T-MOBILE CZECH REPUBLIC A.S.

REPORT OF INDEPENDENT AUDITORS AND FINANCIAL STATEMENTS IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS

31 DECEMBER 2006

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REPORT OF INDEPENDENT AUDITORS

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

BALANCE SHEET

CZK million	Notes	31 December 2006	31 December 2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	4	5,140	5,845
Trade and other receivables	5	4,019	3,307
Other financial assets	6	1,650	2,299
Inventories	7	284	317
Prepaid expenses and other current assets		175	240
Total current assets		**11,268**	**12,008**
NON-CURRENT ASSETS			
Intangible assets	8	5,192	6,026
Property and equipment	9	16,958	18,528
Other assets		13	8
Total non-current assets		**22,163**	**24,562**
TOTAL ASSETS		**33,431**	**36,570**

T-MOBILE CZECH REPUBLIC A.S.

YEAR ENDED 31 DECEMBER 2006

BALANCE SHEET

CZK million	Notes	31 December 2004	31 December 2005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Trade and other payables	10	5,128	4,874
Interest bearing liabilities	11	70	73
Provisions	13	976	833
Income tax liability		348	849
Deferred income	14	998	1,040
Total current liabilities		**7,520**	**7,669**
NON-CURRENT LIABILITIES			
Interest-bearing liabilities	11	61	53
Other liabilities	12	237	259
Provisions	13	451	463
Deferred income tax liabilities	15	1,044	1,692
Total non-current liabilities		**1,793**	**2,467**
TOTAL LIABILITIES		**9,313**	**10,136**
EQUITY			
Share capital	18	520	520
Share premium	18	5,344	5,344
Statutory reserve fund	18	104	104
Retained earnings		18,153	20,473
Other reserves		(3)	(7)
Total equity		**24,118**	**26,434**
TOTAL LIABILITIES AND EQUITY		**33,431**	**36,570**

The financial statements on pages 3 to 38 have been approved by the Board of Directors of T-Mobile Czech Republic a.s. for issuance on 23 March 2007.

T-MOBILE CZECH REPUBLIC A.S.

YEAR ENDED 31 DECEMBER 2006

INCOME STATEMENT

CZK million	Notes	2006	2005
Revenue	19	**29,548**	**27,916**
Work capitalisation		62	42
Other operating income	20	996	707
Cost of goods and services	21	(9,567)	(9,233)
Staff costs	22	(2,105)	(1,872)
Depreciation and amortisation	23	(5,745)	(5,316)
Other operating expenses	24	(6,189)	(5,328)
Profit from operations		**7,000**	**6,916**
Finance income	25	322	245
Finance expense	25	(160)	(134)
Profit before tax		**7,162**	**7,027**
Income tax expense	26	(1,797)	(2,060)
Net profit		**5,365**	**4,967**

STATEMENT OF CHANGES IN EQUITY

CZK million	Notes	Share Capital	Share Premium	Statutory Reserve Fund	Hedging Reserve	Retained Earnings	Total
Balance as at 1 January 2005		**520**	**5,344**	**104**	**(11)**	**15,655**	**21,612**
Net profit		-	-	-	-	4,967	4,967
Dividends paid		-	-	-	-	(149)	(149)
Cash flow hedges, incl. def. tax		-	-	-	4	-	4
Balance as at 31 December 2005		**520**	**5,344**	**104**	**(7)**	**20,473**	**26,434**
Net profit		-	-	-	-	5,365	5,365
Dividends paid	27	-	-	-	-	(7,685)	(7,685)
Cash flow hedges, incl. def. tax		-	-	-	4	-	4
Balance as at 31 December 2006		**520**	**5,344**	**104**	**(3)**	**18,153**	**24,118**

T-MOBILE CZECH REPUBLIC A.S.

