



## Q3 and 9M 2010 Financial Results

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*Conference call for investors*

*November 4, 2010*

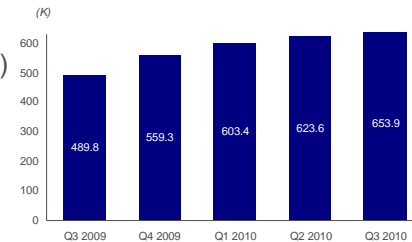
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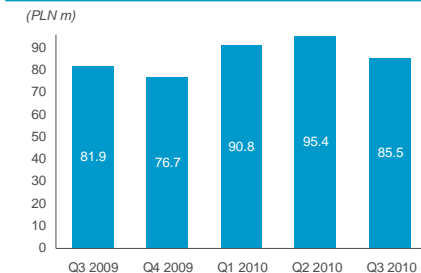
# Executive summary | Key achievements in Q3 and 9M 2010

- Revenue was PLN 1,175m for 9M 2010 (+5% y-o-y) and PLN 395m for Q3 2010 (+5% y-o-y, +0.2% q-o-q)
- Netia's subscriber market share continues to grow strongly
  - 654k broadband services (+33% y-o-y, +5% q-o-q) and 1,214k voice services (+6% y-o-y, +3% q-o-q)
  - Market shares at 11.1% for fixed broadband and 12.8% for fixed voice
  - Fixed broadband net additions share<sup>1</sup> estimated at 31% for 9M 2010 and 36% for Q3 2010
- Netia made strong progress on its LLU network and customers
  - 437 nodes unbundled, 99k clients as at Sept. 30, 2010, over 107k clients as at Nov. 4, 2010
  - 25k net additions in Q3 2010 versus 13k in Q2 2010 and 14k in Q3 2009
  - 2play customers represented 59% of migrations and 96% of organic net LLU additions in Q3 2010
- Netia accelerated its aggressive Q4 promotion and intensified retention activities due to increased price competition
- Faster growth in voice services and costs of migrating BSA/WLR customers onto LLU, coupled with extension of soon-to-expire contracts put a drag on margins in Q3 2010
  - Adjusted EBITDA<sup>2</sup> was PLN 272m for 9M 2010 (+20% y-o-y) and PLN 86m for Q3 2010 (+4% y-o-y, -10% q-o-q)
  - EBITDA was PLN 279m for 9M 2010 (+25% y-o-y) and PLN 90m for Q3 2010 (+8% y-o-y, -6% q-o-q)
- EBIT was PLN 54m (Adjusted EBIT<sup>2</sup> was positive PLN 48m) in 9M 2010 and PLN 14m (Adjusted EBIT profit PLN 10m) in Q3 2010
- Net profit was PLN 42m in 9M 2010 and PLN 12m in Q3 2010 (as compared to PLN 10m loss in 9M 2009 and net profit of PLN 16m in Q2 2010)
- Netia was operating FCF<sup>3</sup> positive in 9M and Q3 2010 (PLN 153m and PLN 46m, respectively, excluding Ethernet acquisitions)
- Customer care project 'Klientomania' proceeding smoothly in implementation
- Netia is advanced in raising financing for potential acquisitions
- 2010 FY guidance maintained

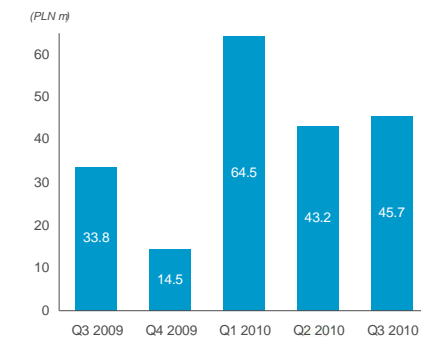
Broadband subscribers



Adjusted EBITDA



OpFCF<sup>3</sup>



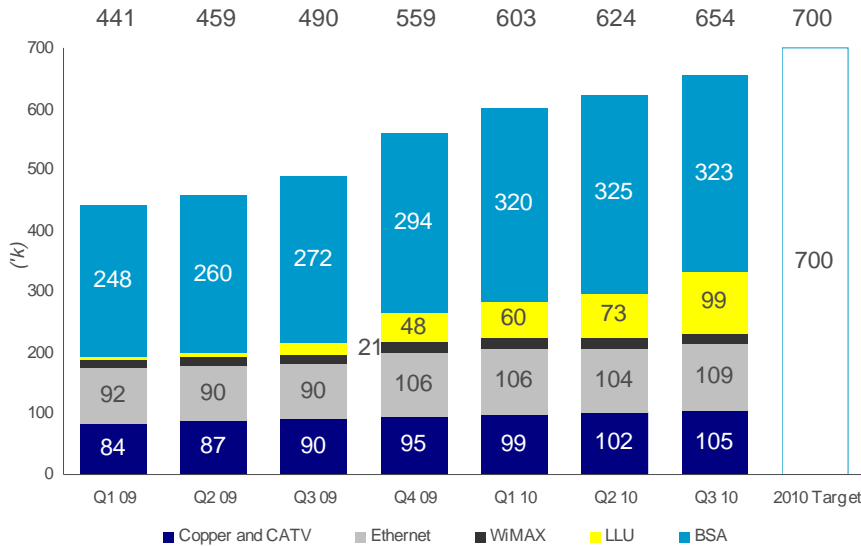
<sup>1</sup> Including Ethernet networks acquisitions

<sup>2</sup> Adjusted EBITDA and Adjusted EBIT exclude one-off restructuring costs related to the „Profit” project and gains on sale of the transmission equipment to P4

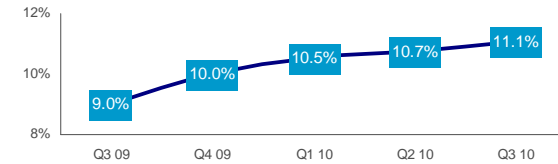
<sup>3</sup> Operating FCF = EBITDA less capex; EBITDA as reported less investments in tangible and intangible fixed assets

