

ČESKÝ TELECOM, a.s. is a member of the Telefónica Group

*Telefónica*



# half-year report 2005





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# Letter from the Board of Directors of ČESKÝ TELECOM

## To Our Shareholders,

Let us make an evaluation of the activities of the ČESKÝ TELECOM Group in the first half of 2005. Before reviewing the most important developments and results, we would like to mention the finalisation of the sale of 51.1% of ČESKÝ TELECOM shares to the new majority owner, Telefónica, S.A., which bid the highest price of CZK 82.6 billion, or CZK 502 per share, for the controlling stake. The sale was concluded on 16 June 2005 when Telefónica paid the remaining 90% of the purchase price and the National Property Fund transferred 51.1% of the company's shares.

We are confident that, by integrating ČESKÝ TELECOM into its structure, the Telefónica Group, which is in terms of market capitalisation the third largest global telecommunications operator, acquired an efficient and viable company. The acquisition of the ČESKÝ TELECOM Group will help Telefónica accomplish its vision of becoming the best and largest integrated telecommunications Group in the world. Telefónica's international know-how will foster ČESKÝ TELECOM's and Eurotel's growth, and their customers will benefit from new quality products developed in line with the best European and international practice. The shared objective is to maintain the position of ČESKÝ TELECOM and Eurotel on the Czech market.

Telefónica exercised its shareholder rights at the General Meeting of Shareholders held on 23 June 2005 and immediately afterwards, when it made changes in the governing bodies of ČESKÝ TELECOM and Eurotel. Its representatives filled 9 out of 15 positions in the Supervisory Board, the position of Chairman of the Board of Directors and Chief Executive Officer of ČESKÝ TELECOM. ČESKÝ TELECOM adjusted its executive management structure – three new divisions were formed (Sales, Operations, and Finance and Resources), reporting directly to the Chief Executive Officer.

As regards the trends on the Czech telecommunications market in the first half of 2005, the developments only confirmed the growing popularity of broadband Internet, data services and other value-added services, in the segment of fixed line and mobile technologies. ČESKÝ TELECOM Group's portfolio has adapted to reflect this trend. A turning point in the first half of 2005 was the decision of the Czech Telecommunications Office which concerned tariff rebalancing, the first such decision in three years. It allowed ČESKÝ TELECOM to adjust its tariffs closer to the actual costs. The other pricing decisions – regarding ADSL wholesale prices, charges for Local Loop Unbundling, interconnect rates for dial-up Internet and termination rates for calls to fixed and mobile networks – will, in ČESKÝ TELECOM's view, also have a positive effect on the development of the telecommunications market in the Czech Republic.

In the challenging environment of the Czech telecommunications market, which is characterised by a high mobile penetration and continuing pressures in the segment of fixed and mobile technologies, the Group succeeded in maintaining its position as the leading integrated operator. Fixed line penetration has, for several years, been steady – as at the end of the first half of 2005 it was approximately 32%. SIM card penetration, on the other hand, is still growing and as at the end of the first quarter of 2005 it exceeded 107% – and we expect it to show further growth as an increasing number of customers own more than one SIM card. The number of fixed lines operated by ČESKÝ TELECOM as at 30 June 2005 was 3,248,738. According to the new methodology of calculation of prepaid services, which Eurotel has been applying since 30 June 2005, the total number of its customers as at that date was 4,419,842.

Also in the first half of 2005, our activities copied the market trends and concentrated on stimulating revenues from voice services, developing and launching new services in growth

areas. Both companies in the Group launched a new voice tariff structure and a portfolio of high-speed Internet access service. The total number of ČESKÝ TELECOM's and Eurotel's customers of high-speed Internet access products reached 212,000 at the end of June 2005. Our ambition in respect of the new services is to offer the broadest spectrum, and adapt to the changing expectations, individual needs and the pocket of every customer.

We also placed an accent on improving our operating and financial efficiency by means of controlling operating and capital expenditure. A substantial part of all projects in our Transformation Programme, which was started in early December 2003, was completed by the end of the first half of 2005. It has definitely helped to improve financial and operating efficiency. ČESKÝ TELECOM's value measured in terms of market capitalisation grew by 77% (exclusive of dividends) in the period in question, providing for an above-average rate of return on shareholders' investments.

Consolidated revenues for the first half of 2005 reached CZK 30 billion and consolidated operating costs CZK 16.5 billion. This has produced a consolidated EBITDA of CZK 13.5 billion. Despite the effect of several one-off cost items posted in the second quarter of 2005, an EBITDA margin of 45% ranks ČESKÝ TELECOM Group above the industry average. Also the volume of free cash flow remains at a high level. It allowed us to reduce the net gearing to 17% compared to 34% as at the end of the first half of 2004.

As regards the fixed technology segment results, the proportion of revenues from Internet, data and other valued-added services grew in the first half of the year – by 26% year on year to CZK 2.2 billion. This attests to ČESKÝ TELECOM's efforts to diversify its revenue structure and to offset the declining revenues from traditional voice telephony. The total revenues from fixed line technology decreased by 8% in the first six months of 2005 to CZK 16.1 billion, while operating costs remained the same as in the same period of 2004 – they amounted to CZK 9.4 billion. Fixed technology segment EBITDA reached CZK 6.7 billion, which represents an EBITDA margin of 42%.

In the first half of 2005, Eurotel maintained its strong financial and operating performance, even given the highly saturated Czech mobile market. Total revenues of Eurotel reached the same level as in the first half of 2004, i.e. CZK 14.6 billion. The growing demand for data, Internet and value-added services caused the SMS, MMS, data and value-added services revenues to grow in aggregate by 18% to CZK 2.2 billion. Eurotel's operating costs increased by 6% year on year to CZK 7.9 billion and were affected by the posting of several one-off items. Eurotel's EBITDA in the first half of 2005 reached CZK 6.7 billion, with a very high EBITDA margin of 46%.

Our goal for the second half of 2005 is to meet our customers' needs to the maximum degree by launching new products and services in the area of broadband Internet access, data services and other value-added services. We will continue to concentrate on stimulating revenues from voice and traditional data services.

With the support and market knowledge of Telefónica, the new Majority Shareholder, the management of the Group will pursue the strategy of maintaining our leadership on the Czech telecommunications market. In the area of the financial management of the ČESKÝ TELECOM Group, the key aspect is the accent on delivering a premium EBITDA margin, effective capital expenditure and a strong free cash flow.

# Calendar

## January

Already more than 130,000 customers are using one of the high-speed Internet access services of the ČESKÝ TELECOM Group.

ČESKÝ TELECOM and Siemens agree on co-operation in the preparation of a three-month pilot project for network external maintenance outsourcing.

Eurotel is the only Czech mobile operator to launch a unique service combining economical unlimited fixed Internet access via ADSL and a mobile voice tariff, branded as Eurotel Data Speed.

## February

Eurotel implements a new tariff structure for GSM postpaid customers. Six new tariffs and two new special tariffs are offered. Eurotel is thus offering not only premium quality of service at competitive rates, but also a very simple and transparent structure of tariffs.

Microsoft, ČESKÝ TELECOM and Eurotel form a strategic alliance for development, promotion and marketing of innovative products and services. On the alliance platform, the three companies commit to close co-operation in segments such as digital home, digital business, mobile solutions for small and medium-sized enterprises, etc.

An Extraordinary General Meeting of shareholders of ČESKÝ TELECOM is held. It approves an amendment to the rules for remuneration of members of the ČESKÝ TELECOM Supervisory Board, abolishing the special motivation bonus approved by the AGM in 2004.

## March

Eurotel lets its customers use EDGE data transmission technology in areas with the heaviest GPRS traffic. With Internet access technologies CDMA, ADSL, WiFi, GPRS and HSCSD, Eurotel is offering its customers the widest choice on the market.

Eurotel launches Eurotel Přepínám, a service which lets customers use Push To Talk technology free of charge for two months.

ČESKÝ TELECOM publishes its audited consolidated financial results for the fiscal year 2004 under International Financial Reporting Standards. Consolidated revenues reached CZK 62.1 billion and consolidated operating expenditure was CZK 33.1 billion, resulting in a consolidated EBITDA of CZK 29 billion and EBITDA margin of 47%.

ČESKÝ TELECOM launches Telefon Volno and Telefon Volno Plus, price plans which combine free calls to fixed networks off-peak and at weekends and a flat fee for 60 free minutes at peak time.

## April

Eurotel launches a new package of services for unlimited Internet access. Internet Mobil, Internet Doma, Internet Business and Internet Kombi offer an unparalleled spectrum of options for unlimited Internet access.

The Czech government approves the sale of 51.1% of the shares of ČESKÝ TELECOM to Telefónica for CZK 82.6 billion (CZK 502 per share). Representatives of the National Property Fund and Telefónica sign an agreement on the sale of the shares.

ČESKÝ TELECOM, as the sole owner, decides to distribute a part of Eurotel's retained profits of CZK 3 billion, to be paid by 15 July 2005.

ČESKÝ TELECOM announces its unaudited consolidated financial results for the first quarter of 2005 under International Financial Reporting Standards.

After a decision of the Czech Telecommunications Office, ČESKÝ TELECOM launches a new structure of voice price plans. ČESKÝ TELECOM is offering five standard price plans for residential customers and four special rate price plans for subscription with Internet Expres services. Customers now also get a free e-bill, CLIP or Memobox service.

## May

ČESKÝ TELECOM joins the Fixed-Mobile Convergence Alliance (FMCA), an alliance of leading global operators. This step represents the commitment of ČESKÝ TELECOM, the only integrated operator in the Czech Republic, to its long-term ambition to offer premium services which combine the benefits and potential of fixed and mobile networks.

In a strategic alliance with Microsoft, Eurotel launches Eurotel Mobile Exchange Plus, a revolutionary service on the Czech market. The service allows for interfacing and full synchronisation of e-mail, calendar and contacts with the corporate server from Microsoft.

More than 50,000 customers are using one of ČESKÝ TELECOM's leisure tariffs – Telefon Volno and Telefon Volno Plus with free calls.

