

Q1 2011 Financial Results

Conference call for investors

May 5, 2011

N E T I A



	Q1 2011	Y-o-Y change	FY 2011 Guidance
Total revenues (PLNm)	401.2	+3.7%	1,610+
Adjusted EBITDA (PLNm)	101.5	+11.8%	405+
Adjusted EBITDA margin (%)	25.3%	+1.8 pp	25%
EBITDA (PLNm)	101.4	+8.4%	na
EBIT (PLNm)	26.0	+33.2%	70+
Capital investment (excl. M&A) (PLNm)	40.9	+41.0%	230
Capital investment to sales (%)	10.2%	+2.7pp	14%
Operating free cash flow (OpFCF) (PLNm)	60.6	(1.9%)	170+
Broadband subscribers ('000)	704	+17%	780-800
Unbundled local loop (LLU) nodes	535	+74%	700

Key highlights for Q1 2011



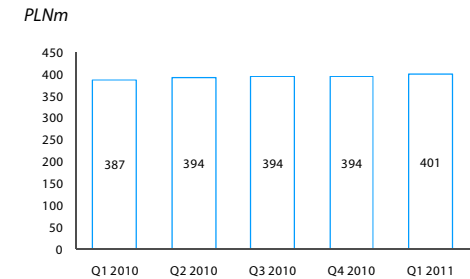
- Revenue was PLN 401.2m for Q1 2011(+4% y-o-y, 2% q-o-q)
- Netia’s subscriber market share continues to progress
 - 704k broadband services (+17% y-o-y, +2% q-o-q)
 - 1,226k voice services (+5% y-o-y, -0.4% q-o-q)
 - Market shares at 11.5% for fixed broadband and 13.4% for fixed voice
 - Fixed broadband net additions share¹ estimated at 14% for Q1 2011
- Netia continues to grow strongly on LLU
 - 19k net additions in Q1 2011
 - 535 nodes unbundled, 146k clients at Q1 2011 versus 127k at 2010YE
 - Cumulative 78k clients migrated from BSA/WLR on to higher margin LLU
- Further improvement in EBITDA profitability
 - Adjusted EBITDA² was PLN 101.5m for Q1 2011 (+12% y-o-y, +16% q-o-q)
 - EBITDA was PLN 101.4m for Q1 2011 (+8% y-o-y, -67% q-o-q)
 - EBITDA margin exceeded 25% in Q1 2011
- EBIT was PLN 26.0m (Adjusted EBIT² was PLN 26,2m)
- Net profit excluding one-offs and the 2003 tax adjustment was up by 191% to PLN 35.4m for Q1 2011 versus PLN 12.1m for Q1 2010
- Reported net loss for Q1 2011 was PLN 23.0m due to the 2003 tax adjustment
- Netia was OpFCF³ positive in Q1 2011 PLN 60.6m (excl. Ethernet acquisitions)
- Strategy 2020 announced on January 13, 2011
 - Total rebranding („rebraining”) process initiated
 - NGA pilot and new offer introduced to the market
 - Klientomania continues with further achievements
 - Netia proposes to allocate up to PLN 350.0m of funds for a share buy-back programme

¹ Including Ethernet networks acquisitions

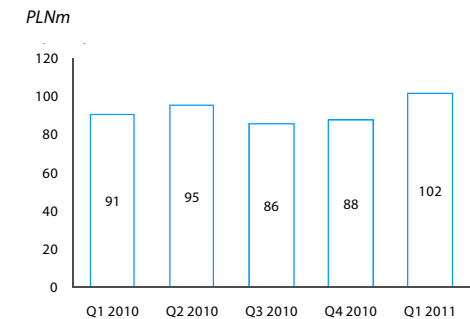
² Adjusted EBITDA, Adjusted EBIT and Adjusted Profit exclude impact on net result from non-cash gain on impairment reversal, gains on sale of the transmission equipment to P4, expenses related to the CIT 2003 tax dispute, one-off restructuring costs related to the „Profit” project and M&A related costs

³ Operating FCF = Adjusted EBITDA less capex, capex = investments in tangible and intangible fixed assets

