2003 financial statements

Eurotel
more out of life

› vision

We believe that everyone should be able to get the most out of life, however humble or grand their ambitions.

› mission

Eurotel is dedicated to providing services and support that enrich and empower people to get more out of life, wherever and whenever they choose.

› values

In everything we do, we strive to include

energetic

determined • enthusiastic • efficient

inspiring

encouraging • motivational • stimulating

reliable

we say what we mean • we do what we say • we always follow through

approachable

friendly • open to new ideas • responsive to customer needs

more satisfaction

contents

more out of life

company profile

Eurotel Praha, spol. s r. o. is the largest telecommunications services provider in the Czech Republic (based on customer numbers), and the country's leading provider of wireless voice and data services. As of December 31, 2003, Eurotel registered 4,214,517 customers in its network.

Eurotel Praha, spol. s r. o. operates the Eurotel GSM (900/1800 MHz) and T!P (450 MHz) mobile networks, which cover a territory corresponding to 99 % of the Czech Republic's population. The company owns a license to provide third-generation mobile telecommunications services through the Universal Mobile Telecommunications System (UMTS) standard.

Eurotel Praha, spol. s r. o. delivers its contract and "Go" prepaid customers the clearest voice connections through SuperSound technology, mobile Internet connection services, SMS, WAP, and a number of multimedia services, including mobile video services and MMS. As of December 31, 2003, the company's customers could roam in 134 countries through the 330 roaming partnerships that Eurotel has entered into around the world.

Eurotel Praha, spol. s r. o. is the only mobile operator in the Czech Republic to offer both General Packet Radio Service (GPRS) and High-Speed Circuit-Switched Data (HSCSD) technologies. These services are available to all customers.

Eurotel Praha, spol. s r. o. provides certified top-quality telecommunications services in conformance with the international standard ISO 9001:2000 and is the only telecommunications operator in the Czech Republic to have obtained the ISO 14001 environmental protection certificate. Independent auditors of system quality have confirmed that the company has built up operating systems that guarantee service quality, high performance, and reliability throughout the country

Eurotel Praha, spol. s r. o. is one of the most successful and best performing corporations in the Czech Republic.

Eurotel Praha, spol. s r. o. is a Czech limited-liability company 100 % owned by ČESKÝ TELECOM, a. s. (ČESKÝ TELECOM).

more victories

introduction by the CEO

Eurotel continued to grow in 2003. In one of the most developed mobile markets in the world, we maintained our position of market leader and, with over four million customers, the position of the largest telecommunications operator in the country.

The company's management team, which has been working together for three years now, managed to strengthen Eurotel's competitive position in response to ever more demanding challenges of today. Mobile services revenues rose by 3% in 2003 to reach CZK 27.6 billion. Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) were nearly CZK 14.2 billion, pushing the EBITDA margin up to 49%. Eurotel was again, for the third consecutive year, in the number-one spot in the Czech Republic in terms of the Economic Value Added (EVA) indicator as judged by Central European Capital in cooperation with the Čekia agency.

The above was achieved thanks to ongoing growth in voice services and, most of all, thanks to extraordinary progress in data, Internet, content and innovative tariffing. One of the most successful product launches in 2003 was the Eurotel Data Nonstop service, which made Eurotel one of the most progressive Internet providers in the Czech Republic. By year-end, this unique service had been activated by 31,842 customers.

Another important milestone in Eurotel history was reached in December 2003, when ČESKÝ TELECOM acquired a 100% stake in Eurotel. Both entities successfully completed what is one of the largest business transactions in the history of the Czech Republic. As a result, ČESKÝ TELECOM will be able to present fully consolidated annual financial statements.

We believe that we are capable of leveraging synergies so as to generate the best possible performance for Eurotel as well as additional and even greater advantages for our customers.

We greatly appreciate the loyalty and support of our customers; last year's customer retention figure was the best in company history. Therefore, we are preparing a number of new products and services, packages tailored to meet the individual needs of various segments and other attractive products combining the advantages of wireless technologies with fixed lines and the Internet. All aspects of our business are based on cutting-edge technology, the reliability of our network, a sophisticated sales strategy and an excellent team of people that work for Eurotel and each of whom plays a vital role in the company.

Terrence Valeski

CEO and Managing Director

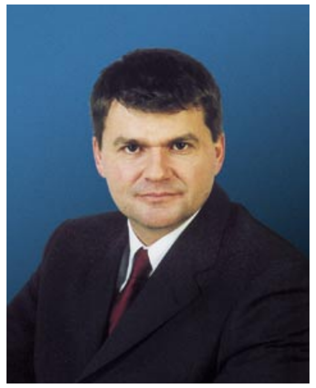
Eurotel Praha, spol. s r. o.

selected financial and operating indicators

(in millions of Czech Crowns)

	2003	2002	2001
TOTAL REVENUES	29,078	28,800	30,063
Mobile service revenues	27,610	26,869	26,563
Mobile equipment revenues	1,468	1,931	3,500
EBITDA	14,199	13,712	13,251
Depreciation and amortization	5,008	4,596	4,195
Net finance expenses / (income)	(103)	57	281
Income taxes	2,040	2,788	2,707
NET INCOME	7,254	6,271	6,068
Total assets	36,864	42,400	37,236
Free cash flow	7,547	6,980	2,767
Capital expenditures	4,105	5,031	10,041
EBITDA / total revenues	49%	48%	44%
Net income / total revenues	25%	22%	20%
SELECTED OPERATIONAL INDICATORS			
Number of customers (in thousands)	4,215	3,891	3,238
Postpaid customers (in thousands)	885	778	695
Prepaid customers (in thousands)	3,330	3,113	2,543
Voice minutes of use (in millions)	4,319	4,184	3,697
Total SMS (in millions)	2,252	2,024	1,413
Ending number of employees	2,442	2,447	2,420

financial performance commentary



Continued focus on our customers in a highly competitive market saw mobile service revenues increase by 3% year on year. We continue to improve our value proposition to our customer base through innovative tariffing and new products and services. 2003 saw the launch of the first flat-rate mobile Internet product in the Czech Republic. For the first time in Eurotel history a dividend was paid. The dividend of CZK 10,978 million was fully funded from our cash reserves.

TOTAL REVENUES

Total revenues comprise mobile service revenues and mobile equipment revenues, which also include activation and other revenues.

Mobile service revenues increased by CZK 741 million, or 3%, for the twelve months ended December 31, 2003. The increase was primarily due to the growth in our customer base, which resulted in a 3% increase in voice minutes of use and an 11% increase in SMS traffic.

Mobile equipment revenues declined by CZK 463 million, or 24%. The decline was caused by the Czech Republic's already high level of penetration of approximately 95% at the end of 2003.

As result of the above, total revenues increased by CZK 278 million, or 1%.

EBITDA

Earnings before interest, taxes, depreciation, and amortization increased by CZK 487 million, or 4%, for the twelve months ended December 31, 2003. The increase reflected higher mobile service revenues and lower operating expenses (excluding depreciation and amortization). The EBITDA margin increased from 48% in 2002 to 49% in 2003.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization increased by CZK 412 million, or 9%, for the twelve months ended December 31, 2003. This increase reflected additional depreciation expense of property, plant, and equipment acquired and constructed as we continued to build our GSM network.

NET FINANCE EXPENSES

Net finance expenses decreased by CZK 160 million, or 280%, for the twelve months ended December 31, 2003. The decline was the result of lower interest costs due to higher cash balances. In addition, the stability of the Czech crown against the Euro resulted in lower foreign exchange losses and hedging costs.

INCOME TAXES

Income taxes decreased by CZK 748 million, or 27 %, for the twelve months ended December 31, 2003. The decrease was a result of the dividend distribution to shareholders, which reduced our tax liability by CZK 420 million. In addition, the enacted decrease of corporate income tax from 31 % in 2003 to 28 % in 2004, 26 % in 2005 and 24 % in 2006 served to decrease our deferred tax liability and related deferred income tax charge for 2003.

NET INCOME

Net income increased by CZK 983 million, or 16 %, for the twelve months ended December 31, 2003. The growth in mobile service revenues, improved operational efficiency and lower income taxes were the main factors contributing to the increase in net income.

Robert Bowker

Chief Financial Officer

Eurotel Praha, spol. s r. o.

› highlights of 2003

The strength of Eurotel's corporate strategy and success in innovation are convincingly demonstrated by the rich array of events in 2003 that reinforced Eurotel's position as the leading domestic mobile telecommunications operator.

