# **T** · · Mobile · · ·

Annual Report 2003

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# NO. 1

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# Our Future





# Making the world **better** for you

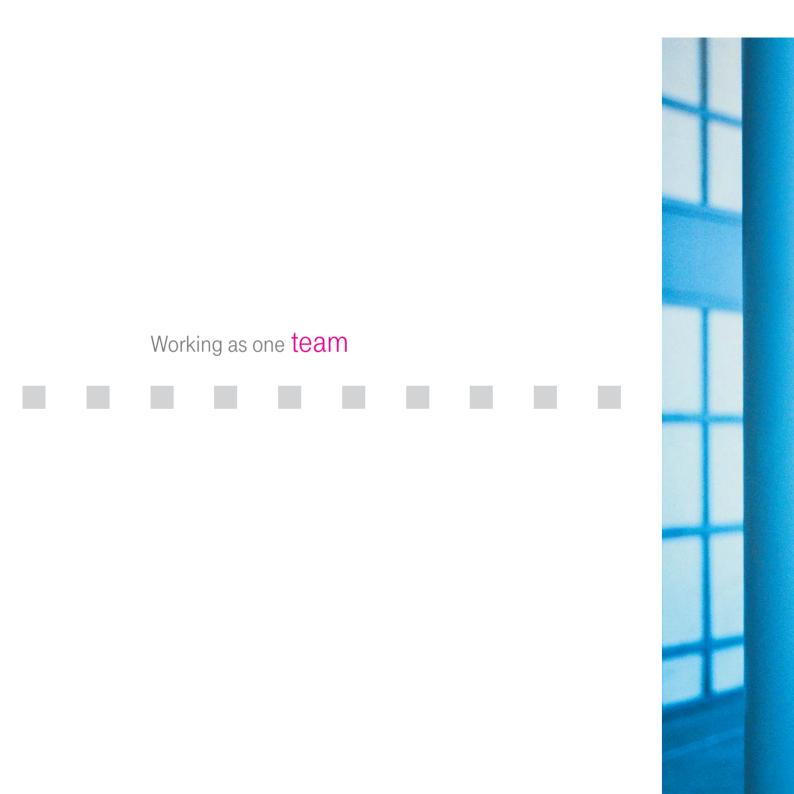


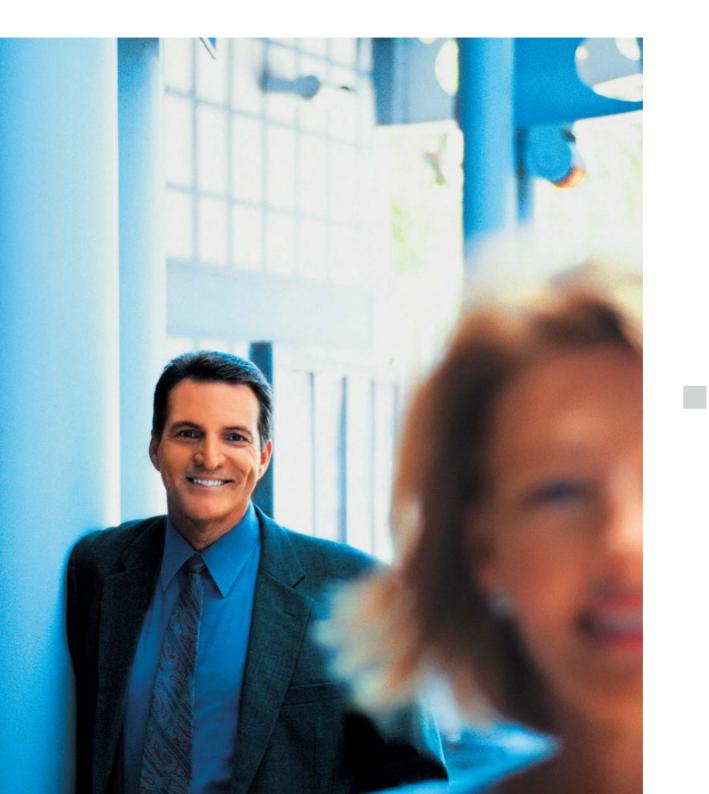


# Providing **Services** for everyone









# Foreword from the Chairman of the Board

### Dear Ladies and Gentlemen,

The time has come to look back on the results we have achieved in the past year. I am pleased to say that T-Mobile can be proud of having been very successful. Allow me to briefly comment on the most significant achievements.

Last year brought breakthroughs in several respects. The renaming to T-Mobile Czech Republic a.s. was a symbolic climax of the process of our full integration into the T-Mobile Group. In addition to a strong global brand and the opportunity to share knowledge and experience, this integration provides us with strong financial backing. To our customers, it brings an extensive portfolio of services working on a unified basis in all countries, not to mention maximum convenience while roaming. Last year's results clearly show that our effort to continually improve our services and offer our customers comprehensive care has been a successful strategy. This is evident particularly in the development of the customer base. Last year, we succeeded in acquiring more than 400 thousand new clients, thus passing the 3.9 million mark in customer numbers. This clearly confirms that the direction we have taken to become the leader among mobile operators in the Czech market has been the right one. The company has also recorded outstanding financial indicators, achieving double-digit growth in all important areas compared to 2002. The renaming to T-Mobile Czech Republic a.s. was a symbolic climax of the process of our full integration into the T-Mobile Group.

In recent years, the mobile market has been characterized by significant growth. Presently, with almost ninety-five Czechs out of a hundred owning a mobile phone and the competition becoming fierce, it is not possible to rely on increasing customer numbers only. The effort to retain customers and offer high-value services is gaining in importance. For the next period, our company has set the ambitious goal of becoming number one in the Czech market. I am convinced that also thanks to the international backing, the "One Company" concept across the T-Mobile Group and the commitment of all employees, we have all of the prerequisites for attaining this goal.

In spring this year, a new administrative building came into being in Prague – Roztyly. By moving to this building, T-Mobile has obtained a respectable seat. I would like to wish the Company, not only in the new building, a lot of success.



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Michael Günther Chairman of the Board of T-Mobile Czech Republic a.s.

# A look back at the Company's seven-year existence

### 1996

RadioMobil was established and the Paegas GSM network started operation. The number of new Paegas phone owners exceeded 30 thousand by the end of the year.

### 1997

In the prestigious CZECH TOP 100 survey, RadioMobil was named the most dynamically developing company of the year. By the end of 1997, a remarkable 173 thousand customers were using the new services, Internet connection and the first ever prepaid cards on the Czech market.

### 1998

RadioMobil introduced a number of groundbreaking innovations (Paegas Internet Call, Paegas Info, SIM Toolkit-based services) and was voted the most admired telecommunications company in the Czech 100 Best survey. Paegas became the first Czech operator to offer GSM Banking. In 1998, 373 thousand customers were using Paegas services, a 115% increase compared to 1997.

### 1999

At the annual conference organized by the GSM Association in Cannes, RadioMobil won the prize for Best Technological Innovation in the GSM Market. The Paegas network was one of the first in the world to enable users of prepaid Paegas Twist cards to send and receive short text messages. Another call centre began operation in a new building in Louny, providing services to 875 thousand customers by year's end.

### 2000

Transmitters in the 1800 MHz band went on air, making Paegas a dual-band network. Together with the German D1 network operated by T-Mobil, Paegas was the first operator worldwide to offer owners of Twist prepaid cards the opportunity to use GSM services in direct-dial, full-featured roaming in foreign networks. Combining Internet services and mobile phone capabilities, a new comprehensive portal, Paegas Click, was launched. By the end of the year, the number of Paegas users approached 1,865,000.

In August, the system allowing high-speed data transfer, GPRS, was launched. RadioMobil increasingly focused on business customers, introducing a new sub-brand, Paegas Professional. RadioMobil's contribution to mobile market development was awarded with two prizes at the annual IT and telecommunications trade fair INVEX 2001: Paegas Navigator won The Best of Invex and for its ClickBox service, RadioMobil received the Crystal Disc award. In April, CMobil B.V. acquired a majority stake in RadioMobil. At the end of the year, RadioMobil obtained a licence to operate a third-generation network, UMTS. By the end of the year, 2.85 million customers were using RadioMobil services.

### 2002

The year in which the Company transformed its identity. In April, the process of changing the well-established Paegas brand to a new brand - T-Mobile was rolled out. The extensive rebranding project was successfully completed on 2 July. Membership in the international group brought a number of benefits to the Company and its customers. The new T-Mobile Regional Centre was officially opened in Hradec Králové in June. In the same month, the cornerstone of the new T-Mobile headquarters was laid in the Prague district of Roztyly, with capacity for up to 1,900 employees. During the devastating floods that struck the Czech Republic in August, the T-Mobile network endured without any great difficulties. The Company offered help to people affected by the floods and donated considerable amounts to the funds set up for flood victims. Another successful project of 2002 was the flawless renumbering of all telephones in the Czech Republic. During the year's biggest event - the November NATO summit in Prague - T-Mobile came through without a hitch. The number of customers exceeded 3.5 million.

# 2003 – fully in T-Mobile colours

The T-Mobile brand was accepted very positively by the market. As early as at the beginning of the year, six months after its introduction, brand awareness was higher than that of its predecessor. The Company then took the last step in the process of integration into the global group. On 1 May, it changed its name to T-Mobile Czech Republic a. s. The year 2003 was marked by the growing popularity of non-voice services. It was possible to start turning the vision of making mobile multimedia applications accessible to a wide range of customers into reality. The t-zones portal with new, extended and attractive content became the cornerstone of this branch of the business. The new messaging services, bringing information and entertainment, started to utilize MMS to a large extent. The ease-of-use of these services is supported by new phones, which offer a special softkey for access to t-zones. The emergence of these devices, designed exclusively for T-Mobile customers, has opened up a new dimension in mobile communications. T-Mobile MDA II, combining a mobile phone and a pocket PC in a single device, was named Product of the Year by an expert jury.

In terms of new customers, T-Mobile left its competitors behind for a second year in a row. As of 31 December, the number of T-Mobile users was over the 3.9 million mark.

In the second half of the year, T-Mobile adopted a new strategy of the international group, One Company. This concept involves, among other things, a "harmonization" of all national operators within the group, and focuses on a single goal – becoming an international leader in mobile services. T-Mobile's global mission is: "We will be the most highly-regarded service company with the passion to provide the true freedom to move for everyone." "No. 1 – Our Future." With this slogan, T-Mobile launched, in line with the One Company concept, its activities with the clear goal of becoming number one in the Czech market. A special tariff for students, a unique offer for foreigners, the possibility of making calls within the Virtual Private Network free of charge and other services were tailored to meet the needs of individual customer groups, setting off a real "tariff epidemic". Less than two months later, the "tariff epidemic" also struck in the area of data services, bringing the most favourable mobile connection to the Internet.

The campaign under the umbrella name "Tariff Epidemic", along with the successful Christmas offer, added the largest number of new clients to the existing customer base among Czech operators. In terms of new customers, T-Mobile left its competitors behind for a second year in a row. As of 31 December, the number of T-Mobile users was over the 3.9 million mark.

# Selected Services in 2003

Again in 2003, T-Mobile unveiled a number of innovative, technologically advanced services and continued to develop its existing ones. The boom in non-voice services, representative of the last period, significantly enriched the offer of products and services designed for all customer groups including contract, Twist and business customers.

### Leisure and entertainment

The t-zones mobile portal is a fast source of up-to-date information and entertainment. t-sports has provided the fans of football and ice-hockey, the most popular sports in the Czech Republic, with live broadcasts, commentary, interviews, scores and statistics. t-guide has become an ideal guide for travellers, enabling users to look up the best travel connections, find restaurants, clubs or cinemas, and give advice on sports centres and tourist areas. It will even find the nearest doctor without the user having to enter his or her location.

### Thanks to the Java platform, users can also study English: they just need the enthusiasm to learn and a mobile with a special application.

Not long ago, multimedia messaging was a privilege available only to owners of MMS-enabled phones, although even they were limited by the phone's capacity. Thanks to Media Album, now neither is an obstacle. Everyone can set up their own album through which multimedia messages can be sent, received, saved or otherwise administered. Everyone can create their own original greetings composed of pictures, videos, melodies and text, using their own motifs or content from a public gallery.

A phone requires originality. The new service called Screen Styles helps customize the phone's image in a unified style. The phone's menu, screen background and ringtone, along with access to other features on a single theme, can thus reflect the user's interests or mood. With Screen Styles, it is easy to evoke a hot summer day or dress a mobile up in football style. Since their introduction, Java games have met with great popularity. Today's offer includes dozens of games bringing action, adventure and surprise, with the number of Java-supported phones constantly growing. The new HiScore service provides Java gaming fans with the opportunity to compare their results and compete for prizes. Thanks to the Java platform, users can also study English: they just need the enthusiasm to learn and a mobile with a special Java application. Learners can extend their vocabulary, learn new phrases on a particular topic and practice grammar. Short text messages can now be easily sent to fixed lines as well. It is not necessary to remember any special keywords.

### ... and other practical services

Welcome Greetings makes communication with voicemail more enjoyable for callers. Customers using this service can choose a special greeting and save it in their mailbox. The caller will then hear the selected greeting when forwarded to the voicemail box if the customer is not available. The service offers a wide selection of greetings, from humorous to absolutely serious ones.

Customers who have not activated the voicemail service or MobileBox can also keep track of missed calls during the time they had their phone switched off. The Missed Calls Register will deliver to them SMS information on callers who tried to reach them – including the phone number, date and time of the call. MMS Info is an extension of the popular T-Mobile Info channel. Business and political news, sports updates and information on cultural events are delivered in the form of MMS, with text supplemented with a picture, for example a photograph.

Short text messages, until recently the domain of mobiles, can now be easily sent to fixed lines as well. It is not necessary to remember any special keywords. The user simply types in the text of the message and sends it to the given number. The fixed-line phone will either receive the message as text or the recipient will receive it in the form of a voice message. Mobile Office Optimizer ensures efficient access to the corporate network, the Internet and Office applications from anywhere. When travelling, customers can send and receive e-mails, plan meetings and download files in the same way as they would in the office.

### Mobile Internet

The new GPRS tariffs, unveiled at the end of April, offer the widest range of tariffs for GPRS data transfers in the market. There are thus suitable tariffs for all business, contract and Twist customers, from beginners to advanced users. In addition, significant savings can be achieved thanks to the combination of GPRSpeed and GPRSpeed Plus services and CS3 and CS4 coding schemes, which are unique in the Czech market.

In the middle of the year, T-Mobile launched a pilot operation of the T-Mobile HotSpot service. This convenient high-speed Internet access is based on wireless connection, so all the customer needs is a PDA or notebook which supports WLAN technology. For example, this service is an ideal solution for customers waiting at the airport or preparing for a meeting at a hotel.

### **Business clients**

Within the corporate Intranet or Internet, every company can set up their own gateway allowing the sending and receiving of SMS messages. The private SMS gateway can not only be "dressed up" in corporate colours but also adjusted based on the customer's requirements for communication with users. The gateway is, of course, connected to other corporate applications.

Mobile Office Optimizer ensures efficient access to the corporate network, the Internet and Office applications from anywhere. When travelling, customers can send and receive e-mails, plan meetings and download files in the same way as they would in the office. Thanks to optimization and compression, costs can be significantly reduced compared to standard transmission.