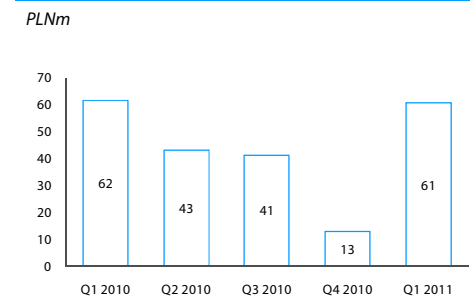
Revenue



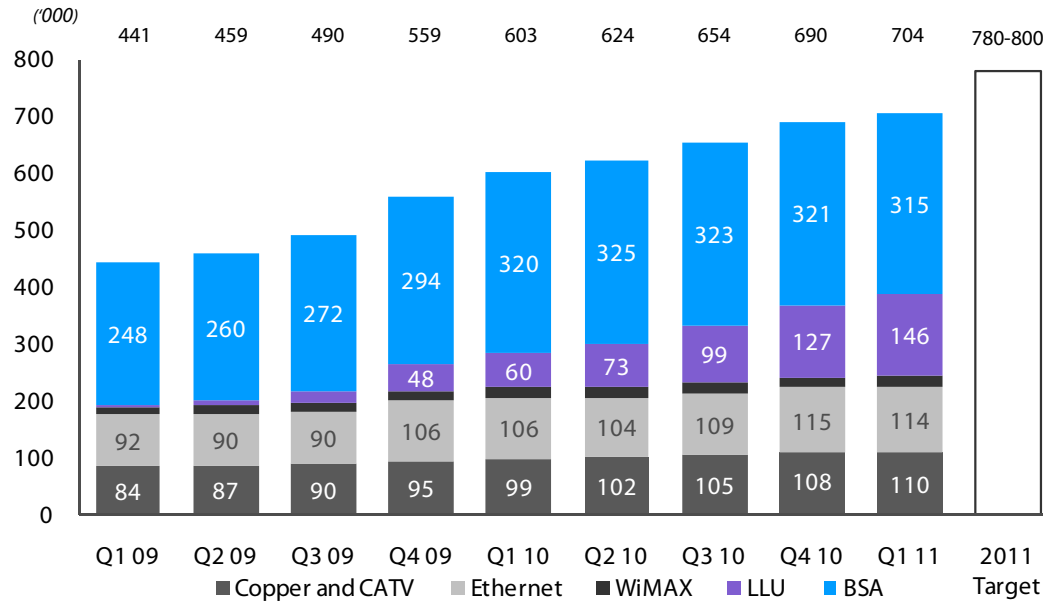
Adjusted EBITDA²



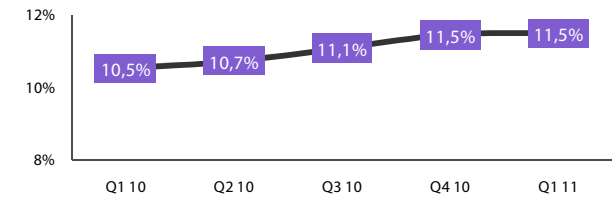
OpFCF³



Broadband ports



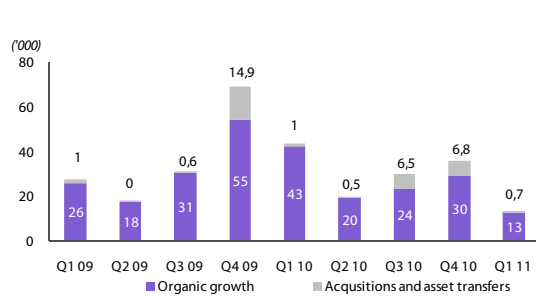
Market share broadband¹



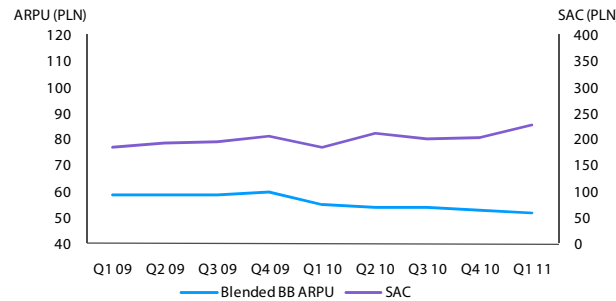
Comments

- Vast majority of all additions acquired through organic growth
- 14% share of fixed broadband net additions in Q1 2011¹
- 146k LLU customers (up 145% y-o-y)
- Rising SAC to 227 reflects mix change away from 1play BSA
- ARPU of 52 PLN in Q1 2011 versus 53 PLN in Q4 2010
- Netia forecasts 780-800k broadband customers by 2011YE

Broadband net additions



Blended broadband ARPU/SAC



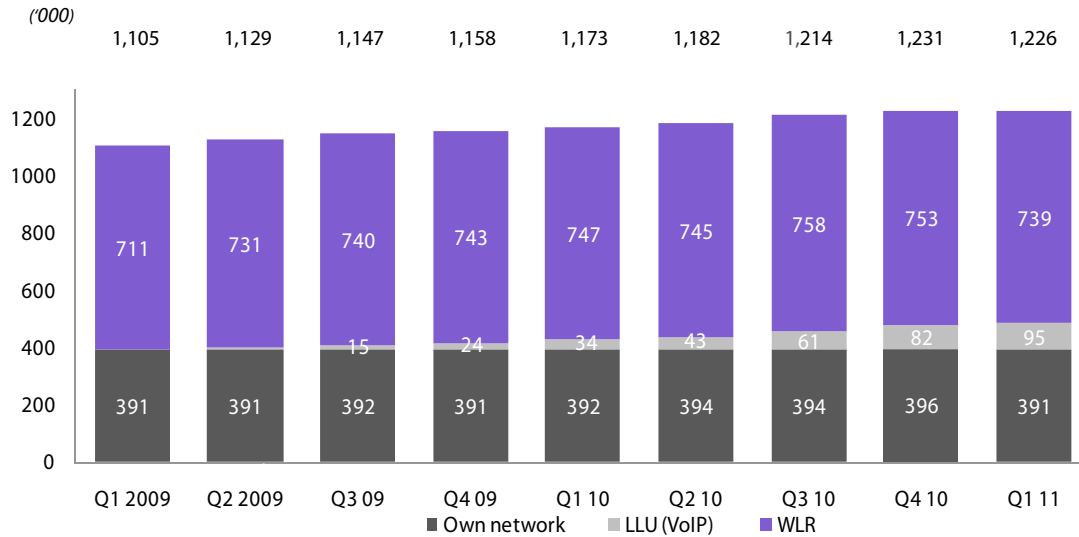
Source: Netia, public domain

¹ Based on Netia's internal estimates of the total fixed broadband market volume

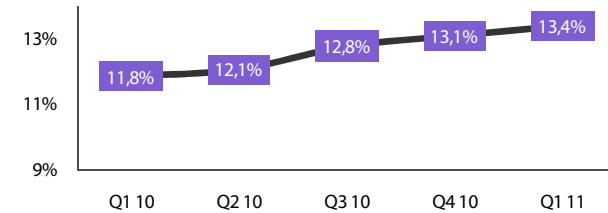
Voice | Continued progress on voice sales volumes



Voice lines



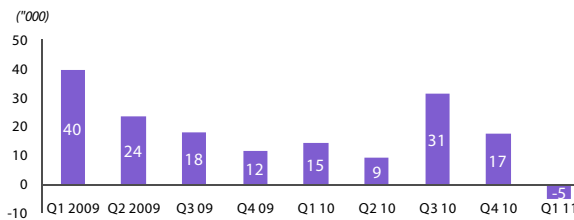
Market share voice¹



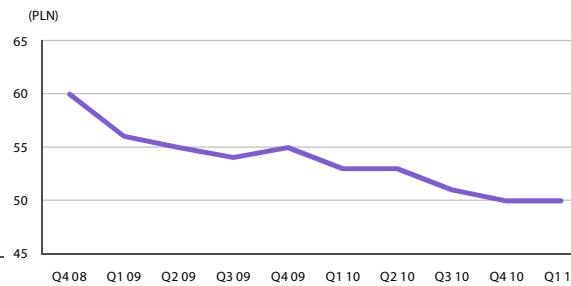
Comments

- 1,226k voice customers at Q1 2011
- Netia is steadily growing its base of relatively low cost VoIP technology
- 32% of customers served directly via Netia's own network
- Netia forecasts to at least maintain its voice customer base through 2011YE
- Stabilized voice ARPU in Q1 2011

Net additions



Voice ARPU

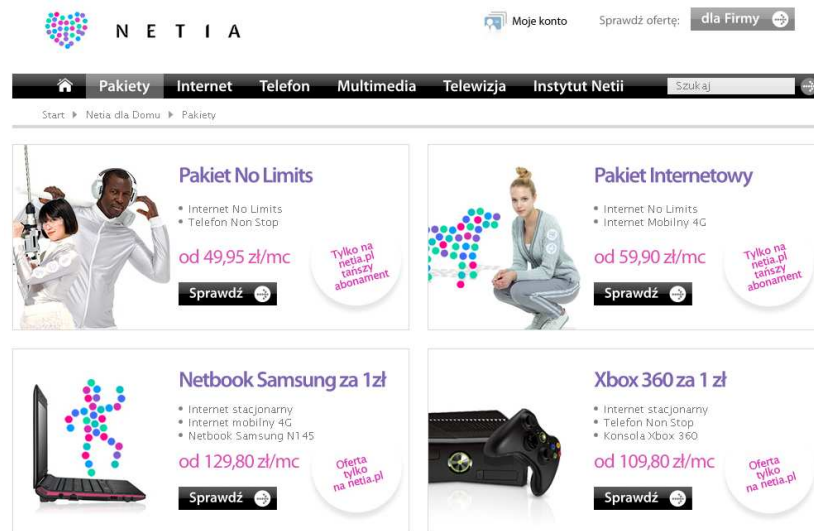


Source: Netia, TP, public domain
¹Based on Netia's internal estimates of the total market volume

