

annual report 2004



The best connection for your business



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board of directors' report

Board of Directors' Report of the Aliatel a. s. Company's Business Activities and Assets in 2004

In 2004, Aliatel successfully confirmed and enhanced its position in all key segments of the market. By addressing the small and medium-size enterprises segment, the company increased its revenues, especially from voice and Internet services; implementation of projects for the state administration was also successful. The company retained its top position in the segment of financial and insurance services. An ever-growing proportion of the company's revenues are generated by integrated packages of voice, Internet and data services. Similar to last year, internet services are most dynamic in their growth. Aliatel also confirmed its strong position on the wholesale market. Many important international providers and mobile operators are among the company's wholesale customers, including many alternative providers.

The fact that our telecommunication network is based on solid foundations positively affected telecommunication infrastructure and investment. This positive trend can be seen in the following two main areas:

- The total investment necessary for the development of the network infrastructure was reduced by 25% in comparison with last year, with 2004 amount of 117 million CZK.
- The structure of the investments significantly enhances access technology; i.e., the majority of the investment was directly related to individual customers' access lines; a smaller part of the investment was incurred on completion of basic infrastructure.

Thanks to the successful „Business Komplet“ services, the most dynamically developing technology in 2004 was the wireless P-MP loop in the 3.5 GHz frequency band; almost 250 new access lines were built with the aid of this technology.

Another significant reduction of investment was seen in the area of information systems (by more than 50% to 24 million CZK). This lower level of investment is a result partly of increased efficiency, and also modifications of certain key projects, specifically in the CRM area.

The company has continued to focus on quality in all respects; the company has passed a certification audit for the ISO 9001:2000 Standard.

In 2004, our shareholders intensively negotiated the sale of all shares of the company. This process was completed on 18 December 2004, when a contract for the sale of 100% of the company's shares to the company GTS CZECH, a.s., was signed. GTS CZECH, a.s., thus became a sole owner of Aliatel. This acquisition, subsequently approved by the Office for the Protection of Competition, merged the two most important alternative telecommunication operators in the Czech Republic, further consolidating the market and, in reality, created the only second nationwide operator in the Czech Republic.

The key financial indices are as follows:

The loss as of 31 December 2004 was -242,566 thousand CZK.

Revenues from own products and services amounted to 2,767,935 thousand CZK, a year-to-year increase of 8.5%. In 2004, revenues from goods sold, amounted to 1,110 thousand CZK. These goods were sold within the provision of ADSL services.

Savings were reflected in investment. Investment amounted to 147,194 thousand CZK, which is a reduction to 67% from the 2003 investments.

The basic capital amounted to 5,474,340 thousand CZK as of 31 December 2004. It was increased in July 2004, when a decision was made to capitalise bond payables and shareholder loans. In 2004, the company's financing was in accordance with the plan.

As of 31 December 2004, our daughter company Aliatel Slovakia, s.r.o. had a pre-tax profit of 5,180 thousand SKK (according to the preliminary legal-entity income tax return) and total revenues amounted to 38,408 thousand SKK, which is a 10.44% increase compared with 2003.

In Prague, dated 30 March 2005



Ing. Milan Rusnák
Chairman of the Board of Directors
Aliatel a. s.



auditor's report

To the Shareholders of Aliatel a. s.:

We have audited the financial statements of Aliatel a. s. for the year ended 31 December 2004 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 at 31 December 2004 and the financial results for the year then ended in accordance with Act No. 563/1991 Coll. on Accounting and relevant legislation.

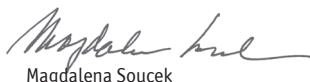
We have also audited the financial statements of Aliatel a. s. for the years ended 31 December 2003 and 2002 and issued unqualified reports thereon dated 16 February 2004 and 14 February 2003, respectively.

The accompanying annual report for 2004 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 2004. 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 CR, s.r.o.

License No. 401



Magdalena Soucek

Auditor, License No. 1291

14 February 2005

Prague, Czech Republic

financial part

financial statements

for the year ended 31 december 2004

report on relationships between inter-related parties

according to the provisions of Section 66a, subs. 9 of the Commercial Code, i.e., Act No. 513/1991 Coll., as later amended;
for the accounting period from 1 January 2004 to 31 December 2004


 financial
statements

Balance Sheet - Long Form as of 31 December 2004

(in thousands of Czech crowns)

	Current year 2004			Prior year	Prior year
	Gross	Provisions	Net	2003	2002
				Net	Net
TOTAL ASSETS	5,286,474	-2,372,052	2,914,422	3,163,187	3,951,624
A. STOCK SUBSCRIPTION RECEIVABLE	0	0	0	0	0
B. FIXED ASSETS	4,362,654	-2,331,226	2,031,428	2,302,598	2,990,338
B. I. Intangible assets	702,444	-451,660	250,784	312,929	411,416
B. I. 1 Foundation and organization expenses	0	0	0	0	0
2 Research and development	0	0	0	0	0
3 Software	658,893	-410,628	248,265	308,686	363,618
4 Patents, royalties and similar rights	41,108	-41,032	76	1,510	15,262
5 Goodwill	0	0	0	0	0
6 Other intangible assets	0	0	0	0	0
7 Intangible assets in progress	38	0	38	1,580	25,485
8 Advances granted for intangible assets	2,405	0	2,405	1,153	7,051
B. II. Tangible assets	3,654,698	-1,879,566	1,775,132	1,984,151	2,573,652
B. II. 1 Land	0	0	0	0	0
2 Constructions	759,035	-145,434	613,601	649,374	587,450
3 Separate movable items and groups of movable items	2,880,382	-1,734,115	1,146,267	1,297,660	1,680,654
4 Perennial crops	0	0	0	0	0
5 Livestock	0	0	0	0	0
6 Other tangible assets	17	-17	0	0	0
7 Tangible assets in progress	11,752	0	11,752	33,462	302,209
8 Advances granted for tangible assets	3,512	0	3,512	3,655	3,339
9 Gain or loss on revaluation of acquired property	0	0	0	0	0
B. III. Financial investments	5,512	0	5,512	5,518	5,270
B. III. 1 Subsidiaries	5,512	0	5,512	5,518	5,270
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	911,382	-40,826	870,556	852,672	873,051
C. I. Inventory	115,842	-1,496	114,346	127,621	189,989
C. I. 1 Materials	115,814	-1,496	114,318	127,621	189,989
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	28	0	28	0	0
6 Advances granted for inventory	0	0	0	0	0
C. II. Long-term receivables	659	0	659	2,586	870
C. II. 1 Trade receivables	659	0	659	2,586	870
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

Balance Sheet - Long Form as of 31 December 2004

(in thousands of Czech crowns)