For clients "on the move", the T-Mobile Communication Centre offers even easier access to GPRS data services. The special software can control the transmission speed and conveniently send text messages. It can be obtained easily as it is part of a standard package with the special T-Mobile data card.

# Serving the public

Our business targets will always be in line with our obligations towards the society in which we live. Support for charity and non-profit projects forms an integral part of T-Mobile's activities in the Czech Republic. The Company's stable position and financial backing also help us take part in a number of important social, cultural and sports events.

### Helping those who need it

Last year, T-Mobile became a "friendly partner" of a long-term project called "Světluška" to help people with severe sight disabilities. The proceeds of the fund-raising campaign went to support blind children, multihandicapped and people with sight disabilities in difficult life situations. There was also the unique "Computer for an Idea" competition for teachers, which focused on the use of mobile phones. The competition brought a number of excellent ideas, providing a basis for a unique and practical methodology collection.

### We care about cultural development

Cultural events are an important item on the list of sponsorship activities. In late July, Prague's Letná plain became the focal point for rock fans from all over Europe and T-Mobile was there: the Company was the official sponsor of the Rolling Stones Forty Licks European Tour. Similarly to the previous years, further prestigious events such as the Prague German Language Theatre Festival and Prague Writers' Festival enjoyed financial support from T-Mobile last year. The traditional beauty pageant – Miss Czech Republic 2003 – also took place with T-Mobile's support, as had been the case several times in the past. Support for charity and non-profit projects forms an integral part of T-Mobile's activities in the Czech Republic. The Company's stable position and financial backing also help us take part in a number of important social, cultural and sports events.

### Sports for fitness and victory

The Company also pays a great deal of attention to supporting professional and amateur sports. T-Mobile has been a partner of the successful Czech national football team for several years. The climax of this partnership will be this year's major football event – UEFA EURO 2004, which is to take place in Portugal. For the second time, T-Mobile was one of the main partners of the greatest track-and-field event of the year – the Prague International Marathon. As in previous years, T-Mobile supported another series of the T-Mobile Golf Tour.

### Regional responsibility

The Regional Centre, opened in mid-2002 in Hradec Králové, has made T-Mobile one of the main employers in the area. Various activities prove that the Company wants to be part of local life and contribute to its development. The wide range of activities includes support for Daneta – a private special school for children with combined disabilities, partnership in a sports event for the general public called City on Wheels and one of the area's major cultural events, Jazz Goes To Town. Further regional activities take place in Louny. T-Mobile is one of the largest employers in this area and its close ties to this region are evidenced, for example, by its support for the Vrchlický Theatre.

# Our success builds on employees

Employees are one of the key factors for reaching the Company's targets. Therefore, T-Mobile gives all employees the opportunity to develop their talents and skills. It fully supports them in achieving outstanding results, a high level of quality and customer satisfaction. The Company strives to create a corporate culture in which determined, committed and intelligent people are the greatest contribution.

In human resources management, T-Mobile places great emphasis on the continuous education of its employees. An elaborate system offering software courses, foreign language studies and dozens of other training and development programs opens up a wide range of possibilities for development focused on technical and managerial skills. The effective human resources management is reflected in the variety of employee benefits which stimulate individual efforts and motivate potential employees. The Company strives to create a corporate culture in which determined, committed and intelligent people are the greatest contribution.

In terms of employee numbers, T-Mobile is one of the major employers in the Czech Republic, both in Prague and other locations. Several hundred people work in the Louny and Hradec Králové Regional Centres. During open house days regularly organized by the Company, visitors can get an idea of what it means to work at T-Mobile. The Company also presents itself as a sought-after employer at job fairs and T-Mobile Days. In recent years, T-Mobile has established successful cooperation with technical universities. This partnership has proved to be mutually beneficial and was further deepened last year. In addition to co-operation in textbook publication at the Prague Czech Technical University, a GSM laboratory has been in operation at the Brno University of Technology for four years. Two new laboratories will be opened at the Prague Czech Technical University and the Ostrava Technical University this spring. This co-operation gives students the opportunity to gain invaluable practical experience and contact with state-of-the-art technologies. At the same time, the Company can obtain potential employees with a high degree of professional knowledge. T-Mobile is fully aware in every respect that human resources are the Company's most valuable asset.

# Top management



Roland Mahler Managing Director



Otakar Král Executive Vice President Finance



Jiří Dvorjančanský Executive Vice President Marketing



Heinz Schmid Executive Vice President Technology



Miroslav Rakowski Executive Vice President Sales



Michal Urválek Executive Vice President Human Resources



Martin Klocperk Executive Vice President Telecom Relations and Strategy



Tomáš Růžička Acting Executive Vice President Customer Service

# T-Mobile on the way to becoming No. 1

Last year, T-Mobile started an important race. To be the first to cross the finish line means for T-Mobile to assume the leading position among mobile operators in the Czech market. We have talked with Managing Director Roland Mahler about the first successful steps and what awaits us in fulfilling this vision.

# Mr. Mahler, if you were asked to look back at the past year, how would you characterize it?

I am very pleased that we succeeded in acquiring the largest number of new customers for a second time in a row. I am particularly proud of that, as the competition in the mobile market sharpened immensely last year. The customer base was not growing at such a high rate as in the previous years. Therefore, it was a great challenge to inspire customers to choose T-Mobile as their operator, to make them interested in our services.

### What do you think motivated them most to decide for T-Mobile?

The fact that we were the first in the market to systematically offer products targeted at specific customer groups certainly contributed to their choice. Thanks to that, we have reassumed the role of an innovator, always bringing customers something new. Customers have appreciated our strategy based on the idea of making it simple and clear.

### Can you name concrete examples?

I think that our Tariff Epidemic hit the mobile market like a tornado last autumn. The Rock'n'Roll and Student tariffs did excellently as part of the Tariff Epidemic. The Weekend+ tariff add-on and Tariff 20+20 also

brought positive results. Special offers helped us not only acquire new customers but also retain most existing ones. When adding the success in customers switching from prepaid cards to contracts, I am pleased to say that the results have met our expectations and some were even a surprise. The Christmas campaign also met with success. Similarly to the previous years, we decided for the tried-and-true form of offering unique products along with an attractive present.

# Such trust from customers is a big responsibility, as is the drive to become number one in the Czech market.

Yes, "No. 1 – Our Future" is our long-term strategic program, which has two clear goals: within two years, we want to provide our services to the largest number of customers in the Czech mobile market, and overtake the competition in profit and revenues in four years' time. There are many reasons why we have started this program. It is a natural ambition of many individuals to win and be the best. For us, as a well-established number two in the market, this is a natural goal. Also from the customer point of view, one thing is certain: customers want to be with number one as well. Nevertheless, the main reason is our aspiration to become the best and most reliable operator for all users, both in terms of the appeal of the brand and in terms of the quality of products, services and customer care.

# Talking about the brand – the T-Mobile brand should have three basic attributes: reliability, simplicity and inspiration. What can we imagine in connection with these attributes?

These key words should be clear from all of our communications towards customers. For example, the smallest but most visible

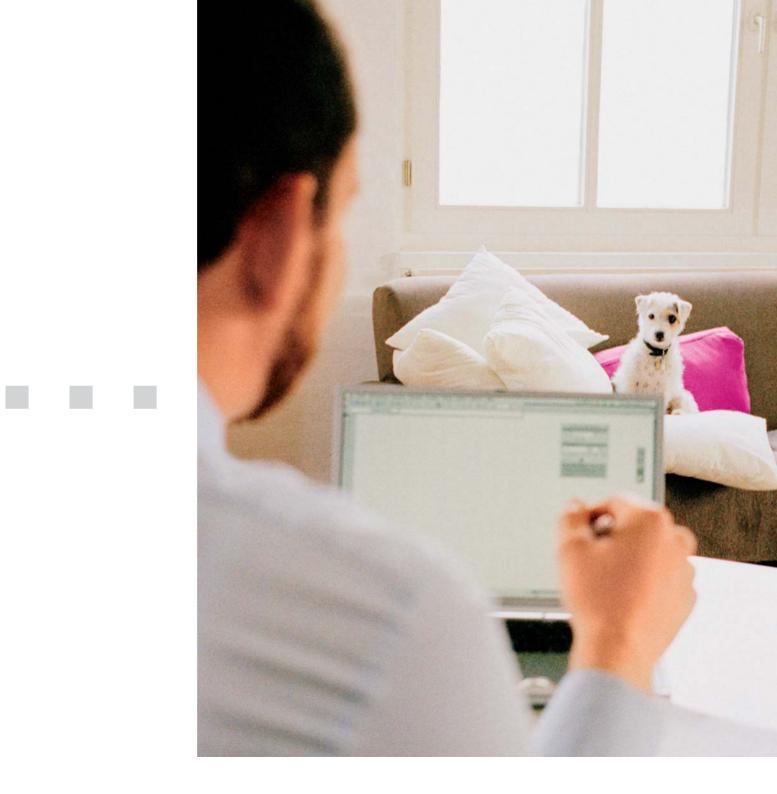
Only strong global operators will survive in the global market in the future. And we can rely on being part of a strong global brand. We thus have a strong starting position in this respect.

expression of this approach is the fact that our advertising campaign will be marked by the simplicity and inspiration which T-Mobile brings to telecommunications services. Reliability and the effort to make decision-making and problem-solving easier for customers should be obvious when dealing with a shop assistant in a Retail Shop as well when talking to an infoline operator.

### Let us return to the goal you mentioned, which is certainly ambitious. What should help in achieving it?

It is certainly a combination of many things. We assume that only strong global operators will survive in the global market in the future. And we can rely on being part of a strong global brand. We thus have a strong starting position in this respect. We follow the "One Company" concept, which is an initiative adopted by the entire T-Mobile International Group. It means, among other things, a higher level of cooperation and harmonization of the organization and the brand and the strategic goals as well as a common corporate culture in all national companies within the Group. Other important aspects are the synergy of all processes, flawless communication and effective cost sharing. However, it goes without saying that the fulfilment of our programme will not be effortless; it is a Company-wide matter which involves all of us. Only if each of us considers it a matter of his or her personal interest will our Company become No. 1 and a symbol of reliability, simplicity and inspiration. Thank you for the interview.

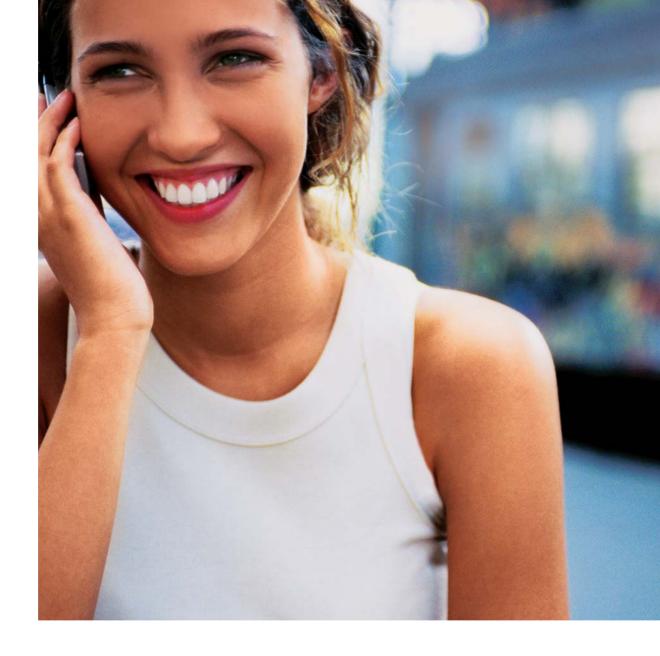


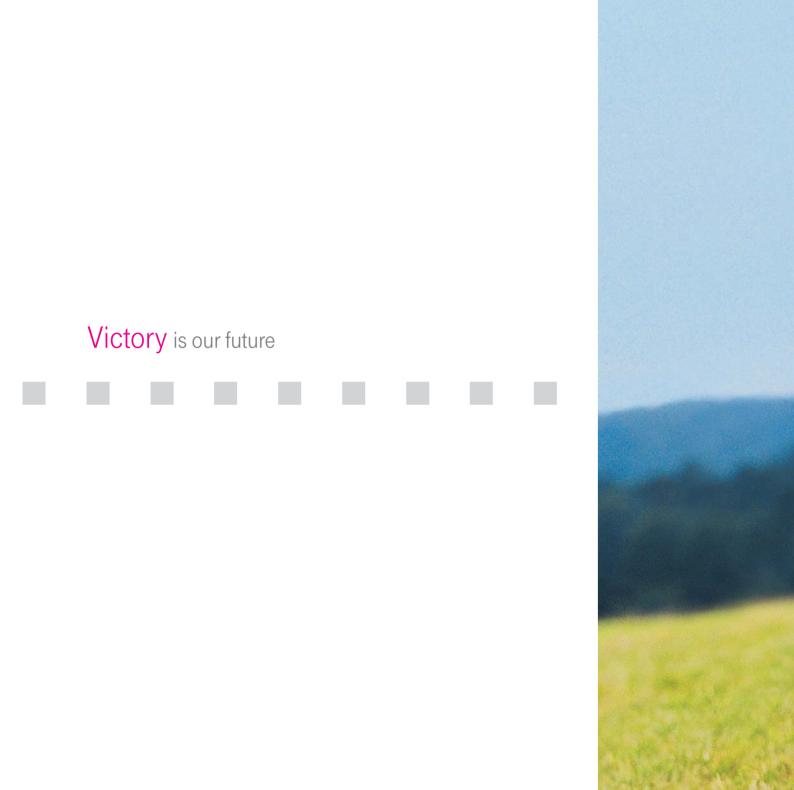


# Customer satisfaction is our driving force



## Number **ONE** in new customers







# Report of Independent Auditors

### Report of Independent Auditors to the Shareholders of T-Mobile Czech Republic a.s.

We have audited the accompanying balance sheet of T-Mobile Czech Republic a.s. as at 31 December 2003, the related income statement, cash flow statement and notes for the year then ended presented in the annual report of the Company on pages 34-61 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company's Board of Directors. 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 Auditing Standards of the Chamber of Auditors of the Czech Republic. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance as to 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 accompanying financial statements give a true and fair view, in all material respects, of the assets, liabilities and equity of T-Mobile Czech Republic a.s. as at 31 December 2003, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with the Act on Accounting and other relevant legislation of the Czech Republic.

We have examined whether the supplementary financial information included in the annual report of the Company on pages 8-25 and 74-76, which does not form part of the financial statements for the year ended 31 December 2003, is consistent with the audited financial statements of the Company. In our opinion, all other supplementary information included in the annual report is consistent with the audited financial statements in all material respects.

In addition we have also reviewed the accompanying Report on the relationships to the related entities in respect of the year 2003 on pages 62-73 ("the Report"). The completeness and accuracy of the Report is the responsibility of the Board of Directors. Our responsibility is to review the accuracy of information included in the report. We conducted our review in accordance with the auditing standards of the Chamber of Auditors of the Czech Republic related to reviews of reports on relations between related parties. These standards require that we plan and perform the review to obtain moderate assurance as to whether the Report is free of material misstatement. Based on our review, nothing has come to our attention that causes us to believe that the accompanying Report has not been properly prepared, in all material respects.