- On March 31, 2011 Netia introduced to the market its new corporate identity and logo
- Thus Netia initiated the process of profound changes in its way of thinking and acting on the Polish telecom market reflecting on the new Company's mission and vision: "We deliver the world on-line"
- Netia views today's world as the one enriched by the possibilities offered by the Internet and without the boundaries between its off-line and on-line component, which are blurring further on a daily basis
- Netia's aspiration is to become a guide in exploring this new world and helping to understand its nature
- Accordingly, Netia intends to offer its customers the unique, revolutionary products and services characterized by simplicity, innovation and good value, delivered by a passionate team
- In the first step, on April 14, 2011 Netia introduced, for the first time on the Polish market, the flat-rate based broadband offering and launched its new e-store
- Netia's new strategic philosophy is being communicated to the market through a new ATL advertising campaign and supported by the new corporate identity, including new web site and new logo



- On April 14, 2011, Netia launched a new broadband offering ‘No Limits’, based on the unique concept (for Poland) of providing Internet services at a flat rate
 - The offer includes a bundle of Internet access at the highest transmission speed available over a given line (i.e. “best efforts”) plus unlimited fixed-line domestic calls plus, where provided, a basic bundle of TV services for a monthly fee of PLN 99.90 gross
 - In parallel, Netia resigned from concluding contracts with its customers for a defined period (so called “loyalty contracts”)
 - Instead, upon dissolving a contract the Company will be charging a deferred activation fee, the amount of which gradually reduces down to PLN 0.01 gross in the 25th month of the contract and onwards
 - Netia’s flat rate broadband offering is supported by a new ATL advertising campaign
- Simultaneously, Netia entered the e-commerce market by launching its new e-store
 - Netia’s e-store offers at present approximately 1,000 products delivered by external content providers, such as e-books, audio books, business applications and e-learning courses and is expected to expand significantly in the near future



NGA Pilot and future NGA roll-out plans

- NGA Pilot started in December 2010 with approximately 30k NGA ready homes passed (HPs)
 - Copper network ADSL2+ upgraded to VDSL (50 Mbps)
 - Ethernet network upgraded to FTTB (100 Mbps)
- Target roll-out of NGA for 2011E is to reach circa 500k NGA ready HPs
 - ~350k select Copper network HPs (VDSL)
 - ~150k select Ethernet network HPs (FTTB)

NGA Pilot 3play offer including IPTV and mobile broadband

- Internet speed offers comprise 20Mbps & 50Mbps for VDSL and 20Mbps & 100Mbps for ETTH respectively
- IPTV offer includes content from all major Polish and international vendors
- 3play offer including Internet + IPTV + telephony from 99.90 PLN monthly with basic TV package (30 channels) up to 139.90 PLN monthly for full TV package (81 channels)
 - HD TV channels for extra 19 PLN per month
 - Mobile broadband for extra 29 PLN per month
- The offer is fully integrated with Netia’s new “No Limits” offer countrywide



SuperTrio

► SuperTrio to promocja skierowana wyłącznie do Ciebie!
W naszej sieci w jednym pakiecie możesz mieć: kilkadziesiąt kanałów telewizyjnych, nieograniczony dostęp do internetu i rozmowy bez limitu!

Telewizyjny Pakiet Optymalny	67 kanałów	49,90 zł
Szybki Internet	do 20 Mbit/s	69,90 zł
Lepszy Telefon	rozmowy bez limitu lokalnie i międzymiastowe	9,90 zł
Telewizyjny Pakiet Maksymalny	76 kanałów	69,90 zł
Szybki Internet Max	do 50 Mbit/s	89,90 zł
Lepszy Telefon	rozmowy bez limitu lokalnie i międzymiastowe	1 zł

Pakiet **Maksymalny** 76 kanałów

Pakiet **Optymalny** 67 kanałów

dekodator	1 zł
instalacja internetu	29 zł
router	29 zł
instalacja telefonii	1 zł

Netia launched a project 'Klientomania' with the goals:



- To increase customer satisfaction at every stage of the customer life cycle
- To establish Netia as the clear market leader in this respect

Netia builds another competitive advantage with this project



- 'Klientomania' is expected to deliver measurable improvements in customer satisfaction
- Project to be self-financing through increased sales, better customer retention performance and lower customer care costs

Recently completed tasks under the project

- Implemented new invoice layout with simplified presentation of the key invoice data
- Improved tools for checking the availability of services in certain locations
- Reduced number of pro-rata billings for services
- Regular monitoring of the implemented tasks' impact on customer satisfaction
- New e-tools for measuring customer satisfaction (the Netia on Line survey)

Select key operational KPIs for Klientomania¹



% of clients using Netia's online service +8pp



Average claim processing time (days) -72%



incoming calls regarding activation / the number of activated services -39%



% of clients using e-Invoice +7pp



claims per client -15%



% of technical problems resolved in line with SLA +5pp

Financial performance | Key figures for Q1 2011 and FY2010



	2010				2011
	Q1	Q2	Q3	Q4	Q1
<i>(PLN' 000)</i>					
Revenues	386,979	393,698	394,465	394,154	401,189
Growth (% YoY)	3.0%	5.4%	6.5%	2.0%	3.7%
Gross profit	126,763	131,484	115,869	119,201	130,955
Margin	32.8%	33.4%	29.4%	30.2%	32.6%
Adjusted EBITDA¹	90,807	95,425	85,525	87,737	101,504
Margin	23.5%	24.2%	21.7%	22.3%	25.3%
Growth (% YoY)	57.7%	29.4%	4.4%	14.3%	11.8%
Adjusted EBIT¹	16,835	20,639	10,114	11,222	26,179
EBIT	19,562	20,477	14,379	231,337	26,050
Adjusted Profit¹	12,143	15,687	8,955	18,809	35,409
Net profit/ (loss)	14,352	15,556	12,410	221,577	(23,045)
Total assets	2,299,491	2,361,929	2,361,982	2,568,569	2,537,800
Net cash and treasury bills	206,339	272,472	313,313	345,216	382,039
Available credit lines²	295,000	295,000	---	---	---