# Broadband | Q3 2010 net additions share at 36%

Broadband ports

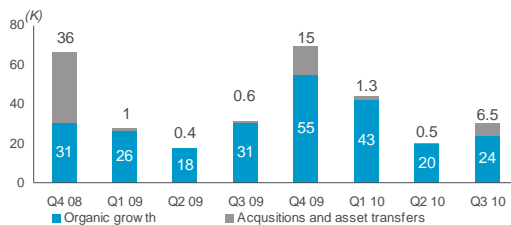


Market share broadband<sup>1</sup>

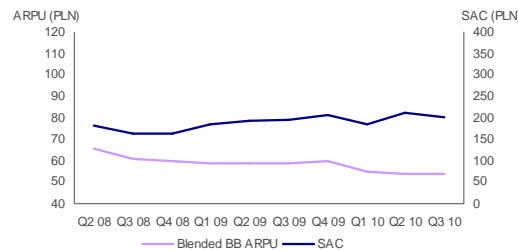


- 35% of customers served directly via Netia's own network
- 31% share of fixed broadband net additions in 9M 2010 and 36% for Q3 2010
- Over 107k LLU customers today
- 2play services represented 59% of migrations and 96% of organic net LLU additions in Q3 2010
- 17k clients migrated from BSA/WLR onto higher margin LLU during Q3 2010
- 34% of new LLU sales came from re-activation of previously dormant TP lines or activation of new lines
- Netia forecasts 700k broadband customers by 2010YE

Broadband net additions



Blended broadband ARPU/SAC

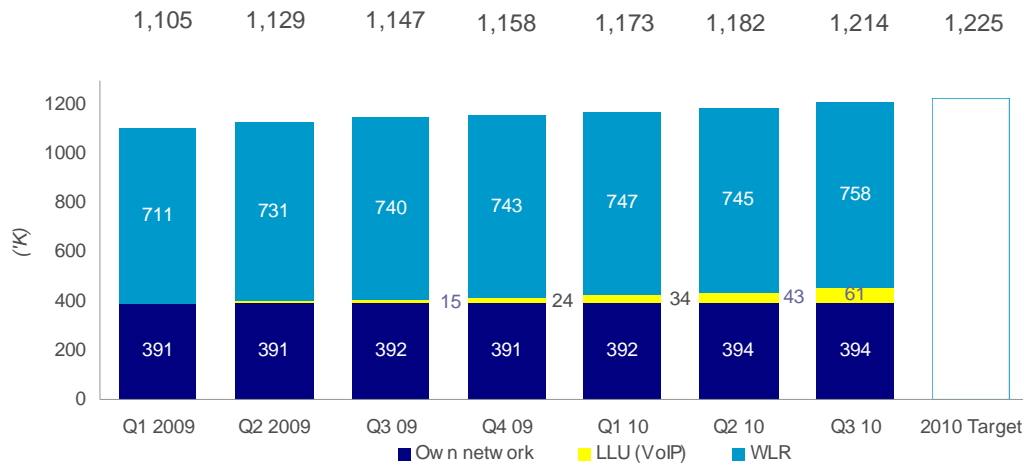


Source: Netia, public domain

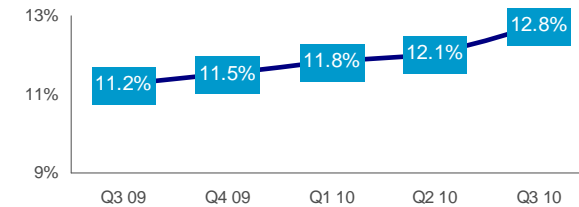
<sup>1</sup> Based on Netia's internal estimates of the total fixed broadband market volume

# Voice | Accelerated progress in Q3 2010

## Voice lines

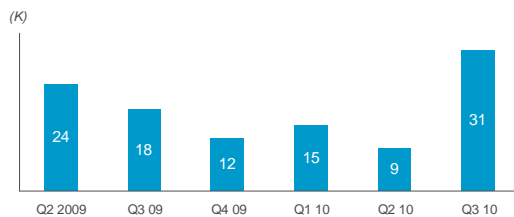


## Market share voice<sup>1</sup>

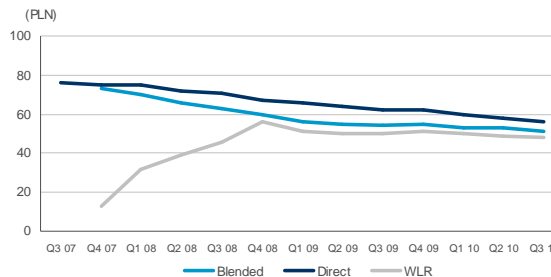


- 1,214k voice customers served as of Q3 2010
- 31k customers added during Q3 2010
- 32% of customers served directly via Netia's own network
- Netia forecasts 1,225k voice customers by 2010 YE
- Voice ARPUs in slow downward trend as anticipated

## Net additions



## Voice ARPU



Source: Netia, TP, public domain

<sup>1</sup> Based on Netia's internal estimates of the total market volume as of 2008YE and 9M 2009

## Financial performance | Key highlights for Q3 2010

(PLN' 000)

