

Annual Report **T-Mobile** Czech Republic a.s.

2010

Life is for sharing.

T-Mobile

T-Mobile in 2010:

On the way to being an integrated operator

In 2009, T-Mobile Czech Republic a.s. (“T-Mobile” or the “Company”) became the second largest ADSL provider in the Czech Republic; last year, our portfolio of services was extended with satellite TV. Thus we accomplished the transition from a mobile telecommunications provider to a fully integrated operator offering a full range of voice and data services. For us, year 2010 was marked by integration, of both new services and organisational parts of České Radiokomunikace, which were acquired by T-Mobile at the end of 2009.

Maintaining strong positions

- More than 5.6 million customers used our services in 2010
- Revenues exceeded CZK 28 billion
- Average monthly spending on telecommunications services (ARPU) reached CZK 417
- We successfully underwent an external review focused on anti-corruption measures and processes

In a nutshell, we succeeded in generating fairly satisfactory results in 2010, despite negative trends on the market, such as the high saturation of the mobile market, stiff competition and EU regulatory measures. We confirmed our position in terms of the number of customers, though we registered a certain decline in key financial indicators.

In spite of that, we continued to develop mainly data services last year: the high-speed 3G mobile network now covers 39 cities in the Czech Republic and its rollout is continuing. We also introduced a number of data propositions, such as the one-day bundle offering a full 24 hours of internet access for CZK 24, ADSL internet access plans for prices starting at CZK 399 and mobile internet for young customers for CZK 100. Additionally, we launched a new generation of tariff plans for contract and Twist customers, opened a unique on-line computer-game rental shop, FRAG and introduced the T-Mobile satellite TV service. [Za největší úspěch v loňském roce však považujeme udržení prvenství na trhu mobilní komunikace.](#)

As part of a project managed by parent company DTAG, we also successfully underwent an external review of the compliance management system, which has the purpose of monitoring compliance with the laws and internal regulations focused on the fight against corruption and fraud. The goal of the review conducted by an international “big four” audit firm was to assess whether the Company has the right processes which can effectively detect law-infringement risks and whether it has measures in place which will minimize risks in this area in the future.

Strengthening our team

- We started the new year with new CEO Milan Vašina

During the year, the Company saw several changes in its top management. The long-serving Managing Director Roland Mahler left his position at the end of the year to become Chairman of the Board of Directors. On 1 January 2011, Mr. Mahler was replaced as Managing Director by the then Chief Operating Officer Marketing, Sales and Customer Care at Slovak Telekom, Milan Vašina. There were also changes in the Board of Directors: the then Chairman of the Board of Directors, Philipp Humm, accepted a post at T-Mobile US and was replaced by the outgoing Managing Director of the Company, Roland Mahler. At the same time, the Board of Directors co-opted a new member, Albert Pott, Sales/Service EU & Area Manager Slovakia and Czech Republic at DTAG.

Our network is number one

- We completed the GSM network upgrade project
- We launched the high-speed 3G mobile network in 39 cities in the Czech Republic
- According to an independent survey conducted by P3 communications, our network is the best in the Czech Republic

In 2010, we continued to invest heavily in modern technologies. In particular, we completed the GSM network upgrade project, which started in 2009. Our customers can thus enjoy higher-quality connection, better coverage in certain problematic areas and significantly higher transmission speeds when browsing the web thanks to the EDGE technology used throughout the T-Mobile network. All of the 4,514 base stations and 112 controllers were replaced during the network upgrade. The new transceiver stations are more energy efficient, consuming up to 45% less electricity than the old ones.

The 3G network was put into full operation in January 2010. The intensity of the network's rollout was at its height during the summer, when a record number of base stations were launched into operation. High-speed mobile internet access is now available to residents of 39 cities: Prague, Plzeň, Brno, České Budějovice, Olomouc, Pardubice, Hradec Králové, Zlín, Ostrava, Teplice, Prostějov, Havířov, Liberec, Ústí nad Labem, Karlovy Vary, Karviná, Kladno, Opava, Most, Přerov, Třebíč, Orlová, Tábor, Frýdek Místek, Říčany, Sezimovo Ústí, Roztoky, Jesenice, Šlapanice, Rousínov, Mladá Boleslav, Trinec, Česká Lípa, Dobříš, Starý Plzenec, Děčín, Brandýs nad Labem, Stará Boleslav and Čelákovice.

According to an independent survey conducted by P3 communications, which regularly assesses the quality of all GSM networks in the Czech Republic, T-Mobile had the number-one network in 2010 both in terms of voice and data services.

Innovating services and technologies

- We launched a satellite TV service on 1 November 2010
- Our customers can top up credit on-line using bank cards
- We provide a free contact back-up service
- We are testing the NFC technology

The hottest addition to the portfolio of T-Mobile services is undeniably the satellite TV service. The service was introduced on 1 November 2010 and was also the focal point of our successful Christmas campaign featuring the legendary American action hero, Chuck Norris. The T-Mobile TV service is offered under two plan options and customers can subscribe to up to three additional bundles. T-Mobile is the only company on the Czech market to offer a satellite dish and receiver supporting HD and a USB recording function for only CZK 1.

T-Mobile TV enables satellite reception of Czech and international channels in digital quality anywhere in the Czech Republic, including channels in HD duality.

Additionally, we introduced the possibility for our customers to top up credit on-line and to pay with their bank cards and we also launched a free contact back-up service.

Last year, T-Mobile started internal trial operation of the NFC (Near Field Communication) technology to test the possibility of using SIM cards as an appropriate tool for Near Field Communication in a group of employees. During the pilot operation, the group of selected employees used NFC handsets/SIM cards to access the T-Mobile building and offices, print documents on the network printer and make payments in the canteen. NFC technology can help customers to significantly simplify their everyday lives by integrating different types of identification carriers, such as access cards, tickets, etc. in one device – a mobile phone.

Providing certainty for our people

- We were again awarded the prestigious Company of the Year: Equal Opportunities prize
- We help our employees to balance their professional and private life

Last year, T-Mobile again scored highly in the Company of the Year contest, being awarded the top prize in the Equal Opportunities category, which is announced by the Gender Studies non-governmental organization. We received a positive evaluation particularly for our equal opportunity system (fair-share), diversity, employee surveys, increased number of women in management positions and our cooperation with non-profit organizations.

Apart from flexible working arrangements and preventive healthcare programmes, we focused our attention last year on communicating with employees on long-term leave, particularly parental leave, via a new information channel.

The offer of employee benefits was extended with services contributing to a better balance between professional and private life, such as baby-sitting and household cleaning services.

We care about the environment

- We reduced the electricity consumption of transceiver stations by 45%
- We donated Twist top-up coupons worth CZK 250,000 to non-profit environmental organizations
- We joined the Mobility Week programme
- We were awarded the EMS environmental certificate by the international certification authority Bureau Veritas Czech Republic

T-Mobile went green last year. Our major contribution to environmental protection was modernization of the GSM network, during which all transceiver stations and controllers were replaced with new ones, thus reducing electricity consumption by 45%.

But this is far from being all that we did for environmental protection in 2010: during our traditional summer T-Mobile event focused on collecting and recycling mobile telephones, our company managed to collect a total of 2,379 disused handsets. During the "Support Gorillas with T Mobile" event, customers received a CZK 100 top-up coupon in exchange for any old handset that they brought in.

