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# NETIA SA REPORTS 2007 THIRD QUARTER RESULTS

WARSAW, Poland – November 14, 2007 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated financial results in accordance with EU IFRS *(*)* for the third quarter and nine months ended September 30, 2007.

## Key Developments:

- **Netia's broadband subscriber base** grew to 171,368 ports at September 30, 2007, up from 133,978 at June 30, 2007 and 54,735 at September 30, 2006, representing growth of 28% over Q2 2007 and 213% over the past twelve months. As at November 14, 2007, Netia had a total of over 187,000 broadband subscribers, and the Company is raising its forecast to over 210,000 broadband customers by 2007 year-end (see "Operational Highlights").
- Netia has clearly established itself as the **leading telco altnet provider of broadband services** in Poland. Based on published market share estimates, Netia has acquired 18% of broadband net additions since the beginning of 2007. The Company estimates that its share of the total broadband market subscribers has increased from 1.5% to 3.8% during the past twelve months. Since January 2007, Netia estimates that approximately 84% of TP customers switching to altnet service over bitstream access have chosen Netia.
- On August 20, 2007 Netia introduced **bundled packages of voice and Internet services** for its mass market clients. The packages are available to clients on Netia's own network as well as on TP's lines (based on bitstream *(BSA)* and wholesale line rental *(WLR)* access arrangements). Management of the Company expects that newly connected WLR voice customers will enable Netia to increase its base of voice clients and stabilize voice revenues during the next few quarters. As at November 14, 2007, over 13,000 WLR contracts had been signed while the first lines went active on November 1, 2007.
- In line with its strategy to be the leading altnet provider of broadband services, Netia was the first to execute a binding contract with TP for **local loop unbundling** *(LLU)* that will enable it to offer differentiated broadband services over TP's access network. The LLU preparatory work is well underway. Netia aims to connect its first clients through unbundled TP switches at the turn of 2007.
- Netia's associate company **P4 Sp. z o.o. ("P4") had a subscriber base** of approximately 435,000 clients for its mobile services as of September 30, 2007 and has continued its strong growth during Q4, which is traditionally the strongest quarter for the Polish mobile market. P4 announced that it had passed 500,000 clients on October 15, 2007 and maintains its target of more than 750,000 clients by the end of 2007. P4's market share of total net additions for Q3 2007 is estimated at 20% *(**)*.
- **P4's UMTS network was switched on** in six cities, including Warsaw and Gdańsk, during Q3 2007. As its network roll-out accelerates, P4 intends to extend the coverage of its own network to approximately 20% of Poland's population by the end of 2007.

*(*) In accordance with International Financial Reporting Standards as adopted by the European Union.*
*(**) Based on the total mobile market data provided by GUS (General Office of Statistics) and operators.*

**Financial Summary:**

- **Year-to-date revenues** were PLN 615.5m (EUR 162.9m), representing a year-on-year decrease of 6%. Revenues for Q3 2007 were PLN 205.6m (EUR 54.4m), **stable in comparison with both Q1 2007 and Q2 2007**. The year-on-year decline in year-to-date revenues is wholly attributable to falling wholesale and interconnection revenues and the low margin voice transit business in particular. Year-to-date revenues from data transmission grew to PLN 172.2m (EUR 45.6m) for a 43% year-on-year increase and an 8% sequential increase. This growth in data revenues more than offset a 10% decline in direct voice revenues and data revenues now represent 28% of total revenues, up from 19% a year earlier.
- **Year-to-date EBITDA** was PLN 153.0m (EUR 40.5m) as compared to Adjusted EBITDA of PLN 160.8m for the first nine months of 2006. Year-to-date EBITDA margin was 24.9% as compared to an Adjusted EBITDA margin of 24.6% for the same period of 2006. EBITDA for Q3 2007 was PLN 36.2m (EUR 9.6m) as compared to Adjusted EBITDA of PLN 54.0m for Q3 2006 and EBITDA of PLN 62.2m for Q2 2007. EBITDA margin for Q3 2007 was 17.6% as compared to an Adjusted EBITDA margin of 23.4% for Q3 2006 and EBITDA margin of 30.3% for Q2 2007. Year-to-date EBITDA included start-up expenses, net of revenues, related to the acquisition of new bitstream customers in the amount of PLN 38.3m (EUR 10.1m), comprising PLN 18.8m (EUR 5.0m) in subscriber acquisition costs and a further PLN 19.5m (EUR 5.2m) in incremental costs of bitstream wholesale access, IP transit, advertising and customer care. Excluding these start-up expenses, “Other income”, “Other expense”, “Other gains and losses, net” and the non-cash notional costs of share option programmes, margin rose from 25.3% to 27.1% across the comparable nine month periods due to the impact of various cost saving initiatives and less low margin transit traffic in the revenue mix.
- Investment in the aggressive expansion of P4’s customer base, driven by subscriber acquisition costs and marketing expenses, widened **Netia’s share of P4’s start-up losses** to PLN 112.3m (EUR 29.7m) for the first nine months of 2007 from PLN 15.0m for the corresponding period of 2006, when P4 was preparing for launch of its mobile services.
- **Year-to-date loss** was PLN 169.4m (EUR 44.8m) versus loss of PLN 5.5m (and adjusted loss of PLN 56.7m) for the same period in 2006. The 2006 figure was positively impacted by a PLN 51.2m gain from the reassessment of El-Net's license fee liabilities, while the 2007 figure was negatively impacted by a PLN 96.9m increase in Netia's losses related to P4's start-up. This accounts for 91% of the increased loss for the period.
- **Fixed asset additions** totaled PLN 64.1m (EUR 17.0m) for Q3 2007 and PLN 153.4m (EUR 40.6m) for the nine-month period ended September 30, 2007 while cash paid out for capital investments was PLN 67.4m (EUR 17.8m) in Q3 2007 and PLN 177.6m (EUR 47.0m) in the first nine months of 2007.
- **Cash and cash equivalents** at September 30, 2007 totaled PLN 48.4m (EUR 12.8m). During the first nine months of 2007, Netia generated free cash flow *(**)* of PLN 13.6m (EUR 3.6m) before making PLN 101.1m (EUR 26.8m) in equity contributions to P4 and PLN 28.5m (EUR 7.5m) in payments, net of received cash, for the acquisition of four Ethernet operators.
- **Netia entered into a PLN 300.0m (EUR 79.4m) credit facility agreement with Rabobank Polska SA** (the “Facility”) on May 15, 2007. The above Facility is fully secured and is to be repaid by November 15, 2011. The Facility bears interest at a variable interest rate of WIBOR plus a margin dependant on certain financial ratios. The proceeds from the Facility will principally be used to finance Netia’s investment requirements. At September 30, 2007, PLN 295.0m (EUR 78.1m) from the Facility was still not drawn-down.

