Q3 and 9M 2009 Financial Results

Investors Conference Call and Press Conference

November 5, 2009

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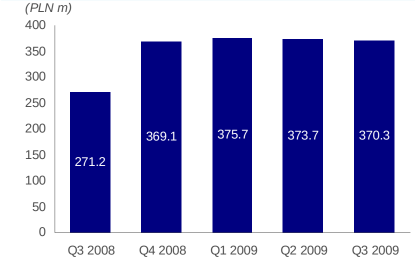
netia

WOLNOŚĆ WYBORU

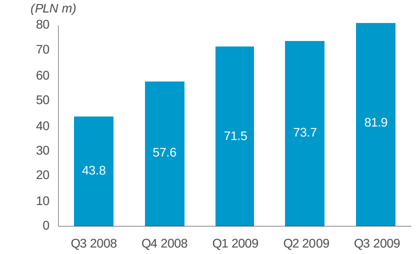
Executive summary | Key achievements in Q3 and 9M 2009

- **Subscribers base growth rebounds despite a challenging market environment**
  - 490k broadband services (+41% y-o-y, +7% q-o-q) and over 505k as at November 1, 2009
  - Record fixed broadband net additions share[1] estimated at 39% for Q3 2009
  - 1,147k voice services (+11% y-o-y, +2% q-o-q)
- **Netia delivers strong EBITDA growth in 9M 2009**
  - EBITDA was PLN 222.2m for 9M 2009 (+96% y-o-y) and PLN 82.9m for Q3 2009 (+82% y-o-y, 19% q-o-q)
  - Adjusted EBITDA[2] was PLN 227.2m for 9M 2009 (+101% y-o-y) and PLN 81.9m for Q3 2009 (+87% y-o-y, +11% q-o-q)
- **Net profit of PLN 4.2m (Adjusted Profit[2] of PLN 3.2m) was recorded in Q3 2009**
- **Further increase in operating FCF (PLN 33.8m in Q3 vs PLN 18.0m in Q2 2009)**
- **Revenue stabilized in a slowing economy thanks to growth in residential**
  - Revenue was PLN 1,119.6m for 9M 2009 (+51% y-o-y) and PLN 370.3m for Q3 2009 (+37% y-o-y, -1% q-o-q)
  - Residential segment revenue continued to grow thanks to strong net adds and stable ARPUs (+3% q-o-q)
  - Corporate together with SOHO/SME and Wholesale revenues declined sequentially due to pricing pressure and strategic refocus away from low margin/riskier wholesale projects (-1% q-o-q and -16% q-o-q, respectively)
- **Netia leads the LLU roll out in Poland**
  - 176 nodes unbundled, 21.3k clients as at Sept. 30, 2009 and over 27k as at November 1, 2009
- **Tele2 Polska integration completed with migration of clients to Netia IT and billing systems**
- **Comprehensive cost reduction program 'Profit' proceeds smoothly**
- **Sale of the equipment used for providing transmission services to P4**
- **Revised guidance for FY2009 and medium term outlook announced on November 5, 2009**

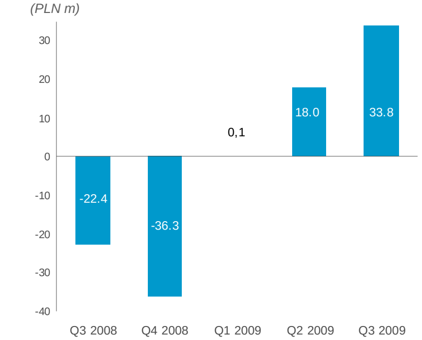
Revenue quarterly development



EBITDA quarterly development



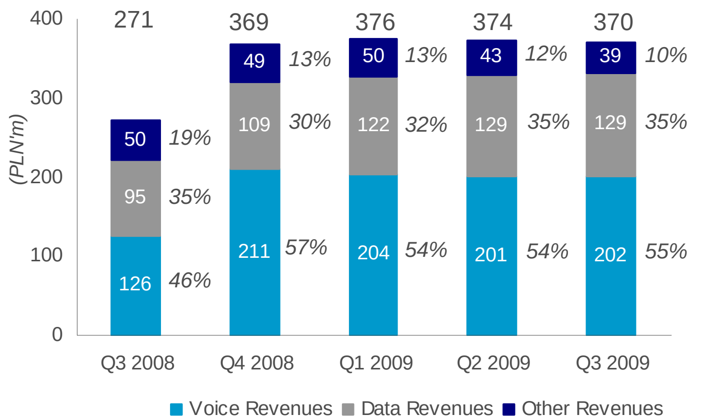
Op. FCF [3]



