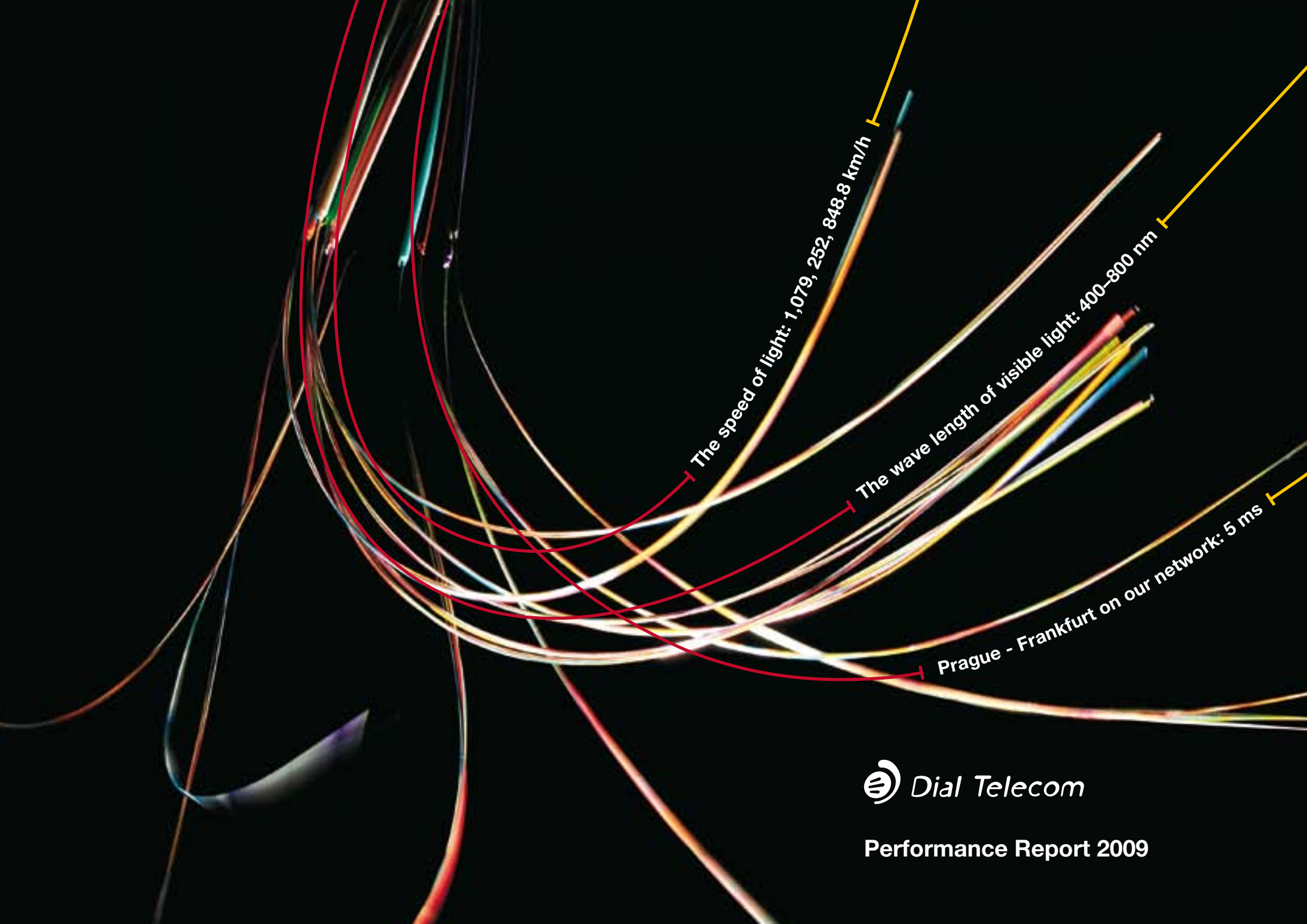
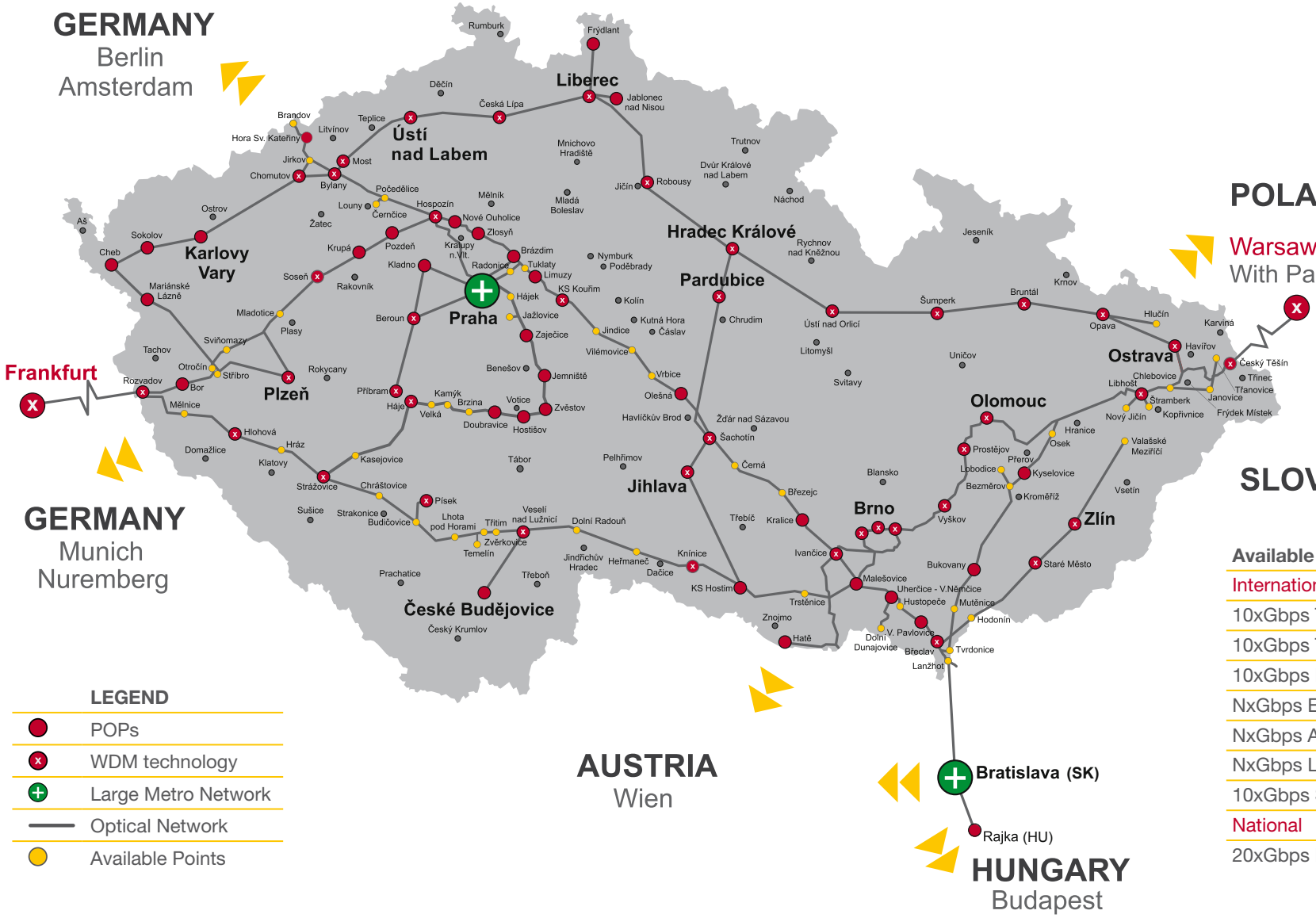