	Current year 2004			Prior year 2003	Prior year 2002
	Gross	Provisions	Net	Net	Net
5 Long-term advances granted	0	0	0	0	0
6 Unbilled revenue	0	0	0	0	0
7 Other receivables	0	0	0	0	0
8 Deferred tax asset	0	0	0	0	0
C. III. Short-term receivables	512,308	-39,330	472,978	437,634	558,090
C. III. 1 Trade receivables	461,873	-39,330	422,543	384,904	466,600
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	12,957	0	12,957	7,989	49,514
7 Short-term advances granted	24,197	0	24,197	34,756	38,727
8 Unbilled revenue	12,801	0	12,801	9,540	1,798
9 Other receivables	480	0	480	445	1,451
C. IV. Short-term financial assets	282,573	0	282,573	284,831	124,102
C. IV. 1 Cash	193	0	193	204	431
2 Bank accounts	282,307	0	282,307	224,627	123,671
3 Short-term securities and interests	73	0	73	60,000	0
4 Short-term financial assets in progress	0	0	0	0	0
D. OTHER ASSETS - TEMPORARY ACCOUNTS OF ASSETS	12,438	0	12,438	7,917	88,235
D. I. Accrued assets and deferred liabilities	12,438	0	12,438	7,917	88,235
D. I. 1 Prepaid expenses	11,355	0	11,355	7,901	12,257
2 Prepaid expenses (specific-purpose expenses)	0	0	0	0	0
3 Unbilled revenue	1,083	0	1,083	16	75,978

Balance Sheet - Long Form as of 31 December 2004

(in thousands of Czech crowns)

	Current year 2004	Prior year 2003	Prior year 2002
TOTAL EQUITY & LIABILITIES	2,914,422	3,163,187	3,951,624
A. EQUITY	2,361,890	405,257	1,196,651
A. I. Basic capital	5,474,340	3,272,120	3,272,120
A. I. 1 Registered capital	5,474,340	3,272,120	2,807,130
2 Own shares and own ownership interests (-)	0	0	0
3 Changes in basic capital	0	0	464,990
A. II. Capital funds	333	339	92
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	333	339	92
4 Gain or loss on revaluation of company transformations	0	0	0

Balance Sheet - Long Form as of 31 December 2004

(in thousands of Czech crowns)

	Current year 2004	Prior year 2003	Prior year 2002
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	-2,867,202	-2,075,561	-1,356,729
IV. 1 Retained earnings for the previous years	0	0	0
2 Accumulated loss of previous years	-2,867,202	-2,075,561	-1,356,729
A V. Profit (loss) for the year (+/-)	-245,581	-791,641	-718,832
B. LIABILITIES	550,721	2,732,547	2,740,300
B. I. Reserves	6,605	6,122	0
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	6,605	6,122	0
B. II. Long-term liabilities	0	1,298,165	1,058,165
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	0	5	5
6 Bonds payable	0	1,298,160	1,058,160
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	544,116	474,200	888,075
B. III. 1 Trade payables	318,996	197,984	515,646
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	7
5 Liabilities to employees	10,668	10,416	13,132
6 Liabilities arising from social security and health insurance	23,399	7,389	8,520
7 Due to government – taxes and subsidies	12,569	3,315	4,405
8 Advances received	9,179	2,626	2,000
9 Bonds payable	0	0	0
10 Unbilled deliveries	169,237	252,386	344,084
11 Other liabilities	68	84	281
B. IV. Bank loans and borrowings	0	954,060	794,060
B. IV. 1 Long-term bank loans	0	840,440	705,440
2 Short-term bank loans	0	25,000	0
3 Borrowings	0	88,620	88,620
C. OTHER LIABILITIES - TEMPORARY ACCOUNTS OF LIABILITIES	1,811	25,383	14,673
C. I. Accrued liabilities and deferred assets	1,811	25,383	14,673
C. I. 1 Accruals	1,811	2,524	14,673
2 Deferred income	0	22,859	0

Income Statement - Long Form as of 31 December 2004

(in thousands of Czech crowns)

	Current year 2004	Prior year 2003	Prior year 2002
I. 1 Revenue from sale of goods	1,110	0	0
A. 2 Cost of goods sold	903	0	0
+ Gross margin	207	0	0
II. Production	2,948,262	2,806,521	2,202,563
II. 1 Revenue from sale of finished products and services	2,767,935	2,551,471	1,852,035
2 Change in inventory produced internally	0	0	0
3 Own work capitalized	180,327	255,050	350,528
B. Production related consumption	2,273,350	2,146,887	1,861,308
B. 1 Consumption of material and energy	192,129	270,429	400,891
B. 2 Services	2,081,221	1,876,458	1,460,417
+ Value added	675,119	659,634	341,255
C. Personnel expenses	355,489	318,963	324,243
C. 1 Wages and salaries	254,903	228,929	232,191
C. 2 Bonuses to members of company or cooperation bodies	2,893	2,879	2,834
C. 3 Social security and health insurance	90,161	81,531	82,406
C. 4 Other social costs	7,532	5,624	6,812
D. 1 Taxes and charges	38,155	25,086	26,357
E. 1 Amortization and depreciation of intangible and tangible fixed assets	494,432	576,495	570,748
III. Revenue from sale of intangible and tangible fixed assets and materials	5,124	7,134	29,309
III. 1 Revenues from sale of intangible and tangible fixed assets	3,813	3,740	28,787
2 Revenue from sale of materials	1,311	3,394	522
F. Net book value of intangible and tangible fixed assets and materials sold	26,259	19,340	15,193
F. 1 Net book value of intangible and tangible fixed assets sold	2,300	12,838	14,663
F. 2 Materials sold	23,959	6,502	530
G. 1 Change in reserves and provisions relating to operations and in prepaid expenses (specific-purpose expenses)	-74,740	416,184	46,397
IV. 1 Other operating revenues	5,346	8,729	4,513
H. 2 Other operating expenses	39,823	38,707	39,009
V. 1 Transfer of operating revenues	0	0	0
I. 2 Transfer of operating expenses	0	0	0
* Profit or loss on operating activities	-193,829	-719,278	-646,870
VI. 1 Revenue from sale of securities and interests	0	4,370	0
J. 2 Securities and interests sold	0	4,370	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. 1 Income from short-term financial assets	0	78	7,714
K. 2 Expenses related to financial assets	0	0	0
IX. 1 Gain on revaluation of securities and derivatives	0	0	0

Income Statement - Long Form as of 31 December 2004

(in thousands of Czech crowns)