JANUARY

- Per-second billing after the first minute for the Fun Go and Quatro Go prepaid tariffs.
- Expanded offering to include licensed mobile products with motifs from the cult film saga „The Lord of the Rings".
- Start of UMTS network testing.

FEBRUARY

- Agreement signed with Živnostenská banka, making it the seventh partner for Eurotel GSM banking and the DobijGo prepaid card recharging service.
- Launch of Eurotel Individual, which allows customers to design their own tariff according to their individual needs – the only individual tariff in the Czech Republic and one of few in the world.
- Launch of Eurotel Global Access service, which provides simple, low-priced and reliable mobile Internet access in 58 countries.
- Eurotel customers are the first in the Czech Republic to send MMS messages to recipients in foreign countries.

MARCH

- Price of the SMS Data Plus service is cut in half for a 3–month period.
- Public demonstration of UMTS network technology.

APRIL

- Eurotel Data Nonstop service is brought to market as the first unlimited GPRS Internet access in Europe for a fixed monthly fee.
- Eurotel becomes the General Partner of the Czech national ice hockey team and provides unique information services direct from the World Ice Hockey Championships in Finland.

MAY

- Eurotel partners with the Prague Spring International Music Festival.
- Eurotel Team service launched, offering various billing discounts to corporate customers.
- Increased benefits for Eurotel VPN customers – unlimited in-house calls for corporate customers.

JUNE

- Shareholders sign an agreement for ČESKÝ TELECOM to purchase 49 % stake in Eurotel from Atlantic West B.V. and authorize the first ever dividend payment in 2003.
- Eurotel is the General Partner of the prestigious International Festival of Contemporary Dance and Moving Theatre.
- MMS Postcard service launched. For a single, unified price, Eurotel customers can send home pictures, that arrive in the form of a standard postcard, from their vacations in the Czech Republic or anywhere throughout the world.
- Special edition of music services released for the Go Planet Roxy multicultural festival.

JULY

- Number of Eurotel customers passes the 4 million mark.
- Mobile reservation, information and multimedia services provided to visitors of the Karlovy Vary International Film Festival.
- New 64 kB SMART SIM cards are released with an improved version of Eurotel GSM banking.

AUGUST

- Improved rates on voice minutes between two numbers in the Eurotel network with launch of the new Eurotel Duet service, designed for both contract and Go prepaid customers.

SEPTEMBER

- Historic first dividend paid to company shareholders.
- Eurotel is General Partner of the Strings of Autumn music festival.
- Eurotel approved improved GSM signal coverage, as part of the Integrated Rescue System Project, through additional investment of CZK 85 million
- Eurotel Tandem service is extended to offer up to 4 SIM cards on a single account.

OCTOBER

- Data and voice services integrated for the first time ever in the Czech Republic – in addition to unlimited Internet access, the Eurotel Data Nonstop service offering now includes 30 free voice minutes of use.
- Launch of Eurotel Top Weekend package containing 100 free weekend voice minutes within the Eurotel network and fixed lines, 50 SMS and 25 MMS messages.
- New tariff Special Go provides improved rates on voice minutes within the Czech Republic by up to 40 %.
- Expanded range of payment options for the WiFi Jet service – now customers can either pay by the hour (via SMS message) or by monthly fixed fee. By year-end the service was accessible at over 80 hotspots throughout the Czech Republic, the most offered by any Czech mobile operator.
- Launched unlimited in-house calling for corporate customers for just CZK 399 per month.
- Eurotel Data Nonstop receives Minister of Information Technologies Award and Best of Invex award at the Invex trade show.

NOVEMBER

- Christmas campaign launched – concentrated in a grand Christmas SMS game, with a prize for each and every participant.
- Over 1/3 of Eurotel's customers participate in the Christmas SMS game.
- Eurotel Foundation co-organizes the 1st Conference on Corporate Philanthropy in the Czech Republic.

DECEMBER

- ČESKÝ TELECOM becomes 100 % owner of Eurotel.
- Agreement made to postpone the launch of UMTS third-generation mobile services until 2006, in consideration for the prepayment of the UMTS license in 2004.
- On Christmas Eve, Eurotel's processed nearly 27 million SMS - the highest number of SMS messages in history. Another record was broken during New Year's Eve and the first hour of the New Year, when 19 million SMS messages were delivered.
- Go customers have their credit increased by 17 % effective midnight, December 31, in conjunction with a change in the VAT rate.

more comfort

contract customers

In the highly competitive mobile telecommunications market in 2003, Eurotel focused on its contract customers, offering them a number of innovative tariffs as well as completely new products and services. Our goal is to offer all customers services that are tailored to meet their individual needs, demands, and desires.

EUROTEL INDIVIDUAL

Eurotel Individual, which is unique among tariffs offered by any mobile operator in the Czech Republic, allows each contract customer to define his or her own individualized tariff, including number of voice minutes, SMS and MMS messages, free minutes and duration of Internet or WAP connections. This new tariff guarantees maximum freedom and flexibility in decision-making and up to half of the company's contract customers have the potential to save roughly 30 % on their mobile communications costs.

EUROTEL DUET

The Eurotel Duet special tariff gives customers savings on voice minutes between two designated numbers in the Eurotel network. When the Eurotel Duet service is activated, a contract customer and a Go prepaid customer save 20 % on mobile communications in the Czech Republic. The Go prepaid customer saves 20 % on all voice minutes to the contract customer's number, while the contract customer enjoys 20 % savings on all traffic to the Go number, including SMS and MMS messages.

EUROTEL TANDEM

With the new version of Eurotel Tandem service, contract customers can opt to receive up to four additional SIM cards linked to a single account. Voice minutes, SMS and MMS messages between numbers in the Tandem group may be up to 50 % less than those outside the plan. The advantages of this service are not limited to just the tariff; Eurotel Tandem also gives the customer a consolidated bill covering the entire Tandem group.

EUROTEL TOP WEEKEND

The economically priced Eurotel Top Weekend package that contract customers can purchase as a top-up on all standard tariffs includes 100 free weekend voice minutes within the Eurotel network and to fixed lines. 50 SMS and 25 MMS messages are also included free with the package and can be used any time, on or off weekend.

BENEFIT PROGRAM

Benefit is a customer loyalty program. In 2003, Eurotel doubled the number of free minutes awarded under the Benefit program and extended the time period for redeeming Benefit points for minutes called during 2003.

Other advantages Eurotel provided to all its customers in 2003 included a new generation of 64 kB SMART SIM cards that included an improved version of Eurotel GSM banking and the applications Personal SMS and PIN Manager, sale of mobile handsets on installment, various limited-time-only discounts on purchases of new products and services, and new ways to make payments through ATM machines, mobile phones, and other direct alternative channels.

corporate customers

In 2003, Eurotel maintained its position as the leading provider of mobile telecommunications services to the Czech Republic's largest corporations. Eurotel also acquired several additional major corporate customers in 2003. According to a T-Audit survey conducted jointly by telecommunications operators as of October 2003, 80% of companies with over 200 employees used Eurotel's services. In terms of revenues Eurotel's share in this segment was even higher – 81%.

EUROTEL TEAM

With the Eurotel Team service, corporate clients may take advantage of lower rates on voice minutes both within the company as well as to 5 selected, most frequently called telephone numbers of their business partners. In addition to financial savings, the service also allows for easier cost control, more effective in-house communications and access to additional advantages of the Virtual Private Network (VPN).

EUROTEL VPN NONSTOP

The Eurotel VPN Nonstop service gives corporate clients the ability to communicate within their corporate VPN network without per-minute charges, just for a fixed monthly fee. Corporate customers can activate the service from any telephone number in their corporate VPN network and no longer need to monitor the number or duration of their in-house voice calls.

EUROTEL PARTNER PROGRAM

In 2003, Eurotel launched a program, in which we provide systems integrators and software firms with support in developing applications based on mobile communications (programs for sales representatives and technicians, access to in-house applications, meter readings, mobile telemetry, etc.). This represents a critical expansion in distribution to allow for the sale and growth of data products and revenues to SOHO and SME customers.

Go prepaid customers

Eurotel's innovations in 2003 were not limited to contract customers. Go prepaid customers also benefited from new tariffs, a more advantageous billing method, time-limited discounts on purchases of products and services, and new, attractive value added services.

SPECIAL GO TARIFF

The newest tariff, the fourth available to the Go prepaid customers, allows up to 40% reduction in rates for calls within the Czech Republic and discounted international rates on calls to selected countries such as Great Britain, Russia, Poland and Slovakia.

