annual report 2002

Eurotel

more out of life

vision, mission, and values

We believe that everyone should be able to get the most out of life, however humble or grand their ambitions. Eurotel is dedicated to providing services and support that enrich and empower people to get more out of life, wherever and whenever they choose.

In everything we do, we strive to include

Energy
We cultivate passion, commitment, and dynamism.

Inspiration
We motivate each other, our customers, and the environment in which we live and work.

Reliability
We say what we think, we do what we say, and we keep our word.

Approachability
We welcome new challenges and ideas, are socially active, and encourage solidarity and good citizenship.

Our company's vision, mission, and values constitute the basis of our business strategy. We aim to match everything we do – from technology to services – to our customers and their needs and desires. We embrace today's challenges as opportunities for further development.

MORE ENERGY, MORE INSPIRATION

summary

1 company profile

Eurotel Praha, spol. s r. o., is the Czech Republic's largest supplier of telecommunications services and one of the nation's top performing companies. At the end of 2002, the company provided services to almost four million registered customers, approximately 45% of the mobile telecommunications market. Eurotel's GSM (900/1800 MHz) and NMT (450 MHz) networks cover 99% of the Czech Republic's more than 10 million residents.

In addition to regular postpaid tariff services, Eurotel offers prepaid cards under the Go brand and a full range of multimedia services and content, including video, MMS, voice, WAP, and SMS. Eurotel’s high quality services include SuperSound technology, which ensures clean voice connections. At the end of 2002, Eurotel had 265 roaming partners in 121 countries.

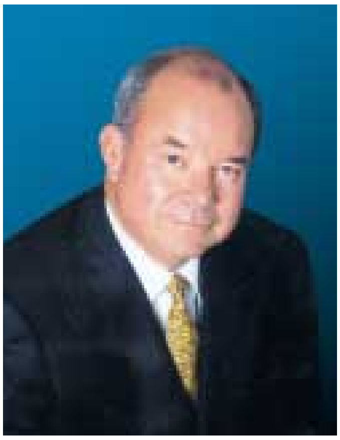
Eurotel Praha, spol. s r. o., is the only mobile operator in the Czech Republic to offer two cutting-edge technologies for mobile (wireless) data transfer. General Packet Radio Service (GPRS) and High-Speed Circuit-Switched Data (HSCSD) are available to both postpaid and prepaid customers.

Eurotel Praha, spol. s r. o., is financially one of the most successful companies in the Czech Republic. Its 2002 EBITDA reached over CZK 13.7 billion and its net income was almost CZK 6.3 billion.

Eurotel Praha, spol. s r. o., has been awarded the ISO 9001:2000 certificate based on international standards of quality. Independent external auditors of system quality have confirmed that Eurotel has built an operational system that guarantees quality, stability, and consistent service.

MORE COMMUNICATION, MORE OUT OF LIFE

2 a message from the ceo



In 2002, our employees rallied the energy and comportment required to tackle the multiple challenges of increased competition, new technologies, the downturn in the world economy, and natural disasters. They sharpened their focus on customers and service and produced solid results. Eurotel ended 2002 as not just the leading wireless operator, but also the leading telecommunications provider in the Czech Republic.

Still, challenges remain. Mobile penetration in the Czech Republic is one of the highest in Europe, leaving little room for expansion of our customer base. However, our strength as a company is reflected in the increase in important measures of success: Net service revenue increased by 7%, our gross margin rose by 6%, EBITDA rose by 3%, and our net income rose by 3%. In relation to total revenues, the gross margin was 69%, EBITDA 48%, and net income 22%. These gains were made through careful cost cutting and internal restructuring that makes more efficient use of our resources.

Our ability to maintain coverage and provide emergency services during the August floods points to the strength of our new structure, as does the introduction of new technologies and services like wireless LAN (WiFi), MMS services, and video streaming. By tailoring each launch to the expressed needs and desires of customers, Eurotel maintained its number one position in criteria measuring leadership, coverage, and reliability in the Czech market.

Which is important. In a tight market, we must bring customers more than useful, innovative, or entertaining technology and content. We must give them attention, must show them we value their business. Our success in 2002 stems partly from our ability to listen and respond to customers, not just through loyalty programs, but also through specialized tariffs and services that empower people to dream big and be respected for those dreams.

Our success also depends on dedicated employees. I am very proud of the people at Eurotel and their ability to get the job done. Their combined skills have created a company that exceeds the sum of its parts and provides a foundation for long-term success. I'm honored to lead one of the best talented teams in the Czech Republic, a team that will continue to take Eurotel forward.

Terrence Valeski

CEO and Managing Director

Eurotel Praha, spol. s r. o.

SELECTED FINANCIAL INFORMATION

STATEMENT OF INCOME (in millions of CZK)	**2002**	**2001**	**2000**
REVENUES			
Net service revenues	22 099	20 746	17 385
Interconnect revenues	4 770	5 817	5 356
Mobile equipment revenues	1 931	3 500	4 456
TOTAL	**28 800**	**30 063**	**27 197**
EBITDA	**13 712**	**13 250**	**10 168**
Depreciation and amortization	4 596	4 194	3 305
EBIT	**9 116**	**9 056**	**6 863**
Finance costs	57	281	233
Income tax	2 788	2 707	1 829
NET INCOME	**6 271**	**6 068**	**4 801**
BALANCE SHEET			
Total assets	**42 400**	**37 236**	**31 934**
SELECTED RATIOS			
EBITDA/revenues	48%	44%	37%
Net Income/revenues	22%	20%	18%
SELECTED OPERATIONAL INDICATORS			
Ending number of customers (in thousands)	3 891	3 238	2 171
Total minutes of use (in millions)	4 184	3 697	2 928
Total SMS (in millions)	2 024	1 413	393
Ending number of employees	2 447	2 420	2 121

3 summary of 2002 financial results

Growth in our customer base, new products and services, and efficient deployment of resources formed the basis for our succesful results in 2002. Both net service revenues and net income increased in spite of lower interconnect revenues, lower mobile equipment revenues, and activation revenues.

Total revenues

Total revenues comprise net service revenues, interconnect revenues, mobile equipment revenues, activation revenues and other revenues.

- Net service revenues increased by CZK 1,353 billion, or 7%, for the twelve months ending December 31, 2002. The increase is primarily the result of an increase in our customer base, resulting in a 13% increase in minutes of use and a 43% increase in SMS traffic.
- Interconnect revenues from other operators declined by CZK 1,047 billion, or 18%, for the twelve months ending December 31, 2002. The decrease was a result of a regulatory decision to drop the price of mobile termination tariffs from CZK 6.50 to CZK 3.66 per minute.
- Mobile equipment revenues activation revenues and other revenues, declined by CZK 1,569 billion, or 45%. The decline in handset sales is the result of the Czech Republic's already high level of penetration of approximately 84% at the end of 2002.
- As result of the above, total revenues declined by CZK 1,263 billion, or 4%.

EBITDA

Earnings before interest, taxes, depreciation, and amortization increased by CZK 462 million, or 3%, for the twelve months ending December 31, 2002. The increase reflects lower subscriber acquisition costs, lower interconnect fees, and contributions from increasing service revenues. The EBITDA margin increased from 44% in 2001 to 48% in 2002.

Depreciation and amortization

Depreciation and amortization increased by CZK 402 million, or 10%, for the twelve months ending December 31, 2002. This increase reflects additional depreciation expense incurred relating to the property, plant, and equipment acquired and constructed as we continued to build out GSM network.

Finance costs

Finance costs decreased by CZK 224 million, or 80%, for the twelve months ending December 31, 2002. The decline in finance costs is the result of lower interest costs due to lower debt levels. In addition, the stability of the Czech crown against the euro resulted in lower foreign exchange losses and hedging costs.

Income Taxes

Income taxes increased by CZK 81 million, or 3%, for the twelve months ending December 31, 2002. The increase reflects higher profitability in 2002.

Net Income

Net Income increased by CZK 203 million, or 3%, for the twelve months ending December 31, 2002. The growth in service revenues and improved operational efficiency contributed to the increase in Net Income.

Eurotel's strength depends on clear vision and the application of rigorous standards. Investing in service, technology, and efficiency helps lay the cornerstones of future success in the increasingly competitive market.

R Bowker.

Robert Bowker
Chief Financial Officer
Eurotel Praha, spol. s r. o.

MORE COMMITMENT, MORE DYNAMISM

4 major events of 2002

In 2002, mobile penetration in the Czech Republic exceeded 84%, placing it among the highest in Europe. And Eurotel led the way, becoming the Czech Republic's largest supplier of telecommunications services

The largest user base

At the end of 2002, Eurotel services were used by 3 891 473 registered customers, which included approximately 58% of small businesses, 67% of medium-size companies, and 86% of large companies in the Czech Republic.

State-of-the-art technology and services

Eurotel became the first company in the Czech Republic to offer customers MMS services (Eurotel Multimedia Messaging Service), video streaming to mobiles (Eurotel Video Servis), and high-speed wireless Internet connections (Eurotel WiFi Jet).

New phone numbers

Fixed and mobile phone lines in the Czech Republic were renumbered based on recommendations from the European Union and a decision by the Czech Telecommunications Office. During the changeover, Eurotel provided emergency telephony services.

Eurotel and the floods

During the 2002 floods, Eurotel provided communication support and mobile phones to emergency workers; it also helped residents in flood-ravaged regions through both direct aid and contributions to philanthropic organizations. Funds distributed to residents were drawn from Eurotel's own resources, charity events, and employee collections. In total, Eurotel donated almost CZK 8.4 million.

Eurotel Foundation

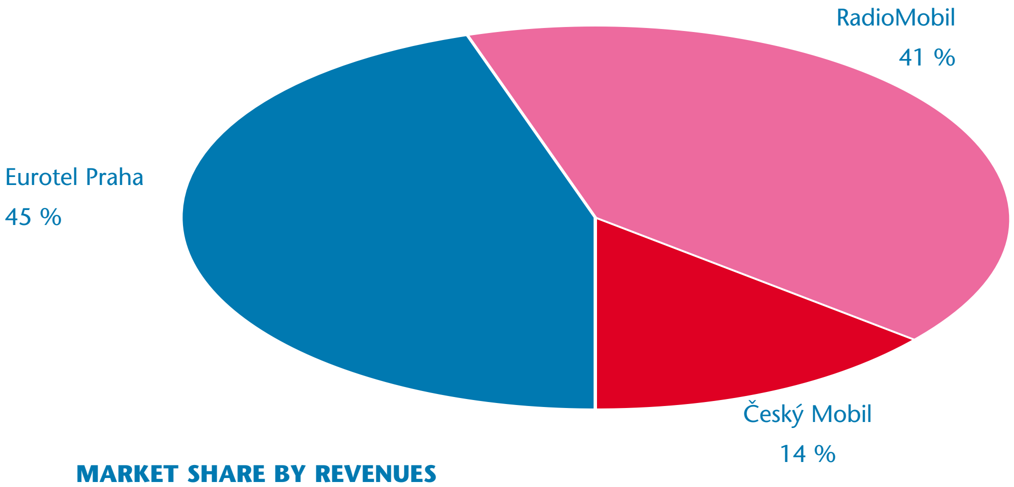
The company set up the Eurotel Foundation as an independent non-profit organization that supports charity projects for children and the young. In 2002, the foundation distributed more than CZK 12 million through its various programs.

Association for Mobile Payment

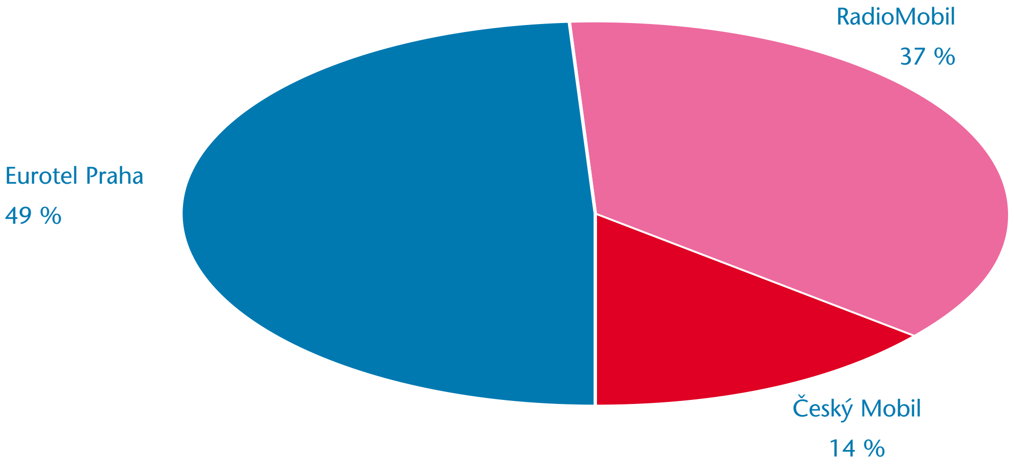
Eurotel initiated establishment of the Association for Mobile Payment (AMP), an organization supporting use of mobiles for financial transactions and payment of goods and services. Members of AMP include telecommunications companies and major banking institutions in the Czech Republic.

We value our achievements as they confirm our leading position among mobile and fixed-line telecommunication providers in the Czech Republic. Moreover, they reflect our dedication to customer service, as we are keenly aware that our success depends on satisfied customers.

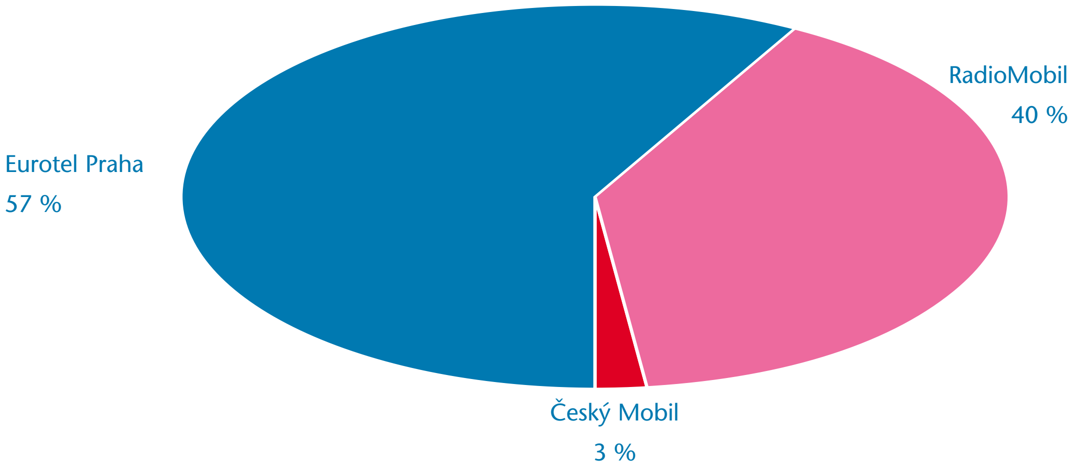
MARKET SHARE BY NUMBER OF CUSTOMERS



MARKET SHARE BY REVENUES



MARKET SHARE BY EBITDA



According to Eurotel, Deutsche Telekom and ClearWave press releases

5 *the market in czech republic*

In the last two years, the Czech Republic has become one of the most competitive mobile and telecommunications markets in Europe. High penetration, the breadth of services, and the availability of advanced technologies is more developed than in most other Central and East European countries, like Hungary, Poland, and Slovakia. In this tight market, Eurotel served almost half of all telephony customers and approximately two-thirds of business customers.