In addition, we turned our attention to Czech non-governmental and non-profit organizations that run "green projects". In cooperation with the VIA Foundation, we distributed Twist top-up coupons worth CZK 250,000 to these organizations as part of a grant programme. Also, the use of electronic invoices has been incorporated into our strategy of sustainable development and climate protection. A total of 74,341 customers activated electronic invoicing in May, which saved 223,023 sheets of paper. T-Mobile converted this number into a financial amount which was donated to UNICEF projects aimed at securing sources of clean drinking water.

In September, our employees were given the possibility to support the traditional European Car-Free Day and to participate in the Mobility Days event held at T-Mobile's premises in Prague and Brno. Free public-transportation tickets motivated T-Mobile's employees in Prague who normally use a company car to use public transportation on European Car-Free Day, 22 September. As part of the event, the most economical company driver in 2009, in terms of fuel consumption that was compared with the data indicated on the vehicle registration document, was announced and received an award.

Our efforts were finally recognised with the EMS certificate issued by the international certification authority Bureau Veritas Czech Republic, which focuses on the harmonization of corporate business with the environment. The strict EMS certification process verified that T Mobile's activities comply with all environmental protection requirements in accordance with the ČSN EN ISO 14001:2005 international standard.

We care about others

- We donated CZK 9.9 million to charity projects
- Our employees donated 619 of their man-days to the non-profit sector as part of the “One Day For People in Need” project
- We provide free PR training to non-profit organizations
- We block internet pages containing child pornography
- We won first prize in the prestigious TOP Philanthropist contest

Last year our company donated nearly CZK 10 million and 619 man-days to support charitable activities as part of the “One Day For People in Need” project. For the fifth time, our employees could nominate projects of non-profit organizations or municipalities with which they actively cooperate to receive support from the T-Mobile Fund. The total contribution of CZK 2 million was divided among 27 organizations out of 113 that applied for a grant.

We are also a long-term supporter of the Centrum Paraple – last year our company, together with our customers and employees, donated a total of CZK 1,333,333 to the organization. In addition, we focus our attention on the regions in which we operate: as part of the sixth annual T-Mobile Fund programme with last year’s theme of “Healthy Planet”, our company supported 46 organizations from the Hradec Králové region, the Louny district and the district of Prague 11 with the financial amount of CZK 2,800,000. Small Grants form another integral part of our annual grant programme, through which we intend to educate students in the area of project management. Young people can test their newly gained experience by implementing their own projects – in 2010 they conceived and launched 95 such projects in total.

In 2010 we organized the first series of free PR seminars designed for non-profit organizations. Representatives of foundations and civic associations learned how to communicate with journalists through which information about their interesting projects can reach the general public. In addition to T-Mobile employees, workshops were presented by experienced journalists, Tomáš Feřtek (formerly of Reflex), Michal Musil (MF DNES) and Jiří Závozda (former member of the Lidové noviny editorial staff). We trained a total of 106 non-profit organizations!

We also lived up to our responsibility regarding the provision of internet access and started to block websites containing child pornography in accordance with the database of the renowned British Internet Watch Foundation. This measure is a follow-up of previous activities related to child protection, such as the Child Lock service launched last year, thanks to which parents may disable their children’s access to inappropriate content in mobile handsets free of charge. For our activities in the field of corporate social responsibility, our company won first prize in the prestigious TOP Philanthropist contest in the category “The Most Responsible Partnership with Employees 2010”, thus repeating our success in earning the VIA Bona award for involving employees in charitable and volunteer activities in 2009. TOP Philanthropist is an international award for socially responsible enterprises presented by Business for Society.

All information about the corporate social responsibility policies and activities of T-Mobile Czech Republic a.s. is available at www.prosvetkolemnas.cz.

We support football and musicians

- We are continuing with our support of the Czech national football team
- We release digital albums by popular musicians
- We support music events

The T-Mobile brand has been associated with the Czech national football team since 1998. We are great fans and we want to support football at the time when a new national team is being formed. Our contract with STES, the holder of advertising and marketing rights of The Football Association of the Czech Republic, was extended last year. All fans will thus hear about T-Mobile throughout the upcoming qualification rounds leading up to the European Championship in 2012, which will take place in Poland and Ukraine. Fans can look forward to many interesting offers related to football topics. Successful cooperation between the partners will thus continue until at least 2012.

As in previous years, we continued supporting local musicians via the music portal www.tmusic.cz, on which we released digital versions of new albums of popular local bands, such as Kryštof, Chinaski and Skyline, as well as the Slovak band Polemic, for voluntary or very low prices. At the same time, we supported club tours of all these bands. Last year our company was again the traditional partner of the country's biggest music festival, Rock for People. In November, we concluded the 2010 concert season with a special t-music 4in1 show at Tesla Arena, featuring top bands such as Horkýže Slíže, Vypsaná Fixa, Sto Zvířat and United Flavour.



Roland Mahler

Chairman of the Board of Directors
Member of the Board of Directors

**PricewaterhouseCoopers Audit, s.r.o.**

Kateřinská 40/466
120 00 Prague 2
Czech Republic
Telephone +420 251 151 111
Facsimile +420 251 156 111

Independent Auditor's Report

to the shareholders of T-Mobile Czech Republic a.s.

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Balance Sheet

CZK million	31. 12. 2010			31. 12. 2009
	Gross amount	Provision	Net amount	Net amount
ASSETS				
B. Fixed assets	42,646	(26,017)	16,629	16,065
B. I. Intangible fixed assets	10,697	(6,166)	4,531	4,546
B. I. 1. Development costs	169	(167)	2	9
2. Software	4,750	(4,215)	535	483
3. Valuable rights	5,145	(1,740)	3,405	3,563
4. Goodwill	164	(36)	128	161
5. Intangible fixed assets in the course of construction	447	-	447	309
6. Other intangible fixed assets	22	(8)	14	21
B. II. Tangible fixed assets	31,949	(19,851)	12,098	11,519
B. II. 1. Land	17	-	17	18
2. Constructions	9,327	(4,373)	4,954	5,006
3. Equipment	20,676	(15,445)	5,231	4,725
4. Other tangible fixed assets	1	-	1	1
5. Tangible fixed assets in the course of construction	1,928	(33)	1,895	1,681
6. Advances paid for tangible fixed assets	-	-	-	88
C. Current assets	21,130	(4,579)	16,551	16,757
C. I. Inventories	671	(60)	611	348
C. I. 1. Raw materials	204	(34)	170	124
2. Goods for resale	467	(26)	441	224
C. II. Long-term receivables	22	-	22	20
C. II. 1. Trade receivables	14	-	14	13
2. Long-term advances paid	8	-	8	7
C. III. Short-term receivables	17,411	(4,519)	12,892	14,758
C. III. 1. Trade receivables	6,104	(4,519)	1,585	2,075
2. Receivables – controlling entity	8,900	-	8,900	10,000
3. Receivables from members of associations	31	-	31	29
4. State – tax receivables	32	-	32	-
5. Short-term advances paid	133	-	133	255
6. Estimated receivables	2,154	-	2,154	2,326
7. Other receivables	57	-	57	73
C. IV. Short-term financial assets	3,026	-	3,026	1,631
C. IV. 1. Cash in hand	20	-	20	19
2. Cash at bank	2,806	-	2,806	200
3. Short-term investments	200	-	200	1,412
D. I. Accruals and deferrals	117	-	117	49
D. I. 1. Prepaid expenses	97	-	97	47
2. Accrued income	20	-	20	2
TOTAL ASSETS	63,893	(30,596)	33,297	32,871

