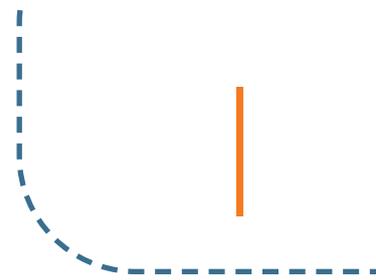


2006





Contents

Company profile	2
Introduction by the Chairmain of the Board of Directors	4
Highlights in the Company	6
Key Activities	7
Statutory Bodies	8
Corporate Development, Regulation and Legal Environment in 2006	10
Business Policy and Marketing	10
Information Systems	11
Employee Policy and Social Program	12
Technology and infrastructure	14
ISO Standards	15
Customers, Monitoring and Contact Centers	15
Selected Financial Indicators, Investments and Charts	16
Financial Part	17

Company profile

GTS NOVERA a.s. (GTS Novera) is a nationwide telecom operator, providing a complex portfolio of voice telephony, data and Internet services with guaranteed top quality. It was founded in 2005 following the merger of two leading alternative telecom operators – GTS CZECH a.s. (GTS Czech) and GTS NOVERA a.s. (former Aliatel a.s. – Aliatel) – currently it is a member of the strong international telecom group GTS Central European Holding B.V. (GTS CEH), which, in turn, also forms part of the international financial holding GML Limited and incorporates leading telecom operators in Poland, Hungary, Romania, Slovakia and the Czech Republic. In July 2006 GTS Novera successfully completed the acquisition of other telecom operators on the Czech market – Contactel s.r.o. (Contactel), Telenor Networks, s.r.o. (Telenor Networks) and NEXTRA Czech Republic s.r.o. (Nextra). Thanks to these acquisitions, GTS Novera has become the second-biggest operator in the Czech Republic offering fixed-line services.

The company's products primarily focus on corporate clients – large corporations, small and medium enterprises and sole trader across the whole of the Czech Republic. GTS Novera operates regional offices in Brno, České Budějovice, Hradec Králové, Liberec, Olomouc, Ostrava, Plzeň and Ústí nad Labem. In addition to this, GTS Novera operates top-quality data centers in Prague, Brno and Ostrava, offering extensive server capacity and technology to its customers. GTS Novera has also acted as a long-term partner and telecom service supplier for public administration – state administration as well as local governments. Thanks to the strong background of the Central European telecom group GTS CEH, it is capable of actively offering its services at an international level.

GTS Novera is a member of the Association of Public Telecommunication Network Operators (APVTS) and its business operations and cooperation with the Czech Telecommunication Office contribute significantly to the development of a fully competitive environment in the Czech telecom market, particularly in the domain of high-speed Internet connection provision.



We are **Using** the world's latest
and most advanced
technologies



Introduction by the Chairman of the Board of Directors



Dear colleagues, shareholders, business partners and friends,

The present Annual Report describes events in our company over the last year 2006. Just like 2005, last year was once again a very dynamic one filled with breakthrough changes which not only significantly impacted upon our company but on the Czech telecom market as a whole.

Other acquisitions took place less than a year after the merger of the two biggest alternative telecom operators GTS Czech and Aliatel, which resulted in our current company GTS Novera. The process of acquisition of other telecom operators in the Czech and Slovak markets – Contactel, Telenor Networks and Nextra – was completed at the beginning of 2006.

As a direct consequence of these acquisitions, our company has earned the title of second-biggest nationwide fixed-line telecom operator in the Czech Republic and has started to present real competition to the dominant operator, especially in the field of corporate clients and public administration.

Last year was very challenging for us. 2005 was a year of integration, and the same applies to 2006, but to a much larger extent. We worked hard to incorporate three competing operators into the structure of our company. This huge integration is unparalleled in the Czech telecom market. We had to deal with the integration of three different networks and a large number of technological and supervisory systems, and to unify a great many product portfolios and customer databases.

All of this was accomplished in full operation and with a minimum impact on our customers and the quality of the services supplied. The integration process was followed immediately by the company's transformation into one of the most significant operators in the Czech Republic and, within the framework of the parent company

GTS CEH, in Central Europe. We managed to bring this extremely complicated process to a successful end, which is reflected in our financial results and the market shares generated. We are easily the biggest competitor of the dominant operator and in many fields,



such as state administration, local government and the corporate clients segment, we have almost closed the gap.

Through our active business policy and open communication with the regulatory authorities once again last year we managed to significantly contribute to the development of a fully competitive environment in the Czech telecom market, especially in terms of high-speed Internet access. In the second half of last year we established almost ten thousand available local lines, thereby offering a fully-fledged combination of telephone and data services to small enterprises and sole traders, who previously had to make do with the limited services of our competitors, contingent upon the mandatory payment of a monthly lump-sum fee to the dominant operator.

The general consolidation of the Czech telecom market continued last year. There were some major acquisitions and overlapping of what was originally two distinctly separate markets – fixed-line and mobile services. This trend of continuous convergence was

especially marked in the second half of the year. Our company responded to this development by intensifying its activity in terms of negotiations with the regulatory authorities and competing operators. In 2007 the fervent search for cooperation opportunities allowing all operators to address their customers more efficiently and to meet their expectations will be followed by specific offers.

To conclude I would like to thank all of our customers who have at some point utilised our services. Judging from our customer satisfaction survey, we are heading in a direction that will allow us not just to satisfy our customers' needs, but also to respond to their requirements and comments.

I would also like to thank all of the company's employees and my colleagues, who have contributed to the successful completion of the integration and to the ongoing transformation in any way, shape or form. I rely on their experience, quality and commitment in the years to come.

I would also like to say a huge thank-you to our shareholders; if it had not been for their support, we would not have been able to achieve all the things I have mentioned in this introduction and would not be able to turn our ambitious, yet well-elaborated future plans into reality.

A handwritten signature in blue ink, appearing to be 'M. Rusnák', written in a cursive style.

Milan Rusnák
Chairman of the Board of Directors GTS NOVERA a.s.

Highlights in the Company

January

- › GTS Novera formally completed the merger of GTS Czech and Aliatel, which took less than a year. In line with the previously announced plan, the companies GTS NOVERA a.s., GTS CZECH, a.s., KPNQwest Czechia s.r.o. and GTS Carrier Services/Czech/ s.r.o. merged as of 31st December 2005. The latter three companies were deleted from the Commercial Register as of 31st December 2005 and ceased to exist. GTS NOVERA a.s. became the successor of all of these companies as of 1st January 2006.
- › The Central European telecommunications group GTS Central European Holding completed the acquisition of Telenor Networks and Nextra in the Czech Republic and Slovakia.

February

- › GTS Novera changed the structure of the ADSL services on offer as of 1st February. The new offer included 3072/256 kB/s and 4096/512 kB/s connections.
- › The Central European telecommunications group GTS Central European Holding completed the acquisition of Contactel.

March

- › GTS Novera introduced the company's development strategy in the wake of the acquisitions of Contactel, Telenor Networks and Nextra. The acquisitions completed at the turn of January and February would help the company consolidate the Czech telecom market, develop possibilities in terms of access to end users and increase the company's competitive advantage over ČESKY TELECOM, a.s. (currently Telefónica O2 Czech Republic, a.s.).

April

- › The first stage of the integration of the operators acquired by GTS CEH at the turn of January and February was brought to an end. On 1st April 2006 Contactel s.r.o. was renamed GTS Novera Contact, s.r.o. and NEXTRA Czech Republic s.r.o. was renamed GTS Novera Next, s.r.o. A new, enlarged portfolio of services and products of GTS Novera was introduced to complement this move.

May

- › GTS Novera introduced its new telecom service Novera duo garant, intended primarily for smaller enterprises, sole traders and home offices. The service comprising connection to the Internet and voice telephony, brings telecom cost savings as well as other useful applications accessible via the Internet.

June

- › GTS Novera changed its registered office. It moved from the Zirkon administration building in Karlín, Prague, to the newly built administration center Luxembourg Plaza at Přemyslovská 2845/43, Prague 3.

July

- › As of 1st July GTS Novera completed the legal integration of the former companies GTS Novera Contact, s.r.o., GTS Novera Next, s.r.o. and GTS Novera Tel, s.r.o. under the single business name GTS NOVERA a.s.

August

- › The new corporate strategy and product activities scheduled until the end of 2006 were introduced at a press conference held on 30th August. The corporate management also provided information on the ongoing transformation of the integrated company.

October

- › The sale of a new service based on new metallic lines was initiated in Prague and the regional capitals. The Novera Komplet Office service, which combines voice telephony and high-speed Internet connection services, is primarily intended for big and small enterprises and for sole traders.
- › In accordance with a decision of the sole shareholder of GTS Novera, the company's registered shares were converted into certificated shares on 24 October 2006.

December

- › GTS Novera increased the data limits of the high-speed Internet connection service Novera DSL. The change of download limits for all customers was automatic and free.

Key Activities

The acquisitions of Contactel, Nextra and Telenor at the end of 2005 and their subsequent integration in the course of 2006 largely contributed to the growth of our customer base and the portfolio of the products and services offered. The access network was extended and modernized and currently offers integrated voice telephony, data and Internet services. Further expansion is expected in 2007. Thanks to these services we can actively address new customers among small and medium enterprises and sole traders.

Our portfolio of voice telephony services was expanded last year and currently includes VoIP products. Novera virtuální ústředna (Novera virtual exchange) is another new service that allows for the remote establishment of a branch exchange function (outsourcing) without having to own, run, extend or locate the exchange. The functionality of color lines was also extended to include international destinations.

In data services the most emphasis was placed on further developing the promising Novera IP VPN service. This complex service is supervised by the provider throughout the whole network and along the whole connection lines to the interface. It is supplied in two versions, with an Ethernet interface and with a serial interface. The services are implemented via a digital circuit or using DSL technology. Foreign destinations where the service can be provided are being continuously added.

As regards Internet services, the speed of ADSL technology was significantly increased on the leased lines as well as on the company's own access infrastructure.

Converged services hold an increasingly important position in GTS Novera's portfolio. Last year the IP Komplet was newly added to the portfolio; for corporate clients it constitutes an optimal solution to the delivery of voice telephony, Internet and data services through a unified technology platform. The Novera IP Komplet service uses the unique possibilities of modern IP and VoIP technology.

The Novera komplet office was also newly introduced; at its core is the complete delivery of telephone and Internet services within a single integrated solution based on new local metallic lines.



Statutory Bodies

Statutory Bodies

Supervisory Board:

John Gerald Grace, member

Tamas György Polgar, member

Vladana Švorcová, member

Board of Directors:

Milan Rusnák, Chairman

Tomáš Budník, member

Eva Krátká, member

Management:

Milan Rusnák, Chief Executive Officer

Tomáš Budník, Director, Commercial Division

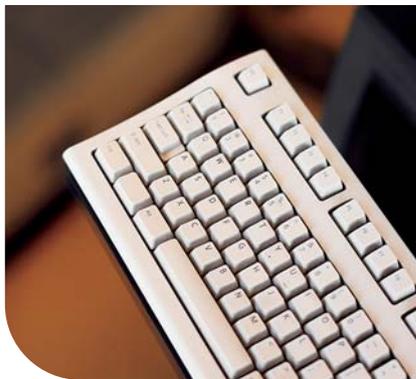
Václav Dolínek, Director, Technical Division

Miloš Mašník, Director, Products and Strategy Division

Zdeněk Rathauský, Director, Operations Division

Petr Štajner, Director, Wholesale and Public Relations Division

Vladana Švorcová, Director, Finance Division



GTS Novera successfully
integrated the companies
Contactel, Telenor and Nextra



Corporate Development, Regulation and Legal Environment in 2006

From the standpoint of regulation and operators, the completion of analyses of all 18 relevant markets was crucial in 2006 as it resulted in the determination of operators with a dominant influence on the markets. The applicable remedial measures were subsequently issued for the individual markets to make sure the market environment in electronic communications in the Czech Republic could develop.

As regards the inter-operator environment, it was regulated several times in 2006 in the form of several amendments to the network interconnection agreement with mobile operators and Telefónica O2 Czech Republic, a.s.. The new amendments adjusted the condition of the existing contracts. A business agreement between the Czech Republic's operators on a new method of delivering services with special tariffs marked a distinct market change.

