



# Q4 and FY 2009 Financial Results

*Investors Conference Call and Press Conference*

*February 22, 2010*

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**netia**  
WOLNOŚĆ WYBORU

## Executive summary | Netia announces excellent results for FY2009

	FY2008	FY2009	Revised Guidance FY2009
<b>Broadband subscribers</b> ('000)	414	<b>559</b>	525+
<b>Voice service customers</b> (own network + WLR) ('000)	1,065	<b>1,158</b>	1,165+
<b>Unbundled local loop</b> (LLU) nodes	133	<b>297</b>	300
<b>Revenues</b> (PLN'm)	1,121	<b>1,506</b>	1,495
<b>Adjusted EBITDA<sup>1</sup></b> (PLN'm)	171	<b>304</b>	300
<b>EBITDA</b> (PLN'm)	171	<b>313</b>	290
<b>Adjusted EBIT</b> (PLN'm)	(100)	<b>5</b>	na
<b>EBIT</b> (PLN'm)	(100)	<b>14</b>	na
<b>Capital investments</b> (excl. M&A) (PLN'm)	248	<b>246</b>	250

Source: Company

<sup>1</sup> Adjusted EBITDA and Adjusted EBIT exclude one-off restructuring costs related to the cost reduction program (the „Profit” project), a gain on the sale of the first tranche of P4 transmission assets as well as a positive accounting impact from TPSA settlement with respect to released provisions and ‘Other income’

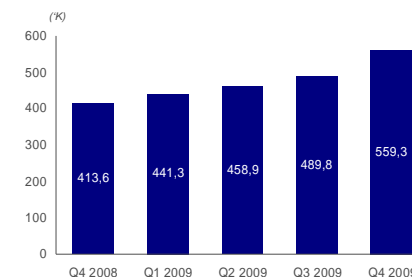
Revised Guidance as of November 5, 2009

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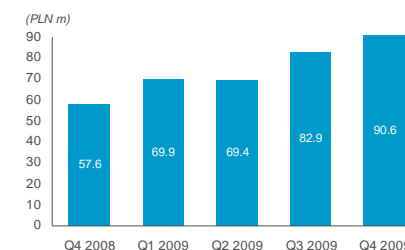
# Executive summary | Key achievements in Q4 and FY2009

- **Subscribers base growth boost**
  - 559k broadband YE services (+35% y-o-y, +14% q-o-q) and over 582k as at February 22, 2010
  - Fixed broadband net additions share<sup>1</sup> estimated at 50% for Q4 2009 and 30% for FY2009
  - 1,158k voice YE services (+9% y-o-y, +1% q-o-q)
- **Revenue growth across all market segments<sup>2</sup>**
  - Revenue was PLN 1,505.9m for FY2009 (+35% y-o-y) and PLN 386.2m for Q4 2009 (+5% y-o-y, +4% q-o-q)
  - Residential segment revenue continued to grow thanks to strong net adds and stable ARPUs (+5% q-o-q)
  - Business segments returned to growth despite economic situation and opportunistic wholesale deals (Corporate and SOHO/SME both +2% q-o-q, Wholesale +8% q-o-q)
- **Netia delivers strong EBITDA growth in FY2009**
  - Adjusted EBITDA<sup>3</sup> was PLN 303.9m for FY2009 (+78% y-o-y) and PLN 76.7m for Q4 2009 (+33% y-o-y, -6% q-o-q)
  - EBITDA was PLN 312.8m for FY2009 (+83% y-o-y) and PLN 90.6m for Q4 2009 (+57% y-o-y, +9% q-o-q)
  - Sequential decrease in Adjusted EBITDA reflects higher costs of subscriber acquisitions (SAC) related to a 64% increase in broadband organic additions in Q4 2009
- **Full year positive EBIT** was PLN 14.2m (Adjusted EBIT<sup>3</sup> was positive PLN 5.3m)
- **Net profit** of PLN 88.7m was recorded in FY2009 as PLN 88.3m of deferred income tax assets were recognized in Q4 2009
- **Netia was operating FCF positive in FY2009** (positive PLN 66.4m excl. Ethernets acquisitions)
- **Netia leads the LLU roll out in Poland**
  - 297 nodes unbundled, 48.3k clients as at Dec. 31, 2009 and over 55k as at February 22, 2010
- **'Profit' project objectives of PLN 100m savings delivered and exceeded**
- **Guidance for FY2010 announced on February 22, 2010**