*(**) Net operating cash flow less net purchases of fixed assets and computer software.*

## Operational Highlights:

- **Broadband** subscribers increased to 171,368 at September 30, 2007 from 133,978 at June 30, 2007 and 54,735 a year earlier. As announced in April 2007, Netia's key strategic objective is to become the market leader amongst alternative operators and reach one million broadband customers over the next three years. By the end of 2007, Netia aims to have more than 210,000 broadband customers. Netia provides its broadband services using the following technologies:

| Number of broadband ports *(*)* | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|
| xDSL and FastEthernet over Netia's own fixed-line network | 94,621 | 88,468 | 62,528 | 58,250 | 53,425 |
| Bitstream access | 70,945 | 40,770 | 35,836 | n/a | n/a |
| WiMAX Internet | 4,658 | 3,516 | 2,192 | 836 | 236 |
| Others | 1,144 | 1,224 | 1,266 | 1,280 | 1,074 |
| **Total** | **171,368** | **133,978** | **101,822** | **60,366** | **54,735** |

*(*) Including the effect of the Pro Futuro acquisition for Q2 and Q3 2007*

The major driver of customer acquisitions during Q3 2007 was Netia's summer promotion "Internet – A Year for Free". The campaign resulted in approximately 42,000 new contracts, with 74% of these customers benefiting from one free year of service in exchange for a three year contract signed with Netia, instead of the more typical two year contract.

As at November 14, 2007, the broadband subscriber base exceeds 187,000 ports, with all additions so far in Q4 2007 being achieved organically.

Key developments in broadband were as follows:

- *xDSL and FastEthernet over Netia's own fixed-line network.*

  During Q3 2007 Netia continued the organic expansion of its xDSL broadband services to customers connected over its own local copper and fiber networks, with net additions of 4,707 during the quarter and 12,774 year-to-date. This brings the total to 71,024 customers and represents 33% growth year-on-year. Furthermore, during the first nine months of 2007 Netia added four Ethernet networks to its portfolio of local networks through the acquisitions of Kom-Net, Lanet and Magma, in June 2007, and Akron in September 2007. These acquisitions added 23,597 broadband subscribers connected over Netia's fully owned infrastructure with the potential to increase penetration among the 75,000 households passed by these networks (see also "Other Highlights").

- *Bitstream access.*

  Total net activated additions for Q3 2007 were 30,175, bringing the year-to-date total to 70,945, with approximately 10,000 additional customers recorded in the order book at September 30, 2007. In September 2007 Netia's bitstream coverage of the TP network reached 100%, increasing from 55% at the service launch in January 2007, enabling the provision of Netia's bitstream-based services nationwide.

  In late August 2007, Netia also began to offer bundled broadband Internet and voice contracts on TP lines through its bitstream *(BSA)* and wholesale line rental *(WLR)* offering. The competitively priced, flexible service packages are targeted to individual clients and small and medium-sized companies and are distributed by all Netia sales channels, including the PLAY Germanos chain of stores. Netia began activating its first clients switching to its bundled packages in November 2007, following the expiry of the termination periods of customers' previous contracts with TP.

  In September 2007, Netia launched a national TV campaign supporting its bundled voice and broadband Internet service offering and a Christmas campaign promoting bundled packages was launched on November 5, 2007.

  The Company continues to work with TP and the regulator on improving the conversion rate of signed bitstream contracts into activated services and significant progress was made in this respect during Q3 2007. As a result of TP failing to meet certain obligations under the bitstream access agreement, Netia demanded payment from TP for contractual penalties totalling PLN 4.4m (EUR 1.2m) during Q3 2007, following the expiration of an initial grace period. Netia's management intends to use all legal means to enforce the penalties and will recognize income when TP either pays or settles the liability in a manner acceptable to Netia.

- *WiMAX.* The number of WiMAX customers increased to 8,321 at September 30, 2007 from 4,797 at June 30, 2007 and from 2,524 at March 31, 2007. WiMAX supports both voice and data services. The number of WiMAX ports/lines used for broadband Internet and voice services increased to 4,658 and 8,646, respectively, at September 30, 2007 from 3,516 and 5,539, respectively, at June 30, 2007. By the end of 2007, Netia is planning to increase the number of installed WiMAX base stations to 75, out of which 73 are currently operational, and targeting areas that currently have relatively low quality copper penetration. In 2007, capital investments in WiMAX are planned for up to PLN 27.0m versus PLN 21.1m in 2006, with PLN 21.5m (EUR 5.7m) invested in the first nine months of the year. The majority of spending will be devoted to the customer-premises equipment *(CPE)* needed to connect the planned 10,000 new customers.

- **Netia network subscriber voice lines** (net of voluntary churn and disconnections) were 394,440 at September 30, 2007 as compared to 400,541 at September 30, 2006 and 396,463 at June 30, 2007. The decline in the direct voice subscriber base reflects the deactivation of certain legacy narrowband radio voice customers (operating in 2.4 GHz band) who chose not to switch to Netia's WiMAX services where minimum monthly charges are higher. These legacy radio technologies must be disconnected by all operators in Poland during 2007 and 2008 due to changes in frequency allocations imposed by the regulator. As the higher ARPU clients are switching to WiMAX, Management does not expect a material negative impact on revenues or EBITDA from this migration process.

  In Q3 2007 Netia began to sell WLR-based voice services to its bitstream broadband customers and expects to increase the number of total voice lines (within its own network and via WLR) to between 415,000 and 420,000 by the end of 2007, thus stabilizing the level of revenues from direct voice services.

  Netia provides its voice services through the following types of access:

| Number of voice lines | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|
| Traditional direct voice | 383,652 | 389,584 | 395,451 | 396,808 | 400,327 |
| *Incl. ISDN* | *111,962* | *110,352* | *106,800* | *104,280* | *101,802* |
| Voice over IP | 2,169 | 1,340 | 1,120 | 689 | n/a |
| WiMAX voice | 8,646 | 5,539 | 2,411 | 779 | 214 |
| WLR * | n/a | n/a | n/a | n/a | n/a |
| **Total** | **394,440** | **396,463** | **398,949** | **398,276** | **400,541** |

  ***** At November 14, 2007 Netia concluded over 13,000 contracts for WLR voice lines, the first of which were active as of November 1, 2007.

- **Voice ARPU** decreased by 10% to PLN 76 (EUR 20) in Q3 2007 from PLN 84 in Q3 2006 and by 1% from PLN 77 in Q2 2007, reflecting the continued overall tariff reduction trends and a decrease in traffic volumes.

- **Broadband ARPU** was PLN 86 (EUR 23) in Q3 2007 as compared to PLN 138 in Q3 2006 and PLN 105 in Q2 2007. The decline in broadband ARPU reflects the growing proportion of residential customers in the customer mix and is expected to trend downward as Netia continues to add residential broadband subscribers. Where customers receive significant promotional discounts over part of their contract period, Netia recognizes revenue evenly over the full life of the contract.

- **Headcount** for the Netia group was 1,237 at September 30, 2007, compared to 1,160 at September 30, 2006 and 1,227 at June 30, 2007. The new staff were added primarily within the customer care and sales areas to support the broadband growth initiative or resulted from the conversion of contractors into Netia employees due to changes in Polish legislation that came into effect in January 2007. Included within the total headcount are 54 employees of the four Ethernet companies acquired during 2007.