Other comments

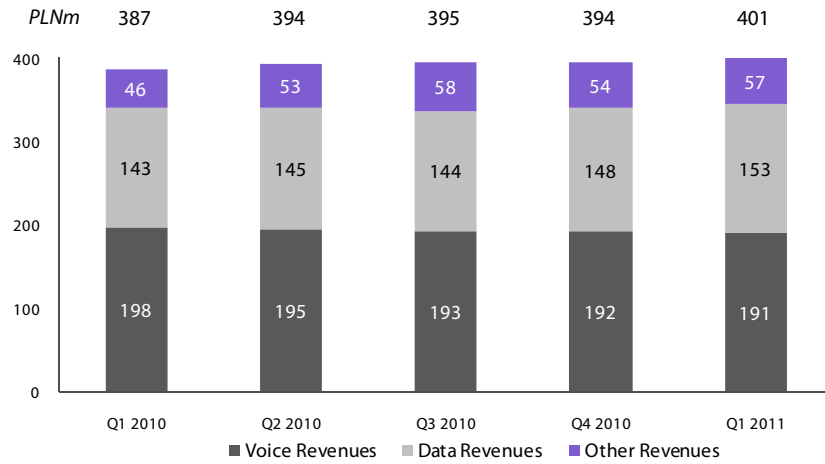
- Net loss due to PLN 58.3m of additional tax expense regarding CIT 2003
- Dispute will move on to the Supreme Administrative Court
- Mandate in place to arrange PLN700m for acquisition financing

¹ Adjusted EBITDA, Adjusted EBIT and Adjusted Profit exclude as appropriate: a non-cash gain on impairment reversal (Q4 2010), expenses related to CIT 2003 tax dispute (Q1 2011), one-off expenses related to the cost optimization program (the 'Profit' project) (2010), M&A related expenses (Q4 2010-2011), a gain on sale of the tranches of transmission equipment to P4 (Q1 and Q3 2010) and impact from the one-offs on the income tax charge (2010-2011)

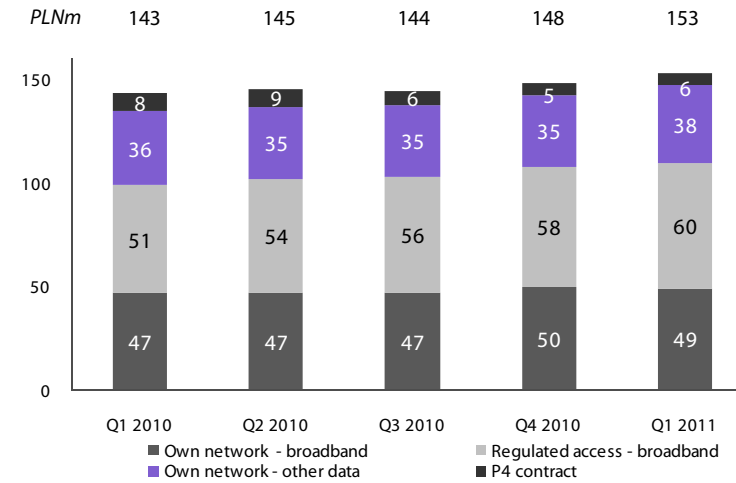
² Netia cancelled the PLN 295.0m credit facility on July 29, 2010 and signed a mandate to arrange PLN 700.0m of new financing to fund potential major acquisitions



