annual report 2003

aliatel

The best connection for your business

contents

company profile

Aliatel a.s., Sokolovská 131/86, 186 00 Praha 8, Czech Republic
IČO (Company Registration number): 61058904, DIČ (Tax Registration number): 008-61058904
A joint-stock company registered in the Corporate Register maintained by the District Commercial Court of Prague, section B, number of insert 3988.
Services delivered: telecommunication services (Voice, Data and Internet services)

Vision

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

Mission

Aliatel's mission is to provide all customers with the security and background of high-level professional telecommunication services.

Company Profile

Aliatel a.s. was founded on May 13, 1996 as a joint telecommunication project by eight Czech regional power distribution joint-stock companies (REAS). Two years later (in April 1998) they were joined by the German-based company RWE Telliance AG (now RWE Com Geschäftsführungs - GmbH), which is a part of the RWE Group, one of the major European utilities.

In the same year (1998) Aliatel a.s. entered the Czech telecommunication marketplace with its first Data services. By the year 2000 Aliatel's range had expanded to Internet services. One year later the company made a forceful entry into a partially liberalized marketplace of public Voice services. In 2002 the company, as the very first alternative operator, enabled its customers to utilize phone services through CS (Carrier Selection). In the same year it founded a daughter company, Aliatel Slovakia, s.r.o., in Bratislava, Slovak Republic. Aliatel Slovakia, s.r.o. is to ensure a provision of complex solutions within the area of telecommunication services with a focus on corporate clients in the Slovak Republic.

In 2003 Aliatel a.s., again as the very first alternative operator, began offering so-called CPS (Carrier Pre-Selection) service to its customers. The above-mentioned service enables customers to place their calls through the dominant operator's network without dialing a four-digit prefix or having a special dialer installed. In the same year the company achieved another breakthrough - so-called Number Portability, which enables migrating customers to retain their current phone number.

Aliatel a.s. is currently providing a complete portfolio of Data, Voice and Internet services with a guaranteed quality level - all of these services are supported with a high-level reliability, professional care and individual approach to each and every customer. Quality is a fundamental parameter of the services provided. Aliatel a.s., as the very first alternative telecommunication operator in the Czech Republic, introduced the SLA (Service Level Agreement). Aliatel, the first operator to provide public telephone services on a fixed-line network, was awarded the ISO 9001 quality certificate. At the beginning of 2003, upon passing a re-certification audit performed by a leading Swiss company SGS Switzerland SA, was awarded the internationally recognized quality management certificate ISO 9001:2000.

Advanced **infrastructure**, state-of-the-art **technology**, a complete **portfolio of services**, high-level **customer care** and a **team of highly skilled professionals** - all help Aliatel a.s. to achieve and maintain its position as a **leading telecommunication operator** with a considerable share in all segments of the business market.

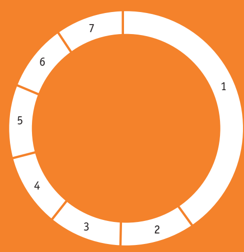
Aliatel a.s. serves a **wide range of customers**. The objective of the company is to fully satisfy their individual requirements - not only technologically but in customer care as well.

ownership structure

As of December 31, 2003 the basic capital of the company amounted to CZK 3,272,120,000. The basic capital has been paid in full. It comprises 327,212 inscribed bookshares which may only be transferred subject to the General Meeting's approval.

Structure of the Shareholders as of December 31, 2003

	Shareholder	Number of shares*	Stake [in %]
(1)	RWE Com Geschäftsführungs - GmbH	130,885	40.00
(2)	Jihočeská energetika, a.s.	33,811	10.33
(3)	Jihomoravská energetika, a.s.	33,813	10.33
(4)	Severomoravská energetika, a.s.	33,812	10.33
(5)	Západočeská energetika, a.s.	33,812	10.33
(6)	Severočeská energetika, a.s.	30,539	9.33
(7)	Pražská energetika, a.s.	30,540	9.33
	Total	**327,212**	**100.00**



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

Aliatel's General Meetings in 2003

- **Regular General Meeting of April 10, 2003:**
- adopted annual accounts for 2002;
- adopted Business Plan for 2003-2008;
- took due note of the Board of Directors' report on business activities of the company and the state of the company's assets in 2002;
- took due note of the Supervisory Board's report;
- recalled Mr. Petr Jůza from the Board of Directors;
- appointed Mr. Bernhard Fanger a new member of the Board of Directors;
- recalled Mr. Tomáš Hüner from the Supervisory Board;*
- appointed Mr. František Kořínek a new member of the Supervisory Board.*

* *At its meeting held on April 10, 2003 the Supervisory Board elected Mr. František Kořínek new Chairman.*

- **Extraordinary General Meeting of June 27, 2003:**
- adopted Annual Report 2002.

- **Extraordinary General Meeting of July 24, 2003:**
- took a due note of Mr. František Kořínek's resignation from his membership of the Supervisory Board as of June 18, 2003;**
- appointed Mr. Jan Veškrna a new member of the Supervisory Board.**

** *At its meeting held on August 27, 2003 the Supervisory Board elected Mr. Stanislav Peleška new Chairman.*

- **The Regular General Meeting will take place on May 27, 2004, the programme will include:**
- approval of company budget for 2004;
- approval of company business plan till 2008;
- approval of company annual financial statement for 2003;
- discussion of the report of the Board of Directors on Aliatel's business activities and state of assets in 2003.

directors and officers

Supervisory Board

(as of December 31, 2003)

Mr. Stanislav Peleška (1946), Chairman

Mr. Thomas Riemann (1955), member

Mr. Jan Veškrna (1965), member

Mr. Karel Dietrich-Nespěšný (1964), member*

Mr. Petr Kroupa (1967), member

Mr. Jaroslav Vostárek (1968), member

* *On November 19, 2003 Mr. Roman Hodoši's membership of the Board of Directors ceased upon his resignation notice; on the same day Mr. Karel Dietrich-Nespěšný was co-opted into the Board of Directors.*

Board of Directors

(as of December 31, 2003)

Mr. Josef Havel (1951), Chairman

Ms. Susanne Küppers (1966), Vice-chairwomen

Mr. Engelbert Halm (1956), member

Mr. Jan Saska (1952), member

Mr. Bernhard Fanger (1962), member

Mr. Václav Čulík (1955), member**

** *On September 24, 2003 Mr. Zdeněk Šroubek's membership of the Board of Directors ceased upon his resignation notice; on the same day Mr. Václav Čulík was co-opted into the Board of Directors.*

Top Management

(as of December 31, 2003)

Mr. Bernhard Fanger (1962), Director General

Mr. Petr Štajner (1968), Director of Marketing and Product Management

Mr. Petr Kroupa (1967), Director of Engineering and Operations; Acting Director of Informatics

Mr. Miroslav Heráň (1962), Director of Sales

Mr. Aleš Spáčil (1966), Director of Customer Care

Mr. Petr Jůza (1970), Director of Controlling; Acting Director of Financing

Changes in the Top Management in 2003

Mr. Petr Štajner was appointed acting Director General from January 1, 2003 to May 31, 2003.
Mr. Petr Jůza was appointed Director of Controlling on March 1, 2003.
Mr. Jiří Pinkas was appointed Director of Informatics on April 15, 2003.
Mr. Jaroslav Opat resigned from the position of Director of Financing on May 31, 2003.
Mr. Bernhard Fanger was appointed Director General on June 1, 2003.
Mr. Petr Jůza was appointed acting Director of Financing on June 12, 2003.
Mr. Vladimír Vácha was recalled from the position of Director of Sales on July 2, 2003.
Mr. Miroslav Heráň was appointed Director of Sales on July 3, 2003.
Mr. Aleš Růžička was recalled from the position of Director of Strategy Marketing and Product Management on July 31, 2003.
Mr. Petr Štajner was recalled from the position of Director - Strategy on July 31, 2003.
Mr. Petr Štajner was appointed Director of Marketing and Product Management on August 1, 2003.
Mr. Jiří Pinkas resigned from the position of Director of Informatics on November 30, 2003.
Mr. Petr Kroupa was appointed acting Director of Informatics on December 1, 2003.

Changes in the Top Management after December 31, 2003:

As of February 1, 2004 the position of Director of Informatics was cancelled and the relevant department merged with the Department of Engineering and Operations; Mr. Petr Kroupa is managing the new department since then.
Mr. Petr Jůza resigned from the position of Director of Controlling on March 9, 2004.

key events of the year 2003

January

- Aliatel, as the very first alternative operator, began providing the CPS (Carrier Pre-Selection), which enabled Aliatel's customers to place calls through the dominant operator's network without first dialing a four-digit prefix or having a special dialer installed.
- The Board of Directors appointed Mr. Bernhard Fanger Director General of Aliatel a.s., which came into effect June 1, 2003.

April

- A new service, Business Komplet, was launched. It is a telecommunication solution comprising a bundle of Voice, Internet and Data (optionally) services addressed to business customers.
- Aliatel officially launched operations of the long-awaited and ground breaking Number Portability service.
- Updated Business Plan of the company for 2003-2008 and budget for 2003 was discussed at the General Meeting on April 10, 2003. Mr. Petr Jůza was recalled from the Board of Directors and substituted by Mr. Bernhard Fanger. Mr. Tomáš Hüner was recalled from the Supervisory Board and substituted by Mr. František Kořínek of Severomoravská energetika, a.s. Later on Mr. František Kořínek was elected Chairman of the Supervisory Board.

June

- Mr. Bernhard Fanger took over the position of Director General.
- Aliatel launched its broadband Internet connectivity service utilizing ADSL technology.
- On June 27, 2003, at the Extraordinary General Meeting, Aliatel adopted the proposal on a deferral of maturity of the shareholders' loans provided by Severočeská energetika, a.s and Pražská energetika, a.s.

July

- Extraordinary General Meeting of July 24, 2003 took a due note of Mr. František Kořínek's resignation from the Supervisory Board and appointed Mr. Jan Veškrna as a new member of the Supervisory Board. Later on Mr. Stanislav Peleška was elected Chairman of the Supervisory Board.

August

- Aliatel a.s. started a regional road-show during which members of Aliatel's top management visited six regional centers in the Czech Republic, met selected customers and introduced Aliatel's activities and plans to the local media.

October

- According to the results of the annual Fast 50 competition organized by the company Deloitte, Aliatel was the fastest growing technology company in Central Europe.

December

- After winning the Fast 50 competition for Central Europe, Aliatel also succeeded in the all-European poll Fast 500 and was declared the 15th fastest growing technology company in Europe.

report of the board of directors

Report of The Board of Directors on Aliatel's Business Activities and State of Assets in 2003

Dear Shareholders, Customers and Friends:

The year 2003 was a very successful one for the company. Aliatel as a reliable operator providing state-of-the-art and high quality services further established its already strong position in the Czech telecommunication market. As in the previous years, Aliatel once more achieved the highest organic revenue growth among all telecommunication operators in the Czech Republic.

In January 2003, Aliatel was the very first operator to launch services based on CPS (Carrier Pre-Selection). Two months later the company, was the very first alternative operator to, launch the NP (Number Portability) service, enabling customers to switch all of their voice traffic without disruption to Aliatel.

More innovative and cost-efficient Voice services were launched this year, including Value-Added services and extended options of the Business Call Direct service. The significant growth in voice revenues can be mainly attributed to the success in the SME (small and medium-size enterprises) segment, where Aliatel is by far the leading alternative operator. Targeting this SME segment, Aliatel introduced in the first half of 2003 new services utilizing the own WLL (Wireless Local Loop) technology within the 3.5 GHz band. The so-called Business Komplet services enable the company to offer integrated solutions of Voice, Data and Internet to the customer.

In the data area the company succeeded in increasing its market share. Data will continue to be in the spotlight because Aliatel sees a further potential to realize growth opportunities. The launch of Dial-up Internet connectivity proved to be very important as this service comprises a good complement of the currently existing retail Voice services. An ADSL resale service was launched as well, though the conditions given by the incumbent proved to be difficult and limited the success of the offering. Not surprising, Internet services were the most dynamic in terms of revenue growth in 2003.

In the wholesale area Aliatel confirmed its leading position in the marketplace in 2003. The list of customers includes many leading international fixed operators, mobile operators and growing alternative service providers. Expectations and budget were significantly exceeded. However, there was a disparity between Voice and Data. While Voice services did very well, Data services suffered under strong competitive pressure and subsequent drastic price decreases.

Aliatel continued its strategic cooperation with INFONET as its representative for the Czech and Slovak Republic.

In 2003 the development of telecommunication infrastructure was impacted by two main factors:

- **Capacity growth**

Compared to the previous year the requirements for additional capacities decreased. This impacted positively on the network-oriented capital expenditures allocated for both transport and access networks. Since the network rollout moved to a very customer oriented approach, specific requirements for new customer connections were the main driver for further investments especially in the access network.

- **Service introduction and platform upgrades**

Compared to previous years and despite the introduction of the new services described beforehand, there were less investments required for launching new services and the associated technology platforms.

Both of the above-mentioned factors as well as newly introduced guidelines for the economic evaluation and approval of every investment helped reduce the overall volume of capital expenditures to almost one fourth of the volume of investments spent in 2002.

Besides the above-mentioned development of the telecommunication infrastructure, Aliatel initiated more activities in order to improve the cost efficiency of the network. Guidelines for the financially optimal access method are one example of these activities.

Supporting the success on the market, several internal consolidation and process improvement projects started. The activities were focused on optimizing the customer processes within the following areas: billing and invoicing, management of receivables, and process changes in the Contact Center. We succeeded in improving these areas, leading to a higher level of customer satisfaction.

Further activities in the area of IT/IS commenced at the end of 2003. The consolidation of CRM applications in order to improve support users and quality of data may serve as one example. Owing to the long-term nature of these projects they are unlikely to be completed before the end of 2004.