		Current year 2004	Prior year 2003	Prior year 2002
L.	2	Loss on revaluation of securities and derivatives	0	0
M.	1	Change in reserves and provisions relating to financial activities	0	-3,409
X.	1	Interest income	2,996	3,338
N.	2	Interest expense	39,749	83,779
XI.	1	Other finance income	21,553	18,944
O.	2	Other finance cost	34,987	31,790
XII.	1	Transfer of finance income	0	0
P.	2	Transfer of finance cost	0	0
*		Profit or loss on financial activities	-50,187	-82,164
Q.		Tax on profit or loss on ordinary activities	0	0
Q.	1	- due	0	0
Q.	2	- deferred	0	0
**		Profit or loss on ordinary activities after taxation	-244,016	-729,034
XIII.	1	Extraordinary gains	0	182,091
R.	2	Extraordinary losses	1,565	171,889
S.	1	Tax on extraordinary profit or loss	0	0
S.	1	- due	0	0
S.	2	- deferred	0	0
*		Extraordinary profit or loss	-1,565	10,202
T.	1	Transfer of share of profit or loss to partners (+/-)	0	0
***		Profit or loss for the year (+/-)	-245,581	-718,832
****		Profit or loss before taxation	-245,581	-718,832

Cash Flow Statement for the Years Ended 31 December 2004

(in thousands of Czech crowns)

	Current year 2004	Prior year 2003	Prior year 2002
Cash flows from operating activities			
Z. Profit or loss on ordinary activities before taxation (+/-)	-244,016	-809,635	-729,034
A. 1. Adjustments to reconcile profit or loss to net cash provided by or used in operating activities	468,183	1,085,748	705,704
A. 1. 1. Depreciation and amortization of fixed assets, write-off of receivables and adjustment to acquired property	507,689	583,487	570,748
A. 1. 2. Change in provisions	-75,223	410,062	72,048
A. 1. 3. Change in reserves	483	6,122	-3,409
A. 1. 4. Foreign exchange differences	0	0	0
A. 1. 5. (Gain)/Loss on disposal of fixed assets	-1,513	9,098	-14,124
A. 1. 6. Interest expense and interest income	36,753	76,979	80,441
A. 1. 7. Other non-cash movements (e.g. revaluation at fair value to profit or loss, dividends received)	-6	0	0
A * Net cash from operating activities before taxation, changes in working capital and extraordinary items	224,167	276,113	-23,330
A. 2. Change in non-cash components of working capital	79,676	-101,516	-1,444,029
A. 2. 1. Change in inventory	31,270	67,735	26,548
A. 2. 2. Change in trade receivables	-36,865	63,673	-256,867
A. 2. 3. Change in other receivables and in prepaid expenses and unbilled revenue	-2,226	119,078	-15,402
A. 2. 4. Change in trade payables	121,012	-317,662	94,157
A. 2. 5. Change in other payables, short-term loans and in accruals and deferred income	-33,515	-34,340	-1,292,465
A ** Net cash from operating activities before taxation, interest paid and extraordinary items	303,843	174,597	-1,467,359
A. 3. 1 Interest paid	-81,091	-108,147	-102,184
A. 4. 1 Tax paid	0	0	0
A. 5. 1 Gains and losses on extraordinary items	-1,565	17,994	10,294
A *** Net cash provided by (used in) operating activities	221,187	84,444	-1,559,249
Cash flows from investing activities			
B. 1. 1 Purchase of fixed assets	-180,249	-309,590	-836,931
B. 2. 1 Proceeds from sale of fixed assets	3,813	8,110	28,787
B. 3. 1. Loans granted	0	0	0
B. 4. 1 Interest received	2,996	2,765	3,338
B. 5. 1 Dividends received	0	0	0
B *** Net cash provided by (used in) investing activities	-173,440	-298,715	-804,806
Cash flows from financing activities			
C. 1. 1 Change in long-term liabilities and long-term, resp. short-term, loans	-50,005	375,000	1,763,598
C. 2. 1. Effect of changes in basic capital on cash	0	0	465,000
C. 2. 2. Dividends or profit sharing paid	0	0	0
C. 2. 3. Effect of other changes in basic capital on cash	0	0	115,930
C *** Net cash provided by (used in) financing activities	-50,005	375,000	2,344,528
F. Net increase (decrease) in cash	-2,258	160,729	-19,527
P. Cash and cash equivalents at beginning of year	284,831	124,102	143,629
R. Cash and cash equivalents at end of year	282,573	284,831	124,102

notes to the financial statements

(Translation of Financial Statements Originally Issued in Czech – See Note 2 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 of the Company in 2004:

- On 19 August 2004, an increase in the Company's basic capital by CZK 2,202,220 thousand was recorded based on the decision of the Annual General Meeting held on 1 July 2004.
- All changes in the composition of the Company's statutory bodies were recorded before the year end.

Shareholders who hold an interest in the Company's basic capital as at 31 December 2004 are as follows:

Corporate body name	Registered office	Shareholding (in CZK thousands)	Percentage of ownership
Jihočeská energetika, a.s.	České Budějovice, Lannova 16	638,150	11.66
Jihomoravská energetika, a.s.	Brno, Lidická 36	638,170	11.66
Pražská energetika, a.s.	Praha 10, Na Hroudě 19	349,710	6.39
Severomoravská energetika, a.s.	Ostrava, 28. října 152	686,160	12.52
Severočeská energetika, a.s.	Děčín, Teplická 8	349,700	6.39
Západočeská energetika, a.s.	Plzeň, Guldenerova 19	638,160	11.66
RWE Com Geschäftsführungs-GmbH	Gutenbergstrasse 3, Essen, Germany	2,174,290	39.72
Total		5,474,340	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 associate, because since that date, ČEZ, a.s. effectively controls a 30% share in Severomoravská energetika, a.s., Severočeská energetika, a.s. and Západočeská energetika, a.s.

A share purchase agreement about the sale of 100% of the shares of Aliatel to the Company GTS CZECH, a.s. was signed in December 2004. The shares were transferred to the new owner on 11 February 2005 (see Note 21).

Members of the statutory and supervisory bodies as at 31 December 2004 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 Reimann
Member:	Ing. Martin Koch
Member:	Ing. Karel Dietrich – Nespěšný
Member:	Ing. Jaroslav Vostárek
Member:	Ing. Jiří Kozák

2 Basis of Presentation of the Financial Statements

The accompanying financial statements were prepared in accordance with the Czech Act on Accounting, its Executive Regulation and Czech Accounting Standards as applicable for 2004, 2003 and 2002.

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 changed in 2003. For this reason, certain balances of previous accounting periods have been reclassified to conform to the current year presentation.

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 2004, 2003 and 2002 financial statements are as follows:

3.1 Intangible Fixed Assets

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

Small intangible fixed assets (with a cost from CZK 10 thousand to CZK 60 thousand) are amortized on a straight-line basis over their estimated useful lives that do not exceed four years.

