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BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

Introduction by the Chairman of the Board of Directors

Dear Colleagues, Shareholders, and Business Partners, Dear Friends,

The year 2004 was, in many respects, a continuation of the trends of previous years in telecommunications. On the other hand, it was also a breakthrough year, in which many changes took place that had been anticipated for number of years.

Regarding regulation, there was progress in the new Telecommunications Act in 2004. Companies active on the telecommunication market did participate in the Act's preparation; but we have to state that the results do not meet our expectations. At the same time, we have to say that the amendment to the Act was necessary and it is a positive development that the new Act was passed.

The consolidation of the telecommunication market also began in 2004. I can proudly declare that GTS CZECH, a.s. played the main role in this process. At the end of the year, we signed a contract for the acquisition of a 100% of the shares of our competitor Aliatel. The acquisition process was successfully completed at the beginning of 2005.

Our success was not restricted to this acquisition. In 2004, we were also able to maintain our position as a major telecommunication provider. Both EBITDA (earnings before interest, tax, depreciation and amortisation) and net profit rank us among the most successful alternative telecommunication providers on the Czech telecommunication market. Our ability to generate sustained profits is the key factor of our financial stability.

Customers who use our services also appreciate our strength.

In 2004, the Company successfully confirmed and enhanced its position in all key segments of the market. In addition to services for large companies and individual corporate solutions, we also provided services to an increasing number of medium- and small-size enterprises, independent sole proprietors, and also households. Despite continuing restrictions from the state and the dominant operator, we have also been successful in the area of state and municipal authorities. Thanks to all these facts, our revenues increased by 10% in a highly-competitive environment of ever-declining prices.

We continued investment into the telecommunication network with about a quarter of a billion crowns invested into extension of end-user access lines. Efficient investment policy remains one of the main pillars of our strategy.

2004 was a successful year for our company. It confirmed that the direction we follow and the priorities we hold are correct. In the future, we want to continue to provide our customers with reliable high-quality services and to introduce new products and solutions to the market. Our key target segments remain companies (from large corporations to medium- and small-size companies), as well as the state-authorities. Self-employed sole proprietors and households are of growing interest as well. However, our activities in these segments are restricted by the situation prevailing on the telecommunication market. We therefore want to play an even greater role in developing this market, so that not only our customers benefit, but the general public as well.

In conclusion, I would like to thank all customers who use our services.

I also thank our employees and colleagues, without whom the company's success would be impossible. I thank our shareholders for their support and trust.

GTS CZECH, a.s., is a company which is successful on a long-term basis. I am sure that it will remain so in the years to come.



Milan Rusnák
Chairman of the Board of Directors, GTS CZECH, a.s.

BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

Company Profile

HISTORY

22 February 2000 – GTS CZECH is created by a merger of the companies Dattel, GTS Czech Net and INEC. At the same time, it becomes part of the GTS Central European Division.

19 October 2001 – The Dutch company KPNQwest N.V. signs an agreement for the takeover of GTS Inc. assets.

2 May 2002 – The operations of the companies KPNQwest Czechia and GTS CZECH are merged.

30 May 2002 – The Dutch company KPNQwest N.V. applies for protection from creditors; about 40 subjects are interested in the KPNQwest telecommunication network.

8 August 2002 – AnTel Holding Ltd. signs a contract for future contract with KPNQwest/GTS.

1 October 2002 – The company AnTel Holdings Ltd. acquires 100% of the company KPNQwest/GTS, which reassumes the name GTS CZECH.

6 October 2003 – GTS CZECH offers its own high-speed Internet access ADSL solution in the pilot areas of Prague 1 and 2 City Districts.

18 December 2004 – GTS CZECH signs a contract for purchase of a 100% share in Aliatel.

PROFILE

The company GTS CZECH, a.s., has been offering its services on the Czech market since 1991. It provides companies and households with a complete portfolio of telecommunication services.

The company's network covers most towns in the Czech Republic. Interconnection between the national fully-digitised network and the GTS international network ensures the best and most stable connection to global Internet on the Central European market.

The company's regional offices are located in Liberec, Ústí nad Labem, Pilsen, České Budějovice, Hradec Králové, Brno, Olomouc and Ostrava. GTS operates top-level data centres in Prague, Brno and Ostrava, where its customers can install their servers in secure, air-conditioned premises with direct connection to the GTS backbone network.

GTS has been granted a ČSN EN ISO 9001:2001 certificate; the company passed a security audit by the National Security Authority.

Key Activities

In 2004, GTS CZECH, a.s., focused both on improvement of the quality of existing services and on extension of its portfolio. The greatest emphasis was put on products and services for businesses.

In the area of **voice services**, Telemeeting Plus was introduced, which enables conference calls with large numbers of parties.

In the area of voice services, we also put great emphasis on the development of added-value services provided to our clients. The total quantity of call-minutes using the Green and Blue Phone services increased by more than 100%. We offered an option of conditional forwarding for these services. Customers can forward calls according to the day of the week and the time of day.

In the second half of 2004, we extended our voice services by adding a completely new Green Phone from Abroad service, which enables toll-free calls to the Czech Republic from foreign countries.

In **data and Internet services**, GTS Profiband Access was introduced, a combination of leased-line Internet access and direct-connection voice services. The service is suitable for medium- to large companies. Monitoring of private data networks is another newly introduced range of services – a website interface, showing the status of individual subscriber lines, and a customer communication platform are offered. An important step was the extension of the IP VPN service portfolio to include services based on MPLS technology. ADSL access to VPN was also extended. Thanks to changes in ADSL services, the number of lines we installed in 2004 was substantially increased.

BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

Company Evolution, and Regulatory and Legal Environment in 2004

From the regulatory and legal environment viewpoint, the new law on electronic communication was the most important feature in 2004. GTS representatives actively participated in the work of individual committees within the framework of APVTS, cooperating with the Ministry of Informatics in preparing the text of the Act. In the second half of the year, work on implementation decrees and regulations connected with the Act was carried out.

Regarding the legal environment, amendments to network-interconnection agreements with cellular network operators and Český Telecom were put forward, and a new network-interconnection agreement with Czech On Line was signed. The network-interconnection agreement between GTS CZECH and Aliatel was not signed due to the pending acquisition. The newly-signed agreement and amendments to existing agreements implemented pricing decisions made by the Czech Telecommunication Office, and also extended the range of the mutually-provided services.

However, in the second half of the year, Český Telecom blocked preparations for signing the amendments to the interconnection agreement due to lawsuit concerning about the payment for interconnection trunks.

During this period, GTS CZECH, a.s. representatives actively participated in the activities of the APVTS working committee, which was aimed at agreement between the alternative operators and Český Telecom on terms and conditions for the provision of special-tariff Internet access services and the protection of users from illegal dialler software. The working committee's work was completed with an agreement which is currently being implemented.

Business Policy and Marketing

GTS improved service to corporate clients in 2004, for example by segmentation of products, orientation of the business approach to the requirements and needs of specific target groups, and differentiation of communication and marketing activities for these groups. We also started, to a greater extent, to utilise modern outlet channels, such as Internet portals and call centres, and we entered the household segment of the market for the first time.

During the year, emphasis was put on increasing productivity in all business activities, whether by the improvement of quality and the qualifications of our business representatives and authorised business partners, or by consistently working with each client for the entire term of the relationship, from the request for implementation, to error-free operation and high-quality support.

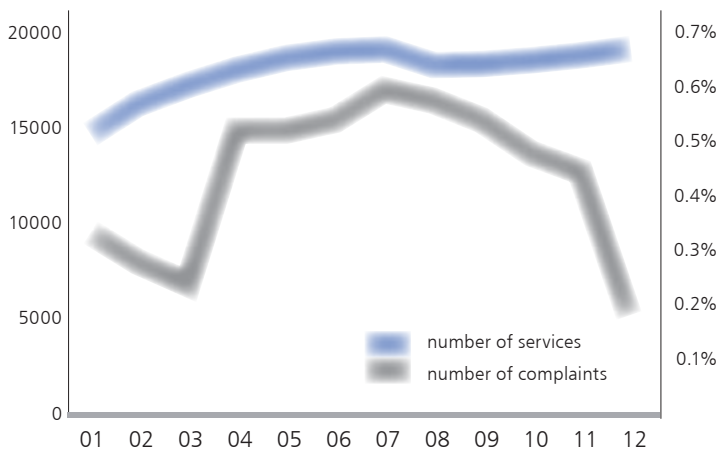
A marketing campaign took place in the media in February and March 2004, to facilitate the launch of our offer for the household segment of the market. The campaign was focused on households, and the product offered was flat-rate Internet access. GTS was the first telecommunication provider which offered Internet for flat rate. The campaign in the press and on the radio had a high level of response. However, the service had to be stopped due to a failure to agree suitable wholesale rates for traffic.

BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

Customer Support, Monitoring and Contact Centres

GTS CZECH, a.s., provides its customers with non-stop support 24 hours a day, seven days a week. The services are monitored non-stop in order to ensure a high level of availability and quality. Our goal is to provide error-free services and the complete satisfaction of our customers. We are ready to provide our customers with professional assistance as needed, giving advice about the service parameter settings, or explaining our billing system. A team of professionally qualified operators and technicians looks after our customers. We give a great deal of attention to the quality of our processes and procedures. As a result, we have substantially increased the availability of our toll-free information lines and the speed of processing of telephone or written requests for our services. The following figure, which shows the evolution of the number of services provided and the number of complaints, demonstrates the success of our strategy.

EVOLUTION OF COMPLAINTS



Investment

MAIN INVESTMENTS AND FINANCING

The amount of investment in 2004 was of the same level as 2003, should be a moderate 2% decrease. Investment into the IP network increased international connectivity and enhanced the national backbone network in the Czech Republic. All telephone exchanges in the Czech Republic were upgraded. All investments are financed by a combination of the Company's own resources with supplier financing.

FINANCIAL INVESTMENTS

The Company owned the following ownership interests in 2004:

- AGIS Telekomunikace s.r.o.
with its registered office at Pod hřištěm 6, 101 00 Praha 10 (ownership interest 49%);
- E-komunikace, s. r. o. (formerly eldentity, s. r. o.),
with its registered office at Hvězdova 1073/33, 140 21 Praha 4 (ownership interest 10%).

BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

THE MAIN INVESTMENTS IN THE LAST THREE YEARS AND METHODS OF FINANCING THEREOF (ths. CZK)

Project	Actual		
	2004	2003	2002
Customer connection lines	107,513	110,267	164,535
- voice	33,849	41,867	79,631
- data	27,536	31,798	37,475
- Internet access lines	46,127	36,603	46,925
- others	0	0	504
Investment into backbone network	103,735	100,682	162,343
- upgrade of national backbone network	8,401	32,961	57,679
- upgrade of Prague backbone network	10,106		53,206
- extension of IP backbone network	26,154	10,889	
- extension of backbone network in South Moravia	7,400		31,580
- extension of backbone network in North Moravia	2,890		12,561
- network management	7,781		4,533
- upgrade of exchanges	34,873	31,522	
- Telehouse Praha			
- others	6,131	25,310	2,785
Investment into information systems	24,268	31,308	22,159
Investment – total	235,516	242,257	349,037

SELECTED FINANCIAL AND OPERATIONAL INDICES (ths. CZK)

	2004	2003	2002
TOTAL ASSETS	4,071,038	2,228,677	2,514,381
Intangible assets	1,500,692	1,683,545	1,878,378
Current assets	2,554,336	526,272	585,818
Other assets	16,010	18,860	50,185
Capital	-181,838	-128,930	-189,165
Liabilities – Outside Resources	4,242,414	2,346,403	2,540,811
Other liabilities	10,462	11,204	162,735
Revenues from goods sold	4,037	2,476	3,154
Revenues from own products and services	2,216,437	2,042,194	1,971,724
Added Value	636,578	570,077	597,858
Operating profit (loss)	-95,593	-110,691	-229,913
Profit (loss) for the period	-52,908	60,235	-283,817
Number of employees	364	369	331
Productivity of work	6,100	5,541	5,966

BOARD OF DIRECTORS' REPORT OF THE GTS CZECH, A.S., COMPANY'S BUSINESS ACTIVITIES AND ASSETS IN 2004

Employment Policy and Social Programme

EMPLOYMENT POLICY AND SOCIAL PROGRAMME

The numbers and structure of the personnel correspond to the Company's needs. The highest emphasis is put on the selection of highly-qualified employees who are able to fulfil the Company's goals. An integral part of each employee's career plan is continuing education and personal development, so that the expected professional and personality traits are achieved and necessary professional development is provided to everyone. The average age of a Company employee was 31.75, as of 31 December 2004. Regarding their educational levels, the majority of employees were secondary-school (55%) and university (39%) graduates.

Health care for the personnel complies with the applicable laws and regulations. A large proportion of the benefit programme is devoted to cultural and sporting activities, helping with relaxation away from work.

Salary evolution reflects the company and employee requirements; it responds to the development in the telecommunication market. In addition to the fixed part of the salary, a bonus part reflects each employee's performance.

Salaries and other benefits are determined according to benchmarking surveys in the Hi-Tech area.

HEALTH CARE

All employees are entitled to an above-standard initial medical examination, carried out by the company COMFORT CARE, a. s.

CULTURE

The company supports the cultural interests of its employees. Within the benefit programme, each employee is entitled to a 20% discount on any performance at the National Theatre, Divadlo Kolowrat and Stavovské Divadlo theatres.

SPORTING ACTIVITIES

Each employee can utilise the sporting activities available within the benefit programme.

SPONSORSHIP

The company sponsors cultural and humanitarian activities. In the area of sports, sponsorship is traditionally focused on golf.

AUDITOR'S REPORT TO THE SHAREHOLDER OF GTS CZECH, A.S.

On the basis of our audit, on 31 March 2005 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report and our report was as follows:

"We have audited the accompanying financial statements of GTS CZECH, a.s. for the year ended 31 December 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 GTS CZECH, a.s. as of 31 December 2004 and the results of its operations for the year 2004 then ended in accordance with the Act on Accounting and relevant legislation of the Czech Republic."

We have reviewed other financial information in the annual report for consistency with the audited financial statements. In our opinion, the information is consistent in all material respects with the audited financial statements.

The management of the Company is responsible for the completeness and accuracy of the report on relations between related parties. Our responsibility is to review the accuracy of the information included in the report. During our review nothing came to our attention that would cause us to believe that the information contained in the report is materially inaccurate.

Prague
16 June 2005

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

Jan Martínek
Jan Martínek
Licence number 1598

FINANCIAL PART

FINANCIAL STATEMENTS

Balance sheet in full format (non-consolidated) as at 31 December 2004
(in thousands of Czech crowns TCZK)

Ident.	A S S E T S	line	2004			2003
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	TOTAL ASSETS (L.2+3+31+63)	1	5,900,544	-1,829,506	4,071,038	2,228,677
A.	Receivables for subscribed registered capital	2	0	0	0	
B.	Fixed assets (L.4+13+23)	3	3,094,964	-1,594,272	1,500,692	1,683,545
B. I.	Intangible fixed assets (L.5 to 12)	4	93,896	-60,246	33,650	33,707
B. I. 1.	Incorporation expenses	5	103	-89	14	35
	2. Research and development	6	0	0	0	0
	3. Software	7	89,245	-60,157	29,088	33,344
	4. Royalties	8	0	0	0	0
	5. Goodwill	9	0	0	0	0
	6. Other intangible fixed assets	10	0	0	0	0
	7. Intangible fixed assets under construction	11	4,548	0	4,548	328
	8. Advance payments for intangible fixed assets	12	0	0	0	0
B. II.	Tangible fixed assets (L.14 to 22)	13	2,991,946	-1,533,516	1,458,430	1,649,838
B. II. 1.	Land	14	0	0	0	0
	2. Buildings, halls and structures	15	705,040	-335,782	369,258	418,477
	3. Property, plant and equipment	16	1,960,917	-1,113,049	847,868	965,340
	4. Cultivated areas	17	0	0	0	0
	5. Livestock	18	0	0	0	0
	6. Other tangible fixed assets	19	33	0	33	33
	7. Tangible fixed assets under construction	20	1,531	0	1,531	4,579
	8. Advance payments for tangible fixed assets	21	100	0	100	147
	9. Adjustments to acquired fixed assets	22	324,325	-84,685	239,640	261,262
B. III.	Long-term investments (L.24 to 30)	23	9,122	-510	8,612	0
B. III. 1.	Investments in group undertakings	24	0	0	0	0
	2. Investments in associated companies	25	490	-490	0	0
	3. Other long-term securities and ownership interests	26	20	-20	0	0
	4. Loans - group undertakings, associated companies	27	8,612	0	8,612	0
	5. Other long-term investments	28	0	0	0	0
	6. Long-term investments (provisional value)	29	0	0	0	0
	7. Advance payments for long-term investments	30	0	0	0	0

FINANCIAL STATEMENTS

Balance sheet in full format (non-consolidated) as at 31 December 2004
(in thousands of Czech crowns TCZK)