The annual audit of Aliatel's quality management system, which was completed successfully, confirmed a full consistency with the requirements of ISO 9001:2000 standards and recommended that the company may retain the relevant quality management certificate.

Self-financing of the company for the entirety of 2003 was a major goal and a significant achievement. Within identified areas the management also took some unpopular saving measures, which were not limited to capital expenditures. Aliatel's headcount settled to its current level, which still ensures the provision of high-quality services at reasonable payroll levels. A tight-budget regime was successful especially in the areas of operational and capital expenditures with positive impact on these financial indicators. Therefore the management plans to keep these measurements in place in 2004 as well.

Overall the measures taken secured sufficient financial means for 2003. The company did not draw down any additional external financial funds that were originally planned for June 2003. The cash balance in December 2003 exceeded expectations.

In regards to finances, let us turn our attention to some key financial indicators:

- **Profit/loss** as of December 31, 2003 amounted to TCZK (-)791,641, mainly influenced by temporary extraordinary items.
- **Revenues from the own products and services** amounted to TCZK 2,551,471; compared to the previous year this number grew by almost 38%.
- The above-mentioned saving measures impacted capital expenditures most. **Capital expenditures** amounted to TCZK 251,607, i.e. they fell to 25 % of the amount spent in 2002 and were significantly under plan.
- **Basic capital** of the company remained unchanged and amounted to TCZK 3,272,120.
- **Shareholders' equity** fell to TCZK 405,257.
- In 2003 **Financing of the company** were in compliance with the saving measures taken. The company utilized additional external financial funds in the beginning of the year (from January 2003 to April 2003). The total sum amounted to TCZK 400,000. As of December 31, 2003 the total amount of external financial funds comprised TCZK 2,252,220 (the split was as follows: our own **bonds** worth of TCZK 1,298,160; **loan facility** provided by Commerzbank AG upon the relevant loan agreement worth of TCZK 865,440; and current two shareholders' loans amounting to TCZK 88,620 provided by SČE and PRE).
- As of December 31, 2003 **Aliatel Slovakia, s.r.o.**, Aliatel's daughter company, generated profit before taxation amounting to TSKK 7,697 (TCZK 5,908).

The positive results achieved by the Daughter Company Aliatel Slovakia are promising. Aliatel Slovakia, s.r.o. has focused its activities on the sale of Data services, realization of customer projects, and customer support in Slovakia. The objective of the company is to serve Aliatel's customers with a presence in both countries with very limited investments, operational and personal costs.

In 2003 Aliatel Slovakia generated revenues amounting of TSKK 34,776 (TCZK 26,692). This represents a 260% growth compared to 2002, though from a low basis since Aliatel Slovakia started its business activities in May 2002.

For the customers, the year 2003 meant the offering and sales of traditional Voice and Data products which are already well established in the marketplace as well as increase in the service portfolio with a range of new products, offering the customers additional options for satisfying their telecommunication requirements. We will continue in this direction in the years to come, offering high-quality telecommunication services for competitive prices and maintaining the position as a leading telecommunication operator in the Czech Republic.

Behind all of Aliatel's achievements there have always been people. We would like to use this opportunity to thank all the customers, employees, business partners and shareholders for their personal contribution and their ongoing commitment, which has helped to achieve these joint results.

Josef Havel
Chairman of the Board
Aliatel a.s.

Bernhard Fanger
General Director
Member of the Board
Aliatel a.s.

financial summary

		1999	2000	2001	2002	2003
Operation	(CZK million)	205	651	1,596	2,203	**2,807**
Revenues from own products and services	(CZK million)	189	630	1,219	1,852	**2,551**
Value added	(CZK million)	-104	113	275	341	**660**
Profit/Loss	(CZK million)	-349	-355	-495	-719	**-792**
Total assets	(CZK million)	1,632	2,329	3,403	3,952	**3,163**
Fixed assets	(CZK million)	1,092	1,828	2,739	2,990	**2,303**
Shareholders' equity	(CZK million)	688	333	1,334	1,197	**405**
Basic capital	(CZK million)	1,310	1,310	2,807	3,272	**3,272**
Liabilities	(CZK million)	903	1,934	2,023	2,740	**2,733**
Capital expenditures	(CZK million)	645	1,071	1,319	897	**220**
Total numbers of employees (as of year-end)	(number)	173	262	366	360	**353**

company financing

The financing guidelines adopted by the Extraordinary General Meeting of December 18, 2001 helped Aliatel a.s. to overcome the period from Q1/2002 to Q1/2003 when the planned volume of expenditures was higher than the volume of planned revenues. The financing of the company was supposed to be consolidated during the remaining quarters and the company was to turn to a self-financing stage.

From the financial point of view the year 2003 was a breakthrough year for the company. There were identified areas in which the company took saving measures in order to reduce operational and investment costs. Thanks to the above-mentioned measures and revenue growth, the company succeeded in covering all of its financial requirements from its own resources, thus fulfilling one of the main financial tasks imposed by the shareholders for 2003.

Description of Long-term External Financial Resources

Aliatel is financed via bonds, shareholders loans and a loan facility agreement with Commerzbank AG, Prague Branch.

Risk Assessment

Business Risks

Aliatel a.s. has been doing business in a dynamic sector characterized by rapid changes in products and technology as well as a large number of competitors on the part of both customers and providers of telecommunication services. In order to minimize the risk of losing competitiveness and ensure rapid growth, the company has prioritized investments into its own development while ensuring a balance between short-term and lasting sustainable development. Gaining customers and increasing competitiveness have been the key success factors.

The rising number of company customers also reduces the risk of posting financial losses owing to a concentration on a single area of business relations.

Financial and Currency Risks

The exchange rate risk is a significant financial risk for Aliatel a.s. Other risks are interest rates, credit facilities, liquidity management and control of contractual-partner risks. The company copes with all financial risks in accordance with the financial policy taken by the top management and adopted by the Board of Directors of the company.

Exchange rate fluctuations affect the company in terms of incomes and expenditures. Therefore the company reduced the number of foreign currencies used in customer and vendor billing to Euros and U.S. dollars only, providing that since 2002 most of the payments have been transacted in Euro. As most of payments have consistently been made in CZK and given the small volume of payments made in foreign currencies, impacts of these risks were not significant. As a result, the value of the company capital and shareholders' equity has not been affected negatively within this period.

Contractual Partners Risk

Owing to an increase in the number of customers the volume of credit risk that Aliatel a.s. is exposed to has also increased. The counter measures that have already been taken have been gradually implemented into information systems and have been optimized on an ongoing basis. For example, a readjustment of debt collection proceedings and their consistent enforcement helped to reduce a financial volume of receivables overdue to less than a half of the volume as of December 31, 2002.

Operational and Legal Risks

All employees of the company including the company management have paid a high-level of attention to the elimination of these risks in the environment of a developing telecommunication market.

The customer billing process and the controlling documentation have been fully rewritten. Despite a three-fold number of invoices the invoice processing time was reduced by half and the invoice error rate also fell significantly. The measures impacted positively on cost effectiveness and helped to reduce it in the area of financial risks as well.

summary of services provided

Aliatel a.s. has utilized the gradual liberalization of the telecommunication environment in the Czech Republic to offer a complete range of progressive, highly professional and complex telecommunication solutions to the customers of the company. For most of these services, Aliatel offers a contractually guaranteed quality level (SLA).

Data, Voice and Internet services are capable of meeting all requirements of large corporations as well as small and medium sized companies. Aliatel a.s. is well known for its reliable services.

Data Services

Aliatel a.s. provides a wide range of extremely reliable and high quality Data services. The company provides them on its own fully backed-up high-capacity network. Thank to available optic multiplex capacities offered by the company, the traditional transmission capacities (i.e. 64 kbit/s - 622 Mbit/s) may be increased up to 10 Gbit/s.

- **Digital Line**	lease of national and international digital lines
- **Frame Relay**	data transmission with a secured capacity - national and international
- **ATM Cell Relay**	high-capacity data transmission
- **Transparent LAN**	LAN remote interconnection
- **Business IP**	IP VPN for professional usage

Voice Services

Aliatel a.s. uses a state-of-the-art installation of classical circuit switching technology for the provision of public telephone services and offers national and international calls to all destinations, including mobile networks, transmission of fax and data. Additional services make the calling more comfortable.

In 2003 the number of customers using Voice services grew significantly. Aliatel a.s., as the very first alternative operator in the Czech Republic, offers indirect connection through CPS (Carrier Pre-Selection) and was also the first operator to offer Number Portability which allows the customer to change his operator without being forced to change his existing phone number.

Aliatel's telephone services are currently available to business clientele of any size in the entire of Czech Republic.

- **Business Call Direct**	direct connection services
- **Business Call Smart**	indirect connection services - Carrier Selection/Pre-Selection
- **Profit Call**	intelligent network services - toll free calls, shared cost calls, and premium rate services

Internet Services

Aliatel a.s. also offers all types of Internet services. Their key parameters are mostly guaranteed, even on the basic level. The Internet services are used by companies and small entrepreneurs; they have also been used by Internet Service Providers (ISP), Internet Content Providers (ICP) and Application Service Providers (ASP) on the wholesale level.

- **Speedline DSL**	fixed Internet connection through the ADSL technology
- **Speedline**	fixed Internet connection
- **Connectivity Partner**	fixed customer connection for local ISP's
- **HotPilot**	shared hosting - a lease of application environment at server
- **House of Server**	housing - a lease of space and provision of data-center services
- **WebMail**	webhosting and e-mail center
- **Minutes Partner**	complex solution for virtual dial-up ISP's
- **Business Dial Up**	dial-up Internet connectivity for SME's

Complex Solution

In 2003 Aliatel a.s. developed and launched service bundles comprising telephone, Internet and Data (optionally) services.

- **Business Komplet** a set of services for SME's
- **BCD + Speedline** telephone and Internet services addressed to large and medium-size companies
- **BCS + Speedline** telephone and Internet services addressed to SME's
- **Business IP, Digital Line, Frame Relay and Speedline** Data and Internet services

Carrier's Carrier services and Infonet services

Aliatel a.s. provides telecommunication services to other leading operators in the Czech Republic and abroad. Aliatel's customers are global telecommunication companies and national operators, as well as local ISP's.

Aliatel a.s. is a partner of the global worldwide Infonet network in the Czech and Slovak Republic.

Further Development of Services

Aliatel a.s. makes every endeavor in order to fully understand all requirements resulting from each individual customer's type and scope of business, to fulfill these requirements, and provide the customer with professional customer care.

As for Data services, we plan on the further development of the Business IP services. Aliatel a.s. provides the above-mentioned services with state-of-the-art technology ensuring absolute security, reliability and optimal transmission conditions. The Business IP services allows the customer to set up specific parameters for operating mission critical operations (including the transmission of voice, data and video) and controlling them.

In addition there will be improved usage of ADSL and SDSL technologies on the access network of the dominant operator. It will be of special significance especially in case of Internet connectivity with a lower/medium-size transmission rate suitable for SME's.

telecommunications area

Telecommunication Network

In terms of the coverage and quality of its own telecommunication infrastructure, Aliatel a.s. has traditionally kept a very unique position among all telecommunication operators providing fixed public telecommunication services in the Czech marketplace.

The backbone transport network is based on optic-fiber routes. It connects over 50 cities all over the Czech Republic through more than 10,000 kilometers of optic-fiber pairs. This network is interconnected through optic-fiber routes to all leading operators in the Czech Republic as well as to all neighboring countries.

Modern Dense Wavelength Division Multiplexing (DWDM) technology provides for increasing the capacity of the backbone network in accordance with a growing number of customers connected, and more extensive utilization of broadband services.

The entire spectrum of technological solutions has been used for customer access to Aliatel's network services - from a realization of optic-fiber access routes, through microwave link ups to leased access lines or routes with ADSL technology to non-direct access based on Carrier Pre-Selection.

The technology of advanced voice exchanges enabled an increase in the total number of calls made in 2003 up to almost 500 million. Compared to the previous year the number of calls almost doubled.

Information Services

In order to serve a large number of customers Aliatel has the vital and effective functioning support of Information Systems (IS). In 2003, thanks to massive IS support, the company succeeded in improving the quality-level of material customer-oriented processes, namely billing and the activities of the company's Contact Center. Improving customer-oriented processes and support systems will remain a priority of the company.

Process and Quality Management

By the end of the year 2000, Aliatel a.s. was awarded the ISO 9001 international quality certificate as the very first fixed telecommunication operator in Czech Republic providing public telephone services. Upon a successful re-certification audit performed by the company SGS (International Certification Services AG Zürich) Aliatel a.s. was awarded the ISO 9001:2000 quality certificate again in 2002. Further inspection audits justified the award.

Aliatel a.s. is a customer-oriented process-driven company. In the last period there has been changes in the organization structure of the company in order to meet better and more effectively all requirements of Aliatel's current and prospective customers.

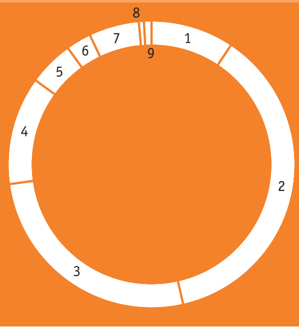
employees

In 2003 there were no significant number of headcount variations and the fluctuation remained on normal levels. By the end of the calendar year, i.e. by December 31, 2003, the headcount amounted to 353 people (266 men and 87 women). The average age of Aliatel's staff was 32 years.

In 2003 the HR department carried on with the development of the corporate culture and the improvement of the staff working conditions. Internal communication was significantly improved by the development of new employees workshop, an internal magazine, intranet and a greater interaction between management and employees via regularly scheduled meetings. As for the staff recruitment there was accentuated a selection of apt candidates to fill vacant positions in order to minimize a churn during the probation term.

