Cesky Telecom

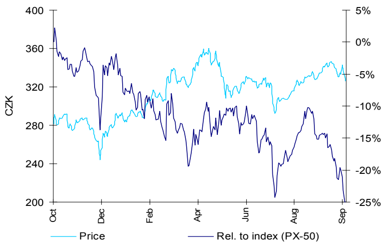
06 October 2004

Telecommunications services

Czech Republic

Current price	CZK 327	**Buy**
Target price	CZK 402	Recommendation upgrade

Source: PSE



FY/e 31.12	2002	2003	2004E	2005E
Sales (CZK m)	52,856	51,476	61,966	61,579
EBITDA (CZK m)	26,150	23,814	28,351	27,931
Pre-Tax (CZK m)	6,110	-6,667	6,789	6,526
Adj. EPS* (CZK)	13.3	-5.4	16.2	15.0
EPS (CZK)	13.3	neg	14.0	12.8
DPS (CZK)	57.4	17.0	29.2	44.0
P/E* (x)	24.6	neg	23.3	25.5
Yield (%)	17.6%	5.2%	8.9%	13.5%
EV/EBITDA (x)	5.0	5.5	4.6	4.7

Source: Patria Finance, Cesky Telecom **Adjusted for goodwill amortization*

Reuters	SPTTsp.PR
Bloomberg	SPTT CP
www.ct.cz	

Market Cap	EUR 3.3bn
Shares outst.	322m
Volume (daily)	EUR 13.5m
Free Float	49%

Next Corporate Event

Consolidated Q3 2004 IFRS results

Performance over	1m	3m	12m
Absolute	-3%	+2%	+16%
Rel. Index	-8%	-7%	-25%
Rel. Sector			
12-m Hi/Lo	CZK 360 / 244		
EUR / CZK	31.4		

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Cesky Telecom is the dominant wire-line operator in the Czech Republic. It has significant exposure to the wireless market via its 100%-owned subsidiary Eurotel, the No. 1 domestic mobile operator.

Based on our revised projections we have increased our target price to CZK402 from CZK330. The higher fair value reflects CT's focus on stabilization of fixed line revenues and the positive impact of the full consolidation of Eurotel. The transformation program is focused on cutting operating costs and has led to one of the highest EBITDA margins among CT's peers. Falling OPEX, limited CAPEX, stable leverage and no immediate acquisition plans open the door to dividend payments over and above what would be allowed under the approved dividend policy.

- We regard the current discount to our fair value as a result of privatization form uncertainty. Based on recent information, we believe that the odds are moving towards the capital markets option.
- In the case of a tender, the state's stake would probably be sold at a price close to our fair value, i.e. CZK402 (based of FCFE suitable for minority investors). We see a significant majority premium as unlikely. We believe that CT's shares would react positively to the announcement of a tender sale and move towards our expected minimal buy-out price of CZK382.
- In a capital markets transaction, we believe that the discount to the current market price should not exceed 10%. While a risk of profit taking in the short term exists, we expect CT's shares to move towards their fair value in the mid-term given the company's strong fundamentals and relative undervaluation compared to peers.
- Based on our analysis of the two possible privatization methods, the increasing likelihood of a capital markets transaction, the fair value of the company together with a relative comparison of CT's shares with its European peers, an investment in the stock offers an upside potential of at least 17%, thereby justifying our buy recommendation.

Summary

Based on our revised projections we have increased our target price to CZK402 from CZK330 per share (note that we have also switched to a free-cash-flow-to-equity based valuation, which is suitable for investors without a control over company's cash flows, from a free cash flow model). The higher fair value estimate reflects CT's increasing focus on the stabilization of fixed line revenues and the positive impact of the full consolidation of CT's mobile subsidiary Eurotel. The recently launched transformation program is focused on reducing operating costs and has so far led to the maintenance of strong operating efficiency reflected in one of the highest, EBITDA margin among CT's regional and European peers. Falling OPEX, limited CAPEX, stable leverage with favourable debt condition and no immediate acquisition plans are leading to dividend payments possibly well in excess of what would be warranted by the approved dividend policy.