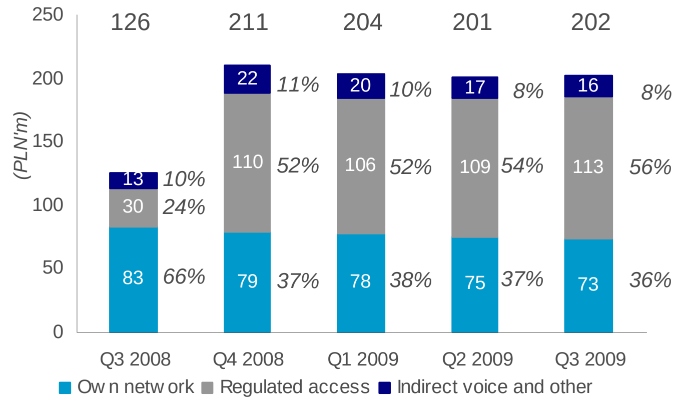
Revenue from continuing activities
[1] Excluding CDMA implicit Netia's market share in net adds was 47%
[2] EBITDA and net result for 2009 excl. one-off restructuring costs related to the „Profit" project and a gain on sale of the first of three tranches of transmission equipment to P4
[3] Operating FCF = EBITDA less capex; EBITDA as reported less investments in tangible and intangible fixed assets

