

■ ■ ■ T-Mobile Czech Republic a.s.:
Presentation and financial results
for 2004 according to IFRS.

T-Mobile

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Profiles

Company profile

T-Mobile Czech Republic a.s. was established in 1996 (then called RadioMobil) and in the same year began offering mobile communications services under the name Paegas. In 2002, the Company changed its brand and subsequently its name. T-Mobile operates a public mobile communications network on the GSM standard in the 900 and 1800 MHz bands and is a holder of a licence to operate a third-generation network, UMTS. In June 2004, the Company welcomed its millionth contract customer, thus becoming the largest Czech mobile operator in terms of the number of contract customers. The total number of customers climbed to 4.36 million at the end of the year.

T-Mobile provides its services to individuals and corporations, as well as to public authorities. Besides tariff programmes, it also offers services to users of prepaid cards under the Twist brand and services tailored to the needs of the business segment. In addition to voice services and SMS, customers are increasingly using other non-voice services, e.g. data transmission via GPRS, WiFi and now also EDGE, MMS and a number of multimedia services on the t-zones mobile portal. The T-Mobile network currently covers more than 99 percent of the Czech population and 99.98 percent of E-class roads in the Czech Republic.

T-Mobile customers may also use their mobile phones throughout 350 operator networks across 140 countries worldwide.

Over the past several years, T-Mobile's leading position as an innovator and its contribution to the development of the mobile market has been rewarded with various prizes, both on the national and international level. Since its establishment, the Company has placed emphasis on the quality of services offered. This approach has been recently rewarded several times: At the end of 2003, T-Mobile was the only Czech mobile operator to receive the "Committed to Excellence" quality award based on the European standard. At the end of 2004, T-Mobile achieved the second level called "Recognised for Excellence", after having received the National Quality Award, the most prestigious Czech award for quality management granted by the Czech Quality Council.

T-Mobile is a member of the international telecommunications group T-Mobile International. The main benefits of the Company's membership in the T-Mobile International Group are the well-known global brand, the opportunity to share valuable knowledge and experience and, last but not least, the joint procurement, development and introduction of new services. Thanks to T-Mobile's international presence, customers can count on the worldwide availability of their favourite services and take advantage of unified, favourable calling rates when abroad.

The owners of T-Mobile Czech Republic a.s. are the CMobil B.V. consortium with a 60.77 percent share and České radiokomunikace, a.s. with a 39.23 percent stake.

Sent messages

Nine years of achievement

1996

- RadioMobil was established and the Paegas GSM network began operation.
- The number of new Paegas phone owners exceeded 30,000 by the end of the year.

1997

- In the prestigious CZECH TOP 100 survey, RadioMobil was named the most dynamically developing company of the year.
- By the end of the year, a remarkable 173,000 customers were using the new services, Internet connection and the first-ever prepaid cards on the Czech market.

1998

- RadioMobil introduced a number of groundbreaking innovations (such as Paegas Internet Call, Paegas Info, GSM Banking).
- The Company was voted the most admired telecommunications company in the Czech Top 100 survey.
- 373,000 customers were using Paegas services, a 115 % increase compared with 1997.

1999

- At the annual conference organized by the GSM Association in Cannes, RadioMobil won the prize for Best Technological Innovation in the GSM Market.
- The Paegas network was one of the first in the world to enable users of prepaid Twist cards to send and receive short text messages.
- A new call centre began operation in a new building in Louny, providing services to 875,000 customers by year's end.

2000

- Transmitters in the 1800 MHz band went on the air. Combining Internet services and mobile phone capabilities and a new comprehensive portal, Paegas Click, was launched.
- Paegas (together with the German D1 network operated by T-Mobil) was the first operator in the world to offer users of prepaid Twist cards the opportunity to make direct calls in foreign networks.
- By the end of the year, the number of Paegas users had approached 1,865,000.

2001

- The Company launched the GPRS system, allowing high-speed data transfer, and obtained a licence to operate a third-generation network, UMTS.
- Two prizes were earned at the Invex trade fair: The Best of Invex for Paegas Navigator and the Crystal Disc for ClickBox.
- 2.85 million customers were using Paegas services.

2002

- Year of identity transformation: Paegas became T-Mobile. The Company received the Rhodos award for the most attractive image.
- The opening of the Regional Centre in Hradec Králové and the laying of the cornerstone of the new T-Mobile headquarters in the Roztyly district of Prague.
- The T-Mobile network came through unscathed from the August floods, the standardized renumbering of all telephones in the Czech Republic was completed and the November NATO summit was held in Prague.
- The number of customers exceeded 3.5 million.

2003

- Fully in T-Mobile colours: The name changed to T-Mobile Czech Republic a. s.
- Launched the t-zones portal, focused on MMS and devices designed exclusively for T-Mobile customers.
- Set the goal to become number one in the Czech market. T-Mobile launched special tariffs for various target groups (such as students and foreigners) and the most favourable mobile connection to the Internet.
- For the second year in a row, T-Mobile obtained the highest number of new clients. As of 31 December, the number of T-Mobile customers was over the 3.9 million mark.

2004

- A new office building in the Roztyly district of Prague became the new Company headquarters.
- The EURO 2004 football championship was sponsored by T-Mobile.
- New postpaid programmes for contract customers brought the most favourable per-minute prices of calls to all networks and an increase in the amount of free airtime in a "simpler" tariff structure.
- The fastest mobile Internet connection was released thanks to EDGE technology; launched T-Mobile HotSpot.
- The number of customers exceeded the magic 4 million mark in April. Customer numbers climbed to 4.36 million by the end of the year. Most companies relied on T-Mobile.

Start-up greeting

Foreword from the Chairman of the Board

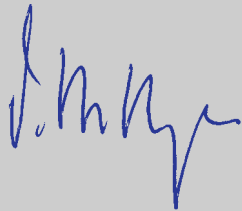
Ladies and Gentlemen,

The ninth year of our Company's existence in the Czech Republic was again closely tied to the dynamics of the telecommunications market. The first half of the year was marked by a change in the VAT rate, and the entire 12 month period was characterised by increased competitive pressure. Mobile operators today increasingly focus on customer retention and look for new sources of income both through growth in the usage of voice services and new mobile data offerings.

It is therefore no exaggeration to say that for the last year T-Mobile Czech Republic a.s. has received the highest marks, and we have our clients to thank for this. For the third year in a row, we managed to achieve the highest number of customer additions. As many as 410,000 new customers moved us a big step closer to becoming No. 1 on the market. Another, no less pleasing figure confirms that we succeeded in reducing the gap: We left our biggest competitor behind even in terms of the number of contract customers. The fact that we maintained our market share at 40.4 percent is certain proof of stability.

Last year, T-Mobile continued introducing new products and services, which led to an increase in voice usage, number of SMSs sent and the volume of data transmitted. In the area of pricing plans, the company focused particularly on creating new, more transparent tariffs for calls both in the domestic network and abroad. These and other activities were positively reflected in the business results for the last fiscal year. Compared to the year before, we also succeeded in reducing the Company's external debt, particularly thanks to the repayment of the shareholder loan and payment of the UMTS licence fee. Investments of almost 3 billion Czech crowns prove that last year was no exception, both in terms of introducing innovations that set the course of mobile communications development in the Czech Republic, and in the emphasis on the quality of our network and services.

It was quality for which T-Mobile received significant awards in 2004, and each and every employee contributed not only to this success, but to many others as well. I would like to hereby thank all employees for their efforts and extraordinary commitment and wish them maximum satisfaction in their labors. Support from our shareholders and business partners is also of immense value to us, as the development of mobile telecommunications in the Czech Republic would be unthinkable without it. Last but not least, being part of a global group and the T-Mobile brand has provided an indispensable contribution to this development. The global group and the T-Mobile brand provide us with strong backing and the opportunity for sharing knowledge and experience. In conclusion, I would like to thank our customers for their trust and to promise that we will do everything for them so they may continue rely on us in the 10th year of our existence.



Timotheus Höttges
Chairman of the Board of T-Mobile Czech Republic a.s.



Conference call

An operator must be reliable

... says T-Mobile's Managing Director, Roland Mahler, in an interview. We were interested in what had pleased him most last year, how he sees our chances of becoming No. 1 on the market and what, according to him, makes a "better world" for customers.

Common wisdom says that one shouldn't look back at the past too much. But this doesn't apply to the business world. Mr. Mahler, what is your personal evaluation of the past year of T-Mobile's existence?

If I were asked to put it briefly, I would say I am extremely pleased with last year's results. There is no better proof of a company's success than customer and financial figures. The highest number of customer additions, along with leadership in the number of contract customers are facts that speak for themselves. Considering that there are currently more mobile numbers than residents of the Czech Republic, it is obvious that the fight for customers will only get fiercer. Naturally, our objective is to increase our market share, to the detriment of our competitors, and take up the leading position.

Is becoming No. 1 a realistic goal? What specific steps is T-Mobile taking to win this fight?

I dare say that we are probably already the largest operator in terms of active telephone numbers. However, every operator now uses a somewhat different methodology to calculate client numbers. If this were not the case, I am sure that our leadership in this respect would be confirmed. Be that as it may, our strategy of customer acquisition and retention is straightforward: to offer the best ratio for services provided to the price paid by customers. We definitely do not want to merely offer the lowest rates at any price. We focus on premium customer service and top quality.

In previous years, T-Mobile has been viewed as an innovation leader, while now, in addition to innovative solutions, it places an increasingly greater emphasis on quality.

The feedback from clients shows that this approach is not only correct but the only one possible. If we want to succeed, we have to do everything with quality in mind. We want to become the most highly regarded service company in our industry! We provide high-quality customer care around the clock. We also pay attention to the quality of sales support and thus the staff in our shops are always well trained. We also could not perform well without new, high-quality services, such as data or multimedia services. Therefore, I am very happy that we could launch EDGE in November. This technology now represents the fastest, truly mobile Internet connection using a mobile phone, that works without complicated setups and the need to buy additional equipment. EDGE has been enthusiastically adopted by customers.

All the things I have just mentioned would of course be impossible without high-quality coverage and a reliable network. To ensure this, we invest in independent network monitoring by Czech institutions such as the Czech Technical University in Prague as well as international institutions, for example the Swiss Federal Institute of Technology in Zurich. These monitoring measurements prove that the T-Mobile network is the best in the Czech Republic.

Last year, T-Mobile introduced a new international concept of its brand that should stand for reliability, simplicity and inspiration for customers in all respects. Why are these attributes so important?

An operator that offers T-Mobile-branded services to almost 75 million clients worldwide must be reliable. And the results achieved prove that customers on the Czech market trust us. Also, despite constant technological development, we must offer services that are beneficial for clients and easy to use. Today we are inundated with a number of abbreviations, information on technological solutions and new services; telephone features are constantly being extended and devices are getting more and more complicated. But if we think about it, we realise that people just want to communicate. It doesn't matter if it's through a call, SMS or MMS, but it has to be simple. In addition, I believe that our services must bring something more to people. That is the reason for inspiration – through services such as Caller Tunes, for example. After all, this is what our claim, "For a better world for you", means.