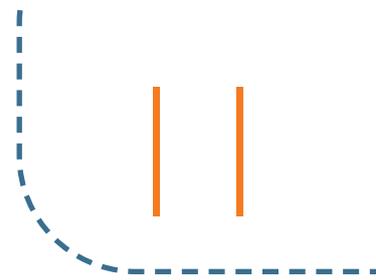
Following the merger with GTS Novera Contact, s.r.o., GTS Novera Next, s.r.o. and GTS Novera Tel s.r.o. almost 7.5 million assigned geographical and non-geographical numbers were transferred to GTS NOVERA a.s. without any failure of the services provided.

Business Policy and Marketing

Year of integration and strengthening of market positions

2006 was a year of continuing consolidation of the Czech telecom market for GTS Novera. GTS Novera successfully integrated the companies Contactel, Telenor and Nextra, thereby considerably strengthening its position in the market for corporate clients. Another major effect of the integration processes was the extension of the product portfolio to include VoIP and LLU services, which enables us to offer complete telecommunications services also to small and medium-sized enterprises. In the autumn of 2006 GTS Novera launched a communication campaign and the sale of the

Novera Komplet Office service, targeted at the key market segment of GTS Novera and covering all telecom services for small and medium-sized enterprises. This regional campaign partly increased brand awareness, but above all successfully promoted GTS Novera as a telecom operator providing advantageous service packages even for smaller firms. In 2006 the services of all original companies were consolidated and their technical solutions and business conditions optimized with a view to enhancing the company's customer-oriented approach and increasing customer satisfaction. The brand GTS Novera thus became a symbol of top-quality telecommunications services in the corporate sector.



Information Systems

The information systems of the acquired companies Contactel, Nextra and Telenor were analyzed at the beginning of 2006. As a result of the analyses, the concept of integration and development was determined, based on several iterative steps.

The integration projects kicked off by merging the customer bases into CRM Salwin and connecting it on-line with functionalities allowing extranet communication with customers and management of automated Service Provision (SP) systems of commodity products. The same emphasis was put on the fastest-possible establishment of the temporary unified CRM portal IDZ, which would display information from systems which had yet to be integrated – unified fundamental managerial and business reporting. ERP systems were fully integrated first. ERP SAP was the target. The joint receivable recovery system KRAB was launched along with a unified financial recording system. Previously data was processed from the as yet non-integrated billing systems. The same system started acting as an in-house workflow system that controlled the circulation and approval of external orders, contracts and invoices received.

The following stage of the integration process comprised the merger of the retail billing systems of Telenor and Contactel into the effective billing system Durian Novera. This consolidation also encompassed many adjustments that allowed for the billing and invoicing of the different products offered by these two companies to be carried out. At that time the product portfolio, unified in terms of names, began undergoing one of the many stages of actual unification.

A system called ANQA, created by GTS Novera's Development Department, was selected as the integration platform. In the course of the billing systems merger, it started passing information between the legacy SP systems and the target supporting CRM OC Plus. This system was chosen as the unified provider of information on services, business cases, customer claim tickets. Last but not least, it started covering the needs of Trade and Technical Divisions associated with the manual provision of large-scale services. The products of the companies acquired were gradually reworked into so-called Generic Products (GPs) to reduce the number of CSR technical parameters in the central database.

These activities were followed by the consolidation of the so-called extranets – Internet-based systems ensuring contact with customers and partners via a secured interface. Webcare/Partnet was selected as the target system. After billing consolidation, this system contained the necessary data and allowed the gradual shutdown of multiple competing systems. The link to Service Provision has been provided by the gradual rewriting of the individual SP fields of the technologies selected and administered by the integrating section of the Technical Division.

As regards commodity services, a large number of development projects were conducted from the beginning of the year, implementing wholly new products over LLU using the ex-Telenor system OSS for Service Provision; likewise, many legacy systems were adjusted to match the consolidating IS environment and the slow technological networks. The ANQA system communicating with third parties via the NES system (CS/CPS, NP) was chosen as the resulting platform, along with a set of SP connectors created by a dedicated team of programmers. These SP products also work as generic products and log the outcomes of their activities in CSR. These systems have already been mentioned above.

The project of a unified intranet was also successfully completed and the project to consolidate Interconnect Billing AWSB was launched; it is set to be completed in 2007. There were massive developments in the field of CRM towards the end of the year, involving adjustment of the functionalities of the Salwin and OCP target systems into a form requested by the end users – the employees of affiliated companies. This gradual change process will continue in 2007.

Because of the complexity of the consolidation of four companies into one and the complicated reorganization of automated service provision systems into one integrating technological network, the integration of the billing systems was set for completion in 2007; the consolidation of the mediating systems into the target mediation system Mangis and the completion of a large number of SP modules, including the wholly new WebOrder interfaces, are also planned for 2007. The project of a new DWH, to be implemented by the company's own analytical and development team, was also triggered. The validity of the data used within the project is ensured by a major data cleaning project, with a huge impact on the Umbrella project and the commission calculation project.

Employee Policy and Social Program

Workforce Structure and Wages

The number of employees and the organizational structure reflect GTS Novera's needs. We pay close attention to the recruitment of highly qualified employees, able to fulfill the company's targets. Further education, development and professional growth with a view to achieving the expected professional and personal qualities are integral parts of a professional career in our company. On 31st December 2006, the average age of the company's workforce was 32.18. In terms of education in 2006, GTS Novera employed mostly people with a secondary (58%) or a university (38%) education. The development of wages in 2006 matched the company's and its employees' needs, responding to the development of the telecom market. The wages currently comprise a basic tariff and an incentive element, which reflects each employee's actual performance. Wages and other benefits are effectively determined based on internal fairness and market surveys in the field of information and telecom services.

Employee Care

Employees are provided with healthcare services in keeping with applicable legislation. Much room in employee care is given to sports and games, which help eliminate stress from the everyday workload. Each GTS Novera employee can undertake some kind of sport in accordance with the valid benefits system. All GTS Novera employees are entitled to entrance and leaving medical examinations carried out by COMFORT CARE, a.s.

Sponsoring and Donations

In 2006 GTS Novera sponsored several cultural events and supported humanitarian aid collections. In the field of sports the company's sponsorship is traditionally focused on golf.



An integral part of every employee's career promotion is further education, development and professional growth



Technology and infrastructure

In the field of network infrastructure the whole year 2006 was marked by the ongoing integration of all network sections, network optimization and capacity migration. The capacity of the national backbone network DWDM and the SDH network was increased considerably and the local and municipal networks, especially in Prague, Brno, Ostrava and other cities of the Czech Republic, were upgraded in connection with the integration. In the wake of new customer projects, the number of network access points in the Czech Republic was enlarged to stand at over 100 at present.

As regards data networks, there was continuous integration of the IP/MPLS networks of GTS Novera, Contactel, Telenor and Nextra going over the course of the year, in parallel with the continuous network extension and an increase in the throughput of the individual layers and the performance of the network components. The IP/MPLS backbone network has significant unused capacity. The connection capacity of GTS Central Europe networks at the level of MPLS VPN was also developed, including interconnection with international networks. As a result it is possible to implement international MPLS VPN services covering and beyond Central Europe. More powerful control units in the central routers have had a positive impact reducing the convergence time of the routing protocols in the IP/MPLS network. Thanks to the implementation of new heavy-duty L2/L3 switches, it is now possible to provide higher data capacities to our customers. The capacity of the NIX connection was also increased to 2*2Gbps and the IP/MPLS backbone network was upgraded to 10Gbps.

2006 was a year of synergizing GTS Novera's and Contactel's voice telephony networks, while keeping the original voice service portfolio. The project of overall voice network optimization was also prepared, including connections to other national operators. Network reliability, high service availability and connection speeds are guaranteed by state-of-the-art technology, based on the Siemens Surpass new-generation telephone exchange. The components of the surpass system are located at eight sites throughout the Czech Republic to cover the biggest possible concentration of commercial facilities and the population, in line with the location of Telefonica O2's transit points. The voice telephony network is interconnected with 32 national and 88 international operators.

In compliance with the business strategy, Telenor's original ADSL technology, based on Telefonica O2's LLU-standard metallic network infrastructure, will be further developed. New, modern technology was implemented at the end of 2006 to distinctly expand the capacity for the delivery of broadband and narrowband services. Around-the-clock supervision is provided for all network components and immediate professional steps are taken if needed.

ISO Standards

In 2006 GTS Novera successfully extended the validity of the ISO 9001:2000 quality system certificate, granted to the company in 2000, during a recertification audit. In March 2006 the company became the first fixed-line operator in the Czech Republic to ever obtain an information security management certificate under ISO/IEC 27001:2005. GTS Novera is also a holder of a "reserved" level authorization from the National Security Authority.

Customers, Monitoring and Contact Centers

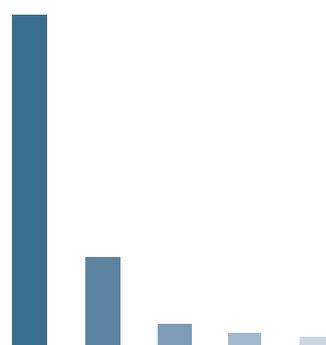
As in the previous year, the company's management paid increased attention to customer support in 2006. 2006 was a remarkably intensive year due to the acquisition of three companies at once – Contactel, Nextra and Telenor. It was necessary to merge the individual contact centers, technologies, processes, information systems and personnel expertise to guarantee a unified standard of provided care. Of course, all these actions had an impact on our customers, but in spite of numerous internal problems and deficiencies we managed to provide a high standard of customer care, which is reflected in the customer satisfaction survey conducted in October 2006. The integration year has passed; it helped us prepare for many specific improvements for the benefit of our customers, to be implemented in 2007. In line with the developments on the global market, we will focus on the automation of our customers' routine requirements using self-service electronic channels, on the improvement of expertise and competencies of the client center, the enhancement of an individual approach and intensification of proactive communication with customers. Together with error-free processes and operational dependability, all these actions will help us promote the company's competitive edge in this field.

Selected Financial Indicators, Investments and Charts

Investments in 2006 (CZK'000)

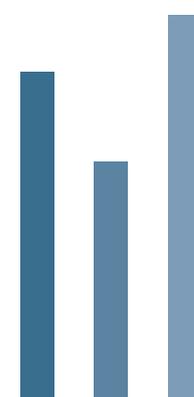
Switching centers	173,255
IP technologies	47,112
Transmission network	12,039
Wireless network	7,586
Other	5,640
Total	245,634
<hr/>	
IT	57,341
Buildings	39,091
Total	96,432
<hr/>	
Voice	85,960
Data	62,413
Internet	100,832
Total	249,206
<hr/>	
Overall	591,274

BACKBONE NET INVESTMENTS



■ Switching centers ■ IP technologies
■ Transmission network ■ Wireless network
■ Other

CLIENT CONNECTIONS

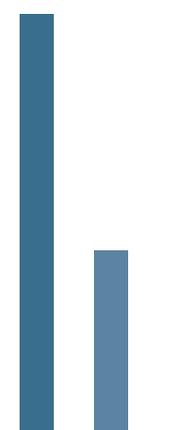


■ Voice ■ Data ■ Internet

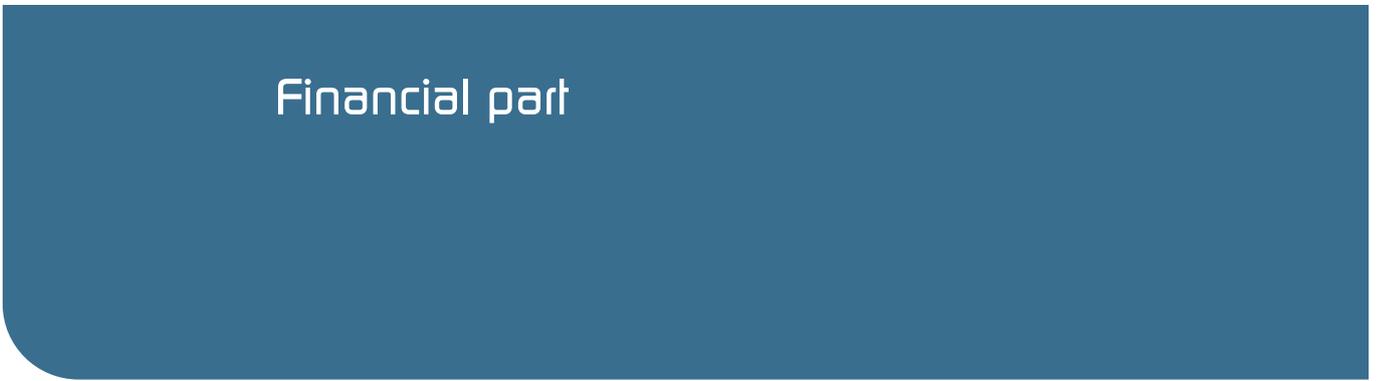
Selected Financial and Operating Indicators (CZK'000)

	31. 12. 2006	1. 1. 2006
Total assets	5,054,169	5,544,296
Fixed assets	3,482,829	3,792,669
Current assets	1,529,418	1,713,444
Other assets	41,922	38,183
<hr/>		
Equity	2,232,944	2,415,518
Liabilities	2,810,559	3,117,170
Other liabilities	10,666	11,608
<hr/>		
Sales of goods	42,464	
Sales of own products and services	5,961,599	
<hr/>		
Added value	1,485,049	
Operating result	-129,631	
Profit (loss) for the accounting period	-213,009	
<hr/>		
Employee number (average)	750	
Labour productivity (added value/employee)	1,980	

ASSETS STRUCTURE



■ Fixed assets
■ Current assets
■ Other assets



Auditor's Report



KPMG Česká republika Audit, s.r.o.
Pobřežní 648/1a
186 00 Praha 8
Česká republika

Telephone +420 222 123 111
Fax +420 222 123 100
Internet www.kpmg.cz

This document is an English translation of the Czech auditor's report. Only the Czech version of the report is legally binding.