16 February 2004

Pricewaterhouseloopers

PricewaterhouseCoopers Audit, s.r.o. represented by

Thomas Luiden

Thomas Linder Partner

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Pavel Kulhavý Auditor, Licence No.1538



PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Praha 2, Czech Republic Identification Number: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Repiblic under Licence No. 021.

# Financial Statements 2003

BALANCE SHEET - ASSETS			Gross CZK'000	Provision CZK'000	2003 Net CZK'000	2002 Net CZK'000	2001 Net CZK'000
В.		Fixed assets	44,167,972	(15,054,169)	29,113,803	31,161,588	30,347,748
B. I.		Intangible fixed assets	8,455,762	(2,945,534)	5,510,228	5,576,478	5,511,597
B. I.	1.	Research and development	248,476	(171,467)	77,009	20,350	42,382
	2.	Software	3,016,279	(2,245,359)	770,920	866,521	764,265
	3.	Valuable rights	740,654	(486,698)	253,956	267,827	287,622
	4.	Intangible assets in the course of construction	4,449,820	(42,010)	4,407,810	4,388,037	4,414,314
	5.	Advances paid for intangible assets	533	-	533	33,743	3,014
B. II.		Tangible fixed assets	35,712,210	(12,108,635)	23,603,575	25,585,110	24,836,151
B. II.	1.	Land	44,425	-	44,425	42,934	42,580
	2.	Buildings and constructions	1,086,189	(386,862)	699,327	873,190	531,584
	3.	Equipment	31,687,687	(11,659,022)	20,028,665	20,910,163	15,909,418
	4	Other tangible fixed assets	412	-	412	-	-
	5.	Tangible assets in the course of construction	2,873,792	(62,751)	2,811,041	3,704,883	7,983,402
	6.	Advances paid for tangible fixed assets	19,705	-	19,705	53,940	369,167
C.		Current assets	9,025,841	(1,651,286)	7,374,555	5,875,361	5,729,688
C. I.		Inventories	707,000	(112,903)	594,097	810,072	1,250,217
C. I.	1.	Raw materials	440,914	(101,811)	339,103	428,530	610,086
	2.	Goods for resale	266,086	(11,092)	254,994	381,542	640,131
C. II.		Long term receivables	9,198	-	9,198	7,591	5,730
C. II.	1.	Trade receivables	9,198	-	9,198	7,591	5,730
C. III.		Short term receivables	5,174,119	(1,538,383)	3,635,736	3,871,406	3,310,860
C. III.	1.	Trade receivables	4,147,903	(1,538,383)	2,609,520	2,908,789	2,397,021
	2.	Receivables from members of associations	16,270	-	16,270	30,926	18,594
	3.	Taxes and state subsidies receivable	453,262	-	453,262	453,065	423,453
	4.	Anticipated assets	548,523	-	548,523	426,098	470,123
	5.	Other receivables	8,161	-	8,161	52,528	1,669
C. IV.		Short term financial assets	3,135,524	-	3,135,524	1,186,292	1,162,881
C. IV.	1.	Cash in hand	16,022	-	16,022	41,363	13,095
	2.	Cash at bank	138,362	-	138,362	1,144,929	145,786
	3.	Short term investments	2,981,140	-	2,981,140	-	1,004,000
D. I.		Accrual and deferrals	118,956	-	118,956	154,912	1,365,751
D. I.	1.	Prepaid expenses	118,956	-	118,956	154,912	1,364,380
		TOTAL ASSETS	53,312,769	(16,705,455)	36,607,314	37,191,861	37,443,187

BALANC	CE SHEET - LIABILITIES AND EQUITY	2003 Net CZK'000	2002 Net CZK'000	2001 Net CZK'000
A.	Equity	17,623,936	12,970,737	10,726,832
A. I.	Share capital	520,000	520,000	520,000
	1. Share capital	520,000	520,000	520,000
A. II.	Capital contributions	5,352,941	5,058,451	5,344,110
-	1. Share premium	5,344,110	5,344,110	5,344,110
	2. Other capital contributions	8,162	5,544,110	3,344,110
	3. Assets and liabilities revaluation	669	(285,659)	-
A. III.	Reserve fund, non-distributable reserves and other reserves	104,000	104,000	104,000
	Statutory reserve fund, non-distributable reserves	104,000	104,000	104,000
A. IV.	Retained earnings	7,288,286	4.758.722	2,753,530
	1. Retained profits	7,288,286	4,758,722	2,753,530
A. IV. A. V.		, ,	, ,	
	Profit for the current period	4,358,709	2,529,564	2,005,192
<u>В.</u> В. І.	Liabilities Provisions	<u> </u>	22,941,869 547,546	24,571,877 1,905,498
		, ,	,	1,905,498
	1. Tax-deductible provisions	2,540	-	-
	2 Income tax provision	1,159,487	- E 4 7 E 4 C	1 005 409
	3. Other provisions	736,868	547,546	1,905,498
B. II. B. II.	Long term liabilities	2,320,465	11,698,844	11,715,923
	1. Trade payables	10,081	-	-
	2. Liabilities to shareholders	-	2,123,077	1,823,077
	3. Advances received	181,043	-	-
	4. Debentures and bonds issued	-	5,000,000	5,000,000
	5. Bills of exchange payable	-	15,447	713,077
	6. Other liabilities	-	2,289,100	2,574,900
	7. Deferred tax liability	2,129,341	2,271,220	1,604,869
B. III.	Short term liabilities	13,490,631	6,817,841	5,795,132
	1. Trade payables	1,496,932	718,262	1,119,451
	2. Liabilities to shareholders	1,823,077	-	-
	3. Liabilities to members of associations	15,358	10,032	3,399
	4. Liabilities to employees	54,298	-	57,172
	5. Liabilities for social security and health insurance	37,998	-	27,473
	6. Taxes and state subsidies payable	15,823	2,120	48,354
	7. Debentures and bonds issued	5,000,000	-	-
	8. Anticipated liabilities	2,343,042	2,920,877	1,925,572
	9. Other payables	2,704,103	3,166,550	2,613,711
B. IV.	Bank loans and overdrafts	36,466	3,877,638	5,155,324
	1. Long term bank loans	-	-	5,103,344
	2. Short term bank loans and overdrafts	36,466	3,877,638	51,980
C. I.	Accruals and deferrals	1,236,921	1,279,255	2,144,478
•	1. Accruals	69,966	79,496	80,929
	2. Deferred revenue	1,166,955	1,199,759	2,063,549
	TOTAL LAIBILITIES AND EQUITY	36,607,314	37,191,861	37,443,187

INCOME STA		2003	the year ended 31 2002	December 2001
		CZK'000	CZK'000	CZK'000
	Sales of goods	930,830	903,658	871,261
	Cost of goods sold	2,054,684	2,242,626	3,906,227
	Gross profit	(1,123,854)	(1,338,968)	(3,034,966)
	Sales of production	23,772,997	20,735,672	20,276,369
	Sales of own products and services	23,292,235	20,664,663	20,211,170
	Dwn work capitalised	480,762	71,009	65,199
	Cost of sales	9,615,424	8,400,866	8,252,411
	Raw materials and consumables	514,909	537,785	477,309
	Services	9,100,515	7,863,081	7,775,102
	Added value	13,033,719	10,995,838	8,988,992
	Staff costs	1,611,320	1,403,628	1,119,563
	Nages and salaries	1,131,469	999,697	805,860
	Emoluments of board members	1,821	1,714	3,072
	Social security costs	418,595	360,561	277,000
	Dther social costs	59,435	41,656	33,631
	Faxes and charges	220,652	192,063	245,204
	Depreciation of long term assets	4,887,205	4,565,499	2,972,803
	Sale of long term assets and raw materials	50,203	20,300	12,917
	Sale of long term assets	38,959	19,526	11,717
	Sale of raw materials	11,244	774	1,200
	Net book amount of long term assets and raw materials sold	260,610	149,319	248,538
	Net book amount of long term assets sold	92,045	13,727	6,044
	Vet book amount of raw materials sold	168,565	135,592	242,494
	Change in provisions for operating liabilities and charges and complex prepaid expenses	273,213	726,949	511,268
	Other operating income	965,570	948,882	832,248
	Other operating charges	641,227	335,411	204,865
	Derating result	6,155,265	4,592,151	4,531,916
	ncome from sales of securities and shares	38,130,000	14,305,000	17,914,460
	Securities and shares sold	38,130,000	14,305,000	17,914,310
/111. 1	ncome from short term investments	14,479	10,323	23,513
Х. (	Gain on revaluation of securities and derivatives	51,396	-	, _
. L	oss on revaluation of securities and derivatives	351,701	-	-
Л. С	Change in provision for financial liabilities and charges	-	1,673,508	(934,158)
	nterest income	53,688	76,694	78,329
۱. I	nterest expense	514,163	636,127	561,904
	Dther financial income	96,064	1,018,367	189,172
). (	Other financial expenses	128,029	3,272,087	544,728
· F	Financial result	(778,266)	(1,129,322)	(1,749,626)
<u>)</u> . Τ	Fax on profit or loss on ordinary activities	1,018,290	1,080,469	758,157
	- current	1,160,169	-	87,800
2	- deferred	(141,879)	1,080,469	670,357
* F	Profit or loss on ordinary activities after taxation	4,358,709	2,382,360	2,024,133
	Extraordinary income	-	217,915	50,673
	Extraordinary charges	-	4,918	69,614
	Fax on extraordinary profit and loss	-	65,793	-
	- current	-	479,911	-
	- deferred	-	(414,118)	-
	Profit (loss) on extraordinary items after taxation	-	147,204	(18,941)
***	Net profit for the financial period	4,358,709	2,529,564	2,005,192

	OW STATEMENT	2003 CZK'000	2002 CZK'000	2001 CZK'000
	Cash flows from operating activities			
	Net profit on ordinary activities before tax	5,376,999	3,462,829	2,782,291
A.1	Adjustments for non-cash movements:	5,647,145	4,920,441	6,555,307
A.1.1	Depreciation of long term assets	4,887,205	4,647,014	3,023,731
A.1.2	Change in provisions	260,858	(280,207)	3,053,823
A.1.3	(Profit)/loss from disposal of fixed assets	53,086	(5,799)	(5,822)
A.1.4	Net interest expense and similar items	445,996	559,433	483,575
A.1.4 A *	Net cash flows from ordinary activities before tax,	· · ·		
	changes in working capital and extraordinary items	11,024,144	8,383,270	9,337,598
A.2	Working capital changes:	740,190	1,839,726	2,057,382
A.2.1	(Increase)/decrease in receivables and prepayments	32,853	535,825	(493,400)
A.2.2	Increase in short term payables and accruals	474,936	1,083,158	2,408,487
A.2.3	Decrease in inventories	232,401	220,743	142,295
A **	Net cash flows from ordinary activities before tax and extraordinary items	11,764,334	10,222,996	11,394,980
A.3	Interest paid	(478,549)	(636,127)	(561,904)
A.4	Interest received	68,167	76,694	78,479
A.5	Income tax on ordinary activities received/(paid)	76,917	(298,481)	(146,300)
A.6	Cash movements relating to extraordinary profit/(loss)	-	(262,035)	10,147
A ***	Net cash flows from ordinary activities	11,430,869	9,103,047	10,775,402
	Cash flows from investing activities			
B.1	Acquisition of fixed assets	(2,823,495)	(5,294,934)	(11,178,043)
B.2	Proceeds from sale of fixed assets	38,959	19,526	11,716
B ***	Net cash flows from investing activities	(2,784,536)	(5,275,408)	(11,166,327)
	Cash flows from financing activities			
C.1	Change in long and short term liabilities	(6,701,806)	(3,375,248)	1,220,574
C.2	Changes in equity	-	-	120,000
C.2.1	Cash inflow from the increase of share capital	-	-	120,000
C ***	Net cash flows from financing activities	(6,701,806)	(3,752,248)	1,340,574
	Net increase in cash and cash equivalents	1,944,527	75,391	949,649
	Cash and cash equivalents at the beginning of the year	1,186,292	1,110,901	161,252
	Cash and cash equivalents at the end of the year	3,130,819	1,186,292	1,110,901

# Notes to the Financial Statements 2003

Company name: Registered office: Legal form: Company registration number: Registered with the Commercial Register: T-Mobile Czech Republic a.s. Londýnská 730, Praha 2, 120 00 Joint-stock company 64949681 Municipal Court in Prague, Section B, Entry 3787

## 1. GENERAL INFORMATION

#### 1.1. Establishment and Details of the Company

T-Mobile Czech Republic a.s. ("the Company"), located in Prague 2, Londýnská 730, was incorporated on 15 February 1996 as a joint stock company in the Czech Republic.

The Company operates a public Global System for Mobile Communications ("GSM") network and provides mobile telecommunication services under the terms and conditions stated in the Authorization issued by the Ministry of Economy of the Czech Republic (no. 7660/96-611 of 25 March 1996).

The change of the Company's name from RadioMobil a.s. to T-Mobile Czech Republic a.s. was entered in the Commercial Register on 1 May 2003.

#### 1.2. Structure of the Company's Ownership

At 31 December 2003, the ownership structure of the Company was as follows:

Shareholder	No. of shares	Paid in	share capital
	(thousands)	CZK'000	. %
CMobil B.V.	316	316,000	60.77
ČESKÉ RADIOKOMUNIKACE a.s.	204	204,000	39.23
Total	520	520,000	100.00

The ownership structure of the Company is governed by the terms of the Shareholders Agreement dated 3 December 2002, which replaced the Shareholder Agreement dated 19 October 2000, as amended by the Amendment to the Shareholder Agreement dated 22 July 2002. The ultimate parent company of CMobil B.V. is Deutsche Telekom AG ("DTAG"), which controls CMobil B.V. through T-Mobile International AG ("TMO").

There have been no changes in the ownership structure during 2003.

# 1.3. Licences and trademarks

Based on an agreement concluded with the Czech Telecommunication Office ("CTO") on 14 December 2001, the Company obtained the right to provide telecommunication services under the UMTS system. In accordance with the Act on Telecommunications No. 151/2000 Coll. as amended, CTO issued new licenses for the establishment and operation of a public GSM network including the assignment of frequency bands of 2 x 10 MHz in the range of GSM 1800 MHz and the provision of public telecommunication services through the public telecommunication network.

All three licenses have been issued through administration proceedings for a period of 20 years. The resolution relating to the UMTS license was not legally effective as at 31 December 2003 because legal proceedings concerning certain terms and conditions of the license had not been completed.

At 5 December 2003 an amendment to the agreement entered into with CTO at December 2001 was signed. The parties agreed to the premature repayment of the liability (refer to Note Other payables) in exchange for postponing the commencement of the provision of public telecommunication services through the UMTS network within the urban area of the City of Prague by one year to 1 January 2006.

Based on the 2003 agreement with CTO, a report detailing the T-Mobile network's fulfillment of development and quality requirements according to the Authorisation of 1996 will no longer be submitted.

The Company has registered twenty one trademarks at the Office for Protection of Industrial rights and has duly submitted proposals for the registration of six additional trademarks.

Based on a sublicense agreement between the Company and TMO, the Company also has the right to use the relevant trademarks registered in the Czech Republic by DTAG.