Dial Telecom

Performance Report 2009

Backbone Network Map

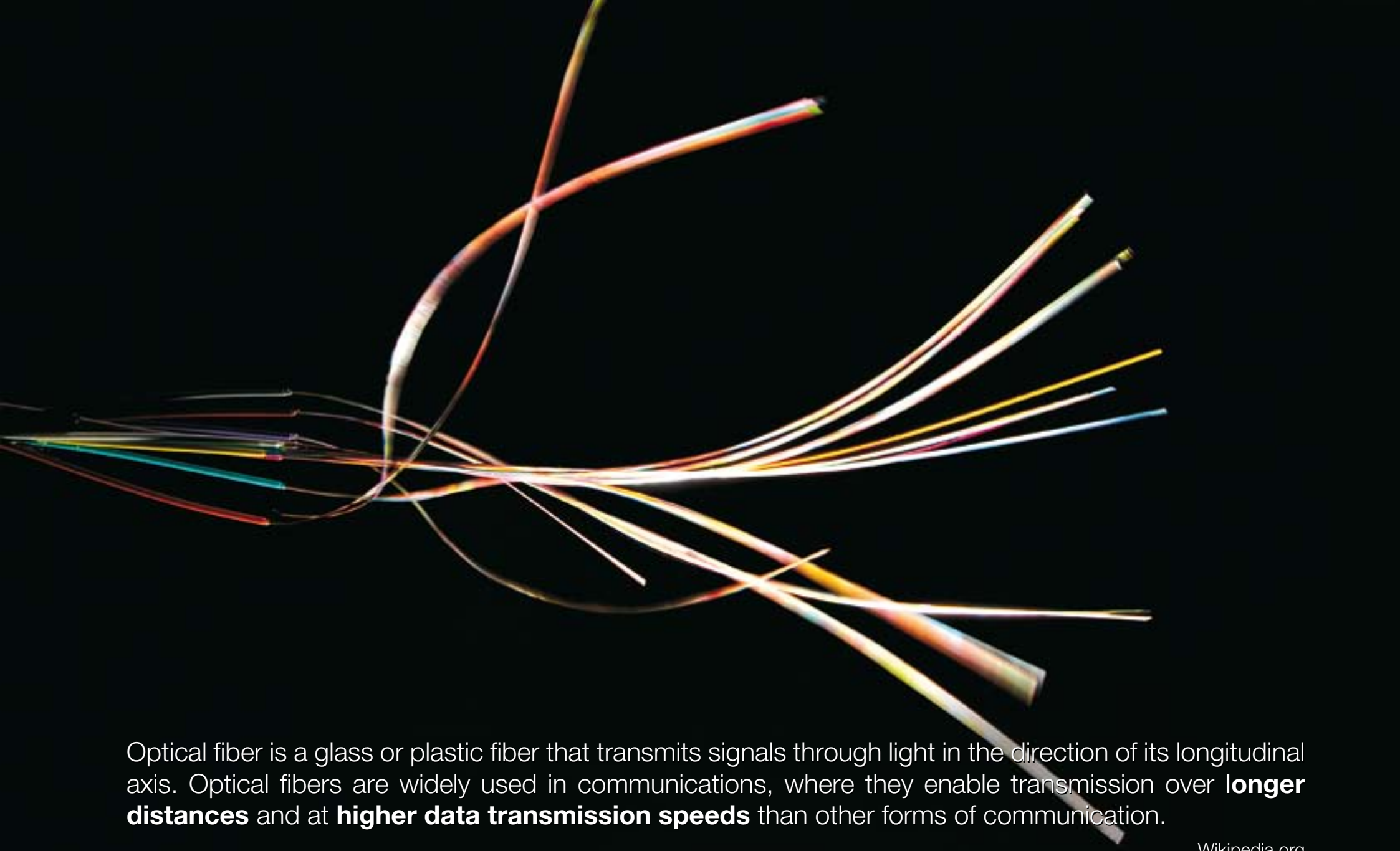


LEGEND

●	POPs
⊗	WDM technology
⊕	Large Metro Network
—	Optical Network
○	Available Points

Available Internet Connection

International
10xGbps Telia
10xGbps Tiscali
10xGbps DE-CIX
NxGbps ECIX
NxGbps AMS-IX
NxGbps LINX
10xGbps SIX.SK
National
20xGbps NIX.CZ



Optical fiber is a glass or plastic fiber that transmits signals through light in the direction of its longitudinal axis. Optical fibers are widely used in communications, where they enable transmission over **longer distances** and at **higher data transmission speeds** than other forms of communication.

Wikipedia.org

Contents

Key Figures 2007 – 2009 (CZK ´000)

	2007	2008	2009
Revenue	379,116	415,939	431,483
EBITDA	79,272	80,272	92,759
Investment ratio (CAPEX/revenue)	6.8%	4.9%	7.3%
Profit before tax	17,837	47,531	18,646
Cash at 31 December	30,069	62,570	67,917
Number of employees	86	85	95

Introduction by the Chairman of the Board

Dear business partners, employees and shareholders,

Despite the fact that economic activity in the Czech Republic decreased in 2009, we nevertheless again managed to increase revenue while maintaining return on equity and, at the same time, to significantly decrease our debt, without doing so at the expense of the years to come.

The key for our company was delivery of services for the business and wholesale segment of customers, which constitutes over 90% of our revenue. Delivery and long-term leasing of networks to international operators for their activities in Central and Eastern Europe have ever increasing representation in the revenue structure. Investments made here by the company in past years have begun to show return and have proven to be justified.