	31. 12. 2010	31. 12. 2009
	Net amount	Net amount
CZK million		
LIABILITIES AND EQUITY		
A. Equity	26,407	25,819
A. I. Share capital	520	520
A. I. 1. Share capital	520	520
A. II. Capital contributions	5,352	5,352
A. II. 1. Share premium	5,344	5,344
2. Other capital contributions	8	8
A. III. Reserve fund, non-distributable reserves and other reserves	104	104
A. III. 1. Statutory reserve fund	104	104
A. IV. Retained earnings	11,898	10,740
A. IV. 1. Retained earnings	11,898	10,740
A. V. Profit for the current period	8,533	9,103
B. Liabilities	5,841	6,056
B. I. Provisions	574	1,371
B. I. 1. Income tax provision	93	853
2. Other provisions	481	518
B. II. Long-term liabilities	80	158
B. II. 1. Trade payables	-	5
2. Long-term advances received	6	2
3. Deferred tax liability	74	151
B. III. Short-term liabilities	5,164	4,455
B. III. 1. Trade payables	2,214	1,487
2. Liabilities to members of associations	17	18
3. Liabilities to employees	105	94
4. Liabilities for social security and health insurance	57	49
5. Taxes and state subsidies payable	22	29
6. Short-term advances received	127	135
7. Estimated payables	2,578	2,610
8. Other payables	44	33
B. IV. Bank loans and overdrafts	23	72
B. IV. 1. Short-term bank loans and overdrafts	23	72
C. Accruals and deferred income	1,049	996
C. I. 1. Deferred income	1,049	996
TOTAL LIABILITIES AND EQUITY	33,297	32,871

Income Statement

			For the year ended 31 December	
			2010	2009
CZK million				
I.	Sales of goods		613	629
A.	Cost of goods sold		1,496	1,600
+	Gross profit		(883)	(971)
II.	Sales of production		28,207	29,788
II.	1. Sales of own products and services		28,049	29,646
	2. Own work capitalised		158	142
B.	Cost of sales		11,876	12,661
B.	1. Consumption of material and energy		461	605
	2. Services		11,415	12,056
+	Added value		15,448	16,156
C.	Staff costs		2,549	2,304
C.	1. Wages and salaries		1,832	1,679
	2. Emoluments of board members		2	2
	3. Social security and health insurance costs		636	542
	4. Other social costs		79	81
D.	Taxes and charges		316	299
E.	Depreciation and amortisation of fixed assets		3,132	4,827
III.	Sale of fixed assets and raw materials		50	41
III.	1. Sale of fixed assets		50	41
F.	Net book value of fixed assets and raw materials sold		50	25
F.	1. Net book value of fixed assets sold		14	20
	2. Net book value of raw materials sold		36	5
G.	Change in operating provisions		653	(1,988)
IV.	Other operating income		2,147	2,220
H.	Other operating charges		417	1,610
*	Operating result		10,528	11,340
VIII.	Income from short-term investments		9	23
IX.	Gain on revaluation of securities and derivatives		15	57
L.	Loss on revaluation of securities and derivatives		154	134
X.	Interest income		164	284
N.	Interest expense		1	1
XI.	Other financial income		180	192
O.	Other financial expense		147	201
*	Financial result		66	220
Q.	Tax on profit on ordinary activities		2,061	2,457
Q.	1. – current		2,139	2,283
	2. – deferred		(78)	174
**	Profit on ordinary activities after taxation		8,533	9,103
***	Net profit for the financial period		8,533	9,103
****	Net profit before tax		10,594	11,560

Cash Flow Statement

	2010	2009
CZK million		
Cash flows from operating activities		
Net profit before tax	10,594	11,560
A.1. Adjustments for non-cash movements:		
A.1.1. Depreciation and amortisation of fixed assets	3,132	4,827
A.1.2. Change in provisions	653	(1,988)
A.1.3. Profit from disposal of fixed assets	(36)	(21)
A.1.4. Net interest income and income from short-term investments	(163)	(283)
A.1.5. Other non-cash movements	320	301
A* Net cash flow from operating activities before tax and changes in working capital	14,500	14,396
A.2. Working capital changes:		
A.2.1. Change in receivables and prepayments	(400)	(323)
A.2.2. Change in short-term payables and accruals	10	(180)
A.2.3. Change in inventories	(234)	141
A.2.4. Change in short-term investments	1,000	3,409
A** Net cash flow from operating activities before tax	14,876	17,443
A.3. Interest paid	(1)	(1)
A.4. Interest received	164	284
A.5. Income tax on ordinary activities paid	(2,899)	(1,824)
A*** Net cash flow from operating activities	12,140	15,902
Cash flows from investing activities		
B.1. Acquisition of fixed assets	(2,951)	(2,586)
B.2. Purchase of part of business	-	(440)
B.3. Proceeds from reduction of purchase price of part of business	53	-
B.4. Proceeds from the sale of fixed assets	47	36
B.5. Loans to related parties	1,100	(6,460)
B*** Net cash flow from investing activities	(1,751)	(9,450)
Cash flows from financing activities		
C.1. Dividends paid	(7,945)	(7,477)
C*** Net cash flow from financing activities	(7,945)	(7,477)
Net increase / (decrease) in cash and cash equivalents	2,444	(1,025)
Cash and cash equivalents as at the beginning of the year	559	1,584
Cash and cash equivalents as at the end of the year	3,003	559

Notes to Financial Statement 2010

Company name:	T-Mobile Czech Republic a.s.
Registered office:	Tomíčková 2144/1, Praha 4, 149 00
Legal form:	Joint-stock company
Company registration number:	64949681
Registered with the Commercial Register:	Municipal Court in Prague, Section B, Entry 3787

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1 General Information

1.1 Establishment and Details of the Company

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

The Company is an integrated operator providing both mobile and fixed services.

The Company operates a public mobile communication network and provides mobile communication services under the terms and conditions stated in the licence issued by the Czech Telecommunication Office ("CTO") on 29 August 2005 under reference number 310. The licence authorises the Company to undertake the business in electronic communications, to carry out communication activities that include the establishment and provision of a public mobile communication network and provision of electronic communication services.

The Company is authorised to establish and operate a public fixed electronic communication network and provide public electronic communication services within the public fixed electronic communication network in accordance with a permission issued by CTO on 16 November 2007 under the reference number 310/1.

The financial statements have been prepared as at 31 December 2010. The accounting period is represented by the calendar year from 1 January 2010 to 31 December 2010.

As at 31 December 2010, the Company is organised into the following six divisions – Managing Director division, Marketing division, Finance division, Sales and Customer Support division, Technology division and Human Resources division.

1.2 Structure of the Company's Ownership

As at 31 December 2010 and 31 December 2009, the ownership structure of the Company was as follows:

Shareholder	No. of shares (thousands)	Paid in share capital	
		CZK million	%
CMobil B.V.	316	316	60.77
TMCZ Holdco II (Lux) S.à.r.l.	204	204	39.23
Total	520	520	100.00

The ownership rights in the Company are governed by the terms of the Shareholders Agreement between CMobil B.V. and ČESKÉ RADIOKOMUNIKACE a.s. TMCZ Holdco II (Lux) S.à.r.l. (formerly CESKE RADIOKOMUNIKACE S.à.r.l.) assumed the rights and obligations established by the Shareholders Agreement based on an agreement referred to as Adherence Agreement dated 13 November 2006.