FUN GO AND QUATRO GO: PER SECOND BILLING

As of January 2003, Go prepaid customers, who selected the Fun Go or Quatro Go tariffs are benefiting from a more advantageous billing method. After the first minute of any call, the company calculates the rest of the call charge on a per-second basis.

IMPROVED EUROTEL NETCALL *55 SERVICE

In 2003, Go prepaid customers gained a 20% discount on voice minutes and faxes to foreign countries with the Eurotel NetCall *55 service, at any time day or night.

DOBIJGO RECHARGING SERVICE

Živnostenská banka was added to the list of banks through which Go customers can recharge their prepaid cards. Also, two new features were developed in cooperation with Komerční banka - recharging through ATM machines and recharging directly from a mobile phone.

In 2003, Eurotel offered Go customers a new generation of SIM cards entitled Go SIM card SMART. The extra features of this card include an improved version of Eurotel GSM banking and the applications Personal SMS and PIN Manager. The company also launched the new Eurotel Duet tariff, which allows a Go customer to team up with a contract customer, giving both an up to 20% savings on their mutual mobile communications.

data products and services

In 2003, Eurotel further reinforced its position as the leader in the data services segment by launching a number of new initiatives. Our offering, built on cutting-edge technologies such as GPRS, HSCSD and WiFi, is contributing to the development of Internet services in the Czech Republic and pushing the envelope in terms of the range of advantages that mobile telephones provide to both individual and corporate customers. It is no wonder that in December 2003 Eurotel recorded the highest ever volume of data transmission in its network: over 9,700 gigabytes.

EUROTEL GLOBAL ACCESS

The Eurotel Global Access service provides simple, low-priced, reliable mobile data service in nearly sixty countries. To take advantage of Eurotel Global Access, the customer needs no additional equipment other than that which is already required in the Czech Republic. The service gives the customer a cost savings of up to 60% on data service use compared to conventional roaming.

EUROTEL DATA NONSTOP

In April, Eurotel became the first mobile operator in Europe to offer its customers unlimited Internet access for a fixed fee. In October 2003, Eurotel Data Nonstop was relaunched as the first combined offering of data and voice services in the Czech Republic and throughout Europe. Within very little time, Eurotel Data Nonstop managed to earn not only a large number of satisfied customers, but two prestigious awards from the Invex 2003 International Information and Telecommunications Technologies show as well. "The Minister of Information Technologies' Award for Contribution to the Development of an Information-friendly Society in the Czech Republic" and the "Best of Invex" awards were granted by the editors of IT and telecommunications trade magazines.

EUROTEL WIFI JET

The Eurotel WiFi Jet service delivers high-speed wireless Internet access through access points, called "hotspots", located in international hotels, congress centers, shopping malls and airports. During the year, the WiFi Jet service became even more flexible, by allowing the customer to choose between a per-hour basis through SMS message, a flat-fee option, or prepaid vouchers By the end of 2003, Eurotel offered WiFi connections through 80 access points, the highest number of hotspots offered by any company in the Czech Republic. Eurotel continues to explore various targets and distribution methods that expand the commercial impact of this technology.

content services

In 2003, Eurotel thrilled its customers with a number of new content services, such as MMS/SMS based news and entertainment, WAP and Java applications, videostreaming and other multimedia content delivered through mobile handsets.

MULTIMEDIA MESSAGING SERVICE (MMS)

The number of customers using MMS service at the end of 2003 was over 133,000. MMS customers could exchange MMS messages within the Czech Republic or internationally, through 67 mobile operators in 41 countries. Eurotel offers customers the broadest range of MMS services available in the Czech Republic, including news reports with attached images, animated postcards, images and messages accompanied by sound recordings, and personal albums on the Internet.

MMS POSTCARD SERVICE

In 2003, Eurotel was the only mobile operator in the Czech Republic that allowed customers to send MMS message in the form of a standard postcard sent automatically to a specified postal address. Eurotel customers could use this service to send postcards from their vacations in the Czech Republic and anywhere throughout the world.

INTERACTIVE PARTNERSHIPS

Eurotel has begun using content services within the framework of its strategic partnerships with, to name a few, the Czech national ice hockey team, the AC Sparta Praha football club, the Karlovy Vary International Film Festival, and the Go Planet Roxy music festival. Thanks to these partnerships, Eurotel handset users can gain access to exclusive text and image news reports, ticket sales and reservations, as well as various contests, surveys and group chats.

LICENSED MOBILE PRODUCTS

Licensed mobile products help to develop content-based services such as games, music, images, logos, ring tones, and mobile handset display wallpapers. Eurotel has licensed mobile communications products associated with the cult film trilogy The Lord of the Rings, Labyrinth (the first on-line game for an unlimited number of players), and the internationally popular comics figure Garfield the Cat, to name a few.

Content-based services are the future of mobile telecommunications. They are expanding the range of applications for the mobile phone and accelerating its transformation from a mere means of communication into a means of gaining access to information, news and entertainment.

more reliability

top technologies

In order to maintain our position as technology innovation leader both within the Czech Republic and worldwide, Eurotel has prepared for the upcoming period of major changes that will bring not only dynamic growth in wireless data services, but also more demanding conditions in the Czech telecommunications market. We are constantly supporting the growth of the data market through an aggressive program of investments that will deliver to our mobile data customers substantially more bandwidth. At the same time, we are investing in and rolling out the latest technologies in the voice services segment as well.

TOP QUALITY

Eurotel uses the highest quality technologies as evidenced by our cutting-edge, reliable network whose technical specifications are among the most advanced in Europe. For us, continued improvement in network reliability is one of the most important means of reinforcing Eurotel's already strong position in the Czech telecommunications market. Thanks to professional planning and thorough, detailed fine-tuning of all its parameters, our first class mobile network consisting of over 3,500 base stations is one of the most reliable networks – for example, the network's CBR number (call blocking rate) is only 1 % and its CDR (call dropped rate) is actually below 1 %. These values are the best among all mobile operators in the Czech Republic.

For us, the building of an even higher-performing and more reliable network is a challenge that we are meeting through regular investment in processes that eliminate any customer interruptions in network service. One such process, the backing up of most systems that comprise Eurotel's mobile network to ensure a signal is never dropped, is an area we continued to invest in.

THE YEAR IN INNOVATIONS

Eurotel's objectives and accomplishments described above could not be achieved without the rollout of top technologies, and the year 2003 was another milestone in the area of technological innovation at Eurotel.

- The unique Eurotel Data Nonstop service which gives customers unlimited flat-fee Internet access was provided by expanding our GPRS capacity.
- The 3.5 GHz frequency band was used for "point-to-multipoint" transmissions, optimizing the Cost/Value ratio for corporate customers using the Eurotel OnePort service.
- In cooperation with three major potential suppliers, we successfully completed testing of our UMTS network technology through which we will provide third-generation mobile services to our customers. Changes in the license terms were agreed with the Czech Government, postponing the launch of UMTS service until 2006.
- A tender was commenced to find a supplier of EDGE technology, and trials were completed.

more opportunities

human resources

As of December 31, 2003, Eurotel offered our 2,442 employees an exciting and dynamic work environment in one of the most successful companies in the Czech Republic, competitive compensation, an extensive benefits program and a corporate culture that gives employees room for personal and professional growth. These are just a few of the reasons why we were awarded the title "The Most Sought after Employer of the Year" for 2003, which is granted on the basis of a survey conducted among the general public.

EMPLOYEE PERFORMANCE MANAGEMENT PROGRAM

In 2003, Eurotel expanded its program of annual job performance evaluations. Employees are now divided into several categories according to their performance. The objective of the program is to recognize each individual's contribution to the company's overall performance, reward the most successful employees and encourage growth.

MANAGERIAL TRAINING PROGRAMS

In 2003, Eurotel continued to implement its internationally certified Project Management Program, which was successfully completed by a total of 51 graduates. In 2003 we evaluated the accomplishments to-date of employees participating in the Management Career Curriculum program and managers in Assessment Development Centers.

EMPLOYEE BENEFITS PROGRAM

The Eurotel Employee Benefits Program, through which we motivate employees and reward their loyalty, was expanded in 2003 by the addition of several attractive new components in the area of supplemental pension insurance and capital life insurance. The company also increased the support it provides for employees' off-the-job activities, including personal education, sport, and leisure activities.

EUROTEL ALL MANAGEMENT MEETING

In 2003, the company inaugurated the tradition of Eurotel All Management Meetings, which are regularly attended by over 200 directors, managers, and supervisors. In an amicable working environment, they have the opportunity to exchange experience, as well as opinions on the company's results, activities, and business objectives.