YEAR ENDED 31 DECEMBER 2006

CASH FLOW STATEMENT

CZK million	Notes	2006	2005
Cash flows from operating activities			
Profit before tax		5,365	4,967
Adjustments for:			
Depreciation and amortisation	23	5,745	5,316
Income tax expense	26	1,797	2,060
Interest income net	25	(154)	(105)
Gain on sale of fixed assets		(3)	(36)
Other non-cash expense		521	289
Operating cash flows before working capital changes		13,271	12,491
Change in trade and other receivables, inventories		(1,100)	(669)
Change in provisions		178	189
Change in trade and other payables		434	1,058
Cash generated from operations		12,783	13,069
Income taxes paid		(2,945)	(2,722)
Interest paid		(6)	(41)
Interest received		158	90
Net cash provided by operating activities		**9,990**	**10,396**
Cash flows from investing activities			
Purchase of fixed assets	8, 9	(3,662)	(2,988)
Purchases of held-to-maturity securities	6	(8,584)	(2,298)
Proceeds from sales of fixed assets		111	517
Proceeds from held-to-maturity commercial papers		9,214	-
Net cash used in investing activities		**(2,921)**	**(4,769)**
Cash flows from financing activities			
Drawing of overdraft		15	35
Repayment of overdraft		(19)	(30)
Dividends paid	27	(7,685)	(149)
Repayment of other interest bearing liabilities		(85)	(77)
Net cash used in financing activities		**(7,774)**	**(221)**
Net (decrease) / increase in cash and cash equivalents		**(705)**	**5,406**
Cash and cash equivalents at the beginning of the period	4	**5,845**	**439**
Cash and cash equivalents at the end of the period	4	**5,140**	**5,845**

1. General information

Information about the Company

T-Mobile Czech Republic a.s. (“the Company”), seated 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 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 establishment and provision of a public mobile communications network and provision of electronic communication services.

Structure of the Company’s Ownership

As at 31 December 2006, the ownership structure of the Company was as follows:

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

* former 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. In accordance with the Adherence Agreement dated 13 November 2006, CESKE RADIOKOMUNIKACE S.à.r.l. assumed the rights and obligations previously held by RADIOKOMUNIKACE a.s. established by the Shareholders Agreement. 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”).

1. General Information (continued)

Licences and Trademarks

The Company had the right to use the following frequency band allocations as at 31 December 2006:

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

Under the new legal regulation – Act on Electronic communications No. 127/2005 Coll. that became legally enforceable on 1 May 2005 – CTO issued allocations to the Company of the above mentioned frequency bands that became legally enforceable on 27 September 2005. The frequency band allocations include the same rights and obligations with respect to these radio frequencies that were stated in the original telecommunication licences. Due to the new legislation the original licences ceased to exist on 30 September 2005.

Allocation of the frequency bands are presented in these financial statements as “licences”.

On 23 May 2006, CTO confirmed in writing that the Company complied with the obligations stipulated by the UMTS license acquired in 2001. These obligations required the Company to launch the UMTS network with initial coverage of 90% of the urban area of Prague by 1 January 2007.

The Company owns 39 registered trademarks and duly submitted applications for the registration of 19 additional trademarks in the Industrial Property Office Register, 12 of which are in the process of publication.

Based on a sub-licence agreement between the Company and TMO, the Company is also entitled 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, except for revaluation of available-for-sale financial assets and securities 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.

Changes in the structure of the financial statements

Since 1 January 2006, the Company has 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 IFRS financial statements structure adopted by DTAG. 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 reclassification of comparative information (income statement). These changes had no impact on net profit or equity.

Changes of accounting estimates

Since 1 January 2006, the Company has reassessed the useful lives of fixed assets. The total impact of the change in useful lives on the Company's financial statements was immaterial.

Adoption of new/revised standards

In 2006, the Company adopted the following standards, amendments to the standards and interpretations. The comparatives have been amended as required, in accordance with the relevant transitional requirements.

- Amendment to IAS 19, Actuarial gains and losses, group plans and disclosures, effective for annual periods beginning on or after 1 January 2006;
- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Company;

2. Summary of significant accounting policies (continued)

Adoption of new/revised standards (continued)

- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Company;
- Amendment to IAS 39, Amendment 'Cash Flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Company;
- Amendment to IAS 39, Amendment 'Financial instruments: recognition and measurement' and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after 1 January 2006. These amendments are not relevant for the Company;
- IFRS 6, Exploration for and evaluation of mineral resources, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Company;
- IFRIC 4, Determining whether an arrangement contains a lease, effective for annual periods beginning on or after 1 January 2006;
- IFRIC 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds, effective for annual periods beginning on or after 1 January 2006;
- IFRIC 6, Liabilities arising from participating in a specific market – waste electrical and electronic equipment, effective for annual periods beginning on or after 1 December 2005; and
- IFRIC 8, Scope of IFRS 2, effective for annual periods beginning on or after 1 May 2006.