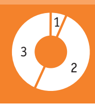
Staff age structure as of December 31, 2003 broken by sex

Age Category		Number of Employees	
		Men	Women
(1)	from 20 to 24	20	13
(2)	from 25 to 29	91	40
(3)	from 30 to 34	83	10
(4)	from 35 to 39	35	8
(5)	from 40 to 44	13	5
(6)	from 45 to 49	8	2
(7)	from 50 to 54	12	8
(8)	from 55 to 59	2	0
(9)	from 60 to 64	2	1
	TOTAL	**266**	**87**



Staff qualification structure as of December 31, 2003

Education		Number of Employees
(1)	Apprenticeship	23
(2)	High school	178
(3)	University	152



company future

In the years to come Aliatel a.s. will further solidify its leading position among the alternative operators in the Czech telecommunication marketplace. The company plans to carry on providing the portfolio of Voice, Data and Internet services all over the Czech Republic. Aliatel will focus on providing telecommunication solutions to business client of large companies and state administration and with offers of Voice and Internet services Aliatel will concentrate on a perspective segment of small and medium sized companies.

The high quality services provided with a guaranteed quality level will still be based on the own modern and effective telecommunication infrastructure which may be aptly complemented by an infrastructure leased from other operators, namely in the area of access networks. Given the capacity of the infrastructure and current coverage and IS support it will be quite possible for us to increase the customer base and overall network traffic, innovate the currently existing products and price plans without any significant investments or increases in operational costs. As the financial indicators in 2003 fully confirmed this trend, Aliatel anticipate further revenue growth and a significantly lower volume of investments, as well as a growth of EBITDA and other key financial indicators.

Besides an overall growth of revenues generated by the Data and Internet services, the future growth source for the business clientele will especially be in Voice services for the SME segment and provision of Value Added Voice services. Revenues generated by Data and Voice services provided to wholesale customers will still comprise an important part of the overall volume of revenues. Aliatel a.s. will put a great deal of focus on launching new and innovative product bundles and price plans, integrated solutions and services addressed to specific segments, and the attaining of customer requirements. Maintaining the high level of customer care for the current clients as well as the overall improvement of management programs will also be very important.

Aliatel a.s. wants to be perceived by its customers as the outright alternative to the dominant operator, namely thank to the quality-level of its services, guarantees provided, customer orientation, flexibility, and - last but not least - competitive prices.

Aliatel Slovakia

Aliatel Slovakia, s.r.o. is the daughter company of Aliatel a.s. The company does business in the Slovak telecommunication marketplace within the area of international Data services.

The company's specialization is consistent with the nature of the Slovak telecommunication market on which the real liberalization of Voice services has not started yet. Aliatel Slovakia, s.r.o. focuses its activities solely on Data services, customer support and realization of sales cases of the mother company Aliatel a.s. in Slovakia.

The optimal asset and personal structure of the company has been adjusted to this specialization. The objective of Aliatel Slovakia, s.r.o. is to achieve a maximum effectiveness of the sale of services and profit generation with minimum investment, operational and personal costs.

Thanks to a good acquaintance with local conditions, Aliatel Slovakia, s.r.o. may support individual business cases of Aliatel a.s. in the Czech-Slovak frame, i.e. the sale of services to Czech or international companies which have already been customers of Aliatel a.s. and undertake simultaneous business activities in the Slovak Republic or have their affiliates or daughter companies established in Slovakia. A prime benefit is the support of the mother company Aliatel a.s. when negotiating with leading Slovak operators, monitoring trends on the Slovak telecommunication market as well as presentation of the mother company Aliatel a.s. as a leading operator in Central Europe to the professional telecommunication community.

A sole owner of Aliatel Slovakia, s.r.o. is Aliatel a.s., which executes its ownership rights through managing directors of the company, namely Messrs. Pavel Henke and Vladimír Galovič, and members of the Supervisory Board, namely Mr. Vladimír Čulík, Ms. Eva Krátká and Ms. Marie Kurcová.

The Supervisory Board supervises the activities of the managing directors of the company, economy and the financial results of the company. In compliance with the resolutions adopted by the Board of Directors of the mother company, Aliatel a.s. determines the basic direction of Aliatel Slovakia, s.r.o.

In 2003 Aliatel Slovakia, s.r.o. generated a total volume of revenues amounting to SKK 34,776 (TCZK 26,692). Compared to 2002 the volume of revenues grew by 260 %, though it should be taken into account that Aliatel Slovakia, s.r.o. commenced its business activities in May 2002.

In the years to come the objective and mission of Aliatel Slovakia, s.r.o. will be as follows: the company will act on behalf of the mother company Aliatel a.s. in Slovakia as it will support effectively the sale of services in this marketplace and utilize the investments and know-how of both companies. It will focus on profitable services requiring minimal investment and operational costs in order to optimize these costs effectively, i.e. attain the basic mission of Aliatel Slovakia, s.r.o.

Aliatel Slovakia, s.r.o. will monitor developments in the Slovak marketplace, identify business opportunities for the mother company Aliatel a.s., realize effectively specific business cases in the Slovak Republic, support interests of the mother company in the Slovak telecommunication marketplace, and without any financial requirements addressed to the mother company sustain a small, effective and profitable affiliate of Aliatel a.s.

report of the supervisory board of Aliatel a.s.

The Supervisory Board of Aliatel a.s. met in 2003 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 and in compliance with the duties and responsibilities of the Supervisory Board pursuant to the provisions set forth in Sections 97 through 201 of the Act No. 513/1991 Coll. as amended.

The Supervisory Board has 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 61st meeting in March 2004 the Supervisory Board examined the company's audited regular and consolidated annual accounts and proposal for a coverage of losses incurred in 2003 and recommended that the shareholders adopt these documents at 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 2003 pursuant to provisions set forth in Section 66a, Clause 9 of Commercial Code. The Supervisory Boards consents to conclusions set forth in this report.

Stanislav Peleška
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 2003 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 2003 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

Without qualifying our opinion, we would like to draw attention to the fact that the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a loss of CZK 791,641 thousand during the year ending 31 December 2003 and as of that date its accumulated losses of previous years exceed the one half of the registered capital by CZK 1,231,142 thousand. This fact, along with the other matters highlighted in Note 21, raise substantial doubt that the Company will be able to continue as a going concern. Management's plans in regard to these matters are also described in Note 21. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have also audited the financial statements of Aliatel a.s. for the years ended 31 December 2002 and 2001 and issued unqualified reports thereon dated 14 February 2003 and 15 March 2002, respectively.

The accompanying annual report for 2003 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 2003. 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 effect 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

Ernst & Young ČR, s.r.o.
License No. 401

Milan Slavík
Auditor, License No. 708

16 February 2004
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, 2003

financial statements for the year ended 31 December 2003 together with auditor's report

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, 2003 to December 31, 2003

consolidated financial statements and auditor's report

Report of Independent Auditors

To the Shareholders 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, 2003, 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 consolidated 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, 2003 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 20 in the consolidated financial statements. The Company incurred a loss of CZK 787,320 thousand during the year ending December 31, 2003 and as of that date its accumulated deficit amounted to CZK 2,862,810 thousand. These factors, along with the other matters highlighted in Notes 1, 2 and 20, raise substantial doubt that the Company will be able to continue as a going concern.

Ernst & Young

Ernst & Young ČR, s.r.o.
16 February 2004
Prague, Czech Republic

consolidated financial statements

Consolidated Balance Sheet as of December 31, 2003

(Czech Crowns - CZK in thousands)

ASSETS	Notes	2003	2002
NON-CURRENT ASSETS:			
Property, plant and equipment, net	3	1,989,586	2,578,509
Intangible assets, net	3	313,005	411,510
Long-term receivables		2,586	870
Total non-current assets		**2,305,177**	**2,990,889**
CURRENT ASSETS:			
Inventory	4	127,621	189,989
Accounts receivable and prepayments, net	5	439,489	597,291
Tax receivables (VAT receivables)		7,978	49,514
Cash and cash equivalents	6	288,580	124,972
Total current assets		**863,668**	**961,766**
Total assets		**3,168,845**	**3,952,655**

SHAREHOLDERS' EQUITY AND LIABILITIES	Notes	2003	2002
SHAREHOLDERS' EQUITY:			
Share capital	8	3,272,120	3,272,120
Cumulative translation adjustment		459	94
Accumulated deficit		-2,862,810	-2,075,490
Total shareholders' equity		**409,769**	**1,196,724**
NON-CURRENT LIABILITIES:			
Borrowings	7	2,138,600	1,763,600
Deferred income tax liabilities	15	174	0
Commitments and Provisions	10	6,752	0
Other		12	5
Total non-current liabilities		**2,145,538**	**1,763,605**
CURRENT LIABILITIES:			
Borrowings	7	113,620	88,620
Accounts payable and accruals	9	489,123	890,749
Tax payables		10,795	12,957
Total current liabilities		**613,538**	**992,326**
Total shareholders' equity and liabilities		**3,168,845**	**3,952,655**

Consolidated Income Statement for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

	Notes	2003	2002
Revenues: services	11	2,550,200	1,851,972
Cost of services	**12**	**-1,573,950**	**-1 138,874**
Gross profit		976,250	713,098
Selling, general and administration costs		-636,442	-697,785
Depreciation and amortization		-517,340	-571,370
Impairment loss charge	3	-406,114	0
Other operating income	13	32,034	224,927
Other operating expenses	**13**	**-143,554**	**-304,852**
Operating loss		-695,166	-635,982
Financial expenses, net		**-90,567**	**-84,263**
Loss before income tax provision		-785,733	-720,245
Income tax provision	15	-1,587	-154
Net loss		**-787,320**	**-720,399**
Income (loss) per share - basic	17	-2,406	-2,497
Income (loss) per share - diluted	17	-2,406	-2,497

Consolidated Statement of Changes in Shareholders' Equity for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

	Numbers of Share	Share Capital	Share Premium	Cumulative Translation Adjustment	Accumulated Deficit	Total
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	-	464,990
Net loss	0	0	0	0	-720,399	-720,399
Change in cumulative foreign currency translation adjustment	0	0	0	94	-	94
Balance - December 31, 2002	**327,212**	**3,272,120**	**0**	**94**	**-2,075,490**	**1,196,724**
Net loss	0	0	0	0	-787,320	-787,320
Change in cumulative foreign currency translation adjustment	0	0	0	365	-	365
Balance - December 31, 2003	**327,212**	**3,272,120**	**0**	**459**	**-2,862,810**	**409,769**

Consolidated Statement of Cash Flows for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

	2003	2002
Cash flows from operating activities:		
Net loss	-787,320	-720,399
Adjustments to reconcile net (loss) to net cash provided by operating activities:		
Depreciation and amortization	517,340	571,370
Impairment loss charge	406,114	0
Interest expense, net	76,820	80,441
Income tax provision	1,587	0
Change in provisions	6,752	0
Change in cumulative foreign currency translation adjustment	365	94
(Gain) loss on sale of property, plant and equipment	144,357	-14,116
(Increase) in accounts receivable	199,338	-347,179
(Increase) decrease in inventory	62,368	26,547
Increase in accounts payable and accrued liabilities	-376,851	235,568
Total adjustments	1,038,190	552,725
Net cash provided by (used in) operating activities	**250,870**	**-167,674**
Cash flows from investing activities:		
Purchase of property, plant and equipment	-383,911	-837,939
Sale of investments	0	0
Proceeds from sale of property, plant and equipment	3,740	29,329
Interest received	2,765	3,338
Net cash (used in) investing activities	**-377,406**	**-805,272**
Cash flows from financing activities:		
Issue of share capital	0	0
Proceeds from bank borrowings	160,000	705,440
Proceeds from issue of bonds	240,000	1,058,160
Repayment of short-term loans	0	-707,210
(Increase) in long-term receivables	-1,716	-70
Decrease in other non-current liabilities	7	-2
Interest paid	-108,147	-102,184
Net cash provided by financing activities	**290,144**	**954,134**
Net increase (decrease) in cash	**163,608**	**-18,812**
Cash at beginning of year	**124,972**	**143,784**
Cash at end of year	**288,580**	**124,972**

notes to the consolidated financial statement

(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, 2003 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	Share in CZK thousands	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.	Praha 10, Na Hroudě 19	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 Geschäftsführungs-GmbH	Gutenbergstrasse 3, Essen, Germany	1,308,850	40.00
Total		**3,272,120**	**100.00**

Since 1 April 2003, the Company has been included in the consolidated group of ČEZ as an affiliate, as since that date, ČEZ, a.s. effectively controls 30% through ownership of Severomoravská energetika, a.s., Severočeská energetika, a.s. and Západočeská energetika, a.s.

The average number of employees of the Group was 348 in 2003 and 383 in 2002.

The continuation of the Company's business depends on the ability to gain sufficient cash resources (see Note 20) and on the 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.

The consolidated financial statements were authorized for issue by Ing. Josef Havel, Chairman of the Board of Directors, Ing. Petr Jůza, In lieu of Director of Finance, and Ing. Marie Kurcová, Senior Accounting Manager, on February 16, 2004.

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"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards and Standing Interpretations Committee interpretations approved by the IASC that remain in effect. 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 20).

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

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.

Comparative figures

Certain comparative figures in the financial statements were reclassified to conform to the presentation adopted in 2003. Tax receivables and tax payables are currently shown separately on the Balance Sheet.