Small intangible assets (with a cost from CZK 3 thousand to CZK 10 thousand) are expensed and carried off balance sheet.

In 2004, 2003 and 2002, the costs of technical improvements of intangible fixed assets exceeding CZK 40 thousand, CZK 60 thousand and CZK 60 thousand, respectively, per accounting period were 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.

Small tangible fixed assets (with a cost from CZK 10 thousand to CZK 40 thousand) are amortized on a straight-line basis over their estimated useful lives that do not exceed fifteen years and are stipulated by an internal policy.

Small tangible assets (with a cost from CZK 3 thousand to CZK 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 fair value, a corresponding provision is recorded.

Depreciation

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

	Years
Buildings and constructions	10 – 30 or over the lease term in the case of technical improvements of leased constructions
Machinery and equipment	2 – 15
Vehicles	4
Furniture and fixtures	4 – 8
Other tangible fixed assets	2 – 4

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 at 31 December 2004 and 2003, the individual components of financial assets are revalued using the following method:

- Held-for-trading securities are revalued to fair value, with gains and losses recorded in profit or loss.
- Ownership interests are revalued to fair value; foreign ownership interests are translated into Czech crowns using 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 stated at actual cost being determined using the weighted average method. Costs of purchased inventory include acquisition related costs (freight, customs, 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 at the balance sheet 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 purpose, 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

Assets and liabilities whose acquisition or production costs were denominated in foreign currencies are translated into Czech crowns at the exchange rate existing as at the transaction date and on the balance sheet date monetary assets and liabilities 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. From 2002 unrealized exchange rate gains and losses are also recognized or charged, as appropriate, into income.

3.9 Recognition of Expenses and Revenues

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.

The Company recognizes as an expense any additions to reserves for or provisions against risks, losses or physical damage that are known as at the financial statements date.

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	638,609	-	-	20,284	658,893
Patents, royalties and similar rights	41,108	-	-	-	41,108
Intangibles in progress	1,580	14,765	-	-16,307	38
Advances for intangibles	1,153	5,229	-	-3,977	2,405
2004 Total	682,450	19,994	-	-	702,444
2003 Total	617,776	66,035	-1,361	-	682,450
2002 Total	393,253	324,998	-	-100,475	617,776

The total value of small intangible fixed assets which are not reflected in the accompanying balance sheet was CZK 129 thousand, CZK 171 thousand and CZK 291 thousand at acquisition cost as at 31 December 2004, 2003 and 2002, respectively. The figures were amended in 2004 in compliance with applicable regulations.

ACCUMULATED AMORTIZATION

	At beginning of year	Additions (amortization)	Disposals	At end of year	Provisions	Net book value
Software	274,599	86,853	-	361,452	49,176	248,265
Patents, royalties and similar rights	39,598	1,434	-	41,032	-	76
Intangibles in progress	-	-	-	-	-	38
Advances for intangibles	-	-	-	-	-	2,405
2004 Total	314,197	88,287	-	402,484	49,176	250,784
2003 Total	206,360	109,088	-1,251	314,197	55,324	312,929
2002 Total	94,821	111,539	-	206,360	-	411,416

In 2004 and 2003, the Company performed an impairment review of fixed assets, using the method of discounted estimated operating cash flows based on the approved business plan for the years 2005 through 2010. The impairment provision allocated to software in 2003 was CZK 55,324 thousand. At December 31, 2004 following a re-assessment by the company, the amount of the impairment provision was reduced to CZK 49,176 thousand.

4.2 Tangible Fixed Assets (in CZK thousands)

COST

	At beginning of year	Additions	Disposals	Transfers	At end of year
Constructions	750,810	-	-2,917	11,142	759,035
Machinery and equipment	2,712,234	-	-93,326	198,889	2,817,797
Vehicles	61,591	-	-1,580	-	60,011
Furniture and fixtures	2,574	-	-	-	2,574
Other tangible fixed assets	17	-	-	-	17
Tangibles in progress	33,462	187,727	-	-209,437	11,752
Advances for tangibles	3,655	451	-	-594	3,512
2004 Total	3,564,343	188,178	-97,823	-	3,654,698
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

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 61,238 thousand, CZK 78,751 thousand and CZK 56,674 thousand at acquisition cost as at 31 December 2004, 2003 and 2002, respectively. The figures were amended in 2004 in compliance with applicable regulations.

ACCUMULATED DEPRECIATION

	At beginning of year	Depreciation of year	Disposals	At end of year	Provisions	Net book value
Constructions	101,436	44,358	-360	145,434	-	613,601
Machinery and equipment	1,088,013	333,539	-49,739	1,371,813	311,814	1,134,170
Vehicles	38,656	11,634	-1,370	48,920	-	11,091
Furniture and fixtures	1,280	288	-	1,568	-	1,006
Other tangible fixed assets	17	-	-	17	-	-
Tangibles in progress	-	-	-	-	-	11,752
Advances for tangibles	-	-	-	-	-	3,512
2004 Total	1,229,402	389,819	-51,469	1,567,752	311,814	1,775,132
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

In 2004 and 2003, the Company performed an impairment review of fixed assets, using the method of discounted estimated operating cash flows based on the approved business plan for the years 2005 through 2010. The impairment provision allocated to machinery and equipment in 2003 was CZK 350,700 thousand. At December 31, 2004 following a re-assessment by the company, the amount of the impairment was reduced to CZK 311,814 thousand.

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 at 31 December 2004, the income statement data were translated at an average annual SKK rate announced by the Czech National Bank (in CZK thousands):

	2004	2003	2002
Percentage of ownership	100	100	100
Total assets	16,714	14,528	9,445
Equity	13,227	10,028	5,275
Basic capital and capital funds	5,512	5,516	5,263
Funds created from profit	225	8	7
Retained earnings	4,281	5	-
Profit for the current year	3,252	4,394	5
Acquisition cost of interest	5,512	5,518	5,270
Nominal value of interest	5,512	5,518	5,270
Intrinsic value of interest	13,227	10,028	5,275

Financial information about Aliatel Slovakia s.r.o. for the years 2003 and 2002 was obtained from its standalone audited financial statements. Financial information about Aliatel Slovakia s.r.o. for the year 2004 was obtained from its standalone un-audited financial statements.

5 Inventory

Excess, obsolete and non-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 stock takes (see Note 7).

6 Receivables

Provisions against outstanding receivables that are considered doubtful were charged to income based on their count and ageing analysis in 2004, 2003 and 2002, respectively (see Note 7).

Receivables overdue for more than 180 days totalled CZK 30,052 thousand, CZK 44,273 thousand and CZK 35,640 thousand as at 31 December 2004, 2003 and 2002, respectively.

