Polska Telefonia Cyfrowa Sp. z o.o.
Annual Report 2002
Dear Friends,

I have the pleasure to report on another successful year of Polska Telefonia Cyfrowa’s operations. During 2002 we made significant progress in executing our strategy of increasing the efficiency and profitability of our activities, while at the same time maintaining the market leadership position by focussing on the most attractive segments of the Polish mobile market and sustaining a high rate of growth.

The Polish mobile telephony market experienced another record year of growth in 2002, with the penetration rate increasing by another 11 percentage points over 2001, ending the year at slightly above 36%, or 13.9 million subscribers. Experience of other European countries suggests that there is scope for a significant further growth in penetration. It is clear from the subscriber base and call volume dynamics that mobile telephony is the fastest growing segment of the telecommunications industry in Poland. The number of mobile phones has already exceeded the number of fixed-telephony lines. Mobile telephony is thus becoming the primary communication tool in the everyday life of the Polish society. We are pleased to be at the forefront of this development.

A number of factors, both internal and external, influence the pace at which the market, and PTC in particular, can develop in the future years. Economic conditions, regulatory environment, technological advances and competitive positioning of PTC are the fundamental ones.

PTC’s 2002 operational and financial results are remarkably good, given the difficult economic environment the company had to contend with. PTC remains the largest mobile operator in Poland, providing services to 4.87 million customers. With revenues for the year of PLN 4,929.8 million and EBITDA of PLN 2,060.5 million, we have managed to significantly grow both the scale and profitability of the business. That has been achieved in weak economic conditions, which negatively affect growth momentum of many Polish companies. With subdued domestic demand and less pricing power, companies focus on their costs and investments in order to deliver satisfactory returns and cash flows. The same is true for PTC, which is not immune to the slowing economy. Apart from working hard to acquire new customers, we have also made a lot of progress in reducing cost and improving the way we invest our resources. Throughout 2002, our policy was to invest most heavily in the fastest growing and most profitable customer segments, whilst making long term investments in non-voice services and building Era brand’s attributes of appeal, innovation and value for money. Efficiency consciousnes in the company has been markedly increased as a result of a number of initiatives and a lot of creative projects in this respect executed on all levels of the organization. I would like to congratulate and thank everyone who has made a contribution in the process.

The regulatory environment is undergoing profound changes, with a new Telecommunications Law being prepared for introduction in 2003 and market liberalization fostering competition in domestic long-distance connections and, starting from 2003, international traffic. Despite the initial problems with introducing market competition in practice, we recognize that it is a difficult but necessary process to bring Polish legislation and market practices in line with European standards.

Technology is an often cited area of concern for mobile market participants, as deployment plans of third generation networks are being delayed or in some cases are even abandoned by UMTS license holders. PTC has taken a pragmatic approach in this respect. We have successfully applied to the industry regulator for a delay of the deadline for launching the UMTS network, which gives us more time to observe developments in other countries and better prepare for our own technology deployment. In the meantime, we have never stopped working hard on improving our technological capability. Of the three Polish mobile operators, PTC is the only one to have completed field tests of a UMTS network during 2002 and we believe we are now ready to launch a full scale roll-out project whenever the market potential is proven by our sister companies in Western Europe.

The key to the future success of UMTS are innovative data-based products, easy-to-use and providing real added value to the customers. We have made significant progress in 2002 in enhancing our offer to both the private and business segments of the market. Based on our GPRS capacity we introduced multimedia messaging (MMS) and Era Omnix – our new attractive
platform for provision of rich content-based services. A very important part of the Era Omnix project is the creation of a network of well-known content providers, who can easily update their services available in Era Omnix. For the business clients, GPRS facilitates fast and secure mobile access to their corporate networks and business applications, such as e-mail, company databases or management systems.

These are but a few of many new services that we launched last year. A notable progress has also been achieved in the range of roaming possibilities we offer to our clients. We now offer equally user-friendly roaming to both pre-paid and post-paid clients, and GPRS roaming has also been made available in 14 countries by December 2002.

At PTC we believe our daily mission is to maintain our market leadership through offering our customers the most innovative solutions, quality of service and value for money. As a result of this customer focus and despite fierce competition, we acquired 1.1 million new customers net in 2002, which is more than during any single year in the company’s six year long history of operations. As the market growth is accelerating we need to try even harder to keep up with the growth and maintain our leadership position. Our traditional strengths, such as strong brand, superior network quality and customer care, position us well for the future. The innovative tariff solutions that we introduced during 2002, both for pre-paid and post-paid customers, are very flexible and can be tailored for different customer preferences. In everything we do we are trying to promote our customer oriented strategy, which gives our customers more value for the same price, and to make sure our customers get the top service available in the market.

Evidence shows that we have been successful in those attempts. To our satisfaction, many key indicators of our efficiency and customer satisfaction improved alongside the good growth performance. We managed to reduce churn in 2002 – an important indicator of high satisfaction of our customers. Average subscriber acquisition costs decreased in both post-paid and pre-paid segments and the average revenue per user has been maintained at a stable level for the post-paid segment of the market and experienced only a moderate decline in the pre-paid segment, in view of the rapid increase in the number of pre-paid customers.

Good operating performance has been translated into very strong financial results and an improving liquidity position of the company. We paid particular attention to prudent financial management, as well as transparency of our reporting and communication with financial markets. Significant positive cash flow generated from our operations enabled us to repay debt in the amount of almost a billion zloty, which reduced our cost of financing and the financial risk of our activity. A credit rating upgrade evidenced our excellent financial performance.

As we have been improving our financial and operational results, we are also striving to achieve excellence in the way we run our business. Our size and pace of growth brings with it an increasing responsibility for setting best practices standards in the Polish business environment. We won several awards during 2002, including the prestigious Polish Quality Award, as well as other distinctions for our performance in different fields of activity.

Our ability to continue our development depends primarily on the skills and commitment of our people. We employ a young team of dedicated and increasingly experienced telecommunications professionals, whom I would like to thank for their efforts in 2002. I encourage you to learn more about their views, experiences, as well as issues they face in their daily work, which are presented on the following pages of this annual report.

B Bogusław Kulakowski
Chief Executive Officer, Chairman of the Board
Polska Telefonia Cyfrowa Sp. z o.o.
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Company and its executives
Polska Telefonia Cyfrowa Sp. z o.o. was registered in the Register Court in Warsaw on December 27, 1995. The main founder shareholders of the Company were: Elektrim S.A., Deutsche Telekom AG and US West. In September 1996 PTC started offering its subscribers mobile telephony services in the GSM 900 system, under the brand name Era GSM. The Company has developed rapidly ever since. At present, the Company provides services in GSM 900 and 1800 standards and owns a concession for provision of UMTS services. Following the acquisition of UMTS license the brand name has been changed to Era to show the technological independence of services offered.

The following chart presents the current shareholding structure of PTC:

* including approx. 3 %, which is claimed by Deutsche Telekom AG.
Deutsche Telekom Group
Deutsche Telekom is Europe's largest telecommunications company and one of the worldwide engines of innovation in the industry. Its products and services set standards not only in Germany, but also around the world. Deutsche Telekom covers the entire spectrum of modern telecommunications. This makes them one of the few telecommunications companies in the world to offer genuinely integrated solutions from a single source. Deutsche Telekom is continuously driving ahead the internationalization of its Group with a variety of strategic shareholdings. Besides their excellent positioning in the heart of Europe, they also have a range of shareholdings in Central and Eastern Europe.

The acquisition of U.S. mobile communications operator VoiceStream Wireless made T-Mobile International the largest mobile communications operator in the world utilizing the digital GSM technology standard. Deutsche Telekom's mobile communications licenses on both sides of the Atlantic cover more than 500 million potential customers.

Elektrim Group
Elektrim S.A. is listed on the Warsaw Stock Exchange and has a proud tradition as an industrial conglomerate both before and after the political changes of 1989. Elektrim's key assets are in the telecommunications and power industries. Elektrim holds an interest in PTC through its joint venture companies with Vivendi Universal, including Elektrim Telekomunikacja that also manages subsidiaries offering fixed-line telephony services.

Vivendi Universal Group
A world leader in media and communications, Vivendi Universal operates in all businesses that are key to the digital communications of tomorrow. Its ambition is to be the world's preferred creator and provider of entertainment, education and personalized services to consumers anywhere, at any time and across all distribution platforms and devices. Vivendi Universal, with Groupe Cegetel, is the leading private operator in both fixed and mobile telecommunications in France through Cegetel and SFR, respectively.

Vivendi Telecom International, a wholly-owned subsidiary of Vivendi Universal, develops the company's telecommunications activities outside France. Vivendi Telecom International is present in Europe and Africa. It holds interest in PTC through its joint venture companies with Elektrim, primarily Elektrim Telekomunikacja.
Supervisory Board

There are nine members of the Supervisory Board. Elektrim Telekomunikacja and Deutsche Telekom appoint four members each and the ninth member is elected jointly by all shareholders.

As of December 31, 2002, the Supervisory Board consisted of:

Dariusz Oleszczuk is Chairman of the Supervisory Board. Mr. Oleszczuk is a Partner at the law firm Salans based in its Warsaw office. He specializes in telecommunications, IT and media, corporate law, mergers and acquisitions. He is currently an Arbitrator of the Court of Arbitration at the Polish Chamber of Commerce.

Fridbert Gerlach joined Deutsche Telekom AG in 1999 as Vice President for Regional Build-up and Integration in Central, Eastern Europe and Middle East. He is also responsible for managing DT investments in companies outside Germany.

Michael Günther is a Management Board Member of T-Mobile International AG and is responsible for managing T-Mobile investments in all its joint ventures. He is also a member of the Supervisory Boards of T-Mobile UK, T-Mobile Austria and T-Mobile Czech Republic.

Gerd Kareth is Executive Director of the Division International Support Technik of T-Mobile International, a position he has held since July 2001.

Michael Lawrence is Director for International Joint-Ventures for T-Mobile in Germany. He studied mechanical engineering and received his PhD at RWTH Aachen.

Michael Picot is Senior Executive Vice President for the Central and Eastern Europe activities of Vivendi Telecom International.

Philippe Houdoin is Executive Vice President for the Central and Eastern Europe activities of Vivendi Telecom International, and has held this position since 2000. He is also President of the Management Board of Elektrim Telekomunikacja Sp. z o.o. and Carcom Warszawa Sp. z o.o. and Member of the Board of Elektrim Autoinvest S.A.

Maciej Raczkiewicz is a private investor and developer in Poland. He was nominated to the Board by Elektrim Telekomunikacja in late 2002.

Jacek Trela is Dean of the Warsaw Bar Council and member of the Polish Bar Council. He was nominated to the Supervisory Board of PTC in November 2001 as an independent member.
PTC shareholder agreement gives Elektrim together with Elektrim Telekomunikacja the right to nominate three Management Board members, while the other two are nominated by T-Mobile International.

Boguslaw Kulakowski is Chief Executive Officer and Chairman of the Management Board and was appointed to the Board in September 1999. Boguslaw Kulakowski was formerly PTC's Director of Customer Care and most recently Chief Strategist. Before joining PTC, he had worked as a Marketing Director for SAP Polska and a Marketing Consultant for Coca-Cola New York. Boguslaw Kulakowski is a graduate of Maria Curie-Skłodowska University (Poland) with a Master's degree in law. He also holds a Master's degree in Business Administration from New York State University, USA and a Master's degree in Business Telecommunications from the Technical University of Delft in the Netherlands.

Jonathan Eastick joined PTC in 2001 as Chief Financial Officer and Management Board Member. Jonathan Eastick was previously Chief Financial Officer of Lucent Technologies Poland S.A. At Lucent, in addition to his responsibilities as CFO, Jonathan Eastick was Controller for UMTS sales operations in Europe, Middle East and Africa. Prior to his work at Lucent, Jonathan Eastick had worked for Arthur Andersen in London and Warsaw. From 1995 to 1998 he was Manager of Strategic and Financial Planning at Poland's first cellular operator, PTK Centertel Sp. z o.o. He holds an economics degree from the London School of Economics and is a UK Qualified Chartered Accountant.
Martin Schneider was nominated to the position of Director of Strategy, Marketing and Sales and became a member of the Management Board in March 2002. Martin Schneider joined PTC from T-Mobile International, a subsidiary of Deutsche Telekom AG, where he had been a Senior Director of International Joint Venture Management since 2000. Since 1993, Martin Schneider has also held various positions in T-Mobile Deutschland serving among others as Head of Corporate Strategy and Head of Marketing Management Residential and Business Customers. Prior to his tenure at T-Mobile International, Martin Schneider had worked for Procter & Gamble in their marketing division and then in Blendax (part of Procter & Gamble Group) in International Brand Management.

Ryszard Pospieszyski is Director of Administration and was appointed to the Management Board in 1996. Previously, Ryszard Pospieszyski served as Chairman of FATA Ltd., and General Director of PHZ Film Polski. He holds a Master’s degree in economics from the University of Gdańsk and a Master’s degree in Business Telecommunications from the Technical University of Delft in the Netherlands.

Wilhelm Stückemann is Director of Network Operations and was appointed to the Management Board in 1996. Wilhelm Stückemann has held a variety of positions with T-Mobile, mainly in the development of GSM businesses, and established the team of engineers responsible for the D-1 network in Germany. Wilhelm Stückemann holds a degree in electrical engineering from Bielefeld, Germany.
Environment for mobile telecommunications in 2002
Economic recovery, expected in the second half of 2002, could not be clearly observed. Continuing economic difficulties negatively affected growth opportunities of Polish companies, though it must be said that the mobile operators fared relatively well in those conditions. Regulatory environment of the Polish telecommunications industry has been undergoing profound changes during 2002. The regulatory change process is far from being over, with the introduction of a new Telecommunication Act being the key focus of the regulator in 2003.

