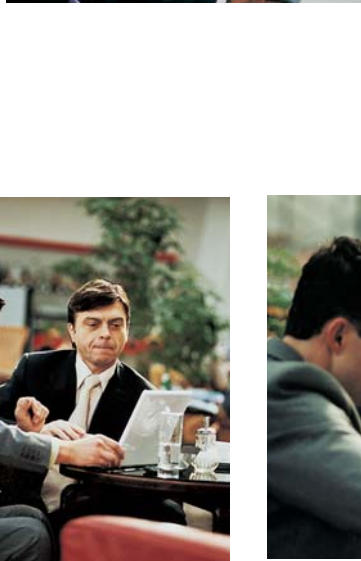
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Report of the Board of Directors on Business Activity

4.1 | Report

4.1.1. | Czech telecommunication market in the first half of 2004

The Czech telecommunication market during the first six months of 2004 confirmed the trends seen in the previously reported periods and was marked by continued competitive pressures from both fixed and mobile operators, growing fixed lines usage in favor of data services and value added services, and the persisting unfavorable regulatory environment. The country's fixed line penetration declined moderately to 34% compared to the same period in the previous year, while the penetration of mobile SIM cards is approximately 100%.

The telecommunication market in the first half of 2004 was impacted by the change in the VAT rate charged to telecommunication services, which increased from 5% to 22% since January 2004 and subsequently decreased to 19% since May 2004. These regulatory changes resulted increased costs for customers. ČESKÝ TELECOM Group tried to compensate for the VAT changes by expanding new services and price plans, which provide customers more value from fixed line and partially mitigate the revenue impact of the increase in VAT rate. On the other hand, the performance of the Group was positively influenced by the decrease of corporate tax to 28% from 31% effective from January 1, 2004.

The Czech Telecommunication Office, the industry regulator, made decisions that effectively decreased the interconnection charges for calls terminated in both fixed and mobile networks in the first half of 2004. While the interconnection charges for calls to fixed networks decreased on average by 20% from January 8, 2004, the interconnection charge for calls to mobile networks dropped by 13% as of April 1, 2004. ČESKÝ TELECOM disagreed with the fixed networks interconnection charges because, from the company's perspective, the pricing decisions do not comply with the Telecommunication law.

4.1.2. | New products and services

Fixed line business

One of the key objectives of ČESKÝ TELECOM is to provide its customers with quality services at prices that meet their needs in such a competitive and dynamic telecommunication market. During the first six months of 2004, ČESKÝ TELECOM introduced several new products and services to meet this target.

In the area of voice services, ČESKÝ TELECOM introduced new tariff packages for households and SMEs effective from January 2004, which provide customers more value from fixed line and partially mitigate the revenue impact of the increase in VAT rate. The company currently offers six "Telefon" packages for residential, and "Business" packages for SMEs segment which include free minutes for domestic calls and Internet dial-up connectivity. The "Telefon Universal" ("Business Universal") package provides calls including Internet dial-up at the best prices, while the "Telefon Universal dialog" ("Business Universal dialog") package provides customers with a unique pricing of CZK 9.90 for the first hour of the call. The price relates to all calls (local and long distance, peak and off-peak) to all fixed lines in the Czech Republic. The newly introduced packages also allow unused free minutes transfer. More than 500,000 customers, who subscribed to the new "Telefon" programs during the first half of 2004, underline the success of the new pricing plans.

For cheap international off-peak callings (the Xcall service), ČESKÝ TELECOM expanded the number of destinations to 44 including all the countries of the enlarged EU.

A significant event in the area of data services is the joint offering of ČESKÝ TELECOM and Eurotel in wireless Internet access via Wi-Fi Hot Spots. The users of Wi-Fi Hot Spots provided by ČESKÝ TELECOM and WiFi Jet provided by Eurotel can use the Hot Spots of both companies for the same rates on the basis of mutual roaming. The entire network amounts to 163 hot spots with connection capabilities, making it the biggest in the country.

From May 12, 2004, ČESKÝ TELECOM introduced INTERNET EXPRESS, the new offering in the area of broadband Internet. The existing retail portfolio of ADSL services is being offered under the new brand name “Internet Broadband” (previously IOL Broadband) with unchanged prices and speeds. INTERNET EXPRESS, with maximum speeds of 512 kb/s and 1,024 kb/s, offers unlimited data broadband Internet bundled with attractive voice programs, Telefon Universal or Telefon Universal Dialog, which are bundled under a single fee package. INTERNET EXPRESS is sold also through Eurotel’s brand stores to support the broadest distribution. The success of the new service is underlined by the number of daily retail installations, which increased to 200-300 from 50. ČESKÝ TELECOM’s ADSL technology coverage in the Czech Republic reached 64% of fixed lines at the end of June 2004.

On May 13, 2004, ČESKÝ TELECOM, the first operator in Central and Eastern Europe to offer an entertainment service, launched a unique entertainment portal called StarZone.cz. The new service enables Internet users, who connect to the Internet via ČESKÝ TELECOM, to download movies and music. A license to view and/or listen can be purchased depending on the number of times the movie is played or for a selected length of time (e.g. 24 hours). A basic portfolio of several tens of Czech and foreign titles, including independent works, documentaries, TV series, and fairy tales is planned to be expanded continuously.

Following the expansion of the company’s line of business into TV and radio transmission and following the extension of the telecommunications license approved by the Czech Telecommunications Office and allocation of frequencies, ČESKÝ TELECOM launched the pilot digital television transmission in the first half of 2004.

Besides expanding its portfolio, ČESKÝ TELECOM focuses also on customer care improvement. The company reduced the average time for billing claim settlement by 71% and the average installation time of retail ADSL connection by 61% during the first half of 2004.

Mobile business

In the first half of 2004, Eurotel confirmed its leading position with the continuous launch of new mobile data services for both corporate and private customers, and tariff and Go prepaid customers. Tariff customers saw the introduction of a package that combined Eurotel Data Nonstop tariff, voice service tariffs and attractive prices for GPRS based handsets. For users of Go prepaid services, Eurotel introduced unlimited Internet and WAP access via GPRS, under Go Data Nonstop service brand name.

Eurotel introduced a new tariff, Eurotel WiFi Jet Nonstop, for wireless Wi-Fi technology users. This service offers unlimited high-speed access for a monthly flat charge. Roaming agreement on mutual sharing of Wi-Fi access points enables ČESKÝ TELECOM and Eurotel to offer their customers the largest Wi-Fi network and the best coverage in the Czech Republic. In addition, Eurotel introduced a new Eurotel WiFi Jet Basic tariff suitable for Wi-Fi customers with a usage up to 90 hours per month.