As at 31 December 2004, 2003 and 2002, the Company had CZK 659 thousand, CZK 2,586 thousand and CZK 870 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 reversed 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 as at			Balance as at			Balance as at
	31/ 12/ 2002	Additions	Deductions	31/ 12/ 2003	Additions	Deductions	31/ 12/ 2004
Fixed assets	-	406,114	-	406,114	-	-45,124	360,990
Inventory	24,858	19,491	-24,858	19,491	1,496	-19,491	1,496
Receivables – legal	11,728	13,277	-11,871	13,134	10,564	-13,134	10,564
Receivables – other	30,391	38,580	-30,671	38,300	28,766	-38,300	28,766
Total	66,977	477,462	-67,400	477,039	40,826	-116,049	401,816

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 granted by the Czech Telecommunication Authority account for another element of prepaid expenses.

Unbilled revenues as at 31 December 2004 include revenues from telecommunication services provided to CCB Finance.

9 Equity

The basic capital of the Company consists of 547,434 dematerialized and non-tradable registered shares with a nominal value of CZK 10 thousand.

The movements in the capital accounts during 2004, 2003 and 2002 were as follows (in CZK thousands):

	Balance as at			Balance as at			Balance as at
	31/ 12/ 2002	Increase	Decrease	31/ 12/ 2003	Increase	Decrease	31/ 12/ 2004
Number of shares	327,212	-	-	327,212	220,222	-	547,434
Basic capital	2,807,130	464,990	-	3,272,120	2,202,220	-	5,474,340
Movements in basic capital	464,990	-	-464,990	-	-	-	-
Share premium	-	-	-	-	-	-	-
Differences arising from revaluation of assets and liabilities	92	247	-	339	-6	-	333
Accumulated loss	-1,356,729	-718,832	-	-2,075,561	-791,641	-	-2,867,202

On 1 July 2004, the Company's General Meeting of Shareholders decided about the basic capital increase by 220,222 shares with a nominal value of CZK 10 thousand, i.e. by CZK 2,202,220 thousand. The decision was recorded in the Commercial Register on 19 August 2004. The basic capital was off-set against the outstanding amount of shareholder loans and bonds in August 2004. The increase was recorded in the Commercial Register in August 2004 (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 General Meeting held on 27 May 2004 approved the transfer of losses for 2003 and 2002 of CZK 791,641 thousand and CZK 718,832 thousand, respectively, to accumulated losses.

10 Reserves

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

Reserves	Balance as at			Balance as at			Balance as at
	31/ 12/ 2002	Additions	Deductions	31/ 12/ 2003	Additions	Deductions	31/ 12/ 2004
Other	-	6,122	-	6,122	5,274	-4,791	6,605

Other reserves are created to cover the risks resulting from litigation.

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. The bonds bore floating interest of PRIBOR + 1.7% payable semi-annually. CONSEQ Finance was the chief manager of the issue and Československá obchodní banka was the issue administrator. Bonds totalling CZK 1,298,160 thousand were placed as of 31 December 2003. The shareholders of the Company held a meeting of bond holders on 27 May 2004 in order to amend article 3.7 of Issue Terms and Conditions of the ALIATEL VAR/08 bonds by changing their maturity from 4 August 2008 to 4 August 2004. The bonds held by shareholders were offset against the basic capital increase (see Note 9), while the remaining portion of the bonds was redeemed including any accumulated interest.

12 Current Liabilities

As at 31 December 2004, 2003 and 2002, the Company had overdue trade payables totalling CZK 56,778 thousand, CZK 45,428 thousand and CZK 153,653 thousand, respectively.

Unbilled deliveries as at 31 December 2004 include, in particular, unbilled supplies and services.

Payables to related parties (see Note 19).

13 Bank Loans

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

Bank	Maturity	Total limit	Interest rate	2004	2003	2002
				Amount in CZK thous.	Amount in CZK thous.	Amount in CZK thous.
Commerzbank AG	29 June 2004 ¹⁾	CZK 1,320,000 thousand	PRIBOR+0.65%	-	865,440	705,440
Less current portion				-	-25,000	-
Net				-	840,440	-

¹⁾ Loan maturity changed

As at 31 December 2003, the Company had a long-term loan from Commerzbank AG, the Prague branch. The original credit limit was CZK 1,320,000 thousand. The shareholders decided that no drawings above CZK 865,440 thousands would be made. The loan was secured by a binding letter of comfort issued by RWE Com Geschäftsführungs-GmbH. Pursuant to the decision of the General Meeting held on 27 May 2004, a trilateral agreement was entered into on 29 June 2004 by and between Commerzbank A.G., RWE and Aliatel a. s., in order to change a creditor in the Loan Contract. RWE became the creditor as of the date of payment. Commerzbank A.G. confirmed the receipt of the Payment on 29 June 2004. As of that date, the long-term loan was redeemed and a short-term loan granted by RWE to the Company arose. This loan was offset against the basic capital increase (see Note 9).

The interest expense relating to bank loans and borrowings for 2004, 2003 and 2002 was CZK 12,093 thousand, CZK 26,221 thousand and CZK 26,439 thousand, respectively, of which CZK 189 thousand, CZK 2,240 thousand and CZK 2,130 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 to which they relate, and billed but not yet accounted for services.

15 Income Tax

(Amounts in CZK thousands)

	2004	2003	2002
Loss before taxes	-245,581	-791,641	-718,832
Non-taxable revenues	-107,706	-57,066	-19,436
Differences between book and tax depreciation	387,689	329,330	404,430
Non-deductible expenses			
– Creation of provisions	30,261	490,722	55,248
– Other	46,436	41,967	133,955
Taxable income	111,099	13,312	-144,635
Claimed tax loss carryforward	-111,099	-13,312	-
Current income tax rate	28%	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 2004, the benefit of which has not been recognized in the accompanying financial statements, amounted to CZK 2,004,754 thousand as at 31 December 2004.

The Company also decided to suspend tax depreciation in 2003 and 2004. In 2004, 2003 and 2002, the Company recognized tax depreciation exclusively with respect to disposed assets and certain tax depreciation in the amount equal to book depreciation pursuant to Section 24, para. 2v). The Company quantified deferred taxes as follows (in CZK thousands):

Deferred tax items	2004		2003		2002	
	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	275,226	-	182,442	-	11,353	-
Other temporary differences:						
- Provision against receivables	7,480	-	10,798	-	6,547	-
- Provision against inventory	389	-	5,457	-	7,706	-
- Provision against fixed assets	77,813	-	100,175	-	-	-
- Reserves	1,266	-	1,469	-	-	-
- Tax loss carryforward	481,141	-	593,560	-	661,413	-
Total	843,315	-	893,901	-	687,019	-
Net	843,315	-	893,901	-	687,019	-

The Company did not record a deferred tax asset of CZK 843,315 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 2004 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 a depository revolving account with ČSOB in the amount of EUR 178 thousand (CZK 5,420 thousand) resulting from the rental contract signed with ZIRKON v.o.s. (the rent of non-residential premises, including utilities and related services). The account is restricted from use until 1 October 2007.