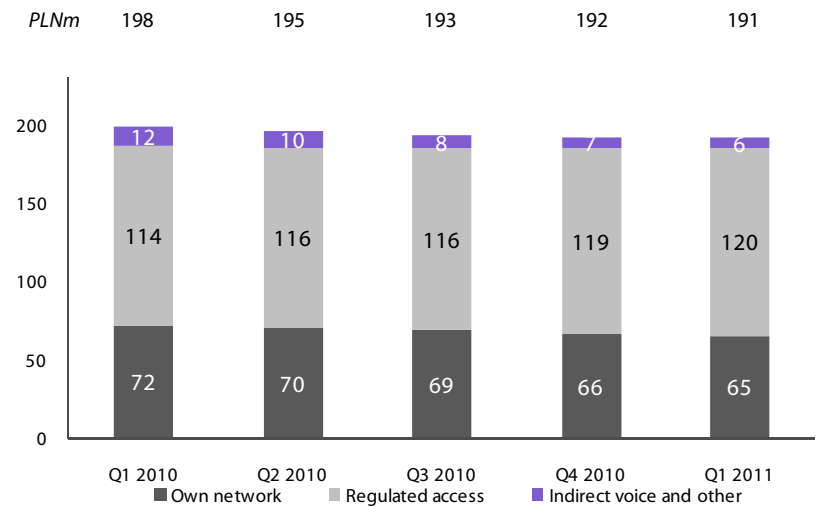
Revenue breakdown by service



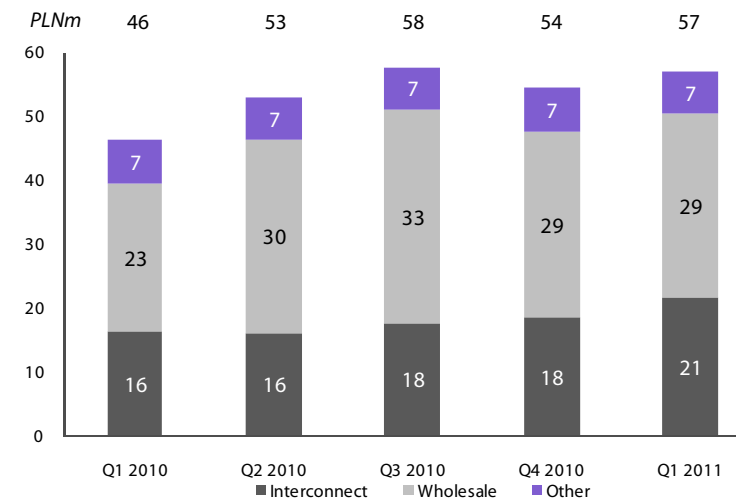
Data revenue breakdown by access



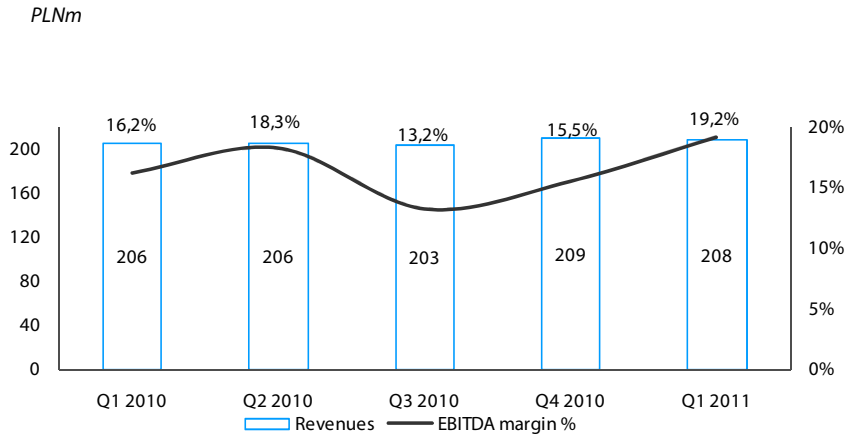
Voice revenue breakdown by access



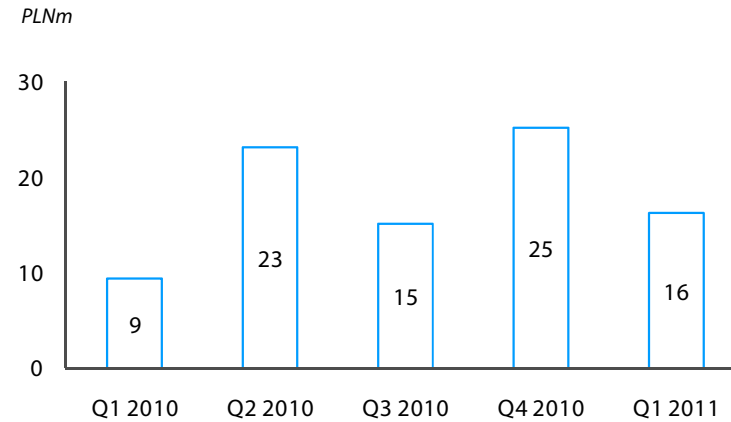
Other revenue



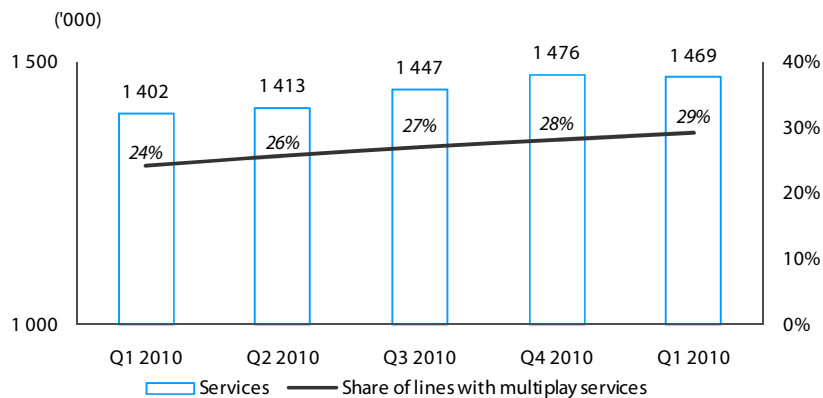
Revenue and EBITDA margin



Capex



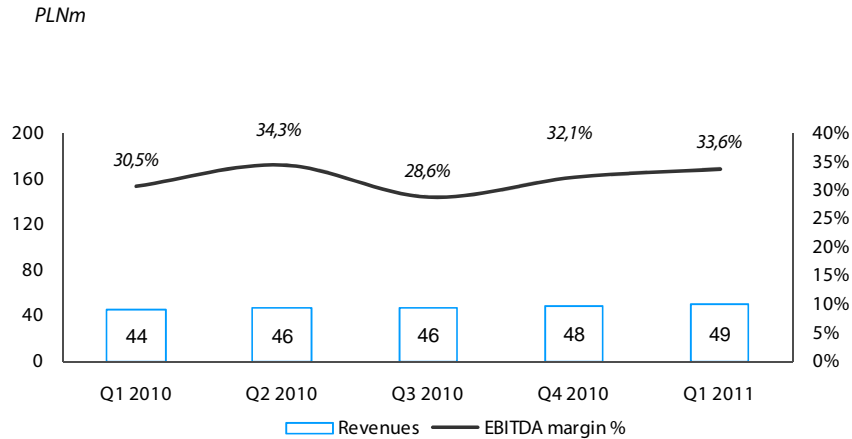
Number of services¹



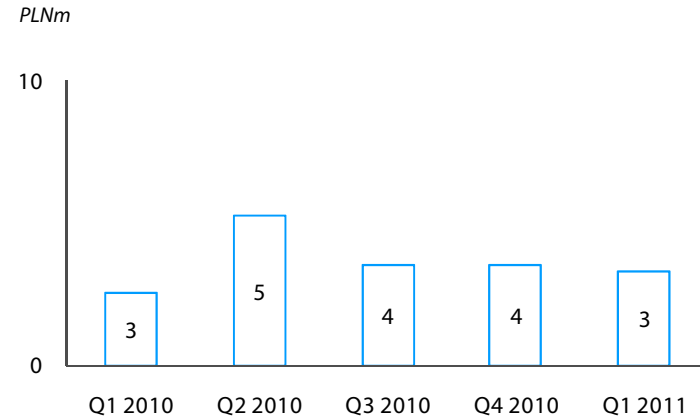
Comments

- Single play RGUs from low margin BSA and WLR services fell in Q1 due to more competitive environment
- 2play new additions support operating leverage improvements
- Continuous growth trend in number of RGUs per subscriber
- New „No Limits” offer expected to accelerate sales and support ARPUs

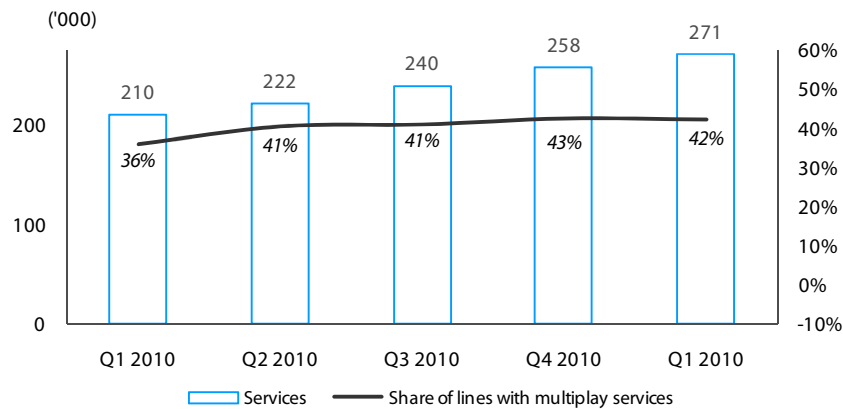
Revenue and EBITDA margin



Capex



Number of services¹

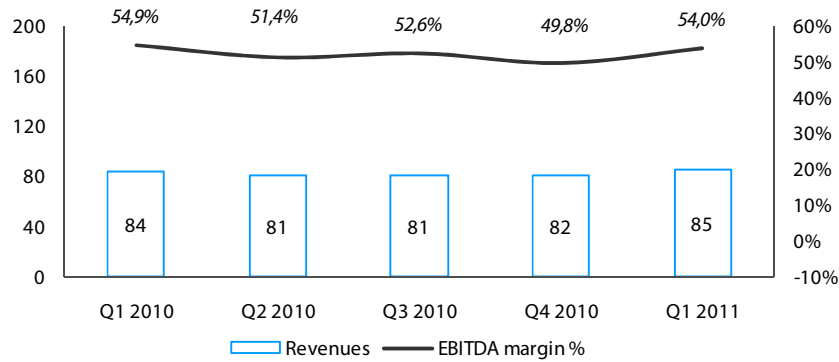


Comments

- Revenue and RGUs up y-o-y and q-o-q due to aggressive customers acquisition driven strategy
- Pressure on ARPUs due to economic and competitive environment is continuing

