



## PERFORMANCE REPORT FOR 2011

 **Dial Telecom**  
Simply Connect.

### CZECH REPUBLIC HEAD OFFICE — PRAGUE

Dial Telecom a.s.  
IČ: 28175492, DIČ: CZ28175492  
Corso Karlín, Křižíkova 36a/237, 186 00 Praha 8  
tel.: +420 226 204 111, fax: +420 226 204 197  
e-mail: info@dialtelecom.cz – www.dialtelecom.cz

### DIRECT SALES REPRESENTATION — MORAVIA

Dial Telecom a.s.  
IČ: 28175492, DIČ: CZ28175492  
Cejl 20, 602 00 Brno  
tel.: +420 530 505 305–6, fax: +420 530 505 309  
e-mail: morava@dialtelecom.cz – www.dialtelecom.cz

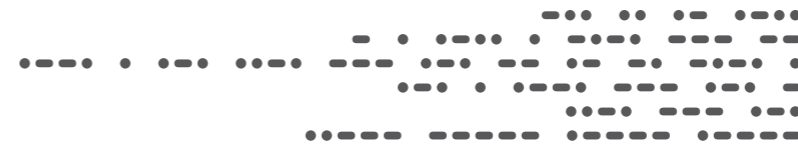


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## PERFORMANCE REPORT FOR 2011

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## INTRODUCTION

Dear Clients, Shareholders and Employees,

The goal of Dial Telecom a.s. is to be the first choice in the field of fixed telecommunication services for company clients, ISPs and international telecommunication providers in the Czech Republic.

Our steps were also directed toward this goal in 2011. We significantly strengthened the transit telecommunication infrastructure, continued the expansion of the metropolitan optical network in Prague and expanded the portfolio of services with several prospective products.

Despite the year-on-year decrease in revenues, caused by the decrease of the telecommunication market as a whole due to economic stagnation, the switching of fixed voice services to GSM networks, a decrease in prices and the sale of non-prospective product lines which were acquired through acquisitions in the past years, Dial Telecom a.s. managed to increase its year-on-year business result before tax by more than 20 per cent to CZK 43.13 million.

In 2011, we provided services to more than 2,400 companies and the acquisition of a share of services for the state administration was a big challenge for us.

As the tender was canceled on the part of the state, we did not manage to secure this acquisition. Nevertheless, our activity and social demand for transparent competition will provide us with an interesting business opportunity – sharing on services for the state.

The situation on the telecommunication market of fixed networks in the Czech Republic does not allow interesting generic growth, so realization of meaningful acquisition opportunities and their subsequent implementation into Dial Telecom a.s. is still a daunting task for us.

I thank the employees for their continuous work and for their positive approach to everyday activities, as well as creating a friendly atmosphere in the company.



Zdeněk Sivek, Chairman of the Board

## WHAT HAPPENED IN 2011

- In 2011, sister company Fiber Services a.s. was established as a spinoff whose work is to provide complex technical services on optical routes in the Czech Republic.
- Dial Telecom a.s. won the dispute with an organizer of the purchase of telecommunication services for the state – the Ministry of Internal Affairs – which, through its conditions, excluded all new alternative operators from the tender with an estimated value of CZK 1.5 billion.
- Dial Telecom a.s. incorporated a new service into its portfolio: SMS gate. Its implementation is a response to the demand for payment services through SMS – so-called premium SMS.
- Dial Telecom a.s. launched 40G transmissions in its DWDM network. After successful tests of even the longest section of 1,100 km, the system was put into commercial operation between Prague and Frankfurt am Main. Now, customers can be offered a capacity of up to  $n \times 40G$  within our own backbone network.
- Within the Prague metropolitan network, there was a significant connection in the area of Vinohradská street (THP) to Bohdalec and then to the key Telehouse Cecolo (formerly Sitel).
- Google Czech Republic s.r.o. has been a customer of data services from Dial Telecom a.s. since February 2011 and also of voice services since October 2011.
- Dial Telecom a.s. developed a very technically demanding, backed-up data line between Uherské Hradiště and Poprad for SYNOT ICT Services a.s.
- Dial Telecom a.s. renewed the contract with Electro World a.s. for connection of all stores, parallel to a change of technical parameters of the voice services from digital to VoIP.
- For its needs, Skype Czech Republic s.r.o. has newly purchased a 100 megabit Internet connectivity for its headquarters.
- Dial Telecom a.s. acquired two big call center customers: Europ Assistance s.r.o. and Atento Česká republika a.s.
- Dial Telecom a.s. also acquired commissions from the area of state administration (data circuit service for the National Museum, a guaranteed Internet connection for the Institute for the Study of Totalitarian Regimes, MPLS connection of branches of the Security Services Archive).