Interest in data services was also driven to at large extent by the attractive content available via mobile phones anytime and anywhere. Eurotel introduced a whole suite of services of this kind during the first half of 2004. Eurotel was the first mobile operator in Europe offering Jukebox, a service that enables customers to download and play music on mobile handsets. Eurotel cooperated with Chaotiom, the technology and software company, to develop and

design this service. BMG, Warner Music, and Sony provide the multimedia content of Eurotel Jukebox service including songs, ring tones, true tones, preview clips, and pictures. In June 2004, Eurotel Jukebox service won its category in the first year of Mobile Entertainment Forum (MEF) awards. MEF is an association for the development of mobile entertainment. Eurotel Jukebox was awarded the MEF Best Contribution to Mobile Music 2004 and MEF Best in Show 2004.

Eurotel also launched a new integrated web and mobile portal Eurotel Live! Customers are able to set up mobile phones, activate, order and use services via the Internet and WAP. The portal offers news, games and information covering the areas of entertainment, music and sports. Eurotel, as a long-standing general partner of the Czech National Ice Hockey Team and the official sponsor of the World Ice Hockey Championship 2004, offered its customers a broad choice of unique services and products via the Eurotel Live! Portal. Following the success of Eurotel Live!’s Ice Hockey news, Eurotel introduced a similar offering of football news from the EURO 2004 Football Championship in June 2004. Eurotel provided on-line news and scores overview via SMS and MMS, multimedia news based on football themes, ring tones, logos, unique JAVA game and other services. The offering of services prepared in connection with the SuperStar reality show (Czech Pop Idol) via the Eurotel Live! Portal was also extremely popular.

During the first half of 2004, Eurotel expanded its offer of “Top” packages that were introduced in 2003, and recorded a significant response from customers. These were: Top SMS, Top MMS, Top Minuty, Top Volání, Top Noc and Top Pevná. For a unified monthly charge, customers can gain more SMS or MMS, minutes of calling at better prices, enabling customers to tailor make services for their own individual needs.

During the first half of 2004, Eurotel acquired new important corporate clients, such as Lesy České republiky, and renewed contracts with a large number of existing corporate customers. Eurotel offered the extension of VPN Nonstop service, which enables nonstop free calls within a company for a monthly charge. Since the beginning of 2004, Eurotel VPN Nonstop included free calls to an additional 10 phone numbers outside of the VPN network that are part of Eurotel Team service. Eurotel Office Connector is another service tailored to business customers. It helps them meet their individual needs to access company e-mail, calendar, contacts and tasks from their mobile phone. Eurotel SMS Connector service helps business customers to improve communication with their clients and business partners, and also with employees within their company. Eurotel also introduced new mobile solutions for trading companies selling goods and services via sales representatives, making their business more effective.

Loyalty programs are becoming more important in the Czech mobile market, which has penetration approaching the level of 100% activated SIM cards. Eurotel offered its tariff customers mobile handsets at more attractive prices within the Benefit program. In the first half of 2004, Eurotel introduced the Go bod program for its users of pre-paid services. While recharging, prepaid customers collect points that represent calling credits, and credits for SMS and MMS.

4.2 | Comments on financial results

Consolidated financial results

ČESKÝ TELECOM Group's consolidated financial statements, which are prepared in accordance with IFRS, include the full consolidation of Eurotel, a 100% subsidiary, in the first half of 2004. The full consolidation of Eurotel's results significantly influenced the consolidated results of ČESKÝ TELECOM and has had a positive impact on the financial profile of the Group, when compared to the first half of 2003 financials. This is a result of the change in consolidation following the acquisition of a 49% stake in Eurotel in November 2003. In the first half of 2003, ČESKÝ TELECOM Group's consolidated financial statements included the 51% proportionate consolidation of Eurotel.

For the first half of 2004, ČESKÝ TELECOM Group's total consolidated revenues reached CZK 31.1 billion, up 23% yoy when compared to the same period of 2003. Total consolidated operating costs (excluding depreciation and amortization) reached CZK 15.9 billion. As a result, consolidated EBITDA reached CZK 15.2 billion, representing an above industry average EBITDA margin of 49%. EBITDA margin, when adjusted for one-off restructuring charges, including ones for transformation costs, reached 50%.

Consolidated depreciation and amortization in the first six months of 2004 amounted to CZK 10.4 billion, up 13% yoy, mainly due to the change in consolidation. On the other hand, the charge was positively influenced by the one-off impairment charge of CZK 9.9 billion, accounted for in the 2003 financial statements, effectively decreasing the depreciation base.

Consolidated earnings before interest and tax (EBIT) reached CZK 4.7 billion, and consolidated earnings before tax (EBT) reached CZK 4.3 billion, representing yoy increases of 45% and 44% respectively. Net profit reached CZK 3.3 billion, up 46%, also positively influenced by the reduction in the Czech corporate tax rate.

ČESKÝ TELECOM Group's consolidated debt as at the end of June 2004 amounted to CZK 31.2 billion, which almost doubled when compared to the end of the same period last year, representing a gross leverage of 35% and net leverage of 34%. The significant increase in leverage was mainly the result of syndicated loan of EUR 850 million for the purchase of the 49% stake in Eurotel in November 2003, and general corporate purposes, and a decrease in equity as a result of the aforementioned impairment charge of CZK 9.9 billion, and a CZK 18.5 billion dividend payment in October 2003. Substantial free cash flows generated by the ČESKÝ TELECOM Group in the first half of 2004 enabled the partial repayment of the syndicated loan, which resulted in a 31% decrease in the consolidated debt during the course of the first six months.

The ČESKÝ TELECOM Group strategy has been continuously focused on maintaining capex efficiency. Total consolidated capex for the first half of 2004 amounted to CZK 2.3 billion of which CZK 1.3 billion represented capex in the mobile segment. When compared to the overall consolidated revenues, the capex ratio to revenues was 7.3%, providing a good basis for reaching the full year target of no more than 12%.

The high level of EBITDA and low capex have helped to produce significant free cash flows of CZK 9.8 billion.

At the Annual General Meeting held on June 24, 2004, the shareholders of the company approved a dividend payout from part of the previous years' retained profits amounting to CZK 5.476 billion, i.e. CZK 17 per share. The record day for the dividend payout was July 9, 2004. The dividend will be paid on October 20, 2004. The 2003 dividend, despite the recorded loss reflects the company's healthy financial profile, volume of the retained profits of previous years, and also the expected generation of free cash flows and profits.