AUDITOR'S REPORT TO THE SHAREHOLDER OF GTS NOVERA a.s.

Financial statements

On the basis of our audit, on 11 April 2007 we issued an auditor's report on the Company's statutory financial statements, which are included in this annual report, and our report was as follows:

"We have audited the accompanying financial statements of GTS NOVERA a.s., which comprise the balance sheet as of 31 December 2006, the income statement and the cash flow statement for the year then ended, and the notes to these financial statements including a summary of significant accounting policies and other explanatory notes. Information about the company is stated in point 1 of the notes to these financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements of GTS NOVERA a.s. in accordance with the Czech accounting legislation. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly in all material respects the assets, liabilities and the financial position of GTS NOVERA a.s. as of 31 December 2006, and its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with the Czech accounting legislation."

Report on relations between related parties

We have also reviewed the factual accuracy of the information disclosed in the report on relations between related parties of GTS NOVERA a.s. for the year ended 31 December 2006. This report on relations between the related parties is the responsibility of the Company's management. Our responsibility is to express our view on the report on relations based on our review.

We conducted our review in accordance with International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the review to obtain moderate assurance that the report on relations is free of material factual misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures and examination, on a test basis, of the factual accuracy of information, and thus provides less assurance than an audit. We have not conducted an audit of the report on relations and, accordingly, we do not express an audit opinion.

Nothing has come to our attention based on our review that indicates that the information disclosed in the report on relations between related parties of GTS NOVERA a.s. for the year ended 31 December 2006 contains material factual misstatements.

Annual report

We have audited the consistency of the annual report with the audited financial statements. This annual report is the responsibility of Company's management. Our responsibility is to express our opinion on the consistency of the annual report with the audited financial statements based on our audit.

We conducted our audit in accordance with the Act on Auditors and International Standards on Auditing and the relevant guidance of the Chamber of Auditors of the Czech Republic. Those standards require that we plan and perform the audit to obtain reasonable assurance that the information disclosed in the annual report describing matters that all also presented in the financial statements is, in all material respects, consistent with the audited financial statements. We believe that our audit provides a reasonable basis for the auditor's opinion.

In our opinion, the information disclosed in the annual report is, in all material respects, consistent with the audited financial statements.

Prague, 15 June 2007

KPMG Česká republika Audit

KPMG Česká republika Audit, s.r.o.
Licence number 71

Jan Martinek
Jan Martinek
Partner
Licence number 1598

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	A S S E T S	line	Current period		Prior period	
			Gross	Adjust.	Net	Net
a	b	c	1	2	3	4
	TOTAL ASSETS (L.02+03+31+63)	001	13,550,873	-8,496,704	5,054,169	5,544,296
A.	Receivables for subscribed registered capital	002				
B.	Fixed assets (L.04+13+23)	003	11,753,642	-8,270,813	3,482,829	3,792,669
B.I.	Intangible fixed assets (L.05 to 12)	004	1,352,650	-1,135,416	217,234	359,304
B.I.1.	Incorporation expenses	005				
2.	Research and development	006				
3.	Software	007	1,174,638	-1,082,325	92,313	225,418
4.	Royalties	008	171,470	-53,091	118,379	127,210
5.	Goodwill	009				
6.	Other intangible fixed assets	010				
7.	Intangible fixed assets under construction	011	6,517		6,517	3,784
8.	Advance payments for intangible fixed assets	012	25		25	2,892
B.II.	Tangible fixed assets (L.14 to 22)	013	10,373,822	-7,116,740	3,257,082	3,419,263
B.II.1.	Land	014	200		200	
2.	Buildings	015	1,552,739	-712,372	840,367	910,703
3.	Property, plant and equipment	016	7,129,909	-5,045,339	2,084,570	2,114,172
4.	Cultivated areas	017				
5.	Livestock	018				
6.	Other tangible fixed assets	019				33
7.	Tangible fixed assets under construction	020	118,702	-12,118	106,584	126,935
8.	Advance payments for tangible fixed assets	021	388		388	17,474
9.	Adjustments to acquired fixed assets	022	1,571,884	-1,346,911	224,973	249,946
B.III.	Long-term investments (L.24 to 30)	023	27,170	-18,657	8,513	14,102
B.III.1.	Investments in group undertakings	024	370	-370		5,512
2.	Investments in associated companies	025	490	-490		
3.	Other long-term securities and ownership interests	026				
4.	Loans - group undertakings, associated companies	027	26,310	-17,797	8,513	8,590
5.	Other long-term investments	028				
6.	Long-term investments (provisional value)	029				
7.	Advance payments for long-term investments	030				

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	A S S E T S	line	Current period			Prior period	
			Gross	Adjust.	Net	Net	
a	b	c	1	2	3	4	
C.	Current assets (L.32+39+48+58)	031	1,755,309	-225,891	1,529,418	1,713,444	
C.I.	Inventories (L.33 to 38)	032	189,335	-29,016	160,319	101,112	
C.I.I.	Raw materials	033	170,469	-29,016	141,453	98,547	
2.	Work-in-progress and semi-finished products	034	2,649		2,649		
3.	Finished goods	035					
4.	Livestock	036					
5.	Goods for resale	037				2,565	
6.	Advance payments for inventories	038	16,217		16,217		
C.II.	Long-term receivables (L.40 to 47)	039	22,582		22,582	22,655	
C.II.I.	Trade receivables	040	12,347		12,347	12,347	
2.	Receivables - group undertakings	041					
3.	Receivables - associated companies	042					
4.	Receivables from shareholders/owners and alliance partners	043					
5.	Long-term advances paid	044	10,235		10,235	10,308	
6.	Estimated receivables	045					
7.	Other receivables	046					
8.	Deferred tax asset	047					
C.III.	Short-term receivables (L.49 to 57)	048	1,255,910	-196,875	1,059,035	1,005,508	
C.III.I.	Trade receivables	049	1,155,078	-194,020	961,058	928,343	
2.	Receivables - group undertakings	050	35,266		35,266		
3.	Receivables - associated companies	051					
4.	Receivables from shareholders/owners and alliance partners	052					
5.	Social security and health insurance	053					
6.	Tax receivables	054	23,416		23,416	26,084	
7.	Short-term advances paid	055	21,222		21,222	20,441	
8.	Estimated receivables	056	3,482		3,482	7,681	
9.	Other receivables	057	17,446	-2,855	14,591	22,959	
C.IV.	Short-term financial assets (L.59 to 62)	058	287,482		287,482	584,169	
C.IV.I.	Cash	059	449		449	883	
2.	Bank accounts	060	286,960		286,960	552,210	
3.	Short-term securities and ownership interests	061	73		73	31,076	
4.	Short-term investments (provisional value)	062					
D.I.	Deferrals (L. 64+65+66)	063	41,922		41,922	38,183	
D.I.I.	Prepaid expenses	064	41,922		41,922	38,183	
2.	Complex prepaid expenses	065					
3.	Accrued revenues	066					

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
	TOTAL LIABILITIES AND EQUITY (L.68+85+118)	067	5,054,169	5,544,296
A.	Equity (L.69+73+78+81+84)	068	2,232,944	2,415,518
A.I.	Registered capital (L.70+71+72)	069	5,474,340	5,474,340
A.I.1.	Registered capital	070	5,474,340	5,474,340
2.	Own shares and ownership interests (-)	071		
3.	Changes in registered capital	072		
A.II.	Capital contributions (L.74 to 77)	073	539,474	509,039
A.II.1.	Share premium	074		
2.	Other capital contributions	075	539,141	508,706
3.	Revaluation of assets and liabilities	076	333	333
4.	Revaluation reserve on transformations	077		
A.III.	Reserve funds, undistributable fund and other funds from profit (L.79+80)	078		
A.III.1.	Statutory reserve fund / Undistributable fund	079		
2.	Statutory and other funds	080		
A.IV.	Retained earnings (L.82+83)	081	-3,567,861	-3,567,861
A.IV.1.	Retained profits	082		
2.	Accumulated losses	083	-3,567,861	-3,567,861
A.V.	Profit (loss) for the current period (+/-)	084	-213,009	
B.	Liabilities (L.86+91+102+114)	085	2,810,559	3,117,170
B.I.	Provisions (L.87 to 90)	086	139,526	31,667
B.I.1.	Tax-deductible provisions	087		
2.	Provision for pensions and other similar payables	088		
3.	Income tax provision	089		
4.	Other provisions	090	139,526	31,667

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	LIABILITIES	line	Current period	Prior period
a	b	c	5	6
B.II.	Long-term liabilities (L.92 to 101)	091	594,897	565,910
B.II.1.	Trade payables	092		
2.	Liabilities - group undertakings	093	585,423	556,220
3.	Liabilities - associated companies	094		
4.	Liabilities to shareholders/owners and alliance partners	095		750
5.	Long-term advances received	096		
6.	Debentures and bonds issued	097		
7.	Long-term bills of exchange payable	098		
8.	Estimated payables	099		
9.	Other long-term payables	100	9,474	8,940
10.	Deferred tax liability	101		
B.III.	Short-term liabilities (L.103 to 113)	102	1,338,414	1,533,626
B.III.1.	Trade payables	103	792,243	1,092,880
2.	Liabilities - group undertakings	104		
3.	Liabilities - associated companies	105		
4.	Liabilities to shareholders/owners and alliance partners	106		30,407
5.	Payables to employees	107	22,829	25,975
6.	Payables to social security and health insurance	108	15,572	17,500
7.	Tax liabilities and subsidies	109	6,631	10,145
8.	Short-term advances received	110	54,517	11,316
9.	Debentures and bonds issued	111		
10.	Estimated payables	112	446,598	343,840
11.	Other payables	113	24	1,563
B.IV.	Bank loans and overdrafts (L.115+116+117)	114	737,722	985,967
B.IV.1.	Long-term bank loans	115	504,757	753,002
2.	Short-term bank loans	116	232,965	232,965
3.	Short-term financial liabilities	117		
C.I.	Accruals (L.119+120)	118	10,666	11,608
C.I.1.	Accrued expenses	119		
2.	Deferred revenues	120	10,666	11,608