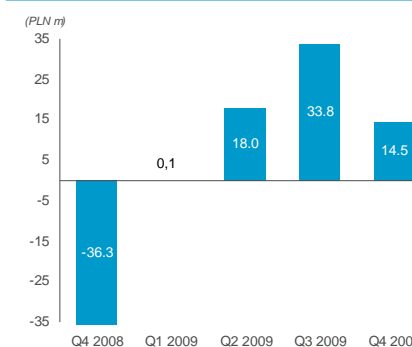
Broadband subscribers



EBITDA quarterly development



Op. FCF<sup>4</sup>



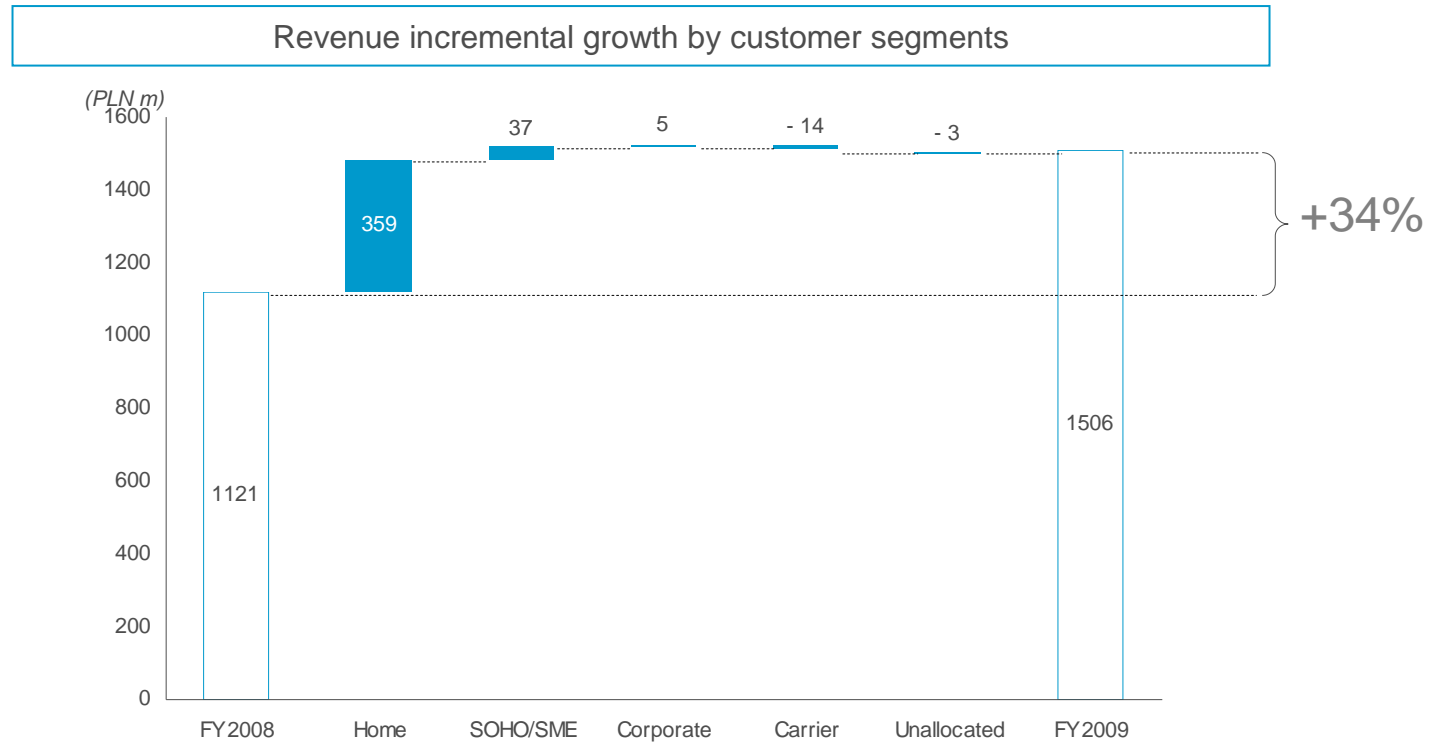
<sup>1</sup> Including Ethernet networks acquisitions

<sup>2</sup> Revenue from continuing activities

<sup>3</sup> Adjusted EBITDA and Adjusted EBIT FY2009 exclude one-off restructuring costs related to the „Profit” project, a positive accounting impact from settlement of disputes with TP and a gain on sale of the first of three tranches of transmission equipment to P4

<sup>4</sup> Operating FCF = EBITDA less capex; EBITDA as reported less investments in tangible and intangible fixed assets

## Executive summary | Revenue bridge between FY2008 and FY2009



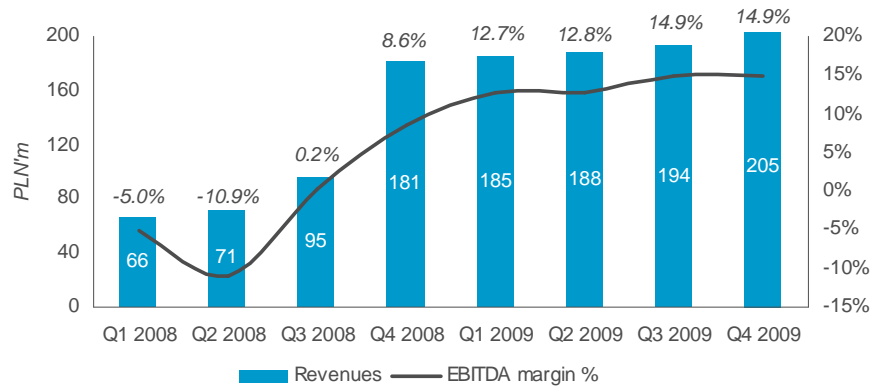
- Revenue increased by 34% y-o-y to PLN 1,505.9m in FY2009
- Residential segment (+87% y-o-y) was the main growth driver thanks to record new subscriber additions, relatively stable ARPU and the Tele2 Polska acquisition
- Business segments (SOHO/SME and Corporate) increased y-o-y despite tougher economic situation during Q2 and Q3 2009 (+26% y-o-y and +2% y-o-y, respectively)
- Wholesale segment's lower revenue (-6% y-o-y) reflects strategic refocus from low margin/higher risk wholesale projects and disposal of transmission assets to P4

Source: Company

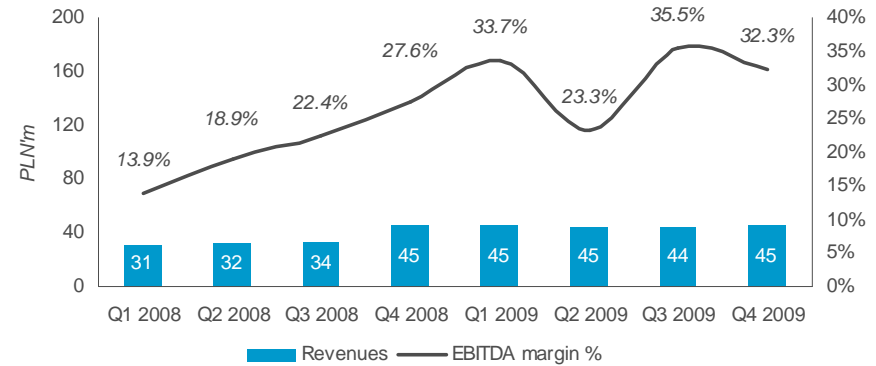
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# Executive summary | Results by customer segments