THE "EMPLOYEES GIVE A HELPING HAND" PROJECT

In this project, company employees volunteered to help children from the children orphanage in Klánovice u Prahy and the "Dagmar" orphanage in Brno. Administration of the project, which was initiated by the employees themselves, was taken over by the Eurotel Foundation, a member of the Czech Donors Forum – Association of Foundations of the Czech Republic.

We intend to continue to implement a human resources strategy that builds company pride and loyalty, supports employee education, qualification and professional skills, contributes to improved performance and job accomplishments, and fosters a healthy corporate culture and a motivating, friendly and open atmosphere within the company.

more joy

Eurotel Foundation

In 2003, Eurotel Foundation continued in its successful program of providing long-term assistance to disadvantaged children and youth in the Czech Republic. It is with the deepest admiration that we follow children as they overcome their physical and mental challenges. Their will and ability to overcome obstacles motivates us, enriches us, and fills our work with purpose. In 2003, the Foundation distributed over CZK 13 million.

SUPPORT FOR CORPORATE PHILANTHROPY

Eurotel Foundation became a member of the Czech Donors Forum – Association of Foundations of the Czech Republic in 2003. In cooperation with this Forum, and under the auspices of Petr Pithart, Chairman of the Senate, the foundation organized the 1st Conference on Corporate Philanthropy in the Czech Republic. This combined work meeting and social gathering opened the issue of corporate philanthropy and donorship as a strategic component of companies' social responsibility spectrum. The culmination of the Conference was the gala announcement of the Corporate Donors Club – a grouping of companies doing business in the Czech Republic, which are long-term contributors to corporate philanthropy.

WE HELP SPECIFIC CHILDREN

In year two of its regional grants program, Eurotel Foundation distributed a total of CZK 11 million to 53 non-governmental, non-profit organizations. In 2003, as part of the grant proceedings, the Public Awards were announced for the first time. The recipients of CZK 55,000 were chosen directly by the public through voting in the dailies Deníky Bohemia and Deníky Moravia as well as SMS votes.

EUROTEL FOUNDATION AWARD

Sports Club Kontakt Karlovy Vary was 2003's winner of the Eurotel Foundation Award (CZK 1 million) for an exceptional project of extraordinary benefit. The club offers handicapped children physiotherapeutic swimming courses and motivates them to take their fate into their own hands.

LONG-TERM SUPPORT GRANTS

Organizations that previously received a grant from Eurotel Foundation can receive an additional two years of long-term support in order to ensure the smooth and successful continuation of their projects to help disadvantaged children. The Foundation came out with this innovation at a time when even stable non-profit organizations still lack a system for financing their long-term activities.

EMPLOYEES GIVE A HELPING HAND

The Foundation's assistance is not financial only. Through the Foundation, Eurotel's employees spontaneously support over 70 children from the children orphanage in Klánovice near Prague and the Dagmar orphanage in Brno. Volunteers spend their free time with the children and organize various events for them. In this manner, new friendships are formed that enrich lives of both the child and our own Eurotel staff.

"LINE HOME" PROJECT AND CLINIC CLOWN

As part of the "Line Home" project, the Foundation distributed Go prepaid card packages and mobile handsets in the pediatric wards of selected hospitals, so that little patients can communicate with their parents, relatives and friends and thereby overcome their feelings of loneliness and anxiety caused by the hospital environment. The project is being implemented in cooperation with the Clinic Clown civic association, whose activities in hospitals are supported by the Foundation.

NICHOLAS WINTON EDUCATION PROGRAM

Eurotel Foundation supported the Nicholas Winton – The Power of Good interactive education program, which gained the patronage of the Ministry of Education, Youth and Physical Education of the Czech Republic. Thanks to this program, secondary and primary school students will be able to learn more about the story of Nicholas Winton. The program's objective is to awaken young people's interest in a positive hero – an ordinary young man who had the courage to change history – and to inspire them to follow his example by acting positively.

Eurotel Foundation thanks all who helped it to come yet another step closer to children that need help.

› sports, culture and the arts

Eurotel has a long tradition of being a major supporter of sports, culture and the arts in the Czech Republic. Sport, culture and the arts all express a number of values that are key to the company – dynamism, communication, joy, entertainment, understanding, energy, competitiveness, teamwork and fair play.

In 2003, many world famous personalities entertained and enriched the public in the Czech Republic, Czech artists and athletes achieved brilliant successes at the international level and budding young hopes and talents were able to continue their long path to success, all with support from Eurotel.

SELECTED SPORTS PROJECTS, 2003

- Czech National Ice Hockey Team
- AC Sparta Praha football club
- Czech Track-and-Field Federation
- Tomáš Dvořák, decathlonist – three-time World Champion (1997, 1999, 2001)
- Roman Šebrle, decathlonist – World Record Holder, holder of Silver Medals from World Championships (2003) and the Olympic Games (2000), European Champion (2002)
- Kateřina Neumannová, cross country skiing – holder of several Silver and Bronze Medals from the Olympic Games (1998, 2002) and World Championships
- Martin Koukal, cross country skiing – holder of Gold Medal from the World Championship in Italy (2003), (50 km)
- Eurotel PGAC Open Golf Tour
- Nike Premier Cup
- Eurotel Cheerleaders Team

SELECTED PROJECTS IN CULTURE AND THE ARTS, 2003

- Karlovy Vary International Film Festival
- Go Planet Roxy music festival
- Prague Spring International Music Festival
- International Music Festival Strings of Autumn
- International Festival of Contemporary Dance and Moving Theatre
- José Cura, tenor and conductor
- Magdalena Kožená, mezzo-soprano
- Tim Janis, composer and conductor
- documentary film "Sir Nicholas Winton – The Power of Good"

Eurotel's support for its partners in sports, culture and the arts is not limited only to financial assistance. In 2003, Eurotel applied latest technologies to its sponsorship strategy – for example, in access to websites of sports and festival news reporting, tickets reservations and sales, surveys, chats and contests for fans, mobile audio and video services, as well as in other content services provided through mobile handsets.

more challenges

corporate governance

OWNER

Eurotel Praha, spol. s r. o. is a Czech limited-liability company 100% owned by ČESKÝ TELECOM, a. s., which became Eurotel's 100% owner in December 2003 in one of the largest business transactions in Czech Republic history and one of the largest financial acquisitions ever to take place in the Czech telecommunications sector. Prior to December 2003, Eurotel was a joint venture between ČESKÝ TELECOM, a.s. and Atlantic West B.V., a corporation existing under the law of the Netherlands. Atlantic West B.V. was ultimately owned by AT&T Wireless Services and Verizon Communications, U.S. corporations.

MANAGEMENT

Eurotel is managed by the Chief Executive Officer (the "CEO") who appoints and recalls chief officers and directors. The CEO is appointed by the General meeting. The General meeting authority includes the approval of the budgets, distribution of net income, strategic expansion of the business, changes in share capital, assumption of borrowings, acquisitions and review of the company's performance.

ORGANIZATION STRUCTURE

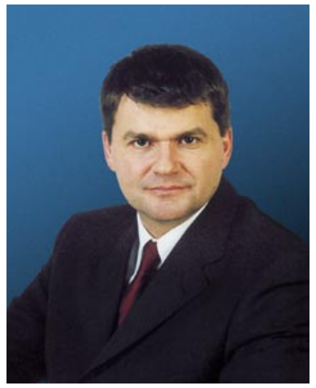
Internally, Eurotel is structured into the following divisions: Commercial (marketing, customer care, products and services, content development), Sales, Technical, Operations (information technologies, security, strategy), Financial, Legal, and Human Resources. The chief officer of each division reports directly to the CEO.

company management

TERRENCE VALESKI (1946)

CEO and Managing Director

University of Arizona (USA) • British Telecom Wireless (Great Britain), Blu (Italy), Telfort (Netherlands), Pacific Bell Corporation (USA) • with Eurotel since 2000



ROBERT BOWKER (1967)

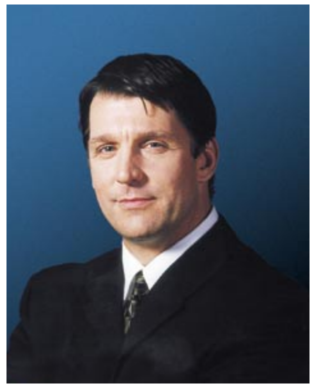
Chief Financial Officer

Rhodes University (South Africa) • Johnson & Johnson, Summerpride Foods (South Africa), PricewaterhouseCoopers, EuroTel Bratislava (Slovakia) • with Eurotel since 2000