# 1.4. Statutory and Supervisory Bodies

The members of the Board of Directors at 31 December 2003 were as follows:

Mr Michael Günther	Chairman
Mr Mark Robert Donegan	Vice-Chairman
Mr Timotheus Höttges	Member
Mr Roland Mahler	Member
Mr Dominic Robert Redfern	Member
Mr Timothy James Lang Taylor	Member
Mr Thomas Georg Winkler	Member

Mr Fridbert Gerlach resigned from his position as a member of the Board of Directors on 17 February 2003. The Company's Board of Directors duly discussed and approved his resignation.

The General Meeting held on 31 March 2003 elected Mr Timotheus Höttges as a new member of the Board of Directors effective from 1 April 2003.

The members of the Supervisory Board at 31 December 2003 were as follows:

Mr Frank Stoffer	Chairman
Mr Kai Breuer	Member
Mr Václav Hladík	Member
Ms Kateřina Šuvarinová	Member
Mr Tomáš Tomiczek	Member
Mr Antonius Joseph Zijlstra	Member

There have been no changes in the Supervisory Board during the year 2003. The changes in the Board of Directors and the Supervisory Board during 2002 and 2003 were not reflected in the Commercial Register as at 31 December 2003.

# 2. ACCOUNTING POLICIES AND GENERAL ACCOUNTING PRINCIPLES

# 2.1. Basis of Accounts

The Company's records are maintained, and the financial statements are prepared, in compliance with the Act on Accounting No. 563/1991 Coll., as amended, and the relevant legislation.

The following is a summary of changes resulting from the adoption of the Directive relating to the Act on Accounting effective from 1 January 2003:

# **Balance Sheet**

Anticipated receivables (payables) are recorded in the financial statements as at 31 December 2003 in the long term and short term receivables/payables accounts. Comparative data as at 31 December 2002 and 2001 were reclassified from the Accruals and deferrals to the same line.

# **Income Statement**

Effective from 1 January 2003, reserves and provisions are recorded to expenses and not to revenues as in previous accounting periods.

In accordance with this change in the Act on Accounting, there has also been a change in the presentation of the financial statements. In 2003, the creation and release of provisions are shown in one line as a change in provisions. Comparative data for 2002 and 2001 were changed accordingly.

# 2.2. Methods of Valuation

# 2.2.1. Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets are valued at acquisition cost. The acquisition cost comprises the purchase price, transportation cost, customs, installation costs and other relevant costs including directly related internal costs. Interest and other financial expenses incurred in connection with the acquisition of tangible and intangible fixed assets are capitalized until the asset is put in use.

Intangible assets comprise the following:

- I. GSM Licenses, which represent the right to provide telecommunication services in the Czech Republic and to build and operate GSM telecommunication equipment, are accounted for at the purchase price from the Ministry of Economy of the Czech Republic. This amount has been capitalized and is being amortized over its useful life using the straight-line method. The useful life is considered to be 20 years.
- II. UMTS License, acquired in December 2001, represents the right to provide telecommunication services in the Czech Republic under the UMTS system. As at 31 December 2003, the UMTS license is not yet in use as the system is in the process of preparation for the commercial launch. Once in use, the license will be amortized over its useful life.
- III. Software costs are amortized over the expected period of the benefit of the cost, which is three years. The costs include the cost of the license for use of software and cost of consulting services related to the implementation of the software. Costs of consulting services, which are incurred after the relevant subsystem of the software is put into routine operation, are charged to the income statement as incurred.
- IV. Development costs are recognized as intangible assets to the extent that such expenditure is expected to generate future economic benefits. Development costs represent studies for microwave connections within the GSM network performed by an external supplier. Development costs are amortized using the straight-line method over the period of time for which the study is expected to contribute to revenues, i.e. 4 years.

Costs for repair and maintenance of tangible fixed assets are recorded as expenses.

Technical improvement of tangible fixed assets exceeding CZK 40,000 per year is capitalized. Technical improvement below the stated amount is charged directly to income statement.

Effective from 1 January 2003, the Company decided to decrease the minimum level for capitalization for the classification of tangible and intangible fixed assets. The corresponding result of the reduction of the limit for capitalization within tangible fixed assets since 1 January 2003 is the reclassification of certain items from inventory to fixed assets of CZK 58,130 thousand.

In 2003, the Company changed the accounting method for movements of items from fixed assets to inventory. The transfer of fixed assets to inventory is recorded as the disposal of fixed assets and the activation of inventories. In 2002 these movements were accounted for within the balance sheet. The negative impact of CZK 444,412 thousand on 2003 profit relates to the transfer (disposal) of fixed assets to inventory (included in the Depreciation of long term asset) and the positive impact of CZK 460,283 thousand relates to the transfer to (activation) inventories (included in the Own work capitalized).

# 2.2.2. Financial Investments

Beginning 1 January 2002, the Company classified securities and investments as either available for sale or held-to-maturity.

All securities and investments are initially recorded at cost, including fees and commissions to brokerage and stock exchanges. The acquisition cost does not include interest from the acquisition of loans financing securities and the related administration costs.

# 2.2.3. Inventories

Purchased inventories are recorded at acquisition cost. The acquisition cost primarily includes the purchase price of materials and other costs incurred to bring inventory to its present state and location. These costs include customs tax, the storage cost during transportation and freight costs.

Inventories are valued according to the weighted-average cost method.

Technical parts that are dismantled from base transmission stations and stored in the Company's technology warehouses are valued at the parts' net book value upon dismantling.

Mobile handsets are generally stated at acquisition price, although the actual selling price might be lower than cost. Such below costs sales are made in an effort to gain new customers and therefore, increase future revenues. Management estimates that the discounted future profit generated by such handsets will exceed the loss incurred upon the sale of that handset.

# 2.3. Depreciation Plan

The Company's tangible and intangible fixed assets are depreciated using the straight-line method with annual depreciation rates based on the estimated useful life of the assets. Depreciation begins in the month the asset is put into use.

Effective from 1 January 2003, the Company changed the estimated useful life of fixed assets, in order to conform with the TMO group accounting policy. The amended estimated useful life for the main asset categories are as follows:

Asset group	Useful life (years)
Development	4
Software	3
Valuable rights – licenses	20
Buildings and constructions	20
Machinery and equipment: Towers, poles	10
Technology equipment of the GSM network	8
Hardware	3
Office equipment	5
Transport vehicles	6

Effective from 1 January 2003, the Company decided to no longer create sets of tangible assets with common technical and/or economical functions and therefore depreciation lives but rather to record new items individually. Existing groups/sets were preserved.

The straight-line depreciation method is used for accounting depreciation.

Tax depreciation is calculated by using the straight line depreciation method with the exception of GSM equipment, which for tax purposes is depreciated for 4 years using the accelerated depreciation method.

# 2.4. Method of Determining Provisions for Assets and Liabilities

2.4.1. Provisions for Assets

# Provisions for tangible and intangible fixed assets

If the carrying amount of an asset exceeds its estimated recoverable amount, a provision is created.

# Provisions for receivables

In 2003, following internal guidelines, the Company created a provision for receivables based on the ageing of receivables and information about the current financial situations of customers and dealers. The provision is calculated as a percentage of total receivables, ranging from 5% to 100%. Bad debts from customers are offset by the deposits obtained from them at the beginning of the contract period.

# Provisions for inventories

Provisions for inventories are based on stocktake results and are created as a percentage of the respective types of inventories, taking into account the possibility that certain items of inventories will not be used or will be sold at a price lower than cost.

Mobile handsets are generally valued at acquisition cost, as management estimates that the discounted future profits generated by each handset will exceed the loss upon the subsidized sale of that handset.

# 2.4.2. Provision for Liabilities

Provisions are recognized when the Company has a present legal obligation as a result of past events and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made.

In accordance with the transitional provisions of supporting legislation, the provision created for unrealized exchange losses resulting from foreign currency forward contracts has been released into the income statement at 1 January 2002. The fair value of the foreign currency forward contracts was recalculated at 1 January 2002 and recognized in the balance sheet as a payable or receivable.

The Company created a provision for the estimated cost in connection with its loyalty program for customers, for those loyalty points which were earned and unused as at year end.

# 2.5. Revenue Recognition

Revenues include amounts invoiced for airtime, monthly subscription fees, service activation fees, charges for roaming calls and related services such as the sale of handsets and other accessories. It excludes prepaid airtime and value added tax.

In cases where the Company sells mobile telephone handsets at a discount, the resulting losses are recognized at the date of sale.

Monthly subscription fees, charges on roaming calls and handset sales are recognized as revenue at the time it is earned (i.e. service or product provided).

Activation fees for prepaid card customers are deferred until the first use of the card by the customer. At the moment of the customer's first use, the activation fee is recognized as revenue. Airtime sold on prepaid cards is initially deferred and is recognized on the basis of prepaid airtime actually used.

Activation fees for postpaid customers are recognized at the time the customer is technically activated within the network. Revenues from the airtime of postpaid customers are recorded based on the number of minutes processed and are recorded when the traffic is processed and the communication services are rendered.

Interconnection revenues are recognized as earned, generally based on the invoiced amount. In cases where pricing agreements are not in place, revenues are recorded on the basis of management's best estimate, with any necessary adjustment being made in the period of settlement. Refer to Note 3.12., Commitments and contingent liabilities.

Income interest is accrued based on unpaid principal and the interest rate used.

# 2.6. Foreign Currency Translation

During the accounting period, transactions denominated in a foreign currency are translated and recorded at the exchange rate published by Czech National Bank at the date of the transaction. All monetary assets and liabilities denominated in foreign currencies have been translated at the year-end exchange rate as published by the Czech National Bank. Beginning 1 January 2002, all exchange gains and losses on monetary assets and liabilities are recorded in the income statement.

# 2.7. Deferred Taxation

Deferred tax is determined based on the difference between the carrying amount of assets and liabilities and the tax base of those assets and liabilities using the tax rate applicable for the accounting period in which the item is expected to reverse. Deferred income tax charged or credited to the income statement is measured as the change in the net deferred tax asset or liability during the year.

# 2.8. Hedging of Currency and Interest Rate Risks

The Company uses both forward exchange contracts and options contracts in its management of the currency risks associated with its foreign supplier/customer transactions in foreign currency. At 31 December 2003 and 31 December 2002, the fair value of the derivatives was recognized in the balance sheet as a liability or asset. Prior to 31 December 2001, the Company accounted for unrealized gains and losses from foreign exchange forwards as described in Note 2.4.2., Provisions for Liabilities.

The Company used forward exchange contracts in its management of the currency risks associated with the foreign exchange syndicated loan, which was repaid in June 2003. Beginning from 2002, the Company has applied hedge accounting in accordance with the criteria of accounting legislation. Based on the requirements of accounting legislation, the Company periodically measures and documents the effectiveness of the hedging.

The contract of the hedged foreign exchange syndicated loan were settled in June 2003 and the Company recognized all changes in the fair value of hedging derivatives as credits to expenses and debits to revenues.

The Company does not apply hedge accounting on forward exchange contracts in its management of the currency risks associated with its supplier/customer relations in foreign currency. Forward exchange contracts are accounted for as trading derivatives. The fair values are remeasured in equity on account "Assets and liabilities revaluation". Realized gains and losses are recognized in the income statement.

Upon settlement of the forward exchange and options contracts, the revaluation is reversed and the realized gains or losses are recognized in the income statement.

The Company uses interest rate swaps to hedge part of the interest rate risks arising from its loan. The interest rate swaps are recognized at their fair value and in accordance with supporting accounting legislation are accounted for as trading derivatives.

# 2.9. Cashflow Statement

The Company has prepared a cashflow statement following the indirect method. Cash equivalents represent short term liquid investments, deposits and bank overdraft.

# 2.10. Subsequent Events

The effect of events that occurred between the balance sheet date and the date of signing the financial statements is reflected in the financial statements only if further evidence of situations that arose as a result of such events at the balance sheet day was available.

In case significant events subsequent to the balance sheet date but preceeding the signing of the financial statements occur, and that are indicative of conditions after the balance sheet day, the effect of these events is disclosed but is not reflected in the financial statements.

# 3.1. Fixed Assets

# 3.1.1. Intangible Fixed Assets

Cost (CZK'000)	Research and development	Software	Valuable rights	Intangible assets in the course of construction*	Advances paid for intangible assets*	Total
1. 1. 2001	137,235	1,285,672	709,879	213,490	15,628	2,361,904
Additions	6,268	534,256	11,200	4,200,824	(12,614)	4,739,934
Disposals	-	(1,276)	-	-	-	(1,276)
31. 12. 2001	143,503	1,818,652	721,079	4,414,314	3,014	7,100,562
Additions	25,543	781,984	8,791	-	30,729	847,047
Disposals	(3,098)	(5,898)	-	(26,277)	-	(35,273)
31. 12. 2002	165,948	2,594,738	729,870	4,388,037	33,743	7,912,336
Additions	82,528	440,183	10,784	61,783	-	595,278
Disposals	-	(18,642)	-	-	(33,210)	(51,852)
31. 12. 2003	248,476	3,016,279	740,654	4,449,820	533	8,455,762

\* Additions and transfers between the Intangible assets in the course of construction and Advances paid for intangible assets are recorded as net additions.

Accumulated amortisation/provisions (CZK'000)	Research and development	Software	Valuable rights	Intangible assets in the course of construction	Advances paid for intangible assets	Total
1. 1. 2001	62,983	631,824	398,583	-	-	1,093,390
Additions	38,138	422,563	34,874	-	-	495,575
31. 12. 2001	101,121	1,054,387	433,457	-	-	1,588,965
Additions	46,112	678,445	28,586	-	-	753,143
Disposals	(1,635)	(4,615)	-	-	-	(6,250)
31. 12. 2002	145,598	1,728,217	462,043	-	-	2,335,858
Additions	25,869	535,784	24,655	-	-	586,308
Disposals	-	(18,642)	-	-	-	(18,642)
Provisions	-	-	-	42,010	-	42,010
31. 12. 2003	171,467	2,245,359	486,698	42,010	-	2,945,534
Net book value (CZK'000)	Research and development	Software	Valuable rights	Intangible assets in the course of construction	Advances paid for intangible assets	Total
31. 12. 2001	42,382	764,265	287,622	4,414,314	3,014	5,511,597
31. 12. 2002	20,350	866,521	267,827	4,388,037	33,743	5,576,478
31. 12. 2003	77,009	770,920	253,956	4,407,810	533	5,510,228

Intangible assets in the course of construction primarily consist of the value of the UMTS license obtained in the December 2001 tender. As the highest bidder, the Company also obtained two new license bands of GSM 1800 MHz that were included in the price. The UMTS license has been valued at CZK 3,535 million (offer of the competitor in the tender) and the two new bands of GSM 1800 MHz have been valued at CZK 326 million. Capitalized interest totaled CZK 251,309 thousand as at 31 December 2003 (31 December 2002: CZK 225,646 thousand).