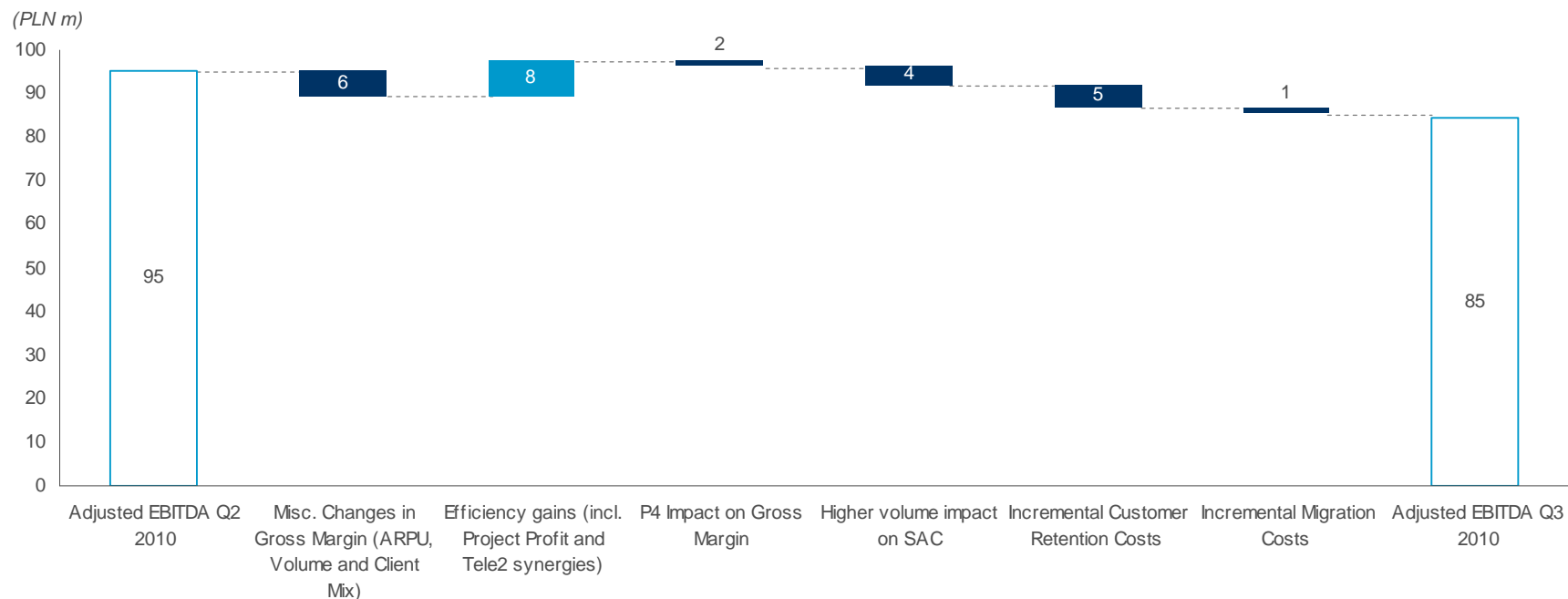
	2009				2010		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>Revenues</b>	375,665	373,679	370,281	386,246	386,979	393,698	394,465
<b>Growth (% YoY)</b>	58.2%	53.5%	36.6%	4.7%	3.0%	5.4%	6.5%
<b>Gross profit</b>	123,855	116,424	123,308	136,798	126,755	131,491	115,870
<b>Margin</b>	33.0%	31.2%	33.3%	35.4%	32.8%	33.4%	29.4%
<b>Adjusted EBITDA<sup>1</sup></b>	71,538	73,760	81,915	76,773	90,799	95,433	85,525
<b>Margin</b>	19.0%	19.7%	22.1%	19.9%	23.5%	24.2%	21.7%
<b>Growth (% YoY)</b>	111.6%	108.1%	86.9%	33.3%	26.9%	29.4%	4.4%
<b>EBIT</b>	(3,043)	(4,976)	7,069	15,218	19,554	20,485	14,379
<b>Profit/(loss) before tax</b>	(6,926)	(8,181)	4,197	12,035	17,425	22,813	14,355
<b>Net profit/ (loss)</b>	(6,393)	(8,242)	4,236	99,096	14,344	15,564	12,410
<b>Total assets</b>	2,264,368	2,217,241	2,219,005	2,341,649	2,298,837	2,361,929	2,361,982
<b>Net cash and treasury bills</b>	190,571	162,886	211,641	239,345	206,339	272,472	312,979
<b>Available credit lines<sup>2</sup></b>	375,000	295,000	295,000	295,000	295,000	295,000	---

- Accelerating voice net additions, LLU migrations and retention spending drag down Q3 2010 margins as flagged previously

<sup>1</sup> Adjusted EBITDA excludes the one-off expenses related to the cost optimization program (the 'Profit' project), a positive accounting impact from settlement of disputes with TP and a gain on sale of the tranches of transmission equipment to P4

<sup>2</sup> Netia cancelled the PLN 295.0m credit facility on July 29, 2010 as it has signed a mandate to arrange PLN 700.0m of new financing to fund potential major acquisitions

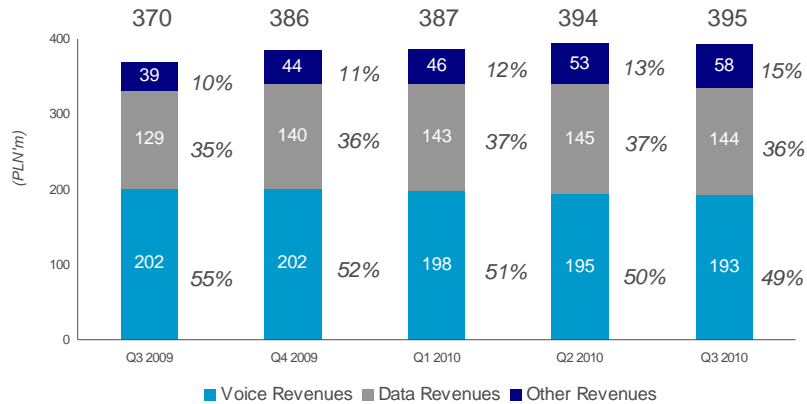
## EBITDA bridge | Higher gross additions, migration and retention reduces margins



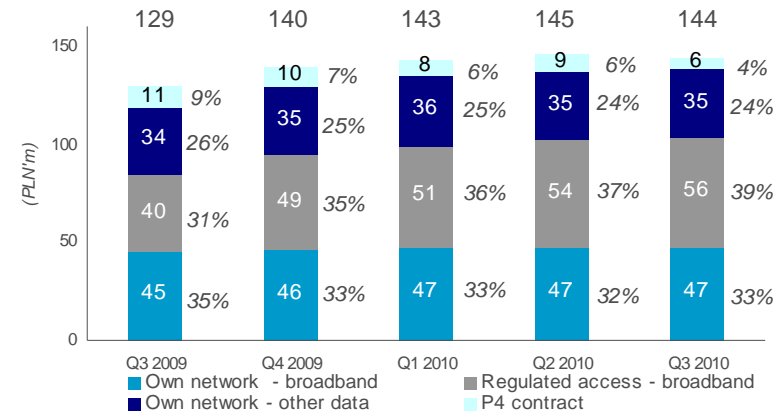
- In Q3 2010 Netia introduced an aggressive promotional campaign which contributed to higher customer gross additions and drove acquisition expenses higher
- This was partially offset by increased operational efficiency thanks to gains from Project Profit and successful Tele2 synergy extraction
- However, increased retention and migration costs to secure Netia's customer base resulted in reduced profit margins for the quarter