## June

ČESKÝ TELECOM begins to market a new, more economical range of high-speed Internet access services designed for residential customers, branded as Internet Expres Doma – Impuls, Ideal, Sprint and Maxi.

Telefónica pays the remaining 90% of the purchase price for the shares of ČESKÝ TELECOM to the National Property Fund. 51.1% of the shares are transferred to Telefónica, making it the majority shareholder of ČESKÝ TELECOM.

The Annual General Meeting of shareholders of ČESKÝ TELECOM is held. The shareholders approve, inter alia, the Board of Director's proposal not to pay any dividend for the accounting period 2004. The General Meeting of shareholders effected personnel changes in the composition of the Supervisory Board, save for members of the Supervisory Board elected by the employees and one government delegate.

Jaime Smith Basterra is elected Chairman of the Board of Directors and Chief Executive Officer of ČESKÝ TELECOM. Salvadore Anglada Gonzalez becomes the Statutory Representative, Chief Executive Officer of Eurotel and member of the ČESKÝ TELECOM Board of Directors.

ČESKÝ TELECOM and Eurotel report more than 200,000 high-speed Internet customers.



## Board of Directors' Report on business activity

### 3.1 Developments on the Czech telecommunications market in the first half of 2005

Developments on the telecommunications market in the Czech Republic in the first six months of 2005 confirmed the trends of the previous periods, including continuing growth of demand for data, Internet and other value-added services at the expense of the declining traditional voice telephony services. The trends are reflected also in the service portfolio of the ČESKÝ TELECOM Group (Group) which introduced several higher value-added services in the first half of 2005. The Group's activities also concentrated on implementation of new technologies for data transmission and high-speed Internet access – the very areas where both ČESKÝ TELECOM and Eurotel continue to maintain market leadership.

A major influence on the further development of the market was the change of the regulatory environment in the Czech Republic in connection with EU accession, as well as several pricing decisions of the Czech Telecommunications Office.

Changes also occurred in the area of competition, in the field of both fixed line and mobile technologies. On 11 February 2005, shares of Aliatel were transferred to GTS Czech, formally closing a process of acquisition of Aliatel by GTS Czech. The merger of the two largest alternative fixed line operators produced GTS Novera with a fixed line market share of 10% in terms of revenues (ČESKÝ TELECOM's estimation) as at the end of 2004. The activities of GTS Novera will continue to focus primarily on provision of telecommunications services for the business and corporate segments. The number of telephone lines operated by ČESKÝ TELECOM was 3,248,738 as at 30 June 2005, which represents a decline of 4% compared to the end of 2004. Fixed line penetration reached 32% as at the end of June 2005.

The mobile technology market also witnessed fiercer competitive pressures. The entry of Vodafone Group, a strong international mobile operator which in June 2005 took over Oskar Mobil, the youngest Czech operator, which provides its services under the brand of Oskar, has fostered greater competition. A positive fact in that was the timing of ČESKÝ TELECOM's privatisation by Telefónica, which was finalised in mid-June 2005. Telefónica Móviles, a mobile operator and subsidiary of Telefónica, had more than 81 million customers in 15 countries of the world as at the end of the first quarter of 2005. Telefónica Móviles is at the same time the leading mobile operator in Spain and in Latin America. Its services are mostly branded as Movistar.

Despite the fact that the penetration of SIM cards in the population exceeded 107% at the end of the first quarter of 2005, the net GSM postpaid customers of Eurotel in the first half of 2005 reached 192,000 compared to 79,000 in the same period of the previous year. Their number grew to 1,197,000 as at 30 June 2005, which is 19% more than at the end of 2004, and their share in the total number of customers was 27%. As of 30 June 2005, Eurotel has changed its methodology for calculation of GSM prepaid customers to account only for those prepaid customers who recharged within the last 13 months. As at the end of June 2005, the number of GSM prepaid customers, as per the new methodology, was 3,141,000 representing

a 6% decline compared to the end of 2004. This decline is attributed primarily to migration of customers from prepaid to postpaid services. The total number of Eurotel's customers in the first half of 2005 was 4,420 according to the new methodology, which is 1% more than at the end of 2004.

Furthermore, in order to be in line with the prevailing industry standards, Eurotel decided to report complementary information on the number of GSM prepaid customers. This methodology defines a prepaid customer as a customer who generated revenues in the last three months. According to this methodology, the number of GSM prepaid customers was 2,830,000 as at 30 June 2005.

### 3.1.1 Regulation

The area of electronic communications is governed by the Act on Electronic Communications, which came into force on 1 May 2005 and which introduces new legislation (the so-called Regulatory Framework) of the European Union in the Czech system of law. The main institutes of this new law were described in the 2004 Annual Report, page 19.

In the first half of 2005, the Czech Telecommunications Office (CTO), the regulatory authority in the area of electronic communications in the Czech Republic, promulgated several pricing decisions which will have a bearing not only on the Group's development in the future, but also on the market as a whole.

The pricing decisions are the following:

1. CTO pricing decision no. 01/2005 dated 22 April 2005, effective from 25 April 2005, publishing a list of telecommunications services with regulated prices. Appendix 1 of the pricing decision details maximum prices and fixed conditions for domestic telecommunications services provided by ČESKÝ TELECOM as a part of the Universal Service. This pricing decision reduced the amount of the monthly subscription for residential customers by CZK 276 exclusive of VAT for the standard price plans and by CZK 167 exclusive of VAT for the Mini price plan, and reduced the monthly subscription for business lines by CZK 495 exclusive of VAT for the standard price plans. In the standard price plans and the Mini price plan, a usage credit of CZK 86 exclusive of VAT for residential lines and of CZK 95 exclusive of VAT for business lines was abolished. Prices of call services, in particular on long distance calls, were reduced. Appendix 2 details the maximum prices and fixed conditions for international telecommunications services provided by ČESKÝ TELECOM as part of the Universal Service. The pricing decision reduced the prices – it stipulates that the Mini price plan cannot offer Carrier Selection and Carrier Pre-selection, Shared User Access to Local Loop (SUALL), broadband Internet access and other services running on the ADSL platform. This pricing decision has, in part, met ČESKÝ TELECOM's demand for tariff rebalancing which the company has been pursuing since 2003. In 2003–2005, the CTO did not change the maximum prices. While the tariffs were rebalanced in full for business lines, only a partial tariff rebalancing was permitted for residential lines.
2. Amendment no. 1 to the pricing decision no. 03/PROP/2004 dated 22 April, effective from 25 April 2005. This amendment allowed for charging a separate item of CZK 158 to the maximum price for shared access to the local loop. This separate item partly covers the cost of using the so-called non-voice frequency band in the access network for broadband Internet access and other services running on the ADSL technology platform.
3. Pricing decision no. 01/PROP/2005 dated 24 February 2005, effective from 15 March 2005, which provides for the method of calculation of rates for interconnection of public telecommunication networks or for access to the services of virtual calling cards from public mobile telecommunication networks. This pricing decision allowed interconnection also

with mobile operators for accessing the services of virtual calling cards, and set out the method of calculation of the interconnection rates.

4. Pricing decision no. 03/PROP/2005 dated 22 April 2005, effective from 25 April 2005, prescribing the method of calculation of prices for full or partial unbundling of the local loop. This decision reduced the maximum prices for full or partial unbundling of the local loop – by 18% for full access and by 43% for shared access. This step made way for reducing the retail prices of ADSL services.
5. Pricing decision no. 04/PROP/2005 dated 22 April 2005, effective from 25 April 2005, laying down the maximum rates for interconnection of public telecommunication networks for call termination in public fixed telecommunication networks. This pricing decision represents a 5% reduction of the maximum regulated interconnection rates.
6. CTO pricing decision no. 05/PROP/2005 dated 22 April 2005, effective from 25 April 2005, laying down the prices for interconnection of public telecommunication networks for dial-up Internet access via a point of presence. The maximum regulated prices for origination were reduced by 5% to the same level as the prices for interconnection for call termination in public fixed telecommunication networks (pricing decision no. 04/PROP/2005), and minimum regulated termination rates were brought down by a significant margin (approximately 50%). This decision spells a better position of ČESKÝ TELECOM vis-à-vis the other dial-up Internet service providers, as the lower termination rates will reduce the cost of operating the dial-up Internet service.

Unlike the fixed line technology market where the CTO has the power to regulate revenues from telecommunications services, prices of the Universal Service and interconnection rates, on the mobile technology market the main focus of regulation are the interconnection rates to public mobile telecommunication networks. In the first half of 2005, on 25 March 2005, the CTO issued a pricing decision no. 02/PROP/2005, which, effective from 1 April 2005, reduced the maximum regulated price of interconnection to public telecommunication services for call termination in public mobile telecommunication networks by 2.5% to CZK 3.11. The interconnection rates have thus reached a very low level compared to the other countries in Europe.

## 3.2 ČESKÝ TELECOM Group in the first half of 2005

In the first six months of 2005, the Group's activities focused primarily on growth areas – Internet, data and other value-added services. Our continuing ambition is to be responsive to customer needs and to offer the broadest spectrum of premium services at competitive prices. In relation to the CTO pricing decisions, ČESKÝ TELECOM introduced a new tariff structure in the area of voice services and high-speed Internet access, branded as Internet Expres. Also, Eurotel launched new voice tariffs, which, in addition to offering top quality at affordable prices, introduce simplicity and transparency to the tariff structure. In the area of unlimited Internet access, Eurotel came with a new service package branded as Internet pro každého (Internet for Everyone).

The financial results for the first six months of 2005 confirmed that the Group's management continues to push for better operating and financial performance, operating and capital expenditure discipline and strong cash flow generation. As a result of several one-off items posted as operating expenditures, the consolidated EBITDA margin fell to 45% in the first

half of 2005, compared to 49% in the same period of last year. Still, the Group performance measured by this indicator continues to be better than the industry average.