The ultimate parent company of T-Mobile Czech Republic a.s. during the accounting periods ended 31 December 2010 and 31 December 2009 was Deutsche Telekom AG ("DTAG") which controls CMobil B.V. via T-Mobile Global Holding Nr. 2 GmbH.

1.3 Licences and Trademarks

As at 31 December 2010, the Company had the right to use the following frequency bands:

- Allocation of frequency bands for provision of public mobile network of electronic communication under the GSM standard in the 900 MHz and 1800 MHz frequency bands for the period of 20 years (expires in 2024);
- Allocation of frequency bands for provision of public mobile network of electronic communication under the UMTS standard in the 2.1 GHz and 28 GHz frequency bands for the period of 20 years (expires in 2024);
- Allocation of frequency bands for provision of public mobile network of electronic communication in the 872 MHz frequency band for the period of 10 years (expires in 2015).

Note: The financial statements have been prepared in the Czech language and in English. In all matters of interpretation of information, views or opinions, the Czech version of the financial statements takes precedence over the English version.

The allocations of the frequency bands are referred to in these financial statements as “licences”.

The Company owns 69 registered trademarks and has duly submitted applications for the registration of 2 additional trademarks in the Industrial Property Office Register of the Czech Republic, out of which 1 is in the process of publication.

Based on a sub-licence agreement between the Company and Deutsche Telekom AG (legal successor of T-Mobile International AG), the Company is also entitled to use certain trademarks registered by DTAG in the Czech Republic.

1.4 Statutory and Supervisory Bodies

The members of the Board of Directors as at 31 December 2010 were as follows:

Roland Mahler	Chairman
Terrence Edward Valeski	Vice-Chairman
Craig Nimrod Butcher	Member
Robert Hauber	Member
Otakar Král	Member
Albert Pott	Member
Kerim Turkmen	Member

The members of the Board of Directors as at 31 December 2009 were as follows:

Philipp Humm	Chairman
Terrence Edward Valeski	Vice-Chairman
Craig Nimrod Butcher	Member
Robert Hauber	Member
Roland Mahler	Member
Otakar Král	Member
Kerim Turkmen	Member

The members of the Supervisory Board as at 31 December 2010 were as follows:

Cornelia Elisabeth Sonntag	Chairwoman
Robert Chmelař	Vice-Chairman
Monika Vobořilová	Member
Martina Kemrová	Member
Antonius Joseph Zijlstra	Member
Hans-Peter Schultz	Member

The members of the Supervisory Board as at 31 December 2009 were as follows:

Frank Stoffer	Chairman
Robert Chmelař	Member
Monika Vobořilová	Member
Martina Kemrová	Member
Holger Quade	Member
Antonius Joseph Zijlstra	Member

2 Accounting Policies and General Accounting Principles

2.1 Basis of Preparation

The financial statements have been prepared in accordance with Generally Accepted Accounting Principles in the Czech Republic and have been prepared under the historical cost convention. Derivates are shown at fair value.

All amounts in the financial statements are expressed in millions of Czech crowns (CZK million).

2.2 Valuation Methods

2.2.1 Tangible and Intangible Fixed Assets

Tangible and intangible fixed assets except for land are recorded at acquisition cost less accumulated depreciation and provisions for impairment. The acquisition cost comprises the purchase price, transportation costs, customs, installation costs and other relevant costs.

Intangible assets comprise especially the following:

i) UMTS licence

The UMTS licence represents the right to operate mobile communication networks in the Czech Republic under the UMTS standard. The licence is recorded at cost less accumulated amortisation. The licence was put into commercial use in October 2005. The licence is being amortised over its useful life using the straight-line method. The useful life of the licence is considered to be the period from the start of its commercial use, through to the licence expiration date in 2024.

ii) GSM licence

The GSM licence which represents the right to provide communication services in the Czech Republic and to establish and operate GSM communication equipment is recorded at cost less accumulated amortisation. The licence is being amortised over its useful life using the straight-line method. The useful life of the licence is considered to be the period from the start of its commercial use, through to the licence expiration date in 2024.

iii) Software

Capitalised software costs include the licence fees for the use of software and costs of consulting services related to software implementation. Software costs are amortised over the expected period of the benefit of the cost, which is two years, three years or over the length of the contract. Costs of consulting services, which are incurred after the relevant subsystem of the software is put into routine operation and as such do not fulfil the criteria for capitalisation, are charged to the income statement as incurred.

Development costs are generally expensed when incurred. Such costs are capitalised only if they are internally generated for trade purposes or if they are acquired from other parties. Development costs are amortised using the straight-line method over the period of their expected commercial use, not exceeding five years. The Company does not perform research activities.

Repairs and maintenance expenditures relating to tangible and intangible fixed assets are charged to the income statement as incurred. Provisions are created in accordance with Act on Reserves for costs of necessary repairs, which are expected to be incurred in future periods, as estimated by the management.

Technical improvement of tangible fixed assets and intangible fixed assets exceeding CZK 40 thousand per year is, in case of tangible fixed assets or each completed technical improvement in case of intangible fixed assets, capitalised. Technical improvement below the stated amount is charged directly to the income statement.

2.2.2 Financial Investments

The Company classifies securities and investments, other than investments in subsidiaries and associated undertakings, in the following categories: trading, available-for-sale or held-to-maturity.

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

2.2.3 Inventories

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

All disposals of purchased inventories are valued using the weighted-average cost method.

2.3 Purchase of Part of Business and Goodwill

Assets and liabilities acquired as part of purchase of part of a business are recorded at re-valued amounts in the Company's financial statements. Goodwill arising upon acquisition of part of a business represents the difference between the valuation of the enterprise acquired, in accordance with the Commercial Code, and the total of individually re-valued assets and liabilities acquired. Goodwill is amortized on a straight-line basis over the period of 60 months from the acquisition date. Negative goodwill is credited to income statement on a straight-line basis over the period of 60 months from the acquisition date. If the purchase price of part of a business subsequently changes, the amount of positive or negative goodwill will be adjusted, the time of amortization remains without changes.

2.4 Depreciation Method

The Company's tangible and intangible fixed assets are depreciated applying the straight-line method with annual depreciation rates based on estimated useful lives of the assets. Depreciation commences in the month when all statutory and technical requirements are met, consistent with Czech legislation. Depreciation of intangible fixed assets for tax purposes commences in the following month.

Estimated useful lives for the main asset categories are as follows:

Asset group (years)	Useful life
Development costs	2-5
Software	2-3
Valuable rights – licences	8-20 years or in accordance with the licence expiration date
Buildings, construction and leasehold improvements	10-50 years or in accordance with the lease period
Operating equipment:	
Network technology equipment (GSM, UMTS)	3-10
Transport vehicles, hardware and office equipment	3-13

The Company does not depreciate land.

Tax depreciation is calculated using the straight-line depreciation method with the exception of GSM/UMTS equipment, which for tax purposes is depreciated using the accelerated depreciation method.

Depreciation plan is being updated during useful life of intangible fixed assets based on expected useful life and expected residual value of assets.