Ident.	ASSETS	line	2004			2003
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
C.	Current assets (L.32+39+48+58)	31	2,789,570	-235,234	2,554,336	526,272
C. I.	Inventories (L.33 to 38)	32	15,655	-2,266	13,389	12,354
C. I. 1.	Raw materials	33	15,655	-2,266	13,389	12,354
	2. Work-in-progress and semi-finished products	34	0	0	0	0
	3. Finished goods	35	0	0	0	0
	4. Livestock	36	0	0	0	0
	5. Goods for resale	37	0	0	0	0
	6. Advance payments for inventory	38	0	0	0	0
C. II.	Long-term receivables (L.40 to 47)	39	18,832	0	18,832	19,804
C. II. 1.	Trade receivables	40	18,832	0	18,832	19,804
	2. Receivables - group undertakings	41	0	0	0	0
	3. Receivables - associated companies	42	0	0	0	0
	4. Receivables from shareholders/owners and alliance partners	43	0	0	0	0
	5. Long-term advances paid	44	0	0	0	0
	6. Estimated receivables	45	0	0	0	0
	7. Other receivables	46	0	0	0	0
	8. Deferred tax asset	47	0	0	0	0
C. III.	Short-term receivables (L.49 to 57)	48	681,556	-232,968	448,588	441,310
C. III. 1.	Trade receivables	49	665,152	-232,968	432,184	417,879
	2. Receivables - group undertakings	50	0	0	0	0
	3. Receivables - associated companies	51	0	0	0	0
	4. Receivables from shareholders/owners and alliance partners	52	0	0	0	0
	5. Social security and health insurance	53	0	0	0	0
	6. Tax receivables and state subsidies receivable	54	14	0	14	8,669
	7. Short-term advances paid	55	7,802	0	7,802	6,597
	8. Estimated receivables	56	0	0	0	0
	9. Other receivables	57	8,588	0	8,588	8,165
C. IV.	Short-term financial assets (L.59 to 62)	58	2,073,527	0	2,073,527	52,804
C. IV. 1.	Cash	59	237	0	237	224
	2. Bank accounts	60	2,073,290	0	2,073,290	52,580
	3. Short-term securities and ownership interests	61	0	0	0	0
	4. Short-term investments (provisional value)	62	0	0	0	0
D. I.	Accruals and deferrals (L.64+65+66)	63	16,010	0	16,010	18,860
D. I. 1.	Prepaid expenses	64	16,010	0	16,010	18,860
	2. Complex prepaid expenses	65	0	0	0	0
	3. Accrued revenue	66	0	0	0	0

FINANCIAL STATEMENTS

Balance sheet in full format (non-consolidated) as at 31 December 2004
(in thousands of Czech crowns TCZK)

Ident. a	LIABILITIES b	line c	2004 5	2003 6
	TOTAL LIABILITIES AND EQUITY (L.68+85+118)	67	4,071,038	2,228,677
A.	Equity (L.69+73+78+81+84)	68	-181,838	-128,930
A. I.	Registered capital (L.70+71+72)	69	100,000	100,000
A. I. 1.	Registered capital	70	100,000	100,000
	2. Own shares held (-)	71	0	0
	3. Changes in registered capital	72	0	0
A. II.	Capital contributions (L.74 to 77)	73	610,526	610,526
A. II. 1.	Share premium	74	80,974	80,974
	2. Other capital contributions	75	529,552	529,552
	3. Revaluation of assets and liabilities	76	0	0
	4. Revaluation reserve on transformations	77	0	0
A. III.	Reserve funds (L.79+80)	78	3,468	457
A. III. 1.	Statutory reserve fund / Undistributable reserves	79	3,468	457
	2. Statutory and other reserves	80	0	0
A. IV.	Retained earnings (L.82+83)	81	-842,924	-900,148
A. IV. 1.	Retained profits	82	0	0
	2. Accumulated losses	83	-842,924	-900,148
A. V.	Profit (loss) for the current period (+/-)	84	-52,908	60,235
B.	Liabilities (L.86+91+102+114)	85	4,242,414	2,346,403
B. I.	Provisions (L.87 to 90)	86	3,484	7,218
B. I. 1.	Tax-deductible provisions	87	0	0
	2. Provision for pensions and other similar payables	88	0	0
	3. Income tax provision	89	0	0
	4. Non-deductible provisions	90	3,484	7,218
B. II.	Long-term liabilities (L.92 to 101)	91	3,158,135	1,011,179
B. II. 1.	Trade payables	92	0	0
	2. Liabilities - group undertakings	93	0	0
	3. Liabilities - associated companies	94	0	0
	4. Liabilities to shareholders/owners and alliance partners	95	0	0
	5. Long-term advances received	96	0	0
	6. Debentures and bonds issued	97	0	0
	7. Long-term bills of exchange payable	98	0	0
	8. Estimated payables	99	0	0
	9. Other long-term payables	100	3,158,135	1,011,179
	10. Deferred tax liability	101	0	0

FINANCIAL STATEMENTS

Balance sheet in full format (non-consolidated) as at 31 December 2004
(in thousands of Czech crowns TCZK)

Ident. a	LIABILITIES b	line c	2004 5	2003 6
B.III.	Short-term liabilities (L.103 to 113)	102	990,445	1,174,506
B. III. 1.	Trade payables	103	834,533	925,534
	2. Liabilities - group undertakings	104	0	0
	3. Liabilities - associated companies	105	0	0
	4. Liabilities to shareholders/owners and alliance partners	106	0	0
	5. Payables to employees	107	9,338	11,460
	6. Payables to social security and health insurance	108	6,449	6,967
	7. Tax liabilities	109	8,487	10,455
	8. Short-term advances received	110	40,948	25,864
	9. Debentures and bonds issued	111	0	0
	10. Estimated payables	112	90,612	190,845
	11. Other payables	113	78	3,381
B. IV.	Bank loans and overdrafts (L.115+116+117)	114	90,350	153,500
B. IV. 1.	Long-term bank loans	115	30,000	90,000
	2. Short-term bank loans	116	60,000	60,000
	3. Short-term financial liability	117	350	3,500
C. I.	Accruals and deferrals (L.119+120)	118	10,462	11,204
C. I. 1.	Accrued expenses	119	0	0
	2. Deferred revenues	120	10,462	11,204

FINANCIAL STATEMENTS

Profit and loss account - classification by nature (non-consolidated)
for the year ended 31 December 2004 (in thousands of Czech crowns TCZK)

Ident. a	TEXT b	Line c	2004 1	2003 2
I.	Revenue from goods	1	4,037	2,476
A.	Cost of goods sold	2	4,007	2,359
+	Gross profit (L.1-2)	3	30	117
II.	Revenue from production (L.5+6+7)	4	2,216,437	2,042,194
II. 1.	Revenue from own products and services	5	2,216,437	2,042,194
II. 2.	Change in inventory of own production	6	0	0
II. 3.	Own work capitalized	7	0	0
B.	Cost of sales (L.9+10)	8	1,579,889	1,472,234
B. 1.	Materials and consumables	9	26,595	30,496
B. 2.	Services	10	1,553,294	1,441,738
+	Added value (L.3+4-8)	11	636,578	570,077
C.	Personnel expenses (L.13 to 16)	12	283,266	262,611
C. 1.	Wages and salaries	13	204,333	192,403
C. 2.	Remuneration of board members	14	0	0
C. 3.	Social security and health insurance expenses	15	75,045	65,872
C. 4.	Social expenses	16	3,888	4,336
D.	Taxes and charges	17	23,138	16,155
E.	Depreciation of intangible and tangible fixed assets	18	417,250	401,999
III.	Proceeds from disposals of fixed assets and raw material (L.20+21)	19	4,763	19,802
III. 1.	Proceeds from disposals of fixed assets	20	4,763	19,783
III. 2.	Proceeds from disposals of raw material	21	0	19
F.	Net book value of fixed assets and raw material sold (L.23+24)	22	2,560	17,635
F. 1.	Net book value of fixed assets sold	23	2,560	17,635
F. 2.	Raw material sold	24	0	0
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	25	-18,884	-19,353
IV.	Other operating revenues	26	2,999	31,098
H.	Other operating expenses	27	32,603	52,621
V.	Adjustments to operating revenues	28	0	0
I.	Adjustments to operating expenses	29	0	0
*	Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29)	30	-95,593	-110,691

FINANCIAL STATEMENTS

Profit and loss account - classification by nature (non-consolidated)
for the year ended 31 December 2004 (in thousands of Czech crowns TCZK)