# Revenue | Revenue development by service

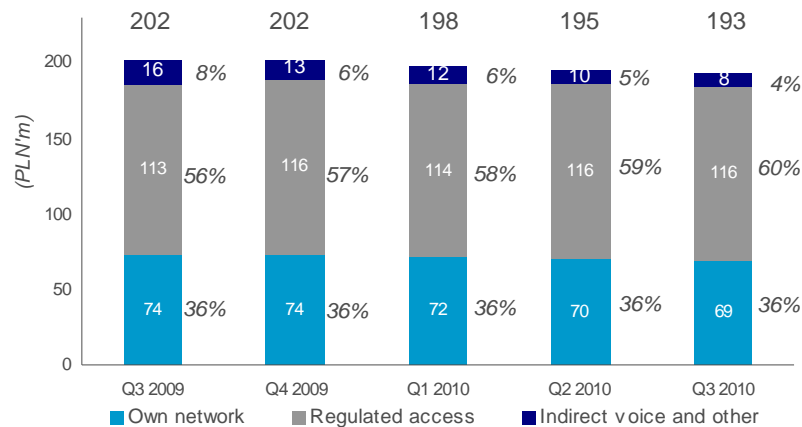
## Revenue breakdown by service



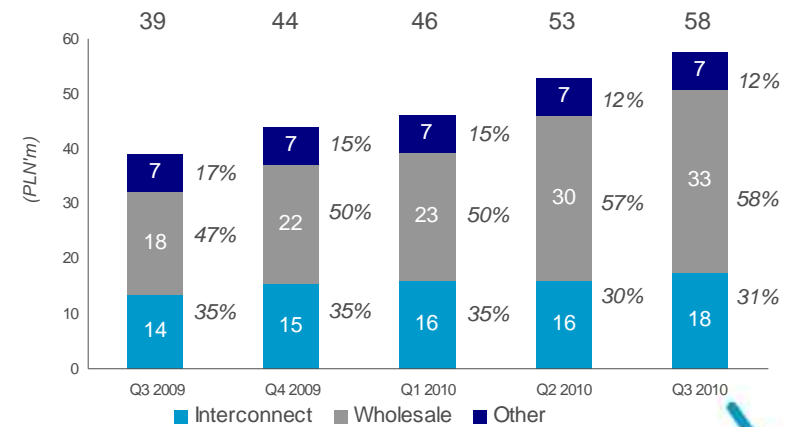
## Data revenue breakdown by access



## Voice revenue breakdown by access



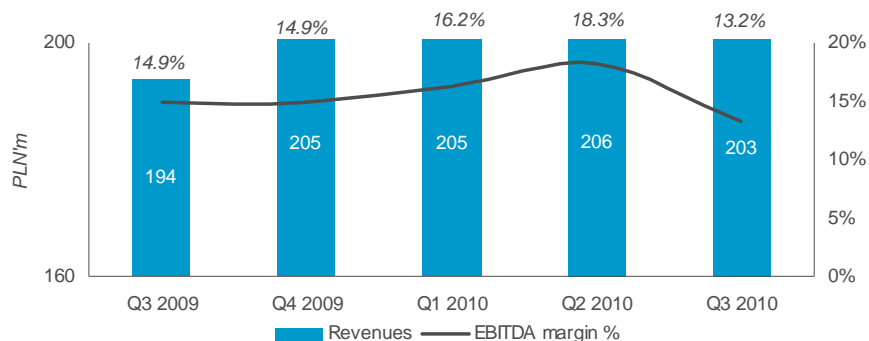
## Other revenue



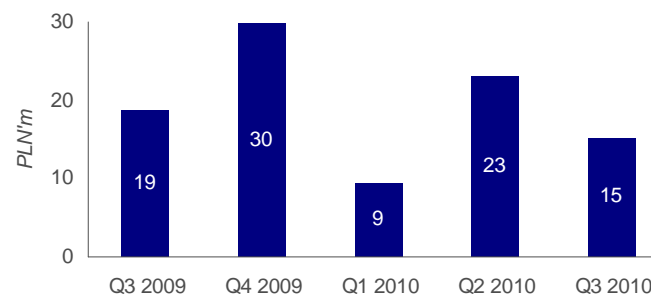
Source: Company

# Operating segments | Residential

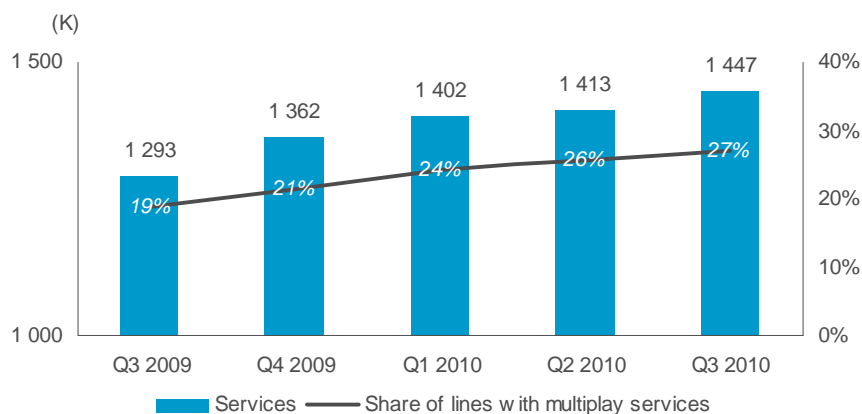
Revenue and EBITDA margin



Capex



Number of services<sup>1</sup>



Comments

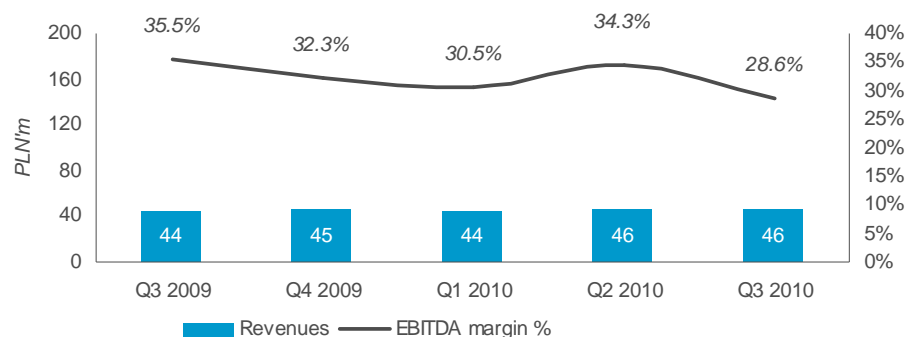
- Revenue lower sequentially on aggressive promotion and extension of soon-to-expire contracts on better terms in order to secure client base in tougher market environment
- Costs of migrating customers from BSA/WLR to higher margin LLU and customer retention expenses responsible for lower EBITDA margin
