

annual report 2002

02



contents

company profile	02
company's ownership structure	03
directors and officers	04
key events of the year 2002	05
report of the board of directors	06
select financial indicators	09
company finance	10
aliateľ's services	11
telecommunication network and information systems	13
company management and quality	14
employees	14
company prospects	15
Aliateľ Slovakia	16
supervisory board report	17
auditor's report to the annual report	18
financial part	
consolidated financial statements	20
financial statements	36
report on relationship among persons related/linked	52

company profile

Aliatel a. s., Sokolovská 131/86, 186 00 Prague 8, company registration no.: 61058904, Tax ID no.: 008-61058904
A joint-stock company entered in the Trade Register maintained by the Municipal Court in Prague, section B, insert 3988.
Supplied services: telecommunication services (voice, data and Internet)

Vision

Aliatel is the preferred partner for those who consider high-level quality telecommunications as a must.

Mission

Our mission is to provide our customers with a certainty and background of professional telecommunications services of the highest quality.

Company Profile

Aliatel a. s. was founded on 13 May 1996 as a joint telecommunication project drawn up by eight Czech electricity utilities. Two years later (in April 1998), the company found a new investor in the form of a foreign partner – German-based RWE Telliance AG (now RWE Com GmbH & Co. OHG), which is part of RWE AG, one of the strongest West European holdings in terms of capital. In the same year (1998), Aliatel made its way on to the Czech telecommunication market with its first – data – services. In 2000, the range of services was expanded to include Internet services, and a year later Aliatel made a forceful entry on the partially liberalized market of public voice services. Company services are offered to two primary customer groups – businesses and telecommunication operators. Corporate clients include manufacturers, service providers, banks, state institutions and the media.

Aliatel currently delivers a full range of guaranteed top-quality data, telephone and Internet services. Quality is an essential core requirement of company services – Aliatel was the first to introduce guaranteed QoS on the Czech market and was the first land-line operator to be awarded the ISO 9001 quality certificate.

Aliatel Brand, Position on the Market, Attributes

Three attributes comprise the basis of the long-term concept of brand-building: **quality and reliability** (state-of-the-art telecommunication services, most up-to-date technology, guaranteed quality) and **customer relations** (we deal with customers as business partners, fully respect them, understand their needs and act friendly toward them).

The competitive advantages of Aliatel's brand includes the provision of comprehensive high-reliable services, a state-of-the-art backbone network (the second longest in the Czech Republic utilizing the most up-to-date DWDM technology), an elaborate customer care system (offer flexibility, transparent communication, SLA, QoS, on-line information), price competitiveness and a solid image.

Yet **we still must work on** significantly distinguishing the Aliatel brand from the brands of other alternative operators and on increasing general awareness of services provided by Aliatel.

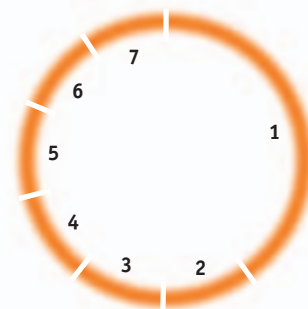
company's ownership structure

The company's registered capital as of 31 December 2002 stood at TCZK 2,807,130. On Dec 18, 2002 the increase of registered capital of CZK 464,990,000, which was decided on by the general meeting of Sept 27, 2002, was fully paid. Upon the increase the registered capital of the company has amounted to CZK 3,272,120,000, but as of Dec 31, 2002 the above-mentioned increase in registered capital of the company had not yet been entered into Trade Register.

Shareholder Structure as of 31. 12. 2002

Shareholder	No. of shares (*)	Stake in %
(1) RWE Com GmbH & Co. oHG	112,286	40.00
(2) Jihočeská energetika, a.s.	29,006	10.33
(3) Jihomoravská energetika, a.s.	29,008	10.33
(4) Severomoravská energetika, a.s.	29,007	10.33
(5) Západočeská energetika, a.s.	29,007	10.33
(6) Severočeská energetika, a.s.	26,199	9.33
(7) Pražská energetika, a.s.	26,200	9.33
Total	280,713	100.00

(*) Company shares have a par value of CZK 10,000



Aliatel a. s. General Meetings in 2002

■ Extraordinary General Meeting, 22 February 2002:

- approved the signing of a loan agreement with Commerzbank AG
- approved the issuing of bonds in the total amount of CZK 1.98 billion
- approved increase of registered capital of subsidiary Aliatel Slovakia, s.r.o. by SKK 6.7 million

■ Regular General Meeting, 12 June 2002:

- approved the board of directors' report on the company's business activities
- approved financial statements for 2001
- approved the naming of Vladimír Galovič managing director of subsidiary Aliatel Slovakia, s.r.o.

■ Regular General Meeting, 27 September 2002:

- approved increase of registered capital by CZK 464,990,000

■ Regular General Meeting, 18 December 2002:

- approved company budget for Q1 2003
- dismissed Jiří Hubka from the company's board of directors 18 December 2002 (*)
- elected Petr Jůza as member of company board of directors from 18 December 2002 (*)
- dismissed Zdeněk Bauer from the company supervisory board as of 31 December 2002
- elected Roman Hodoši member of the company supervisory board from 1 January 2003

(*) At its meeting on 18 Dec 2002, the board of directors elected Josef Havel as the new chairman of the board of directors.

The Regular General Meeting took place on April 10, 2003. The General Meeting adopted resolutions as follows:

- approved company budget for 2003
- approved company business plan for 2003 – 2008
- took a due note of the report of the Board of Directors on business activities of the company and the state of condition of its assets in 2002
- took a due note of the report of the Supervisory Board
- approved company annual financial statement for 2002
- dismissed Petr Jůza from the company's board of directors as of 10 April 2003
- elected Bernhard Fanger as member of company board of directors from 18 April 2003
- dismissed Tomáš Hüner from the company's supervisory board as of 10 April 2003 (*)
- elected František Kořínek as member of company supervisory board from 10 April 2003 (*)

(*) At its meeting on 10 April 2003, the supervisory board elected František Kořínek as the new chairman of the supervisory board.

directors and officers

Board of Directors:

(as of 31 December 2002)

- **Josef Havel** (1951), chairman
- **Susanne Küppers** (1966), vice-chairwoman
- **Engelbert Halm** (1956), member
- **Petr Jůza** (1970), member
- **Jan Saska** (1952), member
- **Zdeněk Šroubek** (1963), member

Supervisory Board:

(as of 31 December 2002)

- **Tomáš Hüner** (1959), chairman
- **Thomas Riemann** (1955), vice-chairman
- **Zdeněk Bauer** (1958), member (dismissed as of 31 December 2002)
- **Petr Kroupa** (1967), member
- **Stanislav Peleška** (1946), member
- **Jaroslav Vostárek** (1968), member

Management:

(as of 31 December 2002)

- **Jiří Hubka** (1947), Director General (dismissed as of 31 December 2002)
- **Petr Štajner** (1968), Director - Strategy
- **Petr Kroupa** (1967), Director of Engineering and Operations
- **Jaroslav Opat** (1959), Director of Finance
- **Vladimír Vácha** (1958), Director of Sales
- **Aleš Růžička** (1967), Director of Strategy Marketing and Product Management
- **Aleš Spáčil** (1966), Director of Customer Care

Roman Hodoší was elected a member of the Supervisory Board effective as of January 1, 2003.

Petr Štajner, Director of Strategy, was appointed acting Director General effective as of January 1, 2003.

Petr Jůza was appointed Director of Controlling effective as of March 1, 2003.

Petr Jůza was recalled from the Board of Directors effective as of March 1, 2003 and substituted by Bernhard Fanger effective as of the same date.

Tomáš Hüner was recalled from the Supervisory Board effective as of March 1, 2003 and substituted by František Kořínek effective as of the same date. Mr. Kořínek was elected Chairman of the Supervisory Board on the same day.

key events of the year 2002

■ February

In February 2002, Aliatel's General Meeting approved the form of the company's long-term financing through the combination of a bank loan and issuing of bonds. The total amount of CZK 3.3 billion in liabilities was covered largely by a bond issue; the remaining portion was covered by a loan from Commerzbank AG in the amount of CZK 1.32 billion.

■ April

Aliatel a. s. successfully completed the construction of new layers of the backbone transport network based on DWDM technology (Dense Wavelength Division Multiplexing).

■ May

The ceremonial opening of the Slovak branch Aliatel Slovakia, s.r.o. took place on 16 May 2002 in Bratislava. Its aim is to ensure the provision of comprehensive solutions for telecommunication services geared toward a business clientele.

■ June

Aliatel launched the pilot operation of carrier selection in co-operation with Český Telecom.

■ July

Aliatel became the first operator to enable its customers to utilize telephone services through carrier selection. The company provides its Business Call Smart telephone service, which includes local, long-distance and international calls, as well as calls to mobile networks, throughout the country.

■ August

Aliatel's headquarters in Prague 8 – Karlín is flooded during the August floods. Despite this, the company did not for even a moment cease surveillance of its network. Damages caused by the floods were for the most part covered by insurance.

■ September

The Regular General Meeting approved on 27 September 2002 an increase of the registered capital by CZK 464,990,000. According to research conducted by Deloitte & Touche Central Europe, which announced the results of the 3rd annual Fast 50 rankings, Aliatel a.s. placed among the 50 fastest growing technology companies in Central Europe.

■ December

On 18 December 2002, the company was issued, in successful certification renewal audit, an ISO 9001: 2000 certificate by SGS (the International Certification Services AG Zürich).

The company's updated business plan and budget for 2003 were discussed at Aliatel's Regular General Meeting on 18 December 2002. Shareholders also agreed on the extent of the second tranche of the bond issue and the amount of the loan drawdown for financing the company in 1H 2003 in compliance with the business plan for 2003 – 2008 and with the budget for 2003. The General Meeting also prolonged the maturity of shareholder loans.

The General Meeting's final point was the personnel changes in the company's board of directors and supervisory board. Jiří Hubka was dismissed from the position of member and chairman of the board of directors as well as from his position as director general of the company. Petr Jůza of ZČE was elected to the board of directors and Zdeněk Bauer of JME was dismissed from the supervisory board and replaced by Roman Hodoši of the same company.

Immediately following the General Meeting, Aliatel's Board of Directors meeting took place with its new members. Josef Havel of JČE, a.s. was elected chairman of the Board of Directors and Petr Štajner was named the current Director of Strategy by company management.

report of the board of directors

Report of the Board of Directors on Business Activities of the Company and the State of Condition of its Assets in 2002

Dear Shareholders, Dear Ladies and Gentlemen:

Within the past two years Aliatel a. s. has developed the position of a reliable operator providing modern and high-quality services. The company has won a strong position of a leading operator in the Czech telecommunication marketplace. The company has acquired a lot of interesting clients and achieved the biggest dynamics in terms of revenue growth of all alternative operators. A year-to-year growth of the volume of revenues generated by its own operations and services amounted almost to 52%.

From July 1, 2002 on Aliatel a. s. as the very first alternative operator has been providing the services based on the Carrier Selection (CS) principle. In combination with a special marketing action it had won a significant competitive advantage for six months that significantly impacted on the increase in a volume of revenues generated by voice services based on an indirect access.

As soon as the implementation of the Carrier Selection was successfully completed there commenced preparatory works in connection with the Carrier Preselection (CPS). The above-mentioned platform was launched in order to optimize cost and utilize a potential of the target marketplace of indirect voice services. In the beginning of January 2003 Aliatel a. s. launched a new variant of its Business Call Smart service that had utilized the above-mentioned principle.

Upon 6-month due preparation Aliatel a. s. succeeded in completing the renumbering of public telephone networks in the Czech Republic in time and without any technical or organizational problems impacting on the company's end-users.

In the course of the last year there had been added all remaining call destinations to the Business Call Direct service so this service had become fully comparable with the services provided by the dominant operator.

In 2002 a number of operators interconnected to Aliatel's network and actively cooperating doubled. The company also succeeded in grabbing a part of the outgoing international traffic from national mobile operators.

As for data services there were significant amendments to contractual documents made in Q1. There were also updated product sheets and sales processes. It enabled the company to have an individual approach to its customers. That is why the company succeeded in barring the overall impact of a price fall and improving the competitiveness of its individual services.

Within the first half of the past year there were some services extended by the offer of a lease and administration of CPE's. It helped to cover customer requirements much better than before. By the end of 2002 there was completed the price policy modification project impacting on services based on leased lines (price adjustment, decrease in a number of distance zones, etc.). The above-mentioned changes are believed to make the sales process far more effective.

Aliatel a. s. has extended its agreement on strategic cooperation within the territory of the Czech Republic concluded between and by Aliatel and Infonet for another period. Aliatel a. s. has also won the exclusive representation rights for the Slovak Republic.

As for Internet services there was extended an offer of the direct connection by the FWA option. Within the corresponding marketing campaign ("Internet for advantageous price") that was undertaken in cooperation with an access technology vendor Aliatel succeeded in acquiring a significant number of new customers in Q3 (the Speedline service).

The current offer of hosting services was extended by additional options (mailhosting, webhosting). It resulted in another increase in competitiveness of these services. By the end of the last year Aliatel managed an overall coverage of the dial-up Internet connectivity (Minutes Partner). It increased the volume of revenues significantly.

Despite the above-mentioned the company failed to achieve planned revenue increments within the area of data and Internet services. An improvement in terms of dynamics will have to remain the priority objective for 2003 as well.

Aliatel's daughter company Aliatel Slovakia, s.r.o. commenced its business activities in May 2002. Just during the very first days there was completed an interconnection with national providers as well as with the company PanTel doing business in Hungary. Besides Aliatel a. s. the most significant customers of Aliatel Slovakia are as follows: ON Semiconductor, UPS Slovakia, etc. The total volume of revenues generated by Aliatel Slovakia in the first year amounted to SKK 13.34 million. The company created a positive income from operations.

By the end of 2002 Aliatel a. s. undertook a re-certification audit of its quality management system. Upon successful completion the company was awarded the ISO 9001:2000 quality certificate.

As for the development of the telecommunication network there was completed an implementation of the DWDM technology on the backbone transport network in 2002. In addition there was empowered the international interconnection at the transport network level and increased the capacity of the national backbone network. Since April 2002 there has been incorporated a backbone node in Bratislava (Slovakia) into the backbone network. It enabled a provision of telecommunication services to the daughter company Aliatel Slovakia, s.r.o.

During the whole last year there was a data network distribution in progress in order to deploy data switches to all regional capitals. Before July 1, 2002 the technology was made capable of providing the important indirect voice services utilizing CS.

Thank to an extraordinary performance of Aliatel's staff during the savage flood in August 2002 the provision of telecommunication services was ensured from emergency spaces and redundant NCC with a minimum impact upon Aliatel's customers and reliability of services.

In 2002 Aliatel a. s. completed one of its most significant phases of its development – infrastructure rollout. In the past years the company had focused on a development of nationwide high-capacity network, purchase of state-of-the-art technologies, and system implementation. All these activities were fully focused on our customers to which we have intended to offer quality and reliable telecommunication networks since the very beginning. We may state that this task has already been discharged. Therefore we would like to concentrate on a development of supporting systems and activities requested by our customers. That is why we decided to launch a retaining program in the beginning of 2003 that would be focused on our key accounts.

In 2002 we identified areas in which there might be found out sources of additional income or reduction of financial expenditures. Well, it was not an easy task to accomplish. Moreover, it was connected with various unpopular saving measures impacting not only on operational and investment costs but also on payroll costs. A headcount was reduced to the optimum number. We have entered 2003 fully aware that these measures might repeat in the event that there would not be fulfilled all quotas determined by the Business Plan of the company. A strict saving regime has already proven to be successful; the management and staff are fully aware of a long-term positive impact of these steps.

By the end of 2002 General Meeting of the company recalled Mr. Jiří Hubka from the position of Chairman of the Board. Following up this decision the Board of Directors decided to recall Mr. Hubka from the position of Director General as well. Upon results of the tender the Board of Directors decided to appoint Mr. Bernhard Fanger a new Director General. He is supposed to come aboard by the end of H1/2003. It is essential for the company to be managed by a person with enough skills in the telecommunication business and fix-line networks who is also well acquainted with products, marketing and services.