An important turning point in the first half of 2005 was the finalisation of the privatisation of the 51.1% share in ČESKÝ TELECOM held by the National Property Fund (NPF) of the Czech Republic. On 16 June 2005, the shareholding was transferred to Telefónica, S.A. (Telefónica). The NPF and Telefónica signed a sale and purchase agreement related to the majority shareholding on 12 April 2005. Subsequently, Telefónica deposited 10% of the purchase price (CZK 82.6 billion, i.e. CZK 502 per share) on an escrow account. The remaining 90% was paid on 16 June 2005, when the NPF effected the actual transfer of shares to Telefónica. This allowed Telefónica, by virtue of becoming a shareholder, to participate in the General Meeting of Shareholders held on 23 June 2005. Shareholders approved changes in the composition of the Supervisory Board, which, at its first meeting, made changes in the other governing bodies of ČESKÝ TELECOM and Eurotel. For more details refer to Section 4 – Corporate Governance in this Half-year Report.

### 3.2.1 Transformation Program

ČESKÝ TELECOM announced its Transformation Program in November 2003. Its objectives and progress in 2004 were described in detail in the 2003 and 2004 Annual Reports. The Transformation Program was kicked off in early December 2003 and was planned for a period of 18 months. Except for the long-term projects, the majority of the transformation activities had been completed as of the end of the first half of 2005. With the transformation complete, the remaining phases of the long-term projects are being transferred under the responsibility of the relevant units.

The efficiency enhancement of ČESKÝ TELECOM's selected activities is an overall benefit of the transformation program. A decrease in operating costs by more than CZK 2 billion, and a reduction in ČESKÝ TELECOM's headcount by 2,966 between 31 December 2003 and 30 June 2005 represented the main results.

### 3.2.2 New products and services

#### Fixed line technology segment

In relation to the CT0 pricing decision no. 01/2005, which sets out the new maximum regulated prices of telephony services included in the Universal Service, ČESKÝ TELECOM introduced two new standard tariffs Telefon Mini and Telefon Standard, and leisure tariffs Telefon Start, Telefon Volno and Telefon Volno Plus on 28 April 2005. These tariffs were marketed to residential customers from 1 May 2005 (Telefon Volno and Telefon Volno Plus were marketed already as from 1 April 2005).

In the standard tariffs, as per the conditions set out in the pricing decision, the usage credit was abolished – with ČESKÝ TELECOM offering lower call rates as compensation.

Telefon Start is a tariff comprising a subscription with 60 minutes of free airtime a month applicable to local and long distance calls to fixed line numbers in the Czech Republic, peak and off-peak. Telefon Volno offers free calls off-peak, at night time, on weekends and on public holidays to fixed line networks in the Czech Republic, and lower usage rates than Telefon Start. Telefon Volno Plus includes the same benefits as Telefon Volno – free calls off-peak, on weekends and public holidays – and, additionally, 60 minutes of free airtime for peak time calls to fixed line numbers in the Czech Republic. By 30 June 2005, a total of 101,500 new Telefon Volno and a Telefon Volno Plus tariffs and Expres packages were subscribed.

Internet Expres users can now order a standard voice tariff Telefon Expres and the packages Telefon Expres Start, Telefon Expres Volno and Telefon Expres Volno Plus, which offer additional discounts on calls.

Migration of all customers to the new tariffs was performed gradually – the exercise started on 1 June 2005 and was carried out by billing cycles.

According to individual fixed line usage, customers may subscribe to top-up packages offering additional savings. The individual packages are designed for calling to fixed line networks, mobile networks, for international calls and dial-up Internet. From 1 May 2005, ČESKÝ TELECOM is offering also a free e-bill service – the customer can access his bill for telecommunications services online and monitor his calls already in the course of the billing period. An additional free service is caller ID.

Business customers of ČESKÝ TELECOM can benefit from a new voice solution launched on 1 January 2005 – the idea was to approximate the usage prices to those of alternative operators. The new voice solution is suitable for all sizes of enterprises, as it features volume discounts based on the actual usage volume.

ČESKÝ TELECOM also designed new tariffs for corporate customers – Trend and Universal. Trend, to which 90% of all corporate clients will be migrated, has rates for long distance calls reduced to the level of local calls.

As mentioned above, ČESKÝ TELECOM's activities will continue to focus on offering new services in growth areas such as high-speed Internet access. A new tariff, Internet Expres Optimal, was introduced already in January 2005, with a speed of 1,024/256 kbps. And the monthly subscription was reduced from CZK 1,420 to CZK 799.

From 1 March 2005, ČESKÝ TELECOM is offering a new package, Internet Expres Hit, with a speed of 256/64 kbps. It was intended for customers who are considering getting a high-speed Internet connection. To promote the service with the highest number of customers, ČESKÝ TELECOM set the monthly subscription at CZK 599. The activation fee was a symbolic CZK 1, and a reduced monthly subscription of CZK 520 was charged in the first three months of the service.

From the beginning of June 2005, ČESKÝ TELECOM is offering a new range of high-speed Internet access services branded as Internet Expres Doma. Starting from CZK 399, customers of ČESKÝ TELECOM can subscribe to the cheapest price plan, Internet Expres Doma Impuls, designed for newcomers to the Internet. With a speed of 128/64 kbps, it is 2.5 times faster than dial-up Internet. Other alternatives are Internet Expres Doma Ideal (CZK 599, speed 512/128 kbps), Internet Expres Doma Sprint (CZK 799, speed 1,024/256 kbps) and Internet Expres Doma Maxi (CZK 1,399, speed 2.8/256 kbps). The offer also includes very economical weekly data limits – Impuls (256 MB), Ideal (1GB), Sprint (2 GB) and Maxi (3 MB). After reaching the limits, the Fair User Policy is triggered and the speed is curbed. As a top-up to the Internet Expres Doma services, ČESKÝ TELECOM is offering a new service, Expres Click, which allows for a short-term acceleration of the speed (for 24 hours).

As at the end of June, the number of ADSL lines operated by ČESKÝ TELECOM reached 163,216, representing growth of 61% compared to the end of 2004. Out of the total, approximately 80% are end users of Internet Expres. Internet Expres services were available in 1,094 locations across the Czech Republic, i.e. to more than 90% of all telephone lines. The number of locations where high-speed Internet is available has increased by 31% since the beginning of the year.

In the area of data services, we are seeing continuing growth in the number of IP Connect and IP VPN (KI ISVS) connections due to the increased demand of corporate customers for IP VPN based services. The number of IP VPN connections grew 100% in the first half of 2005 year on year, and the number of Ethernet circuits grew 120%. On 1 June, a new service, IP Connect Remote, was launched – it gives customers online access to their corporate virtual private networks from anywhere.

### Mobile technology segment

Given the high degree of mobile market saturation (number of SIM cards per capita), Eurotel sees it as increasingly important to focus on developing revenues per SIM card by launching new services, which will add more value to Eurotel's customers, and by implementing new technologies primarily for data transmission and high-speed Internet. Here, Eurotel is still the leader on the Czech mobile market.

Growing significance is attached also to customer orientation and meeting the customer's growing expectations, all at acceptable prices. Eurotel's portfolio was adapted to reflect this ambition.

Indubitably, two of the most significant changes in the first half of 2005 were the introduction of the new tariff structure for voice services in February 2005, and of a brand new portfolio of unlimited Internet access products in April 2005.

In the new tariff structure, Eurotel offered six brand new tariffs and two new special tariffs to its postpaid customers. The changes were intended to simplify and make more transparent the tariff structure, and to introduce tariffs which will accommodate the needs of individual customers, all at highly competitive prices, which can save the customer up to 30% of their mobile telephony charges.

The new tariff structure comprises six brand new tariffs – Eurotel SMS, Bronz, Silver, Gold, Platinum and Diamant – and six Max tariffs which are economical alternatives to these tariffs. Max tariffs offer lower per-minute rates on calls and lower SMS prices, with the same amount of free airtime and the same subscription as the corresponding standard tariff. Customers will save up to 30% on calls and enjoy cheaper SMS messages. Activation is conditional on 24 month commitment. The new tariff structure also includes brand new tariffs for specific target groups – Eurotel Pohoda for students and Eurotel Start for prepaid customers who want to migrate to a postpaid tariff.

A common denominator of all the new tariffs is the fact that they do not distinguish between peak and off-peak calls and all unused free minutes and SMS are carried over to the following period.

In connection with the new tariff structure, Eurotel also enhanced its proposition to customers willing to migrate from the prepaid Go service to postpaid tariffs by offering replacement of a mobile handset at a very attractive price.

The new tariffs were very well received by both new customers and the prepaid Go service customers. The total number of customers who used the offer in the period between its introduction in February and the end of June was 322,000, of which almost 61,000 were newly added customers and 93,000 were former customers of the prepaid Go service.

The new tariff structure allowed Eurotel to further increase the share of GSM postpaid customers in the total number of customers. This share grew to 27% as at the end of the first half of 2005, thanks to accelerating growth in the number of these customers. The number of GSM postpaid customers as at 30 June 2005 grew by 28% yoy, compared to 19% yoy growth at the end of the first quarter 2005 and 17% yoy growth at the end of 2004.

Also in the area of data services, Eurotel came up with an innovated offer of unlimited Internet access – Internet pro každého, with the aim of accommodating the individual needs and financial limits of every customer. The idea is to give every customer a way of accessing the Internet – taking into consideration the place of connection, the speed and the customer's budget – and to make the tariffs even simpler for the benefit of the customer.

Internet Mobil, with speeds of up to 180 kbps, is designed for casual users and those who travel a lot. It gives unlimited access to the Internet via a mobile telephone and a notebook (using GPRS or EDGE technology).

Internet Doma is three times faster and designed for residential customers who log on at home or when travelling – the download speed is up to 500 kbps (ADSL and WiFi technologies).

Internet Business is intended for professionals and frequent users who require the highest available connection speeds. Customers of this service get unlimited Internet access with speeds of up to 1 Mbps. Like with Internet Doma, customers on the road log onto the Internet using the WiFi network, which, as a result of a roaming agreement with ČESKÝ TELECOM, comprises more than 170 WiFi hotspots and is therefore the largest in the Czech Republic.