The adoption of IAS 19 and IFRS 4, 5, 6 and 8 had no material effect on the Company's accounting policies.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, Applying the restatement approach under IAS 29, effective for annual periods beginning on or after 1 March 2006. This interpretation is not relevant for the Company;
- IFRIC 9, Reassessment of embedded derivatives, effective for annual periods beginning on or after 1 June 2006. As the Company already assesses if embedded derivatives should be separated using principles consistent with IFRIC 9, this interpretation does not have a material effect on revaluation of Company's embedded derivates;
- IFRIC 10, Interim financial reporting and impairment, effective for annual periods beginning on or after 1 November 2006;

2. Summary of significant accounting policies (continued)

Adoption of new/revised standards (continued)

- IFRIC 11, Group and treasury share transactions, effective for annual periods beginning on or after 1 March 2007;
- IFRS 7, Financial instruments: disclosures, effective for annual periods beginning on or after 1 January 2007. IAS 1, Amendment to capital disclosures, effective for annual periods beginning on or after 1 January 2007. The Company will apply IFRS 7 and the amendment to IAS 1 from annual periods beginning 1 January 2007.
- IFRS 8, Operating segments, effective for annual periods beginning on or after 1 January 2009.

The Company management is currently assessing the impact of these standards on the Company's operations.

a) Entities controlled

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

b) Use of estimates

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

The Company makes estimates and assumptions concerning the future when preparing the financial statements. 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 judgement – open interconnect period (see Note 28), depreciation lives (see Note 2i and 2j), asset retirement obligation (see Note 2g) and tax provisions (see Note 28).

c) Foreign currencies

The Company's functional and presentation currency is the Czech crown. Transactions denominated in a foreign currency are translated and recorded at the exchange rate published by the Czech National Bank as at the date of the transaction. 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, with the exception of gains and losses arising from transactions treated under hedge accounting which are recognised in equity.

2. Summary of significant accounting policies (continued)

d) Cash equivalents

Cash equivalents are bank deposits and their securitised equivalents.

e) Accounts receivable

Trade and other receivables are recognised at nominal value, 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 transaction. The amount of the provisions for impairment is the difference between the nominal value and the recoverable amount, this being the present value of expected cash flows, discounted at the original effective interest rate of similar receivables. 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 of purchased inventories comprises the purchase price and other costs incurred in bringing the inventories 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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Company recognised an asset retirement obligation, which represents the costs of restoring its network sites in accordance with terms and conditions 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 value of the liability is recalculated to its present value as at the balance sheet date and 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.

2. Summary of significant accounting policies (continued)

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 values.

Financial derivatives

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

2. Summary of significant accounting policies (continued)

i) Property and equipment

Property and equipment are stated at acquisition cost less depreciation and accumulated impairment losses. Acquisition costs consist of the purchase price, freight costs, customs, installation cost, estimated costs 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, i.e. 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 the assets' estimated useful lives as follows:

Asset category	Useful life (years)
Land	Not depreciated
Buildings, constructions and leasehold improvements	10–50 years or in accordance with the lease period
Equipment:	
Network technology equipment (GSM, UMTS)	3–10
Transport vehicles, hardware and office equipment	3–13

The assets' net book values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Costs for repair and maintenance of tangible fixed assets are charged to the income statement as 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 value in use, which is the present value of future cash flows generated by the asset or the cash generating unit.

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.

2. Summary of significant accounting policies (continued)

j) Intangible fixed assets

Intangible assets comprise 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 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 UMTS licence is considered to be the period from when the licence goes into 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 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 the licence's useful life using the straight-line method. The useful life is based on the terms of the licence, which is 20 years.

iii) Software

Capitalised software costs include the licence fees for the use of software and costs of consulting services related to the software implementation. Software costs are amortised over the expected period of the benefit of the cost, which is 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.