- 2play new additions support operating leverage improvements

Source: Company

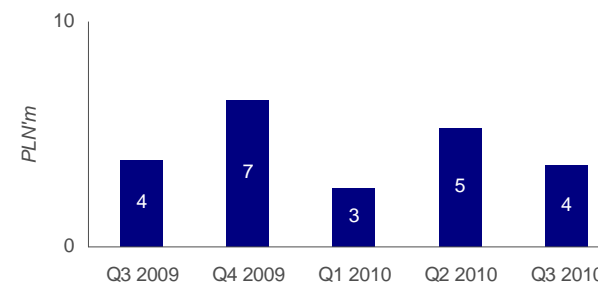
<sup>1</sup> Data and voice services excluding CPS (carrier pre selection) lines, end of period

# Operating segments | SOHO/SME

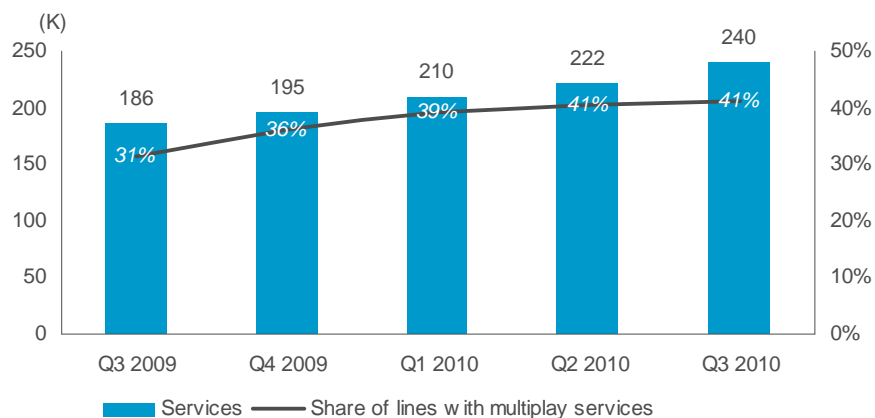
## Revenue and EBITDA margin



## Capex



## Number of services<sup>1</sup>



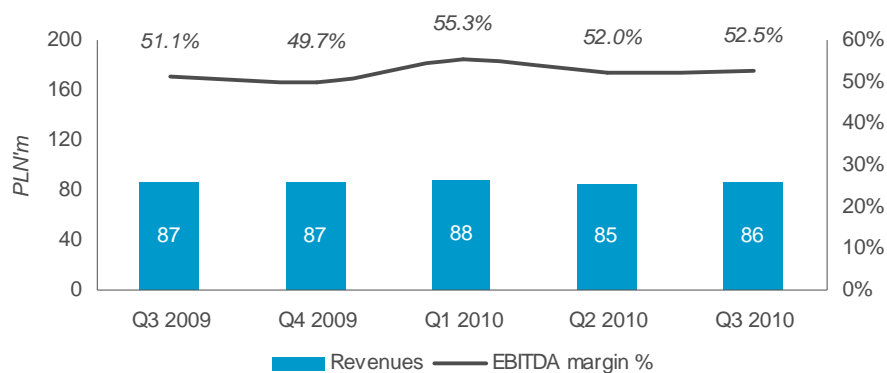
## Comments

- Revenue maintained sequentially despite aggressive promotion behind a strong customer acquisition trend
- High number of services per SOHO/SME customer maintained (bundled offers for firms)
- Pressure on ARPUs due to economic and competitive environment is continuing

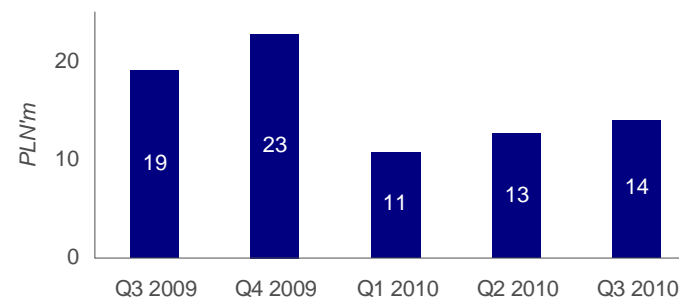
Source: Company  
<sup>1</sup> Data and voice services excluding CPS (carrier pre selection) lines, end of period