The well-known problems troubling the Polish economy were not solved during the past year. This has been reflected in low GDP growth, high unemployment rate and weak domestic demand and economic confidence data. The underlying problems are legal and administrative barriers to economic activity, high taxation to reduce the state budget deficit, caused by insufficient structural changes in the public finances system in general and state-owned heavy industry companies in particular. Lower privatisation proceeds and foreign direct investment flows are yet another indicator of subdued economic climate in Poland in 2002.

Among the positive developments one should mention good performance of the Polish zloty and very low inflation, which facilitated a significant cut in zloty interest rates. A crucial success was the conclusion of negotiations with the European Union on the conditions of Poland's entry to the EU, scheduled for May 2004.

On the regulatory front, there have been many developments that will heavily weigh on the industry. Poland continues to liberalize its telecommunications sector, which is a difficult process, as demonstrated by the struggle of domestic long-distance operators to win any significant share of the market and by delayed preparations to liberalize the international calls market since January 2003. Local fixed-line operators have not made much progress in growing the scale of their activities, however they managed to achieve a crucial possibility to restructure their huge license obligations. Mobile telephony operators will expect a similar opportunity to convert future 3G license obligations into investment commitments.

Poland brings its legislation in line with EU directives. A new Telecommunication Act is expected in March 2003, however more changes will have to follow in the second half of the year, as EU will adopt some new regulations mid way through 2003. From the perspective of mobile operators the most important regulatory developments in 2002 included the decisions which deemed all three mobile telephony providers Significant Market Power operators. Another new development was the granting of eight licenses to operate mobile virtual networks. As of the date of this report, none have started operations.

Some new interconnection agreements have been initiated, including the PTC-PTK Centertel agreement operational since mid-June, and some others were renegotiated, including a settlement of the interconnection disputes between PTC and the incumbent TPSA. Generally speaking, interconnection rates have been adjusted towards benchmark levels observed in more developed telecommunications markets, which should facilitate traffic growth and increase customer satisfaction.
We have asked Mr. Boguslaw Kulakowski, Chief Executive Officer and Chairman of the Board of PTC, to give us his insight on the past year.

annual report: Do you regard year 2002 as successful for PTC?

Boguslaw Kulakowski: It has definitely been a successful year for PTC. I would describe the past year as the year of innovation. We paid particular attention to data transmission products, making GPRS transmission in Poland and in roaming available not only to post-paid, but also to pre-paid customers, which is a pioneering step ahead of our competition. The content available for GPRS users has been enriched by introduction of the Omnix platform of content provision, as well as by a successful launch of MMS, including transmission of videos, which we introduced as the only operator in Poland.

Innovation has also been reflected in the way we structured our tariffs by being first to offer a 1-second billing option to subscribers.

Innovation is meant to lead to good overall performance of the company and this was the case in 2002. Customer satisfaction results were very good, which is our prime objective. Financial performance was also very satisfactory and in line with targets set by the management and our shareholders.

annual report: Which were the most notable events of the year?

Boguslaw Kulakowski: I could name a lot of important events, but some were of special, even symbolic importance. Most notably, the number of mobile phones exceeded the number of fixed telephony lines in Poland. This proves the role that mobile telephony plays in the economy in general and in the lives of all of us.

Secondly, very significant from the financial perspective, the upgrade of our credit rating was a clear sign that we are on the right track in financial terms and that our financial position is very solid.

Another important event was the Quality Award. Quality of management and efficiency of the organisation is very important for us. In 2002 we prepared ourselves for ISO certification, which was awarded to the company as a whole, which is a rare achievement among European telecom operators.

annual report: Please describe the economic and regulatory environment in which PTC operated during the past year.

Boguslaw Kulakowski: The economic situation was not good, unfortunately, but it did not have a big impact on our performance. Everybody in the company just had to work even harder to achieve their goals in spite of unfavourable economic conditions.

The regulatory environment has been undergoing significant changes. This required a lot of effort from us, because being in fact the only fully privately owned major operator we work particularly hard to help establish clear and even competitive conditions for all market participants. Stability of the legal framework is key to the success of any company. The Polish telecommunication law is, however, undergoing frequent changes as Poland adjusts its regulations to the EU directives.

annual report: Do you expect significant changes in this respect in 2003?

Boguslaw Kulakowski: We participated in works on the amendments to the Telecoms Law, which bring our regulations in line with the current EU law. The parliament will discuss the amended Law in 2003. It has to be noted, however, that a new set of European regulations will be effective since July 2003, so the Polish law will very soon have to be adjusted again.

A very good example of how it influences our situation is the issue of „significant market power” operators. The regulator deemed us a „significant market power” operator at the end of 2002, based on current Polish and European regulations, where the threshold market share is set at 25%. In a few months time the threshold specified in the EU regulations will be changed to 40%, making Polish regulations inconsistent with the EU norms.

We hope to see more regulatory stability in the future. We believe, that in the environment of fair rules of competition we are able to compete efficiently and successfully.
Let us take a look inside PTC. What changes took place in the company operations during the past year?

Bogusław Kulakowski: We have undertaken a major review of processes in the company. We are no longer a start-up, but a big organisation. This transformation creates a big challenge to ensure that the processes are adequate to manage such a big enterprise. The goal of the process review was to streamline our operations, increase efficiency and find cost reduction opportunities. Areas such as procurement or controlling are undergoing significant changes and these are just two of many examples of processes which are being redefined.

Bogusław Kulakowski,
Chief Executive Officer
and Chairman of the Board of PTC
We have increased headcount just barely, so all those process improvements bring along a major productivity increase. All this was possible thanks to a big effort from our employees. They are young and dynamic. Their average age is about 28 and a majority of our employees are university graduates. People are our main asset. For them we are trying to create good working conditions, ensure clear internal communication and transparency of the organisation. Our activities were awarded with a prestigious title of the „Leader of Human Resources Management” last year.

**annual report:** Are there problems you have not been able to solve and which you intend to tackle in the near future?

**Bogusław Kulakowski:** Of course, there are many things we could do better. We are not perfect, but for sure we are constantly improving. Problems appear all the time and we are trying to react immediately. In difficult economic conditions, growth of the company in terms of subscriber number and revenues is particularly hard, so for sure a lot of effort will have to be directed towards innovation, sales and market communication in order to maintain our leadership position in the market.

**annual report:** How do you see PTC in, say, three years from now?

**Bogusław Kulakowski:** It is a good question, as in 2002 I was elected Chief Executive Officer and Chairman of the Board of the company for another three-year term. We will continue our strategy of balanced growth. It assumes further growth of the business and maintaining leadership in the market. Leadership means being number one in many respects, such as quality, size and value creation. Expansion of our activity has to translate into clear benefits to the shareholders in the form of improving financial results.

**annual report:** We realize how time consuming all your responsibilities must be. Have you been able to go for any holiday in 2002?

**Bogusław Kulakowski:** Yes, but it was not easy. Late in the year, in November, I finally managed to have some rest.

**annual report:** Thank you for the interview.

**Bogusław Kulakowski:** Thank you.
PTC’s revenues depend on the number of subscribers, call volume and tariff pricing. Its total number of subscribers is driven by the number of new subscriber activations and by the rate of churn. Continued subscriber and call volume growth depends on a number of factors, including pricing, acquisition promotions and handset replacement programs, as well as general economic and market conditions, the level of competition for acquiring new subscribers and the capacity and coverage of PTC’s network.

In 2002 operational and financial results of PTC were as follows:

<table>
<thead>
<tr>
<th>PLN thousand</th>
<th>2002</th>
<th>2001</th>
<th>Difference on a year ago</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our primary source of revenues are the services we provide to our subscribers</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>There were on average 2,413 thousand post-paid subscribers, for whom monthly bills and receipts from connecting incoming calls averaged PLN 137.2</td>
<td>3,972,763</td>
<td>3,609,984</td>
<td>10.0%</td>
</tr>
<tr>
<td>There were on average 1,845 thousand pre-paid users, for whom monthly account charges and receipts from connecting incoming calls averaged PLN 34.1</td>
<td>754,974</td>
<td>492,024</td>
<td>53.4%</td>
</tr>
<tr>
<td>Other revenues and fees (eg. activation fees or leased lines) amounted to</td>
<td>25,708</td>
<td>21,547</td>
<td>19.3%</td>
</tr>
<tr>
<td>Total service revenues and fees were therefore</td>
<td>4,753,445</td>
<td>4,123,555</td>
<td>15.3%</td>
</tr>
<tr>
<td>Our remaining sources of revenues are:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Proceeds from sale of telephones and accessories related to our activation and retention activities</td>
<td>176,379</td>
<td>221,341</td>
<td>(20.3%)</td>
</tr>
<tr>
<td>In total our revenues amounted to</td>
<td>4,929,824</td>
<td>4,344,896</td>
<td>13.6%</td>
</tr>
<tr>
<td>Our Cost of Sales can be split into:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of services sold comprises costs of terminating calls in other networks, costs of delivering non-voice content and costs of running our network and distributors</td>
<td>(1,195,643)</td>
<td>(987,891)</td>
<td>21.0%</td>
</tr>
<tr>
<td>Cost of telephones and accessories we sell to our subscribers</td>
<td>(970,557)</td>
<td>(948,750)</td>
<td>2.3%</td>
</tr>
<tr>
<td>Total Cost of Sales</td>
<td>(2,166,200)</td>
<td>(1,936,641)</td>
<td>11.9%</td>
</tr>
<tr>
<td>Operating expenses comprise:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Expenses related to Selling and Distribution</td>
<td>(486,963)</td>
<td>(545,250)</td>
<td>(10.7%)</td>
</tr>
<tr>
<td>Administration expenses and other operating expenses</td>
<td>(216,162)</td>
<td>(180,403)</td>
<td>19.8%</td>
</tr>
<tr>
<td>Total operating expenses</td>
<td>(703,125)</td>
<td>(725,653)</td>
<td>(3.1%)</td>
</tr>
<tr>
<td>Revenues less Cost of Sales and Operating expenses produce Earnings before Interest and Taxes, Depreciation and Amortization (EBITDA)</td>
<td>2,060,499</td>
<td>1,682,602</td>
<td>22.5%</td>
</tr>
<tr>
<td>EBITDA is an important measure of our operating performance. It has to cover depreciation charges, financing expenses and taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization of our fixed assets amounted to</td>
<td>(909,983)</td>
<td>(850,572)</td>
<td>7.0%</td>
</tr>
<tr>
<td>Earnings before Interest and Taxes were</td>
<td>1,150,516</td>
<td>832,030</td>
<td>38.3%</td>
</tr>
<tr>
<td>Financial income, which is comprised of earned interest, favourable foreign exchange differences and income on derivatives, was</td>
<td>266,454</td>
<td>316,616</td>
<td>(15.8%)</td>
</tr>
<tr>
<td>Financial expenses, which include paid or accrued interest, negative foreign exchange differences and loss on derivatives, amounted to</td>
<td>(848,132)</td>
<td>(694,546)</td>
<td>22.1%</td>
</tr>
<tr>
<td>Earnings before tax (EBT) were therefore</td>
<td>568,838</td>
<td>454,100</td>
<td>25.3%</td>
</tr>
<tr>
<td>From EBT we deduct income tax charge, including deferred tax, totaling</td>
<td>(222,362)</td>
<td>(26,879)</td>
<td>727.3%</td>
</tr>
<tr>
<td>And that produces Income after tax attributable to shareholders in the amount of</td>
<td>346,476</td>
<td>427,221</td>
<td>(18.9%)</td>
</tr>
</tbody>
</table>
Subscriber Growth

During the year 2002, PTC attracted 1,893,324 subscribers (gross adds) compared to 1,671,869 in 2001. In comparison to 2001, the total subscriber base increased 28.9% to 4,868,288 from 3,775,652.

In 2002, PTC attracted 719,631 post-paid subscribers and 1,173,693 pre-paid subscribers compared to 906,311 post-paid subscribers and 765,558 pre-paid subscribers in 2001.

The increased proportion of pre-paid users among PTC’s gross additions reflects the continuation of the trend first noted in the second quarter of 2001, whereby the deteriorating economic conditions and a growing acceptance of pre-paid services, with no contractual obligations, is causing a slow-down in the growth of post-paid sales.

During the year, the Company’s post-paid subscribers increased to 2,530,894, a 7.4% increase from 2,356,472 at the end of 2001. Pre-paid subscribers totaled 2,337,394 and represented 48.0% of all subscribers, versus 1,419,188 and 37.6% at the end of 2001. This represents pre-paid growth of 64.7% over 2001. Strong growth in PTC’s pre-paid gross additions reflects increased focus on enlarging our exposure to the fastest growing market segment. New pre-paid tariff plans introduced in the second and third quarters of 2002 are aimed at further strengthening PTC’s position in this market segment.

The Company estimates that the overall penetration of the Polish wireless market grew by approximately 11 percentage points in 2002 from 10.0 million to approximately 13.9 million subscribers, representing a 36.3% market penetration.

During the last several quarters, the total Polish pre-paid market grew much faster than the post-paid market with growth rates of 66.1% and 17.3% respectively in the twelve months ended December 31, 2002. PTC estimates its pre-paid and post-paid market shares at 31.7% and 38.8% respectively compared to 32.0% and 42.4% respectively at the end of 2001. The falling share in the post-paid market masks satisfactory growth in the Company’s base of business customers over the year, helping post-paid ARPU and churn statistics. PTC is continuously focusing on customer value in the post-paid private segment and carefully assessing the profitability of its acquisition and retention offers.

PTC’s subscriber base represents approximately 35.0% of the total wireless market, which continues to position PTC as the leader among wireless services providers in Poland. Through its higher than average exposure to post-paid subscribers and business customers, PTC aims to maintain the leading revenue market share, significantly above its subscriber market share.
Churn Rate

In 2002, the average monthly churn rate decreased to 1.6% from 1.8% in 2001. The average monthly churn rate was 1.8% for post-paid customers and 1.3% for pre-paid customers, compared with churn of 2.2% for post-paid subscribers and 0.9% for pre-paid subscribers in 2001.