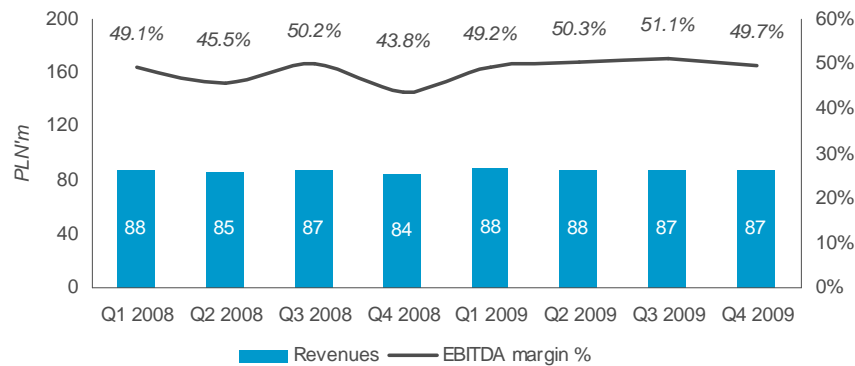
## Residential



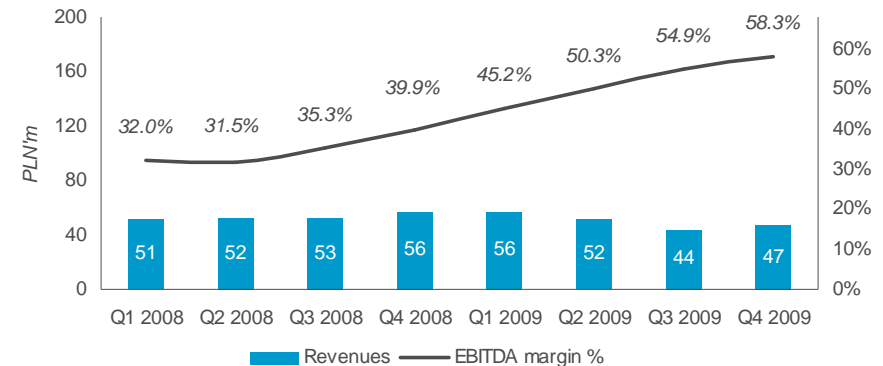
## SOHO/SME<sup>1</sup>



## Corporate



## Carrier



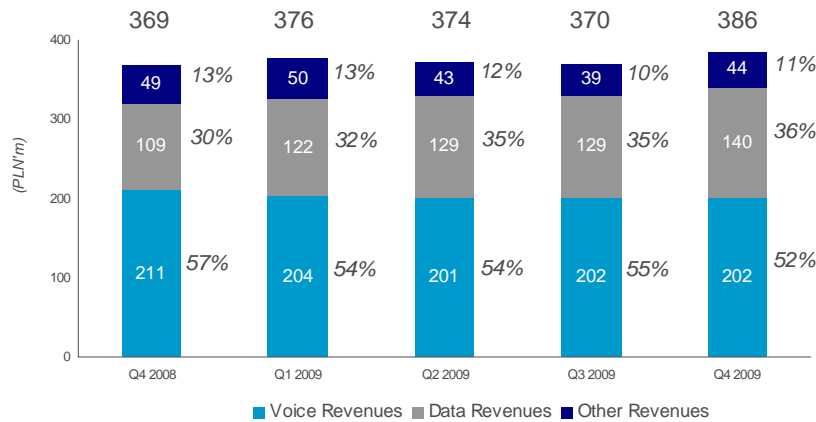
<sup>1</sup> SOHO = small office, home office, SME = small and medium enterprises

Source: Company internal management reports

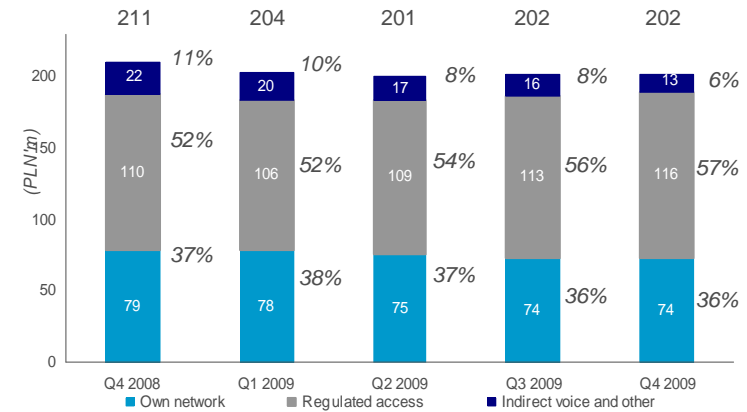
Note: Customer segment EBITDAs presented above exceed Netia's total reported EBITDA due to certain costs being allocated centrally (please refer to notes to financial statements for more details)