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
I.	Revenue from goods	01	42,464	
A.	Cost of goods sold	02	52,311	
+	Gross profit (L01-02)	03	-9,847	
II.	Revenue from production (L05+06+07)	04	6,252,563	
II.1.	Revenue from own products and services	05	5,961,599	
II.2.	Change in inventory of own production	06	2,649	
II.3.	Own work capitalized	07	288,315	
B.	Cost of sales (L09+10)	08	4,757,667	
B.1.	Materials and consumables	09	355,888	
B.2.	Services	10	4,401,779	
+	Added value (L03+04-08)	11	1,485,049	
C.	Personnel expenses (L13 to 16)	12	750,484	
C.1.	Wages and salaries	13	550,509	
C.2.	Remuneration of board members	14		
C.3.	Social security and health insurance expenses	15	186,868	
C.4.	Social expenses	16	13,107	
D.	Taxes and charges	17	56,627	
E.	Depreciation of intangible and tangible fixed assets	18	1,071,514	
III.	Proceeds from disposals of fixed assets and raw material (L20+21)	19	11,073	
III.1	Proceeds from disposals of fixed assets	20	11,073	
III.2	Proceeds from disposals of raw material	21		
F.	Net book value of fixed assets and raw material sold (L23+24)	22	10,739	
F.1.	Net book value of fixed assets sold	23	5,602	
F.2.	Raw materials sold	24	5,137	
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	25	-312,418	
IV.	Other operating revenues	26	152,429	
H.	Other operating expenses	27	201,236	
V.	Transfer of operating revenues	28		
I.	Transfer of operating expenses	29		
*	Operating profit (loss) (L11-12-17-18+19-22-25+26-27+28-29)	30	-129,631	
VI.	Proceeds from sale of securities and ownership interests	31	6,775	
J.	Securities and ownership interests sold	32	5,333	

Balance sheet (non-consolidated) as at 31 December 2006

Ident.	TEXT	Line	Accounting period	
			Current	Prior
a	b	c	1	2
VII.	Revenue from long-term investments (L.34+35+36)	33		
VII.1.	Revenue from investments in group undertakings and associated companies	34		
VII.2.	Revenue from other long-term securities and ownership interests	35		
VII.3.	Revenue from other long-term investments	36		
VIII.	Revenue from short-term financial investments	37		
K.	Financial assets expenses	38		
IX.	Revenue from revaluation of securities and derivatives	39		
L.	Expenses for revaluation of securities and derivatives	40	2,433	
M.	Change in provisions and adjustments relating to financial activity	41		
X.	Interest revenue	42	5,777	
N.	Interest expense	43	65,666	
XI.	Other financial revenues	44	85,979	
O.	Other financial expenses	45	108,477	
XII.	Transfer of financial revenues	46		
P.	Transfer of financial expenses	47		
*	Profit (loss) from financial operations (L.31-32+33+37-38+39-40+41+42-43+44-45+46-47)	48	-83,378	
Q.	Income tax on ordinary profit (loss) (L.50+51)	49		
Q.1.	- current	50		
Q.2.	- deferred	51		
**	Profit (loss) on ordinary activities after tax (L.30+48-49)	52	-213,009	
XIII.	Extraordinary revenue	53		
R.	Extraordinary expenses	54		
S.	Income tax on extraordinary profit (loss) (L.56+57)	55		
S.1.	- current	56		
S.2.	- deferred	57		
*	Extraordinary profit (loss) (L.53-54-55)	58		
T.	Transfer of profit or loss to partners	59		
***	Profit (loss) for the accounting period (L.52+58-59)	60	-213,009	
****	Profit (loss) before tax (L.30+48+53-54)	61	-213,009	

Cash flow statement (non-consolidated) as at 31 December 2006

	Current period	Prior period
P. Cash and cash equivalents, beginning of year	553,093	
Net operating cash flow		
Z. Accounting profit (loss) from ordinary activities	-213,009	
A.1. Non-cash transactions	904,359	
A.1.1. Depreciation of fixed assets	1,025,362	
A.1.2. Change in:	-287,445	
A.1.2.1. goodwill and adjustments to acquired assets	24,973	
A.1.2.2. provisions and other adjustments	-312,418	
A.1.3. Profit(-) Loss(+) on sale of fixed assets	-5,471	
A.1.4. Profit(-) Loss(+) on sale of securities	-1,442	
A.1.5. Revenue from dividends and profit distribution		
A.1.6. Expense and revenue interests accounted for	59,889	
A.1.7. Other non-cash transactions	113,466	
A.* Net operating cash flow before financial items, changes in working capital and extraordinary items	691,350	
A.2. Changes in working capital	-105,962	
A.2.1. Change in receivables from operating activities and deferrals	-28,991	
A.2.2. Change in short-term liabilities from operating activities and accruals	-50,043	
A.2.3. Change in inventories	-57,931	
A.2.4. Change in short term financial assets, other than cash and cash equivalents	31,003	
A.** Net operating cash flow before financial balances, tax and extraordinary items	585,388	
A.3. Interest paid excluding amounts capitalised	-66,526	
A.4. Interest received	5,397	
A.5. Income tax paid on ordinary income and income tax relating to prior periods	-338	
A.6. Receipts and disbursement from extraordinary items		
A.7. Dividends received and profit shares		
A.*** Net operating cash flow	523,921	

Cash flow statement (non-consolidated) as at 31 December 2006

	Current period	Prior period
Investment activity		
B.1. Acquisition of fixed assets	-579,087	
B.1.1. Acquisition of tangible fixed assets	-538,680	
B.1.2. Acquisition of intangible fixed assets	-40,407	
B.1.3. Acquisition of long-term investments		
B.2. Proceeds from sales of fixed assets	11,073	
B.2.1. Proceeds from sales of tangible and intangible fixed assets	11,073	
B.2.2. Proceeds from sale of financial investments		
B.3. Advances and loans to related parties		
B.*** Net cash flow from investment activity	-568,014	
Financial activity		
C.1. Change in long-term liabilities and bank loans	-221,591	
C.2. Increase and decrease in equity from cash transactions		
C.2.1. Subscription of shares and investments		
C.2.2. Equity paid to shareholders		
C.2.3. Other cash contributions from partners and shareholders		
C.2.4. Loss settlement from partners		
C.2.5. Payments from funds created from net profit		
C.2.6. Dividends paid and profit shares including withholding tax paid		
C.*** Net cash flow from financial activity	-221,591	
F. Net increase or decrease in cash balance	-265,684	
R. Cash and cash equivalents, end of period	287,409	

Notes to the Financial Statements

I. DESCRIPTION AND PRINCIPAL ACTIVITIES

Establishment and description of the Company

GTS NOVERA a.s. ("the Company") was registered on 13 May 1996 under the name of ALIATEL a.s. The Company changed its name to Aliatel a.s. on 13 November 1997 and to GTS NOVERA a.s. on 31 March 2005.

In 2005 GTS NOVERA a.s. became the legal successor company from the merger of GTS CZECH, a.s., (registration no: 639 99 501), KPNQwest Czechia s.r.o. (registration no: 485 38 701), GTS Carrier Services/Czech/ s.r.o. (registration no: 257 82 797) and GTS NOVERA a.s. with a decisive date for the merger of 1 January 2005. The merger was approved by the court and recorded in the Commercial Register on 31 December 2005.

On 1 January 2006 GTS NOVERA a.s. merged with GTS Novera Contact, s.r.o. (formerly Contactel s.r.o.) belonging to the GTS Central European Holding B.V. group since February 2006 and GTS Novera Next, s.r.o. (formerly NEXTRA Czech Republic s.r.o.) and GTS Novera Tel, s.r.o. (formerly Telenor Network, s.r.o.), both belonging to the GTS Central European Holding B.V. group since March 2006. GTS Central European Holding B.V. is a holding company established under the law of the Netherlands, which belongs to the international group of companies including the holding company GML Limited and its subsidiaries. The merger was approved by the court and recorded in the Commercial Register on 1 July 2006. GTS NOVERA a.s. prepared a pro-forma opening balance sheet as at the decisive date of the merger, i.e. 1 January 2006. The balances of this pro-forma opening balance sheet are included in the "Prior period" column of the 2006 financial statements. Due to the merger, the 2006 financial statements do not include comparative information relating to the profit and loss account and cash flow statement.

The principal business activities of the Company are the provision of telecommunication services, establishment, installation, maintenance and service of telecommunications equipment, data processing, databank services, network management and technical advisory services in the area of telecommunications.

Ownership structure

The Company's sole shareholder as at 31 December 2006 is GTS Central European Holding B.V. with its registered office in Amstelveen, the Netherlands.

Registered office

GTS NOVERA a.s.
Přemyslovská 2845/43
130 00 Praha 3
Czech Republic

Registration number

610 58 904

Members of the board of directors and supervisory board as at 31 December 2006

Board of directors	Supervisory board
Milan Rusnák (Chairman)	John Gerald Grace
JUDr. Eva Krátká	Tamas György Polgar
Tomáš Budník	Vladana Švorcová

The following changes were entered in the Commercial Register in 2006:

Board of directors

The membership of the board member Peter Charles Ramsay Broster expired on 31 July 2006 and was deleted from the Commercial Register on 9 August 2006. The membership of the board member Ivan Foltman expired on 31 August 2006 and was deleted from the Commercial Register on 18 September 2006 (his appointment as a member was effective from 31 July 2006 and was recorded in the Commercial Register on 9 August 2006).

Tomáš Budník was appointed a member of the board of directors on 31 August 2006 and this was recorded in the Commercial Register on 27 September 2006.

Other information

GTS NOVERA a.s. is the legal successor company of GTS Novera Contact, s.r.o. (registration no: 25 733 621, Contactel s.r.o. until 1 April 2006) with its registered office at Praha 3, Vinohradská 174, GTS Novera Next, s.r.o. (registration no: 25 683 691, NEXTRA Czech Republic s.r.o. until 1 April 2006) with its registered office at Praha 1, V Celnici 10 and GTS Novera Tel, s.r.o. (registration no: 26 201 151, Telenor Networks, s.r.o. until 13 February 2006) with its registered office at Praha 1, V Celnici 1028/10, which were dissolved without liquidation in accordance with s. 69(3) of the Commercial Code as a result of their merger with GTS NOVERA a.s. as the successor company – registered on 1 July 2006.

On 1 July 2006 the Company's registered office changed from Sokolovská 131/86, 186 00 Praha 8 to Přemyslovská 2845/43, 130 00 Prague 3.

Organisational structure

The Company is organised into six divisions (technical, operations, finance, sales, product management and strategy, wholesale and external relations), which are further divided into subdivisions, departments and work teams.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Tangible and intangible fixed assets

Intangible fixed assets

Intangible fixed assets are stated at acquisition cost. The cost includes the purchase price and other costs related to the acquisition. Low value intangible assets costing more than TCZK 10 but less than TCZK 60 are depreciated on a straight-line basis over the estimated useful life of the individual asset or a period of four years, whichever is the shorter. Low value intangible assets costing more than TCZK 3 but less than TCZK 10 are charged to the profit and loss account in the year that they are acquired and are reported in off-balance sheet records.

Tangible fixed assets

Tangible fixed assets are stated at acquisition cost. The cost includes the purchase price and related freight costs, customs and other costs associated with the acquisition. Low value tangible assets of a technological nature costing more than TCZK 5 but less than TCZK 40 and low value tangible assets of a non-technological nature costing more than TCZK 10 but less than TCZK 40 are depreciated on a straight-line basis over the estimated useful lives set by the internal policy or over a period of fifteen years, whichever is the shorter.

Low value tangible assets of a technological nature costing more than TCZK 3 but less TCZK 5 and low value tangible assets of a non-technological nature costing more than TCZK 3 but less TCZK 10 are charged to the profit and loss account in the year that they are acquired and are reported in off-balance sheet records. Technical improvements made to a tangible fixed asset costing more than TCZK 40 for one accounting period increase the acquisition cost of the relevant asset. Regular repairs and maintenance are charged to the profit and loss account.

If the net book value of a tangible fixed asset exceeds the value based on its estimated useful life, an adjustment is created to this asset.

Depreciation is provided using the following methods and over the periods stated:

Asset	Basis	Period
Constructions – technical improvements of buildings	Straight-line	10–30 years
Constructions – optical and metallic cables	Straight-line	10–30 years
Machinery and equipment (switchboards, transmission equipment, IT technologies, repair and maintenance equipment, microwave equipment, non-telecommunication technologies and office equipment)	Straight-line	2–15 years
Motor vehicles	Straight-line	4 years
Fixtures and fittings	Straight-line	4–8 years
Other tangible assets	Straight-line	2–4 years
Incorporation expenses	Straight-line	5 years
Software	Straight-line	3–10 years
Adjustment to acquired fixed assets	Straight-line	15 years

Leasehold improvements are depreciated on a straight-line basis over the shorter of the lease term or their estimated useful lives.