# 3.1.2. Tangible Fixed Assets

Cost (CZK'000)	Constructions, buildings and land	Machinery and equipment	Transport vehicles	Office equipment	Tangible assets in the course of construction*	Advances paid for tangible fixed assets*	Total
1. 1. 2001	732,206	12,198,394	32,562	16,755	7,124,094	406,940	20,510,951
Additions	32,676	9,519,902	1,876	4,470	859,308	(37,773)	10,380,459
Disposals	(5,736)	(1,052,941)	(6,442)	(616)	-	-	(1,065,735)
31. 12. 2001	759,146	20,665,355	27,996	20,609	7,983,402	369,167	28,825,675
Additions	478,395	9,330,579	842	398	-	-	9,810,214
Disposals	(11,661)	(891,828)	(5,074)	(3,955)	(4,118,519)	(315,227)	(5,346,264)
31. 12. 2002	1,225,880	29,104,106	23,764	17,052	3,864,883	53,940	34,289,625
Reclassification	-	4,205	8,036	(12,241)	-	-	-
Additions	35,493	3,289,758	6,036	-	-	-	3,331,287
Disposals	(130,759)	(744,642)	(7,975)	-	(991,091)	(34,235)	(1,908,702)
31. 12. 2003	1,130,614	31,653,427	29,861	4,811	2,873,792	19,705	35,712,210

\* Additions and transfers between Tangible fixed assets in the course of construction and Advances paid for tangible fixed assets are recorded as net additions.

Accumulated depreciations/provisions (CZK'000)	Constructions, buildings and land	Machinery and equipment	Transport vehicles	Office equipment	Tangible assets in the course of construction	Advances paid for tangible fixed assets	Total
1. 1. 2001	132,036	2,548,667	16,560	5,408	_	-	2,702,671
Additions	53,862	2,575,363	7,921	3,584	-	-	2,640,730
Disposals	(916)	(346,203)	(6,346)	(395)	-	-	(353,860)
31. 12. 2001	184,982	4,777,827	18,135	8,597	-	-	4,989,541
Additions	73,797	3,701,718	6,914	3,111	-	-	3,785,540
Disposals	(3,756)	(273,460)	(5,074)	(3,009)	-	-	(285,299)
Provision to fixed assets	54,733	-	-	-	160,000	-	214,733
31. 12. 2002	309,756	8,206,085	19,975	8,699	160,000		8,704,515
Reclassification	-	2,423	3,665	(6,088)	-	-	-
Additions	75,603	3,768,625	4,844	140	-	-	3,849,212
Disposals	(64,748)	(344,827)	(4,519)	-	-	-	(414,094)
Provision to fixed assets	66,251	-	-	-	(97,249)	-	(30,998)
31. 12. 2003	386,862	11,632,306	23,965	2,751	62,751	-	12,108,635
Net book value (CZK'000)	Constructions, buildings and land	Machinery and equipment	Transport vehicles	Office equipment	Tangible assets in the course of construction	Advances paid for tangible fixed assets	Total
31. 12. 2001	574,164	15,887,545	9,861	12,012	7,983,402	369,167	24,836,151
31. 12. 2002	916,124	20,898,021	3,789	8,353	3,704,883	53,940	25,585,110
31. 12. 2003	743,752	20,021,121	5,896	2,060	2,811,041	19,705	23,603,575

Additions in Machinery and equipment relate primarily to the extension of the GSM network.

Disposals consist primarily of removed network equipment reused in other locations or recognized as inventory until reused in a subsequent year.

Part of the assets recorded as Tangible assets in the course of construction relate to the base stations of the GSM network.

The Company classified fixed assets as "in use" and commenced depreciation only after all statutory and technical requirements were met, consistent with Czech accounting and similar regulations.

Had depreciation been charged in accordance with the date the asset was actually put into use, the accumulated depreciation at 31 December 2003 would be increased by approximately CZK 426,014 thousand (31 December 2002: CZK 567,592 thousand; 31 December 2001: CZK 921,727 thousand).

# 3.1.3. Finance Leases

A summary of future payments relating to finance lease contracts at 31 December 2003, 2002, 2001 follows:

	Total number		Maturity			
	of concluded contracts	Up to 1 year (CZK'000)	1-2 years (CZK'000)	2 + years (CZK'000)	Total (CZK'000)	
31 December 2003	457	84,591	30,153	16,687	131,431	
31 December 2002	517	70,780	45,819	14,805	131,404	
31 December 2001	495	71,030	42,338	12,976	126,344	

In 2003, finance lease payments totaled CZK 82,791 thousand (2002: CZK 87,944 thousand, 2001: CZK 73,602 thousand).

# 3.2. Inventories

Total inventories	594,097	810,072	1,250,217
Provision for inventories	(112,903)	(203,474)	(297,862)
Subtotal	707,000	1,013,546	1 548,079
Other inventories	35,188	43,593	87,655
Technology inventories	405,726	568,005	813,983
Handsets and related equipment	266,086	401,948	646,441
(CZK'000)	31. 12. 2003	31.12.2002	31. 12. 2001

The change in the provision for obsolete and slow moving inventory is analyzed as follows:

(CZK'000)	2003	2002	2001
Opening balance as at 1 January	203,474	297,862	197,609
Creation of the provision	-	-	100,253
Release/use of the provision	(90,571)	(94,388)	-
Closing balance as at 31 December	112,903	203,474	297,862

## 3.3. Receivables

#### 3.3.1. Short term Receivables

(CZK'000)	31. 12. 2003	31.12.2002	31. 12. 2001
Trade receivables			
<ul> <li>current and overdue less than 180 days</li> </ul>	1,599,526	1,757,601	2,111,099
- overdue more than 180 days	2,365,797	2,384,568	1,217,453
- advances paid	182,580	144,093	154,894
Total trade receivables	4,147,903	4,286,262	3,483,446
Provision for doubtful debts	(1,538,383)	(1,377,473)	(1,086,425)
Subtotal	2,609,520	2,908,789	2,397,021
Taxes and state subsidies receivables	453,262	453,065	423,453
Anticipated assets	548,523	426,098	470,123
Other receivables	24,431	83 454	20,263
Total short term receivables	3,635,736	3,871,406	3,310,860

At 31 December 2003 the overdue receivables were CZK 2,735,758 thousand (at 31 December 2002: CZK 2,688,827 thousand, at 31 December 2001: CZK 2,206,188 thousand).

Trade receivables represent, in particular, receivables from users of the GSM network, receivables from other telecommunication services providers, receivables from partners of electronic recharging Twist coupons and receivables from dealers.

Overdue receivables relate primarily to unsettled interconnection fees.

Anticipated assets represent mainly services of the GSM network provided to customers of the Company that were not invoiced at the balance sheet date, uninvoiced interconnection fees to other providers of telecommunication services and uninvoiced interconnection capacity provided to other providers of telecommunication services that was not invoiced before the year end.

The change in the provision for doubtful debts may be analyzed as follows:

(CZK'000)	2003	2002	2001
Opening balance as at 1 January	1,377,473	1,086,425	727,135
Creation of the provision	336,434	502,154	459,194
Release/use of the provision	(175,524)	(211,106)	(99,904)
Closing balance as at 31 December	1,538,383	1,377,473	1,086,425

#### 3.3.2. Long term Receivables

Long term receivables consist primarily of advances for rent.

# 3.4. Short term financial assets

Short term financial assets, including bank overdrafts are considered to represent cash and cash equivalents and can be analysed as follows:

(CZK'000)	31. 12. 2003	31. 12. 2002	31. 12. 2001
Cash in hand, cash in transit and cash at bank	154,384	1,186,292	158,881
Short term investments	2,981,140	-	1,004,000
Total short term financial assets	3,135,524	1,186,292	1,162,881
Bank overdrafts	(4,705)	-	(51,980)
Total cash and cash equivalents	3,130,819	1,186,292	1,110,901

# 3.5. Accruals and Deferrals

# 3.5.1. Prepaid Expenses

Prepaid expenses in 2003 include management and compensation charges related to payments by way of bills of exchange, costs of arranger fees, interest on issued bonds and costs related to the lease of office space and buildings needed for the installation of GSM technologies paid in advance. These costs are recorded as expenses on an accrual basis. Their total value at 31 December 2003 was CZK 118,956 thousand (31 December 2002: CZK 154,912 thousand; 31 December 2001: CZK 173,364 thousand).

At 31 December 2001, the Prepaid expenses included unrealized foreign exchange differences that beginning in 2002 were instead recorded in the income statement.

# 3.6. Equity

Movements in the Company's equity:

(CZK'000)	Registered capital	Share premium	Differences from the revaluation of assets and liabilities	Statutory reserve fond	Other capital contributions	Retained earnings	Net profit under approval	Total
1. 1. 2001	400,000	5,344,110	-	80,000	-	667 701	2,109,829	8,601,640
Increase of the								
Registered capital	120,000	-	-	-	-	-	-	120,000
Distribution of profit	-	-	-	24,000	-	2,085,829	(2,109,829)	-
Net profit for the period	-	-	-	-	-	-	2,005,192	2,005,192
31. 12. 2001	520,000	5,344,110	-	104,000	-	2,753,530	2,005,192	10,726,832
Distribution of profit	-	-	-	-	-	2,005,192	(2,005,192)	-
Revaluation of								
financial instruments	-	-	(285,659)	-	-	-	-	(285,659)
Net profit for the period	-	-	-	-	-	-	2,529,564	2,529,564
31. 12. 2002	520,000	5,344,110	(285,659)	104,000	-	4,758,722	2,529,564	12,970,737
Distribution of profit	-	-	-	-	-	2,529,564	(2,529,564)	-
Revaluation of								
financial instruments	-	-	286,328	-	-	-	-	286,328
Bestowed assets	-	-	-	-	8,162	-	-	8,162
Net profit for the period	-	-	-	-	-	-	4,358,709	4,358,709
31. 12. 2003	520,000	5,344,110	669	104,000	8,162	7,288,286	4,358,709	17,623,936

# 3.6.1. Share Capital and Capital Contributions

The Company's shares have a nominal value of CZK 1,000 each and are uncertified, registered and not publicly traded.

Share premiums of CZK 5,344,110 thousand were paid under the Joint Venture Agreement of the joint stock company between ČESKÉ RADIOKOMUNIKACE a.s. and CMobil B.V., dated 25 March 1996, and the Agreement between the Ministry of Economy of the Czech Republic, CMobil B.V. and ČESKÉ RADIOKOMUNIKACE a.s., dated 25 March 1996. The valuable right to provide telecommunication services forms a part of the share premium.

The statutory reserve fund comprises funds the Company is required to retain according to current legislation. Use of the statutory reserve fund is limited by legislation and the Statutes of the Company and is not available for distribution to the shareholders.

# 3.6.2. Dividends

Since the Company's incorporation, no dividends have been paid.

# 3.7. Provision for Liabilities and Charges

(CZK'000)	Provision for tax payable	Provisions for foreign exchange losses	Other provisions*	Total
1. 1. 2001	-	739,350	180,265	919,615
Charge for the year	-	1,210,000	231,990	1,441,990
Written back/written off during the year	-	(275,842)	(180,265)	(456,107)
31. 12. 2001	-	1,673,508	231,990	1,905,498
Charge for the year	-	-	547,546	547,546
Written back/written off during the year	-	(1,673,508)	(231,990)	(1,905,498)
31. 12. 2002	-	-	547,546	547,546
Charge for the year	1,159,487	-	739,408	1,898,895
Written back/written off during the year	-	-	(547,546)	(547,546)
31. 12. 2003	1,159,487	-	739,408	1,898,895

\* Other provisions include Tax deductible provisions.

At 31 December 2003, the Company had a provision of CZK 407,849 thousand for estimated future costs related to the client loyalty program (31 December 2002: CZK 321,414 thousand; 31 December 2001: CZK 231,900 thousand).

# 3.8. Liabilities

# 3.8.1. Long term Liabilities

The Company settled selected payables by promissory notes.

Other long-term liabilities as at 31 December 2002 and 31 December 2001 represented primarily the Company's liability to the CTO arising from the purchase of a UMTS license. As at 31 December 2003, the liability is classified as short term liability (refer to the Note on Other Payables).

Debentures maturing in 2004, which were classified as long-term liabilities as at 31 December 2002 and 31 December 2001, were reclassified as short term liabilities at 31 December 2003 (refer to the Note on Debentures and bonds issued).

# 3.8.2. Short Term Liabilities

# **Trade Payables**

(CZK'000)	31. 12. 2003	31. 12. 2002	31. 12. 2001
Trade payables			
- domestic payables	1,272,010	259,196	895,607
– foreign payables	58,829	36,188	16,552
Subtotal	1,330,839	295,384	912,159
Advances for activation and fixed fees	166,093	278,764	205,945
Other payables	-	144,114	1,347
Total trade payables	1,496,932	718,262	1,119,451

At 31 December 2003 the amount of overdue payables was less than CZK 21,000 thousand.

At 31 December 2002 and 31 December 2001 Other payables represented mostly short term promissory notes.

Bank guarantees were granted to the lessors of commercial premises and real estate by Credit Lyonnais Bank Praha, a.s. and a bank guarantee was granted by Komerční banka, a.s. to the renter of the new administrative building of the Company, Roztyly Centrum a.s., for a total of CZK 146,444 thousand.

There were bank guarantees for customs duties of CZK 54,370 thousand as at 31 December 2003 (31 December 2002: CZK 42,370 thousand and 31 December 2001: 12,000 thousand).

## Anticipated Liabilities

Anticipated liabilities include the cost of goods and services that were received in the year but for which no invoice was received as at the balance sheet date. The most significant item is the estimated liability for interconnection costs with the network of other operators.

# Debentures and Bonds Issued

On 8 November 1999, the Company issued bonds on the local market with an interest rate of 8.20% p.a. (standard 30E/360), due on November 2004. The aggregate nominal value of the bonds was CZK 3,000,000 thousand at the issue date, with the option to issue additional bonds up to the aggregate nominal value of CZK 5,000,000 thousand during the 18-month period after the issue date. The bonds are registered, uncertified and are publicly marketable. The nominal value of each bond is CZK 1,000,000. The issue rate of all of the bonds issued at the issue date was 99.85% of their nominal value.

On 30 April 2001, the Company issued CZK 2,000,000 thousand of additional bonds due on 8 November 2004, reaching the aggregate nominal value of CZK 5,000,000 thousand. The bonds were issued in the book-entry form and are publicly marketable. The nominal value of each bond is CZK 1,000,000. The issue rate of all additionally issued bonds was 106.42% of their nominal value.

The following banks were the primary co-managers of the bond issuance: ABN AMRO Bank N.V., Commerzbank Capital Markets (Eastern Europe) a.s. and Česká spořitelna, a.s.

Bonds issued:

DOIIC		
Α.	Туре:	Bond RadioMobil 8.20/04 – 1st tranche
	Form:	bearer
	Substance:	book-entry
	Number:	3,000
	Nominal value:	CZK 1,000,000
	Total volume of issue:	CZK 3,000,000,000
	ISIN:	CZ0003501140
	In 2001/2002 the bonds were traded on public markets:	Burza cenných papírů Praha, a.s. (Free market)
В.	Туре:	Bond RadioMobil 8.20/04 – 2nd tranche
	Form:	bearer
	Substance:	book-entry
	Number:	2,000
	Nominal value:	CZK 1,000,000
	Total volume of issue:	CZK 2,000,000,000
	ISIN:	CZ0003501140
	In 2001/2002 the bonds were traded on public markets:	Burza cenných papírů Praha, a.s. (Free market)

The difference between the issue price and the nominal price of the bonds is accrued in the income statement as financial expenses or income.

Bonds totaling CZK 5,000,000 thousand at 31 December 2003 are classified as short term bonds.