# Executive summary | Revenue development by service

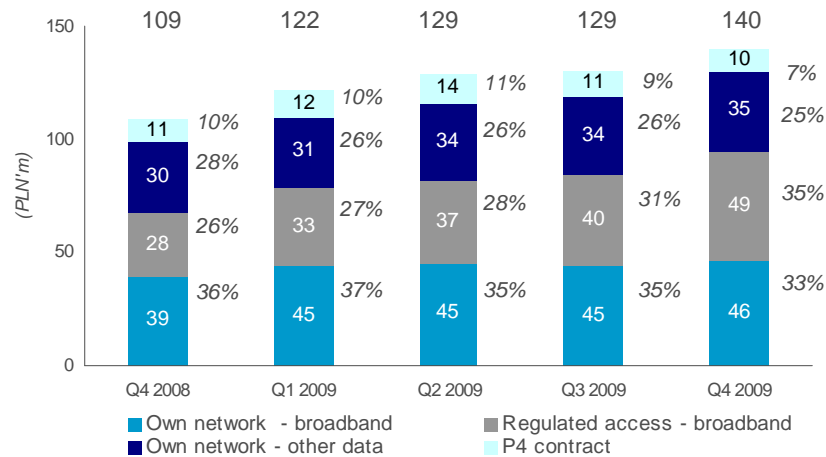
## Revenue breakdown by service



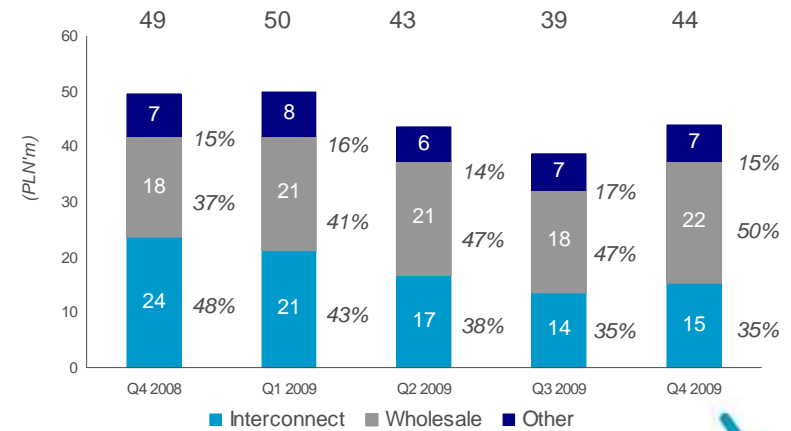
## Voice revenue breakdown by access



## Data revenue breakdown by access



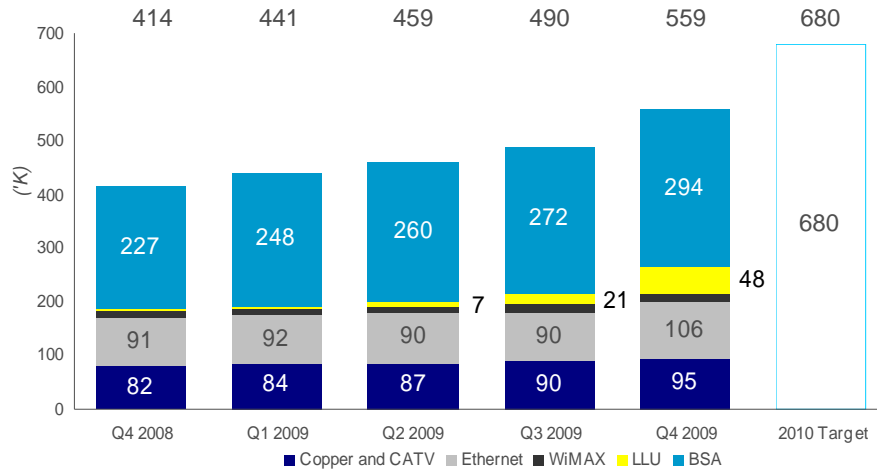
## Other revenue



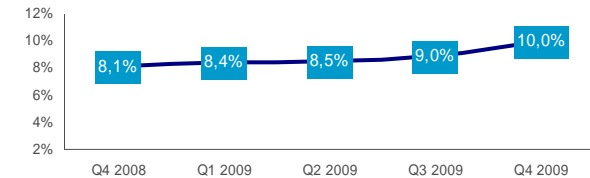
Source: Company

# Broadband | Strong progress in Netia's subscriber base

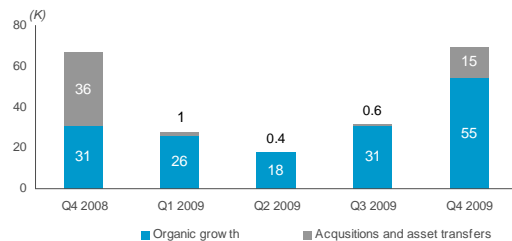
Broadband ports



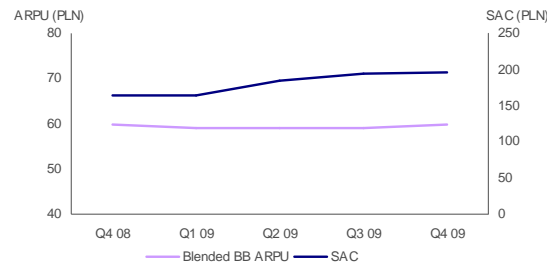
Market share broadband<sup>1</sup>



Broadband net additions



Blended broadband ARPU/SAC



- 559k broadband customers as of Q4 09
- 39% of customers served directly via Netia's own network
- 30% share of fixed broadband net additions in 2009 on average
- 146k net additions in 2009 incl. 129k from organic growth and 17k from Ethernets acquisitions
- 2play additions increased sequentially by 62% to 34,377 in Q4 2009
- LLU accounted for 49% and 36% of net adds in Q4 09 and FY respectively<sup>2</sup>
- Netia forecasts 680k broadband customers by 2010YE

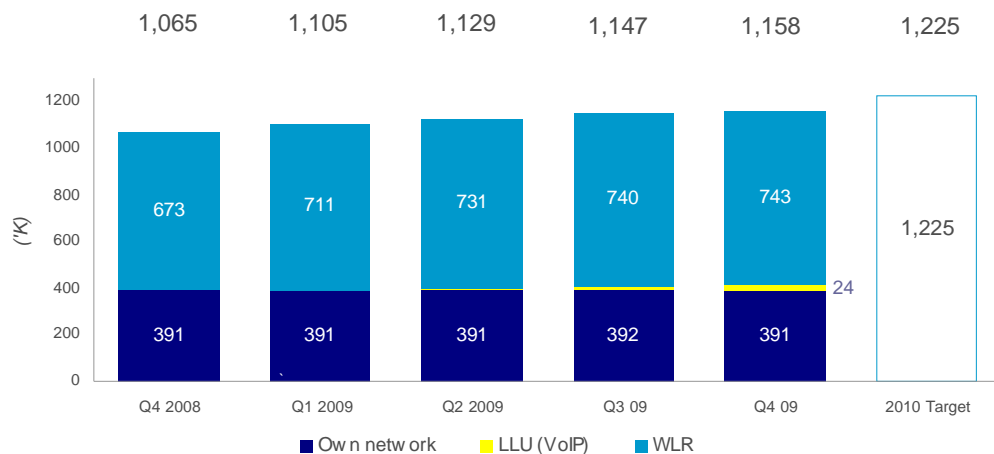
Source: Netia, TP, public domain

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

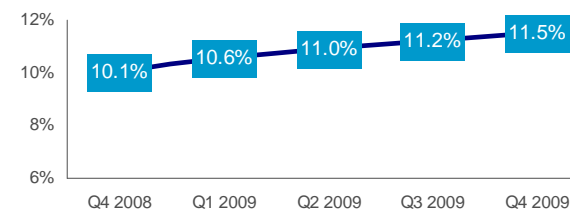
<sup>2</sup> Excluding ETTH acquisitions

# Voice | Continued progress on voice sales

Voice lines

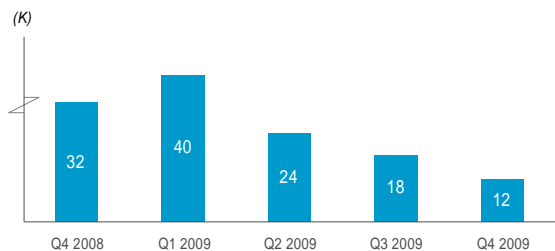


Market share voice<sup>1</sup>

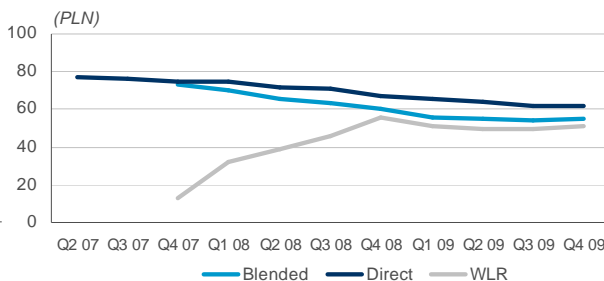


- 1,158k voice customers served as of Q4 2009
- 34% of customers served directly via Netia's own network
- Company forecasts 1,225k voice customers by 2010 YE
- Stable ARPU in H2 2009
- 2play focus behind sequentially falling WLR net additions