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

Borrowing costs directly attributable to the acquisition, construction or production of intangible fixed assets are capitalised to those assets, until the time when the assets are substantially ready for their intended use or sale.

2. Summary of significant accounting policies (continued)

j) Intangible fixed assets (continued)

If the recoverable amount of the intangible fixed 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 value in use, which is the present value of future cash flows generated by the asset or the cash generating unit.

k) Finance leases

Leased property and equipment where the Company assumes all the benefits and risks usually connected with the 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 costs 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

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 other operators' networks.

Interconnection revenues are recognised based on valid agreements. In cases where there are no valid contracts or written price agreements concluded, revenues are recognised based on the best estimate of the Company's management. Any necessary adjustments are recorded in the period when price settlement is agreed. Refer to Note 28, Contingencies for further discussion.

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

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

2. Summary of significant accounting policies (continued)

m) Revenue recognition (continued)

Revenues from the sale of pre-paid cards are deferred and are recognised in the period when the service is actually provided.

The activation fee included in both pre-paid 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 over the estimated pre-paid or post-paid customer relationship period.

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

Interest revenues are recorded on accrual and deferral basis using the effective 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 interconnection 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) 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 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 as at the balance sheet date.

2. Summary of significant accounting policies (continued)

o) Employee benefits (continued)

As at 1 January 2004, DTAG 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 participating employees of the Company. The provision recognised as at the balance sheet date is equivalent to the fair value of the plan distributed over its life on a pro-rata basis. Changes in the fair value of the plan are recognised immediately in the income statement as staff costs.

p) Income taxes

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

Deferred income tax is determined based on temporary differences between the carrying amount of assets and liabilities and their tax bases, using the statutory tax rates that are expected to apply when the relevant deferred tax asset is realised or the relevant deferred tax liability is settled. 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 to 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 fixed assets, changes in tax non-deductible adjustments and non-taxable 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.

3. Financial risk management

Currency 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.

3. Financial risk management (continued)

Currency and interest risk management (continued)

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.

The Company manages credit risk associated with different business transactions with various counterparties by using various instruments as insurance, bank guarantees, credit limits, deposit policy, differentiated debt collecting process, etc.

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 as 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.

3. Financial risk management (continued)

Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised in the balance sheet at fair value at 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 present value of estimated future cash flows and future value of cash flows under assumptions that are based on market conditions existing as at the 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 credited or charged to the income statement.

The Company uses foreign currency forward contracts to hedge estimated cash flows and the fair value of existing balance sheet items. Effective from 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 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 million	31.12.2006	31.12.2005
Cash at banks and in hand	145	102
Cash equivalents	4,995	5,743
Total	**5,140**	**5,845**

Cash equivalents as at 31 December 2006 and 31 December 2005 consist of bank deposits and their securitised equivalents.

5. Trade and other receivables

CZK million	31.12.2006	31.12.2005
Trade receivables	5,418	4,599
Unbilled receivables	1,479	1,108
Less: Provision for impairment	(2,889)	(2,408)
Trade receivables, net	4,008	3,299
Other receivables	11	8
Total	**4,019**	**3,307**

Trade receivables represent receivables from users of the communication network, receivables from other communication services providers, receivables from partners of electronic recharging of TWIST coupons and receivables from independent dealers.

6. Other financial assets

Other financial assets represent mainly commercial papers held-to-maturity that total CZK 1,645 million as at 31 December 2006 (31 December 2005: CZK 2,298 million).