In 2009 alone, the optical networks of the company were increased by over 100 kilometers and we plan to also continue expanding the infrastructure in 2010. In the second half of 2009, positive synergic effects began to show in the areas of procurement of services and the joint use of infrastructure with our sister company, VOLNÝ a.s., which is a member of the Dial Telecom Group. In 2010 and 2011, a significant realization of synergies such as mentioned above can be expected.

It is thanks to the attitude our employees take in attending to the specific needs of our customers that Dial Telecom is a successful company. I would herewith like to take this opportunity to express gratitude to our employees for the fact that we are a preferred partner in the telecommunication sector.

The challenge for the company in 2010 is in increasing the effectiveness and efficiency of internal processes and, as in previous years, continuing acquisition activities, which we regard as a way to accelerate further growth of the company.

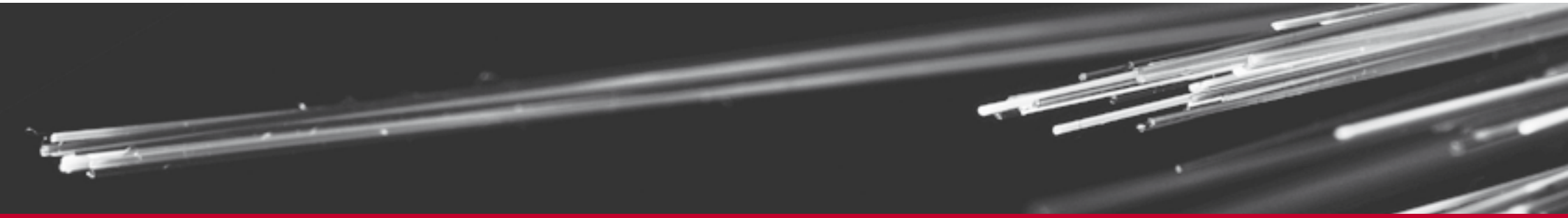
Zdeněk Sivek
Chairman of the Board of Directors

After graduating from the J. E. Purkyně University, Mr Sivek worked in capital markets, playing a role in the establishment of GLOBIX s.r.o. (later ETEL s.r.o.), where he served as sales director. He is the founder of Dial Telecom s.r.o. in the Czech Republic. Currently, he is Chairman of the Board of Directors of Dial Telecom a.s. and Vice Chairman of the Board of Directors of VOLNÝ a.s.