Net additions



Voice ARPU

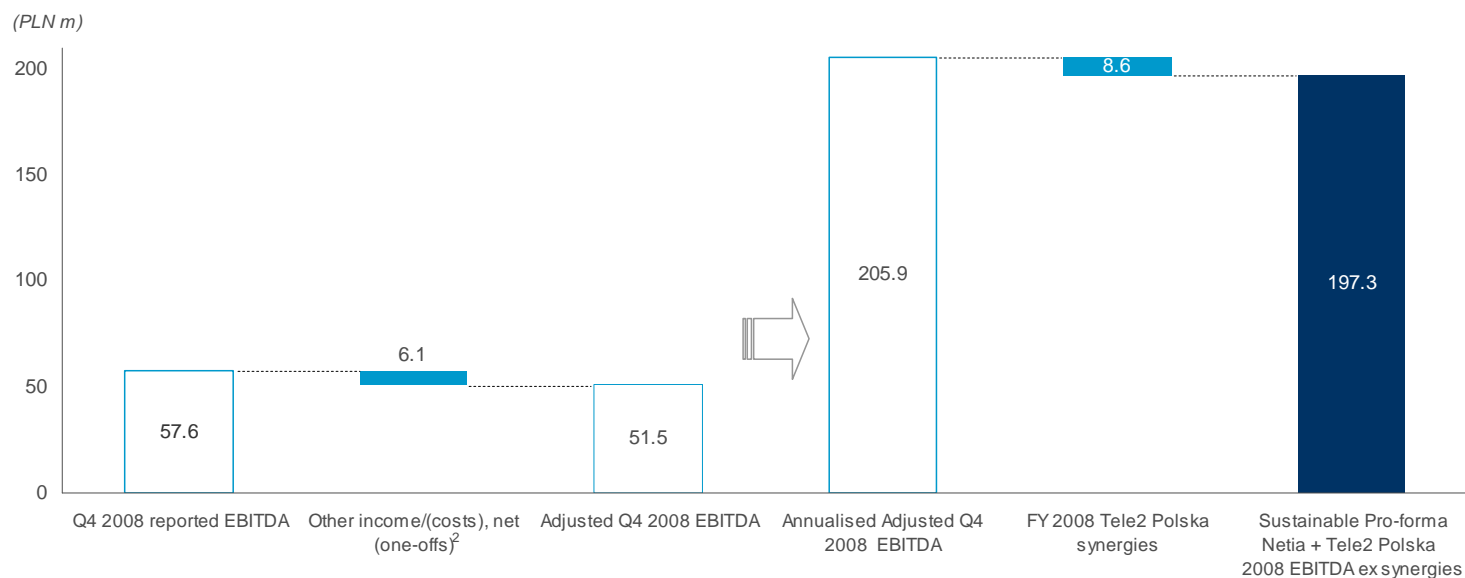


Source: Netia, TP, public domain

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

# EBITDA Bridge | Transformational effect of Tele2 Polska and Project Profit

## Reconciliation of Q4 2008 reported EBITDA<sup>1</sup> to pro-forma 2008 full-year EBITDA of Netia + Tele2 Polska stand-alone performance



- Netia acquired Tele2 Polska in September 2008, becoming the clear leading altnet operator in Poland
- The full-quarter impact from this acquisition was reflected in Q4 2008 results
- Netia began extracting synergies from the Tele2 Polska acquisition immediately with an estimated PLN 8.6m of annualized synergies already delivered in FY2008
- Further areas of opex optimization were identified following the acquisition resulting in the launch of 'Profit' savings project

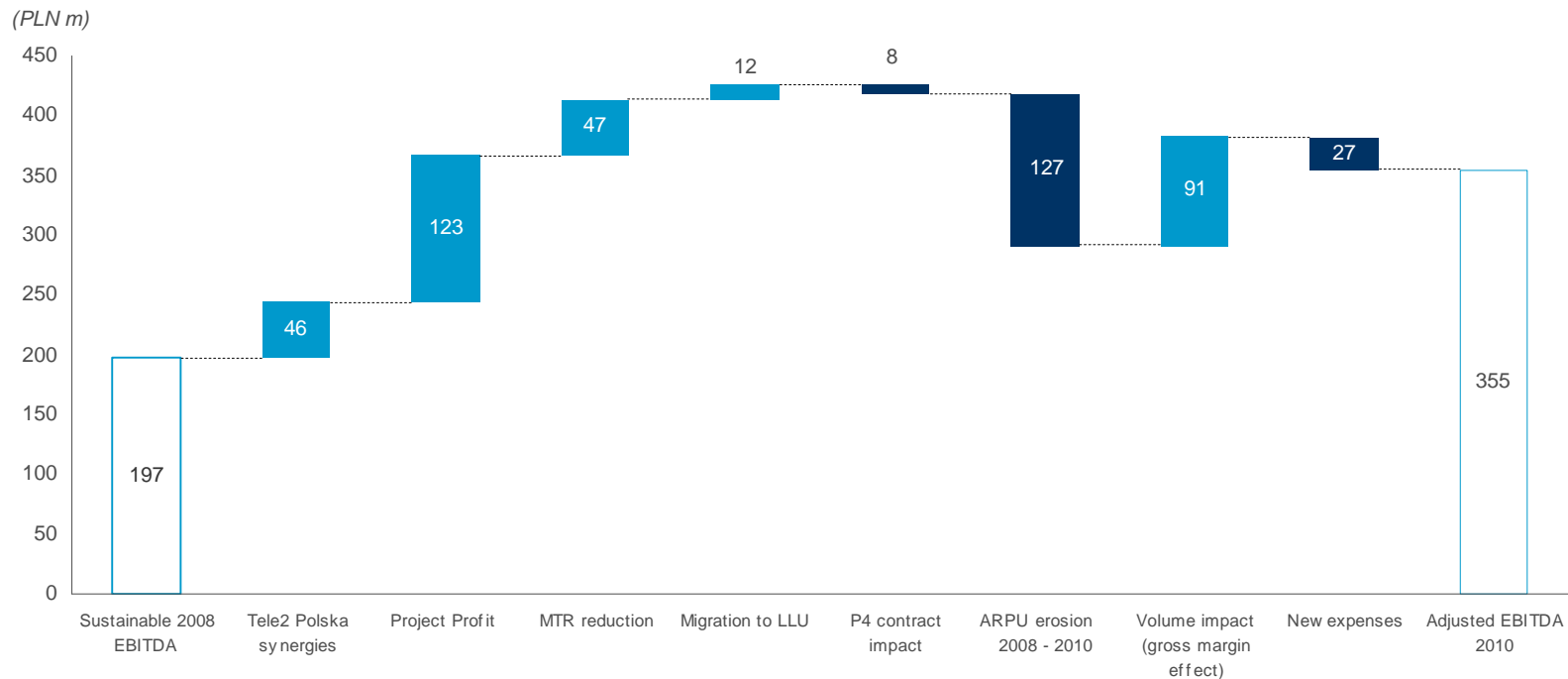
Source: Company

<sup>1</sup> Q4 2008 represents the only quarter of 2008 which reflects the full quarter impact from the Tele2 Polska acquisition prior to merger and restructuring/integration

