Financial statements for 2005 according to IFRS

T-Mobile

T-Mobile Czech Republic a.s. financial statements for 2005 according to IFRS

Contents

PRICEWATERHOUSECOOPERS

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

REPORT OF INDEPENDENT AUDITORS

TO THE SHAREHOLDERS OF T-MOBILE CZECH REPUBLIC A.S.

We have audited the accompanying balance sheet of T-Mobile Czech Republic a.s. ("the Company") as at 31 December 2005, the related statements of income, changes in equity and cash flows for the year then ended ("the financial statements"). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2005, and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

19 April 2006

PricewaterhouseCoopers Audit, s.r.o.

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

Balance sheet

CZK'000	Notes	31 December 2005	31 December 2004
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	5,845,189	439,136
Trade and other receivables	5	3,351,825	2,990,438
Other financial assets	6	2,298,666	–
Inventories	7	317,331	299,316
Prepaid expenses		194,795	190,499
Total current assets		**12,007,806**	**3,919,389**
NON-CURRENT ASSETS			
Property and equipment	8	18,527,921	20,784,738
Intangible assets	10	6,025,733	6,169,691
Other assets		8,267	7,303
Total non-current assets		**24,561,921**	**26,961,732**
TOTAL ASSETS		36,569,727	30,881,121
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	11	4,873,865	3,506,076
Interest bearing liabilities	12	73,025	62,492
Provisions	14	832,729	685,323
Income tax liability		849,056	1,316,589
Deferred income	15	1,040,334	1,101,532
Total current liabilities		**7,669,009**	**6,672,012**
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	12	52,714	51,832
Other liabilities	13	258,965	220,317
Provisions	14	463,492	438,199
Deferred income tax liabilities	16	1,691,739	1,886,310
Total non-current liabilities		**2,466,910**	**2,596,658**
TOTAL LIABILITIES		**10,135,919**	**9,268,670**
EQUITY			
Share capital	19	520,000	520,000
Share premium	19	5,344,110	5,344,110
Statutory reserve fund	19	104,000	104,000
Hedging reserve		(7,141)	(10,788)
Retained earnings		20,472,839	15,655,129
Total equity		**26,433,808**	**21,612,451**
TOTAL LIABILITIES AND EQUITY		36,569,727	30,881,121

The financial statements on pages 5 to 21 have been approved by the Board of Directors of T-Mobile Czech Republic a.s. for issue on 19 April 2006.

Income statement

CZK'000	Notes	2005	2004
Revenue	20	**27,957,875**	**26,390,630**
Other operating income		707,231	849,384
Cost of goods and services	21	(9,202,795)	(8,270,474)
Staff costs	22	(2,026,670)	(1,811,333)
Depreciation and amortisation	23	(5,315,756)	(5,132,604)
Cost of external marketing services		(1,261,319)	(1,120,053)
Other operating expenses	24	(3,942,267)	(4,321,671)
Profit from operations		**6,916,299**	**6,583,879**
Finance income	25	238,621	251,041
Finance expense	25	(128,046)	(603,909)
Profit before tax		**7,026,874**	**6,231,011**
Income tax expense	26	(2,060,163)	(1,833,409)
Net profit		**4,966,711**	**4,397,602**

Statement of changes in equity

(CZK'000)	Notes	Share Capital	Share Premium	Statutory Reserve Fund	Hedging Reserve	Retained Earnings	Total
Balance at 1 January 2004		**520,000**	**5,344,110**	**104,000**	**–**	**11,257,527**	**17,225,637**
Net profit		–	–	–	–	4,397,602	4,397,602
Cash flow hedges, net of tax		–	–	–	(10,788)	–	(10,788)
Balance at 31 December 2004		**520,000**	**5,344,110**	**104,000**	**(10,788)**	**15,655,129**	**21,612,451**
Net profit		–	–	–	–	4,966,711	4,966,711
Dividends paid	27	–	–	–	–	(149,001)	(149,001)
Cash flow hedges, net of tax		–	–	–	3,647	–	3,647
Balance at 31 December 2005		**520,000**	**5,344,110**	**104,000**	**(7,141)**	**20,472,839**	**26,433,808**