7. Inventories

CZK million	31.12.2006	31.12.2005
Handsets and accessories for sale	212	307
Other inventories	72	10
Total	**284**	**317**

8. Intangible fixed assets

CZK million	Development costs	Software	GSM/UMTS and other licences	Intangible fixed assets under construction and advances provided	Total
Cost					
1. 1. 2005	**234**	**4,950**	**1,024**	**3,790**	**9,998**
Additions	-	-	50	763	813
Disposals	(2)	(268)	-	(22)	(292)
Transfers*	1	244	3,790	(3,924)	111
31. 12. 2005	**233**	**4,926**	**4,864**	**607**	**10,630**
Additions	**-**	**-**	**-**	603	603
Disposals	(4)	(1,484)	-	(9)	(1,497)
Transfers*	(1)	860	-	(837)	22
31. 12. 2006	**228**	**4,302**	**4,864**	**364**	**9,758**
Accumulated depreciation / Impairment					
1. 1. 2005	**178**	**3,381**	**270**	**-**	**3,829**
Depreciation	22	842	88	1	953
Disposals	(1)	(224)	-	(1)	(226)
Transfers**	-	48	-	-	48
31. 12. 2005	**199**	**4,047**	**358**	**-**	**4,604**
Depreciation	22	1,183	243	-	1,448
Disposals	(4)	(1,482)	-	-	(1,486)
Transfers**	(1)	1	-	-	-
31. 12. 2006	**216**	**3,749**	**601**	**-**	**4,566**
Net book value					
31. 12. 2005	**34**	**879**	**4,506**	**607**	**6,026**
31. 12. 2006	**12**	**553**	**4,263**	**364**	**5,192**

* Include transfers of intangible fixed assets under construction and advances to use and reclassification from tangible fixed assets.

** Include reclassification from tangible fixed assets.

9. Property and equipment

CZK million	Buildings and land	Equipment and other fixed assets	Tangible fixed assets under construction, advances and network spare parts	Total
Acquisition cost				
1. 1. 2005	**6,568**	**27,854**	**1,720**	**36,142**
Additions	63	229	2,382	2,674
Disposals	(101)	(2,323)	(197)	(2,621)
Transfers*	314	652	(1,077)	(111)
31. 12. 2005	**6,844**	**26,412**	**2,828**	**36,084**
Additions	53	209	2,742	3,004
Disposals	(133)	(1,436)	(373)	(1,942)
Transfers*	612	3,572	(4,206)	(22)
31. 12. 2006	**7,376**	**28,757**	**991**	**37,124**
Accumulated depreciation / Impairment				
1. 1. 2005	**2,372**	**12,866**	**119**	**15,357**
Depreciation	668	3,312	383	4,363
Disposals	(22)	(1,931)	(163)	(2,116)
Transfers**	(1)	(46)	(1)	(48)
31. 12. 2005	**3,017**	**14,201**	**338**	**17,556**
Depreciation	415	3,848	34	4,297
Disposals	(17)	(1,355)	(315)	(1,687)
Transfers**	3	(3)	-	-
31. 12. 2006	**3,418**	**16,691**	**57**	**20,166**
Net book value				
31. 12. 2005	**3,827**	**12,211**	**2,490**	**18,528**
31. 12. 2006	**3,958**	**12,066**	**934**	**16,958**

* Include transfers of tangible fixed assets under construction and advances to use and reclassification to intangible fixed assets

** Include reclassification to intangible fixed assets

9. Property and equipment (continued)

Finance leases

Future lease liabilities relate to cars leased under finance lease contracts. As at 31 December 2006 and 2005, they are as follows:

CZK million	31.12.2006	31.12.2005
No later than 1 year	74	71
Later than 1 year and no later than 5 years	63	55
Later than 5 years	-	-
Total minimum lease payment	**137**	**126**
Future finance charges on finance leases	(6)	(5)
Present value of finance lease liabilities	**131**	**121**

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

The total net book value of assets under finance leases as at 31 December 2006 is CZK 215 million (as at 31 December 2005: CZK 170 million) and is included under Equipment and other fixed assets.

10. Trade and other payables

CZK million	31. 12. 2006	31. 12. 2005
Trade payables	1,072	1,222
Anticipated payables for operational expenditure	2,872	2,591
Anticipated payables for capital expenditure	671	682
Payroll payables	78	67
Other taxes and social security	109	68
Other payables	326	244
Total	**5,128**	**4,874**

11. Interest bearing liabilities

CZK million	31.12.2006	31.12.2005
Finance lease liability	70	68
Bank overdraft	-	5
Total current interest bearing liabilities	**70**	**73**
Finance lease liability	61	53
Total non-current interest bearing liabilities	**61**	**53**
Total	**131**	**126**

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

	31.12.2006	31.12.2005
Finance lease liability	4.69 % p.a.	3.84 % p.a.
Bank overdraft	Not applicable	2.40 % p.a.