Executive summary | Revenue development by service

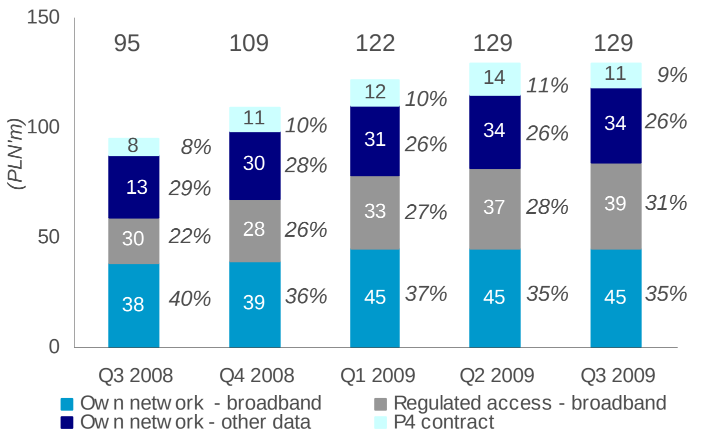
Revenue breakdown by service



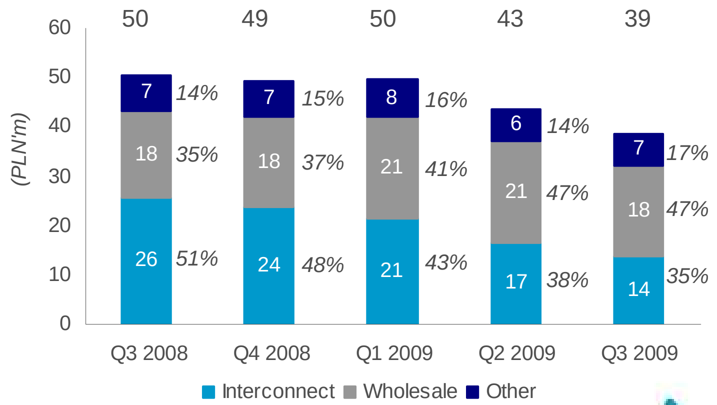
Voice revenue breakdown by access



Data revenue breakdown by access



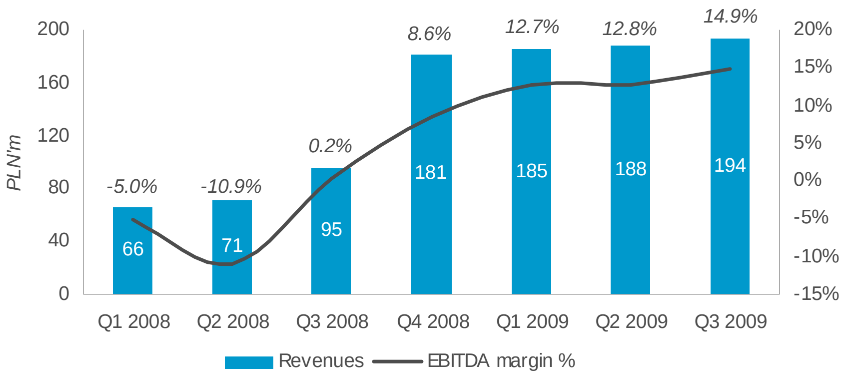
Other revenue



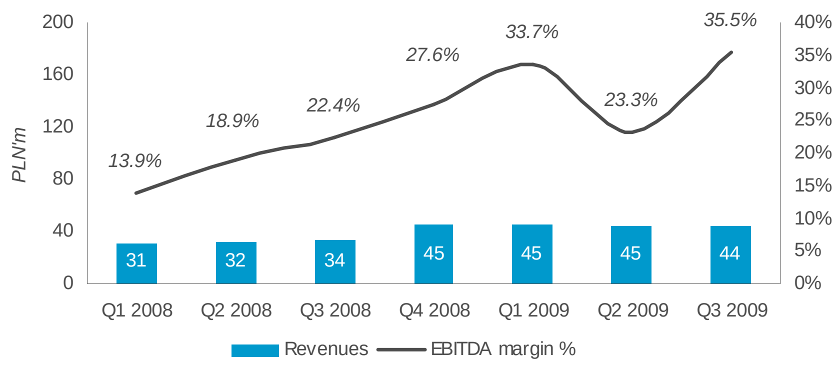
Source: Company

Executive summary | Revenue development by customer segments

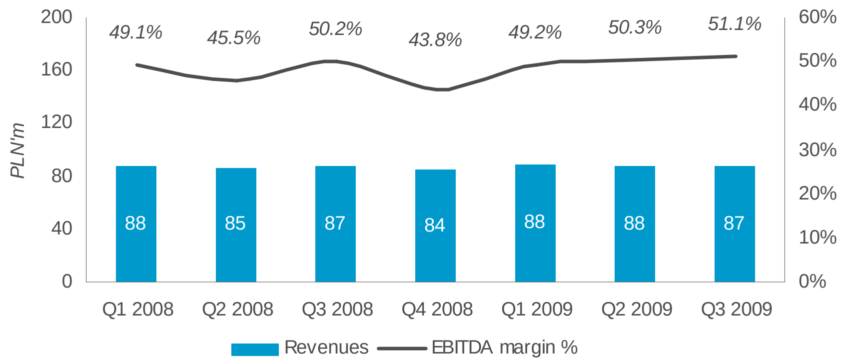
Residential



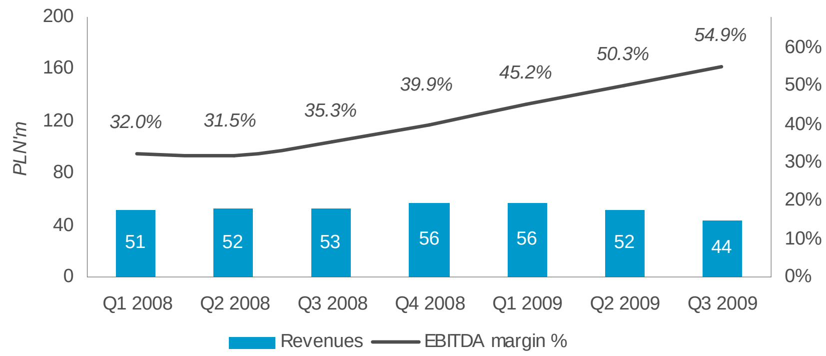
SOHO/SME[1]



Corporate



Carrier



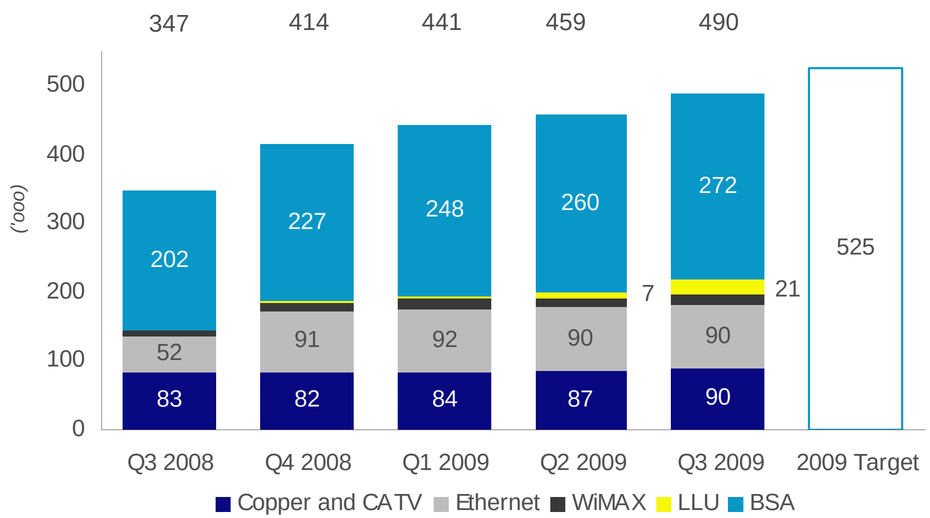
1 SOHO = small office, home office, SME = small and medium enterprises *Source: Company internal management reports*