2.5 Method of Determining Provisions for Assets and Liabilities

2.5.1 Provisions for Assets

Provisions for impairment of tangible and intangible fixed assets

If the carrying value of an asset exceeds its estimated recoverable amount, a provision for impairment is created, so that the carrying value reflects the realisable value of the asset.

Provisions for receivables

The Company creates a provision for receivables based on the ageing of receivables and information about the current payment discipline of customers and dealers. The provision is calculated as a percentage of the nominal value of receivables, ranging from 2% to 100% (as at 31 December 2009: from 3% to 90.4%). Overdue debts from customers are offset against deposits obtained from them at the beginning of the contract period. A provision is not created for group receivables.

Provisions for inventories

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

2.5.2 Provisions for Liabilities

The Company recognises provisions relating to probable future obligations that are likely to require settlement in cash, when the purpose of the obligations is known but the precise amount, or the time when the obligation will crystallize, is not known. The Company takes into account all the predictable risks and possible losses when recognising provisions.

The Company recognised an asset retirement obligation, which represents the costs of restoring leased sites in accordance with the terms and conditions of the lease contracts. The provision reflecting this obligation is created on a straight-line basis during the expected period of use of the leased sites. If the obligation is settled for anything other than the carrying amount of the liability, a gain or loss on the settlement is recognised in the income statement.

2.6 Revenue Recognition

Voice revenues constitute the principal part of total revenues, consisting primarily of domestic and foreign (roaming) airtime revenues and interconnection revenues from termination of traffic originating from the networks of other operators.

Interconnection revenues are recognised based on valid agreements.

Monthly subscription fees, revenues from non-voice services such as SMS, data transmissions and MMS and revenues from the sale of handsets and accessories represent another significant revenue stream.

Revenues from post-paid customers are recognised on the basis of airtime used and are recorded in monthly billing cycles.

Revenues from the sale of pre-paid cards are deferred and based on operational data are recognised at the moment when the customer uses the pre-paid credit.

The activation fee included in both pre-paid and post-paid package revenues is recognised in the period when the card is activated by the customer.

Revenues from the sale of handsets and accessories are recognised at the time of the customer's or independent dealer's purchase.

Interest income is recorded on an accrual and deferral basis using the effective interest method.

2.7 Foreign Currency Translation

Foreign currency transactions are translated and recorded at the exchange rate published by the Czech National Bank as at the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies using the exchange rate published by the Czech National Bank as at the balance sheet date are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

2.8 Deferred Taxation

Deferred tax is recognised on all temporary differences between the carrying amount of an asset or liability in the balance sheet and its tax base, using the statutory tax rates that are expected to apply when the related deferred tax asset is realised or the related deferred tax liability is settled. Deferred income tax charged or credited to the income statement is measured as the change in the net deferred income tax asset or liability during the year except when the deferred income tax relates to temporary differences from items credited or charged directly to equity. The principal temporary differences arise from tax and accounting depreciation on fixed assets, changes in tax non-deductible adjustments and non-taxable provisions and revaluation of other assets and liabilities. A deferred income tax asset is recognised to the extent that it is probable that taxable profit will be available, against which deductible temporary differences can be utilised.

2.9 Financial Risk Management

Financial risk management principles

The Company's activities expose it to a variety of financial risks, primarily currency risk, interest rate risk and price risk influencing the Company's assets, liabilities and planned transactions. The Company's overall risk management strategy focuses on the unpredictability of financial markets. The Company seeks to minimise potentially adverse effects on the Company's financial performance through its operating and financial procedures. Based on its risk assessment, the Company uses selected derivative and non-derivative hedging instruments to manage exposures. The derivatives are used solely for hedging purposes, not for trading or speculating. In order to manage credit risk, hedging transactions are generally entered into with institutions that meet the requirements of the Company's hedging strategy for required rating.

Financial risk management procedures are carried out by the Company's Treasury Department under policies and directions set by the Board of Directors of the Company, except for credit risks arising from sales activities which are managed by the Credit Risk Department.

Market risk

a) Currency risk

The Company operates internationally and is exposed to currency risk, primarily with respect to EUR. Currency risk arises from future commercial transactions, assets and liabilities denominated in foreign currencies.

The Company uses financial instruments, primarily currency forward contracts, in its management of the currency risk associated with its foreign currency denominated sales and purchases.

b) Interest rate risk

The Company invests in financial assets with short term maturity and fixed interest rate. Such instruments are not exposed to the risk of interest rate fluctuation. Therefore the Company does not actively manage the interest rate risk.

Credit risk

Since 2008, the Company has invested part of its financial assets into short-term loans to the parent company DTAG.

The counterparties for financial transactions settled in cash are limited to high credit quality financial institutions as defined in the policies and directions set in investment strategy approved by the General meeting of the Company. The Company carries out financial transactions with financial institutions with a credit rating from an independent global rating agency at the level of at least BBB+ / Baa1. If the counterparty does not have a rating from a global rating agency the credit quality is assured by other conventional methods or assessed in the context of credit risk management on the DTAG level.

The Company manages the credit risk associated with its trading operations by using various instruments such as insurance, bank guarantees, credit limits, differentiated debt collecting process, etc.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The aim of the Treasury Department is to maintain flexibility in funding by maintaining availability under these committed facilities.

The Company maintains a liquidity reserve in the form of a bank overdraft and flexible credit line (refer to Note 3.9 Bank Loans and Overdrafts) to support its ability to meet its liabilities and to provide financial flexibility. Historically, the Company generated sufficient cash to ensure its solvency and financial flexibility. The Company does not consider itself significantly exposed to liquidity risk.

Fair value estimation of financial instruments

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, trading and available-for-sale securities) is based on quoted market prices as at the balance sheet date. If the market price is not available for the financial asset or liability the Company determines its fair value by using estimated discounted cash flows. The discount rate used is an interest rate quoted for similar instruments with similar credit risk and maturity.

Accounting for derivate financial instruments and hedging activities

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

Certain derivatives embedded in other financial instruments are treated as separate derivatives when the risks and characteristics are not closely related to those of the host contract and the host contract is not carried at fair value, with changes in fair value being recorded in the income statement.

The Company uses currency forward contracts to hedge estimated cash flows and the fair value of existing balance sheet items. Beginning 1 January 2004, the Company introduced hedge accounting under the existing legal provisions, which resulted in the change of fair value of certain derivatives being classified within the "Assets and liabilities revaluation". Fair value of the derivatives is released into the income statement in the same period as the underlying item. All transactions below the equivalent of EUR 15 million (CZK 376 million) are recognised as trade derivatives with changes in fair value being recorded in the income statement.

2.10 Finance and Operating Leases

The costs of assets held under both finance and operating leases are recorded as expenses evenly over the life of the lease. Amounts payable in future periods but not yet due are disclosed in the notes but not recognised in the balance sheet.

2.11 Cash Flow Statement

The Company has prepared a cash flow statement following the indirect method. Cash equivalents represent bank account balances, bank deposits and their securitised equivalents, and overdrafts. For reconciliation of short-term financial assets and cash equivalents, refer to Note 3.4 Short-term Financial Assets.

2.12 Subsequent Events

The effects of events which occurred between the balance sheet date and the date of signing the financial statements are recognised in the financial statements in the case that these events provide further evidence of conditions that existed as at the balance sheet date.

Where significant events occur subsequent to the balance sheet date but prior to the signing of the financial statements, which are indicative of conditions that arose subsequent to the balance sheet date, the effects of these events are disclosed, but are not themselves recognised in the financial statements.