PAUL LONG (1958)

Chief Operating Officer

University Newcastle upon Tyne (Great Britain) • British Telecom Cellnet (Great Britain), Blu (Italy), Telfort (Netherlands), British Telecom (Great Britain) • with Eurotel since 2000, first as Executive Director for Strategic Development; appointed Chief Operating Officer in 2001



GARRISON MACRI (1963)

Chief Commercial Officer

Syracuse University (USA) • Saatchi & Saatchi, Young & Rubicam, Pacific Bell Corporation, Southwestern Bell, Mobex Communications (USA) • with Eurotel since 2002

ĽUBOŠ BÔRIK (1968)

General Counsel

Charles University Law Faculty (Czech Republic), Vrije Universiteit Brusel (Belgium) • attorney, Dewey Ballantine (USA) • with Eurotel since 1998 as Director of Legal Division; appointed General Counsel in 2001

JOSEF FIDLER (1958)

Executive Director Human Resources

Charles University Law Faculty (Czech Republic) • McDonald's (Czech Republic), Unilever (Czech Republic) • with Eurotel since 1998 as Director of Human Resources; appointed Executive Director Human Resources in 2001

ZUZANA ŘEZNÍČKOVÁ (1960)

Chief Sales Officer until February 2004

Pardubice Institute of Chemical Technology (Czech Republic) • State Culinary and Agricultural Products Quality Inspectorate, Synthetic Resins and Paints Research Institute, EMCO, Master Foods (Czech Republic) • with Eurotel since 1998; appointed Chief Sales Officer in 2001

PAVEL KOLÁŘ (1961)

Chief Technical Officer as of January 2004

Czech Technical University, Faculty of Electrical Engineering (Czech Republic), TESTCOM (Telecommunications Research Institute) • long-term internship in France • with Eurotel since 1991; appointed Acting Chief Technical Officer on October 1, 2003 and in December 2003 confirmed CTO effective as of January 1, 2004

NIELS CHRISTIAN MIKKELSEN (1946)

Chief Technical Officer until September 2003

Denmarks Radio, Statens Telejeneste, Tele Denmark International (Denmark) • with Eurotel since 1997; appointed Chief Technical Officer in 2001, in which capacity he served until September 30, 2003, when he became a consultant to the Technical Division

more expectations

› company strategy

Eurotel's strategy for 2004 reflects Eurotel's strong commitment to enabling its customers to get more out of life wherever and whenever they choose. The strategy for 2004 is composed of four key components:

• Maintain and improve Eurotel's position as the leading telecommunications provider in the Czech Republic. In the past years, the Czech telecommunication market has evolved into highly competitive environment. Eurotel will continue to be a leader in this market by becoming an even more customer focused organization. Eurotel has invested heavily in developing this capability and the achievement of this strategy component will be based on our existing strong commitment to innovation and high quality products, first class customer care and improved customer satisfaction and loyalty.

• Build an even greater market share in key target customer segments and maintain a leading market share in other segments. Eurotel will launch new competitive offers to key customer segments and maximize the benefits through new campaign management techniques. Marketing campaigns will be focused, but still be under the Eurotel brand name and will deliver more value to all customers.

• Expand on our value delivered to customers. Eurotel will introduce innovative technologies, products and solutions in 2004, focusing on opportunities in areas that have not been previously explored. As a part of this objective, Eurotel aims to become a significant provider of Internet access in the Czech market, enter more firmly the market of vertical business solutions and deliver more and better content to its customers.

• Maximize our return from our investments. This focus here will be on improving the internal capabilities of Eurotel through streamlining the project development process, better alignment of project portfolio with business objectives and attaining a higher return on investments in Eurotel's project initiatives. Increased efficiency of the project development process will help Eurotel shorten the time to market for introduction of promising new products and services.

Eurotel has consistently over-achieved its expectations, and 2004 promises to be an exciting year as many long-term projects reach their fruition and new innovative products and services are introduced. Eurotel's strategy is chosen to maximize the benefits both in the short and medium term.

more good news

consolidated financial statements

for the year ended December 31, 2003

PREPARED IN ACCORDANCE WITH ACCOUNTING PRINCIPLES
GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

Report of independent auditors

To the Shareholder 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, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 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.

PricewaterhouseCoopers Audit, s.r.o.
Prague, Czech Republic

January 26, 2004

PRICEWATERHOUSECOOPERS

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

consolidated balance sheets

(in millions of Czech Crowns)

	Notes	As of December 31, 2003	2002
ASSETS			
Current assets			
Cash and cash equivalents	6	2,908	6,417
Accounts receivable, net	7	4,198	4,402
Income tax receivable		405	--
Inventories, net	8	505	888
Prepaid expenses		130	93
Short-term deferred tax asset	15b	--	614
Total current assets		8,146	12,414
Property, plant and equipment		43,328	39,905
Construction in progress		1,564	1,900
Less accumulated depreciation		(20,616)	(16,328)
Property, plant and equipment, net	9	24,276	25,477
Intangible assets, net and other investments	10	4,442	4,509
Total assets		**36,864**	**42,400**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Trade payables	11	2,614	3,237
Deferred revenues	12	1,285	1,169
Short-term debt	14	2,284	253
Short-term deferred tax liabilities, net	15b	478	--
Other current liabilities	13	2,040	2,519
Total current liabilities		8,701	7,178
Long-term debt	14	--	2,028
Long-term deferred tax liability, net	15b	2,194	3,500
Total liabilities		10,895	12,706
Shareholders' equity			
Share capital	16a	1,650	1,650
Accumulated other comprehensive income	16b	9	10
Retained earnings	16c	24,310	28,034
Total shareholders' equity		25,969	29,694
Total liabilities and shareholders' equity		**36,864**	**42,400**

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

consolidated statements of income

(in millions of Czech Crowns)

	Notes	For the year ended December 31, 2003	2002	2001
Revenues	17	29,078	28,800	30,063
Cost of sales	18	8,635	8,517	11,080
Gross profit		20,443	20,283	18,983
Operating expenses	19	11,252	11,167	9,927
Operating profit		9,191	9,116	9,056
Finance expenses, net	20	(103)	57	281
Income before tax		9,294	9,059	8,775
Income tax expense	15a	2,040	2,788	2,707
Net income		7,254	6,271	6,068

consolidated statements of changes in shareholders' equity

(in millions of Czech Crowns)

	Share capital	Accumulated other comprehensive income/(loss)	Retained earnings	Total shareholders' equity
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				
Revaluation of financial instruments (Note 22)	--	10	--	10
Balance as of December 31, 2002	1,650	10	28,034	29,694
Net income	--	--	7,254	7,254
Other comprehensive income, net				
Revaluation of financial instruments (Note 22)	--	(11)	--	(11)
Foreign currency translation adjustment	--	10	--	10
Distribution to shareholders (Note 16c)	--	--	(10,978)	(10,978)
Balance as of December 31, 2003	1,650	9	24,310	25,969

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

consolidated statements of cash flow

(in millions of Czech Crowns)

	For the year ended December 31, 2003	2002	2001
CASH FLOW PROVIDED BY OPERATING ACTIVITIES			
Net income	7,254	6,271	6,068
Adjustments to reconcile Net income to net cash provided by operating activities:			
Depreciation and amortization	5,008	4,596	4,194
Current and non-current asset provisions	(88)	239	74
Loss on disposal of PPE and intangible assets	301	156	143
Interest expense / (income)	(140)	(17)	143
Realized foreign exchange losses / (gains)	(532)	30	50
Unrealized foreign exchange losses / (gains)	569	25	171
Current income tax expense	2,254	2,726	2,330
Deferred income tax expense / (income)	(214)	62	377
Decrease / (increase) in inventories	506	551	(340)
Decrease / (increase) in receivables and other assets	208	517	(1,237)
Increase / (decrease) in payables and other liabilities	(283)	(329)	573
Interest received / (paid)	131	(4)	(201)
Income tax received / (paid)	(3,268)	(3,005)	(1,528)
Net cash provided by operating activities	11,706	11,818	10,817
CASH FLOW USED IN INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(4,182)	(4,696)	(7,080)
Purchase of intangible assets	--	(194)	(1,000)
Purchase of investment in associate	(10)	--	--
Proceeds from disposal of PPE	33	52	30
Net cash used in investing activities	(4,159)	(4,838)	(8,050)
CASH FLOW PROVIDED BY FINANCING ACTIVITIES			
Drawing of third party loans	211	1,075	1,308
Repayment of third party loans	(209)	(1,877)	(5,999)
Dividends paid to shareholders	(11,064)	--	--
Net cash (used in) / provided by financing activities	(11,062)	(802)	(4,691)
Net increase / (decrease) in cash and cash equivalents	**(3,515)**	**6,178**	**(1,924)**
Translation adjustment	6	9	--
Cash and cash equivalents at beginning of period	6,417	230	2,154
Cash and cash equivalents at end of period	2,908	6,417	230
SIGNIFICANT NON-CASH INVESTING AND FINANCING ACTIVITIES			
Acquisition of UMTS license	--	--	2,535