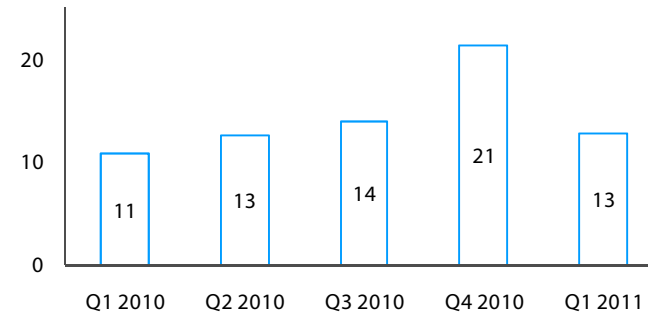
Revenue and EBITDA margin

PLNm



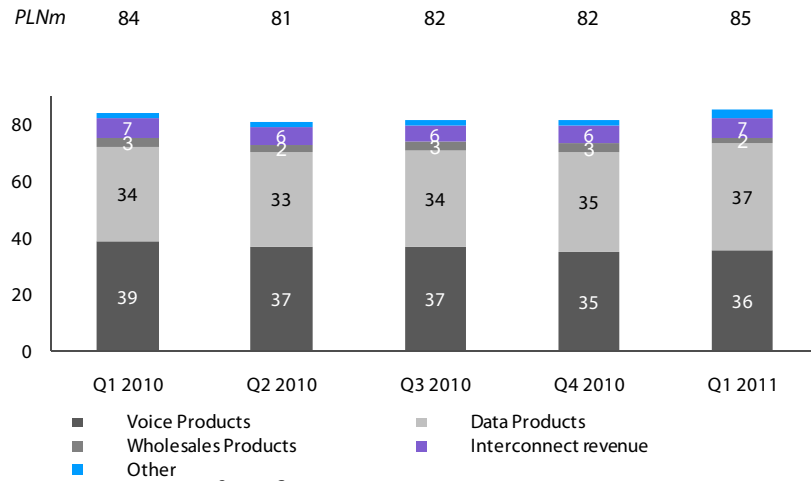
Capex

PLNm



Revenue breakdown by type of service

PLNm

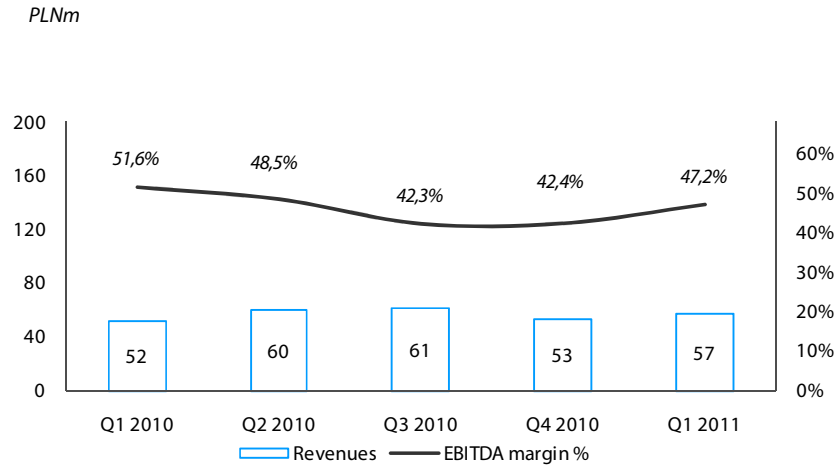


Comments

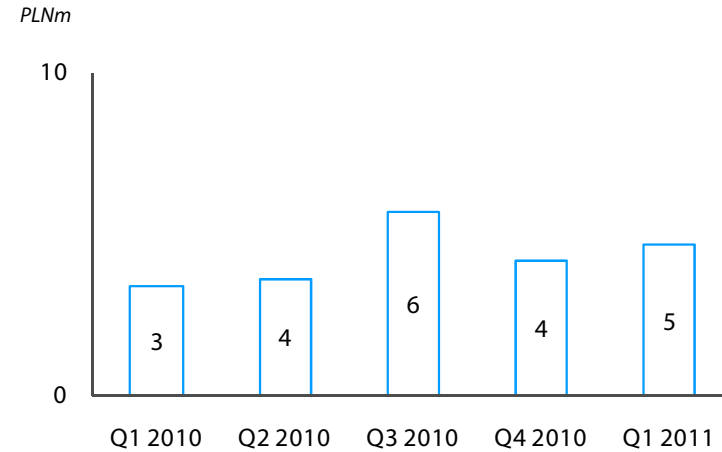
- Cash generative and stable business model
- Winning exposure to data services is increasingly important to drive revenues
- High operating margin as most services provided over Netia's own infrastructure

Source: Company
 In Q1 2011 Netia reclassified certain revenues between Corporate and Carrier client segments. Accordingly, the comparative figures for all quarters of 2010 were restated and therefore vary from the numbers reported previously.

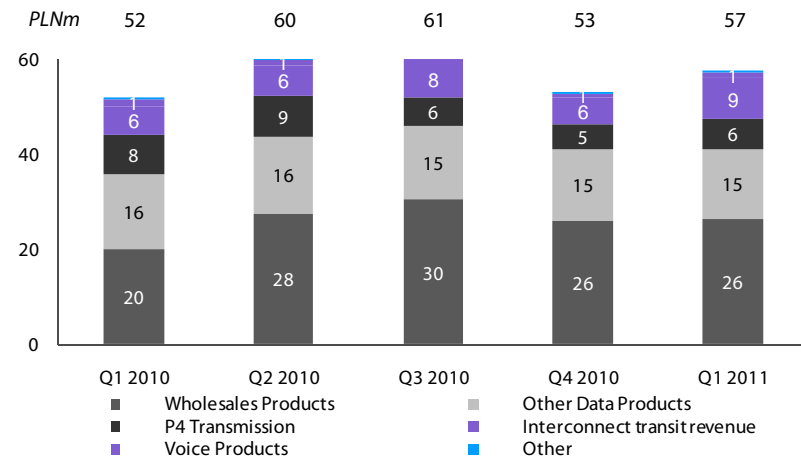
Revenue and EBITDA margin



Capex



Revenue breakdown by type of service



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 spare capacity

¹ In Q1 2011 Netia reclassified certain revenues between Corporate and Carrier client segments. Accordingly, the comparative figures for all quarters of 2010 were restated and therefore vary from the numbers reported previously.