3 Additional Information on the Balance Sheet and the Income Statement

3.1 Fixed Assets

3.1.1 Intangible Fixed Assets

Cost	Goodwill	Software	Valuable rights	Other - GSM, UMTS and other licences	Intangible intangible fixed assets	Total fixed assets in the course of construction and advances paid
CZK million						
1.1.2009	-	5,224	4,887	300	430	10,841
Transfers	-	607	141	4	(745)	7
Additions	-	-	-	-	637	637
Purchase of part of business	164	11	-	22	-	197
Disposals	-	(246)	-	(131)	(13)	(390)
31.12.2009	164	5,596	5,028	195	309	11,292
Transfers	-	585	117	-	(640)	62
Additions	-	-	-	-	792	792
Disposals	-	(1,431)	-	(4)	(14)	(1,449)
31.12.2010	164	4,750	5,145	191	447	10,697

Accumulated amortisation/ provisions	Goodwill	Software	Valuable rights	Other - GSM, UMTS and other licences	Intangible intangible fixed assets	Total fixed assets in the course of construction and
CZK million						
1.1.2009	-	4,829	1,211	285	-	6,325
Additions	3	529	254	11	-	797
Disposals	-	(245)	-	(131)	-	(376)
31.12.2009	3	5,113	1,465	165	-	6,746
Additions	33	533	275	14	-	855
Disposals	-	(1,431)	-	(4)	-	(1,435)
31.12.2010	36	4,215	1,740	175	-	6,166

Net book value	Goodwill	Software	Valuable rights	Other - GSM, UMTS and other licences	Intangible intangible fixed assets	Total fixed assets in the course of construction and
CZK million						
31.12.2009	161	483	3,563	30	309	4,546
31.12.2010	128	535	3,405	16	447	4,531

3.1.2 Tangible Fixed Assets

Cost	Buildings, constructions and land	Equipment and other tangible fixed assets	Tangible fixed assets in the course of construction and advances paid	Total
CZK million				
1.1.2009	8,563	28,370	1,768	38,701
Transfers	332	1,792	(2,130)	(6)
Additions	-	-	2,206	2,206
Purchase of part of business	-	141	-	141
Disposals	(45)	(4,307)	(26)	(4,378)
31.12.2009	8,850	25,996	1,818	36,664
Transfers	523	2,210	(2,795)	(62)
Additions	-	-	2,931	2,931
Disposals	(29)	(7,529)	(26)	(7,584)
31.12.2010	9,344	20,677	1,928	31,949

Accumulated depreciation/provisions	Buildings, constructions and land	Equipment and other tangible fixed assets	Tangible fixed assets in the course of construction and advances paid	Total
CZK million				
1.1.2009	3,303	22,105	40	25,448
Transfers	(1)	1	-	-
Additions	569	3,470	7	4,046
Disposals	(45)	(4,306)	-	(4,351)
Provisions	-	-	2	2
31.12.2009	3,826	21,270	49	25,145
Additions	576	1,701	-	2,277
Disposals	(29)	(7,526)	-	(7,555)
Provisions	-	-	(16)	(16)
31.12.2010	4,373	15,445	33	19,851

Net book value	Buildings, constructions and land	Equipment and other tangible fixed assets	Tangible fixed assets in the course of construction and advances paid	Total
CZK million				
31.12.2009	5,024	4,726	1,769	11,519
31.12.2010	4,971	5,232	1,895	12,098

3.1.3 Finance Leases

A summary of future payments relating to finance lease contracts for cars as at 31 December 2010 and 31 December 2009 is as follows:

	Total number of concluded contracts	Maturity		
		Up to 1 year	Over 1 year	Total
(CZK million)				
31.12.2009	137	15	-	15
31.12.2010	-	-	-	-

In 2010, finance lease payments totalled CZK 15 million (in 2009: CZK 39 million). All finance lease contracts for cars were terminated in 2010.

3.2 Inventories

	31.12.2010	31.12.2009
CZK million		
Handsets and accessories	443	249
Technology inventories	198	183
Satellite TV devices and accessories	24	-
Other inventories	6	6
Total inventories - gross	671	438
Provision for inventories	(60)	(90)
Total inventories - net	611	348

The change in the provision for obsolete and slow-moving inventory can be analysed as follows:

	2010	2009
CZK million		
Opening balance as at 1 January	90	115
Creation of the provision	26	8
Release / utilisation of the provision	(56)	(33)
Closing balance as at 31 December	60	90

3.3 Receivables

3.3.1 Short-term Receivables

	31.12.2010	31.12.2009
CZK million		
Trade receivables		
– current and overdue less than 180 days	2,089	2,375
– overdue more than 180 days	4,015	3,484
Total trade receivables – gross	6,104	5,859
Provision for receivables	(4,519)	(3,784)
Total trade receivables – net	1,585	2,075

As at 31 December 2010 the overdue receivables were CZK 4,937 million (31 December 2009: CZK 4,514 million).

Trade receivables comprise mainly receivables from the communication network users, receivables from other communication services providers, receivables from partners for the electronic recharging of Twist prepaid cards and receivables from independent dealers.

Overdue receivables relate primarily to overdue receivables from customers of electronic communication services.

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

	2010	2009
CZK million		
Opening balance as at 1 January	3,784	3,411
Creation of the provision	2,542	2,136
Release / utilisation of the provision	(1,807)	(1,763)
Closing balance as at 31 December	4,519	3,784

Estimated receivables mainly represent services of the communication network provided to customers of the Company that were not invoiced as at the balance sheet date, uninvoiced interconnection fees and uninvoiced services provided to roaming partners.

3.3.2 Long-term Receivables

Long-term receivables consist primarily of advances for rent and receivables for fixed assets sold which are offset against liabilities for services received.

3.4 Short-term Financial Assets

Short-term financial assets can be analysed as follows:

	31.12.2010	31.12.2009
CZK million		
Cash in hand, cash in transit and cash at bank	2,826	219
Short-term investments	200	1,412
Total short-term financial assets	3,026	1,631
Bank overdrafts	(23)	(72)
Mortgage-backed securities	–	(1,000)
Total cash and cash equivalents	3,003	559

3.5 Accruals and Deferrals

3.5.1 Prepaid Expenses

As at 31 December 2010 prepaid expenses include primarily costs related to the lease of office space and buildings needed for the installation of communication technologies paid in advance. These costs are recorded as expenses on an accrual basis. Their total value as at 31 December 2010 was CZK 97 million (31 December 2009: CZK 47 million).

3.6 Equity

Movements in the Company's equity:

	Registered capital	Share premium	Other capital contributions	Statutory reserve fund	Retained earnings	Profit for the current period	Total
CZK million							
1.1.2009	520	5,344	8	104	9,176	9,041	24,193
Dividends paid	-	-	-	-	-	(7,477)	(7,477)
Transfer	-	-	-	-	1,564	(1,564)	-
Net profit for the period	-	-	-	-	-	9,103	9,103
31.12.2009	520	5,344	8	104	10,740	9,103	25,819
Dividends paid	-	-	-	-	-	(7,945)	(7,945)
Transfer	-	-	-	-	1,158	(1,158)	-
Net profit for the period	-	-	-	-	-	8,533	8,533
31.12.2010	520	5,344	8	104	11,898	8,533	26,407

3.6.1 Share Capital and Capital Contributions

The Company's shares have a nominal value of CZK 1,000 each and are book-entered, registered and not publicly traded. Approved and subscribed share capital is fully paid off. All shares have equal voting rights. As at 31 December 2010 and 31 December 2009, the registered capital was represented by 520 thousand shares.