Did you know that visible light is a part of the electromagnetic spectrum, with a frequency of 3.9 to 7.9 × 10^{14} Hz?

Aleš Zeman
Vice Chairman

A graduate of the University of New York in Prague, where he majored in enterprise management. From 1995–98, Mr Zeman worked as manager of the payment card departments of eBanka and GE Money Bank. From 1995–98, he worked as a wholesale manager at ČESKÝ TELECOM a.s. Currently, he is Chairman of the Board of Directors of VOLNÝ a.s. and Vice Chairman of the Board of Directors of Dial Telecom a.s.



Did you know that the exact distance of an object in water is calculated according to the law of refraction? In water, everything appears closer by one quarter and, thanks to this, bigger by one third.

Tomáš Strašák
Member
Sales Director

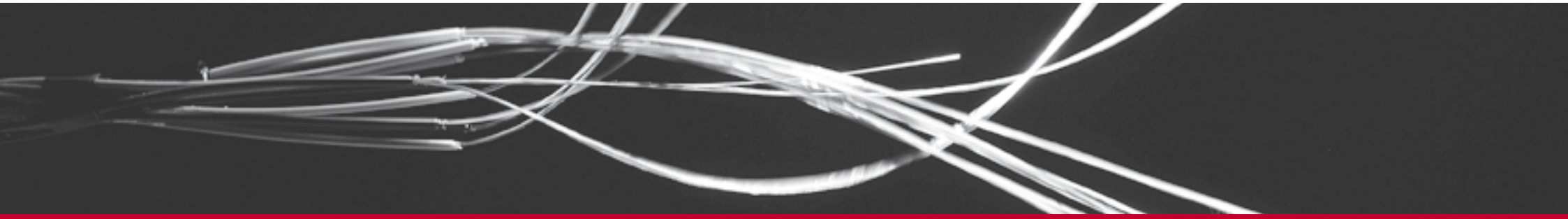
A graduate of the University of Economics in Prague and Staffordshire University in the UK, Mr Strašák majored in international trade and European regulations, respectively. In 2000–04 he headed the international data sales team at ČESKÝ TELECOM a.s. and in 2004 he became the member of the Board of Directors responsible for business development of TransgasNet a.s. (later net4net a.s.), which was acquired by Dial Telecom a.s. in 2006.

Did you know that glass optical fibers are almost always produced from quartz?

Ingrid Ledererová

Technical Director

A graduate of the Prague Institute of Chemical Technology, Ms. Ledererová worked at ČVUT in the computer center as head of the system programmers‘ department and head of the network services department, which in 1996 was spun off to form the CESNET association. In 1997, she became a member of the Supervisory Board of InWay a.s., where she worked as head of the network services department and, later, Technical Director. She has been Technical Director since that company was acquired by Dial Telecom in 2005.



Did you know that the most remote man-made space probe is flying at a speed of 52,200 km/h?

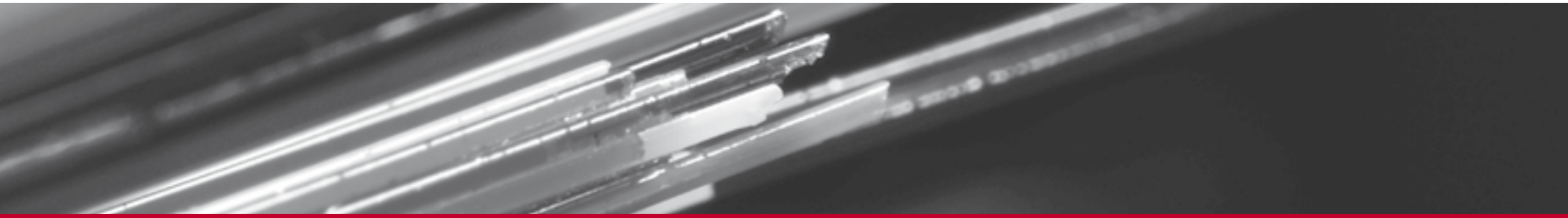
Ivo Stach
Financial Director

A graduate of the Czech Technical University, Prague, Faculty of Mechanical Engineering, majored in automated control systems. In 1995–96, Mr Stach was an investment officer at the Czech American Enterprise Fund, the first venture capital firm in the Czech Republic. From 1997, he served as financial director in several companies, most of them focused on services, and has been in the telecommunications sector since 2000 (InWay a.s., later acquired by Dial Telecom a.s.). He has been a member of the Board of Directors of VOLNÝ a.s. since December 2008.

Did you know that, thanks to data transmission through optical cables, 14,383 steps can be saved monthly?

Radek Brňák
Chairman

Mr. Brňák began his professional career at Deloitte and subsequently worked at Raiffeisenbank in capital markets. In 1997, he founded Globix s.r.o., a telecommunications company which he sold in 2000. He is currently a private investor.



Did you know that, based on the latest research, when the human brain is compared to the computer, it has a performance of 38 petaflops (38 quadrillion operations per second) and storage capacity of 3584 TB?