At the end of last year, the entire T-Mobile Group announced the Save for Growth programme. What are the reasons behind it, and how will it be implemented in practice?

Most European markets are oversaturated and this necessarily changes the nature of our business. T-Mobile realised this in time and created a long-term set of conditions to ensure growing efficiency. The Save for Growth programme is based on cost savings and "smart" investments. So far, we have placed an emphasis on a wide range of phone models but we have not paid so much attention as to whether there is sufficient demand for all of them. In the future, we will shift our focus to real customer needs, and streamline the portfolio.

There is also room for savings in the area of sales. Support for Internet and telephone shopping will not only increase efficiency but will also satisfy those customers who are fond of this kind of shopping. Also, it does not make much sense for us to develop content; there are companies that can do this much better and cheaper. Further savings can also be achieved by making greater use of the synergies within the T-Mobile Group and the entire Deutsche Telekom Group. In the Czech Republic, T-Mobile already began some of these steps in 2003 when it announced its strategic goal of becoming No. 1 on the market. We expect to be able to reduce our costs by 1 billion Czech crowns within the next two years. We want to invest half of this amount into activities that will ensure our further growth in the coming years. This programme can give us further competitive advantages and make us more successful and attractive to customers.



Directory

Meet the management

Roland Mahler

Managing Director
of T-Mobile Czech Republic

"It is very rewarding to be part of the development of the Czech economy by helping to provide high-standard telecommunications products and services in a competitive manner."

Born: 1949, Worms, Germany

Education: Technical University of Darmstadt
Career history: Deutsche Bundespost, Federal Ministry of Post and Telecommunications, Deutsche Telekom, T-Mobile Germany; he has served as the Managing Director since joining TMCZ in 2000.

Interests: Horse back riding, sailing, skiing, biking; concerts and theatre in winter, visits to historic places in the Czech Republic and outdoor activities in summer. Roland Mahler speaks German, English and French.

R. Mahler



Jiří Dvorjančanský

Executive Vice President
Marketing

"I don't like stagnation – my inner drive pushes me to constantly seek change in my professional life. I always look for new areas of development and want to improve not only in terms of knowledge but, above all, as a person. Because each of my working days is different, each as hectic as the one before, I most appreciate the greatest values – family atmosphere, the love of those closest to me, and laughter. I know I still have a long way to go..."

Born: 1969, Karviná, Czech Republic

Education: Czech Technical University in Prague, Faculty of Electrical Engineering; National Polytechnic Institute in Grenoble, France
Career history: Čokoládovny Praha, COTY Czech Republic; he has been working at TMCZ since 1999, becoming Executive Vice President Marketing in 2002.

Interests: Golf, action movies, mountain biking, an occasional game of football with friends, scuba diving; playing amateur ice-hockey with the corporate team in winter and listening to classical music while enjoying a glass of red wine. Jiří Dvorjančanský speaks Czech, English and French.

Jiří Dvorjančanský



Martin Kloperk

Executive Vice President
Telecom Relations & Strategy

"I strive to implement strategies that represent a balance between investors' requirements and customer expectations. Mobile communications must help people, not control or put them under stress. I believe in ethics in business."

Born: 1961, Prague, Czech Republic

Education: Czech Technical University in Prague, Faculty of Civil Engineering; US Business School, Prague

Career history: Orgaprojekt Praha, Czech Technical University in Prague, Deloitte & Touche; he has been with TMCZ since 1996, becoming Executive Vice President Telecom Relations & Strategy in 2000.

Interests: Tennis, skiing, softball, windsurfing, playing musical instruments. Martin Kloperk speaks Czech and English.

Martin Kloperk



Otakar Král

Executive Vice President
Finance

"I've had the opportunity to take part in the successful growth of two highly-recognised companies in different industries – from their start-up phase through their becoming international organisations. I am pleased to see that the Czech Republic as a country is following the same path."

Born: 1966, Prague, Czech Republic

Education: Czech Technical University in Prague; Association of Chartered Certified Accountants, London; Masaryk Institute of Advanced Studies at the Czech Technical University in Prague

Career history: A "Big Four" audit firm; he has been working at TMCZ since 1996, becoming Executive Vice President Finance in 2002.

Interests: Sports – road and mountain biking, downhill and cross-country skiing, all kinds of outdoor activities. Otakar Král speaks Czech and English.

Otakar Král



Miroslav Rakowski

Executive Vice President
Sales

“Over the course of my career, I've had the chance to become familiar with the sales profession from various angles and in many parts of Europe. Working for T-Mobile is an ideal opportunity for me to make use of my years of extensive experience and contribute to the common goal of our Company – to become the best mobile operator in the Czech Republic.”

Born: 1968, Český Těšín, Czech Republic

Education: Brno University of Technology, Faculty of Mechanical Engineering

Career history: Gillette Czech Republic, COTY Czech Republic, COTY Poland; he has held the position of Executive Vice President Sales since joining TMCZ in 2002.

Interests: Sports – golf, tennis, ice-skating and skiing. Miroslav Rakowski speaks Czech, English and Polish.

Tomáš Růžička

Executive Vice President
Customer Service

“It is my everyday task to ‘walk in the customers’ shoes’ and see the world through their eyes. I want this simple principle not only to be my professional creed but the belief of the entire T-Mobile team. Only thus are we able to recognise and constantly heal even the scars that are invisible at first glance, make customers smile and keep T-Mobile in its position as the most highly regarded service company.”

Born: 1969, Tábor, Czech Republic

Education: Czech Technical University in Prague, Faculty of Electrical Engineering; University of Economics of Prague, Faculty of Finance

Career history: New Boston Associates Inc., Boston MA, USA; Traplová–Hakr–Kubát, Intellectual Property & Attorney Office, Prague; he has been with TMCZ since 1996, becoming Executive Vice President Customer Service in 2003

Interests: Sport shooting, water sports and outdoor activities; electronics; participation in the administration of public affairs at the level of the city district council. Tomáš Růžička speaks Czech and English.

Heinz Schmid

Executive Vice President
Technology

“Helmut Schmidt, the former German Chancellor whom I admire very much because he was a doer and a pragmatist and always vocal about the truth, once said: ‘Modern democracy is listening to people and discussion, but finally also in a democracy someone has to decide’. This idea also applies to modern management as I understand it.”

Born: 1951, Nuremberg, Germany

Education: University of Applied Sciences, Faculty of Electrical Engineering, Nuremberg

Career history: Deutsche Telekom, T-Mobile Deutschland; he has been working at TMCZ since 1996, becoming Executive Vice President Technology in 1999.

Interests: Family, travelling, fan of 1. FC Nuremberg and the Czech national football team. Heinz Schmid speaks German and English.

Michal Urválek

Executive Vice President
Human Resources

“‘Never say never’, ‘Change is life and life is change’, ‘Never trust without verifying’ – these ideas have accompanied me throughout my professional career and are behind both my successes and failures.”

Born: 1963, Prague, Czech Republic

Education: Charles University in Prague, Faculty of Law

Career history: Faculty of Law at Charles University, Czech Television, BBC UK, IBM Czech Republic; he has been Executive Vice President Human Resources since joining TMCZ in 2002.

Interests: Water in all of its forms and states and everything that can be done on or in it. Michal Urválek speaks Czech and English.





Settings > Time and date

Important milestones of 2004

The ninth year of T-Mobile's existence was marked by several events that were significant to the Company's development or positive brand image.

Customer base development

In April, T-Mobile welcomed its 4 millionth customer. At the end of the year, the Company served a total of 4.36 million users.

- Customer numbers increased by more than 400,000 year on year and T-Mobile again – for the third year in a row – managed to attract the largest number of new clients. The highest customer additions were recorded in the second and fourth quarters.

We strengthened our leadership position in terms of the number of contract customers.

- The millionth client signed a contract with T-Mobile in June and another 100,000 contract customers were added by the end of the year.

Market share in terms of customer numbers remained at 40.4 percent, while the overall saturation of the Czech mobile market reached almost 105 percent.

Quality award

T-Mobile successfully completed the certification process for quality management and obtained the **ISO 9001:2000 certificate** effective as of 25 February 2004.

- The certificate was awarded in the areas of “development, sale and provision of mobile telecommunications services and care for business customers”.

During an official ceremony held at the beginning of November at Prague Castle, T-Mobile became one of the two holders of the prestigious **National Quality Award**.

- The Company also received the **2004 Quality Manager of the Year** award, which was, in the face of fierce competition, received by František Havel, Vice President Quality at T-Mobile.

At the end of 2004, T-Mobile received a quality award based on European standards, **Recognised for Excellence**.

- This is the second level of this particular quality award, following **Committed to Excellence**, which T-Mobile received in 2003 as the only Czech mobile operator to be so honoured.

New Company headquarters in Prague-Roztyly

The process of moving all employees from the Prague T-Mobile buildings to the new headquarters building in the Prague district of Roztyly was kicked off in winter.

- More than 1,500 employees and all equipment were relocated over the course of nine days.
- This was a unique event from the point of view of our Company as well as for the entire Czech Republic.
- The seamless move was evidenced, among other things, by the fact that the moving process did not have any effect on our customers.

The opening ceremony took place on 20 April; in the same month, the new headquarters building was presented to journalists and important business partners.

Other events...

In June, T-Mobile launched a special campaign entitled **Freedom is when...**, aimed at the promotion of mobile Internet access.

- On a special website, users could find information not only on GPRS but also on the forthcoming UMTS and WiFi, which is already in operation.
- The website also included a competition for the general public. Until the end of August, participants could write an SMS-length text of what their idea of freedom was. The winners, who received attractive prizes, were selected from among more than 4,000 participants.

A new international programme called **Save for Growth** was introduced within the entire T-Mobile International Group on 2 November.

- For all national operators, this programme represents an opportunity for further improvement, particularly in terms of efficiency and cost savings. Representatives of our management had participated in its formulation from the beginning.
- With this programme, T-Mobile International aims to achieve savings of 1 billion euros (around 10 percent of its revenues) by the end of 2006. Of this sum, the company wants to invest up to 500 million euros with the aim of achieving its growth targets.

Organiser > Calendar

Products, services, technologies, tariffs in 2004

Again in the past year, T-Mobile continued to further enhance its existing product offer while introducing some technically advanced innovations.

January

A very pleasant offer followed the VAT rate increase: Customers could make calls of up to one hour for the price of three minutes. The Long Calls offer continued for a full two months.

The fifth continent conquered. Customers could start using GPRS for data transmission in Australia. T-Mobile is the first Czech operator to offer the GPRS service on a total of five continents.

February

Unlimited Internet access via GPRS put an end to fears of exceeding limits and having to pay extra charges. Customers can choose between an add-on to a tariff programme and a tariff on a separate SIM card. Both variants are suitable even for the most discerning users.

T-Mobile MDA II, the successor of T-Mobile MDA I combining the capabilities of a pocket PC and a phone, met with success. Following the international Europe Pocket PC Award 2003, it was named 2003 Product of the Year by Softwarové noviny magazine. The fact that T-Mobile was the only company among mobile operators and phone manufacturers to be honoured with the award makes this prize all the more valuable.