- **The number of Netia's active business clients from the SME/SOHO sector** increased to 76,237 at September 30, 2007 from 67,854 at June 30, 2007 and 58,983 at December 31, 2006. Increasing Netia's focus on SOHO/SME customers and reducing dependence on large accounts and bespoke offers for business customers revenues is an important element of Netia's new strategy.

**Mirosław Godlewski, Netia's President & CEO**, commented: "In Q3 2007, Netia continued to progress according to plan in the execution of its broadband growth strategy. At the end of the quarter the Company had over 171,000 broadband clients, served over both Netia's and TP's infrastructures, tripling the size of our broadband customer base over the last twelve months and firmly establishing Netia as the clear broadband market leader among the Polish altnets, with 84% market share in bitstream access."

"The deregulation of the telecommunications market has provided Netia the opportunity to market its high quality services to nearly 10 million clients connected by TP lines, and the Company remains committed to investment and growth over its own broadband network infrastructure. During the past twelve months we have grown our broadband customer base served over Netia's own network by 40% to 77,000 and added an additional 24,000 broadband customers through acquisitions of local Ethernet operators."

"An important factor in the accelerating rate of customer activations has been the gradual improvement of TP's cooperation in managing the activation process for bitstream access. However, we have recently exercised our contractual rights and notified TP of over PLN 4 million of contractual penalties due to Netia under the bitstream agreement. Netia is prepared to enforce its contractual rights to ensure the best possible service for our customers. We are hopeful that TP's performance will continue to improve so that such steps will not be needed in the future. In August we launched 'double play', offering bundled Internet and voice packages on TP's lines over BSA and WLR access. The first revenues from this service offering will be reflected in our Q4 2007 results. In parallel, Netia is working to be the first to enter the LLU market and targets to unbundle the first TP exchanges at the turn of 2007. This will allow us to differentiate our product portfolio and upsell new services to the broadband bitstream clients."

"As of today, Netia serves over [185,000] broadband customers. We have nearly tripled broadband market share from 1.5% to 3.8% during the past twelve months, taking around 18% of net additions in the market during 2007. Netia's initial target was to acquire over 200,000 broadband clients by the end of the year, but we are now confident that we will exceed this objective and are today raising our guidance to over 210,000 broadband customers."

"Along with the expansion of our broadband customer base, one of our key strategic objectives is to begin to offer mobile services to our customers. We are working with P4 to prepare the launch of mobile products to our business customers under the Netia brand in addition to a joint convergent service offering of fixed - mobile products. Both initiatives are planned for 2008 once P4's UMTS network coverage exceeds 20% of the population. P4 is building its momentum with nearly 600,000 clients served and its first UMTS city networks becoming operational. This enables them to switch traffic away from the national roaming partner and improve margins. We are excited about our anticipated entry into the mobile telecommunications market, as the next step in diversifying and growing our business."

**Chris Bannister, CEO of P4 added**, "I am very pleased with how our customer base has developed in our first year of operation. We are fast approaching 600,000 customers and we are on track to meet our year-end target of 750,000. It is particularly important to note that these customers have above market average ARPU. Network rollout continues and is now in line with our initial timeline. We now serve most large cities with our own Fast Internet mobile network, and our voice and text services are available throughout Poland."

**Jon Eastick, Netia's Chief Financial Officer, commented**: "Netia recorded a third straight quarter of essentially stable revenues. This is especially significant since we have been able to strategically take advantage of the opportunities provided by deregulation and expand our customer base at the time when most Polish fixed-line operators have been faced with declining revenues. Data revenues grew by 8% quarter-on-quarter and by 43% over the comparable nine month period in 2006, more than offsetting the decline in voice revenues. For the 2007 nine month period, revenues from data, direct and indirect voice grew by over 4%, although declining wholesale and interconnection revenues negatively impacted Netia's overall revenue performance. The fourth quarter is off to a good start and continued expansion of the broadband base, the addition of Wholesale Line Rental (WLR) services to attract new voice customers and the commencement of meaningful revenues from our P4 transmission services contract are expected to accelerate Netia's revenue growth over the coming quarters."

"Costs related to our efforts to organically grow our broadband customer base during Q3 2007, coupled with the absence of one-off interconnection settlements with TP, resulted in a sequential decline in EBITDA. However, our legacy service portfolio continues to perform ahead of our expectations, with cost savings largely offsetting revenue declines. Therefore, we have increased our EBITDA guidance for 2007 from PLN 160m to PLN 165m."

"We are reducing our capital investment guidance for 2007 from PLN 275m to PLN 230m-240m as we have been able to reduce ongoing capital investment in our own access infrastructure and due to delayed investments in certain transmission links for P4."

"The team is working hard to increase the free cash flow of the legacy service portfolio in order to maximize the funding available to support our broadband expansion. This cash flow, together with our senior debt facility of PLN 300m, will fund our expansion well into 2008. Our management team is currently examining its options to fund further development of Netia's broadband strategy and to maintain our 23.4% interest in P4, which has also indicated a need for increased capital to support its growth."

(~) *Net operating cash flow less net purchases of fixed assets and computer software.*

**Other Highlights:**

- **Strategy announcement**. On April 18, 2007, Netia announced its new operating strategy focused on growth through dynamic expansion of the customer base and an increase in customer value. The Company plans to build on new opportunities to access the fixed-line network of the incumbent operator (via bitstream access, local loop unbundling and wholesale line rental), to leverage Netia's investment in PLAY mobile project, and to capitalize on the Company's already strong position in the business market. In particular, Netia aims to become the market leader for broadband services in Poland with the objective of acquiring one million broadband customers over the next three years. Approximately 60% of Netia's broadband additions are expected to be acquired over the TP infrastructure, approximately 20% are to be derived through increased broadband penetration of Netia's own access network and approximately 20% are to be acquired through the consolidation of the local Ethernet networks. In addition, our close partnership with PLAY will allow Netia to offer mobile and convergent products while simultaneously achieving cost and infrastructure synergies. Netia also intends to focus on the most attractive segments of the business market, significantly increasing the number of SME & SOHO clients and increasing profitability from large corporate clients while minimizing cash burn. This growth strategy will be supported by corporate culture changes aimed at strengthening our customer focus. Netia is considering investments of up to PLN 700.0m (EUR 185.3m) over the next three years, driven primarily by the acquisition of one million broadband customers and LLU roll-out, to deliver profitable growth from broadband services. This may include up to PLN 500.0m (EUR 132.4m) of capital expenditures and up to PLN 200.0m (EUR 52.9m) of related operational costs that will reduce EBITDA below 2006 levels during 2007, 2008 and part of 2009. The investment in broadband, along with the more efficient use of existing assets, is aimed to result in a fixed-line industry-leading compound average growth rate for revenue during 2007-2009, with the goal of achieving strong EBITDA growth by 2009, exceeding Adjusted EBITDA for 2006, and positive free cash flow by 2010.