Cash flow statement

CZK'000	Notes	2005	2004
Cash flows from operating activities			
Profit before tax		7,026,874	6,231,011
Adjustments for:			
Depreciation and amortisation	23	5,315,756	5,132,604
(Gain)/loss on sale of fixed assets		(35,885)	37,070
Other non-cash income and expense		289,561	473,257
Interest (income)/expense, net	25	(105,052)	252,795
Operating cash flows before working capital changes		12,491,254	12,126,737
Change in trade and other receivables		(641,472)	(404,130)
Change in inventories		(27,428)	(8,979)
Change in trade and other payables		1,246,677	(152,009)
Cash generated from operations		13,069,031	11,561,619
Interest received/(paid), net		49,568	(381,718)
Income taxes paid, net		(2,722,279)	(1,656,445)
Net cash provided by operating activities		**10,396,320**	**9,523,456**
Cash flows from investing activities			
Purchase of tangible and intangible assets	8, 10	(2,988,097)	(2,972,771)
Purchases of held-to-maturity securities	6	(2,298,141)	-
Proceeds from sales of fixed assets		516,859	198,704
Net cash used in investing activities		**(4,769,379)**	**(2,774,067)**
Cash flows from financing activities			
Repayment of the shareholder's loan		–	(1,823,077)
Drawing of overdraft during the period		34,675	121,685
Repayment of overdraft during the period		(29,930)	(126,384)
Repayment of bonds		–	(5,000,000)
Deferred payment of UMTS license		–	(2,574,900)
Repayment of syndicated loan and other interest bearing liabilities		(76,632)	(43,101)
Dividends paid	27	(149,001)	-
Net cash used in financing activities		**(220,888)**	**(9,445,777)**
Net increase/(decrease) in cash and cash equivalents		**5,406,053**	**(2,696,388)**
Cash and cash equivalents at the beginning of the period	4	**439,136**	**3,135,524**
Cash and cash equivalents at the end of the period	4	**5,845,189**	**439,136**

Notes to the financial statements

1. General information

Information about the Company

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

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

Structure of the Company’s Ownership

As at 31 December 2005, the ownership structure of the Company was as follows:

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

* Assets of the wound-up company ČESKÉ RADIOKOMUNIKACE a.s. were transferred to the company JTR Management a.s. in 2005 on the basis of the Agreement on Transfer of Assets. The company JTR Management a.s. has become the legal successor of the wound-up company ČESKÉ RADIOKOMUNIKACE a.s. Subsequently, in 2005, the business name of JTR Management a.s. has been changed to RADIOKOMUNIKACE a.s.

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

There have been no changes in the ownership structure of the Company during 2005.

Licences and trademarks

The Company possessed the following frequency bands as of 31 December, 2005:

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

Under the new legal regulation – Act on Electronic communications No. 127/2005 Coll. that became legally enforceable on 1 May 2005, CTO allocated to the Company the above mentioned frequency bands that were legally enforceable on 27 September 2005. The frequency band allocations include the same rights and obligations that were stated in the original telecommunication licenses. Under the new regulation, the original licenses expired on 30 September 2005.

Allocation of the frequency bands are presented in the notes to the financial statements stated as “licenses”.

The Company has registered 25 trademarks and duly submitted applications for the registration of 16 additional trademarks in the Industrial Property Office Register, 11 of which are in the process of going public.

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

2. Summary of significant accounting policies

Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities (including derivative instruments) at fair values.

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

Effective 1 January 2005, the Company adopted the following changes in accounting policies and presentations:

Changes of financial statements structure

Since 1 January 2005, the Company amended its presentation and classification of some items in the financial statements to provide more reliable and accurate information about the entity's financial position, performance and cash-flow. The changes conform to the newly implemented IFRS financial statements structure adopted by DTAG. As a result, comparative amounts were reclassified in order to ensure consistency with the current period.

In accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors, these changes were applied retrospectively resulting in a restatement of comparative information (income statement). These changes had no impact on profit or equity.

Adoption of new/revised standards

In 2005, the Company adopted the IFRS and IFRIC stated below. The comparatives have been amended as required, in accordance with the relevant transitional requirements.

- IFRS 5 (issued 2004) Non-current Assets Held for Sale and Discontinued Operations;
- IFRIC 4 (issued 2005) Determining whether an Arrangement contains a Lease;
- IFRIC 6 (issued 2005) Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment; and
- IFRIC 8 (issued 2005) Scope of IFRS 2.

The adoption of IFRS 5 and IFRIC 4, 6 and 8 had no material effect on the Company's accounting policies.

Standards and interpretations issued but not yet adopted by the Company:

- IFRS 7 (issued 2005, applicable since 2007) Financial Instruments: Disclosure.

IFRS 7 is a disclosure standard that will result in expanded qualitative and quantitative disclosures of risks associated with financial instruments and will introduce sensitivity analysis of these risks.

a) Entities controlled
The Company does not control or significantly influence any other entity.

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

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial years are disclosed. Significant estimates used in these financial statements include areas of judgment – open interconnect period (see Note 28), depreciation lives (see Note 2) and any tax provisions (see Note 28).

c) Foreign currencies
The Company's functional and presentation currency is the Czech Crown. Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions, published by the Czech National Bank. Gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies as of the balance sheet date are recognised in the income statement, except for transactions treated under hedge accounting (hedging of forecasted cash flows), which are included in equity.

d) Cash equivalents
Cash equivalents are highly liquid balances held at banks, bank deposits and their securitised equivalents.

