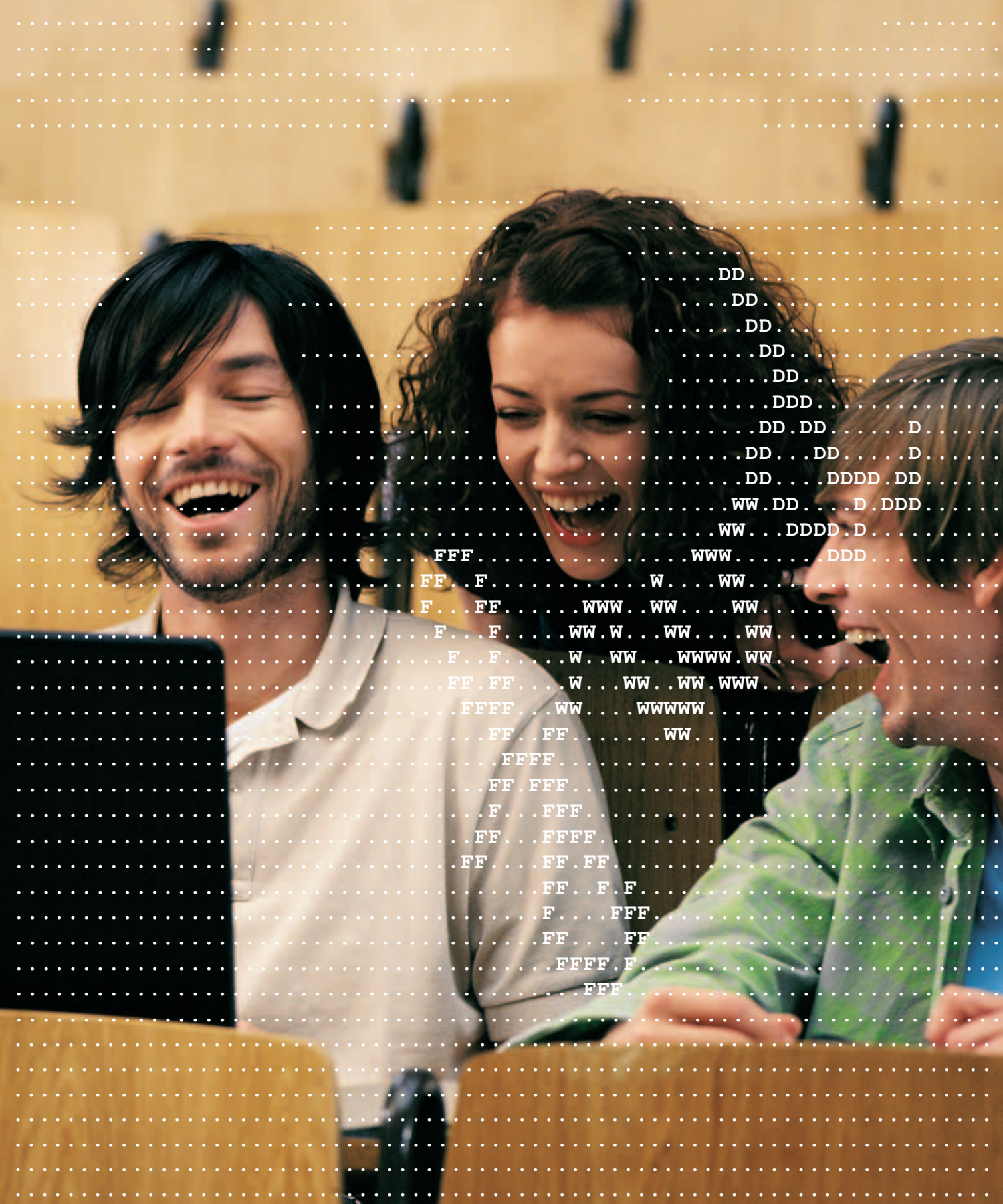


vision	whether their ambitions and wishes are big or small, we want everyone to be able to get the most out of life
mission	Eurotel's mission is to provide services and support that enrich people and help them get more out of life, whenever and wherever they need
values	in all we do, we make people more dedicated, more enthusiastic, and more dynamic
energetic	a sense of enthusiasm, a sense of dedication, a taste for speed
inspiring	ability to lead, stimulate, and motivate each other, our customers, and the market as a whole
reliable	we say what we think, do what we say, and we always keep our word
helpful	friendly and open to new ideas

contents

information on the company	
company's profile	5
introduction by the CEO	7
selected financial and operating indicators	10
financial performance commentary	11
highlights of 2004	13
the company in 2004	
contract residential customers	17
corporate customers	19
"Go" prepaid card customers	21
data products and services	22
content services	23
top technologies	24
human resources	27
Eurotel foundation	28
support for sports, culture, and the arts	30
corporate governance	33
company management	35
company's strategy	39
financial statements	
report of independent auditors	43
consolidated financial statements for the year ended December 31, 2004 prepared in accordance with accounting principles generally accepted in the United States of America	44



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company profile

In 2004, Eurotel Praha, spol. s r. o. (hereinafter only Eurotel) continued to be the largest provider of mobile voice and data services in the Czech Republic, with approximately 4.6 million customers at year end.

The mobile networks operated by Eurotel at 900/1800 MHz (GSM) and 450 MHz (T!P) cover 99% of the population of the Czech Republic. As of year end, Eurotel worked with 376 partners to provide roaming services in 150 countries spanning the entire globe.

Eurotel holds a license to provide third-generation mobile services through the Universal Mobile Telecommunications System (UMTS) standard.

Eurotel delivers its contract and "Go" prepaid customers a complete range of data services, SMS and attractive content services including, for example, mobile video services, WAP, voice services and MMS.

Eurotel is the only mobile operator in the Czech Republic to offer both progressive technologies of wireless data transmission. General Packet Radio Service (GPRS) and High-Speed Circuit-Switched Data (HSCSD) technologies. Eurotel offers its customers the widest range of internet connection including EDGE, WiFi and CDMA.

As the first mobile operator in the world to do so, in August 2004 Eurotel began offering customers high-speed Internet access through the CDMA2000 1xEV-DO technology, operating over the 450 MHz network.

Eurotel provides certified top-quality telecommunications services in conformance with the international standard ISO 9001:2000 and is the only telecommunications operator in the Czech Republic to have obtained certification in the environment (ISO 14001:1996), occupational safety and health (OHSAS 18001:1999) and information security (BS7799-2:2002) areas.

Additionally, Eurotel won the Czech Republic National Award for Quality in 2004.

In September 2004, Eurotel became a member of Starmap, an association of 11 mobile operators that provide mobile voice and data services to over 53 million customers.

Eurotel Praha is a limited-liability company 100% owned by ČESKÝ TELECOM, a.s.



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introduction by the CEO

It gives me great pleasure to report that 2004, a year we ended with a record number of 4,591,471 customers, was a period of prosperity for Eurotel – a year that reaffirmed our position as the largest mobile operator in the country. It was also the first year in which the influence of the company's new owner became fully apparent. The most significant initiative of ČESKÝ TELECOM, as the company's 100% owner, was the launch of a process of leveraging synergies between the both companies. This process gave rise to a number of joint activities, from opening the first joint branded shops, realizing cost savings on joint technology purchases, joint products and services offerings and joint dealership projects for the products of both companies. Offers of attractive products and services and management's focus on key growth areas both helped us maintain Eurotel's number-one position in a saturated, highly competitive mobile market, in which we carved out the biggest market share of 43%.

Compared to the previous year, we succeeded in bringing about a substantial, 17% increase in the pace of growth in the customer base. The number of new customers added during the year reached 377,000, making us the fastest growing mobile operator in terms of this indicator. Thanks to the most successful Christmas campaign in the past three years, we brought in a record-breaking number of new customers in the fourth quarter. During the last year we continued to be the leader in the segment consisting of corporations with over five employees. I very appreciate of the fact that we managed to acquire and hold on to a number of prestigious customers such as Lesy České republiky, s. p., Kooperativa, pojišťovna, a. s., Ahold Czech Republic, a. s., Čedok, a. s., Mountfield, a. s., or ČEZ, a. s.

Leadership, however, is not measured by the number of customers alone. Key financial indicators and innovation are also important. In 2004 we came out on top in a number of areas. On the domestic scene, we won the prestigious Czech Republic National Award for Quality 2004. In the second half of the year, we successfully implemented an integrated quality management system and, for the third year in a row, we were first in terms of EVA (Economic Value Added) – a key measure of shareholder value. We also took the top award for corporate philanthropy in the VIA Bona 2004 competition. On the strength of improvements in our services offered, we joined the Starmap Mobile Alliance of 11 leading independent operators. Our Eurotel Data Expres service won us two awards – True Mobility 2004 from two editorial boards of the Computer Press publishing house and Product of the Year 2004 from the editors of Softwarové noviny (Software News).

We also received top honors in the International Stevie Award competition for the best-designed website and at the Mobile Entertainment Forum in London for our Eurotel Jukebox music downloading and playing service.

Another crucial factor necessary for maintaining our position as the leading mobile operator is the breadth, focus, and quality of ever more sophisticated services that satisfy the customers' ever increasing needs. In 2004, we launched a number of new products and special offers, including free voice minutes and discounts on mobile handsets and accessories.

In order to prepare ourselves thoroughly for the coming explosion in the development of mobile voice and data services, we are supporting innovation through carefully considered investments in our technology base. Cutting-edge technologies were rolled out in all key segments of the company.

Most significant was the growth in data services. In August, we launched the mobile broadband Internet connection service Eurotel Data Express, for which we used the cutting-edge CDMA technology (being the first operator in the world to do so) operating at 450 MHz. By year end, nearly 30,000 customers had signed up for this service, which is accessible to nearly 80% of the country's population. The number of customers for Eurotel Data Nonstop (unlimited Internet connection for a flat monthly fee) reached nearly 60,000 by December 31. Also, the subject of extraordinary interest on the part of our contract and prepaid customers was the new Eurotel Star service, which gives customers a discount on calls made to a particular number, regardless of what network that number is in. Between September 2004 and the end of the year, this new service had been activated by 400,000 customers – proof positive of its worth.

In 2004 we offered our customers the first integrated web and WAP portal, Eurotel Live!, whose wide-ranging mosaic of services, information, and entertainment found 110,000 users. Another first was the ability to send SMS messages to landline numbers. Corporate customers are sure to appreciate secure 24-hour mobile handset access to company's e-mail through the Eurotel Office Connector service, or the creme de la creme of specialized communication technologies, Push To Talk, which is like having a walkie-talkie in your mobile phone. Thanks to access node sharing with ČESKÝ TELECOM, we achieved unrivalled WiFi coverage for our Eurotel WiFi Jet wireless Internet access service. With more than 163 access points, our WiFi network is the biggest in the country. And, finally, we we also worked on bringing technologies of the future closer to reality, teaming with ČESKÝ TELECOM to present our vision of a digital home and a digital business at the Digital Home & Digital Business booth at Invex.

Despite the high degree of SIM cards penetration in the Czech mobile market, which is becoming ever more competitive, we have great potential – thanks to our customer focus – to continue to be the market leader, especially in data and content services. Effective synergies with ČESKÝ TELECOM are yet another reason to have confidence in Eurotel's future.