- **Netia and TP signed an interconnect agreement** (the "Agreement") that introduces new rules of cooperation with regard to both operators networks' connection and mutual exchange of telecommunications traffic. The Agreement sets the new rules for interconnection settlements, which are based on the reference interconnect offer *(RIO)* and benchmarked to market standards for agreements of a similar type. The Agreement was concluded on June 30, 2007 and became effective from September 30, 2007. The newly signed Agreement and the related contracts signed in parallel replaced all previously binding interconnect agreements between both parties. The Agreement normalizes the interconnection relationship with TP and allows the Netia group to fully benefit from regulatory access opportunities, such as WLR, that were previously only available via subsidiary companies that always operated under the RIO regime. Furthermore, Netia was able to negotiate asymmetric interconnection rates with TP that Netia management now expects to contribute to higher margins than had previously been projected. As part of the settlement, almost all court cases between the two companies shall be cancelled and outstanding balances have been settled such that Netia recorded a gain of PLN 24.2m (EUR 6.4m) in "Other income" for the nine-month period ended September 30, 2007.

- **Acquisitions of local Ethernet network operators**. In June 2007 Netia acquired three Internet service providers: KOM-Net Systemy Komputerowe Sp. z o.o. ("Kom-Net"), Lanet Sp. z o.o. ("Lanet") and Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o. ("Magma") for a total of PLN 27.4m (EUR 7.3m). Furthermore, in September 2007 Netia acquired another ISP: Akron Sp. z o.o. ("Akron") for the amount of PLN 0.8m (EUR 0.2m). The above companies operate networks in multi-family housing developments, with approximately 75,000 households passed and, as of September 30, 2007, provided broadband access to a total of 23,597 residential customers in the cities of Wrocław, Poznań and Legnica using FastEthernet technology that allows for transmission speed of up to 100 Mb/s. This high performance network enables the provision of other web-based services, e.g., video on demand or IPTV, with relatively low incremental capital expenditures. The acquisitions will also enable Netia to up-sell its other services, such as voice and hosting, to the customers of the acquired companies. The acquisitions are part of Netia's strategic objective to acquire one million broadband customers over the next three years. Results of Kom-Net and Lanet were consolidated into Netia's from June 1, 2007 while Magma's and Akron's results were consolidated from July 1, 2007 and October 1, 2007, respectively.

- **Netia's management board increased from five to six members**. Piotr Buława, Sales Director, joined Netia's management board with responsibility for sales, effective September 6, 2007. Mr. Buława brings many years of experience in marketing and sales management in large corporations and a public company. Prior to joining Netia, he served as Marketing and Sales Director and management board member in Winterthur Życie TU SA. Earlier, he was a co-founder of a market success of Polfa Kutno SA, a public pharmaceutical company, at which he served as Sales Director. He also worked for over seven years in Procter and Gamble, Poland, in various managerial positions within marketing and sales areas.

**Guidance for 2007**.

- ***Number of broadband service clients***: Forecast is being increased to more than 210,000 from more than 200,000.
- ***Number of voice service clients (own network and WLR)***: Forecast is being updated to a range of 415,000 – 420,000 from more than 420,000. This is due to better visibility on the provisioning process for new wholesale line rental *(WLR)* customers expected to be added during Q4 2007.
- ***Revenues***: Maintained at PLN 835.0m – PLN 850.0m (EUR 221.0m – EUR 225.0m).
- ***EBITDA/Adjusted EBITDA***: Forecast is being increased to PLN 165.0m (EUR 43.7m) from PLN 160.0m. This includes start-up losses of up to PLN 60.0m (EUR 15.9m) for the development of the regulatory access methods (i.e., bitstream access, local loop unbundling, wholesale line rental) and reaching 210,000 broadband subscribers.
- ***Investment outlays***: Forecast is being decreased from up to PLN 275.0m to PLN 230.0m - PLN 240.0m (EUR 60.9m – EUR 63.5m), following a reduction in the expected investment necessary to maintain Netia's existing network and reduced roll-out of transmission solutions to support P4's partially delayed UMTS roll-out.

**PLAY mobile project** (PLAY is the new brand developed by P4)

- ***Update on PLAY's commercial operations.*** PLAY mobile network launched commercially nationwide on March 16, 2007. PLAY offers both post- and pre-paid services using simple, unified pricing plans. PLAY's pricing undercuts the competition in the consumer market by 35%-60% and is targeted at higher ARPU segments of the residential market. PLAY has been steadily developing its distribution capacity and had nearly 400 postpaid outlets and over 40,000 locations where its prepaid products are available. During Q3 2007, PLAY increased its subscriber base from approximately 172,000 to 435,000 customers, representing an estimated share of total market net additions of 20%. The subscriber base was comprised of approximately 135,000 postpaid and 300,000 prepaid subscribers as at September 30, 2007. As of November 14, 2007, PLAY's subscriber base is fast approaching 600,000 and the company is on course to reach its target of over 750,000 subscribers by the year-end.

  PLAY's revenues climbed by 70% from PLN 54.7m in Q2 2007 to PLN 93.2m in Q3 2007. ARPUs are above the market average in both the postpaid and prepaid segments.

  At September 30, 2007 PLAY had 232 UMTS base stations (Node Bs) in commercial operation in 6 cities. The company has now largely overcome delays caused by legislation that extended the time period required to obtain environmental permits for its base stations, and the roll-out is accelerating rapidly. As the network is rolled out, PLAY's margins will improve as traffic moves from the national roaming service to PLAY's own UMTS network.

  Expenditures on subscriber acquisition costs, advertising and promotion, and national roaming expenses drove PLAY's start-up loss to PLN 185.0m (EUR 49.0m) in Q3 2007 and PLN 431.0m (EUR 114.1m) for the year-to-date, with Netia's equity share amounting to PLN 43.3m (EUR 11.5m) and PLN 112.3m (EUR 29.7m), respectively. Increasing revenues from the growing subscriber base and improving margins from the network roll-out are expected to first stabilize the loss and ultimately lead to positive EBITDA by 2010.

- ***Netia diversifying into mobile services*****.** The launch of PLAY allows Netia to achieve one of its primary strategic objectives; providing access to mobile products and services to its own customers. Under this plan, Netia will become a mobile service provider, selling mobile services under its own brand to its business customers, and introducing convergent fixed-mobile products together with PLAY. Both initiatives are targeted for 2008 launch once PLAY's UMTS network coverage has reached over 20% of the Polish population. In addition, Netia intends to capture cost and infrastructure synergies at the group level from economies of scale in the back-office, distribution network and procurement areas. In particular, the Company secured the long-term access to the Germanos retail network to be used for distribution of Netia's residential fixed-line products, such as broadband Internet access and WLR-based voice services. As announced previously, Netia provides PLAY with transmission network solutions based on a five-year agreement signed on July 3, 2006. The capital investment to be incurred by Netia for this project in 2007 may reach up to PLN 35.0m (EUR 9.3m), and currently stands at 20.9m (EUR 5.5m). Netia estimates that annual revenues from provisioning these services to PLAY could ramp-up to PLN 50.0m (EUR 13.2m), depending on the speed of PLAY's network development.