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)

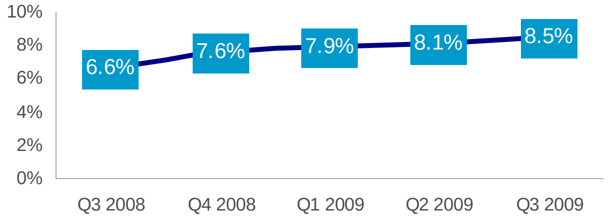
Migration of Tele2 Polska customers onto Netia's billing and IT platforms in Q3 2009 triggered certain reclassification of select client categories from Home segment to SOHO/SME segment, reflected in results for Q1 – Q3 2009.

Broadband | Strong progress in Netia's subscriber base

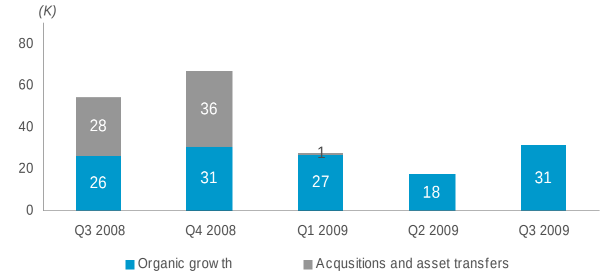
Broadband ports



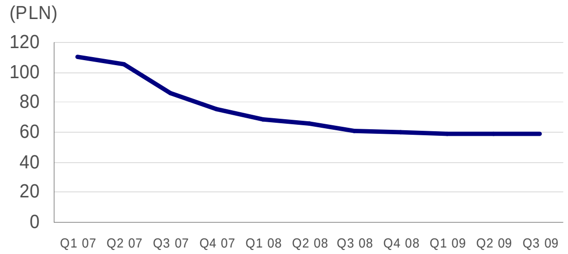
Market share broadband [1]



Broadband net additions



Blended broadband ARPU

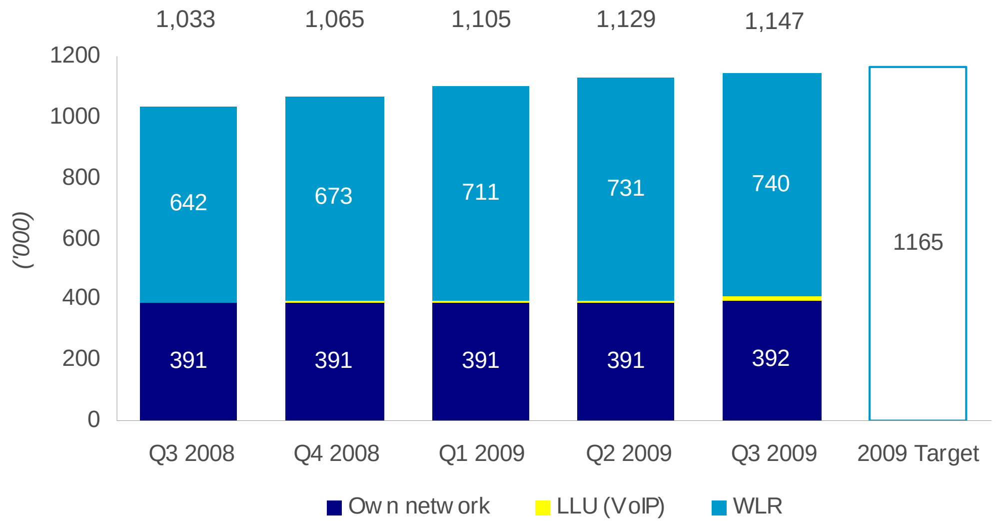


- 490k broadband customers as of Q3 2009
  - 40% of customers served directly via Netia's own network
  - 39%[1] share of fixed broadband net additions in Q3 2009
  - All 31k net additions in Q3 2009 were acquired organically
  - 2play offers for new customers represented 53% of new additions
  - LLU accounted for 45% of net adds in Q3 2009
  - Netia increased guidance for FY2009 to > 525k broadband customers
- Stable ARPU in broadband