Our strategic objective is to maintain our position in a market that is amongst the most highly developed in the world. We will succeed only if we invest in the highest standard of care for both individual and corporate customers as well as the development of unique products and innovative voice and data services supported by technologies and systems that push the envelope. We are also focusing our efforts on the development of services that will bring customers a higher degree of comfort and added value, and concentrating on expanding our information and entertainment services to give customer access to more and better content. We will continue to emphasize high financial effectiveness, improvement of internal skills, leveraging of synergies, and maintaining a high level of financial performance.

In order to fulfill these bold visions, we need excellent employees. I am well aware that if it weren't for the extraordinarily talented team of people that work for our company, we could hardly have achieved such great results last year. I sincerely thank them for their dedication.

I would also like to thank all our customers - who trust us and to whom we in return can provide services that enrich them and help them to get more out of life, whenever and wherever they need. Our success is thanks to them and we appreciate it very much.



MICHAL HEŘMAN, CEO EUROTEL PRAHA, spol. s r. o.

selected financial and operating indicators

(in millions of Czech Crowns)

	2004	2003	2002
TOTAL REVENUES	29,480	29,078	28,800
Mobile service revenues	27,516	27,610	26,869
Mobile equipment revenues	1,964	1,468	1,931
EBITDA	13,638	14,199	13,712
Depreciation and amortization	5,066	5,008	4,596
Net finance income / (expenses)	60	103	(57)
Income taxes	2,047	2,040	2,788
NET INCOME	6,585	7,254	6,271
Total assets	31,724	36,864	42,400
Free cash flow	7,594	7,547	6,980
Capital expenditures	3,205	4,105	5,031
EBITDA / total revenues	46%	49%	48%
Net income / total revenues	22%	25%	22%

SELECTED OPERATING INDICATORS

Number of customers (in thousands)	4,591	4,215	3,891
Postpaid customers (in thousands)	1,058	885	778
Prepaid customers (in thousands)	3,533	3,330	3,113
Voice minutes of use (in millions)	4,456	4,319	4,184
Total SMS (in millions)	2,292	2,252	2,024
Ending number of employees	2,483	2,442	2,447

financial performance commentary

We continue to improve our value proposition to our customer base through innovative tariffing and new products and services to enrich people's lives and help them get more out of life anywhere and anytime. Among other things, the year 2004 saw the roll-out of the very first 3G network in the Czech Republic - the CDMA2000 1xEV-DO network, the launch of the "Eurotel Jukebox" service for downloading entire songs to mobile handsets, and the start-up of the first integrated web and WAP portal, Eurotel Live! On the financial side, in 2004 Eurotel continued in its policy of paying regular dividends - a total of CZK 8 billion was distributed to shareholders and the dividends were entirely financed out of the company's equity.

total revenues Total revenues increased by CZK 402 million, or 1%. This increase was driven in particular by three factors: first, a 23% increase in new customers in spite of the Czech Republic's already high level of penetration of mobile market (approximately 105% at the end of 2004); second, a 3% increase in the number of voice minutes; and third, a 2% increase in SMS traffic. Total revenues comprise mobile service revenues and mobile equipment revenues, which also include activation and other revenues. Mobile service revenues slightly decreased by CZK 94 million, or 0%, for the twelve months. The decrease was primarily due to the competitive pressure on end prices in the market, which was partially offset by the growth in our customer base.

Mobile equipment revenues increased by CZK 496 million, or 34% for the twelve months. This growth was driven not just by the number of new customers, but also by a 27% increase in the number of existing customer contracts renewed through the Mobil+ program and by a 49% increase in the number of handsets and modems sold.

EBITDA (Earnings before interest, taxes, depreciation, and amortization) decreased by CZK 561 million, or 4%, for the twelve months. The EBITDA margin decreased from 49% in 2003 to 46% in 2004. A significant factor contributing to this result was costs of equipment sold, which grew in line with the growth in the number of handsets and modems sold and the number of contracts renewed. Operating costs (not including depreciation and amortization) fell by 5% as a result of ongoing improvements in efficiency and productivity.

depreciation and amortization Depreciation and amortization increased by CZK 58 million, or 1%, for the twelve months. This increase reflected additional depreciation expense of property, plant, and equipment acquired and constructed as we continued to build our GSM and CDMA network.

net finance income In 2004 net finance income decreased by CZK 43 million, or 42%, for the twelve months. The decline was the result of lower interest income due to lower cash balances.

tax costs remained nearly flat compared to the previous year. This was due mainly to a recalculation of deferred taxes in 2003 using new tax rates, which resulted in a lower tax expense in the given year.

net earnings fell by CZK 669 million (9%) in 2004. The decline was caused mainly by the higher costs of mobile services sold, although that was partially offset by operating cost savings.



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highlights of 2004

january Four new "Top" service packages offered to contract residential and corporate customers. New SMS contest offers customers opportunity to win tickets to the World Ice Hockey Championships. Activation fees for all handsets and mobile devices in the current catalog slashed by over 50%.

february Weekend calls for just CZK 1 per minute with the "Special Go" tariff.

Launch of "Eurotel Jukebox" service that allows customers to download entire songs to their mobile handset - Eurotel is the first mobile operator in Europe to offer the service.

march Launch of Eurotel Live!, the first integrated web and WAP portal that allows customers to change their handset settings, activate and order services, and utilize on-line services via Internet and WAP.

Eurotel wins the International Stevie Award for best overall website design.

"Go Points" service customers is introduced allowing customers to obtain up to 20% additional credit every time they recharge their prepaid cards.

Unveiling of special offers to commemorate the upcoming 2004 World Ice Hockey Championships, including limited-edition prepaid "Go" sets, activation discounts, a "Go" SMS game with tickets to championship matches as prizes, and a special collection of "Go" vouchers.

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

As a traditional partner of the Czech National Hockey Team, Eurotel brought out more unique entertainment and information services in the form of video, SMS, MMS and WAP news bites, and hockey chat, as well as downloads of photos, logos, color backgrounds, and ringtones, all using the world championship theme.

For the first quarter of the year Eurotel reported growth of all the key financial indicators (revenues, EBITDA, net income).

may Eurotel and ČESKÝ TELECOM sign a roaming agreement allowing them to share each other's WiFi broadband wireless access points. With more than 163 access points, this move made Eurotel's WiFi network the biggest in the country.

New Eurotel Office Connector service offers simple and secure access to company and private e-mail from one's mobile handset.

SuperStar goes mobile - a special collection of mobile services linked to the finale of the reality show "Czechia Seeks a SuperStar".

New "Top packages" announced - one voice minute or 10 MMS for one Czech Crown.

june Launch of new service, Go Data Nonstop, brings unlimited mobile Internet access to prepaid customers.

Eurotel Jukebox, a service for downloading and playing entire songs, wins the Mobile Music Award 2004 from the Mobile Entertainment Forum in London. The biggest contribution in the sphere of mobile music is awarded.

Launch of summer roaming SMS game - top prize is a vacation package worth CZK 100,000.

New Eurotel SMS Connector service brings corporate customers expanded possibilities for text message communication both inside and outside their company.

july Eurotel provides mobile reservation, information, and multimedia services to visitors at the Karlovy Vary International Film Festival.

Network of ATMs where customers can directly recharge their "Go" credit expanded to include ATMs operated by Česká spořitelna and Euronet.

Signal coverage expanded to include over half the sites selected in the Crisis Management project.

Eurotel extends its General Partnership contract with the AC Sparta Prague football club for another three years.

Launch of a special edition of logos, ringtones, MMS images, and backgrounds featuring motifs from the animated blockbuster film Shrek 2.

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

august Eurotel introduces Eurotel Data Expres, the first mobile unlimited flat-fee broadband Internet access service in the country with flat monthly fee, at the same time becoming the first mobile operator in the world to operate the cutting-edge CDMA2000 1xEV-DO in the 450MHz frequency band.

Eurotel Live! provides news, information, and entertainment services from the Olympic Games in Athens.

Portfolio of new mobile telephones offered for preferential price with Mobil+ service.

september SMS messages from Eurotel's network can be sent to landlines.

New tariff customers get two months with no fixed fee.

New service, dubbed Eurotel Star, gives up to 20% discounts on calls to a predetermined number, regardless of network.

Eurotel becomes the first company ever in the Czech Republic to obtain comprehensive integrated management system certification.

First prize in the VIA Bona 2004 competition for Eurotel Foundation's philanthropic activities to-date.

Number of customers for the Eurotel Data Expres service passes the 10,000 mark.

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

october Mid-sized and small companies can reap the benefits of the unique Eurotel Office Connector corporate e-mail access service.

Eurotel expands its Invox trade fair footprint to two booths, plus - for the first time - a joint booth with ČESKÝ TELECOM entitled Digital Home & Digital Business, which highlighted the potential of telecommunication services for meeting current and future needs of both residential and corporate customers, including solutions for video transfers and TV over landline.

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

Launch of a unique combination of unlimited ADSL - based Internet service over a landline with a mobile voice tariff - Eurotel Data Speed.

november Launch of Christmas campaign featuring packages that include free voice minutes for both new and existing customers.

Fees lowered for services on the Eurotel Live! web and WAP portal.

Eurotel commences cooperation with Poštovní spořitelna making the financial institution the company's seventh GSM banking partner.

The "Great Christmas SMS Contest" is kicked off - new customers can win the car of their dreams and other attractive prizes.

A small prepaid "Go" set is made available on a promotional basis for a discount price of CZK 25, with an added bonus of up to CZK 1,000 for the first card recharge.

The first joint brand retail outlet of ČESKÝ TELECOM and Eurotel opens in a prime Prague location in Vysočany.

december In a pre-Christmas promotion, customers can sign up for the Eurotel Data Expres service on a trial basis at a discount. Number of Eurotel Data Expres customers at year-end 2004 reaches nearly 30,000.

Eurotel becomes the first mobile operator in the Czech Republic to bring to market the "Push To Talk" technology, which turns a mobile handset into a walkie-talkie.

Thanks to 40 new CDMA base stations, signal coverage for the Eurotel Data Expres broadband Internet service increases to nearly 80% of the population of the Czech Republic.

Number of Eurotel customers at year-end 2004 reaches nearly 4.6 million.



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contract residential customers

An attractive range of “Top” packages, bigger discounts on handsets, bonuses and new services – that sums up the year 2004 from the perspective of Eurotel’s contract customers. All products were tailored to their individual needs.

“Top” packages Following the success of Eurotel Top Weekend, customers have five more Top packages to choose from as of early 2004. Top packages are available “on top of” all standard tariffs. The most successful of the packages is Eurotel Top Voice Calling, which allows the customer to place voice calls to any network for just CZK 2.50 per minute. The package Eurotel Top Minutes doubles the number of free voice minutes in the customer’s tariff. Eurotel Top Fixed Line and Top Night allow the customer to call landline numbers for just 1 Czech Crown per minute at all times and during off-peak hours, respectively. The Top MMS package gives MMS users 10 MMS messages for just CZK 50.

Eurotel Live! Mid-March saw the launch of the first integrated web and mobile portal to allow contract customers to change their telephone settings, activate or order services, and utilize on-line services via the Internet and WAP. With this initiative, Eurotel lets the customers enter the world of entertainment, music, information and games – at any time and from any place. In addition to a huge selection of logos, ringtones, MMS image messages, contract customers could also access multimedia news reports and entertainment from the World Hockey Championships in Prague, the European Football Championships in Portugal, and in Athens.

world hockey championships Free tickets to one of the World Hockey Championship qualification matches were prepared for the first 11,000 customers that took advantage of Eurotel’s discounted activation fee offer in March. With the purchase of any new subsidized handset with a discounted activation fee, the customer received a free ticket to a hockey game.