The decreased churn rate in the post-paid market is primarily due to the attractive retention programs offered to PTC’s high ARPU subscribers. These loyalty programs were upgraded in the second quarter of 2002. PTC is continuously focusing on customer value in the post-paid private segment and carefully assessing the profitability of its retention offers.

Minutes of Use (MoU)

Calculated on a monthly basis as a subscriber’s average, MoUs during the fiscal year 2002 were 134, compared to 157 in 2001. Average MoUs in 2002 were 192 minutes for post-paid customers and 60 minutes for pre-paid customers compared with 196 and 77, respectively for post-paid and pre-paid in 2001.

The decrease in MoUs was mainly the result of the increased proportion of pre-paid customers in the customer mix together with lower incoming traffic from fixed line operators due to very high fixed to mobile tariffs implemented by the incumbent operator TPSA.
Growth in the number of SMSs

In 2002 PTC's subscribers sent on average 18 SMSs per subscriber per month, compared to 13 messages in 2001. Post-paid subscribers sent 19 messages versus 14 messages in 2001. Number of SMSs sent by pre-paid customers increased to 17 messages from 12 messages in 2001.

Average Revenue per User

ARPU for 2002 was PLN 92.5, a decrease of 11.1% when compared to the fiscal year ended December 31, 2001, when it totaled PLN 104.0.

ARPU from post-paid subscribers during the year was PLN 137.3, 1.0% up over the year 2001. ARPU from pre-paid subscribers was PLN 34.1, 10.3% down from the same period of 2001.

Stable post-paid ARPU reflects the increasing proportion of business customers in the Company's post-paid subscriber base, increasing ARPU from non-voice services and revenue from a new interconnection agreement with PTK Centertel.

The decrease in pre-paid ARPU resulted from reduction in usage per customer following the strong increase in the pre-paid customer base, coupled with a slight decrease in incoming traffic from fixed line operators.

Average Subscriber Acquisition Cost

For the year 2002, the average cost of acquisition decreased to PLN 340.4 compared to PLN 523.0 in the fiscal year ended December 31, 2001. The decrease in the blended average acquisition cost reflects the increasing share of pre-paid customers in gross subscriber additions.

The average cost of acquisition for post-paid subscribers decreased to PLN 736.3 in the fiscal year ended December 31, 2002 from PLN 821.0 in the fiscal year ended December 31, 2001. The average acquisition cost for pre-paid customers decreased to PLN 97.6 compared to PLN 171.0 in the fiscal year ended December 31, 2001, the result of an increasing share of separate starter SIM cards sold and a decreasing proportion of bundle packs sold, comprising of starter SIM card and a handset.
Financial Overview

Revenues
Total revenues for the fiscal year ended December 31, 2002 were PLN 4,929.8 million, an increase of PLN 584.9 million or 13.5% compared to the fiscal year ended December 31, 2001.

During the year, service revenues and fees increased 15.3% to PLN 4,753.4 million from PLN 4,123.6 million in 2001, mainly as a result of an increase in the subscriber base, partially offset by increasing share of lower ARPU pre-paid customers in our subscriber base.

Compared to 2001, revenues from the sale of telephones and accessories decreased 20.3% to PLN 176.4 million from PLN 221.3 million as a result of increased proportion of pre-paid gross additions buying starter packs (including SIM cards and activation with no handset).

PTC’s revenue was also positively impacted by the interconnection agreement with PTK Centertel, which came into effect in the middle of June 2002. The revenues coming from this agreement totaled PLN 113.9 million or 2.3% of total revenues in 2002.

Cost of Sales
For the fiscal year ended December 31, 2002, total cost of sales (excluding depreciation and amortization) was PLN 2,166.2 million, up 11.9% from PLN 1,936.6 million in 2001.

The cost of services sold increased by 21.0% to PLN 1,195.6 million from PLN 987.9 million in the fiscal year of 2001. The principle reasons for this increase was a 57.2% increase in interconnection charges as a higher proportions of traffic moves to the mobile networks and away from the fixed networks, including PLN 141.0 million relating to the PTK Centertel agreement.

Cost of sales of telephones and accessories increased 2.3% to PLN 970.6 million compared to PLN 948.8 million in 2001. A 13.2% increase in gross subscriber additions and the increasing number of phones subsidized in retention activities are the main underlying drivers of cost of sales of telephones and accessories. The increase was partially offset by a shift in the mix of gross additions towards pre-paid subscribers, who tend to buy less sophisticated, cheaper handsets and a shift towards starter packs and away from pre-paid handset sales.

Gross Margin
Gross margin (after excluding depreciation and amortization) for the year ended was PLN 2,763.6 million, compared with gross margin of PLN 2,408.3 million in 2001.

As a percentage of total net sales, gross margins increased to 56.1% in 2002 from 55.4% for 2001. The increase in margin comes from the savings on cost of acquisition partially offset of ramping up of retention programs.

Operating Expenses
Operating expenses (excluding depreciation and amortization) for the fiscal year ended December 31, 2002 decreased to PLN 703.1 million from PLN 725.7 million in 2001, a decrease of 3.1%.

Selling and distribution costs decreased to PLN 487.0 million in 2002 from PLN 545.3 million in 2001. The decrease over 2001 was mainly a result of a strong decrease in bad debt expense due to provisions released as a result of better than expected collection efficiency, coupled with lower advertising and marketing costs. Administration and other operating expenses increased to PLN 216.2 million in 2002 from PLN 180.4 million in 2001, mainly due to increase in cost of external services.
EBITDA

EBITDA for the fiscal year ended December 31, 2002 was PLN 2,060.5 million compared to PLN 1,682.6 million in the same period of 2001. This represents EBITDA growth of 22.5% when compared to the previous year, the result of a 13.5% increase in revenues partially offset by a 7.8% increase in the cost of sales and operating expenses excluding depreciation and amortization. EBITDA margin for the year was 41.8%, increasing from 38.7% in 2001.

Amortization and Depreciation

Amortization and depreciation for the fiscal year 2002 amounted to PLN 910.0 million, up 7.0% from PLN 850.6 million in 2001. The increased depreciation charge results mainly from Management's decision to shorten the useful lives of some GSM network assets, some computer equipment and software, effective from the beginning of 2002.

Operating Profit and Operating Return on Assets Employed

Operating profit for the fiscal year 2002 was PLN 1,150.5 million, up 38.3% from PLN 832.0 million in 2001. The increase in operating profit is a result of a 13.5% increase in revenues partially offset by a 7.6% increase in cost of sales and operating expenses.

Operating Return on Assets Employed increased to 18.5% in 2002 from 12.2% in 2001.
Financial Expenses

Foreign exchange differences, interest expense and other financial losses resulted in a net financial expense of PLN 581.7 million in the fiscal year ended December 31, 2002 compared to the net financial expense of PLN 377.9 million in 2001.

For the twelve months ended December 31, 2002, net interest expense was PLN 429.5 million including PLN 33.7 million of premium paid on Notes redemption, compared to PLN 469.5 million a year ago. The fall in interest expense excluding redemption costs was PLN 73.7 million. The decrease was mainly due to the decline in the debt level, coupled with reduction in Zloty and Euro interest rates, partially offset by weaker Zloty exchange rates increasing the Zloty equivalent of Euro interest payments.

Cash interest paid, net\(^1\) for the twelve months ended December 31, 2002, was PLN 466.7 million.

The depreciation of the local currency against the Euro (14.1\%) partially offset by appreciation against the Dollar (3.8\%) during the year, resulted in a net foreign exchange loss of PLN 225.4 million, compared to a net foreign exchange gain of PLN 153.9 million for the year 2001. Gross foreign exchange losses in 2002 totaled PLN 335.0 million of which PLN 109.6 million was capitalized. Offsetting hedging gains net\(^2\) were PLN 21.2 million.

During the year, the Company also recognized other financial loss net of PLN 73.2 million compared to other financial loss net of PLN 62.3 million in 2001.

PTC is managing its foreign exchange and interest rate risks through its hedging policy, implemented early in 2000. The hedging policy is monitored and updated continuously.

Profit before taxes

Profit before taxes for the fiscal year 2002 was PLN 568.8 million, up 25.3\% over PLN 454.1 million in 2001. However, income tax in 2002 was more than 8 times higher than in 2001 and amounted to 222.4 million, directly as a result of high deferred tax charge caused by tax rate changes. During the fourth quarter of 2002 the Polish Government announced that corporate income tax rate would stay at 27\% rather than fall to 24\% in 2003 and 22\% thereafter as it had been communicated in previous budget legislation.

Net Income

Solid improvement in operating performance in 2002 was offset by the Zloty’s depreciation against the Euro, resulting in foreign exchange losses, and an increased deferred tax charge, producing net income of PLN 346.5 million, down from PLN 427.2 million in 2001.

Liquidity

As of December 31 2002, PTC had drawn down the Zloty tranche of PLN 990.2 million under the senior secured Bank Credit Facilities, leaving approximately Euro 442.5 million available.

Total debt as of December 31, 2002 was PLN 4,162.9 million. The total debt comprised of PLN 4,144.8 million of long-term debt\(^3\) and PLN 18.1 million of current debt\(^4\). Total debt to EBITDA decreased to 2.0 × as of December 31, 2002 from 2.8 × as of December 31, 2001.

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\(^1\) Cash interest paid, net consists of interest paid excluding interest on licenses.

\(^2\) Offsetting hedging gains net consists of realized and fair value valuation of forward contracts and ineffective part of cross currency swaps.

\(^3\) Total long-term debt reflects selected long-term liabilities as presented in our Financial Statements including long-term notes, Bank Credit Facilities (excluding current portion), finance lease payables (excluding current portion) and index swaps (excluding current portion).

\(^4\) Total current debt reflects selected current liabilities as presented in our Financial Statements including overdraft facilities, finance lease payables. Short term portion of index swaps has been presented as an asset and has not been included in the calculations.
EBITDA for the twelve months ended December 31, 2002, amounted to PLN 2,060.5 million compared to PLN 556.6 million in PTC's investments in its GSM business. Accordingly, the Company is well established on a trajectory of free cash flow generation from its 2G business.

After debt service, PTC was able to use its remaining operating cash surplus in the amount of PLN 977.8 million to partially repay its senior debt and redeem and repurchase bonds.

Investments

During 2002, PTC invested in its non-license capital expenditure the amount of PLN 556.6 million, 51.3% down from PLN 1,143.6 million in 2001. Reduced spending reflects a shift towards capacity and new services investments and away from coverage investments, which have now been largely completed.

In line with the announcement made by URTiP regarding the change in the UMTS launch deadlines, investments in the Company's 3G infrastructure will be moved according to the new requirements to launch commercially in 2004 rather than in 2003.

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5 Reflects gross additions of tangible and intangible fixed assets (excluding licenses and transactions costs) for the year ended December 31, 2002.

6 Represents gross additions to tangible and intangible fixed assets (excluding licenses and transactions costs) for the year ended December 31, 2002.
Credit Risk Management

In 2002 PTC successfully continued activities leading to a reduction of bad debt ratio. Bad debt ratio (calculated as a percentage of revenues) declined to 0.6 % in 2002 from 1.6 % in 2001. This is mainly a result of introduction of an improved procedure of checking customer creditworthiness in late 2001. Some provisions were written off in 2002 due to an increase in vindication efficiency. The decline in the bad debt ratio was also supported by increasing proportion of pre-paid customers in the subscriber base.

PTC continuously modifies its system of bad debt monitoring (credit limits, timing of invoice payments, reports on sales quality) at different stages of PTC-customer relations. Monitoring activities are supported by in-depth analysis of different processes, which are a base for further improvement of existing applications and risk reduction activities.

PTC is a leading member of the Alliance for Fair Business. The other members include banks, consumer credit firms and the other mobile operators. As a result, legal changes may be introduced that will allow to exchange customer credit data between creditors from various sectors of the economy and to establish credit rating agencies in 2003. It is expected that bad debt will be further reduced through cooperation with these new credit rating agencies.

Market Risk

The goal of PTC's risk management activities in the area of currency and interest rate risk is to minimize the adverse effect of financial market fluctuations on its cash flows and financial statements and to ensure the company's liquidity. The responsibility for financial risk management rests with the treasury function of the company. The framework, within which the treasury function has to operate, is established by the Hedging Policy approved by the Supervisory Board, which provides principles for overall financial risk management in the company.

A significant share (some 75 %) of the long-term debt of the company is denominated in foreign currencies (Euro and U. S. Dollar). In order to protect the company against fluctuations of the Polish Zloty versus other currencies, the company entered into a number of hedging transactions. In 2002 the company continued its short-term hedging policy and extended medium and long-term hedging activities. To the existing cross currency interest rate swaps the company added a number of medium-term forward transactions hedging a part of High Yield Notes principal. The value of cash flows covered by open transactions totaled Euro 584.2 million and U.S. Dollar 82.5 million as of December 31, 2002.

The company is exposed to interest rate risk related to Bank Credit Facilities. Increasing short-term interest rates would result in higher costs of financing. Interest on the two Bank Credit Facilities is calculated based on a floating interest rate. During 2002 the company entered into forward rate agreement (FRA) contracts for the total notional amount of PLN 1,200.0 million in order to protect against interest rate volatility. At the end of 2002 all the FRA transactions were closed and settled. The company continuously monitors the market and economic environment and may enter into further hedging transactions during 2003.

We asked Jon Eastick, Chief Financial Officer and Member of the Board to share his opinion on PTC's operational and financial achievements in 2002 as well as comment on the outlook for 2003.

annual report: Did the top line growth of the company during 2002 meet your expectations?