A performance of the company depends not only on internal measures taken but also on measures taken towards our customers. Given an assumed increase in the customer database in 2003, anticipated additional tariff falls and very likely gradual reduction of average traffic per a customer Aliatel plans to change its sales strategy and fully utilize the most efficient and highly effective sales channels in order to ensure that the costs in connection with the customer acquiring would be as low as possible.

Owing to the fact that a long-term cooperation with our customers has been one of our long-term objectives we try to approach them on the individual basis, solve their requirements flexibly and effectively. One of the things we still have to find out is their primary needs and requirements for an establishment of new services. However, one of decisive factors for the selection of a new operator is the price. Therefore we have already decided to modify our pricing strategy in 2003

and introduce a sufficient number of alternate price plans to attract a maximum number of prospective customers within our target group. Besides the Business Call Direct service basic price plans per a connection there will be introduced combined price plans for the Business Call Direct and Business Call Smart services and other additional services. Subsequently we have been preparing so-called price plans for a customer (stimulating the customers to purchase as many Business Call Smart connections as possible and improving a competitiveness of Aliatel's offer). In the next two years Aliatel has to refocus on lower market segments. It might create prospective risks and a great number of requests for a modification of customer support processes.

Our main objective is to succeed in meeting the market demand in 2003 and retain its position of a leading provider of high-quality telecommunication services.

Let's turn the attention to the area of economy. Let me characterize the state of condition of the company's assets as of the end of the last year.

– **Income from operations**

Income from operations as of December 31, 2002 amounted to CZK (-)718,832,000 and it was in line with the plan.

– **Revenues generated by the sale of own goods and services**

The volume of revenues amounted to CZK 1,852,035,000. There was achieved the year-to-year growth amounting almost to 52%.

– **Extraordinary costs/incomes**

The year 2002 was affected by savage floods that were the primary source of extraordinary costs total amounting to CZK 171,889,000. The direct negative impact on the income from operations was compensated by an extraordinary income amounting to CZK 155,000,000 (the very part of it comprised insurance settlements). The rest of insurance payment will be paid in 2003.

– **Basic capital of the company**

Upon the decision of the General Meeting of September 27, 2002 the basic capital of the company was increased by CZK 464,990,000. The equity injection was paid in the form of a set off against unpaid parts of the shareholders' loans in December 2002.

– **Aliatel Slovakia**

In February 2002 Aliatel a. s. realized a financial investment into its daughter company Aliatel Slovakia, s.r.o. in the recalculated total amount of CZK 5,270,000 as of December 31, 2002. As of December 31, 2002 Aliatel Slovakia generated a profit before taxation amounting to SKK 313,000 owing to its commercial launch in May 2002.

– **Own capital**

Despite the increase in basic capital of the company the own capital fell down to TCZK 1,196,651.

– **Financing of the company**

In the course of the last year the financing of the company was almost steady without any significant problem. Besides revenues generated the company utilized additional external resources. On March 4, 2002 Aliatel a. s. entered into the securities market as the company issued its own 6-year bonds. Within the first tranche the company succeeded in placing the securities in the marketplace that amounted to a total nominal value of TCZK 1,058,160. As of the same date Aliatel a. s. drew down an amount of CZK 705,440,000 from a new 6-year loan facility provided by the Commerzbank. The above-mentioned external funds were used for a repayment of the shareholders' loans and financing operations of the company (on top of the revenues generated). So far Aliatel a. s. has got two shareholders' loans (provided by the shareholders PRE and SČE) amounting to a total of CZK 88,620,000.

– **Other economic data are subject of annual accounts.**

I would like to utilize this opportunity for thanking to all people that contributed to the successful development of our company – namely to Aliatel's staff, business partners and to you, the shareholders. I believe that our cooperation will continue in the years to come so we will be able to achieve the same results – or even better ones – as we did last year.



Josef Havel

Chairman of the Board of Directors, Aliatel a. s.

select financial indicators

		1997	1998	1999	2000	2001	2002
Production	(CZK million)	1	37	205	651	1,597	2,203
Revenues from own products and services	(CZK million)	1	37	188	630	1,219	1,852
Value added	(CZK million)	-36	-133	-104	113	275	341
Retained profit (loss) for the period	(CZK million)	-80	-290	-337	-355	-495	-719
Total assets	(CZK million)	138	966	1,633	2,329	3,403	3,952
Intangible & tangible assets & investments	(CZK million)	48	569	1,092	1,828	2,739	2,990
Own capital	(CZK million)	119	537	688	333	1,334	1,197
Capital	(CZK million)	215	810	1,310	1,310	2,807	3,272
Liabilities	(CZK million)	15	347	876	1,868	1,834	2,396
Capital expenditures	(CZK million)	43	542	645	1,071	1,319	897
Total staff (at year's end)	(number)	61	139	173	262	366	360

company finance

The Extraordinary General Meeting held on 18 December 2001 approved with final validity the financing for 2002 – 2008, which consists of an issue of publicly tradable bonds and from a long-term bank loan. The Extraordinary General Meeting approved on 22 February 2002 all necessary documents for the aforementioned form of financing. The necessary agreements, which stipulated the issue date, payment of the first tranche and the date of 4 March 2002 for the first loan drawdown, were also signed on 22 February 2002.

■ Description of long-term liabilities for financing

The bond issue in registered form to the bearer with a nominal value of CZK 10,000 was conducted on 4 March 2002 under the number ISIN CZ0003501280. A total of 105,816 bonds were placed on the market. This first tranche of the issue was purchased by select Czech owners of the company. The issue conditions allow for up to 330,000 bonds to be issued in the course of 2 years. The bonds bear a floating interest yield payable every 6 months and are to be paid off 4 March 2008. The main manager of the bond issue is CONSEQ Finance, and the bond issue administrator is ČSOB bank.

The loan agreement was signed with Commerzbank AG, Prague branch. This consists of a long-term loan with a maximum amount of CZK 1.32 billion. The loan agreement is valid until 4 March 2008 and is secured by a binding declaration of patronage issued by RWE Com GmbH & Co. oHG. This declaration is governed by German law.

Financial and Investment Risk Management

■ Business risks

Aliatel does business in a dynamic sector characterized by rapid changes in products and technology, and by a large number of competitors. In order to minimize the risk of losing competitiveness and to ensure fast growth, the company prioritizes investments in its own development, while ensuring it maintains a balance between short-term and lasting sustainable development. In this respect, gaining customers and increasing company competitiveness are key success factors.

A rising number of company customers also reduces the risk of posting financial losses due to the concentration on a single area of business relations. The company's goal-directed business policy with regard to suppliers has also led to a reduction in this risk and a simultaneous cut in average costs spent on acquiring fixed assets.

■ Financial risks

The exchange-rate risk is a significant financial risk for Aliatel. Other risks are interest rates, credit facilities, liquidity management, and control of contractual-partner risks. The company copes with all its financial risks in accordance with the financial policy adopted by the executive management and Board of Directors of the company. Under this policy, the short-term impacts are minimized and the conditions are formed for long-term solutions.

■ Currency risks

Exchange-rate fluctuations affect the company's income and expenditures. Therefore the company limited the number of foreign currencies used in customer and supplier billing to euros or US dollars; as of 2002 most of these payments were only made in euros. However, in terms of volume, the impact of these risks is not particularly severe because the company makes consistent use of payments in Czech crowns and the risk is covered by the creation of a reserve for exchange-rate losses. As a result, the value of the company's capital and shareholder's equity has not suffered.

■ Contractual-Partner risks

Over the year the company's management adopted several normative measures to implement a consistent system of credit-risk management.

Consistent monitoring and assessment of contractual payables and receivables, including investment risks, is now bearing fruit. The completion of the Credit Management system, including an effective means of safeguarding against investment risks, and the creation of optimum reserves to finance any costs arising is a task for 2003.

■ Operating and legal risks

All employees and management at the company are keenly focused on eliminating these risks in the environment of a developing telecommunication market. The impacts on company outlay and on cutting costs are the subject of ongoing analyses in this group of risks.

aliatel's services

Aliatel has taken advantage of the gradual liberalization of telecommunications in the Czech Republic to offer its customers a wider range of progressive and comprehensive solutions on a top-notch professional level. The company currently offers a full range of telecommunication services of the highest quality.

Data, voice and Internet services are prepared for the needs of large and small companies as well as for small entrepreneurs. Because of the maximum reliability and high territorial coverage offered by the company, Aliatel customers also include major national and international telecommunication operators.

Data Services

Aliatel provides a wide range of data services of the highest reliability and quality. The company provides the services in its own high-capacity, fully backed-up network. Thanks to the company's state-of-the-art technology, transmission parameters can be ideally set and services can thus be utilized for even the most demanding purposes. The traditional transmission capacity (64 kbps – 622 Mbps) can be expanded by up to 10 Gbps thanks to the offered lease of optical-multiplex capacities.

Data services include the following:

- Digital leased circuits – national and international circuits
- Frame Relay – data transmission service with a guaranteed capacity national and international
- ATM cell relay – high-speed data transmission service
- Transparent LAN – remote LAN connections
- Business IP – virtual private IP network for professional use

Voice Services

Aliatel offers a full range of public telephone services. The company uses the most up-to-date installation of classical circuit-switching technology and offers national and international calls to all destinations and to mobile networks as well as fax and data transmission. Supplementary services increase the comfort of telephone use.

The number of voice-services customers showed a marked increase in 2002. Aliatel became the first operator in the Czech Republic to offer indirect connection through Carrier Selection. Aliatel's telephone services are thus now available to an exponentially higher number of customers.

- Business Call Direct – direct connection services
- Business Call Smart – indirect connection services carrier selection by carrier code
- Profit Call – intelligent network services toll-free calling, with a shared and private tariff system

Internet Services

Aliatel's service offers also include all types of Internet services, whose key parameters are already guaranteed in the primary configuration. These services are used by companies, small entrepreneurs and other providers of connection (ISP), content (ICP) and applications (ASP). Minutes Partner is an exceptional service this is the lease of complete technological infrastructure for dial-up access to so-called virtual providers of the Internet.

- Speedline – fixed-line connection to Internet
- Connectivity Partner – connecting customers for local ISP
- Hotpilot – shared hosting lease of application environment on server
- House of Server – housing lease of space and data centre services
- Minutes Partner – comprehensive solution for virtual ISP dial-up

Services for Operators and Infonet Services

Aliatel provides telecommunication services to other major operators in the Czech Republic and abroad. The company's customers include telecommunication companies and national operators as well as local Internet providers. This is made possible by the exceptional range and quality of its telecommunication services, especially the operation reliability of:

- voice services – termination and transit of operation;
- telehousing – collocation and administration of telecommunication equipment;
- lease of high-capacity circuits and optical multiplex services for the backbone network;
- data services and leased circuits for the backbone network, international connections and for access networks.

These aforementioned factors clearly support the decision of the global network Infonet to choose Aliatel as its partner in the Czech and Slovak republics.

The Benefits of Aliatel's Services

Aliatel offers a Service Level Agreement (SLA) with all its services. This written guarantee is related to important parameters such as the service setup date, permanent service availability and the maximum repair time.

On-line info, the information service available on the company's website, is a standard feature provided free of charge for most services. Customers have immediate access to detailed information about the operation, charging and configuration of their services or the extent to which services have been set up.

Other Service Developments

Aliatel does its utmost to gain a perfect understanding of the requirements of specific customers based on their field and scope of business, tries to offer services at a top-class technological and qualitative level, and strives to provide professional customer care.

Carrier selection by carrier code and number portability will be introduced in voice services in 2003. This will lead to a further reduction in the price of services and to a facilitated transfer from the dominant operator.

In data services, we anticipate rapid growth in our Business IP service, a data service for versatile professional use. Aliatel runs this service on state-of-the-art technology which, unlike guarantees absolute security, reliability and optimum transmission conditions. Business IP allows specific parameters to be set for the operation of sophisticated applications, including voice, data and video transmission.

In 2003 the chance will appear to utilize ADSL technology in the access network of the dominant operator. This is of a primary importance for Internet connection with a lower and medium capacity for smaller companies and households. The next turning point will be the dominant operator's obligation to lease a local loop (LLU).

telecommunication network and information systems

The cornerstone of success for any telecommunication operator is an extensive telecommunication network. Aliatel, focusing on the most demanding customers, has had a long-term approach to the telecommunication network design and structure based on three criteria – the requirements of quality, effectiveness and flexibility.

- Quality is key specification when drafting complete network architecture. Individual network services and components are designed to meet the highest demands in terms of availability, error rates, and transmission delays. The core requirement of a quality infrastructure is a robust, backed-up backbone transmission network and highly reliable access lines.
- The easy servicing and maintenance of the Aliatel network makes it possible to achieve maximum operating and efficiency. All network components, including all access lines, are managed via monitoring systems that can remotely identify defects and control the network configuration.
- The flexibility of the Aliatel network means that implementing new services to meet market demand is simple, and the network can be modernized and its capacity enlarged without difficulty.

Select characteristics of the Aliatel telecommunication network in 2002

- Transport network makes use of over 10,500 km of fiber-optic pairs.
- Backbone transmission network featuring DWDM technology is the first of its kind among all operators in the Czech to be prepared to transmit capacity exceeding 1 Terabit/s (1,000 Gbps)
- The network is interconnected by multiple optical routes with all neighboring countries.
- Data network based on MPLS technology guarantees the quality of all data services including the shared environment of an Internet connection.
- Advanced technology in the telephone network allows for intense growth of the telephone operation; in 2002 over 250 million telephone calls were connected.

One proof of our proper concept in network infrastructure and operationally technical securing of services was the quality of critical services provided during last August's floods, in which these services were provided for numerous major customers and rescue system units damaged by the floods – often as the only alternative communication when the services of other operators had failed. In light of the extent of the floods, their impact on Aliatel's provided telecommunication services was minimal.

Information Systems in the Company

Aliatel specializes in effective use of modern information systems that enable it to effectively and with a high quality level serve a rapidly growing number of customers and respond promptly to market demands. In 2002, important developmental projects, including the billing system and CRM system, were completed. In addition to these projects, an integration platform supporting key customer-oriented service processes with regard to their effectiveness, accuracy and promptness was successfully introduced. The fact that during the year the number customers of Aliatel's telephone service increased nearly ten fold at year's end bears witness to the significance of the supported information systems in the company.

company management and quality

At the end of 2000 Aliatel a. s. – as the first telecommunication operator providing public telephony services in a fixed network – was awarded the ISO 9001 international quality certificate. Following a successful certification renewal audit, the company was issued an ISO 9001:2000 certificate by SGS (the International Certification Services AG Zürich).

Aliatel is a processed-managed company that focuses on full customer orientation as its top priority. This focus has required a change in the company's organizational structure, allowing the company to adapt better to the demands of current and future customers.

In 2002, the company made an active contribution to the activities of the Czech Association for Business Success (CAPU), of which it is a founding member. The mission of CAPU is to transfer modern management methods and instruments to the Czech Republic and to develop the long-term prosperity of Czech businesses.

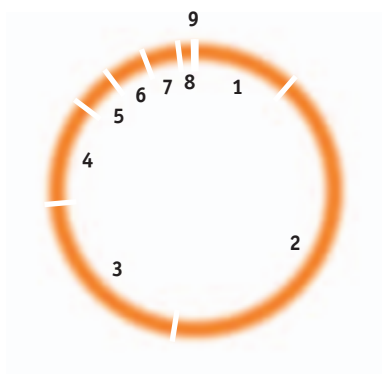
employees

Unlike the trend of previous years, Aliatel registered a slight reduction in its number of employees due to organizational changes. At the end of 2002 the total headcount stood at 366.

The company's human resources department focused namely on developing a corporate culture and a stabilization program.