Fixed Line Business Overview*

The fixed line business results in the first half of 2004 have been marked by continuing growth of the Internet and data services share of total revenues. The increased usage of the Internet services by ČESKÝ TELECOM's customers is evidenced by the share of Internet dial-up traffic of the overall traffic originated by customers of ČESKÝ TELECOM, amounting to 54%. On the other hand, revenues from traditional voice continued to decline as seen in the previously reported periods.

Following the above mentioned trends and aiming to ameliorate revenue declines from voice services, ČESKÝ TELECOM introduced several aforementioned new services and packages, providing customers with more value for their telecommunication needs and partially mitigating the VAT impact. In terms of telecommunications industry regulation, an unfavorable environment persists, impeding the infrastructure development and investments to new technologies. Contrary to the effective EU legislation and regulations, there are ongoing efforts to regulate services offered on ADSL technology, putting potentially at risk the development of Internet access in the Czech Republic.

Revenues in the segment of fixed lines declined 7% to CZK 17.4 billion in line with the preceding periods, driven mainly by declines in traditional voice services which were not fully compensated by the increase in data and value added services. During the same period, operating costs dropped 7% yoy to CZK 9.4 billion, which resulted in EBITDA of CZK 8 billion, representing a 46% margin. EBITDA excluding one-off items amounted to CZK 8.2 billion, being EBITDA margin of 48%.

During the period, a continued increase was seen in revenue items such as Internet, Data services, and value added services, which grew 16% yoy to CZK 1.7 billion. Revenues from Internet grew 5% yoy to CZK 292 million. Revenues from data services grew 13% yoy to CZK 790 million. Revenues generated from the broadband service INTERNET EXPRESS reached CZK 169 million, an eight-fold increase over the same period last year, while total ADSL connections reached around 30 thousand at the end of June 2004. While the net additions of ADSL connections were 5 thousand in the first quarter, it reached almost 12 thousand in the second quarter. ČESKÝ TELECOM's share of broadband Internet access on ADSL increased to almost 65% from 60%, and the share of newly installed connections reached nearly 80%. Following the successful coordination of a joint strategy for fast Internet via CDMA technology in May 2004, the company commenced further investments into the broadband business, the June sales increased six-fold compared to the monthly performance at beginning of the year.

Revenues from other network operators grew 17% yoy to CZK 1.8 billion during the first half, driven by a 54% yoy increase in revenues from domestic operators to CZK 1 billion. This was mainly due to increased termination and origination traffic. The Czech Telecommunication Office, through its price decision, artificially favored other licensed operators at the expense of ČESKÝ TELECOM. Like in other cases, this decision is being challenged in the courts. In spite of this, the growth in traffic generated by other operators' customers has nearly stopped in the second quarter of 2004, thus demonstrating ČESKÝ TELECOM's success in customer acquisition and retention. On the other hand, revenues from international network operators declined 11% yoy to CZK 796 million due to lower transit traffic. Revenues from leased circuits grew 2% yoy to CZK 1.4 billion.

Revenues from communications voice services declined 24% yoy to CZK 5.5 billion, while revenues from monthly subscriptions and connection charges dropped a moderate 2% to CZK 6.1 billion. The overall number of fixed lines of ČESKÝ TELECOM stood at 3,471 thousand, down 4% yoy, when compared to the same period last year. Other

* before consolidation adjustments

revenues, including equipment sales and sales of material amounted to CZK 918 million and remained stable compared to the same period of the previous year. This category includes several one-off items, like insurance settlements and proceeds from the sale of cars, amounting to CZK 458 million.

The greatest contribution to the overall operating costs reduction was staff costs, including severance pays, declined 5% yoy to CZK 3.2 billion. This was driven by staff reduction of 26% yoy to 9,444 at the end of the period. This has provided a solid basis to meet the year-end headcount target, less than 9,000 employees. The total amount of severance payments included in the first half of 2004 staff costs was CZK 311 million. The decrease in headcount helped to improve the operational efficiency measured by the numbers of fixed lines per employee, which increased significantly 30% yoy to 368 at the end of June 2004. Another indicator for efficiency improvement is revenue per employee, which amounted to CZK 1.7 million in the first half, up 21% yoy.

The headcount decrease was also supported by the improvement of internal processes, which is one of the goals of the Transformation Program. The operational efficiency improvement was achieved through the projects such as centralization of business and corporate segment claim centers, centralization of network management into one principal and one backup center, network access from 360 to 74 points, and network administration and documentation from 72 to 24 sites.

Payments to other network operators amounted to CZK 2.4 billion, down 5% yoy. This decrease was the result of an 18% yoy decline in payments to domestic network operators to CZK 1.6 billion, while the payments to international operators reached CZK 801 million, up 38% yoy.

The majority of other operating costs items decreased in the first half, with the exception of equipment and material cost of sales growing to CZK 313 million, up 83% yoy. The most significant reductions are reported in material and energy consumption, down 11% yoy to CZK 488 million, marketing expenses down 25% to CZK 238 million, while repair and maintenance declined 2% to CZK 902 million. Other operating costs, which include operating and building expenses, consultancy and other costs, declined in aggregate 15% yoy to CZK 1.9 billion. The net book value of cars disposed in the car fleet outsourcing process is the major item in the one-off costs disclosed under other costs.

Operating costs, excluding the one-off items relating principally to the Transformation Program, decreased 9% compared to the same period of the previous year.

Mobile Technology Overview*

For the first half of 2004, total Eurotel revenue grew 3% yoy to CZK 14.6 billion, operating costs excluding Depreciation and Amortization grew 9% yoy to CZK 7.4 billion. As a result, EBITDA was CZK 7.2 billion and EBITDA margin reached the level of 49% in the first half of 2004 in comparison with CZK 7.3 billion and 52% margin in the first half of last year.

Both revenue and operating costs were driven by several external factors in the competitive environment of a very saturated Czech mobile market, with SIM card penetration approaching a level of 100%. Increased VAT and the regulatory decision lowering the interconnection charge since the second quarter also impacted the performance in the first half of 2004. Increasing demand for data and Internet and value added services were the most recent trends positively affecting the telecommunications business. Most of Eurotel’s new services introduced during the first half of 2004 were of this kind.

Communication traffic revenues continue to represent the Eurotel’s largest revenue stream

* before consolidation adjustments

while its share of total revenues has been decreasing thanks to the growing popularity of non-voice services. Communication traffic revenues were CZK 5.9 billion, down by 7% yoy while revenues from SMS, MMS, Internet and data services and value added services reached CZK 1.8 billion, up 17% yoy. In the first half of 2004, Eurotel customers sent and received 1,126 million SMS compared to 1,084 million SMS in the same period last year. Also, the number of customers who have activated MMS service increased to 354 thousand at the end of the period. Thanks to a complex and unique offering of data services, Eurotel’s total GPRS traffic increased from 3 thousand GB in the first half of 2003 to 94 thousand GB in the first half of 2004. The most successful of these services was unlimited Internet access, the Eurotel Data Nonstop service. The number of users of the Eurotel Data Nonstop service increased from the beginning of 2004 by 76% to 56 thousand customers at the end of the first half of 2004.