Jon Eastick: A key element of our strategy is to maintain our market leadership and so, obviously, the Management Team can never be fully satisfied when our revenue growth of 13.6 % is lagging mobile market growth of roughly 20 %. Having said that, the market is extremely price sensitive and competition to share in the remaining market growth potential is intense. Our strategy during 2002 was to focus on the fastest growing segments and those with the highest returns on investment in order to obtain the best market share and profit return on our acquisition and retention investments. We were successful in executing this strategy as post-paid ARPU was stable at PLN 137.3 due to strong performance in the lucrative business segment and rapidly increasing revenues from non-voice services whilst the pre-paid subscriber base grew 64.7 % and our pre-paid market share was virtually unchanged at 32 %. Much of our share loss came in the post-paid private market where propensity to churn is highest. As a result we are confident that the lost share in 2002 will not translate into sustainable advantages for our competitors in the medium term.

annual report: How did the company cope with the competitive situation in 2002? How do you think it will develop in 2003?

Jon Eastick: During 2002 it was vitally important to continue de-leveraging PTC as it is crucial to us and our shareholders that we can finance 3G without resorting to a capital increase. As a result, we developed the segmental strategy I described earlier to get the highest return possible on our limited acquisition and
retention budgets. We made a major breakthrough during 2002 by managing to significantly reduce the proportion of pre-paid bundle activations relative to starter-pack activations. This drove down pre-paid SAC from PLN 171.0 to PLN 97.6 and was the key reason why we acquired 1,173.7 thousand gross additions, 53.3% more than in 2001, whilst spending 12.5% less on acquisition expenses. Understanding that it is cheaper to retain customers than to acquire them, we greatly stepped up retention expenditure and commenced a company-wide Customer Relationship Management project during the course of the year. As a result, post-paid churn fell from 2.2% to 1.8% and this contributed greatly to the stable post-paid ARPU performance.

In 2003 I expect similarly intense competition as in 2002. The key objective will be to improve our share of net additions and improve our market share. We are now well ahead of our plan in terms of reducing financial leverage so the resources are there to fight really hard and I'm sure we will be successful in this effort. At the same time we will work to further improve the efficiency of sales, acquisition, retention and media expenditures so that we can keep profits on an upward trajectory.

annual report: Your subscriber statistics show that you are acquiring mostly pre-paid, lower ARPU customers. How did the Company adapt its cost performance to achieve an increased EBITDA margin?

Jon Eastick: Although pre-paid customers bring low ARPU, they are much cheaper to service than post-paid subscribers. Our employees understand, that with the explosion in pre-paid subscribers, we have entered a new paradigm in relation to the rate of efficiency improvement that is required of them. We took out significant chunks of operating expense through cost reduction and procurement projects and succeeded in virtually freezing the employment level. As a result of these efforts, contribution from pre-paid growth fed directly through to improved EBITDA.

annual report: How do you make sure you create value for your shareholders?

Jon Eastick: First and foremost we set corporate goals that drive shareholder value. For example, both Return on Assets Employed and Economic Value Added are included, respectively, in PTC’s short and long term incentive plans. Secondly, we are building our decision support processes around consistency with our long term plan financial targets and return on investment hurdles. Thirdly, we have been focused on reducing volatility of our results through reduction of foreign debt and hedging significant proportions of the remaining exposure. Finally, we are focused on debt reduction to ensure that we are able to fund 3G investments without resorting to our shareholders for additional capital contributions.

annual report: Thank you very much.

Jon Eastick: Thank you.
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Business platforms
PTC’s business leverages several main assets that form the foundation of its success namely: customers, products, network, employees and its great reputation on Polish markets.

Customer focus

Promotion and branding
During 2002, PTC continued its strategy of aggressive customer base growth. Special attention was paid to pre-paid and business segments in which we managed to significantly increase our presence. This was done in parallel with repositioning of promotional and brand communication. Three Era sub-brands, i.e. Era Business, Era Moja and Era Tak Tak were strengthened with an Era corporate brand image campaign. As a result, well targeted marketing initiatives were supported with strong unifying Era brand messages which were very well perceived by customers.

Sales
Following its branding strategy, PTC’s distribution network is also split into three channels: post-paid retail customers, pre-paid and business customers.

Post-paid market
PTC’s largest distribution channel is the one designed for retail customers. It includes a network of 20 independent dealers that operate a retail chain of 830 outlets. PTC works with dealers to increase brand awareness by providing them with sales materials, event financing, packaging, brochures and promotional stands. Retail customers are also serviced by PTC’s 68 own retail stores. These stores are located in the central, high traffic areas of Polish cities and towns and only sell PTC’s cellular services, handsets and accessories. The company believes that its retail stores are a valuable promotional vehicle for its services and products, offering a wider range of customer service and support than those offered by its dealers at their points of sale.

“There are 68 showrooms and stores around the country. In every showroom and store there is a separate sales department, customer service department and a cash desk. In company showrooms and stores it is possible to get connected to the network immediately i.e. activate a SIM card. It is also possible to suspend or renew the service, change a tariff plan, receive a detailed invoice or an invoice duplicate.

In all company showrooms there are Era service points providing guarantee and post-guarantee repairs of handsets. Specially trained staff are able to perform majority of repairs as well as a SIM card check on the spot. If a fault appears to be of a more serious nature and requires prolonged storage in a shop, a replacement handset is provided by company showrooms. In each of our show rooms and stores there are cash points, which accept payments in all forms. Cash points accept not only payments for handsets but also for monthly invoices” – Jacek Fosiewicz, Manager of Retail Sale Department.

Pre-paid market
PTC distributes its pre-paid starter and bundle packs (including a handset) through its own chain of shops and through a large number of Points of Sale. The Era Tak Tak coupons are sold through more than 15,000 outlets, including ATMs, kiosks, petrol stations, etc.

Corporate market
To meet the requirements of business customers, PTC created two separate sales channels. Corporate Major Accounts (CMA) companies are served by PTC’s Business Advisors supported by a dedicated Customer Care Section. PTC believes that its direct sales force constitutes an important resource in its strategy of increasing the proportion of subscribers using business tariff plans, as well as attracting higher usage customers. PTC’s direct sales force has 113 representatives responsible for the acquisition and servicing of its major business accounts as well as selling new products and comprehensive solutions based on new technologies. Small & Medium Enterprises (SME) companies are served by Authorised Business Advisors (ABAs). Structurally, ABAs are attached to the sales network created by the dealers, but are remunerated on a commission basis.
"In 2002 there has been further strengthening of the Authorised Business Advisors position as sales force dedicated to servicing the market of small and medium-sized entities. Strong competition on the corporate market required growing involvement in the process of sales support. More emphasis was put on sales of advanced products and solutions improving communication and effectiveness of companies" – Cyprian Görnicki, Director of Sales and Marketing, Business Market.

Customer retention

Attractive and highly competitive acquisition offers must be balanced with extensive efforts directed at meeting expectations of PTC's existing customers. Significant efforts were made to further improve customer retention propositions related to customer contract prolongation. Customers welcomed extra free minutes, retention "packages" composed of free minutes and handset replacement, "Stokrotka" loyalty program benefits (prepared together with our partners: BP, British Airways, Allianz and others) as well as other innovative pricing propositions (e.g. migration to the new attractive tariffs launched in October 2002). Such initiatives helped adjust retention offers to specific expectations of customers and also decrease pure handset replacement driven customer contract prolongations.

Customer satisfaction

Numerous customer satisfaction research studies, tracking quality of sales, service and network performance helped PTC to closely monitor satisfaction of its customers. Good understanding of customers' needs helped to implement changes and projects that were highly valued by customers and further improved perception of PTC. Independent customer satisfaction surveys performed on a representative sample of clients of all Polish mobile operators show that 86% of PTC's customers are satisfied or very satisfied with Era. Overall loyalty is increasing, PTC's new value added products, network quality and coverage are evaluated higher than those of our competitors in most of the monitored criteria. In 2002 PTC managed to improve significantly its value added products perception in terms of their usefulness, product portfolio, time to market and ease of use. Our customers are our key assets, which is why PTC management is especially proud of the excellent performance of Customer Care in both the centralized Warsaw operations, as well as PTC direct and indirect sales channels performing various customer care functions. In customer opinion surveys PTC was ranked superior to its competitors in all key monitored areas, such as competence and politeness of Customer Care agents, speed of response to enquires, possibility of solving problems by phone or with the use of self-care facilities (e.g. via internet), without additional documents and bureaucracy.

"Every day, on average, our call center consultants handle over 30 thousand calls from our customers, who want to get some information about their accounts, activate new services, solve some handset usage problems or just share their opinions on our products. Daily, over 60 thousand of customer interactions with us are performed via convenient and intuitive self-care channels, such as IVR (Interactive Voice Response), internet, SMS, or WAP. I strongly believe that customer feedback and satisfaction monitoring are key to PTC success – that's why customer satisfaction survey results have been, for more than 4 years now, the key elements of evaluation of Customer Care personnel and important evaluation factors for all management of PTC including the Management Board" – Michal Gramatnikowski, Customer Care Department Director.
"Acquisition-market share-quality of network-brand used to be the key words repeated in PTC headquarters. Over 2002 the mantra was enhanced with words like customer retention-customer relationship-target propositions and communication. We are getting better in understanding various customer groups’ expectations and needs, and can faster design well targeted pricing propositions and products" – Piotr Chrząszcz, Customer Relationship Management Department Director.

In the eyes of employees

Iwona Łukiewicz, Customer Care Department: It is not easy to work in Call Center. It is not a job for everybody, but it may give a lot of satisfaction. People working in Call Center must be easy-going and open-minded. They must find it easy to make new contacts with other people and they must be resolute and resistant to stress. Customers’ requirements increase, they are more and more educated – by both us and our competitors.

What is required from a Call Center employee? First of all the person must be open to problems of other people, be able to listen carefully and must be self-disciplined. It is crucial to be able to understand someone’s problems, to be able to put yourself in someone’s shoes. It is very important to be concise and clear to precisely explain even the most difficult problems. Self-discipline is necessary to update knowledge on different topics asked by customers. Employees of Call Center daily receive a lot of new information on new offers, promotions, services, which are more and more advanced thus increasingly complicated for the customers. They have to be updated, as their main goal is to help customers to solve their problems.

Our products

Year 2002 saw continuation of PTC’s strategy of strengthening its position as an innovator among mobile providers in Poland. Unquestioned market success of user-friendly roaming for pre-paid customers, first introduction of MMS services, or Era Omnix – one of the first ventures of this kind in Europe, increased the attractiveness of the private market offer. The offer for corporate clients was extended by a wide range of products which are provided together with our partners from the IT sector, in order to meet growing needs for comprehensive mobile solutions.
Private market

PTC continued its active development of innovative products for the private market in 2002. Last year PTC strengthened its leading position in the area of roaming products. Pre-paid customers traveling abroad were offered 'intelligent roaming' (without having to dial a long prefix and with no callback system). "Using Tak Tak roaming is the same as using Era network in Poland" – says Marzena Zimnicka, Product Manager in Communication and Transactions Products Department. For implementation of this service PTC was awarded a prize by Mobile Internet monthly.

In August 2002 PTC subscribers using General Packet Radio Service (GPRS) handsets were given roaming access to services through fast packet data transfer. During their stay abroad customers have access to GPRS based products, connections to Wireless Application Protocol (WAP) pages, Internet, as well as to resources of their corporate networks, e-mail, and business applications.

PTC improved its electronic mail system "Eranet" offering its large, 12 MB capacity email box, an attractive layout and a new intuitive interface. The system was also offered to pre-paid users and was formatted for use with PDA (Personal Digital Assistant – a miniature, handheld computer) devices. PTC was the first in Poland to offer its e-mail users a choice of duration of their account validity, ranging from one to three months. With the introduction of Era Omnix service described below, PTC enabled e-mail account activation over WAP.

In June, PTC, as the first operator in Poland, offered it clients a service of sending and receiving multimedia messages (MMS), which can be a combination of photos, text, graphics, animated pictures and sound within the Era network and in international roaming. PTC clients are also able to send MMS 'postcards' via Internet and WAP. To facilitate that, the company assembled a large gallery of images, covering numerous topics, for the use of its customers.

In 2002, PTC has been actively developing its offer of information and entertainment content. A breakthrough step towards full multimedia operations was the presentation of the Omnix service platform, which is the first such project in Poland and one of few globally. Its functionality is inspired by similar solutions worldwide, e.g. the Japanese i-mode, though the two solutions are technologically different.

Era Omnix is:

- All the newest in non-voice services available in the world of mobile telecommunication.
- The widest offer of mobile information and entertainment services available in Poland, thanks to an innovative model of co-operation with content providers, which puts the best journalists and most popular media at subscriber's disposal.
- Event billing.
- A dynamic means of transmission and concise messaging, used in new communication channels.
- Automatically optimized to the type of terminal or PDA used.

All PTC subscribers are able to customize the service presentation on their mobile phone according to their needs and preferences.

Era Omnix is an open system. At present, PTC is offering the first version of the product, which provides services in over 200 thematic categories, put together by 24 providers. In the future, Era Omnix will continue to add new services and new providers. All information offered by Era Omnix is prepared by specialists in their fields. The variety of providers guarantees users a large choice of styles and scope of presented information. Users can choose which services and which form of payment they want to use (i.e. daily, weekly, monthly access). In case of using paid services, information on payment amount is displayed on the handset screen.

The basic menu of Era Omnix contains the following categories:
PTC’s philosophy is to enable content access through different platforms – Era Omnix, Sim Tool Kit (for SIMextra users), WAP and SMS.

Users of higher capacity ‘SIMextra’ cards showed great interest in information and entertainment services launched in 2002. Access to services is provided through a convenient SIMextra menu stored in the phone’s SIM card. Since the introduction of SIMextra cards, the number of users of the service, called InfoEra STK, has grown to more than 400 thousand. An interesting SIMextra feature are the Local Services which provide access to customized information based on automatically identified user location. Local Services provide information in 12 categories including the location of ATMs, banks, local weather reports or entertainment information.