The last service, which Eurotel is offering in the Internet pro každého package, is Internet Kombi. The service is an optimised combination of all the previously mentioned services – unlimited mobile access to the Internet at home, in the office and anywhere in the Czech Republic, with speeds of up to 1 Mbps. It attracts customers who are looking for the fastest and at the same time completely mobile access to the Internet (CDMA/ADSL and WiFi technologies).

ČESKÝ TELECOM and Eurotel also benefited from their position as the only integrated operator on the Czech market. In January 2005, Eurotel introduced a package branded as Eurotel Data Speed Nonstop, which is quite unique on the Czech telecommunications market and combines fixed line data and mobile voice services. This innovative range of products further builds on Eurotel Data Speed launched at Invex 2004.

Eurotel Data Speed Nonstop combines unlimited Internet access via a fixed line using ADSL and a special voice tariff for mobile calls, all at a very good price. Customers can choose from three alternatives of the unlimited high-speed Internet service differentiated by speed (256, 512 or 1024 kbps) and use the brand new Eurotel Speed voice tariff with a lower subscription. With this offer, the customer gets 30 free minutes of calls to all networks in the Czech Republic, good rates on SMS and economical rates on calls to all networks after the free airtime is used.

A significant turning point in the history of the Group, and one which attests to its position as the leading innovator on the Czech data market, was the forming of a strategic alliance between ČESKÝ TELECOM, Eurotel and Microsoft on 2 February 2005. The strategic alliance was formed to foster development, promotion and marketing of innovative products and services for residential and SME customers. The alliance members have committed to co-operating closely on concepts such as Digital Home/Digital Business presented by ČESKÝ TELECOM and Eurotel at Invex in October 2004. It comprises, for instance, a solution for video and TV signal transmission over a telephone line, a mobile solution for SMEs, digital television broadcasting (IPTV) and services integrating IT and telecommunications services.

Eurotel further built on this agreement in May 2005 when it introduced a revolutionary service, Eurotel Mobile Exchange Plus, to the Czech market. The service offers complete interfacing and synchronisation of e-mail, calendar and contacts with the Microsoft corporate server. The service is the first of three variant mobile solutions for corporate customers running on the Windows Mobile platform – and a result of the strategic alliance with Microsoft. Other joint solutions for addressing the communication and IT needs of corporate clients in a comprehensive fashion are scheduled for launch in the coming months of 2005.

In mid July 2005, ČESKÝ TELECOM and Eurotel opened a co-branded store presenting the new Digital Home/Digital Business concept in the Eden Shopping Centre in Prague. Digital Home/Digital Business products include, for instance, the so-called home network,

which, via a single Internet connection, connects several computers at once, thus bringing more possibilities in the area of entertainment, communication in the family and home security.

In March 2005, Eurotel also launched Eurotel Přepínám, a service using the Push to Talk technology which Eurotel, as the first operator, introduced to the Czech market already in December 2004. This technology allows for using a mobile telephone as a short-wave radio.

To strengthen the capacity and to accelerate data transmission in areas with the heaviest GPRS traffic, Eurotel implemented EDGE technology with data transmission speeds up to four times faster than GPRS.

Eurotel's customers benefit from the broadest portfolio of data transmission and Internet access technologies on the Czech market. In addition to EDGE, Eurotel had previously launched CDMA (branded as Eurotel Data Expres), ADSL (Eurotel Data Speed), WiFi (Eurotel WiFi Jet), GPRS and HSCSD (Eurotel Data Nonstop) for broadband or high-speed Internet access.

In early July, Eurotel came with an innovation for the Go prepaid service customers in the area of voice services. Like ČESKÝ TELECOM, which – already at the end of 2004 – began to market highly successful tariffs with free call minutes on weekends and off-peak, Eurotel started offering free calls on weekends to its prepaid Go service customers, for a very low subscription of CZK 25 per week.

### 3.2.3 Comments on the financial results

#### Consolidated financial statements

Total consolidated revenues of ČESKÝ TELECOM Group in the first half of 2005 amounted to CZK 30 billion, down by 3.6% yoy. Total consolidated operating costs (excluding depreciation and amortization) reached CZK 16.5 billion, were influenced by one-time charges related to contingency reserves, extraordinary compensation and severance payments and resulted in consolidated EBITDA of CZK 13.5 billion, down by 11.1% yoy. Despite the impact of several one-off cost items posted in the second quarter 2005 on EBITDA, the achieved 45% EBITDA margin ranks ČESKÝ TELECOM Group above the industry peers average.

Consolidated depreciation and amortization in the first half of 2005 amounted to CZK 9.2 billion, down by 12% yoy. The significant decrease is a result of lower CAPEX and changes in goodwill and certain intangible assets amortisation, reported earlier this year. Given the decrease in consolidated EBITDA, consolidated earnings before interest and tax (EBIT) and consolidated earnings before tax (EBT) went down by 10% yoy and reached CZK 4.3 billion and CZK 3.9 billion respectively in the first half of 2005. Net income amounted to CZK 2.6 billion, down by 23% yoy.

ČESKÝ TELECOM Group's consolidated debts amounted to CZK 16.5 billion, as at 30 June 2005, down by 47% compared to the same period last year. This number represents gross leverage of 18% and net leverage of 17%. Significant cash flows generated by both ČESKÝ TELECOM and Eurotel enabled a reduction of consolidated debt by CZK 14.6 billion. A substantial part of this was the repayment of the syndicated loan facility used for the acquisition of the remaining 49% stake of Eurotel in November 2003 and the general corporate purposes of the Group.

The ČESKÝ TELECOM Group strategy has been continuously focused on maintaining capex efficiency. Total consolidated capex for the first half of 2005 amounted to CZK 2 billion, down by 13% yoy. Out of the total capex, CZK 1 billion was spent in the fixed line technology segment and CZK 1 billion in Eurotel. The Capex to revenues ratio of 6.6% reflects the timing of capex spending and is substantially below the indicated full year 12% level.

The total amount of free cash flows generated by the ČESKÝ TELECOM Group reached CZK 9.1 billion, down by 7% yoy as a result of the decrease in EBITDA and cash payment of income tax.

### Fixed line technology segment overview <sup>1)</sup>

The results of the fixed line technology business in the first half of 2005 showed continuous high demand for broadband Internet, data and other value added services among customers and influenced positively the structure of fixed line revenues. The share of Internet, data services, value added services and other services amounted to 14% in the first half of 2005, compared to 10% in the same period of the previous year. This underlines ČESKÝ TELECOM's effort to diversify its revenues structure and to offset the decline in revenues from traditional voice services.

Revenues in the fixed line technology segment declined by 8% yoy to CZK 16.1 billion in the first half of 2005. This is in line with the trends in preceding periods, driven mainly by a decline in revenues from traditional voice services, which have not been fully compensated by the increase in revenues from Internet, data and value added services. Revenues from communications voice services declined by 25% yoy to CZK 4.1 billion.

Revenues from monthly subscriptions and connection charges decreased by 7% to CZK 5.7 billion. The overall number ČESKÝ TELECOM's fixed lines amounted to 3,249,000 at the end of June 2005, down by 4% compared to the end of 2004. PSTN lines recorded a 3% decrease and reached 2.8 million, while the number of ISDN channels went down by 5% yoy to 466,000 in this period.

Total revenues from Internet, data, value added and other services increased by 26% yoy to CZK 2.2 billion. The increase in this revenue category was driven mainly by revenues from broadband services, which amounted to CZK 611 million, up by 262% yoy. ČESKÝ TELECOM generated 62,000 net adds to ADSL connections in the first half of 2005 and its market share in new adds increased to 81% in the first half of 2005 from 60% in the same period of 2004. The total number of ADSL connections reached 163,000 at 30 June 2005, up by 61% compared to the end of 2004. Out of the total connections, ČESKÝ TELECOM's retail customers represented about 80%. Internet Expres services are now available in 1,094 locations in the Czech Republic, representing potential coverage of more than 90% of the fixed lines operated by ČESKÝ TELECOM. Revenues from data network services increased by 11% yoy to CZK 873 million while revenues from Internet (ISP subscription and fixed internet connectivity) went down by 9% yoy to CZK 266 million.

Revenues from other network operators grew in total by 23% yoy to CZK 2.2 billion during the first half of 2005. This was mainly due to a 50% yoy increase in revenues from international operators, which reached CZK 1.2 billion. Revenues from domestic network operators stood at CZK 1 billion. Revenues from leased circuits declined moderately, by 3% yoy to CZK 1.4 billion.

Other revenues, including equipment sales and sales of material, amounted to CZK 539 million in the first half of 2005 and represent a 41% decrease compared to the same period in 2004. Compared to the first half of 2004, there were no one-off items included in the revenues in the first six months of 2005.

The fixed line operating costs in the first half of 2005 stood at the level of the same period in 2004 and amounted to CZK 9.4 billion.

The bulk of the total operating costs were staff costs at CZK 3 billion, down by 4% yoy, including severance payments of CZK 186 million. The number of fixed line technology

<sup>1)</sup> fixed line technology segment comprises data for ČESKÝ TELECOM and minor subsidiaries before consolidation adjustments between segments

business employees was reduced by 10% in the first half of 2005 compared to the 2004 year end and reached 7,970 at the end of the period. The continuous headcount reduction helped to improve operational efficiency measured by number of fixed lines per employee, which increased by 11% yoy to 409 lines.

Out of the other controllable operating costs (operating costs excluding costs of sales) in the first half of 2005, a reduction is reported in all items except for marketing and sales, which increased by 16% yoy to CZK 277 million, and consultancy costs, which went up by 44% to CZK 161 million, mainly due to consultancy services related to the transformation process. Material and energy consumption went down by 6% yoy to CZK 459 million, repairs and maintenance by 5% yoy to CZK 861 million and operating lease payments and building expenses by 7% yoy to CZK 269 million. Other operating costs went up by 6% yoy to CZK 1.4 billion, mainly as a result of one-off items related to contingency reserves.