March

Caller Tunes put an end to boredom, bringing the opportunity to express one's individuality. Instead of the standard 'ring-ring', callers hear the customer's favourite song. A new service on the market, Caller Tunes brought a wide range of choices to lovers of classical music, jazz and rock as well as fans of alternative music.

HotSpot in commercial operation. Ideal when waiting at the airport or getting ready for a meeting at a hotel. This convenient, high-speed access to the Internet is based on a wireless connection, so all the customer needs is a laptop or PDA that supports WLAN technology.

New top-up coupons with pictures of members of the Czech national football team became a treat for collectors. Coupons featured Čech, Nedvěd, Baroš, Koller, Rosický, Poborský and other stars, as well as their autographs. EURO 2004 drew closer, with T-Mobile as one of the main sponsors.

April

The WeekStart tariff add-on made it possible for businesses to pay CZK 0.50 per minute on calls in the T-Mobile network from Monday to Wednesday. These significant savings could be further increased in combination with the Weekend+ add-on, making it possible for business customers to pay as little as CZK 0.50 per minute for up to five days a week.

T-Mobile customers could start setting up toll-free lines whose operation is paid for by the party called. These Green Calls offer very favourable prices starting at CZK 2.90/min, various types of call routing and the option to restrict annoying calls from telephone numbers the person establishing the toll-free line does not wish to receive calls from.

For lovers of real tones, there is an attractive portfolio of MP3 ringtones. The mobile can "sing" hits such as "Shut Up" by Black Eyed Peas, "Lose Yourself" by Eminem or "Láska moja" by Elán, as well as many others songs.

May

The idea of a phone bill after a holiday abroad does not necessarily have to be a nightmare. The introduction of a new roaming programme freed customers from having to compare operator tariffs in individual countries. The Dovolená and Evropa packages offer free airtime for both incoming and outgoing calls.

Czech national football team jerseys were offered as presents with the attractively priced prepaid "EURO sets" to new contract customers. In less than two months, it would become apparent just how many Czech fans had rooted for their team while wearing the national colours. Over 120,000 jerseys had sold!

June

All mobile phone users could experience EURO 2004 football first hand. Exclusive news coverage of the championship, important events, programmes, results, commentaries, gossip, minute-by-minute match broadcasts – all this and a lot more allowed customers to be with the Czech team even at the most exciting moments. As icing on the cake, there were MMS cards with football stars, Java games and the EURO anthem.

Although it takes just a few days for a phone to be repaired, customers do not have to be unavailable during that time. June brought the possibility of borrowing a phone of the same brand and category as the broken-down model free of charge at T-Mobile Retail Shops.

July

Pilot operation of a high-speed mobile connection based on EDGE technology was launched. All customers had the opportunity to try it out before the end of the year. They could particularly look forward to a significantly faster connection to the Internet and WAP. Within the T-Mobile Group, EDGE also became available in Slovakia and Hungary.

August

As has become an August tradition, T-Mobile presented a new generation of tariffs, featuring the most favourable per-minute prices for calls to all networks, a dramatic increase in free airtime included in the monthly fee, and a partial rate unification. Each customer who activated any of the new tariff programmes could make weekend calls within the T-Mobile network completely free of charge until the end of November.

September

New MMS content flooded the t-zones portal. Popular movie actors and characters from animated Disney films such as King Arthur, Nemo, Donald Duck, Mickey Mouse or Winnie the Pooh entered the displays of film fans' mobile phones. There are now also cartoon motifs and pictures by painters Josef Lada and Josef Čapek.

Thanks to m-payment, users could finally buy goods and services from Internet vendors with a limit of CZK 700 per transaction. This mobile payment method proved to be most successful in the area of advertising, with several hundred users paying for ads using their mobile phones each month.

October

The main theme of T-Mobile's presentation at this year's Invex trade fair in Brno was mobile solutions, offering more efficient operation particularly to business clients. In addition to the latest version of T-Mobile MDA III, the company also presented the BlackBerry pocket organiser and EDGE technology. For this purpose, a mobile base station was brought to Brno.

The T-Mobile website was completely revamped, the change being recognisable at first glance. In addition to the design, the structure, content and navigation of the website underwent significant changes. Services can now be set up simply by double-clicking. The new website also provides the freedom of movement to everyone who views it using a mobile phone or pocket PC. Completely in the spirit of simplicity, reliability and inspiration.

November

EDGE finally arrived! The fastest data transmission in the GSM network was launched in six Czech cities: Prague, Brno, Ostrava, Plzeň, České Budějovice and Olomouc. Use is very easy. Other than a mobile phone, customers do not need any terminal, nor do they have to activate anything or change any set up. Everything works in the same way as GPRS but the transmission speed is up to three times faster. Those customers who do not own an EDGE-enabled phone can borrow one at our shops and try EDGE themselves.

December

A Christmas offer brought the right choice for everyone: Twist sets with a phone for CZK 1 and an amount of credit that is unprecedented on the prepaid market; attractively priced new additions to the range of prepaid sets, an EDGE phone or tariff activation at half the standard price. Presents could be ordered without unnecessary stress on a toll-free line or through a newly-opened Internet shop. Furthermore, Christmas pictures, ringtones, logos, cards and caller tunes helped create the right festive atmosphere.

Entertainment > Games

Supporting sport, culture and the professional community

Our stable position and financial background allows us to take part in a wide range of important events. A significant amount of space on the list of our sponsorship activities is taken up by sports, cultural and industry events.

Sports for fitness and victory

T-Mobile has been a partner of the successful Czech **national football team** for several years. The climax of this partnership was last year's major football event – UEFA EURO 2004, which took place in Portugal.

- As one of the official partners of the championship, T-Mobile provided exclusive services and content related to the sporting event of the year to its customers in five European markets.
- Not only Czech customers, but also more than 40 million clients of T-Mobile affiliate companies in Germany, Austria, Netherlands and the United Kingdom could enjoy these services.

T-Mobile International introduced its new **cycling team**, the **T-Mobile Team**.

- Olympic winner Jan Ullrich and the Czech professional Tomáš Konečný are among the 25 members of the team.
- The stars of the "magenta" cycling team took part in last year's Deutschland Tour, which, for the first time, also ran through Austria and the Czech Republic. Also for the first time, T-Mobile was the main sponsor of the race.

Another season of the **T-Mobile Golf Tour** opened with a golf tournament in Karlovy Vary. During the following months, another five stops awaited golf fans.

Cultural and social activities

As the general partner of Interkoncerts, T-Mobile brings the best of Czech and world music to the **concert stage**.

- Spectacular musical performances can be viewed and heard in the T-Mobile Arena every month. Names such as David Bowie, Sting, Peter Gabriel and Diana Krall clearly show that there is a lot to choose from and that everybody will find something to their taste.

- The event of the year was the opening of T-Mobile Park, which is surprising in its capacity and acoustic properties. The new musical arena was christened with the long-awaited concert by Paul McCartney. Metallica and Lenny Kravitz shows followed and the rich summer season was closed by the author of colourful exotic music, Carlos Santana.

In November, T-Mobile became the general partner of a TV music show called **t-music**, broadcast by TV Prima.

- t-music is a TV lifestyle programme featuring a music chart, music news coverage, information from areas such as culture, film, fashion and lifestyle, interviews with interesting guests and information from the world of mobile music.
- According to what's on the t-music chart, T-Mobile customers can download ringtones, caller tunes and MMS pictures with music content on their mobile phones.
- An Internet portal of the same name was launched to support the show.

As in previous years, we supported the popular **Miss Czech Republic** pageant, which in 2004 took place in alliance with T-Mobile for the sixth time.

Autumn was the time for German, Austrian and Swiss theatre performances. T-Mobile was once again one of the main partners of the **German Language Theatre Festival**.

For a second time, T-Mobile supported the **Christmas gala concert of Eva Urbanová**, which took place in the Prague Congress Centre. This time, the opera singer was accompanied by another "golden voice", Oleg Kulko.

Participation in conferences

Since its establishment, our Company has participated in numerous professional conferences and seminars, which were not limited to telecommunications topics.

- In addition to T-Mobile's representatives taking part in conferences both in the Czech Republic and abroad as lecturers, we also provide sponsorship for events of this type.
- In 2004, we became partners of more than 10 projects. These included, for example, the 2004 Corporate Social Responsibility conference, the 2004 Invex Forum, the 2004 Quality international conference, the second Czech-Israeli Hi-Tech Business Forum and the long-standing 2004 Teleinformatika.
- T-Mobile representatives gave lectures at more than 60 professional conferences.



Calls > Options

Building a socially responsible company

Support for charity and non-profit projects forms an integral part of T-Mobile's activities in the Czech Republic. Our efforts are based on the principles of "responsible behaviour and corporate citizenship".

Co-operation with non-profit organisations or "A better life for everyone"

In April, a unique project of **donor messages, DMS**, which was unprecedented in the world, was launched in the Czech Republic. T-Mobile has been participating in the project from the very beginning and has significantly contributed to the establishment of this type of text message, which is intended exclusively for charitable purposes. Since then, DMSs have become the fastest and easiest way of donating money to charity.

- An example was the amount of money donated to help the Slovak High Tatras, which were hit by destructive gale-force winds. During the first five minutes after the DMS fund-raising campaign was announced on the main news on Czech TV, 22,000 DMSs were sent to the Tatras account, yielding a total of more than CZK 8 million. An incredible 2 million donor messages, which yielded more than CZK 60 million in total, were sent to the Asia account (DMS ASIA, DMS SRILANKA, DMS INDONESIA), collecting funds to help Southeast Asian nations struck by the catastrophic tsunami at the end of the year.
- The umbrella organisation for the project is the Donors' Forum. Organisations that use this form of aid throughout the year include, for example, (the centre for people with spinal-cord injuries) Centrum Paraple, Project Chance (helping homeless people), the Světluška fund-raising campaign, the Prague Zoo and many others.

Cooperation with **Centrum Paraple**, which helps people who have suffered spinal-cord injuries, was initiated last year and involved our customers in a charitable activity.

- Since autumn, customers have been able to donate points obtained within the T-Mobile Bonus loyalty programme to the Paraple account.
- In less than two months, 170,000 CZK have been collected this way.

Last year, T-Mobile became the partner of the **First Citizens' Sports Association** (1. Sportovně-občanské sdružení),

- This charitable organisation for the support and development of sports wants to improve the living conditions of children and youth.
- It focuses on helping mentally and physically handicapped children, the sick, lonely people and those living in children's homes and social care institutions.

"Protect your head, you've got only one," says the internationally renowned cyclist Erik Zabel. And this is the theme of T-Mobile's long-term programme providing safety instructions to children cyclists called **The smarter one wins – A helmet fits better than a bandage.**

- T-Mobile thus builds on its previous cooperation with the Extended Hand (Podaná ruka) association and the helmet plays a central role here in injury prevention.
- The programme also includes a wide range of educational activities not only for children but also for families, schools and recreational organisations.