High penetration
At the end of 2002, SIM card penetration in the Czech Republic exceeded 84%. Penetration was 68% in Hungary, 53% in Slovakia, and 35% in Poland.

Share of GDP
Operators of mobile telecommunication services contribute more to the gross domestic product of the Czech Republic than operators in other European countries like Germany or Austria.

State-of-the-art services
Customers have access to state-of-the-art technology and services, including multimedia messaging, video on their mobiles, and high-speed wireless Internet connections (WiFi).

At the end of 2002, there were more than 8.5 million mobile phone customers in the Czech Republic. In this highly competitive environment, Eurotel managed to strengthen its leading position in overall number of customers, share of sales, and income. In the future, as the number of new customers decreases due to market penetration, we plan to keep our leading position by continuing to offer state-of-the-art products and services and dedicated customer service.

MORE FLEXIBILITY, MORE SATISFACTION

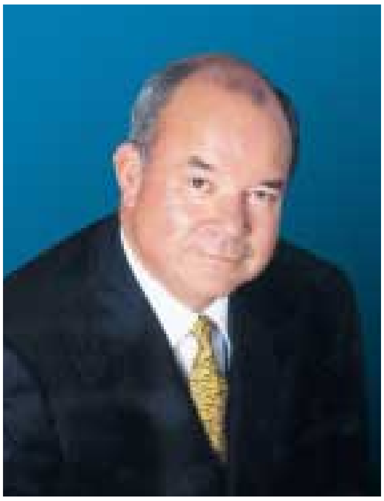
6 company management and structure

Structure

Eurotel Praha, spol. s r. o. is a Czech limited liability company. The Company is a joint venture between Český Telecom, a. s. (51%) and Atlantic West B.V. (49%). Atlantic West B.V. is a joint venture of Verizon Communications (NYSE: VZ) and AT&T Wireless Services (NYSE: AWE).

Pursuant to the Memorandum of Association, the company is managed by the Managing Director. The Managing Director appoints and recalls company managers. The Managing Director is appointed by the General Meeting, the highest body of the company. The General Meeting includes representatives from both partners, each having one vote. The General Meeting is convened a minimum of four times per year. In addition to the appointment of the Managing Director, the General Meeting's authority includes approval of the budget, distribution of profit, expansion of the scope of the business, increase of share capital, assumption of borrowings, acquisitions, internal audits, and review of company performance.

Management



Terrence Valeski
CEO and Managing Director
(b. 1946) Eurotel's CEO and Managing Director since 2000. Graduated from the University of Arizona. Worked in executive positions in telecommunications companies including BT Wireless (Great Britain), Blu (Italy), Telfort (the Netherlands), and Pacific Bell (United States of America).

Robert Bowker
Chief Financial Officer
(b. 1967) Became Chief Financial Officer in 2000. Graduated from Rhodes University and is a qualified chartered accountant. Worked for Johnson&Johnson and Summerpride Foods in South Africa, and for PricewaterhouseCoopers and EuroTel Bratislava in Slovakia.

Zuzana Řezníčková

Chief Sales Officer

(b. 1960) Joined Eurotel in 1998, became Chief Sales Officer in 2001. Graduated from the University of Chemical Technology in Pardubice. Worked for the national food and agriculture quality assurance program, the Research Institute for Synthetic Resins and Paints, EMCO, and Master Foods.

Paul Long

Chief Operations Officer

(b. 1958) Joined Eurotel as Executive Director for Strategic Development, became Chief Operations Officer in 2001. Graduated from the University of Newcastle upon Tyne. Worked for BT Cellnet (Great Britain), Blu (Italy), Telfort (the Netherlands), and British Telecom (Great Britain).

Garrison Macri

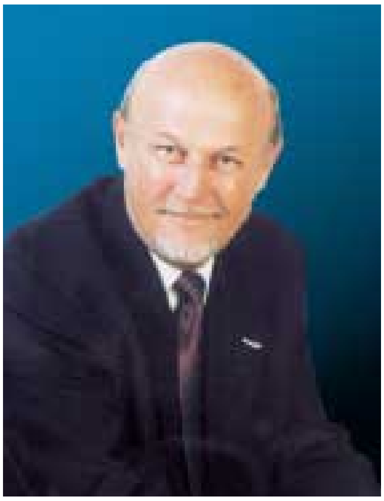
Chief Commercial Officer

(b. 1963) Eurotel's Chief Commercial Officer since 2002. Graduated from Syracuse University. Held leadership roles at Saatchi&Saatchi, Young&Rubicam, and at Pacific Bell, Southwestern Bell, and Mobex Communications (United States of America).

Niels Christian Mikkelsen

Chief Technical Officer

(b. 1946) Joined Eurotel in 1997 as Director of Construction and Operations; became Chief Technical Officer in 2001. Worked for Denmark's Radio, Statens Telejeneste, and Tele Denmark International (Denmark), participated in development of mobile services in Hungary and Lithuania.



Josef Fidler

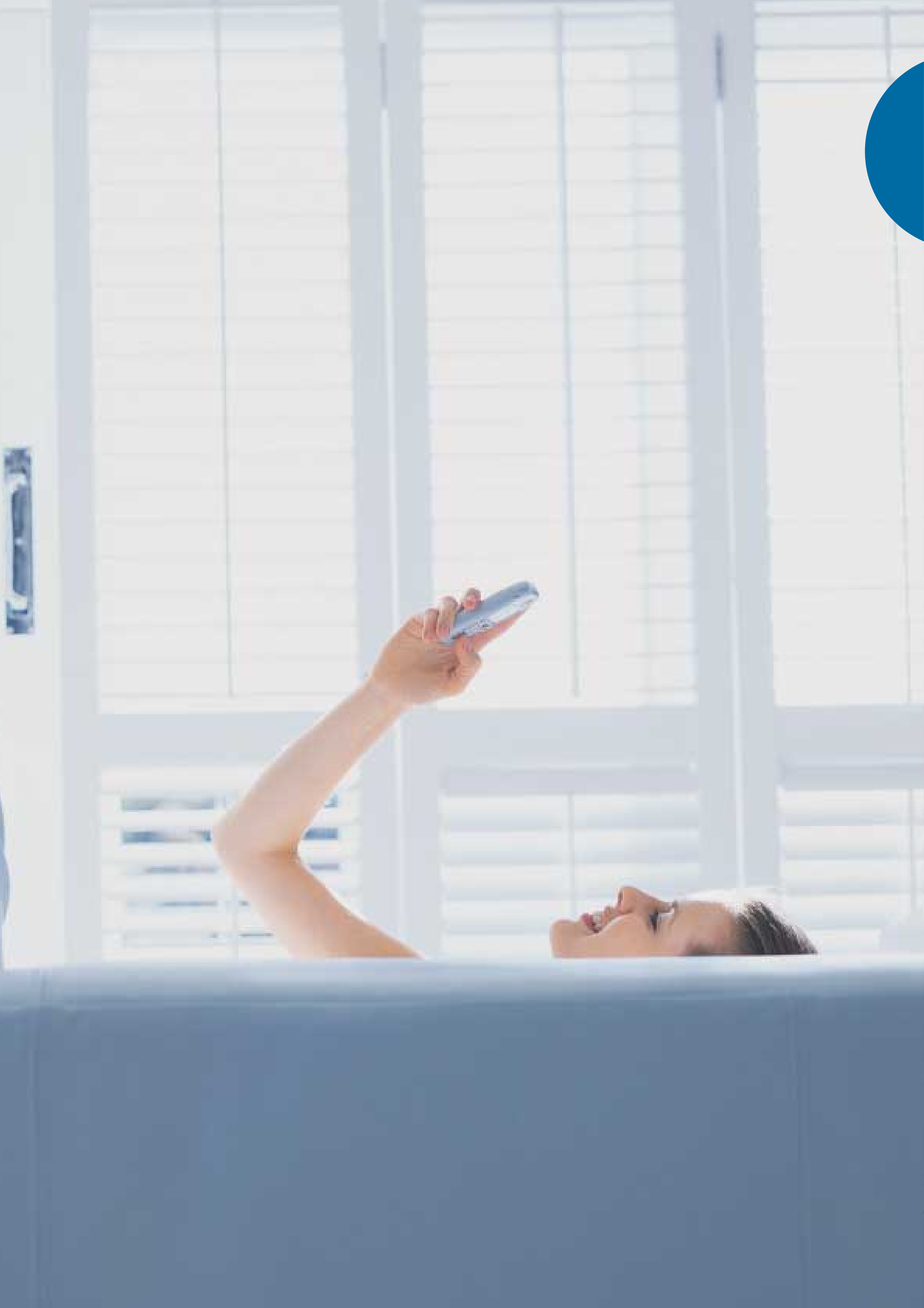
Executive Director of Human Resources

(b. 1958) Joined Eurotel in 1998 as Director of Human Resources, became Executive Director in 2001. Graduated from the Faculty of Law of Charles University in Prague. After working as a lawyer, he assumed management and leadership positions at McDonald Česká republika and Unilever Česká republika.

Ľuboš Bôrik

General Counsel

(b. 1968) Joined Eurotel in 1998 as Director of the Legal Division; became its General Counsel in 2001. Graduated from the Faculty of Law of Charles University in Prague and Vrije Universiteit in Brussels (Belgium). Worked as a lawyer and cooperated with the international law office Dewey Ballantine (United States of America).



7 superior services

In 2002, Eurotel introduced many new services aimed at both individuals and businesses. The wide offering incorporates the state-of-the-art technologies GPRS and HSCSD, and reinforced our leading position in data, Internet, and multimedia services.

Leading the way

- We were the first operator to introduce Multimedia Messaging Services (Eurotel MMS services) for the transmission of photographs, pictures, animation, and music recordings between mobile phones.
- We were the first operator to introduce mobile video services (Eurotel Video Servis) for the transmission of video streams from TV news and entertainment companies.
- Customers gained access to numerous new entertainment services, including JAVA Games, interactive games like xGen Go, and mobile content from movies like The Lord of the Rings.
- Customers can place two Eurotel numbers on a single SIM card with the Eurotel Kombi card.

Business customers

- Mobile Telemetry enables a variety of monitoring and communication between mobiles and assembly lines, computers, houses, and motor vehicles.
- Eurotel Mobilní Kancelář PROFI (Mobile Office) offers safe mobile access to email and internal corporate databases and intranets.
- Eurotel WiFi Jet allows high-speed wireless Internet connections through strategically located access points ("hot spots"), the number of which are growing quickly.

Important trends

- In spite of the low number of MMS phones, the number of MMS messages sent last year was almost one million
- Internet and WAP connections using GPRS (General Packet Radio Service) grew by approximately 1,000% in 2002
- The number of users of Eurotel GSM Banking more than doubled, while its utilization in 2002 increased by more than 150%

We recognize that mobile phones have fundamentally altered how people communicate and live their lives. The development and promotion of new products and services provides a motive force that drives the company forever forward, helping us stay a step ahead of the future needs of our customers. It reflects our fundamental mission to help people get more out of life.

MORE IMAGINATION, MORE INNOVATION

8 state-of-the-art technology

Reliable high-performance networks allow customers to use state-of-the-art technology for mobile voice, data, and Internet services. Eurotel was not just one of the first in the Czech Republic to introduce new technologies, but also one of the first companies internationally.

Eurotel HSCSD Fast

HSCSD (High Speed Circuit Switched Data) increased the speed of wireless data transmission by 4.5 times, up to 43.2 kB per second. It's ideal for transmitting large volumes of information (e.g. databases) over a short period of time and at reasonable cost. HSCSD achieves rates previously only available with fixed-line modems and ISDN connections.

Eurotel GPRS Instant

GPRS (General Packet Radio Service) allows permanent connections to the Internet and equitable billing based on the volume of data transmitted. Eurotel is the only provider of mobile telecommunication services to offer customers a choice between HSCSD (Eurotel HSCSD Fast) and GPRS (Eurotel GPRS Instant).

Enhanced Full Rate

EFR (Enhanced Full Rate, SuperSound brand) transmits voice with the purest sound possible and is available to both postpaid and prepaid customers.

Frequency Hopping

Frequency Hopping not only provides Eurotel mobile customers with high quality transmission in the network, but also makes better use of allocated frequencies among dense collections of base stations.

Eurotel WiFi Jet

WiFi (WiFi, Wireless Fidelity) provides easy and fast wireless Internet connections through access points ("hot spots") in key locations like international hotels, congress centers, business centers, and airports. The high-speed wireless connection is in the 2.4GHz band and uses the IEEE 802.11b standard.

Eurotel made large financial investments to guarantee its customers the highest quality of service, the widest coverage, and the best in added value. This includes the strategic decision to obtain a license for developing a third-generation network using UMTS (Universal Mobile Telecommunications System). In compliance with the license conditions, we plan to be operational no later than the start of 2005.

9 superior quality

Customers demand high-performance service from the leading mobile operator in the Czech Republic, and Eurotel delivers. Everything we do complies with the requirements of exceptional service; audits carried out by independent institutions confirm our commitment to quality.

The ISO 9001:2000 international certificate of quality

In 2001, Eurotel became one of the first companies in the Czech Republic to be awarded an International Certificate of Quality under the ISO 9001:2000 standard. We are the only mobile services provider to receive this certificate for the full scope of our activities in the Czech Republic. The certificate confirms that we have built a high-performance system of operations and that we provide high-quality, stable, and reliable service in all fields. Specifically, the ISO 9001:2000 provides a baseline for quality assurance in strategic management of product development, rigorous standards for suppliers, employee training and qualification programs, fault-prevention programs, and procedures for fast and satisfactory response to customer comments and recommendations.

The ISO 14001 environmental protection certificate

In 2002, the Czech Republic's Ministry of the Environment awarded Eurotel the ISO 14001 certificate to confirm the company's commitment to environmental protection. Eurotel is the first and only telecommunications operator in the Czech Republic to have obtained this stamp of quality and responsibility. In addition to building public observation platforms on transmission towers in scenic areas, we follow strict rules governing the location and construction of base stations and for storing base station emergency batteries. We also actively collect used batteries in all of our brand stores.

Czech Republic's Emergency Management System

Eurotel provides mobile telecommunication services to almost 20,000 members of the Czech Republic's Emergency Management System. This includes all rescue services, Czech Police, and key public institutions. Their patronage helps affirm that we offer a top-quality network with multiple safeguards, high safety standards, and guarantees in case of crisis.

Eurotel's network was well-tested when providing service to people during the 1997 floods in Moravia, to the Czech Army's 6th field hospital in Kosovo in 1999, to the International Monetary Fund and World Bank Annual Meeting in 2000, and flood-ravaged regions, including Prague, during the 2002 floods.

Rigorous standards and public service play essential roles at Eurotel. By opening our procedures, technology, and networks to the scrutiny of quality-assessing agencies, we help establish the preeminence of what we offer to partners and customers.

10 the company and its employees

Eurotel employs only the best in their fields. Our people work in a successful, strong, and forward-looking company that provides them with exceptional conditions for personal and professional development. We appreciate the values they create for our company and are pleased to reward their attitude, performance, and results.

We offer

- Challenging work in one of the most successful companies in the Czech Republic
- Competitive salaries based on qualification and work performance
- Above-standard benefits that includes personalized options
- Extensive development and training opportunities for all employees
- An environment that encourages achievement of personal and professional goals
- A friendly and highly professional team

We require

- Results, high performance, responsibility
- Responsive approach to new ideas and professional challenges
- Energetic and inspiring attitudes
- A desire to learn new skills and new competencies
- Teamwork and loyalty
- Promotion of company goals, corporate culture, and company values

We understand the success of the company rests with its employees. We therefore create a challenging work environment that includes substantial rewards for exceptional performance.

