



07

GTS NOVERA a.s. Annual Report



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Our mission is to satisfy all the telecommunication needs of our customers, to innovate our complete range of services continuously and to keep constant pressure on the development of the telecommunications market in the Czech Republic.



Company

GTS NOVERA a.s. ("GTS Novera") is a nationwide telecom operator, providing a comprehensive 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 CE), which incorporates leading telecom operators in Poland, Hungary, Romania, Slovakia and the Czech Republic.



profile

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-sized enterprises and sole traders from all over the Czech Republic. GTS Novera operates regional offices in Brno, České Budějovice, Hradec Králové, Olomouc, Ostrava, Plzeň, Ústí nad Labem and Liberec. In addition, GTS Novera operates top-quality data centres in Prague, Brno and Ostrava, offering extensive server capacity and technology to its customers. GTS Novera acts as a long-term partner and telecom service supplier to the public sector – state administration as well as local governments. Thanks to the strong background of the Central European telecom group GTS CE, 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 Czech telecom market.



Introduction

by the Chairman of the Board of Directors

Dear colleagues, shareholders, business partners, customers and friends,

Allow me to start this Annual Report with my opening words. In this Report we look back at the year 2007 and summarize all significant events in our company. Unlike the previous years, 2007 was a period in which we could finally focus on core business, take advantage of the completed acquisitions and increase our company's performance without the inevitable restrictions caused by several years of acquisitions and transformations.

This is why first of all I would like to focus on the last three years, when we successfully completed the acquisition of the most significant telecom operators on the Czech and Slovak markets – Aliatel, Contactel, Telenor Networks and Nextra. I would like to thank all our employees for their huge efforts and determination with which they coped with this demanding and long-lasting acquisition and transformation process. I want to thank our shareholders because we could never initiate and complete the whole process without their support and understanding. My thanks also go to our business partners and, last but not least, our customers, who understood these liberalising changes, unprecedented on the Czech telecom market, and showed their support.

The past year 2007 was therefore the first year we could fully reap the fruits of our long-time acquisition and transformation work. I am delighted to say that our transformed and fully consolidated company went through this period highly successfully. We confirmed our position of the second-biggest nationwide fixed-line operator in the Czech Republic, and we were an equal competitor to the dominant operator particularly in the area of corporate clients and state administration. And what is more – through an active business approach, we managed to turn the results of years of hard work into the best economic results ever!

Apart from our aggressive business policy and top-quality customer care, we paid considerable attention to the development of our product portfolio. We introduced new voice and data products on the market, targeted especially at SMEs and sole traders, a segment still largely dependent on the offering of the dominant operator. Another important step was our company's shift to system integration, combining telecommunications and IT services. Our integrated solutions are increasingly applied in state administration and local government, for example in many metropolitan networks launched by our company last year. We want to continue with our successful supply of integrated services to the public sector and consultancy in the procurement of EU funding next year.

These integrated solutions are based on the development of VoIP technology and services based on this platform. We pay increased attention to this area because we see this technology as the future of our services for corporate and public sectors as well as for SMEs and sole traders. The highly demanding process of network preparation, system optimization and product development reached its highest point this year, when we are set to offer these new services to our customers.

However, 2007 was not just a year of exceptional economic results and increased attention paid to new technology. The expected change of the owner of GTS Novera's parent company, the telecom group GTS CE, went through in December. The former group owner – the financial holding company GML Limited – sold its 100% share to a consortium of strong financial investors. The consortium comprises funds from both sides of the Atlantic and their competency and long experience in telecommunications give a clear signal that the conditions for the future development of GTS Novera are and will be more than good.

At the end I would like to thank all of our shareholders, customers and business partners once again for their cooperation, support and trust in GTS Novera and in the abilities and skills of us, its employees. In this Annual Report you can confirm that you have backed the right horse. I and my colleagues hope you enjoy reading this report.



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

Highlights in 2007

JANUARY

[As the exclusive partner to BT Infonet in the Czech Republic, GTS Novera obtained the "BT Infonet HelpDesk Certificate" awarded for top quality. This certificate confirms the high level of the company's customer care centre.

FEBRUARY

[A year after the acquisition of the competing telecom operators Contactel, Nextra and Telenor Networks, GTS Novera started integrating the acquired telecommunications networks. Its new, extended network is one of the biggest networks in the Czech Republic and offers a broad range of end connection options, a high transmission capacity and a guaranteed quality of services to its telecom users.

MARCH

[GTS Novera signed a Master Agreement for the development of telecommunication infrastructure for state administration. It marked a significant step in the field of telecom solutions for state administration. The agreement superseded the previous master agreement under which the dominant operator was the monopoly supplier in this area.

[For the first time in its history GTS Novera placed among the Top 100 Most Admired Companies in the Czech Republic competition. The Czech Top 100 rankings are compiled on the basis of evaluation by about 500 managers in the Czech Republic.

APRIL

[GTS Novera increased its ADSL-based Internet connection speed rapidly. Its customers were guaranteed a higher speed free of charge.

[GTS Novera introduced its strategy for state administration and local government. A special team of consultants of GTS Novera offers not just telecommunications solutions to state administration and local governments, but also related consultancy services. This especially includes the funding of telecom projects through subsidies from EU funds.

MAY

[GTS Novera launched a brand new service called Novera duo expres. This service builds on the service Novera komplet office and is targeted especially at the smallest firms, sole traders and home offices. It is an advantageous combination of standard telephone services and high-speed Internet connection.

JUNE

[GTS Novera cancelled limits on the volume of transferred data in the service Novera duo expres, which combines voice and Internet connection. Several days later it announced the so-called "data holiday" for its high-speed Internet connection service Novera DSL. From 1 July until 30 September no volume or speed restrictions were exercised against its old as well as new customers.

[Metropolitan networks in Uherský Brod and in the Bílovecko micro-region were launched. In both cases the telecommunications network connects individual state administration institutions and entities and forms unified communication system. The city residents and visitors are offered simpler communication with government authorities by means of several stands with public access to the Internet. The commissioning of these two networks was another in a series of projects for construction of metropolitan networks, which GTS Novera is developing in cooperation with local government representatives throughout the Czech Republic.

JULY

[GTS Novera started offering the service Novera Managed Office, designed for SMEs as a complete solution to the security of their Internet connection. Novera Managed Office provides all of the benefits of an outsourced solution – the client gets a high level of security without any additional investment, for a regular monthly fee.

[GTS Novera extended the availability of the service Novera duo expres, intended for the smallest firms, sole traders and home offices. In addition to being available in Prague, Brno, České Budějovice, Hradec Králové, Liberec, Ostrava, Pardubice and Plzeň, this advantageous combination of standard telephone services and unlimited high-speed Internet access was newly introduced in Karlovy Vary, Jihlava, Kolín and Ústí nad Labem.

AUGUST

[GTS Novera published its financial results. In the first half of 2007 it followed up on the very successful year 2006. Last year the integration of the competing operators Contactel, Telenor and Nextra was successfully completed. In spite of the demanding transformation, this had a marked effect on the economic results of GTS Novera as well as of its Central European parent company GTS CE.

[Valašské Meziříčí launched its new metropolitan telecommunication network, provided by GTS Novera. The metropolitan network is used to connect local government bodies and institutions as well as commercial entities and offers high-speed Internet to city residents.

[The leading Central European telecom operator GTS CE, including GTS Novera, launched a unique regional MPLS network for corporate end users. This robust network covers five countries in the region (Hungary, Poland, Romania, Slovakia and the Czech Republic) and its network operation centre is located in Prague.

SEPTEMBER

[GTS Novera extended its discount Novera duo expres offer and Novera Komplet Office, intended for SME clientele. The availability of Novera duo expres was also extended – it was introduced in Olomouc, Zlín, Nymburk Benešov, České Budějovice, Pardubice and Karlovy Vary.

OCTOBER

[With effect from 1 September, GTS Novera increased its data limits for its Novera DSL high-speed Internet connection. The change in data limits was automatic. For those Novera DSL schemes where data limits are not applied, the parameters did not change.

NOVEMBER

[The Central European telecom operator GTS CE, which incorporates GTS Novera, won the Best CEE Wholesale Provider 2007 award. That company's wholesale policy was regarded as the best in the region of Central and Eastern Europe. The competition was organized by the leading global telecom magazine Capacity. It was the second time that GTS CE group won this award – previously in 2005.

[GTS Novera introduced the virtual exchange service Novera virtuální ústředna, which allows enterprises to call free between individual exchange stations. The virtual exchange is a fully outsourced solution to in-house communication with minimum demands on operation and easy control of options directly from common office applications, designed for SMEs.