Payments to other network operators amounted to CZK 2.6 billion, up by 7% yoy. While payments to international operators increased by 41% yoy to CZK 1.1 billion, payments to domestic network operators declined by 11% to CZK 1.4 billion.

Equipment and material cost of sales declined by 44% yoy to CZK 176 million and commissions and subcontractors related costs went up by 9% to CZK 203 million.

EBITDA in the fixed line technology business amounted to CZK 6.7 billion, representing an EBITDA margin of 42%.

<sup>2)</sup> mobile technology segment comprises data for Eurotel before consolidation adjustments between segments

### Mobile technology segment overview <sup>2)</sup>

Eurotel continued to maintain a solid financial and operational performance in the first half of 2005. Similarly to the fixed line technology business, trends in the mobile market also underlined the continuous high popularity of data, Internet and value added services including content. For the first half of 2005, total Eurotel revenues stood at the level of the same period in 2004 and amounted to CZK 14.6 billion.

Eurotel's communication traffic revenues decreased by 4% yoy to CZK 5.6 billion, while the total traffic increased by 5% yoy in the first half of 2005. By the end of June 2005, 322,000 postpaid customers had subscribed for the new voice tariffs, which Eurotel introduced on 1 February 2005. Out of this total number, 61,000 represented new customers of Eurotel, 93,000 were originally pre-paid customers and 168,000 were existing post-paid customers migrating from other tariffs. Despite the fact that SIM card penetration exceeded 107% of the population at the end of the first quarter of 2005, Eurotel's postpaid net additions during the first half of 2005 amounted to 192,000 compared to 79,000 for the same period last year. The total number of postpaid customers amounted to 1,197,000 at the end of June 2005, which represents a 19% increase compared to the end of 2004. As mentioned above, Eurotel changed its methodology of GSM prepaid customers calculation as of 30 June 2005. Nevertheless, we believe that customer counts in the prepaid segment are of limited value, as the nominal penetration of more than 100% exceeds the number of individual subscribers due to multiple SIM cards users, usage of SIM cards in machine to machine communication etc. The total number of GSM prepaid customers under this methodology amounts to 3,141,000 at the end of June 2005, which means a 6% decrease compared to the end of 2004. The total number of Eurotel's customers at the end of the first half of 2005 under the new methodology amounted to 4,420,000, which represents a 1% increase compared to the end of 2004.

In addition, in order to be in line with the prevailing industry standards, Eurotel decided to report complementary information on the number of prepaid customers. Under this methodology, which defines a prepaid customer as customer generating revenue in the last

3 months, the number of Eurotel's GSM prepaid customers amounted to 2,830,000 as of 30 June 2005.

Multiple SIM card users, lower ARPU generated by new customers and the tariff initiatives had an impact on the average usage and the total ARPU. In the first half of 2005, ARPU was CZK 503, compared to CZK 528 in the same period last year and CZK 484 in the first quarter of 2005. Average MOU per subscriber was 88 minutes in the first half of 2005, down from 89 minutes in the same period of the previous year. These reported average MOU and ARPU are already based on methodology which is in line with rest of the Czech mobile market. Connection and subscription charges increased in total by 10% yoy to CZK 2.9 billion.

At the end of June 2005, the total number of Eurotel Data Expres customers amounted to 49,000 and the total number of Eurotel Data Nonstop customers was 65,000. Eurotel customers sent and received in total 1,201 million SMS in the first half of 2005. The total revenue from SMS, MMS, Internet, data and VAS increased by 18% yoy to CZK 2.2 billion.

A lower number of sold handsets (11% yoy decrease) led to a 6% yoy decrease in equipment sales and sales of materials to CZK 679 million.

Revenues from other network operators decreased by 7% to CZK 3.2 billion, owing mainly to the CTO decision decreasing mobile termination rates. Revenues from domestic operators went down by 7% to CZK 2.4 billion and revenues from international operators decreased by 6% and reached CZK 757 million.

Operating costs (excluding depreciation and amortisation) of Eurotel increased by 6% yoy to CZK 7.9 billion.

Payments to other network operators went down moderately by 1% and amounted to CZK 2.8 billion in the first half of 2005. Equipment and material cost of sales decreased by 5% yoy to CZK 1.3 billion. Commissions and subcontractors related costs grew by 49% yoy to CZK 254 million.

The number of Eurotel's employees as of 30 June 2005 amounted to 2,500, which is 1% higher than at the end of 2004. Staff costs increased by 49% yoy to CZK 1.2 billion. Repairs and maintenance increased by 20% yoy to CZK 494 million, marketing and sales decreased by 6% to CZK 532 million, material and energy consumed decreased by 15% to CZK 259 million and consultancy costs decreased by 10% yoy to CZK 79 million. Other operating costs, including operating lease payments and other costs, increased in total by 12% to CZK 907 million.

EBITDA of Eurotel reached CZK 6.7 billion in the first half of 2005, which represents a 7% yoy decrease, with a high EBITDA margin of 46%.

## Outlook for the second half of 2005

The ČESKÝ TELECOM Group will continue to actively pursue the opportunities in growth areas and address changes and trends in the telecommunication industry, specifically in the areas of broadband, Internet, data and value added services, with the primary goal to best meet its customer needs. The ČESKÝ TELECOM Group will continue to concentrate on revenue stimulation in voice and traditional data services areas.

With the support and market knowledge of the new majority shareholder Telefónica, the key strategic effort of the management is to maintain its leading position in the Czech telecommunication market. The main aspects of the financial management of the ČESKÝ TELECOM Group will remain focused on above average EBITDA margins, efficient CAPEX levels and strong free cash flows.



Several major events occurred in ČESKÝ TELECOM's corporate governance in the first half of 2005. The process of transfer of the majority stake held by the National Property Fund of the Czech Republic (NPF) to Telefónica, S.A. (Telefónica), was concluded, the company held its Annual General Meeting of shareholders, personnel changes were made in the governing bodies of ČESKÝ TELECOM and Eurotel, the executive macrostructure of ČESKÝ TELECOM was modified and changes were effected in the subsidiary companies.

### Process of transfer of the majority shareholding

On 16 June 2005, the process of transfer of ČESKÝ TELECOM's shares held by the NPF, representing a 51.1% share in the voting rights and equity of the company, to Telefónica was completed. This step opened the way for Telefónica to exercise its shareholder rights already at the Annual General Meeting of shareholders held on 23 June 2005.

### Annual General Meeting of shareholders and related developments

At the Annual General Meeting of shareholders, the unconsolidated audited financial statements of the company for 2004 and the consolidated audited financial statements of the company for 2004 were approved. The shareholders approved a proposal of the Board of Directors for distribution of the unconsolidated profit of the company for 2004: CZK 405 million was allocated to the Reserve Fund and CZK 25 million to the Social Fund. The General Meeting of shareholders also approved a proposal of the Board of Directors not to pay any dividends for the accounting period 2004. The Board of Directors supported its proposal with the fact that the potential payment of dividends prior to the mandatory share buy-back offer to minority shareholders could put shareholders at a disadvantage. In its proposal, the Board of Directors also explained that the financial results of the company for 2004 are sufficient to pay dividends in the future. The General Meeting of shareholders recalled members of the company's Supervisory Board, save for the Supervisory Board members elected by employees under Section 200 of the Commercial Code, and elected 9 representatives of the Majority Shareholder and 1 representative of the Czech government, as provided in the share sale and purchase agreement concluded by the NPF and Telefónica. The General Meeting of shareholders also decided to keep the remuneration for members of the Board of Directors and the Supervisory Board at the same level as in 2004, and approved the aggregate amount of remuneration for members of the Board of Directors and the Supervisory Board for 2005. Shareholders also approved the execution of contracts for the discharge of office of a Supervisory Board member between the company and the newly elected Supervisory Board members.

Meetings of ČESKÝ TELECOM's Supervisory Board and Board of Directors and of Eurotel's Statutory Representatives which were held on 23 June 2005, with regard to the conclusions of the General Meeting of shareholders, made changes in the personnel composition of the governing bodies. Gabriel Berdár was recalled from the position of Chairman of the Board of Directors and Chief Executive Officer of ČESKÝ TELECOM, and was replaced by Jaime Smith Basterra. Salvador Anglada Gonzalez succeeded Michal Heřman as member of ČESKÝ TELECOM's Board of Directors, Eurotel's Statutory Representative and CEO. The Board of Directors also recalled all members of the Supervisory Board of Eurotel and amended Eurotel's Deed of Incorporation – one of the amendments abolished the Supervisory Board of Eurotel. This action was taken by the Board of Directors in order to simplify the corporate governance system in the Group with regard to the accomplishment of the Supervisory Board's key role in the first full year

of complete control by ČESKÝ TELECOM. A part of its agenda was taken over by the Finance and Audit Committee of Eurotel. The Board of Directors also decided to modify the executive macrostructure of ČESKÝ TELECOM and to appoint the designated positions. The new executive macrostructure and the appointees are shown below.