The number of Eurotel’s activated SIM cards increased during the first half of 2004 by 105 thousand to 4,320 thousand, which was approximately the same as year ago. The total number of activated SIM cards increased 8% yoy when compared to 12% yoy increase in the first half of last year. The number of GSM prepaid customers increased 5% yoy to 3,348 thousand and the number of GSM contract customers increased 21% yoy to 936 thousand while the churn of GSM contract customers (annualized) was 10% in the first half of 2004 vs. 12% in the same period last year. Development of the number of activated SIM cards had an impact on connection charges which grew 11% yoy to CZK 202 million, subscription charges which grew 8% yoy to CZK 2.6 billion, and together with increasing interest in data and internet services, also on revenues from equipment sales and sales of material, which grew 25% yoy to CZK 570 million. Demand for “intelligent” mobile phones was fueled by an increased number of customers interested in new data services, including access to attractive content.

The total number of activated SIM cards increased during the first half of 2004 but the increase has slowed down when compared to the previous periods. Furthermore, there has been an increased number of mobile service users who owned more SIM cards in order to optimize their mobile service spending. This has had an impact on ARPU (average service revenue excluding roaming visitors per user per months) and MOU (average minutes of use per user per month). In the first half of 2004, ARPU reached a level of CZK 509 vs. CZK 545 for the same period last year; MOU was 86 minutes vs. 89 minutes. The total number of incoming and outgoing minutes increased 4% yoy to 2.2 billion minutes. Revenues from other network operators reached CZK 3.4 billion vs. CZK 3.2 billion in the first half of 2003.

Operating costs have been driven by the similar external factors as were revenues, and have been helped by an emphasis put by Eurotel’s management on efficiency of cost spending. The largest operating cost categories were payments to other network operators of CZK 2.9 billion vs. CZK 2.6 billion last year, equipment and material cost of sales which grew 30% yoy to CZK 1.4 billion, marketing and sales which increased 2% yoy to CZK 563 million and staff costs which grew 6% yoy to CZK 821 million. The number of employees at the end of the first half of 2004 was 2,463 vs. 2,439 employees at the end of the same period last year.

Outlook for 2024

The ČESKÝ TELECOM Group will strive to meet and drive customer needs in the rapidly changing telecommunications market while remaining focused on operational and financial efficiencies, as previously announced in the Transformation Program in November of last year. ČESKÝ TELECOM will strive to exploit new business opportunities in order to replace revenues from traditional voice services. The main aspects of financial management of the ČESKÝ TELECOM Group will remain focused on above average EBITDA margins, low capex levels and strong free cash flows, which are the key parameters of operating efficiency. Regulation is additional area of interest. The Group will strive to achieve a transparent regulatory framework, which will not harm single competitors, and which will respect the basic principles of the current Telecommunication Act, new Act on Electronic Communication and EU directives.

Corporate Governance



At the Regular General Meeting held on June 24, 2004, shareholders approved the regular unconsolidated financial statements for 2003 in compliance with the Act on Accounting and other relevant legislation of the Czech Republic, and the consolidated financial statements according to International Financial Reporting Standards (IFRS), recommended for approval by the Supervisory Board. Shareholders also approved a proposal of the Board of Directors for the payment of a dividend of CZK 17 per share from part of the retained profits of previous periods, in a total amount of CZK 5.476 billion. It was decided that the relevant record day for the payment of these dividends will be July 9, 2004, and the date of payment will be October 20, 2004. Payment of dividends for 2003, despite the recorded loss, takes into account not only the company's healthy financial profile, but also the expected generation of free cash flows and profits.

The General Meeting also approved amendments to the Articles of Association proposed by the Board of Directors, which, however, did not change the corporate governance model of ČESKÝ TELECOM. The amendments reflect changes to laws and regulations, which became effective from May this year. In addition, the changes relate to the competency of the Supervisory Board and the Board of Directors, including a modified scope of authority for the Supervisory Board Committees (the Staff and Remuneration Committee, the Finance and Audit Committee). Other changes relate to the company's line of business, which was expanded to include TV and radio transmission. This allows ČESKÝ TELECOM, following the extension of the telecommunications license approved by the Czech Telecommunications Office and allocation of frequencies, to operate digital television broadcasting on a commercial basis.

The General Meeting confirmed the appointment of co-opted Supervisory Board members, Petr Polák and Martin Fassmann as members of this body, and elected three new members, Ivana Krynesová-Gage, Jiří Hurych and Stanislav Bělehrádek. The new members replaced Ondřej Felix, Adam Blecha and Hana Doležalová who resigned their memberships in the Supervisory Board as of the day of the General Meeting.

Following the Regular General Meeting in June, the Supervisory Board elected Jiří Hurych as its Chairman, Zdeněk Hrubý, as the 1st Vice Chairman, and Lubomír Vinduška, a member of the Supervisory Board elected by the employees, as the 2nd Vice Chairman. Further, personnel changes were also made to the committees established by the Supervisory Board.

The General Meeting approved an amendment to the rules for remuneration of the members of the Board of Directors and the Supervisory Board, part of which is a retention and motivation remuneration system, called the Compensation Plan. According to the Plan, the remuneration will reflect the development of the market value of ČESKÝ TELECOM shares. The Compensation Plan is not a share or share option plan. It only provides monetary remuneration depending on the value of the company's shares traded on the market over a specified period. Remuneration will be paid in eight quarterly payments in 2005 and 2006, provided the shareholder control of the company does not change during this period. The goal of the Plan is to further align top management's interests with the corporate objectives in order to further support shareholders' value.

The primary goal of the ČESKÝ TELECOM management has been to assume control over financial flows and management of Eurotel, its 100% subsidiary company. In line with this

Composition of the Board of Directors and the Supervisory Board of ČESKÝ TELECOM, as at July 31, 2004:

BOARD OF DIRECTORS

Gabriel Berdár

CHAIRMAN OF THE BOARD OF DIRECTORS

Juraj Šedivý

1ST VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

Petr Slováček

2ND VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

Michal Heřman

MEMBER OF THE BOARD OF DIRECTORS

Roman Stupka

MEMBER OF THE BOARD OF DIRECTORS

SUPERVISORY BOARD

Jiří Hurych

CHAIRMAN OF THE SUPERVISORY BOARD

Zdeněk Hrubý

1ST VICE-CHAIRMAN OF THE SUPERVISORY BOARD

Lubomír Vinduška

2ND VICE-CHAIRMAN OF THE SUPERVISORY BOARD

MEMBERS OF THE SUPERVISORY BOARD:

Vlastimil Barbořák

Stanislav Bělehrádek

Martin Fassmann

Pavel Heršík

Jan Juchelka

Martin Kovář

Miloslav Krch

Ivana Krynesová-Gage

Pavel Kuta

Petr Polák

Dušan Stareček

Petr Zatloukal

objective, the Board of Directors of ČESKÝ TELECOM named Michal Heřman and Martin Bek as the new statutory representatives of Eurotel, replacing Terrence Valeski and Luboš Bôrik. The statutory position of Jaroslav Kubišta remains unchanged.