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

f) Inventories
Inventories are stated at the lower of acquisition cost or net realisable amount. The acquisition cost comprises the purchase price and other costs incurred in bringing the materials into their present location and condition. These include customs, storage costs during transportation and freight costs.

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

The weighted average cost method is applied for all disposals..

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

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

The Company recognised an asset retirement obligation ("ARO"), which represents an estimate of the future cost of restoring its network sites in accordance with the terms of the lease contracts. The fair value of the liability is added to the carrying amount of the associated long-lived asset and is depreciated over the assets' useful life. The liability is accreted to its present value each period; changes in the liability are recognised in the value of the assets and through charges to the income statement (interest). 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.

h) Financial instruments

Financial assets
The Company's principal financial assets are bank balances, cash, cash equivalents, trade and other receivables and held-to-maturity investments. Trade and other receivables are stated at their nominal value less accumulated impairment loss.

Held-to-maturity investments
Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity.

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

Trade and other short-term payables are stated at their nominal value.

Financial derivatives
Information about accounting for derivative financial instruments and hedging activities is included in Note 3, Financial Risk Management.

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

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

Asset category	Useful life (years)
Land	Not depreciated
Buildings, constructions and leasehold improvements	10–30 years or in accordance with the lease period
Equipment:	
Technology equipment of the GSM network	5–10
Technology equipment of the UMTS network	5
Towers and poles	10
Vehicles, computers, office equipment	3–13

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each period end-date.

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

If the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. The recoverable amount of assets is calculated as the higher of the fair value less cost to sell and the present value of discounted future cash flows generated by the asset.

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

j) Intangible assets
Intangible assets comprise the following:

I. Development costs are generally expensed as incurred, such costs are capitalised only when it is probable that an intangible asset under development will be a success, considering its commercial and technological feasibility, and the costs can be measured reliably. Development costs are amortised using the straight-line method over the period of its expected benefit, not exceeding five years. The Company does not perform research activities.

II. Capitalised software costs include the license fees for use of software and the cost of consulting services related to the software implementation. Software costs are amortised over the expected period of the benefit of the cost, which are two or three years. 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.

III. GSM licenses, which represent the right to provide communication services in the Czech Republic and to establish and operate GSM communication equipment, are accounted for at the purchase price from the Ministry of Economy of the Czech Republic. This amount has been capitalised and is being amortised over its useful life using the straight-line method. The useful life is based on the terms of the licenses, which is 20 years.

IV. The UMTS license represents the right to provide communication services in the Czech Republic under the UMTS system. The license was put into commercial use in October 2005. The license is being amortised over its useful life using the straight-line method. The useful life of the UMTS license is considered to be the period from when the license goes into commercial use, through the license expiration date in 2024.

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

If the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. The recoverable amount of assets is calculated as the higher of the fair value less cost to sell and the present value of discounted future cash flows generated by the asset.

k) Finance leases
Leased property and equipment where the Company assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are capitalised at the estimated net present value of the underlying lease payments. The corresponding current and non-current rental obligations, net of finance charges are recognised as current and non-current interest bearing liabilities, respectively. Finance charges are charged to the income statement over the lease period using the effective interest rate method.

l) Operating leases
Payments made under operating leases are charged to the income statement in equal instalments over the period of the lease.

m) Revenue recognition
The principal part of revenues is represented by voice revenues that contain MTC – Mobile Terminated Calls (interconnection revenues) and MOC – Mobile Originated Calls (airtime).

MTC revenues are recognised on a monthly basis at the value of interconnection services provided to other operators of mobile and fixed line telecommunication network. In cases where pricing agreements are not in place, revenues are recorded on the basis of management's best estimate, with any necessary adjustment being made in the period of agreement of the pricing arrangement. See Note 28, Contingencies, for further discussion.

MOC revenues include amounts for airtime used by prepaid and post-paid customers. Other revenues from provision of communication services involve charges for roaming calls, non-voice services as SMS, MMS and GPRS, furthermore monthly subscriptions fees, activation, reactivation and disconnection fees.

Revenues from the airtime sold to post-paid customers are recorded based on the number of minutes processed, and are recorded in monthly billing cycles.

Airtime sold on prepaid cards is initially deferred and is recognized on the basis of prepaid airtime actually used.

The activation fee included in both prepaid and post-paid package revenues is allocated to airtime revenues or handset revenues in accordance with their relative fair values.

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

Visitors revenues represent other significant revenues. These revenues occur when subscribers using SIM cards of foreign network operators generate voice-traffic within the T-Mobile network; these revenues are recognised on a monthly basis reflecting airtime actually used.

Revenue from the sale of handsets and accessories is recognised at the time when the goods are delivered to the customer or independent dealer.