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

1. COMPANY DESCRIPTION

Eurotel Praha, spol. s r.o. (“the Company”) is a Czech limited liability company. Prior to December 4, 2003, the Company was a joint venture between ČESKÝ TELECOM, a.s. (“CT”) and Atlantic West B.V. (“AWBV”), a corporation existing under the law of the Netherlands. AWBV was ultimately owned by AT&T Wireless Services and Verizon Communications, U.S. corporations. In 2003, AWBV and CT entered into a contract whereby AWBV agreed to sell its entire 49 % ownership interest in the Company’s registered share capital to CT – this contract was consummated on December 4, 2003. As of December 31, 2003, the Company was wholly owned by CT (Note 16a).

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 accounting principles generally accepted in the United States of America (“US GAAP”). US GAAP is the primary set of financial statements of Eurotel. All amounts presented in the notes are in millions of Czech Crowns.

3. PRINCIPLES OF CONSOLIDATION

On 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 applying equity method of consolidation. All intercompany balances and transactions were eliminated in consolidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Use of estimates

The preparation of the consolidated financial statements in compliance with US GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Estimates are based on historical experience, where applicable, and other assumptions that management believes are reasonable under the circumstances. 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 cash balances held in various currencies.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c) Receivables

Receivables are stated gross less provision for doubtful accounts. The Company analyses the structure of overdue receivables based on the aging of outstanding balances of two major groups – airtime and dealers.

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 exceeds their economic realizability, the carrying value of those items is reduced to their net realizable value through the 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, plant and equipment

Carrying value

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

Construction in progress includes direct expenditures for the 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. Depreciation of construction in progress is deferred until the asset is put into service.

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.

The Company's property, plant and equipment are tested for impairment in accordance with SFAS 144 whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. Impairment is measured as the amount, by which the carrying value of the assets or a group of assets exceeds their fair value.

Depreciation

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

	Years
Buildings, steel constructions	20
Network 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 operating licenses were granted for a period of twenty 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 GSM 1800 spectrum under its existing GSM license. In 2002, the GSM license to both spectrums was renewed and is currently valid for the remaining period of thirteen years. In 2002, the Company renewed its 450 MHz license; the current 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 eight years. In December 2001, the Company acquired the UMTS license, which has been granted for a period of twenty years. Any interest associated with the loan provided for the license acquisition is capitalized until the start of UMTS commercial service. In December 2003, the Company signed an amendment to its original UMTS loan agreement (Note 14), by which the original launch of the service was extended by one year. According to the terms of this new amendment, the Company is obligated to launch UMTS commercial services by January 1, 2006 at the latest.

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 (Note 10). 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. As a result, the licenses are considered finite lived intangible assets subject to amortization in accordance with SFAS 142 and 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 the Czech tax legislation 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 consolidated 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 consolidated financial statements or tax returns.

Valuation allowances are recognized to reduce deferred tax assets when uncertainties in the Czech tax legislation, regulatory environment, or other factors indicate that the asset may not be realized. In assessing the likelihood of realization, the Company considers estimates of future taxable income, the character of income needed to realize future benefits and all available evidence.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

i) Recognition of revenues and expenses

Revenues and expenses are recognized on an accrual basis.

The Company earns revenue from mobile 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 mobile 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 and other services are used. Prepaid customers purchase a card, which entitles them to a certain value of airtime and other services. Revenue from the sale of these cards is deferred and recognized as the airtime and other services are used. The Company derives roaming revenues and expenditures as a result of airtime and other services used by the Company's customers roaming on partners' networks in other countries, and vice versa. Amounts receivable from and payable to roaming partners are netted and settled on a regular basis.

The "calling party pays" income from fixed 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 are referred to as interconnection – "Interconnect" (Notes 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 revenues" (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 end 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.

j) Foreign currency

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 Czech National Bank's 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k) Derivative contracts

The Company enters into certain financial instruments, such as forward exchange contracts, currency swaps, 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" and SFAS 149 "Amendment of Statement 133 on Derivative Instruments and Hedging Activities".

All derivatives are recognized in the balance sheet at their fair value. Fair values are estimated using the quoted market prices. 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. At 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. 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 SFAS 149 and are, therefore, treated as non-hedging derivatives with fair value gains and losses being reported in the Statement of income. The fair values of derivative instruments are disclosed in Note 22a.

l) Comprehensive income

Comprehensive income is comprised 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 December 2003, the SEC issued SAB 104 "Revenue Recognition." SAB 104 is a clarification of the SEC's interpretation of revenue recognition requirements under EITF 00-21, existing authoritative literature, as well as other rules and regulations. The Company is currently evaluating the impact of this bulletin on its results of operations, financial position, and cash flows.

5. CHANGES IN ACCOUNTING POLICIES

In August 2001, the FASB issued SFAS 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 being 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 has cell and switch sites, retail, and administrative locations subject to the provisions of SFAS 143. The Company's initial adoption of this statement on January 1, 2003, did not have a material impact on the Company's results of operations, financial position, or cash flows.

In June 2002, the FASB issued SFAS 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 EITF 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's initial adoption of this statement on January 1, 2003, did not have a material impact on the Company's results of operations, financial position, or cash flows.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others – an Interpretation of FASB Statement No. 5, 57 and 107 and Rescission of FASB Interpretation No. 34". This interpretation expands on the existing accounting guidance and disclosure requirements for most guarantees, including indemnifications. It requires that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value of the obligations it assumes under that guarantee if that amount is reasonably estimable, and must disclose that information in its and annual financial statements. The provisions for initial recognition and measurement of the liability are to be applied on a prospective basis to guarantees issued or modified on or after January 1, 2003. Eurotel's adoption of this statement in 2003, did not have a material impact on the Company's results of operations, financial position, or cash flows.

5. CHANGES IN ACCOUNTING POLICIES (CONTINUED)

In November 2002, the EITF reached a consensus on EITF 00-21, "Revenue Arrangements with Multiple Deliverables," related to the timing of revenue recognition for arrangements, in which goods or services or both are delivered separately in a bundled sales arrangement. The EITF requires that when the deliverables included in this type of arrangement meet certain criteria they should be accounted for individually as separate units of accounting. This may result in a difference in the timing of revenue recognition but will not result in a change in the total amount of revenue recognized in a bundled sales arrangement. The allocation of revenue to the separate deliverables is based on the relative fair value of each item. If the fair value is not available for the delivered items then the residual method must be used. This method requires that the amount allocated to the undelivered items in the arrangement is their full fair value. This would result in the discount, if any, being allocated to the delivered items. This consensus is effective prospectively for arrangements entered into in fiscal periods beginning after June 15, 2003. The Company's early adoption of this statement in 2003, did not have a material impact on the Company's results of operations, financial position, or cash flows.

In May 2003, the FASB issued SFAS 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". This statement improves financial reporting by requiring that contracts with comparable characteristics are accounted for similarly. The Statement is effective for contracts entered into or modified after June 30, 2003. The Company's adoption of this statement in 2003 did not have a material impact on the Company's results of operations, financial position, or cash flows.

6. CASH AND CASH EQUIVALENTS

	As of December 31,	
	2003	2002
Bank deposits and petty cash	2,908	515
Money market investments	--	5,902
Total	2,908	6,417

All investments in money market funds had been highly liquid and maintained with large credit worthy financial institutions.

7. ACCOUNTS RECEIVABLE, NET

	As of December 31,	
	2003	2002
Trade and other receivables	2,901	2,842
VAT receivable	259	481
Amounts due from related parties:		
CT (Note 21)	1,038	1,079
Total	4,198	4,402

Trade and other receivables were shown net of provisions for doubtful accounts. As of December 31, 2003 and December 31, 2002, the provisions for doubtful accounts were CZK 1,603 million and CZK 1,785 million, respectively.