Ident. a	TEXT b	Line c	2004 1	2003 2
VI.	Proceeds from sale of securities and ownership interests	31	0	0
J.	Securities and ownership interests sold	32	0	0
VII.	Revenue from long-term investments (L.34+35+36)	33	0	0
VII. 1.	Revenue from intercompany securities and ownership interests	34	0	0
VII. 2.	Revenue from other long-term securities and ownership interests	35	0	0
VII. 3.	Revenue from other long-term investments	36	0	0
VIII.	Revenue from short-term financial investments	37	0	0
K.	Financial assets expenses	38	0	0
IX.	Revenue from revaluation of securities and derivatives	39	0	0
L.	Expenses for revaluation of securities and derivatives	40	0	0
M.	Change in provisions and adjustments relating to financial activity	41	-20	-18,741
X.	Interest revenue	42	1,373	556
N.	Interest expense	43	64,390	65,430
XI.	Other financial revenue	44	150,850	274,283
O.	Other financial expenses	45	47,287	58,831
XII.	Adjustments to financial revenues	46	0	0
P.	Adjustments to financial expenses	47	0	0
*	Profit (loss) from financial operations (L.31-32+33+37-38+39-40+41+42-43+44-45+46-47)	48	40,566	169,319
Q.	Income tax on ordinary profit (loss) (L.50+51)	49	0	278
Q. 1.	- current	50	0	278
Q. 2.	- deferred	51	0	0
**	Profit (loss) on ordinary activities after taxation (L.30+48-49)	52	-55,027	58,350
XIII.	Extraordinary revenue	53	1,929	6,784
R.	Extraordinary expenses	54	-190	4,899
S.	Income tax on extraordinary profit (loss) (L.56+57)	55	0	0
S. 1.	- current	56	0	0
S. 2.	- deferred	57	0	0
*	Extraordinary profit (loss) (L.53-54-55)	58	2,119	1,885
T.	Transfer of profit or loss to partners	59	0	0
***	Profit (loss) for the accounting period (L.52+58-59)	60	-52,908	60,235
****	Profit (loss) before taxation (L.30+48+53-54)	61	-52,908	60,513

FINANCIAL STATEMENTS

Cash flow statement (non-consolidated) for the year ended 31 December 2004
(in thousands of Czech crowns TCZK)

	2004	2003
P. Cash and cash equivalents, beginning of year	52,804	41,298
Net operating cash flow		
Z. Accounting profit (loss) from ordinary activities	-55,027	58,628
A.1. Non-cash transactions	459,243	391,781
A.1.1. Depreciation of fixed assets	395,628	383,741
A.1.2. Change in:	2,718	-54,704
A.1.2.1. adjustments to acquired assets	21,622	21,621
A.1.2.2. provisions and other adjustments	-18,904	-76,325
A.1.3. Profit(-) Loss(+) on sale of fixed assets	-2,203	-2,148
A.1.4. Profit(-) Loss(+) on sale of securities	0	0
A.1.5. Revenue from dividends and profit distribution	0	0
A.1.6. Expense and revenue interests accounted for	63,017	64,874
A.1.7. Other non-cash transactions	83	18
A.* Net operating cash flow before financial items, changes in working capital and extraordinary items	404,216	450,409
A.2. Current assets	-224,003	-150,993
A.2.1. Change in receivables and other temporary assets	20,064	128,609
A.2.2. Change in short-term liabilities and other temporary liabilities	-241,770	-278,483
A.2.3. Change in inventory	-2,297	-1,119
A.2.4. Change in short term financial assets	0	0
A.** Net operating cash flow before financial balances, taxation and extraordinary items	180,213	299,416
A.3. Interest paid excluding amounts capitalised	-7,423	-11,197
A.4. Interest received	1,373	556
A.5. Income tax paid on ordinary income	0	-180
A.6. Receipts and disbursement from extraordinary items	2,119	1,885
A.7. Dividends received and profit shares	0	0
A.*** Net operating cash flow	176,282	290,480

FINANCIAL STATEMENTS

Cash flow statement (non-consolidated) for the year ended 31 December 2004
(in thousands of Czech crowns TCZK)

	2004	2003
Investment activity		
B.1. Acquisition of fixed assets	-235,516	-242,257
B.1.1. Acquisition of tangible fixed assets	-214,593	-220,618
B.1.2. Acquisition of intangible fixed assets	-20,923	-21,639
B.1.3. Acquisition of long-term investments	0	0
B.2. Proceeds from sales of fixed assets	4,763	19,783
B.2.1. Proceeds from sales of tangible and intangible fixed assets	4,763	19,783
B.2.2. Proceeds from sale of financial investments	0	0
B.3. Advances and loans to related persons	-8,612	0
B.*** Net cash flow from investment activity	-239,365	-222,474
Financial activity		
C.1. Change in long-term liabilities and bank loans	2,083,806	-56,500
C.2. Increase and decrease in equity from specified transactions	0	0
C.2.1. Subscription of shares and investments	0	0
C.2.2. Equity paid to shareholders	0	0
C.2.3. Other cash contributions from partners and shareholders	0	0
C.2.4. Loss settlement from partners	0	0
C.2.5. Payments from funds created from net profit	0	0
C.2.6. Dividends paid and profit shares including withholding tax paid	0	0
C.*** Net cash flow from financial activity	2,083,806	-56,500
F. Net increase or decrease in cash balance	2,020,723	11,506
R. Cash and cash equivalents, end of period	2,073,527	52,804

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

in thousands of Czech crowns TCZK

1. DESCRIPTION AND PRINCIPAL ACTIVITIES

Establishment and description of the Company

GTS CZECH, a.s. ("the Company") was registered on 29 November 1995 as CETI ČR, a.s. The change of the commercial name to GTS CZECH, a.s. was entered in the Commercial Register on 8 November 1999. Until the end of January 2001, GTS CZECH, a.s. was a holding company. On 31 January 2001, it merged with DATTEL a.s., GTS Czech Net a.s., GTS Inec a.s. and DATTEL Consultancy, a.s. and became their successor company. The principal activities of the successor company is the provision of telecommunications services (voice and data transmission and internet) and provision of public telephonic service via public fixed line telecommunications network.

In April 2002, based on the framework contract signed on 1 April 2002, the operations of GTS CZECH, a.s. and KPNQwest Czechia s.r.o were merged. From January 2003, KPNQwest Czechia s.r.o., GTS CZECH, a.s. and GTS Carrier Services (Czech) s.r.o. have been preparing to merge with the effective date on 1 January 2005.

In December 2004, the Company signed a contract with Aliatel a.s. to transfer 100% shares of Aliatel a.s. to GTS CZECH, a.s. The shares were transferred on 11 February 2005. KPNQwest Czechia s.r.o., GTS CZECH, a.s., GTS Carrier Services (Czech) s.r.o. and Aliatel a.s. plan to merge to a successor company GTS NOVERA a.s. with the effective date on 1 January 2005.

Shareholder of the Company

The sole shareholder of the Company as at 31 December 2004 was GTS Central European Holding B.V., with registered office in Amsterdam, the Netherlands.

Changes in ownership structure in 2004

On 13 December 2004, the GTS-Czech, Inc., AnTel Holdings B.V. and GTS CZECH, a.s. signed a contract to transfer 100% shares of GTS CZECH, a.s. GTS-Czech, Inc., the original owner of 100% shares of GTS CZECH, a.s., decided to transfer the shares to AnTel Holdings B.V. On 14 December 2004, AnTel Holdings B.V. was renamed GTS Central European Holding B.V. As at the date of the preparation of these financial statements, the change has not been entered in the Commercial Register.

Registered office

GTS CZECH, a.s.
Hvězdova 1073/33
140 21 Praha 4
Czech Republic

Identification number

639 99 501

Members of the Board of Directors and Supervisory Board as at 31 December 2004

Members of the Board of Directors

Ing. Milan Rusnák (chairman)
Ing. Tomáš Budník
Ing. Zdeněk Rathauský

Members of the Supervisory Board

Ing. Oldřich Zapletal (chairman)
Ing. Milan Bohunský
Ing. Vladana Švorcová

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

Changes in the Commercial Register in 2004

Statutory body – Board of Directors:

Appointment of a member of the Board of Directors on 24 April 2004 – Ing. Tomáš Budník (entered in the Commercial Register on 19 May 2004)

On 19 May 2004, the following changes were entered in the Commercial Register:

- Dismissal of a member of the Board – Ing. Václav Dolínek (on 27 April 2004)
- Dismissal of a member of the Board – Ing. David Duroň (on 27 April 2004)
- Dismissal of a member of the Board – Ing. Irena Valdaufová (on 27 April 2004)

Organisational structure

GTS CZECH, a.s. and KPNQwest Czechia s.r.o have a common organisational structure. The companies are organised as four divisions (technical, operational, financial and commercial) which are subdivided into departments (with the exception of the departments managed directly by the CEO). These are further subdivided into units and work teams.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Tangible and intangible assets

Tangible and intangible fixed assets are stated at acquisition cost. Tangible fixed assets costing less than TCZK 10 and intangible fixed assets costing less than TCZK 20 are charged to the profit and loss account in the year that they were acquired. Tangible fixed assets costing more than TCZK 10 and intangible fixed assets costing more than TCZK 20 are depreciated gradually according to a depreciation plan.

The cost of internally produced assets includes direct materials, wages and overhead directly related to the production of the asset until the asset is put into use.