HIGHER SATISFACTION, HIGHER MOTIVATION

11 eurotel foundation

Founded in May 2002, the Eurotel Foundation is designed to provide long-term support to projects working for the psychological, physical, and social development of children and the young. The independent, non-profit organization receives the majority of its funds as donations from Eurotel. It cooperates with civil associations, foundations, and general-welfare societies in the Czech Republic.

Eurotel Foundation's mission

- Equalize health and social opportunities for disadvantaged children and teenagers
- Provide and support constructive out-of-school activities for children and teenagers
- Improve the communication and social skills of disabled and at-risk children and teenagers and help prevent marginalization.
- Encourage the development of exceptional artistic, educational, and athletic talent among mentally and physically disabled children

The Eurotel Foundation is a transparent, independent, non-profit organization that maintains open communication with the public via its website. The Foundation is run by the board of directors, which works in cooperation with national boards of experts, regional boards, and the public to select projects for funding.

In 2002, the Eurotel Foundation allocated more than CZK 12 million to social projects through its:

- Regional Grants
- Eurotel Foundation Prize
- Flood Aid
- Line Home program

The Eurotel Foundation was started by Eurotel to expand its role in the community. Through a combination of direct support and raising awareness by involving others in the process of distributing support, the Eurotel Foundation hopes to play a significant part in the long-term development of a civil society in the Czech Republic.

MORE JOY, MORE CHILDREN SMILING

nadace eurotel
o krok blíže k našim dětem

12 eurotel and sports sponsorship

Many of the values found in sports match those found at Eurotel – dynamism, competition, teamwork, fair play. Eurotel is a proud partner of Czech sports and is pleased our support contributes to the international image, fame, and achievements of the Czech Republic.

Eurotel's partners include

- **Czech national ice hockey team**
- **Ice Hockey Junior Championship 2002, Pardubice**
- **AC Sparta Praha football team**
- **Czech Athletics Association**
- **Tomáš Dvořák, Czech decathlete**
- **Dominik Hašek & DOMINATOR**
- **Eurotel World Chess Trophy**
- **Eurotel PGAC Golf Tour**
- **Nike Premier Cup**
- **Eurotel Cheerleaders pro dance team**

We provide support to not just our most successful athletes and teams, Olympic champions, and World Champions, but also to many young, talented prodigies and weekend athletes. We believe sports go hand-in-hand with modern life and exert an important influence on the opinions, values, and behavior of all involved.

BETTER TALENT, BETTER DREAMS

13 eurotel and the arts

In 2002, Eurotel played an active role in bringing exceptional performers and exhibitions to cities and regions around the Czech Republic. We are pleased that we may help Czech and foreign artists, music groups, and singers find audiences around the country.

Eurotel's partners in the arts

- **José Cura, tenor**
- **Magdalena Kožená, mezzo-soprano**
- **Festivals Pražské jaro (Prague Spring), Moravský podzim (Moravian Autumn), and Struny podzimu (Strings of Autumn)**
- **Operní hvězdy zítřka (Opera Stars of the Future) music contest**
- **Festival Tanec Praha (Prague Dance Festival)**
- **International Film Festival at Karlovy Vary**
- **International Festival of Adventure and Adrenalin Films (Go FAAF Go)**
- **STOMP dance performance ensemble**
- **Bořek Šípek exhibition**
- **Flight and Exile in Art exhibition (UHNCR)**

Culture means communication. Whenever possible, we encourage dialog and the productive exchange of opinions and values between nations. By supporting cultural projects in a variety of areas, we hope to spread joy, entertainment, and understanding.

14 eurotel history

1991
Founding of Eurotel, spol. s r. o. • Commencement of operation NMT Eurotel's network (Eurotel Classic service, later branded Eurotel T!P)

1992
NMT signal expands to cover 33% of the country and 65% of the population, including major cities

1993
NMT signal expands to cover 61% of the country and 83% of the population • Mobile phones used by about 11,000 customers

1994
Mobile phones used by more than 27,000 customers

1995
NMT signal expands to cover 81% of the country and 93% of the population • Subscriber Identity Security – subscriber protection system

1996
Commencement of operation of the GSM 900 system (Eurotel GSM service) • SMS service

1997
Eurotel mobile phones used by more than 350,000 • Prepaid Go service

1998
The GSM 900 network covers 96% of population • Eurotel mobile phones used by more than 580,000

1999
Eurotel customer base expands to more than 1,000,000 • SuperSound technology • WAP 14.4 kB/s • Mobile Internet

2000
Eurotel customer base expands to more than 2,000,000 • Mobile phones in the GSM 1800 band • Launch of HSCSD and GPRS technologies

2001
Eurotel customer base expands to more than 3,000,000 • UMTS license • ISO 9001:2000 International Certificate of Quality

15 our focus

Eurotel aims to bring exceptional results to customers, owners, and employees. Our company intends to take full advantage of future opportunities to optimize services and expand possibilities.

Competition

- We intend to strengthen our leading market position in terms of customers, coverage, network quality, innovative technology, new products and services, loyalty, and satisfaction.
- Competition will increase among prices and tariffs, quality and scope of services, ability to satisfy customer demands, needs, and market requirements.
- We intend to satisfy customers at all levels by maintaining their confidence through flexible offerings, delivering the highest quality of services, ensuring a good ratio of price to product, providing high added value, and demostrating a commitment individual attention

Data and multimedia services

- Data and multimedia services will continue to play a key role in future development; we intend to expand or improve services like mobile email, electronic payment, mobile access to databases and the Internet, and content services that deliver information and entertainment to mobiles
- GPRS and HSCSD will be leveraged to full advantage to increase speed, reliability, capacity, and easy access to Internet and multimedia services
- As the natural successor to SMS, MMS will play a key role in developing revenue as mobiles increasingly come equipped with cameras and picture messaging

Third-generation and the future

- We continue preparations for the launch of UMTS operation; the third-generation network will give rise to a variety of products and services (like video calling) that will be the new face of mobile communications
- Just like other mobile service providers, we will also establish ourselves in areas of business that bring higher added value and comfort to our customers, such as banking, media, and entertainment.
- We will carry on with the strategy that has led to strong financial performance and proven quality and which has helped make us the leading telecommunications company in the Czech Republic.

16 report of independent auditors and financial statements

Summary

Audited financial statements prepared in accordance with Czech Accounting Principles

Report of Independent Auditors

Report of Independent Auditors to the shareholders of Eurotel Praha, spol. s r.o.

We have audited the accompanying balance sheet of Eurotel Praha, spol. s r.o. as at 31 December 2002, the related statement of income and notes, including the statement of cash flows for the year then ended presented in the annual report of the Company in chapter 16 ("the financial statements"). The financial statements and underlying accounting records are the responsibility of the Company's 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 Eurotel Praha, spol. s r.o. as at 31 December 2002, and the results of its operations 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 in chapters 1 – 15, which does not form part of the financial statements for the year ended 31 December 2002, 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.

7 February 2003

PricewaterhouseCoopers Audit, s.r.o.
represented by

Malcolm Best
Partner

Jitka Žaloudková
Auditor, Licence No. 1802

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic, tel.: +420 251 151 111, fax: +420 251 156 111

PricewaterhouseCoopers Audit, s.r.o., registered seat Kateřinská 40/466, 120 00 Prague 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 Republic under Licence No 021.

Balance sheet at 31 December *unabridged version*

		2002			2001	2000
	(in CZK thousands)	Gross	Provision	Net	Net	Net
	TOTAL ASSETS	61,000,208	(19,505,441)	41,494,767	36,135,798	31,047,002
A.	Receivables for subscribed capital	–	–	–	–	–
B.	Long-lived assets	46,768,631	(17,463,134)	29,305,497	29,140,992	23,512,426
B.I.	Intangible assets	6,972,349	(2,381,539)	4,590,810	4,386,784	752,206
B.I. 1.	Establishment costs	–	–	–	–	–
2.	Research & development	4,457	(223)	4,234	–	–
3.	Software	1,660,976	(1,237,513)	423,463	399,517	419,901
4.	Royalties	1,368,644	(1,113,803)	254,841	275,527	298,507
5.	Other intangible assets	–	–	–	–	–
6.	Intangible assets in the course of construction	3,938,272	(30,000)	3,908,272	3,711,740	33,798
7.	Advances paid for intangible assets	–	–	–	–	–
B.II.	Property and equipment	39,795,172	(15,081,595)	24,713,577	24,753,098	22,760,220
B.II. 1.	Land	23,946		23,946	20,001	19,770
2.	Buildings	6,217,667	(997,176)	5,220,491	4,491,392	3,673,879
3.	Equipment	32,024,357	(14,084,419)	17,939,938	18,591,876	16,208,587
4.	Cultivated areas	–	–	–	–	–
5.	Livestock	–	–	–	–	–
6.	Other property and equipment	243	–	243	40	40
7.	Construction in progress	1,522,612	–	1,522,612	1,615,999	2,756,816
8.	Advances paid for property and equipment	6,347	–	6,347	33,790	101,128
9.	Adjustment to acquired property and equipment	–	–	–	–	–
B.III.	Long-term investments	1,110	–	1,110	1,110	–
B.III.1.	Investments in subsidiaries	1,110	–	1,110	1,110	–
2.	Investments in associated entities	–	–	–	–	–
3.	Other long-term investments in securities	–	–	–	–	–
4.	Intragroup loans	–	–	–	–	–
5.	Other financial investments	–	–	–	–	–
6.	Long-term investments in progress	–	–	–	–	–
7.	Advances paid for long-term investments	–	–	–	–	–

(in CZK thousands)		2002 Gross	2002 Provision	2002 Net	2001 Net	2000 Net
C.	**Current assets**	13,048,420	(2,042,307)	11,006,113	5,952,664	6,289,549
C.I.	**Inventories**	1,310,166	(256,882)	1,053,284	1,642,703	1,286,172
C.I. 1.	Raw materials	463,248	(72,882)	390,366	488,508	437,049
2.	Work in progress and semi-finished products	–	–	–	6,569	–
3.	Finished goods	4,599		4,599	–	–
4.	Livestock	–	–	–	–	–
5.	Goods for resale	842,319	(184,000)	658,319	1,147,626	849,123
6.	Prepayments for inventory	–	–	–	–	–
C.II.	**Long-term receivables**	121,685	–	121,685	57,037	4,255
C.II. 1.	Long-term trade receivables	109,866		109,866	57,037	4,255
2.	Long-term receivables from shareholders/owners	–	–	–	–	–
3.	Long-term receivables from subsidiaries	–	–	–	–	–
4.	Long-term receivables from associated entities	–	–	–	–	–
5.	Other long-term receivables	11,819		11,819	–	–
C.III.	**Short-term receivables**	5,237,834	(1,785,425)	3,452,409	4,022,334	2,845,558
C.III.1.	Trade receivables	4,669,539	(1,785,425)	2,884,114	3,598,452	2,647,999
2.	Receivables from shareholders/owners	7,435	–	7,435	1,516	3,717
3.	Receivables for social security	–	–	–	–	–
4.	Taxes and state subsidies receivable	487,961	–	487,961	421,401	165,950
5.	Receivables from subsidiaries	–	–	–	–	–
6.	Receivables from associated entities	–	–	–	–	–
7.	Other receivables	72,899	–	72,899	965	27,892
C.IV.	**Financial assets**	6,378,735	–	6,378,735	230,590	2,153,564
C.IV.1.	Cash on hand	8,315	–	8,315	11,024	19,805
2.	Cash at bank	466,745	–	466,745	57,022	108,958
3.	Short-term investments	5,903,675	–	5,903,675	162,544	2,024,801
4.	Short-term investments in progress	–	–	–	–	–
D.	**Other assets**	1,183,157	–	1,183,157	1,042,142	1,245,027
D.I.	**Accruals and deferrals**	329,112	–	329,112	158,862	276,011
D.I. 1.	Prepaid expenses	225,421	–	225,421	155,211	237,827
2.	Accrued revenue	103,691	–	103,691	3,651	38,184
D.II.	**Estimated receivables**	854,045	–	854,045	883,280	969,016

Balance sheet at 31 December (continued)

	(in CZK thousands)	2002	2001	2000
	TOTAL LIABILITIES AND EQUITY	41,494,767	36,135,798	31,047,002
A.	Equity	29,432,675	23,069,925	16,770,391
A.I.	Registered capital	1,211,000	1,211,000	1,211,000
A.I. 1.	Registered capital	1,211,000	1,211,000	1,211,000
2.	Own shares held	–	–	–
3.	Changes in registered capital not yet registered	–	–	–
A.II.	Capital contributions	464,545	463,341	463,341
A.II. 1.	Share premium	–	–	–
2.	Other capital contributions	463,341	463,341	463,341
3.	Assets and liabilities revaluation	1,204	–	–
4.	Merger revaluation reserve	–	–	–
A.III.	Reserve funds	121,100	121,100	121,100
A.III.1.	Statutory reserve fund	121,100	121,100	121,100
2.	Non-distributable reserves	–	–	–
3.	Statutory and other reserves	–	–	–
A.IV.	Retained earnings	21,274,484	14,974,950	10,300,241
A.IV.1.	Retained profits	21,274,484	14,974,950	10,300,241
2.	Accumulated losses	–	–	–
A.V.	Net income for the current period	6,361,546	6,299,534	4,674,709
B.	Liabilities	8,927,225	10,010,881	10,273,482
B.I.	Provisions	4,047,524	2,992,960	2,583,512
B.I. 1.	Tax-deductible provisions	–	–	–
2.	Income tax provision	609,712	–	–
3.	Non-deductible provisions	715,350	374,981	406,286
4.	Deferred tax liability	2,722,462	2,617,979	2,177,226
B.II.	Long-term liabilities	2,028,000	2,281,500	–
B.II. 1.	Long-term liabilities to subsidiaries	–	–	–
2.	Long-term liabilities to associated entities	–	–	–
3.	Long-term advances received	–	–	–
4.	Debentures and bonds issued	–	–	–
5.	Long-term bills of exchange payable	–	–	–
6.	Other long-term liabilities	2,028,000	2,281,500	–

(in CZK thousands)		2002	2001	2000
B.III.	Short-term liabilities	2,851,701	4,188,036	2,450,879
B.III.1.	Trade payables	2,629,296	3,089,504	2,117,367
2.	Liabilities to shareholders/owners	170,671	152,415	182,261
3.	Payroll payable and other liabilities to employees	2	–	39
4.	Liabilities for social insurance	34,314	37,691	32,730
5.	Taxes and state subsidies payables	13,196	904,890	105,422
6.	Liabilities to subsidiaries	–	–	–
7.	Liabilities to associated entities	–	–	–
8.	Other payables	4,222	3,536	13,060
B.IV.	Bank loans and overdrafts	–	548,385	5,239,091
B.IV.1.	Long-term bank loans	–	–	5,239,091
2.	Short-term bank loans and overdrafts	–	548,385	–
3.	Other short-term borrowings	–	–	–
C.	Other liabilities	3,134,867	3,054,992	4,003,129
C.I.	Accruals and deferrals	1,419,094	1,178,174	1,393,973
C.I. 1.	Accruals	245,957	152,006	259,064
2.	Deferred revenue	1,173,137	1,026,168	1,134,909
C.II.	Estimated payables	1,715,773	1,876,818	2,609,156