Age bracket	Headcount
(1) 20 – 24	41
(2) 25 – 29	148
(3) 30 – 34	76
(4) 35 – 39	42
(5) 40 – 44	16
(6) 45 – 49	16
(7) 50 – 54	14
(8) 55 – 59	6
(9) 60 – 64	1

Education	Headcount
Secondary school	189
University	171



company prospects

For the upcoming years, Aliatel intends to continue to concentrate on solidifying its position on the Czech telecommunications market. Aliatel's aim is to be an automatic first alternative to services provided by the dominant operator and to distinguish itself namely by way of its high quality of provided services while maintaining attractive prices. The company intends to continue to focus on corporate customers and services for other operators and service providers, while remaining an attractive choice for more demanding customers in the household segment.

After several years of intensive development of the company's own infrastructure and support systems, the necessary coverage, service accessibility and support of main operating processes by the relevant information systems were achieved. The constant improvement in the effectiveness and performance of these processes will allow the company to achieve considerable growth in the number of customers, overall network operation and successfully satisfied customer requirements with relatively low incremental investment and operating costs. From a financial viewpoint, a markedly lower volume of overall investments can be expected, as can a substantial growth of the EBITDA indicator followed by an improvement in the company's economic results and an increase in key ROCE indicators.

The provision of voice services is among the company's main dynamically developing activities. Aliatel has forged an extremely strong position on the market of wholesale voice services and interconnection and intends to continue to solidify this position. Its growth of retail customers ranks among the highest in the Czech Republic. The company's aim is to continue to expand its range of voice services for end customers. It goes without saying that we will introduce new data and Internet services and the provision of comprehensive solutions for large customer or user oriented service packages for the segment of mid-size and small customers. Aliatel also intends to profit from the steadily growing base of customers using Internet services in this area. For the same reason Aliatel will continue to focus on the provision of not only basic low-speed connections, but also high-speed or broadband services.

The company's current results, current customer base, brand awareness and its appreciation among business customers, as well as its obtained year-on-year increases in revenues, form solid preconditions for fulfilling its ambitious plans.

Aliatel Slovakia

Aliatel Slovakia – Results of Activities for 2002

Aliatel Slovakia, s.r.o. is a subsidiary of Aliatel a. s., Prague. The company entered the Slovak telecommunications market in May 2002 in order to more effectively operate on it, and to support activities of the parent company in the Slovak Republic.

The company's managing directors are Pavel Henke and Vladimír Galovič. The Supervisory Board of Aliatel Slovakia, s.r.o. is named and dismissed by the board of directors of Aliatel a. s. In doing so, Aliatel a. s. exercises its ownership rights.

In order to conduct more efficient sales of telecommunication services in Slovakia, Aliatel Slovakia, s.r.o. utilizes the parent company's technical, marketing and business experience. Due to the increasing integration of the two companies' economies with regard to their joint entry to the European structure, interconnection from the Slovak Republic to the Czech Republic, and vice versa, is mostly frequently provided.

Both companies reimburse each other for all mutual services under normal market conditions. Aliatel Slovakia, s.r.o. conducts separate transparent double-entry accounting pursuant to the laws of the Slovak Republic, which is independently audited by an authorized auditor in compliance with Slovak law.

Aliatel Slovakia, s.r.o. began to run effectively in June 2002. After the construction of SDH circuits connected to the parent company's backbone network, several Aliatel a. s. customers moved over to the transmission media of the subsidiary Aliatel Slovakia, s.r.o. Customers were also first addressed in Slovakia in 2001. By the close of 2002 the company had already employed two telecommunication specialists.

In the first year of activities, the company's overall revenues reached SKK 13,340,000; added value in the amount of SKK 3,395,000 was created. After the payment of all liabilities owed to the parent company and to tax offices, a moderate profit was obtained.

The aim of Aliatel Slovakia, s.r.o. is to continue the positive trends established from its early activities and, assuming it is capable of self-financing all business activities without the participation of the parent company Aliatel a. s., to moderately develop its activities and to obtain a profit.

The company will also continue to support the activities of the parent company Aliatel a. s. in its activities in Slovakia in order to offer as broad a spectrum of services as it does in the Czech Republic. Aliatel Slovakia's own activities will remain geared toward data services with the aim to utilize as efficiently as possible technical capacities that have already been constructed. As for voice services, the legislative situation in the Slovak Republic still does not allow alternative operators to provide them efficiently. In the interest of both companies, we will carefully monitor further developments and react appropriately as soon as the situation allows us to.

The main motto of Aliatel Slovakia, s.r.o. is to protect Aliatel's interests in Slovakia and strengthen the awareness of the company's good name among Slovak customers. Although we're just a small company, we want to share in everything positive Aliatel as a whole brings.

supervisory board report

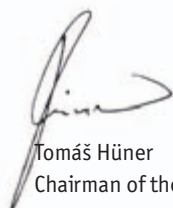
The Supervisory Board of Aliatel a. s. met in 2002 as and when required by the needs of the company.

At its meetings, the Supervisory Board reviewed and evaluated all material business decisions of the Board of Directors and management of the company with a maximum responsibility.

The Supervisory Board regularly discussed Aliatel's business concept, primarily taking into account a development of voice services, business activities of the company in the telecommunications marketplace and improvement of the company's effectiveness.

At its 54th meeting in April 2003 the Supervisory Board examined the company's audited regular and consolidated annual accounts and proposal for a coverage of losses incurred in 2002 and recommended that the shareholders adopt these documents as the General Meeting.

Furthermore, at the above-mentioned meeting the Supervisory Board also examined the Report on Relationships among Persons Related/Linked for the accounting period of 2002 pursuant to provisions set forth in Section 66a, Clause 9 of Commercial Code. The Supervisory Boards consents to conclusions set forth in this report.



Tomáš Hüner
Chairman of the Supervisory Board, Aliatel a. s.

auditor's report to the annual report

To the Shareholders of Aliatel a. s.:

We have audited the financial statements of Aliatel a. s. for the year ended 31 December 2002 in accordance with the Act No. 254/2000 Coll. on Auditors and the auditing guidelines issued by the Chamber of Auditors of the Czech Republic. Our audit included an examination of evidence supporting the financial statements and of the accounting policies and estimates used by management in their preparation. Our audit procedures were carried out on a test basis and with regard to the principle of materiality.

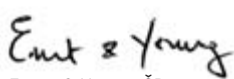
The management of Aliatel a. s. is responsible for maintaining accounting records and for preparing financial statements, which give a true and fair view of the assets, liabilities, equity, financial results and financial situation of Aliatel a. s. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit performed in accordance with this Act and the auditing guidelines.

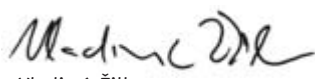
In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Aliatel a. s. as of 31 December 2002 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

We have also audited the prior year financial statements as of 31 December 2001 and 2000 and issued an unqualified report thereon dated 15 March 2002 and 22 March 2001, respectively.

The accompanying annual report for 2002 contains information about important matters related to the Company's financial statements, the evolution of its business and other matters. We have checked that the accounting information in the annual report is consistent with that contained in the audited financial statements as of 31 December 2002. Our work as auditors was confined to checking the annual report with the aforementioned scope and did not include a review of any information other than that drawn from the audited accounting records of the Company.

We have reviewed the information contained in the report on related parties, which was prepared in accordance with Section 66a of the Commercial Code. The Board of Directors is responsible for the complete and accurate presentation of the report. Our responsibility is to review the accuracy of the information included in the report. During our audit, nothing came to our attention that would cause us to believe that the information disclosed in the report was inaccurate. We did not review the completeness of the information presented in the report. In addition, we are unable to assess whether the relationships between related parties had an adverse affect on the Company. However, the management of the Company believes that all transactions between related parties were performed on an arm's length basis.


Ernst & Young ČR, s.r.o.
Karlovo nám. 10
120 00 Praha 2
License No. 401


Vladimír Žilka
License No. 1928

14 February 2003
Prague, Czech Republic

financial part

consolidated financial statements

together with report of independent public accountants

prepared in accordance with international financial reporting standards
as of December 31, 2002

financial statements for the year ended 31 December 2002

together with auditor's report

report on relationship among persons related/link

pursuant to provisions set forth at Article 66a, clause 9 of Act # 513/1991 Coll.
as amended (Commercial Code) for the fiscal period from January 1, 2002
to December 31, 2002

consolidated financial statements

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

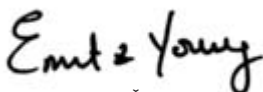
To the Board of Directors of Aliatel a. s.

We have audited the consolidated financial statements of Aliatel a. s. ("the Company") and its subsidiaries for the year ending December 31, 2002, which comprise the consolidated income statement, consolidated balance sheet, consolidated cash flow statement, consolidated statement of changes in equity and the related notes 1 to 21. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the consolidated financial statements give a true and fair view of the financial position of Aliatel a. s. and its subsidiaries as of December 31, 2002 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Without qualifying our opinion, we draw attention to Notes 1, 2 and 19 of the notes to the consolidated financial statements in which the Company describes conditions necessary for continuation of the Company's business and a solution for the future financing of the Company's development.



Ernst & Young ČR, s.r.o.

14 February 2003

Prague, Czech Republic

CONSOLIDATED INCOME STATEMENT FOR THE YEAR ENDED DECEMBER 31, 2002
(Czech Crowns - CZK in Thousands)

	Notes	2002	2001
Revenues: services	11	1,851,972	1,219,183
Cost of services	12	-1,138,874	-628,505
Gross profit		713,098	590,678
Selling, general and administration costs		-697,785	-598,506
Depreciation and amortization		-571,370	-469,666
Other operating income	13	224,927	56,845
Other operating expenses	13	-304,852	-66,012
Operating loss		-635,982	-486,661
Financial expenses, net		-84,263	-12,511
Loss before income tax provision		-720,245	-499,172
Income tax provision	14	-154	0
Net loss		-720,399	-499,172
Income (loss) per share - basic	15	-2,497.37	-1,951.70
Income (loss) per share - diluted	15	-2,497.37	-1,951.70

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY FOR THE YEAR ENDED DECEMBER 31, 2002
(Czech Crowns - CZK in Thousands)

	Number of Shares	Share Capital	Share Premium	Cumulative Translation Adjustment	Accumulated Deficit	Total
Balance - December 31, 2000	131,015	1,310,150	112,979	0	-1,084,828	338,301
Increase in share capital	149,697	1,496,970	0	0	0	1,496,970
Share premium cancellation	0	0	-112,979	0	112,979	0
Net loss	0	0	0	0	-499,172	-499,172
Change in cumulative foreign currency translation adjustment	0	0	0	0	0	0
Balance - December 31, 2001	280,712	2,807,120	0	0	-1,471,021	1,336,099
Increase in share capital	1	10	115,930	0	0	115,940
Share premium cancellation	0	0	-115,930	0	115,930	0
Conversion of shareholder's loan	46,499	464,990	0	0	0	464,990
Net loss	0	0	0	0	-720,399	-720,399
Change in cumulative foreign currency translation adjustment	0	0	0	94	0	94
Balance - December 31, 2002	327,212	3,272,120	0	94	-2,075,490	1,196,724

CONSOLIDATED BALANCE SHEET FOR THE YEAR ENDED DECEMBER 31, 2002
(Czech Crowns - CZK in Thousands)

	Notes	2002	2001
ASSETS			
NON-CURRENT ASSETS:			
Property, plant and equipment, net	3	2,578,509	2,440,231
Intangible assets, net	4	411,510	298,432
Long-term receivables		870	800
Total non-current assets		2,990,889	2,739,463
CURRENT ASSETS:			
Cash and cash equivalents	6	124,972	143,784
Accounts receivable and prepayments, net	5	646,805	299,626
Inventory		189,989	216,536
Total current assets		961,766	659,946
Total assets		3,952,655	3,399,409
SHAREHOLDERS' EQUITY AND LIABILITIES			
SHAREHOLDERS' EQUITY:			
Share capital	8	3,272,120	2,807,120
Cumulative translation adjustment		94	0
Accumulated deficit		-2,075,490	-1,471,021
Total shareholders' equity		1,196,724	1,336,099
NON-CURRENT LIABILITIES:			
Borrowings	7	1,763,600	0
Other		5	7
Total non-current liabilities		1,763,605	7
CURRENT LIABILITIES:			
Borrowings	7	88,620	1,376,760
Accounts payable and accruals	9	903,706	686,543
Total current liabilities		992,326	2,063,303
COMMITMENTS	10	0	0
Total shareholders' equity and liabilities		3,952,655	3,399,409

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2002
(Czech Crowns - CZK in Thousands)

	2002	2001
Cash flows from operating activities:		
Net loss	-720,399	-499,172
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation and amortization	571,370	469,666
Interest expense, net	80,441	1,946
Income tax provision	0	0
Change in cumulative foreign currency translation adjustment	94	0
(Gain) loss on sale of property, plant and equipment	-14,116	549
(Increase) in accounts receivable	-347,179	-58,871
(Increase) decrease in inventory	26,547	-39,100
Increase in accounts payable and accrued liabilities	235,568	291,269
Total adjustments	552,725	665,459
Net cash provided by (used in) operating activities	-167,674	166,287
Cash flows from investing activities:		
Purchase of property, plant and equipment	-837,939	-1,387,993
Sale of investments	0	510
Proceeds from sale of property, plant and equipment	29,329	9,992
Interest received	3,338	6,324
Net cash (used in) investing activities	-805,272	-1,371,167
Cash flows from financing activities:		
Issue of share capital	0	1,496,970
Proceeds from bank borrowings	705,440	0
Proceeds from issue of bonds	1,058,160	0
Repayment of short-term loans	-707,210	-237,762
(Increase) in long-term receivables	-70	-201
Decrease in other non-current liabilities	-2	-2
Interest paid	-102,184	-8,270
Net cash provided by financing activities	954,134	1,250,735
Net increase (decrease) in cash	-18,812	45,855
Cash at beginning of year	143,784	97,929
Cash at end of year	124,972	143,784

Aliatel a. s. and subsidiaries**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands of Czech Crowns – CZK thousand)****1. Organization and Operations**

Aliatel a. s. ("the Company" or "Aliatel" or "the Group" when referring to the consolidated group), a Czech joint stock company, was incorporated on May 13, 1996. The Company is involved in the provision of telecommunication services and the establishment, assembly and maintenance of telecommunication equipment and related services. The Company has its registered office at Sokolovská 131/86, 186 00 Praha 8, Czech Republic.

The subsidiary which was included with the Company in the consolidation as of December 31, 2002 is as follows:

Entity	Place of incorporation	Date of acquisition	Ownership interest
Aliatel Slovakia, s.r.o.	Slovakia	November 28, 2001	100%

The shareholders of the Company are as follows:

Name of legal entity	Registered seat	CZK	Share (%)
Jihočeská energetika, a.s.	České Budějovice, Lannova 16	338,110	10.33
Jihomoravská energetika, a.s.	Brno, Lidická 36	338,130	10.33
Pražská energetika, a.s.	Na hroudě 19, Prague 10	305,400	9.33
Severomoravská energetika, a.s.	Ostrava, 28. října 152	338,120	10.33
Severočeská energetika, a.s.	Děčín, Teplická 8	305,390	9.33
Západočeská energetika, a.s.	Plzeň, Guldenerova 19	338,120	10.33
RWE Com GmbH & Co. oHG	Hollestrasse 7b, Essen, Germany	1,308,850	40.00
Total		3,272,120	100.00

The average number of employees of the Group was 383 in 2002 and 319 in 2001.

The continuation of the Company's business depends on access to a fibre optic network in the Czech Republic which is owned by the Company's shareholders. Such access is governed by a rental agreement with a normal rental period of 20 years signed in 1998.

2. Significant Accounting Policies**General accounting policies**

The consolidated financial statements have been prepared from records originating and maintained in the Czech and Slovak Republics, the countries, in which the Company operates. The accounting principles followed in these records are those required by Czech and Slovak law. The accompanying financial statements are presented in accordance with International Financial Reporting Standards ("IFRS"), as published by the International Accounting Standards Board. They have been prepared by restating the Company's local financial statements (see Note 21) and are prepared on the historical cost basis.