With the introduction of Java supporting mobile phones (Java allows to run the same application on different types of devices independently from the operational system) PTC was able to offer Java based games, that can be downloaded from the network onto a mobile phone. The main advantage of the service is that games can be stored in the phone memory, without a need to each time connect to the network and bear costs in order to play.

In February 2002, PTC offered its customers a possibility to personalize their phones through the use of original ringtones, logos and screensavers. During the past year the sound and graphics offer of Era has been gradually developed. Currently, depending on the kind of mobile phone used, the downloaded ringtones can be monophonic, polyphonic or EMS (Enhanced Messaging Service). Users can choose from numerous categories including Top 10, Film, Pop, Rock, and Dance.

An even wider choice exists in graphics elements, including logos, icons, SMS postcards, still or animated screensavers, profiles, motifs, pictures and EMS and MMS animations. In order to access the personalization services, the customer needs to enter wap.eraomnix.pl on his mobile or www.era.pl in Internet and enter the ‘Ringtones and Icons’ menu, in Download or Services respectively.

Additionally, within the ‘Ringtones and Icons’ service, PTC offers MMS postcards editor, allowing to compose ringtones, and a personal folder. This service can be accessed by selecting ‘Personal’ option at www.era.pl/EraOmnix/Gry i zabawy/Dzwonki i ikonki/Wejdź. Each time the kind of mobile phone receiving a downloaded element has to be defined.

Another personalization feature for mobile phone users is a possibility to install original greetings in the voicemail, which PTC offered in October 2002. Customers can download a wide range of greetings, divided into convenient categories. Users can also record their own greeting choosing a background sound offered by PTC. To familiarize yourself with that content we encourage you to visit our corporate pages: www.era.pl.

Year 2002 turned out to be a success of SMSs as a channel of communication linking media and the user. Speed, efficiency and transparent payment system for that means of communication led to a growing popularity of SMS Premium services. Today, nearly all TV reality show programs provide their audience with a possibility to cast a vote with their mobile phone. The most popular ones in 2002 were ‘Big Brother’, ‘Bar’ and ‘Idol’. Short text messages are gradually proliferating various quizzes and competitions based on audience response. Publicity programs and talk shows, which previously used to provide an infoline number for the audience to vote, are now using an SMS Premium number. Examples of such programs include the popular programs “Forum”, “Gorąca Linia” and many others. In 2002 the number of SMS Premium messages increased sevenfold when compared to the result achieved in 2001.

**Business Market**

Following its strategy to lead innovation, PTC was actively developing its offer for business segments in 2002. The business offer has been split into four areas:

- **Company Communication** – mobile communication inside the organization or between the organization and its customers,
- **Mobile Office** – mobile access to standard office applications using wireless data transmission,
- **Mobile Processes Support** – automation and mobile control over diversified or mobile processes using wireless data transmission,
- **Teleinformatic infrastructure** – access to teleinformatic platforms in the GSM network used to build complete solutions for businesses.
In the area of Company Communication, PTC introduced new versions of several products, allowing users to create integrated voice communication systems.

The new version of "Corporate Network" introduces standardized fees for connections irrespective of the type of number: long or abbreviated. In this area PTC also offered Virtual OnNet, which allows calling a number that is not within the Corporate Network using an abbreviated telephone number.

"Direct access to Era network" was enriched with the possibility of calling directly from the mobile network to the customer's fixed line number without fixed line operator's involvement. This modification allows to include fixed line numbers existing in the company into the "Corporate network" and to create a complete system of internal communication.

"Business infoline" was also enriched with new functionalities and in its current form allows for the 0 – 801 type of info services, which assume a split of costs between the calling and the called parties. The biggest advantage is that the Infoline number may be identical to the one used by the customer in TPSA network for the same purposes. In other product categories PTC concentrated its efforts on the introduction of "Transfera", a standard product allowing data transmission using GPRS functionality, and promoting pilot launches of so called Mobile Business Solutions (MBS) based on Transfera.

"Transfera" belongs to the "Teleinformatic Infrastructure" group of products. It allows customers to use isolated private data transmission networks in GPRS technology. Due to high capacity and safety features, this solution is mainly used in mobile solutions based on mobile access to data and business applications. Employees equipped with GPRS enabled phones and other mobile devices, like PDAs or laptops, have a secure mobile access to the corporate network, e-mail or other databases. Constant connection between a mobile device and the network, coupled with lack of fee per connection, makes it very attractive for use in telemetry or monitoring businesses.

"Transfera" is a base for teleinformatic solutions (Mobile Business Solutions) enabling users to work independently from their place of stay (Mobile Office) and supporting management and mobile control over some processes (Mobile Processes Support). Examples of such solutions include the pilot products, that PTC offers together with its partners from the IT sector (Microsoft, ATM, BCC, ComArch and ComputerLand), such as "Mobile access to the corporate e-mail system" and "Mobile access to business applications".

Plans

In 2003 PTC will widen its offer of innovative products and increase its focus on adding value for business clients whilst continuing to develop the quality and usefulness of private market services.

For the private customers market segment PTC is committed to develop innovative services satisfying growing expectations of customers from particular target groups.

Among communication products PTC is planning to make new services available for pre-paid customers, so that the offer for this segment is as rich as the offer for post-paid customers.

Users of the pre-paid system will get a new possibility to recharge their accounts through ATMs and Authorized Points of Sales (APS).

Based on Era Omnix, PTC will further develop a range of interactive services and promote establishment of a mobile community. Co-operation with our partners will be further developed to provide users with a wide range of high quality content. PTC is planning to expand its selection of games, especially those enabling multiplayer gaming over GPRS. MMS fans will also get new functionalities. Access to services will be gradually increased with advanced functions for voice and text recognition.

PTC's customers will be able to utilize their mobile phones as payment tools and make micropayments from financial resources placed in their 'wallet' located at a financial institution or by being charged additional amounts on their invoice.

Services currently offered to business clients will be further developed in the area of communication products as well as infrastructure and IT solutions. Beginning in 2003, thanks to liberalization of the telecommunications market, PTC will be able to offer companies a full range of telecommunication services based on fixed-line connections.
In the eyes of employees

Jan Frelek, Mobile Products for Private Market Department: While working on development of new technologies, aimed at securing PTC a comfortable situation in the future, we do not lose sight of today. A year ago we decided to maximize the SMS functionalities in interpersonal communication and entertainment (Premium SMS), as well as Cell Broadcast. Today we are proud to say that SMS is irreplaceable for three quarters of our customers, SMS Premium is a primary communication tool for public contests and games, while Cell Broadcast is an innovation and success on a world scale.

Marek Zieliński, Marketing and Sales Department, Business Market: A modern mobile phone is so much different from the good old Ericsson GH-388, used by PTC employees in 1996, when the company started offering its services. Handset quality, functionalities, battery lifetime – those are the parameters, which have undergone impressive changes. 3G telephony is still a future but there is already an increasing number of devices appearing in the market, which are a bridge between 2G and 3G end-user devices. New devices like Smartphone, PDA or MDA have one important feature in common – they are specifically suitable for convenient data transmission. The future belongs to data applications, as the market for voice services gets saturated. Colour LCD screens, built-in cameras and better processors – this is the hardware of the next generations. Mobile devices are getting more user friendly, more personal and simply more versatile. Inevitably there will be a tendency to integrate mobile and computer solutions. What will be the outcome of this? We will all see. Something that is unimaginable today, tomorrow will be reality...

Network and IT

Network in PTC

GSM Infrastructure

The infrastructure of cellular networks is based upon the division of the geographical area covered by the network into a number of cells that have diameters ranging usually from a few hundred meters to 35 kilometers. Each cell contains one or more transceivers (BTS) that communicate by radio signal with active cellular subscribers within the cell-range. In GSM cellular network, the BTSs installed in each cell are connected to Base Station Controllers (BSCs), which in turn are connected to a Mobile Switching Center (MSC). MSCs are connected to other MSCs in the same network and to other fixed and cellular networks. MSCs control the routing (and call records) of calls and allow cellular telephone users to move freely from cell to cell while continuing call. Connections between BTSs, BSCs and MSCs consist of transmission lines, including fiber optic cables, copper cables and microwave links.
PTC network

As of the end of 2002, PTC’s network consisted of more than 5,000 Base Transceiver Station Cabinets, close to 140 Base Station Controllers, 23 Mobile Switching Centers, Operations and Maintenance System and Network Management Center. Latter two are located in Warsaw and enable the Company to centrally manage and coordinate network operations and maintenance as well as to monitor services provided by our network. To mitigate the effects of potential switching failures or failures of other network elements, back-up equipment has been installed and alternative routes between our critical network elements have been constructed. As of December 31, 2002, PTC network covered approximately 96.4% of the geographic area of Poland inhabited by approximately 99.5% of the total Polish population.

In 2002 PTC successfully exploited and also developed its own SDH microwave backbone network. Currently the network consists of 21 long-distance links with a total length of 4,200 km connecting 12 cities where the MSCs are located. This network enabled PTC to significantly reduce its demand for leased lines. What is more, PTC has started offering transmission services to other operators in Poland. PTC believes that its network is one of the biggest of this kind in Poland, allowing the company to achieve a two-direction transmission speed of $2 \times 155$ megabits per second.

PTC may be proud of its high network quality as demonstrated by independent audit prepared by an external company. The result is based on measurements performed in 8 biggest cities in Poland and 6 main roads in October 2002. The indicator used takes into account speech quality (Speech Quality Index) and service quality perceived by the end user: Call Completion Rate, Call Setup Success Rate.

Results of these measurements position PTC network as one of the best European mobile networks. The chart below presents PTC network quality index in comparison with other mobile operators.

Starting from year 2002 the role of GPRS quality of service has been increasing, as the platform for new products, which are getting more popular among our customers. In an independent audit made for PTC, data speed transfer was measured and compared with that of different domestic and foreign operators. PTC achieved the best results of all operators in Poland.
Roaming

PTC continuously increases the number of roaming agreements with partners all over the world. In 2002 PTC widened its roaming capabilities with GPRS data transmission and roaming for pre-paid customers using the CAMEL technology. At the end of 2002, PTC customers were able to use roaming services in 250 networks in 104 countries, of which 20 networks were accessible for pre-paid customers. GPRS roaming service has been established with 14 foreign networks. Also at the end of the past year PTC started negotiations with foreign operators about international MMS transmission.

Future of mobile network

PTC expects further fast development of the telecommunications market in Poland. Intense competition forces mobile operators to offer attractive packages of new products at increasingly attractive prices. Growing demand for mobile telecommunication services will be particularly visible in the area of packet-switched data transmission. Implementation of new types of value added services (e.g. Omnix, MMS, video transmission) will require a significant increase in data transmission channels capacity in the future. Therefore PTC has been optimizing its current packet transmission system (GPRS) and plans to build a new generation network (UMTS).

Under the terms of UMTS License (and regulator’s decision to postpone the launch date), the company is obliged to begin commercial service using UMTS frequencies between January 1, 2004 and January 1, 2005. To meet this obligation and in order to be ready to support the strategic goal of providing a high quality network and the most advanced services, PTC has tested UMTS network equipment in cooperation with its key suppliers. PTC will be well prepared to sign commercial agreements for the purchase, installation and integration of the UMTS networks. In order to offer seamless UMTS, GPRS and GSM services, PTC expects to work closely with its key suppliers and integrate the new UMTS network equipment into its overall network architecture. Once the new equipment has been successfully integrated and new multi-mode GSM 900/1800/GPRS/UMTS handsets are available, PTC expects to offer its subscribers seamless services supporting voice traffic and data transmission.

Capabilities, offered by UMTS network in the future, will enable serving increase demand for packet data services with considerably higher transmission quality than in GPRS. In the future, thanks to the GSM and UMTS integration, customers requiring simple voice services or slower data transmission will be served by the GSM/GPRS layer, with country-wide coverage, while other customers using more advanced data transmission services will take advantage of urban UMTS networks.

PTC actively monitors global trends in the mobile telecommunication industry. It closely follows the current UMTS roll-out activities of other networks and is able to learn from their experience also through regular participation in various technology committees and project groups. Access to such knowledge puts PTC in a strong position to avoid many potential roll-out risks related to UMTS.

News from the network

Golden Computer for PTC Network

PTC Network has been rewarded with “Golden Computer” award by the Komputer Świat (the largest computer magazine in Poland). In the first edition of the contest, well known in other European countries, PTC has been judged by Komputer Świat readers as the best mobile network in Poland.

UMTS – KST Bydgoszcz

In September, during the Polish Telecommunications Symposium (KST) in Bydgoszcz, PTC presented a mobile connection with real-time video transmission in UMTS technology, as the first operator in Poland and one of pioneers in Europe. The presentation was prepared in co-operation with Alcatel. Connection between two cities was based on PTC’s own SDH network. The first parallel transmission of voice and video in Poland is an indicator of the potential of UMTS, the system to enable new forms of telecommunications in the coming years.

Roaming – Korea – World Cup 2002

In the middle of May 2002, a couple of weeks before the Football World Cup, PTC met its customers expectations by launching international roaming with Korea, where CDMA system is used. According to the agreement with the Korean SK Telecom, PTC customers could access the biggest network in Korea, with 99.8% coverage of the total country’s population.
GPRS roaming
Since the beginning of August 2002, Polska Telefonia Cyfrowa has started implementation of fast packet data transmission in international roaming.
PTC subscribers can use eraWAP and fast Internet access abroad. GPRS transmission is not only faster, but allows cost optimization at the same time. Customers pay only for the volume of data sent and received. GPRS roaming also enables usage abroad of Multimedia Messages (MMS).
Thanks to packet data transmission, business subscribers can access their corporate networks abroad, including e-mail and business applications. Mobile access to corporate resources is enabled by Transfera, the virtual private data transmission network.

