GIGA WOLNOŚĆ

Q2 and H1 2015 Financial Results

Conference call for investors

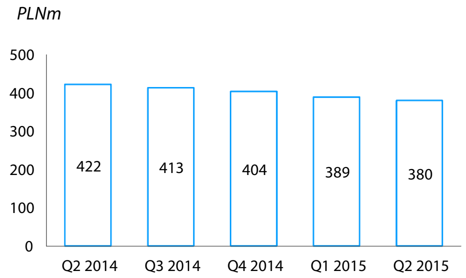
August 6, 2015

NETIA

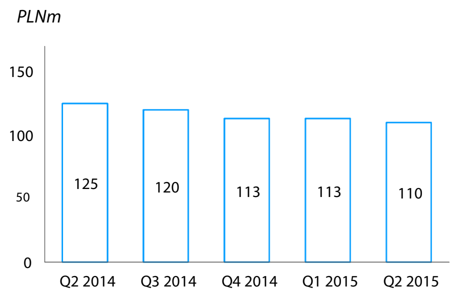
Total Netia | Key highlights for H1 and Q2 2015

- Revenue was PLN 769m for H1 2015 (-10% y-o-y) and PLN 380m in Q2 2015 (-2% q-o-q and -10% y-o-y)
- Profitability maintained thanks to cost optimizations despite a continuous revenue pressure
  - Adjusted EBITDA[1] was PLN 223m for H1 2015 (-14% y-o-y) and PLN 110m for Q2 2015 (-3% q-o-q and -12% y-o-y)
  - EBITDA was PLN 224m for H1 2015 (-9% y-o-y) and PLN 113m for Q2 2015 (+1% q-o-q and -6% y-o-y)
- Netia generated PLN 120m Adjusted OpFCF[2] for H1 2015 (-23% y-o-y) and PLN 53m for Q2 2015 (-23% q-o-q and -29% y-o-y)
- Net debt at PLN 188m on June 30, 2015 (+387% q-o-q and -49% y-o-y), representing 0.4x of Adjusted EBITDA for full 2014 year at PLN 493m
- Netia's AGM held on June 2, 2015 approved a dividend of PLN 0.60 per share which was paid on June 26, 2015
- Substantial changes to the Management Board of Netia Group took place during Q2 2015
- On July 21, 2015 Netia finalised the purchase of 100% of shares in TK Telekom from the Polish railway, PKP Group for PLN~222m
  - The transaction is in line with the Netia Group's strategy to play an active role in consolidation of the Polish telecommunications market
  - Recently, an intensive project has commenced aiming at assessing the full potential of cost savings, capex optimisation levels and aligning accounting polices
  - The transaction will have a more visible impact on Netia Group results, incl. anticipated synergies, in 2016
  - A more detailed plan will be presented by the end of 2015

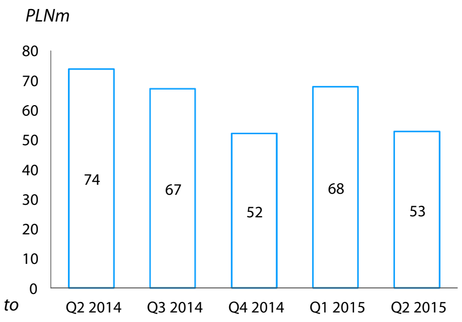
Revenues



Adjusted EBITDA[1]



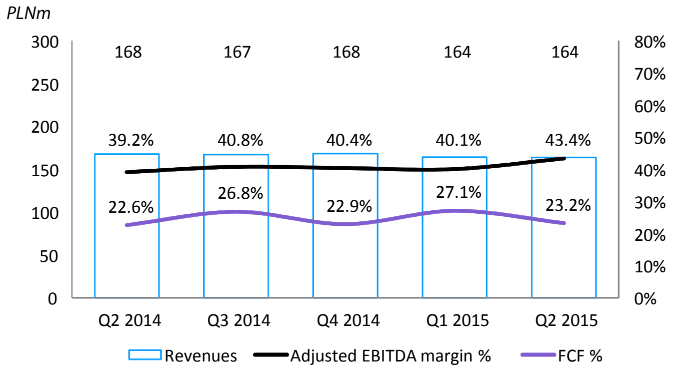
Adjusted OpFCF[2]



1 Adjusted EBITDA excludes as appropriate, one-off costs related to restructuring, integration, M&A activity, impairment
2 Adjusted OpFCF = Adjusted EBITDA less Capex excluding integration capex, capitalised interests from the bank loan and investments related to the Netia Lite project; Capex = investments in tangible and intangible fixed assets
Note: In Q1 2015 Netia modified the method of presenting capitalised interests from the bank loan and investments related to the Netia Lite project, which are currently excluded from the adjusted capex (comparatives restated)

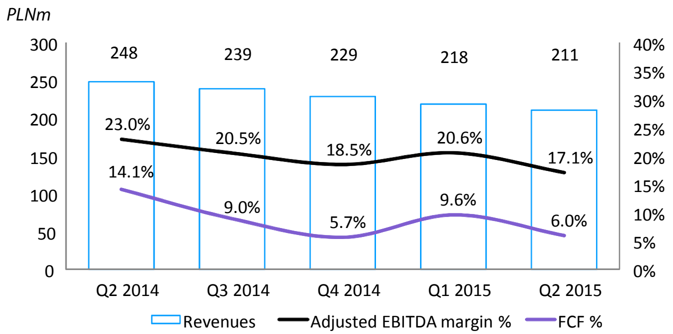
Total Netia | Trends unchanged in both commercial segments

B2B[1,3,4]