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 and any impairment in value. 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	10 - 30
Telecommunication equipment	2 - 15
Other plant and equipment	4 - 8
Leasehold improvements	Lease term
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 2003, the Company decided to change the accounting depreciation rates of tangible fixed assets used as of December 31, 2002 and of new tangible fixed assets put into operation from January 1, 2003. The depreciation periods were adjusted from 4 to 6 or 8 years, or, for selected asset categories, reduced from 15 to 12 or 8 years. The depreciation charge for these assets for 2003 was calculated on the basis of application of remaining useful economic lives to the net book value as of January 1, 2003. Fixed assets acquired since January 1, 2003 were already put into operation with changed depreciation rates. The effect of the change was impracticable to be disclosed.

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 and any impairment in value. 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 2003 (and 2002), corporate income tax was calculated in accordance with the Czech and Slovak tax regulations at a rate of 31% (31% in 2002) and 25% (29% in 2002), respectively.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. 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. The tax effects of these differences are reflected as deferred tax items.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Revenue Recognition
Revenue is recognised to the extent that 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.

Foreign Currency Translation
Transactions in foreign currencies are recorded at the exchange rate ruling at the date of the transaction for all receivables and liabilities. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences are taken to the income statement.

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.

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 the year 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 and Intangible Assets

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

Cost	Freehold buildings	Machinery and equipment	Furniture and other assets	Intangible assets	Tangibles and intangibles in progress	Total
Balance as of December 31, 2002	**647,172**	**2,609,350**	**2,274**	**585,350**	**338,084**	**4,182,230**
Additions	-	-	-	-	383,911	383,911
Disposals	-1,882	-309,170	-	-1,361	-	-312,413
Transfers	105,520	479,808	845	95,838	-682,011	-
Exchange adjustment	-	252	40	5	-25	272
Balance as of December 31, 2003	**750,810**	**2,780,240**	**3,159**	**679,832**	**39,959**	**4,254,000**

Accumulated depreciation	Freehold buildings	Machinery and equipment	Furniture and other assets	Intangible assets	Tangibles and intangibles in progress	Total
Balance as of December 31, 2002	**59,722**	**925,102**	**1,011**	**206,376**	**-**	**1,192,211**
Depreciation charge	42,927	364,788	515	109,110	-	517,340
Impairment loss charge	-	350,790	-	55,324	-	406,114
Disposals	-1,213	-161,852	-	-1,251	-	-164,316
Exchange adjustment	-	46	13	1	-	60
Balance as of December 31, 2003	101,436	1,478,874	1,539	369,560	-	1,951,409
Net book value as of December 31, 2003	**649,374**	**1,301,366**	**1,620**	**310,272**	**39,959**	**2,302,591**
Net book value as of December 31, 2002	**587,450**	**1,684,248**	**1,263**	**378,974**	**338,084**	**2,990,019**

As of December 31, 2003 and 2002, the net book value of freehold buildings include CZK 271,655 thousand and CZK 241,098 thousand, respectively, of leasehold improvements.

Intangible assets as of December 31, 2003 and 2002 contain mainly acquired software.

The impairment loss of CZK 406,114 thousand represents the write-down of certain fixed assets to recoverable amount. The impairment review was performed following the updated business plan for the years 2004 through 2009. The recoverable amount was based on value in use and was determined at the cash-generating unit level. The cash-generating unit consists of the Company seated in the Czech Republic and substantially all its business operations. In determining the value in use for the cash-generating unit, the cash flows were discounted at a nominal rate of 12.7% on a pre-tax basis.

4. Inventories

Inventories contain materials on stock at cost of CZK 147,112 thousand and CZK 214,847 thousand, decreased by the allowance for slow moving and obsolete items of CZK 19,491 thousand and CZK 24,858 thousand as of December 31, 2003 and 2002, respectively.

5. Accounts Receivable And Prepayments

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

	Dec. 31, 2003	Dec. 31, 2002
Trade receivables	433,959	544,567
Amounts due from related parties (see Note 19)	3,778	3,352
Other receivables	913	1,451
Prepaid expenses and accrued income	52,273	90,040
Less: reserve for doubtful debts	-51,434	-42,119
Total	**439,489**	**597,291**

6. Cash and Cash Equivalents

Included in cash is a restricted deposit in the amount of EUR 178 thousand (CZK 5,768 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):

	Dec. 31, 2003	Dec. 31, 2002
Current		
Loans from shareholders	88,620	88,620
Current portion of long-term loans	25,000	-
Total current borrowings	113,620	88,620
Non-current		
Bonds	1,298,160	1,058,160
Bank loan	865,440	705,440
Less: current portion	-25,000	-
Total non-current borrowings	2,138,600	1,763,600
Total	**2,252,220**	**1,852,220**

Loans from shareholders

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

			Dec. 31, 2003	Dec.31, 2002
	Maturity	Total facility	Amount drawn down	Amount drawn down
Severočeská energetika, a.s.	June 30, 2003	87,710	44,310	44,310
Pražská energetika, a.s.	June 30, 2003	87,710	44,310	44,310
			88,620	**88,620**

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 1.75% to 1.00% in 2003.

Loans from Severočeská energetika, a.s. and Pražská energetika, a.s. are currently overdue. The Company records a reserve for the overdue penalty interest on these loans. These loans are not secured by any collateral.

Based on a General Meeting resolution, in 2002 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 4,620,000 thousand as set out below:

Bonds
The bonds are bearer bonds with a nominal value of CZK 10 thousand. The bonds were issued under number ISIN CZ0003501280 on March, 2002 and a total of 105,816 bonds were placed onto the market. The first tranche was purchased by selected Czech owners of the Group. The second tranche included another 24,000 bonds, which were also issued to selected Czech owners of the Group.

Under the issue terms up to 330 000 bonds may be issued. The bonds bear floating interest of PRIBOR + 1.7% and the yield is payable semi-annually. The interest float rate is re-priced semi-annually and the next re-pricing takes place on March 2, 2004.

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
As of 31 December 2003, the Company had a long-term loan from Commerzbank AG, the Prague branch. The loan is long term with a maximum credit limit of CZK 1,320,000 thousand. The loan bear floating interest of PRIBOR + 0.65% and is repayable in 2008. The shareholders have decided that no drawings above CZK 865,440 thousands may be made.

A Letter of Comfort issued by one of the Company's shareholders, RWE Com Geschäftsführungs-GmbH, secures the loan. The Letter of Comfort is governed by German legislation.

8. Share Capital
As of December 31, 2003 and 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.

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.

The share premium of CZK 115,930 thousand was in 2002 used to partially offset the accumulated losses brought forward.

As of December 31, 2003, Aliatel had no distributable earnings.

9. Accounts Payable and Accruals
The composition of trade and other payables is as follows (in CZK thousands):

	Dec. 31, 2003	Dec. 31, 2002
Trade payables	185,135	485,066
Accrued expenses	255,671	362,191
Deferred income	22,859	-
Advances from customers	2,626	-
Amounts due to related parties (see Note 19)	10,761	29,986
Payables to employees	10,229	13,215
Other payables	1,842	291
Total	**489,123**	**890,749**

Accrued expenses represent primarily unbilled deliveries and services.

10. Commitments and Provisions

Operating lease commitments

Rental expense for offices including services connected was CZK 47,944 thousand in 2003.

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

	2003	2002
Within one year	1,079	1,079
After one year but not more than five years	5,033	6,112
More than five years	-	-
Total	**6,112**	**7,191**

Provisions

Provisions were created in 2003 in the amount of CZK 6,752 thousand to cover the risks resulting from litigation and overdue penalty interest on outstanding shareholder loans from Severočeská energetika, a.s. and Pražská energetika, a.s. The reserves for risks resulting from litigation were determined on the basis of the Company lawyers' analysis; the reserve for delay interest was based on a calculation.

11. Revenues: Services

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

	2003	2002
Voice	1,775,822	1,004,379
Data	670,634	795,406
Internet	99,593	49,375
Other	4,151	2,812
Total	**2,550,200**	**1,851,972**

12. Costs ff Services

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

	2003	2002
Interconnect - usage national	534,977	412,567
Interconnect - usage international	587,955	337,329
Rent and telecommunications services	143,569	178,060
Multinational services - recurring fees	199,210	108,066
Other	108,239	102,852
Total	**1,573,950**	**1,138,874**

13. Other Operating Income and Expenses

In 2003, other operating expenses and income include CZK 23,296 thousand (CZK 160,794 thousand in 2002) and CZK 5,302 thousand (CZK 155,000 thousand in 2002), respectively, representing costs of damages caused by floods in August 2002 and related insurance claims.

14. Financial Expenses, Net

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

	2003	2002
Interest income	2,924	10,763
Interest expense	-79,744	-83,769
Exchange rate gain / (loss), net	-13,747	-11,257
	-90,567	-84,263

15. 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):

	2003	2002
Current expense	1,413	154
Deferred (benefit) expense	174	-
Total	1,587	154

A reconciliation of expected income tax provision for the year ended December 31, 2003, and 2002 is as follows (in CZK thousands):

	2003	2002
Net (loss) before income tax	-785,733	-720,399
Statutory income tax rate	31%	31%
Expected tax benefit	-243,577	-223,324
Tax effect of lower income tax in Slovakia	-354	-34
Add/deduct tax effect of:		
Non-taxable revenues	-	-
Non-deductible expenses	21,536	41,526
Other	17,100	-25,334
Change in valuation allowance	206,882	207,320
Income tax	1,587	154
Effective tax rate	0%	0%

At December 31, 2003 and 2002, deferred tax assets (liabilities) were comprised of the following (in CZK thousands):

	2003	2002
Deferred tax assets:		
Net operating loss carry forwards	593,560	661,413
Carrying value of assets lower than their tax value	300,341	25,606
Total deferred tax assets	893,901	687,019
Valuation allowance	-893,901	-687,019
Net deferred tax assets	-	-
Deferred tax liabilities:		
Fixed assets	-174	-
Total deferred tax liabilities	-174	-
Net deferred tax assets (liabilities)	-174	-

In addition to the above, the Company is further eligible, under certain conditions, to obtain additional tax credits which can be applied against taxes payable in current and future years. These have not been included in the deferred tax balances presented above due to uncertainties as to timing and amount.

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 carry forwards 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.

In 2003, the Czech government enacted a change in the corporate income tax rate from the current 31% to 28%, 26% and 24% for the years 2004, 2005 and 2006. The estimated effect of these rate changes have been reflected in the deferred tax asset and the valuation allowance in the amount of CZK 144,699 thousand.

Prior to finalization of the 2002 income tax return, subsequent to issuance of the 2002 financial statements, the Company's management decided to suspend the tax depreciation of certain asset categories. The 2002 data were adjusted to actuals in above tables.

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

As of December 31, 2003, the Company had net operating loss carry forwards that are available to reduce taxable income in future years, as follows (in CZK thousands):

Losses expiring in	
2004	76,944
2005	321,155
2006	393,095
2007	498,047
2008 and further	826,614
	2,115,855

16. Acquisitions

Aliatel Slovakia s.r.o.

On November 28, 2001, Aliatel established a 100% subsidiary Aliatel Slovakia s.r.o., a Slovak limited liability company. The total cost of the investment was CZK 5,518 thousand paid in cash which equaled to the fair value of net assets of Aliatel Slovakia s.r.o.

Contribution to net profit for 2003 amounted to CZK 4,394 thousand.

17. Loss Per Share

Basic loss per share is calculated by dividing the net loss by the weighted average number of ordinary shares of stock outstanding for the years ended December 31, 2003 and 2002, respectively.

Diluted earnings per share for the years ended December 31, 2003 and 2002 are calculated the same way as there are no dilutive factors.

Loss per share for the years ended December 31, 2003 and 2002 was as follows:

	December 31, 2003		
	Loss (CZK thousands)	Weighted average number of shares	(Loss) per share (CZK)
Basic (loss) per share			
Net (loss) attributable to shareholder	-787,320	327,212	-2,406.15
Diluted (loss) per share			
Net (loss) attributable to shareholder	-787,320	327,212	-2,406.15

	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

18. 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.

Interest rate risk

Long-term debt with floating interest rates exposes the Company to interest rate risk. As of December 31, 2003 and 2002 long-term debt with floating rates of interest amounted to CZK 2,252,220 thousand and CZK 1,852,220 thousand, respectively (see Note 7).

Foreign exchange risk

The following table analyses assets and liabilities in foreign currencies at December 31, 2003 and 2002 by the currency (in thousands):

	Receivables		Payables	
	2003	2002	2003	2002
USD	203	1,068	7	886
EUR	4,344	5,378	1,517	1,744
GBP	-	-	-	1
SKK	20	34	539	158
XDR	73	86	141	-

The Company utilises natural hedging to manage the currency 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 17.52% and 22.66% of trade accounts receivable as of December 31, 2003 and 2002, 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, 2003 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 adjustments for impairment of 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.