ISO 14001:1996 for the Network Operation Division
On December 11, 2002, PTC was awarded with the certificate of Environmental Management system ISO 14001:1996 in the area of construction and maintenance of base stations. This award is very important for PTC, as it is the first award of that type granted to any network in Central-Eastern Europe and one of a few in Western European countries.

IT in PTC
PTC is considered one of the companies with the best developed IT systems and ‘culture’ in Poland. This has been confirmed by some specialist awards. IT systems implemented in the company support and optimize business processes. They facilitate provision of the highest quality services, decreasing costs and creating value for PTC shareholders.

Billing system
In 2002 PTC's billing system supported offering customers the possibility of one-second billing. The system also supported new tariffs implementation, for both pre-paid and post-paid subscribes. During a single year information systems supported a large number of new offers for our customers: numerous promotions, new tariffs and newly implemented products, including products based on data transmission.
The newly introduced system enabling presentation of the bill by internet has been very well perceived by Era business customers. This solution contributes to savings both on the PTC and client's side.

Customer Care systems
IT systems focused on customer care were still being developed in 2002 in order to ensure that information about all products and promotions can be provided not only by PTC employees, but also by all electronic customer communication channels available (IVR-Interactive Voice Response, Internet, WAP, E-mail, SMS and others).
The fact that 25% of all service activations and changes are made by customers using electronic means, without involvement of a single Call Center consultant, indicates the scale of automation.
Customer care systems development is one of the factors determining customer satisfaction rates increase. Importance of the high customer service level was expressed by the decision to invest in new IT systems supporting customer relations management (CRM).

Network Management and Planning
PTC introduced elements of a unique, integrated information system, which supports planning, configuration and maintenance of the GSM network and the UMTS network in the future. The system enables full automation of network configuration processes, graphical planning and changes reporting, and it provides information about the past, current and future network configuration.

Data Warehouse Development
PTC's Data Warehouse is one of the biggest in Poland. It stores information on contracts, tariffs, services, SIM cards and PTC customers’ data. Other areas covered by the Data Warehouse are: information on network elements, their hierarchy, connections and activities, information on financial data, etc. In 2002, new systems based on the Data Warehouse, such as marketing campaigns automation, bad debt risk research, credit limits and customer deposit calculation, and churn probability assessment. It is also possible to determine new products effectiveness based on the data collected in the Data Warehouse.
Company Internal processes

Internal processes are supported by IT systems increasing work effectiveness, shortening decision time and improving information availability. Senior management of PTC has easy access to all essential information about the employees through a human resources module of SAP/R3 system. The processes connected to career path planning, trainings and internal recruitment for new posts are supported by this system.

The achievement and maintenance of the ISO standard is also supported by systems providing processes control and adequate procedures management.

We asked Wilhelm Stückemann, Director of Network Operations & IT and Member of the Board for his comment on the network development in 2002 and plans for the future.

annual report: What can you say about year 2002 from the Network Operations & IT Director point of view?

Wilhelm Stückemann: Well, in short words I could say it was another challenging, but a good year. Year 2002 was not a year of so dynamic network expansion as previous ones, but it did not need to be. We had achieved the best coverage in Poland much earlier. Nevertheless we have continued development according to the increase in both the number of PTC customers and the traffic generated by them.

annual report: So, what were your main priorities in the year 2002?

Wilhelm Stückemann: First of all, many tasks related to further optimization of our network and IT systems were our main focus. We have set four key objectives: assurance of network infrastructure capacity sufficient for our customers’ demand, increase in efficiency through appropriate management of network elements utilization, maintaining high quality of service and prudent cost and investment management. All planned targets have been achieved. Besides, with our resources, infrastructure and solutions, we have significantly contributed to the implementation, commercial launch and then flawless maintenance of many new services, including numerous non-voice services.

annual report: Would you like to say something more about your network infrastructure and its quality?

Wilhelm Stückemann: I would like to emphasize that we possess and manage a high quality network, which is prepared to meet very diverse requirements of our customers and forms a solid base for the successes of our company. This fact has been confirmed by the results of independent customers satisfaction surveys and independent measurements conducted by various Polish and foreign organizations. What is more, we continuously measure our performance and compare ourselves with benchmarks from foreign markets. I can proudly state that we keep the good, European level of network quality. From a different perspective this has also been proved by the successful certification of the entire network division with integrated ISO 9001:2000 Quality Management System and ISO 14001:1996 Environmental Management System certificates, the first such certificate in telecommunications in Central and Eastern Europe.

annual report: How can you describe the role of technology in a modern company like PTC?

Wilhelm Stückemann: In my opinion, a well developed and managed network, together with superb IT operations, should be considered as a basic foundation for a mobile operator’s solid position and its further development. Nevertheless I do not like to talk too much about technology. I intentionally do not use in our conversation descriptions like GSM, GPRS, UMTS, EDGE, etc. Technology should be perceived as a target enabler not as a target itself. Our real target is to serve our customers, by which I mean both PTC subscribers and internal partners. We realize that their satisfaction will, above all, be based on perception of quality, availability and attractiveness of the services offered by us, not on technical solutions or standards used.

Let me continue the subject of your question. I would like to add that currently we can observe a changing role of technology in telecommunication. We can even talk about old and new worlds of technology. Characteristic for the old one is voice as the killer application, separate voice and data worlds and innovation cycles counted in years. It is being replaced by the new world of respectively data driven traffic, progressive convergence of IT and telco worlds and technology cycles lasting months. The future belongs to data services based on fast data transmission. We may soon more often talk about “service management” instead of “network infrastructure management”.

annual report: Then what is your program outline for the next year?

Wilhelm Stückemann: We are going to continue our approach from the previous year. We have worked out a program for the Network Operations and IT Division in 2003. Its main assumptions are consistent with the company-wide philosophy “Get More”. We are going to apply it to network, IT and overall efficiency. Only networks with fast access, high quality, powerful and flexible IT systems, efficiency based on ‘low-cost investment’ will deliver a real competitive advantage. I am convinced that Era network will still be one of such networks.

annual report: Thank you for the interview.

Wilhelm Stückemann: Thank you.
In the eyes of employees

Wojciech Szymków, Network Development and Regional Offices Supervision Department: During the last year the SDH network length increased by 18% to 4200 km and it now fully satisfies our capacity needs in this area. We have been successfully using it, thanks to careful planning, constant supervision, and efficient network maintenance, resulting in accessibility of the network exceeding 99.98%. The network performs a number of functions carrying commercial traffic and GSM corporate telephone and IT traffic, data sent by users of our new non voice services e.g. Era Omnim or eraWAP and part of the capacity is leased to other entities. It should be stressed that our SDH network is a foundation of a country-wide ATM network, which enables a more effective transmission of traffic generated by the new services.

People

PTC is an attractive workplace. This fact is reflected by numerous prizes and honors awarded to PTC. We have been honored by Instytut Pracy i Spraw Socjalnych (Institute of Labour and Social Matters) with a prestigious title of Laureate of Human Resources Management Leader 2002 contest for overall performance related to personnel management. President of Poland, Mr. Aleksander Kwaśniewski held patronage of last year’s edition of the contest.

The company has also been appreciated by its employees. In an opinion survey conducted in December 2002, 75% of the employees declared satisfaction and pride from being a part of the PTC team. The company enjoys high popularity among those seeking an interesting job as well as students and trainees, resulting in a growing number of submitted job applications.

An interview with Ryszard Pospieszyński, Director of Administration and Member of the Board will enable us to understand why this is the case. We are also going to hear opinions of the employees about their work for the company.

annual report: Could you briefly outline the traits of PTC’s employees? What are their strengths and weaknesses?

Ryszard Pospieszyński: I admire determination and ambition of our employees. I believe that thanks to these characteristics and broad expertise in many fields we have become a leader since the very beginning of our market existence and are still able to maintain this position. One of few weaknesses is a fact that some of our team are workaholics, but given their young average age and lack of family commitments, I assume this is relatively harmless.

annual report: What motivates people to work for PTC?

Ryszard Pospieszyński: An opportunity to work for a leading company of the hi-tech sector. Mobile communication is a new, constantly developing industry and keeping in touch with it we can create the reality around us, which makes this factor so important. The nature of responsibilities and relations with colleagues are other factors that motivate our employees. A recent survey underlined high importance of remuneration, working conditions and social benefits as motivational factors.

annual report: What is most important for employees making a decision to join PTC?

Ryszard Pospieszyński: Access to the latest developments in the fields of technology and management, and also the strength of the Era brand alone, are the decisive factors. Potential candidates are aware of the opinion that PTC enjoys as being one of the best employers in Poland. Another factor we cannot neglect is the image of the telecom industry as a high growth sector, despite the current temporary slowdown.

annual report: What is the work atmosphere at PTC?

Ryszard Pospieszyński: The majority of our employees (about 95% according to the survey conducted in December 2002) stress very good or good relations with their co-workers and bosses. Transparent procedures compliant with ISO 9001 : 2000 standards introduced in the company and modern communication tools
facilitate fast assimilation of new recruits, a crucial fact for supporting good work atmosphere in a company as large as ours. Company policy also supports employees in organizing their leisure activities. There are numerous sports, hobby and discussion clubs inside PTC. They are highly popular and promote smooth communication among our employees.

**annual report:** How do you find the Polish labour market, as far as availability of high quality specialists in telecommunication is concerned?

**Ryszard Pospieszyński:** The market of telecom specialists in Poland is still a shallow one. However, companies such as PTC contribute to its enlargement. Through access to technology, trainings and execution of ambitious, original tasks, our employees raise their skills becoming a tasty bite for headhunters.

**annual report:** What do you value most in your work?

**Ryszard Pospieszyński:** Good atmosphere in a team of people setting themselves very ambitious goals.

**annual report:** What targets have you set for yourself for year 2003? What would you like to achieve?

**Ryszard Pospieszyński:** Together with my fellow Board members we would like to fulfill the goals set in front of the company, to perfect the organization and the way it is managed and to work on increasing effectiveness of its activities in every dimension.

**annual report:** Thank you very much for the interview.

**Ryszard Pospieszyński:** It was my pleasure.
Let us hear the employees’ opinions about their work for PTC:

**annual report**: What do you find most satisfactory in your job?

**Dorota Ubysz, Products Strategy Department**: Before I started working for PTC I had been an analyst of the TMT sector for securities departments of investment banks for 6 years in Poland and abroad. Witnessing rapid development of mobile telecommunication, I came to the conclusion, that to work for a company active in this sector would be an interesting challenge. I was not mistaken. I am employed with PTC as Chief Specialist for business analyses in the Executive Department for Product Development and Management. It is a very ambitious and dynamic environment, where at first I found it hard to find my feet. Now I know that daily challenges are standard in PTC. The most satisfactory for me is praise from my director, when I have done my job well. He is very demanding and does not praise people often, so the more valuable it is.

**annual report**: What do you like most and least in working for PTC? What are the advantages or disadvantages of the job?

**Tomek Pszczoła, Analysis, Budget and Assets Management Department**: Thanks to working for PTC I live in the atmosphere of progress and I take part in creating a world based on communication and information. Each day brings challenges and dealing with them I learn something new. Sometimes, I guess, I could slow down the pace of work a bit, but fortunately, there are such times as holidays.

**Beata Orłowska, Tax Department**: I appreciate the ability to make decisions, which forces me to constantly improve my knowledge, and at the same time brings satisfaction from using it. Satisfaction comes also from the awareness of working for a company perceived as one of the best organized in Poland, modern and offering high quality services. I appreciate the fact that I can take part in designing tax solutions for completely new and complicated business transactions.
Corporate reputation

Visitors to PTC

Warsaw, January 21, 2002. President of Poland hosted a visit of PTC’s foreign shareholders. During the meeting representatives of Vivendi and Deutsche Telekom presented their companies’ worldwide activities. Also present at the meeting, Mr. Boguslaw Kulakowski, Chairman of the Board and CEO of PTC, outlined the company’s performance and its development plans. Issues from outside of PTC’s core operations, such as involvement in charitable activities, were also addressed.

Warsaw, March 26, 2002. Ambassador of the United States of America, Mr. Christopher Hill paid a courtesy visit to PTC’s headquarters. The honorable guest, accompanied by Chairman of the Board and CEO, Mr. Boguslaw Kulakowski, visited the most important and interesting places in PTC. Ambassador Hill listened with interest to the description of PTC’s greatest achievements and information about perspectives of the telecommunications market in our country.

Warsaw, April 23, 2002. Mr. Frank Elbe, Ambassador of the Federal Republic of Germany, accepted the invitation of PTC’s Management Board to pay a visit to the company. The Ambassador was accompanied by Mr. Herbert Quelle, Minister, Counsellor of the Embassy and Ms. Anke Meyer, Second Secretary of the Embassy. The highlight of the visit was a meeting with the Management Board of PTC. The discussion concerned the current situation on the Polish telecommunication market as well as forecasts for the future. The delegation also visited the Network Management Centre, the Hotline Department, and the New Era Product Centre.

Łódź, September 16, 2002. A cornerstone was laid for the construction of PTC’s Information Centre.

Prime Minister Mr. Leszek Miller took part in the celebration. PTC’s Information Centre in Łódź will support the activities of the Call Centre in Warsaw, which has been operational for 6 years. The duties of its employees will include, among others, providing consumers with all information regarding services offered by PTC, execution of instructions from customers and offering them help with all issues concerning the use of mobile telephones. The Centre will also accommodate a Directory Office, offering information about telephone numbers of PTC subscribers.

Charitable and sponsoring activities

Charitable activities

Era for children – Painted Christmas

Polska Telefonia Cyfrowa, for several years now, has utilised its resources in helping those most in need. As in previous years, in 2002 PTC focused its efforts on helping children. It reflects the belief that among the ones in need of help, children are the largest group and are the most vulnerable.