The consolidated financial statements are prepared on a going concern basis as the management believe they have access to adequate financial resources to meet future operational requirements (see Note 19).

Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

The consolidated financial statements were authorized for issue by Ing. Josef Havel, Chairman of the Board of Directors, Ing. Jaroslav Opat, Director of Finance, and Ing. Marie Kurcová, Chief Accountant, on February 14, 2003.

Principles of consolidation

Subsidiary undertakings, which are those companies in which the Company, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to exercise control over the operations, have been consolidated. Subsidiaries are consolidated from the date on which effective control is transferred to the Company. All intercompany transactions, balances and unrealized surpluses and deficits on transactions between group companies have been eliminated.

Acquisitions of subsidiaries have been recorded using the purchase method of accounting. The Company's interest in the individual assets and liabilities acquired is recognized separately at the date of acquisition, and measured at their fair value as of that date.

Use of estimates

The preparation of the financial statements in conformity with International Financial Reporting Standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation. When assets are sold or retired, their cost and accumulated depreciation are eliminated from the accounts and any gain or loss resulting from their disposal is included in the income statement.

Cost includes the expenses incurred to acquire an asset at the time of its acquisition or construction. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

Depreciation is computed on a straight-line basis over the following estimated useful lives:

	Years
Freehold buildings	30 – 45
Telecommunication equipment	4 – 15
Other plant and equipment	4 – 8
Leasehold improvements	Lease term
Billing system	10
Intangible fixed assets	3 – 5

The useful life and depreciation method are reviewed periodically to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits from items of property, plant and equipment.

In 2002 the Company extended useful lives of certain tangible fixed asset groups from 4 to 6 years. As a result, the depreciation expense related to the affected assets in use as of December 31, 2001 was in 2002 lower by CZK 54,798 thousand compared to 2001.

Construction-in-progress represents plant and properties under construction and is stated at cost. This includes cost of construction, plant and equipment and other direct costs. Construction-in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount. The recoverable amount of property, plant and equipment is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation. The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Receivables

Receivables are initially measured at fair value of consideration given, carried at amortized costs and adjusted for uncollectable amounts based on an aging analysis of receivables and an estimate of their collectibility. Trade receivables are short-duration receivables with no stated interest rate and are measured at original invoice amount since the effect of imputing interest would be insignificant.

Inventories

Inventories, consisting of spare parts and consumables, are stated at the lower of cost and net realizable value. Cost includes the expenses incurred to bring each product to its present location and condition. Net realisable value is based on estimated selling price less the estimated costs necessary to complete the sale.

Cash and cash equivalents

Cash includes cash on hand and cash with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

Fair value of financial instruments

Management believes that the carrying value of the Company's financial instruments approximates fair value.

Taxation

In 2002 and 2001, corporate income tax was calculated in accordance with the Czech and Slovak tax regulations at a rate of 31% and 29%, respectively. Certain items of income and expense are recognized in different periods for tax and financial accounting purposes (see Note 14). The differences relate primarily to provision for doubtful accounts and fixed assets. Net tax operating losses can be carried forward to offset taxable income for 7 and 5 years in the Czech and Slovak Republic, respectively.

Certain items of income and expense are recognized in different periods for tax and financial accounting purposes. Deferred taxes are provided using the liability method whereby deferred tax assets are recognized for unused tax loss carryforwards and deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. The tax effects of these differences are reflected as deferred tax items.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of the revenue can be measured reliably. Revenues are recorded net of discounts and VAT based on the period of provision of the service.

Revenue related to provision of telephony, internet and data transfer services to customers are recognized in the period in which the related services are provided.

Activation revenues and activation costs are recognized in the period in which customers were acquired.

Borrowings and borrowing costs

Borrowing costs generally are expensed as incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized up to the point the related asset which is being financed is put into use. Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds.

Borrowings are initially recognized at the fair value of the proceeds received, net of transaction costs. They are subsequently carried at amortized costs using the effective interest rate method, the difference between net proceeds and redemption value being recognized in the net profit or loss for the period over the life of the borrowings.

Translation of foreign currency transactions

Transactions in foreign currencies are recorded at the fixed exchange rate ruling at the quarter of a year for all liabilities and at the date of the transaction for all receivables. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange rate ruling at the balance sheet date.

Exchange rate differences arising on settlement of transactions or on reporting foreign currency transactions at rates different from those at which they were originally recorded are included in the income statement as they occur.

Foreign currency translation

Financial statements for Aliatel's subsidiary outside the Czech Republic (the Slovak Republic) are translated into Czech Crowns at year-end exchange rates for assets and liabilities and weighted average exchange rates for income and expenses. The resulting translation adjustments are recorded as a separate component of shareholders' equity.

Provisions

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as an interest expense.

Subsequent events

Post-year-end events that provide additional information about the Company's position at the balance sheet date (adjusting events) are reflected in the financial statements. Post-year-end events that are not adjusting events are disclosed in the notes when material.

3. Property, Plant and Equipment

The composition of property, plant and equipment is as follows (in CZK thousands):

Cost	Freehold buildings	Machinery and equipment	Furniture and other assets	Tangibles in progress	Total
Balance as of December 31, 2001	287,587	1,915,461	390,603	536,685	3,130,336
Additions	163,509	746,713	65,468	242,096	1,217,786
Acquisitions/ disposals through business combinations	-	5,354	-	-	5,354
Disposals	-8,781	-289,083	-18,035	-473,233	-789,132
Transfers	204,857	230,883	-435,762	-	-
Balance as of December 31, 2002	647,172	2,609,350	2,274	305,548	3,564,344
Cost	Freehold buildings	Machinery and equipment	Furniture and other assets	Tangibles in progress	Total
Balance as of December 31, 2001	-28,985	-603,761	-57,359	-	-690,105
Additions	-39,518	-507,598	-64,038	-	-611,154
Acquisitions/ disposals through business combinations	-	-497	-	-	-497
Disposals	8,781	289,083	18,057	-	315,921
Transfers	-	-102,329	102,329	-	-
Balance as of December 31, 2002	-59,722	-924,102	-1,011	-	-985,835
Net book value as of December 31, 2002	587,450	1,684,248	1,263	376,413	2,578,509
Net book value as of December 31, 2001	258,602	1,311,700	333,244	536,685	2,440,231

As of December 31, 2002 and 2001, net book value of freehold buildings include CZK 241,098 thousand and CZK 204,857 thousand, respectively, of leasehold improvements.

4. Intangible Fixed Assets

The composition of intangible assets is as follows (in CZK thousands):

Cost	Software	Rights	Other intangibles	Intangibles in progress	Total
Balance as of December 31, 2001	243,081	41,534	1,473	107,165	393,253
Additions	299,085	-	67	25,846	324,998
Acquisitions/ disposals through business combinations	-	-	110	-	110
Disposals	-	-	-	-100,475	-100,475
Transfers	1,540	-	-1,540	-	-
Balance as of December 31, 2002	543,706	41,534	110	32,536	617,886

Accumulated amortization	Software	Rights	Other intangibles	Intangibles in progress	Total
Balance as of December 31, 2001	-81,353	-12,548	-920	-	-94,821
Additions	-97,561	-13,724	-254	-	-111,539
Acquisitions/ disposals through business combinations	-	-	-16	-	-16
Transfers	-1,174	-	1,174	-	-
Balance as of December 31, 2002	-180,088	-26,272	-16	-	-206,376
Net book value as of December 31, 2002	363,618	15,262	94	32,536	411,510
Net book value as of December 31, 2001	161,728	28,986	553	107,165	298,432

Software includes a billing system originally used for the processing and issuing of customer invoices for provided telecommunication services. The system was put into use in August 1999 and further appreciated in subsequent years. A new invoicing system was implemented in May 2002. The original system ceased to be actively used and serves as an archive for invoices issued. Therefore, the Company recorded a one-off amortization charge of CZK 24,522 thousand and the net book value of CZK 8,514 thousand will be amortized over 10 years, since the filed documents must be archived over 10 years.

5. Accounts Receivable and Prepayments

The composition of receivables and prepayments is as follows (in CZK thousands):

	December 31, 2002	December 31, 2001
Trade receivables	544,567	252,716
Amounts due from related parties (see Note 18)	3,352	1,029
VAT receivable	49,514	39,217
Other receivables	1,451	848
Prepaid expenses and accrued income	90,040	25,297
Less: reserve for doubtful debts	-42,119	-19,481
Total	646,805	299,626

Prepaid expenses and accrued income include particularly deferred payment of the insurance claim totalling CZK 75,000 thousand for damages caused by floods in August 2002. The amount was received in January 2003 (see Note 20).

6. Cash and Cash Equivalents

Included in cash is a restricted deposit in the amount of EUR 178 thousand or CZK 5,625 thousand which is pledged against a guarantee issued by ČSOB a.s. relating to an office rental contract. This cash is restricted until October 1, 2007.

7. Borrowings

Borrowings consist of the following (in CZK thousands):

	December 31, 2002	December 31, 2001
Current		
Loans from shareholders	88,620	1,376,760
Total current borrowings	88,620	1,376,760
Non-current		
Bonds	1,058,160	-
Bank loan	705,440	-
Total non-current borrowings	1,763,600	-
Total	1,852,220	1,376,760

Loans from shareholders

Loans from shareholders consist of the following (in CZK thousands):

	Maturity	December 31, 2002		December 31, 2001
		Total facility	Amount drawn down	Amount drawn down
RWE Com GmbH & Co.oHG	March 31, 2002	660,000	-	660,000
Jihočeská energetika, a.s.	March 31, 2002	362,210	-	295,710
Severočeská energetika, a.s.	June 30, 2003	87,710	44,310	87,710
Severomoravská energetika, a.s.	March 31, 2002	92,210	-	92,210
Pražská energetika, a.s.	June 30, 2003	87,710	44,310	87,710
Jihomoravská energetika, a.s.	March 31, 2002	92,210	-	92,210
Západočeská energetika, a.s.	March 31, 2002	92,210	-	61,210
		1,474,260	88,620	1,376,760

Interest rate on these loans is set at 140% of ČNB's discount rate as of the signature date. ČNB's discount rate ranged from 5.25% to 7.00% in 2002.

These loans are not secured by any collateral.

In agreement with the shareholders, the maturity date on the above loans was changed from March 31, 2002 to June 30, 2003.

Based on a General Meeting resolution, management prepared and executed a plan for long-term financing in the form of a bond issue and a loan contract signed with Commerzbank AG. The total sum for this long-term financing is CZK 4,650,000 thousand as set out below:

Bonds

The bonds are dematerialized, bearer bonds with a nominal value of CZK 10 thousand. The bonds were issued under number ISIN CZ0003501280 on March 4, 2002 and a total of 105,816 bonds were placed onto the market. Selected Czech shareholders of the Company purchased the first tranche of the issue. Under the issue terms up to 330,000 bonds may be issued. The bonds bear movable interest of PRIBOR + 1.7% and the yield is payable semi-annually.

The firm CONSEQ Finance was the chief manager of the issue and ČSOB a.s. was the issue administrator.

The bonds are repayable in 2008.

Bank loan

A contract for the provision of a loan was approved with Commerzbank AG, the Prague Branch, on February 28, 2002. The loan is long term. The loan bears interest of PRIBOR + 0.65% and is repayable on March 4, 2008.

The Letter of Comfort issued by one of the Company's shareholders, RWE Com GmbH & Co. oHG, secures the loan. The Letter of Comfort is governed by German legislation.

8. Share Capital

As of December 31, 2000, Aliatel had 131,015 ordinary shares outstanding with a nominal value of CZK 10 thousand and carrying one voting right each. All shares were fully paid.

On February 28, 2001, an Extraordinary General Meeting approved an increase in the registered share capital by CZK 1,496,970 thousand and to offset accumulated losses of CZK 112,979 thousand by the share premium.

Additionally, on June 22, 2001 the Annual General Meeting approved an increase in the registered capital by CZK 10 thousand in the form of the subscription of one new book-entered ordinary registered share. The issue rate of the share amounted to CZK 115,940 thousand. The reason for this step was to meet an obligation of the RWE Com GmbH & Co. OoHG to increase the registered capital provided that Aliatel a. s. obtains a telecommunication licence for the provision of public voice services.

Given the losses the Company incurred to date the share premium of the Company partially offset some of the accumulated losses brought forward.

This issue was not legally incorporated by the entry in the Register of Companies until February 2002.

As of December 31, 2001, Aliatel had 280,712 ordinary shares outstanding with a nominal value of CZK 10 thousand and carrying one voting right each. All shares were fully paid.

On September 27, 2002, the Annual General Meeting approved an increase in the registered capital by CZK 464,990 thousand by capitalization of a part of shareholder loans.

As of December 31, 2002, Aliatel had 327,212 ordinary shares outstanding with a nominal value of CZK 10 thousand and carrying one voting right each. All shares were fully paid.

As of December 31, 2002, Aliatel had no distributable earnings.

9. Accounts Payable and Accruals

The composition of trade and other payables is as follows (in CZK thousands):

	December 31, 2002	December 31, 2001
Trade payables	485,066	411,507
Accrued expenses	362,191	216,379
Advances from customers	-	16,005
Amounts due to related parties (see Note 18)	29,986	23,138
Taxes payable	12,957	9,442
Payables to employees	13,215	9,535
Other payables	291	537
Total	903,706	686,543

Accrued expenses represent primarily unbilled deliveries and services.

As of 31 December 2001 accrued expenses include the Company's liability to pay 5% of gross sales to the Czech Telecommunication Office with respect to granting of the licence for data transfer services and the rent of circuits totalling CZK 27,053 thousand. In 2002, the management successfully challenged this liability and as a result the accrual was released (see Note 13).

10. Commitments

Operating lease commitments

Rental expense for offices including services connected was CZK 54,571 thousand.

Future minimum rentals for offices (without services connected) under non-cancellable leases are as follows (in EUR thousands):

	2002	2001
Within one year	1,079	1,356
After one year but not more than five years	6,112	8,136
More than five years	-	1,356
Total	7,191	10,848

11. Revenues: Services

The composition of revenues is as follows (in CZK thousands):

	2002	2001
Voice	1,004,379	243,536
Data	795,406	956,432
Internet	49,375	18,467
Other	2,812	748
Total	1,851,972	1,219,183

12. Costs of Services

The composition of costs of services is as follows (in CZK thousands):

	2002	2001
Interconnect – usage national	412,567	137,031
Interconnect – usage international	337,329	54,958
Rent and telecommunications services	178,060	184,120
Multinational services – recurring fees	107,905	221,779
Other	103,013	30,617
Total	1,138,874	628,505

13. Other Operating Income and Expenses

In 2002, other operating expenses and income include CZK 160,794 thousand and CZK 155,000 thousand, respectively, representing costs of damages caused by floods in August 2002 and the related insurance claims.

Other operating income also includes a release of the accrual to the Czech Telecommunication Office of CZK 27,053 thousand.

14. Taxation

In the Czech and Slovak Republics, income taxes are calculated on an individual company basis since the tax laws do not permit consolidated tax returns. The Czech and Slovak Republics currently have a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include value added tax, corporate tax, and payroll (social) taxes, together with others. In addition, laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, implementing regulations are often unclear or nonexistent. Accordingly, few precedents with regard to issues have been established. Often, differing opinions regarding legal interpretations exist both among and within government ministries and organizations; thus, creating uncertainties and areas of conflict. Tax declarations, together with other legal compliance areas (as examples, customs and currency control matters) are subject to review and investigation by a number of authorities, who are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in the Czech and Slovak Republics substantially more significant than typically found in countries with more developed tax systems.