19. 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 2003 and 2002 were as follows (in CZK thousands):

Company	Nature	2003	2002
Jihočeská energetika, a.s.	Shareholder	12,331	7,075
Jihomoravská energetika, a.s.	Shareholder	7,161	1,110
Severočeska energetika, a.s.	Shareholder	6,455	3,088
Západočeská energetika, a.s.	Shareholder	5,224	3,371
Severomoravská energetika, a.s.	Shareholder	1,561	2,675
Pražská energetika, a.s.	Shareholder	1,262	-
RWE Com Geschäftsführungs-GmbH	Shareholder	420	-
Východočeská energetika, a.s.	subsidiary of ČEZ, a.s. (98.62%)	3,017	-
Středočeská energetická, a.s.	subsidiary of ČEZ, a.s. (97.72%)	2,353	-
is:energy czech a.s.	subsidiary of JČE (49.5%)	1,722	-
HELLUX ELEKTRA s.r.o.	subsidiary of JČE (33.3%)	51	-
EN - DATA a.s.	subsidiary of ZČE (100%)	1,881	1,150
Plzeňská energetika, a.s.	subsidiary of ZČE (50%)	235	823
Chodské vodárny a kanalizace a.s.	subsidiary of ZČE (7.29%)	150	-
PRO ENERGO Plzeň, spol.s r.o.	subsidiary of ZČE (80%)	6	-
ESS s.r.o.	subsidiary of SČE (51%)	11	-
Union Leasing, a.s.	subsidiary of SME (100%)	45	-
ČEZnet a.s.	subsidiary of ČEZ, a.s. (100%)	9	-
Kotouč Štramberk,spol. s r.o.	affiliated subsidiary of ČEZ, a.s.	6	-
		43,900	**19,292**

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

Company	Nature	Dec. 31, 2003	Dec. 31, 2002
Jihomoravská energetika, a.s.	Shareholder	1,265	264
Severočeská energetika, a.s.	Shareholder	678	975
Jihočeská energetika, a.s.	Shareholder	597	611
Západočeská energetika, a.s.	Shareholder	498	784
Severomoravská energetika, a.s.	Shareholder	105	365
Východočeská energetika, a.s.	subsidiary of ČEZ, a.s. (98.62%)	213	-
Středočeská energetická, a.s.	subsidiary of ČEZ, a.s. (97.72%)	62	-
HELLUX ELEKTRA s.r.o.	subsidiary of JČE (33.3%)	4	-
is:energy czech a.s.	subsidiary of JČE (49.5%)	137	-
Chodské vodárny a kanalizace a.s.	subsidiary of ZČE (7.29%)	14	-
PRO ENERGO Plzeň, spol.s r.o.	subsidiary of ZČE (80%)	5	-
Plzeňská energetika, a.s.	subsidiary of ZČE (50%)	14	120
EN - DATA a.s.	subsidiary of ZČE (100%)	156	233
ESS s.r.o.	subsidiary of SČE (51%)	4	-
Union Leasing, a.s.	subsidiary of SME (100%)	17	-
ČEZnet a.s.	subsidiary of ČEZ,a.s. (100%)	9	-
		3,778	**3,352**

The Company rents fibre network and purchases electricity from its related parties. Purchases for 2003 and 2002 were as follows (in CZK thousands):

Company	Nature	2003	2002
Severočeská energetika, a.s.	Shareholder	23,035	20,829
Západočeská energetika, a.s.	Shareholder	22,858	22,858
Jihomoravská energetika, a.s.	Shareholder	21,605	21,609
Severomoravská energetika, a.s.	Shareholder	21,554	23,605
Jihočeská energetika, a.s.	Shareholder	17,696	18,841
Pražská energetika, a.s.	Shareholder	13,655	12,077
Východočeská energetika, a.s.	subsidiary of ČEZ, a.s. (98.62%)	15,216	-
Středočeská energetická, a.s.	subsidiary of ČEZ, a.s. (97.72%)	9,970	-
Teplárna Tábor a.s.	subsidiary of JČE (51%)	12	-
Energetické Centrum s.r.o.	subsidiary of JČE (51%)	54	-
SINIT, a.s.	subsidiary of SME (100%)	57	-
Energetika Vítkovice, a.s.	subsidiary of SME (100%)	91	108
EN - DATA a.s.	subsidiary of ZČE (100%)	6	-
ČEZ, a.s.		2,984	-
ČEPS, a.s.	affiliated subsidiary of ČEZ,a.s.	858	-
ČEZnet a.s.	subsidiary of ČEZ,a.s. (100%)	1,159	-
		150,810	**119,927**

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

Company	Nature	Dec. 31, 2003	Dec. 31, 2002
Západočeská energetika, a.s.	Shareholder	4	4,784
Jihočeská energetika, a.s.	Shareholder	1,808	5,046
Severomoravská energetika, a.s.	Shareholder	1,991	6,253
Jihomoravská energetika, a.s.	Shareholder	1,973	5,553
Severočeská energetika, a.s.	Shareholder	2,201	6,113
Pražská energetika, a.s.	Shareholder	496	1,069
RWE Com Geschäftsführungs - GmbH	Shareholder	-	61
Středočeská energetická, a.s.	subsidiary of ČEZ, a.s. (97.72%)	898	-
Východočeská energetika, a.s.	subsidiary of ČEZ, a.s. (98.62%)	1,033	-
Teplárna Tábor a.s.	subsidiary of JČE (51%)	13	-
Energetické Centrum s.r.o.	subsidiary of JČE (51%)	1	-
Energetika Vitkovice, a.s.	subsidiary of SME (100%)	60	56
SINIT	subsidiary of SME (100%)	40	51
ČEPS, a.s.	affiliated subsidiary of ČEZ,a.s.	178	-
ČEZnet a.s.	subsidiary of ČEZ,a.s. (100%)	65	-
		10,761	**29,986**

There were no transactions with members of the Board of Directors in 2003 and 2002. No guarantees were provided on behalf of related parties in 2003 and 2002.

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

20. Management Plans for Company

The consolidated financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realise its assets and discharge its liabilities and commitments in the ordinary course of business. The Company has fully drawn currently available credit facilities, however Management forecast the Company has access to sufficient cash resources to allow continued operation for the foreseeable future. As part of its cash management programme, Management plan to defer repayment of two shareholder loans amounting to CZK 88,620 thousand, which are currently overdue, until at least 2005, although formal agreement from the lenders to this planned deferral have not yet been received. These loans are classified as current liabilities within short-term loans.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to agree to a deferral of the shareholder loan repayments or if the company's actual cash needs exceed those forecast.

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):

	2003	2002
Accumulated deficit per statutory accounts at end of year	-2,862,737	-2,075,558
Adjustments required by IFRS:		
Reversal of unrealized foreign exchange variances	-	-
Reversal of statutory deferred tax liability	-73	68
IFRS accumulated deficit at end of year	**-2,862,810**	**-2,075,490**
Net loss per statutory accounts	-787,247	-718,829
Adjustments required by IFRS:		
Reversal of unrealized foreign exchange variances	-	-1,638
Reversal of statutory deferred tax liability	-73	68
Other	-	-
IFRS net loss	**-787,320**	**-720,399**

financial statements and auditor's report

Auditor's 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 2003 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 2003 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

Without qualifying our opinion, we would like to draw attention to the fact, that the accompanying financial statements have been prepared assuming that the Company will continue as a going concern. The Company incurred a loss of CZK 791,641 thousand during the year ending December 31, 2003 and as of that date its accumulated losses of previous years exceed the one half of the registered capital by CZK 1,231,142 thousand. This fact, along with the other matters highlighted in Note 21, raise substantial doubt that the Company will be able to continue as a going concern. Management's plans in regard to these matters are also described in Note 21. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

We have also audited the financial statements of Aliatel a.s. for the years ended 31 December 2002 and 2001 and issued unqualified reports thereon dated 14 February 2003 and 15 March 2002, respectively.

Ernst & Young
Ernst & Young ČR, s.r.o.
License No. 401

Milan Slavík
Auditor, License No. 708

16 February 2004
Prague, Czech Republic
Aliatel a.s.

financial statements

Balance Sheet - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

				Current Year 2003			Prior Year 2002	Prior Year 2001
				Gross	Provisions	Net	Net	Net
			TOTAL ASSETS	**5,183,825**	**-2,020,638**	**3,163,187**	**3,951,624**	**3,402,818**
A.			**STOCK SUBSCRIPTION RECEIVABLE**	**0**	**0**	**0**	**0**	**0**
B.			**FIXED ASSETS**	**4,252,311**	**-1,949,713**	**2,302,598**	**2,990,338**	**2,738,818**
B.	I.		Intangible assets	682,450	-369,521	312,929	411,416	298,432
B.	I.	1	Foundation and organization expenses	0	0	0	0	0
		2	Research and development	0	0	0	0	0
		3	Software	638,609	-329,923	308,686	363,618	161,728
		4	Patents, royalties and similar rights	41,108	-39,598	1,510	15,262	28,986
		5	Goodwill	0	0	0	0	0
		6	Other intangible assets	0	0	0	0	553
		7	Intangible assets in progress	1,580	0	1,580	25,485	100,475
		8	Advances granted for intangible assets	1,153	0	1,153	7,051	6,690
B.	II.		Tangible assets	3,564,343	-1,580,192	1,984,151	2,573,652	2,440,231
B.	II.	1	Land	0	0	0	0	0
		2	Constructions	750,810	-101,436	649,374	587,450	258,602
		3	Separate movable items and groups of movable items	2,776,399	-1,478,739	1,297,660	1,680,654	1,314,209
		4	Perennial crops	0	0	0	0	0
		5	Livestock	0	0	0	0	0
		6	Other tangible assets	17	-17	0	0	330,735
		7	Tangible assets in progress	33,462	0	33,462	302,209	533,110
		8	Advances granted for tangible assets	3,655	0	3,655	3,339	3,575
		9	Gain or loss on revaluation of acquired property	0	0	0	0	0
B.	III.		Financial investments	5,518	0	5,518	5,270	155
B.	III.	1	Subsidiaries	5,518	0	5,518	5,270	155
		2	Associates	0	0	0	0	0
		3	Other long-term securities and interests	0	0	0	0	0
		4	Loans to subsidiaries and associates	0	0	0	0	0
		5	Other long-term investments	0	0	0	0	0
		6	Long-term investments in progress	0	0	0	0	0
		7	Advances granted for long-term investments	0	0	0	0	0
C.			**CURRENT ASSETS**	**923,597**	**-70,925**	**852,672**	**873,051**	**648,968**
C.	I.		Inventory	147,112	-19,491	127,621	189,989	216,537
C.	I.	1	Materials	147,112	-19,491	127,621	189,989	216,537
		2	Work in progress and semi-finished production	0	0	0	0	0
		3	Finished products	0	0	0	0	0
		4	Livestock	0	0	0	0	0
		5	Goods	0	0	0	0	0
		6	Advances granted for inventory	0	0	0	0	0

Balance Sheet - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

				Current Year 2003			Prior Year 2002	Prior Year 2001
				Gross	Provisions	Net	Net	Net
C.	II.		Long-term receivables	2,586	0	2,586	870	800
C.	II.	1	Trade receivables	2,586	0	2,586	870	800
		2	Receivables from subsidiaries	0	0	0	0	0
		3	Receivables from associates	0	0	0	0	0
		4	Receivables from partners, co-operative members and participants in association	0	0	0	0	0
		5	Unbilled revenue	0	0	0	0	0
		6	Other receivables	0	0	0	0	0
		7	Deferred tax asset	0	0	0	0	0
C.	III.		Short-term receivables	489,068	-51,434	437,634	558,090	288,002
C.	III.	1	Trade receivables	436,338	-51,434	384,904	466,600	232,371
		2	Receivables from subsidiaries	0	0	0	0	0
		3	Receivables from associates	0	0	0	0	0
		4	Receivables from partners, co-operative members and participants in association	0	0	0	0	0
		5	Social security and health insurance	0	0	0	0	0
		6	Due from government - tax receivables	7,989	0	7,989	49,514	39,217
		7	Other advances granted	34,756	0	34,756	38,727	12,157
		8	Unbilled revenue	9,540	0	9,540	1,798	3,909
		9	Other receivables	445	0	445	1,451	348
C.	IV.		Short-term financial assets	284,831	0	284,831	124,102	143,629
C.	IV.	1	Cash	204	0	204	431	1,301
		2	Bank accounts	224,627	0	224,627	123,671	142,328
		3	Short-term securities and interests	60,000	0	60,000	0	0
		4	Short-term financial assets in progress	0	0	0	0	0
D.			**OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS**	**7,917**	**0**	**7,917**	**88,235**	**15,032**
D.	I.		Accrued assets and deferred liabilities	7,917	0	7,917	88,235	15,032
D.	I.	1	Prepaid expenses	7,901	0	7,901	12,257	14,859
		2	Prepaid expenses (specific-purpose expenses)	0	0	0	0	0
		3	Unbilled revenue	16	0	16	75,978	173

Balance Sheet - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

				Current Year 2003	Prior Year 2002	Prior Year 2001
			TOTAL EQUITY & LIABILITIES	**3,163,187**	**3,951,624**	**3,402,818**
A.			**EQUITY**	**405,257**	**1,196,651**	**1,334,461**
A.	I.		Basic capital	3,272,120	3,272,120	2,807,120
A.	I.	1	Registered capital	3,272,120	2,807,130	2,807,120
		2	Own shares and own ownership interests (-)	0	0	0
		3	Changes in basic capital	0	464,990	0
A.	II.		Capital funds	339	92	0
A	II.	1	Share premium (agio)	0	0	0
		2	Other capital funds	0	0	0
		3	Gain or loss on revaluation of assets and liabilities	339	92	0
		4	Gain or loss on revaluation of company transformations	0	0	0