The most interesting aid project aimed at children in 2002 was ‘Era for children – Painted Christmas’. Children from Dębinki orphanage took part in it. They beautifully painted mugs specially bought by PTC for the occasion. Next, the hand-painted “wonders” with Christmas motives, were auctioned to PTC staff. A result of the auction was 36 thousand zlotys transferred to the orphanage’s account.

In a letter to PTC’s employees Adam Bogdanowicz, Principal of the Dębinki orphanage, wrote: “I did not expect PTC staff to forward so much money to our orphanage. The children, as well as myself, could not believe that such an amount could have been raised. They wondered how much was paid for each of the mugs painted by them. Money from the auction will be spent towards a major overhaul of our gym and thermal insulation of the children’s quarters. The gym is in constant use by the children and its state has deteriorated. With the funds we would also like to purchase some sports equipment. It is the children’s dream and so is mine.”

Even though PTC has transferred larger amounts to the needy, ‘Era for children – Painted Christmas’ is a project that has fallen deep into the minds of those involved. Everybody had fun during the project. ‘Painted Christmas’ let build much deeper and closer relations between the company, its employees and the children, than the social help projects realized earlier. Everybody was bound with an ‘invisible thread’ of understanding and sympathy. The friendships that were developed during realization of ‘Painted Christmas’ will remain in the memories of its participants and will be continued in the future.
In the eyes of employees

Iza Senik, Public Affairs and Communication Department: Up till now all Company’s charitable activities were so remote for me. Of course it was a pleasure for me to write information materials about such charitable actions as the annual “Wieczór Trzech Król Internetu” – a charity ball for Wielka Orkiestra Świątecznej Pomocy, co-organized by PTC, or the two-year long complex restoration of the Samborzec community, which was destroyed during the flood in 2001 and, with the help of PTC, was able to get back on its feet. However, I did not feel being involved in those projects. The feeling of being helpful aroused together with “Era for Children – painted Christmas”. Except achieving the aim, I think that both PTC employees and children, who painted the mugs, had a great time during this fantastic event. Everybody were able to make their choices. Employees – which mug they wanted to buy and children – what they would buy for collected money. Thanks to the fact that the auction was broadcasted in Company’s Internet we are less anonymous to each other and that is the first step towards closer relations.

Sponsoring activities

(Jazz) Connoisseur’s Era

Era of Jazz – a country-wide series of concerts with participation of the greatest stars of modern jazz – is known not only to fans of this music style. Almost all Era of Jazz concerts have been perceived as some of the most important music events on the Polish jazz scene.

Thanks to PTC, every year top jazz performers arrive in Poland. The following artists are among those, who have presented themselves to the Polish audience as part of the Era of Jazz series: Al Di Meola, Jan Garbarek & The Hilliard Ensemble, Oregon Quartet, The Kronos Quartet, Orkiestra Kameralna PR conducted by Agnieszka Duczmal, Birelli Lagrene, Tribute to Glenn Miller Orchestra, The New York Voices, Flora Purim & Airto Moreira, Jacques Loussier Trio, Patricia Barber Trio, The Ethnic Heritage Ensemble or John Scofield Trio.

The search for new sound was also continued in 2002. Joe Zawinul, a megastar of modern jazz, appeared for his only concert in Poland. The artist has for the last few decades participated in the creation of the most important currents in modern jazz. He has been at the top of the jazz scene for over thirty years, he is a Grammy Award winner and is admired by critics and millions of fans of fusion jazz.

In 2002 the Polish audience was also able to listen to Detroit Gospel Singers, one of the US greatest gospel choirs. The importance of the event was that much greater, that Polish stages do not often enjoy visits from authentic, American gospel groups.

Era of Jazz also gives satisfaction to collectors. The last 5 years have brought some limited editions of publications, photo albums and music recordings.

Era of Jazz has been awarded a number of prizes and awards. The most prestigious one is an Award of Jazz Institute of Chicago, one of the most important jazz institutions in America. Not only has classic jazz style been appreciated, but also the consistency of Era of Jazz producers in promoting this music style.

“I have always believed that the richness of the music and its nature is an idea of personal and artistic freedom. I have been confirmed in my belief seeing Polish Europeans consciously using the freedom of jazz style and feeling their cultural integrity” – said Lauren Deutsch from Jazz Institute of Chicago about Era of Jazz representatives.

Under the sails of Era

In 2002 Era prepared an unusual surprise for windsurfing fans in Poland; they didn’t have to head for ‘faraway lands’ such as Rhodos or Brazil to take part in a competition of the best windsurfers of the world. It was enough to pay a visit in July or August to one of the three beautiful Polish seaside resorts – Międzyzdroje, Jurata or Łeba, and take part in a top rank competition: the European Cup and, for the first time in Poland, the World Cup under auspices of Professional Windsurfers Association.

The third edition of Windsurfing Era Cup 2002 proved to be highly successful. Hosts of the competition: Era and the best Polish surfers – Dorota Staszewska and Wojtek Brzozowski – welcomed the elite of windsurfers from all over the world, as well as their fans.

The top thirty surfers in the European and World Cup rankings turned up at Windsurfing Era Cup 2002. Besides a numerous group of sportsmen from Europe, guests from such remote countries as Argentina, Australia, New Zealand and the USA participated in the competition. The windsurfers, asked about huge popularity of Windsurfing Era Cup, listed four reasons: sports competition on the highest level, professionally organised events with a large prize pool, the atmosphere and the most beautiful girls in the world. That was why they returned here for the third time.
Windsurfing Era Cup was a major sports attraction of the summer holiday season in our country. As was the case in previous editions of Windsurfing Era Cup, the competition was accompanied by a lot of interesting events. Everyone, regardless of their involvement in the sporting activities, was able to find something suitable for themselves and their families. A particular attraction was a possibility to chat with the best windsurfers in the world and to learn about secrets of surf champions from all over the world. In the evenings, after the sports competition, party lovers assembled at traditional Beach Parties, where contestants, as well as their fans, were present.

Windsurfing Era Cup is a real celebration for windsurfing fans in Poland. It confirms the fact that Poland can host world class sports competition. Windsurfing Era Cup also breaks the stereotype of Poland being an unfriendly place towards fans of this exceptional sport.

Support for the national football team
During 2002 PTC’s sponsorship of Poland’s national football team was crowned with the qualification to the 2002 FIFA World Cup. This was Poland’s first successful qualification campaign to any major international tournament since the Mexico World Cup in 1986, sixteen years before! What is more, Poland easily won its qualification group and was the first European team to qualify, save champions – France.

PTC accompanied the team at every step of its road to Korea, through the good and bad times, as when they failed to get through to the second phase of the World Cup tournament. PTC is happy to have been able to contribute both organisationally and financially to the success of the football team and feels it has also achieved its business objectives from the sponsorship. After the World Cup the term of the sponsorship agreement expired and PTC decided not to extend it due to a lack of acceptable commercial conditions.

Era Biznes as a sponsor
During the year Era Biznes sponsored several important business conferences. The most important ones were:
- Industry Solution Days
- Bałtyckie Forum Gospodarcze
- Dolnośląskie Forum Polityczne i Gospodarcze
- Gazele Biznesu 2002
- VIII Forum Kapitałowo-Finansowe “Twoje pieniądze” – a conference attended by Steve Forbes

In the eyes of employees
Anna Kotuniak-Partycka, Market Communication Department:
Spectacular cultural and sports events are written into the activity of our Company since the very beginning. Organization of such events gives us a lot of pleasure and new experiences. It is also great fun. Additionally, what makes me proud is direct participation in creating a positive image of our Company, perceived as one of the biggest telecommunication companies in Central-Eastern Europe.
5

Company strategy
To better understand the Company strategy we asked Mr. Martin Schneider, Director of Strategy, Sales and Marketing and Member of the Board to give us some insight on PTC’s strategy and its execution as well as his expectations for 2003.

**annual report:** What role does Strategy play within PTC?

**Martin Schneider:** PTC's strategy is critical for the company's future success, due to the rapid technological development, changes in market conditions and increasing competition. Strategy defines PTC's market positioning and aligns the basic direction of the multiple aspects of PTC's business. Our strategy takes a mid-term view to the business and outlines the measures that address opportunities and manage risks.

**annual report:** What is PTC’s message?

**Martin Schneider:** Our message is "Możesz więcej" ("Get More"). This philosophy means that our customers will get more out of their lives by using Era products and services. Specifically, our customers get more value from us than from our competitors. At the same time "Get More" defines PTC’s position as an operator, whose core values are the reliability and quality of its offer and services, the continuous effort to be leading in terms of adding new relevant innovations to our offer and last, but by no means least, to be attractive to our customers.

**annual report:** What is your strategic foundation to build this market position?

**Martin Schneider:** PTC’s "Get more" philosophy is based upon three strategic pillars, which are quality, innovation, and our strong focus on the customer, which places the customer at the beginning and the end of all our thoughts.

The continuous improvement of the value, that Era delivers, is the basis for satisfying our customers and thereby the foundation of our market success. Introducing relevant innovations of superior quality is the driving force for maintaining the image of PTC as the leading company. But reliable and innovative services alone are not enough. They must be tailored to our customer’s needs and most of all they have to be relevant to the customer.

Furthermore, the promise to provide better value to customers is the base for our company’s development to the benefit of its employees as well as shareholders and investors. On the one hand this promise is motivating each and every employee to focus his daily work and the money spent on creating real benefits to our customers. At the same time, the customers will recognize the value they receive and reward us with their loyalty and a superior stream of revenues.

**annual report:** What are PTC’s main goals?

**Martin Schneider:** There are two goals that are connected with our overall goal of market leadership, which are growth in customer value and growth in market share.

Our strategic foundation and market positioning of “Get more” will enable us to achieve these goals. PTC provides superior value to private and business customers and at the same time receives superior returns from the customers. Therefore PTC delivers a continuous stream of new services to its customers that will enhance revenue growth.

At the same time the Company is building a strong relationship with its customers by state of the art service and customer reward programs.

Our second goal is to increase our customer base in order to maintain a leading market share. Since the post-paid market segment is expected to approach saturation and the voice market alone should not provide enough growth potential mid-term, we must enter new market areas. This means that we need to focus on the pre-paid market and on the other hand develop new customer relevant non-voice services. PTC is changing from being a basic mobile voice provider to a provider of a multitude of wireless services.
annual report: How would you describe PTC’s current position?

Martin Schneider: PTC continues to be number one in the Polish mobile telecommunications market, and has successfully managed to maintain its leadership position. Our revenue market share is 37.3%, we have the best network quality, our Customer Service indicators set national benchmarks and our brand is one of the best-recognized brands in the country.

However, these excellent results should not make us neglect the fact that PTC’s dynamic growth has declined over the last year due to intense competition and our policy of investing only in the most attractive customer segments whilst we increased profitability and reduced leverage. For the next year we intend to target our offers more towards specific segments and thereby have an attractive offer to all customers in the market and at the same time intend to keep our profitability at a high level. The innovations we were introducing in 2002 shall provide an excellent base for accelerating growth in 2003. New attractive tariffs, an impressive number of new attractive services presented and accessible under the Omnix portal, and a complete re-launch of PTC’s pre-paid product are the key elements of this move.

In parallel, throughout 2002 we took significant actions to streamline our internal processes and cut related costs, which do not translate into a direct benefit to our customers.

annual report: How do you foresee the future?

Martin Schneider: The next year will not be easy. The Polish market is facing significant of challenges, more difficult market conditions and the first signs of market saturation in some segments. But I am confident that PTC will succeed in this environment of increasing competition.

As I outlined before, PTC is in a strong position and continues its leadership of the market. We have used 2002 to restructure and renew our market approach and ourselves and we have prepared all necessary changes to continue our market leadership in the future.

PTC already is the quality leader and is seen as the most reliable operator in the Polish market. Under the “Get more” promise we will continue to prove through constant innovation that we also lead the market in new initiatives. This will further strengthen our position to develop new non-voice market segments and increase our attractiveness in the pre-paid market establishing a younger, fresher and more dynamic image.

I am optimistic that we will achieve our goals in this changing market environment if we continue the course that we took in 2002, transforming the efforts of last year into successful results of 2003.

annual report: Thank you for the interview.

Martin Schneider: Thank you.
Financial statements
Report of Independent Public Accountants

To the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o.

We have audited, in accordance with generally accepted auditing standards in the United States, the consolidated balance sheet of Polska Telefonia Cyfrowa Sp. z o.o. and its subsidiaries ("the Company") as of December 31, 2002, and the related consolidated income statement, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2002, prepared in accordance with International Financial Reporting Standards. In our report dated February 7, 2003 we expressed an unqualified opinion on those financial statements.

The consolidated financial statements of the Company as of December 31, 2001, and for the years ended December 31, 2001 and 2000, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 1, 2002.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements of the Company as at December 31, 2002 and for the year then ended, from which it was derived. The consolidated financial statements that were subject to our audit included notes that are not included in the accompanying condensed consolidated financial statements.

Ernst & Young Audit Sp. z o.o.
Warsaw, Poland
February 7, 2003
Report of Independent Public Accountants

This report is a copy of previously issued Andersen affiliate report and the Andersen affiliate has not reissued the report:

To the Supervisory Board of Polska Telefonia Cyfrowa Sp. z o.o.

We have audited, in accordance with generally accepted auditing standards in the United States, the consolidated financial statements of Polska Telefonia Cyfrowa Sp. z o.o. Capital Group prepared as of December 31, 2001 in accordance with International Accounting Standards (not presented herein) and in our report dated March 1, 2002 we expressed an unqualified opinion on those financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements are fairly stated, in all material respects, in relation to the consolidated financial statements from which they have been derived. The consolidated financial statements that were subject to our audit included notes to the consolidated financial statements that are not fully included in the accompanying condensed consolidated financial statements.