The current discount to our fair value is mainly a result of uncertainty regarding the privatisation method for the state's 51% stake in CT. The Cabinet is currently considering three possible methods: (i) a sale to the winner of the tender, (ii) a sale through capital markets and (iii) a combination of the two. We believe that the decision may be known by the end of November. Recent comments from the PM and deputy PM favour a capital markets transaction. In addition, the state budget for 2005 assumes CZK 58 bn in proceeds from privatization of CT and Severoceske doly. All in all we believe that the odds are currently moving towards the capital markets option.

Should the Cabinet decide on a tender sale, we believe the 51% stake would be sold at a price close to our fair value of CZK 402 (based on FCFE suitable for minority shareholders). We assume that the potential majority premium would be limited by the requirement of a mandatory buy-out offer to minority investors, which should offset any tax-shield implied by likely debt-financing of the transaction. We believe that CT's shares would react positively to the announcement of a tender-based sale and should move towards CZK382, which should be the minimum buy-out price (based on a 6M weighted average). Further upside for the share would depend on the strategic plans of the new owner (i.e. restructuring, increasing leverage, divestures, further additional buy-outs etc.), whose impact we are currently unable to determine.

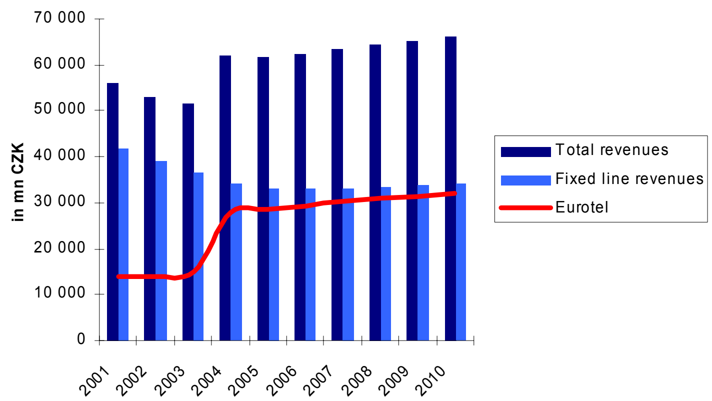
Should the state's stake be sold through capital markets, we believe that the discount to current market prices would not exceed 10% given recent placements of telecom shares on the European markets suggesting a positive investor sentiment towards the sector. Also, at a 10% discount to the market value, CT's shares would be valued lower compared than its peers, which should create strong demand for the offering. While a risk of profit taking in the short term exists, we think a move towards the fair value as very likely for the share in the mid-term given the company's strong fundamentals and relative undervaluation compared with its European peers.

Based on our analysis of the two privatization methods, the increasing likelihood of a capital markets transaction, the fair value of the company together with the relative comparison of CT's shares with its European peers, an investment in the stock offers an upside potential of at least 17%, thereby justifying our BUY recommendation.

Fundamentals

Consolidated sales helped by full consolidation of Eurotel……

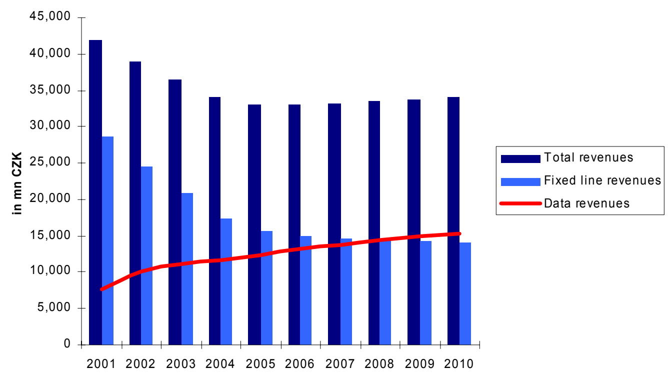
Full consolidation of CT's mobile subsidiary, Eurotel, and its better-than-expected performance, helped to push consolidated sales up by nearly 23% y-o-y in 1H04. We expect the full inclusion of Eurotel to gradually offset the negative trend of falling fixed line revenues, in particular fixed line call revenues in the short and mid-term. Eurotel's share on total revenues should increase to 49% by 2010 from the current 44% (1H2004).