# Operating segments | Corporate

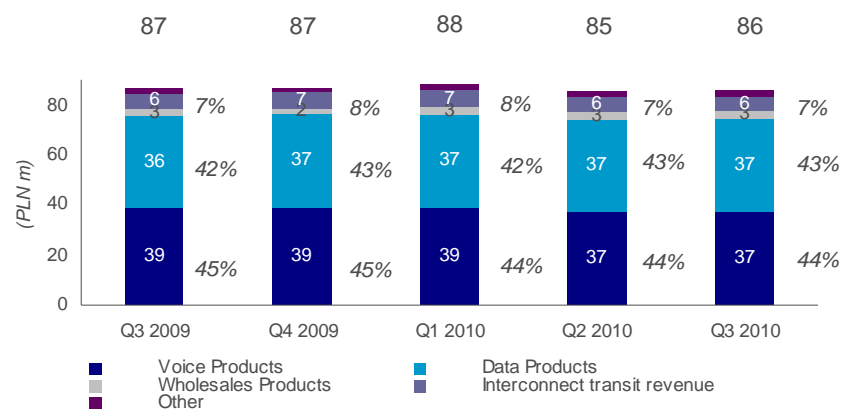
Revenue and EBITDA margin



Capex



Corporate revenue by type



Comments

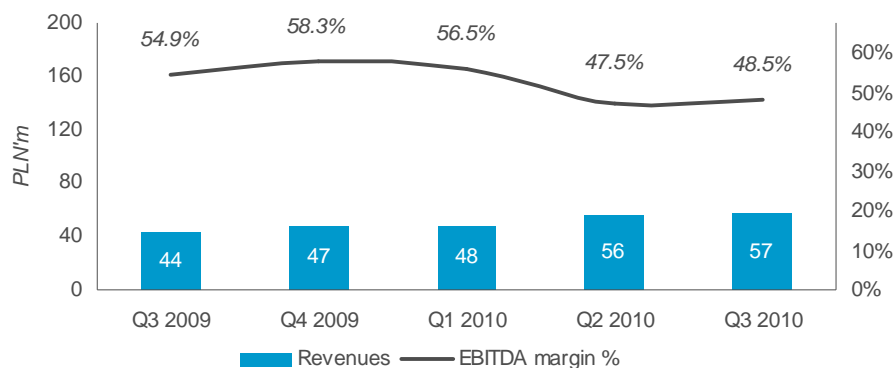
- Cash generative and stable business model
- Winning exposure to data services is increasingly important to drive revenues
- High operating margin as most services provided over Netia's own infrastructure

Source: Company

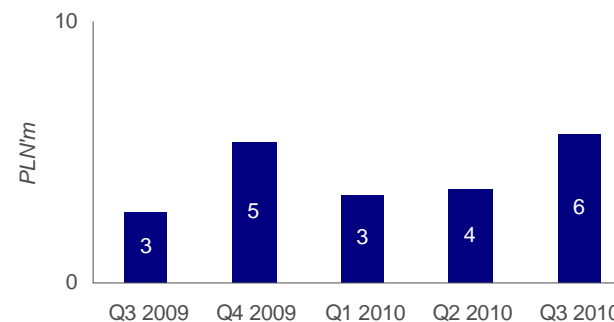
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# Operating segments | Carriers

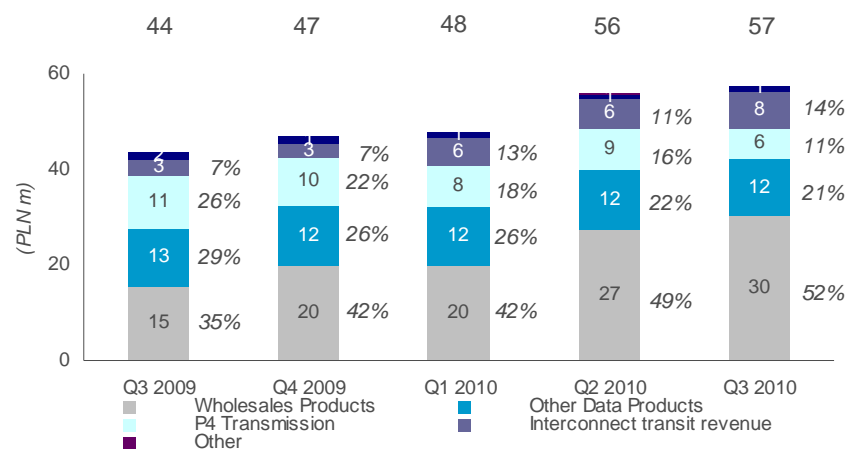
Revenue and EBITDA margin



Capex



Carriers revenue by type



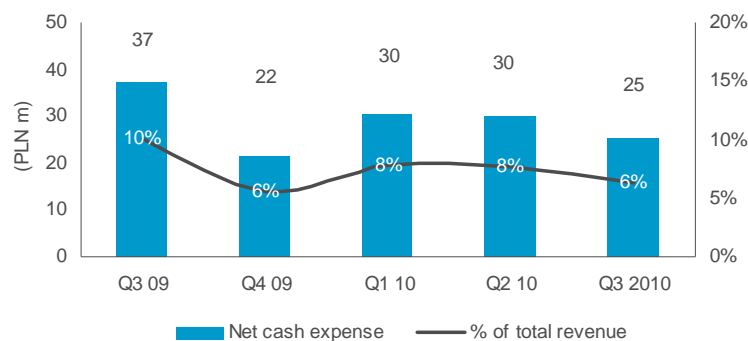
Comments

- Strong cash generative and stable business model
- Contribution mainly from data transmission and opportunistic carrier contracts
- Traditionally high operating margin based on leasing Netia's own capacity
- EBITDA margin in Q3 supported by sale of the final tranche of transmission equipment to P4
- Lower margins in the last 2 quarters due to higher volumes of opportunistic wholesale transit business

Source: Company

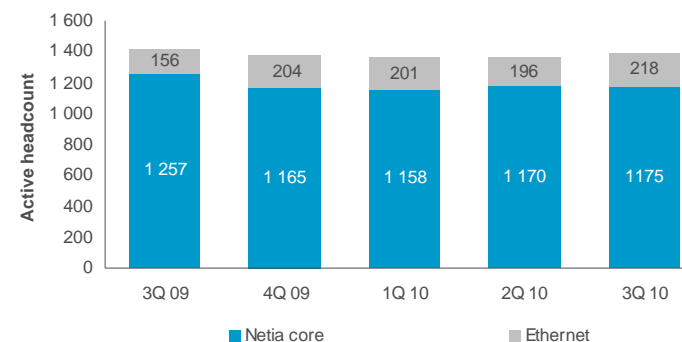
# Operating expenses | Cost reductions locked-in