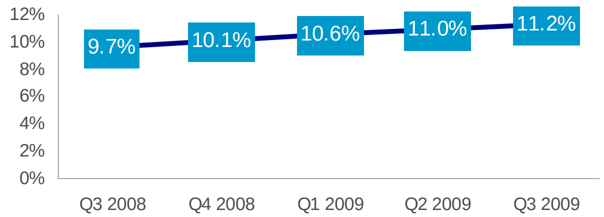
Source: Netia, TP, public domain
[1] Based on Netia's internal estimates of the total fixed broadband market volume as of 2008YE and 9M 2009, excluding CDMA implicit Netia's market share in net adds was 47%

Voice | Continued progress on voice sales

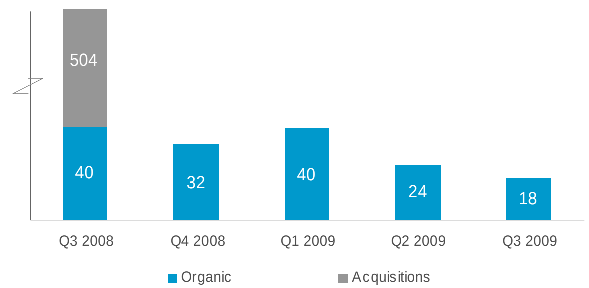
Voice lines



Market share voice [1]

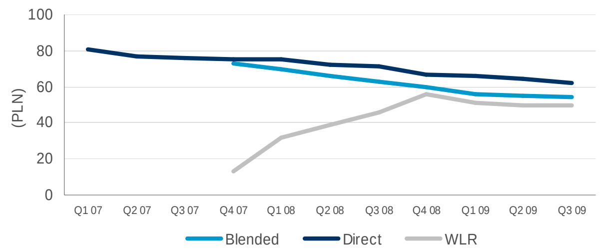


Net additions



- 1,147k voice customers served as of Q3 2009
  - 34% of customers served directly via Netia's own network
  - Netia has approximately 62% of WLR regulated access market share
  - The Company's revised guidance for FY2009 is 1,165k voice customers
- Voice ARPU expected to stabilize in the medium term

Voice ARPU



Source: Netia, TP, public domain
[1] Based on Netia's internal estimates of the total market volume as of 2008YE and 9M 2009

Post acquisition integration of Tele2 Polska | Progress report

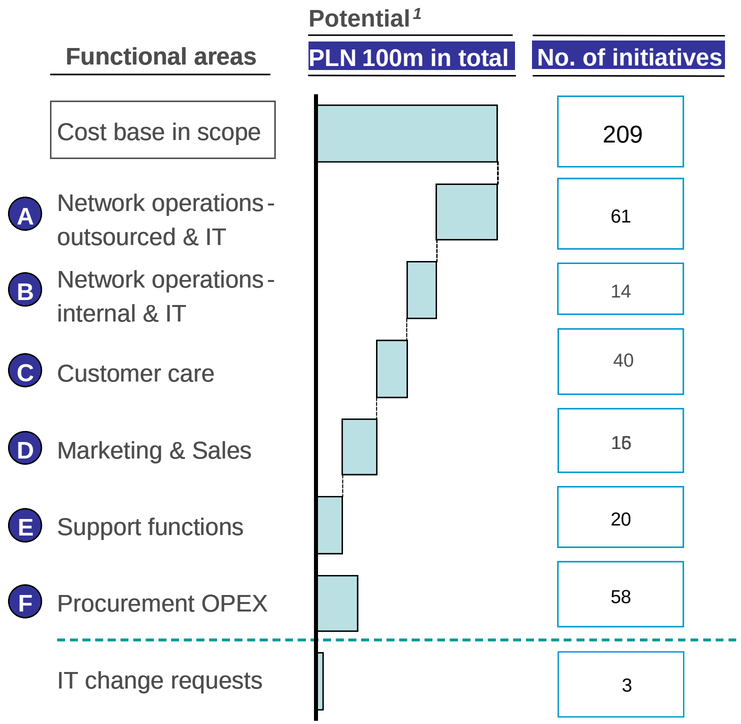
- Netia acquired Tele2 Polska in September 2008 for PLN 115m (EV/2008F EBITDA of 2.8x)
- Churn and cross-selling of broadband services are in line with Netia expectations:
  - Churn at 9% per annum for 23k former BSA Tele2 Polska customers
  - Churn at 17% per annum for 504k former WLR Tele2 Polska WLR customers
  - Broadband cross-sell - 14k former Tele2 Polska customers upsold broadband services
- With the migration of billing and CRM onto Netia's IT platform in Q3 2009 all complex integration processes are complete
- Annualized operational synergies projected for 2010 are PLN 46.2m, 54% above the original target:

Original annualised savings target *(PLN'M)*	Area	% Complete	2010 savings secured *(PLN'M)*	New 2010 target *(PLN'M)*	Description
20.0	Network	80%	15.0	18.8	Leased lines cancellation, IC points rationalisation
	Billing and IT	100%	9.6	9.6	Consolidation into single platform
10.0	Marketing	100%	10.6	10.6	Brand elimination, reduced joint A&P budget
	Customer Care	100%	0.8	0.8	Consolidation into single common least cost process
	Finance processes	100%	1.3	1.3	Optimised cash collection, financial services and audit fees
	Management fees	100%	3.6	3.6	Not payable
	Migration to copper lines	10%	0.0	1.5	Pilot project completed. Full migration of approx. 8k customers planned for 2010
30.0		**TOTAL:**	**40.9**	**46.2**	

- Synergies from the Tele2 Polska integration are on the top of to cost savings expected from 'Profit' project

‘Profit’ Project proceeds smoothly | Update

- Target to reduce PLN 100m of annual opex from Netia’s cost base starting 2010
  - Approximately PLN 20m of savings to be delivered in 2009
  - Expected PLN 15m of one-off expenses related to Profit project in 2009 (PLN 10.3m recorded in 9M 2009)

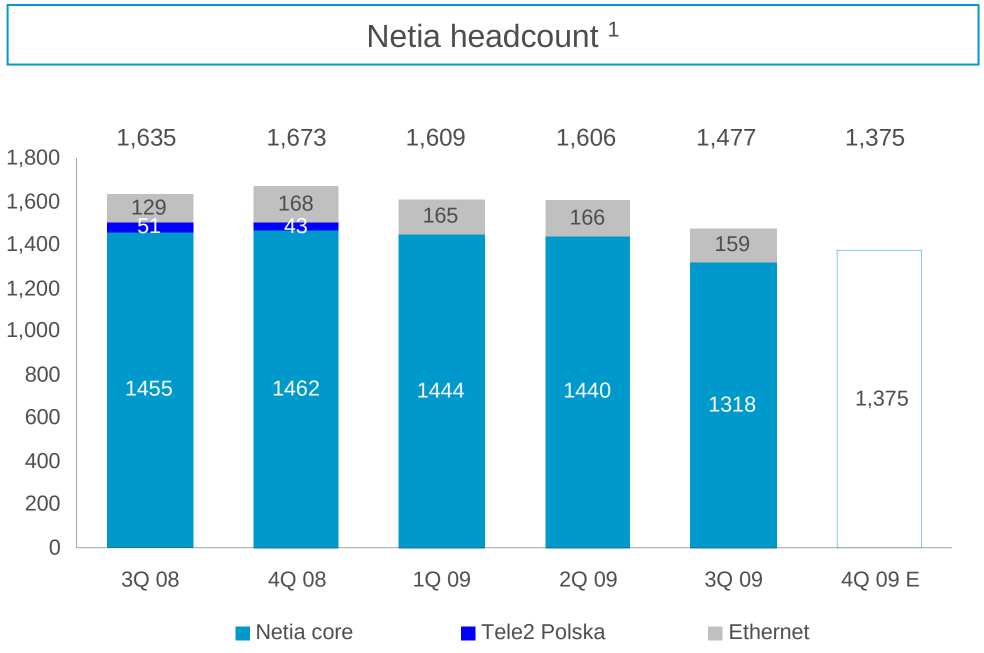


- Volume-wise 75% of initiatives were completed and another 25% are in the implementation phase
- 47 new initiatives have replaced 16 cancelled or frozen initiatives
- Value-wise, already implemented initiatives are projected to produce:
  - 85% of targeted savings for FY2009
  - 63% of targeted savings for FY2010
- Headcount optimization being part of the ‘Profit’ project resulted in a decrease by 129 FTEs between June 30, 2009 and September 30, 2009, with further reduction of 100 FTEs under implementation

- Savings from the ‘Profit’ project are expected ahead of the original guidance

1 *For illustrative purposes only, size of blocks does not necessarily correspond to envisaged savings by the Company in particular area*