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**THE CAPTAIN IS RESPONSIBLE FOR THE ENTIRE SHIP AND CREW AND WILL SUCCESSFULLY GUIDE THE COMPANY THROUGH THE TROUBLED WATERS OF THE CURRENT BUSINESS ENVIRONMENT.**



**Zdeněk Sivek,**  
Chairman of the Board

## BUSINESS RESULTS

### MARKET SITUATION

From the viewpoint of Dial Telecom a.s., it is the market of data services that is the most significant, generating 66% of company revenue. 2011 also saw the continuing consolidation of the data services market and a significant decrease in prices. This 10 to 20% decrease has continued to be the case in various segments of the market for several years now.

The big competition in the provision of data services on the market raises clients' expectations ever higher in regard to lower prices with each coming year, and this trend is obvious in all countries of the world, wherever there are market principles.

Even though the sector of fixed and mobile revenues is technologically separated, from the business point of view, this is no longer true. Efforts by mobile operators to get into the fixed networks is strong, as the commercial offer of connected mobile and fixed services is interesting from the marketing point of view. Mobile operators, however, have come to understand that, without experience and ownership of such fixed networks, penetration into this market is impossible, so there are their obvious efforts to buy the services of optical networks or optical fibers directly. For Dial Telecom a.s., this trend is also an opportunity, since, as the owner of the transit optical networks across the Czech Republic and also having connections to the neighboring countries, it is becoming a natural partner for mobile operators.

The most important change for the market of voice services in the Czech Republic was the decrease of the interconnection fees to mobile networks. The price further decreased from CZK 1.37 to CZK 1.08 per minute. In spite of this decrease, reality still demonstrates how the local market is twisted under the leadership of the CTU regulator. The interconnection fees to fixed networks are, in actuality, at much lower levels. The CTU has also fatally failed to introduce a virtual mobile operator. This market functionality partially removes the oligopolic position of the mobile market and solves the non-existence of mobile service offers in the networks of fixed operators in many EU countries.

### DIAL TELECOM CLIENTS

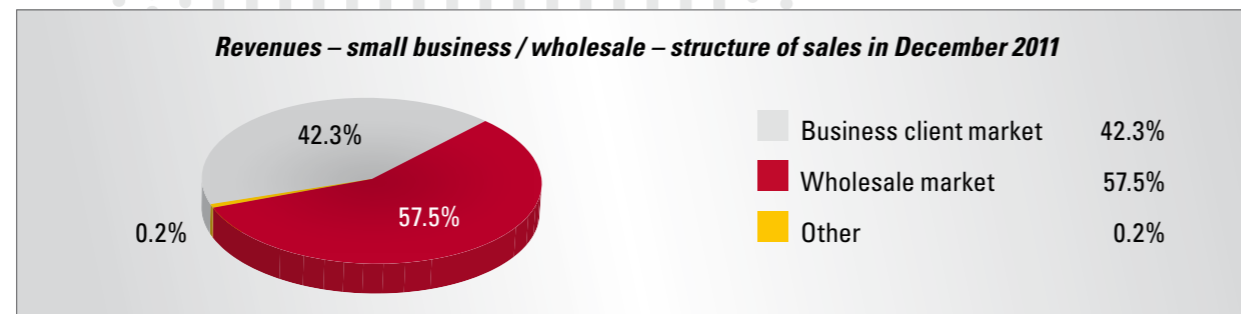
Dial Telecom a.s. strengthened its position on the market in providing services for both wholesale and business clients. Total revenue from sales of services decreased by 5.3%, thank to the consolidation of revenues from the Volný company. The decrease of the whole telecommunication market in 2011 is estimated at 5–10%.