## Other operating segment net cash expenses

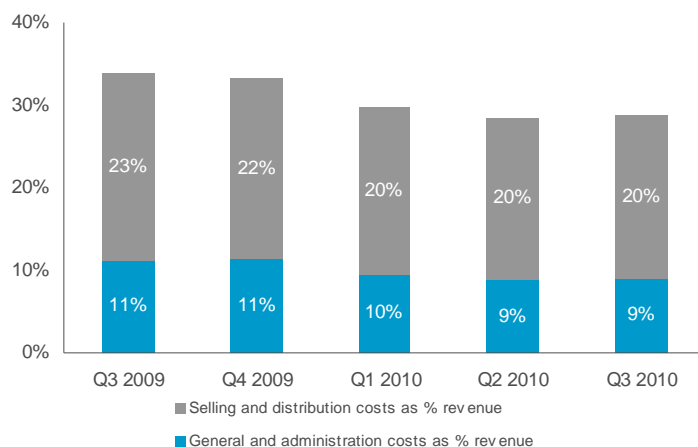


## Headcount

	Q3 09	Q4 09	Q1 10	Q2 10	Q3 10
Total headcount <sup>1</sup>	1,477	1,432	1,410	1,416	1,450
Active headcount <sup>2</sup>	1,413	1,369	1,359	1,366	1,393



## Total SG&A to revenue (%)



## Comments

- SG&A expenses down by 10% y-o-y as a result of efficiency gains mainly delivered through Project Profit
- SG&A expenses to revenue down by 5 pp on Q3 2009
- Active headcount at 1,393 in Q3 2010, up sequentially mainly due to acquisition of a new Ethernet company with 25 employees

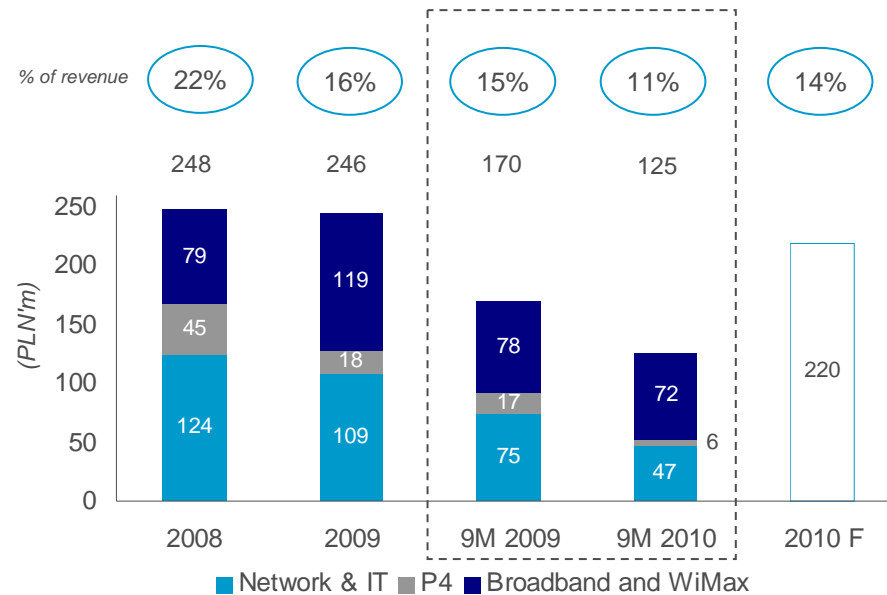
Source: Company

<sup>1</sup> Full-time equivalent of employees

<sup>2</sup> Full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work

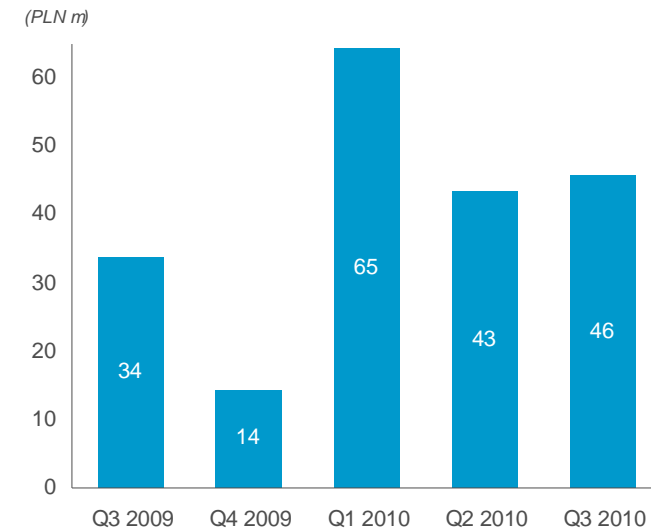
# Financial performance | Capital investments and operating FCF

## Capital investments



- Netia continues to invest in growth, mainly in residential segment to provide for increasing volumes of subscribers and capacity for higher speeds
- Lower capex in 9M 10 versus the prior year period reflects strict control measures, utilization of previously developed IT support and completed P4 transmission roll-out
- Netia considers extending its LLU roll-out to 700 nodes

## Operating FCF<sup>1</sup>



- Operating free cash flow (OpFCF) continues to grow with 12 month cash generation at PLN 168m

<sup>1</sup> Operating FCF = EBITDA less capex; EBITDA as reported less investments in tangible and intangible fixed assets

## EBITDA reconciliation to Net Profit | Comments

PLN'000	9M 2009	9M 2010	Change
<b>Adjusted EBITDA</b>	<b>227,213</b>	<b>271,757</b>	+20%
Gain on disposal of transmission equipment to P4	5,298	7,298	+38%
Project Profit restructuring costs	(10,279)	(468)	-95%
<b>EBITDA</b>	<b>222,232</b>	<b>278,587</b>	+25%
Depreciation and amortization	(223,182)	(224,169)	+0.4%
<b>EBIT</b>	<b>(950)</b>	<b>54,418</b>	<i>nm</i>
Net financial income / (costs)	(9,960)	175	<i>nm</i>
<i>of which FX gains or losses, net</i>	<i>(7,389)</i>	<i>(1,008)</i>	<i>nm</i>
Income tax credit / (expense)	511	(12,275)	<i>nm</i>
<b>Profit/ (Loss)</b>	<b>(10,399)</b>	<b>42,318</b>	<i>nm</i>
Number of shares (basic)	389,277,294	389,318,447	<i>na</i>
<b>EPS (in PLN, basic)</b>	<b>(0.03)</b>	<b>0.11</b>	<i>nm</i>