DECEMBER

[At the turn of the year the owner of GTS Novera's parent company – the telecom group GTS CE – changed. The former owner, i.e. the financial holding company GML Limited, sold its 100% stake to a consortium of financial investors led by the North American and European funds Columbia Capital, M/C Venture Partners and Innova Capital.

activities

2007 marked another extension of GTS Novera's portfolio of services and products, especially concerning value-added services. The company's own access network was also enlarged in the course of the year, which allowed it to appeal to a larger group of customers. This access network is used, among others, for the service Novera duo expres, introduced in May 2007, which combines standard telephone services with high-speed Internet connection and is designed for small firms, sole traders and home offices. Novera duo expres offers discounted telephone charges and ADSL connection with speeds of up to 8 Mbit per second. Service installation is very easy thanks to an on-line ordering process and a self-installation kit.

It is the second service, Novera Komplet Office being the first, that uses the company's own access infrastructure. In 2008 the set of these services will be expanded and other services will be added, especially for larger corporate clients.

The newly introduced service Novera Managed Office was also very successful; it is a complete solution to Internet security, protecting all types of Internet connection against viruses, hackers' attacks and other risks. This service securely shields the LAN (WAN) network from other networks and provides for its reliable protection against undesirable activities on corporate networks coming from other networks and activities aimed from the corporate network to other networks. The speed of permitted traffic does not decelerate at all; conversely, the permitted traffic is maintained at the required speeds within the defined rules and protects critical information.

The service Novera Managed Office is designed as a supplementary service for Novera VPN and Novera Internet services.

Its customer comfort was enhanced by the Operational Statistics applications, used for IT supervision and administration and intended primarily to deal with and support so-called performance management. It means that this application collects data on the condition of the individual devices and their utilization (memory, CPU, interfaces). Performance management is designed for real-time data collection and presentation as well as for trend data collection and presentation.

In general, 2007 was a year characterized by an extension of the portfolio of conventional telecommunications services through the addition of ICT services (in particular outsourcing and managed services), which is a trend pursued by all modern telecom operators, mirroring the changing expectations of our customers. In 2008 GTS Novera is set to continue in this direction.



Statutory bodies

As at 31 December 2007

SUPERVISORY BOARD

John Gerald Grace,
Member

Tamas György Polgar,
Member

Vladana Štefková,
Member

BOARD OF DIRECTORS

Milan Rusnák,
Chairman

Tomáš Budník,
Member

Eva Králková,
Member

TOP MANAGEMENT

Milan Rusnák,
Chief Executive Officer and Director
of Commercial Division

Tomáš Budník,
Director, Technical Division

Miloš Mastník,
Director, Products and Strategy
Division

Zdeněk Raňhauský,
Director, Operations Division

Petr Štajner,
Director, Wholesale and Public
Relations Division

Vladana Štefková*,
Director, Finance Division

* On 1 February 2008, Peter Broster replaced Vladana Štefková

Corporate Development, Regulation and Inter-operator Environment in 2007

In terms of regulation, the implementation of rectifying measures actions ordered on the basis of analyses conducted by the Czech Telecommunications Office in the previous year were crucial for 2007.

In 2007 the Czech Telecommunications Office announced a new analysis of the relevant market No. 12 – wholesale broadband access in electronic networks would be carried out.

A significant step in the inter-operator environment in 2007 was completion of an agreement between Czech network operators regarding the change in providing of services with special tariffs with a view to enhancing the transparency of the provided services.

In 2007, within the framework of cooperation with Telefónica O2 Czech Republic, an agreement on the implementation of a wholesale service providing access for GTS Novera customers to the public telephone network of Telefónica O2, offered within the EU under the name Wholesale Line Rental (WLR), was concluded. The implementation of this service, scheduled for early 2008, will allow GTS Novera participants using the call prefix service (CPS) to use a complete service involving also telephone network access, which has been provided to these participants exclusively by Telefónica O2 so far.



2007 brought the best financial results in the history of GTS Novera.



Business Policy and Marketing

From a commercial point of view 2007 was one of the most successful years for GTS Novera. It was marked by the strengthening of its business and marketing position. GTS Novera can be described as the No. 1 choice telecom operator for clients from the highest market segments, i.e. corporate clients. We continued expanding our network through local loop unbundling (LLU) and the subsequent expansion of the portfolio of services based on this platform. We improved the possibilities for on-line verification of service availability and facilitated requests for our services made through our webpage. Thanks to these improvements we managed to offer our products and services to our clients successfully and continued in the overall consolidation and innovation of our product and client portfolio.

Much attention was paid to the ongoing development of individual customer solutions, i.e. those including the complete delivery of telecommunications services to the clients, including the necessary hardware. This is a trend for the further development of telecom services and our company is clearly among market leaders in the Czech Republic, as demonstrated by the rankings of the most successful enterprises in the Czech Republic – Czech Top 100. In addition to domestic awards, we can also boast international achievements of GTS Central European Holding B.V., which includes GTS Novera. We won the Best CEE Wholesale Provider award; our wholesale offer was regarded as the best in the region of Central and Eastern Europe. The competition was organized by the leading global telecom magazine Capacity. GTS CE received this award for the second time – previously in 2005. Our achievements at the domestic as well as international levels confirm our strategy – to offer top-quality, modern services based on our clients' individual needs, with maximum regard to their satisfaction.

ISO standards

During its first recertification audit in 2007, GTS Novera successfully retained its ISO 9001:2000 quality system certificate, held since 2000, and its information security management certificate under ISO/IEC 27001:2005, obtained in 2006.

Customers, Monitoring and Contact Centres

Following the successful completion of integration at the beginning of 2007, we paid maximum attention to specific improvements in after-sale customer care. We added new large customers into our individual care program, launched a self-service on-line request system and introduced the possibility of making changes in the settings of the provided services and contract modifications on the basis of verbal approval from our customers. We also initiated proactive supervision of the functionality of our services provided to major clients and added a new, modern contact channel – chat with an operator.

The growing satisfaction of our clients was demonstrated by an external satisfaction survey conducted by TNS-AISA, in which we reached the level of leading European telecom operators in terms of customer satisfaction and loyalty. We started identifying (and securing) customer satisfaction internally as well – in the key areas of customer relationships, i.e. technical support, service installation and service proposals. The advantage of this feedback rests in its specificity and impact on the personal evaluation of our employees–investigators, because it is performed immediately after the actual cases.

2008 will continue in this trend – a system for service operation statistics is in preparation, and other plans include strengthening language skills in the contact centre, enhancement of operator competence, improvement of individual approach to corporate clients and timely observation of client dissatisfaction as a means of preventing customers from transferring to our competitors.



Employee Policy and Social Programme

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, who are able to fulfill the company's targets. Further education, development and professional growth with a view to achieving a expected professional and personal qualities are integral parts of the professional career in our company. As at 31 December 2007, the average age of the company's workforce was 31.64. In terms of education, GTS Novera employed mostly people with secondary school (60.5%) and university (39%) education in 2007. The development of wages in 2007 matched the company's and its employees' needs, responding to the development of the telecom market. The wages currently comprise a basic tariff as well as an incentive element, which reflects each employee's actual performance. Wages and other benefits are effectively determined with respect to the internal justice and market surveys in the field of information and telecom services.

EMPLOYEE CARE

Employees are provided healthcare services in keeping with applicable legislation. Provision in employee care includes sports and games, which help relieve stress at work. Each GTS Novera employee can play sport in accordance with the valid benefits system. All GTS Novera employees are entitled to extra recruitment and leaving medical examinations carried out by COMFORT CARE, a.s.

SPONSORING AND DONATIONS

In 2007 GTS Novera sponsored several cultural events and financially supported selected institutions and organisations. Its employees collected money for the Racek children's home and the company gave a gift to the Borůvka civic association. In the field of sports the company's sponsorship traditionally focused on golf.



The number of employees of GTS Novera was around 730 in 2007.

The integration of network infrastructure and its optimization and capacity migration continued in 2007. In connection with these actions, the capacity of the national backbone DWDM and SDH network was increased and the local and municipal networks were upgraded.

Technology

2007 was marked by the ongoing synergies of GTS Novera's voice telephony network, while maintaining the original portfolio of voice telephony services; at the same time the project of general optimization of the voice telephony network, including interconnection with other national operators, was completed. The EWSD technology (Siemens) was retained as the target platform for TDM services, but the topology was changed extensively and the whole network was upgraded and unified into the version V16. New connection points were installed on the basis of an agreement with Telefónica O2 and were merged from the original three interconnection agreements into a single one. The original points were optimized to make sure the capacity in all points corresponds with the operating needs of both parties. Significant savings on the original capacities were therefore achieved, along with the optimization of the existing voice telephony network infrastructure. EWSD system elements were installed in eight places of the Czech Republic so as to cover the biggest possible concentration of industry and the population and to mirror the location of the transit points of Telefónica O2. The voice telephony network is interconnected with 32 national and 88 international operators.

The VoIP network is operated on Nortel CS2000 and Comverse (Netcentrex) platforms. The gateways of the Nortel platform mirror the location of the TDM network. The Comverse platform is placed centrally in Prague. The VoIP network is interconnected with 40 international VoIP operators. 2008 will be marked by the consolidation of VoIP platforms and the selection of an application layer for the design of VoIP and VAS (Value Added Services) services.