Source: Patria Finance, Cesky Telecom

……and beginning of stabilization of fixed line revenues

We project a stabilization of fixed line revenues in 2006/2007 as (i) by then data revenues will match voice revenues due to a strong focus on data, internet and the value added services (VAS) segment and (ii) the rate of decrease in call revenues should flatten given stabilization of customers' outflow due to nearly 100% mobile penetration, stabilization of migration to alternative fixed line operators and offers of more competitive call packages. In the long-term, we expect data revenues to form over 50% of total fixed line revenues.



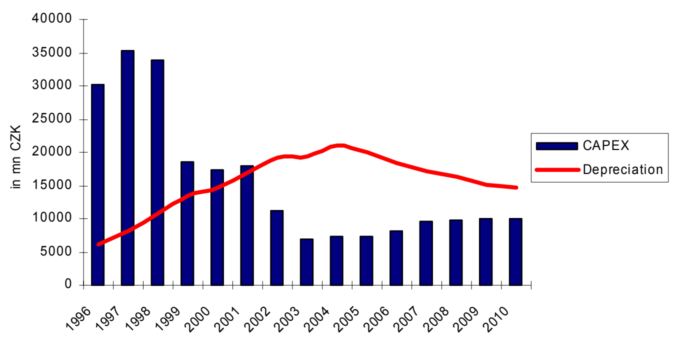
Source: Patria Finance, Cesky Telecom

Highest operating efficiency among European peers

The transformation plan launched at end-2003 focuses on the reduction of all categories of controllable operating costs. Fixed line operating costs declined by 6.5% y-o-y in 1H04. Staff costs, which form 34% of total fixed line operating costs, fell by 5.1% y-o-y due to staff reductions of 26% y-o-y. As a result, the number of fixed lines per employee now stands at 368 compared with 282 in 1H03. Despite Eurotel's 8.9% rise in operating costs y-o-y in 1H04 (due mainly to high equipment and material costs of sales) the company managed to achieve an EBITDA margin of 48.7%. As a result, the consolidated EBITDA margin reached 48.7%, well above CT's regional peers - Matav (42.3%) and TPSA (43.5%) as well as its EU peers (in 1H04).

Depreciation

Consolidated depreciation charges increased by 13.2% y-o-y, as a result of the full consolidation of Eurotel, while the Depreciation/Sales ratio declined from 36.3% to 33.5% in 1H04 compared with 1H03. This was largely caused by the impairment of part of the fixed line network totalling CZK 9.9bn and booked in 2003. Declining CAPEX also played a role. The impact of the impairment on depreciation should be offset by a new accounting law (coming into force from January 2005). Under the new law, we assume the depreciation period will be reduced, which would increase CT's annual depreciation charges. This together with huge investments in the fixed line network between 1995 and 2002 worth over CZK130bn should lead to higher depreciation charges compared with CAPEX (CAPEX needs are on the decline). For 2010, we project the Depreciation/Sales ratio to stand at 22% compared with the current level of 34%. On the other hand CAPEX/Depreciation should increase to 68% in 2010 from a projected 34% in 2004. Nevertheless, CAPEX would still be below depreciation, which suggests over-investment in the past and may lead to another impairment charge in the future.



Source: Patria Finance, Cesky Telecom

Lower taxes should hold the bottom line

Corporate income tax (CIT) is expected to decline from the current level of 28% to 26% in 2005 and finally to 24% in 2006. The declining CIT should be reflected in effective CIT, positively impacting CT's net income and hence cash flows.

Sound capital structure

Consolidated debt reached CZK31.2bn at end-June 2004, representing a 31% decrease against the 2003 level. The debt/equity ratio stands at 0.35 which is less than that of Matav (0.56) and TPSA (1.11). Net debt/equity now equals 0.34. Given favourable conditions on Eurotel's acquisition debt (CT does not expect the margin to exceed 0.5% of up to 6M EURIBOR/PRIBOR), CT is in no hurry to speed up debt repayments ahead of schedule. We set CT's target D/E ratio at 0.3.

Payout should exceed set dividend policy

CT's AGM in June 2003 approved a dividend payout of between 50% and 70% of consolidated net income. However, given: (i) CT's focus on reducing operating expenses leading to strong operating cash flows, (ii) limited CAPEX, which should not exceed 12% of sales in the next coming years (including CAPEX into 3G), (iii) a stable capital structure and favourable debt conditions and (iv) no immediate acquisitions, we believe that CT would be able to pay dividends in excess of the approved dividend policy.