The share premium of CZK 5,344 million was settled by the Company's shareholders under the Joint Venture Agreement of the joint-stock company between ČESKÉ RADIOKOMUNIKACE a.s.* and CMobil B.V., dated 25 March 1996, and the Agreement between the Ministry of Economy of the Czech Republic (currently the Ministry of Industry and Trade), CMobil B.V. and ČESKÉ RADIOKOMUNIKACE a.s.*, dated 25 March 1996. The valuable right to provide communication services under the GSM standard forms a part of the share premium.

The statutory reserve fund comprises funds that the Company is required to retain according to the current legislation. Use of the statutory reserve fund is limited by legislation and Statutes of the Company. The statutory reserve fund may not be distributed to shareholders.

3.6.2 Dividends

Based on the resolution of the General meeting held on 31 May 2010, the Company distributed part of its retained earnings to the shareholders as a dividend in the aggregate amount of CZK 7,945 million (CMobil B.V.: CZK 4,828 million, TMCZ Holdco II (Lux) S.à.r.l.: CZK 3,117 million).

During 2009, the Company distributed to the shareholders a dividend in the aggregate amount of CZK 7,477 million (CMobil B.V.: CZK 4,544 million, TMCZ Holdco II (Lux) S.à.r.l.: CZK 2,933 million).

* Currently TMCZ Holdco II (Lux) S.à.r.l. (previously CESKE RADIOKOMUNIKACE S.à.r.l.)

3.7 Provisions

	Provision for income tax payable	Other provisions	Total
CZK million			
1.1.2009	394	2,862	3,256
Charge for the year	853	601	1,454
Released / used in the year	(394)	(2,945)	(3,339)
31.12.2009	853	518	1,371
Charge for the year	93	304	397
Released / used in the year	(853)	(341)	(1,194)
31.12.2010	93	481	574

As at 31 December 2010, the Company recorded a provision of CZK 210 million for estimated future costs related to the T-Mobile bonus program for allocated loyalty points unused as at year-end (31 December 2009: CZK 287 million).

The provision for Asset Retirement Obligation based on lease contract conditions amounted to CZK 206 million as at 31 December 2010 (31 December 2009: CZK 187 million).

In April 2009, the Company reached out-of-court settlement of the dispute with Telefónica O2 Czech Republic, a.s. relating to interconnection charges. Consequently, the Company released the provision of CZK 2,003 million created in 2008. In accordance with the settlement agreement, the Company retained the amount of CZK 950 million. The remaining part of the disputed amount (CZK 1,053 million) was paid to Telefónica O2 Czech Republic, a.s. and recognized within Other operating charges (refer to Note 3.14.2 Operating Revenues and Expenses).

3.8 Short-term Liabilities

Trade payables

	31.12.2010	31.12.2009
CZK million		
Trade payables		
- domestic payables	2,120	1,410
- foreign payables	94	77
Total trade payables	2,214	1,487

Aforementioned liabilities were neither pledged, nor were due in more than 5 years.

As at 31 December 2010, the amount of overdue payables was CZK 98 million (31 December 2009: CZK 128 million).

Overdue payables did not include liabilities for social insurance or contributions to the state employment policy, nor did they include liabilities for health insurance.

Liabilities to members of associations represent advances received from members of the associations which were established for the purpose of building up telecommunications infrastructure. Liabilities to the members of associations as at 31 December 2010 amounted to CZK 17 million (31 December 2009: CZK 18 million).

Estimated payables

Estimated payables include the cost of goods and services that were received during the year, but for which no invoice was received as at the balance sheet date.

Overview of estimated payables by category as at 31 December 2010 and 31 December 2009:

	31.12.2010	31.12.2009
CZK million		
Estimated liability for interconnection costs	462	629
Estimated liability for operational expenditure	1,256	1,403
Estimated liability for capital expenditure	509	239
Estimated liability for staff costs	351	339
Total estimated payables	2,578	2,610

Other payables

Other short-term payables had the following balances as at 31 December 2010 and 31 December 2009:

	31.12.2010	31.12.2009
CZK million		
Currency forward contracts	34	24
Other short-term payables	10	9
Total other payables	44	33

3.9 Bank Loans and Overdrafts

The total limit of bank overdrafts and flexible credit lines available to the Company is EUR 3 million (CZK 75 million) and CZK 600 million, respectively.

As at 31 December 2010, the Company drew overdrafts amounting to CZK 23 million (31 December 2009: CZK 13 million and EUR 2 million).

3.10 Financial Instruments

The Company manages its currency and interest rate risks in accordance with the hedging strategy of the Company, as approved by the General meeting (refer to Note 2.9 Financial Risk Management).

Forward contracts

As at the end of 2010, the Company had open currency forward contracts with a total nominal value of CZK 2,226 million (31 December 2009: CZK 1,847 million). These transactions focus on managing currency risks associated with the settlement of the Company's liabilities resulting from the customer-supplier relations and denominated in EUR. All currency forward contracts as at 31 December 2010 were initiated during 2010 with maturity by the end of 2011. During 2010, currency forward contracts in a total nominal value of CZK 4,664 million were settled (in 2009: CZK 4,159 million).

Open currency forward contracts	31.12.2010	31.12.2009
CZK million		
Open currency forward contracts hedging other foreign currency liabilities:		
Positive fair value	8	28
Negative fair value	(34)	(24)
Total fair value of forward contracts	(26)	4

3.11 Accruals and Deferred Income

3.11.1 Deferred Income

Deferred income includes deferred airtime revenue related to Twist prepaid services and credit tariffs.

3.12 Commitments and Contingencies

Tax authorities are authorised to inspect books and records at any time within 3 years subsequent to the deadline for filing a tax return for reported tax year, and consequently may impose additional income tax and penalties. The Company's management are not aware of any circumstances which may in the future give rise to a potential material liability in this respect.

On 31 May 2004, Vodafone Czech Republic a.s. (Český Mobil a.s. in the decisive period) filed a claim with the Municipal Court in Prague against the Company for compensation of damages in the total amount of CZK 615 million including claim attribution. Vodafone Czech Republic a.s. insists that the Company abused its dominant position on the market to the detriment of Vodafone Czech Republic a.s. The first instance decision has not been made yet. The management of the Company concluded that there are no risks arising from the case that should be recognised in the financial statements of the Company.

The Company's future capital commitments to major technology suppliers as at 31 December 2010 and 31 December 2009 are as follows:

	31.12.2010	31.12.2009
CZK million		
Up to 1 year	1,840	2,561
1 – 3 years	1,219	1,415
3 – 5 years	53	830
Over 5 years	386	936
Total	3,498	5,742

The future minimum lease payments under non-cancellable operating leases arising from the lease of microwave connections, optical fibres, communication base stations, other buildings and offices are as follows:

	31.12.2010	31.12.2009
CZK million		
Up to 1 year	564	440
1 – 3 years	658	585
3 – 5 years	644	570
Over 5 years	2,587	2,157
Total	4,453	3,752

In 2010, the Company commenced to lease optical fibre routes through operating leases. Minimum lease payment commitments under non-cancellable operating leases arising from the lease of optical fibres are represented by the amount of CZK 931 million.