In 2007 new UTS DSLAMs were built in 92 places throughout the Czech Republic, especially in regional cities and in Prague, and the related backbone network was adequately strengthened. In parallel, services (packages) combining ADSL with speeds of up to 8 Mbit per second and voice TDM – HTS and BRI (ISDN) were launched. In 2008 voice telephony services will be extended by adding ISDN PRI and VoIP.



and Infrastructure

The legacy systems of the original companies were almost completely integrated into a single system in 2007. An upgrade of the NRM system, associated with a fundamental change of the data model and adjustment of functionalities, was a crucial step that provided for complete data migration from the NIS legacy system in July and the migration of line objects from TIS in December 2007. The new IE modules allowed us to unify the lease contract records, access information, contacts and mapping of non-telecommunication equipment in distribution points and management of number allocations. Web reporting focused on adjusting the format and structure of the information generated from NRM and IE so as to directly support the provisioning and trouble-shooting activities of key users. Data migration from TIS will be completed, radio route records will be unified using the IE-radio module and a major initiative will be launched to create a unified environment for recording individual circuits in the IE-Circuit module with links to NRM and cleaning of the relevant data in both these systems in 2008.

The development of documentary systems will be particularly aimed at securing NGN network documentary. Implementation of the Umbrella Management System kicked off in 2007, with four backbone networks and technology incorporated, and connection with NRM and all corresponding network monitoring systems (NMS) established. At the end of 2007 trial operation commenced, aiming at optimization of the UMS system and its links, especially to NRM and NMS, including their upgrade. In 2008 at least 10 additional key technological platforms of the company's network will be incorporated into the UMS system. The system will therefore become crucial in terms of network monitoring and trouble-shooting, where required.

Information systems

The consolidation of information systems of the companies acquired in 2006 continued in 2007. Using the on-line data bridges between CRM systems, which ensure data integrity in heterogeneous systems, the CRM system CLARIFY was the first fully consolidated system. Its role was taken over and absorbed by CRM Salwin and OCP applications. The entity links of the service level and the connections to products under the unified product catalogue were supplied from the consolidated retail billing Durian.

Consolidation was successfully completed in the field of interconnect billing in the first quarter of 2007. AWSB became the final system. Mediation systems were interconnected with it to eliminate any mediation of the acquired companies in gradual steps. Since the consolidation of the information systems was ahead of the technological network, the programming of the interface from the Mangis target mediation to the newly acquired Switched Voice and VoIP exchanges was initiated.

The following stage of the integration process involved the fusion of Nextra's retail billing system Hélios into the well-proven system Durian Novera. This consolidation necessitated many modifications to allow for the billing and the subsequent invoicing of different products. At this time the product portfolio, with a unified name, started going through multiple phases of actual consolidation. A decision was made to keep the K2 system because of its choice as the primary way of provisioning of DSL-based products. An on-line exchange of status messages necessary for influencing the billing system and the central database of technical CSR service settings was set up through the ANOA integration platform in the production layer between the target systems and this system.

A completely new data warehouse, analyzed and programmed by the company's own team, started using the information from the fully consolidated CRM and billing systems. Several hundred reports based on data from eliminated systems were replaced smoothly and simplified. It was also decided to continue the further development of DWH and first portal reports were generated above its outputs, offering different comfort levels based on user's role.

Business and provisioning tools that allow manual service/product management in the K2 operation branch were also consolidated. They were moved to OCP and K2 was only kept as an automated service provisioning tool linked to functional technologies. Intensive work started on the consolidation of the ADSL and ISP platforms. In the field of product development, several packages of fully automated services, including provisioning and extranet and intranet user, customer and partner interfaces, were created. A team for service development, gradually reinforced by workers who completed their integration work in other areas, was set up. The ability to develop new products on the consolidated IS therefore increased significantly in the first half of the year.



The consolidation of mediation systems was completed successfully toward the end of the year. The target mediation system Mangis was supplemented with links to all operated technology. As a new feature, it started processing IP line data and was prepared to measure above-limit telehouse inputs.

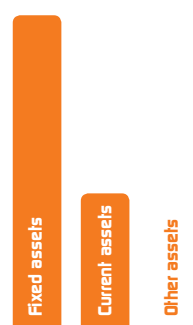
The whole IS group was extensively developed in the second half of the year. Extensive support for segment management was implemented. As part of several year-round projects, the migrated data was cleaned and secondary data from records of the combined companies was entered in the databases. The processes related to the use of IS and data cleanliness were improved and cleaned. The IS development responded to the introduction of an in-house project management system. When the consolidation work ended, release management was introduced and the processes of collection, prioritization, analysis and implementation of change requests were fine-tuned, in accordance with ISO standards. In the second half of the year advanced programming methods were implemented in practice.

The end of 2007 saw IS development preparing for the NGN project (innovation of the telecommunications network and introduction of new products), fundamentally changing approach to the OSS and perception of the provisioning and recording service value. The ongoing consolidation of the technological network will continue to require work in the area of service establishment. Numerous projects are planned for 2008, in particular developing the product portfolio and increasing user and partner convenience. However, the optimum price – performance ratio will be maintained.

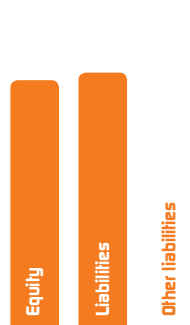
Selected Financial Indicators

Investments and Charts

Assets structure



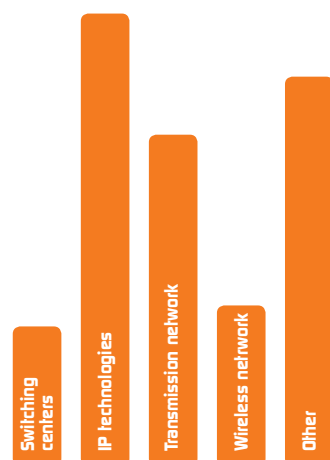
Liabilities Structure



Selected Financial and Operating Indicators (CZK'000)

	31. 12. 2007	31. 12. 2006
Total assets	4,525,267	5,054,169
Fixed assets	3,100,021	3,482,829
Current assets	1,387,431	1,529,418
Other assets	37,815	41,922
Total liabilities	4,525,267	5,054,169
Equity	2,249,681	2,232,944
Liabilities	2,257,865	2,810,559
Other liabilities	17,721	10,666
Sales of goods	12,055	42,464
Sales of own products and services	5,765,623	5,961,599
Added value	1,550,937	1,485,049
Operating result	76,638	-129,631
Profit (loss) for the accounting period	16,737	-213,009
Employee number (average)	730	750
Labour productivity (added value/employee)	2,125	1,980

Backbone net investments

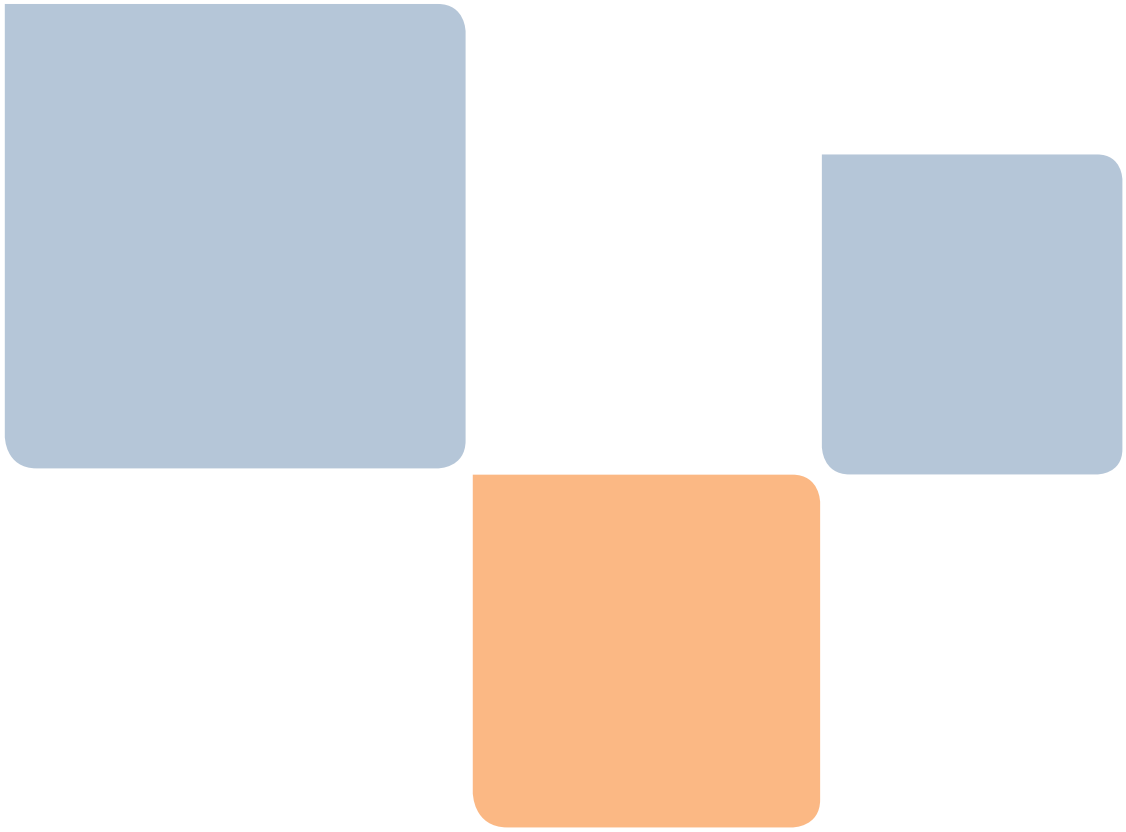


Investments in 2007 (CZK'000)

Switching centers	29,657
IP technologies	96,802
Transmission network	70,919
Wireless network	34,240
Other	83,401
Total	315,019
IT	37,448
Vehicles	9,007
Buildings	1,757
Total	48,212
Voice	67,458
Data	49,613
Internet	81,381
Total	198,452
Overall	561,683

Client connections





Financial Section

Auditor's report



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186 00 Praha 8
Česká republika

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

Auditor's report to the shareholder of GTS NOVERA a.s.