As far as the number of clients is concerned, as of 31 December, 2011, Dial Telecom a.s. had a total of 2,638 clients, 2,329 of whom were customers of the corporate department (business clients as well as the state department) and 277 of whom were wholesale customers. This rate, however, is not indicative of the structure of revenues.

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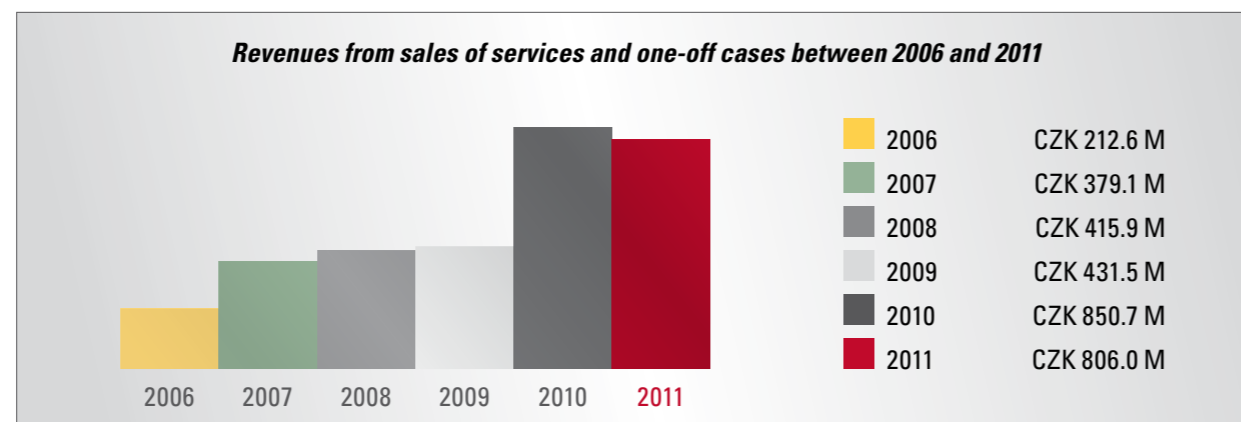
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In December 2011, 42.3% of revenues were generated by the sales of services to small business clients and 57.5% by wholesale clients. The remaining 0.2% of revenues arose from other sales of the company. This disproportion is caused by a much higher average value of orders on the wholesale market compared to the small business market.