8. INVENTORIES, NET

	As of December 31,	
	2003	2002
Mobile phones	378	573
SIM cards and vouchers	39	140
Accessories and other inventories	88	175
Total	505	888

Inventories were stated at the lower of cost and net realizable value. As of December 31, 2003 and December 31, 2002, inventories were shown net of provisions of CZK 61 million and CZK 184 million, respectively.

9. PROPERTY, PLANT AND EQUIPMENT, NET

	As of December 31,	
	2003	2002
Network equipment	30,607	28,920
Buildings, steel constructions and leasehold improvements	7,120	6,242
Computer equipment and software	4,383	3,578
Furniture and fixtures	658	610
Motor vehicles	25	32
Other	535	523
Construction in progress	1,564	1,900
Total property, plant and equipment	44,892	41,805
Less: accumulated depreciation	(20,616)	(16,328)
Total property, plant and equipment, net	**24,276**	**25,477**

As of December 31, 2003 and December 31, 2002, property, plant and equipment were shown net of provisions for obsolete or damaged assets of CZK 109 million and CZK 133 million, respectively.

For the year ended December 31, 2003, the Company capitalized expenses of CZK 218 million solely related to capitalized labor. During the same period in 2002, the Company capitalized expenses of CZK 257 million, of which CZK 238 million related to capitalized labor and CZK 19 million related to capitalized interest.

The Company recorded gross cumulative capitalized expenses of CZK 2,725 million as of December 31, 2003.

10. INTANGIBLE ASSETS, NET AND OTHER INVESTMENTS

			As of December 31,	
			2003	2002
	Gross	Accumulated amortization	Net value	Net value
Cellular license 450 MHz	640	(411)	229	262
Cellular license GSM	689	(215)	474	512
Cellular UMTS license	3,690	--	3,690	3,694
Licenses and other investments	51	(2)	49	40
Total	5,070	(628)	4,442	4,508

In December 2003, the Company signed an amendment to its original UMTS loan agreement, by which the Company agreed to pay the obligation in full during 2004 in exchange for a forgiveness of 2003 and 2004 interest on the loan. Accordingly, the CZK 65 million of interest expense capitalized in the first nine months of 2003 and CZK 4 million for December 2002 associated with the UMTS obligation were eliminated against the Company's interest accrual in December 2003. No interest was capitalized for the year ended December 31, 2003. During the year ended December 31, 2002, the Company capitalized interest expenses of CZK 159 million associated with the UMTS license.

11. TRADE PAYABLES

	As of December 31,	
	2003	2002
Trade payables	2,331	2,949
Amounts due to related parties:		
CT (Note 21)	283	288
Total	2,614	3,237

12. DEFERRED REVENUES

	As of December 31,	
	2003	2002
Deferred revenues	1,285	1,169

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

	As of December 31,	
	2003	2002
Accrued expenses	826	727
Customer loyalty program provision	497	432
VAT provision and other provisions	312	283
Taxation and social security	53	656
Other	352	421
Total	2,040	2,519

14. DEBT

	As of December 31,	
	2003	2002
Obligation to the Czech Telecommunication Office	2,281	2,281
Obligation to the Czech Telecommunication Office – short-term	(2,281)	(253)
Total long-term debt	--	2,028
Obligation to the Czech Telecommunication Office – short-term	2,281	253
Bank overdraft	3	--
Total short-term debt	2,284	253

With the purchase of the UMTS license from the Czech Telecommunication Office ("CTU") for CZK 3,535 million in December 2001, the Company had paid CZK 1,000 million upon issuance of the license. The Company had also entered into a commitment to pay the remaining balance of the license obligation in ten equal annual installments. Interest had accrued on the outstanding balance at the rate of PRIBOR+1.5% fixed on the date of the preceding payment. The rate for the period December 2001 through December 2002 was set at 6.1% and for the period December 2002 through December 2003 at 4.1%. Annual principal installments and accrued interest had been payable on the fourteenth of December of each year. In December 2003, the Company signed an amendment to its original UMTS loan agreement, by which the Company agreed to pay the obligation in full during 2004 in exchange for a forgiveness of 2003 and 2004 interest on the loan. The remaining balance of the license obligation of CZK 2,281 million is payable in two equal installments in 2004. Accordingly, the total balance of the obligation was classified as current as of December 31, 2003.

The Company uses the bank overdraft to facilitate efficient intraday and overnight liquidity management. The bank overdraft is a short-term credit facility maintained with various banking institutions at negotiated market rates of interest. The Company is not charged a commitment fee for the unused portions of the facility.

15. INCOME TAX EXPENSE

a) Income tax expense

	For the year ended December 31,		
	2003	2002	2001
Income before tax	9,294	9,059	8,775
Income tax at 28% and 31%	2,602	2,808	2,720
Non deductible inventory and fixed asset losses	(38)	6	--
Non deductible advertising and entertainment	143	26	75
Investment credit	(41)	(67)	(131)
Tax credit on dividends (Note 16b)	(420)	--	--
Valuation allowance	282	--	--
Revaluation of deferred tax using new tax rates	(604)	--	--
Other	116	15	43
Total	2,040	2,788	2,707

Income tax expense for the period comprises of:

Current tax charge	2,254	2,726	2,331
Deferred tax charge	108	62	376
Valuation allowance	282	--	--
Revaluation of deferred tax using new tax rates	(604)	--	--
Total	2,040	2,788	2,707

In December 2003, the Czech government enacted legislation, by which the corporate income tax rate was reduced from 31% to 28%, 26% to 24% for the fiscal years ending in 2004, 2005 and 2006 (respectively).

15. INCOME TAX EXPENSE (CONTINUED)

b) Deferred tax

	As of December 31, 2003	2002
Accounts receivable provision	29	264
Inventory provisions	17	80
Customer loyalty program	57	--
Temporary differences arising from accelerated tax depreciation	(373)	--
Valuation allowance	(282)	--
Non-deductible provisions and other	74	270
Short-term deferred tax, net	(478)	614
Accounts receivable provisions	96	--
Temporary differences arising from accelerated tax depreciation	(2,531)	(3,634)
Inventory provisions	26	--
Customer loyalty program	73	134
Non-deductible provisions and other	142	--
Long-term deferred tax, net	(2,194)	(3,500)
Deferred tax liability, net	**(2,672)**	**(2,886)**

Short-term deferred tax assets and liabilities were valued at 28%. Long-term deferred tax assets and liabilities were valued at 26% and 24%. The net increase in the valuation allowance in 2003 of CZK 282 million was primarily attributable to potential differences in the deductibility of items in future periods and interpretations of the Czech tax legislation.

16 SHAREHOLDERS' EQUITY

a) Share capital

As of December 31, 2002, CT and AWBV owned 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. As of December 31, 2002 the contributions had been paid by the shareholders in USD and aggregated as follows:

	AWBV USD '000	CT USD '000	Total USD '000	Total CZK mil
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 had been paid by the shareholders in USD or equivalent in the form of equipment, or contract and consulting services. The equivalent contributions had been based on the contributing party's costs.

On June 18, 2003, AWBV and CT signed a contract whereby AWBV agreed to sell its entire 49% ownership interest in the Company's registered share capital to CT upon the occurrence of certain conditions precedent. The contract was consummated on December 4, 2003. As of December 31, 2003, the Company was wholly owned by CT and its contributions aggregated as follows:

	Total USD '000	Total CZK mil
Initial capital contribution	183	5
450 MHz (formerly NMT) and other licenses	15,958	376
GSM license	7,650	208
Other capital contribution	7,861	252
Capital contribution acquired from AWBV	30,411	809
Total	62,063	1,650

b) Accumulated other comprehensive income

For the year ended December 31, 2003, the Company recorded other comprehensive loss associated with the Company's financial derivatives of CZK 11 million and other comprehensive income associated with translation adjustment of CZK 10 million. During the same period ended December 31, 2002, the Company recorded other comprehensive income associated with the revaluation of financial instruments of CZK 10 million.

16 SHAREHOLDERS' EQUITY (CONTINUED)

c) Distribution to shareholders

On June 5, 2003, CT and AWBV signed a resolution, in which a CZK 10,978 million dividend was declared and approved for distribution. Based on the resolution, the declared dividend was distributed in two separate amounts of CZK 5,599 million to CT and CZK 5,379 million to AWBV. AWBV's share was distributed in USD in the amount of USD 200 million converted from CZK 5,379 million at the exchange rate of CZK 26.895 for USD 1. The dividend was paid on September 30, 2003. Until the payment, the Company had maintained an equal offsetting amount in USD cash assets to satisfy this USD dividend obligation. As the dividend payment to AWBV was in USD, movements in exchange rates, which resulted in a CZK 87 million foreign exchange gain and loss on the asset and liability respectively, had no impact on reported net income as of December 31, 2003.