Management is convinced that it has adequately provided for tax liabilities in the accompanying financial statements; however, the risk remains that relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

The components of the income tax provision is as follows (in CZK thousands):

	2002	2001
Current expense	154	-
Deferred (benefit) expense	-	-
Total	154	-

A reconciliation of expected income tax provision for the year ended December 31, 2002, and 2001 is as follows (in CZK thousands):

	2002	2001
Net loss before income tax	-720,399	-499,172
Statutory income tax rate	31%	31%
Expected tax benefit	-223,324	-154,743
Add/deduct tax effect of:		
Non-taxable revenues	-	-9,369
Non-deductible expenses	39,775	17,654
Depreciation of fixed assets	-64,827	-66,148
Deferred tax not recognized on current year tax loss	247,889	211,413
Other	641	1,193
Income tax	154	-
Effective tax rate	-	-

At December 31, 2002 and 2001, deferred tax assets (liabilities) were comprised of the following (in CZK thousands):

	2002	2001
Deferred tax assets:		
Net operating loss carryforwards	864,341	616,576
Carrying value of assets lower than their tax value	13,491	6,272
Total deferred tax assets	877,832	622,848
Valuation allowance	-693,959	-479,244
Net deferred tax assets	183,873	143,604
Deferred tax liabilities:		
Fixed assets	-183,873	-143,604
Total deferred tax liabilities	-183,873	-143,604
Net deferred tax assets (liabilities)	-	-

Deferred tax assets are recorded at an amount which management believes will ultimately be realized. Realization of deferred tax assets is dependent upon sufficient future taxable income during the period that temporary differences and carryforwards are expected to be available to reduce taxable income. Management performed a review of the Company's deferred tax assets and elected to record a valuation allowance for a portion of the deferred tax assets.

Corporate tax liability and utilization of loss carryforwards are finalized annually in accordance with the laws valid in the Czech and Slovak Republics.

As of December 31, 2002, the Company had net operating loss carryforwards that are available to reduce taxable income in future years, as follows (in CZK thousands):

Losses expiring in	
2004	17,735
2005	76,944
2006	321,155
2007	393,095
2008 and further	1,979,269
	2,788,198

15. Acquisitions

Aliatel Slovakia, s.r.o.

On November 28, 2001, Aliatel established a subsidiary Aliatel Slovakia, s.r.o., a Slovak limited liability company. The total cost of the investment was CZK 5,263 thousand paid in cash which equaled to the fair value of net assets of Aliatel Slovakia, s.r.o.

Contribution to net profit for 2002 amounted to CZK 3 thousand.

16. Loss per Share

Basic loss per share is calculated by dividing the net loss by the weighted average number of shares of stock outstanding for the years ended December 31, 2002 and 2001, respectively.

Diluted losses per share for the years ended December 31, 2002 and 2001 are calculated the same way as there are no dilutive factors.

Loss per share for the years ended December 31, 2002 and 2001 was as follows:

	December 31, 2002		
	(Loss) (CZK thousands)	Weighted average number of shares	(Loss) per share (CZK)
Basic (loss) per share			
Net (loss) attributable to shareholder	-720,399	288,463	-2,497.37
Diluted (loss) per share			
Net (loss) attributable to shareholder	-720,399	288,463	-2,497.37
<hr/>			
	December 31, 2001		
	(Loss) (CZK thousands)	Weighted average number of shares	(Loss) per share (CZK)(CZK)
Basic (loss) per share			
Net (loss) attributable to shareholder	-499,172	255,763	-1,951.70
Diluted (loss) per share			
Net (loss) attributable to shareholder	-499,172	255,763	-1,951.70

17. Financial Instruments and Risk Management

Financial risk factors

The Company's activities expose it to a variety of financial risks, including the effects of changes in foreign currency exchange rates and interest rates and credit risk. Risk management is carried out under instructions approved by the Board of Directors.

Additionally, the continuation of the Company's business depends on access to a fibre optic network in the Czech Republic which is owned by the Company's shareholders. Such access is governed by a rental agreement with a normal rental period of 20 years signed in 1998.

Interest rate risk

Long-term debt with floating interest rates exposes the Company to interest rate risk. As of December 31, 2002 and 2001 long-term debt with floating rates of interest amounted to CZK 1,852,220 thousand and CZK 1,376,760 thousand, respectively (see Note 7).

Foreign exchange risk

The following table analyses assets and liabilities in foreign currencies at December 31, 2002 and 2001 by the currency (in thousand):

	Receivables		Payables	
	2002	2001	2002	2001
USD	1,068	1,246	886	133
EUR	5,378	2,889	1,744	586
GBP	-	-	1	2
SKK	34	32	158	48
XDR	86	63	-	39

The currency rate movements expose the Company to significant risk. In 2002 and 2001, the Company did not take any steps to mitigate the risk.

Credit risk

Credit risks, or the risk of counterparties defaulting, is controlled by the application of credit approvals, limits and monitoring procedures.

Counterparties to financial instruments consist, amongst other, of a number of prime financial institutions. The Company does not expect any counterparties to fail to meet their obligations, given their high credit ratings.

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties. The four largest customers of the Company accounted for 22.66% and 12.87% of trade accounts receivable as of December 31, 2002 and 2001, respectively.

The Company's maximum exposure to credit risk (not taking into account the value of any collateral or other security held) in the event the counterparties fail to perform their obligations as of December 31, 2002 in relation to each class of recognized financial assets, other than derivatives, is the carrying amount of those assets as indicated in the balance sheet.

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Company for similar financial instruments.

18. Related Party Transactions

During the year there were the following transactions with the Company's related parties. The pricing policies and terms of these transactions are approved by the Company's management.

The Company sells voice, internet and data services to its related parties. Sales for 2002 and 2001 were as follows (in CZK thousands):

Company	Nature	2002	2001
Západočeská energetika, a.s.	Shareholder	3,371	1,766
Jihočeská energetika, a.s.	Shareholder	7,075	6,435
Severomoravská energetika, a.s.	Shareholder	2,675	458
Jihomoravská energetika, a.s.	Shareholder	1,110	-
Severočeská energetika, a.s.	Shareholder	3,088	621
EN – DATA a.s.	Subsidiary of ZČE (100%)	1,150	212
Plzeňská energetika, a.s.	Subsidiary of ZČE (50%)	823	-
GEDOS Synergie a.s.	Subsidiary of JČE (49.5%)	-	405
		19,292	9,897

Amounts receivable from related parties were as follows (in CZK thousands):

Company	Nature	December 31, 2002	December 31, 2001
Západočeská energetika, a.s.	Shareholder	784	-
Jihočeská energetika, a.s.	Shareholder	611	608
Severomoravská energetika, a.s.	Shareholder	365	250
Jihomoravská energetika, a.s.	Shareholder	264	-
Severočeská energetika, a.s.	Shareholder	975	171
EN – DATA a.s.	Subsidiary of ZČE (100%)	233	-
Plzeňská energetika, a.s.	Subsidiary of ZČE (50%)	120	-
		3,352	1,029

The Company rents fibre network and purchases electricity from its related parties. Purchases for 2002 and 2001 were as follows (in CZK thousands):

Company	Nature	2002	2001
Západočeská energetika, a.s.	Shareholder	22,858	20,543
Jihočeská energetika, a.s.	Shareholder	18,841	16,571
Jihomoravská energetika, a.s.	Shareholder	21,609	18,431
Severomoravská energetika, a.s.	Shareholder	23,605	22,401
Severočeská energetika, a.s.	Shareholder	20,829	14,721
Pražská energetika, a.s.	Shareholder	12,077	8,198
Energetika Vitkovice, a.s.	Subsidiary of SME (100%)	108	-
		119,927	100,865

Amounts payable to related parties were as follows (in CZK thousands):

Company	Nature	December 31, 2002	December 31, 2001
Západočeská energetika, a.s.	Shareholder	4,784	4,071
Jihočeská energetika, a.s.	Shareholder	5,046	2,046
Severomoravská energetika, a.s.	Shareholder	6,253	2,103
Jihomoravská energetika, a.s.	Shareholder	5,553	12,305
Severočeská energetika, a.s.	Shareholder	6,113	1,807
Pražská energetika, a.s.	Shareholder	1,069	806
RWE Com GmbH & Co. oHG	Shareholder	61	-
SINIT	Subsidiary of SME (100%)	51	-
Energetika Vitkovice, a.s.	Subsidiary of SME (100%)	56	-
		29,986	23,138

There were no transactions with members of the Board of Directors in 2002 and 2001. No guarantees were provided on behalf of related parties in 2002 and 2001.

The Company has also loans from related parties (see Note 7).

19. Management Plans for Company

The Company has made recurring losses and as of December 31, 2002 its accumulated deficit reached CZK 2,075,490 thousand. Management plans to grow sales by focusing on the Company's key services, which includes voice, data transfers and internet access. Management also plans to impose strict cost controls and achieve a full self funding of operating expenditures in 2003. The capital expenditures are expected to decrease in coming years and will be fully covered by the existing credit facilities.

20. Subsequent Events

In January 2003, The Company drew additional CZK 80,000 thousand of the long-term facility with Commerzbank AG.

In January 2003, a second tranche of bonds was issued in the amount of CZK 240,000 thousand.

In January 2003, the Company received a reimbursement from an insurance company for the damages caused by floods in August 2002 in the amount of CZK 75,000 thousand.

21. Reconciliation of Accumulated Deficit and Net Loss

The following table summarizes the differences in accumulated deficit and net loss between the Company's consolidated statutory accounts and International Financial Reporting Standards (IFRS) (in CZK thousands):

	2002	2001
Retained deficit per statutory accounts at end of year	-2,075,558	-1,472,659
Adjustments required by IFRS:		
Reversal of unrealized foreign exchange variances	-	1,638
Reversal of statutory deferred tax liability	68	-
IFRS accumulated deficit at end of year	-2,075,490	-1,471,021
Net loss per statutory accounts	-718,829	-495,325
Adjustments required by IFRS:		
Reversal of unrealized foreign exchange variances	-1,638	-4,094
Reversal of statutory deferred tax liability	68	-
Other	-	247
IFRS net loss	-720,399	-499,172

financial statements

AUDITORS' REPORT

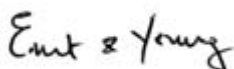
To the Board of Directors of Aliatel a. s.:

We have audited the financial statements of Aliatel a. s. for the year ended 31 December 2002 in accordance with the Act No. 254/2000 Coll. on Auditors and the auditing guidelines issued by the Chamber of Auditors of the Czech Republic. Our audit included an examination of evidence supporting the financial statements and of the accounting policies and estimates used by management in their preparation. Our audit procedures were carried out on a test basis and with regard to the principle of materiality.

The management of Aliatel a. s. is responsible for maintaining accounting records and for preparing financial statements, which give a true and fair view of the assets, liabilities, equity, financial results and financial situation of Aliatel a. s. Our responsibility is to express an opinion on the financial statements taken as a whole, based on our audit performed in accordance with this Act and the auditing guidelines.

In our opinion, the financial statements present, in all material respects, a true and fair view of the assets, liabilities, equity and financial position of Aliatel a. s. as of 31 December 2002 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

We have also audited the prior year financial statements as of 31 December 2001 and 2000 and issued an unqualified report thereon dated 15 March 2002 and 22 March 2001, respectively.



Ernst & Young ČR, s.r.o.

Karlovo nám. 10

120 00 Praha 2

License No. 401



Vladimír Žilka

License No. 1928

14 February 2003

Prague, Czech Republic

BALANCE SHEET - LONG FORM FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	LINE	Current year 2002			Prior year	Prior year
		Gross	Provisions	Net	2001	2000
TOTAL ASSETS	1	5,210,299	-1,258,675	3,951,624	3,402,818	2,328,679
A. STOCK SUBSCRIPTIONS RECEIVABLE	2	0		0	0	0
B. FIXED & FINANCIAL ASSETS	3	4,182,036	-1,191,698	2,990,338	2,738,818	1,827,504
B. I. Intangible assets	4	617,776	-206,360	411,416	298,432	219,919
B. I. 1 Expenses on foundation and organization	5	0	0	0	0	0
2 Research and development	6	0	0	0	0	0
3 Software	7	543,706	-180,088	363,618	161,728	122,463
4 Patents, rights and royalties	8	41,534	-26,272	15,262	28,986	1,245
5 Small and other intangibles	9	0	0	0	553	419
6 Intangibles in progress	10	25,485	0	25,485	100,475	91,008
7 Advances for intangibles	11	7,051	0	7,051	6,690	4,784
B. II. Tangible assets	12	3,558,990	-985,338	2,573,652	2,440,231	1,607,075
B. II. 1 Land	13	0	0	0	0	0
2 Constructions	14	647,172	-59,722	587,450	258,602	63,236
3 Separate movable items and groups of movable items	15	2,606,253	-925,599	1,680,654	1,314,209	833,945
4 Permanent growth	16	0	0	0	0	0
5 Livestock	17	0	0	0	0	0
6 Other tangible assets	18	17	-17	0	330,735	185,987
7 Tangibles in progress	19	302,209	0	302,209	533,110	513,720
8 Advances for tangibles	20	3,339	0	3,339	3,575	10,187
9 Adjustment to purchased property	21	0	0	0	0	0
B. III. Long-term financial assets	22	5270	0	5270	155	510
B. III.1 Majority shareholdings and participating interests (shareholdings > 50%)	23	5,270	0	5,270	155	510
2 Substantial shareholdings and participating interests (shareholdings of 20% - 50%)	24	0	0	0	0	0
3 Other long-term securities and deposits	25	0	0	0	0	0
4 Intergroup loans	26	0	0	0	0	0
5 Other long-term loans and financial assets	27	0	0	0	0	0
6 Financial assets in progress	28	0	0	0	0	0
7 Advance for long-term assets	29	0	0	0	0	0
C. CURRENT ASSETS	30	938,230	-66,977	871,253	645,059	481,372
C. I. Inventory	31	214,847	-24,858	189,989	216,537	155,671
C. I. 1 Materials	32	214,847	-24,858	189,989	216,537	155,671
2 Work-in-progress and semi-finished production	33	0	0	0	0	0
3 Finished products	34	0	0	0	0	0
4 Livestock	35	0	0	0	0	0
5 Goods	36	0	0	0	0	0
6 Advances paid	37	0	0	0	0	0

BALANCE SHEET - LONG FORM FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	LINE	Current year 2002			Prior year	Prior year
		Gross	Provisions	Net	2001	2000
C. II. Long-term receivables	38	870	0	870	800	599
C. II. 1 Trade and other receivables	39	870	0	870	800	599
2 Receivables from partners and associations	40	0	0	0	0	0
3 Receivables from related companies (shareholdings > 50%)	41	0	0	0	0	0
4 Receivables from related companies (shareholdings of 20% - 50%)	42	0	0	0	0	0
5 Other receivables	43	0	0	0	0	0
6 Deferred tax receivable	44	0		0	0	0
C. III. Short-term receivables	45	598,411	-42,119	556,292	284,093	227,173
C. III.1 Trade receivables	46	547,446	-42,119	505,327	244,528	183,938
2 Receivables from partners and associations	47	0	0	0	0	0
3 Receivables from social security	48	0	0	0	0	0
4 Receivables from taxes and subsidies	49	49,514	0	49,514	39,217	42,985
5 Receivables from companies (shareholdings > 50%)	50	0	0	0	0	0
6 Receivables from related companies (shareholdings of 20% - 50%)	51	0	0	0	0	0
7 Other receivables	52	1,451	0	1,451	348	250
C. IV. Financial accounts	53	124,102	0	124,102	143,629	97,929
C. IV. 1 Cash	54	431		431	1,301	903
2 Bank accounts	55	123,671		123,671	142,328	97,026
3 Short-term financial assets	56	0	0	0	0	0
4 Short-term financial assets in progress	57	0		0	0	0
D. OTHER ASSETS	58	90,033	0	90,033	18,941	19,803
D. I. Temporary accounts of assets	59	88,235	0	88,235	15,032	11,212
D. I. 1 Prepaid expenses	60	12,257		12,257	14,859	10,104
2 Unbilled revenue	61	75,978		75,978	173	1,108
D. II. Contingencies - gain (Estimated prepayments)	62	1,798		1,798	3,909	8,591
Control number	999	20,839,398	-5,034,700	15,804,698	13,607,363	9,306,125