Financial statements

On the basis of our audit, on 29 February 2008 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 2007, and 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 set out in Note 1 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 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.

KPMG Česká republika Audit, s.r.o., a Czech limited liability company
and a member firm of the KPMG network of independent member
firms affiliated with KPMG International, a Swiss cooperative.

Obchodní rejstřík
vedený Městským soudem v Praze
oddíl C, vložka 24185

IČ 49619187
DIČ CZ49619187

Živnostenská banka
Praha I
č. ú./account no.
466016004/0400



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 2007, and its expenses, revenues and financial performance and its cash flows for the year then ended in accordance with 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 2007. 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 Standard 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 months period ended 31 December 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, 25 March 2008

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, translated from the Czech original) – Assets as at 31 December 2007

(in thousands of Czech crowns "TCZK")

Ident.	ASSETS	Line	Gross	2007 Adjust.	Net	2006 Net
a	b	c	1	2	3	4
	TOTAL ASSETS (L.02+03+31+63)	001	13,638,161	-9,112,894	4,525,267	5,054,169
A.	Receivables for subscribed registered capital	002	0	0	0	0
B.	Fixed assets (L.04+13+23)	003	12,055,143	-8,955,122	3,100,021	3,482,829
B.I.	Intangible fixed assets (L.05 to 12)	004	1,400,832	-1,190,999	209,833	217,234
B.I.1.	Incorporation expenses	005	0	0	0	0
2.	Research and development	006	0	0	0	0
3.	Software	007	1,216,431	-1,129,077	87,354	92,313
4.	Royalties	008	171,470	-61,922	109,548	118,379
5.	Goodwill	009	0	0	0	0
6.	Other intangible fixed assets	010	0	0	0	0
7.	Intangible fixed assets under construction	011	134	0	134	6,517
8.	Advance payments for intangible fixed assets	012	12,797	0	12,797	25
B.II.	Tangible fixed assets (L.14 to 22)	013	10,645,540	-7,763,953	2,881,587	3,257,082
B.II.1.	Land	014	200	0	200	200
2.	Buildings	015	1,562,147	-812,991	749,156	840,367
3.	Property, plant and equipment	016	7,484,442	-5,579,078	1,905,364	2,084,570
4.	Cultivated areas	017	0	0	0	0
5.	Livestock	018	0	0	0	0
6.	Other tangible fixed assets	019	95	0	95	0
7.	Tangible fixed assets under construction	020	26,415	0	26,415	106,584
8.	Advance payments for tangible fixed assets	021	357	0	357	388
9.	Adjustments to acquired fixed assets	022	1,571,884	-1,371,884	200,000	224,973
B.III.	Long-term investments (L.24 to 30)	023	8,771	-170	8,601	8,513
B.III.1.	Investments in group undertakings	024	170	-170	0	0
2.	Investments in associated companies	025	0	0	0	0
3.	Other long-term securities and ownership interests	026	0	0	0	0
4.	Loans – group undertakings, associated companies	027	8,601	0	8,601	8,513
5.	Other long-term investments	028	0	0	0	0
6.	Long-term investments (provisional value)	029	0	0	0	0
7.	Advance payments for long-term investments	030	0	0	0	0

Ident.	ASSETS	Line	Gross	2007 Adjust.	Net	2006 Net
a	b	c	1	2	3	4
C.	Current assets (L.32+39+48+58)	031	1,545,203	-157,772	1,387,431	1,529,418
C.I.	Inventories (L.33 to 38)	032	173,820	-41,379	132,441	160,319
C.I.I.	Raw materials	033	173,439	-41,379	132,060	141,453
2.	Work-in-progress and semi-finished products	034	0	0	0	2,649
3.	Finished goods	035	0	0	0	0
4.	Livestock	036	0	0	0	0
5.	Goods for resale	037	0	0	0	0
6.	Advance payments for inventories	038	381	0	381	16,217
C.II.	Long-term receivables (L.40 to 47)	039	25,558	0	25,558	22,582
C.II.I.	Trade receivables	040	12,347	0	12,347	12,347
2.	Receivables – group undertakings	041	0	0	0	0
3.	Receivables – associated companies	042	0	0	0	0
4.	Receivables from shareholders/owners and alliance partners	043	0	0	0	0
5.	Long-term advances paid	044	3,631	0	3,631	10,235
6.	Estimated receivables	045	0	0	0	0
7.	Other receivables	046	9,580	0	9,580	0
8.	Deferred tax asset	047	0	0	0	0
C.III.	Short-term receivables (L.49 to 57)	048	1,069,990	-116,393	953,597	1,059,035
C.III.I.	Trade receivables	049	1,035,098	-114,497	920,601	961,058
2.	Receivables – group undertakings	050	0	0	0	35,266
3.	Receivables – associated companies	051	0	0	0	0
4.	Receivables from shareholders/owners and alliance partners	052	0	0	0	0
5.	Social security and health insurance	053	0	0	0	0
6.	Tax receivables	054	7,894	0	7,894	23,416
7.	Short-term advances paid	055	16,036	0	16,036	21,222
8.	Estimated receivables	056	28	0	28	3,482
9.	Other receivables	057	10,934	-1,896	9,038	14,591
C.IV.	Short-term financial assets (L.59 to 62)	058	275,835	0	275,835	287,482
C.IV.I.	Cash	059	290	0	290	449
2.	Bank accounts	060	275,472	0	275,472	286,960
3.	Short-term securities and ownership interests	061	73	0	73	73
4.	Short-term investments (provisional value)	062	0	0	0	0
D.I.	Deferrals (L. 64+65+66)	063	37,815	0	37,815	41,922
D.I.I.	Prepaid expenses	064	37,815	0	37,815	41,922
2.	Complex prepaid expenses	065	0	0	0	0
3.	Accrued revenues	066	0	0	0	0

BALANCE SHEET (non-consolidated, translated from the Czech original) – Liabilities as at 31 December 2007

(in thousands of Czech crowns "TCZK")

Ident. a	LIABILITIES b	Line c	2007 5	2006 6
	TOTAL LIABILITIES AND EQUITY (L.68+85+118)	067	4,525,267	5,054,169
A.	Equity (L.69+73+78+81+84)	068	2,249,681	2,232,944
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	0	0
3.	Changes in registered capital	072	0	0
A.II.	Capital contributions (L.74 to 77)	073	539,474	539,474
A.II.1.	Share premium	074	0	0
2.	Other capital contributions	075	539,141	539,141
3.	Revaluation of assets and liabilities	076	333	333
4.	Revaluation reserve on transformations	077	0	0
A.III.	Reserve funds, undistributable fund and other funds from profit (L.79+80)	078	0	0
A.III.1.	Statutory reserve fund/Undistributable fund	079	0	0
2.	Statutory and other funds	080	0	0
A.IV.	Retained earnings (L.82+83)	081	-3,780,870	-3,567,861
A.IV.1.	Retained profits	082	0	0
2.	Accumulated losses	083	-3,780,870	-3,567,861
A.V.	Profit (loss) for the current period (+/-)	084	16,737	-213,009
B.	Liabilities (L.86+91+102+114)	085	2,257,865	2,810,559
B.I.	Provisions (L.87 to 90)	086	39,917	139,526
B.I.1.	Tax-deductible provisions	087	0	0
2.	Provision for pensions and other similar payables	088	0	0
3.	Income tax provision	089	0	0
4.	Other provisions	090	39,917	139,526
B.II.	Long-term liabilities (L.92 to 101)	091	626,191	594,897
B.II.1.	Trade payables	092	0	0
2.	Liabilities – group undertakings	093	614,022	585,423
3.	Liabilities – associated companies	094	0	0
4.	Liabilities to shareholders/owners and alliance partners	095	0	0
5.	Long-term advances received	096	5,302	0
6.	Debentures and bonds issued	097	0	0
7.	Long-term bills of exchange payable	098	0	0
8.	Estimated payables	099	0	0
9.	Other long-term payables	100	6,867	9,474
10.	Deferred tax liability	101	0	0