Changes in other subsidiary companies

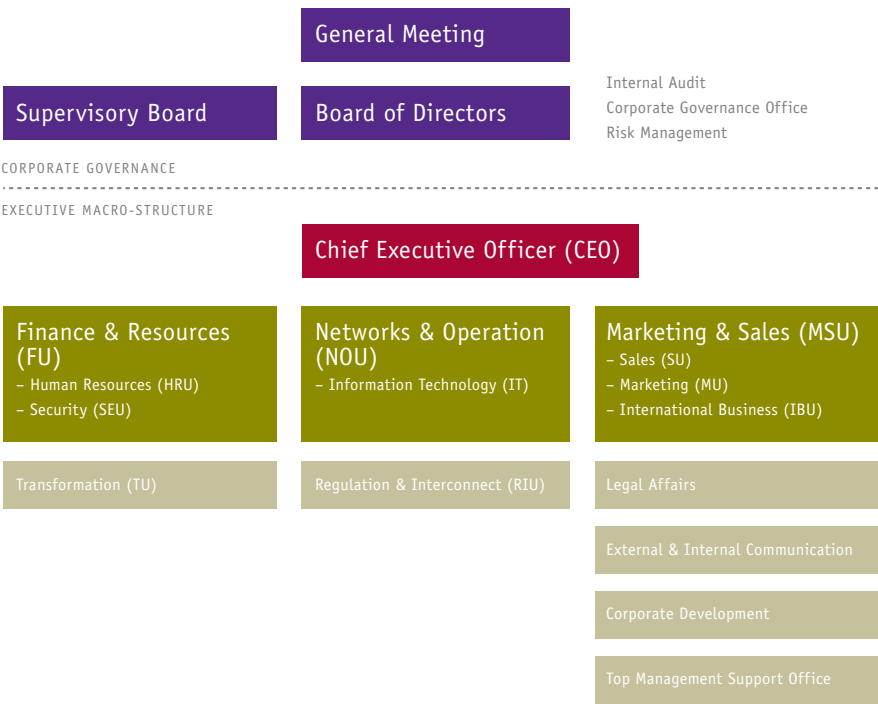
In the first half of 2005, ČESKÝ TELECOM increased its ownership interest in CenTrade, a.s., from 86.5% to 100% – this was followed by personnel changes in the Board of Directors and the Supervisory Board of the subsidiary company. Changes in the persons of statutory representatives were also made in CZECH TELECOM Austria, CZECH TELECOM Germany and CZECH TELECOM Slovakia.

Mandatory share buy-back offer

On 30 June 2005, as per Section 183b of Act No. 513/1991 Coll., the Commercial Code, Telefónica presented to the Securities Commission for approval a draft mandatory share buy-back offer to minority shareholders concerning 48.9% of ČESKÝ TELECOM shares. The price proposed by Telefónica for approval by the Securities Commission is CZK 456.00 per share. The Securities Commission approved the offer, including the proposed price, on 20 July 2005.

Organisation chart of ČESKÝ TELECOM

as at 1 August 2005



### Composition of ČESKÝ TELECOM's Supervisory Board (as at 1 August 2005):

Julio Esteban Linares López, Chairman of the Supervisory Board  
 Luis Lada Díaz, 1st Vice Chairman of the Supervisory Board  
 Lubomír Vinduška, 2nd Vice Chairman of the Supervisory Board  
 Javier José Aguilera Arauzo, member of the Supervisory Board  
 Vlastimil Barbořák, member of the Supervisory Board  
 Antonio Pedro de Carvalho Viana-Baptista, member of the Supervisory Board  
 Angel Vilá Boix, member of the Supervisory Board  
 Alfonso Alonso Durán, member of the Supervisory Board  
 José María Álvarez-Pallete López, member of the Supervisory Board  
 Santiago Javier Fernández Valbuena, member of the Supervisory Board  
 Pavel Herštík, member of the Supervisory Board  
 Guillermo José Fernández Vidal, member of the Supervisory Board  
 Miloslav Krch, member of the Supervisory Board  
 Dušan Stareček, member of the Supervisory Board  
 Petr Zatloukal, member of the Supervisory Board

### Composition of ČESKÝ TELECOM's Board of Directors (as at 1 August 2005):

Jaime Smith Basterra, Chairman of the Board of Directors  
 Juraj Šedivý, 1st Vice Chairman of the Board of Directors  
 Petr Slováček, 2nd Vice Chairman of the Board of Directors  
 Salvador Anglada Gonzalez, member of the Board of Directors  
 Marcela Malivánková, member of the Board of Directors

### Executive macrostructure of ČESKÝ TELECOM (as at 1 August 2005):

Chief Executive Officer (Jaime Smith Basterra)  
 Marketing and Sales (Fernando Astiaso Laín)  
 Networks and Operations (Petr Slováček)  
 Finance and Resources (Juraj Šedivý)  
 Regulation and Interconnect (David Šita)  
 Transformation (Antonio Botas Bañuelos)  
 External and Internal Communication (Pavla Činátlová, acting)  
 Legal Affairs (Jakub Chytil)  
 Top Management Support Office (vacant)  
 Corporate Development (Ramon Ros)

## The new members of the Supervisory Board, elected at the Annual General Meeting on 23 June 2005:

### Julio Esteban Linares López (\*1945)



Julio Linares is a telecommunications engineer who joined Telefónica's R&D Centre in May 1970. He held various positions there before being appointed Head of Telefónica's Technology department in 1984. In April 1990 he was appointed General Manager of Telefónica Investigación y Desarrollo (Telefónica I+D). In December 1994 he became Deputy General Manager of Telefónica's Marketing and Services Development department, in the commercial area, subsequently moving to the position of Deputy General Manager for Corporate Marketing. In July 1997 he was appointed CEO of Telefónica Multimedia, and President of Telefónica Cable and Producciones Multitemáticas. In May 1998 he was appointed General Manager of Strategy and Technology in Telefónica, S.A.'s Corporate Centre. He has been Executive Chairman of Telefónica de España since January 2000, as well as a member of the board of Telefónica Data Corp. He is also a member of the board of The Social Council, Complutense University of Madrid.

### Luis Lada Díaz (\*1949)



Luis Lada Díaz serves as a director in the Telefónica, S.A. Board. He is currently General Manager for Development, Planning and Regulatory Affairs. In 1989, he was Deputy General Manager for Technology, Planning and International Services when he left the Telefónica Group to join Amper Group, a telecommunications systems and equipment manufacturer, as General Manager for Planning and Control. In 1993, he returned to the Telefónica Group as Controller of Subsidiaries and Participated Companies. In 1994, he was appointed as Chief Executive Officer of Telefónica Móviles, S.A. and in September 2000 was promoted to the position of Chairman and CEO of Telefónica Móviles, S.A. He served as Chairman until July 2002, after which he accepted his present position. He also serves on the boards of directors of Telefónica Móviles, S.A., Telefónica International, S.A. and Sogecable, S.A. He holds a degree in telecommunications engineering and joined the Telefónica Group in 1973 in the Research and Development Department, rising through the ranks to hold various managerial and executive positions, and currently is a member of the A.P.D. Supervisory Board and member of the Advisory Board of the UOC University.

### Javier José Aguilera Arauzo (\*1954)



Chairman since April 2005 of Telefónica Publicidad e Información. He is an Electromechanical Engineer (University Politécnica of Madrid, 1976) and Master in Business Administration (Insead-Euroforum – 1993). He has developed his professional career linked to Telefónica's Group in the last 25 years, these being his latest posts: in 1993 Chairman Telefónica Payphones (Cabitel); in 1998 Chief Commercial Officer of Telefónica Wireline Spain; in 2000 Chief Operator Officer Telefónica Móviles España and in 2001 Chief Executive Officer Telefónica Móviles España.

### Antonio Pedro de Carvalho Viana-Baptista (\*1957)

Antonio Viana-Baptista has been the Chairman and CEO of Telefónica Móviles, S.A. since August 2002. Telefónica Móviles, S.A. is the fourth largest wireless Telephone Company worldwide, with more than 81 million managed customers in 15 countries and with a market capitalization over 39 billion US Dollars. Antonio Viana-Baptista is also a member of the Board of Directors, the Delegate Committee and the Executive Committee of Telefónica, S.A., the holding company of the Telefónica Group, and Board Member of Portugal Telecom SGPS. Up to July, 2002 he had held the position of President of Telefónica Internacional, and Executive President of Telefónica Latinoamérica. Previously, from 1991 to 1996, he was Executive Director and Board Member of Banco Portugues de Investimento (BPI). Between 1985 and 1991 he was a Principal Partner with McKinsey & Co. at the Madrid and Lisbon offices. Antonio Viana-Baptista holds an economics degree from the Catholic University of Lisbon (1980). He also holds a post graduate degree in European Economics from the Portuguese Catholic University (1981) and an MBA with honors and distinction from INSEAD in Fontainebleau (1983).



### Angel Vilá Boix (\*1964)

Angel Vilá Boix graduated in Industrial Engineering from the Universidad Politécnica de Cataluña (1988) and also holds an MBA from Columbia University (1990). After a stage as a Financial Analyst at Citibank NA and Consultant at McKinsey & Company, he developed his professional career at Ferrovial and Pacsa, two Spanish companies from the construction and services sector. In 1997 he joined Telefónica as Group Controller, being promoted in 1998 to General Manager of Finance and Control at Telefónica Internacional and, subsequently, to General Manager of Corporate Development at Telefónica, S.A. He is a member of the Executive Committee of Telefónica and also of the Board of Directors of Banco Bilbao Vizcaya Argentaria and Endemol NV.



### Alfonso Alonso Durán (\*1957)

Alfonso Alonso Durán holds a Bachelor degree in Economics from Universidad Autónoma, Madrid. Mr. Durán started his professional career at Banco de Bilbao as Supervisor/Manager. He joined Telefónica as an Economist in several Departments: Accounts, Infrastructure, International Communications, Economic Control and Cost Management, Economic-Financial Information System, etc. In 1999 he moved from Telefónica de España to Telefónica, S.A. as Deputy General Manager Planning and Management Control. Currently he works as General Manager Planning and Management Control.





#### José María Álvarez-Pallete López (\*1963)

He was appointed Chairman and CEO of Telefónica Internacional on 24 July 2002. He has a degree in Economics from the Universidad Complutense of Madrid. He began his professional career with the auditors Arthur Young in 1987, before joining Benito & Monjardín/Kidder, Peabody & Co. in 1988. After Kidder, Peabody & Co. in 1995 he joined Cía. Valenciana de Cementos Portland (Cemex) and in 1996 he was promoted to Financial Manager for Spain, and in 1998 to General Manager for Administration and Finance responsible for the CEMEX group's interests in Indonesia and Member of the Board of Cemex Asia, Ltd. He joined Telefónica in February 1999 as General Manager for Finance of Telefónica Internacional. In September of the same year, he became Chief Financial Officer of Telefónica, S.A. In July 2002, he was promoted to Chairman and Chief Executive Officer of Telefónica Internacional, S.A., the wire-line division of Telefónica in Latin America.