Balance Sheet - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

				Current Year 2003	Prior Year 2002	Prior Year 2001
A	III.		Reserve funds, (indivisible fund) and other funds created from profit	0	0	0
A	III.	1	Legal reserve fund/Indivisible fund	0	0	0
		2	Statutory and other funds	0	0	0
A.	IV.		Profit (loss) for the previous years	-2,075,561	-1,356,729	-977,334
	IV.	1	Retained earnings for the previous years	0	0	0
		2	Accumulated loss of previous years	-2,075,561	-1,356,729	-977,334
A.	V.		Profit (loss) for the year (+/-)	-791,641	-718,832	-495,325
B.			**LIABILITIES**	**2,732,547**	**2,740,300**	**2,023,296**
B.	I.		Reserves	6,122	0	3,409
B.	I.	1	Reserves created under special legislation	0	0	0
		2	Reserve for pensions and similar obligations	0	0	0
		3	Reserve for corporate income tax	0	0	0
		4	Other reserves	6,122	0	3,409
B.	II.		Long-term liabilities	1,298,165	1,058,165	7
B.	II.	1	Trade payables	0	0	0
		2	Liabilities to subsidiaries	0	0	0
		3	Liabilities to associates	0	0	0
		4	Liabilities to partners, co-operative members and participants in association	0	0	0
		5	Advances received	5	5	7
		6	Bonds payable	1,298,160	1,058,160	0
		7	Notes payable	0	0	0
		8	Unbilled deliveries	0	0	0
		9	Other liabilities	0	0	0
		10	Deferred tax liability	0	0	0
B.	III.		Current liabilities	474,200	888,075	643,120
B.	III.	1	Trade payables	197,984	515,646	421,489
		2	Liabilities to subsidiaries	0	0	0
		3	Liabilities to associates	0	0	0
		4	Liabilities to partners, co-operative members and participants in association	0	7	150
		5	Liabilities to employees	10,416	13,132	9,385
		6	Liabilities arising from social security and health insurance	7,389	8,520	6,694
		7	Due to government – taxes and subsidies	3,315	4,405	2,747
		8	Advances received	2,626	2,000	13,147
		9	Bonds payable	0	0	0
		10	Unbilled deliveries	252,386	344,084	188,961
		11	Other liabilities	84	281	547
B.	IV.		Bank loans and borrowings	954,060	794,060	1,376,760
B.	IV.	1	Long-term bank loans	840,440	705,440	0
		2	Short-term bank loans	25,000	0	0
		3	Borrowings	88,620	88,620	1,376,760
C.			**OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES**	**25,383**	**14,673**	**45,061**
C.	I.		Accrued liabilities and deferred assets	25,383	14,673	45,061
C.	I.	1	Accruals	2,524	14,673	29,056
		2	Deferred income	22,859	0	16,005

Income Statement - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

			Current Year 2003	Prior Year 2002	Prior Year 2001
	I.	Revenue from sale of goods	0	0	0
A.		Cost of goods sold	0	0	0
	+	**Gross margin**	**0**	**0**	**0**
	II.	Production	2,806,521	2,202,563	1,595,978
	II. 1	Revenue from sale of finished products and services	2,551,471	1, 852,035	1,219,183
	2	Change in inventory produced internally	0	0	0
	3	Own work capitalized	255,050	350,528	376,795
B.		Production related consumption	2,146,887	1 861,308	1,321,436
B.	1	Consumption of material and energy	270,429	400,891	372,171
B.	2	Services	1,876,458	1,460,417	949,265
	+	**Value added**	**659,634**	**341,255**	**274,542**
C.		Personnel expenses	318,963	324,243	256,711
C.	1	Wages and salaries	228,929	232, 191	183,392
C.	2	Bonuses to members of company or cooperation bodies	2,879	2,834	2,975
C.	3	Social security and health insurance	81,531	82,406	64,827
C.	4	Other social costs	5,624	6,812	5,517
D.		Taxes and charges	25,086	26,357	32,595
E.		Amortization and depreciation of intangible and tangible fixed assets	576,495	570,748	467,075
	III.	Revenue from sale of intangible and tangible fixed assets and materials	7,134	29,309	9,996
	III. 1	Revenues from sale of intangible and tangible fixed assets	3,740	28,787	9,922
	2	Revenue from sale of materials	3,394	522	74
F.		Net book value of intangible and tangible fixed assets and materials sold	19,340	15,193	9,447
F.	1	Net book value of intangible and tangible fixed assets sold	12,838	14,663	9,391
F.	2	Materials sold	6,502	530	56
G.		Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	416,184	46,397	12,898
	IV.	Other operating revenues	8,729	4,513	26,128
H.		Other operating expenses	38,707	39,009	11,705
	V.	Transfer of operating revenues	0	0	0
I.		Transfer of operating expenses	0	0	0
	*	**Profit or loss on operating activities**	**-719,278**	**-646,870**	**-479,765**
	VI.	Revenue from sale of securities and interests	4,370	0	0
J.		Securities and interests sold	4,370	0	0
	VII.	Income from financial investments	0	0	0
	VII. 1	Income from subsidiaries and associates	0	0	0
	2	Income from other long-term securities and interests	0	0	0
	3	Income from other financial investments	0	0	0
	VIII.	Income from short-term financial assets	78	7,714	0
K.		Expenses related to financial assets	0	0	0
	IX.	Gain on revaluation of securities and derivatives	0	0	0

Income Statement - Long Form for the Year Ended December 31, 2003

(Czech Crowns - CZK in thousands)

			Current Year 2003	Prior Year 2002	Prior Year 2001
L.		Loss on revaluation of securities and derivatives	0	0	0
M.		Change in reserves and provisions relating to financial activities	0	-3,409	3,409
	X.	Interest income	2,765	3,338	6,324
N.		Interest expense	79,744	83,779	8,270
	XI.	Other finance income	14,845	18,944	16,823
O.		Other finance cost	28,301	31,790	28,361
	XII.	Transfer of finance income	0	0	0
P.		Transfer of finance cost	0	0	0
	*	**Profit or loss on financial activities**	**-90,357**	**-82,164**	**-16,893**
Q.		Tax on profit or loss on ordinary activities	0	0	0
Q.	1	- due	0	0	0
Q.	2	- deferred	0	0	0
	**	**Profit or loss on ordinary activies after taxation**	**-809,635**	**-729,034**	**-496,658**
	XIII.	Extraordinary gains	23,296	182,091	2,465
R.		Extraordinary losses	5,302	171,889	1,132
S.		Tax on extraordinary profit or loss	0	0	0
S.	1	- due	0	0	0
S.	2	- deferred	0	0	0
	*	**Extraordinary profit or loss**	**17,994**	**10,202**	**1,333**
T.		Transfer of share of profit or loss to partners (+/-)	0	0	0
	***	**Profit or loss for the year (+/-)**	**-791,641**	**-718,832**	**-495,325**
		Profit or loss before taxation	**-791,641**	**-718,832**	**-495,325**

Cash Flow Statements for the Years Ended 31 December 2003

(Czech Crowns - CZK in thousands)

		Current Year 2003	Prior Year 2002	Prior Year 2001
	Cash flows from operating activities			
Z.	**Profit or loss on ordinary activities before taxation (+/-)**	**-809,635**	**-729,034**	**-496,658**
A. 1.	Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	1,085,748	705,704	571,583
A. 1. 1.	Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	583,487	570,748	467,075
A. 1. 2.	Change in provisions	410,062	72,048	107,366
A. 1. 3.	Change in reserves	6,122	-3,409	-4,273
A. 1. 4.	Foreign exchange differences	0	0	0
A. 1. 5.	(Gain)/Loss on disposal of fixed assets	9,098	-14,124	-530
A. 1. 6.	Interest expense and interest income	76,979	80,441	1,945
A. 1. 7.	Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	0	0	0
A*	**Net cash from operating activities before taxation, changes in working capital and extraordinary items**	**276,113**	**-23,330**	**74,925**
A. 2.	Change in non-cash components of working capital	-101,516	-1,444,029	-147,721
A. 2. 1.	Change in inventory	67,735	26,548	-60,866
A. 2. 2.	Change in trade receivables	63,673	-256,867	-60,791
A. 2. 3.	Change in other receivables and in prepaid expenses and unbilled revenue	119,078	-15,402	3,670
A. 2. 4.	Change in trade payables	-317,662	94,157	207,100
A. 2. 5.	Change in other payables, short-term loans and in accruals and deferred income	-34,340	-1,292,465	-236,834
A**	**Net cash from operating activities before taxation, interest paid and extraordinary items**	**174,597**	**-1,467,359**	**-72,796**
A. 3.	Interest paid	-108,147	-102,184	-8,270
A. 4.	Tax paid	0	0	0
A. 5.	Gains and losses on extraordinary items	17,994	10,294	1,545
A***	**Net cash provided by (used in) operating activities**	**84,444**	**-1,559,249**	**-79,521**
Cash flows from investing activities				
B. 1.	Purchase of fixed assets	-309,590	-836,931	-1,387,993
B. 2.	Proceeds from sale of fixed assets	8,110	28,787	9,922
B. 3.	Interest received	2,765	3,338	6,324
B. 4.	Dividends received	0	0	0
B***	**Net cash provided by (used in) investing activities**	**-298,715**	**-804,806**	**-1,371,747**
Cash flows from financing activities				
C. 1.	Change in long-term liabilities and long-term loans	375,000	1,763,598	-2
C. 2. 1.	Effect of changes in basic capital on cash	0	465,000	1,496,970
C. 2. 2.	Dividends or profit sharing paid	0	0	0
C. 2. 3.	Effect of other changes in basic capital on cash	0	115,930	0
C***	**Net cash provided by (used in) financing activities**	**375,000**	**2,344,528**	**1,496,968**
F.	**Net increase (decrease) in cash**	**160,729**	**-19,527**	**45,700**
P.	**Cash and cash equivalents at beginning of year**	**124,102**	**143,629**	**97,929**
R.	**Cash and cash equivalents at end of year**	**284,831**	**124,102**	**143,629**

notes to the financial statements

1. Description of the Company

Aliatel a.s. ("the Company") is a joint stock company incorporated on 13 May 1996 in the Czech Republic. The Company's registered office is located at Sokolovská 86, Prague 8, Czech Republic and the business registration number (IČO) is 61058904. The Company is involved in the provision of telecommunication services and establishment, assembly and maintenance of telecommunication equipment.

The following significant changes were made to the Commercial Register entry in 2003:

- On 28 July 2003, an increase in the Company's basic capital by CZK 464,990 thousand was recorded based on the General Meeting's decision of 27 September 2002.
- All changes in the members of the Company's statutory bodies were recorded during the year except for the following: JUDr. Roman Hodoši resigned from the position of member of the Supervisory Board and Ing. Karel Dietrich-Nespěšný has been appointed instead.

Shareholders with an interest in the Company's basic capital are as follows:

Corporate body name	Registered office	Shareholding (in CZK thousands)	Shareholding (in %)
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.	Praha 10, Na Hroudě 19	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 Geschäftsführungs-GmbH	Gutenbergstrasse 3, Essen, Germany	1,308,850	40.00
Total		**3,272,120**	**100.00**

The Company has not concluded a control agreement with the controlling company, RWE Com Geschäftsführungs-GmbH. The Company is included in its consolidated group.
Since 1 April 2003, the Company has been included in the consolidated group of ČEZ as an affiliate, as since that date, ČEZ, a.s. effectively controls 30% through ownership of Severomoravská energetika, a.s., Severočeská energetika, a.s. and Západočeská energetika, a.s.

Members of statutory and supervisory bodies as of 31 December 2003 were as follows:

Board of Directors

Chair:	Ing. Josef Havel
Vice-chair:	Susanne Küppers
Member:	Engelbert Halm
Member:	Ing. Jan Saska
Member:	Bernhard Fanger
Member:	Ing. Václav Čulík

Supervisory Board

Chair:	Ing. Stanislav Peleška
Member:	Dr. Thomas Riemann
Member:	Ing. Jan Veškrna
Member:	Ing. Karel Dietrich-Nespěšný
Member:	Ing. Petr Kroupa
Member:	Ing. Jaroslav Vostárek

2. Basis of Presentation of the Financial Statements

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting, the relevant accounting procedures for entrepreneurs and the decree regulating certain provisions of the Accounting Act for accounting units - entrepreneurs using double entry book-keeping, as applicable for 2003, 2002 and 2001.

2.1 Information Comparability

In connection with the amendments to the Act on Accounting and to the accounting procedures, the form of reporting of some items in the balance sheet, income statement and cash flow statement has changed in 2003. For this reason, certain balances of previous accounting periods have been adjusted so that they can be fully comparable in the accompanying financial statements.

Explanation Added for Translation into English

These financial statements are presented on the basis of accounting principles and standards generally accepted in the Czech Republic. Certain accounting practices applied by the Company that conform with generally accepted accounting principles and standards in the Czech Republic may not conform with generally accepted accounting principles in other countries.

3. Summary of Significant Accounting Policies

The accounting policies applied by the Company in preparing the 2003, 2002 and 2001 financial statements are as follows:

3.1 Intangible Fixed Assets

Intangible fixed assets are valued at their acquisition cost and related expenses.
Low-value intangible fixed assets (with a cost between CZK 10 and 60 thousand) are amortized on a straight-line basis over their estimated useful lives that do not exceed four years.
Low-value intangible assets (with a cost between CZK 3 and 10 thousand) are expensed and carried off-balance sheet.
The costs of technical improvements of intangible fixed assets exceeding CZK 60 thousand per accounting period are capitalized.

3.2 Tangible Fixed Assets

Purchased tangible fixed assets are recorded at their acquisition cost that consists of purchase price, freight, customs duties and other related costs.
Low-value tangible fixed assets (with a cost between CZK 10 and 40 thousand) are depreciated on a straight-line basis over their estimated useful lives as determined by a Company guideline, that do not exceed ten years.
Low-value tangible assets (with a cost between CZK 3 and 10 thousand) are expensed and carried off-balance sheet.
The costs of technical improvements of tangible fixed assets exceeding CZK 40 thousand per accounting period are capitalized. Repairs and maintenance expenses are expensed as incurred.
If the net book value of tangible fixed assets exceeds their estimated recoverable value, a corresponding provision is recorded.

Depreciation

Depreciation is calculated based on the acquisition cost and the estimated useful life of the related asset. The estimated useful lives are as follows:

	Years
Constructions	10 - 30 or over the lease period in case of technical improvements of leased constructions
Machinery and equipment	2 - 15
Vehicles	4
Furniture and fixtures	4 - 8
Other tangibles	2 - 4

In 2003, the Company decided to change the accounting depreciation rates of tangible fixed assets used as of 31 December 2002 and of new tangible fixed assets put into operation from 1 January 2003. The depreciation periods were adjusted from 4 to 6 or 8 years, or, for selected asset categories, reduced from 15 to 12 or 8 years. The depreciation charge for these assets for 2003 was calculated on the basis of application of remaining useful economic lives to the net book value as of 1 January 2003. Fixed assets acquired since 1 January 2003 were already put into operation with changed depreciation rates.