- ***Netia's interest in P4.*** Netia holds a 23.4% interest in P4 while Novator Telecom Poland S.a.r.l. and Tollerton Investments Limited hold 54.6% and 22.0% stakes, respectively. Netia's commitment to fund P4's share capital amounts to EUR 79.5m and its maximum guarantee commitment to partially support P4's loan facilities amounts to EUR 21.0m. Following payments made in Q3 2007 of PLN 56.2m (EUR 14.9m), Netia's remaining commitment to P4's share capital stood at EUR 11.6m as at September 30, 2007. As at September 30, 2007, total debt on P4's balance sheet amounted to PLN 158.5m (EUR 42.0m).

- ***Financing P4's development***. P4's management is working with various vendors and banks to secure the additional funding considered necessary to bring the mobile business to free cash flow break-even by 2010. As part of this process, P4's management has informed the shareholders that a further commitment of EUR 150.0m of equity, incremental to EUR 300.0m already committed, will be necessary in order to secure sufficient debt financing to reach the free cash flow break-even. Netia's share of this additional equity commitment would be EUR 35.1m. Netia's management is encouraged by P4's operational progress during 2007 and is excited by P4's potential to add value to Netia in the future, both in terms of equity value and the value of the synergies from strategic co-operation described above. Accordingly, Netia's management is considering its options regarding the further financing of P4 and expects to reach a conclusion during the next three months.

> **Netia and TP signed an agreement on local loop unbundling *(LLU)***, enabling Netia to provide its own services, differentiated from the incumbent's product offering, to TP's customers. The agreement was concluded based on the terms introduced by the regulator in its local loop unbundling reference offer and is binding as of March 1, 2007. The procurement of the DSLAM equipment to be installed by Netia in TP's locations is underway and Netia targets to activate its first LLU clients at the turn of 2007. In the future, Netia intends to further increase customer value by migrating its bitstream access and WLR clients to LLU and up-selling them both content and convergent products, as well as voice services.

## Consolidated Financial Information

*Please note that a new reporting format, using the "function of expense" method, was introduced as of January 1, 2007. Expenses are now classified according to their function as part of cost of sales, cost of selling and distribution or general administrative cost. Accordingly, comparative figures for the periods ended through December 31, 2006 were adjusted, but without any effect on revenues or operating profit lines.*

*Please also see our interim condensed consolidated financial statements for the nine-month period ended September 30, 2007.*

*Comparably formatted expense data for each quarter of 2006 is available on Netia's investor website.*

## 2007 Year-to-Date vs. 2006 Year-to-Date

**Revenues** decreased by 6% to PLN 615.5m (EUR 162.9m) for the nine-month period ended September 30, 2007 compared to PLN 652.3m for the same period in 2006.

**Total telecommunications revenues** decreased by 6% to PLN 610.1m (EUR 161.5m) from PLN 645.6m in the corresponding period of 2006. Data revenues increased to PLN 172.2m (EUR 45.6m) during the first nine months of 2007, up by 43%, with approximately 17 percentage points of growth attributable to acquisitions of Pro Futuro, in July 2006, and three Ethernet companies in June 2007 and 26 percentage points of growth attributable to organic growth. Data revenues from new bitstream broadband customers acquired for the year-to-date were PLN 11.1m (EUR 2.9m). Revenues from direct voice services decreased by 10% to PLN 280.5m (EUR 74.2m) for the nine-month period ended September 30, 2007 from PLN 313.2m for the same period in 2006, mainly reflecting the overall tariff reduction trend in this product segment and a 4% reduction in the number of residential subscriber lines. Aggressive recruitment of new indirect voice resellers during 2006 has paid off in indirect voice revenue of PLN 40.0m (EUR 10.6m), up by PLN 2.2m (EUR 0.6m) or 5% on the same period of 2006. Carrier revenues from interconnection and wholesale were down by 62% and 26%, respectively, compared to the first nine months of 2006. These declines reflect the movement away from low margin transit business in 2007, lower interconnection rates in general and increased competition in international voice termination. Data revenue growth is now more than compensating for the declines in voice revenues and, combined, they were up by 4% for the first nine months. The overall revenue decline is wholly attributable to weak wholesale and interconnection revenues.

**Cost of sales** decreased by 2% to PLN 468.5m (EUR 124.0m) from PLN 479.7m for the nine-month period ended September 30, 2006 and represented 76% of total revenues in 2007 year-to-date as compared to 74% in the corresponding period of 2006.

> <u>Network operations and maintenance costs</u> increased by 86% to PLN 121.8m (EUR 32.2m) in the first nine months of 2007 from PLN 65.4m in the same period of 2006. This increase was driven by the costs of leased lines to large business customers, bitstream wholesale access, the new WiMAX network, Pro Futuro's operating expenses consolidated from July 2006, and Ericsson outsourcing costs incurred from July 2006.
>
> <u>Interconnection charges</u> decreased by 34% to PLN 114.2m (EUR 30.2m) for the nine-month period ended September 30, 2007 as compared to PLN 172.2m for the corresponding period of 2006, due to lower voice traffic volumes and lower interconnection rates. In addition, Netia did not undertake low margin transit of mobile traffic in the nine-month period ended September 2007, significantly reducing both revenue and costs.
>
> <u>Depreciation charges of fixed assets</u> related to cost of sales increased by 10% to PLN 169.3m (EUR 44.8m) in the first nine months of 2007 from PLN 154.6m in the same period of 2006 as a result of new investments, the Pro Futuro acquisition in July 2006 and the reassessment of the useful lives of tangible and intangible assets made in Q1 2007.

**Gross profit** for the nine-month period ended September 30, 2007 was PLN 147.1m (EUR 38.9m) as compared to PLN 172.6m for the nine-month period ended September 30, 2006. Gross profit margin was 23.9% as compared to 26.5% for the corresponding period of 2006.

**Selling and distribution costs** increased by 24% to PLN 135.8m (EUR 36.0m) from PLN 109.2m for the same period last year and represented 22% of total revenues as compared to 17% in the nine-month period ended September 30, 2006. Expenditures associated with the acquisition of new broadband customers and the impact of the 2006 expansion of the sales organization supporting the business market are the main drivers behind the increased spending.

Salaries and benefits costs related to selling and distribution increased by 41% to PLN 52.9m (EUR 37.6m) in the nine-month period ended September 30, 2007 from PLN 37.6m in the corresponding period of 2006 in connection with addition of new staff, primarily in the sales and customer services areas.

Other services costs increased by 65% to PLN 27.5m (EUR 7.3m) from PLN 16.7m in the nine-month period ended September 30, 2006, mainly as a result of the third-party commissions paid for the acquisition of new customers.

Advertising and promotion expenditures were up 21% to PLN 23.0m (EUR 6.1m) from PLN 19.0m in the nine-month period ended September 30, 2006 due to increased adverting spending in 2007 that included national TV campaigns targeted to mass market clients.

Mailing services costs increased by 80% to PLN 7.6m (EUR 2.0m) from PLN 4.2m in the nine-month period ended September 30, 2007 mainly in connection with the acquisition of new broadband customers.