Dividends	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Dividends per share CZK	17.0	29.2	44.0	40.9	38.9	38.1	39.9
Dividend yield	5.2%	8.9%	13.5%	12.5%	11.9%	11.6%	12.2%

Dividend yield is calculated using a price CZK327 per share

Valuation

Based on our new projections we increase CT's fair value from CZK330 to CZK402. The fair value is derived from two-stage free cash flow to equity model (FCFE). FCFE considers cash flows taken after the company meets all its financial obligations, capital expenditures and working capital needs. We have used the FCFE method as it is suitable for investors who do not have a majority control over a company's cash flows.

The first stage of the model reflects detailed projections of financial statements in the period covering 2004 to 2010. FCFE of individual years is calculated as a sum of net cash flows plus dividends paid and are discounted to present value by a discount rate. The discount rate equals the required rate of return on equity, which is defined as a risk free rate plus an equity premium.

The second stage is formed by a terminal value estimate, which is CT's value after 2010 assuming stable growth. The terminal value is derived from a long-term growth rate model, which includes a growth rate after the terminal year to infinity. The long-term FCFE growth rate is calculated as a function of RoIC plus a plowback ratio.

Risk-free rate	5.1%	Target D/E	0.30
Market risk premium	6.0%	Long-term RoIC	10.6%
Beta levered	1.0	LT dividend pay-out	80%
CAPM cost of equity	11.3%	LT cash flow growth	2.1%

Sensitivity analysis		**Required rate of return**						
In CZK		9.32%	10.32%	11.32%	12.32%	13.32%	14.32%	15.32%
	0.36%	435	392	356	327	302	280	261
	1.36%	469	418	377	343	315	291	270
LT CF Growth rate	2.36%	512	450	402	362	330	303	281
	3.36%	570	492	433	386	349	318	293
	4.36%	649	546	472	416	372	336	307

Higher valuation compared with regional peers justified

At current prices, the company would be valued roughly in line with its regional peers, i.e. TPSA (Poland) and Matav (Hungary). Using the fair value price, the valuation would come in above its peers; nevertheless, we believe that the higher valuation is justified by CT's sounder balance sheet with a lower D/E ratio in relative terms and strong operating margins.

Ratios	EV/EBITDA	P/S	P/E	P/OCF	Dividend yield	2005	D/E	EBITDA margin	P/BV
CT1	4.59	1.70	23.28	3.77	9.0%	13.8%	0.35	45.8%	1.18
CT2	5.49	2.11	28.90	4.69	4.2%	7.2%	0.30	45.8%	1.47
Matav	4.72	1.41	16.93	7.64	9.9%	9.1%	0.50	41.2%	1.53
TPSA	4.03	1.15	12.44	4.47	3.4%	3.1%	1.10	44.8%	1.38

1 at current market price; 2 at fair value

But still offering a discount to European peers

However compared with European peers, CT's shares would be still trading at a discount. The discount has been always present right across the CEE market but we expect the valuation gap to close as the regions' economic growth outstrips that of other EU countries and we see a possible decrease in the regional risk premium.

Ratios	EV/EBITDA	P/S	P/E	P/OCF	dividend yield	D/E	EBITDA margin	P/BV	Ratios
CT1	4.59	1.70	23.28	3.77	9.0%	0.35	45.8%	1.18	CT1
CT2	5.49	2.11	28.90	4.69	4.2%	0.30	0.3	1.47	CT2
EU peers*	5.70	1.28	19.67	6.23		0.95	31.1%	2.42	EU peers*

1 at current market price; 2 at fair value
* Deutsche Telekom, Cable&Wireless, France Telecom, Helenic Telecom, Portugal Telecom, KPN, Swisscom, TDC, Telecom Italia, Tele2, Telefonica, Telekom Austria, TeliaSonera, British Telecom.

Privatisation uncertainty is behind the discount

We believe that the current discount to the market value of CT's shares compared with our fundamental value of the company is mainly a result of uncertainty regarding the privatisation of the state's 51% stake in the company.

The Government's plan to privatise the company had been put on hold due to a recent political crisis. The crisis was solved relatively quickly and the privatisation process is now back on track. According to the National Property Fund's (NPF) deputy chairman, Pavel Kuta, the recommendation for the optimal privatization form to be submitted to the Cabinet by the NPF and CSFB/CS, is not ready yet and the Cabinet might receive it in the first half of November. Originally, the Cabinet was expected to make a decision on the privatization form by the end of October. We believe now that the decision may be known by the end of November.