Interest income is recognised on a time proportional basis using the applicable interest rate.

n) Cost of goods and services
Cost of goods and services includes costs of handsets and accessories sold, costs of leased lines, roaming costs and interconnecting fees for delivering calls that terminate outside the Company's network. The costs of goods and services are charged to income in the period in which they are consumed.

o) Marketing expenses
All marketing costs are charged to the income statement as incurred.

p) Employee benefits
The Company has recognised a provision for selected Company managers and other key employees relating to certain contractual post-employment benefits. Gains and losses arising from experience adjustments, and changes in assumptions, are charged or credited to income statement over the expected average remaining working lives of the related employees.

In addition, the Company introduced a retention plan in May 2005, which concerns selected Company managers and other key employees. This liability is provided for based on the current discounted estimated fair value at the balance sheet date.

As of 1 January 2004, Deutsche Telekom AG implemented an incentive plan ("MTIP") for selected employees of DTAG and its subsidiaries, including the Company. The MTIP is a cash-settled plan with pay-out contingent on the DTAG share price performance in absolute terms and also the relative share price performance compared to the Euro STOXX Total Return Index.

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

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

Deferred income tax is determined based on temporary differences between the carrying amount of assets and liabilities and the tax base of those same assets and liabilities, using the expected statutory tax rates for the anticipated year of reversal. However, if the deferred income tax arises from initial recognition of an asset or liability in a transition other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss, it is not accounted for. Deferred income tax charged or credited in the income statement is measured as the change in the net deferred income tax asset or liability during the year. The principal temporary differences arise from tax and accounting depreciation on tangible and intangible assets, change in tax non-deductible provisions and revaluation of other assets and liabilities. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available, against which deductible temporary differences can be utilised. Deferred tax charged to the income statement represents net change of deferred tax asset or net deferred tax liability related to the income tax for the period.

3. Financial risk management

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

Risk management is the responsibility of the Company's treasury department under policies and guidelines set by the Board of Directors of the Company.

The Company uses forward foreign exchange contracts in its management of the currency risks associated with its foreign currency supplier-customer relationships.

The Company does not undertake any speculative transactions.

Concentrations of credit risk
The Company has no significant concentrations of credit risk. Derivative and cash transaction counterparties are limited to high credit quality financial institutions defined in the guidelines set by the Board of Directors of the Company. The Company has policies that limit the amount of credit exposure to any one financial institution.

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

Fair value estimation of financial instruments
The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Company uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values.

Accounting for derivative financial instruments and hedging activities
Derivative financial instruments are initially recognised in the balance sheet at fair value and are subsequently re-measured at their fair value 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 the estimated future cash flows, future value of the cash flows and assumptions that are based on market conditions existing at each balance sheet date.

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

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

The Company uses foreign currency forward contracts to hedge estimated cash flows and to hedge fair value of existing balance sheet items. Beginning 1 January 2004, the Company introduced hedge accounting under the specific guidelines of IAS 39 (revised 2003), which resulted in the change of fair value of certain derivatives being classified within Hedging reserve. Fair value of the derivatives is released into the income statement in the same period as the underlying items.

The Company has not used hedge accounting for contracts hedging currency risks identified after 1 July 2005, and not exceeding the equivalent value of EUR 15,000 thousand. Such transactions are recorded as trade investments and changes in fair value are recognised in the income statement.

4. Cash and cash equivalents

CZK'000	31. 12. 2005	31. 12. 2004
Cash at banks and in hand	3,353,189	168,326
Cash equivalents	2,492,000	270,810
Total	**5,845,189**	**439,136**

Cash equivalents at 31 December 2005 consist of bank deposits and their securitised equivalents.

5. Trade and other receivables

CZK'000	31. 12. 2005	31. 12. 2004
Trade receivables	4,788,617	4,310,879
Unbilled receivables	870,077	687,967
Less: Provision for impairment	(2,407,876)	(2,121,847)
Trade receivables, net	3,250,818	2,876,999
Receivables from taxes not relating to income	44,626	70,733
Other receivables	56,381	42,706
Total	**3,351,825**	**2,990,438**

Trade receivables primarily relate to the communication service's customers, receivables to other telecommunication companies, receivables from the business partners for electronic top-up of TWIST sets and receivables from independent dealers.

6. Other financial assets

Other financial assets represent mainly commercial papers held-to-maturity that total CZK 2,298,141 thousand as of 31 December 2005 (31 December 2004: nil).

7. Inventories

CZK'000	31. 12. 2005	31. 12. 2004
Handsets and accessories for sale	302,447	273,321
Other inventories	14,884	25,995
Total	**317,331**	**299,316**