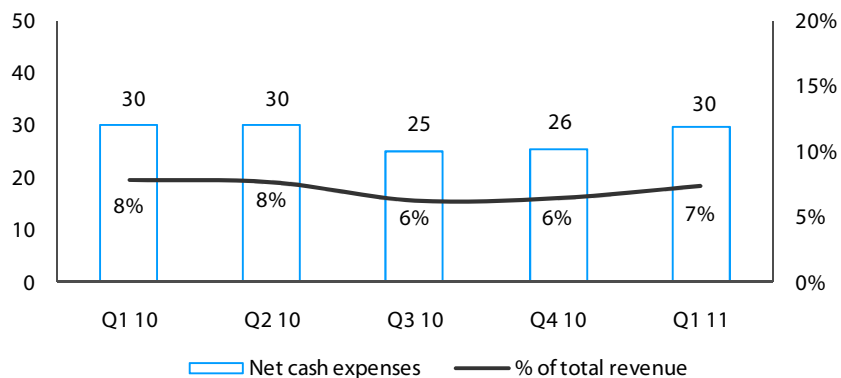
² EBITDA margin was restated to exclude an impact from the sale of transmission equipment to P4 in tranches in Q1 and Q3 2010.

Operating expenses | Cost reductions locked-in

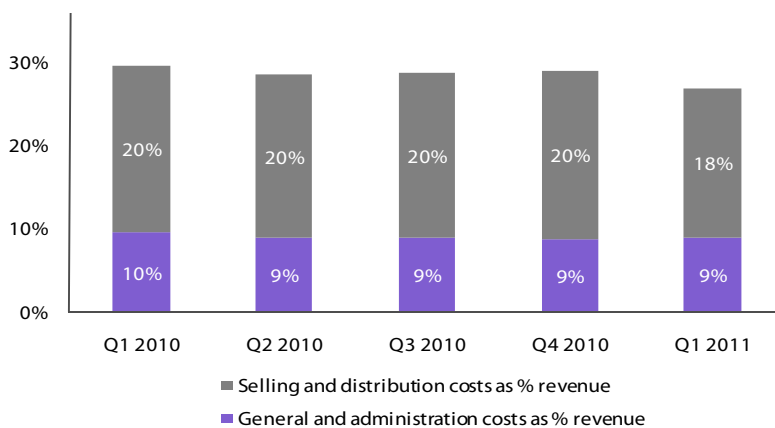


Other operating segment net cash expenses¹

PLNm

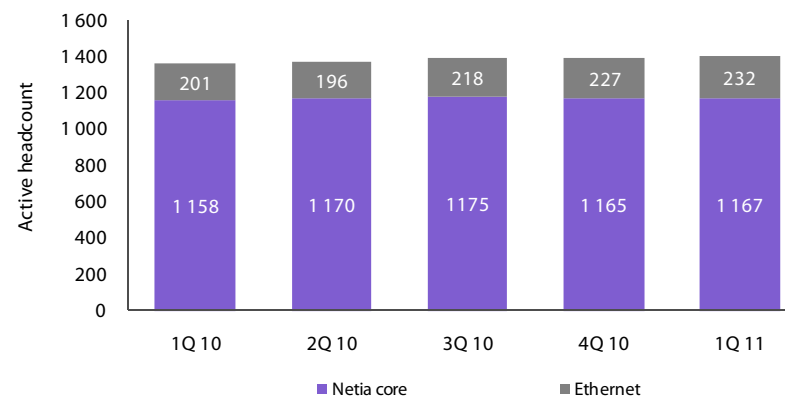


Total SG&A to revenue (%)



Headcount

Total headcount ²	1,410	1,416	1,450	1,441	1,452
Active headcount ³	1,359	1,366	1,393	1,392	1,399

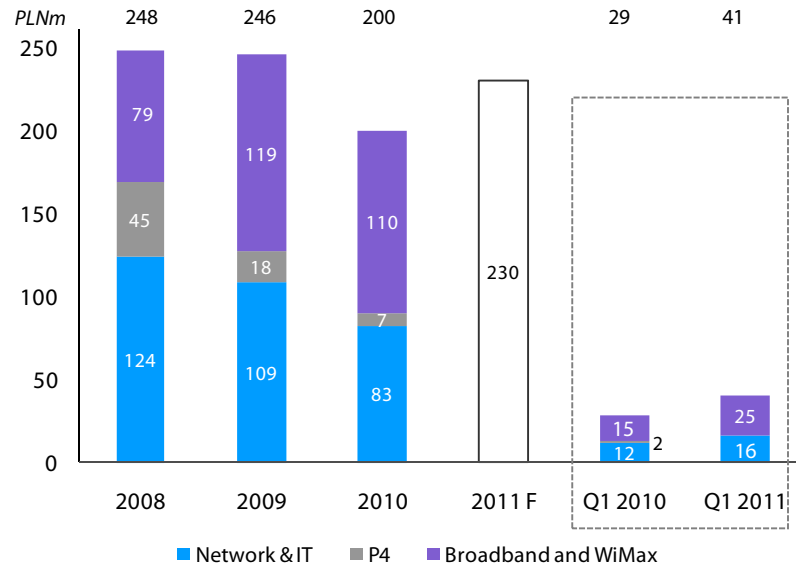


Comments

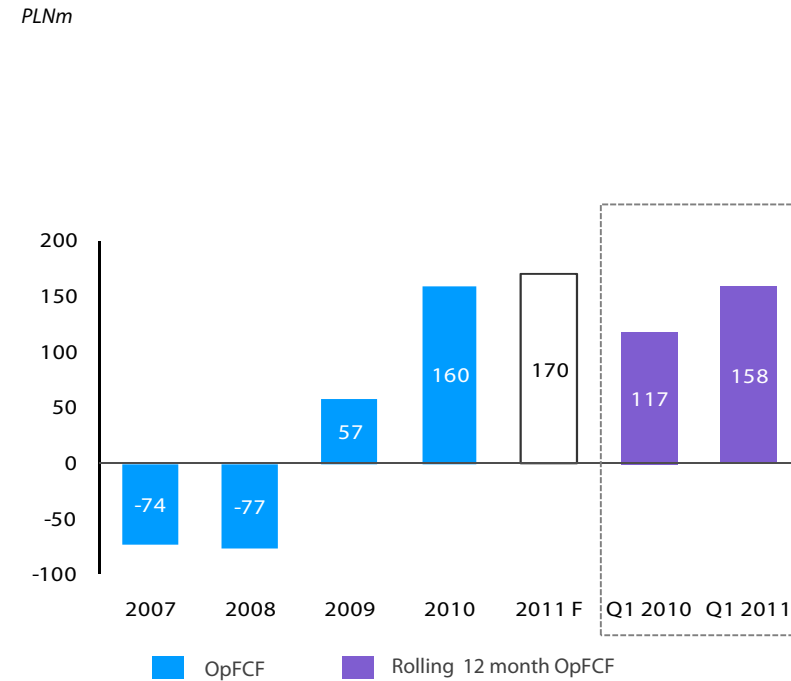
- Active headcount at 1,399 in Q1 2011 – the increase was driven by the acquisition of new Ethernet companies
- SG&A to revenue dropped 3pp y-o-y