Eurotel Star The Eurotel Star services offers contract and prepaid customers 20% cheaper voice minutes on calls to any mobile or landline number in the Czech Republic. In addition, contract customers receive a 20% discount on SMS and MMS messages and on data transfers as well. As of year end 2004, the Eurotel Star service had been activated by 400,000 customers.

lower prices on handsets for new and existing customers

Eurotel launched a new method for setting prices on subsidized handsets and data devices for both new contract customers as well as existing ones whose subsidized contract is expiring and who wish to extend it through the Mobil+ service. The philosophy of this offering is simple: the customer chooses a new telephone from the current range of handsets and data devices and they get a discount which is determined on a sliding scale according to the minimum number of minutes per month they agree to in the contract.

two months with no flat fixed fee

From September 1 to October 30, new Eurotel contract customers had the opportunity to get two months with no flat fixed fee. The offer was valid for each newly activated voice number.

Christmas promotions

All customers that signed a contract with Eurotel in the last two months of 2004 received up to 60 voice minutes per month, for a period of six months, for just 1 Czech Crown. Customers who took advantage of this offer received up to 360 voice minutes, valid in all networks - a value of up to CZK 4,241 including VAT. Customers also had the opportunity to buy a discounted handset and activate it for half price.

corporate customers

Independent market research studies (syndicated research T-Audit) have confirmed that half of Czech companies with six or more employees rely on Eurotel's services in their work and business. In 2004, Eurotel once again retained its already strong position in the segment consisting of corporate customers, both small and large. In spite of competitive pressure in the market, the company succeeded in acquiring a number of new corporate customers and in extending contracts with major existing customers.

During the year, nearly 14,000 small and mid-sized companies signed new contracts with Eurotel, thereby gaining access to advantages and client care features designated for large customers – ranging from discounts on voice rates, handsets and activation fees to the specialized services Eurotel VPN, Eurotel Team or internet and e-mail services. Also successful were sector-specific offers for companies in the transportation, logistics, and construction industries. Eurotel's prime competitive advantage lies in our individualized approach to corporate customers and the high quality of our support and customer services.

Eurotel Team promo September 2004 saw the launch of a special offer of 12 months free-of-charge for the Eurotel Team service, which gives customers discounts on voice calls within their company and to up to ten pre-selected numbers outside it. The response to this promotion was fantastic; by year end it spurred a 10% increase in framework contracts signed in this segment.

Eurotel Office Connector A new service launched in May 2004 and unique to the Czech mobile market, Eurotel Office Connector gives corporate mobile phone users safe access to their company e-mail account. The service gives them access to their calendar, contacts and to-do lists. In October 2004, the offering was expanded to medium and small sized companies as well. The service can be used by both individual customers who send just a few e-mails a day and large corporations with daily e-mail loads that reach into the thousands.

Eurotel SMS Connector Another new initiative, launched in June 2004, is the service Eurotel SMS Connector which is designed to expand and promote the use of SMS messaging as a modern tool for direct communication with customers, business partners, and for internal communications with employees. The service gives its users a simple, quick and economical way to send and receive SMS messages from company software applications. Interconnection with company e-mail, calendar and address book applications makes it possible to automate the exchange of information – for example, using SMS alerts of upcoming meetings and incoming e-mails. Moreover, the service is supported by two products that facilitate sending and receiving SMS messages from a personal computer – Eurotel SMS Manager and Eurotel SMS MobilChange.

Eurotel Service Manager Starting in November 2004, corporate customers can activate new services or otherwise change their service settings through the new Internet portal Eurotel Service Manager.



“Go” prepaid card customers

For “Go” prepaid card customers, the year 2004 brought a number of innovations, including new ways to recharge cards, attractive promotions, and a new data tariff. The year was also rich in bonuses such as highly attractive free voice minutes packages in the run-up to Christmas and discounts of small “Go” sets for CZK 25 with a 100% bonus on the first card recharge. Customers also flocked to the new Eurotel Star service, which gives discounts on voice minutes to any mobile or landline number.

“Special Go” deep discount tariff Weekend voice minutes for just 1 Czech Crown – that was the slogan of the new “Special Go” tariff which was targeted mainly for new customer acquisition. Of course, both new and existing customers could take advantage of the offer, which is the only of its kind in the Czech mobile services market.

Go Points 2004 March 1 marked the launch of the Go Points loyalty program in which customers could get up to 20% more credit for voice minutes and SMS. The program, in which customers exchange Go Points for a bonus on their next card recharge, was available until the end of February 2005. In 2005 this program is continuing in an improved form.

Go and the hockey championships As part of Eurotel’s longstanding partnership with the Czech National Hockey Team, we provided our prepaid customers with a wide range of services thematically linked to the 2004 World Ice Hockey Championships which took place in Prague and Ostrava. Hockey fans could express their pride in the national team by purchasing a limited-edition, hockey-themed Go set with a ticket to a championship match inside, as well as a collection of Go vouchers with the portraits of four famous Czech hockey players. Tickets were also distributed as prizes in a special SMS contest.

Go and SuperStar “Go” prepaid customers had the chance to be in the studio audience for the semi-finals of the reality show, “Czechia Seeks a SuperStar” – by participating in an SMS contest with music prizes. In addition, Eurotel offered them an exclusive range of SuperStar related services such as polyphonic ringtones, logo collections, SMS and MMS with the ten finalists.

data services and Go Data Nonstop Eurotel, as the only mobile operator in the Czech Republic to do so, offered its prepaid customers four mobile data options, based on WiFi, HSCSD and GPRS technologies. For customers that would prefer paying for time spent on-line, rather than bandwidth usage, there is the Go HSCSD Fast Data service. The service Go GPRS Instant, on the other hand, is billed according to volume of data transferred. As of June 2004, Eurotel offers unlimited Internet access via GPRS for a monthly fee that includes 30 free voice minutes to all networks. The service, dubbed Go Data Nonstop, is available to all “Go” prepaid customers. For customers that prefer WiFi technology, Eurotel offered the WiFi Jet Nonstop service. With so many types of technologies and billing options to choose, customers have a unique opportunity to choose the most advantageous service for them to connect to the Internet, whenever and wherever they need.

data products and services

In 2004, Eurotel was the largest mobile Internet provider in the Czech Republic, with a rich portfolio of data services that enrich people and help them get more out of life, whenever and wherever they need. During the year we saw our number of mobile Internet customers nearly triple.

Eurotel Data Expres Based on the unique CDMA technology, Eurotel's unlimited wideband mobile Internet access service, Eurotel Data Expres, gained popularity quickly following its launch in August 2004. As part of a phased upgrade of its network, Eurotel rolled out the CDMA2000 1xEV-DO system at 450 MHz, becoming the first operator in the world to do so. By year end the signal had covered nearly 80% of the Czech Republic population, allowing nearly 30,000 customers to gain the advantages of the fastest mobile Internet connection in the country, with speeds of up to 1024 kbp/s.

Eurotel Data Speed Eurotel took advantage of ČESKÝ TELECOM's wholesale offering to become the only mobile operator in the Czech Republic to provide broadband Internet access over landlines in combination with mobile voice tariffs. Since its launch in October 2004, the Eurotel Data Speed service has rounded out the company's data services portfolio with ADSL with three access speed options.

Eurotel WiFi Jet Another synergy between Eurotel and ČESKÝ TELECOM is a roaming agreement on the joint use of access points, called "hotspots", in various locations that together form a broadband wireless Internet access network based on WiFi technology. Thanks to the sharing of more than 163 hotspots between the two companies and unrivalled coverage, Eurotel's WiFi network became the largest in the Czech Republic. In addition to the already established low tariff for unlimited Internet access, WiFi Jet Nonstop, in 2004 customers were given a new tariff option, Eurotel WiFi Jet Basic, which offers 60 free minutes for a fixed fee.

content services

In 2004, Eurotel reinforced its position as the dominant force in content services. In addition to traditional products that combine information with entertainment based on SMS, MMS, Java applications, videostreaming, and images and music on mobile handsets, the hit in 2004 was Eurotel Live!, the new integrated WAP and web portal that managed to build an attractive image in a very short time and acquired about 110,000 customers for nine months of its existency.

Eurotel Live! The Eurotel Live! portal was launched in early 2004 as the first integrated web and mobile portal to allow customers to change their telephone settings, activate or order services, and utilize on-line services over the Internet or WAP. The portal's wide range of services covers everything from news and information, ringtones, images and logos to great 3D JAVA games, music downloads, and in-handset video.

interactive partnerships In 2004, Eurotel leveraged the Eurotel Live! internet portal and the whole line of content services within our traditional, long-standing partnerships with the Czech national hockey team, the AC Sparta Prague football club, and the International Film Festival in Karlovy Vary. For example, sports fans had exclusive access to the latest information and scores of individual matches through their mobile phone, and film lovers could make a reservation or buy a ticket to the Karlovy Vary Festival anywhere and anytime.

Athens Thanks to the Eurotel Live! portal, sports fans could order SMS and MMS news reports from Athens for just 1 Czech Crown. In their mobile handset, they found up-to-date information on the schedule and progress of the Games, all important results, statistics, including world records, and all the news of the Czech Team.

SuperStar goes mobile Eurotel launched an exclusive offering of mobile services linked to the reality show "Czechia Seeks a SuperStar". The offering included special multimedia content including songs sung by the show's finalists in the form of polyphonic ringtones, special collections with logos, egos, MMS with the ten finalists, SMS and other attractive possibilities for making the show come to life through mobile handsets.

SMS Games SMS games are an integral part of the content services offering. In 2004 they focused on themes linked to the World Hockey Championships that were held in Prague and Ostrava, the runaway hit reality show "Czechia Seeks a SuperStar" (in both cases, tickets were distributed as prizes), and mobile communications products featuring, for example, the famous cat Garfield, the fearless Spiderman, the main character from Shrek II or the legendary Wolf and Hare duo from the cartoon series "Jen počkej!", which Eurotel has licensed. Roaming services received a significant boost from a summer SMS game in which approximately half of Eurotel's customers vied for a CZK 100,000 vacation package and other attractive prizes.

recognition for Eurotel Jukebox In 2004, Eurotel became the first European mobile operator to allow its customers to download and play entire songs in their mobile handset. No wonder, then, that this product won the MEF (Mobile Entertainment Forum) Mobile Music Award 2004 in London.

top technologies

In accordance with company's strategy, Eurotel thoroughly prepared itself in 2004 for the upcoming explosion in the development of mobile voice and data services that will bring with it even more intense competition in the telecommunications market, and supported innovation by making carefully considered investments in its technology park.

Top technologies were rolled out in all key segments, including for example the special-purpose communication, "Push To Talk", our unique integrated web and WAP portal, Eurotel Live!, and the unlimited broadband mobile Internet access service, Eurotel Data Expres, based on the unique CDMA technology.

data services development By year end 2004 over 60,000 customers had signed up for the Eurotel Data Nonstop service, whose key features are the most complete coverage, mobility, and roaming capabilities. Network capacity was upgraded to keep pace with the steep rise in the number of users.