The Board of Directors of ČESKÝ TELECOM approved Eurotel's Founder Deed, which replaced the previous Memorandum of Association between ČESKÝ TELECOM and Atlantic West B.V. The Founder Deed established a new body of Eurotel – a five member Supervisory Board. Ondřej Felix, Jan Juchelka, Zdeněk Hrubý, Adam Blecha and Petr Zatloukal became the members. In July 2004, Jiří Hurych and Martin Kovář, who replaced Ondřej Felix and Adam Blecha, were appointed as members of the Supervisory Board of Eurotel. The Supervisory Board of Eurotel elected Jiří Hurych as its Chairman, and Zdeněk Hrubý continues to be Vice-Chairman.

Following the resignation of Terrence Valeski, Chief Executive Officer and Robert Bowker, the Chief Finance Officer of Eurotel, the statutory representatives of Eurotel named Michal Heřman as acting Chief Executive Officer in June and Marcela Malivánková as acting Chief Financial Officer in May.

The new members of the Supervisory Board, elected at the Regular General Meeting on June 24, 2004:

Jiří Hurych | *1968

Studied at Secondary School of Construction, Mělník. In 1991–1994 studied at the Graham School of Management, Saint Xavier University, Chicago. Undertook a number of international courses and residencies in the area of management and marketing. Presently he is a student at the U.S. Business School – Rochester Institute of Technology, Prague. He started his professional career in 1994 in Kaučuk Kralupy. From 1995, worked in executive management of Komerční banka: Director for Segments and Products, Deputy Director for Division Financial Markets, Deputy Director for Sales Division Management. Specialized in marketing, corporate restructuring, crisis management and acquisitions. In 2002–2004 was Chairman of the Board of Directors and Chief Executive Officer of Škoda Praha.

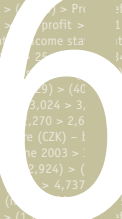
Stanislav Bělehrádek | *1943

Graduated from the Engineering Faculty of the Technical University, Brno, in 1967. In 1967–1985, worked in various executive management positions in Minerva Boskovice and Karborundum Kunštát. Until 1989, worked as an executive manager of non-agricultural businesses of Lysice Collective Farm, later went into politics. In the last 14 years, he occupied a number of high political functions, for instance Member of Parliament of the Czech Republic, Minister for Economic Competition and Senator. In 1992–1998, he was President of the Office for Protection of Economic Competition. Presently he is verifier of the Committee for Regional Development, Public Administration and Environment, verifier of the Senate and member of the Standing Delegation of the Czech Republic to the Parliamentary Assembly of the Organisation for Security and Co-operation in Europe.

Ivana Krynesová-Gage | *1948

Graduated from the University of Economics, Prague, and qualified as authorized securities salesperson with the Finance and Securities Authority, London. From 1980 to 2003, lived in the United Kingdom and USA where she worked as investment banker for Citibank, Lehman Brothers, James Capel and Morgan Stanley. From January 2003 she has been Advisor to Deputy Prime Minister and Minister of Finance.

Financial section



6.1 | Consolidated financial statements – 1st Half of 2004

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). These statements are unaudited. In 2004 Eurotel Praha has been consolidated on a full basis (figures for previous years were consolidated on a proportional basis). All amounts are in CZK million.

Consolidated income statement			
		Six months ended	
	30 June 2004	30 June 2003	30 June 2002
Revenue	31,143	25,410	26,134
Operating expenses	(15,965)	(12,924)	(12,818)
Depreciation and amortisation	(10,441)	(9,226)	(9,342)
Operating profit	4,737	3,260	3,974
Interest (net)	(629)	(402)	(621)
Other financial income (net)	239	166	564
Profit before tax	4,347	3,024	3,917
Tax charge	(1,018)	(754)	(1,286)
Profit before minority interest	3,329	2,270	2,631
Minority interest	2	7	-
Net profit	3,331	2,277	2,631
Earnings per share (CZK) – basic*	10	7	8
* There is no dilution of earnings as no convertible instruments have been issued by the company.			

Consolidated balance sheet

	30 June 2004	31 December 2003	31 December 2002
ASSETS			
Property, plant and equipment	104,147	110,320	119,283
Intangible assets	26,668	28,971	11,556
Available-for-sale investments	173	182	241
Held-to-maturity investments	99	116	130
Investments	11	10	-
Non-current assets	131,098	139,599	131,210
Inventories	916	1,100	1,409
Receivables and prepayments	9,928	9,081	8,431
Available-for-sale investments	53	251	5,529
Held-to-maturity investments	16	17	1,431
Cash and cash equivalents	1,302	4,658	8,341
Current assets	12,215	15,107	25,141
Total assets	143,313	154,706	156,351
EQUITY AND LIABILITIES			
Ordinary shares	32,209	32,209	32,209
Share premium	30,816	30,816	30,816
Retained earnings and reserves	24,991	27,123	48,247
Total equity	88,016	90,148	111,272
Minority interest	7	9	45
Borrowings	24,598	25,044	9,514
Deferred taxes	7,232	7,674	11,632
Non-current liabilities	31,830	32,718	21,146
Borrowings	6,567	20,021	12,513
Trade and other payables	16,263	10,980	11,049
Provisions for liabilities and charges	630	830	326
Current liabilities	23,460	31,831	23,888
Total liabilities	55,290	64,549	45,034
Total equity and liabilities	143,313	154,706	156,351

These consolidated financial statements were approved by the Board of Directors on 28 July 2004 and were signed on its behalf by:



Gabriel Berdár
Chairman of the Board of Directors



Juraj Šedivý
Chief Financial Officer

Consolidated cash flow statement

	30 June 2004	Six months ended 30 June 2003	30 June 2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from operations	14,369	10,767	11,211
Interest paid	(366)	(1,165)	(1,990)
Income tax paid	(1,410)	(1,106)	(445)
Net cash from operating activities	12,593	8,496	8,776