<sup>2</sup> Other income / (costs), net as per Netia management reporting

# EBITDA Bridge | Accelerated improvement in profitability in FY2010

Key EBITDA drivers from 2008 to 2010 profitability

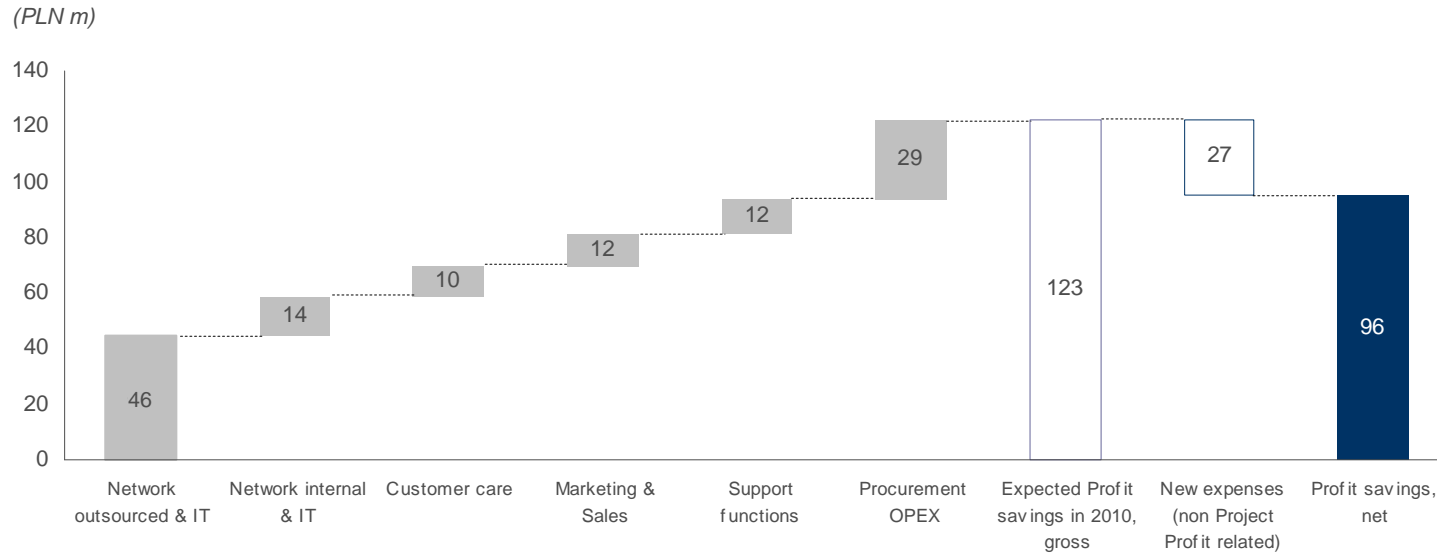


- EBITDA growth in FY2010 driven mainly by Netia's efficiency initiatives - 'Profit' project and Tele2 Polska synergies - as well as increased scale of operations
- Additionally, positive impact from regulatory changes - introduction of lower mobile termination rates (MTR) - as well as migration from BSA to LLU from FY2009
- EBITDA margin expected to increase by approximately 7 percentage points from 16% in FY2008 (annualized Q4 08) to 23% in FY2010

Source: Company

# EBITDA Bridge | 'Profit' project objectives exceeded

## Savings delivered by the 'Profit' project in 2009 exceeded initial assumptions



### Initiatives:

- Align SLAs with market standards
- Rationalise preventive maintenance
- Streamline steps in BSA activation
- Network infrastructure rental cost optimisation
- Other

61

- Standardize processes
- Reduce redundant work
- Improve and standardize work practices
- Other

14

- Simplification of identification procedure
- Increase One Call Solution (OCS) share
- Fast track process for claims -> productivity and quality improvement
- Change of outsourcers

44

- Increase selling time
- Centralize support functions
- Increase coaching for new hires
- Other

16

- Overhead Benchmarking Initiative
- Process review and re-alignment
- Span of control increases
- Other

20

- Consolidate energy providers
- Increase minimum billing amounts
- Move trainings to e-platform
- CPE costs optimisation
- Other

57

- Includes among others energy unit cost increases, planned pay rises, new projects and new SOP participants

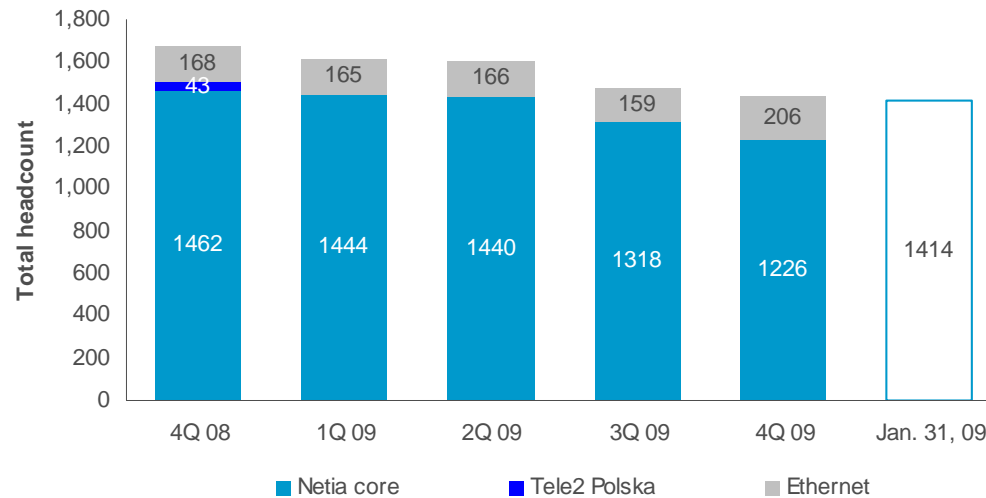
Source: Company

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## 'Profit' Project | Headcount development

Netia headcount<sup>1</sup>

Active headcount <sup>2</sup>	1,619	1,557	1,504	1,413	1,369	1,363
Total headcount	1,673	1,609	1,606	1,477	1,432	1,414



- Netia Group's headcount was 1,432 and active headcount<sup>2</sup> was 1,369 at the end of Q4 2009
- Headcount in the Ethernet companies increased during Q4 2009 by 47 FTEs due to new acquisitions
- Headcount reduction performed under the 'Profit' project resulted in cancelling 267 job positions in total
- At December 31, 2009, total headcount included 18 employees whose notice periods expired on that day
- Management expects the Q4 2009 headcount to remain broadly stable during 2010 (excl. headcount associated with potential further Ethernet networks' acquisitions)