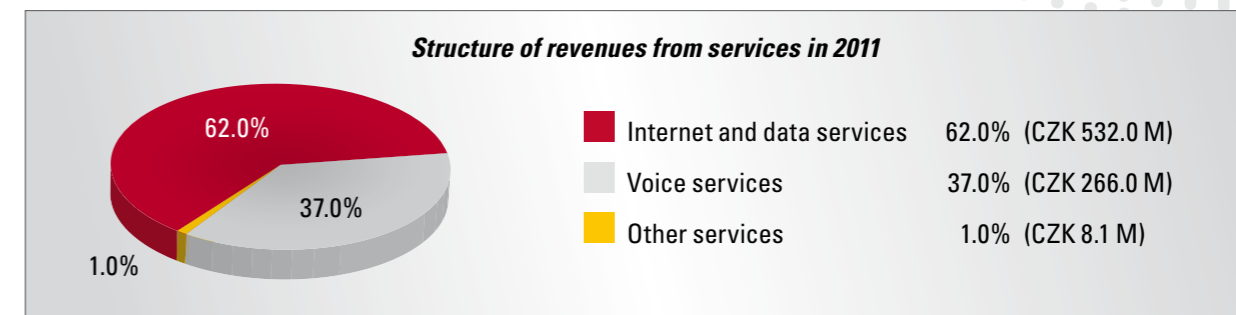


**DEVELOPMENT OF REVENUES FROM SERVICES IN 2011**

Thanks to the previously mentioned consolidation of customers of Volný, a slight decrease, in the order of a few percentage points, occurred in some revenue categories. The exceptions were some of the services that were not provided by Volný, e. g. fiber rental. The ongoing trend is a decrease in revenues from voice services and concentration on data services. This trend in revenues is apparent among all fixed operators in the Czech Republic.



Revenues from sales of data and voice services reached a total of CZK 806.0 M, CZK 532.0 M of which were data services and the Internet, CZK 266.0 M of which were voice services, and CZK 8.1 M of which were other business cases. Compared to 2010, when Dial Telecom a.s. achieved revenues from services in the amount of CZK 850.7 M, there was a decrease of CZK 44.7 M, which is 5.3%.



**VOICE SERVICES**

Revenues from voice services reached a total of CZK 266.0 M in 2011, which was a decrease of CZK 67.1 M compared to 2011, when revenues were CZK 333.1 M. This decrease was caused primarily by the consolidation of customers of Volný, both the residential customer market and wholesale voice and corporate clients, including the ATX services.

**DATA SERVICES AND THE INTERNET**

The situation on the data market for Dial Telecom a.s. in 2011 was again very favorable. Thanks to further strong investment into transmission technologies on both the Prague metropolitan network and the national network of the Czech Republic, Dial Telecom a.s. was able to realize orders on the optical network in new locations (especially the Prague optical network) and then on the national network of the Czech Republic.

In 2011, Dial Telecom a.s. again focused on the development of its services mostly based on IP. Business clients, as well as international telecommunications operators (network solutions and connection of their clients), have more and more demand for such services and the traditional solution based on SDH is preferred by a minority these days.

The company also continued installing cables on its optical network on the Brno – Český Těšín route. This is a long-term focus by the company on the latest cables, which the company installs every year on its national network. It is due to this that Dial Telecom a.s. is recognized by both foreign and domestic telecommunications companies as the leader

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in the provisioning of backbone network services, in both leased circuit and optical fiber leasing services. Dial Telecom a.s. 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 connection to the neighboring countries.

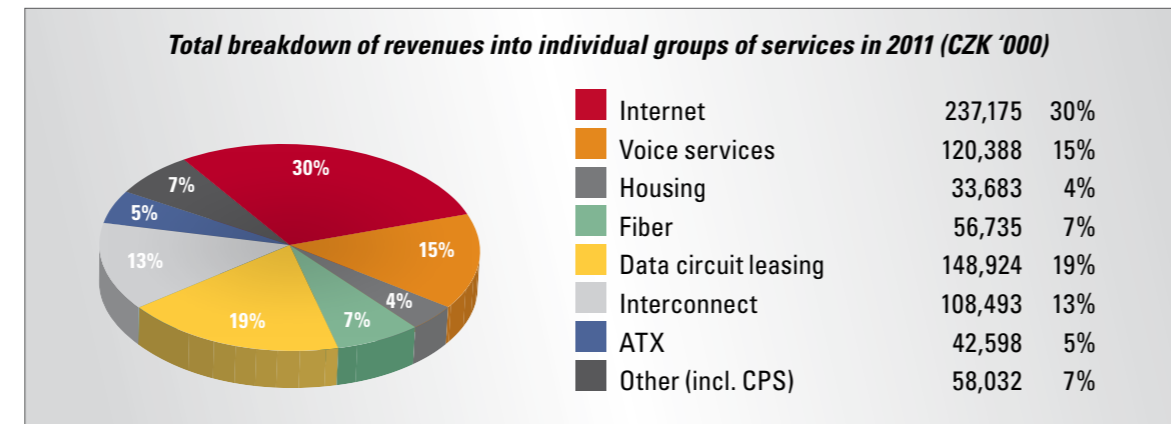
The Dial Telecom Group further strengthened its position as a preferred partner for many international telecommunications companies that need to connect branches of international corporations in the Czech Republic and Slovakia. This was achieved mostly by the best solution for IP based services. It can offer the full portfolio of these solutions, be it Ethernet L2, Ethernet over SDH, MPLS, L3VPN, etc.