Arthur Andersen Sp. z o.o.
Warsaw, March 1, 2002
## Statements of Operations


<table>
<thead>
<tr>
<th></th>
<th>Year ended December 31, 2002</th>
<th>Year ended December 31, 2001</th>
<th>Year ended December 31, 2000 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net sales</strong></td>
<td>4,929,824</td>
<td>4,344,896</td>
<td>3,684,723</td>
</tr>
<tr>
<td><strong>Cost of sales</strong></td>
<td>(2,989,193)</td>
<td>(2,727,437)</td>
<td>(2,286,426)</td>
</tr>
<tr>
<td><strong>Gross margin</strong></td>
<td>1,940,631</td>
<td>1,617,459</td>
<td>1,398,297</td>
</tr>
<tr>
<td><strong>Operating expenses</strong></td>
<td>(790,115)</td>
<td>(785,429)</td>
<td>(766,016)</td>
</tr>
<tr>
<td><strong>Operating profit</strong></td>
<td>1,150,516</td>
<td>832,030</td>
<td>632,281</td>
</tr>
<tr>
<td><strong>Non-operating items</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest and other financial income</td>
<td>266,454</td>
<td>316,616</td>
<td>227,125</td>
</tr>
<tr>
<td>Interest and other financial expenses</td>
<td>(848,132)</td>
<td>(694,546)</td>
<td>(716,665)</td>
</tr>
<tr>
<td><strong>Profit before taxation</strong></td>
<td>568,838</td>
<td>454,100</td>
<td>142,741</td>
</tr>
<tr>
<td><strong>Taxation charge</strong></td>
<td>(222,362)</td>
<td>(26,879)</td>
<td>(33,354)</td>
</tr>
<tr>
<td><strong>Net profit for the year</strong></td>
<td>346,476</td>
<td>427,221</td>
<td>109,387</td>
</tr>
</tbody>
</table>
## Balance Sheet Statements

Consolidated Balance Sheet Statements for the years ended December 31, 2002 and December 31, 2001 (in thousand of PLN and according to International Financial Reporting Standards)

<table>
<thead>
<tr>
<th></th>
<th>As at December 31, 2002</th>
<th>As at December 31, 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>54,412</td>
<td>36,511</td>
</tr>
<tr>
<td>Short-term investments and other financial assets</td>
<td>12,143</td>
<td>98,278</td>
</tr>
<tr>
<td>Debtors and prepayments</td>
<td>620,749</td>
<td>538,822</td>
</tr>
<tr>
<td>Inventory</td>
<td>234,545</td>
<td>167,114</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>921,849</td>
<td>840,725</td>
</tr>
<tr>
<td><strong>Long-term assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property, plant and equipment</td>
<td>3,438,686</td>
<td>3,783,810</td>
</tr>
<tr>
<td>Intangible fixed assets</td>
<td>2,651,130</td>
<td>2,412,810</td>
</tr>
<tr>
<td>Financial assets</td>
<td>171,288</td>
<td>105,985</td>
</tr>
<tr>
<td>Deferred costs and other long-term assets</td>
<td>82,091</td>
<td>74,123</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>6,343,195</td>
<td>6,376,728</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>7,265,044</td>
<td>7,217,453</td>
</tr>
<tr>
<td><strong>Current liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts payable</td>
<td>285,277</td>
<td>286,621</td>
</tr>
<tr>
<td>Amounts due to State Treasury</td>
<td>57,756</td>
<td>46,184</td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>121,122</td>
<td>190,429</td>
</tr>
<tr>
<td>Accruals</td>
<td>185,589</td>
<td>123,686</td>
</tr>
<tr>
<td>Deferred income and other liabilities</td>
<td>224,358</td>
<td>224,260</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>874,082</td>
<td>871,180</td>
</tr>
<tr>
<td><strong>Long-term liabilities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest-bearing liabilities</td>
<td>4,583,365</td>
<td>5,083,933</td>
</tr>
<tr>
<td>Non-interest-bearing liabilities</td>
<td>165,159</td>
<td>193,822</td>
</tr>
<tr>
<td>Deferred tax liability</td>
<td>268,171</td>
<td>52,121</td>
</tr>
<tr>
<td>Provisions for liabilities and charges</td>
<td>21,740</td>
<td>20,652</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>5,038,435</td>
<td>5,350,528</td>
</tr>
<tr>
<td><strong>Total liabilities</strong></td>
<td>5,912,517</td>
<td>6,221,708</td>
</tr>
<tr>
<td><strong>Capital and reserves</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Share capital</td>
<td>471,000</td>
<td>471,000</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>409,754</td>
<td>409,754</td>
</tr>
<tr>
<td>Hedge reserve</td>
<td>(86,649)</td>
<td>(96,955)</td>
</tr>
<tr>
<td>Accumulated profit/(deficit)</td>
<td>558,422</td>
<td>211,946</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1,352,527</td>
<td>995,745</td>
</tr>
<tr>
<td><strong>Total equity and liabilities</strong></td>
<td>7,265,044</td>
<td>7,217,453</td>
</tr>
</tbody>
</table>
## Statements of Cash Flows


<table>
<thead>
<tr>
<th>Year ended December 31, 2002</th>
<th>Year ended December 31, 2001</th>
<th>Year ended December 31, 2000 (restated)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
</tr>
<tr>
<td>Net profit before taxation 568,838</td>
<td>454,100</td>
<td>142,741</td>
</tr>
<tr>
<td><strong>Adjustments for:</strong></td>
<td><strong>Adjustments for:</strong></td>
<td><strong>Adjustments for:</strong></td>
</tr>
<tr>
<td>Depreciation and amortization 909,983</td>
<td>850,572</td>
<td>519,705</td>
</tr>
<tr>
<td>Charge to provision and write-offs of doubtful debtors 29,224</td>
<td>67,626</td>
<td>146,624</td>
</tr>
<tr>
<td>Charge to provision for inventory 7,333</td>
<td>11,151</td>
<td>7,082</td>
</tr>
<tr>
<td>Other provisions long-term 1,089</td>
<td>7,744</td>
<td>9,144</td>
</tr>
<tr>
<td>Foreign exchange (gains)/losses, net and changes in financial instruments fair value 145,394</td>
<td>(91,609)</td>
<td>(92,207)</td>
</tr>
<tr>
<td>(Gain)/loss on disposal of tangibles and intangibles 10,804</td>
<td>(1,582)</td>
<td>8,664</td>
</tr>
<tr>
<td>Interest expense, net 436,283</td>
<td>469,539</td>
<td>501,580</td>
</tr>
<tr>
<td><strong>Operating cash flows before working capital changes 2,108,948</strong></td>
<td><strong>Operating cash flows before working capital changes 1,767,541</strong></td>
<td><strong>Operating cash flows before working capital changes 1,243,333</strong></td>
</tr>
<tr>
<td>(Increase)/decrease in inventory (74,764)</td>
<td>31,025</td>
<td>(32,392)</td>
</tr>
<tr>
<td>Increase in debtors, prepayments and deferred cost (101,165)</td>
<td>(129,383)</td>
<td>(104,527)</td>
</tr>
<tr>
<td>Increase/(decrease) in trade payables and accruals 90,529</td>
<td>24,560</td>
<td>20,142</td>
</tr>
<tr>
<td>Cash from operations 2,023,548</td>
<td>1,693,743</td>
<td>1,126,556</td>
</tr>
<tr>
<td>Interest paid (482,978)</td>
<td>(450,820)</td>
<td>(453,183)</td>
</tr>
<tr>
<td>Interest received 17,182</td>
<td>15,213</td>
<td>38,005</td>
</tr>
<tr>
<td>Income taxes paid (1,618)</td>
<td>(1,325)</td>
<td>(4,451)</td>
</tr>
<tr>
<td>Realization of financial instruments (32,973)</td>
<td>(94,411)</td>
<td>(22,011)</td>
</tr>
<tr>
<td><strong>Net cash from operating activities 1,523,161</strong></td>
<td><strong>Net cash from operating activities 1,162,400</strong></td>
<td><strong>Net cash from operating activities 684,916</strong></td>
</tr>
<tr>
<td><strong>CASH FLOWS USED IN INVESTING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS USED IN INVESTING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS USED IN INVESTING ACTIVITIES:</strong></td>
</tr>
<tr>
<td>Purchases of intangible fixed assets (257,314)</td>
<td>(1,372,058)</td>
<td>(329,064)</td>
</tr>
<tr>
<td>Purchases of tangible fixed assets (379,923)</td>
<td>(1,128,118)</td>
<td>(1,434,875)</td>
</tr>
<tr>
<td>Proceeds from short- and long-term investments 91,456</td>
<td>199,699</td>
<td>193,959</td>
</tr>
<tr>
<td>Proceeds from sale of equipment and intangibles 18,344</td>
<td>25,250</td>
<td>14,905</td>
</tr>
<tr>
<td><strong>Net cash used in investing activities (527,437)</strong></td>
<td><strong>Net cash used in investing activities (2,275,227)</strong></td>
<td><strong>Net cash used in investing activities (1,555,075)</strong></td>
</tr>
<tr>
<td><strong>CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES:</strong></td>
<td><strong>CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES:</strong></td>
</tr>
<tr>
<td>(Repayment of)/net proceeds from Bank Credit Facilities (322,201)</td>
<td>1,288,594</td>
<td>–</td>
</tr>
<tr>
<td>Repayment of Loan Facility –</td>
<td>(836,158)</td>
<td>(248,643)</td>
</tr>
<tr>
<td>(Redemption of)/proceeds from the Notes (655,622)</td>
<td>704,141</td>
<td>–</td>
</tr>
<tr>
<td>Net change in overdraft facility 12</td>
<td>(36,342)</td>
<td>36,342</td>
</tr>
<tr>
<td>Additional paid-in capital, net –</td>
<td>–</td>
<td>16,827</td>
</tr>
<tr>
<td><strong>Net cash (used in)/from financing activities (977,811)</strong></td>
<td><strong>Net cash (used in)/from financing activities 1,120,235</strong></td>
<td><strong>Net cash (used in)/from financing activities 195,474</strong></td>
</tr>
<tr>
<td>Net (decrease)/increase in cash and cash equivalents 17,913</td>
<td>7,408</td>
<td>(1,065,633)</td>
</tr>
<tr>
<td>Effect of foreign exchange changes on cash and cash equivalents (12)</td>
<td>(362)</td>
<td>(411)</td>
</tr>
<tr>
<td>Cash and cash equivalents at beginning of period 36,511</td>
<td>29,465</td>
<td>1,095,509</td>
</tr>
<tr>
<td>Cash and cash equivalents at end of period 54,412</td>
<td>36,511</td>
<td>29,465</td>
</tr>
</tbody>
</table>
## Statements of Changes in Equity

Consolidated Statements of Changes in Equity for the years ended December 31, 2002 and December 31, 2001 (in thousand of PLN and according to International Financial Reporting Standards)

<table>
<thead>
<tr>
<th></th>
<th>Share Capital</th>
<th>Additional paid-in capital</th>
<th>Hedge reserve</th>
<th>Accumulated profit/(loss)</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Balance as at January 1, 2000 (restated)</strong></td>
<td>471,000</td>
<td>−</td>
<td>−</td>
<td>(303,194)</td>
<td>167,806</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>−</td>
<td>409,754</td>
<td>−</td>
<td>−</td>
<td>409,754</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>109,387</td>
<td>109,387</td>
</tr>
<tr>
<td><strong>Balance as at December 31, 2000 (restated)</strong></td>
<td>471,000</td>
<td>409,754</td>
<td>−</td>
<td>(193,807)*</td>
<td>686,947</td>
</tr>
<tr>
<td><strong>Balance as at January 1, 2001</strong></td>
<td>471,000</td>
<td>409,754</td>
<td>−</td>
<td>(193,807)*</td>
<td>686,947</td>
</tr>
<tr>
<td>Effect of adopting IAS 39</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>21,468</td>
<td>21,468</td>
</tr>
<tr>
<td>Fair value losses on cash flow hedge, net of tax</td>
<td>−</td>
<td>−</td>
<td>(96,955)</td>
<td>−</td>
<td>(96,955)</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>427,221</td>
<td>427,221</td>
</tr>
<tr>
<td><strong>Balance as at December 31, 2001</strong></td>
<td>471,000</td>
<td>409,754</td>
<td>(96,955)</td>
<td>211,946</td>
<td>995,745</td>
</tr>
<tr>
<td><strong>Balance as at January 1, 2002</strong></td>
<td>471,000</td>
<td>409,754</td>
<td>(96,955)</td>
<td>211,946</td>
<td>995,745</td>
</tr>
<tr>
<td>Cash flow hedge:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>net fair value gain, net of tax</td>
<td>−</td>
<td>−</td>
<td>(17,717)</td>
<td>−</td>
<td>(17,717)</td>
</tr>
<tr>
<td>reclassified and reported in net profit</td>
<td>−</td>
<td>−</td>
<td>30,210</td>
<td>−</td>
<td>30,210</td>
</tr>
<tr>
<td>deferred tax on reclassified item</td>
<td>−</td>
<td>−</td>
<td>(8,459)</td>
<td>−</td>
<td>(8,459)</td>
</tr>
<tr>
<td>deferred tax change</td>
<td>−</td>
<td>−</td>
<td>6,272</td>
<td>−</td>
<td>6,272</td>
</tr>
<tr>
<td>Net profit for the period</td>
<td>−</td>
<td>−</td>
<td>−</td>
<td>346,476</td>
<td>346,476</td>
</tr>
<tr>
<td><strong>Balance as at December 31, 2002</strong></td>
<td>471,000</td>
<td>409,754</td>
<td>(86,649)</td>
<td>558,422</td>
<td>1,352,527</td>
</tr>
</tbody>
</table>

*The amount of PLN 193,807 representing accumulated deficit as at December 31, 2000 includes PLN 11,736 (decrease of accumulated deficit) of the revenue recognition retrospective adjustment.