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

Long-term financial assets consist of ownership interests.

As of 31 December 2003 and 2002, the individual components of financial assets are revalued using the following method:
- Held-for-trading securities are revalued to fair value; the change in the fair value is charged or recognized to income, as appropriate.
- Ownership interests are revalued to fair value, and, in case of foreign interests, also at the CNB rate prevailing as at 31 December; the revaluation amounts are recorded in equity through revaluation of assets and liabilities.

The fair value is the market value that is published by the relevant domestic or foreign stock exchange; or, if the market value is not available from a public market, is a valuation amount given in a qualified estimate or in a certified expert's opinion.

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

Inventory is reduced to its realizable value by a provision account. Additions to the provision are charged to income.

3.5 Receivables
Both long- and short-term receivables are carried at their realizable value after provision for doubtful accounts. Additions to the provision account are charged to income.

3.6 Equity
The basic capital of the Company is stated at the amount recorded in the Commercial Register maintained in the Municipal 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 financial statements date, is recorded through changes in basic capital. Contributions in excess of basic capital are recorded as share premium.

In the first year in which profit is generated, a joint-stock company allocates 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.

3.7 Reserves and Liabilities
The Company creates legal reserves within the meaning of the Act on Reserves and reserves for losses and risks if the related title, amount and timing can be reliably estimated and the accrual and matching principles are observed.

Long-term liabilities and current liabilities are carried at their nominal values.

Short-term and long-term loans are recorded at their nominal values. Any portion of long-term debt, which is due within one year of the balance sheet date, is regarded as short-term debt.

3.8 Foreign Currency Transactions
Monetary 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 on the balance sheet date they are adjusted to the exchange rates as published by the Czech National Bank at 31 December.

Realized exchange rate gains and losses were charged or credited, as appropriate, to income for the year. Beginning in 2002, unrealized exchange rate gains and losses are also recognized or charged, as appropriate, into income. In 2001 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 reported as assets in the accompanying balance sheet and were offset by a reserve with a corresponding charge to income.

3.9 Recognition of Revenues and Expenses

Revenues and expenses are recognized on an accrual basis, that is, they are recognized in the periods in which the actual flow of the related goods or services occurs, regardless of when the related monetary flow arises.

Foreseeable risks and losses are recorded as they become known.

3.10 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, taking into consideration the period of realization.

4. Fixed Assets

4.1 Intangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Software	543,706	-	-935	95,838	638,609
Patents, royalties and similar rights	41,534	-	-426	-	41,108
Intangibles in progress	25,485	60,185	-	-84,090	1,580
Advances for intangibles	7,051	5,850	-	-11,748	1,153
2003 Total	617,776	66,035	-1,361	-	682,450
2002 Total	393,253	324,998	-	-100,475	617,776
2001 Total	256,759	321,940	-	-185,443	393,253

The total value of small intangible fixed assets, which are not reflected in the accompanying balance sheet, was CZK 121 thousand, CZK 241 thousand and CZK 230 thousand at acquisition cost as of 31 December 2003, 2002 and 2001, respectively.

ACCUMULATED AMORTIZATION

	At beginning of year	Additions	Disposals	At end of year	Provisions	Net book value
Software	180,088	95,379	-868	274,599	55,324	308,686
Patents, royalties and similar rights	26,272	13,709	-383	39,598	-	1,510
Intangibles in progress	-	-	-	-	-	1,580
Advances for intangibles	-	-	-	-	-	1,153
2003 Total	206,360	109,088	-1,251	314,197	55,324	312,929
2002 Total	94,821	111,539	-	206,360	-	411,416
2001 Total	36,840	57,993	-12	94,821	-	298,432

In 2003, the Company performed an impairment review of fixed assets. The method of discounted estimated operating cash flows, based on the approved business plan for the years 2004 through 2009, has been used. Based on the result of the impairment review, the Company recorded an impairment provision in the total amount of CZK 406,114 thousand. CZK 55,324 thousand has been allocated against software.

4.2 Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Constructions *	647,172	-	-1,882	105,520	750,810
Machinery and equipment	2,535,731	-	-301,841	478,344	2,712,234
Vehicles	68,265	-	-7,329	655	61,591
Furniture and fixtures	2,257	-	-	317	2,574
Other tangibles *	17	-	-	-	17
Tangibles in progress	302,209	315,056	-	-583,803	33,462
Advances for tangibles	3,339	1,349	-	-1,033	3,655
2003 Total	3,558,990	316,405	-311,052	-	3,564,343
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

Note: *) The 2000 and 2001 balances on accounts "Constructions" and "Other tangibles" were recalculated using the 2002 and 2003 reporting method to ensure their comparability. In previous years, technical improvements of leased buildings were reported within "Other tangibles". Starting in 2002, they are included 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, such as acquisitions through purchase, capitalisation or disposal, also amounts resulting from the corrections of accounting entries, transfers between accounts, etc. These movements impact the turnover on the credit/debit sides of the general ledger 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 CZK 78,922 thousand, CZK 56,723 thousand and CZK 19,764 thousand at acquisition cost as of 31 December 2003, 2002 and 2001, respectively.

ACCUMULATED AMORTIZATION

	At beginning of year	Additions	Disposals	At end of year	Provisions	Net book value
Constructions	59,722	42,927	(1,213)	101,436	-	649,374
Machinery and equipment	894,002	350,376	(156,365)	1,088,013	350,790	1,273,431
Vehicles	30,603	13,540	(5,487)	38,656	-	22,935
Furniture and fixtures	994	286	-	1,280	-	1,294
Other tangibles	17	-	-	17	-	-
Tangibles in progress	-	-	-	-	-	33,462
Advances for tangibles	-	-	-	-	-	3,655
2003 Total	985,338	407,129	(163,065)	1,229,402	350,790	1,984,151
2002 Total	690,105	611,154	(315,921)	985,338	-	2,573,652
2001 Total	327,544	411,673	(49,112)	690,105	-	2,440,231

In 2003, the Company performed an impairment review of fixed assets. The method of discounted estimated operating cash flows, based on the approved business plan for the years 2004 through 2009, has been used. Based on the result of the impairment review, the Company recorded an impairment provision in the total amount of CZK 406,114 thousand. CZK 350,790 thousand has been allocated against Machinery and equipment.

4.3 Long-Term Financial Investments (in CZK thousands)

Shares and ownership interests in subsidiaries include financial investments in Aliatel Slovakia s.r.o. The balance sheet data were translated using the Czech National Bank rate as of 31 December 2003, the income statement data were translated at an average annual SKK rate announced by the Czech National Bank (in CZK thousands):

	2003	2002	2001
Percentage of ownership	100	100	100
Total assets	14,528	9,445	155
Equity	10,028	5,275	155
Basic capital and capital funds	5,516	5,263	155
Funds created from profit	8	7	-
Retained earnings	5	-	-
Profit for the current year	4,394	5	-
Acquisition cost of interest	5,518	5,270	155
Nominal value of interest	5,518	5,270	155
Intrinsic value of interest	10,028	5,275	155

Financial information about Aliatel Slovakia s.r.o. was obtained from the company's audited financial statements.

5. Inventory

Excess, obsolete and slow moving inventory has been written down to its estimated net realizable value by a provision account. The provision is determined by management based on the results of inventory stock takes (see Note 7).

6. Receivables

Provisions against outstanding receivables that are considered doubtful were charged to income based on their review and ageing analysis in 2003, 2002 and 2001, respectively (see Note 7).

Receivables overdue for more than 180 days totaled CZK 44,273 thousand, CZK 35,640 thousand and CZK 6,008 thousand as of 31 December 2003, 2002 and 2001, respectively.

As of 31 December 2003, 2002 and 2001, the Company had CZK 2,586 thousand, CZK 870 thousand and CZK 800 thousand, respectively, of long-term receivables relating to long-term advance payments for services provided by the company Eurotel and for the rent for non-residential premises for the purposes of technology placement and warehousing. The advance payments will be accounted for as soon as the relevant services cease to be provided.

Receivables from related parties (see Note 19).

7. Provisions

Provisions reflect a temporary diminution in value of assets (see Notes 4, 5 and 6).

Changes in the provision accounts (in CZK thousands):

Provisions against:	Balance at 31/12/2001	Additions	Deductions	Balance at 31/12/2002	Additions	Deductions	Balance at 31/12/2003
Fixed assets	-	-	-	-	406,114	-	406,114
Inventory	1,099	24,858	-1,099	24,858	19,491	-24,858	19,491
Receivables legal	1,144	13,122	-2,538	11,728	13,277	-11,871	13,134
Receivables other	18,337	34,075	-22,021	30,391	38,580	-30,671	38,300
Total	**20,580**	**72,055**	**-25,658**	**66,977**	**477,462**	**-67,400**	**477,039**

Legal provisions are created in compliance with the Act on Reserves.

8. Other Assets

Prepaid expenses include, in particular, costs of the lease of non-residential premises for the placement of the Company's equipment, costs of insurance of the Company's technology and asset and software maintenance costs. The fees for frequencies and numbers granted by the Czech Telecommunication Authority account for another significant element of prepaid expenses.

Unbilled revenues as of 31 December 2002 include, in particular, insurance company benefits for damages caused by August 2002 flooding.

9. Equity

The basic capital of the Company consists of 327,212 dematerialized and non-tradable registered shares with a nominal value of CZK 10 thousand.

The movements in the capital accounts during 2003, 2002 and 2001 were as follows (in CZK thousands):

	Balance at 31/12/2001	Increase	Decrease	Balance at 31/12/2002	Increase	Decrease	Balance at 31/12/2003
Number of shares	280,712	46,500	-	327,212	-	-	327,212
Basic capital	2,807,120	10	-	2,807,130	464,990	-	3,272,120
Changes in basic capital	-	-	-	464,990	-	-464,990	-
Share premium	-	115,930	-115,930	-	-	-	-
Differences arising from revaluation of assets and liabilities	-	92	-	92	247	-	339
Non-compensated loss of previous years	-977,334	-495,325	115,930	-1,356,729	-718,832	-	-2,075,561

On 27 September 2002, the Company's General Meeting of Shareholders decided about the basic capital increase by 46,499 shares with a nominal value of CZK 10 thousand, i.e. by CZK 464,990 thousand. The decision was recorded in the Commercial Register on 6 December 2002. The basic capital was off-set against the outstanding amount of shareholder loans in December 2002. The increase was recorded in the Commercial Register in July 2003 (see Note 1).

Differences arising from revaluation of assets and liabilities were due to the translation of long-term financial assets, i.e. the ownership interest in Aliatel Slovakia s.r.o. (see Note 4.3).

The Annual General Meetings held on 10 April 2003 and 12 June 2002, respectively, approved the transfer of losses for 2002 and 2001 of CZK 718,832 thousand and CZK 495,325 thousand, respectively, to accumulated losses of previous years.

10. Reserves

The movements in the reserve accounts were as follows (in CZK thousands):

Provisions against:	Balance at 31/12/2001	Additions	Deductions	Balance at 31/12/2002	Additions	Deductions	Balance at 31/12/2003
Foreign exchange rate losses	3,409	-	-3,409	-	-	-	-
Other	-	-	-	-	6,122	-	6,122

Other reserves are created to cover the risks resulting from litigation and overdue penalty interest on outstanding shareholder loans from Severočeská energetika, a.s. and Pražská energetika, a.s. The reserves for risks resulting from litigation were determined on the basis of the Company lawyers' analysis; the reserve for delay interest was based on a calculation.

11. Long-term Liabilities

On 4 March 2003, the Company issued dematerialized bearer bonds with a nominal value of CZK 10 thousand (ISIN CZ0003501280). A total of 105,816 bonds were placed onto the market. The first tranche was purchased by selected Czech owners of the Company. The second tranche included another 24,000 bonds, based on a contract. 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 mature in 2008. CONSEQ Finance is the chief manager of the issue and Československá obchodní banka is the issue administrator. Bonds totaling CZK 1,298,160 thousand were placed as of 31 December 2003.

12. Current Liabilities

As of 31 December 2003, 2002 and 2001, the Company had overdue current trade payables totaling CZK 45,428 thousand, CZK 153,653 thousand and CZK 13,359 thousand, respectively.

Contingencies as of 31 December 2003 include, in particular, unbilled supplies and services of CZK 211,232 thousand, expected interest on shareholder loans of CZK 11,178 thousand and interests and fees relating to a long-term loan and issued bonds of CZK 29,975 thousand. Payables to related parties (see Note 19).

13. Bank Loans

Bank loans as of 31 December were as follows (in CZK thousands):

Bank	Maturity	Total limit	Interest rate	2003 Amount in TCZK	2002 Amount in TCZK	2001 Amoun in TCZK
Commerzbank AG	4. 3. 2008	TCZK 1,320,000	PRIBOR+0.65%	865,440	705,440	-
Commerzbank AG and Creditanstalt AG	21. 3. 2001	USD 34,000 thous.	LIBOR+0.45%	-	-	594,552
Current portion				-25,000	-	-594,552
Due in future years				840,440	-	-

As of 31 December 2003, the Company had a long-term loan from Commerzbank AG, the Prague branch. The original credit limit is CZK 1,320,000 thousand. Shareholders decided that no drawings above CZK 865,440 thousands would be made. The loan is secured by a binding letter of comfort issued by RWE Com Geschäftsführungs-GmbH.