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property, plant and equipment	(2,972)	(2,956)	(4,709)
Purchase of intangible assets	(154)	(430)	(669)
Purchase of marketable securities	-	(160)	(1,122)
Disposal of property, plant and equipment	279	169	277
Proceeds from marketable securities	215	6,057	2,289
Interest received	51	773	649
Net cash used in investing activities	(2,581)	3,453	(3,285)

CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from borrowings	11,312	1,416	637
Repayment of borrowings	(24,756)	(12,190)	(7,746)
Additional contribution of minority shareholders to equity of CenTrade	-	-	57
Dividends – paid	(2)	-	-
Net cash used in financing activities	(13,446)	(10,774)	(7,052)

Net increase/(decrease) in cash and cash equivalents

Cash and cash equivalents at beginning of year	4,649	8,305	5,162
Effects of exchange rate changes	(1)	5	(68)
Cash and cash equivalents at the end of period	1,214	9,485	3,533

6.2 | Stand-alone financial statements – 1st Half of 2004

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 thousand.

Balance sheet – full version as at 30 June 2004

ASSETS	30. 6. 2004			31. 12. 2003	31. 12. 2002
	Gross	Provision	Net	Net	Net
TOTAL ASSETS	238,194,180	(114,585,199)	123,608,981	132,181,438	137,602,917
A. Receivables for subscribed capital	-	-	-	-	-
B. Fixed assets	228,780,466	(112,679,249)	116,101,217	122,762,115	117,456,988
B. I. Intangible fixed assets	16,486,954	(12,310,263)	4,176,691	5,646,068	9,110,874
B. I. 1. Establishment costs	-	-	-	-	-
2. Research & development	727,613	(452,795)	274,818	304,520	235,713
3. Software	15,657,361	(11,823,492)	3,833,869	5,096,814	8,425,767
4. Royalties	35,364	(33,976)	1,388	1,528	126,126
5. Goodwill	-	-	-	-	-
6. Other intangible fixed assets	-	-	-	-	-
7. Intangible assets in the course of construction	66,616	-	66,616	233,306	310,722
8. Advances paid for intangible assets	-	-	-	9,900	12,546
B. II. Tangible fixed assets	182,184,265	(99,697,723)	82,486,542	87,651,367	106,466,737
B. II. 1. Land	545,475	-	545,475	552,597	592,042
2. Constructions	112,122,066	(50,967,498)	61,154,568	62,871,338	72,948,090
3. Equipment	68,746,952	(48,633,446)	20,113,506	22,983,565	29,862,417
4. Cultivated areas	-	-	-	-	-
5. Livestock	-	-	-	-	-
6. Other tangible fixed assets	5,074	-	5,074	5,174	5,303
7. Tangible assets in the course of construction	666,406	-	666,406	1,147,189	3,049,169
8. Advances paid for tangible fixed assets	6,745	(5,232)	1,513	91,504	9,716
9. Adjustment to acquired fixed assets	91,547	(91,547)	-	-	-
B. III. Long-term investments	30,109,247	(671,263)	29,437,984	29,464,680	1,879,377
B. III. 1. Investments in controlled entities/subsidiaries	29,768,229	(671,263)	29,096,966	29,097,804	263,922
2. Investments in associates	72	-	72	72	233,843
3. Other long-term investments in securities	340,888	-	340,888	366,713	1,374,582
4. Intragroup loans – subsidiaries and associates	-	-	-	-	6,850
5. Other financial investments	58	-	58	91	180
6. Long-term investments in progress	-	-	-	-	-
7. Advances paid for long-term investments	-	-	-	-	-

ASSETS	30. 6. 2004			31. 12. 2003	31. 12. 2002
	Gross	Provision	Net	Net	Net
C. Current assets	8,936,783	(1,905,950)	7,030,833	9,055,705	19,771,718
C. I. Inventories	702,486	(234,867)	467,619	595,253	956,074
C. I. 1. Raw materials	662,341	(234,867)	427,474	534,262	880,152
2. Work in progress and semi-finished products	-	-	-	-	-
3. Finished goods	-	-	-	-	-
4. Livestock	-	-	-	-	-
5. Goods for resale	40,145	-	40,145	60,991	75,922
6. Prepayments for inventory	-	-	-	-	-
C. II. Long-term receivables	169,281	-	169,281	172,946	191,113
C. II. 1. Trade receivables	1,080	-	1,080	301	344
2. Intragroup receivables	-	-	-	-	-
3. Receivables – associates	-	-	-	-	-
4. Receivables from shareholders/owners	-	-	-	-	-
5. Other advances paid	163	-	163	117,788	119,166
6. Anticipated assets	-	-	-	-	-
7. Other receivables	168,038	-	168,038	54,857	71,603
8. Deferred tax asset	-	-	-	-	-
C. III. Short-term receivables	7,934,990	(1,671,083)	6,263,907	6,415,643	7,976,480
C. III. 1. Trade receivables	4,678,909	(1,475,383)	3,203,526	5,099,098	5,607,626
2. Intragroup receivables	30,490	-	30,490	61,569	-
3. Receivables – associates	-	-	-	-	-
4. Receivables from shareholders/owners	116,093	-	116,093	116,093	123,812
5. Receivables from social security and health insurance	-	-	-	-	-
6. Taxes and state subsidies receivable	296,992	-	296,992	184,880	503,695
7. Other advances paid	137,503	-	137,503	-	-
8. Anticipated assets	2,474,590	-	2,474,590	925,885	1,629,018
9. Other receivables	200,413	(195,700)	4,713	28,118	112,329
C. IV. Financial assets	130,026	-	130,026	1,871,863	10,648,051
C. IV. 1. Cash in hand	8,291	-	8,291	49,061	61,019
2. Cash at bank	121,735	-	121,735	33,802	525,737
3. Short-term investments	-	-	-	1,789,000	10,061,295
4. Short-term investments in progress	-	-	-	-	-
D. I. Accruals and deferrals	476,931	-	476,931	363,618	374,211
D. I. 1. Prepaid expenses	476,489	-	476,489	361,937	372,872
2. Complex prepaid expenses	-	-	-	-	-
3. Accrued revenue	442	-	442	1,681	1,339