### Other Payables

Other short term payables had the following balances at 31 December 2003 and comparative periods:

(CZK'000)	31. 12. 2003	31.12.2002	31. 12. 2001
Short term promissory notes	112,110	994,690	2,316,403
UMTS installment	2,574,900	286,100	286,100
Interest rate swaps	-	18,905	-
Foreign exchange forward contracts	50	1,849,972	-
Other short term payables	17,043	16,883	11,208
Total other payables	2,704,103	3,166,550	2,613,711

The Company has an obligation to the CTO resulting from the purchased UMTS licence. The original balance of CZK 2,861,000 thousand was initially payable in installments over a period of 10 years starting from the year in which the license was issued.

According to an amendment to the UMTS purchase agreement (refer to Note 1.3., Licenses and Trademarks), the original repayment calendar of the license fee was replaced and the entire amount of CZK 2,574,900 thousand, outstanding as at 31 December 2003, is scheduled to be settled in two equal installments in April and August 2004.

The whole outstanding amount of the loan as at 31 December 2003 is classified as short term, while as at 31 December 2002 only the amount due next year was recorded in short term liabilities. Other installments due in the years 2004 to 2011 were classified as long term liabilities as at 31 December 2002.

# 3.9. Bank Loans and Overdrafts

The Company has the following bank loans and overdrafts as at 31 December 2003:

Loan description	Maturity	Total limit	Balance 31. 12. 2003	Balance 31. 12. 2002	Balance 31. 12. 2002	Balance 31. 12. 2001
		(DEM'000)	(CZK'000)	(DEM'000)	(CZK'000)	(CZK'000)
Long term syndicated loan	June 2003	250,000				
Tranche A			-	100,000	1,615,682	2,126,393
Tranche B			-	140,000	2,261,956	2,976,951
Discounted loan			31,761	-	-	-
Bank overdraft			4,705	-	-	51,980
Total			36,466	240,000	3,877,638	5,155,324

A syndicate of 17 banks provided the syndicated loan. The joint arrangers of the syndicated loan were as follows: ABN AMRO Bank N.V.; Bayerische Landesbank Girozentrale; Commerzbank Aktiengesellschaft; Credit Lyonnais Group; Deutsche Bank AG and Midland Bank plc. The loan was paid off at 17 June 2003.

The interest rate for tranche A was floating and based on 6M EURIBOR interest, which at the date of loan repayment for the current interest period was 3.3% p.a. (as at 31 December 2002: 2.88%, as at 31 December 2001: 3.256%.).

The interest rate for tranche B was floating and based on 3M EURIBOR interest, which at the date of loan repayment for the current interest period was 3.081% p.a. (as at 31 December 2002: 3.09%; 31 December 2001: 3.284% p.a.).

The total limit of bank overdraft provided by Credit Lyonnais Bank Praha, which is drawn in the amount of CZK 4,705 thousand as at 31 December 2003, is EUR 3,000 thousand. Another bank overdraft provided by Komerční banka a.s. is available to the Company with a total limit of CZK 100,000 thousand, no funds have been drawn from it as at 31 December 2003.

Loans of the Company are secured against financial risks in accordance with an agreed upon long term hedging strategy.

There is no collateral imposed on the Company's property with respect to the loans.

# 3.10. Financial Instruments

The Company manages its currency and interest risk in accordance with the hedging strategy of the Company, approved by the Board of Directors.

# Interest rate swaps

In 1998, the Company entered into four five-year swap agreements in the total amount of DEM 100,000 thousand to hedge a part of its interest risk resulting from the syndicated loan in the value DEM 250,000 thousand. Two interest swaps each amounting to DEM 25,000 thousands were settled on 30 December 2002. The floating rate 6M DEM LIBOR was changed to a fixed rate at the average rate of 4.22% p.a. The remaining two swap agreements were settled in 2003.

In 2000, two interest swaps totaling CZK 400,000 thousand were commenced to change the fixed rate 8.20% (standard 30E/360) applicable for a part of the issued bonds into a 6M PRIBOR + 0.52% floating rate. These transactions were originally due together with the bonds in 2004, but they were prematurely settled in September 2003

In 2001, the Company initiated two interest rate swaps totaling DEM 60,000 thousand to hedge part of its interest rate risk resulting from the syndicate credit facility of DEM 250,000 thousand. As at 31 December 2002, the Company had DEM 240,000 thousand outstanding. The floating rate of 3M EURIBOR + 0.425% was changed to a fixed rate of 5.01% p.a. These instruments were settled in 2003.

In 2002, the Company began two interest rate swaps totaling EUR 40,903 thousand (DEM 80,000 thousand) to complete the hedging of the interest rate risk resulting from the syndicate credit facility. The floating rate of 3M EURIBOR + 0.425% was swapped with a fixed rate equal to the average rate of 4.10% p.a. Together with the previously commenced swaps, the interest rate from the syndicate credit facility of DEM 240,000 thousand is fixed at the average rate of 4.73% p.a. These swaps were settled in 2003.

As at 31 December 2003, the Company had no active interest rate swaps. As at 31 December 2002, interest rate swaps with positive fair value are included in Other receivables totaling CZK 39,843 thousand (refer to Note 3.3.1., Short term receivables). Interest rate swaps with negative fair value as at 31 December 2002 of CZK 18,905 thousand are shown within Other Payables.

# Forward swaps

At the end of 2003, the Company had open forward contracts with a total nominal value of EUR 1,013 thousand (as at 31 December 2002: EUR 155,237 thousand/DEM 303,616 thousand; as at 31 December 2001: EUR 281,211 thousand/DEM 550,000 thousand). These transactions are focused on managing the currency risks associated with customer-supplier relations and are paid in EUR. During 2003, contracts with a total nominal value of EUR 155,237 thousand/DEM 303,616 thousand were settled (during 2002: EUR 134,586 thousand/DEM 263,227 thousand).

The revaluation of foreign exchange forward contracts at fair values as at 31 December 2003, 2002 and 2001 is as follows:

Forward contracts (in mil. CZK)	31. 12. 2003	31. 12. 2002	31. 12. 2001
Open forward foreign exchange contracts securing loans			
Negative fair value	-	(1,532)	(1,407)
Open forward foreign exchange contracts securing other foreign exchange liabilities			
Positive fair value	0.720	12	-
Negative fair value	(0.051)	(318)	(1,724)
Total fair value of forward contracts	0.669	(1,838)	(3,131)

# 3.11. Accruals and Deferrals

# 3.11.1. Accruals

The Company's accrual balance primarily consists of expenses connected with the payment of bond coupons, loan interest and interest from the shareholders' borrowing.

# 3.11.2. Deferred Revenue

Deferred revenue includes deferred airtime and activation fees related to TWIST prepaid services.

# 3.12. Commitments and Contingent Liabilities

Negotiations concerning the settlement of interconnection fees from 2001 with ČESKÝ TELECOM, a.s. are going on concurrently with the administrative actions of the CTO. The results of these negotiations might influence 2001 interconnection revenues and any necessary adjustment to previously estimated revenues will be accounted for in the period of final resolution.

In 2003, the Financial Office continued with the financial inspection of value added tax, (1997 through 2001) which has not been finalized as at 31 December 2003, or at the date of the approval of this report. Based on the initial indications of the Financial Office, there is a risk of an additional tax assessment relating to the sales of prepaid phone sets. However, as there is no clear position yet taken by the Financial Office to allow for estimation of the exposure, and as the Company believes it is probable that no material assessment will ultimately result from the issues, there has been no provision recorded in the financial statements in relation to this pending inspection.

At 31 December 2003, the Company is not aware of any significant legal claims that would require disclosure in the financial statements of the Company and in the Notes to the financial statements except for those for which provisions have already been created.

As at 31 December 2003, the Company entered into contracts with main suppliers in the technology area of CZK 411,133 thousand (31 December 2002: CZK 154,107 thousand).

In December 2003, the construction of the new administrative building in Roztyly was finished. The final building approval became legally binding as at 31 December 2003. The Company's contractual commitments to Roztyly Centrum a.s., the lessor, consist of annual rental fees of CZK 240,000 thousand for a period of twenty years and fees for rental related services.

The future minimum lease payment commitments under operating leases arising from the rental of microwave connections, other buildings, offices and GSM base stations are as follows:

(CZK'000)	31. 12. 2003	31. 12. 2002	31. 12. 2001
Up to 1 year	789,194	934,817	369,475
Over 1 year	2,058,937	2,990,227	1,083,389
Total	2,848,131	3,925,044	1,452,864

The following obligation was created on the basis of the Authorization to establish and operate a public mobile telecommunications network on the GSM standard and to provide mobile telecommunications services pertaining to this network, which was granted to the Company by the Ministry of Industry and Commerce on 25 March 1996.

With regards to state security and in connection with the provision of telecommunication services in the area covered by emergency status, the Company is obliged to fulfill obligations specified by the legislation to support the defense and security of the state and economic measures during a time of emergency status. The obligation has to be fulfilled in priority for state authorities, defense and rescue forces and other parties specified by legislation. This commitment has not changed during the fiscal year ended 31 December 2003.

# 3.13. Revenues and Expenses from Operating Activities

# 3.13.1. Operating Revenues according to main activities

Sales based on activity (CZK'000)	2003	2002	2001
Sales of handsets and accessories	930,830	903,658	871,261
GSM network services	23,292,235	20,664,663	20,211,170
Total	24,223,065	21,568,321	21,082,431

# 3.13.2. Operating Revenues and Expenses

(CZK'000)	2003	2002	2001
Operating revenues	24,223,065	21,568,321	21,082,431
Other revenues	1,928,067	1,499,128	1,222,535
Total revenues	26,151,132	23,067,449	22,304,966
Cost of goods sold	2,054,684	2,242,626	3,906,227
Consumption of material and energy	514,909	537,785	477,309
Services	9,100,515	7,863,081	7,775,102
Staff costs	1,611,320	1,403,628	1,119,563
Depreciation of long term assets	4,887,205	4,565,499	2,972,803
Other operating charges	1,827,234	1,862,679	1,522,046
Total operating costs	19,995,867	18,475,298	17,773,050
Operating profit	6,155,265	4,592,151	4,531,916

Services include leased line cost, interconnection costs, marketing services and rental expenses.

# 3.14. Revenues and Expenses from Financing Activities

(CZK'000)	2003	2002	2001
Revenues from financial operations and interest	38,198,167	14,392,017	18,016,302
Financial revenues – other	147,460	2,691,875	395,710
Costs of financial operations and interest expense	(38,644,163)	(14,941,127)	(18,476,214)
Financial expenses – other	(479,730)	(3,272,087)	(1,685,424)
Loss from financial activity	(778,266)	(1,129,322)	(1,749,626)

# 3.15. Extraordinary Revenues and Expenses

(CZK'000)	2003	2002	2001
Extraordinary revenues	-	217,915	50,673
Extraordinary expenses	-	(4,918)	(69,614)
Deferred tax income from extraordinary activities	-	414,118	-
Current tax expense from extraordinary activities	-	(479,911)	-
Extraordinary income/(loss)	-	147,204	(18,941)

In 2003, the Company raised the threshold for corrections related to prior periods which are classified as Extraordinary expenses and revenues.

# 3.16. Related Party Transactions and Balances

The following transactions are related to the shareholders and their affiliates:

(CZK'000)	2003	2002	2001
ČESKÉ RADIOKOMUNIKACE a.s.:			
Purchase of services (leased lines and other)	425,768	370,704	507,872
GSM services sold	8,296	8,617	10,579
DTAG group:			
Roaming, interconnection and other related services purchased	383,670	336,036	208,717
Other services purchased	320,240	8,271	-
Roaming and other services sold	485,971	383,073	193,279
Rebranding reimbursements	107,569	365,909	_
Total related party purchases	1,129,678	715,011	716,589
Total related party sales	601,836	757,599	203,858

Short term receivables consist of the following receivables from related parties:

(CZK'000)	31. 12. 2003	31. 12. 2002	31. 12. 2001
ČESKÉ RADIOKOMUNIKACE a.s.:			
GSM services and other	3,255	695	18,430
DTAG group:			
Rebranding	12,358	-	-
Uninvoiced receivables from rebranding	23,769	42,155	-
Roaming and other services sold	101,823	64,262	29,772
Subtotal DTAG group	137,950	106,417	29,772
Total related party receivables	141,205	107,112	48,202

Rebranding represents an amount that has not been paid as at the year end by the parent company DTAG in connection with expenditures on the change of the network name from "Paegas" to "T-Mobile". Trade liabilities as described in Note Trade liabilities consisted of the following intercompany liabilities as at 31 December 2003:

(CZK'000)	31. 12. 2003	31.12.2002	31. 12. 2001
ČESKÉ RADIOKOMUNIKACE a.s.:			
Purchased leased lines, rent	47,368	-	2,468
DTAG group:			
Roaming and other purchased services	286,463	9,074	5,022
Total related party liabilities	333,831	9,074	7,490

As at 31 December, the Company had the following intercompany loans:

	Maturity	Total financing line (CZK'000)	Balance 31. 12. 2003 outstanding (CZK'000)	Balance 31. 12. 2002 outstanding (CZK'000)	Balance 31. 12. 2001 outstanding (CZK'000)
CMobil B.V.:					
Shareholder's subordinated short term loans	20. 2. 2004	1,823,077	1,823,077	-	-
Total related party loans (short term)			1,823,077	-	-
CMobil B.V.:					
Shareholder's subordinated long-term loan	20. 5. 2008	1,823,077	-	1,823,077	1,823,077
Deutsche Telekom International Finance BV:					
Subordinated long term loan*	31.12.2004	1,176,923	-	300,000	-
Long term loan	31.12.2011	3,823,077	-	-	-
Total related party loans (long term)			-	2,123,077	1,823,077

\* The loan could have been used only before 31 December 2002.

Upon agreement with the loan provider, the Company will prematurely repay the shareholder subordinated loan in 2004. The loan is classified as a short term loan in the financial statements as at 31 December 2003.

# 3.17. Taxation

## 3.17.1. Current Corporate Income Tax

The Company estimates the following current income tax results

(CZK'000)	2003	2002	2001
Profit before tax	5,376,999	3,675,826	2,763,349
Tax non deductible costs	1,049,212	1,471,021	2,537,601
Non taxable revenues	(469,127)	(2,435,113)	(837,961)
Difference between accounting and tax depreciation	(1,867,286)	(2,342,347)	(3,686,416)
Tax base before deductions	4,089,798	369,387	776,573
Gifts allowed as tax deductible	(7,102)	-	(4,300)
10% reinvestment relief	(342,416)	(369,387)	(490,412)
Adjusted tax base for the year	3,740,280	-	281,861
Current tax	1,159,487	-	87,377

During 2003, the amount of CZK 682 thousand was recorded. This represents an additional adjustment of current tax for 2001, and was disclosed as Current tax on profit – payable. The total tax base of the current income tax for 2003, including the correction of prior years, is CZK 1,160,169 thousand.

# 3.17.2. Deferred Tax

Deferred tax	31. 12. 2003	31. 12. 2002	31. 12. 2001
Difference between net book value and net tax book value of fixed assets	(10,036,750)	(8,461,702)	(7,801,908)
Difference between net book value and net tax book value of inventories	112,903	203,475	297,862
Difference between net book value and net tax book value of receivables	342,119	351,714	421,553
Provision for foreign exchange losses	-	-	1,673,508
Other provisions	704,668	479,999	231,990
Other temporary differences	-	100,000	-
Total temporary differences	(8,877,060)	(7,326,514)	(5,176,995)
Deferred tax liability	2,129,341	2,271,220	1,604,869

The statutory tax rate for 2001, 2002, and 2003 was 31%. In December 2003, a change to the corporate income tax rates for the years 2004, 2005, and 2006 were approved. The tax rates are as follows:

Period	Tax rate
2004	28%
2005 2006	26%
2006	24%

The deferred tax as at 31 December 2003 was calculated by using the above tax rates, which were applied to temporary differences in accordance with the anticipated realization of deferred tax assets and liabilities.