#### Santiago Javier Fernández Valbuena (\*1958)

Fernández Valbuena holds a PhD in Economics & Finance from Boston's Northeastern University and also has a degree in Economics from the Complutense University of Madrid. He has taught at the Manchester Business School, the Instituto de Empresa and Madrid's Complutense University. From 1989 to 1994 he worked at Beta Capital, where he was Head of Research, Equity Director and a member of the Investment Committee. From 1994 to 1996 he was General Manager of Societé Générale Valores. In January 1997, he became Vice Chairman and Chief Executive of Fonditel, Telefónica's pension fund manager. In June 2000, Fernández Valbuena was appointed chair of the Training and Research Committee of the Spanish Investment Analysts Association and Head of the Portfolio Management Area for the Certificate in International Investment Analysis (CIIA). In July 2002 he was appointed Chief Financial Officer. In December 2003, he took on additional responsibilities as General Manager for Shared Resources.



#### Guillermo José Fernández Vidal (\*1946)

Guillermo Fernández Vidal holds Bachelor degree in Industrial Engineering and Computer Science. He is currently General Manager of Commercial Development and Affiliates of Telefónica, S.A. He joined Telefónica in 1989, first holding the post of Manager, later Commercial General Manager of Telefónica (1992–1995) and General Manager of Companies of Telefónica (1995–1999). In 1999 he was Chief Executive Officer (CEO) of Telefónica Data and President of Telefónica Data España. In the same year he was a member of the statutory bodies of Telefónica Móviles, Telefónica of España, Vía Digital, Portugal Telecom.



#### Petr Zatloukal (\*1970)

Petr Zatloukal graduated from the Transport and Communications University in Žilina, Slovak Republic. From 1994 to 2001, he worked at MICOS Prostějov as Head of the Bidding Department, and later as Head of the Commercial Department; since 1997, he managed the whole division. From July 2001 till February 2005, he was Director of the Department for Communications and Information Services of the Ministry of Interior of the Czech Republic. At present, he works in the area of security and investment consultancy.

## New members of the Board of Directors, elected by the Supervisory Board on 23 June 2005:

### Jaime Smith Bastera (\*1965)

Jaime Smith joined the Telefónica Group in 1999 as Director of Financial Planning at Telefónica Internacional and was promoted to CFO in November the same year. In October 2000, he was appointed Controller of the Telefónica Group. Since December 2002, he has been CFO of Telefónica de España. Prior to joining Telefónica, he worked in the financial sector for a Spanish brokerage firm and for Banesto (BSCH Group) as Director for Global Equities in its fund management division. Jaime Smith obtained a BA degree in Business Administration (Universidad Comercial Deusto, Spain) and also holds an MA in Finance and Investments (Exeter University, UK). He serves as member of the Board of the following companies: Telefónica I+D, Telyco, TTP and Telfisa.



### Salvador Anglada Gonzalez (\*1965)

Salvador Anglada studied at the Escuela Superior de Ingenieros Industriales, Madrid in 1983–1989 and became an Industrial Engineer, the Instituto de Empresa, Madrid where he obtained a Master of Business Administration in 1993) and the IESE, Madrid (Senior MD Master Program, PDG). Previously he occupied the position of Sales & Marketing Director of Telefónica Empresas España and Telefónica España (2002–2005). At Telefónica Empresas España, the Telefónica de España unit, he was in charge of services provided to corporations. Before he joined Telefónica he occupied many senior positions in Dell Computer (1997–2002) and Dow Jones Markets (1994–1997). In 1990–1993 Mr. Gonzales was Partner and General Manager of Productos Organicos Y Minerales.



# Financial section

## 5.1 Consolidated financial results of the ČESKÝ TELECOM Group

These consolidated financial results have been prepared in accordance with International Financial Reporting Standards (IFRS). The results are unaudited. In 2005 Eurotel Praha was consolidated on a full basis. All amounts are in CZK million.

### Consolidated income statement

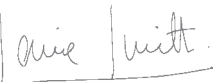
	Year ended 30 June 2005	Year ended 30 June 2004
Revenue	30,019	31,143
Operating expenses	(16,531)	(15,965)
Depreciation and amortisation	(9,196)	(10,441)
Impairment loss	(9)	-
<b>Operating profit</b>	<b>4,283</b>	<b>4,737</b>
Interest (net)	(436)	(629)
Other financial income (net)	71	239
<b>Profit before income tax</b>	<b>3,918</b>	<b>4,347</b>
Taxes on income (charge)	(1,362)	(1,018)
<b>Profit for the year</b>	<b>2,556</b>	<b>3,329</b>
<b>Attributable to:</b>		
<b>Equity holders of the Company</b>	<b>2,557</b>	<b>3,331</b>
Minority interest	(1)	(2)
Earnings per share (CZK) – basic*	8	10

\* There is no dilution of earnings as no convertible instruments have been issued by the Company.

## Balance sheet

	30 June 2005	31 December 2004
<b>ASSETS</b>		
Property, plant and equipment	92,392	98,835
Intangible assets	23,853	24,937
Available-for-sale investments	58	59
Held-to-maturity investments	31	31
Investments in associate	11	12
Other financial assets	216	217
<b>Non-current assets</b>	<b>116,561</b>	<b>124,091</b>
Inventories	596	843
Receivables and prepayments	9,050	8,428
Income tax receivable	285	166
Available-for-sale investments	-	117
Held-to-maturity investments	63	78
Cash and cash equivalents	973	480
<b>Current assets</b>	<b>10,967</b>	<b>10,112</b>
<b>Non current assets assigned to be sold</b>	<b>318</b>	<b>-</b>
<b>Total assets</b>	<b>127,846</b>	<b>134,203</b>
<b>EQUITY AND LIABILITIES</b>		
Ordinary shares	32,209	32,209
Share premium	30,816	30,816
Retained earnings and reserves	29,764	27,168
	<b>92,789</b>	<b>90,193</b>
<b>Minority interest</b>	<b>-</b>	<b>6</b>
<b>Total equity</b>	<b>92,789</b>	<b>90,199</b>
Borrowings	10,205	16,817
Deferred taxes	6,503	6,567
Non-current provisions for liabilities and charges	2,256	1,810
Non-current other liabilities	2	3
<b>Non-current liabilities</b>	<b>18,966</b>	<b>25,197</b>
Borrowings	6,326	8,665
Trade and other payables	8,379	8,784
Income tax liability	349	736
Provisions for liabilities and charges	1,037	622
<b>Current liabilities</b>	<b>16,091</b>	<b>18,807</b>
<b>Total liabilities</b>	<b>35,057</b>	<b>44,004</b>
<b>Total equity and liabilities</b>	<b>127,846</b>	<b>134,203</b>

These consolidated financial results were approved by the Board of Directors on 20 July 2005 and were signed on its behalf by:



Jaime Smith Basterra  
Chairman of the Board of Directors  
and Chief Executive Officer



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

## Consolidated cash flow statement

	Year ended 30 June 2005	Year ended 30 June 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	13,808	14,369
Interest paid	(167)	(366)
Interest received	25	51
Income tax paid	(1,935)	(1,410)
<b>Net cash from operating activities</b>	<b>11,731</b>	<b>12,644</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(1,981)	(2,972)
Purchase of intangible assets	(679)	(154)
Disposal of property, plant and equipment	70	279
Proceeds from marketable securities	125	215
<b>Net cash used in investing activities</b>	<b>(2,465)</b>	<b>(2,632)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	4,485	11,312
Repayment of borrowings	(13,269)	(24,756)
Dividends – paid	-	(2)
<b>Net cash used in financing activities</b>	<b>(8,784)</b>	<b>(13,446)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>482</b>	<b>(3,434)</b>
Cash and cash equivalents at beginning of year	480	4,649
Effects of exchange rate changes	-	(1)
<b>Cash and cash equivalents at the year end</b>	<b>962</b>	<b>1,214</b>

## 5.2 Financial results of ČESKÝ TELECOM, a.s.

These financial results have been prepared in accordance with International Financial Reporting Standards (IFRS). The results are unaudited. All amounts are in CZK million.

### Income statement

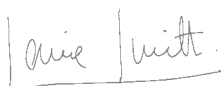
	Year ended 30 June 2005	Year ended 30 June 2004
Revenue	16,076	17,422
Operating expenses	(9,377)	(9,323)
Depreciation and amortisation	(6,581)	(7,323)
Impairment loss	(9)	-
<b>Operating profit</b>	<b>109</b>	<b>776</b>
Interest (net)	(450)	(659)
Other financial income (net)	3,038	4,121
<b>Profit before income tax</b>	<b>2,697</b>	<b>4,238</b>
Taxes on income (charge)	(278)	(159)
<b>Profit for the year</b>	<b>2,419</b>	<b>4,079</b>
Earnings per share (CZK) – basic*	8	13

\* There is no dilution of earnings as no convertible instruments have been issued by the Company.