Eurotel reinforced its position as the provider of choice for the most demanding power users by offering EDGE, an improved function of GPRS, as part of the Eurotel Data Nonstop service. This functionality, which more than doubles the user's connection speed, was installed in areas with the highest GPRS traffic.

In August 2004, Eurotel became the first mobile operator in the world to offer its customers mobile broadband Internet access using the CDMA 1xEV-DO technology at 450 MHz. Customers of the service receive unlimited Internet access for a flat monthly fee. The principal advantages of this attractive service are mobility, high speed, and signal coverage. It is no wonder, then, that the flood of new customers attracted to this service made it necessary to upgrade network capacity and signal coverage several times during the third and fourth quarters. At year end 2004, when nearly 30,000 customers had signed up for the Eurotel Data Expres service, we operated 230 CDMA base stations and the service was available to nearly 80% of the population of the Czech Republic.

highest quality The trend towards increased reliability and top quality in the Eurotel mobile network continued in 2004. Our highly advanced network grew to over 3,600 base stations. Network expansions were spurred in particular by the accelerating construction of malls and hypermarkets, industrial parks, and new roads in the Czech Republic. By beefing up our network in these high-exposure areas, we were able to continue to offer mobile services of the highest quality. In similar fashion, we adjusted mobile network capacity in a number of cases to ensure that the network's parameters are in line with customers' dynamically changing needs.

Eurotel holds a UMTS third generation network technology license allowing us to transmit data at up to 2 Mbit/s. In December 2003, we signed an agreement with the Government of the Czech Republic, revising the license conditions. The agreement pushed back the launch of the UMTS network by one year - to no later than 1 January 2006, as well as requiring that the license fee be paid early - in 2004. Thus, the remainder of the UMTS license fee - CZK 2.281 billion - was paid in 2004 in full, in two equal installments in April and August 2004. In early 2005 another agreement was reached with the Czech Telecommunications Office, moving the network's launch date back to 1 January 2007.



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human resources

In 2004, Eurotel provided its 2,483 employees a highly motivating and dynamic environment as one of the most successful companies in the Czech Republic. Employees received competitive wages, an extensive program of benefits, and a corporate culture that gives them room for further development, both personal and professional. For this and other reasons, the company placed second in the prestigious “Most Sought-after Employer of the Year 2004” survey of the general public.

The company continued to implement its human resources strategy, the objective of which is to maintain a balance between systematic growth in employees’ work performance and motivating employees, while at the same time providing for their personal and professional development and satisfaction.

annual employee performance evaluation This is a key tool that marries the company’s interests with those of the employee. Managers evaluate each employee’s individual contribution and sit down with him or her to agree on a personal development plan.

system of employee training In 2004, Eurotel launched a system for training store and call center employees, focusing on improving the quality of services and information provided to customers. The new system was supported by the introduction of employee career plans. Managers received specialized training and practiced their strategic and operational management skills through games and other simulations. The management training programs were coordinated at the ČESKÝ TELECOM Group level.

employee benefits The company’s employee benefits program was significantly expanded in 2004 in the “Cafeteria” area - i.e., employee benefit options. Expanded options included in particular those relating to supplemental pension insurance, personal life insurance, additional health insurance coverage, and a preschool contribution. Another new feature of the program is a vacation contribution for employees who have been with Eurotel for more than 3 years.

support for handicapped employees Eurotel also expanded its program of support for employing handicapped citizens and cooperating with associations of handicapped citizens. Current handicapped employees became eligible to receive a special contribution toward health reconditioning vacation sojourns.

Eurotel all management meeting Once again in 2004, a regular all management meeting was held, which was attended by most executives. The gathering is an important tool for communicating Eurotel’s key business objectives and operating targets.

“employees help” project In this project, employee volunteers decided to help children from orphanages in Klánovice u Prahy, Brno, and Frýdek-Místek. Administration of the project, which was initiated by employees themselves, was taken over by Eurotel Foundation, a member of the Donors Forum - Association of Foundations of the Czech Republic.

Eurotel Foundation

Since 2002, Eurotel has consolidated its corporate philanthropy area and established Eurotel Foundation. Through long-term and well thought-out, systematic donorship, Eurotel Foundation strives to underline the company's stewardship and express our sense of shared responsibility for the state of society and its development. Therefore, we very much appreciate the top award in the Via Bona corporate philanthropy competition, which was given to Eurotel in 2004 by the professional public in recognition of Eurotel Foundation's activities. For us, this award is confirmation that we have set out in the right direction.

The mission of Eurotel Foundation is to support projects that contribute to the healthy development of children and youth, and to better their mental and physical development. Eurotel Foundation also supports projects that lead, directly or indirectly, to improvement in various kinds of communication among groups of children and youth that are disadvantaged in any way in society. In 2004, Eurotel Foundation distributed over CZK 15 million in financial donations.

regional grants In 2004, Eurotel Foundation continued to provide grants to non-governmental organizations that support disadvantaged children and youth. A total of CZK 10 million was distributed throughout the Czech Republic.

Eurotel Foundation award The CZK 1 million Eurotel Foundation Award was given to the citizens' association Strěp - Czech Center for Family Outreach from Kladno for its one-of-a-kind project entitled "Children Do Not Belong in Institutions".

long-term support grants Nine non-governmental organizations received two-year grants valued at CZK 1.5 million that will help ensure the stability and regularity of their high-quality services for disadvantaged children.

"line home" In 2004, Eurotel Foundation once again distributed mobile handsets and Go prepaid card packages to selected hospitals, where they allow little patients to communicate with their parents and friends, free of charge. This long-term project, entitled "Line Home", aims to improve the psychological condition of children during hospital stays, and was carried out in cooperation with the citizens' association Clinic Clown.

extra-curricular activities Education and schools are another area of focus for Eurotel Foundation. In cooperation with the Open Society Fund, the Foundation funded scholarships for secondary school students and continued to support the "Winton in Schools" interactive education program.

employees give a helping hand Eurotel's employees have a tradition of dedicating their free time to orphaned children. In 2004, this led to the spontaneous formation of friendships between adults and children from three children's homes. Employees also participate by visiting children in hospitals through the "Line Home" project and assisting in the evaluation of regional grants.

corporate philanthropy Eurotel Foundation continues to be an active member of the Donors' Forum, an association of foundations also, Eurotel is a member of Donator club, in which we endeavor to support the development of corporate philanthropy in the Czech Republic.

bullying at schools A new, very urgent priority for Eurotel Foundation in 2004 was the battle against a virulent epidemic of bullying in Czech schools. We are preparing a long-term project with help from leading child psychologists who specialize in the prevention of bullying and other pathological social phenomena (www.darcovskasms.cz)

In addition to the activities of our Foundation, Eurotel worked together with its fellow members in the Association of Mobile Network Operators and the Donors' Forum to develop a new philanthropy tool entitled DMS, or Donor SMS. This is a simple way to make charitable contributions via SMS (www.darcovskasms.cz).

support for sport, culture, and the arts

More sport records, more world-class cultural events, more artistic inspiration - more out of life! That's the philosophy that made Eurotel one of the Czech Republic's leading patrons and partners of sport, culture, and the arts in 2004.

projects in sport

Czech Hockey. The hockey event of 2004 was the World Ice Hockey Championships, of which Eurotel was Official Sponsor. Traditionally, Eurotel has been General Partner of the Czech national hockey team as well. In addition to watching matches live on a big screen in Prague's Old Town Square, hockey fans could also enjoy the Championships through hockey logos, picture SMS, and special ringtones. New this year, customers could also download MMS photos of players and play the Java game Eurotel World Hockey Championships 2004. SMS and MMS news reports and videostreaming rounded out the offering.

AC Sparta Prague. Like in years past, in 2004 Eurotel was once again General Partner of the AC Sparta Prague football club. This partnership gives club fans who use mobile phones access to a whole range of services and contests. For example, the "Sparta" mobile application keeps fans informed of current scores, key plays, and results of individual matches. Fans can also order football-themed logos, ringtones, and MMS postcards, and compete for prizes in attractive contests. In May 2004, the Eurotel Most Valuable Player prize was awarded for the fourth time. This year's winner was Karel Poborský.

Decathlonists Tomáš Dvořák and Roman Šebrle. In 2004, these two athletes appeared in a campaign on the Eurotel Live! web/WAP portal thanks to their partnership with Eurotel. Tomáš Dvořák is a three-time world champion and holder of an Olympic bronze medal. Roman Šebrle holds the world record, a silver medal from the world championships, a gold medal from the European championships, and an Olympic gold. Eurotel is also a partner of the Czech Athletics Union.

Skiers Kateřina Neumannová and Martin Koukal. Kateřina Neumannová, the holder of several silver and bronze medals from the Olympic Games and world championships and a multiple World Cup winner, became a celebrity of the Eurotel Live! campaign in 2004. Also cooperating with Eurotel was Martin Koukal, holder of a gold medal from the world championships and winner of the King of the White Track 2003 award, given to the Czech Republic's top skier of the year.

Eurotel Cheerleaders is the first semi-professional cheerleading team in the Czech Republic. They regularly perform at events sponsored by Eurotel - i.e., mainly, AC Sparta Prague football matches and matches of the Czech national hockey team. In 2004, the cheerleading team was also present in Old Town Square during the live big-screen telecast matches of the World Hockey Championships and the European Football Championships.

projects in culture and the arts

Karlovy Vary International Film Festival. Eurotel was an official supplier to the 39th Annual Karlovy Vary International Film Festival. Customers attending this major social and cultural event could choose from our traditional broad array of special content services such as festival program search, ticket reservations via WAP, accommodation reservations, train and bus schedules, and the Eurotel video service player (videostreaming and MMS). For reporters, there was also a special SMS-based news service.

Monkey Business Tour. In 2004, Eurotel became a partner of a concert tour of the funk group Monkey Business. Just for fans of this group, we prepared a whole special edition of the services at the Eurotel Live! portal, where they found Monkey Business-themed ringtones, logos, picture SMS and MMS images with photos of the group's members, their music albums, or their autographs.

In 2004, the company continued to sponsor the following selected projects, either as partner or general partner:

- > New Year's concert of the group Lucie and the Prague Symphony Orchestra at the Municipal House in Prague, as well as the June tour that took both groups to six Czech cities
- > 59th Annual "Prague Spring" Festival
- > 16th Annual "Dance Prague" International Festival of Contemporary Dance and Movement Theater
- > "Strings of Autumn" Festival



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corporate governance

owner Eurotel Praha, spol. s r. o. is a Czech limited-liability company 100% owned by ČESKÝ TELECOM, a. s.

In terms of market capitalization and trading volume, ČESKÝ TELECOM, a. s. is one of the most significant corporations in the Czech capital markets. The company's shares are also traded in GDR form on the London Stock Exchange. ČESKÝ TELECOM, a. s. has stable ratings at the highest possible level a Czech company can receive from the major international rating agencies. The company's majority owner is the National Property Fund (51.1%), and a minority stake (48.9%) is in the hands of private and institutional investors.

management Eurotel Praha, spol s r.o. is managed by three Executive Officers who are appointed by the General Meeting. The Executive Officers elect, from their own ranks, the Chief Executive Officer. The Executive Officers appoint and recall Chief Officers and Directors. The General Meeting's authority includes, in particular, the approval of the budgets, distribution of net income, strategic decisions on development of the business, changes in share capital, assumption of borrowings, acquisitions and review of the company's performance.