Statement of income for the year ended 31 December *unabridged version*

	(in CZK thousands)	2002	2001	2000
I.	Sales of goods	1,024,650	1,023,675	1,670,361
A.	Cost of goods sold	2,608,898	3,882,903	5,398,665
+	Gross profit	(1,584,248)	(2,859,228)	(3,728,304)
II.	Sales of production	28,139,639	29,279,117	25,847,714
II. 1.	Sales of own products and services	27,725,926	28,933,133	25,516 415
2.	Change in inventory of finished goods and work in progress	(1,970)	6,569	–
3.	Own work capitalised	415,683	339,415	331,299
B.	Cost of sales	10,316,959	11,518,619	10,025,289
B. 1.	Raw materials and consumables	712,859	603,659	485,586
B. 2.	Services	9,604,100	10,914,960	9,539,703
+	Added value	16,238,432	14,901,270	12,094,121
C.	Employee costs	1,572,912	1,366,304	1,126,154
C. 1.	Wages and salaries	1,138,770	992,861	813,091
C. 2.	Emoluments of board members	–	–	–
C. 3.	Social security costs	395,456	344,834	280,199
C. 4.	Other social costs	38,686	28,609	32,864
D.	Taxes and charges	2,908	5,639	3,466
E.	Depreciation of long-term assets	4,587,807	4,141,431	3,352,620
III.	Sale of long-term assets and raw materials	127,491	40,958	38,622
F.	Net book amount of long-term assets and raw materials sold	177,015	109,101	49,230
IV.	Provisions released to operating income	568,684	310,843	219,295
G.	Provisions for operating liabilities and charges	926,750	205,378	375,130
V.	Operating assets provisions released	314,470	102,000	179,300
H.	Provisions for operating assets	400,837	175,998	634,254
VI.	Other operating income	137,858	51,871	12,826
I.	Other operating charges	235,593	162,045	28,471
VII.	Adjustments to operating income	–	–	–
J.	Adjustments to operating expense	–	–	–
*	Operating profit	9,483,113	9,241,046	6,974,839

	(in CZK thousands)	2002	2001	2000
VIII.	Income from sales of securities and shares	4,020,000	3,994,547	2,790,191
K.	Securities and shares sold	4,020,000	3,994,850	2,790,700
IX.	Income from long-term investments	–	–	–
IX.1.	Income from investments in subsidiaries	–	–	–
2.	Income from investments in other participating interests	–	–	–
3.	Income from other long-term investments	–	–	–
X.	Income from short-term investments	79,708	41,405	15,473
L.	Loss on investments	–	–	–
XI.	Gain on revaluation of securities	–	–	–
M.	Loss on revaluation of securities	–	–	–
XII.	Provisions released to financial income	17,697	23,537	11,230
N.	Provisions for financial liabilities and charges	–	17,697	23,537
XIII.	Investments provisions released	–	–	–
O.	Provisions for investments	–	–	–
XIV.	Interest income	49,334	88,524	60,687
P	Interest expense	246,397	259,655	334,743
XV.	Other financial income	203,353	409,799	226,733
Q.	Other financial expense	374,873	452,990	428,592
XVI.	Adjustments to financial income	–	–	–
R.	Adjustments to financial expense	–	–	–
*	Financial profit	(271,178)	(167,380)	(473,258)
S.	Tax on profit or loss on ordinary activities	2,829,684	2,770,814	1,817,371
S. 1.	- current	2,725,201	2,330,061	1,504,930
2.	- deferred	104,483	440,753	312,441
**	Profit or loss on ordinary activities after taxation	6,382,251	6,302,852	4,684,210
XVII.	Extraordinary income	8,748	16,660	5,839
T.	Extraordinary charges	29,453	19,978	15,340
U.	Tax on extraordinary profit or loss	–	–	–
U. 1.	- current	–	–	–
2.	- deferred	–	–	–
*	Profit (loss) on extraordinary items after taxation	(20,705)	(3,318)	(9,501)
W.	Profit (loss) share apportioned to partners [partnership only]	–	–	–
***	Net income (loss) for the financial period	6,361,546	6,299,534	4,674,709
	Income (loss) before taxation	9,191,230	9,070,348	6,492,080

Statement of cash flows for the year ended 31 December

	(in CZK thousands)	2002	2001	2000
	Cash flows from operating activities			
	Net income from operating activities before tax	9,211,935	9,073,666	6,501,582
A.1	Adjustments for non-cash movements	4,918,972	4,257,410	4,193,293
A.1.1	Depreciation and amortization	4,541,832	4,221,712	3,375,953
A.1.2	Change in provisions	238,623	(194,995)	533,870
A.1.3	Loss from disposal of property and equipment	155,902	59,561	9,414
A.1.5	Net interest expense	(17,385)	171,132	274,056
A*	Net cash flow from operating activities before tax, changes in working capital and extraordinary items	14,130,907	13,331,076	10,694,875
A.2	Working capital changes	705,225	(747 985)	(628,452)
A.2.1	Decrease/(increase) in receivables and other assets	239,660	(926,283)	(1,375,628)
A.2.2	Increase /(decrease) in payables and other liabilities	(113,626)	507 872	1,538,023
A.2.3	Decrease/(increase) in inventories	579,191	(329,574)	(790,847)
A**	Net cash flow from operating activities before tax and extraordinary items	14,836,132	12,583,091	10,066,423
A.3	Interest paid	(10,913)	(320,734)	(322,359)
A.4	Interest received	6,700	92,101	57,266
A.5	Income tax paid from operating activities	(3,005,408)	(1,527,955)	(1,798,338)
A.6	Cash movements relating to extraordinary income including tax paid from extraordinary income	(4,374)	9,065	2,512
A***	Net cash flow from operating activities	11,822,137	10,835,568	8,005,504
	Cash flows from investing activities			
B.1	Acquisition of property and equipment	(5,178,129)	(8,098,040)	(6,931,161)
B.2	Proceeds from disposals of property and equipment	52,216	30,205	23,828
B***	Net cash flow from investing activities	(5,125,913)	(8,067,835)	(6,907,333)
	Cash flows from financing activities			
C.1	Change in long-term and short-term liabilities	(548,079)	(4,690,707)	430,000
C ***	Net cash flow from financing activities	(548,079)	(4,690,707)	430,000
	Net increase/(decrease) in cash and cash equivalents	6,148,145	(1,922,974)	1,528,171
	Cash and cash equivalents at the beginning of period	230,590	2,153,564	625,393
	Cash and cash equivalents at the end of period	6,378,735	230,590	2,153,564

7 February 2003

Jaroslav Kubišta
Statutory Representative

Luboš Bôrik
Statutory Representative

Robert Bowker
Chief Financial Officer

Notes to the financial statements for the year ended 31 December 2002

1. General Information

Eurotel Praha, spol. s r.o. ("the Company") was incorporated on 9 April 1991 as a joint venture of SPT Telecom, a.s., a Czech joint-stock company that was formally retitled ČESKÝ TELECOM, a.s., ("ČT") on 1 January 2000, and AWBV, an association subject to Dutch laws. ČT and AWBV maintained ownerships interest in the Company at its incorporation of 51 and 49 percent, respectively. The Company changed its registered office from Prague 9, Sokolovská 855 to Prague 4, Vyskočilova 1442/1b in 2002.

The Company's business activities include:
- Operation of a public mobile telecommunications network in the 450 MHz spectrum;
- Operation of a public mobile telecommunications network in the GSM standard;
- Assembly and repairs of telecommunication equipment;
- Purchase and sale of merchandise;
- Telecommunication and computing technology activities;
- Telecommunication and computing technology consulting and training;
- Computer-aided data processing;
- Providing telecommunication services;
- Distribution activity for trading and services;
- Advertising and marketing activities;
- Providing borrowings and loans from its own sources;
- Providing of software; and
- Public telephony services through public telecommunications network.

The Statutory Representatives at 31 December 2002 were as follows:
Mr Jaroslav Kubišta,
Mr Luboš Bôrik, and
Mr Terrence Edward Valeski.

The Statutory Representatives at 31 December 2001 were as follows:
Mr Jaroslav Kubišta,
Mr Alexander Winkler, and
Mr Terrence Edward Valeski.

On 8 November 2002, the Company submitted a request to the Commercial Register to change the registered office of the ČESKÝ TELECOM, a.s., a shareholder of the Company, from the former Praha 3, Olšanská 5 to Praha 3, Olšanská 55/5. As of the date of these financial statements, the change has not yet been recorded.

The Company is organized as follows:

Chief Executive and Managing Director:
1. Strategy Division
    1.1. Strategic Planning and Development
    1.2. Quality and Security Division
2. Finance Division
3. IT Division
4. Legal Division
5. Human Resources Division
6. Technical Division
7. Commercial Division
    7.1. Marketing
    7.2. Customer Care
    7.3. Product and Services
    7.4. Content Development
8. Sales Division
9. Communication, Media Relation Department

2. Accounting policies

a) Basis of accounts

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic. The financial statements have been prepared under the historical cost convention with the exception of financial derivatives and securities, which are recorded at fair value.

Effective 1 January 2002, the Company adopted new accounting principles introduced by the Act on Accounting and supporting accounting legislation of the Czech Republic. The effect of adopting these new principles is summarised in the statement of changes in shareholders' equity and further information is disclosed in note 2 (o) Changes in accounting policies.

b) Intangible assets

Purchased intangible assets are recorded at cost.

Development costs are capitalised as intangible assets and recorded at the lower of cost and the value of future estimated benefits, if the value of future estimated benefits can be reasonably estimated. All other development costs are expensed as incurred.

Software acquired prior to 2001 has been amortized on a straight-line basis over a period of up to five years. Software acquired during or after 2001 has been amortized on a straight-line basis over its estimated useful life. Licenses were amortized on a straight-line basis over a period of five years until 31 December 2000. From 1 January 2001, all licenses are amortized on a straight-line basis over their estimated useful life.

Intangible asset:	**Estimated useful life in years**
Cellular licenses	20
Royalties (excluding licenses), research and development	5
Software – purchased prior to 2001	3
Software – purchased during or subsequent to 2001	2 – 10

All intangible assets with a useful life longer than one year and unit cost of less than CZK 60,000 are amortised on a straight-line basis over a period of three years.

Where the carrying amount of an asset is greater than its estimated recoverable amount, a provision is created.

c) Property and equipment

Property and equipment is recorded at cost, which includes costs incurred in bringing the assets to their present location and condition including transportation, customs duty, installation, etc. Internally developed assets are recorded at cost.

Property and equipment is depreciated on a straight-line basis over its estimated useful life.

Property and equipment:	**Estimated useful life in years**
Buildings, steel constructions	20
Cellular equipment	8
Motor vehicles	3
Computing equipment, furniture and fixtures	3 – 5
Mobile phones	2

Tangible assets with a useful life longer than one year and unit cost of less than CZK 40,000 are treated as property, plant and equipment and depreciated over their expected useful lives.

Property enhancements of buildings are depreciated at the shorter of their estimated useful life and the term of lease as stipulated in the agreement. Property enhancements exceeding CZK 40,000 per item on an annual basis are capitalised. Repairs and maintenance expenditures of tangible assets are expensed as incurred.

Where the carrying amount of an asset is greater than its estimated recoverable amount, a provision is created.

d) Investments in subsidiaries and associated entities

As of December 20, 2001, the Company acquired a 100% ownership interest in a Hungarian registered limited liability company, Trigo Global Services Ltd. ("Trigo") for CZK 1 million. The subsidiary is engaged in contracting of labor services to the Company.

Equity investments in subsidiary are recorded at cost less provision for diminution in value.

The consolidation criteria as outlined in the Act on Accounting have not been satisfied for the current year, as the financial results of the related subsidiary are not significant to the Company. Accordingly, no enterprise has been consolidated with and into accounts of the Company.

e) Other securities and investments

Effective 1 January 2002, the Company classifies securities and investments, (excluding its investments in subsidiaries and associated entities) into the following categories: trading, available for sale and held-to-maturity. Prior to 1 January 2002, securities and investments were not classified in the above categories and recorded at cost less a provision for diminution in value.

As at 31 December 2002, the Company owned bills of exchange held till maturity and investments in mutual funds. The bills of exchange are classified as held-to-maturity; however, the bills fall due within 12 months after the balance sheet date. Accordingly, the bills have been included in current assets. Investments in mutual funds are classified as trading and recognized within assets at their fair value. Fair value represents purchase price and accrued interest.

Gains and losses arising from changes in the fair value of instruments held by the Company are included in the statement of income in the period in which the changes occur.

f) Inventories

Inventories primarily include cellular GSM and NMT mobile phone equipment including accessories and replacement parts. Inventories are stated at the lower of cost and net realizable value. Cost includes appropriate overheads incurred to bring inventory to its present state and location. The weighted average cost method is used for all disposals.

Inventories internally produced (i.e. work in progress and finished goods) are stated at the lower of production cost and estimated net realisable amount. Production cost includes direct and indirect materials, direct and indirect wages and production overheads.

g) Receivables

Receivables are stated at nominal value net of provisions for doubtful amounts. Uncollectible receivables are generally only written off upon completion of bankruptcy proceedings against the customer.

The Company analysed the structure of overdue receivables and provisions were made on the following basis:

Receivables from air-time:

Number of days overdue	% in the year 2002	% in the year 2001	% in the year 2000
0	7%	7%	7%
1-59	18%	18%	18%
60-89	90%	90%	90%
90 and over	100%	100%	100%

Receivables from dealers:

Number of days overdue	% in the year 2002	% in the year 2001	% in the year 2000
0	1%	1%	–
1-59	20%	5%	–
60-89	70%	70%	–
90 and 179	90%	90%	–
180 and more	100%	100%	100%

h) Foreign currency translation

Transactions denominated in foreign currencies are translated and recorded at the rate of exchange ruling 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. Effective 1 January 2002, all exchange gains and losses on monetary assets and liabilities are recorded in the statement of income immediately. Prior to 1 January 2002, unrealized exchange gains and losses were deferred and provisions for unrealized exchange losses were created. Deferred balances and their related provisions were included in other assets, other liabilities and provisions respectively (see note 2 (o)).

i) Derivative financial instruments

The Company enters into financial instruments, such as forward exchange contracts, forward rate agreements (FRA), interest rate and currency swaps in order to mitigate the risk associated with fluctuations in foreign currency exchange and interest rates.

Derivative financial instruments are classified either as trading derivatives or hedging derivatives. If a trading derivative is publicly traded, changes in the fair value of such a derivative are recognized in the statement of income in the period of change. Changes in the fair value of other trading derivative instruments that do not qualify for hedge accounting are recognized in equity in the period of change. Changes in the fair value of cash flow hedging derivatives are recognized in equity. The Company applies hedge accounting provided that qualifying criteria in relation to documentation and hedge effectiveness are met.

Derivative financial instruments used by the Company are classified as cash flow hedges or other trading derivatives. Financial derivatives balances at 31 December 2002 and 2001 are described in note 13. Effective 1 January 2002, fair values of financial derivatives are calculated as the present value of the estimated future cash flows and recognized in equity.

j) Revenue recognition

The Company earns product revenues from the sale of mobile telephones equipment and accessories. Product revenues are recorded on the date of dispatch or the realization of services. All revenues are stated net of rebates and Value Added Tax.

The Company earns service revenues from cellular services, roaming revenue and activation fees. Service revenues are recorded monthly at the end of the billing cycle.