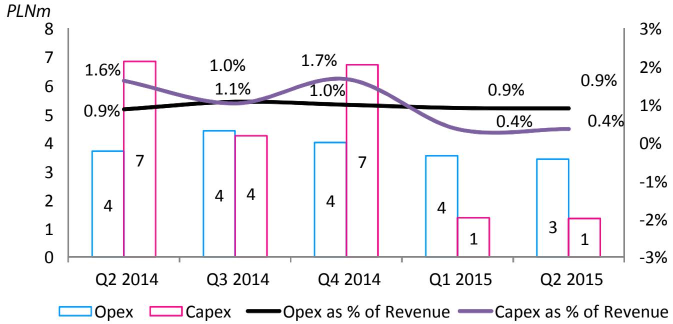
- **Revenue** was PLN 164m in Q2 2015 (0% q-o-q and -2% y-o-y)
  - Stable trends in data transmission and broadband services, continued price pressure in voice
- **Adjusted EBITDA** was PLN 71m with a margin of 43.4%
- **Capital expenditure** at PLN 33m resulted in **Adjusted OpFCF** at the level of PLN 38m in Q2 2015

B2C[2,3,4]



- **Revenue** was PLN 211m in Q2 2015, down by 4% compared to Q1 2015 and down by 15% y-o-y
  - RGUs at 1,751k (-1% q-o-q, -9% y-o-y) while commercial performance visibly improved (-18k RGUs vs -33k RGUs in Q1 2015)
  - Decline in RGUs still concentrated mostly in the area of regulated access (WLR, BSA, LLU)
- **Adjusted EBITDA** was PLN 36m with a margin of 17.1%
  - Q-o-q drop reflects higher marketing and acquisition costs
- **Capital expenditure** at PLN 23m in Q2 2015 resulted in **Adjusted OpFCF** at the level of PLN 13m

Other unallocated items[4]

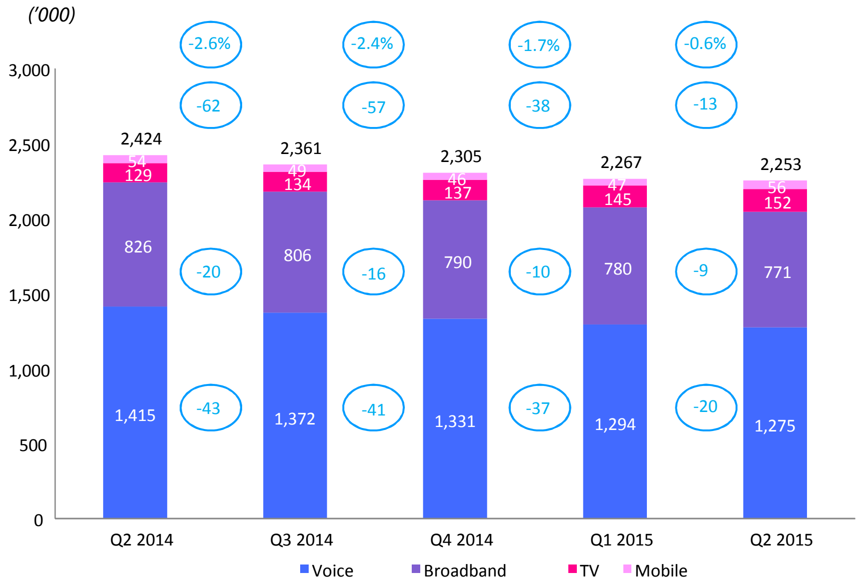


- Unallocated capex and opex in Q2 2015 related to Petrotel company
- Stable trends in relation to revenue

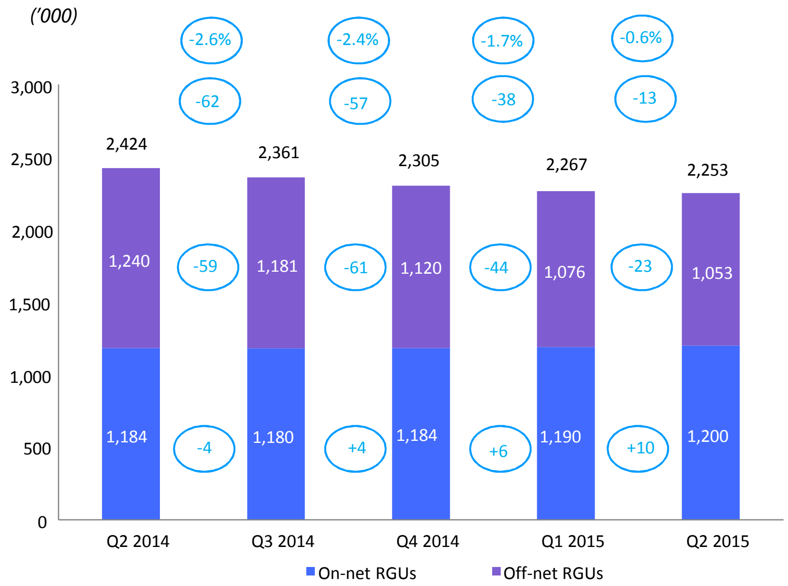
1 B2B comprises Business and Carrier customers sub-segments 2 B2C comprises Residential and SOHO customers sub-segments
3 At the end of Q2 2015 all operating expenses and capital expenditures (except those relating to Petrotel) have been allocated to B2B and B2C segments (comparatives restated) 4 Petrotel revenues not included