In connection with the change of the tax rate, the deferred tax base for 2003 can be analyzed as follows:

	(CZK'000)
Effect of the change of the corporated income tax rate	511,811
Effect of the change of the temporary differences between net book value and net tax book value of assets and liabilities	(369,932)
Total deferred tax revenue	141,879

# 4. EMPLOYEES AND MANAGEMENT

Development of staff expenses (amount in CZK'000 unless stated otherwise) is as follows:

		Total			Management	
	2003	2002	2001	2003	2002	2001
Average number of employees	2,524	2,522	2,276	54	46	38
Wages and salaries	1,131,469	999,697	805,860	122,300	94,584	92,851
Remuneration for board members	1,821	1,714	3,072			
Social security costs	418,595	360,561	277,000	43,175	31,833	28,278
Other social costs	59,435	41,656	33,631			
Total staff costs	1,611,320	1,403,628	1,119,563			

Remuneration for the members of statutory bodies and the supervisory board for 2003 is as follows:

(CZK'000)	Total income	Monetary income	Benefits in kind
Board of Directors	1,166	1,166	-
Supervisory Board	655	655	

Remuneration for the members of statutory bodies and the supervisory board for 2002 is as follows:

(CZK'000)	Total income	Monetary income	Benefits in kind
Board of Directors	1,090	1,090	-
Supervisory Board	624	624	_

Remuneration for the members of statutory bodies and the supervisory board for 2001 is as follows:

(CZK'000)	Total income	Monetary income	Benefits in kind
Board of Directors	2,349	2,151	198
Supervisory Board	723	723	_

The number of employees presented is based on the average number of annual full time employees. The management classification includes executive members of the Board of Directors, other directors and managers directly subordinate to them.

Since 2002, the Company provides its employees with a contribution to pension insurance. In 2003, the total contribution provided to the Company's employees was CZK 24,413 thousand (in 2002: CZK 10,090 thousand).

In 2003, the Company did not provide any loans to members of statutory bodies. Company cars are made available for use by management for business and personal purposes. The total acquisition cost of cars used by the Company's management at 31 December 2003 was CZK 48,623 thousand (at 31 December 2002: CZK 40,541 thousand, at 31 December 2001: CZK 22,028 thousand).

No Company shares are owned by board members, the supervisory board members or employees.

# 5. POST BALANCE SHEET EVENTS

No events having a significant impact on financial statements as at 31 December 2003 occurred subsequent to the preparation of the financial statements.

These financial statements have been approved by the Board of Directors on 16 February 2004.

# Report on the Relationships to the Related Entities

In accordance with the provisions of Section 66a (9) of Act No. 513/1991 Coll., the Commercial Code, the Board of Directors of T-Mobile Czech Republic a.s., having its registered office at Londýnská 730, company registration number 64949681, which is registered with the Commercial Register administered by the Municipal Court in Prague, Section B, Entry 3787 (hereinafter referred to as "TMCZ"), prepared, in respect of the accounting period of the year 2003 (hereinafter referred to as the "Accounting Period"), the **Report on the Relationships** between the Controlled Party and the Controlled Party and on the Relationships between the Controlled Party and Other Parties Controlled by the Same Controlling Party.

During the Accounting Period, TMCZ formed part of the Group of Deutsche Telekom AG, having its registered office at Friedrich-Ebert-Allee 140, 53113 Bonn (hereinafter referred to as "DTAG").

Through the Accounting Period, the party controlling TMCZ was CMobil B.V. (by 60.77%). The party controlling CMobil B.V. was T-Mobile Global Holding Nr. 2 GmbH (by 92.14%). The party controlling the aforementioned company was T-Mobile International AG & Co. KG (by 100%), whose only shareholder was T-Mobile International Holding GmbH. The aforementioned company was controlled, throughout the Accounting Period, by DTAG (by 100%). The company which had the most substantial influence on the management and operation of TMCZ during the Accounting Period was T-Mobile International AG & Co. KG, having its registered office at Landgrabenweg 151, 53227 Bonn.

Throughout the Accounting Period, TMCZ controlled neither any business entity nor any other entity.

# 1. Overview of the Related Parties

The overview contains the entities controlled by DTAG with which TMCZ had business relationships during the Accounting Period as well as some entities which stand, in the structure of the group companies, either above or below the aforementioned entities.

#### DTAG

DIAG	
100.00% T-Mobile International Holding GmbH	
100.00% T-Mobile International AG & Co.KG, Bonn	(Germany)
100.00% T-Mobile Deutschland GmbH, Bonn	(Germany)
100.00% Zweite DFMG Deutsche Funkturm Vermögens GmbH & Co. KG, Münster	(Germany)
16.67% DFMG Deutsche Funkturm GmbH, Münster	(Germany)
22.50% PTC Polska Telefonia Cyfrowa Sp. Z o.O., Warsaw	(Poland)
20.00% ICO Europe B.V. (i.L.), Den Haag	(Netherlands)
100.00% T-Mobile Traffic GmbH, Bonn	(Germany)
50.00% DDG Gesellschaft für Verkehrsdaten GmbH, Düsseldorf	(Germany)

100.00% MediaOne International B.V., Amsterdam	(Netherlands)
22.50% PTC Polska Telefonia Cyfrowa Sp. Z o.O., Warzaw	(Poland)
100.00% T-Mobile Global Holding Nr. 2 GmbH	(Germany)
92.14% CMobil B.V., Amsterdam	(Netherlands)
60.77% T-Mobile Czech Republic a.s., Prague	(CR)
100.00% T-Mobile Austria GmbH, Vienna	(Austria)
100.00% Niedermeyer GmbH, Vienna	(Austria)
100.00% T-Mobile International GmbH, Vienna	(Austria)
100.00% T-Mobile Billing und Service GmbH, Vienna	(Austria)
100.00% T-Mobile Global Holding GmbH	(Germany)
100.00% T-Mobile Holdings Ltd., London	(Great Britain)
100.00% T-Mobile No. 1 Ltd., Borehamwood	(Great Britain)
50.00% T-Mobile (UK) Ltd., Borehamwood	(Great Britain)
100.00% T-Mobile No. 2 Ltd., Borehamwood	(Great Britain)
100.00% T-Mobile No. 4 Ltd., Borehamwood	(Great Britain)
100.00% T-Mobile No. 5 Ltd., Borehamwood	(Great Britain)
50.00% T-Mobile (UK) Ltd., Borehamwood	(Great Britain)
100.00% T-Mobile Ltd., Hertfordshire	(Great Britain)
100.00% T-Mobile (UK) Ltd., Hertfordshire	(Great Britain)
100.00% One2One Ltd., Slough	(Great Britain)
100.00% T-Mobile USA, Inc., Bellevue	(USA)
100.00% Powertel, Inc., Bellevue	(USA)
100.00% T-Mobile Netherlands Holding B.V., Den Haag	(Netherlands)
100.00% T-Mobile Netherlands B.V., Den Haag	(Netherlands)
50.00% RANN B.V., Rijswijk	(Netherlands)
100.00% T-Mobile Klantenservice B.V., Den Haag	(Netherlands)
100.00% T-Mobile Worldwide Holding GmbH, Bonn	(Germany)
100.00% Holdco Sp. Z o.O., Warsaw	(Poland)
100.00% Polpager Sp. Z o.O., Warsaw	(Poland)
4.00% PTC Polska Telefonia Cyfrowa Sp. Z o.O., Warsaw	(Poland)
25.15% MTS Mobile TeleSystems OJSC, Moscow	(Russia)
83.667% Ukrainian-German-Dutch-Danish Joint Venture Ukrainian Mobile Communications (UMC J.	.) (Ukraine)
100.00% T-Mobile International UK Ltd., London	(Great Britain)
100.00% T-Motion plc	(Great Britain)
99.00% T-Mobile Venture Fund GmbH&Co. KG	(Germany)
100.00% MagyarCom Holding GmbH	(Germany)
59.213% Matav Magyar Tavközlesi Rt	(Hungary)
89.512% Stonebridge Communication A.D.	(Macedonia)
51.00% Makedonski Telekominikacii A.D.	(Macedonia)
100.00% Mobimak A.D.	(Macedonia)
100.00% Westel Mobil Tavközlesi Rt	(Hungary)
51.00% Slovak Telecom, a.s.	(Slovakia)
51.00% EuroTel Bratislava a.s.	(Slovakia)
51.00% HT Hrvatske Telekomunikacije d.d.	(Croatia)
100.00% T-Systems International GmbH	(Germany)
100.00% T-Systems CDS GmbH	(Germany)
100.00% T-Systems Czech s.r.o.	(CR)
51.00% T-Systems PragoNet, a.s.	(CR)
100.00% Detecon International GmbH	(Germany)

The entities listed in the overview shall be hereinafter referred to as the "Related Parties".

### 2. Contracts Concluded with the Related Parties in the Accounting Period

#### T-Mobile International AG & Co.KG

Amendment to the License Certificate No. 010091-201-00 (to the Sublicense Agreement No. 010091-000-00)

Framework Cooperation Agreement (Inbound)

Performance provided by TMCZ	Performance accepted by TMCZ
Services concerning strategic planning and development of new products	54,940 th.

Service Arrangement – Strategy & Portfolio Management (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – Management IT Aplications (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – ERP & Corporate Systems (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – Management IT Operations (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – End User Marketing (Inbound – Projects) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – System Engineering (Inbound – Projects) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – System Engineering (Inbound – Projects) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – System Engineering (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – Network Deployment & Operations Management (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – Network Deployment & Operations Management (Inbound) – partial contract under the Framework Agreement No. 010562-000-00 Service Arrangement – Network Deployment & Operations Management (Inbound – Projects) – partial contract under the Framework Agreement No. 010562-000-00 Framework Cooperation Agreement (Outbound direct charging) Performance provided by TMCZ Performance provided by TMCZ

Performance provided by IMCZ	Performance accepted by IMCZ
154,622 th.	Services concerning definition of the strategy and architecture of new services,
	project management

Service Arrangement - ERP & Corporate Systems (Outbound - direct charging) - partial contract under the Framework Cooperation Agreement No. 010563-000-	00
Framework Cooperation and Service Agreement (Outbound/Allocation)	
Service Arrangement – Global Products (Outbound) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – Payment (Outbound) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – IT Department (Outbound – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – Marketing Department (Outbound) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – Network Technology Office (Outbound – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – IT Strategy & Portfolio Management (Outbound – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – Process Alignment & Quality Management (Outbound – allocation) – partial contract under the Framework Cooperation and Service Agree No. 010564-000-00	ment
Service Arrangement – Management IT Applications (Outbound – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement - Management IT Operations (Outbound) - partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement - Marketing coordination (Outbound) - partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement – Marketing coordination (Outbound – Projects allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement - Product Management (Outbound) - partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	
Service Arrangement - End User Marketing (Outbound - allocation) - partial contract under the Framework Cooperation and Service Agreement No. 010564-000	-00
Service Arrangement – End User Marketing (Outbound – Projects – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00.	
Service Arrangement - Wholesale Marketing (Outbound - allocation) - partial contract under the Framework Cooperation and Service Agreement No. 010564-00	0-00
Service Arrangement – Wholesale Marketing (Outbound – Projects – allocation) – partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00	

Service Arrangement – European Terminal Management (Outbound – No. 010564-000-00	allocation) - partial contract under the Framework Cooperation and Service Agreement
	- partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00
	partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00
Service Arrangement – Network Deployment and Operations Manager Agreement No. 010564-000-00	ment (Outbound – Projects) – partial contract under the Framework Cooperation and Service
Service Arrangement - Systems Engineering (Outbound - Projects) -	partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00
Service Arrangement – Network Deployment and Operations Manager Agreement No. 010564-000-00	ment (Outbound – Projects) – partial contract under the Framework Cooperation and Service
Service Arrangement – Network Deployment and Operations Manager No. 010564-000-00	ment (Outbound) - partial contract under the Framework Cooperation and Service Agreement
Service Arrangement - Technology and Development (Outbound) - p	artial contract under the Framework Cooperation and Service Agreement No. 010564-000-00
Service Arrangement - Supplier Management (Outbound) - partial co	ntract under the Framework Cooperation and Service Agreement No. 010564-000-00
Service Arrangement - Network Budgeting Performance (Outbound) -	- partial contract under the Framework Cooperation and Service Agreement No. 010564-000-00
Sublicence of TIBCO Software Licence Agreement	
Suretyship Agreement between TMO and Siemens AG	
Suretyship Agreement	
T-zones Agreement	
Performance provided by TMCZ	Performance accepted by TMCZ
16,203 th.	Rights relating to the usage of the t-zones web portal
T-Mobile Deutschland GmbH	
Amendment No. 1 to the Contract for the Provision of Managerial Serv	ices No. 001366-000-00 (97/72/8/4602)

Performance provided by TMCZ	Performance accepted by TMCZ
Reimbursement of costs incurred by employees of T-Mobile Deutschland	5,712 th.
in connection with the activities under the agreement	
(TMCZ reimbursed the costs to third parties)	
Modification of the Interconnection Agreement – amendment no. 2 to the Interco	nnection Agreement No. 001776-000-00 (new price list)
Transfer Agreement (supply of software)	
Loan Agreement – shareholder loan from DTAG	
Agreement for the Delivery of the Authentication Key Agreement Algorithm SAM	
Agreement on Pegabase Software Maintenance	
Performance provided by TMCZ	Performance accepted by TMCZ
<u>4</u> ,375 th.	Software maintenance
Contract for the Supply of SIM Cards	
Performance provided by TMCZ	Performance accepted by TMCZ
<u>2</u> th.	SIM cards
Contract for Training	
Performance provided by TMCZ	Performance accepted by TMCZ
862 th.	training

# PTC Polska Telefonia Cyfrowa Sp. Z o.O.

Framework Service and Consultancy Agreement

#### T-Mobile International UK Ltd.

Amendment No. 1 to the Content Reseller Agreement No. 001406-000-0 - Transfer of and Interim Hosting of Java Midlets on RadioMobil National Download Platform Amendment No. 2 to the Content Reseller Agreement No. 001406-000-00 (Content Reseller Agreement) - Engagement Form - Disney Content Amendment No. 3 - Engagement Form - Sony Content to the Content Reseller Agreement No. 001406-000-00 Amendment No. 4 - Engagement Form - Entertainment Mobile Content Amendment No. 5 - Engagement Form - Video Downloads Amendment No. 6 - Engagement Form - MTV Content to the Content Reseller Agreement No. 001406-000-00 Amendment No. 7 - Universal Content to the Content Reseller Agreement No. 001406-000-00 Engagement Form Amendment No. 9 - Engagement Form - Arky Types Amendment No. 10 - Engagement Form - Trigenix Screen Style Engagement Form - Gameloft - Amendment No. 11 to the Content Reseller Agreement No. 001406-000-00 Engagement Form - Mforma Europe - Amendment No. 12 to the Content Reseller Agreement No. 001406-000-00 Amendment No. 13 - Engagement Form - Cinema Electric Content MCS Services Agreement Framework Contract of Sale Performance provided by TMCZ Performance accepted by TMCZ Resale of SAU service cards 1.211 th.