The revenues generated by providing data services and the Internet reached CZK 532.0 M, which is an increase of 6.1% compared to 2010, when revenues reached CZK 501.2 M.

For Dial Telecom a.s., the provision of so-called last miles for international operators is also a segment that is of more and more importance. In the past, the company played a rather marginal role on this market, but thanks to the development of optical networks in the Czech Republic and mostly metropolitan networks, it has gained a significant position in this segment. For wholesale clients, Dial Telecom a.s. connects their end customers, and by doing so, it is further strengthening its metropolitan networks.

**BREAKDOWN OF SERVICE REVENUES**

The breakdown of revenues from data services is shown in the following graph. This illustrates the share of individual groups of services in revenues from data services in 2011.



**THE FIRST OFFICER CAN SEE FAR BEYOND THE HORIZON, WHERE HE IS SEARCHING FOR OPPORTUNITIES IN THE UNEXPLORED WATERS OF TELECOMMUNICATIONS.**

**THE HELMSMAN DETERMINES THE PROPER ROUTE FOR THE VOYAGE TO REACH THE SALES TARGETS.**

From left:  
 Aleš Zeman, Vice Chairman of the Board  
 Zdeněk Sivek, Chairman of the Board  
 Tomáš Strašák, Member of the Board

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THE SHIP'S CASHIER KEEPS AN EYE ON THE CREW SO THAT THEY ARE ECONOMICAL WITH THE ACQUIRED DUCATS.

THE SHIP'S TECHNICIAN IS RESPONSIBLE FOR THE TOP-QUALITY TECHNICAL CONDITION OF THE VESSEL.

From left:  
Ivo Stach, Financial Director  
Ingrid Ledererová, Technical Director

## SERVICES OVERVIEW — RETAIL

### INTERNET

Over the long term, the key products of Dial Telecom have been Internet services. Its own backbone and metropolitan network enable the setup of access lines with the maximum possible quality and, especially with high capacities, offered at a very appealing price. The Internet service provided is complex: the building of a connection to the customer, the end device and guaranteed Internet access are all included.

### DATA

Data services, either on the L2 layer or using MPLS on the L3 layer, are among the services abundantly used by companies with more than one geographical branch. The network topology can be laid out in either a star shape with a central access point or as "full mesh", where all points communicate mutually. What is becoming more and more popular for this are international VPNs, where Dial Telecom also administers a unified MPLS network for branches of Czech companies abroad.

### VOICE

Dial Telecom ranks among the traditional providers in the field of voice telecommunication services. The stable and still-utilized digital service on the ISDN 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.

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THE SHIP'S SCRIBE DOES NOT MISS ANYTHING IMPORTANT AND KEEPS RECORDS OF EVERYTHING.

THE SHIP'S BOY TENDS TO THE ORDER OF THE SHIP AND THE CREW'S MORALE.

THE NAVIGATOR CHECKS THAT THE SHIP IS HEADING IN THE RIGHT DIRECTION.

Standing, from left:  
Radek Brňák, Chairman of the Supervisory Board  
David Bečvář, Member of the Supervisory Board  
Sitting:  
Marek Šťastný, Member of the Supervisory Board

## SERVICES OVERVIEW — WHOLESALE

### INTERNET SERVICES

These services are usually operated through Dial Telecom's own unique backbone optical network and metropolitan optical networks in Prague and Bratislava. They differ mostly in the provided bandwidth, the 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 a.s.; particularly its own connectivity into the biggest European and world Internet exchanges.