The interest expense relating to bank loans for 2003, 2002 and 2001 was CZK 26,221 thousand, CZK 26,439 thousand and CZK 9,387 thousand, respectively, of which CZK 2,240 thousand, CZK 2,130 thousand and CZK 6,985 thousand, respectively, were capitalized as part of construction of tangible fixed assets.

Short-term financial borrowings from shareholders (see Note 19).

14. Other Liabilities

Accruals include, in particular, credit notes to customer invoices issued by the Company after the end of the period in which they were incurred.

Deferred income includes, in particular, installation fees related to the provision of services. They are recognized into income for the period they relate to.

15. Income Taxes

(in CZK thousands)

	2003	2002	2001
Loss before taxes	-791,641	-718,832	-495,325
Non-taxable revenues	-57,066	-19,436	-30,221
Differences between book and tax depreciation	329,330	404,430	-213,382
Non-deductible expenses			
Creation of provisions	463,638	55,248	29,239
Other	69,471	133,955	27,710
Taxable income	13,732	-144,635	-681,979
Cumulated tax losses utilization	-13,732	-	-
Current income tax rate	31%	31%	31%
Current tax expense	-	-	-

Pursuant to the Income Taxes Act, the Company can carryforward tax losses for up to seven years. The remaining tax loss carryforward from the years 1997 through 2002, the benefit of which has not been recognized in the accompanying financial statements, amounted to CZK 2,115,854 thousand as of 31 December 2003. These total accumulated tax losses are net of tax losses arising in 1996 in the amount of CZK 4,003 thousand, which expired in 2003.

In May 2003, the Company's management decided to suspend the tax depreciation of selected asset categories. The decision was reflected in the 2002 corporate income tax return, but the change was not reflected in Note 14 of the Notes to the 2002 financial statements - Income Taxes. The data included in the above table have already been adjusted to 2002 actual.

The Company quantified deferred taxes as follows:

	2003		2002		2001	
Deferred tax items	Deferred tax asset	Deferred tax liability	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	182,442	-	11,353	-	-	-143,604
Other temporary differences:						
- Provision against receivables	10,798	-	6,547	-	5,330	-
- Provision against inventory	5,457	-	7,706	-	340	-
- Provision against fixed assets	100,175	-	-	-	-	-
- Reserves	1,469	-	-	-	1,057	-
- Tax loss carryforward	593,560	-	661,413	-	616,576	-
Total	893,901	-	687,019	-	623,303	-143,604
Net	893,901	-	687,019	-	479,699	-

In 2002, the Company suspended the tax depreciation of certain asset categories. The 2002 data were adjusted to actuals in the above table.

The Company did not record a deferred tax asset of CZK 893,901 thousand on the basis that its recovery is uncertain.

The components of the gross deferred tax balance presented above are subject to finalization of the 2003 tax return in connection with the Company's tax planning. In this respect, the utilization of various components of temporary differences may change. However, in aggregate, there will be no material impact on total temporary differences.

16. Commitments and Contingencies

The Company has opened a depository revolving account with ČSOB in the amount of EUR 178 thousand (CZK 5,768 thousand) resulting from the rental contract signed with ZIRKON REAL, spol. s r.o. (the rent of non-residential premises, including utilities). The account is restricted from use until 1 October 2007.

In the course of 2003, bank guarantees for tenders were deposited within tender proceedings. The guarantees were short-term and all of them have been returned. In addition, a 6-month payment guarantee of CZK 3,500 thousand was deposited in connection with the contract on the provision of telecommunication services with ERIKA. The guarantee expires in March 2004.

17. Revenues

The breakdown of revenues from ordinary activities is as follows (in CZK thousands):

	2003		2002		2001	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Services	2,250,553	300,918	1,233,696	618,339	829,325	389,858

In 2003, a significant portion of the revenues of the Company (approximately 30%) was concentrated with 10 main customers in the telecommunication industry. These are both domestic and foreign telecommunication operators.

18. Personnel and Related Expenses

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

	2003		2002		2001	
	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies	Total personnel	Members of managerial bodies
Average number of employees	348	7	383	6	319	5
Wages and salaries	228,929	22,627	232,191	19,465	183,392	14,789
Social security	81,531	7,920	82,406	6,813	64,827	5,176
Social cost	5,624	138	6,812	128	5,517	84
Total personnel expenses	**316,084**	**30,685**	**321,409**	**26,406**	**253,736**	**20,049**

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,879 thousand, CZK 2,834 thousand and CZK 2,975 thousand in 2003, 2002 and 2001, respectively.

19. Related Party Information

The members of statutory bodies were granted no loans, guarantees, advances or other benefits in 2003, 2002 and 2001 and they do not hold any shares of the Company.

Short-term loans received from the shareholders as of 31 December were as follows (in CZK thousands):

	2003		2002		2001	
Related party	Loan	Outstanding interest	Loan	Outstanding interest	Loan	Outstanding interest
Západočeská energetika, a.s.	-	2,710	-	2,710	61,210	2,185
Jihočeská energetika, a.s.	-	2,293	-	2,293	295,710	40,795
Severomoravská energetika, a.s.	-	3,489	-	3,489	92,210	3,055
Jihomoravská energetika, a.s.	-	3,479	-	3,479	92,210	2,837
Severočeská energetika, a.s.	44,310	10,548	44,310	7,983	87,710	2,696
Pražská energetika, a.s.	44,310	10,699	44,310	8,034	87,710	2,648
RWE Com Geschäftsführungs-GmbH	-	13,692	-	13,692	660,000	49,354
Total	**88,620**	**46,910**	**88,620**	**41,680**	**1,376,760**	**103,570**

The loans bear interest amounting to 140% of the CNB discount rate.

The Company sells products and services to related parties in the ordinary course of business. Sales were CZK 47,585 thousand, CZK 22,228 thousand and CZK 9,276 thousand in 2003, 2002 and 2001, respectively. Short-term receivables from related parties as of 31 December were as follows (in CZK thousands):

Related party	2003	2002	2001
Západočeská energetika, a.s.	498	784	-
Jihočeská energetika, a.s.	597	611	608
Severomoravská energetika, a.s.	105	365	250
Jihomoravská energetika, a.s.	1,265	264	-
Severočeská energetika, a.s.	678	975	171
Středočeská energetická, a.s.	62	-	-
Východočeská energetika, a.s.	213	-	-
Plzeňská energetika, a.s.	14	120	-
EN - DATA a.s.	156	233	-
ESS s.r.o.	4	-	-
ČEZnet a.s.	9	-	-
HELLUX ELEKTRA s.r.o.	4	-	-
Chodské vodárny a kanalizace a.s.	14	-	-
is:energy czech a.s.	137	-	-
PRO energo Plzeň, spol.s r.o.	5	-	-
Union Leasing, a.s.	17	-	-
Aliatel Slovakia s.r.o.	1,113	2,055	-
Total	**4,891**	**5,407**	**1,029**

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 175,088 thousand, CZK 126,992 thousand and CZK 100,865 thousand in 2003, 2002 and 2001, respectively. Short-term payables to related parties as of 31 December were as follows (in CZK thousands):

Related party	2003	2002	2001
Západočeská energetika, a.s.	4	4,784	4,071
Jihočeská energetika, a.s.	1,808	5,046	2,046
Severomoravská energetika, a.s.	1,991	6,253	2,103
Jihomoravská energetika, a.s.	1,973	5,553	12,305
Severočeská energetika, a.s.	2,201	6,113	1,807
Pražská energetika, a.s.	496	1,069	806
Středočeská energetika, a.s.	898	-	-
Východočeská energetika, a.s.	1,033	-	-
RWE Com Geschäftsführungs-GmbH	-	61	-
ČEPS, a.s.	178	-	-
ČEZnet a.s.	65	-	-
Energetické centrum s.r.o.	1	-	-
Teplárna Tábor a.s.	13	-	-
SINIT, a.s.	40	51	-
Energetika Vítkovice, a.s.	60	56	-
Aliatel Slovakia s.r.o.	2,240	1,080	150
Total	**13,001**	**30,066**	**23,288**

20. Significant Items of Income Statement

Extraordinary gains include, in particular, insurance benefits provided by the insurance company as a compensation for damages due to 2002 flooding.

Extraordinary losses include, in particular, damages caused by the flooding.

21. The Company's Future

The financial statements have been prepared on a going concern basis, which assumes the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities and commitments in the ordinary course of business. The Company has fully drawn currently available credit facilities, however Management forecast the Company has access to sufficient cash resources to allow continued operation for the foreseeable future. As part of its cash management programme, Management plan to defer repayment of two shareholder loans amounting to CZK 88,620 thousand, which are currently overdue, until at least 2005, although formal agreement from the lenders to this planned deferral have not yet been received. These loans are classified as current liabilities within borrowings.

These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to agree to a deferral of the shareholder loan repayments or if the company's actual cash needs exceed those forecast.

report on relations 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, 2003 to December 31, 2003

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 March 24, 2004 and approved unanimously.

1. Basic capital of the company and its shareholding

As of the last day of the fiscal year of 2003, i.e. as of December 31, 2003, 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 3,272,120,000 comprised by a total of 327,212 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 2003, i.e. as of December 31, 2003, the shareholding structure of Aliatel a.s. was as follows:

Shareholder	Number of Shares	Stake in the Company [in %]
Pražská energetika, a.s.	30,540	9.33340
Severočeská energetika, a.s.	30,539	9.33309
Západočeská energetika, a.s.	33,812	10.33336
Jihočeská energetika, a.s.	33,811	10.33306
Jihomoravská energetika, a.s.	33,813	10.33367
Severomoravská energetika, a.s.	33,812	10.33336
RWE Com Geschäftsführungs-GmbH	130,885	40.00006

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 Geschäftsführungs-GmbH, seated at Gutenbergstrasse 3, 45128 Essen, Germany, the shareholder. There is no relevant information that there are another persons acting in a concerted conduct with the same or higher amount of the voting rights.

There has been no controlling agreement concluded between and by Aliatel a.s. (controlled person) and RWE Com Geschäftsführungs-GmbH, the shareholder (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 information provided by RWE Com Geschäftsführungs-GmbH, that besides Aliatel a.s. the shareholder RWE Com Geschäftsführungs-GmbH as controlling person has also controlled other persons as follows:

1	**mysaar.com Betreibergesellschaft Verwaltungs GmbH** Gutenbergstrasse 3, 45128 Essen, Germany	100.00%
2	**RWE Telliance Finance GmbH** Gutenbergstrasse 3, 45128 Essen, Germany	100.00%
3	**VR Telecommunications Geschäftsführungs GmbH** Diekstraat 7, 25870 Norderfriedrichskoog, Germany	48.75%
4	**VR Telecommunications Holding GmbH i.L.** e.on Platz 1, 40479 Düsseldorf, Germany	50.00%
5	**VR Telecommunications Beteiligungsverwaltungs GmbH & Co. KG** e.on Platz 1, 40479 Düsseldorf, Germany	48.75%
5	**VR Telecommunications Beteiligungsverwaltungs GmbH** e.on Platz 1, 40479 Düsseldorf, Germany	48.75%

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 controlling person itself has not revealed the stake in such controlled person.

4. Contracts concluded between and by Aliatel a.s. and persons related/linked

Within the fiscal period monitored Aliatel a.s. had not concluded an agreement with the persons related/linked.

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 a.s. had not provided any services to the persons related/linked. There are not any short-term receivables or long-term receivables with respect to persons related/linked.

7. Transactions undertaken between the persons related/linked - purchases

Aliatel a.s. had not purchased from persons related/linked any goods nor services.

8. Conclusion

Aliatel a.s., as a person controlled, had not incurred any harms or damages resulting from any legal acts with respect to persons related/linked.

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
Aliatel a.s.

persons responsible for annual report

Persons responsible for the contents of Annual Report are as follows:
Josef Havel, Chairman of the Board of Aliatel a.s.
Bernhard Fanger, Member of the Board of Directors and Director General of Aliatel a.s.

Affirmation

Information set forth in this Annual Report or its part hereof fully correspond with the reality; there were not omitted or misrepresented any substantial facts that may affect an accurate and correct evaluation of the issuer and securities this issuer had issued.

Josef Havel
Chairman of the Board
Aliatel a.s.

Bernhard Fanger
Member of the Board of Directors
General Director
Aliatel a.s.

Aliatel a.s.
Sokolovská 131/86, 186 00 Praha 8
Reception desk, phone: (+420) 2 25 25 11 11, fax: (+420) 2 25 25 11 22
Contact Center, phone: (+420) 2 25 25 25 25, (+420) 800 990 990, fax: (+420) 2 25 25 15 15
mail@aliatel.cz, www.aliatel.cz

Regional representation offices:
Praha, Sokolovská 86, phone: (+420) 225 25 33 66; fax: (+420) 225 25 33 66)
Brno, Údolní 27, phone: (+420) 515 50 11 11; fax: (+420) 515 50 12 22)
České Budějovice, Čechova 52, phone: (+420) 387 31 10 80; fax: (+420) 387 31 10 79)
Hradec Králové, Nerudova 198, phone: (+420) 498 50 15 00; fax: (+420) 498 50 15 01)
Ostrava, Havlíčkovo nábřeží 38, phone: (+420) 597 46 43 35; fax: (+420) 597 46 43 36)
Plzeň, Husova 71, phone: (+420) 378 13 28 29; fax: (+420) 378 13 28 30)
Ústí nad Labem, Pařížská 538/19, phone: (+420) 475 20 11 14; fax: (+420) 475 20 11 14)

Aliatel Slovakia, s.r.o.
Ružová dolina č.6, 821 08 Bratislava
Slovak Republic
phone: (+421 2) 5022 1544; fax: (+421 2) 5022 1547
mail@aliatel.sk, www.aliatel.sk

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