In certain circumstances, specific models of telephones are sold at loss. These subsidies are made to attract customers and consequently increase service revenues in future periods and are recorded at the moment of the sale of the phone.

k) Leases

The Company had no financial leases during 2002, 2001 or 2000. Monthly payments from operational leases for cars are recorded as expenses evenly throughout the contract period.

l) Provisions

Provisions are recognised when the Company has a present obligation that is probable, that an outflow of resources will be required to settle the obligation, and can be reliably estimated.

m) Pension plans

The Company provides benefits to employees that include a contribution to supplementary pension insurance. The minimum amount of the employer’s portion of the monthly contribution per employee is CZK 200. Regular contributions are also made by the Company to the national authorities to fund the national pension plan.

n) Deferred taxation

A deferred tax liability is recognized for all temporary differences between the carrying value of assets or liabilities in the balance sheet and their tax base. Deferred tax assets are recognized to the extent that it is probable that future taxable income will be available against which the assets can be utilized.

o) Extraordinary items and changes in accounting policies

Extraordinary items include non-recurring effects of events outside the scope of the Company's operating activities and the effects of changes in accounting policies.

The Company has chosen to adopt changes in accounting policies on a prospective basis, therefore comparative financial information was not restated.

The net income and equity effect of the adoption of new accounting principles as required by the Act on Accounting effective from 1 January 2002 is summarized below:

(in CZK thousands)	2002
Equity at 1 January (as previously reported)	23,069,925
Effects of changes in accounting policies included in revaluation reserve	
Remeasurement of derivatives at fair value	(53,361)
Effects of changes in accounting policies included in retained earnings	
Realization of unrealized FX differences in existence at 31 December 2001 into income for the period	24,990
Release of provisions for unrealized FX differences	17,697
Changes in accounting policy of financial derivates	(14,136)
Remeasurement of trading securities at fair value	196
Pro-forma equity at 1 January (adjusted)	23,045,311

The following is a summary of all changes in accounting policies resulting from adoption of the principles required by the Act on Accounting effective 1 January 2002:

- Low value assets previously classified under "Other tangible assets" and "Other intangible assets" with associated net book values of CZK 82,292 thousand and CZK 1,527 thousand (respectively) are reclassified in the appropriate categories within property and equipment. Comparative figures have been reclassified.
- The deferred tax liability is classified within provisions at 31 December 2002. The comparative figures at 31 December 2001 and 2000 of CZK 2,617,979 thousand and CZK 2,177,226 thousand respectively, are reclassified in the current period.
- Corporate income tax for the year ended 31 December 2002 is classified in the balance sheet under provisions, and the tax charge is recorded in the statement of income under current tax from operating activities. In 2000 and 2001, corporate income tax was classified in the balance sheet under short-term liabilities as a tax liability.
- Effective 1 January 2002, all foreign exchange gains and losses on monetary assets and liabilities are recorded in the statement of income. Prior to 1 January 2002, unrealized exchange gains and losses were deferred and provisions for unrealized exchange losses were created. Deferred balances and their related provisions were included in other assets, other liabilities and provisions respectively. Unrealized exchange rate losses of CZK 17,697 thousand and CZK 23,537 thousand at 31 December 2001 and 2000 are classified under "Estimated receivables" Unrealized exchange rate gains of CZK 42,687 thousand and CZK 220,246 at 31 December 2001 and 2000 are classified under "Estimated payables". Associated provisions for unrealized exchange rate losses of CZK 17,697 thousand and CZK 23,537 at 31 December 2001 and 2000 are reported as "Non-deductible provisions".
- Certain revenues and expenses (e.g. shortages of and damages to inventories, claims from insurance companies, etc.) classified as extraordinary in the financial statements for the years ended 31 December 2001 and 2000 are classified within operating activities, primarily as "Other property and equipment charges" and "Other property and equipment income" in the income statement for the year 2002.

The following is a summary of all changes in the statement of cash flows. The comparatives were reclassified according to the 2002 rules.

- Receivables write-offs are included in the line A.2.1 "Decrease/(increase) in receivables and other assets" for the year ended 31 December 2002. Comparative figures for the years ended 31 December 2001 and 2000 were included in the line A.1.1 "Depreciation and amortization".
- Changes in other assets are included in the line A.2.1 "Decrease/(increase) in receivables and other assets" for the year ended 31 December 2002. Comparative figures for the years ended 31 December 2001 and 2000 were included in the line A.1.2 "Change in general provisions, accruals and prepayments."
- Changes in other liabilities are included in the line A.2.2 "(Decrease)/increase in payables and other liabilities" for the year ended 31 December 2002. Comparative figures for the years ended 31 December 2001 and 2000 were included in the line A.1.2 "Change in general provisions, accruals and prepayments".

p) Subsequent events

The effects of events, which have occurred between the balance sheet date and the date of signing the financial statements, are reflected in the financial statements if they provide further evidence of conditions which existed at the balance sheet date.

Significant events that occurred subsequent to the balance sheet date and prior to signing of the financial statements, but are indicative of conditions, which arose subsequent to the balance sheet date are disclosed but not reflected in the financial statements.

3. Intangible assets

Cost or valuation

(in CZK thousands)	1 January 2000	Additions	Disposals	31 December 2000
Cellular licences	1,089,012	279,632	–	1,368,644
Software	699,270	386,057	1	1,085,326
Research and Development	–	–	–	–
Intangible assets in the course of construction	312,055	(278,257)	–	33,798
Advances paid for intangible assets	744	(744)	–	–
Total	2,101,081	386,688	1	2,487,768

(in CZK thousands)	1 January 2001	Additions	Disposals	31 December 2001
Cellular licences	1,368,644	–	–	1,368,644
Software	1,085,326	292,913	70,434	1,307,805
Research and Development	–	–	–	–
Intangible assets in the course of construction	33,798	3,677,942	–	3,711,740
Advances paid for intangible assets	–	–	–	–
Total	2,487,768	3,970,855	70,434	6,388,189

(in CZK thousands)	1 January 2002	Additions	Disposals	31 December 2002
Cellular licences	1,368,644	–	–	1,368,644
Software	1,307,805	359,739	6,568	1,660,976
Research and Development	–	4,457	–	4,457
Intangible assets in the course of construction	3,711,740	226,532	–	3,938,272
Advances paid for intangible assets	–	–	–	–
Total	6,388,189	590,728	6,568	6,972,349

Accumulated amortization

(in CZK thousands)	1 January 2000	Charge for the year	Disposals	31 December 2000
Cellular licences	954,013	116,124	–	1,070,137
Software	340,569	244,857	1	585,425
Research and Development	–	–	–	–
Total	1,294,582	360,981	1	1,655,562
Provision	–	80,000	–	80,000
Total	806,499	–	–	752,206

(in CZK thousands)	1 January 2001	Charge for the year	Disposals	31 December 2001
Cellular licences	1,070,137	22,980	–	1,093,117
Software	585,425	348,458	25,595	908,288
Research and Development	–	–	–	–
Total	1,655,562	371,438	25,595	2,001,405
Provision	80,000	–	80,000	–
Total	752,206	–	–	4,386,784

(in CZK thousands)	1 January 2002	Charge for the year	Disposals	31 December 2002
Cellular licences	1,093,117	20,686	–	1,113,803
Software	908,288	335,729	6,504	1,237,513
Research and Development	–	223	–	223
Total	2,001,405	356,638	6,504	2,351,539
Provision	–	30,000	–	30,000
Total	4,386,784	–	–	4,590,810

The Company's GSM 900 license of CZK 409,260 thousand and GSM 1800 license of CZK 279,632 thousand represent significant elements of intangible assets. In 2002, both GSM licenses were joined into one license by the Czech Telecommunication Office ("ČTÚ").

The Company recorded the CZK 3,694,049 thousand purchase price for the UMTS license in asset in the course of construction. The Company is obliged to put the UMTS network into commercial use on 1 January 2005 at the latest.

The Company is still using their fully depreciated NMT license. In 2002, ČTÚ renewed the NMT license.
The renewed license enables the Company to offer any internationally recognized public mobile telecommunication service on frequency standards of 450 MHz.

The Company owns two FWA licenses with an associated value of CZK 40,200 thousand. The licenses enable the Company to roll out and operate public telecommunications networks through fixed telephone network in the dedicated spectrum frequency range of 3.5 GHz. The Company put the network into use on 1 February 2003, accordingly the licenses were transferred from intangible assets in the course of the construction to the category of cellular licenses in 2003.

4. Property and equipment

Cost or valuation

(in CZK thousands)	1 January 2000	Additions	Disposals	31 December 2000
Buildings and land	3,284,032	981,946	437	4,265,541
Machinery and cellular equipment	17,087,046	5,731,202	36,424	22,781,824
Motor vehicles	90,257	2,521	31,280	61,498
Furniture and fixtures	427,074	84,737	47,755	464,056
Other equipment	289,764	132,480	18,930	403,314
Other property and equipment	40	–	–	40
Assets in the course of construction	2,197,025	611,204	51,413	2,756,816
Advance paid for property and equipment	28,539	72,589	–	101,128
Total	23,403,777	7,616,679	186,239	30,834,217

(in CZK thousands)	1 January 2001	Additions	Disposals	31 December 2001
Buildings and land	4,265,541	1,180,415	16,866	5,429,090
Machinery and cellular equipment	22,781,824	5,503,531	235,562	28,049,793
Motor vehicles	61,498	15,382	25,546	51,334
Furniture and fixtures	464,056	181,672	22,983	622,745
Other equipment	403,314	105,316	49,421	459,209
Other property and equipment	40	–	–	40
Assets in the course of construction	2,756,816	(1,027,461)	113,356	1,615,999
Advance paid for property and equipment	101,128	(67,338)	–	33,790
Total	30,834,217	5,891,517	463,734	36,262,000

(in CZK thousands)	1 January 2002	Additions	Disposals	31 December 2002
Buildings and land	5,429,090	1,129,241	316,718	6,241,613
Machinery and cellular equipment	28,049,793	3,158,234	340,503	30,867,524
Motor vehicles	51,334	1,811	21,361	31,784
Furniture and fixtures	622,745	111,121	123,727	610,139
Other equipment	459,209	105,427	49,726	514,910
Other property and equipment	40	203	–	243
Assets in the course of construction	1,615,999	(10,377)	83,010	1,522,612
Advance paid for property and equipment	33,790	(27,443)	–	6,347
Total	36,262,000	4,468,217	935,045	39,795,172

Accumulated depreciation

(in CZK thousands)	1 January 2000	Charge for the year	Disposals	31 December 2000
Cellular buildings and land	279,057	292,910	75	571,892
Machinery and cellular equipment	4,358,689	2,478,979	29,160	6,808,508
Motor vehicles	80,851	9,087	30,994	58,944
Furniture and fixtures	199,801	76,574	45,065	231,310
Other equipment	289,775	132,482	18,914	403,343
Total	5,208,173	2,990,032	124,208	8,073,997
Provision	–	–	–	–
Total	18,195,604	–	–	22,760,220

(in CZK thousands)	1 January 2001	Charge for the year	Disposals	31 December 2001
Cellular buildings and land	571,892	348,654	2,849	917,697
Machinery and cellular equipmentt	6,808,508	3,217,781	182,566	9 843,723
Motor vehicles	58,944	3,558	25,546	36,956
Furniture and fixtures	231,310	115,050	12,751	333,609
Other equipment	403,343	22,678	49,104	376,917
Total	8,073,997	3,707,721	272,816	11,508,902
Provision	–	–	–	–
Total	22,760,220	–	–	24,753,098

(in CZK thousands)	1 January 2002	Charge for the year	Disposals	31 December 2002
Cellular buildings and land	917,697	325,593	246,114	997,176
Machinery and cellular equipment	9 843,723	3,706,674	236,236	13,314,161
Motor vehicles	36,956	6,059	20,748	22,267
Furniture and fixtures	333,609	112,349	102,317	343,641
Other equipment	376,917	44,855	47,898	373,874
Total	11,508,902	4,195,530	653,313	15,051,119
Provision	–	30,476	–	30,476
Total	24,753,098	–	–	24,713,577

5. Investments in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost less a provision for other than temporary decreases in value.

At 31 December 2002:

	Capital (USD)	Cost (CZK ths)	% of capital (%)	2002 net profit (CZK ths)	Net assets (CCZK ths)	2002 dividend income (CZK ths)
Trigo Global Services Ltd (Hungary)	10,000	1,110	100	45,727	45,630	–
Investment provision		–				
Net book amount		1,110				

At 31 December 2001:

	Capital (USD)	Cost (CZK ths)	% of capital (%)	2001 net profit (CZK ths)	Net assets (CZK ths)	2001 dividend income (CZK ths)
Trigo Global Services Ltd (Hungary)	10,000	1,110	100	(397)	(117)	–
Investment provision		–				
Net book amount		1,110				

The Company did not have any investment in subsidiary undertakings at 31 December 2000.

6. Inventories

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Raw materials and consumables	463,248	555,162	473,646
Work in progress	–	6,569	–
Finished goods	4,599	–	–
Goods for resale	842,319	1,327,626	1,099,123
	1,310,166	1,889,357	1,572,769
Provision for absolete and slow moving inventory	(256,882)	(246,654)	(286,597)
Total	1,053,284	1,642,703	1,286,172

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

(in CZK thousands)	2002	2001	2000
Opening balance at 1 January	246,654	286,597	152,000
Expensed during the year	76,228	62,057	313,897
Realized during the year	(66,000)	(102,000)	(179,300)
Closing balance at 31 December	256,882	246,654	286,597

7. Receivables

(in CZK thousands)		31 December 2002	31 December 2001	31 December 2000
Long-term receivables	- current	121,685	57,037	4,255
Short-term trade receivables	- current	1,726,273	2,150,140	1,462,552
	- overdue	2,943,266	3,218,074	2,841,268
		4,669,539	5,368,214	4,303,820
Other short- term receivables	- current	568,295	423,882	197,559
Total receivables		5,237,834	5,792,096	4,501,379
Provision for doubtful accounts		(1,785,425)	(1,769,762)	(1,655,821)
Net receivables		3,452,409	4,022,334	2,845,558

Trade receivables of CZK 478,470 thousand outstanding at 31 December 2002 (31 December 2001: CZK 250,438 thousand; 31 December 2000: CZK 0) were insured.

Intercompany receivables are disclosed in note 17.

The change in the provision for doubtful receivables may be analysed as follows:

(in CZK thousands)	2002	2001	2000
Opening balance at 1 January	1,769,762	1,655,821	1,335,465
Net expense for the year	15,663	113,941	320,356
Closing balance at 31 December	1,785,425	1,769,762	1,655,821

8. Short-term financial assets

At 31 December 2002, the Company had the following short-term financial assets:

(in CZK thousands)	Number of Securities	Fair value	Cost
Investment in mutual funds:			
CITICORP	3,960	3,961,168	3,960,000
OB Invest	1,630,000,000	1,630,487	1,630,000
IKS	2,200	220,014	220,000
Total	1,630,006,160	5,811,668	5,810,000
Bills of exchange – Komerční banka	2	92,006	92,000
Total		5,903,675	5,902,000

At 31 December 2001, short-term financial assets represent bills of exchange with an associated cost of CZK 162,544 thousand (31 December 2000: CZK 2,024,801 thousand).