**General and administration costs** increased by 6% to PLN 106.8m (EUR 28.3m) from PLN 101.1m for the nine-month period ended September 30, 2006 and represented 17% of total revenues as compared to 15% in the nine-month period ended September 30, 2006.

Salaries and benefits costs related to general administration increased by 26% to PLN 58.7m (EUR 15.5m) in the nine-month period ended September 30, 2007 from PLN 46.6m in the same period of 2006. This increase principally reflects the non-cash accrual of the nominal value of new management stock options (PLN 8.6m in the nine-month period ended September 30, 2007 vs. PLN 0.5m in the nine-month period ended September 30, 2006). Excluding the stock option plan impact, salaries and benefits costs grew by 9%.

Most other categories of general and administrative expenses were reduced year over year, reflecting the success of our cost saving initiatives.

**Other income** was PLN 36.3m (EUR 9.6m) as compared to PLN 5.1m in the first nine months of 2006. This included PLN 24.2m (EUR 6.4m) related to the Company's settlement of interconnection disputes with TP and PLN 5.7m (EUR 1.5m) related to Netia's guarantees partially securing the vendor financing extended to P4 recorded during the nine-month period ended September 30, 2007.

**Other expense** was PLN 4.8m (EUR 1.3m) as compared to PLN 9.7m in the nine-month period ended September 30, 2006. This represented a transaction tax on Netia's in-kind contribution made to its subsidiary, Świat Internet SA ("Świat Internet"), in January 2007. This contribution included elements of Netia's telecommunications network. Subsequently, Netia and Świat Internet finalized a long-term lease agreement, entitling Netia to use these assets to carry out its telecommunications activities.

**Other gains/(losses), net** were PLN 5.2m (EUR 1.4m) as compared to PLN 52.0m in the nine-month period ended September 30, 2006 and included PLN 1.9m (EUR 0.5m) returned in Q1 2007 from an escrow account in connection with the Pro Futuro acquisition and PLN 1.6m (EUR 0.4m) in profits from disposal of fixed assets. In the prior year, this position included a gain of PLN 51.2m representing a non-cash exceptional item adjustment made in connection with the reassessment of the carrying value of El-Net's license fee liabilities.

**Operating costs related to Netia's bitstream access** project, net of revenues, amounted to PLN 38.3m (EUR 10.1m) in the first nine months of 2007, out of which PLN 18.8m (EUR 5.0m) were attributable to the cost of subscribers' acquisition and a further PLN 19.5m (EUR 5.2m) in incremental costs of bitstream wholesale access, IP transit, advertising and customer care.

**EBITDA** was PLN 153.0m (EUR 40.5m) for the first nine months of 2007 as compared to Adjusted EBITDA (i.e., EBITDA excluding a gain on the reassessment of the carrying value of El-Net's license fee liabilities) of PLN 160.8m for the same period in 2006. EBITDA margin was 24.8% as compared to an Adjusted EBITDA margin of 24.6% for the corresponding period of 2006. Excluding the bitstream start-up expenses, "Other income", "Other expense" and "Other gains and losses, net" items and the non-cash notional costs of share option programmes, margin rose from 23.5% to 27.1% across the comparable periods due to the impact of various cost saving initiatives and less low margin transit traffic in the revenue mix.

**Depreciation and amortization** increased by 5% to PLN 211.9m (EUR 56.1m) as compared to PLN 202.1m for the nine-month period ended September 30, 2006. The effect of the impairment charge recorded in Q4 2006 has been largely offset by management's decision to shorten the estimated useful economic lives of various types of assets.

**Operating loss (EBIT)** was PLN 58.9m (EUR 15.6m) as compared to operating loss of PLN 9.8m for the nine-month period ended September 30, 2006. Operating loss for the first nine months of 2006 included a PLN 51.2m gain related to the reassessment of the carrying value of El-Net's license fee liabilities, which Netia classified as an adjustment to EBITDA.

**Net finance income** was PLN 3.2m (EUR 0.9m) as compared to PLN 1.7m for the nine-month period ended September 30, 2006 and was related mainly to interest earned on cash. In the prior year Netia recorded a financial cost of PLN 4.9m in connection with the amortization of the carrying value of El-Net's potential license fee liabilities.

**Share of losses of associates** recorded for the first nine months of 2007 was PLN 112.3m (EUR 29.7m) as compared to PLN 15.0m in the nine-month period ended September 30, 2006 and was related to Netia's equity participation in the P4 mobile venture, which was 30% until May 2007 and fell to 23.4% thereafter. Expenditures on subscriber acquisition costs, advertising and promotion, and national roaming expenses were the main drivers of P4's start-up loss for the period. Increasing revenues from the growing subscriber base and improving margins from the network roll-out are expected to first stabilize the loss of P4 and then lead to positive EBITDA by 2010.

**Loss** was PLN 169.4m (EUR 44.8m) as compared to loss of PLN 5.5m for the nine-month period ended September 30, 2006. The change in the net result was mainly due to Netia's share in losses generated by P4's subscriber acquisition costs and advertising expenditures after the commercial launch of PLAY mobile services as PLAY builds its customer base and revenues. As mentioned above, loss recorded for the first nine months of 2006 included a gain related to El-Net's license fee liabilities of PLN 51.2m.

**Net cash used for the purchase of fixed assets and computer software** increased by 39% to PLN 177.6m (EUR 47.0m) for the nine-month period ended September 30, 2007 from PLN 128.0m for the same period in 2006. Investments in Netia's existing network and IT combined was down by 13% in comparison to the first nine months of 2006 with overall investment growth driven by broadband and the P4 transmission project.

**Other significant cash outflow / inflow items** during the first nine months of 2007 included Netia's equity contribution to the PLAY mobile venture of PLN 101.1m (EUR 26.8m), the purchase consideration for the acquisition of four Ethernet network operators of PLN 28.5m (EUR 7.5m) and PLN 14.8m (EUR 3.9m) received in Q1 2007 on the sale of deposits in money market investment funds. As a result, net cash used in investing activities amounted to PLN 286.2m (EUR 75.6m) for the nine-month period ended September 30, 2007 as compared to PLN 232.1m for the nine-month period ended September 30, 2006.

**Cash and cash equivalents** at September 30, 2007 were PLN 48.4m (EUR 12.8m).

**Debt** at September 30, 2007 was PLN 5.0m (EUR 1.3m), with an additional PLN 295.0m (EUR 78.1m) credit facility available to finance its future investment requirements.

### Q3 2007 vs. Q2 2007

**Revenues** between the consecutive quarters were stable and amounted in both periods to PLN 205.6m (EUR 54.4m). Data revenues increased sequentially by 8% to PLN 62.7m (EUR 16.6m) in Q3 2007 from PLN 58.2m in Q2 2007, supported by bitstream revenue growth to PLN 6.7m (EUR 1.8m) from PLN 4.3m in Q2 2007. The above growth in data revenues more than compensated for a decline in revenues from direct voice services, which decreased by 3% to PLN 90.3m (EUR 23.9m) in Q3 2007 from PLN 92.7m for Q2 2007, mainly reflecting the overall tariff reduction trend in this product segment. Revenue growth was impacted by further weakening in the wholesale and interconnection services which have been decreasing throughout 2007 due to falling interconnection rates and competition in international voice termination.