## Balance sheet

	30 June 2005	31 December 2004
<b>ASSETS</b>		
Property, plant and equipment	73,260	78,162
Intangible assets	2,037	3,085
Available-for-sale investments	58	59
Held-to-maturity investments	31	31
Investments in associate	29,488	29,488
Other financial assets	122	119
<b>Non-current assets</b>	<b>104,996</b>	<b>110,944</b>
Inventories	237	266
Receivables and prepayments	5,341	5,233
Available-for-sale investments	-	117
Held-to-maturity investments	63	78
Cash and cash equivalents	91	214
<b>Current assets</b>	<b>5,732</b>	<b>5,908</b>
<b>Non current assets assigned to be sold</b>	<b>318</b>	<b>-</b>
<b>Total assets</b>	<b>111,046</b>	<b>116,852</b>
<b>EQUITY AND LIABILITIES</b>		
Ordinary shares	32,209	32,209
Share premium	30,816	30,816
Retained earnings and reserves	18,030	15,604
<b>Total equity</b>	<b>81,055</b>	<b>78,629</b>
Borrowings	10,205	16,817
Deferred taxes	3,687	3,686
Non-current provisions for liabilities and charges	3,393	2,829
Non-current other liabilities	2	3
<b>Non-current liabilities</b>	<b>17,287</b>	<b>23,335</b>
Borrowings	6,326	8,665
Trade and other payables	5,360	5,241
Income tax liability	348	736
Provisions for liabilities and charges	670	246
<b>Current liabilities</b>	<b>12,704</b>	<b>14,888</b>
<b>Total liabilities</b>	<b>29,991</b>	<b>38,223</b>
<b>Total equity and liabilities</b>	<b>111,046</b>	<b>116,852</b>

These financial results were approved by the Board of Directors on 20 July 2005 and were signed on its behalf by:



Jaime Smith Basterra  
Chairman of the Board of Directors  
and Chief Executive Officer



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

## Cash flow statement

	Year ended 30 June 2005	Year ended 30 June 2004
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash generated from operations	7,488	7,830
Interest paid	(167)	(366)
Interest received	14	19
Income tax paid	(667)	(95)
<b>Net cash from operating activities</b>	<b>6,668</b>	<b>7,388</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(828)	(1,051)
Purchase of intangible assets	(378)	(154)
Disposal of property, plant and equipment	64	277
Proceeds from marketable securities	125	215
Dividends received	3,000	4,000
<b>Net cash used in investing activities</b>	<b>1,983</b>	<b>3,287</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from borrowings	4,485	11,312
Repayment of borrowings	(13,269)	(23,611)
Dividends – paid	-	(2)
<b>Net cash used in financing activities</b>	<b>(8,784)</b>	<b>(12,301)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(133)</b>	<b>(1,626)</b>
Cash and cash equivalents at beginning of year	214	1,667
Effects of exchange rate changes	(1)	1
<b>Cash and cash equivalents at the year end</b>	<b>80</b>	<b>42</b>





### Shareholder structure of ČESKÝ TELECOM as at 30 June 2005:

Telefónica, S.A.	51.1%
Investment funds and individual shareholders	48.9%

### Privatisation of the company

On 16 June 2005, the privatisation of the 51.1% stake held by the National Property Fund (NPF) of the Czech Republic to Telefónica, S.A. (Telefónica) was concluded. Based on the results of a tender where Telefónica bid the highest purchase price (CZK 82.6 billion, i.e. CZK 502 per share), the NPF and Telefónica signed the sale and purchase agreement relating to the transfer of the majority shareholding on 12 April 2005. Telefónica subsequently deposited 10% of the purchase price; the remaining 90% was paid on 16 June 2005, when the NPF effected the actual transfer of shares. Telefónica thus became the majority shareholder of ČESKÝ TELECOM.

### Trading in ČESKÝ TELECOM shares

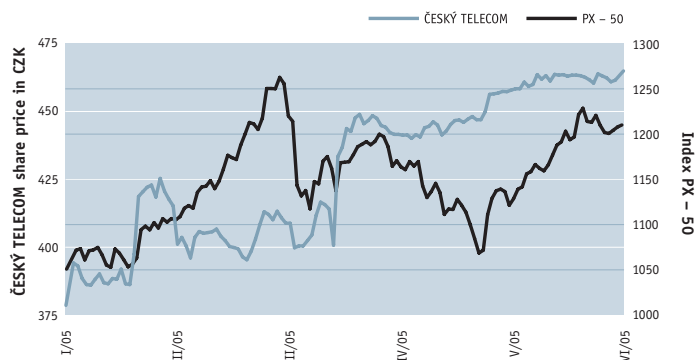
Also in the first half of 2005, ČESKÝ TELECOM shares ranked among the most liquid stocks at the Prague Stock Exchange (PSE), measured by the traded volume of shares. In April 2005, after the results of the tender for the acquisition of 51.1% of the shares of the company were announced, the traded volume of ČESKÝ TELECOM shares represented 50–70% of the daily trading on the PSE. The average volume of daily trades in the first half of 2005 was CZK 1,361 million, compared to CZK 416 million in the same period of last year. As at 30 June 2005, market capitalisation was CZK 150 billion.

ČESKÝ TELECOM's share price on the PSE reached CZK 465.70 as at 30 June 2005, representing 26% more than at the beginning of 2005 and a full 46% more than at the end of the first half of 2004. It was, at the same time, the highest price in the first half of 2005.

ČESKÝ TELECOM shares are also traded on the London Stock Exchange (LSE) in the form of Global Depository Receipts (GDR). The average price of these GDRs in the first half of 2005 reached USD 17.30, and at the end of the period it was USD 18.76.

### General Meeting of Shareholders

A General Meeting of Shareholders was held in Prague on 23 June 2005. Information on the course and conclusions of the General Meeting of Shareholders is given in Section 4 – Corporate Governance of this Half-Year Report.



Share price development on PSE – 1st half of 2005

### Institutional investors and shareholders may contact:

**Investor Relations:** Tel.: +420 271 462 120, fax: +420 271 469 825, e-mail: [investor.relations@ct.cz](mailto:investor.relations@ct.cz)  
Address: ČESKÝ TELECOM, a.s., Olšanská 5/55, 130 34 Praha 3, URL: [www.telecom.cz](http://www.telecom.cz)



<b>ADSL</b>	Asymmetric Digital Subscriber Line
<b>ARPU</b>	(Average Revenue Per User) average monthly revenues from mobile services per user, excluding roaming visitors
<b>ATM</b>	(Asynchronous Transfer Mode) used for data, video and voice transmission
<b>Carrier Pre-selection</b>	a service of a sort individual code dialled to access the service of any provider of telecommunications services
<b>Carrier Selection</b>	a service of fixing codes for individual calls to access the service of any provider of telecommunications services
<b>CDMA</b>	(Code Division Multiple Access) a modern digital network for Broadband Internet and wireless technologies
<b>Clip</b>	Caller Line Identification Presentation
<b>CTO</b>	Czech Telecommunications Office
<b>EBIT</b>	Earnings before Interest and Tax
<b>EBITDA</b>	Earnings before Interest, Tax, Depreciation and Amortisation
<b>EBT</b>	Earnings before Tax
<b>EDGE</b>	(Enhanced Data Rates for GSM Evolution) a fast data transmission technology
<b>Eurotel Data Expres</b>	a service of ČESKÝ TELECOM for high-speed Internet access
<b>Eurotel Data Speed</b>	a package which combines unlimited high-speed Internet via a fixed line and an economical mobile voice tariff
<b>Eurotel Data Nonstop</b>	a price plan of Eurotel for post-paid customers, offering unlimited mobile Internet access via GPRS
<b>Eurotel Mobile Exchange Plus</b>	a mobile solution for corporate customers on Microsoft Windows Mobile Platform
<b>Eurotel Pohoda</b>	a service designed for students, an economy package with substantial free airtime
<b>Eurotel Přepínám</b>	a service simulating a short-wave radio in a mobile telephone
<b>Eurotel Start</b>	a service limited to 30 days, offering a unique opportunity to try some services free-of-charge
<b>Eurotel Top SMS</b>	a new top-up package of Eurotel designed for post-paid customers, with free SMS on weekdays, holidays and weekend to all networks
<b>Expres Klik</b>	a new service of high-speed access via a telephone line, with the possibility of increasing the speed for 24 hours
<b>e-účt</b>	a bill for ČESKÝ TELECOM services, accesible on-line
<b>FMCA</b>	Fixed-Mobile Convergence Alliance
<b>GPRS</b>	(General Packet Radio Service) a technology for mobile data transmission
<b>GSM</b>	(Global System for Mobile Communication) the most widely deployed standard for digital mobile communication which globally uses frequencies of 450, 900, 1800 and 1900 MHz, and frequencies of 900 and 1800 MHz in the Czech Republic

<b>Hot Spot</b>	see Wi-Fi Hot Spot
<b>HSCSD</b>	(High-Speed Circuit-Switched Data) a technology for mobile data transmission in the GSM network based on switching of circuits
<b>Internet Expres</b>	a high-speed Internet service of ČESKÝ TELECOM, combined with economical voice tariffs, all for one flat monthly fee
<b>Internet Expres Doma</b>	a new range of high-speed Internet services via a telephone line
<b>Internet Business, Kombi, Mobil, Doma, Internet pro každého</b>	new range of high-speed Internet services via a mobile telephone
<b>IP Connect</b>	a service for IP protocol based data communication
<b>IP Connect Remote</b>	a service which lets customers access their corporate networks from any place via the Internet
<b>IP TV</b>	digital television
<b>IP VPN</b>	(Internet Protocol Virtual Private Network) a service for intra-corporate data or voice IP based communication
<b>ISDN</b>	(Integrated Services Digital Network) a digital network powering modern and quality services of telephony, Fast Internet and high-speed data transmission
<b>MOU</b>	an indicator – average minutes of use per month per user
<b>NPF</b>	National Property Fund of the Czech Republic
<b>OPEC</b>	Office for Protection of Economic Competition, an antimonopoly authority
<b>PSTN</b>	Public Switched Telephony Network
<b>SME</b>	a small or medium-sized enterprise
<b>SUALL</b>	Shared User Access to Local Loop
<b>Telefon xxx</b>	a price plan package of ČESKÝ TELECOM designed for residential customers, now offering new rates for domestic calls, dial-up and high-speed Internet
<b>UMTS</b>	(Universal Mobile Telecommunications System) a standard for the so-called 3rd generation mobile networks approved for use in Europe; the UMTS network will support a wide range of multimedia services (e.g. videoconferencing and high-speed data transmission)
<b>Wi-Fi</b>	a technology for wireless Internet access
<b>Wi-Fi Hot Spot</b>	a service of ČESKÝ TELECOM for wireless Internet access using mutual roaming with Eurotel



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Telephone Services Centre: 800 123456  
CIN: 60193336  
www.telecom.cz

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

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