BALANCE SHEET - LONG FORM FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	LINE	Current year	Prior year 2001	Prior year 2000
TOTAL SHAREHOLDER'S EQUITY & LIABILITIES	63	3,951,624	3,402,818	2,328,679
A. Shareholder's Equity	64	1,196,651	1,334,461	332,816
A. I. Basic capital	65	3,272,120	2,807,120	1,310,150
A. I. 1 Basic capital	66	2,807,130	2,807,120	1,310,150
2 Own shares	67	0	0	0
3 Changes in basic capital	68	464,990	0	0
A. II. Capital funds	69	92	0	112,979
A. II. 1 Share premium (agio)	70	0	0	112,979
2 Other capital funds	71	0	0	0
3 Revaluation of assets	72	92	0	0
4 Revaluation of merger	73	0	0	0
A. III. Funds created from profit	74	0	0	0
A. III.1 Legal reserve fund	75	0	0	0
2 Indivisible fund	76	0	0	0
3 Statutory and other funds	77	0	0	0
A. IV. Retained earnings	78	-1,356,729	-977,334	-735,292
IV. 1 Retained earnings of previous years	79	0	0	0
2 Retained losses of previous years	80	-1,356,729	-977,334	-735,292
A. V. Result of current accounting period	81	-718,832	-495,325	-355,021
B. LIABILITIES	82	2,396,216	1,834,335	1,868,344
B. I. Reserves	83	0	3,409	7,682
B. I. 1 Legal reserves (tax-deductible)	84	0	0	0
2 Reserves for corporate income tax	85	0	0	0
3 Other reserves	86	0	3,409	7,682
B. II. Long-term liabilities	87	1,058,165	7	9
B. II. 1 Long-term payables to related companies (shareholdings > 50%)	88	0	0	0
2 Long-term payables to related companies (shareholdings of > 20% - 50%)	89	0	0	0
3 Long-term deposits received	90	5	7	9
4 Bonds payable	91	1,058,160	0	0
5 Long-term notes payable	92	0	0	0
6 Other long-term payables	93	0	0	0
7 Deferred tax payable	94	0	0	0
B. III. Short-term liabilities	95	543,991	454,159	246,131
B. III.1 Trade payables	96	517,646	434,636	227,536
2 Payables to partners and associations	97	7	150	357
3 Payables to employees	98	13,132	9,385	6,205
4 Social security payable	99	8,520	6,694	4,349
5 Taxes payable	100	4,405	2,747	7,542
6 Payables to related companies (shareholdings > 50%)	101	0	0	0
7 Payables to related companies (shareholdings of 20% - 50%)	102	0	0	0
8 Other payables	103	281	547	142
B. IV. Bank loans and short-term notes	104	794,060	1,376,760	1,614,522
B. IV. 1 Long-term bank loans	105	705,440	0	0
2 Short-term bank loans	106	0	0	594,522
3 Short-term notes	107	88,620	1,376,760	1,020,000
C. OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES	108	358,757	234,022	127,519
C. I. Accruals	109	14,673	45,061	61,516
C. I. 1 Accruals	110	14,673	29,056	36,650
2 Deferred income	111	0	16,005	24,866
C. II. Contingencies - loss (Estimated accruals)	112	344,084	188,961	66,003
CONTROL NUMBER	999	16,181,244	13,917,636	9,603,734

PROFIT AND LOSS STATEMENT - LONG FORM FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	LINE	Current year 2002	Prior year 2001	Prior year 2000
I. Revenues from goods sold	1	0	0	0
A. Cost of goods sold	2	0	0	0
+ Gross margin	3	0	0	0
II. Operation	4	2,202,563	1,595,978	651,206
II. 1 Revenues from finished products and services	5	1,852,035	1,219,183	629,578
2 Changes in inventory	6	0	0	0
3 Capitalization (of own work)	7	350,528	376,795	21,628
B. Consumption from operation	8	1,861,308	1,321,436	537,931
B. 1 Consumption of material and energy	9	400,891	372,171	26,460
B. 2 Services	10	1,460,417	949,265	511,471
+ Value added	11	341,255	274,542	113,275
C. Personnel expenses	12	324,243	256,711	173,619
C. 1 Wages and salaries and earnings of partners and coop. members	13	232,191	183,392	124,082
C. 2 Bonuses to members of executive bodies of companies and coop.	14	2,834	2,975	3,142
C. 3 Social insurance and other expenses	15	82,406	64,827	43,375
C. 4 Statutory social expenses	16	6,812	5,517	3,020
D. Taxes and fees	17	26,357	32,595	47,230
E. Amortization of intangibles and depreciation of tangibles	18	570,748	467,075	223,785
III. Revenues from intangible and tangible assets and material sold	19	29,309	9,996	11,834
F. Net book value of intangibles, tangibles and material sold	20	15,193	9,447	12,265
IV. Reversal of reserves and prepaid expenses	21	0	7,682	0
G. Creation of reserves and prepaid expenses	22	0	0	0
V. Reversal of provisions	23	21,098	0	0
H. Creation of provisions	24	67,495	20,580	0
VI. Other operational revenues	25	4,513	26,128	446
I. Other operational expenses	26	39,009	11,705	7,979
VII. Transfer of operational revenues	27	0	0	0
J. Transfer of operational expenses	28	0	0	0
* Net operating results	29	-646,870	-479,765	-339,323
VIII. Revenues from sales of securities and deposits	30	0	0	0
K. Sold securities and deposits	31	0	0	0
IX. Revenues from long-term financial investments	32	0	0	0
IX. 1 Revenues from securities and deposits in companies in the group	33	0	0	0
2 Revenues from other long-term investment securities and deposits	34	0	0	0
3 Revenues from other long-term financial investments	35	0	0	0
X. Revenues from short-term financial assets	36	7,714	0	5

PROFIT AND LOSS STATEMENT - LONG FORM FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	LINE	Current year 2002	Prior year 2001	Prior year 2000
L.	Costs of financial assets	37	0	0
XI.	Revenue from revaluation of equity securities	38	0	0
M.	Costs of revaluation of equity securities	39	0	0
XII.	Reversal of financial reserves	40	3,409	0
N.	Creation of financial reserves	41	0	3,409
XIII.	Reversal of provisions	42	0	0
O.	Creation of provisions	43	0	0
XIV.	Interest revenues	44	3,338	6,324
P.	Interest expenses	45	83,779	8,270
XV.	Other financial revenues	46	18,944	16,823
Q.	Other financial expenses	47	31,790	28,361
XVI.	Transfer of financial revenues	48	0	0
R.	Transfer of financial expenses	49	0	0
*	Net result from financial activities	50	-82,164	-16,893
S.	Income tax on normal activity	51	0	0
S. 1	- due	52	0	0
S. 2	- deferred	53	0	0
**	Net result after taxes from normal activities	54	-729,034	-496,658
XVII.	Extraordinary revenues	55	182,091	2,465
T.	Extraordinary expenses	56	171,889	1,132
U.	Income tax on extraordinary activity	57	0	0
U. 1	- due	58	0	0
U. 2	- deferred	59	0	0
*	Net result from extraordinary activities	60	10,202	1,333
W.	Income distribution to partners	61	0	0
***	Net income (net loss) for the accounting period	62	-718,832	-495,325
	Result of operations before tax	63	-718,832	-495,325
	CONTROL NUMBER	99	7,508,629	5,292,151
				1,790,903

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 DECEMBER 2002
(Czech Crowns - CZK in Thousands)

	Current year 2002	Prior year 2001	Prior year 2000
P. Cash and cash equivalents at the beginning of the accounting period	143,629	97,929	40,191
Cash flow from main (operational) activity			
Z. Profit/loss from normal activity before taxes	-729,034	-496,658	-357,390
A. 1. Adjustments by non-cash transactions	705,704	571,583	288,570
A. 1. 1. Depreciation of fixed assets	570,748	467,075	223,785
A. 1. 2. Change in provisions, reserves and change in prepayments and accruals	68,639	103,093	60,131
A. 1. 3. (Profit) loss from sale of fixed assets	-14,124	-530	430
A. 1. 4. Dividends and profit revenues	0	0	0
A. 1. 5. Interest expense and revenue	80,441	1,945	4,224
A* Net cash flow from operational activity before taxes and before changes in working capital and extraordinary items	-23,330	74,925	-68,820
A. 2. Change in working capital	-1,444,029	-147,721	707,241
A. 2. 1. Change in receivables from operational activities	-272,269	-57,121	-137,006
A. 2. 2. Change in short-term payables from operational activities	-1,198,308	-29,734	990,441
A. 2. 3. Change in inventories balance	26,548	-60,866	-146,194
A** Net cash flow from operational activity before taxes and extraordinary items	-1,467,359	-72,796	638,421
A. 3. Interest paid	-102,184	-8,270	-6,643
A. 4. Interest received	3,338	6,324	2,419
A. 5. Tax on normal activity and additional tax of prior years	0	0	0
A. 6. Proceeds and disbursements related to extraordinary items	10,294	1,545	2,653
A*** Net cash flow from operational activity	-1,555,911	-73,197	636,850
Cash flow from investment activity			
B. 1. Fixed asset acquisition	-836,931	-1,387,993	-971,822
B. 2. Sale of fixed assets	28,787	9,922	11,834
B. 3. Loans to related parties	0	0	0
B*** Net cash flow from investment activity	-808,144	-1,378,071	-959,988
Cash flow from financial activity			
C. 1. Change in long-term liabilities	1,763,598	-2	776
C. 2. Impact of changes in equity	580,930	1,496,970	380,100
C. 2. 1. Capital and reserve fund increase	465,000	1,496,970	380,100
C. 2. 2. Refund of equity to shareholders	0	0	0
C. 2. 3. Monetary donations and subsidies to equity and other cash contributions of partners and shareholders	0	0	0
C. 2. 4. Settling of loss by shareholders	115,930	0	0
C. 2. 5. Direct payments debited to funds	0	0	0
C. 2. 6. Paid-out dividends and profit shares	0	0	0
C. 3. Dividends and profit shares received	0	0	0
C*** Net cash flow from financial activity	2,344,528	1,496,968	380,876
F. Net increase/decrease in cash	-19,527	45,700	57,738
R. Cash and cash equivalents at the end of the accounting period	124,102	143,629	97,929

NOTES TO THE FINANCIAL STATEMENTS

1. Description of the Company

Aliatel a. s. (hereinafter "the Company") is a Czech joint stock company established on 13 May 1996.

The Company's registered address is located in Prague 8, Sokolovská 86, Czech Republic. The Company's identification number (IČO) is 61058904. The Company is primarily engaged in the provision of telecommunication services and establishment, assembly and maintenance of telecommunication equipment.

The following changes were made by the Company to the Commercial Register in 2002:

- 22 May 2002** – increase in share capital by the subscription of one new share at a nominal value of 10 TKc, share issue rate 115,940 TKc, based on the extraordinary General Meeting decision dated 22 June 2001;
- 6 December 2002** – increase in the Company's share capital by 449,990 TKc based on the decision of the Annual General Meeting dated 27 September 2002.

The Company's shareholders are as follows:

Corporate body name	Registered address	Shareholding (in TKc)	Shareholding (%)
Jihočeská energetika, a.s.	České Budějovice, Lannova 16	338,110	10.33
Jihomoravská energetika, a.s.	Brno, Lidická 36	338,130	10.33
Pražská energetika, a.s.	Na Hroudě 19, Praha 10	305,400	9.33
Severomoravská energetika, a.s.	Ostrava, 28. října 152	338,120	10.33
Severočeská energetika, a.s.	Děčín, Teplická 8	305,390	9.33
Západočeská energetika, a.s.	Plzeň, Guldenerova 19	338,120	10.33
RWE Com GmbH & Co. oHG	Hollestrasse 7b, Essen, Germany	1,308,850	40.00
Total		3,272,120	100.00

The Company has not concluded a controlling agreement with RWE Com GmbH & Co. oHG.

The Company is included in its consolidated group.

Members of statutory and supervisory bodies at 31 December 2002 were as follows:

Board of Directors

Chairman:	Ing. Jiří Hubka
Vice-chairwoman:	Susanne Kúppers
Member:	Engelbert Halm
Member:	Ing. Jan Saska
Member:	Ing. Zdeněk Šroubek
Member:	Ing. Josef Havel

Ing. Jiří Hubka was recalled on 18 December 2002 and was replaced by Ing. Josef Havel. Ing. Petr Jůza was elected to the Board of Directors. These changes were not incorporated in the Commercial Register at 31 December 2002.

Supervisory Board

Chairman:	Ing. Tomáš Hůner
Vice-chairman:	Dr. Thomas Riemann
Member:	Ing. Zdeněk Bauer
Member:	Ing. Stanislav Peleška
Member:	Ing. Petr Kroupa
Member:	Ing. Jaroslav Vostárek

Ing. Zdeněk Bauer was recalled on 18 December 2002 with the effect as of 31 December 2002 and was replaced by JUDr. Roman Hodoši with the effect from 1 January 2003. The change was not registered in the Commercial Register at 31 December 2002.

2. Basis of Presentation of the Financial Statements

The accompanying financial statements were prepared in accordance with the Czech Law on Accounting and the relevant accounting procedures for entrepreneurs as applicable for 2002, 2001 and 2000.

Impact of law on accounting amendments

The impact of amendments to the Law on Accounting and to accounting procedures for entrepreneurs as of 1 January 2002 were reflected in net profit and loss in 2002 or in shareholders' equity as of 31 December 2002. For this reason, certain information in the financial statements is not comparable in full.

Data comparability

In connection with amendments to the Law on Accounting and to accounting procedures for entrepreneurs, the comparability of balances has been affected in the following areas:

Balance Sheet

In previous accounting periods, the balance sheet captions “Contingencies gain/loss” included unrealized foreign exchange rate differences. Starting in 2002, such differences are recognized/charged to income.

In previous accounting periods, the balance sheet caption “Other reserves” included reserves for unrealized foreign exchange rate differences. Starting in 2002, these reserves are no longer established.

Profit and Loss Statement

In previous accounting periods, extraordinary expenses and extraordinary revenues also included shortages and losses, and differences arising from inventory counts. Starting 2002, these items are reflected in other operating cost.

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in preparing the 2002, 2001 and 2000 financial statements are as follows:

Intangible fixed assets

Intangible fixed assets are valued at their acquisition cost and related expenses.

Low-value intangible fixed assets (with a cost between 10 and 60 TKc) are valued at their acquisition cost. They are amortised over their estimated useful lives that do not exceed four years.

Low-value intangible assets (with a cost between 3 and 10 TKc) are expensed and carried off-balance sheet.

Technical appreciation of intangible fixed assets with a cost exceeding 60 TKc for the period is capitalised.

Tangible fixed assets

Tangible fixed assets are recorded at their acquisition cost including freight, customs duties and other related costs.

Low-value tangible fixed assets (with a cost between 10 and 40 TKc) are depreciated over their estimated useful lives that do not exceed four years.

Low-value tangible assets (with a cost between 3 and 10 TKc) are expensed and carried in off-balance sheet.

The costs of technical improvements exceeding 40 TKc for the period are capitalised. Repairs and maintenance expenses are expensed as incurred.

If the net book value of an asset exceeds its recoverable amount, a provision is established for such an asset.

Depreciation

Depreciation is calculated based on acquisition cost and the estimated useful life of the related asset.

The estimated useful lives are as follows:	Years
Buildings, constructions	30 – 45 or over a lease period
Machinery and equipment	4 – 15
Vehicles	4
Furniture and fixtures	4 – 8
Other tangible fixed assets	2 – 4

In 2002 the Company extended useful lives of certain tangible fixed asset groups from 4 to 6 years. As a result, the depreciation expense related the affected assets in use as of 31 December 2001 was in 2002 lower by 54,798 TKc compared to 2001.

Financial assets

Short-term financial assets consist of liquid valuables, cash in hand and at bank and depository bills. The depository bills bear interest and are valued at cost that corresponds to their market value.

Inventory

Purchased inventory is valued at actual cost using the weighted average cost method. Costs of purchased inventory include related external costs (freight, customs duty, commission, etc).