Current situation differs to last attempt to privatise CT

Current internal and external factors affecting the privatisation have changed significantly compared with the previous government's attempt to privatise the company back in 2002.

(i) financial position of telecommunication companies has significantly improved as telecommunication operators successfully reduced debt levels, sold non-core assets and restructured operations,
(ii) Telecommunication operators resumed and/or increased their dividend payments, initiated share-buy back programs and began considering acquisitions, as organic growth opportunities in their local markets became scarce,
(iii) CT bought the remaining 49% stake in Eurotel and improved its balance sheet,
(iv) The departure of TelSource, KPN and Atlantic West left a more transparent ownership structure and eliminated the risk that their presence would create hurdles for the possible privatization,
(v) The company initiated an ambitious transformation program aimed at increasing operating efficiency and improving the services portfolio.

Privatization methods

The Government is currently considering three possible solutions to selling its 51% stake in CT. These include: (i) a tender, (ii) a sale through capital markets and (iii) a combination of the two. We will discuss the first two forms in greater detail later, but we consider the third option as highly unlikely.

Where do the Government's preferences lie?

There have been conflicting comments from government officials regarding the preferred sale method. The IT ministry seems to support a tender while the PM and deputy PM in charge of economic affairs have expressed their preference for a capital market transaction. In addition, the state budget for 2005 assumes CZK58bn in proceeds from the privatization of CT and Severoceske doly. All in all we believe that the odds are moving towards the capital markets option.

Are there any potential bidders?

While we see it as highly unlikely that a single strategic investor (telco operator) would buy CT, several consortiums including telco operators have been mentioned as potential bidders. These include CVC Capital Partners/Swisscom, TDC/Goldman Sachs, Apax and PPF. Also Vodafone hired Citigroup to advice it on the opportunity. Deutsche Telekom has also been mentioned as a potential bidder. Nevertheless, we see this as unlikely given DT's repeated announcements that it is not interested in the privatization its focus on mobile operators and its 61% stake in T-Mobile CR.

Minimum price should be CZK341 per share

The Government hopes to receive a majority premium for the 51% stake should it be sold to a tender winner. We believe that the potential majority premium is limited by the requirement of a mandatory buy-out offer to minority investors, which should offset the tax-shield implied by the probable debt-financed nature of the transaction. We therefore assume that the stake would be sold at a price close to our fundamental value of CZK402 per share (note that the fundamental value is based on FCFE, which is suitable for minority investors). We see the bottom limit at CZK341 per share, which is the price offered by Deutsche Bank/TDC back in 2002, when CT itself and the whole telecommunication industry was in a very different shape.

Buy-out offer conditions

The new owner would have to offer a buy-out to minority shareholders once the transaction is completed. The price would be set on the basis of (i) 85% of the transaction price, (ii) the weighted average price over the last six months including the acquisition transaction and (iii) an independent expert valuation. Based on our fair value estimate and the assumed acquisition price of CZK402 per share the 85% would be CZK342. The 6-month average assuming a constant price of 327 and daily trading volume of US$11m until the close of the transaction would be CZK382. Therefore, based on the buy-out requirement, the buy-out should be at least at CZK382 per share.

Market price	**327**			
Acquisition @	market price	5% premium	10% premium	15% premium
Acquisition price	327	343	359	376
Buy-out @ 85% of acquisition price	278	292	306	319
NPV @ rrr of 11.3%	255	268	280	292
Buy-out @ 6M weighted average	327	339	351	363
NPV @ rrr of 11.3%	286	297	307	318

Positive reaction to tender announcement expected

We believe the stock would react positively to an announcement of a tender-based sale and would move towards the lower buy-out limit, which should, according to the regulations governing buy-outs, be at CZK382 per share. Further rises in the share would be influenced by strategic plans of the new owner (i.e. restructuring, divestures, increasing leverage, further additional buy-outs etc), which we are currently unable to determine. Nevertheless, there are some risks associated with it. These include:

- (i) Uncertainty regarding the buy-out price,
- (ii) Cash from the buy-out may be received at the beginning of 2006 at the earliest, thereby reducing the NPV of the proceeds,
- (iii) uncertainty regarding a possible sale of Eurotel, which may end up echoing the case of Ceske radio and its stake in T-Mobile CR,
- (iv) Under investment of CT and intentional depression of CT's shares to warrant lower eventual further buy-out,
- (v) Use of all CT's free cash flow for debt repayment,
- (vi) Reduced free float and trading volume,
- (vii) De-listing of CT's shares

Sale through capital markets

CT's shares have reacted negatively to recent comments by the PM and deputy PM favouring a sale of the state's stake through capital markets because investors fear a share overhang may depress CT's share price. However, we do not view the possibility of a capital market transaction as a disaster. On the contrary, in fact. Although a capital markets transaction would inevitably lead to a share drop, judging from recent similar capital markets transaction, we would be surprised if the discount exceeded 10% of the market value. In addition, we believe the potential demand for CT's share would be strong, eliminating the risk of a share overhang, based on (i) the current undervaluation of CT's shares indicated by our estimated fair value and that of European peers, and (ii) over subscription of TelSource's 27% stake in CT back in 2003, and (iii) sale of government's stake in France Telecom worth € 4.5 bn (double the value of the 51% stake in CT). While there may be some risk of short-term profit taking on future appreciation of CT's shares, we see them moving steadily towards our fair value of CZK402 in the mid-term. In addition, a potentially strong free float and hence trading volume should also play a positive role.

Recent capital markets transactions		**Discount to**		
Company	Transaction value	6M average	Last close	Transaction date
France Telecom	EUR 4,500 mn	5.5%	2.0%	01/09/2004
TPSA	EUR 97 mn	-0.1%	1.0%	02/04/2004
TDC	EUR 1,301 mn	17.1%	9.2%	10/06/2004
Telenor	EUR 996 mn	3.2%	2.8%	30/03/2004
Telekom Austria	EUR 780 mn	-10.2%	0.2%	22/01/2004

negative sign implies a premium

In the case of a capital market transaction, the final size of the discount would also depend on the timing of the transaction, i.e. the time lag between the Government's decision to float the stake (from the date of the public announcement) and the opening of the books is crucial. The bigger the time lag the larger the discount.

Sale @ discount to the current market price	**0%**	**5%**	**6%**	**7%**	**10%**	**15%**
Price	327	310	307	304	294	278

Risks associated with capital market transaction:

(viii) demand in the offering may not be sufficient and the whole stake may no be sold,
(ix) share overhang may be created,
(x) profit-taking may eliminate CT's shares future appreciation,
(xi) there may be a time lag between decision for capital markets transaction and the actual transaction significantly depressing CT's shares price,
(xii) a 'consortium' of investors may buy significant stakes in the offering, which would allow it to virtually control CT, however no buy-out would be triggered as they would not officially act in concert.

Whatever happens, CT is a BUY

Based on our analysis of the two possible privatization methods, the increasing likelihood of a capital market transaction, the fair value of the company together with a relative comparison of CT's shares with its European peers, an investment in the stock offers upside potential of at least 17%, a level which clearly justifies our BUY recommendation.

Financial data

INCOME STATEMENT (CZK m)	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Total revenues	55,900	52,856	51,476	61,966	61,579	62,373	63,336	64,417	65,216	66,045
Operating costs	28,745	26,706	27,662	33,615	33,648	34,191	35,448	36,949	38,398	39,641
EBITDA	27,155	26,150	23,814	28,351	27,931	28,182	27,888	27,468	26,818	26,404
Depreciation	17,040	19,062	19,444	21,077	20,025	18,284	17,230	16,261	15,189	14,677
EBIT	10,115	7,088	-5,539	7,274	7,907	9,898	10,658	11,207	11,629	11,727
Net financial profit	1,711	1,208	741	1,081	1,381	992	848	678	536	458
Goodwill amortization	0	0	53	708	708	708	708	708	708	708
Pretax	8,771	6,110	-6,667	6,789	6,526	8,906	9,810	10,529	11,094	11,269
Income tax	2,699	1,885	0	1,560	1,697	2,137	2,354	2,527	2,662	2,705
Net income	6,072	4,276	-1,780	4,521	4,121	6,061	6,747	7,294	7,723	7,857
EPS (CZK)	18.85	13.28	-5.53	14.04	12.79	18.82	20.95	22.65	23.98	24.39
Adjusted EPS (CZK)	0.00	13.28	-5.36	16.23	14.99	21.01	23.15	24.84	26.18	26.59
DPS (CZK)	0.00	57.44	17.00	29.24	44.03	40.95	38.89	38.05	39.88	0.00
Total revenues	55,900	52,856	51,476	61,966	61,579	62,373	63,336	64,417	65,216	66,045