Total Netia | Total RGUs by product and access type

Total Netia RGUs



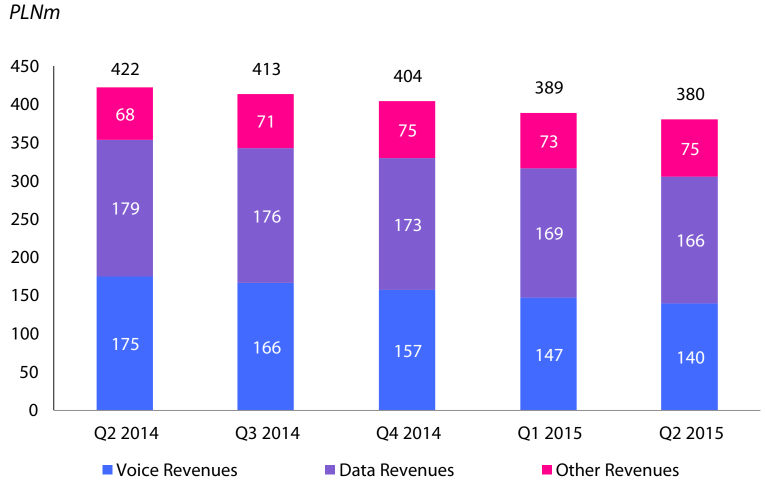
On-net and off-net RGUs



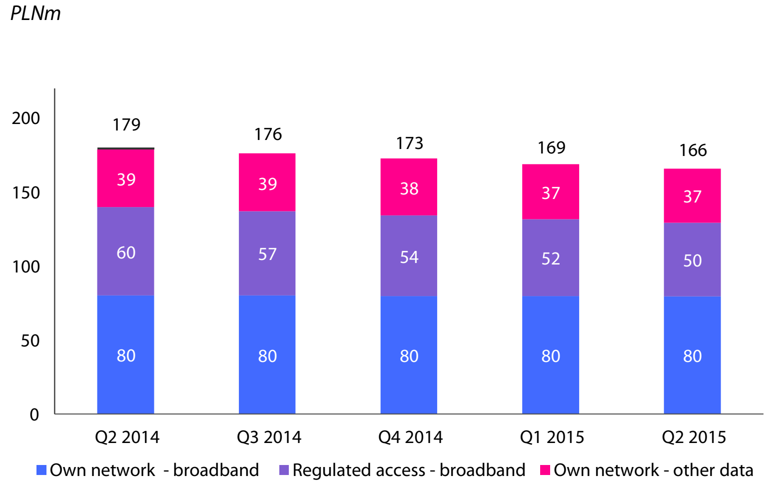
Comments

- In Q2 2015 a visible improvement in commercial results (-13k RGUs vs -38k RGUs in the previous quarter)
- The Company recorded an increase of 10k on-net RGUs in line with the commercial strategy
- Visible churn reduction in Q2 2015 in off-net RGUs mainly due to better retention of voice services (WLR) and internet access services (BSA, LLU)
- At the end of Q2 2015 share of on-net RGUs in total Netia services was 53% (+4pp y-o-y)

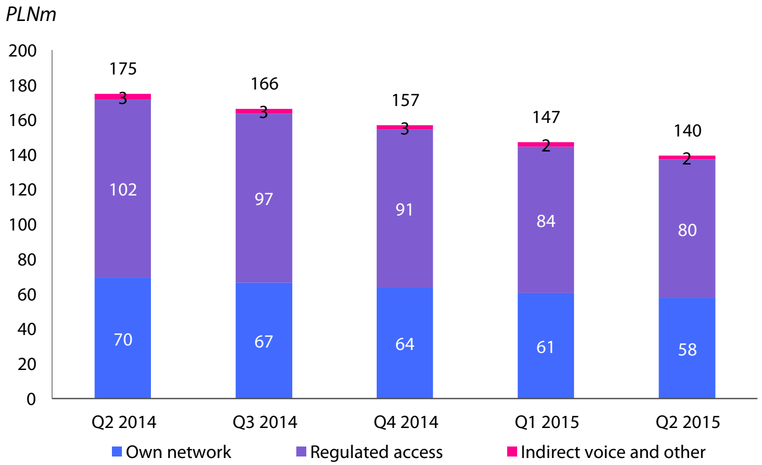
Revenue breakdown by service



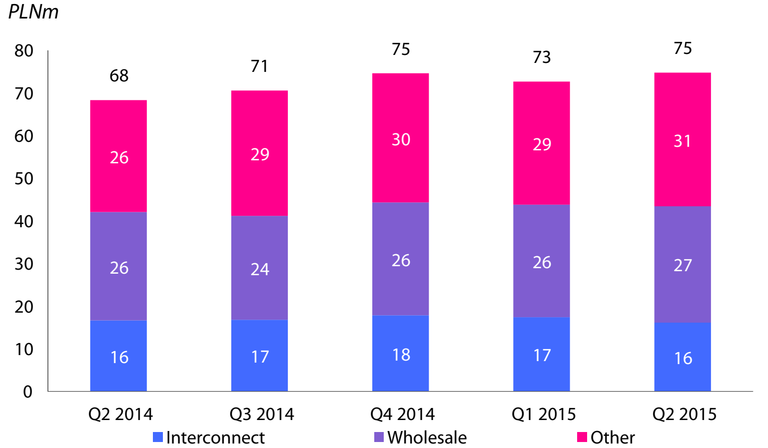
Data revenue[1] breakdown by access



Voice revenue breakdown by access



Other revenue[2]



1 Including revenues from VAS, elsewhere reported as Other Telecommunication revenue
2 Includes revenues from TV services