Inventory has been reduced to its realizable value by a provision account.

Receivables

Receivables are carried at their realizable value after provision for doubtful accounts. Additions to the provision account are charged to income.

Shareholders' equity

The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained by the Regional Court. Any increase or decrease in the basic capital made pursuant to the decision of the General Meeting, which was not entered in the Commercial Register as of the balance sheet date, is recorded as "Changes in basic capital". Contributions in excess of the basic capital are recorded as share premium.

In the first year in which profit is generated, a joint-stock company should allocate 20% of profit after tax to the legal reserve fund. In subsequent years, the legal reserve fund is allocated 5% of profit after tax until the fund reaches 20% of basic capital. These funds can only be used to offset losses.

Loans

Short- and long-term loans are recorded at nominal value. Any portion of long-term debt, which is due within one year, is regarded as short-term debt.

Foreign currency transactions

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate existing at the transaction date and are adjusted at year-end to the exchange rates at 31 December as published by the Czech National Bank.

Realized exchange rate gains and losses were charged or credited, as appropriate, to income for the year. From 2002 unrealized exchange rate gains and losses are also recognized or charged, as appropriate, into income. In 2001 and 2000 these gains and losses were not recognized or charged, as appropriate, into income, until collection or payment of the related item occurred, and were included in other liabilities or other assets, as appropriate, in the accompanying balance sheet. Unrealized exchange rate losses were included as assets in the accompanying balance sheet and were offset by a reserve with a corresponding charge to income.

Recognition of revenues and expenses.

Revenues and expenses are recognized on an accrual basis, when the actual flow of the related goods or services occurs, regardless of when the related monetary or financial flow arises.

Foreseeable risks and losses are recorded as they become known.

Income tax

The corporate income tax expense is calculated based on the statutory tax rate and book income before taxes, increased or decreased by the appropriate permanent and temporary differences (e.g. non-deductible reserves and provisions, entertainment expenses, differences between book and tax depreciation, etc.).

The deferred tax position reflects the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes.

4. Fixed Assets

Intangible fixed assets (in TKc)

Cost

	At beginning of year	Additions	Disposals	Transfers	Total cost
Software	243,081	299,085	-	1,540	543,706
Patents, rights and royalties	41,534	-	-	-	41,534
Other intangibles	1,473	67	-	-1,540	-
Intangibles in progress	100,475	25,485	-	-100,475	25,485
Advances for intangibles	6,690	361	-	-	7,051
2002 Total	393,253	324,998	-	-100,475	617,776
2001 Total	256,759	321,940	-	-185,443	393,253
2000 Total	89,207	763,146	-	-595,594	256,759

Intangible assets include the TBMS invoicing system originally used for the processing and issuing of customer invoices for provided telecommunication services. The software was put into use in August 1999 and further appreciated in subsequent years. The new billing system GENEVA was implemented in May 2002. The original TBMS system ceased to be actively used and serves as an archive for invoices issued in the old system. Therefore, the Company recorded a one-off amortization charge of 24,522 TKc and the net book value of 8,514 TKc shall be amortized over 10 years, since the filed documents must be archived over 10 years.

The total value of small intangible fixed assets not reflected in the accompanying balance sheet was 241 TKc, 230 TKc and 181 TKc at acquisition cost as of 31 December 2002, 2001 and 2000, respectively.

Accumulated Amortisation

	At beginning				Total	Net
	of year	Additions	Disposals	Transfers	accumulated	book
					amortization	value
Software	81,353	97,561	-	1,174	180,088	363,618
Patents, rights and royalties	12,548	13,724	-	-	26,272	15,262
Other intangibles	920	254	-	-1,174	-	-
Intangibles in progress	-	-	-	-	-	25,485
Advances for intangibles	-	-	-	-	-	7,051
2002 Total	94,821	111,539	-	-	206,360	411,416
2001 Total	36,840	57,993	-12	-	94,821	298,432
2000 Total	14,346	22,494	-	-	36,840	219,919

Tangible Fixed Assets (in TKc)

Cost

	At beginning of year	Additions	Disposals	Transfers	Total cost
Constructions *	287,587	163,509	-8,781	204,857	647,172
Machinery and equipment	1,861,082	723,136	-279,392	230,905	2,535,731
Vehicles	54,379	23,577	-9,691	-	68,265
Furniture and fixtures	3,280	-	-1,023	-	2,257
Other tangibles *	387,323	65,468	-17,034	-435,740	17
Tangibles in progress	533,110	242,096	-	-472,997	302,209
Advances for tangibles	3,575	-	-	-236	3,339
2002 Total	3,130,336	1,217,786	-315,921	-473,211	3,558,990
2001 Total	1,934,619	3,479,944	-375,159	-1,909,068	3,130,336
2000 Total	1,143,770	1,903,936	-167,457	-945,630	1,934,619

Note: *) The 2000 and 2001 balances on accounts "Constructions" and "Other tangibles" were recalculated using the 2002 reporting method. Technical appreciation of rented buildings was reported within Other assets in prior years. In 2002 the technical appreciation is reported in the "Constructions" category.

Additions and disposals of assets do not agree to the respective account movements in the general ledger. Additions and disposals of assets include, apart from actual additions, i.e. acquisitions through purchase, capitalisation or disposal, amounts resulting from the corrections of accounting entries, transfers between accounts, etc. These movements impact the turnover on the accounts and result from limitations of the current accounting system.

The total value of small tangible fixed assets, which are not reflected in the accompanying balance sheet, was 56,723 TKc, 19,764 TKc and 12,321 TKc at cost as of 31 December 2002, 2001 and 2000, respectively.

Accumulated Depreciation

	At beginning of year	Depreciation of the year	Disposals	Transfers	Total accumulated depreciation	Net book value
Constructions	28,985	39,518	-8,781	-	59,722	587,450
Machinery and equipment	577,917	493,149	-279,392	102,329	894,003	1,641,728
Vehicles	25,844	14,449	-9,691	-	30,602	37,663
Furniture and fixtures	771	1,246	-1,023	-	994	1,263
Other tangibles	56,588	62,792	-17,034	-102,329	17	-
Tangibles in progress	-	-	-	-	-	373,074
Advances for tangibles	-	-	-	-	-	3,339
2002 Total	690,105	611,154	-315,921	-	985,338	2,644,517
2001 Total	327,544	411,673	-49,112	-	690,105	2,440,231
2000 Total	127,126	205,622	-5,204	-	327,544	1,607,075

Long-Term Financial Assets (in TKc)

Investment securities and investments in subsidiaries represent financial investment in Aliatel Slovakia, s.r.o. (in TKc):

	2002	2001
Percentage of ownership	100%	100%
Total assets	9,445	155
Shareholders' equity	5,275	155
Basic capital and capital funds	5,263	155
Funds created from profit	7	-
Retained earnings	-	-
Profit of current year	5	-
Acquisition cost	5,270	155
Nominal value of interest	5,270	155
Intrinsic value of interest	5,275	155

5. Receivables

Provisions against outstanding receivables that are considered doubtful were charged to income in 2002, 2001 and 2000, respectively (see Note 6).

Receivables overdue for more than 180 days totalled 35,640 TKc, 6,008 TKc and 1,002 TKc as of 31 December 2002, 2001 and 2000, respectively.

The Company has receivables from related parties (see Note 17).

6. Provisions

Provisions reflect a temporary diminution in value of assets (see Note 5).

Changes in the provision accounts (in TKc):

	Balance at 31. 12. 2000			Balance at 31. 12. 2001			Balance at 31. 12. 2002
Provisions	Increase	Decrease	Increase	Decrease	Decrease		
Inventory	1,099	-	1,099	24,858	-1,099	24,858	
Receivables statutory	2,287	-	2,287	22,939	-1,769	23,457	
Receivables - other	17,194	-	17,194	18,662	-17,194	18,662	
Total	-	-	19,481	-	-	42,119	

Statutory provisions are created in compliance with the Law on Reserves.

7. Other Assets

Prepaid expenses include mainly a rent of non-residential premises for the placement of the company's technology equipment, insurance expenses for technology and assets and costs for software maintenance. Another significant item represents a prepaid frequency allotment from the Czech Telecommunication Office.

Deferred income include particularly deferred payment of the insurance claim totalling 75,000 TKc for damages caused by floods in August 2002. The amount was received in January 2003 (see Note 18).

8. Shareholder's Equity

The basic capital of the Company is comprised of 327,212 dematerialized, non-marketable registered shares with a nominal value of 10 TKc. The movements in the capital accounts during 2002 and 2001 (in TKc):

Provisions	Balance at			Balance at			Balance at
	31. 12. 2000	Increase	Decrease	31. 12. 2001	Increase	Decrease	
Number of shares	131,015	149,697	-	280,712	46,500	-	327,212
Basic capital	1,310,150	1,496,970	-	2,807,120	10	-	2,807,130
Basic capital movements	-	-	-	-	-	-	464,990
Share premium	112,979	-	-112,979	-	115,930	-115,930	-
Unsettled loss B/F	-735,292	-355,021	112,979	-977,334	-495,325	115,930	-1,356,729

The Annual General Meeting held on 22 June 2001 approved a share capital increase of 10 TKc in the form of a subscription of a single new share. The rate of issue was 115,940 TKc. This decision was not entered in the Commercial Register as of 31 December 2001.

The entry was made in February 2002.

The Annual General Meeting held on 27 September 2002 approved a share capital increase by 46,499 shares with a nominal value of 10 TKc, i.e. by 464,990 TKc. This decision was entered in the Commercial register on 6 December 2002. The share capital was paid in the form of an offset with an unpaid portion of shareholder loans in December 2002. The share capital increase was not entered in the Commercial Register as of 31 December 2002.

9. Short-term Liabilities

As of 31 December 2002, 2001 and 2000, the Company had overdue short-term liabilities totalling 153,653 TKc, 13,359 TKc and 10,170 TKc, respectively. The Company has payables to related parties (see Note 17).

10. Long-term Liabilities

On 4 March 2002 the Company issued dematerialized bearer bonds with a nominal value of 10 TKc (ISIN CZ0003501280). A total number of 105,816 bonds were placed onto the market. Selected Czech owners of the Company purchased the first issue. Under the issue terms up to 330,000 bonds may be issued. The bonds bear floating interest of PRIBOR + 1.7% payable semi-annually. The bonds are repayable in 2008. CONSEQ Finance is the chief manager of the issue and Československá obchodní banka is the issue administrator. Bonds totalling 1,058,160 TKc were sold in March 2002.

11. Bank Loans and Short-term Notes

Bank	Terms	Total limit	Interest rate	2002	2001	2000
				Amount (in TKc)	Amount (in TKc)	Amount (in TKc)
Commerzbank AG	4. 3. 2008	1,320,000 TKc	PRIBOR+0.65%	705,440	-	-
Commerzbank AG and Creditanstalt AG	21. 3. 2001	34,000 TUSD	LIBOR+0.45%	-	-	594,552
Current portion				-	-	594,552
Payments in future years				705,440	-	-

At 31 December 2002 the Company had a long-term loan from Commerzbank A.G., the Prague Branch.

The total limit is 1,320,000 TKc. The Letter of Comfort issued by RWE Com GmbH & Co. oHG secures the loan.

The Company had short-term notes from shareholders (see Note 17).

12. Other Liabilities

Accrued expenses include particularly credit notes to customer invoices, which were issued in December 2002 or in January 2003 and were not submitted for processing. The credit notes amount to 14,077 TKc.

Estimated accruals consist of unbilled deliveries and services of 276,768 TKc, accrued interest on shareholder loans of 41,680 TKc and interest and fees on the long-term loan and bonds issued amounting to 25,636 TKc.

13. Assets and Liabilities Recorded Off-Balance Sheet

On 16 July 1997 the company signed a contract with former Investiční a poštovní banka (IPB) about the assumption of the guarantee resulting from the rental contract of 5 March 1997 signed with ZIRKON REAL, spol. s r.o. (the rent of non-residential premises, payments for energy and associated services) amounting to DEM 348,000. A contingent IPB's receivable from Aliatel a. s. with respect to the guarantee is secured by the Contract on the pledge of a collateral to the receivables signed on 16 July 1997. IPB's guarantee shall be provided from the date of signing the security deed until 1 October 2007. In 2001 following the assumption of IPB a depository revolving account was opened with CSOB. The amount was also converted to EURO (EUR 178,000).

In the course of 2002 bank guarantees for tenders were deposited within tender processes. The guarantees are short-term and returnable in case of unsuccessful tenders.

14. Income Taxes

(in TKc)

	2002	2001	2000
Loss before taxes	-718,832	-495,325	-355,021
Non-taxable revenues	-	-30,221	-11,038
Differences between book and tax depreciation	-209,118	-213,382	-160,601
Non-deductible expenses			
Creation of provisions	55,248	29,239	-
Other	73,058	27,710	28,813
Taxable income	-799,644	-681,979	-497,847
Current income tax rate	31%	31%	31%
Current tax expense	-	-	-

Pursuant the Income Taxes Act the Company can carryforward tax losses generated for up to seven years. The remaining tax loss carryforward from the years 1996 through 2001 the benefit of which has not been recognized in the accompanying financial statements, amounted to 1,988,954 TKc as of 31 December 2002. Tax losses generated in 2002 amounted to 799,644 TKc, cumulative tax losses as of 31 December 2002 amounted to 2,788,198 TKc. Tax losses will start expiring in 2004.

The Company calculated deferred tax on the basis of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for corporate income tax purposes, while taking into consideration the period of realization.

The Company quantified deferred taxes as follows (in TKc):

Deferred tax items	Base	Tax rate	2002		2001	
			Deferred tax asset	Deferred tax liability	Deferred tax asset	Deferred tax liability
Difference between net book value of fixed assets for accounting and tax purposes	-593,139	31%	-	-183,873	-	-143,604
Other temporary differences:						
Provision against receivables	18,662	31%	5,785	-	5,330	-
Provision against inventory	24,858	31%	7,706	-	340	-
Reserves	-	31%	-	-	1,057	-
Tax loss of previous years	2,788,198	31%	864,341	-	616,576	-
Total			877,832	-183,873	623,303	-143,604
Net			693,959	-	479,699	-

The Company has not recorded a deferred tax asset of 693,959 TKc. In 2000 the Company did not calculate a deferred tax asset.

15. Revenues

The breakdown of the Company's revenues from current activities is as follows (in TKc):

	2002		2001		2000	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Services	1,233,696	618,339	829,325	389,858	499,742	129,836

As of 31 December 2002, a significant portion of the revenues of the Company (39%) was concentrated primarily with 10 main customers in the telecommunication industry. These are both domestic and foreign telecommunication operators.

16. Personnel and Related Expenses

The breakdown of personnel expenses is as follows (in TKc):

	2002		2001		2000	
	Total Personnel	Management/ Executives	Total Personnel	Management/ Executives	Total Personnel	Management/ Executives
Average number of employees	383	6	319	5	209	5
Salaries and wages	232,191	19,465	183,392	14,789	124,082	12,757
Social insurance	82,406	6,813	64,827	5,176	43,375	4,465
Social expenses	6,812	128	5,517	84	3,020	36
Total personnel expenses	321,409	26,406	253,736	20,049	170,477	17,258

The members and former members of statutory and supervisory boards and management received total bonuses and other remuneration of 2,834 TKc, 2,975 TKc and 3,142 TKc in 2002, 2001 and 2000, respectively.

17. Related Party Information

No loans, guarantees or other benefits were granted to members of statutory bodies in 2002, 2001 and 2000 and they do not hold any shares of the Company. Short-term loans from shareholders as of 31 December were as follows (in TKc):

Related party	2002		2001		2000	
	Loan	Interest	Loan	Interest	Loan	Interest
Západočeská energetika, a.s.	-	2,710	61,210	2,185	-	-
Jihočeská energetika, a.s.	-	2,293	295,710	40,795	540,000	42,580
Severomoravská energetika, a.s.	-	3,489	92,210	3,055	-	-
Jihomoravská energetika, a.s.	-	3,479	92,210	2,837	-	-
Severočeská energetika, a.s.	44,310	7,983	87,710	2,696	-	-
Pražská energetika, a.s.	44,310	8,034	87,710	2,648	-	-
RWE Com GmbH & Co. oHG	-	13,692	660,000	49,354	480,000	43,499
Total	88,620	41,680	1,376,760	103,570	1,020,000	86,079

The loans bear interest rate of 140% of the Czech National Bank discount rate.