The Supervisory Board of Eurotel Praha, spol. s r.o. consists of five members. It reviews accounting and financial statements of the Company and supervises activities of the company's Executives. All members of the Supervisory Board of Eurotel are also members of the Supervisory Board of ČESKÝ TELECOM, a.s. As at 31st December 2004, members of the Supervisory Board were as follows:

Jiří Hurych, Chairman

Zdeněk Hrubý, Vice-Chairman

Martin Kovář, member

Petr Zatloukal, member

Jan Juchelka, member

organization structure Internally, Eurotel's organization consists of the following units: Marketing, Sales (including customer care), Operations (including Network Operation and Maintenance, Information Technologies, Security, and Quality), Financial, Legal, External and Internal Communications, Strategy, and Human Resources. The Chief Officer of each unit reports directly to the CEO.



MICHAL HEŘMAN



MARCELA MALIVÁNKOVÁ



MARTIN BEK

company management

MICHAL HEŘMAN (1964) CHIEF EXECUTIVE OFFICER

Prague School of Economics, CMC Graduate School of Business • Vicepresident for finance in Komerční Bank • Financial Director in Alfa Bank (Russia) • Worked for Eurotel in 1991–2000 as Financial Manager, Financial Director and CFO • From September 2003 to October 2004 he was Chief Transformation Officer and Member of the Board of ČESKÝ TELECOM • In February 2005 reappointed Member of the Board of ČESKÝ TELECOM • He was appointed an Executive Officer of Eurotel in April 2004 • On 26 October 2004, he was appointed Chief Executive Officer of Eurotel
> [Terrence Edward Valeski was Chief Executive Officer until May 2004](#)

MARCELA MALIVÁNKOVÁ (1973) CHIEF FINANCIAL OFFICER

Silesian University Faculty of Commerce and Business • PricewaterhouseCoopers (Czech Republic) • With Eurotel since 2001, first as Internal Audit Manager, appointed deputy CFO in December 2001, acting Chief Financial Officer in May 2004, appointed Chief Financial Officer in September 2004 • In October 2004, she was appointed an Executive Officer of Eurotel in November 2004 and was elected to the Board of Directors of ČESKÝ TELECOM in October 2004
> [Robert Bowker was Chief Financial Officer until May 2004](#)

MARTIN BEK (1969) CHIEF OPERATING OFFICER

Prague School of Economics, European Business School (France) • ABC International (France), DRT International (France), Guérard Viala Prague • Joined ČESKÝ TELECOM in 1996, first as Chief Tax and Accounting Officer, later as Chief Planning and Controlling Officer • Executive Officer of Eurotel



from April to October 2004, in December 2004 appointed Executive Officer again • Appointed Chief Operations Officer of Eurotel in September 2004

[> Paul Long was Chief Operating Officer until August 2004](#)

TOMÁŠ DAVID (1971) CHIEF STRATEGY OFFICER

Charles University Faculty of Mathematics and Physics (in cooperation with Hamburg University and DESY Hamburg), USBSP / Rochester Institute of Technology (Czech Republic) • 1995–2004 A.T. Kearney (Czech Republic, Germany) • Appointed Chief Strategy Officer of Eurotel in July 2004.

DIANA DOBÁLOVÁ (1968) CHIEF EXTERNAL AND INTERNAL COMMUNICATIONS OFFICER

Prague School of Economics, fellowship with Charles Barker PR Consultancy (Great Britain) • GJW, Interel, The Rowland Company (Czech Republic), Pražské pivovary, Best Communications Group (Czech Republic) • Slovenské telekomunikácie • With Eurotel since 2003 as Corporate Communications Manager; appointed Chief External and Internal Communications Officer in 2005.

JOSEF FIDLER (1958) CHIEF HUMAN RESOURCES OFFICER

Charles University Law Faculty • McDonald's (Czech Republic), Unilever (Czech Republic) • Joined Eurotel in 1998 as a HR Director; appointed Chief Human Resources Officer in 2001.

TOMÁŠ JEČNÝ (1968) CHIEF SALES OFFICER

Czech Technical University Faculty of Electrical Engineering • Hewlett-Packard, IXOS Software, EDS (Czech Republic) • Appointed Chief Sales Officer of Eurotel in November 2004.

[> Martin Bek was Acting Chief Sales Officer from June to August 2004](#)

[> Zuzana Řezníčková was Chief Sales Officer until February 2004](#)



PAVEL KOLÁŘ

PETR PŘÍHODA

JAROSLAV KUBIŠTA

ANDREI MARC TORRIANI

PAVEL KOLÁŘ (1961) CHIEF NETWORK OFFICER

Czech Technical University Faculty of Electrical Engineering, long-term internship in France • TESTCOM (Telecommunications Research Institute) • Joined Eurotel in 1991; in 2002–2003 served as Director of Network Engineering and Operation, appointed Chief Technical Officer in January 2004 • In 2005 appointed Chief Network Officer

JAROSLAV KUBIŠTA (1948) CHIEF EXTERNAL AFFAIRS OFFICER

Slovak Technical University Faculty of Electrical Engineering • Tesla, Czechoslovak Ministry of Foreign Affairs • With Eurotel since 1992; appointed Chief External Affairs Officer in 1994.

PETR PŘÍHODA (1970) CHIEF LEGAL OFFICER

Charles University Law Faculty • Joined Eurotel in 1995 as Corporate Counsel, in 2003 became Manager of the Legal Department, appointed Acting General Counsel in June 2004, from February 2005 Chief Legal Officer

> [Luboš Bôrik was General Counsel until June 2004](#)

ANDREI MARC TORRIANI (1967) CHIEF MARKETING OFFICER

American Graduate School of International Management, Dickinson College (USA) • Executive Director in Wataniya Telecom Group, in 2001–2005 served as Vicepresident of Mobile Telecommunication Division in Millicom International Cellular, Whirlpool Corporation • During his professional career he has worked in Kuwait, Austria, Vietnam, Sri Lanka, Luxembourg, Belgium, and USA, Metromedia Telecommunications • Joined Eurotel in February 2005

> [Helena Čomorová was Acting Chief Commercial Officer from September to December 2004](#)

> [Garrison Macri was Chief Commercial Officer until August 2004](#)



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company strategy

In 2004, Eurotel's strategy was pursued in six key areas:

- > Maintain and improve Eurotel's top position in the market, which is currently one of the most highly evolved mobile communications markets in the world.
- > Maintain the highest standard of customer care, invest in developing the highest quality products, supported by strong innovation and cooperation with strategic partners, as well as invest in our ability to satisfy growing demands, needs and desires of the market. In 2005, we will focus on increasing product transparency, higher flexibility, and individualizing our approach to customers.
- > Offer a comprehensive range of services. In 2004, as the first mobile operator in the world to do so, Eurotel expanded on its existing GSM voice and data services by launching, as part of the continual process of upgrading its network in the 450 MHz band, the unique CDMA2000 1xEV-DO system and began to offer unlimited mobile broadband Internet access. Today, the service is available to nearly 80% of the Czech Republic's population. In combination with ADSL-based broadband Internet connection, which is available on 88% of landlines, and connection via WiFi at selected locations, Eurotel offers not just traditional services but the most versatile line of broadband services in the market as well. In 2005, we will be further expanding the offering with products that combine the advantages of mobile and landline networks.
- > Expand on and increase the value Eurotel brings to customers. Thanks to our extensive offering of services and ancillary technologies, we will offer individualized solutions not just for large corporations, but for households and small and mid-sized companies as well. In 2005, we will unfold and launch our vision of innovative, modular, and user-friendly information and communication technology services under the Digital Home and Digital Business banners. We will also focus on developing services for mobile devices that will bring customers a higher degree of comfort and added value.
- > In content and multimedia services, Eurotel will expand its offerings of services that entertain customers and provide them with the information they need.
- > Eurotel intends to continue to concentrate on being cost-effective, improving our internal capabilities, leveraging synergies, and maintaining a high level of financial performance.

The strategy is designed to maximize the short and long-term benefit for the company.

financial statements

Eurotel Praha, spol. s r.o.
consolidated financial statements
for the year ended December 31, 2004

prepared in accordance with
accounting principles generally accepted
in the United States of America

Report of Independent Auditors

To the Shareholder of Eurotel Praha, spol. s r.o.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholder's equity and cash flows present fairly, in all material respects, the financial position of Eurotel Praha, spol. s r.o. (the "Company") and its subsidiaries at December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers Audit, s.r.o.

Prague, Czech Republic

January 20, 2005

PRICEWATERHOUSECOOPERS 

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic, Telephone +420 251 151 111, Facsimile +420 251 156 111

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

Consolidated Balance sheets

(in millions of Czech Crowns)

	Notes	As of December 31, 2004	As of December 31, 2003
ASSETS			
Current assets			
Cash and cash equivalents	5	211	2,908
Accounts receivable, net	6	3,984	4,198
Income tax receivable		166	405
Inventories, net	7	447	505
Prepaid expenses		130	130
Total current assets		4,938	8,146
Property, plant and equipment		46,123	43,328
Construction in progress		1,074	1,564
Less accumulated depreciation		(24,781)	(20,616)
Property, plant and equipment, net	8	22,416	24,276
Intangible assets, net and investment	9	4,370	4,442
Total assets		31,724	36,864
LIABILITIES AND SHAREHOLDER'S EQUITY			
Current liabilities			
Trade payables	10	2,508	2,614
Deferred revenues	11	883	1,285
Other current liabilities	12	1,837	2,040
Short-term debt	13	-	2,284
Short-term deferred tax liability, net	14b	254	478
Total current liabilities		5,482	8,701
Long-term deferred tax liability, net	14b	1,724	2,194
Total liabilities		7,206	10,895
Shareholder's equity			
Share capital	15a	1,650	1,650
Accumulated other comprehensive loss/ (income)	15b	(27)	9
Retained earnings		22,895	24,310
Total shareholder's equity		24,518	25,969
Total liabilities and shareholder's equity		31,724	36,864

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of income

(in millions of Czech Crowns)

	Notes	For the year ended December 31,		
		2004	2003	2002
Revenues	16	29,480	29,078	28,800
Cost of sales	17	9,904	8,635	8,517
Gross profit		19,576	20,443	20,283
Operating expenses	18	11,004	11,252	11,167
Operating profit		8,572	9,191	9,116
Finance income/(expense), net	19	60	103	(57)
Income before tax		8,632	9,294	9,059
Income taxes	14a	2,047	2,040	2,788
Net income		6,585	7,254	6,271

Consolidated Statements of changes in shareholder's equity

(in millions of Czech Crowns)

	Share capital	Accumulated other comprehensive (loss)/income	Retained earnings	Total shareholder's equity
Balance as of December 31, 2001	1,650	-	21,763	23,413
Net income	-	-	6,271	6,271
Other comprehensive income, net				
Revaluation of financial instruments	-	10	-	10
Balance as of December 31, 2002	1,650	10	28,034	29,694
Net income	-	-	7,254	7,254
Other comprehensive loss, net:				
Revaluation of financial instruments	-	(11)	-	(11)
Foreign currency translation adjustment	-	10	-	10
Dividends paid to shareholders	-	-	(10,978)	(10,978)
Balance as of December 31, 2003	1,650	9	24,310	25,969
Net income	-	-	6,585	6,585
Other comprehensive loss, net:				
Revaluation of financial instruments	-	(40)	-	(40)
Foreign currency translation adjustment	-	4	-	4
Dividends paid to shareholder	-	-	(8,000)	(8,000)
Balance as of December 31, 2004	1,650	(27)	22,895	24,518