**Cost of sales** increased by 4% to PLN 159.4m (EUR 42.2m) from PLN 154.0m in Q2 2007 due to higher costs of network operations maintenance, associated mainly with the acquisition of new broadband customers.

**Selling and distribution costs** climbed 25% to PLN 54.3m (EUR 14.4m) from PLN 43.6m in Q2 2007 as a result of higher volumes of additions in broadband and indirect voice, driving salary commissions, third party commissions, and higher costs related to advertising and mailing.

**General and administrative expenses** decreased marginally and amounted to PLN 35.6m (EUR 9.4m) as compared to PLN 35.9m in Q2 2007.

**EBITDA** decreased by 42% to PLN 36.2m (EUR 9.6m) from PLN 62.2m in Q2 2007. EBITDA margin was 17.6% in Q3 2007 as compared to 30.3% in Q2 2007. The decrease was partly due to higher acquisition expenditures to support the high number of broadband net additions in Q3 2007. However, most of the decline was attributable to PLN 15.1m (EUR 4.0m) of "Other income" recorded in Q2 2007 as a direct result of rights and obligations arising from the interconnection settlement with TP.

**Loss** of PLN 80.5m (EUR 21.3m) was recorded in Q3 2007 as compared to a loss of PLN 51.0m in Q2 2007, with a decrease mainly attributable to Netia's lower EBITDA. Netia's share of losses recorded by P4, increased sequentially by 2% or PLN 0.7m (EUR 0.2m) to PLN 43.7m (EUR 11.6m).

## Key Figures

| PLN'000 | YTD 2007 | YTD 2006 | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|---|---|
| Revenues | 615,531 | 652,339 | 205,559 | 205,580 | 204,392 | 209,718 | 230,537 |
| *y-o-y % change* | *(5.6%)* | *48.0%* | *(10.8%)* | *1.1%* | *(6.4%)* | *(11.7%)* | *(0.1%)* |
| EBITDA | 153,005 | 211,912 | 36,160 | 62,236 | 54,609 | (280,831) | 94,707 |
| *Margin %* | *24.9%* | *32.5%* | *17.6%* | *30.3%* | *26.7%* | *(133.9%)* | *41.1%* |
| Adjusted EBITDA | 153,005 | 160,762 | 36,160 | 62,236 | 54,609 | 60,522 | 53,994 |
| *Margin %* | *24.9%* | *24.6%* | *17.6%* | *30.3%* | *26.7%* | *28.9%* | *23.4%* |
| *y-o-y change %* | *(4.8%)* | *(7.4%)* | *(33.0%)* | *29.6%* | *(7.1%)* | *(16.4%)* | *(41.7%)* |
| EBIT | (58,873) | 9,796 | (35,714) | (8,249) | (14,910) | (351,180) | 25,130 |
| *Margin %* | *(9.6%)* | *1.5%* | *(17.4%)* | *(4.0%)* | *(7.3%)* | *(167.5%)* | *10.9%* |
| Adjusted EBIT ~ | (58,873) | (41,354) | (35,714) | (8,249) | (14,910) | (9,827) | (15,583) |
| *Margin %* | *(9.6%)* | *(6.3%)* | *(17.4%)* | *(4.0%)* | *(7.3%)* | *(4.7%)* | *(6.8%)* |
| Profit/(Loss) of the Netia Group *(consolidated)* | (169,355) | (5,508) | (80,543) | (51,010) | (37,802) | (372,847) | 17,794 |
| *Margin %* | *(27.5%)* | *(0.8%)* | *(39.2%)* | *(24.8%)* | *(18.5%)* | *(177.8%)* | *7.7%* |
| Adjusted profit/(loss) of the Netia Group *(consolidated)* ~ | (169,355) | (56,658) | (80,543) | (51,010) | (37,802) | (31,494) | (22,919) |
| *Margin %* | *(27.5%)* | *(8.7%)* | *(39.2%)* | *(24.8%)* | *(18.5%)* | *(15.0%)* | *(9.9%)* |
| Profit/(Loss) of Netia SA *(stand alone)^* | (36,419) | 45,602 | (30,768) | (2,131) | (3,520) | (324,639) | 33,449 |
| | | | | | | | |
| Cash and cash equivalents | 48,416 | 107,783 | 48,416 | 103,954 | 152,129 | 143,586 | 107,783 |
| Debt | 4,059 | - | - | 4,059 | - | - | - |
| Capex related payments | 177,576 | 127,999 | 67,415 | 48,255 | 61,906 | 52,575 | 44,897 |
| Investments in tangible and intangible fixed assets | 153,391 | 102,091 | 64,049 | 51,687 | 37,655 | 71,427 | 53,342 |

| EUR '000 * | YTD 2007 | YTD 2006 | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|---|---|
| Revenues | 162,947 | 172,691 | 54,417 | 54,591 | 54,276 | 55,518 | 61,029 |
| *y-o-y % change* | *(5.6%)* | *48.0%* | *(10.8%)* | *1.1%* | *(6.4%)* | *(11.7%)* | *(0.1%)* |
| EBITDA | 40,504 | 56,098 | 9,572 | 16,527 | 14,501 | (74,343) | 25,071 |
| *Margin %* | *24.9%* | *32.5%* | *17.6%* | *30.3%* | *26.7%* | *(133.9%)* | *41.1%* |
| Adjusted EBITDA | 40,504 | 42,558 | 9,572 | 16,527 | 14,501 | 16,022 | 14,294 |
| *Margin %* | *24.9%* | *24.6%* | *17.6%* | *30.3%* | *26.7%* | *28.9%* | *23.4%* |
| *y-o-y change %* | *(4.8%)* | *(7.4%)* | *(33.0%)* | *29.6%* | *(7.1%)* | *(16.4%)* | *(41.7%)* |
| EBIT | (15,585) | 2,593 | (9,454) | (2,191) | (3,959) | (92,966) | 6,653 |
| *Margin %* | *(9.6%)* | *1.5%* | *(17.4%)* | *(4.0%)* | *(7.3%)* | *(167.5%)* | *10.9%* |
| Adjusted EBIT ~ | (15,585) | (10,947) | (9,454) | (2,191) | (3,959) | (2,601) | (4,125) |
| *Margin %* | *(9.6%)* | *(6.3%)* | *(17.4%)* | *(4.0%)* | *(7.3%)* | *(4.7%)* | *(6.8%)* |
| Profit/(Loss) of the Netia Group *(consolidated)* | (44,833) | (1,458) | (21,322) | (13,546) | (10,038) | (98,702) | 4,711 |
| *Margin %* | *(27.5%)* | *(0.8%)* | *(39.2%)* | *(24.8%)* | *(18.5%)* | *(177.8%)* | *7.7%* |
| Adjusted profit/(loss) of the Netia Group *(consolidated)* ~ | (44,833) | (14,999) | (21,322) | (13,546) | (10,038) | (8,337) | (6,067) |
| *Margin %* | *(27.5%)* | *(8.7%)* | *(39.2%)* | *(24.8%)* | *(18.5%)* | *(15.0%)* | *(9.9%)* |
| Profit/(Loss) of Netia SA *(stand alone)^* | (9,641) | 12,072 | (8,145) | (566) | (935) | (85,940) | 8,855 |
| | | | | | | | |
| Cash and cash equivalents | 12,817 | 28,533 | 12,817 | 27,605 | 40,398 | 38,011 | 28,533 |
| Debt | 1,075 | - | - | 1,075 | - | - | - |
| Capex related payments | 47,009 | 33,885 | 17,846 | 12,814 | 16,439 | 13,918 | 11,885 |
| Investments in tangible and intangible fixed assets | 40,606 | 27,026 | 16,955 | 13,725 | 9,999 | 18,909 | 14,121 |

* The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 3.7775 = EUR 1.00, the average rate announced by the National Bank of Poland at September 30, 2007. These figures are included for the convenience of the reader only.