Supervisory Board

David Bečvář
Member

An economics graduate of Western Illinois University and Anglo-American College, from 1998 Mr. Bečvář worked in the sales department of Globix s.r.o., a telecommunications company. Since 2000 he has been Chairman of the Board of Directors of the Slovak branch of Dial Telecom, a.s., which he founded in the same year. One year later, he co-founded the Czech Branch of Dial Telecom a.s., where he currently serves as a member of the Supervisory Board.

Did you know that the frequency of the on-board computer of Apollo 11 was just 2,048MHz?

Marek Šťastný

Member

Mr. Šťastný is a graduate of the Faculty of Electrical Engineering at the Czech Technical University (ČVUT), where he majored in electronic computers. After a stint as a technician at the ČVUT computer center, in 1996, after the center was reorganized, he transferred to the CESNET Association where he headed the network planning and management department. In 1998, he joined InWay a.s. as head of the network build-out and planning department. Following the acquisition of InWay a.s. by Dial Telecom in 2005, he has continued in the same position. He has been a member of the Dial Telecom a.s. Supervisory Board since 2008.

… and that thoughts are even quicker than light.

Market situation

From the viewpoint of Dial Telecom, the market of data services is the most significant, generating 83% of company revenue. This market has maintained its growing trend, despite being slower than in previous years. The wholesale market presents an interesting situation, where there is an evident transfer of larger customers to 10 Gbps transmission capacity and of the medium large ISPs to the capacity of 1 Gbps.

This trend has also been amplified by the decline in prices in the market with connectivity to the world Internet. The difference between Czech and world connectivity has become blurred, as the arrival of some of the world's players at the Czech NIX Internet exchange is erasing these borders.

The most important change for the voice services market in the Czech Republic was the decrease in interconnection fees to mobile networks. The price has decreased from CZK 2.99 to CZK 1.96 per minute. In spite of this decrease, led by the Czech Telecommunication Office, it is completely obvious how the local market is twisted under the leadership of a regulator. The interconnection fees to fixed networks are, in actuality, set to CZK 0.38 per minute. Thus, the Czech Telecommunication Office continues to inefficiently "create" the telecommunication climate in the Czech Republic, for which reason it has been cited as one of the worst regulators in Europe for several consecutive years.

With respect to the fact that the telecommunication market in the Czech Republic is already concentrated, there were no real significant acquisitions in 2009; having said that, the most interesting to occur was the acquisition of the retail part of Czech Radio Communications by T-Mobile.

Unlike other sectors of the economy, the telecommunication market has avoided major problems. This comes from the need to communicate, even in times of economic decline, as well as the fact that contracts are entered into for at least 12 months.

Dial Telecom Clients

Dial Telecom a.s. has strengthened its position in the market of providing services for both wholesale and business customers. Total revenue from sales of services increased and, unlike many of our competitors, the company grew in this aspect while others faced decline. It was probably the saturation of the market and the economic decline in 2009 that resulted in growth of "only" 3.47%, to CZK 431.5 M.

As far as the number of clients is concerned, as of 31 December 2009, Dial Telecom had a total of 1812 clients, 1585 of whom were retail business customers and 227 of whom were wholesale customers. This rate, however, is not indicative of the structure of revenues. In December 2009, 40.8% of revenues were from sales of services to retail clients and 57.7% to the wholesale clients. The remaining 1.5% of revenues arose from other sales of the company. This disproportion is caused by a much higher average amount of orders on the wholesale market compared to the retail.

Growth of revenue from services in 2009

The revenue from voice services (with a growth of 0.3%) generally stagnated, which was the expected trend. This trend is due to continue in 2010, owing mostly to decreasing prices (influenced by the mobile services market). In contrast, revenue from data services was higher than expected, with a growth of 7.9%.

The revenue from sales of services reached a total of CZK 431.5 M, out of which data services and the Internet were CZK 359.9 M, voice services CZK 58.3 M and other business revenue was CZK 13.3 M. Compared to 2008 when Dial Telecom realized comparable revenues from services in the amount of CZK 415.9 M, this represents an increase of CZK 15.5 M, which equals 3.74%.

Voice services

In 2009, revenue from voice services reached a total of CZK 58.3 M, which represented a growth of 0.3% compared to 2008, when revenue reached CZK 58.1 M. This stagnation, however, is a very positive outcome for Dial Telecom, considering a situation in which the entire voice services market is experiencing a decline.

Data services and the Internet

The situation on the data market for Dial Telecom in 2009 was again very favorable. Thanks to further high investment into transmission technologies on both the Prague metropolitan network and the national network of the Czech Republic, Dial Telecom was able to meet demand on the optical network in new locations on the national network, but especially on the optical network in Prague.

In 2009, Dial Telecom focused on the development of its services based on MPLS. The company has seen rising demand for such services by its business clients.