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statements of cash flows

(in millions of Czech Crowns)

	2004	For the year ended December 31,	
		2003	2002
CASH FLOW PROVIDED BY OPERATING ACTIVITIES			
Net income	6,585	7,254	6,271
Adjustments to reconcile Net income to net cash provided by operating activities:			
Depreciation and amortization	5,066	5,008	4,596
Current and non-current asset provisions	147	(88)	239
Loss on disposal of intangible assets, property, plant and equipment	63	301	156
Interest income	(50)	(140)	(17)
Realized foreign exchange (gains)/ losses	(25)	(532)	30
Unrealized foreign exchange losses	4	569	25
Income tax expense	2,047	2,040	2,788
Decrease in receivables and other assets	70	208	517
Decrease in inventories	51	506	551
Increase in trade payables and other liabilities	(160)	(283)	(329)
Interest received/ (paid)	46	131	(4)
Income tax paid	(2,582)	(3,268)	(3,005)
Net cash provided by operating activities	11,262	11,706	11,818
CASH FLOW USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(3,677)	(4,182)	(4,696)
Purchase of intangible assets	-	-	(194)
Purchase of interest in equity investment	-	(10)	-
Proceeds from disposal of property, plant and equipment	9	33	52
Net cash used in investing activities	(3,668)	(4,159)	(4,838)
CASH FLOW USED IN FINANCING ACTIVITIES			
Drawing of third party debt	9	211	1,075
Repayment of third party debt	(2,293)	(209)	(1,877)
Dividends paid to shareholders	(8,000)	(11,064)	-
Net cash used in financing activities	(10,284)	(11,062)	(802)
Net (decrease)/ increase in cash and cash equivalents	(2,690)	(3,515)	6,178
Translation adjustment	(7)	6	9
Cash and cash equivalents at beginning of period	2,908	6,417	230
Cash and cash equivalents at end of period	211	2,908	6,417

The accompanying notes are an integral part of these consolidated financial statements.

1 > Company description

Eurotel Praha, spol. s r.o. ("the Company") is a Czech limited liability company. The Company was originally founded in April 1991 as a joint venture between ČESKÝ TELECOM, a.s. ("CT") and Atlantic West B.V. ("AWBV"), a corporation existing under the laws of the Netherlands. AWBV was ultimately owned by AT&T Wireless Services and Verizon Communications, U.S. corporations. In 2003, AWBV and CT entered into a contract whereby AWBV agreed to sell its entire 49% ownership interest in the Company's registered share capital to CT - this contract was consummated on December 4, 2003. Since December 4, 2003, the Company has been a wholly owned subsidiary of CT (Note 15a).

The Company provides mobile telecommunication services in the 900 and 1800 MHz frequency bands under the Global System for Mobile Communication ("GSM") and in the 450 MHz frequency band under the Nordic Mobile Telephone ("NMT") standard (collectively, "mobile services"). The Company also provides broadband mobile access to Internet using CDMA2000 1*EV-DO (Code-Division Multiple Access Evolution Data Optimized - "CDMA") technology in the 450 MHz frequency band. The Company offers an extensive range of mobile telecommunication services, including voice and data communication, to its customers in the Czech Republic. In December 2001, the Company acquired a license for the implementation and operation of a public mobile telecommunications network based on the Universal Mobile Telecommunications System ("UMTS") standard. The Company is obliged to launch the UMTS services on January 1, 2006 at the latest.

The Company considers all operating assets and intangible assets to be part of one business segment.

2 > Basis of presentation

The Company maintains its accounting records in accordance with accounting practices employed by enterprises in the Czech Republic. The accompanying consolidated financial statements reflect certain adjustments maintained separately from the Company's statutory books to present the statements in accordance with accounting principles generally accepted in the United States of America ("US GAAP"). Management considers US GAAP as the primary set of financial statements of the Company.

These consolidated financial statements have been prepared for Eurotel Praha, spol. s r.o. and its wholly owned subsidiary Trigo Global Services Ltd. ("Trigo").

3 > Principles of consolidation

The consolidated financial statements include all majority-owned and controlled subsidiaries. Investments in common stock of an investee, in which the Company has the ability to exercise significant influence, but does not have voting control, are accounted for under the equity method. Investments in common stock of an investee in which the Company does not have the ability to exercise significant influence are accounted for under the cost method. All significant intercompany accounts and transactions with subsidiaries and investments accounted for under the equity method have been eliminated.

On December 20, 2001, the Company acquired a 100% ownership interest in a Hungarian registered limited liability company, Trigo Global Services Ltd. ("Trigo") for CZK 1 million. The subsidiary was engaged in the contracting of labor services to the Company for periods prior to January 2004. In September 2004, Trigo commenced the process of voluntary liquidation.

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

4 > Summary of significant accounting policies

The main accounting principles and valuation methods applied by the Company in preparing these consolidated financial statements are as follows:

a > Use of estimates

The preparation of these consolidated financial statements in compliance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. Actual results could differ from those estimates.

b > Cash and cash equivalents

Cash includes cash on hand, current accounts and deposit accounts. Cash equivalents consist of cash balances held in various currencies and with original maturity dates of three months or less.

c > Receivables

Receivables are stated gross less a provision for doubtful accounts. A provision for doubtful accounts is established, when there is objective evidence that the Company will be unable to collect all amounts due according to the original terms of the receivable.

d > Inventories

Inventories consist of cellular mobile telephone equipment for the NMT and GSM networks, equipment to support the Company's CDMA data services, and accessories. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, and insurance). Cost is determined using the weighted average method. The inventory balance is periodically reviewed by management relative to its economic realizability. If the value of inventory items exceeds their economic realizability, the carrying value of those items is reduced to their net realizable value through the inventory provision.

e > Prepaid expenses

Prepaid expenses include elements of prepaid rent, operating insurance and advances that relate to future accounting periods.

f > Property, plant and equipment

Carrying value

Property, plant and equipment primarily represent costs incurred to construct the cellular NMT and GSM networks as well as equipment which supports the Company's CDMA data services delivered in the 450 Mhz spectrum. These include switches and base stations as well as operating support systems and other support assets. Property, plant and equipment are recorded at historical cost including freight, taxes, customs duties, construction and installation costs.

Construction in progress includes direct expenditures for the construction of network assets and is stated at cost. Capitalized costs include costs related mainly to construction such as contracted work, direct labor, capitalized interest, and allocable overhead costs. Depreciation of construction in progress is deferred until the asset is put into service.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized. Repair and maintenance costs are expensed as incurred.

The Company's property, plant and equipment are tested for impairment in accordance with Statement of Financial Accounting Standards ("SFAS") 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. For the purposes of assessing impairment, the assets are grouped at the lowest level for which there are separately identifiable cash flows. Impairment is measured as the amount, by which the carrying value of the assets or a group of assets exceeds their fair value.

Depreciation

The Company depreciates its property, plant and equipment on a straight-line basis over its estimated useful lives. The annual rates of depreciation for the Company's major categories of assets are as follows:

	Years
Buildings, steel constructions	20
Network equipment	8
Computer equipment, furniture and fixtures	3-5
Software	2-10
Motor vehicles	3

Leasehold improvements are depreciated over the shorter of the lease term or useful life of the improvement.

Leased assets

Assets leased under agreements which meet the specific criteria under SFAS 13 "Accounting for Leases" for capital leases are recorded in property, plant and equipment and corresponding liability is recorded for the leasing commitments at the inception of the lease. Individual lease rental payments during the lease term are divided into a capital and interest component. The capital element is applied to the lease liability as a reduction of the outstanding balance and the interest element is charged to the Consolidated Statement of income over the lease term. At present, the Company has no capital leases. Leases which do not meet the criteria for capital leases under SFAS 13, are classified as operating leases. Payments made under operating leases are charged to the Consolidated Statement of income on a straight-line basis over the period of the lease.

Asset Retirement Obligations

Asset retirement obligations associated with the Company's cell site, switch site, retail, and administrative location operating leases are subject to the provisions of SFAS 143 "Accounting for Asset Retirement Obligations". These lease agreements may contain clauses requiring restoration of the leased site at the end of the lease term, creating an asset retirement obligation. The Company records the fair value of an asset retirement obligation in the period in which it is incurred. At present, the accounting for such retirement obligations does not have a material impact on the Company's consolidated results of operations, financial position, or cash flows.

g > Intangible assets

Intangible assets primarily include the 450 MHz license, GSM license and UMTS license.

The licenses are recorded at cost and amortized on a straight-line basis over the remaining contractual period from the start of commercial service, which best reflects the pattern, by which the economic benefits of the intangible assets will be utilized by the Company (Note 9). Relative to the current regulatory and business environment in the Czech Republic, contractual, legal, regulatory, competitive or other economic factors may limit the period during which the Company can benefit from the use of these licenses in the future. As a result, the licenses are considered finite lived intangible assets subject to amortization in accordance with SFAS 142 "Goodwill and Other Intangible Assets" and are tested for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Impairment is measured as the amount, by which the carrying value of these assets or group of assets exceeds their fair value.

[h > Corporate income taxes](#)

The current expense for corporate income taxes due is calculated in accordance with the Czech tax legislation and is based on income before taxes reported under Czech accounting regulations increased or decreased by the appropriate temporary and permanent differences from taxable income.

The deferred income tax expense results from the difference in the timing of the recognition of items by the Czech tax legislation and the consolidated financial statements. Deferred taxation calculated using the liability method is accounted for on all temporary differences between the carrying amount of an asset or liability in the Consolidated Balance sheet and its tax base. Currently enacted tax rates are used to determine deferred income tax.

Valuation allowances are recognized to reduce deferred tax assets when uncertainties in tax legislation, regulatory environment, or other factors indicate that it is more likely than not the asset may not be realized. In assessing the likelihood of realization, the Company considers estimates of future taxable income, the character of income needed to realize future benefits and all available evidence.

[i > Recognition of revenue](#)

Revenue and expenses are recognized on an accrual basis.

The Company earns mobile services revenue from customer usage of the Company's network, interconnection and roaming-collectively, "Mobile service revenue" (Note 16).

Mobile service revenue is earned by providing access to the mobile network and for use of the network. There are two basic types of customers – postpaid and prepaid. Postpaid customers are billed monthly in arrears for airtime revenues and in advance for access revenue. Revenue from postpaid customers is accrued as their airtime and other services are used. Prepaid customers recharge a credit, which entitles them to a certain value of airtime and other services. Revenue from prepaid customers is deferred and recognized as the airtime and other services are used. Interconnect revenue is earned from the usage of the Company's networks by fixed and other mobile operators' customers. The resulting revenue and costs related to these relationships are referred to as interconnection – "Interconnect" (Notes 16 and 17). The Company derives roaming revenue as a result of airtime and other services used by the Company's customers roaming on partners' networks in other countries and vice versa. Amounts receivable from and payable to roaming partners are netted and settled on a regular basis.

The Company also earns revenue from the sale of mobile telephone equipment and accessories as well as from activation fees – "Mobile equipment and other revenue" (Note 16). Revenue is recognized on mobile telephone equipment and accessories at the time of sale.