The total limit of bank overdrafts and flexible credit lines provided to the Company is EUR 3 million and CZK 1,000 million.

The Company did not draw loans as at 31 December 2006; as at 31 December 2005 overdrafts amounting to CZK 5 million were drawn.

12. Other liabilities

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

13. Provisions

CZK million	31.12.2006	31.12.2005
T-Mobile bonus*	460	462
Unused vacation and employee bonuses	389	238
Other provisions	127	133
Total current provisions	**976**	**833**
Asset Retirement Obligation	389	432
Other provisions	62	31
Total non-current provisions	**451**	**463**
Total	**1,427**	**1,296**

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

14. Deferred income

CZK million	31.12.2006	31.12.2005
Deferred airtime related to prepaid customers	959	985
Other deferred income	39	55
Total	**998**	**1,040**

15. Deferred income tax liabilities

Net deferred income tax liabilities consist of the following:

CZK million	31.12.2006	31.12.2005
Differences in net book value of fixed assets	(6,124)	(8,419)
Provisions for receivables and inventories	761	521
Provisions	1,048	1,008
Other accruals	(36)	(162)
Base for deferred tax computation	**(4,351)**	**(7,052)**
Total deferred tax liabilities (net)*	**(1,044)**	**(1,692)**
Deferred tax assets, net, to be recovered within 12 months	**335**	**234**

* 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 realised.

15. Deferred income tax liabilities (continued)

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

Deferred tax liability (CZK million)	Accelerated tax depreciation	Other	Total
1.1.2005	**(2,356)**	-	**(2,356)**
Charged/(credited) to income statement	335	(39)	296
31.12.2005	**(2,021)**	**(39)**	**(2,060)**
Charged to income statement	551	30	581
31.12.2006	**(1,470)**	**(9)**	**(1,479)**

Deferred tax asset (CZK million)	Provisions	Accumulated impairment	Other	Total
1.1.2005	**291**	**177**	**2**	**470**
Credited to income statement	(48)	(52)	(2)	(102)
31.12.2005	**243**	**125**	**-**	**368**
Charged to income statement	9	58	-	67
31.12.2006	**252**	**183**	**-**	**435**

16. Derivative financial instruments

Forward contracts

As at the end of 2006, the Company had open forward contracts with a total nominal value of EUR 6.2 million (as at 31 December 2005: EUR 18.5 million). These transactions focus on managing currency risks associated with settlement of financial liabilities of the Company resulting from the customer-supplier relations and denominated in EUR. All forward contracts as at 31 December 2006 were initiated during 2006. During 2006, forward contracts with a total nominal value of EUR 222.5 million were settled (in 2005: EUR 178.4 million).

16. Derivative financial instruments (continued)

Forward contracts (continued)

Open foreign exchange forward contracts (CZK million)	31.12.2006	31.12.2005
Open forward exchange contracts hedging other FX payables:		
Positive fair value	5	1
Negative fair value	(6)	(6)
Forward contracts total fair value	**(1)**	**(5)**

17. Fair value of financial assets and liabilities

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

The fair value of financial assets and liabilities as at 31 December 2006 approximates their carrying value, especially with respect to their immediate or short-term maturity.

18. Equity

The Company's shares have a nominal value of CZK 1,000 each and are uncertified, registered and not publicly traded. Approved and subscribed share capital is fully paid off.

Share premium of CZK 5,344 million was paid 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 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 and is not available for distribution to the shareholders, but may be used to offset losses.

The Company paid out dividends in June 2006 in the amount of CZK 7,685 million (see Note 27).

[1] At present CESKE RADIOKOMUNIKACE S.à.r.l.