Ident. a	LIABILITIES b	Line c	2007 5	2006 6
B.III.	Short-term liabilities (L.103 to 113)	102	1,087,000	1,338,414
B.III.1.	Trade payables	103	645,223	792,243
2.	Liabilities – group undertakings	104	0	0
3.	Liabilities – associated companies	105	0	0
4.	Liabilities to shareholders/owners and alliance partners	106	0	0
5.	Payables to employees	107	21,937	22,829
6.	Payables to social security and health insurance	108	14,621	15,572
7.	Tax liabilities and subsidies	109	6,025	6,631
8.	Short-term advances received	110	40,152	54,517
9.	Debentures and bonds issued	111	0	0
10.	Estimated payables	112	359,042	446,598
11.	Other payables	113	0	24
B.IV.	Bank loans and overdrafts (L.115+116+117)	114	504,757	737,722
B.IV.1.	Long-term bank loans	115	271,792	504,757
2.	Short-term bank loans	116	232,965	232,965
3.	Short-term financial liabilities	117	0	0
C.I.	Accruals (L.119+120)	118	17,721	10,666
C.I.1.	Accrued expenses	119	0	0
2.	Deferred revenues	120	17,721	10,666

PROFIT AND LOSS ACCOUNT (non-consolidated, translated from the Czech original) for the year ended 31 December 2007

(in thousands of Czech crowns "TCZK")

Ident. a	b	Line c	Accounting period	
			2007 1	2006 2
I.	Revenue from goods	001	12,055	42,464
A.	Cost of goods sold	002	24,303	52,311
+	Gross profit (L.01-02)	003	-12,248	-9,847
II.	Revenue from production (L.05+06+07)	004	6,106,248	6,252,563
II.1.	Revenue from own products and services	005	5,765,623	5,961,599
II.2.	Change in inventory of own production	006	-2,649	2,649
II.3.	Own work capitalized	007	343,274	288,315
B.	Cost of sales (L.09+10)	008	4,543,063	4,757,667
B.1.	Materials and consumables	009	420,618	355,888
B.2.	Services	010	4,122,445	4,401,779
+	Added value (L.03+04-08)	011	1,550,937	1,485,049
C.	Personnel expenses (L.13 to 16)	012	641,087	750,484
C.1.	Wages and salaries	013	467,273	550,509
C.2.	Remuneration of board members	014	95	0
C.3.	Social security and health insurance expenses	015	161,942	186,868
C.4.	Social expenses	016	11,777	13,107
D.	Taxes and charges	017	80,835	56,627
E.	Depreciation of intangible and tangible fixed assets	018	970,865	1,071,514
III.	Proceeds from disposals of fixed assets and raw material (L.20+21)	019	8,255	11,073
III.1.	Proceeds from disposals of fixed assets	020	8,255	11,073
III.2.	Proceeds from disposals of raw material	021	0	0
F.	Net book value of fixed assets and raw material sold (L.23+24)	022	12,565	10,739
F.1.	Net book value of fixed assets sold	023	9,359	5,602
F.2.	Raw materials sold	024	3,206	5,137
G.	Change in provisions and adjustments relating to operating activity and change in complex prepaid expenses	025	-239,943	-312,418
IV.	Other operating revenues	026	198,076	152,429
H.	Other operating expenses	027	215,221	201,236
V.	Transfer of operating revenues	028	0	0
I.	Transfer of operating expenses	029	0	0
*	Operating profit (loss) (L.11-12-17-18+19-22-25+26-27+28-29)	030	76,638	-129,631
VI.	Proceeds from sale of securities and ownership interests	031	0	6,775
J.	Securities and ownership interests sold	032	0	5,333

Ident. a	b	Line c	Accounting period	
			2007 1	2006 2
VII.	Revenue from long-term investments (L.34+35+36)	033	0	0
VII.1.	Revenue from investments in group undertakings and associated companies	034	0	0
VII.2.	Revenue from other long-term securities and ownership interests	035	0	0
VII.3.	Revenue from other long-term investments	036	0	0
VIII.	Revenue from short-term financial investments	037	0	0
K.	Financial assets expenses	038	690	0
IX.	Revenue from revaluation of securities and derivatives	039	3,874	0
L.	Expenses for revaluation of securities and derivatives	040	0	2,433
M.	Change in provisions and adjustments relating to financial activity	041	-690	0
X.	Interest revenue	042	5,515	5,777
N.	Interest expense	043	59,662	65,666
XI.	Other financial revenues	044	111,275	85,979
O.	Other financial expenses	045	120,903	108,477
XII.	Transfer of financial revenues	046	0	0
P.	Transfer of financial expenses	047	0	0
*	Profit (loss) from financial operations (L.31-32+33+37-38+39-40+41+42-43+44-45+46-47)	048	-59,901	-83,378
Q.	Income tax on ordinary profit (loss) (L.50+51)	049	0	0
Q.1.	- current	050	0	0
Q.2.	- deferred	051	0	0
**	Profit (loss) on ordinary activities after tax (L.30+48-49)	052	16,737	-213,009
XIII.	Extraordinary revenue	053	0	0
R.	Extraordinary expenses	054	0	0
S.	Income tax on extraordinary profit (loss) (L.56+57)	055	0	0
S.1.	- current	056	0	0
S.2.	- deferred	057	0	0
*	Extraordinary profit (loss) (L.53-54-55)	058	0	0
T.	Transfer of profit or loss to partners	059	0	0
***	Profit (loss) for the accounting period (L.52+58-59)	060	16,737	-213,009
****	Profit (loss) before tax (L.30+48+53-54)	061	16,737	-213,009

Cash flow statement (non-consolidated, translated from the Czech original) as at 31 December 2007

(in thousands of Czech crowns "TCZK")

		2007	2006
P.	Cash and cash equivalents, beginning of year	287,409	553,093
	Net operating cash flow		
Z.	Accounting profit (loss) from ordinary activities	16,737	-213,009
A.1.	Non-cash transactions	756,404	904,359
A.1.1.	Depreciation of fixed assets	945,892	1,025,362
A.1.2.	Change in:	-218,797	-287,445
A.1.2.1.	goodwill and adjustments to acquired assets	24,973	24,973
A.1.2.2.	provisions and other adjustments	-243,770	-312,418
A.1.3.	Profit (-) Loss (+) on sale of fixed assets	1,104	-5,471
A.1.4.	Profit (-) Loss (+) on sale of securities	0	-1,442
A.1.5.	Revenue from dividends and profit distribution	0	0
A.1.6.	Expense and revenue interests accounted for	54,147	59,889
A.1.7.	Other non-cash transactions	-25,942	113,466
A*.	Net operating cash flow before financial items, changes in working capital and extraordinary items	773,141	691,350
A.2.	Changes in working capital	26,039	-105,962
A.2.1.	Change in receivables from operating activities and deferrals	108,747	-28,991
A.2.2.	Change in short-term liabilities from operating activities and accruals	-102,974	-50,043
A.2.3.	Change in inventories	20,266	-57,931
A.2.4.	Change in short term financial assets, other than cash and cash equivalents	0	31,003
A.**	Net operating cash flow before financial balances, tax and extraordinary items	799,180	585,388
A.3.	Interest paid excluding amounts capitalised	-31,063	-66,526
A.4.	Interest received	5,142	5,397
A.5.	Income tax paid on ordinary income and income tax relating to prior periods	761	-338
A.6.	Receipts and disbursement from extraordinary items	0	0
A.7.	Dividends received and profit shares	0	0
A.***	Net operating cash flow	774,020	523,921

		2007	2006
	Investment activity		
B.1.	Acquisition of fixed assets	-560,957	-579,087
B.1.1.	Acquisition of tangible fixed assets	-509,145	-538,680
B.1.2.	Acquisition of intangible fixed assets	-51,812	-40,407
B.1.3.	Acquisition of long-term investments	0	0
B.2.	Proceeds from sales of fixed assets	8,255	11,073
B.2.1.	Proceeds from sales of tangible and intangible fixed assets	8,255	11,073
B.2.2.	Proceeds from sale of financial investments	0	0
B.3.	Advances and loans to related parties	0	0
B.***	Net cash flow from investment activity	-552,702	-568,014
	Financial activity	0	0
C.1.	Change in long-term liabilities and bank loans	-232,965	-221,591
C.2.	Increase and decrease in equity from cash transactions	0	0
C.2.1.	Subscription of shares and investments	0	0
C.2.2.	Equity paid to shareholders	0	0
C.2.3.	Other cash contributions from partners and shareholders	0	0
C.2.4.	Loss settlement from partners	0	0
C.2.5.	Payments from funds created from net profit	0	0
C.2.6.	Dividends paid and profit shares including withholding tax paid	0	0
C.***	Net cash flow from financial activity	-232,965	-221,591
F.	Net increase or decrease in cash balance	-11,647	-265,684
R.	Cash and cash equivalents, end of period	275,762	287,409

Notes to the Czech statutory financial statements (non-consolidated)

Year ended 31 December 2007

(in thousands of Czech crowns "TCZK")

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 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.