Regional responsibility

The Regional Centre, opened in mid-2002 in **Hradec Králové**, has made T-Mobile one of the main employers in the area. Various activities prove that the Company has a strong interest in being part of local life and contributing to its development.

- T-Mobile again supported one of the area's major cultural events, the Jazz Goes to Town international festival.
- Magenta was also the colour of the Wheels in Nature cycling competition and City on Wheels entertainment event, intended for all cycling enthusiasts. A young golfers' club and a youth football club in Hradec Králové also received support from T-Mobile.
- Funds were donated to the Klídek centre, providing modern social services to children and young people.

Further regional activities took place in **Louny**, the site of a T-Mobile call centre.

- T-Mobile's close ties to this region are evidenced by its support for the Vrchlický Theatre. In summer, the Louny Fair took place with our support on the local Exhibition Grounds. As in the previous year, we were the main partner in the Christmas tree lighting ceremony in the centre of Louny.
- We also connected our name with a mountain biking competition and took part in the international stage race for children BMX racers. Another of our regional partners is Golf Club Most and our cooperation here is also focused on young people.
- The Children's Psychiatric Sanatorium in Louny was also selected as a recipient of a sponsorship donation.

City District Prague 11, where the T-Mobile headquarters have been located since last year, also enjoys our support.

- The first event supported by T-Mobile in its new home district was the Representation Ball of the citizens of Prague's South City area. In June, T-Mobile representatives attended the Businessmen's Evening and a balloon event called BalloonStory took place with T-Mobile's support for the first time.
- T-Mobile supports youth football in this part of Prague as well (FC Háje and South City Chodov sports clubs); we also donated funds to the table tennis club and, based on the example of Hradec Králové, the first annual City on Wheels sporting and social event took place in Prague's South City.
- The Petýrkova club for the disabled and the Centre of Social Services in South City also received charitable contributions from T-Mobile.

Employee charity auction

Last summer, each of the two and a half thousand employees of T-Mobile had the opportunity to take part in a charity e-auction and to buy products made by children and adults from 10 special schools and various social centres and institutions from the Hradec Králové and Chomutov regions.

- Eighty hand made products were offered in the auction.
- The total sum yielded was double the proceeds of the previous auction, which took place at T-Mobile for the first time the previous year.
- As in 2003, the proceeds of the auction were donated to help the participating organisations.

Optimised charging

Human resources are the most valuable investment

T-Mobile fully supports its employees in achieving excellence. The Company strives to create a corporate culture where determined, committed and intelligent people are the greatest asset.

Important employer

In terms of employee numbers, T-Mobile is one of the major employers in the Czech Republic.

- At the end of last year, the Company recorded almost two and a half thousand employees.
- More than 1,400 people occupied offices at the new address in Prague-Roztyly.
- Another several hundred employees were working in the Louny and Hradec Králové Regional Centres.

During open-house days regularly organised by the Company's regional centres, visitors can get an idea of what it means to work at T-Mobile. The Company also presents itself as a sought-after employer at job fairs and T-Mobile Days.

Employee care

T-Mobile gives all employees the opportunity to develop their talents and skills. Therefore, it places great emphasis on **learning and development**, which can be divided into five areas.

- Personal efficiency includes time management, stress resistance, problem solving and creativity.
- Team efficiency is focused on communication and conflict resolution, presentation and persuasion skills as well as team cooperation.
- Business and operational management teaches understanding of financial and business issues, process and change management, and task and project management.
- Customer orientation concentrates on the knowledge of business customers and their industry and on the knowledge of internal customers.
- Management skills focus on managing people and teams, coaching and leadership.

Our professional development programme also includes software courses and foreign language studies. Last year, the standard types of education were enriched with multimedia interactive e-learning courses, accessible to all employees through the corporate intranet.

Among the important motivational tools of the Company are **employee benefits**, offered to employees in addition to their salary. The below-mentioned benefits are among the most typical.

- Daily meal vouchers in the amount of CZK 85; contribution to pension insurance; premium healthcare.
- Discounts on purchases made at T-Mobile Retail Shops, business partners and selected suppliers; possibility of becoming a Diners Club American Express, or HVB credit cardholder.
- A flexible Cafeteria-plan system of employee benefits was launched in mid-2004. The system allows employees to choose leisure and entertainment activities from a range of cultural events and services provided by sports institutions. The system also includes holiday contributions.

Meeting the employees

Every year, T-Mobile organises large meetings between management representatives and regional employees. Last year's **Roadshow** tour again included Hradec Králové, Louny, Brno and Prague.

- The main goal of the Roadshow is to present the Company's strategy and current projects to all employees.
- Last year's presentation presented information on our involvement in the One Company concept. The programme also focused on the local No. 1 – Our Future strategy and various groups of goals; the new slogan of all T-Mobile Group members "For a better world for you" was introduced here for the first time and the brand attributes of simplicity, reliability and inspiration were explained.
- The presentation was enlivened by videos featuring customers and employees of the Company commenting on their relationship with the brand and their satisfaction with T-Mobile.

In addition to the Roadshow, a number of **Lighthouse Meetings** with management representatives traditionally took place in connection with the current issues concerning the Company. Last year, employees could discuss, for example, the activities related to UEFA EURO 2004 or non-voice services, the latest one being EDGE.

Employee magazine

In February last year, employees were presented with the first issue of the new employee magazine called echo. As opposed to its predecessor PIN, echo is designed for all European employees of the individual T-Mobile companies. The “global” content is balanced with a local section, providing information on happenings at T-Mobile Czech Republic. In addition to the printed magazine, which is published six times a year, its intranet version echoPlus brings up-to-date information every day.

I am T-Mobile workshops

A series of I am T-Mobile workshops took place as part of the One Company concept with the participation of almost four hundred employees selected depending on their jobs and requirements for the understanding of the Guiding Principles.

- The trainers, called facilitators, were selected from the individual local T-Mobile companies and underwent a challenging two-week training in Bonn.
- During 15 two-day seminars, six Czech facilitators then made the participants familiar with the One Company topics in a non-traditional way.
- Through practical examples and games, the facilitators presented important aspects of the international presence of our Company.

Supporting young talent

Over the course of the last year, T-Mobile further deepened the partnership it had established in previous years with technical universities. This mutually beneficial cooperation provides a great investment and top-notch equipment to the academic sphere as well as the opportunity for talented students to work on real projects under the supervision of professionals. For the Company, this connection is, among other things, a guarantee of potential employees with a high level of professional knowledge.

- T-Mobile is in contact with, for example, the Brno University of Technology, the Prague Czech Technical University and Ostrava Technical University.
- In addition to specific projects, we participate in teaching students utilising professional lectures, organising excursions and open-house days, suggesting topics for theses and supporting the preparation of textbooks. Three mobile communications laboratories have opened with T-Mobile's support.

Connectivity

Relationships with customers and partners

Customer care is a necessary and important part of doing business. We listen to clients and try to satisfy their individual needs with the aim of always offering them something more.

Points of sale

Last year, customers interested in our services could visit any of the 50 T-Mobile Retail Shops in all the larger cities of the Czech Republic. Over 30 Partner Shops offer a level of care comparable with T-Mobile Retail Shops. Almost 200 T-Mobile Profi Partners make up the rest of the distribution network.

- A new T-Mobile Retail Shop was opened in mid-November in Prague-Zličín – the first shop in the Czech Republic based on a new international concept. It is characterised by a large central counter where visitors can find all of our products and services, an Experience Wall with multimedia devices, offering customers the chance to try everything out, and a mobile solutions zone.
- All new shops have the same arrangement, providing customers with an immediate orientation no matter which T-Mobile country they may be in.

T-Mobile also offers its customers other shopping options. At the end of last year, a new Internet shop was launched, offering, in addition to the complete portfolio of mobile phones and Twist sets, the possibility of extending Subscriber Contracts or activating services. In addition to this alternative sales channel, there was also the Christmas toll-free line, in which customers could order goods from our Christmas special from the comfort of their own homes.

Customer centres

Overall customer satisfaction often depends on the quality of customer service. Most frequently, customers come into contact with the T-Mobile Infoline, located in the customer centres in Louny and Hradec Králové, which is prepared to handle queries 24 hours a day, seven days a week.

- Last year alone, the T-Mobile Infoline handled almost 25 million calls. Of this, approximately a quarter of the customers needed operators' help; the remaining requests were handled by an automated voice response system.
- Based on our surveys, customers are very positive about the automated voice response system. They appreciate its clear arrangement and functionality, quick access to information and the ease of setting up services.

Since last year, customers who do not want or cannot wait for a connection with an Infoline operator have been able to order a call using a simple Internet form. The operator then calls them at the specified time.

Management Closer to Customers

The aim of the programme called Management Closer to Customers is to get familiar with customer behaviour in practice and gain first-hand experience with the job of the employees who deal with customers on an everyday basis. The programme was launched at the beginning of last year and almost 50 managers, including top management, of the Company took part.

- Not behind the director's desk but behind the counter of a Retail Shop, that's where the Managing Director of the Company, Roland Mahler, spent a part of his working day as one of the first participants of the programme. Besides actually selling products to customers, he tried out other activities such as stock checking, selection of promotional materials and data entry.
- Management representatives could also try working in other departments of the Company. They accompanied members of the sales unit for the SME segment at meetings and had the chance to persuade clients themselves that T-Mobile services really pay off.
- Most participants of the programme also worked a shift on the Infoline. After their initial training and listening to several phone calls, they put on headsets and answered clients' questions themselves.

Showrooms

Comprehensive care, flexibility and an individual customer approach are also reflected in the concept of specialized showrooms. T-Mobile was the first Czech operator to launch showrooms as early as 2003 in Prague and Ostrava.

- To all customers, showrooms offer a chance to get an overview of new products, the advantages and benefits for their businesses, to get familiar with case studies describing the use of new technologies in selected companies and to try out services based on practical examples, all free of charge.
- In addition to business customers, residential customers also had, to an increasing degree, the opportunity to check out the functionality of the practical services offered.

Partner programme

Maximum care is provided not only to residential and business customers but also to partners using T-Mobile products and services to develop their own solutions that they subsequently offer to their end users.

- In addition to specialised services, T-Mobile provides its partners with comprehensive information, as well as technological and marketing support.
- The fact that cooperation was established with 35 companies offering 65 applications on tens of thousands of SIM cards by the end of last year confirms the mutually beneficial nature of the partner programme.
- Solutions offered by our partners can be divided into approximately five areas: location-finding services, mobile office and mobile data collection, mobile data reading, SMS applications and m-payment.

Corporate publications

We provide our clients and partners with information on the happenings at T-Mobile and in the telecommunications industry through several publications.

- Dialog, a monthly newsletter for customers, provides an overview of the current selection of phones, information on new services and a lot more.
- Impuls, a quarterly magazine for members of the T-Mobile Club, is a lifestyle magazine, offering articles on mobile communications as well as interviews with interesting people and a lot of information on culture, sports and travelling.
- Professional, also a quarterly magazine, is designed particularly for business clients and partners and offers information on mobile services, products and solutions suitable for various fields of business. An Internet version of Professional, published on a monthly basis, was launched last year.
- Media Navigator is a monthly overview of the latest information for journalists. It was established last year as part of a special website called t-press, which is designed for the media and offers extensive press information.