Source: Netia

<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 | Key financial metrics for Q4 and FY 2009

(PLN' 000)

	2007	2008	2009	2009			
				Q1	Q2	Q3	Q4
<b>Revenues</b>	780,884	1,112,394	1,505,871	375,665	373,679	370,281	386,246
<b>Growth (% YoY)</b>	na	42.5%	35.4%	58.2%	53.5%	36.6%	4.7%
<b>Gross profit</b>	200,473	297,655	500,353	123,847	116,416	123,300	136,790
<b>Margin</b>	25.7%	26.8%	33.2%	33.0%	31.2%	33.3%	35.4%
<b>EBITDA / Adjusted EBITDA<sup>1</sup></b>	170,682	170,641	303,918 <sup>1</sup>	71,530 <sup>1</sup>	73,752 <sup>1</sup>	81,907 <sup>1</sup>	76,729 <sup>1</sup>
<b>Margin</b>	21.9%	15.2%	20.2%	19.0%	19.7%	22.1%	19.9%
<b>Growth (% YoY)</b>	na	0.0%	78.1%	111.6%	108.1%	86.9%	33.3%
<b>EBIT</b>	(103,840)	(99,706)	14,236	(3,051)	(4,984)	7,061	15,210
<b>Share of P4 start-up losses</b>	(165,237)	(22,625)	--	--	--	--	--
<b>Profit on sale of P4</b>	--	353,381	--	--	--	--	--
<b>Deferred income tax</b>	--	--	88,303	--	--	--	88,303
<b>Net profit</b>	(268,881)	230,605	88,665	(6,401)	(8,250)	4,228	99,088
<b>Total assets</b>	2,070,651	2,282,705	2,340,676	2,264,686	2,216,531	2,218,287	2,340,676
<b>Net (debt)/cash and treasury bills</b>	(37,041)	192,685	239,345	190,571	162,886	211,641	239,345
<b>Available credit lines</b>	205,000	375,000	295,000	375,000	295,000	295,000	295,000

<sup>1</sup> Adjusted EBITDA for FY2009 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 first of three tranches of transmission equipment to P4

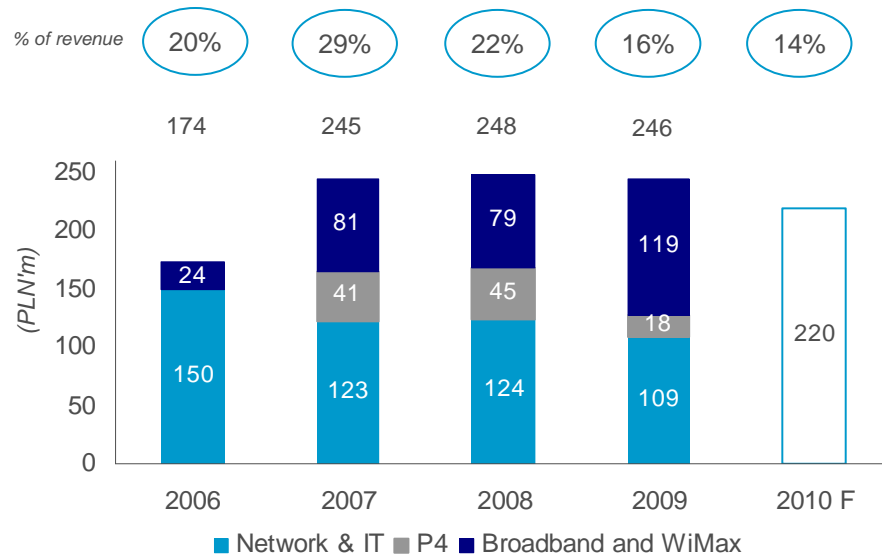
## EBITDA reconciliation to Net Profit | Comments

PLN'000	FY 2008	FY 2009	Change
<b>Adjusted EBITDA</b>	<b>170,641</b>	<b>303,918</b> <sup>①</sup>	+78%
Gain on disposal of transmission equipment to P4	-	5,298	<i>nm</i>
Positive accounting impact on settlement with TP	-	15,326	<i>nm</i>
Project Profit restructuring costs	-	(11,740)	<i>nm</i>
<b>EBITDA</b>	<b>170,641</b>	<b>312,802</b>	+83%
Depreciation and amortization	(270,347)	(298,566)	+10%
<b>EBIT</b>	<b>(99,706)</b>	<b>14,236</b>	<i>nm</i>
Net financial income / (costs)	830	(13,143)	<i>nm</i>
<i>of which FX gains or losses, net</i>	112	(8,133) <sup>②</sup>	<i>nm</i>
Gain on sale of investment in P4	353,381	-	<i>na</i>
Share of losses of associate	(22,625)	-	<i>na</i>
Income tax, net	(1,275)	87,572 <sup>③</sup>	<i>nm</i>
<b>Profit/ (Loss)</b>	<b>230,605</b>	<b>88,665</b>	-62%
Shares outstanding	389,277,294	389,277,294	<i>na</i>
<b>EPS (in PLN, basic &amp; diluted)</b>	<b>0.59</b>	<b>0.23</b>	-62%

- ① Surge in EBITDA thanks to augmenting scale via Tele2 Polska acquisition, strong subscriber base growth, delivery of savings and synergies
- ② Hedging policy implemented in Netia due to high volatility of EUR and USD payments to foreign subcontractors of equipment
- ③ Net effect of tax liabilities and deferred tax asset recognized at PLN 88.3m which should shield Netia's cash taxes in coming years

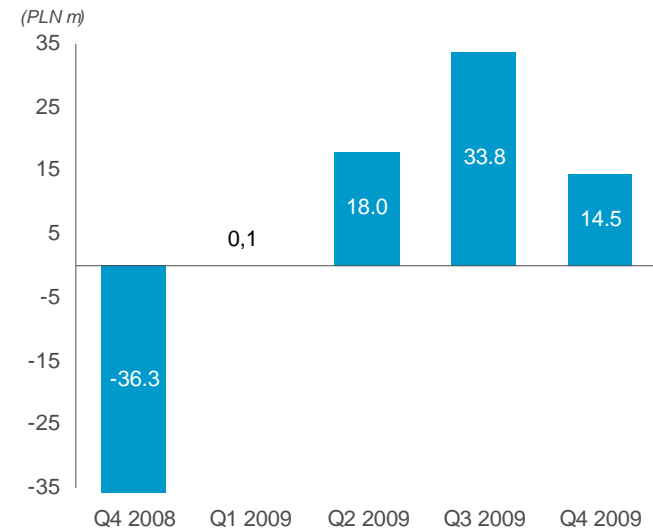
# Financial performance | Capital investments and operating FCF