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 2007 is GTS Central European Holding B.V. with its registered office in Amstelveen, the Netherlands.

On 21 December 2007 a purchase agreement was signed, based on which GTS GLOBAL LIMITED as the seller transferred 100% of shares of its subsidiary GTS Central European Holdings Limited to CONSORTIUM 2 S.à R.L. seated in Luxemburg. The parent company of GTS NOVERA a.s., GTS Central European Holding B.V., was a 100% subsidiary of GTS Central European Holdings Limited seated in Cyprus during the period from 1 January 2007 to 31 December 2007.

Registered office

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

Registration number

61058904

Members of the board of directors and supervisory board as at 31 December 2007

Board of directors

Milan Rusnák (Chairman)
Eva Králková
Tomáš Budník

Supervisory board

John Gerald Grace
Tamas György Polgar
Vladana Štefková

Only the chairman of the Board of Directors is authorized to act on behalf of the Company independently. Any other member of the Board of Directors can only act on behalf of the Company together with another member of the Board of Directors. The persons acting on behalf of the Company will attach their signatures to the name of the Company.

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.

Changes in the Commercial Register

There were no changes in the Commercial Register in 2007

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 recorded 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 than TCZK 5 and low value tangible assets of a non-technological nature 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. 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 costs 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 makes 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 temporarily 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 particular 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 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**

	Software	Incorporation expenses	Intangible assets under construction	Advance payments	Total
Acquisition cost					
Balance at 1. 1. 2007	1,174,638	171,470	6,517	25	1,352,650
Additions	38,897	--	134	12,781	51,812
Disposals	-12,278	--	--	--	-12,278
Transfers	15,174	--	-6,517	-9	8,648
Balance at 31. 12. 2007	1,216,431	171,470	134	12,797	1,400,832
Accumulated amortisation					
Balance at 1. 1. 2007	897,582	53,091	--	--	950,673
Depreciation expense	91,918	8,831	--	--	100,749
Disposals	-12,009	--	--	--	-12,009
Transfers	--	--	--	--	--
Balance at 31. 12. 2007	977,491	61,922	--	--	1,039,413
Adjustments					
Balance at 1. 1. 2007	184,743	--	--	--	184,743
Changes in adjustments	-33,157	--	--	--	-33,157
Balance at 31. 12. 2007	151,586	--	--	--	151,586
Net book value 1. 1. 2007	92,313	118,379	6,517	25	217,234
Net book value 31. 12. 2007	87,354	109,548	134	12,797	209,833

(b) Tangible fixed assets

	Land	Buildings	Works of art	Machinery and equipment	Motor vehicles	Tangible assets under constr.	Advance payments	Adjustment to acquired fixed assets	Total
Acquisition cost									
Balance at 1. 1. 2007	200	1,552,739	--	7,083,683	46,226	118,702	388	1,571,884	10,373,822
Additions	--	29,084	95	448,809	7,071	24,455	357	--	509,871
Disposals	--	-25,299	--	-174,307	-9,504	-14,544	-6	--	-223,660
Transfers	--	5,623	--	82,464	--	-102,198	-382	--	-14,493
Balance at 31. 12. 2007	200	1,562,147	95	7,440,649	43,793	26,415	357	1,571,884	10,645,540
Accumulated depreciation									
Balance at 1. 1. 2007	--	712,372	--	4,960,743	41,607	--	--	1,043,580	6,758,302
Depreciation expense	--	113,567	--	705,834	2,458	--	--	60,312	882,171
Disposals	--	-12,948	--	-152,931	-9,342	--	--	--	-175,221
Transfers	--	--	--	--	--	--	--	--	--
Balance at 31. 12. 2007	--	812,991	--	5,513,646	34,723	--	--	1,103,892	7,465,252
Adjustments									
Balance at 1. 1. 2007	--	--	--	42,989	--	12,118	--	303,331	358,438
Changes in adjustments	--	--	--	-12,280	--	-12,118	--	-35,339	-59,737
Balance at 31. 12. 2007	--	--	--	30,709	--	--	--	267,992	298,701
Net book value 1. 1. 2007	200	840,367	--	2,079,952	4,618	106,584	388	224,973	3,257,082
Net book value 31. 12. 2007	200	749,156	95	1,896,294	9,070	26,415	357	200,000	2,881,587

An adjustment to acquired fixed assets of TCZK 1,571,884 reported in the balance sheet as at 31 December 2007 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 valid accounting policies, 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.

Recording of the Umbrella supervision system which cost of TCZK 20,709 was among the most significant additions to fixed assets in 2007. At the end of 2007, the Company acquired 100 Pathfinder information terminals at cost of TCZK 22,450. These terminals are leased out to the Ministry of Labour and Social Affairs. Other additions represent mainly network devices and software for telecommunication technology.

Additions to machinery and equipment include a physical count surplus of TCZK 726 (2006 – TCZK 121,871), 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 2007 the lease costs for vehicles and telecommunication technologies amounted to TCZK 32 1 (2006 – TCZK 3,963) and TCZK 2,169 (2006 – TCZK 2,448), respectively. The Company is committed to payments under finance leases of TCZK 1 760 (2006 – TCZK 4,491), of which all are payable within one year (2006 – TCZK 2,731).

(b) Operating leases

The Company has operating leases for passenger cars. The annual cost of these leases for 2007 was TCZK 17,823 (2006 – TCZK 18,425). In addition, the Company has operating leases for office premises and other premises used for telecommunication equipment installation. In respect of the office premises, the annual cost of the leases for 2007 was TCZK 92,668 (2006 – TCZK 106,398). The annual cost of the leases in respect of technological premises was TCZK 106 706 (2006 – TCZK 112,205).

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 cumulative acquisition cost of assets which were still in use was as follows:

	Balance at 31. 12. 2007	Balance at 1. 1. 2007
Tangible assets	99,154	86,713
Intangible assets (software)	3,451	3,336
Total	102,605	90,049

6. Long-term investments

(a) Investments in group undertakings and associated companies and other investments

2007	Share in %	Nominal value of the investment	Adjustment	Book value 31. 12. 2007
Slovakia Carrier Services s.r.o. v likvidácii	100%	170	-170	--
Total investments		170	-170	--

2006	Share in %	Nominal value of the investment	Adjustment	Book value 31. 12. 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	--
Total investments		860	-860	--

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 2007.

AGIS Telekomunikace s.r.o., v likvidaci

Registered office: Pod hřibštēm 6, 101 00 Prague 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 since 2002. 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 and deleted from the Commercial Register on 8 September 2007.

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 eldentity, 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. The company was deleted from the Commercial Register on 5 November 2007.

(b) Long-term loans provided

2007	Nominal value	Adjustment	Book value
Antel Holding Germany	8,601	--	8,601
Total provided loans	8,601	--	8,601

2007	Nominal value	Adjustment	Book value
Antel Holding Germany	8,513	--	8,513
KPNQwest NV	17,797	-17,797	--
Total provided loans	26,310	-17,797	8,513

Loan to Antel Holding Germany

In 2004, based on an 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.

In 2007 the Company wrote off the nominal value of the loan to Other operating expenses due to expiration of limitation period and the adjustment was released accordingly.

7. Short-term securities and ownership interests

Short-term securities and ownership interests of TCZK 73 (2006 – TCZK 73) consist of depository notes.

8. Inventories

At the stock-takes held on 31 December 2007 and 31 December 2006 the Company identified obsolete raw material inventories for which it created an adjustment of TCZK 41,379 (2006 – TCZK 29,016).

9. Trade receivables and payables

- (a) Short-term trade receivables total TCZK 1,035,098 (2006 – TCZK 1,155,078), of which TCZK 308,025 (2006 – TCZK 407,145) is overdue. An adjustment of TCZK 114,497 (2006 – TCZK 194,020) has been made as at 31 December 2007 to adjust for receivables which may be uncollectible.
- (b) Short-term trade payables total TCZK 645,223 (2006 – TCZK 792,243), of which TCZK 268,381 (2006 – TCZK 493,768) is overdue. In 2007 the Company wrote back a part of trade payables to former GTS Group companies, namely GTS, Inc. and Ebone North America, of TCZK 124,603 (2006 – TCZK 76,677) and TCZK 9,079 (2006 – 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 31,282 (2006 – 164,964) as at 31 December 2007, 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 (2006 – TCZK 12,347) due on 31 March 2010.