¹ Net cash expenses were adjusted by the following one-off items: a non-cash gain on impairment reversal (Q4 2010), one-off expenses related to the cost optimization program (the 'Profit' project) (2010) and M&A related expenses (Q4 2010 and Q1 2011)

Capital investments



Operating FCF¹



- Netia continues to invest in growth, mainly in residential segment to provide for increasing volumes of subscribers and capacity for higher speeds
- Higher Capex in existing network and IT reflect an acceleration on capex spending to activate new corporate customers
- Capex related to broadband networks in Q1 2011 reflect mainly the LLU roll-out with respect to newly unbundled nodes and upgrades to transmission capacity

- Netia was operating free cash flow positive in Q1 2011 with Q1 cash generation at PLN 61m
- OpFCF for FY 2011 forecasted at PLN 170m (before acquisitions)

¹ Operating FCF = Adjusted EBITDA less capex; Adjusted EBITDA as reported less investments in tangible and intangible fixed assets

EBITDA reconciliation to Net Profit | Comments



N E T I A

PLN'000	1Q 2010	1Q 2011	Change
Adjusted EBITDA	90,807	101,504	+12%
Unusual Items:			
Gain on disposal of transmission equipment to P4	2,865	-	<i>nm</i>
Project Profit restructuring costs	(138)	-	<i>nm</i>
M&A related costs	-	(129)	<i>nm</i>
EBITDA	93,534	101,375	+8%
Depreciation and amortization	(73,972)	(75,325) ^①	+2%
EBIT	19,562	26,050	33%
Net financial income / (costs)	(2,129)	3,060	<i>nm</i>
Profit before tax	17,433	29,110	<i>nm</i>
Current tax and deferred tax	(3,081)	6,170 ^①	<i>nm</i>
<i>CIT 2003 tax dispute expense</i>	-	(58,325) ^②	<i>nm</i>
Profit/ (Loss)	14,352	(23,045)	<i>nm</i>
Number of shares (basic)	389,277,468	389,682,399	<i>na</i>
EPS (in PLN, basic)	0.04	(0.06)	<i>nm</i>

① Depreciation lives of access networks were extended due to the decision to upgrade to VDSL taken as a part of strategy 2020. This in turn led to an increase in deferred tax assets recognized

② Following the adverse court decision of March 15, 2011 Netia has expensed the disputed 2003 tax claim and interests of PLN 58.3m. The amounts were paid in full in Q1 2010. Netia expects to appeal to the final instance

- On February 19, 2010 Netia received a decision of the Director of the Tax Chamber in Warsaw (“Tax Chamber Director”) according to which the Company’s corporate income tax (“CIT”) due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m
- On February 23, 2010 responding to the decision of the Tax Chamber Director, which was enforceable as a decision of the second instance tax authority, Netia paid in full the requested amount using some of the Company’s cash deposits
 - During 2010, Netia treated the taxes paid as a receivable in its accounts rather than as an expense, due to Management’s expectations, based on the expert advice received, that the amounts paid will ultimately be recovered
- The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director
 - However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company’s claim in its entirety
 - The Company filed a motion for a written justification of the judgment and expects to file a motion for cassation to the Supreme Administrative Court
- Should the appeal to the Supreme Administrative Court be positive for the Company, the amount of unduly paid tax plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest (currently the interest rate on tax liabilities amounts to 13% per annum)
- Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless
 - Nevertheless, taking into consideration the recent adverse judgment of an independent court, Management has decided to treat the claim as a contingent asset and therefore expensed the PLN 58.3m paid during 2010 in the financial statements for Q1 2011

M&A funding

- While major M&A consolidation opportunities remain feasible:
 - Netia will try to maintain a PLN 300m cash 'acquisition fund'
 - Standby financing relationships (current mandate PLN 700m)
- As key targets are EBITDA positive businesses, additional funding to acquire multiple targets should be available
- Netia will continue to buy ETTH operators from its own cash-flow generation
- Netia will opportunistically target other bolt-on acquisitions that fit within Strategy 2020
- Management views expansion through M&A as the optimal way to increase leverage to 1x-2x EBITDA for the long-term

Distribution policy

- Management intends to propose returning surplus funds above the PLN 300m 'acquisition fund' to shareholders through buy-backs and/or dividends
- Should circumstances lead Management to conclude that transformational market consolidating opportunities are no longer feasible, then Management will propose the return of the PLN 300m 'acquisition fund' to shareholders

Share buy-back proposal

- On June 2, 2011, Netia's Management, will be proposing to the Annual General Meeting of Shareholders' that
 - 100% of Netia SA's 2010 net profit of PLN 267.0m and a further PLN 83.0m from capital reserves will be allocated to fund a share buy-back
 - Thus, up to PLN 350.0m will be allocated to acquire and redeem up to 12.5% of Netia's share capital

Summary



N E T I A

- Broadband strategy driving profit improvements and free cash flow generation
- Netia's Strategy 2020 announced in January 2011
 - Focus on further progress on multiplay services (2play & 3play), LLU roll-out and migration, customer care as well as network upgrades to NGA
- Netia initiated the process of its total rebranding
 - The changes are reflecting the Company's new mission: „We deliver the world on-line“
 - introduction of new offers and services
 - a new ATL advertising platform
 - new corporate identity, including new web site and new logo
- Netia well positioned for any major acquisition opportunities
- Distribution policy, integrated with M&A activities, announced in January 2011
- Netias's Annual General Shareholders Meeting
 - Netia is proposing to allocate up to PLN 350.0m of funds for a share buy-back programme
- Confirmed Outlook for FY 2011:
 - Broadband subscribers to reach 780-800k plus Ethernet acquisitions
 - LLU nodes to reach 700
 - Revenue to reach over PLN 1,610m, Adjusted EBITDA to reach over PLN 405m and EBIT to reach over PLN 70m
 - Netia net profitable and generating over PLN 170m of free cash flow before acquisitions
 - Capex investment (excl. M&A) at PLN 230m