‘Profit’ Project | Headcount development



- Netia Group’s headcount was 1,477 at the end of Q3 2009
- In October 2009 Netia began reduction of additional 100 FTEs
- Management expects headcount to fall to approximately 1,375 by the end of 2009 (excl. headcount associated with potential Ethernet networks’ acquisitions)
- This new employment level is expected to remain broadly stable during 2010

Source: Netia
[1] Full-time equivalent of employees

Other developments | 1st tranche of P4 transmission completed

- On July 24, 2009 Netia signed the agreement to sell to P4 part of the dedicated transmission equipment used for rendering wholesale services to P4
- Total price consideration for the equipment is PLN 65.4m
  - Proceeds of PLN 22.8m from the sale of the first tranche were received in July 2009
  - A gain of PLN 5.3m on this transaction was recorded in Q3 2009
- Revenues and EBITDA from the reduced scope of cooperation are expected at 30% of peak annualised level of PLN 50m
- Revenue in Q3 2009 fell by PLN 3m as a result of sale of the first tranche
- Netia expects to recover fully its original investment in the P4 transmission contract with a double digit IRR
- Transaction strengthens Netia's focus on investment in strategic residential and business segments rather than wholesale operations
- Transaction along with the continued defocus from the low margin / riskier carrier projects were reflected in adjustment to the medium term outlook announced on November 5, 2009

Source: Company Note: Guidance as of November 5, 2009

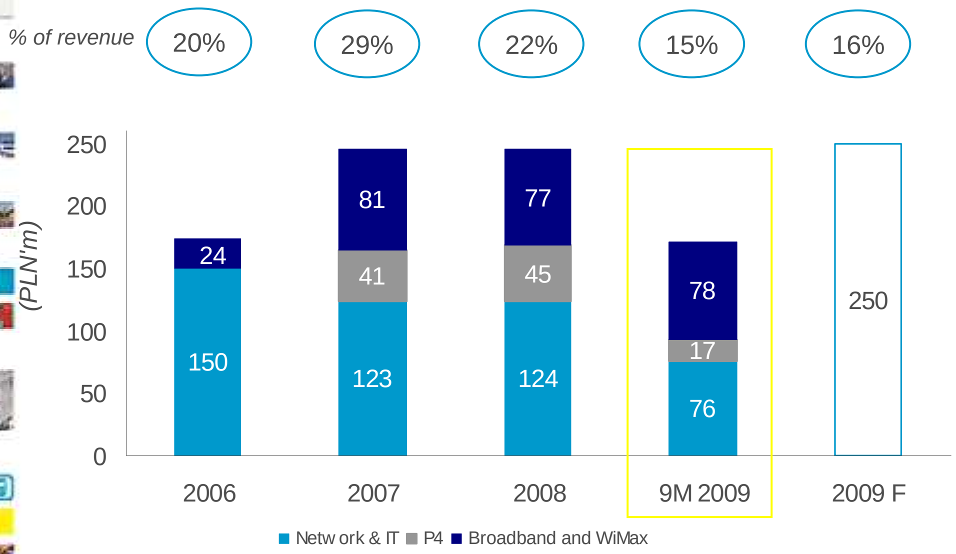
Financial performance | Key data for 9M 2009 and FY 2008

(PLN' 000)	2008				2009		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Revenues	237,470	243,483	271,159	369,056	375,665	373,679	370,281
Growth (% YoY)	*16.2%*	*18.4%*	*31.9%*	*65.9%*	*58.2%*	*53.5%*	*36.6%*
Gross profit	55,676	51,926	73,720	116,333	123,847	116,416	123,603
Margin	*23.4%*	*21.3%*	*27.2%*	*31.5%*	*33.0%*	*31.2%*	*33.3%*
EBITDA / Adjusted EBITDA[1]	33,800	35,436	43,829	57,576	71,530	73,752	81,908
Margin	*14.2%*	*14.6%*	*16.2%*	*15.6%*	*19.0%*	*19.7%*	*22.1%*
Growth (% YoY)	*(38.1%)*	*(43.1%)*	*21.2%*	*225.7%*	*111.6%*	*108.1%*	*86.9%*
EBIT	(29,079)	(33,230)	(22,714)	(14,683)	(3,051)	(4,984)	7,060
Share of P4 start-up losses	(22,625)	--	--	--	--	--	--
Profit on sale of P4	--	353,427	(46)	--	--	--	--
Net profit	(55,294)	314,581	(18,586)	(10,096)	(6,401)	(8,250)	4,231
Total assets	2,062,256	2,169,214	2,270,672	2,282,705	2,264,686	2,216,531	2,218,287
Net (debt)/cash and treasury bonds [3]	(105,264)	324,017	232,736	192,685	190,571	162,886	211,641
Available credit lines	120,000	375,000 [2]	375,000 [2]	375,000	375,000	295,000	295,000