10. Long-term advance payments

- (a) Long-term advance payments made in the amount of TCZK 3,631 (2006 – TCZK 10,235) relate to the lease of optical cables paid to S E L F Servis, spol. s r.o. (2006 – TCZK 5,003). The balance as at 31 December 2006 also included an advance of TCZK 2,441 relating to the lease of a building paid to SIMMO s.r.o., which is stated as Long-term receivable in 2007.
- (b) Long-term advance balance of TCZK 5,302 (2006 – TCZK 0) received for a commitment to provide telecommunication services to MobilKom a.s.

1.1. Other long-term receivables

Other long-term receivables of TCZK 9 580 relate to guarantees, security deposits and rights of use relating to rental contracts. In 2006 these receivables of TCZK 3 442 were reported as short-term.

1.2. Estimated payables

	Balance at 31. 12. 2007	Balance at 31. 12. 2006
Voice services	159,631	181,335
Data services	44,938	91,234
Bonuses and commissions	36,375	42,441
Participation on loss from universal services	32,306	14,586
Rent, energies and utilities	24,452	22,412
Commissions for indirect sales	17,043	33,863
Other overhead costs	44,297	60,727
Total	359,042	446,598

The estimated payables for other overhead costs are reduced by TCZK 16,431 due to expected credit notes based on the agreement on extrajudicial settlement with T-Mobile Czech Republic, a.s. (see Note 17 and 29).

1.3. Derivatives

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

Forward exchange contracts	Due date (expiry)	Option premium	Fair value at 31. 12. 2007	Fair value at 31. 12. 2006
Purchase of an interest rate option – ČSOB	30. 6. 2010	3,120	3,631	1,665
Purchase of an interest rate option – HVB	30. 6. 2010	4,680	5,480	3,572
Total		7,800	9,111	5,237

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 of TCZK 3,874 (2006 – loss of TCZK 2,433) were recognised in the profit and loss account.

1.4. Adjustments

Adjustments to	Balance at 31. 12. 2006	Additions	Release/ utilisation	Balance at 31. 12. 2007
intangible fixed assets	184,743	406	-33,563	151,586
tangible fixed assets	42,989	--	-12,280	30,709
tangible fixed assets under construction	12,118	--	-12,118	--
adjustment to acquired assets	303,331	--	-35,339	267,992
long-term investments	18,657	--	-18,487	170
inventories	29,016	12,363	--	41,379
receivables	196,875	19,114	-99,596	116,393
Total	787,729	31,883	-211,383	608,229

Decrease in the adjustment to intangible fixed assets of TCZK 33,563 and the adjustment to tangible assets of TCZK 12,280 were mainly caused by the release of an adjustment resulting from decrease in net book value of the fixed assets due to their annual depreciation.

Decrease in the adjustment to tangible fixed assets under construction in 2007 was caused by one-off write-off of these assets due to their future uselessness.

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 was caused by write-off of the loan to KPNQwest NV TCZK 17,797 and write off of AGIS Telekomunikace s.r.o., v likvidaci and E-Komunikace s.r.o. v likvidaci due to their removal from the Commercial Register TCZK 690.

A decrease in the adjustment to receivables was mainly caused by the write-off of trade receivables older than four years which became out of date. A decrease of TCZK 3,137 (2006 - TCZK 9,306) was caused by the fluctuation in foreign exchange rates. In compliance with the accounting procedures this decrease is presented in the profit and loss account as a foreign exchange gain in other financial revenues.

15. 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 2001, 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	The corrected 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:

Year	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
2007	229	1,584

* for 11 months (since 1 February 2001)

16. Changes in equity

	Registered capital	Other capital contributions	Revaluation of assets and liabilities	Accumulated losses	Profit for the current period	Total
Balance at 1. 1. 2007	5,474,340	539,141	333	-3,567,861	-213,009	2,232,944
Transfer of loss for 2006	--	--	--	-213,009	213,009	--
Profit for 2007	--	--	--	--	16,737	16,737
Balance at 31. 12. 2007	5,474,340	539,141	333	-3,780,870	16,737	2,249,681

The profit for 2007 will be transferred to accumulated losses.

17. Provisions

	Provision for untaken holiday	Provision for legal disputes	Other provisions	Total
Balance at 1. 1. 2007	12,169	100,744	26,613	139,526
Addition	10,997	965	--	11,962
Utilisation	-12,169	-80,000	-19,402	-111,571
Balance at 31. 12. 2007	10,997	21,709	7,211	39,917

Decrease of provisions for legal disputes of TCZK 80,000 was caused by payment of an extrajudicial settlement of the dispute on costs for the lease of interconnect trunks between the telecommunication networks of the Company and Telefónica O2 Czech Republic, a.s. in May 2007. The related costs of this transaction of TCZK 75,918 are recorded as Other operating expenses.

18. 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
31 December 2006	737,722	--	737,722	232,965	504,757
31 December 2007	504,757	--	504,757	232,965	271,792

The interest of TCZK 31,063 (2006 – TCZK 39,350) for 2007 was fully paid as at 31 December 2007. This loan has been secured by all of the Company's assets.

19. 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 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	
	2007	2006	2007	2006	2007	2006
Sale of goods	12,055	42,464	--	--	12,055	42,464
Sale of services	4,296,510	4,688,551	1,469,113	1,273,048	5,765,623	5,961,599
Total	4,308,565	4,731,015	1,469,113	1,273,048	5,777,678	6,004,063

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

20. Other operating expenses

Other operating expenses of TCZK 2 15,255 (2006 – TCZK 20 1,236) include mainly the extrajudicial settlement with Telefónica O2 Czech Republic, a.s. (TCZK 75,918; 2006 – 0 TCZK), write-offs of trade receivables older than four years (TCZK 95,340; 2006 - TCZK 1 78,202), insurance of assets and employees (TCZK 1 2,988; 2006 – TCZK 1 4,348 stated among Other financial expenses) and aborted investments (TCZK 1 7,935; 2006 – TCZK 4,546).

21. Other operating revenues

Other operating revenues of TCZK 1 98,076 (2006 – 1 52,459) include mainly write-back of trade payables older than four years (TCZK 1 38,541; 2006 – TCZK 1 25,988), credit notes for over-voice bandwidth (TCZK 20,774; 2006 TCZK 0) and credit notes from the former parent company of Contactel s.r.o. for consulting services provided before the acquisition (TCZK 20,730; 2006 TCZK 0). In 2006 reimbursement received from the parent company of Contactel s.r.o. as a result of the payment of employee options (TCZK 1 7,716) was recorded among Other operating revenues.

22. Other financial expenses

Other financial expenses of TCZK 1 20 903 (2006 – TCZK 1 08,477) include realised (TCZK 1 1 3,322; 2006 – TCZK 56,688) and unrealised (TCZK 1,219; 2006 – TCZK 30,185) foreign exchange losses from receivables and payables and bank fees (TCZK 6,362; 2006 – TCZK 7,256). In 2006 insurance of fixed assets and employees of TCZK 1 4,348 were recorded as Other financial expenses. These expenses (TCZK 1 2,988) are recorded as Other operating expenses in 2007.

23. Other financial revenues

Other financial revenues of TCZK 1 1 1,275 (2006 – TCZK 85,979) include realised (TCZK 1 08,507; 2006 – TCZK 83,303) and unrealised (TCZK 2,768; 2006 – TCZK 2,676) foreign exchange gains from receivables and payables.

24. 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 in note 12:

	Receivables at		Payables at	
	31. 12. 2007	31. 12. 2006	31. 12. 2007	31. 12. 2006
GTS Datatel Távközlési Kft.	6,250	10,064	7,713	27,634
GTS Central European Holding B.V.	--	6,646	7,687	21,034
GTS Polska Sp. z o.o.	1,652	3,618	11,704	2,649
GTS Telecom S.R.L. (Romania)	770	33	2,285	780
Carduelis B.V.	--	2,426	--	--
GTS Nextra, a.s.	3,088	1,709	14,491	25,568
GTS Energis Sp. z o.o.	496	212	108	320
Total	12,256	24,708	43,988	77,985

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

	Receivables at		Payables at	
	31. 12. 2007	31. 12. 2006	31. 12. 2007	31. 12. 2006
Antel Germany GmbH	8,601	8,513	--	--
GTS Central European Holding B.V.	--	--	614,022	585,423
Total	8,601	8,513	614,022	585,423

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

Maturity	Interest rate	Principal amount	Interest for 2007	Balance at 31. 12. 2007	Balance at 31. 12. 2006
On demand	PRIBOR + 3.25%	319,429	19,652	364,265	344,613
9 June 2009	PRIBOR + 3.25%	28,325	1,754	31,397	29,643
9 June 2009	PRIBOR + 3.25%	56,650	3,507	62,794	59,287
31 December 2009	PRIBOR + 0.5%	145,000	3,686	155,566	151,880
Total		549,404	28,599	614,022	585,423

(c) Short-term receivables from group undertakings

In 2006 short-term receivables from group undertakings of TCZK 35,266 included 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.

In 2007 the Company does not record any short-term receivables from group undertakings.