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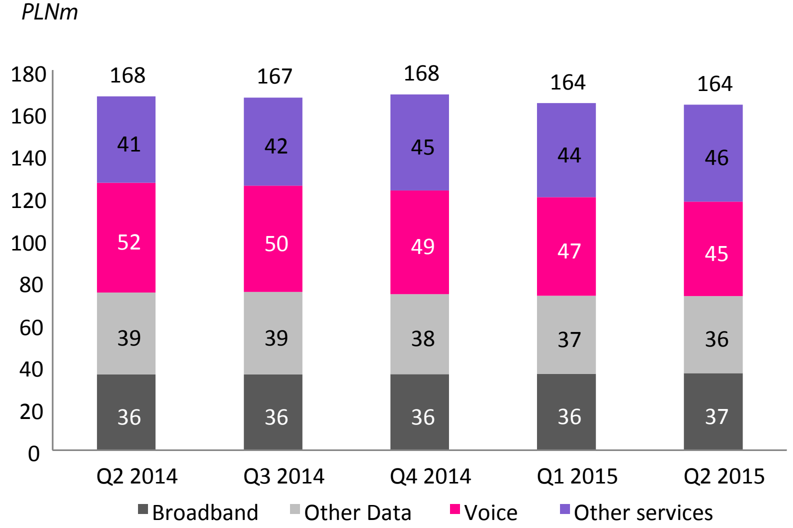
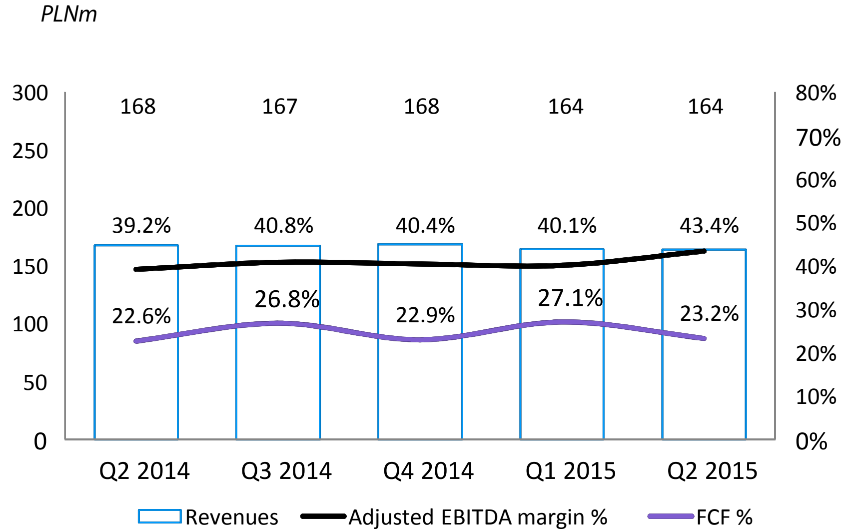
B2B Overview

Revenue by service



Adjusted EBITDA margin and Adjusted OpFCF[1]



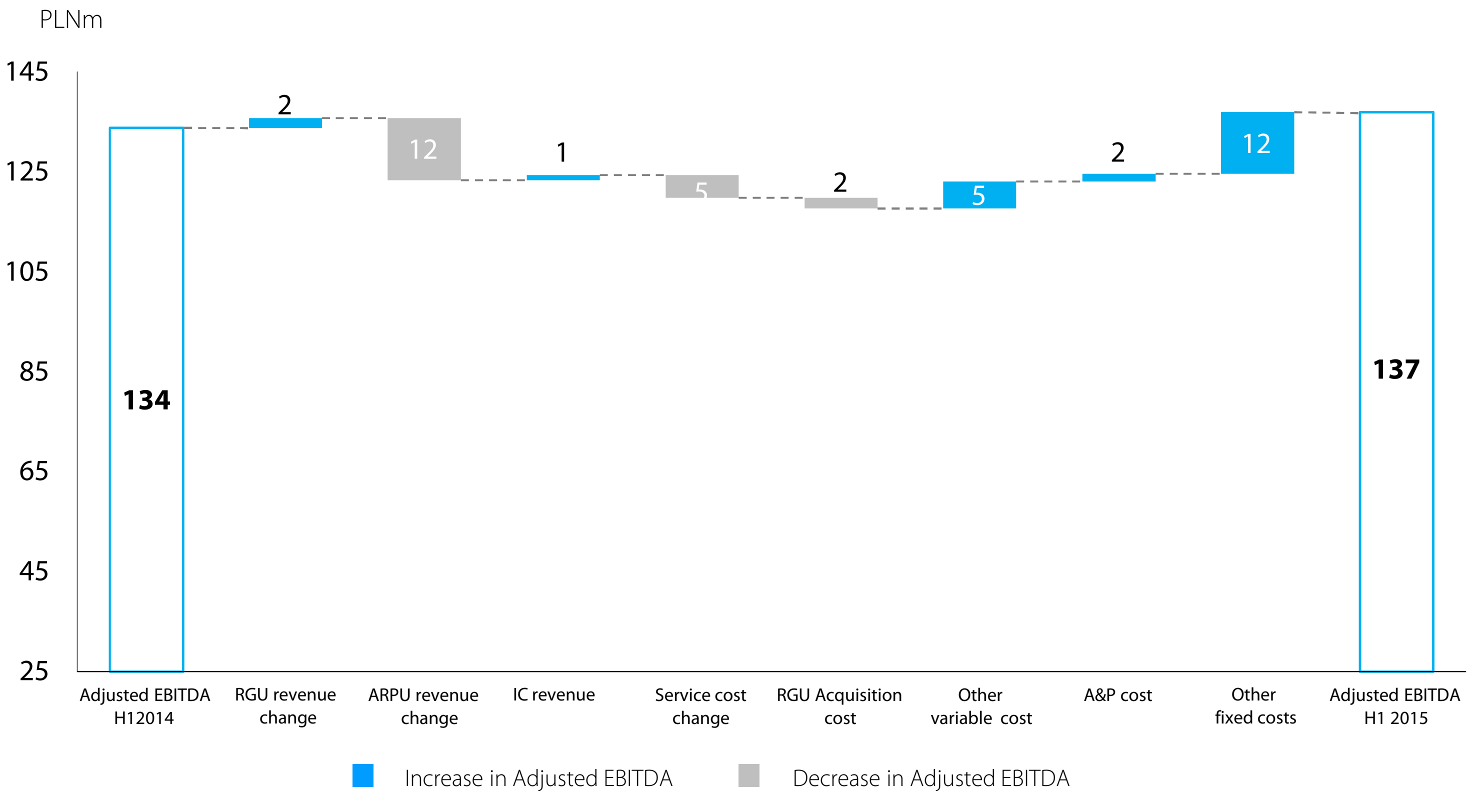
Comments

- Stable trends in the data and broadband services despite a competitive market environment
- Broadband revenue levels maintained despite a strong price pressure thanks to a shift of commercial focus on services with higher bandwidths and ARPUs
- A revenue decline visible in voice services due to a continuous price pressure combined with a lower traffic volume