8. Property and equipment

CZK'000	Buildings and land	Equipment and other fixed assets	Tangible fixed assets under construction, advances and network spare parts	Total
Cost				
1. 1. 2004 restated	**6,292,523**	**28,477,349**	**1,850,543**	**36,620,415**
Additions	143,156	292,047	2,048,958	2,484,161
Disposals	(453,865)	(1,339,580)	(250,947)	(2,044,392)
Transfers*	586,820	423,902	(1,928,792)	(918,070)
31. 12. 2004	**6,568,634**	**27,853,718**	**1,719,762**	**36,142,114**
Additions	62,134	229,668	2,382,149	2,673,951
Disposals	(101,009)	(2,323,212)	(196,432)	(2,620,653)
Transfers*	314,080	652,169	(1,077,386)	(111,137)
31. 12. 2005	**6,843,839**	**26,412,343**	**2,828,093**	**36,084,275**
Accumulated depreciation/Impairment				
1. 1. 2004	**1,957,887**	**10,862,105**	**57,000**	**12,876,992**
Depreciation	636,335	3,632,504	62,253	4,331,092
Disposals	(285,215)	(1,201,295)	–	(1,486,510)
Transfers**	63,436	(427,634)	–	(364,198)
31. 12. 2004	**2,372,443**	**12,865,680**	**119,253**	**15 357 376**
Depreciation	668,244	3,311,583	382,524	4,362,351
Disposals	(22,621)	(1,929,731)	(162,693)	(2,115,045)
Transfers**	(1,105)	(46,279)	(944)	(48,328)
31. 12. 2005	**3,016,961**	**14,201,253**	**338,140**	**17,556,354**
Net book value				
31. 12. 2004	**4,196,191**	**14,988,038**	**1,600,509**	**20,784,738**
31. 12. 2005	**3,826,878**	**12,211,090**	**2,489,953**	**18,527,921**

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

9. Finance leases

Future lease liabilities relate to cars leased under financial lease contracts. As of 31 December 2005, they are as follows:

CZK'000	31. 12. 2005	31. 12. 2004
No later than 1 year	70,758	62,589
Later than 1 year and no later than 5 years	54,736	53,941
Later than 5 years	–	–
Total minimum lease payment	**125,494**	**116,530**
Future finance charges on finance leases	(4,636)	(4,557)
Present value of finance lease liabilities	**120,858**	**111,973**

Lease liabilities are included in Interest bearing liabilities (see Note 12).

The total net book value of assets under finance leases as of 31 December 2005 is CZK 170 million (as of 31 December 2004: CZK 131 million) and is included under Equipment and other fixed assets.

10. Intangible assets

CZK'000	Development costs	Software	GSM/UMTS and other licenses	Intangible assets not in use and advances	Total
Acquisition cost					
1. 1. 2004	**381,215**	**3,088,562**	**1,098,782**	**3,848,864**	**8,417,423**
Additions	6,259	605,798	–	125,766	737,823
Disposals	(4,015)	(68,797)	–	(2,074)	(74,886)
Transfers*	(149,627)	1,324,643	(75,040)	(181,906)	918,070
31. 12. 2004	**233,832**	**4,950,206**	**1,023,742**	**3,790,650**	**9,998,430**
Additions	–	–	50,000	762,874	812,874
Disposals	(1,520)	(268,466)	–	(22,151)	(292,137)
Transfers*	1,055	244,288	3,790,146	(3,924,352)	111,137
31. 12. 2005	**233,367**	**4,926,028**	**4,863,888**	**607,021**	**10,630,304**
Accumulated amortisation/Impairment					
1. 1. 2004	**158,989**	**2,237,138**	**267,687**	**42,010**	**2,705,824**
Amortisation	21,997	752,725	39,265	–	813,987
Disposals	(4,015)	(9,245)	–	(42,010)	(55,270)
Transfers**	1,002	400,130	(36,934)	–	364,198
31. 12. 2004	**177,973**	**3,380,748**	**270,018**	**–**	**3,828,739**
Amortisation	22,584	842,012	87,983	826	953,405
Disposals	(1,520)	(223,555)	–	(826)	(225,901)
Transfers**	–	48,328	–	–	48,328
31. 12. 2005	**199,037**	**4,047,533**	**358,001**	**–**	**4,604,571**
Net book value					
31. 12. 2004	**55,859**	**1,569,458**	**753,724**	**3,790,650**	**6,169,691**
31. 12. 2005	**34,330**	**878,495**	**4,505,887**	**607,021**	**6,025,733**

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

As at 31 December 2004, intangible assets not in use primarily consisted of the value of the UMTS license. The licence was put into commercial use in October 2005 in the total amount of CZK 3,790 million (acquisition price: CZK 3,535 million, capitalised interest: CZK 255 million).

In connection with the outsourcing of IT services since March 2005, the Company sold assets with a total net book value of CZK 379 million. The sale included both software and hardware equipment.

11. Trade and other payables

CZK'000	31. 12. 2005	31. 12. 2004
Trade payables	780,962	1,005,682
Derivatives due to be settled within 1 year	6,214	6,049
Un-invoiced capital expenditures – communication network	681,963	226,670
Deposits and prepayments	245,576	189,830
Other taxes and social security	67,561	63,320
Accruals for interconnection	461,195	432,359
Other accruals	2,208,901	1,323,401
Bills of exchange to be paid	421,493	258,765
Total	**4,873,865**	**3,506,076**

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

Other accruals mainly consist of un-invoiced deliveries of inventories and services.