■ ■ ■
Report of Independent
Auditors and Financial
Statements in accordance
with IFRS

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

We have audited the accompanying balance sheet of T-Mobile Czech Republic a.s. ("the Company") as at 31 December 2004, the related statements of income, changes in equity and cash flows for the year then ended ("the financial statements"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of T-Mobile Czech Republic a.s. as at 31 December 2004, and the results of its operations, its changes in equity and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

17 March 2005



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

PRICEWATERHOUSECOOPERS 

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Identification No.: 40765521, registered with the Commercial Register kept by the Municipal Court in Prague, Section C, Insert 3637, and in the Register of Audit Companies with the Chamber of Auditors of the Czech Republic under Licence No. 021.

Balance Sheet

CZK'000	Notes	31 December 2004	31 December 2003
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	439,136	3,135,524
Trade and other receivables	5	2,990,438	3,054,289
Inventories	6	299,316	290,182
Prepaid expenses		190,499	301,835
Total current assets		3,919,389	6,781,830
NON-CURRENT ASSETS			
Property and equipment	7	20,784,738	23,743,423
Intangible assets	9	6,169,691	5,711,599
Other assets		7,303	9,203
Total non-current assets		26,961,732	29,464,225
TOTAL ASSETS		30,881,121	36,246,055

CZK'000	Notes	31 December 2004	31 December 2003
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	3,506,076	6,469,554
Interest-bearing liabilities	11	62,492	7,022,042
Provisions	13	685,323	617,978
Income tax liability		1,316,589	972,491
Deferred income	14	1,101,532	1,166,955
Total current liabilities		6,672,012	16,249,020
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	11	51,832	45,321
Other liabilities	12	220,317	191,124
Provisions	13	438,199	481,531
Deferred income tax liabilities	15	1,886,310	2,053,422
Total non-current liabilities		2,596,658	2,771,398
TOTAL LIABILITIES		9,268,670	19,020,418
EQUITY			
Share capital	18	520,000	520,000
Share premium	18	5,344,110	5,344,110
Statutory reserve fund	18	104,000	104,000
Other reserves		(10,788)	-
Retained earnings		15,655,129	11,257,527
Total equity		21,612,451	17,225,637
TOTAL LIABILITIES AND EQUITY		30,881,121	36,246,055

The financial information on pages 27 to 43 has been approved by the Board of Directors of T-Mobile Czech Republic a.s. for issuance on 17 March 2005.

Income Statement

CZK'000	Notes	2004	2003
Revenue	19	26,009,154	24,102,762
Other operating income		921,418	691,574
Cost of goods and services	20	(8,197,793)	(7,725,079)
Staff costs	21	(1,738,233)	(1,598,887)
Depreciation and amortization	22	(5,132,604)	(4,565,979)
Marketing expenses		(1,217,664)	(1,330,451)
Other operating expenses	23	(4,067,513)	(3,442,562)
Profit from operations		6,576,765	6,131,378
Net finance expenses	24	(345,754)	(525,637)
Profit before tax		6,231,011	5,605,741
Income tax expenses	25	(1,833,409)	(1,074,945)
Net profit		4,397,602	4,530,796

Statement of Changes in Equity

CZK'000	Share capital	Share premium	Statutory reserve fund	Other reserves	Retained earnings	Total
Balance at 31 December 2002	520,000	5,344,110	104,000	-	6,726,731	12,694,841
Net profit	-	-	-	-	4,530,796	4,530,796
Balance at 31 December 2003	520,000	5,344,110	104,000	-	11,257,527	17,225,637
Net profit	-	-	-	-	4,397,602	4,397,602
Cash-flow hedges, net of tax	-	-	-	(10,788)	-	(10,788)
Balance at 31 December 2004	520,000	5,344,110	104,000	(10,788)	15,655,129	21,612,451

Cash Flow Statement

CZK'000	Notes	2004	2003
Cash flows from operating activities			
Profit before tax		6,231,011	5,605,741
Adjustments for:			
Depreciation and amortization	22	5,132,604	4,565,979
Losses on sale of fixed assets		37,070	95,429
Other non-cash income and expense		473,257	211,486
Interest expenses, net		252,795	497,901
Operating cash flows before working capital changes		12,126,737	10,976,536
Change in trade and other receivables		(404,130)	114,755
Change in inventories		(8,979)	355,577
Change in trade and other payables		(152,009)	324,704
Cash generated from operations		11,561,619	11,771,572
Interest paid, net		(381,718)	(410,381)
Income taxes received / (paid), net		(1,656,445)	76,235
Net cash provided by operating activities		9,523,456	11,437,426
Cash flows from investing activities			
Purchase of fixed and intangible assets		(2,972,771)	(2,829,589)
Proceeds from sales of fixed assets		198,704	40,430
Net cash used in investing activities		(2,774,067)	(2,789,159)
Cash flows from financing activities			
Repayment of shareholder's loan	11	(1,823,077)	(300,000)
Drawing of overdraft during the period		121,685	4,705
Repayment of overdraft during the period		(126,384)	-
Repayment of bonds	11	(5,000,000)	-
Repayment of liability arising from purchase of UMTS licence	10	(2,574,900)	-
Drawing / (repayment) of discounted loan	11	(31,761)	31,761
Repayment of syndicated loan and other interest bearing liabilities	11	(11,340)	(6,435,501)
Net cash used in financing activities		(9,445,777)	(6,699,035)
Net decrease / increase in cash and cash equivalents		(2,696,388)	1,949,232
Cash and cash equivalents at the beginning of the period	4	3,135,524	1,186,292
Cash and cash equivalents at the end of the period	4	439,136	3,135,524

Notes to the Financial Statements

1. General information

Establishment and Details of the Company

T-Mobile Czech Republic a.s. ("the Company"), located in Prague 4, Tomíčkova 2144/1, was incorporated on 15 February 1996 as a joint-stock company in the Czech Republic.

The Company operates a public Global System for Mobile Communications ("GSM") network and provides mobile telecommunications services under the terms and conditions stated in the Authorisation issued by the Ministry of Economy of the Czech Republic on 25 March 1996, under reference No. licences 7660/96-611. The Authorisation has been transformed into licences for the establishment and provision of the public GSM network and as well as the provision of mobile telecommunication services, in accordance with the new legislative amendment according to section 107 of the Act on Telecommunications No. 151/2000 Coll. as amended, via this network (refer to Note Licences and Trademarks).

Structure of the Company's Ownership

At 31 December 2004, the ownership structure of the Company was as follows:

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

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

There were no changes in the ownership structure of the Company during 2004.

Licences and Trademarks

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

Based on the results of administrative proceedings, the CTO issued the following new licences:

- Licence to provide public telecommunications services using the public mobile network, issued on 1 September 2004;
- Licence to establish and provide telecommunications services under the GSM system, issued on 1 October 2004;
- Licence to establish and provide telecommunications services under the UMTS system, issued on 1 October 2004.

All three telecommunications licences are legally enforceable and will be valid for 20 years (they expire in 2024). Some articles were removed from the licences compared to the original licences. The Authorization issued to RadioMobil a.s. (25 March 1996) to establish and operate a public telecommunications network in the GSM standard and to provide telecommunications services connected with this network, expired on the date when the three new licences became legally enforceable.

Based on the Company's requirement, the CTO issued Amendment No. 2 on 13 July 2004. This amendment changed the allocation of frequencies in the range of GSM 1800 MHz, including frequency bands of 2 x 10 MHz, obtained with the UMTS licence, which allowed these frequencies to create an integrated block of 90 channels (2 x 18 MHz). This change was included in the new GSM licence, issued on 1 October 2004.

According to the amendment to the agreement entered into on 14 December 2001 with the CTO, signed on 5 December 2003, the settlement of the remaining obligation to the CTO resulting from the purchase of this UMTS licence was made in two equal installments in the amount of CZK 1,287,450,000 on 14 April 2004 and 16 August 2004 (refer to Note 10, Trade and Other Payables). Subsequent to the preparation of these financial statements the UMTS telecommunication licence changed (refer to Note 29, Subsequent events).

Based on the Company's request, the CTO has issued a registration certificate based on general licence GL - 29/S/2000 to the Company on 16 July 2004 in order to provide telecommunications services and the lease of frequency bands.

The Company has 22 registered trademarks and has duly submitted applications for the registration of nine additional trademarks in the Industrial Property Office Register, one of which is in the process of going public.

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

Statutory and Supervisory Bodies

The members of the Board of Directors at 31 December 2004 were as follows:

Mr. Timotheus Höttges	Chairman
Mr. Mark Robert Donegan	Vice-Chairman
Mr. Dominic Robert Nicholas Redfern	Member
Mr. Timothy James Lang Taylor	Member
Mr. Thomas Georg Winkler	Member
Mr. Roland Mahler	Member
Mr. Hamid Akhavan - Malayeri	Member

Mr. Michael Günther resigned on 2 February 2004, both as chairman and a member of the Board of Directors. The Company's Board of Directors duly discussed this resignation, followed by the General Meeting, which approved it. The resignation from the position of member and chairman of the Board of Directors became effective on 1 March 2004. The deletion from the Commercial register ("the CR") is legally enforceable.

The General Meeting, held on 24 February 2004, elected Mr. Nikesh Arora a new member of the Board of Directors, effective 1 March 2004. Mr. Nikesh Arora resigned from his position as a member of the Board of Directors, effective 30 September 2004. The Company's Board of Directors duly discussed and the General Meeting acknowledged this resignation on 12 October 2004. The change was not reflected in the CR as of 31 December 2004.

The Company's Board of Directors meeting held on 5 March 2004 elected Mr. Timotheus Höttges a new chairman of the Board of Directors. This change is legally effective.

The General meeting held on 12 October 2004 elected Mr. Hamid Akhavan – Malayeri a new member of the Board of Directors effective 12 October 2004. The change was not reflected in the CR at the financial statements' issuance date.

The directors of the Supervisory Board at 31 December 2004 were as follows:

Mr. Frank Stoffer	Chairman
Mr. Pavel Kepřt	Member
Mr. Vítězslav Žalud	Member
Mr. Tomáš Tomiczek	Member
Mr. Kai Breuer	Member
Mr. Antonius Joseph Zijlstra	Member

In 2004, the electoral period of two members of the Supervisory Board, elected by the Company's employees, Mrs. Kateřina Šuvarinová and Mr. Václav Hladík, expired. Mr. Pavel Kepřt and Mr. Vítězslav Žalud were elected by employees as new members of the Supervisory Board on 8 December 2004.

The changes in the Supervisory Board in 2003 and 2004 were not reflected in the CR at the financial statements' issuance date.

2. Summary of significant accounting policies

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, except as disclosed in the accounting policies below.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

Effective 1 January 2004, the Company adopted the following changes in accounting policies and presentations:

Technological spare parts

Since 1 January 2004 the Company has classified its technological spare parts as property and equipment in the balance sheet. The reclassification from inventories to property and equipment totaled CZK 303,915,000 as of 31 December 2003. The corresponding income statement position of CZK 157,320,000 was reclassified from disposals and sales of inventories, classified under other operating expenses, to disposals and sales of property and equipment, classified under other operating income within the income statement for the 2003 period.