### IP SERVICES

Currently, Dial Telecom a.s. has enough capacity in all the important locations in and out of Prague, mostly thanks to having created capacity connections among Prague's telehouses and key transfer points with other operators. The MPLS protocol is used not only on the backbone but has also become the standard delivered service for customers.

At the end of 2011, the peering capacity with Czech ISPs was 50 Gbps (two independent 10 Gbps lines into NIX exchanges and 30 Gbps direct peering with Czech ISPs). The connection capacity in foreign Internet exchanges was 28 Gbps. Apart from expanding the direct connection into foreign Internet exchanges and commencing direct relationships with foreign operators, at the end of 2011 Dial Telecom a.s. had two independent connections to transit providers of IP, each with a capacity of 10 Gbps.

Increasing the capacities and number of direct connections, both in the Czech Republic and abroad, makes access into the networks of other operators extremely efficient. Dial Telecom a.s. has its own technology in many foreign Internet exchanges and is a member of peering organizations in not only the Czech Republic and Slovakia, but also in Germany, the Netherlands and the UK. The direct connection with 635 autonomous systems, which Dial Telecom a.s. had at the end of 2010, is a great contribution for Dial Telecom a.s. customers. Active participation in peering relationships among Dial Telecom a.s. operators further enables the development of the IP Transit product on a wholesale basis.



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### DATA

The service of digital leased telecommunication circuits is realized on both Ethernet and SDH protocols, at kbps speeds of up to  $n \times 40$  Gbps.

A separate chapter of data services is high capacity data transmission through DWDM technology. As the first operator in the Czech Republic, Dial Telecom a.s. implemented the  $n \times 40$  Gbps technology on its international routes. It is now possible to provide data transmission of up to multiples of 10 Gbps on the entire optical network.

In the field of wavelength ( $\lambda$ ) leases, Dial Telecom a.s. 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 a.s. 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 a.s. in Prague and Bratislava and the possibility of leasing HDPE pipes.

### VOICE SERVICES

Dial Telecom a.s. operates voice services on two technological platforms.

The first is built on inter-operator agreements of connections of telecommunication networks and access to the public telecommunication network using connection volumes of  $n \times E1$  capacities.

The other is based on transmission of voice calls using the SIP protocol (Voice Over IP). In particular, this service enables the partner to have separate and independent administration of voice services for their customers and processing of billing information using the web interface.

## TECHNICAL DEVELOPMENT IN 2011

In 2011, Dial Telecom a.s. continued developing its networks and services. With respect to the lower growth on the Czech market, large concentration went into the optimization of networks and systems, development and use of prospective network technologies, implementation of new products and increasing the comfort of users. In spite of unfavorable market prognoses, there was flat growth in the setup of customer services, their capacities and backbone infrastructure as a whole.

### INFRASTRUCTURE

In 2011, there was an extension of basic parts of the network: the metropolitan optical network in Prague, long-distance optical networks in the Czech Republic and abroad and interconnections in international Internet exchanges. In key technologies, development focused on optical networks, WDM technologies, radio connections of the point-to-point type, the MPLS network in IP and VOIP in voice services.

On the other hand, the construction in the field of a metallic network in the form of LLU was revised due to the wrong regulatory environment. All LLU services were migrated to the simpler and more efficient wholesale model, xDSL.

### OPTICAL NETWORK

In 2010, Dial Telecom a.s. began extensive construction of routes in Moravia, and this also continued in 2011. In 2010, the Libhošť – Žukov construction began. In 2011, the construction was completed and a collocation technological building in Libhošť was built. In 2011, the DOK72 Mladotice – Rozvadov construction began and was completed. These actions were followed by the preparation of the DOK Techlovice – Stříbro construction and other construction in Moravia, including a collocation area in Olomouc – of which the construction itself will be in 2012. Within the national network, shorter routes for connecting customers were built. In 2011, the long-distance network was extended by a total of 146 km, i. e. 10,500 km of fibers.