[1] EBITDA for 2009 excluding the one-off expenses related to the cost optimization program (the 'Profit' project) and a gain on sale of the first of three tranches of transmission equipment to P4
[2] Including PLN 100m available at the Company's option
[3] Treasury bonds at market value

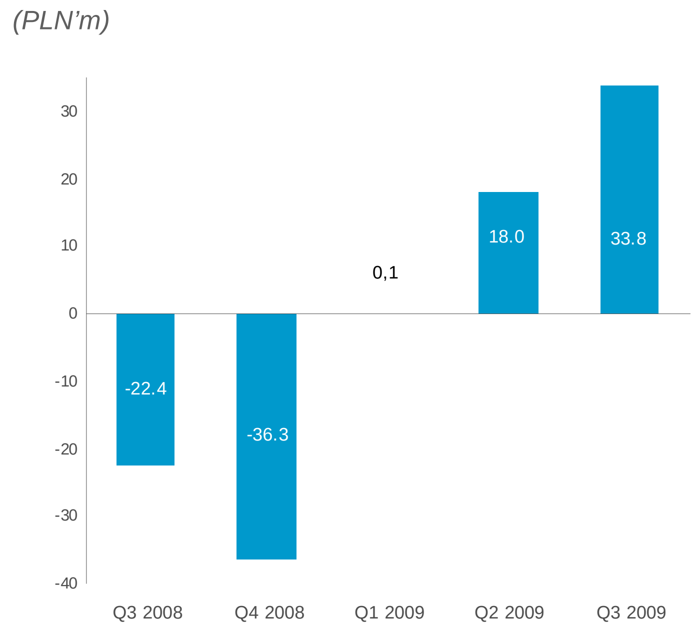
Financial performance | Capital investments and operating FCF

Capital investments



- Netia continues to invest in growth

Operating FCF[1]



- Netia is rapidly improving free cash flows from its operations (OpFCF)

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

Revised FY2009 guidance | Focus on profitability reinforced

	Previous	Updated
Broadband subscribers *('000)*	510	525+
Voice service customers *(own network + WLR) ('000)*	1,200	1,165+
Unbundled local loop *(LLU) nodes*	300	300
Revenues *(PLN'm)*	1,500	1,495
Adjusted EBITDA[1] *(PLN'm)*	290	300
EBITDA *(PLN'm)*	275	290
Capital investment *(excl. M&A) (PLN'm)*	260	250

Source: Company [1] *Adjusted EBITDA excludes one-off restructuring costs related to the cost reduction program (the „Profit" project) and a gain on the sale of the first tranche of P4 transmission assets.*

Guidance as of November 5, 2009

Revised medium term outlook | Key milestones for 2010 - 2012

	Previous	Updated
Revenue growth (CAGR) – overall	5% - 10%	3% - 5%
Revenue growth (CAGR) – retail segment[1]	na	5% - 10%
EBITDA margins		
at 23%	2010	2010
at 28%	2012	2012
Net profit by	2010	2010
Free cash flow positive by	2010	2009
Capex to sales down to 15% by	2011	2010
1 million broadband subscribers	2012	2012

- Detailed guidance for 2010 will be provided during Q1 2010

[1] *Retail segment means Home, SOHO/SME, Corpo*

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

Summary

- **Broadband strategy driving profit improvements and FCF generation**
- **Focus on further progress on 2play sales and LLU migration**
- **Accelerated progress on major cost efficiency initiatives**
  - Excellent progress on ‘Profit’ project aimed at reducing OPEX by PLN 100m in FY2010 and beyond
  - Synergies from the Tele2 Polska integration expected 54% ahead of original target at PLN 46m+
- **Revised outlook for 2009:**
  - **Adjusted EBITDA to reach PLN 300m**
  - **EBITDA to reach PLN 290m**
- **Revised mid-term outlook:**
  - **Overall revenue growth (CAGR) at 3% - 5% due to contraction in carrier segment**
  - **Revenue growth (CAGR) in retail segment at 5% - 10%**
  - **Free cash flow positive by 2009 (a year earlier than originally expected)**

Thank you for your attention

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