Early adoption of standards

In early 2004, the Company adopted the IFRS stated below, which are relevant to its operations. The 2003 accounts have been amended as required, in accordance with the relevant requirements.

- IAS 1 (revised 2003) Presentation of Financial Statements;
- IAS 2 (revised 2003) Inventories;
- IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors;
- IAS 10 (revised 2003) Events after the Balance Sheet Date;
- IAS 16 (revised 2003) Property, Plant and Equipment;
- IAS 17 (revised 2003) Leases;
- IAS 21 (revised 2003) The Effects of Changes in Foreign Exchange Rates;
- IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation;
- IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement;
- IAS 36 (revised 2004) Impairment of Assets;
- IAS 38 (revised 2004) Intangible Assets.

The early adoption of IAS 1, 2, 8, 10, 16, 17, 21, 32, 36 and 38 (all revised in 2003) did not result in substantial changes to the accounting policies.

The early adoption of IAS 39 (revised in 2003) has resulted in a change in the accounting policy relating to the introduction of hedge accounting. See Note 3, financial risk management.

Other changes to the financial statements structure

On 1 January 2004 the Company amended its presentation and classification of some items in the financial statements to provide more reliable and relevant information about the entity's financial position, performance and cash flow. These changes conform to the newly implemented IFRS financial statements structure adopted by DTAG. As a result, comparative amounts were reclassified in order to ensure consistency with the current period. The following reclassifications in the 2003 comparative information were made:

- Advance payments of CZK 182,879,000 were reclassified from accounts receivable to prepaid expenses;
- Accounts receivable of CZK 2,194,286,000 and other current assets of CZK 1,042,882,000 were aggregated and classified as trade and other receivables;
- Current provisions are presented separately; although until 31 December 2003 they were included in trade and other payables in the amount of CZK 617,978,000;
- Bank overdrafts and loans of CZK 1,859,543,000 and the current portion of long-term debt of CZK 5,015,840,000 were aggregated and classified as current interest bearing liabilities;
- Non-current payables of CZK 672,655,000 were split into non-current other liabilities and non-current provisions;
- Reclassification from trade and other payables to current interest bearing liabilities of CZK 146,659,000 was made, comprising liabilities arising from leasing and other liabilities;
- Provision for doubtful debts and inventories, foreign exchange losses, other provisions and non-cash expense within the cash flow statement were combined into other non-cash income and expenses.

a) Entities controlled

The Company does not control or significantly influence any other entity.

b) Use of estimates

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed.

c) Foreign currencies

The Company's functional and presentation currency is the Czech crown. Foreign currency transactions are accounted for according to the exchange rates prevailing at the date of the transactions, published by the Czech National Bank. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies as of the balance sheet date are recognised in the income

statement, except for transactions treated under hedge accounting (hedging of forecasted cash flows), which are included in equity.

d) Cash equivalents

Cash equivalents are highly liquid balances held at banks, balances due from banks including overdrafts, bank depository notes and other short-term financial instruments.

e) Trade receivable

Trade receivables are recognised as the original invoice amount, less a provision for impairment. A provision for the impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due in accordance with the original terms of the invoiced amount. The amount of the provision is the difference between the carrying amount and the recoverable amount, this being the present value of expected cash flows, discounted at the effective interest rate. Cash flows related to short-term receivables are not usually discounted. The amounts of the provision are recognised in the income statement.

f) Inventories

Inventories, with the exception of the subsidised mobile telephone sets mentioned below, are stated at the lower of acquisition cost or net realisable amount. The acquisition cost comprises purchase price and other costs incurred in bringing the materials into their present location and condition. These other costs include customs, storage costs during transportation and freight costs.

Provisions are recorded for obsolete, slow-moving and damaged inventory and are deducted from the related inventory balances.

Inventories are valued using the weighted average price method.

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

g) Provisions

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

The Company created a provision for the estimated future cost, in connection with its loyalty program for customers ("T-Mobile Bonus"), for those loyalty points, that were earned and unused by year end.

The Company has recognised an asset retirement obligation (“ARO”), which represents an estimate of the future cost of restoring its network sites in accordance with the terms of its lease contracts. The fair value of the liability is added to the carrying amount of the associated long-lived asset and is depreciated over the assets’ useful life. The liability is accreted to its present value each period through charges to the income statement. If the obligation is settled for anything other than the carrying amount of the liability, a gain or loss on the settlement is recognised.

h) Financial instruments

Financial assets

The Company’s principal financial assets are bank balances, cash, trade and other receivables. Trade and other receivables are stated at their nominal value and reduced by the appropriate allowances for estimated unrecoverable amounts.

Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements. Significant financial liabilities include interest bearing bank loans and overdrafts, other loans and bonds, promissory notes, finance lease obligations, and trade and other payables.

Finance charges, including premiums payable on settlement or redemption, are accounted for on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. Trade and other payables are stated at their nominal value.

Financial derivatives

Information about accounting for derivative financial instruments and hedging activities is included in Note 3, Financial risk management.

i) Property and equipment

Property and equipment are stated at acquisition cost less depreciation less accumulated impairment losses. Acquisition costs are comprised of the purchase price, transportation cost, customs, installation cost, estimated cost of dismantling and removing the asset and restoring the site and other relevant costs. Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, and/or assets that necessarily take a substantial period of time to prepare for intended use or sale, are capitalised to those assets, until the time when those assets are substantially ready for their intended use or sale.

Depreciation is calculated on a straight-line method over an asset’s estimated useful life as follows:

Land	Not depreciated
Buildings and leasehold improvements	20 years
Equipment:	
Vehicles, computers, office equipment	3 – 7 years
GSM Network equipment	8 years
Towers and poles	10 years

The assets’ residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Repairs and maintenance costs are charged to the income statement as expenditures are incurred.

If the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

The gain or loss arising from the disposal or retirement of an asset is determined as the difference between the sales proceeds, and the carrying amount of the asset and is recognised in the income statement.

j) Intangible assets

Intangible assets comprise the following:

- i) GSM licences, which represent the right to provide telecommunications services in the Czech Republic and to build and operate GSM telecommunications equipment, are accounted as costs paid to the Ministry of Economy of the Czech Republic. This amount has been capitalised and is being amortised over its useful life using the straight-line method. The useful life is considered to be 20 years from the date the licences become legally effective.
- ii) The UMTS licence, acquired by the Company in December 2001, represents the right to provide telecommunications services in the Czech Republic under the UMTS system. As of 31 December 2004, the UMTS licence was not yet in use, as the system was in the process of preparation for commercial launch. Once in use, the licence will be amortised over its useful life. The useful life of the UMTS licence is considered to be the period from when the licence goes into commercial use, through the licence expiration date in 2024.
- iii) Software costs are amortised over the expected period of the benefit of the cost, which is 2 or 3 years. These costs include the cost of the licence for use of the software and the cost of consulting services related to the implementation of the software. The costs of consulting services, which are incurred after the relevant subsystem of the software is put into routine operation, are charged to the income statement as incurred.

- iv) Development costs are recognised as intangible assets to the extent that such costs are expected to generate future economic benefits. Development costs are amortised using the straight-line method over the period of time for which the effort is expected to contribute to revenues, which is 2 - 5 years. The Company does not perform research.
- v) Costs associated with developing or maintaining computer software programs are recognised and expensed as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Company, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the employee costs of software development. Costs associated with developing or maintaining computer software programs are recognised and expensed as incurred.

Borrowing cost directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to ready for their intended use or sale, are capitalized to those assets, until the time when those assets are substantially ready for their intended use or sale.

If the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected cash flows are discounted to their present values.

k) Finance leases

Leased property and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated net present value of the underlying lease payments. The corresponding current and long-term rental obligations (both net of finance charges) are included as current and long-term payables, respectively. Finance charges are charged to the income statement over the lease period.

l) Operating leases

Payments made under operating leases are charged to the income statement in equal installments over the period of the lease, except where an alternative method is more representative of the time pattern from which benefits are derived.

m) Revenue recognition

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

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

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

Both prepaid and postpaid package revenues are allocated to activation revenues, handset revenues, and airtime value in accordance with their relative fair values.

The activation fee allocated to the handset is recognised immediately with the handset sale. The activation fee allocated to the airtime/tariff is deferred and recognised in line with airtime consumption from the first voucher by the prepaid customer or over the estimated postpaid customer relationship period.

Airtime sold on prepaid cards is initially deferred and is recognised on the basis of consumption of prepaid airtime.

Revenues from the airtime of postpaid customers are recorded based on the number of minutes processed, and are recorded when the traffic is processed and the communication services are rendered.

Interconnection revenues are recognised as earned, on a monthly basis, at the value of interconnection services provided to other operators of mobile and fixed line telecommunication networks. In cases where pricing agreements are not in place, revenues are recorded on the basis of management's best estimate, with any necessary adjustment being made in the period of settlement. See Note 27, Contingencies, for further discussion.

Interest income is recognised on a time-proportional basis using the internal rate of return.

n) Cost of goods and services

The cost of goods and services includes the cost of handsets and accessories sold, dealers' commissions and bonuses, the costs of leased lines, roaming costs and interconnection fees for delivering calls that terminate outside the Company's network. The costs of goods and services are charged as income in the period in which the related revenue is recognised.

o) Marketing expenses

All marketing costs are charged to the income statement as incurred.

p) Employee benefits

The Company does not provide any post employment benefits.

As of 1 January 2004, Deutsche Telekom implemented an incentive plan ("MTIP 2004") for selected employees of Deutsche Telekom AG and its subsidiaries,

which comprise the Company. The MTIP 2004 is a cash-based plan that will end on 31 December 2006. Pay out is contingent on Deutsche Telekom share price performance in absolute terms and also its relative share price performance compared to the Euro STOXX Total Return Index.

The fair value of the plan is calculated as the fair value of a one euro pay out, multiplied by the total amount assigned to the participants. The provision recognised is equivalent to the fair value of the plan distributed over its life on a pro-rata basis as of the reporting date. Changes in the fair value of the plan over the past period are recognised immediately in the income statement as staff costs.

q) Income taxes

Income tax expense is comprised of the current tax charge and the change in deferred income tax, except when the change relates to items credited or charged directly to equity, in which case the deferred tax is also recorded through equity.

Deferred income tax is determined based on differences between the carrying amount of assets and liabilities and the tax base of those same assets and liabilities, using the expected statutory tax rates for the anticipated year of reversal. Deferred income tax charged or credited in the income statement is measured as the change in the net deferred income tax asset or liability during the year. The principal temporary differences arise from tax and accounting depreciation on tangible and intangible assets, non-deductible tax provisions and a revaluation of other assets and liabilities. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available, against which deductible temporary differences can be utilised.