19. Revenues

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

Revenues for the year ended 31 December 2006 (CZK million)	Domestic	Foreign	Total
Sales of handsets	1,217	-	1,217
Sales of services	26,355	1,976	28,331
Total net revenue	**27,572**	**1,976**	**29,548**

Revenues for the year ended 31 December 2005 (CZK million)	Domestic	Foreign	Total
Sales of handsets	1,537	-	1,537
Sales of services	24,427	1,952	26,379
Total net revenue	**25,964**	**1,952**	**27,916**

20. Other operating income

CZK million	2006	2005
Gain from disposals of fixed assets	34	115
Income from reversal / release of provisions	89	68
Cross charges	455	206
Rent	67	50
Fines and penalties	171	145
Other operating income	180	123
Total	**996**	**707**

21. Cost of goods and services

CZK million	2006	2005
Costs of handsets and accessories	2,476	2,590
Costs of telecommunication services	5,724	5,481
IT services	381	296
Maintenance – mobile network	436	506
Other	550	360
Total	**9,567**	**9,233**

22. Staff costs

CZK million	2006	2005
Wages and salaries	1,512	1,354
Social security costs	591	516
Board remuneration	2	2
Total	**2,105**	**1,872**
Average number of employees	**2,532**	**2,449**

The number of employees is based on the average number of annual full-time employees. Since 2002, the Company has been providing its employees with a contribution to supplementary pension insurance. In 2006, the total contribution provided was CZK 34 million (2005: CZK 32 million).

23. Depreciation and amortisation

CZK million	2006	2005
Amortisation of GSM and UMTS licences	243	88
Amortisation of other intangible fixed assets	1,205	865
Depreciation of tangible fixed assets	4,297	4,363
Total	**5,745**	**5,316**

24. Other operating expenses

CZK million	2006	2005
Costs of external marketing services	1,265	1,262
Channel commissions	934	647
Net loss from impairment of receivables	827	554
Rental and leasing	697	671
Cross charges	508	444
Repair and maintenance	369	312
Licences and franchise fees	229	240
Billing expenses	203	161
Other personnel costs	187	155
Legal, consulting and auditing fees	259	128
Losses from disposal of assets	31	79
Office supplies, postage, bank charges	109	78
Consumption of electricity, water and gas, cleaning, security	81	72
Travel expenses	56	57
Insurance	43	44
Other operating expenses	391	424
Total	**6,189**	**5,328**

25. Finance income and expense

CZK million	2006	2005
Interest income	160	93
Foreign exchange gains	149	124
Other finance income	13	28
Total finance income	**322**	**245**
Interest expense	(6)	(14)
Foreign exchange loss	(132)	(86)
Other finance expenses	(22)	(34)
Total finance expense	**(160)**	**(134)**
Total net finance income	**162**	**111**

26. Income tax expense

Income tax expense consists of the following:

CZK million	2006	2005
Current tax	(2,445)	(2,225)
Deferred tax – Note 15	648	195
Income tax expense	**(1,797)**	**(2,060)**

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

CZK million	2006	2005
Profit before tax	7,163	7,027
Tax by applying the statutory tax rate *	(1,719)	(1,827)
Impact of:		
Non-deductible expenses	(138)	(244)
Non-taxable revenues	29	16
Supplementary decrease in tax expense related to prior periods	(5)	(21)
Tax adjustment relating to prior periods	18	9
Other	18	7
Income tax expense	**(1,797)**	**(2,060)**

* In 2006, a rate of 24% applied (2005: 26%), based on the effective Income Tax Act.

27. Related party transactions and balances

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

CZK million	2006	2005
RADIOKOMUNIKACE a.s.*:		
Purchase of services (leased lines, rent and other services)	278	294
DTAG group:		
Roaming, interconnection and related purchased services	388	407
Other purchased goods and services	88	117
Cross charges	514	450
IT services	626	357
Purchased foreign currency – hedging	1,368	933
Total related party purchases	**3,262**	**2,558**
RADIOKOMUNIKACE a.s.*:		
GSM and interconnection services sold	65	25
DTAG group:		
Roaming, interconnection and related sold services	425	563
Re-branding reimbursement	16	16
Income from sale of PP&E and intangible assets	13	445
Cross charges	364	139
Total related party sales	**883**	**1,188**

Related party receivables:

CZK million	31.12.2006	31.12.2005
RADIOKOMUNIKACE a.s.*:		
GSM and other services	15	4
DTAG group:		
Roaming, interconnection and related sold services	497	227
Other services and discounts	167	123
Total related party receivables	**679**	**354**

* The company RADIOKOMUNIKACE a.s. is a related party of the company CESKE RADIOKOMUNIKACE S.á.r.l.