1 At the end of Q2 2015 all operating expenses and capital expenditures (except those relating to Petrotel) have been allocated to B2B and B2C segments (comparatives restated)

B2B financial performance | Adjusted B2B EBITDA bridge for H1 2015

Actual
H1 2014
vs
H1 2015

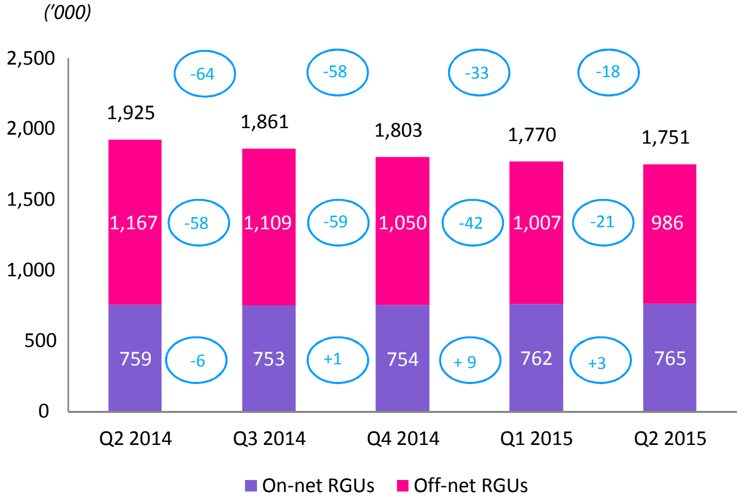


Comments

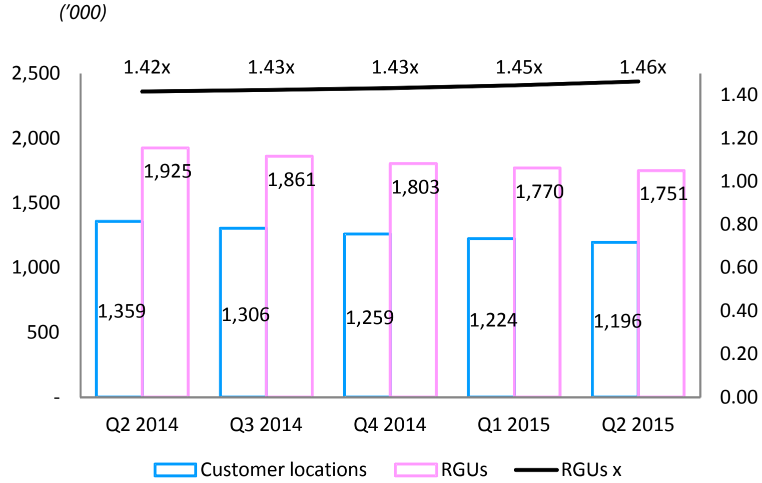
- ARPU decline related mainly to a visible price pressure in voice services
- Lower other fixed and variable costs reflect a number of optimization initiatives introduced by the Company during 2014 and early 2015 within Netia Lite program

B2C Overview

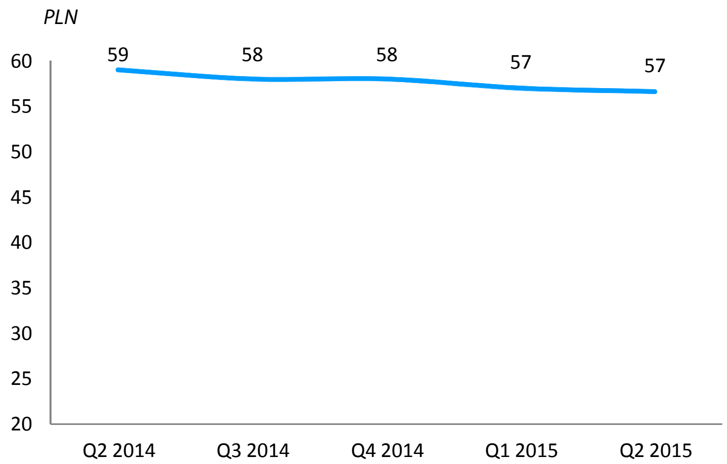
RGUs by access type[1]



Customers and RGUs[1]



Average ARPU per Customer



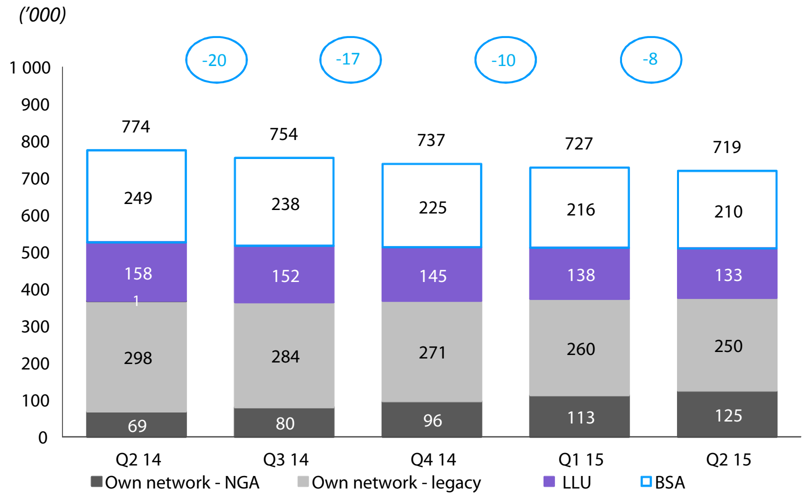
Comments

- Visible progress in commercial performance (-18k RGUs vs -33k RGUs a quarter earlier
- Share of on-net RGUs up by 5 pp to 44% y-o-y
- TV cross-sell, higher broadband speeds offered and unlimited voice keep ARPU per customer at a relatively stable level
- On-net bundling increases number of RGUs per customer
- Most customer losses are single play off-net voice (WLR) and off-net broadband (BSA)