3. Financial risk management

Foreign exchange and interest rate risk management

The Company's activities expose it to a variety of financial risks, including the effects of variations in foreign currency exchange rates and interest rates. The Company's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise their potential adverse effects on the financial performance of the Company. The Company uses derivative financial instruments such as forward foreign exchange contracts, options and interest rate swaps to hedge certain exposures.

Risk management is the responsibility of the Company's Treasury Department under the policies and guidelines set by the Board of Directors of T-Mobile Czech Republic a.s.

The Company uses forward foreign exchange contracts and zero-cost option structures in its management of the currency risks associated with its foreign currency supplier-customer relations and loans obtained in foreign currency.

The Company uses interest rate swaps to hedge a portion of its interest rate risk arising from its borrowings. The interest rate swaps are recognised at their fair value and are classified as trading derivatives.

The Company does not undertake any speculative transactions.

Concentrations of credit risk

The Company has no significant concentrations of credit risk. Derivative and cash transactions counterparties are limited to high-credit quality financial institutions. The Company has policies that limit the amount of credit exposure to any one financial institution.

Liquidity risk management

Prudent liquidity risk management implies the maintenance of sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the Company's Treasury Department aims at maintaining flexibility in funding by keeping committed credit lines available.

Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at cost and are subsequently re-measured at their fair value. In assessing the fair value of derivatives, the Company uses a variety of methods, including techniques such as the present value of the estimated future cash flows and assumptions that are based on market conditions existing at each balance sheet date.

All derivative financial instruments held by the Company are recognised using settlement-date accounting.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when the risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value with unrealised gains and losses reported in the income statement for the year.

The Company uses foreign currency forward contracts to hedge estimated cash flows (related to purchases of fixed assets, inventory and services). Further, foreign exchange forward contracts are being used to hedge fair value of existing balance sheet items (promissory notes). Beginning 1 January 2004, the Company introduced hedge accounting under the specific guidelines of IAS 39 (revised 2003), which resulted in a change in the fair value of certain derivatives being classified within other reserves. The fair value of the derivatives is released into the income statement in the same period as the underlying items to match the gains and losses of the hedged items.

4. Cash and cash equivalents

CZK'000	31. 12. 2004	31. 12. 2003
Cash at banks and in hand	168,326	154,384
Cash equivalents	270,810	2,981,140
Total	439,136	3,135,524

Cash equivalents at 31 December 2004 consist mainly of bank promissory notes. The promissory notes represent short-term investments maintained for cash management purposes.

5. Trade and other receivables

CZK'000	31. 12. 2004	31. 12. 2003
Trade receivables	4,310,879	3,207,241
Less: Provision for doubtful accounts	(2,121,847)	(1,538,383)
Trade receivables, net	2,189,032	1,668,858
Unbilled receivables	687,967	1,040,758
Receivables from taxes not relating to income	70,733	265,111
Other receivables	42,706	79,562
Total	2,990,438	3,054,289

Trade receivables relate primarily to GSM service customers, other telecommunications companies (interconnection charges) and independent dealers.

6. Inventories

CZK'000	31. 12. 2004	31. 12. 2003
Handsets and accessories for sale	284,258	266,086
Other inventories	25,995	35,188
Subtotal	310,253	301,274
Less: Provisions	(10,937)	(11,092)
Total	299,316	290,182

7. Property and equipment

CZK'000	Buildings and land	Equipment and other fixed assets	Tangible fixed assets under construction, advances and spare parts	Total
Cost				
31. 12. 2002	1,225,880	31,881,690	1,345,312	34,452,882
Additions	-	462,677	1,816,303	2,278,980
Initial recognition of ARO	-	381,115	-	381,115
Disposals	(24,858)	(626,705)	(68,669)	(720,232)
Transfers*	5,091,501	(3,621,428)	(1,546,318)	(76,245)
31. 12. 2003	6,292,523	28,477,349	1,546,628	36,316,500
Changes in accounting policy**	-	-	303,915	303,915
31. 12. 2003 restated	6,292,523	28,477,349	1,850,543	36,620,415
Additions	143,156	292,047	2,048,958	2,484,161
Disposals	(453,865)	(1,339,580)	(250,947)	(2,044,392)
Transfers*	586,820	423,902	(1,928,792)	(918,070)
31. 12. 2004	6,568,634	27,853,718	1,719,762	36,142,114

* Includes transfers of tangible assets under construction and advances into use and reclassification as intangible assets

** See Note 2, Technological spare parts.

CZK'000	Buildings and land	Equipment and other fixed assets	Tangible fixed assets under construction, advances and spare parts	Total
Accumulated depreciation / Impairment				
31. 12. 2002	255,024	8,940,889	160,000	9,355,913
Depreciation	702,442	3,228,683	-	3,931,125
Initial recognition of ARO	-	131,628	-	131,628
Impairment release	-	-	(103,000)	(103,000)
Disposals	(7,848)	(426,925)	-	(434,773)
Transfers*	1,008,269	(1,012,170)	-	(3,901)
31. 12. 2003	1,957,887	10,862,105	57,000	12,876,992
Depreciation	636,335	3,612,157	-	4,248,492
Impairment charge	-	20,347	62,253	82,600
Disposals	(285,215)	(1,201,295)	-	(1,486,510)
Transfers*	63,436	(427,634)	-	(364,198)
31. 12. 2004	2,372,443	12,865,680	119,253	15,357,376
Net book value				
31. 12. 2003	4,334,636	17,615,244	1,489,628	23,439,508
31. 12. 2003 – restated	4,334,636	17,615,244	1,793,543	23,743,423
31. 12. 2004	4,196,191	14,988,038	1,600,509	20,784,738

* Includes impact of reclassification into intangible assets

8. Financial leases

Future lease liabilities relate to cars leased under financial lease contracts. As of 31 December 2004 they were as follows:

CZK'000	2005	2006	2007 and after	Total
Payables including interest	62,589	43,858	10,083	116,530
Payables excluding interest	60,141	42,143	9,689	111,973

Lease liabilities are included in interest bearing liabilities (see Note 11).

The total net book value of assets under financial leases as of 31 December 2004 was CZK 131 million (as of 31 December 2003: CZK 109 million) and was included under equipment and other fixed assets.

9. Intangible assets

CZK'000	Development costs	Software	GSM and other licences	Intangible assets not in use and advances	Total
Acquisition cost					
31. 12. 2002	165,947	2,343,548	1,055,870	4,319,077	7,884,442
Additions	18,947	305,279	-	165,411	489,637
Disposals	-	(19,700)	-	(12,677)	(32,377)
Transfers *	196,321	459,435	42,912	(622,947)	75,721
31. 12. 2003	381,215	3,088,562	1,098,782	3,848,864	8,417,423
Additions	6,259	605,798	-	125,766	737,823
Disposals	(4,015)	(68,797)	-	(2,074)	(74,886)
Transfers *	(149,627)	1,324,643	(75,040)	(181,906)	918,070
31. 12. 2004	233,832	4,950,206	1,023,742	3,790,650	9,998,430

CZK'000	Development costs	Software	GSM and other licences	Intangible assets not in use and advances	Total
Accumulated amortisation / Impairment					
31. 12. 2002	145,599	1,722,751	217,886	-	2,086,236
Amortisation	15,051	528,946	48,847	-	592,844
Impairment charge	-	-	-	42,010	42,010
Disposals	-	(18,643)	-	-	(18,643)
Transfers *	(1,661)	4,084	954	-	3,377
31. 12. 2003	158,989	2,237,138	267,687	42,010	2,705,824
Amortisation	21,997	752,725	39,265	-	813,987
Impairment release	-	-	-	(42,010)	(42,010)
Disposals	(4,015)	(9,245)	-	-	(13,260)
Transfers *	1,002	400,130	(36,934)	-	364,198
31. 12. 2004	177,973	3,380,748	270,018	-	3,828,739
Net book value					
31. 12. 2003	222,226	851,424	831,095	3,806,854	5,711,599
31. 12. 2004	55,859	1,569,458	753,724	3,790,650	6,169,691

* Includes transfers of intangible assets under construction and advances into use and reclassification as tangible assets.

Intangible assets not in use consist primarily of the value of the UMTS licence obtained on 14 December 2001 in a public tender. As the highest bidder, the Company also obtained frequency bands of 2 x 10 MHz in the range of GSM 1800 MHz, included in the agreed price. The UMTS licence has been valued at CZK 3,535 million (the offer of the competitor in the tender) and the additional frequency of GSM 1800 MHz has been valued at CZK 326 million. Capitalised interest totalled CZK 255,146,000 as of 31 December 2004 (as of 31 December 2003: CZK 251,309,000).

10. Trade and other payables

CZK'000	31. 12. 2004	31. 12. 2003
Trade payables	1,005,682	1,179,632
Derivatives due to be settled within one year	6,050	50
Un-invoiced capital expenditures – GSM network	226,669	470,702
Deposits and prepayments	189,830	166,093
Other taxes and social security	63,320	53,821
Accruals for interconnection	432,359	458,630
Other accruals	1,323,401	1,437,776
Bill of exchange to be paid	258,765	127,950
Payable to CTO (UMTS licence)	-	2,574,900
Total	3,506,076	6,469,554

Deposits and prepayments include deposits received from customers for the Company's services.

Accruals mainly consist of un-invoiced deliveries of inventories and services.

The Company settled its remaining obligation for the granted UMTS licence in two equal installments of CZK 1,287,450,000 each, on 14 April and 16 August 2004 to the CTO.

11. Interest-bearing liabilities

CZK'000	Maturity	Balance as of 31. 12. 2004	Balance as of 31. 12. 2003
Bank overdraft	Sep/2004	6	4,705
Discounted loan		-	31,761
Shareholder's subordinated loan	Feb/2004	-	1,823,077
Finance lease liability		60,141	78,958
Bonds		-	5,000,000
Other		2,345	83,541
Total current interest bearing-liabilities		62,492	7,022,042
Finance lease liability		51,832	45,321
Total non-current interest bearing-liabilities		51,832	45,321
Total		114,324	7,067,363

The total limit of bank overdrafts and flexible credit line provided to the Company was EUR 3 million and CZK 1,100 million.

Shareholder's loan

The subordinated loan, which had an outstanding balance of CZK 1,823,077,000 at 31 December 2003, was fully repaid in 2004. The loan had an interest rate of 3.07 percent p.a. at the day of loan settlement (31 December 2003: 3.07 percent p.a.).

Bonds

The Company settled its liability arising from bonds issued in the total nominal amount of CZK 5,000,000,000 together with related interest amounting to CZK 410,000,000 on 8 November 2004.

12. Other liabilities

Other liabilities consist of postpaid customers' deposits repayable after the fulfillment of contract conditions.

13. Provisions

CZK'000	31. 12. 2004	31. 12. 2003
T-Mobile bonus	446,228	407,849
Unused vacation and bonuses	149,215	136,190
Other provisions	89,880	73,939
Total current provisions	685,323	617,978
Asset retirement obligation	424,744	481,531
Other provisions	13,455	-
Total non-current provisions	438,199	481,531
Total	1,123,522	1,099,509

14. Deferred income

CZK'000	31. 12. 2004	31. 12. 2003
Deferred airtime related to prepaid customers	1,057,737	875,269
Deferred income from activation fees	-	152,923
Other deferred income	43,795	138,763
Total	1,101,532	1,166,955

Deferred income from activation fees was from 1 January 2004 allocated based on the fair value of multiple element agreements either to handset or airtime/tariff consumption.