Depreciation is provided using the following methods and over the periods stated:

Assets	Method	Period
Buildings – improvements	Straight-line	10 years
Structures – optical and metallic cables	Straight-line	10 years
Property – repair and maintenance equipment	Straight-line	5 - 7 years
Property – switchboards	Straight-line	5 - 7 years
Property – microwave devices	Straight-line	3 - 7 years
Property – transfer devices	Straight-line	4 - 7 years
Property – non-telecommunications technology	Straight-line	5 - 7 years
Property – information technology	Straight-line	3 years
Property – office equipment	Straight-line	3 years
Property – furniture and other fixtures and fittings	Straight-line	5 years
Property – means of transport	Straight-line	4 years
Incorporation expenses	Straight-line	5 years
Software	Straight-line	3 – 4 years
Adjustment to acquired assets	Straight-line	15 years

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their estimated useful lives.

(b) Long-term investments

Long-term investments comprise investments in group undertakings and in associated companies and loans provided to group undertakings and are accounted for at cost. Adjustments to reduce the book value of these investments to net realisable value of long-term investments have been established.

(c) Inventories

Raw materials inventory is stated at cost. Cost includes the purchase price of the inventory and related customs duties, in-transit storage and freight costs incurred. The cost is determined using weighted average method.

(d) Establishment of adjustments and provisions

Tangible and intangible fixed assets

Adjustments to tangible and intangible fixed assets are established based on an analysis of their impairment.

Securities and long-term investments

The Company established adjustments to long-term investments amounting to the difference between book value and net realisable value.

Inventory

Adjustments to reduce the cost of inventory to net realisable value are established on the basis of specific identification.

Accounts receivable

Adjustments to receivables are established using the following rates reflecting the aging structure of receivables:

Overdue	Rate
1 – 30 days	5%
31 – 60 days	10%
61 – 90 days	20%
91 – 120 days	50%
121 – more	100%

In addition, the Company establishes adjustments to doubtful accounts based on an analysis of the credit status of customers and ageing structure of receivables.

Receivables from related parties are classified as doubtful only where the debtor company is in bankruptcy or it becomes unrelated (i.e. receivables are reclassified as receivables from third party).

Other provisions

The Company establishes provisions for:

- Untaken holiday which will be paid by the employer in the following year,
- Potential liabilities arising from pending litigations,
- Potential liabilities arising from business activities.

(e) Foreign currency translation

The Company uses the official CNB daily exchange rate. During the year, exchange gains and losses are only recognised when realised at the time of settlement.

At the balance sheet date, foreign currency monetary assets and liabilities are translated at the Czech National Bank official rates for that date. Unrealised foreign exchange gains and losses are recognised in the profit and loss account.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

(f) Leased assets

Lease payments are expensed on a straight-line basis over the lease term. Where an asset is purchased at the end of the lease, it is recorded at its purchase price.

(g) Taxation

Corporate income tax for the year comprises current income tax and the change in deferred tax. Current income tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate prescribed by the Income Tax Act, and any adjustment to the tax payable for previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the income tax rate prescribed by the Income Tax Act for the next period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which this asset can be utilized.

(h) Liabilities, loans and financial liabilities

The Company classifies as short-term the part of long-term liabilities, bank loans and financial liabilities which is due within one year from the balance sheet date.

3. CHANGE IN ACCOUNTING POLICIES AND PROCEDURES

As a result of amendments in accounting procedures, adjustments to acquired fixed assets are charged to the profit and loss account, line 18 – Depreciation of tangible and intangible fixed assets. In prior years, these changes were charged to line 27 – Other operating expenses. Appropriate reclassifications have been performed in order to achieve comparability of information.

4. FIXED ASSETS

(a) Intangible fixed assets

	Incorporation expenses	Intangible fixed assets under construction	Software	Total
Acquisition cost				
Balance at 1/1/2004	103	328	74,546	74,977
Additions	-	4,548	16,375	20,923
Disposals	-	-	-2,004	-2,004
Transfers	-	-328	328	-
Balance at 31/12/2004	103	4,548	89,245	93,896
Accumulated depreciation				
Balance at 1/1/2004	68	-	41,202	41,270
Depreciation expense	21	-	20,959	20,980
Disposals	-	-	-2,004	-2,004
Balance at 31/12/2004	89	-	60,157	60,246
Net book value at 1/1/2004	35	328	33,344	33,707
Net book value at 31/12/2004	14	4,548	29,088	33,650

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

(b) Tangible fixed assets

	Buildings	Works of art	Machinery and equipment	Vehicles	Tangible fixed asset under construction	Advances paid	Adjustments to acquired assets	Total
Acquisition cost								
Balance at 1/1/ 2004	682,755	33	1,806,302	1,939	4,579	147	324,325	2,820,080
Additions	22,826	-	188,895	1,341	1,531	-	-	214,593
Disposals	-541	-	-40,936	-1,203	-	-47	-	-42,727
Transfers	-	-	3,863	716	-4,579	-	-	-
Balance at 31/12/2004	705,040	33	1,958,124	2,793	1,531	100	324,325	2 991 946
Accumulated depreciation								
Balance at 1/1/2004	264,278	-	840,977	1,924	-	-	63,063	1,170,242
Depreciation expense	72,045	-	302,093	510	-	-	-	374,648
Disposals	-541	-	-38,503	-1,060	-	-	-	-40,104
Adjustments to acquired assets	-	-	-	-	-	-	21,622	21,622
Transfers	-	-	-	-	-	-	-	-
Adjustments to fixed assets	-	-	7,108	-	-	-	-	7,108
Balance at 31/12/2004	335,782	-	1,111,675	1,374	-	-	84,685	1,533,516
Net book value at 1/1/ 2004	418,477	33	965,325	15	4,579	147	261,262	1,649,838
Net book value at 31/12/ 2004	369,258	33	846,449	1,419	1,531	100	239,640	1,458,430

Pledged assets are described in note 13.

The adjustment to acquired assets reported in the balance sheet as at 31 December 2004 was established in relation to the merger of GTS Czech Net a.s., GTS Inec a.s., DATTEL a.s. and DATTEL Consultancy, a.s. into GTS CZECH, a.s. in 2001 and reported for the first time in the opening balance sheet of the successor company as at 1 February 2001 (see note 10). The adjustment is amortized on a straight-line basis over 15 years in accordance with valid accounting principles.

5. LEASED ASSETS

(a) Financial leases

As at 31 December 2003, the Company was committed to payments under finance leases for motor vehicles and equipment as follows:

2003	Total lease payments	Paid at 31/12/2003	Due in 1 year	Due in following years
Cars	54,802	51,411	3,391	-
Total	54,802	51,411	3,391	-

In 2004, the Company terminated the respective finance lease contracts in respect of cars and replaced them with operating lease contracts. The Company records no liabilities in relation to the finance leases of cars.

(b) Operating leases

In 2004, the Company paid TCZK 10,402 (in 2003 – TCZK 8,970) for the operating lease of cars.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

6. INVESTMENTS

Long-term

Company	Percentage share	Nominal Value of share	Adjustment	2004 Book value	2003 Book value
AGIS Telekomunikace s.r.o.	49%	490	-490	-	-
E-komunikace, s.r.o.	10%	20	-20	-	-
Loan from AnTel Holding Germany	-	-	-	8,612	-
Total	-	510	-510	8,612	-

AGIS Telekomunikace s.r.o.

Registered office: Pod hřištěm 6, 101 00 Praha 10

AGIS Telekomunikace was established in 1994 to provide telecommunications services (purchase of goods intended for further resale and retail). AGIS Telekomunikace has reported no business activity from 2002 to 2004. As a result, an adjustment of TCZK 490 to the investment in AGIS Telekomunikace was established in 2002.

E-komunikace, s.r.o.

Registered office: Hvězdova 1073/33 140 21 Praha 4

In November 2002, the Company and KPNQwest Czechia s.r.o. established eldentity, s.r.o. with the intention to provide services of a certification authority in relation to the sale and administration of certified electronic signatures.

Since the company did not start to provide these services , a 100% adjustment to this investment was established in 2003.

In 2004, the company was renamed E komunikace, s.r.o. The change was entered in the Commercial Register on 3 May 2004. From 9 February 2005 to 30 March 2005, the company was renamed GTS NOVERA, s.r.o. On 30 March 2005 the name of the company was changed back to E-komunikace, s.r.o. These changes were entered in the Commercial Register on 9 February 2005. This change is due to the registration of the name GTS NOVERA, which should be given to the company that will be result from the merger of KPNQwest Czechia s.r.o., GTS CZECH, a.s., GTS Carrier Services /Czech/ s.r.o. and Aliatel a.s.

In 2004, the Company received no dividends from long-term investments.

7. INVENTORY

At the stock-take held on 31 December 2004 the Company identified obsolete raw materials of TCZK 2,266 (2003 – TCZK 1,003). A 100% adjustment was established to these raw material inventories.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

8. TRADE RECEIVABLES AND PAYABLES

- (a) Short-term trade receivables total TCZK 665,152 (2003 – TCZK 686,256) of which TCZK 364,807 (2003 – TCZK 460,292) is overdue. An adjustment to doubtful accounts of TCZK 232,968 (2003 – TCZK 268,377) has been set up at 31 December 2004 to adjust for receivables which may be uncollectible.
- (b) Short-term trade accounts payable total TCZK 834,533 (2003 – TCZK 925,534) of which TCZK 621,779 (2003 – TCZK 748,533) is overdue. Payment schedules of certain payables were agreed. Some payables are offset against receivables (such as payables to and receivables from other telecommunications services providers).
- (c) Long-term trade receivables comprise receivable from SITEL due on 31 March 2010 and a long-term advance payment in respect of the lease of building and optical fibres paid to SELF SERVICE.