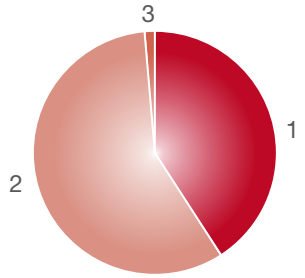
The highest priority for Dial Telecom is the installation of a new cable on the Hospozín – Plzeň route. This is a continuation of the company's focus on modern cables, which it installs every year. It is due to this that we are recognized by both foreign and domestic telecommunication companies as the leader in the provisioning of backbone network services, both the leased line and the dark fiber lease services. Dial Telecom is probably the only company in the Czech Republic whose portfolio includes both the sales of services and the lease of fibers and sales of pipes for optical cable connecting the neighboring countries.

The Dial Telecom Group has also become a preferred partner for many international telecommunication companies that need to connect branches of international corporations in the Czech Republic or Slovakia. The company has achieved this mostly thanks to having the best solution for IP based services. It can offer the full portfolio of these solutions, be it Ethernet L2, Ethernet over SDH, MPLS, L3VPN, etc.

The revenues from providing data services and the Internet reached CZK 359.9 M, which is an increase of 7.9% compared to 2008, when revenues reached CZK 333.6 M.

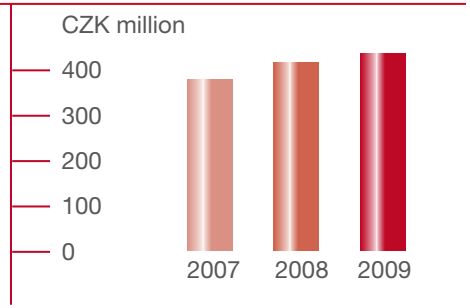
Revenue from sales of services to retail and wholesale clients in 2009

1	Retail	40.8%
2	Wholesale	57.7%
3	Other	1.5%



Revenue from sales of services and one-off transactions in 2007 – 2009 (CZK millions)

2007	CZK 379.1 million
2008	CZK 415.9 million
2009	CZK 431.5 million

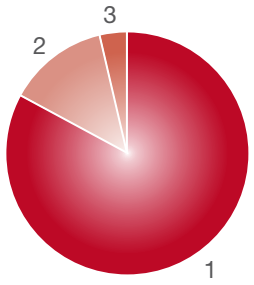


Distribution of service revenue in 2009

1 Data services and Internet 83%
(CZK 359.9 million)

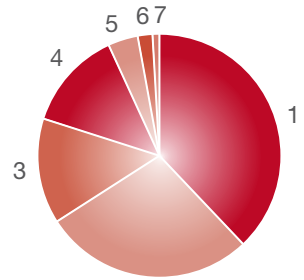
2 Voice services 14%
(CZK 58.3 million)

3 Other services 3%
(CZK 13.3 million)



Revenue breakdown by services in 2009

1 Internet 38%
2 Leased lines 28%
3 Voice services 14%
4 Lease of fibers 13%
5 Housing 4%
6 Other 2%
7 X.400 1%



Breakdown of revenue from sales of services

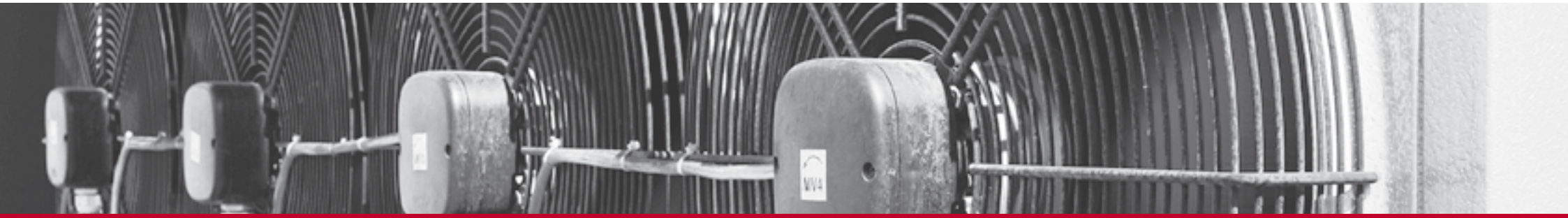
	2008	2008	2009	2009
	CZK ´000	%	CZK ´000	%
Voice services	58,079	14%	58,262	14%
Data services	166,423	40%	197,556	45%
Internet	167,158	40%	162,385	38%
Other	24,280	6%	13,280	3%
Total revenue from sales of services	**415,939**	**100%**	**431,483**	**100%**

Dial Telecom is becoming a preferred partner for other operators and companies

Dial Telecom is today a preferred partner for various national and international clients and since the company already had many such clients to date, the following list of cases illustrates some interesting customers the company connected into its network in 2009:

- the most luxurious hotel in Prague, the Mandarin, has been using fully backed up data and voice services of Dial Telecom since September 2009
- in April 2009, the company acquired a significant client – Saxo Bank, a renowned worldwide global investment bank
- during the year, Dial Telecom opened 6 high capacity Internet connections for Garris
- in the course of the year, Dial Telecom gradually built up a complete MPLS network for AXA, Czech Republic, an international financial institution
- in May 2010, Dial Telecom built up an optical line into Hagibor, Prague, for Radio Free Europe and began to provide a number of significant services
- Metrostav, a regular customer, makes significant use of our services for connection of its additional construction units
- Všeobecná Faktultní Nemocnice, a general faculty hospital in Prague, had another clinic in Prague connected to their headquarters through the metropolitan optical network of Dial Telecom

The provision of so-called last miles for international operators is also an increasingly important segment for Dial Telecom. In the past, the company played a marginal role on this market but, thanks to the development of optical networks in the Czech Republic, and particularly the metropolitan networks, we are attaining a significant position in this segment. Dial Telecom connects its wholesale customers to their end customers, thereby strengthening its metropolitan networks.