In the metropolitan optical network, the efficiency of the current routes continued to be increased, there was construction of new routes and especially local access for connecting

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customers. From the viewpoint of quantity, the network was expanded to 850 km of fibers (an increase of approx. 150 km), micro-tubing continued in a part of the network. To increase capacity, the metropolitan network is also gradually being equipped with WDM technologies, dozens of CWDM multiplexors were installed and the DWDM system for the means of the backbone metropolitan network transmission of 10Gbps capacities among network nodes was launched.

### RADIO NETWORK

The development of the radio network complemented the coverage into areas without optical infrastructure. In cooperation with suppliers and servicing companies, we installed hundreds of connections in capacities ranging from units Mbps to 1 Gbps. The broadcasting points of Volný and Dial Telecom's network were optimized and the used technologies were unified.

### HOUSING

Dial Telecom a.s. provides the possibility of placing its customers technology in all important collocation and connection centers in Prague. In 2011, the connection capacity among these centers was increased, with the emphasis on cooperation with other operators. Dial Telecom a.s. operates its own collocation centers in Karlín (Corso) and u Nákladového nádraží (Nagano), where it made a substantial technological renovation in monitoring, air-conditioning, access and stable fire extinguishing equipment in 2011.

### TRANSMISSION TECHNOLOGIES

Dial Telecom a.s. currently has its own extensive transmission infrastructure for providing services, ranging from leased dark fibers, DWDM (lambda), synchronized circuits as well as Ethernet connection leasing. At the same time, it uses these capacities for higher layers of the network (IP, MPLS, voice) and for a complex offer of services.

### WDM

Dial Telecom a.s. offers its customers up to  $n \times 40$  G transmission on its DWDM network. The basic topology of the DWDM network is Frankfurt am Main – Prague – Brno – Ostrava – Český Těšín (Czech/Polish border), then Prague – Ústí n. L. – Liberec – Hradec Králové – Ostrava, Prague – Jihlava – České Budějovice – Písek and Prague – Břeclav – Zlín – Bratislava. The total length of the DWDM routes is more than 2,800 km.

### SDH

The SDH backbone network, integrated into the transmission layer of the network, was originally operated in Volný a.s. This technology was upgraded to a speed of 2.5 G (STM-16) and its optimization was carried out in exchanges in Prague and Brno.

### IP INFRASTRUCTURE

#### MPLS

The development of the backbone for providing IP services was focused on using and developing prospective MPLS technology, increasing the capacities of the backbone lines and expanding the connection points. The full redundancy of the network core was revised and implemented and the backbone connectivity was strengthened. The IP MPLS infrastructure is designed to serve not only traditional Internet access, but particularly to provide two or multiple-point Ethernet VPN, fully transparent for customers.

#### PEERING

In 2011, Dial Telecom a.s. was also active in the field of peering. Now Dial Telecom a.s. has direct connection (peering) with approx. 650 autonomous systems, with capacities of 20Gbps NIX Czech Republic, 30Gbps of direct connections in the Czech Republic and 20Gbps connection into transit foreign networks.

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### VOICE SERVICES

In 2011, Dial Telecom a.s. focused on the strengthening and consolidation of the voice infrastructure by joining the networks of Dial and Volný. In 2011, the first stage of the project (selection and implementation) was completed and the second stage (migration of existing services) began.

The voice infrastructure currently supports classic TDM voice transmission, VoIP services (Voice over Internet Protocol) and extra services (group calling, re-routing, call centers, ...) in the model for end customers and for wholesale partners.

### SYSTEMS

In 2011, a new customer portal was launched, an OHS automaton for retaining numbers was newly implemented, an OHS automaton for ordering ADSL services was newly implemented and all systems were integrated into the company's internal information system.