The Company sells products and services to related parties in the ordinary course of business. Sales volume was 22,228 TKc, 9,276 TKc and 4,153 TKc in 2002, 2001 and 2000, respectively.

Short-term receivables from related parties as of 31 December were as follows (in TKc):

Related party	2002	2001	2000
Západočeská energetika, a.s.	784	-	49
Jihočeská energetika, a.s.	611	608	479
Severomoravská energetika, a.s.	365	250	-
Jihomoravská energetika, a.s.	264	-	-
Severočeská energetika, a.s.	975	171	-
Plzeňská energetika, a.s.	120	-	-
EN – DATA	233	-	-
Aliatel Slovakia, s.r.o.	2,055	-	-
Total	5,407	1,029	528

The Company purchases products and receives services from related parties in the ordinary course of business. In 2002, 2001 and 2000, purchases amounted to 126,992 TKc, 100,865 TKc and 53,314 TKc, respectively. Short-term liabilities to related parties as of 31 December were as follows (in TKc):

Related party	2002	2001	2000
Západočeská energetika, a.s.	4,784	4,071	1,018
Jihočeská energetika, a.s.	5,046	2,046	1,086
Severomoravská energetika, a.s.	6,253	2,103	1,364
Jihomoravská energetika, a.s.	5,553	12,305	2,091
Severočeská energetika, a.s.	6,113	1,807	797
Pražská energetika, a.s.	1,069	806	127
Středočeská energetika, a.s.	-	-	554
RWE Com GmbH & Co. oHG	61	-	-
SINIT	51	-	-
Energetika Vítkovice, a.s.	56	-	-
Aliatel Slovakia, s.r.o.	1,080	150	-
Total	30,066	23,288	7,037

18. Significant Income Statement Accounts

Extraordinary revenues include insurance claims for the damages caused by floods. The estimated damages should be 155,000 TKc. Extraordinary expenses comprise damage caused by the 2002 floods amounting to 160,794 TKc.

19. Subsequent Events

Interest on shareholder loans was partially repaid in January 2002. The remaining portion shall be paid by 30 June 2003. Loans provided by shareholders Pražská energetika, a.s. and Severočeská energetika, a.s. will be repaid on the basis of mutual agreement. Another portion of the long-term loan amounting to 80,000 TKc was drawn in January 2003.

The second bond issue at an amount of 240,000 TKc at a nominal value was made in January 2003.

report on relationship among persons related/linked

pursuant to provisions set forth at Article 66a, clause 9 of Act # 513/1991 Coll. as amended (Commercial Code) for the fiscal period from January 1, 2002 to December 31, 2002

The report on relationships between the person controlling and controlled and relationships among persons controlled by the same controlling person (so-called „persons related/linked“) has been developed by the Board of Directors of Aliatel a. s. This report was discussed at the board meeting held on February 27, 2003 and approved unanimously.

1. Basic Capital of the Company and its Shareholding

As of the last day of the fiscal year of 2002, i.e. as of December 31, 2002, the joint-stock company Aliatel a. s., having its seat at Sokolovská 131/86, 186 00 Praha 8, IČ (company ID): 61058904 has got the basic capital amounting to CZK 2,807,130,000 comprised by a total of 280,713 shares booked on a bearer, each with a nominal value amounting to CZK 10,000. These shares have been owned by seven shareholders. As of the last day of the fiscal year of 2002, i.e. as of December 31, 2002, the shareholding structure of Aliatel a. s. was as follows:

Shareholder	Number of Shares	Stake in the Company
Pražská energetika, a.s.	26,200	9.33338%
Severočeská energetika, a.s.	26,199	9.33302%
Západočeská energetika, a.s.	29,007	10.33333%
Jihočeská energetika, a.s.	29,006	10.33297%
Jihomoravská energetika, a.s.	29,008	10.33369%
Severomoravská energetika, a.s.	29,007	10.33333%
RWE Com GmbH & Co. oHG	112,286	40.00028%

2. Controlling Persons

Pursuant to provisions set forth at Article 66a, clause 2 of Act # 513/1991 Coll. as amended (Commercial Code) a controlling person is understood as the person who de facto or legally exercises, directly or indirectly, a decisive influence on the control or operation of another person's (party's) enterprise. Pursuant to Article 66a, clause 5 of Act # 513/1991 Coll. as amended (Commercial Code) the person who has got at its disposal at least 40% of the voting rights in a legal entity is the controlling person, and that persons who are involved in concerted conduct and have got at their disposal at least 40% of the voting rights in a legal entity are the controlling persons unless it is proved that another person has got at its disposal the same or a higher percentage of voting rights.

The person who in compliance with the above-mentioned provisions has got at its disposal at least 40% of the voting rights in Aliatel a. s. is RWE Com GmbH & Co. oHG, the shareholder. Given the course of voting during the last four General Meetings of Aliatel a. s. that had took place in 2002 one has to admit that some of shareholders, namely Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., a Severomoravská energetika, a.s., voted together in 82.61% of all voting undertaken. With respect to a total number of voting undertaken in 2002 (a total of 23) one may assess that the above-mentioned shareholders acted in a concerted conduct. According to the above table these shareholders have jointly owned a total of 41.33332% of all shares. In compliance with the above-mentioned provision set forth at Article 66a, clause 5 of Act # 513/1991 Coll. as amended (Commercial Code), the shareholders Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., a Severomoravská energetika, a.s., may be considered as the persons controlling Aliatel a. s.

There has been no controlling agreement concluded between and by Aliatel a. s. (controlled person) and Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., and Severomoravská energetika, a.s., the shareholders (controlling persons).

3. Persons Related/Linked

Pursuant to provisions set forth at Article 66a, clause 9 of Act #513/1991 Coll. as amended (Commercial Code) the persons related/linked are understood as persons controlled by the same controlling person. It was found out from the publicly available resources, namely websites of individual shareholders, that besides Aliatel a. s. the shareholders Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., a Severomoravská energetika, a.s. as controlling persons have also controlled other persons as follows:

Shareholder	Persons controlled by the shareholder	Shareholder's stake
Západočeská energetika, a.s.	EN – DATA a.s.	100.00%
	Lidrone, spol. s r.o	100.00%
	Enerfin, a.s.	84.60%
	ESMOS, s.r.o.	80.00%
	PRO ENERGO Plzeň, spol. s r.o.	80.00%
	EN projekt, spol. s r.o.	50.00%
	GAZELA plus, s.r.o.	50.00%
	LIC technika, s.r.o.	50.00%
	Plzeňská energetika a.s.	50.00%
	SEG s.r.o	33.33%
Jihočeská energetika, a.s.	ECO trend, s.r.o.	75.00%
	ENERGETIKA INVEST s.r.o.	40.00%
	Teplárna Tábor, a.s.	
	*) through ENERGETIKA INVEST s.r.o.	*)51.00%
	Energetické centrum s.r.o.	
	*) through ENERGETIKA INVEST s.r.o.	*)51.00%
	ENERGETIKA SERVIS s. r. o.	80.00%
	is:energy czech a.s.	49.50%
	Efis a.s.	
	Jihočeská energetika, a.s., has together with Jihomoravská energetika, a.s. 66.67%	33.33%
První provozní s.r.o.		
***) through Efis a.s.	**)100.00%	
GEDOS Synergie a. s.	49.50%	
Jihomoravská energetika, a.s.	JME Montáže, s. r. o.	51.00%
	AISE - JME, s. r. o.	51.00%
	Moravská elektroenergetická, a.s.	66.60%
	JME - Adria, d. o. o.	100.00%
	Efis a.s.	
	Jihomoravská energetika, a.s., has together with Jihočeská energetika, a.s. 66.67%	33.34%
	První provozní s.r.o.	
	***) through Efis a.s.	**)100.00%
Severomoravská energetika, a.s.	Union Leasing, a.s.	100.00%
	Beskydská energetická, a.s.	100.00%
	Moravskoslezská elektromontážní, a. s.	100.00%
	STMEM, a. s.	100.00%
	ePRIM, a. s.	100.00%
	Energetika Vítkovice, a. s.	100.00%
	Sinit, a. s.	100.00%

At the above table there are listed such persons only in whose the controlling person has owned 40% and more shares. Aliatel a. s. has got not enough information either to assess whether the number of votes corresponds to the above-mentioned stakes or not, or indicating the concerted conduct upon which individual persons might be controlled. The above list does not comprise the controlled persons where the appropriate controlling person itself has not revealed the stake in such controlled person in the events that these information has not been made public, namely info on joint-stock companies.

4. Contracts Concluded Between and by Aliatel a. s. and Persons Related/Linked

Within the fiscal period monitored Aliatel a. s. had concluded the following agreements with the persons related/linked:

Person related/linked	Agreements concluded
Západočeská energetika, a.s.	Amendment No 2 to General (framework) lease agreement No 7500/319/1998 Subcontract No 6 of General (framework) lease agreement No 7500/319/1998 Agreement on a power supply No 2504383 Agreement on a power supply No 2518030 Agreement on a lease of optic fibers Appendix No 5 Set-off Agreement No 2002/056
Jihočeská energetika, a.s.	Agreement on a lease of optic fibers Appendix No 5 Amendment No 2 to the General (framework) lease agreement No 12/7500/1998 Amendment No 2 to Subcontract No 9 on a lease of non-residential premises Amendment No 3 to Subcontract No 7 on a lease of non-residential premises Set-off Agreement No 2002/058
Jihomoravská energetika, a.s.	Amendment No 5 to Lease agreement No 6 Amendment No 4 to the Lease agreement No 5 Amendment No 4 to the Lease agreement No 4 Amendment No 4 to the Lease agreement No 1 Agreement on a power supply No 1921620 Agreement on a power supply No 8819502 Agreement on a power supply No 1921619 Agreement on a power supply No 8819501 Purchase Agreement No 7500/169/2002 Purchase Agreement No 7500/170/2002 Agreement on a lease of optic fibers Appendix No 5 Lease agreement No 7300/141/2002 Set-off Agreement No 2002/057 Agreement on termination of the Lease agreement No 7 Amendment No 1 to Purchase agreement No 7500/269/2001 Amendment No 1 to Purchase agreement No 7500/268/2001
Severomoravská energetika, a.s.	Agreement on a lease of optic fibers Appendix No 5 Amendment No 4 to Lease agreement No 7500/330/1999 Amendment No 5 to Lease agreement No 7500/330/1999 Amendment No 1 to Agreement on a power supply No 7415651-1 Amendment No 1 to Agreement on a power supply No 7410651-1 Amendment No 1 to Agreement on a power supply No 7410441-1 Agreement on a power supply No 7410053-1 Agreement on a power supply No 7413861-1 Set-off Agreement No 2002/054
Energetika Vítkovice a.s.	Agreement on a power supply No 292/2002 Amendment No 1 to Agreement on a power supply No 292/2002

5. Other Legal Actions or Measures Undertaken in Favor of Persons Related/Linked

Within the fiscal period monitored Aliatel a. s. had undertaken no legal acts or measures in favor of the persons related/linked.

6. Transactions Undertaken Between the Persons Related/Linked – Sales

Aliatel had provided its telecommunications services to the persons related/linked. The table below shows an overview of transaction that had been undertaken within the fiscal period monitored:

Person related/linked	Description of business transactions
Západočeská energetika, a.s.	Voice services (BCD, Profit Call)
Jihočeská energetika, a.s.	Voice & data services (BCD, LL)
Severomoravská energetika, a.s.	Voice services (BCD)
Jihomoravská energetika, a.s.	Voice & data services (BCD, Business IP Trunk FR)
EN – DATA, a.s.	Internet services (SL)
GEDOS Synergie a.s.	Data & Internet services (LL, SL)
Plzeňská energetika a.s.	Data & Internet services (FR, SL)
is: energy czech a.s.	Data services (LL, Business IP)

As for these transactions there are not presented their appropriate amounts in CZK as these are considered as facts constituting a business secret.

As of December 31, 2002 the following short-term receivables with respect to persons related/linked resulted from the above-mentioned transactions as follows:

Short-term receivable due date

Person related/linked	Business			Volume [in CZK 000's]
	Relation	Other	Prepayments	
Západočeská energetika, a.s.	YES			784.32
Jihočeská energetika, a.s.	YES			610.51
Severomoravská energetika, a.s.	YES			365.14
Jihomoravská energetika, a.s.	YES			264.29
EN – DATA, a.s.	YES			232.89
GEDOS Synergie a. s.	YES			11.50
Plzeňská energetika, a.s.	YES			119.58
is: energy czech a.s.	YES			235.56
Total				2,623.79

As of December 31, 2002 Aliatel a. s. had got no long-term receivables with respect to persons related/linked.

7. Transactions Undertaken Between the Persons Related/Linked – Purchases

Aliatel a. s. has purchased from persons related/linked power supply. The table below shows an overview of translations that had been undertaken within the fiscal period monitored:

Person related/linked	Description of business transactions
Západočeská energetika, a.s.	Power supply purchase and lease of non-residential premises
Jihočeská energetika, a.s.	Power supply purchase and lease of non-residential premises
Jihomoravská energetika, a.s.	Power supply purchase and lease of non-residential premises
Severomoravská energetika, a.s.	Power supply purchase and lease of non-residential premises

As for these transactions there are not presented their appropriate amounts in CZK as these are considered as facts constituting a business secret.

As of December 31, 2002 Aliatel a. s. had got no long-term debts with respect to persons related/linked.

8. Transactions Undertaken Between the Persons Related/Linked – Other

Within the fiscal period monitored Aliatel a. s. had undertaken the following transactions that are not listed under the above item 6 and 7 respectively:

Person related/linked	Description of business transactions
Západočeská energetika, a.s.	Lease of optic fibers
	Data transmission
Jihočeská energetika, a.s.	Lease of optic fibers
Jihomoravská energetika, a.s.	Lease of optic fibers
Severomoravská energetika, a.s.	Lease of optic fibers
	Data transmission

As for these transactions there are not presented their appropriate amounts in CZK as these are considered as facts constituting a business secret.

9. Conclusion

Aliatel a. s., as a person controlled, had not incurred any harms or damages resulting from the above-mentioned agreements concluded with persons related/linked or other legal acts. All business relations with persons related/linked had been undertaken on the arm-length basis only.

The Board of Directors of Aliatel a. s. hereby state that within the fiscal period monitored the company – as person controlled – had received no directive from any controlling person that might cause any harm or damage to the company, i.e. person controlled.



Josef Havel

Chairman of the Board of Directors



Aliatel a. s.

Sokolovská 131/86, 186 00 Praha 8, Czech Republic

tel.: +420 225 25 11 11, fax: +420 225 25 11 22

Contact Centre:

tel.: +420 225 25 25 25, +420 800 990 990, fax: +420 225 25 15 15

mail@aliatel.cz, www.aliatel.cz

Company's Regional Representation

Praha: Sokolovská 86, tel.: +420 225 25 33 54, fax: +420 225 25 33 54

Brno: Údolní 27, tel.: +420 515 50 11 11, fax: +420 515 50 12 22

České Budějovice: Čechova 52, tel.: +420 387 31 10 80, fax: +420 387 31 10 79

Hradec Králové: Nerudova 198, tel.: +420 498 50 15 00, fax: +420 498 50 15 01

Ostrava: Havlíčkovo nábřeží 38, tel.: +420 597 46 43 35, fax: +420 597 46 43 36

Plzeň: Husova 71, tel.: +420 378 13 28 29, fax: +420 378 13 28 30

Ústí nad Labem: Pařížská 538/19, tel.: +420 475 20 11 14, fax: +420 475 20 11 14