Dividends paid to CT were subject to withholding tax of 15%. The withholding tax of CZK 840 million, paid in October 2003, reduced the dividend amount paid to CT. According to tax regulation in the Czech Republic, the Company may deduct from its tax liability one half of the tax on the CT dividend withheld by the Company in the taxable period. Consequently, the Company reduced its tax liability by CZK 420 million in 2003 because the dividends and the related withholding tax were paid in 2003. Dividends paid to AWBV were not subject to Czech withholding tax and accordingly did not result in a similar benefit.

d) Legal reserve fund

As of December 31, 2003 and December 31, 2002, the Company had a legal reserve fund 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 registered capital as prescribed by the Czech Commercial Code. No other restrictions as to the use of total shareholders' equity existed as of December 31, 2003.

17. REVENUES

	For the year ended December 31,		
	2003	2002	2001
Mobile service revenues			
Customers	19,039	19,278	17,868
Interconnect (Note 24a)	5,491	4,770	5,817
Roaming	3,080	2,821	2,878
Total mobile service revenues	27,610	26,869	26,563
Mobile equipment and other revenues	1,468	1,931	3,500
Total	**29,078**	**28,800**	**30,063**

18. COST OF SALES

	For the year ended December 31,		
	2003	2002	2001
Mobile service cost of sales			
Interconnect (Note 24a)	4,234	3,829	4,885
Roaming	1,284	1,194	1,378
Other costs	416	412	373
Total mobile service cost of sales	5,934	5,435	6,636
Mobile equipment and service commissions			
Mobile phones, SIM cards, accessories and other costs	2,460	2,817	4,052
Service commissions	241	265	392
Total mobile equipment and service commissions	2,701	3,082	4,444
Total	**8,635**	**8,517**	**11,080**

19. OPERATING EXPENSES

	For the year ended December 31,		
	2003	2002	2001
Advertising, marketing and sales	1,406	1,700	1,765
Wages and employee benefits	1,608	1,544	1,343
Building expense	312	322	265
Network support and maintenance	947	848	823
Motor vehicle expense	105	106	115
Rent – base stations, buildings	592	637	472
Employee training and travel	194	203	189
Office supplies	178	191	181
Professional fees and administrative expenses	478	478	334
VAT provision (Note 24b)	185	158	--
CTU fees	303	347	213
Bad debt expense	59	168	203
Disposals	95	107	59
Depreciation and amortization	5,008	4,596	4,195
Capitalized expenses (*)	(218)	(238)	(230)
Total	11,252	11,167	9,927

(*) Capitalized expenses include labor and overhead expenses associated with the construction of property, plant and equipment.

20. FINANCE EXPENSES, NET

	For the year ended December 31,		
	2003	2002	2001
Interest and dividend income, net	(140)	(17)	33
Foreign exchange gains	(690)	(98)	(220)
Foreign exchange losses	727	153	137
Other finance expenses, net	--	19	331
Total	(103)	57	281

21. RELATED PARTIES

	As of December 31,	
	2003	2002
CT:		
Trade receivables	1,038	1,079
Trade payables	283	288

	For the year ended December 31,	
	2003	2002
CT:		
Revenues recognized in respect to interconnect (Note 24a) and other services	1,237	1,262
Costs recognized in respect to interconnect (Note 24a) and other services	393	474

Balances with CT related primarily to interconnect arrangements (Note 24a) and other minor related party services.

22. FINANCIAL INSTRUMENTS

a) Fair market value

All financial instruments were recognized at their fair value in the balance sheet. The estimate of the fair value of financial derivatives were as follows:

	As of December 31,	
	2003	2002
Forward exchange contracts	--	17
Interest rate swaps	--	(45)

22. FINANCIAL INSTRUMENTS (CONTINUED)

b) Foreign exchange risk management

Due to 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 payments. Some of the exchange rate derivatives are designated as cash flow hedges and meet the hedge accounting criteria of SFAS 133 and SFAS 149. 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 and SFAS 149 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 notional amount of the outstanding foreign exchange contracts was as follows:

	As of December 31,	
	2003	2002
Forward exchange contracts	--	654

	For the year ended December 31,	
	2003	2002
Realized foreign currency transaction gain related to financial derivatives (including fair value changes of non-hedge derivatives)	24	47
Changes in fair value - Other comprehensive income/(loss)	(11)	10
Changes in fair value - Statement of income gain/(loss)	(8)	55

Net foreign currency position as of December 31, 2003:

(in thousands of currencies specified)	Cash and cash equivalents	Accounts receivable	Accounts payable
EUR	14,958	4,218	19,365
USD	1,905	3,641	3,429
SDR	--	4,155	736
CHF	1	302	--
GBP	36	--	2

22. FINANCIAL INSTRUMENTS (CONTINUED)

c) Interest rate risk management

The Company is exposed to the risk arising from interest rate fluctuations due to its outstanding debt with floating rates. The Company's objective in managing its exposure to interest rate fluctuations is to secure the lowest sustainable interest charges on Company debts. The Company's policy specifies the portion of outstanding floating rate debt, which shall be converted into fixed rate debt using interest rate derivatives, principally consisting of interest rate swaps. The Company records the differential to be paid or received on the interest rate swaps as incremental interest expense. The outstanding contracts had the following notional amounts:

	As of December 31,	
	2003	2002
Interest rate swaps	--	1,300

	For the year ended December 31,	
	2003	2002
Net interest revenue related to financial derivatives (including fair value changes of non-hedge derivatives)	(7)	38
Changes in fair value - Other comprehensive income	--	--
Changes in fair value - Statement of income	(15)	(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 swaps and forward exchange contracts, interest rate swaps and trade accounts receivable. The Company maintains cash and certain other financial instruments with large credit worthy 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 single 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

a) Capital commitments

The Company had the following authorized and contracted capital commitments:

	As of December 31, 2003
Open purchase orders for network construction	587
Open purchase orders for internal investments	32
Contractual commitments, primarily cellular mobile telephones	261
Total capital commitments	880

b) Lease commitments

The Company had the following non-cancelable operating lease commitments for property, plant and equipment:

	As of December 31, 2003
2004	733
2005	352
2006	304
2007	279
2008	273
Lease commitments till 2017	1,441
Total lease commitments	3,382

24. CONTINGENCIES

a) Interconnect arrangements

Arrangements with CT regarding interconnect, mobile terminating and originating, 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 January 1, 2002. However, partial cash settlement has been concluded for interconnect transactions in respect to 2002 and 2003. In May 2003, the CTU issued a price ruling in favor of the Company for the period of May 2001 to November 2001. In June 2003, CT filed an appeal relative to this decision. In November 2003, the CTU rejected the appeal and reconfirmed its earlier findings. In response, CT filed with the Czech courts for deferral of payments under the CTU ruling and review of CTU's findings. Although the Company received a favorable ruling from CTU, the collectibility of all or a portion of the settlement cannot be ensured. Accordingly, no amounts have been recorded. Management is confident that these arrangements will be finalized with no negative impact on net income.

b) Tax inspection

In 2001, the special review group of the Tax Authority of Prague 1 began a tax audit of the Company's value added tax returns for 1998 and 1999. In December 2001, the special review group issued a report summarizing its findings in respect of additional assessment of value added tax of CZK 158 million. In January 2002, tax assessments were received for CZK 158 million. The Company filed an appeal relative to these assessments at the Financial Directorate for Prague. Concurrently, the Company submitted a request to the Tax Authority and the Ministry of Finance for payment deferral and a waiver for tax, penalty and interest charges. In January 2003, the Company received a decision from the Financial Directorate for Prague that refused the Company's appeals of the VAT assessment of CZK 158 million. Therefore, a provision was created in full in the 2002 consolidated financial statements. In March 2003, the Company filed suits relative to the VAT assessments for 1998 and 1999. In October 2003, the Ministry of Finance rejected the Company's request to waive the additional VAT assessment of CZK 158 million, which was paid in full in November 2003. Interest and penalties on the assessed VAT totaled CZK 185 million as of December 31, 2003 and a provision was created in full in the 2003 consolidated financial statements. No decision has been issued by the Ministry of Finance in respect of penalties and interest waiver to date.

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