The payments made for the lease of the ZIRKON building amounted to CZK 42,598 thousand and for the relating services CZK 6,820 thousand in 2004. According to the agreement with the lessor, the Company is obliged to pay the lease payments until 1 October 2007.

The payments made for the rental of the optic fibers in 2004 amounted to CZK 114,629 thousand. The rental agreements are negotiated for at least a 20-year period unless terminated earlier.

In the course of 2004, the Company deposited bank guarantees for tenders. The guarantees were short-term and were returned to the Company, with the exception of a guarantee of CZK 1,500 thousand issued for the FN Bulovka tender, which is still pending.

17 Revenues

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

Services	2004		2003		2002	
	Domestic	Foreign	Domestic	Foreign	Domestic	Foreign
Services	2,559,091	208,844	2,250,553	300,918	1,233,696	618,339

In 2004, 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):

	2004		2003		2002	
	Total personnel	Management/ executive officers	Total personnel	Management/ executive officers	Total personnel	Management/ executive officers
Average number of employees	354	5	348	7	383	6
Wages and salaries	254,903	45,652	228,929	22,627	232,191	19,465
Social insurance	90,161	15,978	81,531	7,920	82,406	6,813
Social cost	7,532	285	5,624	138	6,812	128
Total personnel expenses	352,596	61,915	316,084	30,685	321,409	26,406

The members and former members of statutory and supervisory bodies received total bonuses and other remuneration of CZK 2,893 thousand, CZK 2,879 thousand and CZK 2,834 thousand in 2004, 2003 and 2002, respectively.

19 Related Party Information

The members of statutory bodies were granted no loans, guarantees, advances or other benefits in 2004, 2003 and 2002.

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

Related party	2004		2003		2002	
	Loan	Outstanding interest	Loan	Outstanding interest	Loan	Outstanding interest
Západočeská energetika, a.s.	-	-	-	2,710	-	2,710
Jihočeská energetika, a.s.	-	-	-	2,293	-	2,293
Severomoravská energetika, a.s.	-	-	-	3,489	-	3,489
Jihomoravská energetika, a.s.	-	-	-	3,479	-	3,479
Severočeská energetika, a.s.	-	-	44,310	10,548	44,310	7,983
Pražská energetika, a.s.	-	-	44,310	10,699	44,310	8,034
RWE Com Geschäftsführungs-GmbH	-	-	-	13,692	-	13,692
Total	-	-	88,620	46,910	88,620	41,680

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

The Company sells products and provides services to related parties on an arms-length basis. Sales to related parties were CZK 41,940 thousand, CZK 47,585 thousand and CZK 22,228 thousand in 2004, 2003 and 2002, respectively. Short term receivables from related parties as at 31 December were as follows (in CZK thousands):

Related party	2004	2003	2002
Západočeská energetika, a.s.	185	498	784
Jihočeská energetika, a.s.	825	597	611
Severomoravská energetika, a.s.	617	105	365
Jihomoravská energetika, a.s.	1,705	1,265	264
Severočeská energetika, a.s.	700	678	975
Středočeská energetická, a.s.	200	62	-
Východočeská energetika, a.s.	74	213	-
Pražská energetika, a.s.	170	-	-
RWE Com Geschäftsführungs-GmbH	21	-	-
Plzeňská energetika, a.s.	31	14	120
EN – DATA a.s.	173	156	233
Energetika Vítkovice, a.s.	29	-	-
Severočeské doly, a.s.	117	-	-
ESS s.r.o.	3	4	-
ČEZnet a.s.	731	9	-
HELLUX ELEKTRA s.r.o.	5	4	-
Chodské vodárny a kanalizace a.s.	8	14	-
is:energy czech a.s.	293	137	-
PRO energo Plzeň, spol.s r.o.	2	5	-
Union Leasing, a.s.	4	17	-
Aliatel Slovakia s.r.o.	981	1,113	2,055
Total	6,874	4,891	5,407

The Company purchases products and receives services from related parties in the ordinary course of business. Purchases were CZK 163,090 thousand, CZK 175,088 thousand and CZK 126,992 thousand in 2004, 2003 and 2002, respectively.

Short-term payables to related parties as at 31 December were as follows (in CZK thousands):

Related party	2004	2003	2002
Západočeská energetika, a.s.	972	4	4,784
Jihočeská energetika, a.s.	1,447	1,808	5,046
Severomoravská energetika, a.s.	3,138	1,991	6,253
Jihomoravská energetika, a.s.	1,336	1,973	5,553
Severočeská energetika, a.s.	4,092	2,201	6,113
Pražská energetika, a.s.	1,772	496	1,069
Středočeská energetika, a.s.	1,410	898	-
Východočeská energetika, a.s.	1,821	1,033	-
RWE Com Geschäftsführungs-GmbH	-	-	61
ČEZ, a.s.	1	-	-
ČEPS, a.s.	230	178	-
ČEZnet, a.s.	1,473	65	-
Energetické centrum s.r.o.	1	1	-
EN – DATA a.s.	5	-	-
Teplárna Tábor a.s.	15	13	-
SINIT, a.s.	2	40	51
Energetika Vítkovice, a.s.	64	60	56
Aliatel Slovakia s.r.o.	3,871	2,240	1,080
Total	21,650	13,001	30,066

20 Significant Items of Income Statement

Extraordinary losses in 2004 include severance paid in 2004 in compliance with valid regulations. Extraordinary expenses and revenues, in the years 2003 and 2002, include in particular damages caused by the 2002 floods and the related insurance claims for these damages.

21 Going Concern and Subsequent Events

The shareholders of the Company in 2004 stabilized its funding; the Company was freed of debt by basic capital increase and the capitalization of loans and bonds and prepared for sale. The tender was held in the second half of 2004, followed by a contract for the sale of Aliatel a. s. to GTS CZECH, a.s., one of Czech telecommunication operators, which was entered into in December 2004. The shares maintained by the Czech Securities Centre were registered in the name of the new owner of the Company on 11 February 2005.