The Company provides bundled offerings consisting of equipment revenue, activation fees and network usage by its customers. Consideration received for these bundled offerings for the equipment is recognized at the time of sale. Arrangement consideration received for network usage is recognized as mobile service revenues when earned. The costs associated with this revenue include equipment (usually handsets), SIM cards and service commissions. Commissions and discounts directly related to the sale of equipment, SIM cards and activations are netted against revenue in the period the product is sold to the dealer, distributor or the end customer. Other commission payments to dealers for activations, various marketing promotions and other activities are included in the costs of sales for the period.

[j > Foreign currency](#)

Transactions denominated in foreign currencies are translated to Czech crowns at the exchange rates existing at the date of the transaction. All outstanding amounts and cash denominated in foreign currencies are remeasured at each reporting date using the Czech National Bank's exchange rate for Czech Crown as of the reporting date; any resulting gains or losses on the remeasurement are included as an exchange gain or loss in the Consolidated Statement of income for the period.

k > Derivative contracts

The Company enters into certain financial instruments, such as forward exchange contracts, currency swaps, and interest rate swaps in order to mitigate the risk associated with fluctuations in foreign currency exchange rates and interest rates. These instruments are accounted for in accordance with the provisions of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities" and SFAS 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities".

All derivatives are recognized in the Consolidated Balance sheet at their fair value. Fair values are estimated using the quoted market prices. All derivatives are carried as current assets when their fair value is positive and as current liabilities when their fair value is negative. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income if a derivative is designated as part of a hedge transaction. At the date a derivative contract is entered into, the Company designates the derivative as a hedge of future cash flows or the fair value of assets and liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Company assesses hedge effectiveness on a regular basis and records the gain or loss related to the ineffective portion to the Consolidated Statement of income. If the Company determines that a cash flow hedge is no longer probable of occurring, the Company discontinues hedge accounting for the affected portion of the forecasted transaction and any unrealized gain or loss on the contract is recognized in current earnings. Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific requirements of SFAS 133 and SFAS 149 and are, therefore, treated as non-hedging derivatives with fair value gains and losses being reported in the Consolidated Statement of income.

l > Comprehensive income

Comprehensive income is comprised of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income, such as translation adjustments and unrealized gains and losses on derivative instruments which have been designated as hedges.

m > Reclassifications

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

n > Recent accounting pronouncements

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") regarding the accounting for special-purpose or off-balance-sheet entities. The FASB issued an amendment to FIN 46 entitled FASB Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities" ("FIN 46R"). Application of FIN 46R (Interpretation 46) is effective for the Company for periods ending after March 15, 2004. The Company does not have any interest in special purpose entities or any other variable interest entities. The adoption of FIN 46R did not to have a material impact on the Company's results of operations or financial position.

5 > Cash and cash equivalents

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Cash on hand and on current accounts with banks	162	2,908
Interest bearing deposits maturing in three months or less	49	-
Total	211	2,908

All interest-bearing deposits are maintained with large credit-worthy financial institutions.

6 > Accounts receivable, net

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Trade and other receivables from third parties	3,002	2,901
Amounts due from CT (Note 20, 23a)	982	1,038
VAT receivable	-	259
Total	3,984	4,198

Trade and other receivables are shown net of provisions for doubtful accounts. As of December 31, 2004 and 2003, the provisions for doubtful accounts were CZK 1,522 million and CZK 1,603 million, respectively. In order to preserve tax-deductible status of the bad debt expense, the Company's trade receivables are not written-off and removed from the Company's primary books and records until certain statutory collection requirements have been satisfied.

7 > Inventories, net

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Mobile phones and modems	376	378
SIM cards and vouchers	38	39
Accessories and other inventories	33	88
Total	447	505

Inventories are stated at the lower of cost and net realizable value. As of December 31, 2004 and 2003, inventories were shown net of provisions of CZK 68 million and CZK 61 million, respectively.

8 > Property, plant and equipment, net

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Network equipment	32,190	30,607
Buildings, steel constructions and leasehold improvements	7,483	7,120
Computer equipment and software	5,249	4,383
Furniture and fixtures	636	658
Motor vehicles	24	25
Other	541	535
Property, plant and equipment	46,123	43,328
Construction in progress	1,074	1,564
Less: accumulated depreciation	(24,781)	(20,616)
Total	22,416	24,276

For the years ended December 31, 2004 and 2003, the Company capitalized expenses of CZK 214 million and CZK 218 million, respectively, solely related to labor and related overheads.

The Company recorded gross cumulative capitalized expenses of CZK 2,939 million as of December 31, 2004.

9 > Intangible assets, net and investment

(in millions of Czech Crowns)	As of December 31,				
				2004	2003
	Remaining life	Gross	Accumulated amortization	Net value	Net value
Cellular license 450 MHz	7	640	(444)	196	229
Cellular license GSM	12	689	(253)	436	474
Cellular license UMTS	17	3,690	0	3,690	3,690
Licenses and other investments		52	(4)	48	49
Total		5,071	(701)	4,370	4,442

The original 450 MHz and GSM operating licenses were granted for a period of twenty years from the signing of the agreement for the original 450 MHz license in 1991 and from the granting of the GSM license in 1996 for use of the 900 spectrum. In 1999, the Company acquired an additional GSM 1800 spectrum under its existing GSM license. In 2002, the GSM license to both spectrums was renewed and is currently valid for the remaining period of twelve years. In 2002, the Company renewed its 450 MHz license; the current license enables the Company to offer any internationally recognized public mobile telecommunication services on a frequency of 450 MHz. The Company currently provides on this frequency voice services under NMT standard and broadband Internet access services using CDMA technology. The license is currently valid for the remaining period of seven years. In December 2001, the Company acquired the UMTS license, which has been granted for a period of twenty years. Under the license, the Company was provided with deferred payment terms by the Czech Telecommunication Office ("CTU") to finance the license acquisition. In December 2003, the Company signed an amendment to its original UMTS license agreement (Note 13), by which the original launch of the service was extended by one year. According to the terms of this new amendment, the Company is obligated to launch UMTS commercial services on or before January 1, 2006 and agreed to pay the UMTS obligation in full during 2004 in exchange for a forgiveness of 2003 and 2004 interest on the deferred payments provided as part of the UMTS license agreement.

No interest was capitalized during 2004 and 2003, respectively. In 2002, the Company capitalized interest of CZK 159 million.

Amortization expense for purchased intangible assets is estimated to be approximately CZK 73 million for year ending December 31, 2005 and CZK 304 million for each of the years ending December 31, 2006, 2007, 2008 and 2009.

10 > Trade payables

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Trade payables to third parties	2,240	2,331
Amounts due to CT (Note 20)	268	283
Total	2,508	2,614

11 > Deferred revenues

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Deferred revenues	883	1,285

Deferred revenues include purchased but unused credit of prepaid and postpaid customers for the Company's services. Such revenue is recognized in the Consolidated Statement of income as credit is used.

12 > Other current liabilities

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Accrued expenses	504	764
Customer loyalty program provision	489	497
CTU fees and charges	218	67
VAT provision (Note 23) and other provisions	63	307
VAT payable	204	-
Taxation and social security	54	53
Employee compensation	228	248
Other	77	104
Total	1,837	2,040

13 > Short-term debt

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Short term obligation to CTU	-	2,281
Other short term bank loans	-	3
Total short term debt	-	2,284

With the purchase of the UMTS license from the CTU for CZK 3,535 million in December 2001, the Company paid CZK 1,000 million upon issuance of the license. The Company had also entered into a commitment to pay the remaining balance of the license obligation in ten equal annual installments. Interest accrued on the outstanding balance at the rate of PRIBOR+1.5 fixed on the date of the preceding payment. In December 2003, the Company signed an amendment to its original UMTS license agreement, by which the Company agreed to pay the UMTS obligation in full during 2004 in exchange for a forgiveness of 2003 and 2004 interest on the obligation and postponed commencement of UMTS service operation. The total balance of the remaining license obligation of CZK 2,281 million was paid to CTU by the Company in April and August 2004.

The Company uses a bank overdraft facility to efficient intraday and overnight liquidity management. The bank overdraft is a short-term credit facility maintained with various banking institutions at negotiated market rates of interest. The Company is not charged a commitment fee for the unused portions of the facility.

14 > Income taxes

a > Income tax expense

(in millions of Czech Crowns)	2004	For the year ended December 31,	
		2003	2002
Income before tax	8,632	9,294	9,059
Income tax at 28% (for the three months ended March 31, 2004 and the year ended December 31, 2003), 26% (for the nine months ended December 31, 2004) and 31% (for the year ended December 31, 2002), respectively	2,292	2,602	2,808
Non deductible inventory and fixed asset losses	12	(38)	6
Non deductible advertising and entertainment	81	143	26
Investment credit	(44)	(41)	(67)
Deferred tax credit on dividends	-	(420)	-
Revaluation of deferred tax using new tax rates	-	(604)	-
Non deductible provisions and other	(12)	116	15
(Release)/creation of valuation allowance	(282)	282	-
Total	2,047	2,040	2,788

Income tax expense for the period comprises of:

Current tax charge	2,741	2,254	2,726
Deferred tax (credit)/ charge	(412)	108	62
Revaluation of deferred tax using new tax rates	-	(604)	-
(Release)/creation of valuation allowance	(282)	282	-
Total	2,047	2,040	2,788

In December 2003, the Czech government enacted legislation, by which the corporate income tax rate was reduced from 31% to 28%, 28% to 26%, and 26% to 24% for the fiscal years ending in 2004, 2005 and 2006 (respectively).

In December 2003, the current tax expense for the year ended December 31, 2003 was calculated using the rate of 28%. A valuation allowance of CZK 282 million was created as it was uncertain if the rate of 28% would be applicable to the 2003 profits. The total balance of the valuation allowance was released in March 2004 when certain facts and circumstances indicated that the valuation allowance was no longer required.

In June 2003, the Company declared a dividend to CT, which was subject to withholding tax of 15%. The withholding tax of CZK 840 million reduced the dividend amount paid to CT. According to tax regulation in the Czech Republic at the time dividends were paid, the Company deducted from its tax liability one half of the tax on the CT dividend withheld by the Company in the taxable period. Consequently, the Company reduced its tax liability in 2003 by CZK 420 million. Since January 1, 2004, tax regulation in the Czech Republic has changed and such deductions are no longer permitted.

b > Deferred tax

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Accounts receivable provision	27	29
Inventory provisions	17	17
Customer loyalty program	64	57
Temporary differences arising from accelerated tax depreciation	(388)	(373)
Non-deductible provisions and other	26	74
Valuation allowance	-	(282)
Short-term deferred tax liabilities, net	(254)	(478)
Accounts receivable provisions	50	96
Temporary differences arising from accelerated tax depreciation	(1,996)	(2,531)
Inventory provisions	32	26
Customer loyalty program	55	73
Non-deductible provisions and other	135	142
Long-term deferred tax liabilities, net	(1,724)	(2,194)
Deferred tax liability, net	(1,978)	(2,672)

Short-term deferred tax assets and liabilities are valued at either 26% if the deferred tax asset or liability are expected to be realized in three months ended March 31, 2005 or 24% if the balances are expected to be realized in nine months ended December 31, 2005. Long-term deferred tax assets and liabilities are valued at 24%.

15 > Shareholder's equity

a > Share capital

On November 16, 1990, CT and AWBV entered into a joint venture agreement. Under the terms of the joint venture agreement, the Company was officially registered on April 9, 1991. Prior to December 4, 2003, CT and AWBV owned 51% and 49%, respectively, of the Company and operated the Company as a joint venture.