9. ADJUSTMENTS

	Adjustment to long-term investments	Adjustment to tangible fixed assets	Adjustments to inventory	Adjustments to receivables	Total
Balance at 1/1/2004	530	14,013	1,004	268,377	283,924
Additions	-	7,108	1,262	-	8,370
Release	-20	-	-	-35,409	-35,429
Balance at 31/12/2004	510	21,121	2,266	232,968	256,885

Adjustment to receivables decreased by TCZK 11,889 due to the fluctuation in foreign exchange rates. In accordance with valid accounting principles, this part of the release of the adjustment was credited to other financial revenue in the profit and loss account.

10. ADJUSTMENT TO ACQUIRED ASSETS

As a result of the merger of GTS Czech Net a.s., GTS Inec a.s., DATTEL a.s. and DATTEL Consultancy a.s. as at 31 January 2001, assets increased by the adjustment to acquired assets of TCZK 324,325. The amount was determined as the difference between book value of net assets of merging companies as at 30 June 2000 and value of net assets determined for the merger project based on certified experts' appraisals.

Company	Book value of net assets at 30/6/2000	Value of net assets at 30/6/2000 for the merger project (appraisals of certified experts)	Difference
Dattel a.s.	237,212	433,220	-196 008
Dattel Consultancy a.s.	-	-	-
GTS Inec a.s.	-11,980	35,959	-47,939
GTS Czech Net a.s.	40,214	120,592	-80,378
Total	265,446	589,771	-324,325

When determining the value of net assets as at 30 June 2000, provisions were included in the calculation by mistake and results of operation for the period January – June 2000 was not included.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

After the correction of book value of net assets as at 30 June 2002, the adjustment to acquired assets amounts to 327,757 (see table below).

Company	Corrected book value of net business assets at 30/6/2000	Book value of net business assets at 30/6/2000 for the merger project (appraisals of certified experts)	Difference
Dattel a.s.	240,171	433,220	-193,049
Dattel Consultancy a.s.	-	-	-
GTS Inec a.s.	-8,380	35,959	-44,339
GTS Czech Net a.s.	30,223	120,592	-90,369
Total	262,014	589,771	-327,757

As at 1 February 2001 (the date of the merger of DATTEL a.s., GTS Czech Net a.s., GTS Inec a.s. a DATTEL Consultancy into GTS CZECH, a.s.), the adjustment to acquired assets was undervalued by TCZK 3,432 due to the above described mistake. The Company has not included the difference in the adjustments as it is immaterial in relation to the amount of the adjustment.

The following table indicates the effect of the mistake on annual depreciation charge and accumulated depreciation in the prior years:

Year	Annual depreciation charge in respect of adjustment to acquired assets was undervalued of	Accumulated depreciation in respect of adjustment to acquired assets was undervalued of	Comment
2001	210	210	11 months (from 1/2/2001)
2002	229	439	
2003	229	668	
2004	229	897	

11. EQUITY

Movements in individual components of equity

	Registered capital	Share premium	Other capital funds	Stat. reserve fund	Profit /loss of the current period	Accumulated losses	Total
Balance at 1/1/2004	100,000	80,974	529,552	457	60,235	-900,148	-128,930
Distribution of 2003 profit	-	-	-	3,011	-60,235	57,224	-
Loss for 2004	-	-	-	-	-52,908	-	-52,908
Balance at 31/12/2004	100,000	80,974	529,552	3,468	-95,908	842,924	-181,838

Other capital funds comprise contributions of CETI Hungary made in relation to the purchase the shares of DATTEL of TCZK 250,753, results of operations of the merging companies (DATTEL, GTS Czech Net, GTS Inec, GTS Inc.) and cancellation of equity securities of DATTEL and DATTEL Consultancy in 2001 amounting to TCZK 278,799.

The Company plans to transfer the loss for 2004 into accumulated losses.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

12. PROVISIONS

	Other provisions
Balance at 1/1/2004	7,218
Addition to provisions	3,484
Release of provisions	-7,218
Balance at 31/12/2004	3,484

Other provisions comprise a provision for untaken holiday (including social security and health insurance) of TCZK 1,395, a provision of TCZK 849 for penalty in respect of VAT arisen on additional tax returns, provision of TCZK 1,163 for the liability that might arise in relation to the pending litigation.

13. BANK LOANS

	Interest rate	Due date	Payment schedule	Balance at 31/12/2004	Due in 1 year	Due in following years	Interest in 2004
Loan from Nationale Investerings Bank B.V.	Floating	31.3. and 30.9. every year	Last payment on 31/3/2006	90,000	60,000	30,000	7,423

In June 1998, DATTEL a.s. (merged into GTS CZECH, a.s. on 31 January 2001) concluded a contract with Nationale Investerings Bank and Bank Austria Creditanstalt on a long-term loan (TCZK 360,000) and overdraft (TCZK 50,000). As GTS CZECH, a.s. is the successor company of DATTEL a.s., all duties and obligations arising on that contract were transferred to GTS CZECH, a.s.

The first instalment of the loan provided by the Dutch Nationale Investerings Bank was paid on 30 September 2000, regular instalments amounting to TCZK 30,000 are paid on 31 March and 30 September; the last instalment will be paid on 31 March 2006.

The interest rate has been set as quarterly PRIBOR + margin. The margin is determined in relation to the outstanding amount of the loan and EBITDA for the four immediately preceding quarters. The margin for the last quarter of 2004 amounted to 3.75%.

This bank loan is secured by all assets of GTS CZECH, a.s.

14. SALES INFORMATION

The principal activity of the Company is the provision of telecommunications services, such as:

- Voice services
- Internet connection via dedicated line (DIA)
- Connection of customers branches into virtual internet network (IP VPN)
- Connection of internet providers to the international network (IP transit)
- provision of data circuits
- internet connection using dial-up
- rent of international data telecommunications circuits
- other internet services (web hosting, server hosting, domains, sale of internet equipment – modems,...)

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

		Domestic sales	Export	Total
Sale of goods	2004	4,037	--	4,037
	2003	2,476	--	2,476
Sale of services	2004	2,051,946	164,491	2,216,437
	2003	1,850,513	191,681	2,042,194
Total	2004	2,055,983	164,491	2,220,474
	2003	1,852,989	191,681	2,044,670

Exports comprise all sales of goods and services in the Czech Republic to foreign entities.

15. PAYABLES FROM SOCIAL SECURITY AND HEALTH INSURANCE

Payables for social security and health insurance total TCZK 6,449 (2003 – TCZK 6,967). No payables for social security and health insurance are overdue.

16. TAX LIABILITIES

Tax liabilities total TCZK 8,487 (2003 – TCZK 10,455) of which TCZK 5,261 is value added tax due.

17. EMPLOYEES AND EXECUTIVES

The average number of employees and executives and remuneration paid for the years ended 31 December 2004 and 31 December 2003 are as follows:

2004	Number of employees	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	347	179,425	65,816	3,454
Executives	17	24,908	9,229	434
Total	364	204,333	75,045	3,888

2004	Number of employees	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	354	172,503	58,907	4,026
Executives	15	19,900	6,965	310
Total	369	192,403	65,872	4,336

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

18. RELATED PARTIES

(a) Trade receivables and payables and advances received and paid

	Receivables at 31/12		Payables at 31/12	
	2004	2003	2004	2003
AnTel Germany	-	8,607	-	-
AnTel Holding Ltd.	-	-	-	130,366
GTS Slovakia	50,204	53,158	11,060	6,575
GTS CEH	616	514	47,209	6,413
GTS TELECOM S.R.L. (Romania)	91	2,873	-	-
GTS Datanet (Hungary)	8,234	23,290	12,325	17,880
Sitel-VSAT	23	27	-	-
KPNQwest Network Ireland	139,282	148,424	-	-
GTS Polska sp z.o.o	1,110	317	217	8
Pronet	236	3,690	-	63
GTS UK	27,920	29,106	-	-
KPNQwest Czechia	15,630	9,554	109,519	84,658
GTS Carrier Services Czech	78	3,063	7,448	38,777
GTS Czech Com	417	466	-	-
Netforce	61	111	-	-
Total	243,902	283,200	187,778	287,740

The Company created a 100 % adjustment to receivables from KPNQwest Network Ireland and GTS UK.

Based on the contract signed by GTS CZECH, a.s. and AnTel Holding Germany, trade receivables were reclassified as loans to a related party and were accounted for in long-term investments in 2004 (see note 6).