The Company incurred a loss of CZK 245,581 thousand during the year ending 31 December 2004 and as at that date its accumulated losses exceed the one half of the registered capital by CZK 375,612 thousand. The new owner intends to merge the Company with GTS CZECH, a.s., in order to be able to operate in the Czech market as a single entity from 1 January 2006. All current activities, including the Company's restructuring, adoption of new Company policies and consolidation of human resources, are aimed at this objective. The future company will continue to operate in the telecommunication sector. The management expects that the company will continue to operate as a going concern at least for the 12 months after the date of the signing of these financial statements. The new owner promised to support the future existence of the Company.

report on relationships between inter-related parties

according to the provisions of Section 66a, subs. 9 of the Commercial Code, i.e., Act No. 513/1991 Coll., as later amended;
for the accounting period from 1 January 2004 to 31 December 2004

The Board of Directors of Aliatel a. s. executed this Report of Relationships between Inter-Related Parties (between the controlled and controlling parties, and between the controlled party and other parties subject to the same controlling party); this Report was discussed at the Board of Directors meeting held on 30 March 2005 and was approved by all votes of the Board of Directors members.

1. Company Basic Capital and Structure of Shares

The joint-stock company Aliatel a. s. with its registered address at Praha 8, Sokolovská 131/86, IČ (Company No.): 61058904 had, in the period from 1 January 2004 until June 2004, basic capital of 3,272,120,000 CZK, consisting of 327,212 registered shares with nominal value of 10,000 CZK each. The company's shares were held by seven shareholders, with the following structure as of June 2004:

Shareholder	Number of shares held	Percentage of shares
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%

The joint-stock company Aliatel a. s. with its registered address at Praha 8, Sokolovská 131/86, IČ (Company No.): 61058904 had, in the period from June 2004 until the end of the fiscal year 2004, basic capital of 5,474,340,000 CZK, consisting of 547,434 registered shares with nominal value of 10,000 CZK each. The company shares were held by seven shareholders, with the following structure as of the end of the fiscal year 2004:

Shareholder	Number of shares held	Percentage of shares
Pražská energetika, a.s.	34,971	6.38817%
Severočeská energetika, a.s.	34,970	6.38798%
Západočeská energetika, a.s.	63,816	11.65730%
Jihočeská energetika, a.s.	63,815	11.65711%
Jihomoravská energetika, a.s.	63,817	11.65748%
Severomoravská energetika, a.s.	68,616	12.53411%
RWE Com Geschäftsführungs GmbH	217,429	39.71785%

2. Controlling Parties

According to the provisions of Section 66a, subs. 9 of the Commercial Code, i.e., Act No. 513/1991 Coll., as later amended, „Controlling party“ is a party that legally or factually exerts direct or indirect decisive influence on management or run of business of another party. According to the provisions of Section 66a subs. 5, a party with at its disposal at least 40% of voting rights over another party is deemed a controlling party; and parties acting in concord holding at their disposal at least 40% of voting rights over a certain party are deemed controlling parties, unless it has been proven that another party has at its disposal the same or a higher proportion of the voting rights.

RWE Com Geschäftsführungs GmbH is a controlling party over Aliatel a. s. in the above-mentioned sense. From the course of voting at Aliatel's four General Meetings held in 2004 and their coordinated acts when preparing the sale of the Aliatel shares, it can be conjured that all shareholders, i.e., Pražská energetika, a.s., Severočeská energetika, a.s., Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., Severomoravská energetika, a.s., and RWE Com Geschäftsführungs GmbH, act in concord. The above-mentioned list of shares shows that these shareholders altogether hold 100% of the Aliatel shares. According to the above-cited provisions of Section 66a, subs. 5 of the Commercial Code, i.e., Act No. 513/1991 Coll., as later amended, thus all shareholders can be deemed parties controlling Aliatel.

No controlling contract has been entered into between Aliatel (as the controlled party) and its shareholders (as the controlling parties).

3. Inter-Related Persons

According to the provisions of Section 66a, subs. 9, parties controlled by the same controlling party are deemed inter-related. Available sources, specifically public presentations on individual shareholders' websites, imply that, in addition to Aliatel, its shareholders Pražská energetika, a.s., Severočeská energetika, a.s., Západočeská energetika, a.s., Jihočeská energetika, a.s., Jihomoravská energetika, a.s., Severomoravská energetika, a.s., and RWE Com Geschäftsführungs GmbH, control the following parties:

Pražská energetika, a.s.	ODEM a.s.	100%
	PREleas, a.s.	100%
	Cejchovna elektroměrů Praha a.s.	100%
Severočeská energetika, a.s.	ENPROSPOL, s.r.o.	100%
	Energetická montážní společnost Ústí nad Labem s.r.o.	100%
	Energetická montážní společnost Česká lípa s.r.o.	49%
	Energetická montážní společnost Liberec s.r.o.	100%
	ENERGOKOV, s.r.o.	100%
	ESS s.r.o.	51%
	Energodroj, s.r.o.	50%
Západočeská energetika, a.s.	Enerfin, a.s.	100%
	Energoreal s.r.o.	100%
	EN projekt, spol. s r.o.	100%
	ESMOS, s.r.o.	100%
	GAZELA plus s.r.o.	50%
	LIDRONE, spol. s r.o.	100%
	Plzeňská energetika a.s.	50%
	PRO ENERGO Plzeň, spol. s r.o.	80%
	SEG s.r.o.	100%
Jihočeská energetika, a.s.	Energetika servis, s.r.o.	80%
	EFIS, a.s. (spolu s JME ovládá 66,66%)	33.33%
	is:energy, a.s.	49%
	ECO trend s.r.o.	100%
	Moravská elektroenergetická, a.s.	50%
Jihomoravská energetika, a.s.	JME-montáže, s.r.o.	51.37%
	AISE-JME, s.r.o.	51.01%
	Moravská elektroenergetická, a.s.	50%
	Teplárna Kyjov, a.s.	44.87%
	EFIS, a.s. (spolu s JČE ovládá 66,66%)	33.33%
Severomoravská energetika, a.s.	Elektrovod Holding, a.s.	50%
	Energetika Vítkovice, a.s.	100%
	ePRIM, a.s.	100%
	Moravskoslezská elektromontážní, a.s.	100%
	SINIT, a.s.	100%
RWE Com Geschäftsführungs GmbH	RWE Telliance Finance GmbH, Germany	100%
	VR Telecommunications Geschäftsführungs GmbH, Germany	48.75%
	VR Telecommunications Holding GmbH i.L., Germany	50%
	VR Telecommunications Beteiligungsverwaltungs GmbH & Co. KG, Germany	48.75
	VR Telecommunications Beteiligungsverwaltungs GmbH, Germany	48.75

Only controlled parties in which the respective controlling party has at its disposal at least a 40% ownership interest are mentioned. Aliatel has neither information from which voting rights could be established different from the ownership interest nor any information implying acting in concord on which a controlling relationships to individual controlled parties would be based. The above-mentioned list does not include parties which have not published the ownership interest structure and such structure is not within the public domain – this specifically applies to joint-stock companies.