27. Related party transactions and balances (continued)

Related party payables:

CZK million	31.12.2006	31.12.2005
RADIOKOMUNIKACE a.s.*:		
Leased lines and other rentals	25	24
DTAG group:		
Roaming, interconnection and related purchased services	798	439
Other services and discounts	405	305
Total related party payables	**1,228**	**768**

* The company RADIOKOMUNIKACE a.s. is a related party of the company CESKE RADIOKOMUNIKACE S.á.r.l.

The Company had no borrowings within the group as at 31 December 2006. The long-term loan 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 not drawn as at 31 December 2006 and 31 December 2005.

Short-term employee benefits

As at 31 December 2006, and 31 December 2005, the Company provided the following wages, personal leave, health care and other short-term employee benefits:

	2006		2005	
CZK million	Average number of employees	Amount	Average number of employees	Amount
Management*	44	209	49	199
Board of Directors**	7	1	7	1
Supervisory Board**	6	1	6	1
Total	**57**	**211**	**62**	**201**

* 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.

27. Related party transactions and balances (continued)

Motivation bonus scheme

As at 31 December 2006, the Company provides 43 members of the management with a post-employment benefit (31 December 2005: 45 members of the management). In the case that certain conditions are met, entitled management can obtain a payout based on their salary levels. Projected payouts are accrued at the estimated discounted current value. As at 31 December 2006, the provision amounted to CZK 17 million (31 December 2005: CZK 24 million).

Other long-term benefits – retention plan

As at 31 December 2006, 22 management members (2005: 25 management members) were included in the retention plan. The retention plan consists of 2 options: deferred bonus or capital life insurance, provided certain conditions given in the plan are fulfilled. Total costs of the retention plan totalled CZK 45 million in 2006 (2005: CZK 23 million). Liabilities relating to the retention plan will be settled in 2007.

Share-based payments

As at 31 December 2006, the Company recognised a provision for retention scheme tied to share prices trend in the amount of CZK 2 millions (31 December 2005: CZK 11 million).

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 2006 and 2005.

Dividends

Based on the resolution of the General meeting, held on 21 June 2006, the Company distributed a share of retained earnings to the shareholders as a dividend in the aggregate amount of CZK 7,685 million (CMobil B.V.: CZK 4,670 million, RADIOKOMUNIKACE a.s.: CZK 3,015 million).

28. Contingent assets and liabilities

There are ongoing negotiations concerning the settlement of interconnection fees from 2001 with ČESKÝ TELECOM, a.s., at present Telefónica O2 Czech Republic, a.s., which are concurrent with the court proceedings. 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.

Tax authorities are authorised to inspect 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 are 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 2006, other than that which has already been adjusted or disclosed as at 31 December 2006.

29. Guarantees

As at 31 December 2006, bank guarantees totalling CZK 68 million were issued to lessors of commercial space and real estate at the Company's request (as at 31 December 2005: CZK 67 million).

As at 31 December 2006, the Company's liabilities from import duties were covered by bank guarantees totalling CZK 50 million (31 December 2005: CZK 50 million).

Other guarantees as at 31 December 2006 totalled CZK 6 million (31 December 2005: CZK 16 million).

30. Commitments

As at 31 December 2006, the Company's future capital commitments to major technology suppliers totalled CZK 1,249 million (31 December 2005: CZK 844 million).

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 million	31.12.2006	31.12.2005
Up to 1 year	729	713
1 to 3 years	1,245	1,236
3 to 5 years	1,059	1,086
Over 5 years	3,033	3,100
Total	**6,066**	**6,135**

31. Subsequent events

No events which would have a significant impact on the financial statements as at 31 December 2006, occurred subsequent to the balance sheet date.