Balance sheet – full version as at 30 June 2004

LIABILITIES AND EQUITY	30. 6. 2004	31. 12. 2003	31. 12. 2002
TOTAL LIABILITIES AND EQUITY	123,608,981	132,181,438	137,602,917
A. Equity	74,450,232	75,819,604	94,624,239
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	31,437,172	31,438,658	30,501,382
A. II. 1. Share premium	29,343,185	29,343,185	29,343,185
2. Other capital contributions	2,127,328	2,127,599	2,120,641
3. Assets and liabilities revaluation	(33,341)	(32,126)	(962,444)
4. Merger revaluation reserve	-	-	-
A. III. Reserve fund, non-distributable reserves and other reserves	5,537,534	5,531,914	5,442,453
A. III. 1. Statutory reserve fund, non-distributable reserves	5,498,065	5,498,065	5,409,049
2. Statutory and other reserves	39,469	33,849	33,404
A. IV. Retained earnings	1,137,514	7,801,307	24,691,099
A. IV. 1. Retained profits	1,137,514	7,801,307	24,691,099
2. Accumulated losses	-	-	-
A. V. Profit/(loss) for the current period	4,129,022	(1,161,265)	1,780,315
B. Liabilities	48,237,203	55,458,273	39,745,907
B. I. Provisions	2,543,489	2,223,678	174,174
B. I. 1. Tax-deductible provisions	-	-	-
2. Provisions for pensions and similar liabilities	-	-	-
3. Income tax provision	175,678	-	-
4. Other provisions	2,367,811	2,223,678	174,174
B. II. Long-term liabilities	14,068,915	14,068,506	12,491,742
B. II. 1. Trade liabilities	-	-	-
2. Intragroup liabilities	-	-	-
3. Liabilities to associates	-	-	-
4. Liabilities to shareholders/owners	-	-	-
5. Advances received	817	408	-
6. Debentures and bonds issued	10,000,000	10,000,000	3,000,000
7. Bills of exchange payable	-	-	-
8. Anticipated liabilities	-	-	-
9. Other liabilities	-	-	-
10. Deferred tax liability	4,068,098	4,068,098	9,491,742

LIABILITIES AND EQUITY	30. 6. 2004	31. 12. 2003	31. 12. 2002
B. III. Short-term liabilities	11,600,833	6,389,845	21,273,540
B. III. 1. Trade payables	3,890,792	958,079	2,170,850
2. Intragroup liabilities	-	-	12,052,990
3. Liabilities to associates	-	-	-
4. Liabilities to shareholders/owners	5,487,772	13,750	2,331
5. Liabilities to employees	1,506	227,061	281,701
6. Liabilities to social security and health insurance	-	130,995	155,582
7. Taxes and state subsidies payable	69,581	69,271	73,472
8. Advances received	74,217	168,034	97,609
9. Debentures and bonds issued	-	-	-
10. Anticipated liabilities	2,020,224	4,759,080	5,554,016
11. Other payables	56,741	63,575	884,989
B. IV. Bank loans & overdrafts	20,023,966	32,776,244	5,806,451
B. IV. 1. Long-term bank loans	14,890,200	22,049,040	5,770,682
2. Short-term bank loans and overdrafts	5,133,766	10,727,204	35,769
3. Other short-term borrowings	-	-	-
C. I. Accruals and deferrals	921,546	903,561	3,232,771
C. I. 1. Accruals	680,418	373,817	595,730
2. Deferred revenue	241,128	529,744	2,637,041

Income statement – full version for the six-month period ending 30 June 2004

		30. 6. 2004	Accounting period	
			30. 6. 2003	30. 6. 2002
I.	Sales of goods	110,446	118,905	139,811
A.	Cost of goods sold	117,343	157,098	233,096
+	Gross profit	(6,897)	(38,193)	(93,285)
II.	Sales of production	16,886,644	18,436,960	19,350,858
II.	1. Sales of own products and services	16,711,136	18,162,835	18,848,283
	2. Change in inventory of finished goods and work in progress	-	-	
	3. Own work capitalised	175,508	274,125	502,575
B.	Cost of sales	5,675,810	6,025,224	5,625,909
B.	1. Raw materials and consumables	663,917	821,782	1,157,629
	2. Services	5,011,893	5,203,442	4,468,280
+	Added value	11,203,937	12,373,543	13,631,664
C.	Staff costs	3,156,631	3,268,249	3,286,412
C.	1. Wages and salaries	2,317,490	2,354,784	2,371,393
	2. Emoluments of board members	7,781	4,935	6,663
	3. Social security costs	699,705	764,759	757,277
	4. Other social costs	131,655	143,771	151,079
D.	Taxes and charges	42,236	44,677	61,608
E.	Depreciation of long-term assets	7,287,108	8,081,598	8,167,380
III.	Sale of long-term assets and raw materials	386,023	181,738	362,496
	1. Sale of long-term assets	369,193	162,800	274,712
	2. Sale of raw materials	16,830	18,938	87,784
F.	Net book amount of long-term assets and raw materials sold	428,375	141,299	103,314
F.	1. Net book amount of long-term assets sold	240,980	128,648	92,099
	2. Net book amount of raw material sold	187,395	12,651	11,215
G.	Increase/(decrease) in operating provisions and complex prepaid expenses	(288,122)	44,276	420,770
IV.	Other operating income	214,248	129,174	78,280
H.	Other operating charges	337,210	254,793	140,623
V.	Adjustments to operating income	-	-	-
I.	Adjustments to operating expense	-	-	-
*	Operating result	840,770	849,563	1,892,333
VI.	Income from sales of securities and shares	-	6,593,934	1,842,773
J.	Securities and shares sold	55,898	6,608,718	1,842,884
VII.	Income from long-term investments	4,009,998	4,766,971	34,846
VII.	1. Income from investments in controlled entities/subsidiaries and associates	4,000,000	4,758,769	-
	2. Income from investments in other participating interests	9,998	8,179	7,866
	3. Income from other long-term investments	-	23	26,980
VIII.	Income from short-term investments	5,432	106,177	34,486
K.	Loss on investments	-	6,202	5,671

		Accounting period		
		30. 6. 2004	30. 6. 2003	30. 6. 2002
IX.	Gain on revaluation of securities and derivatives	-	-	-
L.	Loss on revaluation of securities and derivatives	65,069	556,276	-
M.	Increase/(decrease) in financial provisions	132,849	(4,377)	(1,848,206)
X.	Interest income	4,007	62,031	3,905
N.	Interest expense	678,309	621,307	703,422
XI.	Other financial income	607,683	2,871,220	4,281,331
O.	Other financial expense	227,054	1,118,497	2,913,463
XII.	Adjustments to financial income	-	-	-
P.	Adjustments to financial expense	-	-	-
*	Financial result	3,467,941	5,493,710	2,580,107
Q.	Tax on profit or loss on ordinary activities	178,441	487,634	1,443,759
Q.	1. – current	178,441	487,634	1,443,759
	2. – deferred	-	-	-
**	Profit or loss on ordinary activities after taxation	4,130,270	5,855,639	3,028,681
XIII.	Extraordinary income	15	216,467	27,191
R.	Extraordinary charges	1,263	227,958	1,154
S.	Tax on extraordinary profit or loss	-	-	-
S.	1. – current	-	-	-
	2. – deferred	-	-	-
*	Profit/(loss) on extraordinary items after taxation	(1,248)	(11,491)	26,037
T.	Profit/(loss) share apportioned to partners (partnership only)	-	-	-
***	Net profit/(loss) for the financial period	4,129,022	5,844,148	3,054,718
****	Profit/(loss) before taxation	4,307,463	6,331,782	4,498,477