15. Deferred income tax liabilities

The movement for the year in deferred income tax liabilities was as follows:

CZK'000	2004	2003
At 1 January	(2,053,422)	(2,138,646)
Impact of the change in the tax rate from 31% to 28%, 26% and 24% – Note 25	-	485,862
Charge to the income statement for the year	167,112	(400,638)
Total change in deferred tax	167,112	85,224
At 31 December	(1,886,310)	(2,053,422)

Net deferred income tax liabilities consist of the following:

CZK'000	31. 12. 2004	31. 12. 2003
Depreciation differences for fixed assets	(9,733,927)	(10,085,858)
Difference between tax and accounting values of derivatives	582	(2,073)
Provisions for receivables and inventories	609,265	455,023
Other accruals	1,206,783	1,096,029
Base for deferred tax computation	(7,917,297)	(8,536,879)
Total deferred tax liabilities *	(1,886,310)	(2,053,422)
Deferred tax (liabilities)/assets, net, to be recovered/(paid) within 12 months	(56,199)	112,639

* The tax rate used reflects the Company's estimation of the tax rate, which will be in effect for the year the particular deferred items are realised.

16. Derivative financial instruments

Forward contracts

As of the end of 2004, the Company had open forward contracts with a total nominal value of EUR 13,994,000 (as at 31 December 2003: EUR 1,013,000). These transactions are focused on managing currency risks associated with the settlement of financial liabilities of the Company resulting from customer-supplier relations denominated in EUR. All forward contracts at 31 December 2004 were initiated during the fiscal year ended 31 December 2004. During 2004, forward contracts with total nominal value of EUR 164,510,000 were settled (in 2003: EUR 155,237,000).

Open foreign exchange forward contracts (CZK'000)	31. 12. 2004	31. 12. 2003
Open forward exchange contracts hedging other FX payables:		
Positive fair value	-	719
Negative fair value	(6,049)	(50)
Forward contracts total fair value	(6,049)	669

17. Fair value of financial assets and liabilities

The estimated fair value of financial assets and liabilities has been determined using the best available market information and an appropriate valuation method. However, considerable judgement is necessary to interpret the market data to develop estimates of fair value. Accordingly, these estimates are not necessarily indicative of the amounts that the Company could realise in the current market or the value that ultimately will be received by the Company upon maturity or disposition. Therefore, because of the variety of valuation techniques, comparability of fair values among estimates may not be meaningful. The use of different market assumptions and/or estimation methods may have a material effect on the estimated fair value amount.

The fair value of financial assets and liabilities as of 31 December 2004 approximate carrying value because of their immediate or short-term maturity or their floating interest rate.

18. Equity

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

Share premiums of CZK 5,344,110,000 were paid under the Joint Venture Agreement of the joint-stock company between ČESKÉ RADIOKOMUNIKACE a.s. and CMobil B.V., dated 25 March 1996, and the Contract between the Ministry of Economy of the Czech Republic, CMobil B.V. and ČESKÉ RADIOKOMUNIKACE a.s., dated 25 March 1996. The GSM licence to provide telecommunication services is a portion of the share premium.

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

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

19. Revenues

For management purposes, revenues can be split into the following business segments, distinguishable by the nature of the product or business and by the type of products or services offered.

For the year ended 31 December 2004:

CZK'000	Domestic	Foreign	Total
Business segment			
Sales of handsets	1,267,289	-	1,267,289
Sales of services	23,268,226	1,473,639	24,741,865
Total net revenue	24,535,515	1,473,639	26,009,154

For the year ended 31 December 2003:

CZK'000	Domestic	Foreign	Total
Business segment			
Sales of handsets	930,830	-	930,830
Sales of services	22,091,262	1,080,670	23,171,932
Total net revenue	23,022,092	1,080,670	24,102,762

The sale of handsets and network services are disclosed net of any sales discounts.

Based on the nature of the Company's business, it is not practicable to allocate the Company's assets and operating results between the above-mentioned business segments.

20. Cost of goods and services

CZK'000	2004	2003
Costs of handsets and accessories	2,147,631	2,054,684
Interconnection charges and roaming	4,712,857	4,451,302
Leased lines	349,926	451,372
Dealers commissions and bonuses	305,876	284,127
Other	681,503	483,594
Total	8,197,793	7,725,079

21. Staff costs

CZK'000	2004	2003
Board emoluments	1,872	1,821
Wages and salaries	1,210,513	1,119,036
Social security costs	454,165	418,595
Other staff costs	71,683	59,435
Total	1,738,233	1,598,887
Average number of employees	2,477	2,524

The number of employees is based on the average number of annual full-time employees. Since 2002, the Company has provided its employees with a contribution to supplementary pension insurance. In 2004, the total contribution provided was CZK 29,068,000 (2003: CZK 24,413,000).

In 2004, the Company did not provide any loans to members of statutory bodies or the management. Company cars are made available for use by management for business and personal purposes (acquisition cost at 31 December 2004: CZK 44,543,000, at 31 December 2003: CZK 48,623,000). Since 2004 the Company has provided top management with a compensation for fuel used for business purposes. As of 31 December 2004 the compensation was CZK 966,000.

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

22. Depreciation and amortisation

CZK'000	2004	2003
Amortisation of GSM licences	39,265	48,847
Amortisation of other intangible fixed assets	844,847	586,007
Depreciation of tangible fixed assets	4,248,492	3,931,125
Total	5,132,604	4,565,979

23. Other operating expenses

CZK'000	2004	2003
Consulting, seconded experts, external management and other services	279,712	307,203
Increase in provision for bad debts	583,464	160,910
Decrease in other provisions	(578,749)	(45,268)
Rent expenses	726,817	574,982
Repair and maintenance	586,161	752,155
Administrative and other operating expenses	2,470,108	1,692,580
Total	4,067,513	3,442,562

24. Net finance expense

CZK'000	2004	2003
Income from short-term investments	-	14,479
Interest income	96,885	53,688
Total financial income	96,885	68,167
Interest expense and other financial expenses	(457,213)	(584,546)
Foreign exchange income/(losses), net	14,574	(9,258)
Total	(345,754)	(525,637)

25. Income tax expense

Income tax expense is comprised of the following:

CZK'000	2004	2003
Current tax	(2,000,521)	(1,160,169)
Deferred tax – Note 15	167,112	85,224
Income tax expense	(1,833,409)	(1,074,945)

The charge for the year can be reconciled to the profit before tax as follows:

CZK'000	2004	2003
Profit before tax	6,231,010	5,605,741
Tax by applying the statutory tax rate *	(1,744,683)	(1,737,780)
Impact of the change in tax rate on opening deferred tax balances	-	485,862
Impact of the change in tax rate on current year deferred tax movements	-	117,214
Impact of:		
Non-deductible expenses	(193,367)	(202,615)
Non-taxable revenues	118,707	145,429
10% investment relief on investment in fixed assets in the current year	28,932	102,206
Supplementary tax relating to prior periods	(71,343)	-
Other	28,345	14,739
Income tax expense	(1,833,409)	(1,074,945)

* In 2004, a rate of 28% applied (2003: 31%), based on the effective income tax act.

The structure of the enacted corporate income tax rates is as follows:

Year	Corporate income tax rate
2004	28%
2005	26%
2006	24%

26. Related party transactions and balances

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

CZK'000	2004	2003
ČESKÉ RADIOKOMUNIKACE a.s.:		
Purchase of services (leased lines)	359,757	425,768
GSM services sold	10,611	8,296
DTAG group:		
Roaming, interconnection and other related services purchased	373,048	383,670
Other services purchased	610,498	320,240
Roaming and other services sold	592,527	485,971
Re-branding reimbursement	14,369	107,569
Total related party purchases	1,343,303	1,129,678
Total related party sales	617,507	601,836

Related party receivables:

CZK'000	31. 12. 2004	31. 12. 2003
ČESKÉ RADIOKOMUNIKACE a.s.:		
GSM and other services	1,386	3,255
DTAG group:		
Roaming and other services sold	114,169	137,950
Total related party receivables	115,555	141,205

Related party payables:

CZK'000	31. 12. 2004	31. 12. 2003
ČESKÉ RADIOKOMUNIKACE a.s.:		
Leased lines and other rentals	153	47,368
DTAG group:		
Roaming and other services purchased	25,224	286,463
Total related party payables	25,377	333,831

The Company had no borrowings within the group as of 31 December 2004. The long-term credit with a total limit of CZK 3,823,077,000 provided by Deutsche Telekom International Finance BV, and with a maturity on 31 December 2011, had not been drawn as of 31 December 2004.

Shareholders' subordinated loan was fully repaid by the Company in February 2004 (see Note 11, interest bearing liabilities).

In 2004, the total remuneration of the Board of Directors and the Supervisory Board was CZK 1,872,000 (2003: CZK 1,821,000).

The Company does not have any significant balances, nor has it entered into any significant transactions with the management or directors in 2004 or 2003.

27. Contingencies

Negotiations concerning the settlement of interconnection fees from 2001 with ČESKÝ TELECOM, a.s. have been taking place concurrent to the administrative actions of the CTO. The results of these negotiations might influence 2001 interconnection revenues and costs and any necessary adjustment will be accounted for in the period of final resolution.

The value-added tax audit carried out by the Financial Office for the years 1997 through 2003 was finalised during 2004. Findings of the audit did not have a material impact on the financial statements of the Company.

In 2004 the Company became a defendant in a lawsuit in which Oskar Mobil a.s. ("OM"), a mobile operator on the Czech market, sued the Company for compensation of damages resulting from the alleged abuse of the dominant position by the Company. Based on existing facts, the Company believes that it is highly unlikely that the lawsuit will result in a significant cash outflow. For this reason, no provision has been recognised in the Company's financial statements as of year end.

The Company is not aware of any major litigation that would require adjustment or disclosure in the financial statements as of 31 December 2004, other than that which has already been provided for as of 31 December 2004.

28. Commitments

As of 31 December 2004, the Company's future capital commitments with respect to technologies totalled CZK 400,980,000 (as of 31 December 2003: CZK 411,133,000).


The future minimum lease payment commitments under operating leases arising from the rental of microwave connections, other buildings, offices (including an administrative building in Roztyly) and GSM base stations are as follows:

CZK'000	31. 12. 2004
Up to 1 year	883,303
1 to 5 years	2,614,619
Over 5 years	2,967,400
Total	6,465,322

29. Subsequent events

Subsequent to the preparation of these financial statements the CTO issued a new decision that changed the UMTS telecommunication licence. The decision became effective on 4 March 2005. Based on this change the Company has an obligation to launch the UMTS network within 90 percent of the urban area of the city of Prague by 1 January 2007.

No further events which would have a significant impact on the financial statements as at 31 December 2004 occurred subsequent to the preparation of these financial statements.



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