(b) Long-term investments

Long-term investments comprise investments in group undertakings and associated companies and loans provided to group companies.

Long-term investments are accounted for at cost. If the net realisable value of an investment is permanently lower than its book value, an adjustment is recorded to reduce the book value to the net realisable value.

(c) Inventories

Raw material inventory is stated at cost. The cost includes the purchase price of the inventory and related customs duties, storage fees and freight costs. The cost is determined using the weighted average method.

(d) Establishment of adjustments and provisions**Accounts receivable**

The amount of an adjustment to receivables is determined based on the ageing structure of receivables using the following percentage rates:

Overdue	% rate
1–30 days	5%
31–60 days	10%
61–90 days	20%
91–120 days	50%
121 – and more	100%

In addition, the Company establishes adjustments to receivables based on an analysis of the credit status of customers. Receivables from related parties are considered doubtful only if the debtor is subject to bankruptcy proceedings or if a company has been excluded from the group (i.e. they are no longer receivables from related parties but receivables from third parties).

Inventories

Adjustments to inventories are established where the cost of the inventory is temporarily higher than its present market value or where the use of the inventory is temporally limited.

Tangible and intangible assets

An adjustment to tangible and intangible assets is created based on an analysis of the assets' utilisation.

Securities and long-term investments

An adjustment to long-term investments is created in the amount of the difference between the book value and the net realisable value of the appropriate investment.

Other provisions

The Company creates the following provisions:

- > a provision for untaken holiday;
- > a provision for contingencies and commitments arising from unsettled legal disputes;
- > a provision for contingencies and commitments arising from business activity.

(e) Foreign currency translation

The Company applies the Czech National Bank official daily rate to foreign currency transactions. During the year, exchange gains and losses are only recognised when realised at the time of settlement.

At the balance sheet date, foreign currency monetary assets and liabilities are translated at the Czech National Bank official rates for that date. Unrealised foreign exchange gains and losses are recognised in the profit and loss account.

(f) Derivatives**Trading derivatives**

Financial derivatives held for trading are carried at fair value and gains (losses) from changes in the fair value are recorded in the profit and loss account.

Hedging derivatives

Hedging derivatives are carried at fair value. The method of recognising fair value depends on the model of hedge accounting applied.

Hedge accounting is applied if:

- > the hedge is in line with the Company's risk management strategy,
- > the hedge relationship is formally documented at the inception of the hedge,
- > it is expected that the hedge relationship will be highly effective throughout its life,
- > the effectiveness of the hedge relationship can be objectively measured,
- > the hedge relationship is highly effective throughout the accounting period,
- > in the case of hedging future expected transactions, it is highly probable that the transaction will occur.

If the derivative hedges the exposure to changes in the fair value of assets and liabilities, the hedged item attributable to the risk being hedged is also carried at fair value. Gains (losses) from the revaluation of the hedged item and hedging derivative are recorded in the profit and loss account.

If the derivative hedges the exposure to changes in cash flows related to assets and liabilities, commitments or expected transactions, the effective part of the hedge (fair value of the hedging derivative) is reported in equity in "Revaluation of assets and liabilities". The ineffective part of the hedge is recognized in the profit and loss account.

(g) Leased assets

Lease payments are expensed on a straight-line basis over the lease term. Where an asset is purchased at the end of the lease, it is recorded at its purchase price.

(h) Income tax

Corporate income tax on the profit for the year comprises current income tax and the change in deferred tax. Current income tax comprises tax payable calculated on the basis of the expected taxable income for the year, using the tax rate valid as at balance sheet date and any adjustment to the tax payable for previous years.

Deferred tax is provided on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes multiplied by the income tax rate prescribed by the Income Tax Act for the next period.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which this asset can be utilised.

(i) Classification of liabilities

The Company classifies as short-term any part of long-term liabilities, bank loans and overdrafts that is due within one year from the balance sheet date.

(j) Components of cash (as reported in the cash flow statement)

For the purposes of the cash flow statement, cash and cash equivalents are defined to include cash in hand, cash in transit, cash at the bank and other financial assets whose valuation can be reliably determined and which can be readily converted to cash.

3. FIXED ASSETS

[a] Intangible fixed assets

	Incorporation expenses	Software	Royalties	Intangible assets under construction	Advance payments	Total
Acquisition cost						
Balance at 1. 1. 2006	108	1,138,369	243,027	3,784	2,892	1,388,180
Additions	--	33,865	--	6,517	25	40,407
Disposals	-108	-3,186	-71,557	--	--	-74,851
Transfers	--	5,590	--	-3,784	-2,892	-1,086
Balance at 31. 12. 2006	--	1,174,638	171,470	6,517	25	1,352,650
Accumulated amortisation						
Balance at 1. 1. 2006	108	781,727	115,817	--	--	897,652
Depreciation expense	--	119,150	8,831	--	--	127,981
Disposals	-108	-3,186	-71,557	--	--	-74,851
Transfers	--	-109	--	--	--	-109
Balance at 31. 12. 2006	--	897,582	53,091	--	--	950,673
Adjustments						
Balance at 1. 1. 2006	--	131,224	--	--	--	131,224
Changes in adjustments	--	53,519	--	--	--	53,519
Balance at 31. 12. 2006	--	184,743	--	--	--	184,743
Net book value 1. 1. 2006	--	225,418	127,210	3,784	2,892	359,304
Net book value 31. 12. 2006	--	92,313	118,379	6,517	25	217,234

(b) Tangible fixed assets

	Land	Buildings	Works of art	Machinery and equipment	Motor vehicles	Tangible assets under construct.	Advance payments	Adjustment to acquired fixed assets	Total
Acquisition cost									
Balance at 1. 1. 2006	--	1,521,395	33	6,672,881	61,961	138,730	17,474	1,571,884	9,984,358
Additions	200	58,154	--	385,523	3,239	103,363	388	--	550,867
Disposals	--	-39,270	-33	-62,613	-18,974	-30,620	-1,289	--	-152,799
Transfers	--	12,460	--	87,892	--	-92,771	-16,185	--	-8,604
Balance at 31. 12. 2006	200	1,552,739	--	7,083,683	46,226	118,702	388	1,571,884	10,373,822
Accumulated depreciation									
Balance at 1. 1. 2006	--	610,692	--	4,232,341	55,805	--	--	983,268	5,882,106
Depreciation expense	--	120,026	--	785,456	4,086	--	--	60,312	969,880
Disposals	--	-18,346	--	-57,163	-18,284	--	--	--	-93,793
Transfers	--	--	--	109	--	--	--	--	109
Balance at 31. 12. 2006	--	712,372	--	4,960,743	41,607	--	--	1,043,580	6,758,302
Adjustments									
Balance at 1. 1. 2006	--	--	--	332,524	--	11,795	--	338,670	682,989
Changes in adjustments	--	--	--	-289,535	--	323	--	-35,339	-324,551
Balance at 31. 12. 2006	--	--	--	42,989	--	12,118	--	303,331	358,438
Net book value 1. 1. 2006	--	910,703	33	2,108,016	6,156	126,935	17,474	249,946	3,419,263
Net book value									
31. 12. 2006	200	840,367	--	2,079,952	4,618	106,584	388	224,973	3,257,082

An advance payment for tangible fixed assets of TCZK 9,690 recorded as at 1 January 2006 was used to purchase of technological material and was therefore reclassified to advances for inventories in 2006.

An adjustment to acquired fixed assets of TCZK 1,571,884 reported in the balance sheet as at 31 December 2006 consists of several assets. An amount of TCZK 324,325 was recorded in connection with the merger of GTS Czech Net a.s., GTS Inec a.s., DATTEL a.s. and DATTEL Consultancy, a.s. leading to the formation of GTS CZECH, a.s. in 2001 in the opening balance sheet of the successor company as at 1 February 2001. The adjustments to acquired fixed assets of TCZK 667,494 and TCZK 580,065 were recorded in connection with the acquisition of CESNET, z.s.p.o. by Contactel s.r.o. in 2000 and the acquisition of the internet division of PVT, a.s. by NEXTRA Czech Republic s.r.o. in 2000. In compliance with the effective accounting procedures, this adjustment is expensed on a straight-line basis over a period of fifteen years.

In the period from 2003 to 2005 Contactel s.r.o. recorded extraordinary depreciation charges relating to the adjustment to acquired assets in the total amount of TCZK 490,341 (2003 – TCZK 272,129, 2004 – TCZK 100 000 and 2005 – TCZK 118,212) based on the method of discounted future cash flows. The depreciation of the adjustment to acquired fixed assets was fully completed in 2005.

Additions to machinery and equipment include a physical count surplus of TCZK 12,187, which was capitalised. Additions to accumulated depreciation of machinery and equipment include annual depreciation charges as well as accumulated depreciation of the capitalised surplus in the same amount.

4. LEASED ASSETS

(a) Finance leases

The Company leases vehicles and telecommunication technologies under finance lease contracts. In 2006 the lease costs for vehicles and telecommunication technologies amounted to TCZK 3,963 and TCZK 2,448, respectively. The Company is committed to payments under finance leases of TCZK 4,491 (1 January 2006 – TCZK 7,303), of which TCZK 2,740 (1 January 2006 – TCZK 2,803) is payable within one year.

(b) Operating leases

The Company has an operating lease for passenger cars. The annual cost of this lease for 2006 was TCZK 18,425.

In addition, the Company has an operating lease for office premises and other premises used for telecommunication equipment installation. In respect of the office premises, the annual cost of the lease for 2006 was TCZK 116,774. The annual cost of the lease in respect of technological premises was TCZK 101,829.

5. NON-CAPITALISED TANGIBLE AND INTANGIBLE ASSETS

In accordance with the accounting policy described in note 2(a) above, the Company has charged to the profit and loss account tangible and intangible fixed assets in the year that they were acquired. The limit for immediately charging technological low value tangible fixed assets to the profit and loss account changed from TCZK 10 to TCZK 5 in 2006. The cumulative acquisition cost of assets which were still in use was as follows:

	Balance at	
	31. 12. 2006	1. 1. 2006
Tangible assets	86,713	63,110
Intangible assets (software)	3,336	101
Total	90,049	63,211

6. LONG-TERM INVESTMENTS

[a] Investments in group undertakings and associated companies and other investments

Investment	Share in %	Nominal value		Book value	
		of the investment	Adjustment	31. 12. 2006	1. 1. 2006
AGIS Telekomunikace s.r.o., v likvidaci	49%	490	-490	--	--
E-komunikace, s.r.o. v likvidaci	100%	200	-200	--	--
Slovakia Carrier Services s.r.o. v likvidácii	100%	170	-170	--	--
Aliatel Slovakia, s.r.o.	--	--	--	--	5,512
Total investments		860	-860	--	5,512

Aliatel Slovakia, s.r.o.

In January 2006 the Company sold its 100% share in Aliatel Slovakia s.r.o. to its parent company, GTS Central European Holding B.V. for TCZK 6,775 (TSKK 8,905).

AGIS Telekomunikace s.r.o., v likvidaci

Registered office: Pod hřístěm 6, 101 00 Praha 10

AGIS Telekomunikace was established in 1994 to provide telecommunication services (purchase of goods for resale). AGIS Telekomunikace did not carry out any business activity in the period 2002 to 2005. Consequently, an adjustment in the amount of TCZK 490 was established for this investment in 2002.

On 28 December 2005 the Municipal Court in Prague adopted a resolution to dissolve the company with liquidation. This resolution came into legal force on 28 January 2006. AGIS Telekomunikace s.r.o. was dissolved pursuant to s. 68(6)(a) of the Commercial Code.

E-komunikace s.r.o. v likvidaci

Registered office: Hvězdova 1073/33, 140 21 Prague 4

In November 2002, the Company together with KPNQwest Czechia s.r.o. established the company eIdentity, s.r.o. to provide certification authority services for the sale and administration of certified electronic signatures.

As the purpose for which the company was established was not achieved, a 100% adjustment was created for this investment in 2003. E-komunikace s.r.o. entered into liquidation based on the decision of the company's sole member made on 11 December 2006.

Slovakia Carrier Services s.r.o. v likvidácii

Registered office: Šoltésovej 12, 811 08 Bratislava

In 2005 the company changed its name from GTS Carrier Services /Slovakia/ s.r.o. to Slovakia Carrier Services s.r.o. This company does not carry out any business activity and therefore a 100% adjustment was established for this investment in 2005. The company entered into liquidation based on the decision of the company's sole member (GTS Carrier Services /Czech/ s.r.o.) made on 6 October 2005.