Upon authorisation of the Company, bank guarantees were granted to the lessors of commercial premises and real estate for a total of CZK 67,172 thousand as at 31 December 2005 (31 December 2004: CZK 65,524 thousand).

There were bank guarantees for customs duties of CZK 50,370 thousand as at 31 December 2005 (31 December 2004: CZK 50,370 thousand).

Other guarantees as at 31 December 2005 amounted to CZK 16,000 thousand (31 December 2004: CZK 2,500 thousand).

12. Interest bearing liabilities

CZK'000	Maturity	31. 12. 2005	31. 12. 2004
Bank overdraft	June/2006	4,750	6
Finance lease liability		68,144	60,141
Other		131	2,345
Total current interest bearing liabilities		**73,025**	**62,492**
Finance lease liability		52,714	51,832
Total non-current interest bearing liabilities		**52,714**	**51,832**
Total		**125,739**	**114,324**

The effective interest rates as at the balance sheet date were as follows:

	31. 12. 2005	31. 12. 2004
Bank overdraft	2.40 % p.a.	2.81 % p.a.
Finance lease liability	3.84 % p.a.	4.07 % p.a.

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

13. Other liabilities

Other liabilities consist of the non-current portion of post-paid customer deposits (repayable after the termination of the relationship).

14. Provisions

CZK'000	31. 12. 2005	31. 12. 2004
T-Mobile customer loyalty bonus	461,830	446,228
Unused vacation and employee bonuses	220,020	149,215
Other provisions	150,879	89,880
Total current provisions	**832,729**	**685,323**
Asset Retirement Obligation	432,047	424,744
Other provisions	31,445	13,455
Total non-current provisions	**463,492**	**438,199**
Total	**1,296,221**	**1,123,522**

15. Deferred income

CZK'000	31. 12. 2005	31. 12. 2004
Deferred airtime related to prepaid customers	985,455	1,019,626
Other deferred income	54,879	81,906
Total	**1,040,334**	**1,101,532**

16. Deferred income tax liabilities

Net deferred income tax liabilities consist of the following:

CZK'000	31. 12. 2005	31. 12. 2004
Depreciation differences for fixed assets	(8,419,189)	(9,733,927)
Difference between tax and accounting values of derivatives	–	582
Provisions for receivables and inventories	520,743	609,265
Other accruals	846,593	1,206,783
Base for deferred tax computation	**(7,051,853)**	**(7,917,297)**
Total deferred tax liabilities (net)*	**(1,691,739)**	**(1,886,310)**
Deferred tax assets/(liabilities), net, to be recovered/(paid) within 12 months	**234,210**	**(56,199)**

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

The movement in deferred tax during the year is as follows:

Deferred tax liability

CZK'000	Accelerated depreciation	Other	Total
1. 1. 2004	**(2,485,515)**	**(1,292)**	**(2,486,807)**
Charged to income statement	103,895	557	104,452
Charged to equity	–	–	-
31. 12. 2004	**(2,381,620)**	**(735)**	**(2,382,355)**
Charged to income statement	257,501	(38,915)	218,586
Charged to equity	–	–	-
31. 12. 2005	**(2,124,119)**	**(39,650)**	**(2,163,769)**

Deferred tax asset

CZK'000	Provisions	Cumulated impairment	Other	Total
1. 1. 2004	**278,944**	**154,441**	**–**	**433,385**
Charged to income statement	11,627	47,908	3,125	62,660
Charged to equity	–	–	–	–
31. 12. 2004	**290,571**	**202,349**	**3,125**	**496,045**
Charged to income statement	(47,823)	(2,061)	25,869	(24,015)
Charged to equity	–	–	–	–
31. 12. 2005	**242,748**	**200,288**	**28,994**	**472,030**

17. Derivative financial instruments

Forward contracts
As at the end of 2005, the Company had open forward contracts with a total nominal value of EUR 18,532 thousand (as of 31 December 2004: EUR 13,994 thousand). These transactions are focused on managing currency risks associated with settlement of financial liabilities of the Company resulting from the customer-supplier relationships and denominated in EUR. All forward contracts as at 31 December 2005 were initiated during the fiscal year 2005. During 2005, forward contracts with a total nominal value of EUR 178,414 thousand were settled (in 2004: EUR 164,510 thousand).

Open foreign exchange forward contracts (CZK'000)	31. 12. 2005	31. 12. 2004
Open forward exchange contracts hedging other FX payables:		
Positive fair value	525	–
Negative fair value	(6,214)	(6,049)
Forward contracts total fair value	**(5,689)**	**(6,049)**

18. Fair value of financial assets and liabilities

The estimated fair value of financial assets and liabilities has been determined using the best available market information and appropriate valuation methods.

The fair value of financial assets and liabilities as of 31 December 2005 approximates their carrying value because of their immediate or short-term maturity.