9. Equity

Changes in equity

(in CZK thousands)	Registered capital	Capital contri-butions	Statutory reserve fund	Revaluation reserve	Retained earnings	Profit to be approved	Total equity
Balance at 1 January 2000	1,211,000	463,093	121,100	–	5,993,997	4,306,244	12,095,434
Income distribution	–	–	–	–	4,306,244	(4,306,244)	–
Other contributions - gifts	–	248	–	–	–	–	248
Net income for the year	–	–	–	–	–	4,674,709	4,674,709
Balance at 31 December 2000	1,211,000	463,341	121,100	–	10,300,241	4,674,709	16,770,391
Income distribution	–	–	–	–	4,674,709	(4,674,709)	–
Net income for the year	–	–	–	–	–	6,299,534	6,299,534
Balance at 31 December 2001	1,211,000	463,341	121,100	–	14,974,950	6,299,534	23,069,925
Effect of adoption of new accounting policies *	–	–	–	(53,361)	–	–	(53,361)
Fair value gains	–	–	–	54,565	–	–	54,565
Income distribution	–	–	–	–	6,299,534	(6,299,534)	–
Net income for the year	–	–	–	–	–	6,361,546	6,361,546
Balance at 31 December 2002	1,211,000	463,341	121,100	1,204	21,274,484	6,361,546	29,432,675

* Arising from the amendment to the Act on Accounting and accounting guidelines for entrepreneurs.

Statutory reserves may not be distributed to shareholders but may be used to offset losses. The Company created statutory reserves of 10% of the issued share capital in accordance with Czech Commercial law.

Net income after taxation for the year ended 31 December 2001 of CZK 6,299,534 thousand was approved by the general meeting on 6 February 2002 and transferred to retained earnings.

10. Provisions

(in CZK thousands)	Provision for Customer Loyalty Program "Benefit"	Provision for unrealized foreign exchange losses	Income tax provision	Deferred tax liability	Other provisions	Total
Opening balance at 1 January 2000	149,914	11,230	–	1,864,785	157,000	2,182,929
Expensed during the year	330,130	23,537	–	312,441	–	666,108
Realized during the year	(219,295)	(11,230)	–	–	(35,000)	(265,525)
Closing balance at 31 December 2000	260,749	23,537	–	2,177,226	122,000	2,583,512
Expensed during the year	250,378	17,697	–	440,753	–	708,828
Realized during the year	(173,843)	(23,537)	–	–	(102,000)	(299,380)
Closing balance at 31 December 2001	337 284	17,697	–	2,617,979	20,000	2,992,960
Expensed during the year	531,707	–	609,712	104,483	263,013	1,508,915
Realized during the year	(436,654)	(17,697)	–	–	–	(454,351)
Closing balance at 31 December 2002	432,337	–	609,712	2,722,462	283,013	4,047,524

At 31 December 2002, the current tax liability provision of CZK 2,513,781 thousand is disclosed net of advances paid of CZK 1,904,069 thousand.

11. Trade and other payables

(in CZK thousands)		31 December 2002	31 December 2001	31 December 2000
Short-term trade payables	- current	2,213,532	909,440	1,173,684
	- overdue	415,764	2,180,064	943,683
		2,629,296	3,089,504	2,117,367
Other short-term payables	- current	222,405	1,098,532	333,512
Total short-term payables		2,851,701	4,188,036	2,450,879
Long-term payables	- current	2,028,000	2,281,500	-
Total short-term and long-term liabilities		4,879,701	6,469,536	2,450,879

Trade and other payables are not secured by assets of the Company.

At 31 December 2002, the Company has a remaining long-term obligation for the license of CZK 2,028,000 thousand, arising from the purchase of UMTS licence consisting of CZK 253,500 thousand annual payments for the period 2004 – 2011 (31 December 2001: CZK 2,281,500 thousand). The Company had no long-term liability at 31 December 2000. Annual payment for 2003 of CZK 253,500 thousand are recorded as short-term trade payable at 31 December 2002.

Intercompany payables are disclosed in note 17.

12. Loans

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Current bank loans	–	548,385	–
Portion of long-term loans maturing after one year but within five years	–	–	5,239,091
Portion of long-term loans maturing after five years	–	–	–
Total loans	-	548,385	5,239,091

During the year-ended 31 December 2001, the Company had a syndicated revolving loan facility with a five-year term and total capacity of USD 400 million. The facility matured in 2002. The main creditors were CHASE MANHATTAN plc. and CITIBANK, N.A., London Branch. There were no outstanding amounts in Czech Crowns or any other foreign currency at either 31 December 2002 or 31 December 2001 (31 December 2000: CZK 2,530 million and DEM 151 million).

At 31 December 2001, the Company had an overdraft drawn with Živnostenská banka of CZK 198,385 thousand and short-term loans of CZK 350 million (Komerční Banka – CZK 150 million, Česká spořitelna – CZK 200 million).

13. Financial derivatives

At 31 December 2002, the Company had trading derivative instruments and derivatives used for cash flow hedging as follows:

(in CZK thousands)	Fair value	Nominal value
Interest rate derivatives		
Forward Rate Agreements	–	–
Interest Rate swaps	(15,769)	1,300,000
Currency derivatives		
Forwards	16,973	653,974
Currency swaps	–	–

All derivatives are due within one year, except for an interest rate swap that is due 14 December 2004.

The effect on shareholder's equity of the adoption of new accounting policies effective 1 January 2002 is described in note 2 (o).

14. Taxation

Current tax may be analysed as follows:

(in CZK thousands)	2002	2001	2000
Net income before taxation	9,191,230	9,070,348	6,492,080
Non-tax deductible costs	799,919	1,075,145	1,063,396
Releasing of non-tax deductible provisions	(444,260)	(330,439)	(410,483)
Difference between accounting and tax depreciation	(935,768)	(1,931,727)	(2,471,527)
10% reinvestment relief	(215,696)	(424,864)	(443,033)
Others	(286,455)	(205,176)	(64,521)
Net taxable income	8,108,970	7,253,287	4,165,912
Corporate taxation at 31%	2,513,781	2,248,519	1,291,432

The tax expense is comprised of:

(in CZK thousands)	2002	2001	2000
Current tax expense	2,513,781	2,248,519	1,291,432
Deferred tax expense	237,331	491,565	525,939
Adjustments of current tax from previous years	211,420	81,542	213,498
Adjustments of deferred tax from previous years	(132,848)	(50,812)	(213,498)
Total	2,829,684	2,770,814	1,817,371

Deferred tax liability is calculated at 31% and can be analysed as follows:

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Difference between net book value and			
net tax book value of property and equipment	(3,473,339)	(3,290,966)	(2,748,492)
Non deductible provisions	343,556	381,105	419,024
Customer Loyalty Program "Benefit"	134,024	104,558	80,832
Other tax non deductible accrued differences	273,297	187,324	71,410
Deferred tax liability	(2,722,462)	(2,617,979)	(2,177,226)

15. Revenue analysis

Revenue from operations has been generated as follows:

(in CZK thousands)	2002 total	2001 total	2000 total
Revenues from sale of goods - Domestic	1,024,650	1,023,675	1,670,361
Revenues from sale of goods and services			
- Foreign	2,820,967	1,042,966	1,074,633
- Domestic	24,904,959	27,890,167	24,441,782
Total revenues from sale of goods and services	27,725,926	28,933,133	25,516,415
Revenues from operations			
- Foreign	2,820,967	1,042,966	1,074,633
- Domestic	25,929,609	28,913,842	26,112,143
Total revenues from operations	28,750,576	29,956,808	27,186,776

16. Employee analysis

	2002	2001	2000
Employee numbers			
Average number of management	13	14	13
Average number of staff and employees	2,428	2,284	1,850
Total	2,441	2,298	1,863

Management includes executive and other directors.

(in CZK thousands)	Management	Staff and employees	Total
2002			
Wages and salaries	50,835	1,087,935	1,138,770
Social security costs	16,886	378,570	395 456
Other social costs	1,249	37,437	38,686
Total	68,970	1,503,942	1,572,912
2001			
Wages and salaries	53,029	939,832	992,861
Social security costs	17,268	327,566	344,834
Other social costs	2,075	26,534	28,609
Total	72,372	1,293,932	1,366,304
2000			
Wages and salaries	54,195	758,896	813,091
Social security costs	14,768	265,431	280,199
Other social costs	9,327	23,537	32,864
Total	78,290	1,047,864	1,126,154

Management can use company cars for both business and private purposes. Payments for operating leases of these cars were CZK 4,680 thousand for the year ended 31 December 2002.

17. Related party transactions

The Company was involved in the following related party transactions:

(in CZK thousands)	2002	2001	2000
ČESKÝ TELECOM, a.s.			
Costs excluding interconnect charges	171,773	98,002	385
Revenues excluding interconnect charges	–	29,434	57,747
Interconnect charges:			
- costs	302,100	790,699	1,563,031
- revenues	1,262,053	1,786,972	2,950,466
AWBV			
Management fees	–	16,154	109,293
Trigo Global Services Consulting Ltd.			
Charges for provided services	121,031	–	–

The following related party balances were composed of:

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Trade receivables:			
- ČESKÝ TELECOM, a.s.	1,079,204	980,611	351,637
- AWBV	–	5	5
- Trigo Global Services Consulting Ltd.	135,066	–	–
Total	1,214,270	980,616	351,642
Trade payables:			
- ČESKÝ TELECOM, a.s.	287,654	279,729	142,380
- AWBV	255	6,002	15,620
- Trigo Global Services Consulting Ltd.	144,678	–	–
Total	432,587	285,731	158,000

Trade receivables and payables have substantially the same terms and conditions as transactions with unrelated parties.

18. Commitments

The Company had the following capital commitments:

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Contracted			
- mobile telephones	233,000	976,617	504,793
- network construction	312,000	152,499	1,040,135
- internal investments	57,000	29,218	43,367
Total	602,000	1,158,334	1,588,295

The Company has the following commitments in respect to operating leases:

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Current (within one year)	495,000	479,718	403,271
Due after one year but within five years	986,000	881,668	760,713
Due after five years	1,586,000	1,237,000	169,614
Total	3,067,000	2,528,386	1,333,598

19. Contingent liabilities

Interconnect arrangements

Price arrangements with ČT regarding interconnect have not yet been agreed in respect of the period since 2001. Price arrangements have also not yet been finalized with other Czech mobile operators for the period from 1 January 2002. Although arrangements have not yet been finalized, partial cash settlement were concluded for interconnect transactions in respect to 2002. Management is confident that these arrangements will be finalized with no negative impact on net income.

Tax inspection

In 2001, Financial Directorate for Prague began a tax audit of the Company's corporate income and value added tax returns for the years 1997 – 1999. In December 2001, the special review group issued a report summarizing its findings in respect of additional assessment a of value added tax amounting to CZK 158 million and additional corporate income tax assessment of CZK 282 million. During 2002, tax assessments were received for CZK 440 million. The Company filed appeals against these assessments. Concurrently, the Company submitted a request for payment deferral and a waiver for both penalty and interest charges.

Regarding the corporate income tax assessment, the Financial Directorate for Prague cancelled the additional corporate income tax assessments of CZK 135 million related to 1997 and 1998. In regards to the 1999 tax period, the corporate income tax assessment was reduced from CZK 147 million to CZK 8 million.

In January 2003, the Company received a decision from the Financial Directorate for Prague that refused the Company's appeals against the VAT assessment in the amount of CZK 158 million. Therefore, a provision was created in full. Interest and penalties on this assessment totalled CZK 182 million at 31 December 2002. However, no provision for penalties or interest was created as the Company filed requests for penalty and interest waiver and believes that such requests will be honoured.

20. Subsequent events

No events have occurred subsequent to the year-end, which would have a material impact on the financial statements.

21. Statement of cash flow

The Company has prepared the cash flow statement under the indirect method. Cash equivalents represent short-term liquid financial assets, which are readily convertible into a known amount of cash. Cash and cash equivalents disclosed in the cash flow statement can be reconciled as follows:

(in CZK thousands)	31 December 2002	31 December 2001	31 December 2000
Cash on hand and in transit	8,315	11,024	19,805
Cash held in bank accounts	466,745	57,022	108,958
Cash equivalents included in short-term investments	5,903,675	162,544	2,024,801
Cash and cash equivalents	6,378,735	230,590	2,153,564

The financial statements have been approved by the Statutory Representatives.

7 February 2003

Jaroslav Kubišta
Statutory Representative

Luboš Bôrik
Statutory Representative

Robert Bowker
Chief Financial Officer

Audited financial statements prepared in accordance with Generally Accepted Accounting Principles in the United States of America

Report of Independent Auditors

To the Board of Directors and Shareholders of Eurotel Praha, spol. s r.o.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of income, changes in shareholders' equity and cash flows present fairly, in all material respects, the financial position of Eurotel Praha, spol. s r.o. (the "Company") at December 31, 2002 and 2001, and the results of its operations and its cash flows

for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

January 24, 2003

PricewaterhouseCoopers

PricewaterhouseCoopers
Prague, Czech Republic

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers Audit, s.r.o., Kateřinská 40/466, 120 00 Prague 2, Czech Republic, tel.: +420 251 151 111, fax: +420 251 156 111

Consolidated balance sheet as of December 31

(in CZK millions)	Notes	2002	2001
ASSETS			
Current assets			
Cash and cash equivalents	6	6,417	230
Accounts receivable, net	7	4,402	4,958
Inventories, net	8	888	1,443
Prepaid expenses		93	152
Deferred tax asset	15	614	539
Total current assets		12,414	7,322
Property and equipment		39,906	35,959
Construction in progress		1,900	2,028
Less accumulated depreciation		(16,328)	(12,454)
Property and equipment, net	9	25,478	25,533
Intangible assets, net	10	4,508	4,381
Total assets		42,400	37,236
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables	11	3,237	4,054
Deferred revenues	12	1,169	1,026
Short-term debt	14	253	802
Other current liabilities	13	2,519	2,296
Total current liabilities		7,178	8,178
Long-term debt	14	2,028	2,282
Deferred tax liabilities	15	3,500	3,363
Total liabilities		12,706	13,823
Shareholders' equity			
Share capital	16	1,650	1,650
Accumulated other comprehensive income	22	10	--
Retained earnings		28,034	21,763
Total shareholders' equity		29,694	23,413
Total liabilities and shareholders' equity		42,400	37,236

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of income for the year ended December 31

(in CZK millions)	Notes	2002	2001	2000
Revenues	17	28,800	30,063	27,197
Cost of sales	18	8,975	11,393	12,143
Gross profit		19,825	18,670	15,054
Operating expenses	19	10,709	9,614	8,191
Operating profit		9,116	9,056	6,863
Finance costs	20	57	281	233
Income before tax		9,059	8,775	6,630
Income taxes	15	2,788	2,707	1,829
Net income		6,271	6,068	4,801

Consolidated statement of changes in shareholders' equity

(in CZK millions)	Share capital	Accumulated other comprehensive income	Retained earnings	Total shareholders' equity
Balance as of December 31, 1999	1,650	–	10,894	12,544
Net income	–	–	4,801	4,801
Balance as of December 31, 2000	1,650	–	15,695	17,345
Net income	–	–	6,068	6,068
Balance as of December 31, 2001	1,650	–	21,763	23,413
Net income	–	–	6,271	6,271
Other comprehensive income, net (Note 22)	–	10	–	10
Balance as of December 31, 2002	1,650	10	28,034	29,694

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated statement of cash flow for the year ended December 31

(in CZK millions)	2002	2001	2000
Cash flow provided by operating activities			
Net income	6,271	6,068	4,801
Adjustments to reconcile Net income to net cash provided by operating activities:			
Depreciation and amortization	4,596	4,194	3,305
Current and non-current asset provisions	239	74	449
Loss on disposal of fixed assets	156	143	37
Interest expense	(17)	143	241
Realized foreign exchange losses/ (gains)	30	50	1
Unrealized foreign exchange losses/ (gains)	25	171	(67)
Income tax expense	2,726	2,330	1,505
Deferred tax	62	377	324
Decrease/ (increase) in inventories	551	(340)	(530)
Decrease/ (increase) in receivables and other assets	517	(1,237)	(1,363)
Increase/ (decrease) in payables and other liabilities	(329)	573	1,389
Interest paid	(4)	(201)	(231)
Income tax paid	(3,005)	(1,528)	(1,807)
Net cash provided by operating activities	11,818	10,817	8,054
Cash flow used in investing activities			
Purchase of tangible assets	(4,696)	(7,080)	(6,898)
Purchase of intangible assets	(194)	(1,000)	–
Proceeds from disposal of tangible and intangible assets	52	30	23
Net cash used in investing activities	(4,838)	(8,050)	(6,875)
Cash flow provided by financing activities			
Drawing of third party loans	1,075	1,308	1,299
Repayment of third party loans	(1,877)	(5,999)	(949)
Net cash (used in)/ provided by financing activities	(802)	(4,691)	350
Net increase/(decrease) in cash and cash equivalents	6,178	(1,924)	1,529
Translation adjustment	9	–	–
Cash and cash equivalents at beginning of period	230	2,154	625
Cash and cash equivalents at end of period	6,417	230	2,154
Significant non-cash investing and finance activities			
Acquisition of UMTS license	–	2,535	–

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Company description

Eurotel Praha, spol. s r.o. ("the Company") is a Czech limited liability company. The Company is a joint venture between ČESKÝ TELECOM a.s. ("CT"), a Czech joint stock company and Atlantic West B.V. ("AWBV"), a corporation existing under the law of the Netherlands. AWBV is ultimately owned by AT&T Wireless Services and Verizon Communications, U.S. corporations. CT and AWBV own 51% and 49%, respectively, of the Company. A joint venture agreement (the "Agreement") was entered into on November 16, 1990 and the Company was officially registered on April 9, 1991.