No dividends were received from long-term investments in 2006.

(b) Long-term loans provided

Provided loans	Nominal value	Adjustment	Book value	
			31. 12. 2006	1. 1. 2006
Antel Holding Germany	8,513	--	8,513	8,590
KPNQwest NV	17,797	-17,797	--	--
Total provided loans	26,310	-17,797	8,513	8,590

Loan to Antel Holding Germany

In 2004, based on the agreement between GTS CZECH, a.s. and Antel Holding Germany, trade receivables of EUR 269,359 were converted to a loan to the related party and are therefore reported in long-term investments. The loan bears an interest rate of 5% and is repayable at any time on demand.

Loan to KPNQwest NV

In July 2000 the Company concluded a loan contract with KPNQwest NV based on which, on 17 January 2002, it provided a loan to this company in the amount of EUR 647,270.

As KPNQwest NV entered into bankruptcy proceedings in 2002, a 100% adjustment was created for this loan as at 31 December 2002.

7. Short-term securities and ownership interests

Short-term securities and ownership interests of TCZK 73 (1 January 2006 – TCZK 31,076) consist of depository notes.

8. Inventories

At the stock-takes held on 31 December 2006 and 31 December 2005 the Company identified obsolete raw material inventories for which it created an adjustment of TCZK 29 016 (1 January 2006 – TCZK 21,182).

9. Trade receivables and payables

(a) Short-term trade receivables total TCZK 1,155,078 (1 January 2006 – TCZK 1,325,202), of which TCZK 407,145 (1 January 2006 – TCZK 542,922) is overdue. An adjustment of TCZK 194,020 (1 January 2006 – TCZK 396,859) has been set up as at 31 December 2006 to adjust for receivables which may be uncollectible.

(b) Short-term trade payables total TCZK 792,243 (1 January 2006 – TCZK 1,092,880), of which TCZK 493,768 (1 January 2006 – TCZK 814,038) is overdue.

In 2006 the Company wrote off a part of trade payables to former GTS Group companies, namely GTS, Inc. and Ebone North America, of TCZK 76,677 and TCZK 24,312, respectively. These payables were over due more than six years and became out of date. The Company still records similar payables in the amount of TCZK 190,704 as at 31 December 2006, the limitation period of which has not yet expired.

(c) Long-term trade receivables primarily comprise a trade receivable from SITEL, s.r.o. of TCZK 12 347 (1 January 2006 – TCZK 12,347) due on 31 March 2010.

10. LONG-TERM ADVANCE PAYMENTS MADE

Long-term advance payments made in the amount of TCZK 10 235 (1 January 2006 – TCZK 10,308) include an advance of TCZK 5,003 (1 January – TCZK 5,976) relating to the lease of a building and optical cables paid to S E L F Servis, spol. s r.o. and an advance of TCZK 2,400 (1 January 2006 – TCZK 2,400) relating to the lease of a building paid to SIMMO s.r.o.

11. ESTIMATED PAYABLES

	Balance at 31. 12. 2006	Balance at 1. 1. 2006
Voice services	174,853	141,963
Data services	98,034	73,481
Bonuses and commissions	42,441	31,232
Commissions for indirect sales	33,863	21,617
Rent, energies and utilities	22,412	15,921
Other overhead costs	74,997	59,626
Total	446,598	343,840

12. DERIVATIVES

As at the balance sheet date the Company held the following financial derivatives for trading:

	Due date (expiry)	Option premium	Fair value at 31. 12. 2006	Fair value at 1. 1. 2006
Forward exchange contracts				
Purchase of an interest rate option – ČSOB	30. 6. 2010	3,120	1,665	3,006
Purchase of an interest rate option – HVB	30. 6. 2010	4,680	3,572	4,664
Total		7,800	5,237	7,670

The option premiums were purchased on 14 October 2005 (both ČSOB and HVB) in connection with the acquisition of the loans. Changes in the fair values were recognised in the profit and loss account.

13. ADJUSTMENTS

	Balance at 1. 1. 2006	Additions	Release / utilisation	Balance at 31. 12. 2006
Adjustments to intangible fixed assets	131,224	108,736	-55,217	184,743
tangible fixed assets	332,524	46,739	-336,274	42,989
tangible fixed assets under construction	11,795	323	--	12,118
adjustment to acquired assets	338,670	--	-35,339	303,331
long-term investments	20,579	--	-1,922	18,657
inventories	21,182	7,834	--	29,016
receivables	398,599	43,594	-245,318	196,875
Total	1,254,573	207,226	-674,070	787,729

Decreases in the adjustment to intangible fixed assets of TCZK 55,217 and the adjustment to tangible assets of TCZK 336,274 were mainly caused by the release of an adjustment created in 2003 based on an analysis comparing the carrying amount of the fixed assets with their value in use. The basis for the analysis was the business plan of the predecessor company Aliatel a.s. for the period from 2004 to 2009, which changed significantly as a result of the mergers on 1 January 2005 and 1 January 2006. As at 31 December 2006 the Company carried out a comparison of the carrying amount of its technological fixed assets with their value in use ascertained based on the method of discounted future cash flows. The outcome supports the release of the adjustment. The Company performed an analysis of the existing fixed assets in use as at 31 December 2006 and adjustments of TCZK 108,736 and TCZK 46,739 were created for intangible fixed assets and tangible fixed assets, respectively.

In 2002 NEXTRA Czech Republic s.r.o. accounted for an adjustment to the adjustment to acquired assets in the amount of TCZK 417,118. The adjustment was increased by TCZK 8,400 in 2004 and TCZK 13,391 in 2005. The amount of TCZK 35,339 is the annual release of the adjustment and is presented within depreciation of intangible and tangible fixed assets in the profit and loss account.

A decrease in the adjustment to long-term investments of TCZK 1,922 was caused by fluctuation in foreign exchange rates. In compliance with the effective accounting procedures this decrease is presented in the profit and loss account as a foreign exchange gain in other financial revenues.

A decrease in the adjustment to receivables of TCZK 170,935 was mainly caused by the write-off of trade receivables from former group companies, which were fully provided for in the past, and by the release of an adjustment to receivables from Telefónica O2 Czech Republic, a.s. of TCZK 44,752 based on the agreement of both companies concerned to terminate a dispute regarding the price of the Transit service for the Internet, dated 14 December 2006. A decrease of TCZK 9,306 was caused by the fluctuation in foreign exchange rates. In compliance with the effective accounting procedures this decrease is presented in the profit and loss account as a foreign exchange gain in other financial revenues.

14. ADJUSTMENT TO ACQUIRED ASSETS

Upon the merger of GTS CZECH, a.s., GTS Czech Net a.s., GTS Inec a.s., DATTEL a.s. and DATTEL Consultancy a.s. as at 31 January 2006, total assets were increased by an adjustment to acquired assets of TCZK 324,325, which was calculated as the difference between the book value of the net business assets of the merged companies as at 30 June 2000 and the value of the net business assets determined in the merger project based on expert appraisals.

Company	Book value of net business assets at 30. 6. 2000	Value of net business assets at 30. 6. 2000 from the merger project (based on expert appraisals)	Difference
Dattel a.s.	237,212	433,220	-196,008
GTS Inec a.s.	-11,980	35,959	-47,939
GTS Czech Net a.s.	40,214	120,592	-80,378
Total	265,446	589,771	-324,325

There was a mistake, however, in the method of determining the book value of the net business assets as at 30 June 2000 as the calculation included provisions but did not include the profit (loss) for the period from January to June 2000.

The corrected calculation of the book value of the net business assets as at 30 June 2000 results in an adjustment to acquired assets in the amount of TCZK 327,757 (see the table below).

Company	Book value of net business assets at 30. 6. 2000	Value of net business assets at 30. 6. 2000 from the merger project (based on expert appraisals)	Difference
Dattel a.s.	240,171	433,220	-193,049
GTS Inec a.s.	-8,380	35,959	-44,339
GTS Czech Net a.s.	30,223	120,592	-90,369
Total	262,014	589,771	-327,757

As described above, the adjustment to acquired assets was understated by TCZK 3 432 as at 1 February 2001 (the date of the merger of DATTEL a.s., GTS Czech Net a.s., GTS Inec a.s. and DATTEL Consultancy a.s. leading to the formation of GTS CZECH, a.s.). However, the Company did not additionally adjust the adjustment as the amount of the difference arising from the corrected calculation is immaterial when considering the total amount of the adjustment.

The effects of this error on the amount of annual depreciation and accumulated depreciation from previous years are shown below:

	As a result of the error, annual depreciation of the adjustment to acquired assets was understated by	As a result of the error, accumulated depreciation of the adjustment to acquired assets was understated by
2001	210 *	210 *
2002	229	439
2003	229	668
2004	229	897
2005	229	1 126
2006	229	1 355

* for 11 months (since 1 February 2001)

15. CHANGES IN EQUITY

	Registered capital	Other capital contributions	Revaluation of assets and liabilities	Accumulated losses	Loss for the current period	Total
Balance at 1. 1. 2006	5,474,340	508,706	333	-3,567,861	--	2,415,518
Additions off registered capital	--	30,435	--	--	--	30,435
Loss for 2006	--	--	--	--	-213,009	-213,009
Balance at 31. 12. 2006	5,474,340	539,141	333	-3,567,861	-213,009	2,232,944

The loss for 2006 will be transferred to accumulated losses.

In accordance with section VI a. of the title deed of NEXTRA Czech Republic s.r.o. the company TELENOR TELECOM SOLUTIONS AS committed itself to pay a contribution to the equity of NEXTRA Czech Republic s.r.o. (not to the registered capital) of TCZK 30 435.

16. PROVISIONS

	Provision for untaken holiday	Provision for legal disputes	Other provisions	Total
Balance at 1. 1. 2006	2,254	28,792	621	31,667
Addition	12,169	85,240	25,532	123,401
Utilisation	-2,254	-13,288	--	-15,542
Balance at 31. 12. 2006	12,169	100,744	26,153	139,526

The Company does not record in its balance sheet liabilities relating to the invoices from Telefónica O2 Czech Republic, a.s. ("O2") (former Český Telecom, a.s.) resulting from the contract between Český Telecom, a.s. and GTS CZECH, a.s. for the lease of connecting sets between the telecommunication networks of the respective companies. These invoices were returned to Český Telecom, a.s. as the Company believes that they are at variance with the decision of the Czech Telecommunication Office of 11 September 2002 (section IV.), which stipulates that every provider of a public telecommunication network that is connected, at one connection point, to another public telecommunication network should bear all expenses incurred in connection with the installation and operation of

telecommunication equipment and telecommunication circuits of his network up to the specified interface at the connection point, unless both parties agree otherwise. The Company did not agree otherwise with Český Telecom, a.s. and therefore returned to Český Telecom, a.s. invoices in the aggregate amount of TCZK 170,195 for the period from January 2001 to December 2006 (1 January 2006 – TCZK 148,874) (of which 2001 – TCZK 28,838, 2002 – TCZK 42,860, 2003 – TCZK 24,977, 2004 – TCZK 26,996, 2005 – TCZK 25,203 and 2006 – TCZK 21,461).

This dispute is currently being considered by the High Court in Prague and by the Prague 3 District Court.

Based on the negotiations between the Company and O2 in March 2007 both parties agreed on an extrajudicial final settlement of TCZK 80,000. The Company recorded a provision of the same amount as at 31 December 2006.

17. BANK LOANS

In 2005 the Company drew a syndicated long-term loan from HVB, ČSOB and Raiffeisenbank with a maturity date of 30 June 2010. The Company is committed to half-yearly instalments of TCZK 116,482 with a final instalment of TCZK 38,830. The interest rate applied was 4.8%.

	Balance of the loan	Unpaid interest	Total balance	Payable within 1 year	Payable within 1 to 5 years
1 January 2006	970,686	15,281	985,967	232,965	753,002
31 December 2006	737,722	--	737,722	232,965	504,757

The interest of TCZK 39,350 for 2006 was fully paid as at 31 December 2006.

This loan has been secured by all of the Company's assets.