4. Contracts with Inter-Related Parties

In the respective accounting period, Aliatel entered into the following contracts with its inter-related parties:

Inter-Related Person	Contracts
Pražská energetika, a.s.	Amendment 1 to Contract for lease of optical fibres of 5 March 1998 – 2 January 2004 Amendment 1 to Contract for lease of optical fibres of 5 March 1998 – 1 April 2004 Amendment 5 to Lease Contract No. 7500/488/1998 Amendment 6 to Lease Contract No. 7500/486/1998 Amendment 7 to Lease Contract No. 7500/486/1998 Amendment 5 to Lease Contract No. 7500/487/1998 Amendment 6 to Lease Contract No. 7500/487/1998 Amendment 5 to Lease Contract No. 7500/489/1998 Amendment 6 to Lease Contract No. 7320/27/2000 Amendment 1 to Lease Contract No. 7240/184/2002 Amendment 1 to Contract for lease of optical fibres No. 7300/160/2002 Amendment 2 to Lease Contract No. 7240/118/2002 Lease Contract 7240/25/2004 Contract for Provision of Electricity Supply No. 131254 Contract for Lease of HDPE tubes, Aliatel's no. 7240/32/2004, PRE's No. PS24T604/007 Agreement for setoff of receivables
Severočeská energetika, a.s.	Amendment 1 to Contract for lease of optical fibres Amendment 5 to Contract for lease of optical fibres of 5 March 1998 Amendment 1 to Contract for lease of optical fibres Agreement for setoff of receivables
Západočeská energetika, a.s.	Amendment 5 to Contract for lease of optical fibres of 5 March 1998 Amendment 2 to Contract for cooperation in the provision of telecommunication services, No. 2000/810/68, dated 21 February 2000 Contract No. 2504383 for electricity supply Contract No. 2512355 for electricity supply Contract No. 2516450 for electricity supply Contract No. 2518030 for electricity supply Contract No. 2511664 for electricity supply Contract No. 2518710 for electricity supply Agreement for setoff of receivables
Jihočeská energetika, a.s.	Amendment 5 to Contract for lease of optical fibres of 5 March 1998 Amendment 1 to Contract for lease of optical fibres Agreement for setoff of receivables

Inter-Related Person	Contracts
Jihomoravská energetika, a.s.	Amendment 1 to Contract for lease of optical fibres Amendment 5 to Contract for lease of optical fibres of 5 March 1998 Amendment 1 to Contract for lease of optical fibres Amendment 1 to Contract for lease of optical fibres Contract No. 7240/191/2004 for lease of an optical route including repairs and maintenance Agreement for setoff of receivables
Severomoravská energetika, a.s.	Amendment 1 to Contract for lease of optical fibres Amendment 1 to Contract for lease of optical fibres Amendment 5 to Contract for lease of optical fibres of 5 March 1998 Amendment 7 to Lease Contract No. 7500/330/1999 Amendment 1 to Lease Contract No. 7500/685/2004 Contract for Land Lease No. 7300/119/2002 Lease Contract No. 7300/21/2004 Agreement for setoff of receivables
Energetika Vítkovice, a.s.	Amendment 4 to Contract for supply and uptake of electrical energy, No. 292/02

5. Other Legal Acts or Measures in Favour of Inter-related Persons

Aliatel a. s. did not, in the respective accounting period, make any other legal acts or other steps in favour of these parties.

6. Transactions between Inter-related Parties – Sales

Aliatel a. s. provides its inter-related parties with telecommunication services. A list of such transactions in the respective accounting period is given below:

Inter-Related Person	Description of transaction(s)
Severočeská energetika, a.s.	Voice and Internet services (BCD, Profit Call, SL)
Západočeská energetika, a.s.	Voice and data services (CPS, DO)
Jihočeská energetika, a.s.	Voice and data services (BCD, DO, Digital Connect, FR)
Jihomoravská energetika, a.s.	Voice, data and Internet services (BCD, Business IP)
Severomoravská energetika, a.s.	Voice Services (BCD)
ESS s.r.o.	Voice Services (CPS)
Plzeňská energetika a.s.	Voice and Internet services (FR, SL)
PRO ENERGO Plzeň, spol. s r.o.	Voice Services (CPS)
is:energy, a.s.	Data and Internet services (DO, Digital Connect, SL)
Energetika Vítkovice, a.s.	Voice Services (BCD, CPS)

The amounts of such contracts in CZK are not given herein since such data are subject to the trade secret clauses of such contracts.

The above-mentioned transactions implied the following short-term receivables as of 31 December 2004, to be paid by the inter-related persons:

Inter-Related Person	Terms of payment:			amount (in tsd. CZK)
	business contact	other	advance	
Plzeňská energetika a.s.	yes			15.393
Total				15.393

Aliatel a. s. did not, as of 31 December 2004, have any long-term receivables to be paid by the inter-related persons.

7. Transactions between Inter-related Parties – Purchase

Aliatel a. s. purchases electricity from its inter-related parties. A list of such transactions in the respective accounting period is given below:

Inter-Related Person	Description of transaction(s)
Západočeská energetika, a.s.	Purchase of electricity, lease of non-residential premises
Jihočeská energetika, a.s.	Purchase of electricity, lease of non-residential premises
Jihomoravská energetika, a.s.	Purchase of electricity, lease of non-residential premises
Severomoravská energetika, a.s.	Purchase of electricity, lease of non-residential premises
Pražská energetika, a.s.	Purchase of electricity, lease of non-residential premises
Severočeská energetika, a.s.	Purchase of electricity, lease of non-residential premises

The amounts of such contracts in CZK are not given herein since such data are subject to the trade secret clauses of such contracts.

Aliatel a. s. did not, as of 31 December 2004, have any short-term payables to be paid to the inter-related persons.

Aliatel a. s. did not, as of 31 December 2004, have any short-term liabilities to be paid to the inter-related persons.

8. Transactions between Inter-related Parties – Other Transactions

In the respective accounting period, Aliatel had the following transactions not classified under Items 6 and 7 above:

Inter-Related Person	Description of transaction(s)
Pražská energetika, a.s.	lease of fibre optics
Severočeská energetika, a.s.	lease of fibre optics, data transmission
Západočeská energetika, a.s.	lease of fibre optics, data transmission
Jihočeská energetika, a.s.	lease of fibre optics
Severomoravská energetika, a.s.	lease of fibre optics, data transmission
Jihomoravská energetika, a.s.	lease of fibre optics

The amounts of such contracts in CZK are not given herein since such data are subject to the trade secret clauses of such contracts.

9. Conclusions

None of the contracts entered into or any other legal acts towards the inter-related persons caused any detriment to Aliatel as a controlled party. Any and all business relationships with the inter-related parties were entered into on the arm-length basis.



Ing. Milan Rusnák
Chairman of the Board of Directors
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