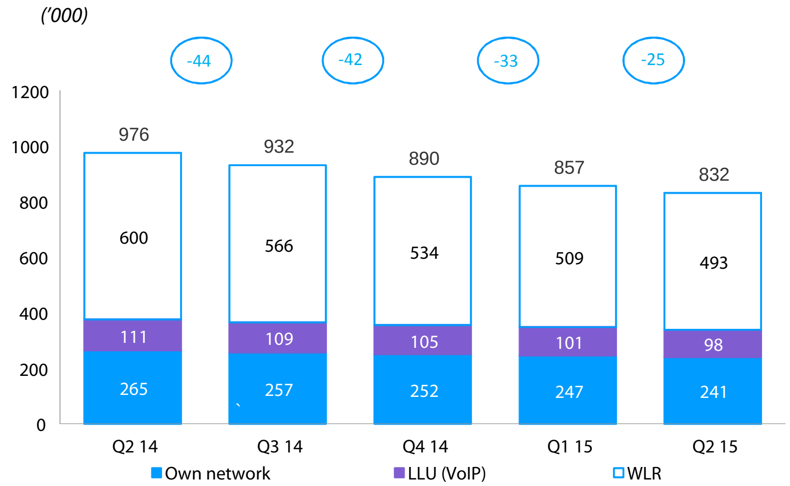
1 In January, 2015 circa 12k customers were transferred from B2B to B2C segment (comparatives restated)