Revenue Structure										
Total revenues	55,900	52,856	51,476	61,966	61,579	62,373	63,336	64,417	65,216	66,045
Fixed line total revenues	41,881	38,995	36,507	34,044	33,048	33,048	33,172	33,469	33,722	34,007
Call revenues	21,150	13,664	10,098	7,202	5,840	5,348	4,912	4,525	4,270	4,032
Connection, subscription	7,523	10,793	10,667	10,180	9,869	9,655	9,721	9,864	9,980	10,093
Interconnection	3,910	2,593	3,137	3,429	3,504	3,583	3,487	3,394	3,330	3,266
Data and internet	7,717	9,995	11,099	11,649	12,392	13,135	13,791	14,425	14,869	15,330
Other	1,581	1,951	1,506	1,585	1,443	1,327	1,261	1,261	1,273	1,286
Mobile total revenues	30,063	28,800	29,078	29,877	30,528	31,378	32,276	33,115	33,699	34,281
Recurring revenues	17,502	18,027	27,610	27,771	28,734	29,595	30,504	31,355	31,907	32,497
Non recurring revenues	3,500	1,931	1,468	2,106	1,794	1,783	1,772	1,760	1,792	1,785

BALANCE SHEET (CZK m)	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Current Assets	18,275	23,880	15,107	17,129	19,432	19,729	20,234	20,819	21,347	21,830
Inventories	1,925	1,409	1,100	1,133	1,167	1,202	1,238	1,275	1,313	1,353
Receivables	8,857	8,435	9,081	9,915	9,853	9,980	10,134	10,307	10,435	10,567
Cash and Equivalents	7,493	14,036	4,926	6,082	8,412	8,548	8,862	9,237	9,599	9,910
Fixed Assets	140,822	131,520	139,599	125,064	111,731	100,939	92,601	85,431	79,435	73,949
Goodwill	0	0	14,028	13,320	12,612	11,904	11,196	10,488	9,780	9,072
Total Assets	159,097	155,399	154,706	142,193	131,163	120,668	112,834	106,250	100,782	95,779
Liabilities	52,035	44,039	64,549	52,991	47,258	44,884	43,492	42,140	41,205	41,190
Loans	27,003	22,830	45,065	31,065	25,065	22,265	20,265	18,265	16,765	16,265
Other Liabilities	25,032	21,209	19,484	21,926	22,193	22,619	23,227	23,875	24,440	24,925
Shareholders' Equity	107,023	111,264	90,148	89,193	83,895	75,776	69,334	64,101	59,568	54,580
Share Capital	32,209	32,209	32,209	32,209	32,209	32,209	32,209	32,209	32,209	32,209
Reserves	74,814	79,055	57,939	56,984	51,686	43,567	37,125	31,892	27,359	22,371
Sh. Equity & Liabilities	159,097	155,399	154,706	142,193	131,163	120,668	112,834	106,250	100,782	95,779

CASH FLOW STATEMENT (CZK m)	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Cash flow from operating activities	25,186	20,454	15,654	27,882	25,149	25,316	25,104	24,702	24,019	23,555
Investments	-15,790	-10,447	-34,748	-7,250	-7,400	-8,200	-9,600	-9,800	-9,900	-9,900
Financing	-8,523	-3,750	4,279	-19,476	-15,418	-16,981	-15,189	-14,527	-13,756	-13,344
Sales growth	-2.3%	-5.4%	-2.6%	20.4%	-0.6%	1.3%	1.5%	1.7%	1.2%	1.3%
EBITDA margin	48.6%	49.5%	46.3%	45.8%	45.4%	45.2%	44.0%	42.6%	41.1%	40.0%
ROA	3.8%	2.8%	-1.2%	3.2%	3.1%	5.0%	6.0%	6.9%	7.7%	8.2%
ROE	5.8%	3.9%	-1.8%	5.0%	4.8%	7.6%	9.3%	10.9%	12.5%	13.8%
Debt/Equity	25.2%	20.5%	50.0%	34.8%	29.9%	29.4%	29.2%	28.5%	28.1%	29.8%
Net debt/Equity	18.2%	7.9%	44.5%	28.0%	19.8%	18.1%	16.4%	14.1%	12.0%	11.6%
CAPEX/Sales	32.1%	21.0%	13.6%	11.7%	12.0%	13.1%	15.2%	15.2%	15.2%	15.0%
Depreciation/Sales	30.5%	36.1%	37.8%	34.0%	32.5%	29.3%	27.2%	25.2%	23.3%	22.2%