The Company provides telephone and network services and equipment for NMT and GSM technologies.

2. Basis of presentation

The Company maintains its accounting records in accordance with accounting practices employed by enterprises in the Czech Republic. The accompanying consolidated financial statements reflect certain adjustments maintained separately from the Company's statutory books to present the statements in accordance with generally accepted accounting principles in the United States of America ("US GAAP"). All amounts presented in the notes are in millions of Czech Crowns.

3. Principles of consolidation

As of December 20, 2001, the Company acquired a 100% ownership interest in a Hungarian registered limited liability company, Trigo Global Services Ltd. ("Trigo") for CZK 1 million. The subsidiary is engaged in contracting of labor services to the Company. The subsidiary qualifies for Hungarian offshore regime tax status and as such it is subject to taxation in Hungary at the reduced rate of 3%. The consolidated financial statements include the accounts of the Company and its Trigo subsidiary. All intercompany balances and transactions have been eliminated in consolidation.

4. Summary of significant accounting policies

The main accounting principles and valuation methods applied by the Company in preparing the financial statements are as follows:

a) Use of estimates

The preparation of the financial statements in compliance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

b) Cash and cash equivalents

Cash includes cash on hand, current accounts and deposit accounts. Cash equivalents consist of highly liquid investments with maturities of three months or less from the date of purchase. These investments are valued at cost which approximates their fair value. At the end of period, foreign currency monetary assets and liabilities are translated into Czech Crowns at the Czech National Bank official rates for that date.

c) Receivables

Receivables are valued at net realizable value, i.e. net of provisions for doubtful accounts.

d) Inventories

Inventories consist of cellular mobile telephone equipment for the NMT and GSM networks, and accessories. Costs of inventories include the purchase price and related costs of acquisition (transport, customs duties, and insurance). Cost is determined using the weighted average method.

The inventory balance is periodically reviewed by management relative to its economic realizability. If the value of inventory items exceed their economic realizability, the carrying value of those items is reduced to their net realizable value through the use of an inventory provision.

e) Prepaid expenses and other assets

Prepaid expenses include elements of prepaid rent, operating insurance and advances that relate to future accounting periods.

f) Property and equipment

Carrying value

Property and equipment primarily represent costs incurred to construct the cellular NMT, GSM and UMTS networks. These include cellular switches and cellular base stations as well as operating support systems and other support assets. Property and equipment are recorded at historical cost including freight, taxes, customs duties, construction and installation costs.

Construction in progress includes direct expenditures for construction of network assets and is stated at cost. Capitalized costs include costs related mainly to construction such as contracted work, direct labor, capitalized interest, and allocable overhead costs.

The costs of expansion, modernization or improvements leading to increased productivity, capacity or efficiency or to a lengthening of the useful lives of the assets are capitalized. Repair and maintenance costs are expensed as incurred.

On January 1, 2002, the Company implemented SFAS 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which supersedes SFAS 121 "Accounting for Long-Lived Assets to Be Disposed Of". Under SFAS 144, the Company’s long-lived assets or a group of assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Impairment is measured as the amount by which the carrying value of an asset or a group of assets exceeds their fair value. The Company’s adoption of SFAS 144 in 2002 did not have a material impact on its results or financial position for the period.

Depreciation

The Company depreciates its property and equipment on a straight-line basis at annual rates based on the following estimated useful lives:

	Years
Cellular buildings, steel constructions	20
Cellular equipment	8
Computer equipment, furniture and fixtures	3-5
Software	2-10
Motor vehicles	3
Mobile phones	2

Leasehold improvements are depreciated over the shorter of the lease term or their useful life.

g) Intangible assets

The original 450 MHz and GSM cellular operating licenses were granted for a period of 20 years from the signing of the Agreement for the 450 MHz license in 1991 and from the granting of the GSM license in 1996 for use of the 900 spectrum. In 1999, the Company acquired an additional 1800 spectrum under its existing GSM license. In 2002, both GSM licences were joined into one license which is currently valid for the remaining period of fourteen years. In 2002, the Company renewed their 450 MHz license; the new license enables the Company to offer any internationally recognized public mobile telecommunication services on a frequency of 450 MHz. The license is currently valid for the remaining period of nine years. In December 2001, the Company acquired the UMTS license which has been granted for a period of 20 years. The license is recorded at cost (note 10). Any interest associated with the loan provided for the license acquisition is capitalized until the start of UMTS commercial service. The Company is obliged to launch commercial service of UMTS on January 1, 2005 at the latest.

In July 2001, the FASB issued Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets." The Company implemented SFAS 142 as of January 1, 2002. Relative to the current regulatory and business environment in the Czech Republic there may be contractual, legal, regulatory, competitive or other economic factors that limit the period during which the Company can benefit from the use of these licenses in the future. Accordingly, the licenses are considered finite lived intangible assets subject to amortization in accordance with the criteria of SFAS 142. The licenses are recorded at cost and amortized on a straight-line basis over the remaining contractual period from the start of commercial service, which best reflects the pattern by which the economic benefits of the intangible assets will be utilized by the Company. Under SFAS 142, finite life intangibles assets are tested for impairment whenever events or changes in circumstances indicate that the carrying value of these assets may not be recoverable. Impairment is measured as the amount by which the carrying value of these assets or group of assets exceeds their fair value.

h) Corporate income taxes

The current expense for corporate income taxes due is calculated in accordance with Czech tax regulations and is based on book income before taxes reported under Czech accounting regulations increased or decreased by the appropriate temporary differences from taxable income.

The deferred income tax expense results from the difference in the timing of the recognition of items by the Czech tax authorities and the financial statements. Deferred taxation has been calculated using the asset and liability method and is provided on the future tax consequences of all events that have been recognized in the Company's financial statements or tax returns.

i) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis.

The Company earns revenue from cellular services, roaming revenues and revenues from the usage of the Company's network – "Mobile service revenues" (note 17).

Mobile service revenue is earned by providing access to the cellular network and for use of the network. There are two basic types of customers – postpaid and prepaid. Postpaid customers are billed monthly in arrears, and revenue is accrued as their airtime is used. Prepaid customers purchase a card which entitles them to a certain value of airtime. Revenue from the sale of these cards is deferred and recognized as the airtime is used. The Company derives roaming revenues and expenditures as a result of airtime usage by the Company's customers roaming on partners' networks, in other countries, and vice versa. Amounts receivable and payable from and to roaming partners are netted and settled on a regular basis.

The "calling party pays" income from CT and other mobile operators' customers resulting from the usage of the Company's networks is collected by the operators and repaid to the Company and vice versa. The resulting revenues and costs related to these relationships is referred to as interconnection – "Interconnect" (note 17 and 18).

The Company also earns revenues from the sale of mobile telephone equipment and accessories as well as activation fees – "Mobile equipment and other sales" (note 17).

The Company provides bundled offerings consisting of equipment revenue and activation fees to its customers. The costs associated with these revenues include equipment, SIM cards and service commissions. Commissions directly related to the sale of handsets, equipment and activations are netted against revenues in the period the product is sold to the dealer, distributor or the ending customer. Other commission payments to dealers for various marketing promotions and other activities not directly associated with the sale of products or services are included in the costs of sales for the period. All commissions are recorded in accordance with EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer."

j) Foreign currency transactions

Transactions denominated in foreign currencies are translated to Czech crowns at the exchange rates existing at the date of the transaction. All outstanding amounts and cash are remeasured at each reporting date using the exchange rate for Czech crown as of the reporting date; any resulting gains or losses on the remeasurement are included as an exchange gain or loss in the Statement of income for the period.

k) Derivative contracts

The Company enters into certain financial instruments, such as forward exchange contracts, currency swaps, forward rate agreements and interest rate swaps in order to mitigate the risk associated with fluctuations in foreign currency exchange rates and interest rates. These instruments are accounted for in accordance with the provisions of SFAS 133 "Accounting for Derivative Instruments and Hedging Activities."

All derivatives are initially recognized on the balance sheet at cost and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices or discounted cash flow models, as appropriate. All derivatives are carried as current assets when their fair value is positive and as current liabilities when their fair value is negative. Changes in the fair value of derivatives are recorded each period in current earnings or in other comprehensive income if a derivative is designated as part of a hedge transaction. On the date a derivative contract is entered into, the Company designates certain derivatives as either a hedge of future cash flows or the fair value of assets and liabilities. Hedge accounting is used for derivatives designated in this way provided certain criteria are met. The Company assesses hedge ineffectiveness on a monthly basis and records the gain or loss related to the ineffective portion to current earnings to the extent it is significant. If the Company determines that a cash flow hedge is no longer probable of occurring, the Company discontinues hedge accounting for the affected portion of the forecasted transaction, and any unrealized gain or loss on the contract is recognized in current earnings. Certain derivative transactions, while providing effective economic hedges under the Company's risk management positions, do not qualify for hedge accounting under the specific rules of SFAS 133 and are therefore treated as non-hedging derivatives with fair value gains and losses reported in the Statement of income. The fair values of derivative instruments are disclosed in note 22.

l) Comprehensive income

Comprehensive income is composed of net income and other comprehensive income. Other comprehensive income includes certain changes in equity that are excluded from net income, such as translation adjustments and unrealized holding gains and losses on derivative instruments which have been designated as hedges.

m) Reclassifications

Certain reclassifications have been made to prior period balances in order to make the presentation consistent with the current period. These reclassifications have no impact on net income or shareholders' equity.

n) Recent accounting pronouncements

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations." This standard requires that obligations associated with the retirement of tangible long-lived assets be recorded as liabilities when those obligations are incurred, with the amount of the liability initially measured at fair value. Upon initially recognizing a liability for an asset retirement obligation, a company must capitalize the cost by recognizing an increase in the carrying amount of the related long-lived asset. Over time, this liability is accreted to its present value, and the capitalized cost is depreciated over the useful life of the related asset. Upon settlement of the liability, an entity either settles the obligation for its recorded amount or incurs a gain or loss upon settlement. SFAS 143 is effective for financial statements issued for fiscal years beginning after June 15, 2002. The Company does not expect the adoption of SFAS 143 to have a material impact.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies Emerging Issues Task Force (EITF) Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for a cost associated with an exit or disposal activity be recognized at fair value when the liability is incurred. The provisions of this statement are effective for exit or disposal activities that are initiated after December 31, 2002, with early application encouraged. The Company will adopt this statement from January 1, 2003 and does not expect the adoption to have a material impact.

5. Change in accounting policy

The FASB issued SFAS 142, "Goodwill and Other Intangible Assets" and SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." These standards are effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS 142 and SFAS 144 as of January 1, 2002 with no material impact on its operating results or financial position (note 4). During the first quarter 2002, the Emerging Issues Taskforce Committee of the FASB issued EITF 01-09 "Accounting for Consideration Given by a Vendor to a Customer". EITF 01-09 provides guidance as to the recognition and presentation of certain commissions and awards to vendors and customers. The Company's commissions and awards policy was assessed relative to the requirements of EITF 01-09; no material amounts required adjustment or reclassification in the current or prior periods as a result of this implementation (note 4).

6. Cash and cash equivalents

(in CZK millions) As of December 31,	2002	2001
Bank deposits and petty cash	515	67
Money market investments	5,902	163
Total	6,417	230

All investments in money market funds are highly liquid and are maintained with large credit worthy financial institutions. The holdings of these money market funds consist of liquid investments with maturities of three months or less from the date of purchase.

7. Accounts receivable

(in CZK millions) As of December 31,	2002	2001
Trade and other receivables	2,842	3,571
VAT receivable	481	406
Amounts due from related parties (Note 21):		
ČESKÝ TELECOM	1,079	981
Total	4,402	4,958

Trade receivables are shown net of the following provision for doubtful accounts:

(in CZK millions) As of December 31,	2002	2001
Provision for doubtful accounts at the beginning of the period	1,770	1,656
Net charge for the period	168	205
Receivable write off	(153)	(91)
Provision for doubtful accounts at the end of the period	1,785	1,770

8. Inventories

(in CZK millions) As of December 31,	2002	2001
GSM		
Mobile phones and accessories	641	1,129
SIM cards	140	159
NMT		
Mobile phones and accessories	1	1
Other inventories	106	154
Total	888	1,443

Inventories are stated at the lower of cost and net realizable value. As of December 31, 2002 and 2001, inventories are shown net of provisions of CZK 184 million and CZK 180 million, respectively.

9. Property and equipment

Property and equipment at the end of the periods are composed of:

(in CZK millions) As of December 31,	2002	2001
Cellular buildings, steel constructions and equipment	35,180	31,937
Computer equipment and software	3,578	2,622
Furniture and fixtures	610	623
Leasehold improvements, motor vehicles and other	538	777
Construction in progress	1,900	2,028
Total property and equipment	41,806	37,987
Less: accumulated depreciation	(16,328)	(12,454)
Total property and equipment, net	25,478	25,533

For the year ended December 31, 2002, the Company capitalized expenses of CZK 257 million of which CZK 19 million related to capitalized interest. During the same period in 2001, the Company capitalized expenses of CZK 340 million of which CZK 110 million related to capitalized interest.

The Company has recorded cumulative capitalized expenses of CZK 2,507 million as of December 31, 2002.

10. Intangible assets

Intangible assets at the end of the periods are composed of:

As of December 31,	2002			2001
(in CZK millions)	Gross	Accumulated amortization	Net value	Net value
Cellular license 450 MHz	640	(378)	262	295
Cellular license GSM	689	(177)	512	551
Cellular license UMTS	3,694	–	3,694	3,535
Other licenses	40	–	40	--
Total	5,063	(555)	4,508	4,381

During the year ended December 31, 2002, the Company capitalized CZK 159 million of interest expense associated with the UMTS license. No interest was capitalized during 2001.