B2C Operations | RGUs by service

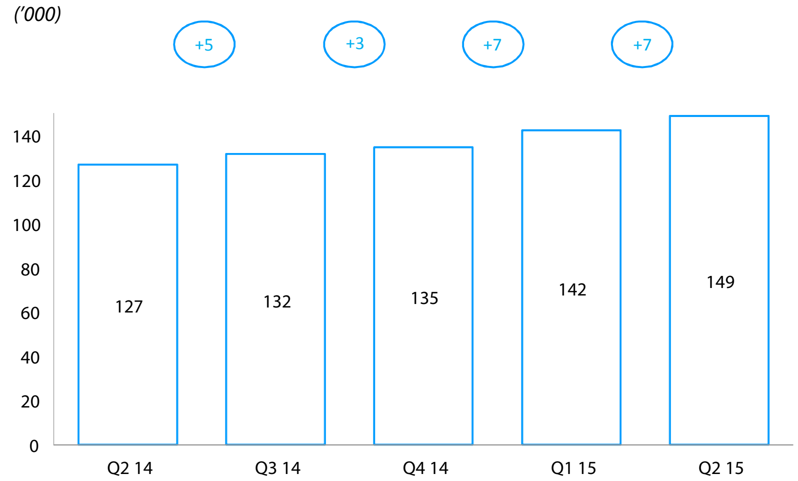
Broadband ports



Voice lines



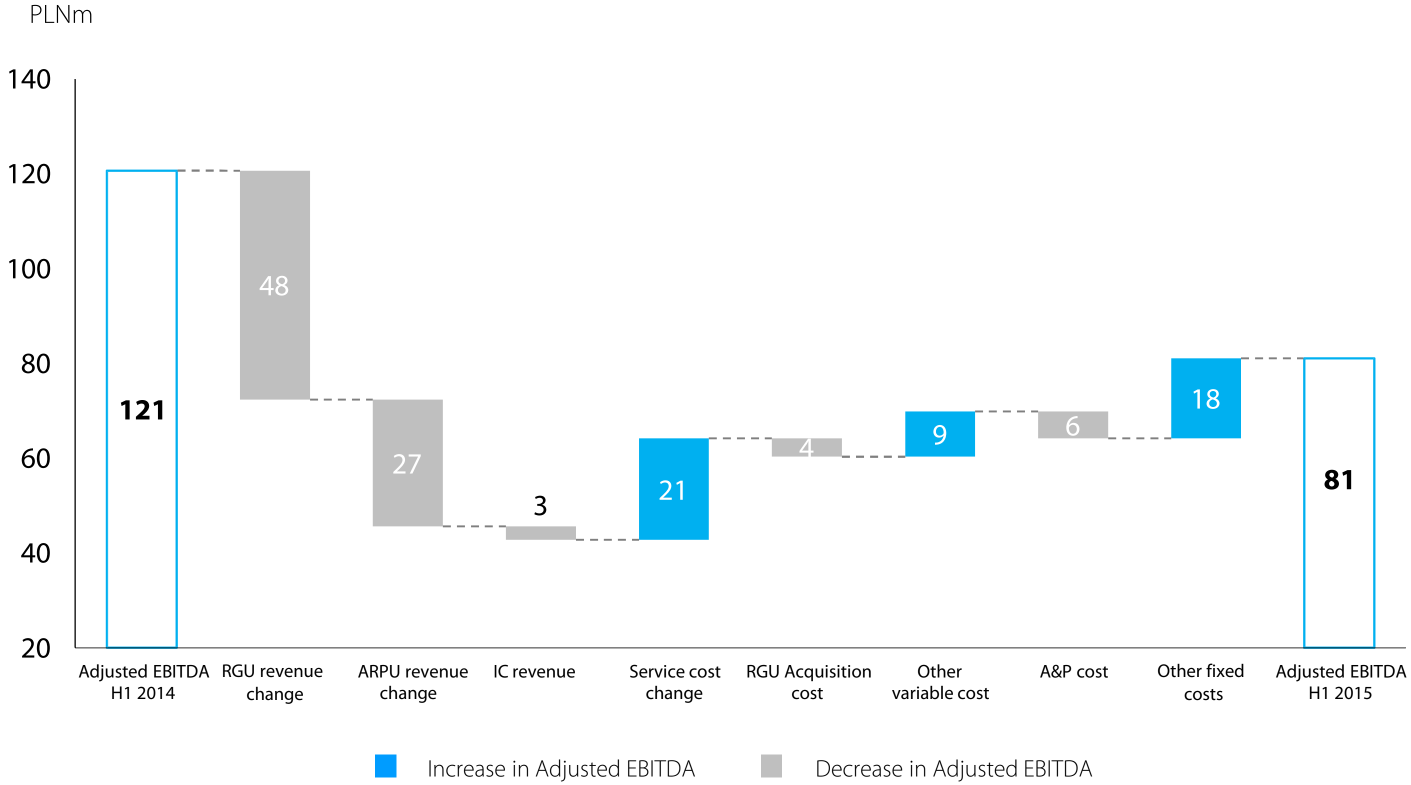
TV services



Comments

- TV services at 149k in Q2 2015 (5% q-o-q and 17% y-o-y)
- Focus on retention in regulated access RGUs
- 52% of broadband customers served directly via Netia's own network (+5 pp y-o-y and +1 pp q-o-q)
- 40% of on-net broadband customers now take TV services from Netia

Actual
H1 2014
vs
H1 2015



Comments

- Revenue decline driven mainly by off-net RGU churn (WLR, BSA, LLU) and on-net ARPU reductions (bundling)
- Lower service cost reflects lower off-net rental payments to incumbent and lower interconnection costs
- Higher acquisition costs reflect increased number of new connections mainly on upgraded own networks
- Lower other fixed and other variable costs reflect a number of optimization initiatives introduced by the Company during 2014 and early 2015 within Netia Lite program

Netia Group Financial Overview

Financial Performance | Key figures for H1 2015 and FY 2014

NETIA

(PLN' 000)	2014				2015			2014 vs 2015		
	Q1	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**q-o-q**	**H12014**	**H1 2015**	**y-o-y**
Revenues	**434,371**	**422,161**	**413,407**	**404,100**	**388,718**	**380,340**	***(2.2%)***	**856,532**	**769,058**	***(10.2%)***
Change (y-o-y%)	*(11.5%)*	*(11.6%)*	*(9.6%)*	*(10.3%)*	*(10.5%)*	*(9.9%)*				
Gross profit	**141,816**	**130,509**	**125,436**	**113,161**	**110,065**	**111,691**	***1.5%***	**272,325**	**221,756**	***(18.6%)***
Gross margin (%)	***32.6%***	***30.9%***	***30.3%***	***28.0%***	***28.3%***	***29.4%***		***31.8%***	***28.8%***	
Adjusted EBITDA[1]	**134,440**	**125,106**	**120,253**	**113,352**	**113,295**	**109,817**	***(3.1%)***	**259,546**	**223,112**	***(14.0%)***
Margin (%)	***31.0%***	***29.6%***	***29.1%***	***28.1%***	***29.1%***	***28.9%***		***30.3%***	***29.0%***	
Change (y-o-y%)	*(5.3%)*	*(10.9%)*	*(16.6%)*	*(8.7%)*	*(15.7%)*	*(12.2%)*				
EBITDA	**125,978**	**119,801**	**109,490**	**226,090**	**111,489**	**112,622**	***1.0%***	**245,779**	**224,111**	***(8.8%)***
Margin (%)	***29.0%***	***28.4%***	***26.5%***	***55.9%***	***28.7%***	***29.6%***		***28.7%***	***29.1%***	
Change (y-o-y%)	*9.3%*	*(4.9%)*	*(8.6%)*	*106.5%*	*(11.5%)*	*(6.0%)*				
Depreciation	**105,294**	**105,577**	**106,378**	**106,743**	**105,450**	**102,378**	***(2.9%)***	**210,871**	**207,828**	***(1.4%)***
Adjusted EBIT[1]	**29,146**	**19,529**	**13,875**	**6,609**	**7,845**	**7,439**	***(5.2%)***	**48,675**	**15,284**	***(68.6%)***
Margin (%)	***6.7%***	***4.6%***	***3.3%***	***1.6%***	***2.0%***	***2.0%***		***5.7%***	***2.0%***	
EBIT	**20,684**	**14,224**	**3,112**	**119,347**	**6,039**	**10,244**	***69.6%***	**34,908**	**16,283**	***(53.4%)***
Margin (%)	***4.8%***	***3.4%***	***0.8%***	***29.5%***	***1.6%***	***2.7%***		***4.1%***	***2.1%***	

Comments

- Sequentially lower revenue q-o-q driven mainly by lower fixed voice revenue, particularly regulated access (WLR) in B2C and continued price pressure combined with lower voice traffic in B2B
- Gross margin decreased by 3pp y-o-y due to the continued price pressure in both segments
- The loss of approximately PLN 22m in EBITDA y-o-y on a decrease in revenue of PLN 87m confirms the need to continue cost optimization programs within the Netia Group