18. SEGMENT INFORMATION

The Company's principal business activity is the provision of telecommunication services, such as:

- > provision of voice services;
- > connection to the Internet network through a fixed telecommunication line (DIA);
- > connection to the Internet through DSL technologies;
- > interlinking of customers' branches into virtual Internet networks (IP VPN);
- > connection of the internet providers to the international Internet network (IP transit);
- > provision of data circuits;
- > connection to the Internet through a dial-up;
- > lease of international data telecommunication circuits;
- > other minor Internet services (web hosting, server hosting, telehousing, domains, sale of internet equipment – modems ...).

	Domestic sales	Export	Total
Sale of goods	42,464	--	42,464
Sale of services	4,688,551	1,273,048	5,961,599
Total	4,731,015	1,273,048	6,004,063

Exports include all sales of goods and services to foreign entities realised in the territory of the Czech Republic.

19. OTHER OPERATING EXPENSES

Other operating expenses of TCZK 201,236 include write-offs of trade receivables older than four years (TCZK 178,202), gifts (TCZK 2,797), fines and penalties (TCZK 1,949) and other operating expenses (TCZK 18,288).

20. OTHER OPERATING REVENUES

Other operating revenues of TCZK 152,429 include mainly write-offs of trade payables older than four years (TCZK 125,988) and reimbursement received from the parent company of Contactel s.r.o. as a result of the payment of employee options (TCZK 17,716).

21. OTHER FINANCIAL EXPENSES

Other financial expenses of TCZK 108,477 include realised (TCZK 56,688) and unrealised (TCZK 30,185) foreign exchange losses from receivables and payables, insurance of fixed assets and employees (TCZK 14,348) and bank fees (TCZK 7,256).

22. OTHER FINANCIAL REVENUES

Other financial revenues of TCZK 85,979 include realised (TCZK 83,303) and unrealised (TCZK 2,676) foreign exchange gains from receivables and payables.

23. RELATED PARTIES**(a) Trade receivables and payables and estimated payables**

The following related party balances are included in the trade receivables and payables described in note 9 above and in the estimated payables:

	Receivables at		Payables at	
	31. 12. 2006	1. 1. 2006	31. 12. 2006	1. 1. 2006
GTS Slovakia s.r.o.**	--	8,554	--	3,202
GTS Daňaneľ Távközlési Kft.	10,064	9,385	27,634	28,109
AliaTel Slovakia, s.r.o.**	--	851	--	7,296
GTS Central European Holding B.V.	6,646	1,622	21,034	29,639
GTS-Czech (Delaware), Inc.	--	2,199	--	--
GTS Polska Sp. Z o.o.	3,618	2,531	2,649	326
GTS Telecom S.R.L. (Romania)	33	3,469	780	79
Carduelis B.V.	2,426	913	--	--
GTS Nextra, a.s.	1,709	--	25,568	--
GTS Energis Sp. Z o.o.	212	--	320	--
TDC Totallosninger A/S*	--	2,365	--	22,372
Digitania Czech Republic, a.s.*	--	95	--	--
Nextra s.r.o. (Slovensko)**	--	975	--	1,286
Telenor International Centre AS*	--	72	--	--
Telenor ASA*	--	--	--	610

	Receivables at		Payables at	
	31. 12. 2006	1. 1. 2006	31. 12. 2006	1. 1. 2006
Telenor Business Solutions AS*	--	--	--	1,334
Telenor Global Services AS*	--	--	--	192
Telenor Bedrift AS*	--	--	--	439
Telenor Telecom Solutions AS*	--	--	--	1
Telenor Česká republika, s.r.o.*	--	2	--	--
Telenor International Centre, org. složka*	--	--	--	94
Telenor Networks, a.s. (Slovensko)**	--	--	--	1,260
Total	24,708	33,033	77,985	96,239

* These companies are no longer related parties as Contactel s.r.o., NEXTRA Czech Republic s.r.o. and Telenor Networks, s.r.o. were acquired by GTS Central European Holding B.V. in February and March 2006.

** The companies GTS Slovakia s.r.o, Aliatel Slovakia s.r.o., Nextra s.r.o. (Slovensko) a GTS Nextra, a.s. (Telenor Networks, a.s. until 6 February 2006) merged in 2006 and the legal successor became GTS Nextra, a.s.

(b) Long-term investments and long-term liabilities – group undertakings and associated companies

	Receivables at		Payables at	
	31. 12. 2006	1. 1. 2006	31. 12. 2006	1. 1. 2006
Antel Germany GmbH	8,513	8,590	--	--
GTS Central European Holding B.V.	--	--	585,423	411,220
TDC Totallosninger A/S *	--	--	--	145,000
Total	8,513	8,590	585,423	556,220

* These companies are no longer related parties as Contactel s.r.o., NEXTRA Czech Republic s.r.o. a Telenor Networks, s.r.o. were acquired by GTS Central European Holding B.V. in February and March 2006. The loan provided by TDC Totallosninger A/S was assumed by GTS Central European Holding B.V. based on a contract for the sale of an ownership interest in Contactel s.r.o.

Liabilities to GTS Central European Holding B.V. consist of:

Maturity	Interest rate	Principal amount	Interest for 2006	Balance at 31. 12. 2006	Balance at 1. 1. 2006
On demand	PRIBOR +3.25 %	319,429	18,676	344,613	411,220
9 June 2009	PRIBOR +3.25 %	28,325	1,318	29,643	--
9 June 2009	PRIBOR +3.25 %	56,650	2,637	59,287	--
31 December 2009 *	PRIBOR +0.5 %	145,000	3,636	151,880	--
Total		549,404	26,267	585,423	411,220

* The loan provided by TDC Totallosninger A/S was assumed by GTS Central European Holding B.V. based on a contract for the sale of an ownership interest in Contactel s.r.o.

(c) Short-term receivables from group undertakings

Short-term receivables from group undertakings of TCZK 35,266 include a receivable arising from the sale of Aliatel Slovakia, s.r.o. to the parent company GTS Central European Holding B.V. in the amount of TCZK 7,111 and a receivable from the sale of CZK currency to GTS Central European Holding B.V. for EUR currency in the amount of TCZK 28,155 repayable in January 2007.

(d) Short-term liabilities to shareholders/owners

The loan provided by TELENOR TELECOM SOLUTIONS AS of TCZK 30,435 was offset against its commitment to contribute to the equity of NEXTRA Czech Republic s.r.o. (not to the registered capital). The amount also includes interest for the period 1 January to 10 January 2007 of TCZK 28. The balance of the loan as at 1 January 2006 was TCZK 30,407.

(e) Sales and purchases

	Sales for 2006	Purchases for 2006
GTS Daňateľ Távközlési Kft.	27,083	16,593
GTS Central European Holding B.V.	6,079	45,530
GTS Polska Sp. Z o.o.	8,059	8,304
GTS Telecom S.R.L. (Romania)	393	753
Carduelis B.V.	1,793	--
GTS Energis Sp. z o.o.	813	1,931
GTS Nextra, a.s. *	10,518	77,145
Celkem	54,738	150,256

* The companies GTS Slovakia s.r.o., Aliatel Slovakia s.r.o., Nextra s.r.o. (Slovensko) and GTS Nextra, a.s. (Telenor Networks, a.s. until 6 February 2006) merged in 2006 leading to the formation of GTS Nextra, a.s. All transactions with these companies until the date of the merger are presented as transactions with GTS Nextra, a.s., accordingly. In 2006 the Company sold its ownership interest in Aliatel Slovakia, s.r.o. to GTS Central European Holding B.V. for TSKK 8,905 (TCZK 6,775).

(f) Remuneration and loans provided to directors and supervisory board members

Members of the board of directors and management use the Company's vehicles for both business and private purposes. The Company did not provide any loans to the directors or members of management.

(g) Group relations

The Company has not concluded a controlling agreement with its sole shareholder, GTS Central European Holding B.V. A report on relations between related parties will be a part of the annual report.

(h) Consolidated financial statements

The Company does not prepare consolidated financial statements since the majority of its subsidiaries do not carry out any business activity.

24. EMPLOYEES AND EXECUTIVES

The number of employees and executives as at 31 December 2006 and personnel expenses for 2006 are as follows:

	Number of employees	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	743	524,265	177,668	12,940
Executives	7	26,244	9,200	167
Total	750	550,509	186,868	13,107

25. SOCIAL SECURITY AND HEALTH INSURANCE PAYABLES

Social security and health insurance payables total TCZK 15,572 (1 January 2006 – TCZK 17,500), of which TCZK 11,097 (1 January 2006 – TCZK 13,000) relates to social security and TCZK 4,551 (1 January 2006 – TCZK 4,500) relates to health insurance. None of these liabilities are overdue.

26. TAX LIABILITIES AND SUBSIDIES

Tax liabilities total TCZK 6,631 (1 January 2006 – TCZK 10,145), of which TCZK 6,619 (1 January 2006 – TCZK 7,303) relates to unpaid personal income tax, TCZK 12 (1 January 2006 – TCZK 56) to subsidies and TCZK 0 (1 January 2006 – TCZK 2,786) to value added tax. None of these liabilities are overdue.

27. INCOME TAX**(a) Current tax**

No tax liability arose in 2006.

(b) Deferred tax

Unrecorded deferred tax assets and liabilities

	Assets at		Liabilities at		Net	
	31. 12. 2006	1. 1. 2006	31. 12. 2006	1. 1. 2006	31. 12. 2006	1. 1. 2006
Tangible and intangible assets	557,387	467,707	--	--	557,387	467,707
Adjustment to acquired assets	72,799	96,119	--	--	72,799	96,119
Receivables	6,363	30,662	--	--	6,363	30,662
Inventories	6,964	5,084	--	--	6,964	5,084
Provisions	33,256	7,538	--	--	33,256	7,538
Estimated payables	2,641	1,907	--	--	2,641	1,907
Tax losses carried forward	465,410	550,018	--	--	465,410	550,018
Deferred tax asset/(liability)	1,144,820	1,159,035	--	--	1,144,820	1,159,035

As a result of the merger as at 1 January 2006 the Company is not entitled to utilise the tax losses of the dissolved companies incurred before 2004.

In accordance with the accounting policy described in note 2 (h), a tax rate of 24% was used to calculate deferred tax.

28. RESEARCH AND DEVELOPMENT

The Company concluded a contract with the Academy of Sciences of the Czech Republic for the provision of a special-purpose subsidy for the "Optimisation of methods for multicast in IP networks" project in the 2005–2008 period. In 2005 the Company received a subsidy amounting to TCZK 1,209, which was used to acquire tangible and intangible assets and cover payroll expenses (including health and social insurance) and other expenses associated with the project. It was agreed that the Company would cover at least 20% of the expenses incurred by the project. In 2006 the Company paid TCZK 46 back to the Academy as an unutilised part of the subsidy. The use of the subsidy was accounted for in accordance with Government Decree N. 461/2002 Coll.

29. CONTINGENCIES AND COMMITMENTS

(a) The Company filed a protest against invoices of T-Mobile ČR, a.s. (formerly Radiomobil a.s.) relating to connection fees for the period from November to December 2001 in the aggregate amount of TCZK 5,603 (1 January 2006 – TCZK 5,603). These payables were therefore excluded from the balance sheet using an internal credit note. The Czech Telecommunications Office ("the CTO") in the first instance rejected the request of T-Mobile ČR, a.s. to charge higher connection fees. However, the Chairman of the CTO cancelled this decision based on an appeal filed by T-Mobile ČR, a.s. and referred the case back to the court of first instance for a new hearing. The CTO suspended the administrative proceedings.

(b) The Company has a revolving deposit at ČSOB in the amount of TEUR 178 (TCZK 4,894), relating to the lease contract concluded with ZIRKON v.o.s. (lease of non-residential premises including payment of utilities and related services). The Company is not authorised to manage this account until 1 October 2007.

30. FIXED ASSETS WITH A MARKET VALUE SIGNIFICANTLY HIGHER THAN THEIR BOOK VALUE

The Company has no fixed assets the market value of which is significantly higher than the book value.

31. MATERIAL SUBSEQUENT EVENT

The Company management is not aware of any events that have occurred since the balance sheet date that would have any material impact on the financial statements as at 31 December 2006.