The Internet

For a long time, the key products of Dial Telecom have been Internet services. Its own backbone and metropolitan optical network enables the setup of access lines with the maximum possible quality and, with high capacities especially, to offer a very appealing price. The Internet service provided is complete: includes building up a connection to the customer, providing the end devices and guaranteed Internet access.

Data

Data services, either on the L2 layer or using MPLS technology on the L3 layer stand among the services abundantly used by companies with more than one geographical branch. The network topology can be laid out into either a star shape with a central access point or as ”full mesh”, where all points communicate mutually.

Voice

In the field of voice telecommunication services, Dial Telecom ranks among the traditional providers. The stable and still used digital service on the euroISDN platform is offered as standard, complemented by an offer of VoIP services with a wide range of optional functionalities. The virtual branch exchange of Dial Telecom on the VoIP platform is a sought-after solution, particularly with specialists in this technology.

0111011010111000101111011010001101011010110100111010111010010101011110001010110101001011101110101000101111010101111010111011010010101000101111101010110101010101011101110100

Internet Services

These services are usually operated through Dial Telecom's own unique backbone optical network and metropolitan optical network in Prague and Bratislava.
They differ mostly in the provided bandwidth, option for setting the ratio between domestic and foreign IP connectivity and also the agreed-upon guaranteed parameters of services.
The most significant service is providing IP connectivity for transit partners of Dial Telecom; particularly its own connectivity into the biggest European and world Internet exchanges.

Data

The service of digital leased lines is realized on both Ethernet and SDH protocols, at speeds of 64 kbps up to 10 Gbps.

A separate chapter of data services is high capacity data transmission through DWDM technology. This platform enables scaling of data transmissions at 10 Gigabit increments.
In the field of wavelength (lambda) leases, Dial Telecom specializes in covering not only Czech cities but also foreign destinations, particularly Frankfurt, Bratislava, Warsaw and Vienna.

Lease of Dark Fiber and Pipes

Dial Telecom is the biggest provider of backbone optical fiber in Central Europe. This service offers customers and partners the possibility of leasing dark fiber in the backbone and metropolitan networks of Dial Telecom in Prague and Bratislava and the possibility of leasing HDPE pipes.

Voice Services

Dial Telecom operates voice services on two technological platforms.
The first option is based on inter-operator agreements of interconnection of telecommunication networks and access into the public telecommunication network through connections at capacities of n x E1. The other option is based on transmission of voice calls through SIP protocol (Voice over IP). This service specifically enables a partner to separately and independently administer voice services for its own customers and to process billing information through a web interface.

In 2009, apart from technological and process unification of the network, Dial Telecom also focused on further increasing quality, coverage and capacity.

Infrastructure

The essential backbone technology of the Dial Telecom network is its own metropolitan, national and international optical network, which again saw substantial expansion during 2009.
Dial Telecom completed extensive construction of the most important international connection in the Czech Republic between Frankfurt and Prague by building up the Hospozín – Mladotice – Pilsen route by a length of 123 km, accompanied by construction of the Mladotice housing and the connection with T-Mobile in Pilsen. Further expansion of the optical network was realized by building up the Zvěrkovice – Temelín route and the connection of JETE to the network of Dial Telecom. Apart from this, short excavations were realized in the length of approx. 7 km within the national network. The locations of Beroun, Kladno, Louny – Černčice, Osek and Vilémovice were connected to the optical network. Dial Telecom cooperated with France Telekom on another delivery of optical cables on the Germany – Rozvadov – Hospozín – Prague – Brno – Olomouc – H. Žukov – Poland route.

The metropolitan network in Prague was expanded by another 35 km of routes (2,500 km of fiber) and it now has an extent of approx. 170 km of its own optical routes. In 2009, 35 connection points, specifically for customer services (for example, expansion to the locations of Štěrboholy and City West, BC V Parku, Palladium and others) were realized. On top of new construction, development focused on increasing the capacity of the existing infrastructure with the help of micropipe technology. Dial Telecom installed micropipes and a microcable on 12% (approx. 20 km) of the backbone routes in Prague in 2009. The route most significantly strengthened was the backbone connection between two main exchanges of the company: Sitel and Corso Karlín. Through the acquisition activities of the Dial Telecom Group, the optical infrastructure was expanded by another 20 km of HDPE pipes and a few dozen connected facilities of the company VOLNÝ, a.s. A separate area of development was the building up of a second POP within Sitel and maintaining the capacity connection among Prague's telehouses and key transfer points with other operators. Currently, Dial Telecom has enough capacity in all substantial locations, both in and out of Prague. The optical network is connected to a high-capacity radio network, which expands its coverage. In 2009, a few hundred new radio connections were built.