On June 18, 2003, AWBV and CT signed a contract whereby AWBV agreed to sell its entire 49% ownership interest in the Company's registered share capital to CT upon the occurrence of certain conditions precedent. The required conditions were met and the contract was officially consummated on December 4, 2003. Since December 4, 2003, the Company has been wholly owned by CT.

b > Accumulated other comprehensive loss

For the year ended December 31, 2004, the Company recorded other comprehensive loss associated with the Company's financial derivatives of CZK 40 million. Other comprehensive income associated with translation adjustment was CZK 4 million for the period. During the year ended December 31, 2003, the Company recorded other comprehensive loss associated with the revaluation of financial instruments of CZK 11 million and other comprehensive income associated with translation adjustment of CZK 10 million.

c > Legal reserve fund

As of December 31, 2004 and 2003, the Company had a legal reserve fund of CZK 121 million included in retained earnings representing the legal minimum of 10% of share capital as prescribed by the Czech Commercial Code. Under the Czech legislation, only retained earnings as reported in the financial statements prepared in accordance with accounting practices applied by companies in the Czech Republic can be distributed to the shareholder as dividends. Paid-in share capital and legal reserve fund cannot be used for distribution of dividends to the shareholder. No other restrictions as to the distribution of profits to the Company's shareholder existed as of December 31, 2004.

16 > Revenues

(in millions of Czech Crowns)	For the year ended December 31,		
	2004	2003	2002
Mobile service revenue			
Customers	18,994	19,039	19,278
Interconnect (Note 23a)	5,272	5,491	4,770
Roaming	3,250	3,080	2,821
Total mobile service revenue	27,516	27,610	26,869
Mobile equipment and other revenue	1,964	1,468	1,931
Total	29,480	29,078	28,800

17 > Cost of sales

(in millions of Czech Crowns)	For the year ended December 31,		
	2004	2003	2002
Mobile service cost of sales			
Interconnect (Note 23a)	4,195	4,234	3,829
Roaming	1,388	1,284	1,194
Other costs	571	416	412
Total mobile service cost of sales	6,154	5,934	5,435
Mobile equipment and service commissions			
Mobile phones, SIM cards, accessories and other costs	3,381	2,460	2,817
Service commissions	369	241	265
Total mobile equipment and service commissions	3,750	2,701	3,082
Total	9,904	8,635	8,517

18 > Operating expenses

(in millions of Czech Crowns)	For the year ended December 31,		
	2004	2003	2002
Advertising, marketing and sales	1,259	1,406	1,700
Wages and employee benefits	1,711	1,608	1,544
Building expense	311	312	322
Network support and maintenance	994	947	848
Motor vehicle expense	99	105	106
Rent - base stations, buildings	567	592	637
Employee training and travel	172	194	203
Office supplies	162	178	191
Professional fees and administrative expenses	395	478	478
VAT provision (Note 23b)	(134)	185	158
CTU fees	451	303	347
Bad debt expense	117	59	168
Disposals	48	95	107
Depreciation and amortization	5,066	5,008	4,596
Capitalized expenses (*)	(214)	(218)	(238)
Total	11,004	11,252	11,167

(*) Capitalized expenses include labor and overhead expenses associated with the construction of property, plant and equipment.

19 > Finance income/ (expense), net

(in millions of Czech Crowns)	For the year ended December 31,		
	2004	2003	2002
Interest and dividend income, net	50	140	17
Foreign exchange gains/(losses), net	21	(37)	(55)
Other finance expenses, net	(11)	-	(19)
Total	60	103	(57)

20 > Related parties

Revenues, costs, receivable and trade payable balances with CT relate primarily to interconnect arrangements (Note 23a). Interconnection arrangements between the Company and CT are concluded at substantially similar terms and conditions as interconnection with other telecommunication operators on an arms length basis. Additionally, in the normal course of business, the Company purchases certain services from and sells certain services to CT. The Company also has certain lease agreements with CT. Balances outstanding from and due to related parties are disclosed in Notes 6 and 10. The Company's transactions with CT were as follows:

(in millions of Czech Crowns)	2004	For the year ended December 31,	
		2003	2002
Revenue recognized in respect to interconnect (Note 23a) and other services provided to CT	904	1,237	1,262
Costs recognized in respect to interconnect (Note 23a) and other services provided by CT	395	393	474
- Out of which costs recognized in respect of lease agreements	69	61	38

21 > Financial instruments

a > Fair market value

All financial instruments are recognized at their fair value in the Consolidated Balance sheet. The estimate of the fair value of financial derivatives is as follows:

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Forward exchange contracts	(31)	-

b > Foreign exchange risk management

Due to foreign currency denominated payables and receivables, the Company is subject to the risk arising from foreign exchange rate fluctuations. The Company's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes.

In order to reduce the foreign exchange risk, the Company enters into derivative instruments in the form of forward exchange contracts, and actively manages its net position of financial assets and liabilities denominated in foreign currencies.

The forward contracts which typically expire within four months are designed to match anticipated foreign currency payments. Certain exchange rate derivatives are designated as cash flow hedges and meet the hedge accounting criteria of SFAS 133 and SFAS 149. Accordingly, any adjustment to their fair value during the period is recorded directly to other comprehensive income in the Consolidated Balance sheet. Conversely, any gains and losses associated with changes in the fair value of instruments that do not qualify for hedge accounting under SFAS 133 and SFAS 149 are recorded directly to the Consolidated Statement of income in the period of the change. These derivatives are primarily used to manage currency risk associated with the Euro ("EUR"). As of December 31, 2003, the Company had no financial instruments.

As of December 31, 2004, the notional amounts of the financial instruments were as follows:

(in millions of Czech Crowns)	As of December 31,	
	2004	2003
Forward exchange contracts	1,034	-

(in millions of Czech Crowns)	For the year ended December 31,		
	2004	2003	2002
Realized foreign currency transaction (loss)/gain related to financial derivatives (including fair value changes of non-hedge derivatives)	(24)	24	47
Changes in fair value - Other comprehensive (loss)/income	(40)	(11)	10
Changes in fair value - Consolidated Statement of income	(31)	(8)	55

Net foreign currency position as of December 31, 2004:

(in thousands of currencies specified)	Cash and cash equivalents	Accounts receivable	Accounts payable
EUR	1,841	4,094	11,607
USD	156	78	2,225
SDR	-	2,159	516
CHF	3	850	2
GBP	96	24	2

c > Interest rate risk management

The Company's income and cash flows are affected by changes in market interest rates through its interest bearing deposits of free cash balances. The Company's policy is to use only short-term deposits with original maturity of less than three months. The Company's objective in managing its exposure to interest rate fluctuations is to secure the lowest sustainable interest charges on the Company's debts. The Company's policy specifies the portion of outstanding floating rate debt, which shall be converted into fixed rate debt using interest rate derivatives, consisting of interest rate swaps and forward rate agreements. As of December 31, 2004 and 2003, the Company had no outstanding debt at floating rates.

(in millions of Czech Crowns)	For the year ended December 31,		
2004	2003	2002	
Net interest revenue related to financial derivatives (including fair value changes of non-hedge derivatives)	-	(7)	38
Changes in fair value - Other comprehensive income	-	-	-
Changes in fair value - Consolidated Statement of income	-	(15)	(8)

d > Concentrations of credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents and trade accounts receivable. The Company maintains cash with large credit-worthy financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any single institution.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers. Ongoing credit evaluations of customers financial conditions are performed, and, generally, no collateral is required.

22 > Commitments

a > Contractual commitments

The Company had the following contracted commitments:

	As of December 31,
(in millions of Czech Crowns)	2004
Open purchase orders for network construction	362
Open purchase orders for internal investments	35
Contractual commitments, primarily service contracts	1,120
Total contractual commitments	1,517

b > Lease commitments

The Company had the following non-cancelable operating lease commitments for property, plant and equipment:

	As of December 31,
(in millions of Czech Crowns)	2004
2005	775
2006	324
2007	287
2008	265
2009	220
2010-2019	1,433
Total lease commitments	3,304

23 > Contingencies

The Company is involved in a variety of legal proceedings that arise from time to time in the ordinary course of business. The following is a discussion of the significant legal matters involving the Company:

a > Interconnect arrangements

Arrangements with CT regarding interconnect, mobile terminating and originating, have not yet been agreed in respect of the period since 2001. Price arrangements have also not yet been finalized with other Czech mobile operators for the period from January 1, 2002. Management has provisioned these arrangements at the minimum fixed and determinable rates and cash settlement has been concluded for interconnect transactions with CT and other telecommunications operators in respect to 2002, 2003 and 2004.

In May 2003, the CTU issued a price ruling in favor of the Company in respect of interconnect arrangement with CT for the period of May 1 to November 26, 2001. In June 2003, CT filed an appeal in respect to this decision which the CTU rejected in November 2003 and reconfirmed its earlier findings. Based on the CTU ruling, CT is obliged to pay the Company CZK 1,154 million related to interconnect services provided during the period from May 1 to November 26, 2001. In addition, CT is required to pay interest on this assessment, which accrues at 18.25% per annum. CT interest obligation related to the assessment totaled CZK 679 million at December 31, 2004.

In response to the CTU final decision, CT filed a request to the court in November 2003 demanding suspension of its obligation to pay the amount according to the CTU decision and issuance of a court decision on the interconnect arrangement. CT obligation to pay the amount specified above was suspended until the final court decision will be effective

in this matter. In May 2004, the court of the first instance issued a verdict in favor of the Company. CT has appealed this verdict, therefore the ruling of the court of first instance is not effective until the appeal is resolved.

Although the Company has received two favorable rulings from CTU, the settlement is the subject of current court proceedings, therefore the Company is unable to collect the settlement and the ultimate realization of all or a portion of the settlement or interest if awarded cannot be ensured. Accordingly, potential income of CZK 629 million relating to interconnect fees and of CZK 679 million relating to interest, both before tax, have not been recognized. The CZK 629 million represents the differential between respective revenue as per the CTU ruling and revenue recognized by the Company in prior period based on the minimum fixed and determinable price for the disputed interconnect arrangements. Management is confident that these arrangements will be finalized with no negative impact on net income.

b > Tax inspection

In January 2002, value added tax assessments were received in the amount of CZK 158 million. A full provision for these assessments was created in the 2002 consolidated financial statements. In November 2003, the Company paid the CZK 158 million. The Company continues to appeal this assessment and litigation in respect to these assessments is still ongoing as of the date of these consolidated financial statements. In accordance with Czech tax legislation, interest and penalties related to the assessment are no longer accrued for periods subsequent to the Company's payment of the assessment, however Eurotel was required to pay interest and penalties of CZK 185 million on the assessed VAT that were accumulated during periods prior to the payment in November 2003. In 2003, a provision for interest and penalties of CZK 185 million was created in the consolidated financial statements. In June 2004, the Ministry of Finance waived CZK 134 million out of the total amount of CZK 185 million; therefore the provision of CZK 134 million was released in the consolidated financial statements. The Company submitted a request to the Tax Authority and the Ministry of Finance for a waiver for the remaining portion of interests and penalties of CZK 51 million; however, no decision has been issued by the Ministry of Finance as of the date of these consolidated financial statements. Management is confident that these arrangements will be finalized with no negative impact on net income.

c > Other legal matters

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

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