These financial statements were approved by the Board of Directors on 28 July 2004 and were signed on its behalf by:

Gabriel Berdár
Chairman of the Board of Directors

Juraj Šedivý
Chief Financial Officer

[illegible][illegible]

ARPU	
Benefit	
Business	
Business	

	Average Revenue from customers
	A customer's benefits, a price
	A package of calls and dia-
Universal	A price pro-

- Revenue Per User – an indicator of mobility of foreign operators
- loyalty scheme of Eurotel for point-based system
- of ČESKÝ TELECOM price programs for dial-up Internet
- program of ČESKÝ TELECOM for the business

business segment, offering the best price

of roaming revenues

number of rewards and

minutes for domestic

prices on all types of

Average Revenue Per User – an indicator of monthly revenues per user, exclusive of roaming revenues from customers of foreign operators

A package of ČESKÝ TELECOM price programs for the business segment with free minutes for domestic calls and dial-up Internet

A price program of ČESKÝ TELECOM for the business segment, offering a standard price of CZK 9.90 for the first hour of the call; the price applies to all types of calls (local and long-distance, peak and off-peak) to all fixed line networks in the Czech Republic

see Eurotel Data Nonstop

Earnings before Interest, Tax, Depreciation and Amortisation

A price program of Eurotel for post-paid customers, offering unlimited mobile Internet access via GPRS

A service of Eurotel for corporate customers; it gives customers access from their mobile telephone to their corporate e-mail, calendar, address book and planner, based on their individual needs

A new service package of Eurotel for post-paid customers, doubling the number of free minutes (the service was available for activation until 30 June 2004)

A new service package of Eurotel for post-paid customers; the customers gets 150 free minutes for calls from 7 pm to 7 am on weekdays to the network of Eurotel or a domestic fixed line number

Eurotel Top Pevná	A new service package of Eurotel for post-paid customers; the customer gets 150 free minutes for calls to a domestic fixed line number, regardless of whether the call is in the peak or off-peak
Eurotel Top SMS	A new service package of Eurotel for post-paid customers; the customer gets free SMS on weekdays, holidays and weekends to all networks
Eurotel Top Volání	A new service package of Eurotel for post-paid customers; the customer gets 60 free minutes a month for calls to all networks without limitation, for a bargain monthly price of CZK 150 (CZK 178.50 incl. VAT)
Eurotel VPN Nonstop	A service of Eurotel for corporate customers; the customer can make any number of calls within a corporate VPN network; the service is charged at a flat monthly rate
Eurotel WiFi Jet Basic	A wireless Internet service of Eurotel, making use of mutual roaming with ČESKÝ TELECOM, designed for customers with usage of up to 90 hours a month
Eurotel WiFi Jet Nonstop	A wireless Internet service of Eurotel, making use of the mutual roaming with ČESKÝ TELECOM, offering an unlimited high-speed wireless Internet access for a flat monthly fee
Go bod	A program of Eurotel for pre-paid customers who accumulate points for each purchase of credit – the points can get them more credit for calls, SMS and MMS
Go Data Nonstop	A service package of Eurotel combining Data Nonstop, an unlimited mobile GPRS-enabled Internet access, and 30 free minutes for voice calls in the Czech Republic
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
IFRS	International Financial Reporting Standards
INTERNET EXPRESS	A new high-speed Internet service of ČESKÝ TELECOM, including also voice call programs with favourable rates, all for a flat monthly fee
Jukebox	A service of Eurotel for music downloads and replay on a mobile telephone; in designing and developing the service, Eurotel joined forces with Chaoticom, a technology and software development company
Internet Broadband	A broadband Internet service of ČESKÝ TELECOM for residential customers and small/home offices (formerly IOL Broadband)
Internet Broadband Profi	A broadband Internet service of ČESKÝ TELECOM for companies, corporations and institutions. (formerly IOL Broadband Profi)
ISDN	Integrated Services Digital Network, a digital network powering modern and quality services of telephony, Fast Internet and High-speed Data Transmission
MMS	A multimedia format for mobile data transmission
MOU	An indicator of minutes of use per month per customer.
SMS	A format for short messages used in mobile telephony
StarZone.cz	A unique entertainment portal of ČESKÝ TELECOM where users can connect via ČESKÝ TELECOM and

	download films and music from the Internet.
Telefon	A package of price programs of ČESKÝ TELECOM for residential customers with free minutes for domestic calls and dial-up Internet.
Telefon Universal	A price program of ČESKÝ TELECOM for residential customers, offering the best prices on all types of calls, including dial-up Internet
Telefon Universal Dialog	A price program of ČESKÝ TELECOM for the residential segment, offering a standard price of CZK 9.90 for the first hour of the call; the price applies to all types of calls (local and long-distance, peak and off-peak) to all fixed line networks in the Czech Republic
Top Minuty	see Eurotel Top Minuty
Top MMS	see Eurotel Top MMS
Top Noc	see Eurotel Top Noc
Top SMS	see Eurotel Top SMS
Top Pevná	see Eurotel Top Pevná
Top Volání	see Eurotel Top Volání
VPN Nonstop	see Eurotel VPN Nonstop
WAP	Wireless Application Protocol, a protocol for displaying selected Internet pages on a mobile telephone display
Wi-Fi	A wireless Internet access technology
Wi-Fi Hot Spot	A wireless Internet service of ČESKÝ TELECOM using mutual with Eurotel.
WiFi Jet	A wireless Internet service of Eurotel making use of mutual roaming with ČESKÝ TELECOM; also see Eurotel WiFi Jet Basic and WiFi Jet Nonstop
Xcall	A service of ČESKÝ TELECOM for cheap off-peak international calls

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Company founded: 16. 12. 1993
Company incorporated: 1. 1. 1994
Duration of the Company: The Company is established for an indefinite period of time
Legal form: Joint-stock company
Legal regulation according to which the Issuer was established: The provisions of Section 172 (2), (3) of the Commercial Code
Registration court: Prague Municipal Court
Registration Court Record number: Section B, Enclosure 2322
Subject of business: According to Article 3 of the valid Articles of Association of the Company

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