(d) Sales and purchases

	Sales		Purchases	
	2007	2006	2007	2006
GTS Detanet Távközlési Kft.	31,536	27,083	25,487	16,593
GTS Central European Holding B.V.	--	6,079	53,856	45,530
GTS Polska Sp. z o.o.	7,342	8,059	54,758	8,304
GTS Telecom S.R.L. (Romania)	3,441	393	3,888	753
Carduelis B.V.	--	1,793	--	--
GTS Energis Sp. z o.o.	2,095	813	4,033	1,931
GTS Nextra, a.s.	12,823	10,518	66,537	77,145
Total	57,237	54,738	208,559	150,256

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).

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

The Company did not provide any loans to the directors or members of the supervisory board in 2007. Directors and members of the supervisory board received remuneration of TCZK 95 in 2007.

(f) 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.

(g) Consolidated financial statements

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

25. Employees and executives

The number of employees and executives as at 31 December 2007 and 31 December 2006 and personnel expenses for 2007 and 2006 are as follows:

2007	Number of employees	Wages and salaries	Social security and health insurance expenses	Social expenses
Employees	724	448,098	155,205	11,628
Executives	6	19,175	6,737	149
Total	730	467,273	161,942	11,777

2006	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

Members of the board of directors and management use the Company's vehicles for both business and private purposes.

26. Social security and health insurance payables

Social security and health insurance payables total TCZK 14,621 (2006 – TCZK 15,572), of which TCZK 10,352 (2006 – TCZK 11,097) relates to social security and TCZK 4,269 (2006 – TCZK 4,475) relates to health insurance. None of these liabilities are overdue.

27. Tax liabilities and subsidies

Tax liabilities total TCZK 6,025 (2006 – TCZK 6,631), of which TCZK 6,025 (2006 – TCZK 6,619) relates to unpaid personal income tax deductions. None of these liabilities are overdue.

28. Income tax

(a) Current tax

No tax liability arose in 2007 nor in 2006.

(b) Deferred tax

Unrecorded deferred tax assets

	Difference between tax and accounting values		Deferred tax	
	31. 12. 2007	31. 12. 2006	31. 12. 2007	31. 12. 2006
Tangible and intangible assets	2,987,863	2,322,446	567,740	557,387
Adjustment to acquired assets	575,413	677,847	111,724	162,683
Receivables	9,870	26,513	2,073	6,363
Inventories	41,379	29,017	8,690	6,964
Provisions and Estimated payables	35,386	149,571	7,431	35,897
Tax losses	1,336,978	1,939,208	271,739	465,410
Deferred tax asset/(liability)	4,986,889	5,144,602	969,397	1,234,704

In accordance with the accounting policy described in note 2 (h), a tax rate of 21% for 2008, 20% for 2009 and 19% for 2010 and following years (2006 – 24%) was used to calculate deferred tax.

29. Contingencies and commitments

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 25,431 after set off of trade receivables and payables. Trade payables of TCZK 5,603 were 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.

In December 2007 negotiations on resolution of this dispute between the Company and T-Mobile ČR, a.s. started. On 5 February 2008 the parties signed an agreement on an extrajudicial settlement of TCZK 9,000.

As at 31 December 2007 the balance of estimated payables was reduced by an amount of TCZK 16,341 which represents the expected credit notes from T-Mobile ČR, a.s.

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 2007.

Date:
29 February 2008

Signature of the authorised representative:



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 No.: 61058904

Přemyslovská 2845/43, 130 00 Prague 3

2. Ownership structure

Throughout the 2006 accounting period, the Company's sole shareholder was GTS Central European Holding B.V., with registered office in Amstelveen, Laan van Kronneburg 8, 1183 AS, The Netherlands.

3. Controlling parties

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

Throughout the accounting period, GTS Central European Holding B.V. with registered office in the Netherlands was the Company's 100% controlling party.

From 1 January to 31 December 2007, GTS Central European Holding B.V. was 100% directly controlled by GTS Central European Holdings Limited with registered office in Cyprus.

From 1 January 2007 to 21 December 2007, GTS Central European Holdings Limited 100% was directly controlled by GTS GLOBAL LIMITED with registered office on the British Virgin Islands.

On 21 December 2007, Contract on the Sale of Shares was concluded on the basis of which GTS GLOBAL LIMITED as the seller transferred 100% of GTS Central European Holdings Limited shares to CONSORTIUM 2 S.à R.L. as the buyer.

CONSORTIUM 2 S.à R.L. has registered office in Luxembourg and it is controlled by M/C VENTURE Partners with registered office in the Massachusetts, USA, by Columbia Capital LLC with registered office in Virginia, USA and Innova Capital with registered office in Poland.

In the accounting period under review, GTS GLOBAL LIMITED was also 65% controlled by GML Limited with registered office in Gibraltar.

4. Related parties

a) From 1 January 2007 to 5 November 2007

E-komunikace s.r.o. v likvidaci, registered office: 140 21, Prague 4, Hvězdova 33/1073, ID No. 26730928.

As at 5 November 2007, the company – 100% controlled by GTS NOVERA a.s. – was deleted from the Commercial Register as a result of the company's winding up with liquidation and termination of the company's liquidation.

b) From 1 January 2007 to 8 September 2007

AGIS Telekomunikace s.r.o., v likvidaci, registered office: 101 00 Prague 10, Pod hřištěm 6, ID No. 61506443.

As at 8 September 2007, the company – 100% controlled by GTS NOVERA a.s. – was deleted from the Commercial Register as a result of the company's winding up with liquidation and termination of the company's liquidation.

c) From 1 January 2007 to 31 December 2007

Slovakia Carrier Services s.r.o. v likvidaci, registered office: the Slovak Republic, Šoltéssova 12, 811 08 Bratislava, ID No.: 35778008, is 100% controlled by GTS NOVERA a.s.

GTS Nextra, a.s., a joint-stock company, registered office: the Slovak republic, Prievozská 2/A, 824 99 Bratislava, ID No.: 35795662, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

GTS Dataneŕ Távközlési Kft., a limited liability company with registered office in Hungary, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands. Throughout the accounting period, GTS Dataneŕ Távközlési Kft. controlled 100% of Vienna Ingatlankezelő Kft. with registered office in Hungary.

GTS Polska Sp. z.o.o., a limited liability company with registered office in Poland is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

Throughout the accounting period GTS Polska Sp.z.o.o. controlled 100% of GTS Invest Sp. z.o.o. with registered office in Poland and 97.5% of GTS Energis Sp. z.o.o. with registered office in Poland.

GTS Telecom S.R.L. with registered office in Romania is 47.44% controlled by GTS Central European Holding B.V. with registered office in the Netherlands and 52.56% controlled by GTS Central European Holdings Limited, with registered office in Cyprus.

GTS Bulgaria E.O.O.D., a limited liability company with registered office in Bulgaria, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

GTS Telekom d.o.o., a limited liability company with registered office in Croatia, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

GTS Ukraine Ltd., a limited liability company with registered office in Ukraine, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

Antel Germany GmbH, a limited liability company with registered office in Germany, is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

Carduelis B.V. with registered office in the Netherlands is 100% controlled by GTS Central European Holdings Limited with registered office in Cyprus.

Mellet Corporation N.V. with registered office in the Netherlands (Dutch Antilles) is 100% controlled by GTS Central European Holdings Limited with registered office in Cyprus.

GTS-Czech, Inc. with registered office in the Delaware, USA is 100% controlled by GTS Central European Holding B.V. with registered office in the Netherlands.

5. Contracts concluded between related parties and performance thereof

Inter-related party	Description of business transactions – other
GTS Nextra, a.s. (throughout 2007)	Mutual provision of telecommunications services
GTS Datalnet Távközlési Kft (throughout 2007)	Mutual provision of telecommunications services
GTS Polska Sp. z o.o (throughout 2007)	Mutual provision of telecommunications services
GTS Telecom S.R.L. (throughout 2007)	Mutual provision of telecommunications services
GTS Energis Sp. z.o.o. (throughout 2007)	Mutual provision of telecommunications services
Carduelis B.V. (throughout 2007)	Mutual provision of telecommunications services
GTS Central European Holding B.V. (throughout 2007)	Consulting services

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 or effected by the controlled party in the interest or at the motion between 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 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, totalled CZK 364,265,810 as at 31 December 2007. 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 2007, including unpaid interest, totalled CZK 31,396,928 and CZK 62,793,855. Both loans with PRIBOR + 3,25 % are due on 9 June 2009.

Based on a contract for sale of a holding of GTS Novera Contact, s.r.o., (legal predecessor of GTS NOVERA a.s.), the controlling party, GTS Central European Holding B.V., took over a loan of CZK 145,000,000 from TDC Totaløsninger A/S. The loan, including unpaid interest, totalled CZK 155,565,496 as at 31 December 2007. The loan with PRIBOR + 0.5% interest rate is due on 31 December 2009.

Based on a loan contract concluded by GTS CZECH, a.s. as a legal predecessor of GTS NOVERA a.s. in 2005 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 8,600,931 as at 31 December 2007.

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, 25 March 2008



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

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