- Surge in profitability due to strong subscriber base growth as well as delivery of savings and synergies
- Better performance on financial expenses contributing to net profits
- Tax charge reflects deferred taxes as prior losses cover all current taxable profits

## Financing | Netia is advanced in raising funds for potential major acquisitions

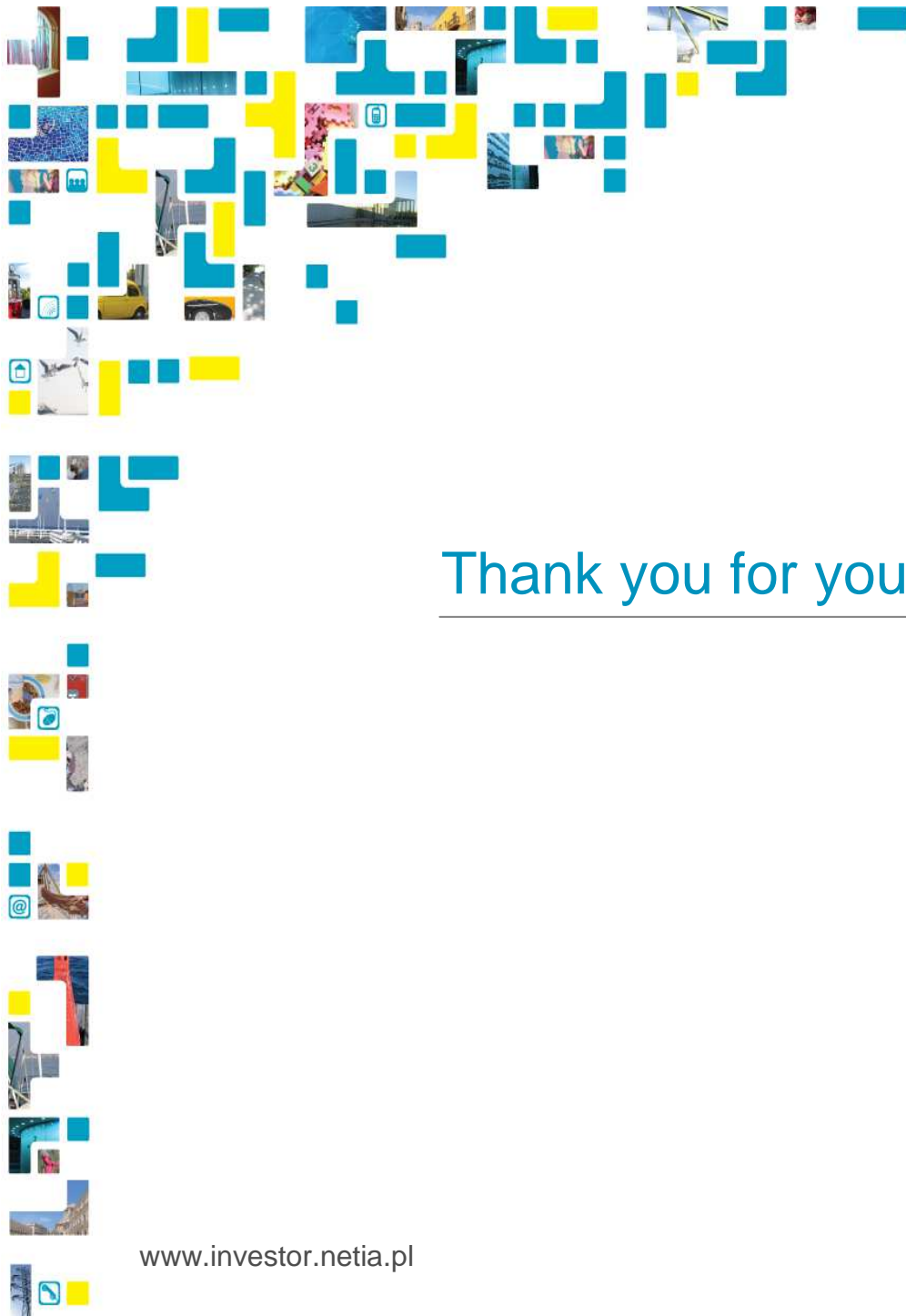
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- On July 29, 2010 Netia entered into a mandate letter with BRE Bank, Rabobank Polska and Raiffeisen Bank Polska and, subsequently, on October 4, 2010 with the Polish branch of BNP Paribas, for arrangement of new financing for potential market consolidating acquisitions in the telecommunications sector in Poland
- The amount of new financing to be arranged is PLN 700m
- Netia's cash resources at September 30, 2010 totalled PLN 313m (PLN 157m in cash and PLN 156m in treasury bills at market value)
  - Total financial resources that may be utilized to finance potential market consolidating M&A activities exceed PLN 1bn
  - Netia intends to retain cash balance of approximately PLN 300m to support major acquisitions whilst such opportunities remain feasible
  - Netia is considering recommending a dividend to be paid in 2011 from any surplus cash balances generated

## Summary

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- **Broadband strategy delivered another quarter above 30% of net additions**
- **Very strong quarter on LLU with customer base now at 107k**
- **Operating efficiency gains delivered by Project Profit and Tele2 Polska synergies are being sustained**
- **As expected, higher net additions, LLU migration related costs and activities aimed at securing Netia's customer base in tougher market affected margins in Q3 2010**
- **Accelerating FCF generation at PLN 168m over the past 12 months**
- **Netia and TP both working with Regulator to improve transparency of margin squeeze test going forward**
- **Netia well positioned for any major acquisition opportunities**
- **Netia going flat-out to meet 2010 guidance despite tougher price competition on the broadband market**



Thank you for your attention

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