11. Trade payables

(in CZK millions) As of December 31,	2002	2001
Trade payables	2,949	3,768
Amounts due to related parties (Note 21):		
ČESKÝ TELECOM	288	280
AWBV	–	6
Total	3,237	4,054

All payables fall due within one year.

12. Deferred revenues

(in CZK millions) As of December 31,	2002	2001
Deferred revenues	1,169	1,026

Deferred revenues include purchased but unused credit of prepaid and postpaid customers for the Company's services. Such revenues are recognized in the Statement of income as credit is used.

13. Other current liabilities

(in CZK millions) As of December 31,	2002	2001
Taxation and social security	656	943
Accruals	1,442	918
Other	421	435
Total	2,519	2,296

14. Debt

(in CZK millions) As of December 31,	2002	2001
Obligation to Czech Telecommunication Office	2,281	2,535
Multicurrency credit facility	–	–
Short term part - obligation to Czech Telecommunication Office	(253)	(253)
Total long term debt	2,028	2,282
Short term part - obligation to Czech Telecommunication Office	253	253
Other short term bank loans	–	549
Total short term debt	253	802

With the purchase of the UMTS license from Czech Telecommunication Office ("CTU") in December 2001 for CZK 3,535 million, the Company paid CZK 1,000 million upon issuance of the license. The Company also entered into a commitment to pay the remaining balance of the license obligation in ten equal annual installments. Interest accrues on the outstanding balance at the rate of PRIBOR+1.5% as measured in December of the previous calendar year. The rate for the period December 2001 through December 2002 was set at 6.1% and 4.1% for the period December 2002 through December 2003. Annual principal installments and accrued interest are payable on the fourteenth of December of each year.

The Company used a multicurrency credit facility with a consortium of banks led by Chase Manhattan plc and Citibank, N.A. London branch from October 23, 1997 to October 23, 2002. The loan agreement provided a total available facility of USD 400 million and was split into two tranches. Tranche A had a total capacity of USD 187 million and could have been denominated in certain eligible foreign currencies. Tranche B was in Czech Crowns and had a capacity of USD 213 million. Interest on both tranches was payable on repayment of specific advances, or every nine months at the latest. The Company did not utilize Tranche A during 2002. Interest on Tranche B was accrued at 4.87% in 2002. Both tranches expired in October 2002 and were not renewed.

15. Income tax

a) Current tax

The provision for income tax is as follows:

(in CZK millions) For the year ended December 31,	2002	2001	2000
Income before tax	9,059	8,775	6,630
Income tax at 31%	2,808	2,720	2,055
Non deductible inventory and fixed asset losses	6	–	2
Non deductible advertising and entertainment	26	75	38
Investment credit	(67)	(131)	(137)
Other	15	43	(129)
Total	2,788	2,707	1,829

Income tax expense for the period is composed of:

Current tax charge	2,726	2,331	1,505
Deferred tax charge	62	376	324
Total	2,788	2,707	1,829

b) Deferred tax

The provision for deferred tax is as follows:

(in CZK millions) As of December 31,	2002	2001
Accounts receivable provisions	264	305
Inventory provisions	80	76
Other	270	158
Deferred tax asset – short term	614	539
Temporary differences arising from accelerated tax depreciation	(3,634)	(3,468)
Customer loyalty program	134	105
Deferred tax liability – long term	(3,500)	(3,363)
Deferred tax liability, net	(2,886)	(2,824)

Deferred tax assets and liabilities are valued at 31%.

16. Shareholders' equity

Under the terms of the Agreement, AWBV and CT made capital contributions for their 49% and 51% ownership, respectively. As of December 31, 2002 and December 31,2001 contributions aggregated as follows:

	AWBV USD ths	CT USD ths	Total USD ths	Total CZK millions
Initial capital contribution	175	183	358	10
450 MHz (formerly NMT) and other licenses	15,333	15,958	31,291	737
GSM license	7,350	7,650	15,000	409
Other capital contribution	7,553	7,861	15,414	494
Total	30,411	31,652	62,063	1,650

The contributions were paid by the shareholders in USD or equivalent in the form of equipment, or contract and consulting services. The equivalent contributions were based on the contributing party's costs.

As of December 31, 2002 and December 31, 2001, the Company had legal reserve funds of CZK 121 million included in shareholders' equity. According to the Company's statutes these funds are non-distributable and represent the legal minimum of 10% of basic capital as prescribed by the Czech Commercial Code. No other restrictions as to the use of total shareholders' equity exist as of December 31, 2002.

For the year December 31, 2002, the Company recorded the other comprehensive income associated with the Company's financial derivatives and translation adjustment in the amount of CZK 10 million. No other comprehensive income or loss was recorded for the year ended December 31, 2001.

17. Revenues

(in CZK millions) For the year ended December 31,	2002	2001	2000
Mobile service revenues			
Customers	19,278	17,868	14,606
Interconnect (Note 23)	4,770	5,817	5,356
Roaming	2,821	2,878	2,779
Total mobile service revenues	26,869	26,563	22,741
Mobile equipment and other sales	1,931	3,500	4,456
Total	28,800	30,063	27,197

18. Cost of sales

(in CZK millions) For the year ended December 31,	2002	2001	2000
Mobile service cost of sales			
Interconnect (Note 23)	3,829	4,885	3,777
Roaming	1,194	1,378	1,700
Leased circuits and regulator fees	396	313	222
Other costs	474	373	406
Total mobile service cost of sales	5,893	6,949	6,105
Mobile equipment and service commissions			
Equipment, SIM cards, accessories and other costs	2,817	4,052	5,638
Service commissions	265	392	400
Total	8,975	11,393	12,143

19. Operating expenses

(in CZK millions) For the year ended December 31,	2002	2001	2000
Advertising, marketing and sales	1,700	1,764	1,772
Wages and employee benefits	1,558	1,357	1,105
Building expense	309	256	206
Network support and maintenance *	736	722	507
Motor vehicle expense	106	116	94
Rent – base stations, buildings	650	481	408
Employee training and travel	189	175	144
Office supplies	191	181	176
Professional fees and administrative expenses	637	333	352
Bad debt expense	168	205	314
Disposal of tangible and intangible assets	107	60	9
Depreciation	4,522	4,118	3,235
Amortization	74	76	70
Capitalized expenses **	(238)	(230)	(201)
Total	10,709	9,614	8,191

* network support and maintenance includes a portion of the disposals of fixed assets in the amount of CZK 49 million in 2002, CZK 83 million in 2001 and CZK 28 million in 2000

** capitalized expenses include labor and overhead expenses associated with the construction of fixed assets

In April 2002, the Company established the Nadace Eurotel ("Foundation") with an initial cash contribution. The Foundation is a non-profit charity assisting in the sponsorship of community, school, and other activities for children and young adults. The Company's initial cash contribution included CZK 0.5 million for the creation of the charity's statutory equity; this amount cannot be distributed by the charity in future periods. The Company's initial contribution and regular donations to this charity are expensed upon donation and are included in operating expenses above. Eurotel has no future commitments or other ongoing obligations to the charity.

20. Finance costs

Finance costs consist of the following amounts:

(in CZK millions) For the year ended December 31,	2002	2001	2000
Interest expense, net	–	55	142
Interest income	(17)	(22)	(31)
Foreign exchange gains	(98)	(220)	(284)
Foreign exchange losses	153	137	163
Other finance expenses, net	19	331	243
Total	57	281	233

21. Related parties

The Company had no payables to AWBV as of December 31, 2002 and CZK 6 million as of December 31, 2001 related to professional fees incurred by AWBV on behalf of the Company. The Company recorded an expense of CZK 16 million related to professional fees for the year ended December 31, 2001. No such professional services were received in 2002. These expenses were included in selling, general and administrative expenses in the accompanying Statement of income.

Additionally, the Company had payables to CT in the amounts of CZK 288 million and CZK 280 million as of December 31, 2002 and 2001 relating to interconnect, other charges and customers' use of the CT network. Costs recognized in respect to interconnect (note 23) and other services provided by CT were CZK 474 million and CZK 889 million for the year ended December 31, 2002 and 2001, respectively. Receivables from CT were CZK 1,079 million and CZK 981 million as of December 31, 2002 and 2001. Revenues recognized in respect to interconnect (note 23) and other services provided by Eurotel and sale of phones were CZK 1,262 million and CZK 1,816 million for the year ended December 31, 2002 and 2001, respectively.

22. Financial instruments

a) Fair market value

All financial instruments are recognized at their fair value in the balance sheet. Management’s estimate of the fair value of financial derivatives is as follows:

(in CZK millions) As of December 31,	2002	2001
Forward exchange contracts	17	(46)
Forward rate agreements	–	(4)
Interest rate swaps	(16)	(4)
Currency swaps	–	–

b) Foreign exchange risk management

Due to the foreign currency denominated payables, the Company is subject to the risk arising from foreign exchange rate fluctuations. The Company's objective in managing its exposure to foreign currency fluctuations is to minimize earnings and cash flow volatility associated with foreign exchange rate changes. In order to reduce the uncertainty of foreign exchange rate movements, the Company enters into derivative financial instruments in the form of forward exchange contracts and currency swaps. The forward contracts and currency swaps, which typically expire within four months, are designed to match anticipated foreign currency transactions. Some of the exchange rate derivatives are designated as cash flow hedges and meet the hedge accounting criteria of SFAS 133; accordingly, any adjustment to their fair value during the period is recorded directly to other comprehensive income in the Balance sheet. Conversely, any gains and losses associated with changes in the fair value of instruments that do not qualify for hedge accounting under SFAS 133 are recorded directly to the Statement of income in the period of the change. These derivatives are primarily used to manage currency risk associated with the Euro ("EUR"). The Company had contracts, all of which expire within one year, to exchange foreign currencies for Czech Crowns in the following notional amounts:

(in CZK millions) As of December 31,	2002	2001
Forward exchange contracts	654	1,807
Currency swaps	–	–

(in CZK millions) As of December 31,	2002	2001
Realized foreign currency transaction gains related to financial derivatives (including fair value changes of non-hedge derivatives)	47	310
Changes in fair value – Other comprehensive income	10	--
Changes in fair value – Statement of income	55	(45)

Net foreign currency position as of December 31, 2002:

(in thousands of currencies specified)	Cash and cash equivalents	Accounts receivable	Accounts payable
EUR	1,958	3,565	(18,878)
USD	1,865	4,318	(4,422)
SDR	–	3,574	(601)
CHF	–	8	–
GBP	11	2	(18)

c) Interest rate risk management

The Company enters into forward rate agreements and interest rate swaps in order to hedge the interest rate risk on the outstanding debt. The Company records the differential to be paid or received on the interest rate swaps and forward rate agreements as incremental interest expense. The outstanding contracts had the following notional amounts:

(in CZK millions) As of December 31,	2002	2001
Forward rate agreements	–	400
Interest rate swaps	1,300	200

(in CZK millions) As of December 31,	2002	2001
Net interest revenue related to financial derivatives (including fair value changes of non-hedge derivatives)	38	52
Changes in fair value – Other comprehensive income	–	–
Changes in fair value – Statement of income	(8)	(8)

d) Concentrations of credit risk

Financial instruments, which potentially subject the Company to significant concentrations of credit risk, consist principally of cash and cash equivalents, foreign currency exchange contracts, interest rate contracts and trade accounts receivable. The Company maintains cash and certain other financial instruments with various major financial institutions. The Company performs periodic evaluations of the relative credit standing of these financial institutions and limits the amount of credit exposure with any one institution.

Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of customers. However, substantially all trade receivables are concentrated within the Czech Republic. Although the Company does not currently foresee a credit risk associated with these receivables, repayment is dependent upon the financial stability of the national economy.

23. Commitments and contingencies

a) Capital commitments

The Company had the following authorized and contracted capital commitments:

(in CZK millions) As of December 31,	2002
Open purchase orders for network construction	312
Open purchase orders for internal investments	57
Contractual commitments, primarily cellular mobile telephones	233
Total capital commitments	602

b) Lease commitments

The Company has the following non-cancelable operating lease commitments for property and equipment:

(in CZK millions) As of December 31,	2002
2003	495
2004	301
2005	263
2006	219
2007	203
Lease commitments till 2017	1,586
Total lease commitments	3,067

c) Contingencies

Interconnect arrangements

Arrangements with CT (Note 21) regarding interconnect, mobile terminating and originating, have not yet been agreed in respect of the period since 2001. Arrangements have also not yet been finalized with other Czech mobile operators for the period from January 1, 2002. Although arrangements have not yet been finalized, partial cash settlement has been concluded for interconnect transactions in respect to 2002. Management is confident that these arrangements will be finalized with no negative impact on net income.

Tax inspection

In 2001, the special review group of Tax Authority of Prague 1 began a tax audit of the Company's corporate income and value added tax returns for the years 1997 – 1999. In December 2001, the special review group issued a report summarizing its findings in respect of additional assessment of value added tax amounting to CZK 158 million and additional corporate income tax assessment of CZK 282 million. In January 2002, tax assessments were received for CZK 440 million. The Company filed appeals against these assessments. Concurrently, the Company submitted a request to the Tax Authority and Ministry of Finance for payment deferral and a waiver for both penalty and interest charges.

In January 2003, the Company received a decision from the Financial Directorate for Prague that refused the Company's appeals against the VAT assessment in the amount of CZK 158 million. Therefore, a provision has been created in full. Interest and penalties on this assessment totalled CZK 182 million as of December 31, 2002. However, no provision for penalties or interest was created as the Company filed requests for penalty and interest waiver and believes that such requests will be honoured.

Regarding the corporate income tax assessment, the Financial Directorate for Prague cancelled the additional corporate income tax assessments of CZK 135 million related to 1997 and 1998. In regards to the 1999 tax period, only the amount of CZK 8 million of the total CZK 147 million was assessed. The difference amounting to CZK 139 million was cancelled by the Financial Directorate for Prague.

contacts

Headquarters and Official Numbers

Eurotel Praha, spol. s r. o.
Vyskočilova 1442/1b
140 21 Prague 4
Czech Republic
Identification No. 15268306
Tax No. 004-15268306
Municipal Commercial Court in Prague,
Part C, Inset 1504

Contact

Eurotel Praha, spol. s r. o.
Vyskočilova 1442/1b
P. O. Box 70
140 21 Prague 4
Czech Republic
Tel.: (+420) 267 011 111
Fax: (+420) 267 016 733
E-mail: info@eurotel.cz
www.eurotel.cz

Press Office

Eurotel Praha, spol. s r. o.
Vyskočilova 1442/1b
140 21 Prague 4
Czech Republic
Tel.: (+420) 267 011 163
Fax: (+420) 267 011 150
E-mail: press@eurotel.cz

Customer Care

Contract Customers

Tel.: (+420) 267 016 701
Free phone: 800 330 011
Mobile phone: *11

Prepaid Go Service

Tel.: (+420) 267 011 188
Free phone: 800 330 088
Mobile phone: *88

MA Line (VIP Customers)

Free phone: 800 330 077
Mobile phone: *77

KA Line (Business Customers)

Free phone: 800 330 052
Mobile phone: *52

For more information about Eurotel, please visit www.eurotel.cz;
for more information about the Eurotel Foundation, please visit www.nadace-eurotel.cz.