3.13 Guarantees

As at 31 December 2010, bank guarantees totalling CZK 77 million were issued to lessors of commercial space, real estate and issuers of public tenders at the Company's request (31 December 2009: CZK 73 million).

As at 31 December 2010, the Company's liabilities from import duties were covered by bank guarantees totalling CZK 50 million (31 December 2009: CZK 50 million).

3.14 Revenues and Expenses from Operating Activities

3.14.1 Operating Revenues according to Main Activities

	2010	2009
CZK million		
Sales of handsets and accessories	613	629
Communication network services	28,049	29,646
Total	28,662	30,275

3.14.2 Operating Revenues and Expenses

	2010	2009
CZK million		
Operating revenues	28,662	30,275
Other revenues	2,355	2,403
Total revenues	31,017	32,678
Cost of goods sold	1,496	1,600
Consumption of material and energy	461	605
Services	11,415	12,056
Staff costs	2,549	2,304
Depreciation of intangible and tangible fixed assets	3,132	4,827
Other operating charges	1,436	(54)
Total operating expenses	20,489	21,338
Operating result	10,528	11,340

Other operating charges in 2009 include the amount of CZK 2,003 million as a result of release of provision and the amount of CZK 1,053 million related to the settlement of dispute with Telefónica O2 Czech Republic, a.s. (refer to Note 3.7 Provisions).

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

3.15 Revenues and Expenses from Financing Activities

	2010	2009
CZK million		
Revenues from financial operations and interest income	164	284
Financial revenues – other	204	272
Cost of financial operations and interest expense	(1)	(1)
Financial expenses – other	(301)	(335)
Financial result	66	220

3.16 Related Party Transactions and Balances

The following transactions are related to the shareholders and other related parties:

	2010	2009
CZK million		
České Radiokomunikace a.s.*:		
Purchase of services (leased lines, rent and other services)	374	211
Purchase of part of business	-	387
DTAG group:		
Roaming, interconnect and related purchased services	436	411
Other purchased goods and services	134	139
Expenses from cross charges of services	576	618
IT services	732	786
Purchased foreign currency at market value	1,519	534
Total purchases	3,771	3,086
České Radiokomunikace a.s.*:		
GSM and interconnection services sold	41	44
DTAG group:		
Roaming, interconnection and related sold services	319	400
Re-branding – reimbursement	-	7
Income from cross charges of services	332	305
Interest income from loan provided	156	272
Total sales	848	1,028

Related party receivables:

	31.12.2010	31.12.2009
CZK million		
České Radiokomunikace a.s.*:		
Receivables from GSM and other services	2	57
DTAG group:		
Receivables from roaming, interconnection and related sold services	189	446
Receivables and prepayments from other services and discounts	153	178
Loan provided (including interest)	8,919	10,002
Receivables from derivatives (fair value)	6	16
Total related party receivables	9,269	10,699

Related party payables:

	31.12.2010	31.12.2009
CZK million		
České Radiokomunikace a.s.*:		
Payables from leased lines and other rentals	35	31
DTAG group:		
Payables from roaming, interconnection and related purchased services	466	323
Payables from other services and discounts	235	295
Payables from derivatives (fair value)	18	3
Total related party payables	754	652

* České Radiokomunikace a.s. and TMCZ Holdco II (Lux) S.à.r.l. are under common control S.à.r.l.

The long-term loan facility with a total limit of CZK 3,823 million, provided by Deutsche Telekom International Finance B.V, and with maturity on 31 December 2011, was drawn neither at 31 December 2010 nor at 31 December 2009.

The Company provided a short-term loan to Deutsche Telekom AG in the amount of CZK 8,900 million as at 31 December 2010 (31 December 2009: CZK 10,000 million). The loan consists of six individual obligations with maturity not exceeding three months and individual interest rates determined on an arm's length basis. All obligations are denominated in CZK. Due to the high turnover of the loan, the transactions resulting from the loan are recorded on a net basis in the cash flow statement.

3.17 Taxation

3.17.1 Current Corporate Income Tax

The Company estimates the following current income tax results:

	2010	2009
CZK million		
Accounting profit before tax	10,594	11,560
Non-tax deductible costs	1,272	909
Non-taxable revenues	(860)	(3,252)
Difference between accounting and tax depreciation	350	2,059
Tax base before deductions	11,356	11,276
Gifts allowed as tax deductible	(18)	(10)
Adjusted tax base	11,338	11,266
Income tax expense	2,154	2,253
Supplementary (decrease) / increase in tax expense related to prior periods	(15)	30
Current period income tax expense	2,139	2,283
Advances paid	(2,061)	(1,400)
Income tax payable	93	853

3.17.2 Deferred Tax

	31.12.2010	31.12.2009
CZK million		
Difference between net book value and tax value of fixed assets	(1,594)	(1,851)
Difference between net book value and tax value of inventories	60	90
Difference between net book value and tax value of receivables	558	378
Other provisions	588	587
Total temporary differences	(388)	(796)
Net deferred tax liability	(74)	(151)

The net deferred income tax liability as at 31 December 2010 and as at 31 December 2009 was calculated using the corporate income tax rate 19%.

4 Employees and Management

Development of staff costs (amounts in CZK million unless stated otherwise):

	Total		Management only	
	2010	2009	2010	2009
Average number of employees	2,904	2,866	36	38
Wages and salaries	1,832	1,679	132	137
Board emoluments	2	2	-	-
Social security and health insurance costs	636	542	25	18
Other social costs	79	81	5	5
Total staff costs	2,549	2,304	162	160

The emoluments for the members of statutory bodies and the Supervisory Board for 2010 were as follows:

	Total income	Monetary income	Benefit in kind
CZK million			
Board of Directors	1	1	-
Supervisory Board	1	1	-

The emoluments for the members of statutory bodies and the Supervisory Board for 2009 were as follows:

	Total income	Monetary income	Benefit in kind
CZK million			
Board of Directors	1	1	-
Supervisory Board	1	1	-

The number of employees is based on the average recalculated number of annual full-time employees. The management classification includes executive directors and other directors of the Company.

Since 2002, the Company has been providing its employees with a contribution to supplementary pension insurance. In 2010, the total contribution provided was CZK 35 million (in 2009: CZK 31 million).

In 2010 and 2009, the Company did not provide any loans to members of statutory bodies. Company cars are made available for use by management for business and personal purposes. The total acquisition cost of cars used by the Company's management as at 31 December 2010 is CZK 17 million (31 December 2009: CZK 20 million). Since 2004, the Company has provided top management with compensation for fuel used for private purposes. In 2010, the compensation totalled CZK 2 million (in 2009: CZK 1 million).

5 Fees Paid and Payable to the Audit Company

The information on the fees of the audit company, covering the whole group, is included in the annual report of the parent company Deutsche Telekom AG.

6 Post Balance Sheet Events

After the balance sheet date, there has been a change in the ownership structure of České Radiokomunikace a.s. As a consequence of this change, České Radiokomunikace a.s. ceased to be a related party of the Company.

No other events have occurred subsequent to year-end that would have a material impact on the financial statements as at 31 December 2010.

Approval of the statutory financial statements

These financial statements have been approved by the Board of Directors of the Company for issuance on 25 March 2011.



Roland Mahler
Chairman of the Board of Directors