Transmission technology

In the course of 2009, the optimization of the use of existing own or leased fiber continued, using the DWDM and CWDM technologies. Additionally, DWDM technology attained the position of essential transmission technology in the international and national backbone, which was driven by an immense interest in ”lambda” services, not only within the Czech Republic. In 2009, a new DWDM Prague – České Budějovice – Bratislava route and a new DWDM Břeclav – Zlín route were built. Dial Telecom strengthened its own optical network on the Brno – Vyškov – Prostějov – Olomouc route up to NxGbps. The northern DWDM route, with a transmission capacity of 40x10Gbps, between Prague, Hospozín, Bylany, Ústí n. L, Liberec, Česká Lípa, Roboušy and Hradec Králové also began to be used for backing up the route between Prague and Brno. Customers using the transit capacity of Dial Telecom from Prague to Moravia can obtain a fully backed-up capacity of n*10G.

The Prague – Frankfurt am Main – Bratislava backbone route was expanded with its own SDH infrastructure. Dial Telecom a.s. became one of the members of Virtual Meet Me Room in Ancotel in Frankfurt am Main. Thanks to this service, it is possible to quickly and efficiently realize connections on the basis of SDH with over 150 operators from all over the world.

IP services

Dial Telecom currently has enough capacity in all important locations, both in and out of Prague, thanks to having created capacity connections among the Czech telehouses and key transfer points with other operators. The MPLS protocol is not only used on the backbone, but also for the needs of customers.

At the end of 2009, the peering capacity with Czech ISPs was 40 Gbps (two independent 10 Gbps lines into NIX exchanges and 20 Gbps direct peering with Czech ISPs). Apart from expanding the direct connection into foreign peering centers and commencing direct relationships with foreign operators, at the end of 2009 Dial Telecom had two independent connections to transit providers of IP, each with a capacity of 10 Gbps. Increasing capacities and the number of direct connections, both in the Czech Republic and abroad, make access into the networks of other operators acutely efficient. Active participation in peering relationships among Dial Telecom operators also enabled the development of the IP Transit product on a wholesale basis.

Financial Results in 2009

Just as in 2008, the most significant revenue growth segment was data services, with turnover in the 2009 calendar year reaching CZK 197.556 M.
Annual growth of turnover of data services exceeded 18%; the total annual growth of revenues from sales of services and goods was 3.74%.

In the period of 2009, bank financing saw a significant pay down of CZK 37 M, which had a positive effect on the overall balance sheet, while achieving further growth in operating income.

Balance Sheet (CZK ´000)

			31 December 2008 Net	31 December 2009 Net
TOTAL ASSETS			**934,573**	**921,644**
B	Non-current assets		**618,310**	**615,822**
B.I.		Non-current intangible assets	1,550	1,071
B.II.		Property, plant and equipment	616,760	614,751
B.III.		Non-current investments	0	0
C	Current assets		**308,941**	**299,070**
C.I.		Inventory	84,860	74,481
C.II.		Long-term accounts receivable	53,862	50,071
C.III.		Short-term accounts receivable	107,649	106,601
C.IV.		Current investments	62,570	67,917
D.I.	Prepayments and accruals		7,322	6,752
TOTAL EQUITY AND LIABILITIES			**934,573**	**921,644**
A	Equity		53,975	74,522
A.I.		**Basic capital and capital funds**	**34,608**	**32,375**
A.III.		Capital reserves and other funds created from profit	-37,881	-37,681
A.IV.		Retained earnings	2,602	66,885
A.V.		Current period earnings	54,646	12,943
B	Liabilities		**801,462**	**773,270**
B.I.		Provisions	20,908	8,700
B.II.		Long-term liabilities	548,101	539,704
B.III.		Short-term liabilities	75,991	105,635
B.IV.		Bank loans	156,462	119,231
C.I.	Accruals and deferred income		79,136	73,852

Abbreviated version.

Profit and Loss Account (CZK ´000)

		31 December 2008	31 December 2009
I.	Revenue from sales of goods	1,629	119
A	Cost of goods sold	1,377	73
+	Gross margin	252	46
II.	**Revenue from sales of services**	414,310	431,364
B	**Cost of materials, energy and services**	236,939	241,420
+	**Value added**	177,623	189,990
C	Staff costs	67,160	68,825
D	Taxes and fees	2,495	2,793
E	Depreciation and amortization	29,300	29,790
III.	Revenue from sales of fixed assets and materials	21,110	1,603
F	Cost of fixed assets and materials sold	13,699	50
G	Change in provisions, allowances and prepayments	19,412	25,897
IV.	Other operating revenue	1,120	100
H	Other operating costs	16,816	4,872
*	**Operating result**	**50,972**	**59,466**
X.	Interest revenue	1,167	700
N	Interest expenses	46,014	40,651
XI.	Other financial revenue	49,821	49,018
O	Other financial expenses	45,131	51,688
*	**Financial result**	**-40,158**	**-42,621**
Q	Income tax on current period income	-7,115	5,703
**	**Profit from ordinary activity**	**17,930**	**11,142**
***	**Profit for the period (+/-)**	**54,646**	**12,943**
	Profit before tax (+/-)	47,531	18,646

Abbreviated version.

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