11 April 2007



Milan Rusnák
Chairman of the Board of Directors

Report on Relations between Related Parties

in compliance with Section 66a(9) of Act No. 513/1991 Coll. of the Commercial Code, as amended for the accounting period from 1 January 2006 to 31 December 2006

1. CONTROLLED PARTY

Name, ID No. and registered office of the controlled party:

GTS NOVERA a.s.

ID: 610 58 904

Přemyslovská 2845/43, 130 00 Prague 3

On 1 July 2006, the Company's registered office changed from Sokolovská 131/86, 186 00 Prague 8 to Přemyslovská 2845/43, 130 00 Prague 3.

GTS NOVERA a.s. is the legal successor of the following companies: GTS Novera Contact, s.r.o. (until 1 April 2006 Contactel s.r.o.), ID No. 257 33 621, with its registered office in Prague 3, Vinohradská 174; GTS Novera Next, s.r.o. (until 1 April 2006 NEXTRA Czech Republic s.r.o.), ID No. 256 83 691, with its registered office in Prague 1, V Celnici 10 and GTS Novera Tel, s.r.o. (until 13 February 2006 Telenor Network, s.r.o.), ID No. 262 01 151, with its registered office in Prague 1, V Celnici 1028/10, which were dissolved without liquidation in compliance with Section 69(3) of the Commercial Code as a result of the merger with GTS NOVERA a.s., as the successor company. The equity of the wound up companies was transferred to the successor company as at 1 July 2006.

The effective date of the merger was 1 January 2006.

2. OWNERSHIP STRUCTURE

Throughout the 2006 accounting period, the Company's sole shareholder was GTS Central European Holding B.V., with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, The Netherlands (until 27 December 2006 at Profesor J H BavinkIn 7, 1183 AT Amstelveen, The Netherlands).

3. CONTROLLING PARTIES

According to the controlled party's knowledge, the Company's controlling parties were as follows:

- › Throughout the accounting period, GTS Central European Holding B.V. with its registered office in The Netherlands was the Company's 100% controlling party.
- › From 1 January 2006 to 3 November 2006, GTS Central European Holding B.V. was directly 100% controlled by Mellet Corporation N.V. with its registered office in The Netherlands.
- › From 3 November 2006 to 31 December 2006, the controlling party GTS Central European Holding B.V. was directly 100% controlled by GTS Central Europe Holdings Limited with its registered office in Cyprus.
- › From 1 January 2006 to 3 November 2006, the controlling party Mellet Corporation N.V. was directly 100% controlled by GTS Central Europe Holdings Limited (former GTS CE Cyprus Limited) with its registered office in Cyprus.
- › Since 1 July 2006, GTS Central Europe Holdings Limited has been directly 100% controlled by GTS Global Limited with its registered office on the British Virgin Islands.
- › GTS Global Limited is 95% controlled by GML Limited with its registered office in Gibraltar.

4. RELATED PARTIES

a) From 30 January 2006 to 1 July 2006:

GTS Novera Tel, s.r.o., ID No. 262 01 151, with its registered office in Prague 1, V Celnici 1028/10 (former Telenor Networks, s.r.o., change of name on 13 February 2006)

100% controlled by GTS Central European Holding B.V. with its registered office in The Netherlands.

On 1 July 2006, the Company was wound up without liquidation as a result of the merger with GTS NOVERA a.s. as its successor company.

GTS Novera Next, s.r.o., ID No. 256 83 691, with its registered office in Prague 1, V Celnici 10 (former NEXTRA Czech Republic s.r.o., change of name on 1 April 2006)

100% controlled by GTS Central European Holding B.V. with its registered office in the Netherlands.

On 1 July 2006, the Company was wound-up without liquidation as a result of the merger with GTS NOVERA a.s. as its successor company.

b) From 2 February 2006 to 1 July 2006

GTS Novera Contact, s.r.o., ID No. 257 33 621, with its registered office in Prague 3, Vinohradská 174 (former Contactel s.r.o., change of name on 1 April 2006).

100% controlled by GTS Central European Holding B.V. with its registered office in the Netherlands.

On 1 July 2006, the company was wound up without liquidation as a result of the merger with GTS NOVERA a.s. as its successor company.

c) From 1 January 2006 to 29 June 2006

Aliatel Slovakia, s.r.o., ID No. 35 826 568, with its registered office in Ružová dolina 6, 821 08 Bratislava, Slovak Republic.

From 1 January 2006 to 2 February 2006, the company was 100% controlled by GTS NOVERA a.s. with its registered office in the Czech Republic. From 2 February 2006 it was 100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

On 29 June 2006 the company was wound up without liquidation as a result of the merger with GTS Nextra, a.s., ID No. 35 795 662, with its registered office in Prievozská 2/A, 824 99 Bratislava; from 30 June 2006 the latter became its legal successor and took over all its rights and obligations.

GTS Slovakia s.r.o., ID No. 31 366 929, with its registered office in Liščie údolie 5, 841 04 Bratislava, Slovak Republic.

100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

On 29 June 2006 the company was wound up without liquidation as a result of the merger with GTS Nextra, a.s., ID No. 35 795 662, with its registered office in Prievozská 2/A, 824 99 Bratislava; from 30 June 2006 the latter became its legal successor and took over all its rights and obligations.

QUADIA DCT a.s., ID No. 35 758 732, with its registered office Tolstého 9, 811 06 Bratislava.

100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

On 29 June 2006, the company was wound up without liquidation as a result of the merger with GTS Nextra, a.s., ID No. 35 795 662, with its registered office in Prievozská 2/A, 824 99 Bratislava; from 30 June 2006 the latter became its legal successor and took over all its rights and obligations.

d) from 30 January 2006 to 29 June 2006

Nextra s.r.o., ID No. 35 754 354, with its registered office in Mlynské Nivy 43, 824 71 Bratislava.

100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

On 29 June 2006, the company was wound up without liquidations as a result of the merger with GTS Nextra, a.s., ID No. 35 795 662, with its registered office in Prievozská 2/A, 824 99 Bratislava; from 30 June 2006 the latter became its legal successor and took over all its rights and obligations.

e) from 30 January 2006 to 31 December 2006

GTS Nextra, a.s., ID No. 35 795 662, with its registered office in Prievozská 2/A, 824 99 Bratislava (until 6 February 2006 Telenor Network, a.s.)

100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

f) from 1 January 2006 to 31 December 2006

E-komunikace s.r.o. v likvidaci, ID No. 267 30 928, with its registered office in Hvězdova 33/1073, 140 21 Prague 4

100% controlled by GTS NOVERA a.s.

AGIS Telekomunikace s.r.o., v likvidaci, ID No. 615 06 443, with its registered office in Pod hřištěm 6, 101 00 Prague 10

100% controlled by GTS NOVERA a.s.

Slovakia Carrier Services s.r.o. v likvidaci, ID No. 35 778 008, with its registered office in Šoltéssova 12, 811 08 Bratislava

100% controlled by GTS NOVERA a.s.

g) From 1 January 2006 to 31 December 2006

GTS Datane! Távközlési Kft., a limited liability company, with its registered office in Ipártelep u. 13-15, 2040 Budapest, Hungary. 98.88% owned by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands. GTS CE Holdings Limited, Cyprus holds 1.12% of the company.

GTS Polska Sp. z.o.o., a limited liability company with its registered seat in Al. Niepodległości 69, 02-626 Warsaw, Poland.

100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

On 13 January 2006, GTS Polska Sp.z.o.o. acquired 100% in TELRISE Sp.z o.o., whose business name was subsequently changed to GTS Invest Sp. z.o.o.

GTS Telecom S.R.L., with its registered office in Calea Victoriei 15, Bucharest Financial Piazza, Entrance A, 2nd Floor Podium, District 3 Bucharest, Romania.

47% of the company is controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands, and 53% by GTS CE Holdings Limited, Cyprus.

GTS Energis Sp. z.o.o., a limited liability company with its registered office in Al. Niepodległości 69, 02-626 Warsaw, Poland.

97.5% of the company is controlled by GTS Polska Sp. z.o.o. with its registered office in the Poland, and GTS Polska Sp. z.o.o. is directly 100% controlled by GTS Central European Holding B.V. with its registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, the Netherlands.

5. CONTRACTS CONCLUDED BETWEEN RELATED PARTIES

Related party

GTS Novera Tel, s.r.o. (from 30 January to 1 July 2006)

GTS Novera Next, s.r.o. (from 30 January to 1 July 2006)

GTS Novera Contact, s.r.o. (from 2 February to 1 July 2006)

Aliatel Slovakia, s.r.o. (from 1 January to 29 June 2006)

GTS Slovakia s.r.o. (from 1 January to 30 June 2006)

QUADIA DCT a.s. (from 1 January to 30 June 2006)

Nextra s.r.o. (from 30 January to 29 June 2006)

GTS Nextra, a.s. (from 30 January to 31 December 2006)

GTS Dataneŕ Tvkzls Kft (throughout 2006)

GTS Polska Sp. z o.o (throughout 2006)

GTS Telecom S.R.L. (throughout 2006)

GTS Energis Sp. z.o.o. (throughout 2006)

Carduelius B.V. (throughout 2006)

GTS Central European Holding B.V.

Description of business transactions – other

Mutual provision of telecommunications services

Consulting services

The crown values of these transactions are not specified because this information is confidential in compliance with the respective contracts.

The above listed transactions were not to the detriment of GTS NOVERA a.s.

6. LEGAL ACTS TAKEN OF EFFECTED BY THE CONTROLLED PARTY IN THE INTEREST OR AT THE MOTION OF RELATED PARTIES

In the past, the controlled party was granted a loan which was ceded in 2002 in the framework of the group to AnTel Holdings (Cyprus) Ltd. with its registered office in Cyprus. In the course of 2004, a contract was concluded between Group Menatep Limited (100% owner of AnTel Holdings (Cyprus) Ltd.) and GTS Central European Holding B.V. on the transfer of long-term liabilities of GTS CZECH, a.s. (legal predecessor of GTS NOVERA a.s.) from AnTel Holdings (Cyprus) Ltd. to GTS Central European Holding B.V. These long-term liabilities to GTS Central European Holding B.V. were transformed into a loan. The balance of the loan provided by GTS Central European Holding B.V., including unpaid interest, which totalled CZK 344,613,335 as at 31 December 2006. This loan is payable on the creditor's call and bears an interest rate of PRIBOR +3.25%.

In the course of 2006, the Company concluded two new loan contracts with the controlling party, for CZK 28,325,000 and CZK 56,650,000. The balance of the loans as at 31 December 2006, including unpaid interest, totalled CZK 29,643,354 and CZK 59,283,708. Both loans bear an interest rate of PRIBOR +3.25% and are due on 9 June 2009.

Based on a contract for sale of a holding of GTS Novera Contact, s.r.o., the controlling party, GTS Central European Holding B.V., took over a loan of CZK 145,000,000 from TDC Totalosninger A/S. The loan, including unpaid interest, totalled CZK 151,879,503 as at 31 December 2006. The loan bears an interest rate of PRIBOR +0.5% and is due on 31 December 2009.

In 2002, the controlled party was granted a loan in the framework of the group from Carduelis B.V.; the loan was paid and the unpaid interest was ceded in 2004 in the framework of the group to GTS Central European Holding B.V. In 2006, the interest was fully paid. Carduelis B.V., with its registered office in the Netherlands, is directly controlled and 100% owned by Mellet Corporation N.V. with its registered office in the Netherlands.

Based on a loan contract concluded by GTS CZECH, a.s. as the legal successor of GTS NOVERA a.s. in the 2005 accounting period with Antel Germany GmbH (as the debtor), GTS NOVERA a.s. records a receivable of EUR 269,359. The balance of the loan including unpaid interest totalled CZK 8,513,312 as at 31 December 2006.

On 2 February 2006, GTS NOVERA a.s. sold its holding in Aliatel Slovakia, s.r.o. to the controlling party GTS Central European Holding B.V. The transaction was not to the detriment of GTS NOVERA a.s.

In the period under review, the controlled party did not take or effect any other legal acts in the interest or at the motion of the related parties.

None of the concluded contracts and no other legal acts with the related parties caused any detriment to the controlled party. All business relations with related parties were concluded under standard business terms.

Prague on 30 March 2007



Milan Rusnák
Chairman of the Board of Directors, GTS NOVERA a.s.

© 2007

Copywriting: GTS NOVERA a.s.

Consultancy, production and design: ENTRE s.r.o.