### KEY FIGURES 2009-2011

CZK '000	2009	2010	2011
Revenues from sales of goods and services	431,483	850,692	<b>806,026</b>
EBITDA (Operating profit + depreciation)	89,256	161,267	<b>151,639</b>
Investment ratio (CAPEX/revenue)	7.3%	7.3%	<b>8.8%</b>
Profit before tax	18,646	35,809	<b>43,125</b>
Cash as of 31 December	67,917	145,433	<b>218,047</b>
Number of employees	95	129	<b>122</b>

### FINANCIAL RESULTS IN 2011

Compared to 2010, the company increased its operating result, even despite the decrease in services. The operating result was CZK 78.2 M in 2010, CZK 79.7 M in 2011. This result is due to the realization of a number of synergies and saving measures after merging with a division of Volný, which was carried out on the decisive date of 1 January, 2010.

In 2011, sister company Fiber Services a.s. was established as a spin-off whose work is to provide complex technical services on optical routes in the Czech Republic. These services are provided to both Dial Telecom and particularly to third parties doing business in the Czech Republic.

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PROFIT AND LOSS STATEMENT  
(CZK '000)

	31.12.2010	31.12.2011
I. Revenues from sales of goods	226	44
A Cost of goods sold	178	35
+ Gross margin	48	9
II. Services	992,026	808,341
B Cost of services	664,591	494,421
+ Value added	327,483	313,929
C Staff costs	119,764	107,392
D Taxes and fees	4,340	9,408
E Depreciation of fixed intangible and tangible assets	82,970	71,913
III. Revenues from sales of fixed assets and materials	5,188	626
F Residual value of fixed assets and materials sold	10,137	170
G Change in reserves and provisions in the operational area and complex costs for the future period	20,730	43,075
IV. Other operating revenue	2,108	2,380
H Other operating costs	18,541	5,251
* Operating result	78,297	79,726
X. Interest revenue	443	958
N Interest expense	39,615	39,067
XI. Other financial revenues	21,964	11,248
O Other financial expenses	25,280	9,740
* Financial result	-42,488	-36,601
Q Income tax on current income period	4,021	16,746
** Profit from ordinary activity	31,788	26,379
*** Profit for the period (+/-)	31,788	26,379
Profit before tax (+/-)	35,809	43,125

BALANCE SHEET  
(CZK '000)

	31.12.2010 Net	31.12.2011 Net
<b>TOTAL ASSETS</b>	1,405,186	1,324,943
B Non-current assets	860,379	823,783
B. I. Non-current intangible assets	952	1,611
B. II. Non-current tangible assets	859,427	822,132
B. III. Non-current financial assets	0	40
C Current assets	528,641	486,372
C. I. Inventory	154,860	42,520
C. II. Long-term accounts receivable	41,458	36,390
C. III. Short-term accounts receivable	186,890	189,415
C. IV. Short-term financial assets	145,433	218,047
D. I. Accruals	16,166	14,788
	31.12.2010 Net	31.12.2011 Net
<b>TOTAL EQUITY AND LIABILITIES</b>	1,405,186	1,324,943
A Equity	488,734	418,912
A. I. Basic capital and capital funds	373,118	276,917
A. III. Reserve funds, non-distributable reserves and other profit funds	4,000	4,000
A. IV. Result from previous years	79,828	111,616
A. V. Current period result	31,788	26,379
B Liabilities	819,021	785,010
B. I. Provisions	0	0
B. II. Long-term liabilities	512,476	544,573
B. III. Short-term liabilities	224,545	183,668
B. IV. Bank loans	82,000	56,769
C. I. Accruals	97,431	121,021

## INTERNATIONAL BACKBONE NETWORK



## ABOUT DIAL TELECOM

The joint-stock company Dial Telecom is a provider of a complex portfolio of voice, data and Internet services with guaranteed service availability all over the Czech Republic through its own unified optical network. The length of the provided optical cable routes of Dial Telecom currently amounts to 4,600 kilometers within the Czech Republic, with 185 kilometers of the cable routes consisting of approximately 12,000 kilometers of optical fibers within the metropolitan network in Prague. The network monitoring, as well as the customer support center, are in operation 24 hours a day, 7 days a week.