19. Equity

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

Share premium of CZK 5,344,110 thousand was paid by the Company's shareholders under the Joint Venture Agreement of the joint stock company between ČESKÉ RADIOKOMUNIKACE a.s.[1] and CMobil B.V., dated 25 March 1996, and the Agreement between the Ministry of Economy of the Czech Republic, CMobil B.V. and ČESKÉ RADIOKOMUNIKACE a.s.[1], dated 25 March 1996.

The statutory reserve fund comprises funds that the Company is required to retain according to current legislation. Use of the statutory reserve fund is limited by legislation and the Statutes of the Company and is not available for distribution to the shareholders, but may be used to offset losses.

The Company paid out dividends in June 2005 (see Note 27).

20. Revenues

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

For the year ended 31 December 2005:

CZK'000 Category	Domestic	Foreign	Total
Sales of handsets	1,537,032	–	1,537,032
Sales of services	24,468,758	1,952,085	26,420,843
Total net revenue	**26,005,790**	**1,952,085**	**27,957,875**

For the year ended 31 December 2004:

CZK'000 Category	Domestic	Foreign	Total
Sales of handsets	1,298,135	–	1,298,135
Sales of services	23,505,905	1,586,590	25,092,495
Total net revenue	**24,804,040**	**1,586,590**	**26,390,630**

21. Cost of goods and services

CZK'000	2005	2004
Costs of handsets and accessories	2,590,251	2,219,546
Interconnection charges and roaming	5,189,617	4,915,342
Leased lines	291,126	349,926
Maintenance – mobile network	505,950	503,297
Other	625,851	282,363
Total	**9,202,795**	**8,270,474**

22. Staff costs

CZK'000	2005	2004
Board remuneration	1,694	1,872
Wages and salaries	1,354,560	1,210,513
Social security costs	515,525	454,165
Other staff costs	154,891	144,783
Total	**2,026,670**	**1,811,333**
Average number of employees	**2,449**	**2,477**

The number of employees is based on the average number of annual full-time employees. Since 2002, the Company has provided its employees with a contribution to supplementary pension insurance. In 2005, the total contribution provided was CZK 31,712 thousand (2004: CZK 29,068 thousand).

[1] At present RADIOKOMUNIKACE a.s.

23. Depreciation and amortisation

CZK'000	2005	2004
Amortisation of GSM and UTMS licenses	87,983	39,265
Amortisation of other intangible fixed assets	865,422	762,247
Depreciation of tangible fixed assets	4,362,351	4,331,092
Total	**5,315,756**	**5,132,604**

24. Other operating expenses

CZK'000	2005	2004
Rental, cleaning, consumption of electricity, water and gas	740,540	807,694
Channel commissions	677,258	651,984
Net loss from impairment of receivables	553,669	843,332
Cross charges	450,409	480,382
Repair and maintenance	312,463	422,993
Insurance, postage and other office supplies	295,151	221,663
Licences and franchise fees	240,449	240,992
Legal, consulting and auditing fees	127,866	145,690
Travel expenses	87,937	94,747
Losses from disposal of assets	79,290	27,726
Administrative and other operating expenses	377,235	384,468
Total	**3,942,267**	**4,321,671**

25. Finance income and expense

CZK'000	2005	2004
Interest income	93,127	96,857
Other finance income	27,984	28
Foreign exchange gains	117,510	154,156
Total finance income	**238,621**	**251,041**
Interest expense	(13,605)	(451,060)
Other finance expenses	(35,803)	(66,823)
Foreign exchange loss	(78,638)	(86,026)
Total finance expense	**(128,046)**	**(603,909)**
Total net finance income/(expense)	**110,575**	**(352,868)**

26. Income tax expense

Income tax expense consists of the following:

CZK'000	2005	2004
Current tax	(2,254,733)	(2,000,521)
Deferred tax – Note 16	194,570	167,112
Income tax expense	**(2,060,163)**	**(1,833,409)**

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

CZK'000	2005	2004
Profit before tax	7,026,874	6,231,011
Tax by applying the statutory tax rate*	(1,826,987)	(1,744,683)
Impact of**:		
Non-deductible expenses	(243,574)	(193,367)
Non-taxable revenues	15,916	118,707
10% investment relief on investment in fixed assets in the current year	(21,349)	28,932
Tax adjustment relating to prior periods	9,303	(71,343)
Other	6,528	28,345
Income tax expense	**(2,060,163)**	**(1,833,409)**

* In 2005, a rate of 26% applied (2004: 28%), based on the effective Income Tax Act.
** Amounts shown are after taxation