In 2004, liabilities of GTS CZECH, a.s. to AnTel Holding Cyprus, Ltd were transferred to GTS Central European Holding B.V. These liabilities were subsequently, based on the contract signed by the Company and GTS Central European Holding B.V., reclassified as long-term liabilities.

(b) Long-term liabilities

Creditor (currency)	Long-term liabilities at 31/12/2003	Due in 2004	Long-term liabilities at 31/12/2004	Long-term liabilities in foreign currency at 31/12/2004	Interest expenses in 2004
AnTel Holding (Cyprus) (CZK)	341,603	-	-	-	-
AnTel Holding (Cyprus) (USD)	527,840	-	-	-	-
AnTel Holding (Cyprus) (EUR)	71,402	-	-	-	-
Carduelis (EUR)	70,334	-	-	-	-
GTS Carrier Services (Czech) s.r.o. (CZK)	-	-	51,455	-	1,485
GTS Central European Holding B.V. (EUR)	-	-	70,728	2,322	4,825
GTS Central European Holding B.V. (CZK)	-	-	3,035,952	-	50,657
Total	1,011,179	-	3,158,135	-	56,967

In September 2002, long-term loans and all liabilities arising thereof, originally provided by GTS Network Services Ireland (renamed KPNQwest Network Ireland Ltd. in 2002) and GTS Financial Services (renamed KPNQwest Finance B.V. in 2002), were transferred to a new creditor – AnTel Holdings (Cyprus) Ltd.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

Withholding tax was calculated on the interest on these loans transferred to AnTel Holdings with registered office on Cyprus for the period from January – December 2003. As at 31 December 2003, liability arising on this tax amounting to TCZK 7,138 was recognised.

In 2004, Group Menatep Limited (100% owner of AnTel Holdings (Cyprus) Ltd) and GTS Central European Holding B.V. concluded a contract on the transfer of long-term liabilities of GTS CZECH, a.s. from AnTel Holdings (Cyprus) Ltd to GTS Central European Holding B.V. Long-term liabilities to GTS Central European Holding B.V. were reclassified as a loan. The loan is payable at creditor's demand and the interest rate is set at PRIBOR +3.25%.

The balance of the loan provided by GTS Central European Holding B.V. includes a long-term loan provided to acquire 100% share of Aliatel a.s. Cash provided for the purchase of the shares of Aliatel a.s. was at the end of 2004 transferred to escrow bank account with ABN AMRO. This part of the loan from GTS Central European Holding B.V. is subject to an interest rate at PRIBOR +3.25%.

All loans provided by related parties are subordinated to the loan provided by Nationale Investerings Bank (NIB), i.e. their due dates are deferred until the loan from NIB has been repaid (see note 13).

(c) Sales and purchases

	Sales at 31/12		Purchases at 31/12	
	2004	2003	2004	2003
GTS Datanet (Hungary)	10,682	12,087	8,755	25,370
GTS Slovakia	27,362	42,677	33,914	17,502
GTS Carrier Services /Czech/	66	-	-	-
GTS Poland	1,467	1,038	1,173	1,959
Pronet	4,934	5,827	875	2,093
GTS CS Czech	-	70	18,120	7,821
GTS CEH	977	-	34,574	76,764
KPNQwest Czechia	40,325	116,490	13,173	28,297
GTS TELECOM S.R.L. (Romania)	1,418	2,705	-	-
Total	87,231	180,894	110,584	159,806

(d) Director's and Supervisory Board members' remuneration and loans

Members of the Board of Directors and management use the Company's cars also for private purposes. In 2004, members of the Board of Directors and management were not provided any loans or bonuses for their duties.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

19. INCOME TAX

(a) Current tax

In 2004, no tax liability arose.

(b) Deferred tax

Deferred tax assets and liabilities

	Receivables		Payables		Difference	
	2004	2003	2004	2003	2004	2003
Long-term tangible and intangible assets		-	47,773	60,772	-47,773	-60,772
Receivables	6,583	10,632	-	-	6,583	10,632
Inventory	589	281	-	-	589	281
Provision	431	1,309	-	-	431	1,309
Estimated payables and receivables	14,476	16,858	-	-	14,476	16,858
Accumulated losses	62,477	44,105	-	-	62,477	44,105
Other temporary differences (10% invest. allowance)	-	2,865	-	-	-	2,865
Deferred tax asset/ (liability)	84,556	76,050	47,773	60,772	36,783	15,278

In accordance with the accounting policy described in 2 (g), a tax rate of 26% and 28% was used to calculate deferred tax in 2004 and 2003 respectively. The Company has not accounted for a deferred tax asset as it is uncertain that future taxable profits will be available against which this asset can be utilised.

20. CONTINGENCIES AND COMMITMENTS

(a) The Company did not report in the balance sheet the liabilities in respect of invoices from Český Telecom, a.s. ("ČTc") for the lease of connection trunks between the telecommunications networks of both companies. These invoices were returned to ČTc, as the Company believes that they contravene the decision of the Czech Telecommunications Office from 11 September 2002 (section IV.) which stipulates that every operator of a public telecommunications network that shares connections points with other public telecommunications networks, establishes and operates telecommunications devices and telecommunications circuits up to the specified dividing line in the connection point on its own account, unless agreed otherwise. The Company and ČTc made no such agreement and the invoices of TCZK 123,671 for the period from January 2001 – December 2004 (2001 – TCZK 28,838, 2002 – TCZK 42,860, 2003 – TCZK 24,977 and 2004 – TCZK 26 996) were returned to ČTc.

The case has been presented to the High Court in Prague and District Court for Prague 3. The Company expects that the case will be closed within two years.

(b) Invoices of T-Mobile ČR, a.s. (formerly Radiomobil a.s.) for the connection fees for the period November – December 2001 of TCZK 5,603 were claimed. These liabilities were eliminated from the balance sheet by means of an internal credit note. The Czech Telecommunications Office ("ČTÚ") rejected in the first instance the requirement of T-Mobile ČR, a.s. to invoice higher connection fees. Based on the appeal filed by T-Mobile ČR, a.s., the president of the Czech Telecommunications Office cancelled the decision in the appeal procedure and referred the case to the Court of first instance for a new hearing. ČTÚ interrupted the administrative proceedings.

(c) Český Telecom ("ČTc") initiated administrative proceedings against the Company challenging connection fees set by the Czech Telecommunications Office ("ČTÚ") in 2001. ČTc maintains it was entitled to charge connection fees of CZK 0.92/min instead of CZK 0.66/min. set by ČTÚ. ČTc claimed the connection fees set by the ČTÚ in April 2002. The liability arising on these disputes was determined by the Company as TCZK 67,062.

The litigation relating to connection fees for 2001 has been presented to the High Court in Prague. The litigation relating to connection fees for 2002 has been presented to the District Court in Prague 3.

The Company expects that both cases will be closed within two or three years.

NOTES TO THE CZECH STATUTORY FINANCIAL STATEMENTS (NON-CONSOLIDATED)

21. ASSETS WITH MARKET VALUE SIGNIFICANTLY HIGHER THAN BOOK VALUE

The Company has no assets with market value significantly higher than book value.

22. MATERIAL SUBSEQUENT EVENT

At the end of 2004, the Company decided to purchase 100% shares of Aliatel a.s. On 18 December 2004, the companies concluded an agreement on the transfer of shares. The shares were transferred on 11 February 2005. Consequently, Aliatel a.s. became a subsidiary of GTS CZECH, a.s. Both companies thus became members of the same group.

The Company plans to merge with GTS CZECH, a.s., GTS Carrier Services /Czech/ s.r.o., KPNQwest Czechia s.r.o. and Aliatel a.s. The successor company would be Aliatel a.s. and should be renamed GTS NOVERA a.s. Other companies will dissolve without liquidation.

All the companies operate on the telecommunications market and their activities overlap. The aim of the merger is to reduce costs, increase effectiveness and quality of provided telecommunications services, as a result of which the position of GTS Central European Holdings group on the Czech telecommunications market would strengthen.

The completion of the operational merger of the companies is planned for 2005. Some changes will have to be made in all companies in relation to the planned merger. In order to optimise resources, some employees will be redundant; the use of equipment in all companies will also be optimised. As at the date of the preparation of these financial statements, the Company was not able to determine the effect of the planned merger. Ensuring a smooth merger is the priority of the Company.

In relation to the planned merger, GTS CZECH, a.s. and Aliatel a.s. concluded a framework agreement on cooperation. The cooperation will comprise mutual provision of services, leases and sublease of movable and immovable assets, interconnection of telecommunications networks and provision of a common portfolio of telecommunications services. This cooperation will have some implications on the rights and obligations arising from employment relations.

In March 2005 the Company moved from Hvězdova 1073/33 to the premises of Aliatel a.s. in Sokolovská 131/86. The Company continued in the lease of the offices in Hvězdova 1073/33 and sublease part of them to IZIP, spol. s r.o.