#### Slovak Telecom a.s.

Agreement on Access to the E.115 Protocol

#### EuroTel Bratislava a.s.

Licence Agreement - licence for the T-Mobile GPRS software

Performance provided by TMCZ	Performance accepted by TMCZ	
T-Mobile GPRS software	200 th.	
Contract for Entrance Tickets		
Performance provided by TMCZ	Performance accepted by TMCZ	
Entrance tickets	197 th.	
Contract for Sale of MDA		
Performance provided by TMCZ	Performance accepted by TMCZ	
MDA	46 th.	

#### **T-Systems International GmbH**

Non-Disclosure Agreement

#### T-Systems Czech s.r.o.

Cooperation Agreement – preparation of bid and mediation of services to key accounts Non-Disclosure Agreement – the "Due Dilligence and Consolidation of T-Mobile CZ" project Agreement on Cooperation in Usage of T-Mobile Network for the Provision of Services

#### T-Systems PragoNet, a.s.

Contract for the Provision of T-Mobile SMS Connect Service

Sublease Agreement (room B903a at Koospol)

Contract for the Provision of Global Intranet GPRS Roaming eXchange Service (GRX)

Agreement on Signalling for International Roaming (SPR Service)

Amendment No. 1 to the Agreement on Interconnection of Telecommunication Networks No. 2001/80000/8/6947 – amendment of the T-Mobile Assistant service and the free-of-charge calling service

Contract for the Provision Synchronizing Signal

Performance provided by TMCZ	Performance accepted by TMCZ	
Establishment of the line for the provision of the synchronizing signal,	18 th.	
provision of the synchronizing signal		
	1	
Amendment No. 1 to the Data Transmission and Telecommunication Connec	tion Agreement No. 2000/35000/8/9311	
IP World Wide Transit Agreement	B. (	
Performance provided by TMCZ	Performance accepted by TMCZ	
296 th.	IP Transit	
Telecommunication Equipment Repair Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
Repairs	29 th.	
Contract for Sale of Mobile Phones, Twist Cards and Accessories		
Contract for Sale of Mobile Phones, Twist Cards and Accessories Performance provided by TMCZ	Performance accepted by TMCZ	
, , , , , , , , , , , , , , , , , , , ,	Performance accepted by TMCZ 208 th.	
Performance provided by TMCZ Phones, Twist Cards and Accessories		
Performance provided by TMCZ Phones, Twist Cards and Accessories Backup Internet Connectivity Agreement	208 th.	
Performance provided by TMCZ		
Performance provided by TMCZ Phones, Twist Cards and Accessories Backup Internet Connectivity Agreement Performance provided by TMCZ	208 th. Performance accepted by TMCZ	
Performance provided by TMCZ Phones, Twist Cards and Accessories Backup Internet Connectivity Agreement Performance provided by TMCZ	208 th. Performance accepted by TMCZ	
Performance provided by TMCZ Phones, Twist Cards and Accessories Backup Internet Connectivity Agreement Performance provided by TMCZ 157 th.	208 th. Performance accepted by TMCZ	

Contract for Lease of Circuits for ISP		
Performance provided by TMCZ	Performance accepted by TMCZ	
551 th.	Circuits for ISP	
		-

Contract for Lease of Circuits	
Performance provided by TMCZ	Performance accepted by TMCZ
3,988 th.	circuits

#### **Detecon International GmbH**

Agreement on Auditing Services	
Performance provided by TMCZ	Performance accepted by TMCZ
512 th.	Auditing services

# 3. Contractual Relationships with the Related Parties Lasting During the Accounting Period Based on Which Performance Was Provided

#### DTAG

Agreement for Computerised International Directory Information Access No. 011293-000-00 Performance provided by TMCZ Performance accepted by TMCZ 316 th. International directory information International Telecommunication Services Performance provided by TMCZ Performance accepted by TMCZ 37,660 th. International telecommunication services Agreement on the Arrangement of Teleconference Performance provided by TMCZ Performance accepted by TMCZ 26 th. Teleconference T-Mobile International AG & Co.KG Sublicence Agreement

Performance provided by TMCZ	Performance accepted by TMCZ	
14,421 th.	Rights to trademark	
Reimbursement of the rebranding advertising costs	107,569 th.	
Arrangement of a Kick-off-Meeting		
Performance provided by TMCZ	Performance accepted by TMCZ	
Meeting	176 th.	
Arrangement of a Business Trip		
Performance provided by TMCZ	Performance accepted by TMCZ	
Business trip	52 th.	
Framework Maintenance Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
3,919 th.	Software maintenance	

#### T-Mobile Deutschland GmbH

Management Service Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
33,568 th.	Management services

Service Agreement - modification of the OTA platform software based on the Company's needs, Operation&Maintenance

Performance provided by TMCZ	Performance accepted by TMCZ	
849 th.	Modification of the OTA platform software	
Interconnection Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
13,579 th.	Interconnection-related services	
Interconnection-related services	32,575 th.	
Domicile Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
Delivery address for T-Mobile Deutschland GmbH	72 th.	

International GSM Roaming Agreement	
Performance accepted by TMCZ	
Roaming services	
176,201 th.	

# PTC Polska Telefonia Cyfrowa Sp. Z o.O.

International GSM Roaming Agreement	
Performance provided by TMCZ	Performance accepted by TMCZ
13,166 th.	Roaming services
Roaming services	25,257 th.

# T-Mobile Austria GmbH

International GSM Roaming Agreement	
Performance provided by TMCZ	Performance accepted by TMCZ
37,272 th.	Roaming services
Roaming services	33,004 th.

#### T-Mobile International UK Ltd.

International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
8,656 th.	Roaming services
Roaming services	16,883 th.

#### Arrangement of a Business Trip

Performance provided by TMCZ	Performance accepted by TMCZ
Business trip	62 th.

#### T-Mobile USA, Inc.

International GSM Roaming Agreement	
Performance provided by TMCZ	Performance accepted by TMCZ
7,433 th.	Roaming services
Roaming services	17,371 th.

# T-Mobile Netherlands Holding B.V.

International GSM Roaming Agreement	
Performance provided by TMCZ	Performance accepted by TMCZ
5,708 th.	Roaming services
Roaming services	7,952 th.

#### MTS Mobile TeleSystems OJSC

#### International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
7,200 th.	Roaming services
Roaming services	14,375 th.

#### Westel Mobile Tavközlesi Rt

#### International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
7,816 th.	Roaming services
Roaming services	23,445 th.

#### EuroTel Bratislava a.s.

International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
52,078 th.	Roaming services
Roaming services	20,804 th.

#### HT Hrvatske Telekomunikacije d.d.

International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
25,947 th.	Roaming services
Roaming services	5,831 th.

#### **T-Systems International GmbH**

Arrangement of the Interconnection of Intranets	
Performance provided by TMCZ	Performance accepted by TMCZ
3,956 th.	Intranet interconnection

#### T-Systems CDS GmbH

Agreement on the use of a licence under the Microsoft Enterprise Agreement (MS EA) of DTAG	
Performance provided by TMCZ	Performance accepted by TMCZ
20,128 th.	Usage rights to software

#### T-Systems Czech s.r.o.

Contract for the Establishment and Provision of the T-Mobile Direct Service

#### T-Systems PragoNet, a.s.

Framework Interconnection Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
1,490 th.	Location of the SDH multiplexor and lease	

#### International Telecommunication Services Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
105,589 th.	Interconnection services
Interconnection services	44,972 th.

#### Amendment No. 1 to the Data Transmission and Telecommunication Connection Agreement - lease of 4 optical circuits

Performance provided by TMCZ	Performance accepted by TMCZ
2,167 th.	Lease of 4 optical circuits

#### Data Transmission and Telecommunication Connection Agreement, entered into on 1 October 2000

Performance provided by TMCZ	Performance accepted by TMCZ
5,309 th.	Data transmission

Data Transmission and Telecommunication Connection Agreement, entered into on 3 January 2001

526 th Data transmission	
526 th. Data transmission	

#### Data Transmission and Telecommunication Connection Agreement, entered into on 20 December 2000

Performance provided by TMCZ	Performance accepted by TMCZ
6,352 th.	Data transmission

#### Ukrainian-German-Dutch-Danish Joint Venture Ukrainian Mobile Communications

International GSM Roaming Agreement

Performance provided by TMCZ	Performance accepted by TMCZ
3,611 th.	Roaming services
Roaming services	4,135 th.

#### Detecon International GmbH

Contract for Delivery of Consulting Services Quality Management for GPRS	
Performance provided by TMCZ	Performance accepted by TMCZ
1,135 th.	Consulting services

#### Mobimak A.D.

International GSM Roaming Agreement		
Performance provided by TMCZ	Performance accepted by TMCZ	
410 th.	Roaming services	
Roaming services	242 th.	

### CMobil B.V.

Loan Facility (Subordinated Long-Term Shareholder Loan) acquired in 2001.
Based on this Facility, TMCZ paid interest in the amount of CZK 73,282 th. in 2003.

# 4. Other Legal Transactions Undertaken in the Interest or at the Instigation of the Related Parties

In 2003, TMCZ changed its trade name. On 1 May 2003, the trade name of T-Mobile Czech Republic a.s. was entered into the Commercial Register in place of the trade name of RadioMobil a.s. The change of the trade name was made in compliance with TMCZ's interest to take maximum advantage of the benefits provided by the global brand of T-Mobile.

# 5. Other Measures Taken in the Interest or at the Instigation of the Related Parties

During the Accounting Period, TMCZ did not take any measures in the interest or at the instigation of the Related Parties.

# 6. Assessment of Reasonability of the Performance and Consideration Ensuing from the Executed Contracts,

### Other Legal Transactions and Other Measures Performed in the Interest or at the Instigation of the Related Parties

During the Accounting Period, performances and considerations were provided based on the contracts with the Related Parties under the standard business terms and conditions and for customary prices corresponding to the performances provided. These performances and considerations were in each and every case provided in compliance with the legal regulations concerning the protection of economic competition and in no case were of such nature which might result in the distortion of economic competition in accordance with the Protection of Economic Competition Act No. 143/2001 Coll.

During the Accounting Period, no detriment in connection with the relationships with the Related Parties was incurred by TMCZ.

# 7. Final Declaration

The data stated in this Report has been processed with due managerial care and is true and complete.

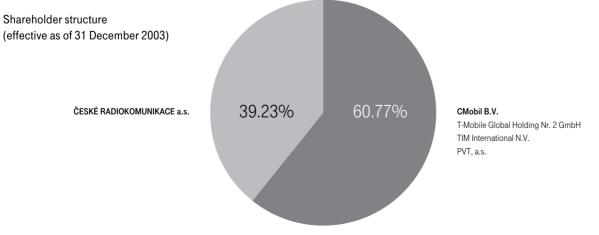
# Report on the Business Activities and Status of Assets

# Report on the Business Activities of T-Mobile Czech Republic a.s. and the Status of its Assets for the Accounting Period of 2003 (in accordance with the provision of Section 192 (2) of Act No. 513/1991 Coll., the Commercial Code, as amended)

T-Mobile Czech Republic a.s. was established in 1996 (then called RadioMobil a.s.) and in the same year, it began offering mobile communications services under the name Paegas. In 2002, the Company changed its brand and subsequently its name. T-Mobile operates a public mobile communications network on the GSM standard in the 900 and 1800 MHz bands and is a holder of a licence to operate a third-generation network, UMTS. As of 31 December 2003, more than 3.9 million customers were using its services.

T-Mobile offers comprehensive services designed for everybody – standard users who use the phone exclusively as a means of communication, customers for whom the phone is a source of information and entertainment, and business clients with above-standard requirements. T-Mobile flexibly responds to trends in technological developments in this area and keeps pace with the international standards of technology and quality. The leading position of the Company in the area of innovation is confirmed by a number of national and international awards.

T-Mobile is currently the only Czech operator to be a member of a global telecommunications group – T-Mobile International, one of the four strategic divisions of Deutsche Telekom AG. T-Mobile International was named Best Global Mobile Operator by the jury of the World Communications Awards 2003 last October. The owners of T-Mobile Czech Republic a.s. are the CMobil B.V. consortium (T-Mobile Global Holding Nr. 2 GmbH, TIM International N.V., PVT, a.s.) with a 60.77% share and České radiokomunikace, a.s. with a 39.23% stake.



The T-Mobile network today covers over 99% of the Czech population and 99.98% of E-class roads in the Czech Republic. T-Mobile customers can use their mobile phones in the networks of more than 300 operators from almost 130 countries around the world. Since its establishment, the Company has placed emphasis on the quality of its services. Thanks to massive investment in network rollout and innovative solutions, it defines the direction for mobile communications in the Czech Republic. Last year, T-Mobile made investments totalling nearly 2.7 billion Czech crowns.

T-Mobile products are available to customers at almost fifty Retail Shops in all the larger Czech cities and towns. The distribution network also includes more than two thousand dealers' points of sale. Last year saw the introduction of Partner Shops which offer a level of care comparable with T-Mobile Retail Shops. Nineteen Partner Shops have been opened so far, with a similar number to open this year. Only the latest mobile phone models and brand-name accessories are offered to customers via the T-Mobile sales network. All T-Mobile retail shops and retail partners provide customers with accurate information and expert advice.

Customer care is one of T-Mobile's priorities. Its customer-oriented philosophy is based on the principle that each customer is of equal importance to T-Mobile. Along with the sales network, which is a basis for good relations between the customer and the Company, the system of customer care guarantees the highest quality of the services provided. During its existence, T-Mobile has established three customer service centres – in Prague, Louny and, most recently, in 2002, in Hradec Králové. Employees working there always try to understand the needs of clients in the shortest time possible and respond to them to the clients' maximum satisfaction.

The comprehensive care, flexibility and individual approach are also reflected in the concept of Data Showrooms launched by T-Mobile as the first operator in Prague and Ostrava to do so. These showrooms allow business and other customers to get closely familiar with data services, try them out and consult experts on the most suitable business solutions.

The Partner Programme has confirmed the mutually beneficial nature of cooperation in the recent period. Within this programme, T-Mobile provides companies and business people with a number of its technologically advanced services as a platform for developing their own products and services. Approximately two dozen unique solutions which partners offer to end users show that this concept is a real success.

Other important information concerning the business activities of T-Mobile and the status of its assets is specified in the financial statements, on pages 34-61 of the Annual Report.

# Affirmation

The Board of Directors of T-Mobile Czech Republic a.s., having its registered office at Londýnská 730, company registration number 64949681, registered in the Commercial Register administered by the Municipal Court in Prague under section B, entry 3787, hereby affirms that any and all data stated in the 2003 Annual Report (including the data stated in the Report of the Board of Directors on the Business Activities of T-Mobile Czech Republic a.s. and the Status of Its Assets for the Accounting Period of 2003, Report on the Relationships to the Related Entities in Respect of the Year 2003, and the financial statements) are true and complete and that no material facts which might affect the precise and correct evaluation of the Company and securities issued by the Company have been omitted or distorted.

Prague, 16 February 2004

h Guitha

Michael Günther Chairman of the Board of Directors

Roland Mahler Member of the Board of Directors



# T-Mobile Czech Republic a.s.

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