## Capital investments



- Netia continues to invest in growth, mainly in residential segment to provide for increasing volumes of subscribers and capacity for higher speeds

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



- Netia is rapidly improving free cash flows from its operations (OpFCF)
- Q4 reflects the seasonal increase in completion of capital investment

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

## FY 2010 guidance | Focus on profitability maintained

	FY2009	Guidance FY2010
<b>Broadband subscribers</b> ('000)	559	680
<b>Voice service customers</b> ( <i>own network + WLR</i> ) ('000)	1,158	1,225
<b>Unbundled local loop</b> (LLU) nodes	297	500+
<b>Total revenues</b> (PLN'm)	1,506	1,550+
<b>Adjusted EBITDA</b> (PLN'm)	304	355+
<b>Adjusted EBITDA margin</b> (%)	20%	23%
<b>EBITDA</b> (PLN'm)	313	360+
<b>EBIT</b> (PLN'm)	14	60+
<b>Capital investment</b> ( <i>excl. M&amp;A</i> ) (PLN'm)	246	220

- Netia guides for FY2010 to be net profitable throughout the whole year
- Estimated FCF generation in FY2010 to reach PLN 140m
- Ethernet acquisitions come on top of this guidance

Source: Company

Guidance as of February 22, 2010

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## Medium term outlook | Key milestones for 2010 - 2012 unchanged

	2010 - 2012
<b>Revenue growth (CAGR) – overall</b>	3% - 5%
<b>Revenue growth (CAGR) – retail segment<sup>1</sup></b>	5% - 10%
<b>EBITDA margins</b>	
at 23%	2010
at 28%	2012
<b>Increasing net operating profit trend</b>	2010 - 2012
<b>Increasing free cash flow trend</b>	2009 - 2012
<b>Capex to sales down to 15% by</b>	2010
<b>1 million broadband subscribers</b>	2012

<sup>1</sup> Retail segment means Home, SOHO/SME, Corpo

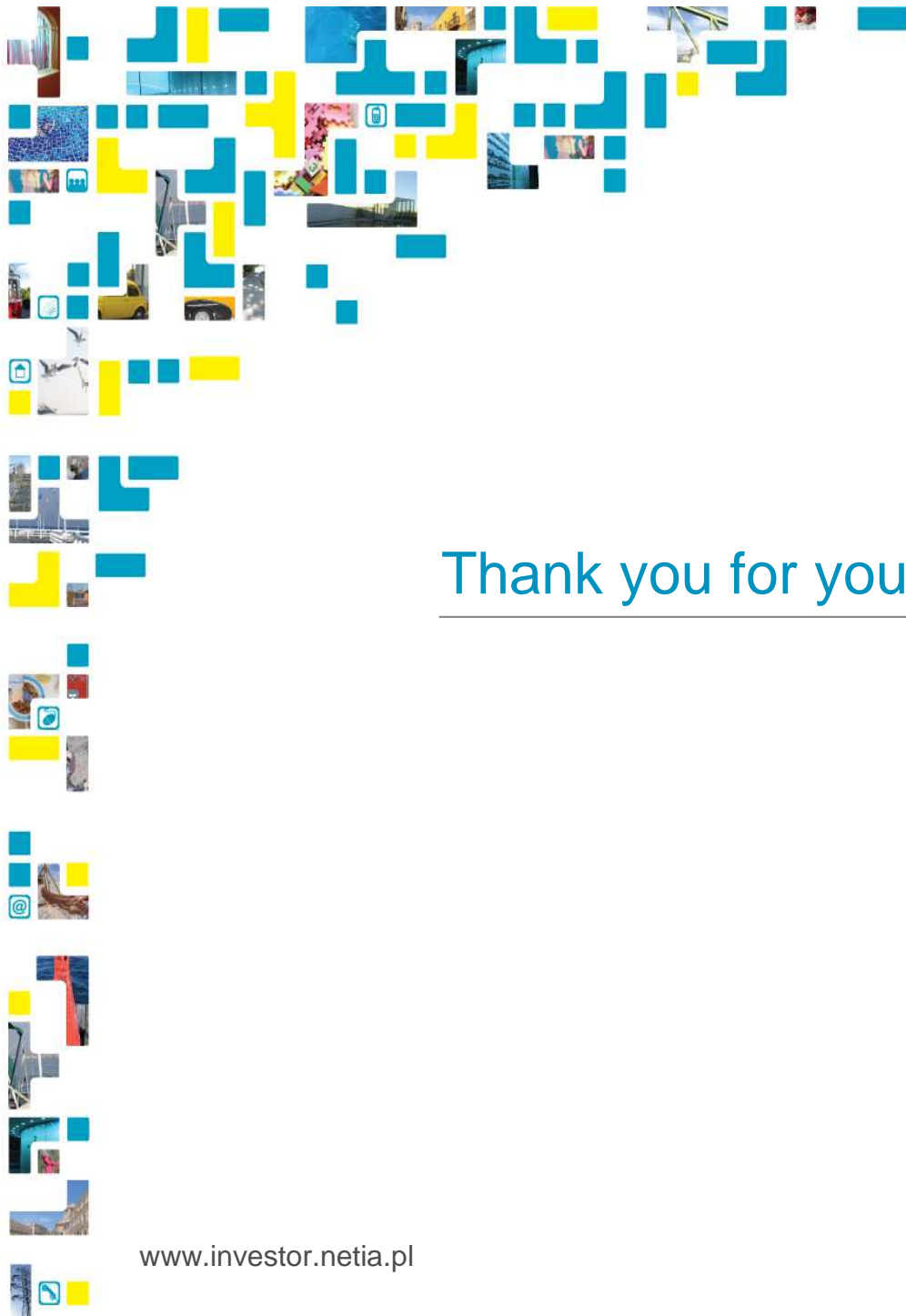
Source: Company Note: Mid term outlook as published on November 5, 2009



## Summary

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- **Broadband strategy driving profit improvements and FCF generation**
- **Focus on further progress on 2play sales and LLU migration**
- **Netia well positioned for any major acquisitions**
- **Effective execution on major cost efficiency initiatives**
  - 'Profit' project aimed at reducing OPEX by net PLN 100m in FY2010 and beyond
  - Synergies from the Tele2 Polska integration expected 54% ahead of original target at PLN 46m+
- **Outlook for 2010:**
  - Broadband subscribers to reach 680k plus Ethernet acquisitions
  - Adjusted EBITDA to reach over PLN 355m and EBITDA to reach over PLN 360m
  - Netia operating net profitable and generating over PLN 140m of free cash flow before acquisitions
  - Strong focus on customer care and quality of delivered services under new 'Customer First' ('Klientomania') project



Thank you for your attention

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