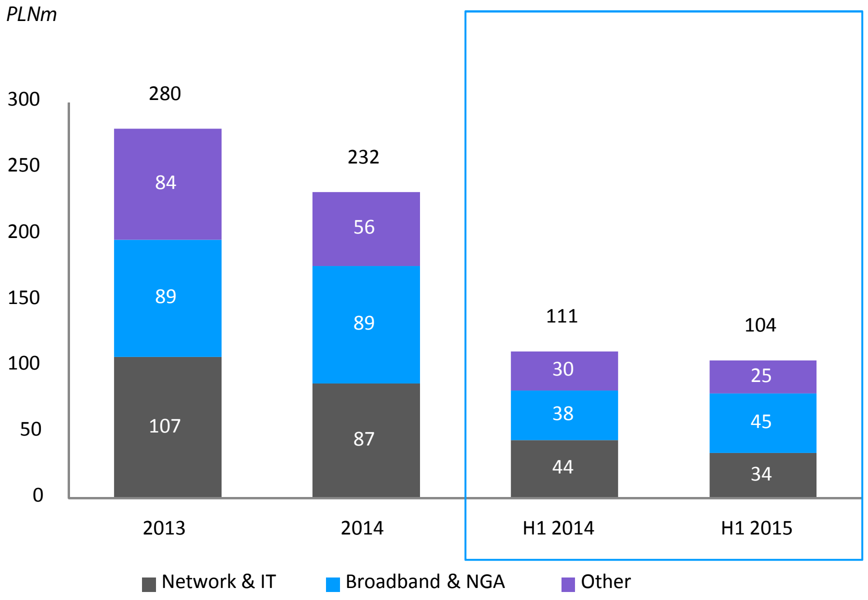
1 Adjusted EBITDA, and Adjusted EBIT exclude as appropriate: M&A related expenses, New Netia integration & restructuring costs, impairment provision and decrease in provision for Universal Service Obligation, refund of a court deposit

PLN'000	H1 2014	H1 2015		Change
Adjusted EBITDA	**259,546**	**223,112**		-14 %
Unusual Items:				
Impairment charge	(2,503)	-	1	nm
M&A related costs	(40)	(1,072)	2	+2580%
New Netia integration costs	(4,413)	(201)	3	-95%
Restructuring costs	(5,679)	474	4	nm
N2 Project and Netia Lite costs	(1,132)	(2,202)		+95%
Refund of a court deposit	-	4,000	5	nm
EBITDA	**245,779**	**224,111**		-9%
Depreciation and amortization	(210,871)	(207,828)		-1%
EBIT	**34,908**	**16,283**		-53%
Net financial expenses	(9,455)	(852)		-91%
Profit / (Loss) before tax)	25,453	15,431		-39%
Current tax and deferred income tax	(6,205)	(7,606)		+23%
Net profit	**19,248**	**7,825**		-59%
Average number of outstanding shares (basic)	**347,910,774**	**348,092,270**		
EPS (in PLN, basic)	**0.06**	**0.02**		

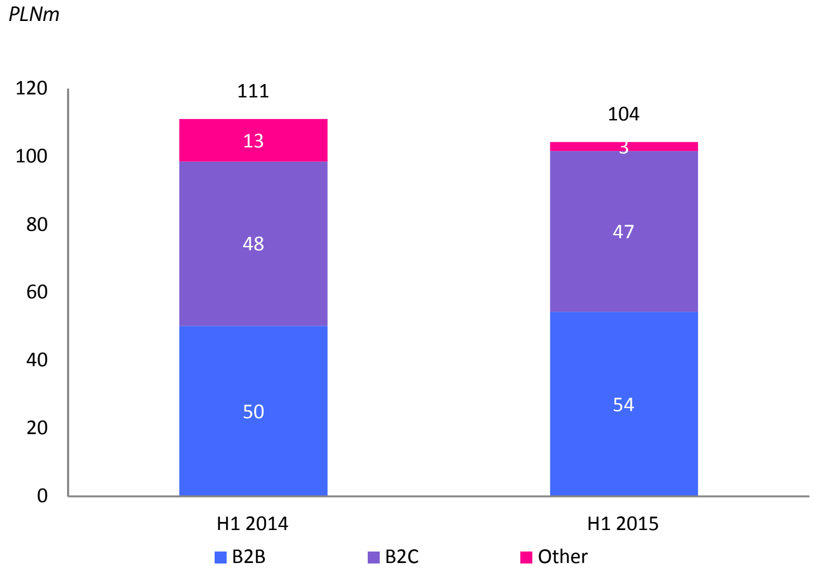
1. Impairment related to the discontinuity of using Dialog's trademark
2. Mainly costs related to TK Telekom acquisition
3. Dialog and Crowley integration project costs („CDN")
4. Provisions mainly for staff redundancies related to Netia's reorganisation into B2B and B2C Business Units (N^2 Project) and Netia Lite
5. Refund of a court deposit established by the Company as a consequence of financial restructuring in 2002

NETIA

Capital investments by Type



Capital investments by Operating Segments



Comments

- Capital investments in the existing network and IT reflect mainly extension of the transmission network capacity to activate new business customers and routine IT functionalities updates
- Investments in the broadband networks include mainly upgrades and integration works within the cable networks located in Warsaw and Kraków, which were acquired from UPC Polska in May 2013 and access network upgrades for business clients
- Expenditures for television services reflect investments in new functionalities, development of TV platforms and capitalized Netia Player set-top boxes delivered to a growing customer base

Conclusions

- Netia delivered a set of solid financial results for Q2 2015, demonstrating relative business resilience against a visible competition and price pressure in a difficult market environment for both commercial divisions
- On May 8, 2015 Netia signed a preliminary agreement and on July 21, 2015 concluded the acquisition of 100% shares in TK Telekom from the Polish railway group (PKP)
- Netia's AGM held on June 2, 2015 adopted a dividend payment of PLN 0.60 per share which was paid on June 26, 2015
- Following a TK Telekom acquisition the Group's financial standing remains very strong with a leverage at a convenient level below 1.0x of the 2014 Adjusted EBITDA at PLN 493m, providing flexibility to fund both, distributions and acquisitions

THANK YOU

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