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

Year	Corporate income tax rate
2005	26 %
2006 and onwards	24 %

27. Related party transactions and balances

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

CZK'000	2005	2004
RADIOKOMUNIKACE a.s.:		
Purchase of services (leased lines, rent and other services)	293,635	359,757
DTAG group:		
Roaming, interconnection and related services purchased	407,293	373,048
Other services purchased	117,168	130,116
Cross charges	450,409	480,382
IT services	357,170	–
Purchased foreign currency – hedging	932,429	–
Total related party purchases	**2,558,104**	**1,343,303**

RADIOKOMUNIKACE a.s.:		
GSM and interconnection services sold	25,477	10,611
DTAG group:		
Roaming, interconnection and related services sold	562,516	517,312
Re-branding reimbursement	16,019	14,369
Income from sale of PP&E and Intangibles	445,442	–
Cross charges	138,788	75,215
Total related party sales	**1,188,242**	**617,507**

Related party receivables:

CZK'000	31. 12. 2005	31. 12. 2004
RADIOKOMUNIKACE a.s.:		
GSM and other services	3,826	1,386
DTAG group:		
Roaming, interconnection and related services sold	227,093	112,929
Other services and discounts	123,529	1,240
Total related party receivables	**354,448**	**115,555**

Related party payables:

CZK'000	31. 12. 2005	31. 12. 2004
RADIOKOMUNIKACE a.s.:		
Leased lines and other rentals	23,852	153
DTAG group:		
Roaming, interconnection and related services purchased	439,583	21,517
Other services and discounts	304,903	3,707
Total related party payables	**768,338**	**25,377**

The Company had no borrowings within the group as at 31 December 2005. The long-term loan with a total limit of CZK 3,823,077 thousand, provided by Deutsche Telekom International Finance B.V., and with maturity on 31 December 2011, was not drawn on 31 December 2005.

Short-term employee benefits

As at 31 December 2005, and 31 December 2004, the Company provided the following wages, personal leave, health care and other short-term employee benefits:

	2005		2004	
CZK'000	Average number of employees	Amount	Average number of employees	Amount
Management*	49	198,871	52	181,497
Board of Directors**	7	1,109	7	1,180
Supervisory Board**	6	623	6	666
Total	**62**	**200,603**	**65**	**183,343**

* Wages, bonuses (both including social, health and pension insurance of 38%) and personal leave, medical care, the use of company cars for private purposes and other short-term employee benefits. "Management" represents executive vice presidents ("EVP") and vice presidents ("VP") of the Company.
** Remuneration provided.

Motivation bonus scheme

As at 31 December 2005, the Company provides 45 members of the management with a post-employment benefit. In the case that certain conditions are met, applicable management can obtain a payout based on their salary levels. Projected payouts are accrued at the estimated discounted current value.
As at 31 December 2005, the provisions amount to CZK 24,312 thousand (31 December 2004: nil).

Other long-term benefits – retention plan

The retention plan was introduced by the Company in May 2005. As at 31 December 2005, 25 management members were included in the retention plan. If the entitled management members fulfil the stated conditions as of 31 December 2006, the benefit bonus or life insurance savings will be paid out in 2007. As at 31 December 2005 the amount recognised as an estimated payable by the Company totalled CZK 8,157 thousand. In 2005, the Company paid life insurance savings of CZK 4,259 thousand under the retention plan.

Share-based payments

As at 31 December 2005, the Company recognised a provision for MTIP in the amount of CZK 11,177 thousand.

Other related party transactions

The Company does not have any other significant balances, nor has it entered into any other significant transactions with the management or directors in 2005 and 2004.

Based on the resolution of the General meeting, held on 31 May 2005, the Company distributed a share of net profit for 2004 to the shareholders as a dividend in the aggregate amount of CZK 149,001 thousand.

28. Contingencies

Negotiations concerning the settlement of interconnection fees from 2001 with ČESKÝ TELECOM, a.s. are going on concurrently with the court proceedings. The results of these negotiations might influence 2001 interconnection revenues and costs and any necessary adjustment will be accounted for in the period of final resolution.

The tax authorities are authorized to inspect the books and records at any time within 4 years subsequent to the reported tax year, and consequently may additionally impose income tax and penalties. The Company's management is not aware of any circumstances which may in the future give rise to a potential material liability in this respect.

The Company is not aware of any major litigation that would require adjustment or disclosure in the financial statements as at 31 December 2005, other than that which has already been adjusted or disclosed as at 31 December 2005.

29. Commitments

As of 31 December 2005, the Company's future capital commitments with respect to technologies totalled CZK 844,415 thousand (as of 31 December 2004: CZK 400,980 thousand).

The future minimum lease payment commitments under operating leases arising from the rental of microwave connections, other buildings, offices and communication base stations are as follows:

CZK'000	31. 12. 2005	31. 12. 2004
Up to 1 year	713,151	883,303
1 to 5 years	2,321,754	2,614,619
Over 5 years	3,100,343	2,967,400
Total	**6,135,248**	**6,465,322**

30. Subsequent events

No further events which would have a significant impact on the financial statements as at 31 December 2005, occurred subsequent to the balance sheet date.