Source: Patria Finance, Cesky Telecom

Eurotel

INCOME STATEMENT (CZK m)	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Total revenues	30,063	28,800	29,078	29,877	30,528	31,378	32,276	33,115	33,699	34,281
Total costs	16,813	15,106	14,879	15,941	16,325	17,281	18,338	19,425	20,464	21,227
EBITDA	13,250	13,694	14,199	13,936	14,204	14,097	13,938	13,690	13,235	13,054
Depreciation	4,194	4,684	5,008	5,358	5,199	5,165	5,265	5,385	5,507	5,730
EBIT	9,056	9,116	9,191	8,578	9,005	8,932	8,673	8,305	7,729	7,324
Net financial profit	281	57	-103	24	-110	-117	-126	-123	-123	-131
Pre tax expense	8,775	9,059	9,294	8,553	9,115	9,050	8,799	8,428	7,851	7,455
Income tax	2,707	2,732	2,040	2,395	2,370	2,172	2,112	2,023	1,884	1,789
Net income	6,068	6,271	7,254	6,315	6,902	6,878	6,687	6,405	5,967	5,666

Revenue Structure										
Recurring revenues	17,502	18,027	27,610	27,771	28,734	29,595	30,504	31,355	31,907	32,497
Monthly fees	5,049	4,994	4,823	5,473	6,115	6,536	6,890	7,168	7,408	7,610
Call revenues	12,453	13,033	12,778	11,799	11,482	11,359	11,298	11,250	11,290	11,312
Interconnection revenues	7,011	5,836	6,705	6,636	6,545	6,588	6,666	6,750	6,774	6,787
SMS, MMS, data, internet, VAS	2,332	3,006	3,311	3,863	4,593	5,112	5,649	6,187	6,435	6,787
Non recurring revenues	3,500	1,931	1,468	2,106	1,794	1,783	1,772	1,760	1,792	1,785
Activation fees	1,940	834	391	494	162	124	84	43	44	4
Equipment sales	1,024	1,133	1,042	1,432	1,446	1,461	1,476	1,490	1,505	1,520
Other reveneus	536	42	45	180	185	198	212	227	243	260
Total revenues	30,063	28,800	29,078	29,877	30,528	31,378	32,276	33,115	33,699	34,281

BALANCE SHEET (CZK m)	2001	2002	2003	2004E	2005E	2006E	2007E	2008E	2009E	2010E
Current Assets	7,322	12,414	8,146	9,542	9,751	10,136	10,553	10,969	11,331	11,624
Inventories	1,443	888	505	694	701	708	715	722	729	737
Receivables	5,649	5,109	4,733	4,863	4,969	5,107	5,254	5,390	5,485	5,580
Cash and equivalents	230	6,417	2,908	3,985	4,081	4,320	4,585	4,856	5,116	5,307
Fixed assets	29,914	29,986	28,718	27,079	25,993	24,768	23,853	23,028	22,465	22,288
Total Assets	37,236	42,400	36,864	36,622	35,744	34,904	34,407	33,997	33,796	33,912
Loans	2,582	2,281	2,284	509	509	509	509	509	509	509
Other liabilities	11,541	10,425	9,120	9,553	9,593	9,989	10,431	11,051	11,643	12,058
Shareholder's equity	23,413	29,694	25,969	27,069	26,151	24,915	23,976	22,946	22,153	21,854
Sh. Equity&Liabilities	37,236	42,400	36,864	36,622	35,744	34,904	34,407	33,997	33,796	33,912

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