Effectively on 1 March 2005 the rights and obligations arising from employment relations with all employees of GTS CZECH, a.s. were fully transferred to Aliatel a.s. as the successor in accordance with the Section 249, paragraph 2 of the Act No. 65/1965 Coll., Work Code, as amended.

23. GROUP RELATIONS

The Company is dependent of financial support from its parent company. The owner of the Company provided formal representation that it will provide necessary support, if required, at least for the twelve months from the date of these financial statements. Accordingly, these financial statements have been prepared on a going-concern basis.

REPORT OF CONTROL RELATIONSHIPS

Executed by the GTS CZECH, a.s., Company's Statutory Body for the accounting period of the year 2004

1. CONTROLLED PARTIES

Trade name, IČ (Company No.) and registered office of the controlled party:

GTS CZECH, a.s.

IČ (Company No.): 63 99 95 01

with its registered office at Praha 4, Hvězdova 1073/33, PSČ 140 21

2. CONTROLLING PARTIES

(i) As far as the controlled party is aware, the following company is the controlling party:

A) Trade name and registered office of the controlling party:

Global Telesystems, Inc. (GTS-Czech, Inc.) with its registered office at 9 East Locckerman, Dover, Delaware, USA

The control relationship lasted from 1 January 2004 until 13 December 2004.

The amount of voting rights held by the controlling party in the controlled party. From 1 January 2004 until 13 December 2004: 100%

On 13 December 2004, the company GTS-Czech, Inc. transferred 100% of the controlled party's shares to the company AnTel Holdings B.V. with its registered office in The Kingdom of the Netherlands.

B) Trade name and registered office of the controlling party:

AnTel Holdings B.V.

(on 14 December 2004 renamed to **GTS Central European Holding B.V.**), with its registered office at Professor J H Bavinckln 7, 1183AT Amstelveen, The Kingdom of the Netherlands

The control relationship lasted from 13 December 2004 until 31 December 2004.

The amount of voting rights held by the controlling party in the controlled party. From 13 December 2004 until 31 December 2004: 100%

(ii) 100% of the controlling party GTS-Czech, Inc. was, in the 2004 accounting period, directly controlled by AnTel Holdings B.V.

Trade name and registered office:

AnTel Holdings B.V.

with its registered office at Professor J H Bavinckln 7, 1183AT Amstelveen, the Kingdom of the Netherlands.

Relationship to the controlled party:

The sole (100%) member in the company GTS-Czech, Inc., holding 100% of the controlled party's shares for the period from 1 January 2004 to 31 December 2004

(iii) For the 2004 accounting period, 100% of the company AnTel Holdings B.V. was under the direct control of **Mellet Corporation N.V.**, with its registered office in The Kingdom of the Netherlands.

(iv) For the 2004 accounting period, 100% of the company Mellet Corporation N.V. was under the direct control of **AnTel Holdings (Cyprus) Ltd.** with its registered office in the Republic of Cyprus. 100% of company AnTel Holdings (Cyprus) Ltd. was directly owned by the company **AnTel Holdings Limited** with its registered office in Gibraltar; 100% of the latter was directly controlled by the company **Group Menatep Ltd.**, with its registered office in Gibraltar.

REPORT OF CONTROL RELATIONSHIPS

3. OTHER INTER-RELATED PARTIES

Other parties related in the relevant period to the controlled party in the sense of Section 66a, subs. 9 of the Commercial Code, i.e., Act No. 513/1991 Coll., as later amended, to the best of knowledge of the controlled party acting with the due professional care, are the following:

A. Trade name and registered office:

GTS Czech Com, s.r.o., with its registered office at Praha 4, Hvězdova 1073/33
IČ (Company No.): 61852279

Relationship to the controlled party:

The company is directly controlled by GTS-Czech, Inc. with its registered office in the state of Delaware, USA (100%).

B. Trade name and registered office:

NetForce, spol. s r.o., with its registered office at Praha 4, Hvězdova 1073/33
IČ (Company No.): 64575951

Relationship to the controlled party:

The company is directly controlled by GTS-Czech, Inc. with its registered office in the state of Delaware, USA (100%).

C. Trade name and registered office:

KPNQwest Czechia s.r.o., with its registered office at Praha 4, Hvězdova 1073/33
IČ (Company No.): 48538701

Relationship to the controlled party:

for the entire accounting period 2004, the company was partly owned by the company **AnTel Holdings Limited** (with a 1% ownership interest), with its registered office in Gibraltar; from 1 January 2004 until 20 September, it was directly controlled by the company **AnTel Holdings (Cyprus) Ltd.** (with a 99% ownership interest) with its registered office in the Republic of Cyprus. On 20 September 2004, **AnTel Holdings (Cyprus) Ltd.** transferred its 99% ownership interest in KPNQwest Czechia s.r.o. to **Group Menatep Ltd.**, with its registered office in Gibraltar, which thus directly controlled KPNQwest Czechia s.r.o. with a 99% ownership interest from 20 September 2004 until 31 December 2004.

D. Trade name and registered office:

GTS Carrier Services (Czech) s.r.o., with its registered office at Praha 4, Hvězdova 1073/33, PSČ: 140 21
IČ (Company No.): 257 82 797

Relationship to the controlled party:

The company is directly controlled by **AnTel Holdings B.V.** with its registered office in The Kingdom of the Netherlands (100%). AnTel Holdings B.V. was renamed to **GTS Central European Holding B.V.** on 14 December 2004.

E. Trade name and registered office:

elidentity, s.r.o., with its registered office at Praha 4, Hvězdova 1073/33, PSČ 140 21
IČ (Company No.): 26 73 09 28

elidentity, s.r.o. was renamed to **E-komunikace, s.r.o.** on 3 May 2004.

Relationship to the controlled party:

The controlled party was, in the entirety of the year 2004, a member in this company with a 10% ownership interest, while KPNQwest Czechia s.r.o. was a member with a 90% ownership interest.

REPORT OF CONTROL RELATIONSHIPS

4. CONTRACTS BETWEEN INTER-RELATED PARTIES AND PERFORMANCE THEREOF

In the relevant period, a loan contract for 3,500,000 CZK was entered into between GTS CZECH, a.s., as the debtor and GTS Carrier Services (Czech) s.r.o. as the creditor. The balance of the loan inclusive of unpaid interest was 382,098 CZK as of 31 December 2004. In 2004, a loan contract for 50 million CZK was entered into between GTS CZECH, a.s., as the debtor and GTS Carrier Services (Czech) s.r.o. as the creditor. The balance of the loan inclusive of unpaid interest was 51,454,920 CZK as of 31 December 2004.

5. LEGAL STEPS MADE OR ACCEPTED BY THE CONTROLLED PARTY IN THE INTEREST OF OR ON THE REQUEST OF THE INTER-RELATED PARTIES

In the past, the controlled party was provided with a loan from the controlling party; the balance thereof as of 31 December 2004 was 914,634,356.96 CZK; in 2002, this loan was assigned to AnTel Holdings (Cyprus) Ltd. with its registered office in the Republic of Cyprus. The controlled party suffered no detriment in consequence of these loan contracts.

In 2004, a contract was entered into between Group Menatep Limited (the owner of 100% of AnTel Holdings (Cyprus) Ltd.) and GTS Central European Holding B.V. for transfer of long-term liabilities of GTS CZECH, a.s. from AnTel Holdings (Cyprus) Ltd. to GTS Central European Holding B.V. The long-term liabilities to GTS Central European Holding B.V. were converted into a Promissory note. The Promissory note is payable on the creditor's request and its interest rate is PRIBOR + 3.25%.

The Promissory note by GTS Central European Holding B.V. as of 31 December 2004 also includes long-term credit for purchase of 100% shares of Aliatel a.s. IČ (company No.): 610 58 904, with its registered office at Sokolovská 86, Praha 8. A contract for transfer of 100% shares was entered into on 18 December 2004, and became effective on 11 February 2005. The financial means for the purchase of the 100% shares of Aliatel a.s. was, at the end of 2004, transferred to an escrow bank account kept with the bank ABN AMRO. For this part of the credit provided by GTS Central European Holding B.V., the interest rate is also PRIBOR + 3.25%.

In 2002, the controlled party was provided with a loan within the group from Carduelis B.V.; the balance of that loan (inclusive of unpaid interest) was 70,728,549.30 CZK as of 31 December 2004. This credit was, in 2004, assigned within the group to GTS Central European Holding B.V. with its registered office in the Netherlands. The company Carduelis B.V. with its registered office in the Netherlands is directly (100%) controlled by the company Mellet Corporation N.V. with its registered office in the Netherlands.

The controlled party did not, within the relevant period, accept or make any other legal steps in the interest of or on request from the inter-related parties.

In Prague on 30 March 2005



Ing. Milan Rusnák
Chairman of the Board of Directors, GTS CZECH, a.s.

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