^ The profit of Netia SA (stand alone) is being used for purpose of calculation of the amounts available for potential cash distribution to shareholders through dividends or share buy-backs.

~ The EBIT and the loss for 2006 excluding the impact of the following non-cash exceptional adjustments: an impairment charge on non-current assets resulting from the impairment test and a gain related to the reassessment and cancellation of El-Net's license fee liabilities.

## Key Operational Indicators

| | Q3 2007 | Q2 2007 | Q1 2007 | Q4 2006 | Q3 2006 |
|---|---|---|---|---|---|
| **Broadband data** | | | | | |
| Total number of broadband ports ~ | 171,368 | 133,987 | 101,822 | 60,366 | 54,735 |
| *incl. bitstream access ports* | *70,945* | *40,770* | *35,836* | *n/a* | *n/a* |
| *incl. WiMAX Internet ports* | *4,658* | *3,516* | *2,192* | *836* | *236* |
| Monthly Broadband APRU (PLN) | 86 | 105 | 110 | 128 | 138 |
| Bitstream SAC (PLN) | 308 | 434 | 207 | n/a | n/a |
| **Subscriber data** | | | | | |
| ***(with regard to direct voice services)*** | | | | | |
| Subscriber lines (cumulative) | 394,440 | 396,463 | 398,949 | 398,276 | 400,541 |
| *incl. ISDN equivalent of lines* | *111,962* | *110,352* | *106,800* | *104,280* | *101,802* |
| Total net additions | (2,023) | (2,486) | 673 | (2,265) | (3,910) |
| Business mix of total subscriber lines (cumulative) v | 40.9% | 39.6% | 38.5% | 40.0% | 39.2% |
| Monthly Voice ARPU (PLN) ^ | 76 | 77 | 81 | 82 | 84 |
| **Network data** | | | | | |
| Backbone (km) | 5,002 | 5,002 | 5,002 | 5,002 | 5,002 |
| Number of connected lines (cumulative) * | 533,372 | 531,062 | 529,472 | 526,562 | 523,742 |
| **Other** | | | | | |
| Headcount | 1,237 | 1,227 | 1,110 | 1,111 | 1,160 |

^ Monthly ARPUs presented in this report are given for a relevant three-month period.

* Number of connected lines reported for Q4 2006 and onwards includes the full effect of the acquisition of El-Net.

v In Q1 2007, 10K subscribers were reclassified from the Business Segment to the Residential Segment after a reorganization in responsibilities of Netia's various sales channels.

~ Data for Q2 and Q3 2007 includes the effect of the Pro Futuro acquisition.

(Tables to Follow)

## Income Statement *(unaudited)*

(PLN in thousands unless otherwise stated)

| **Time periods:** | **YTD 2007** | **YTD 2006** | **Q3 2007** | **Q2 2007** |
|---|---|---|---|---|
| Telecommunications revenue | | | | |
| Direct Voice | 280,463 | 313,155 | 90,300 | 92,652 |
| monthly charges | 92,273 | 102,093 | 30,339 | 31,020 |
| calling charges | 188,190 | 211,062 | 59,961 | 61,632 |
| – *local calls* | *49,918* | *61,289* | *14,969* | *16,257* |
| – *domestic long-distance calls* | *30,183* | *38,202* | *9,364* | *9,631* |
| – *international long-distance calls* | *20,748* | *21,381* | *6,666* | *7,287* |
| – *fixed-to-mobile calls* | *76,161* | *79,439* | *25,090* | *25,333* |
| – *other* | *11,180* | *10,751* | *3,872* | *3,124* |
| Indirect Voice | 39,990 | 37,812 | 13,118 | 13,280 |
| Data | 172,209 | 120,874 | 62,700 | 58,159 |
| Interconnection revenues | 14,806 | 38,849 | 5,184 | 4,691 |
| Wholesale services | 85,001 | 115,418 | 26,547 | 29,137 |
| Intelligent network services | 10,803 | 11,341 | 3,371 | 3,652 |
| Other telecommunications revenues | 6,215 | 5,522 | 2,184 | 2,024 |
| **Total telecommunications services revenues** | **609,487** | **642,971** | **203,404** | **203,595** |
| Sales of goods | 618 | 2,652 | 490 | 30 |
| **Total telecommunications revenue** | **610,105** | **645,623** | **203,894** | **203,625** |
| Radio communications revenue | 5,426 | 6,716 | 1,665 | 1,955 |
| **Total revenues** | **615,531** | **652,339** | **205,559** | **205,580** |
| Cost of sales | (468,470) | (479,696) | (159,444) | (153,985) |
| *Interconnection charges* | *(114,161)* | *(172,180)* | *(36,290)* | *(38,531)* |
| *Network operations and maintenance* | *(121,781)* | *(65,441)* | *(44,310)* | *(39,996)* |
| *Costs of goods sold* | *(5,061)* | *(4,062)* | *(2,400)* | *(947)* |
| *Depreciation of fixed assets* | *(169,298)* | *(154,649)* | *(57,216)* | *(56,548)* |
| *Amortization of intangible assets* | *(17,482)* | *(19,221)* | *(5,975)* | *(5,779)* |
| *Salaries and benefits* | *(8,001)* | *(16,777)* | *(3,171)* | *(2,153)* |
| *Other costs* | *(32,686)* | *(47,366)* | *(10,082)* | *(10,031)* |
| **Gross profit** | **147,061** | **172,643** | **46,115** | **51,595** |
| ***Margin (%)*** | ***23.9%*** | ***26.5%*** | ***22.4%*** | ***25.1%*** |
| Selling and distribution costs | (135,815) | (109,218) | (54,279) | (43,579) |
| *Advertising and promotion* | *(23,006)* | *(19,010)* | *(10,560)* | *(8,927)* |
| *Mailing services* | *(7,599)* | *(4,222)* | *(3,131)* | *(2,054)* |
| *Information technology services* | *(3,713)* | *(4,160)* | *(1,267)* | *(1,299)* |
| *Other services* | *(27,507)* | *(16,709)* | *(11,312)* | *(7,216)* |
| *Impairment of receivables* | *(2,177)* | *(8,585)* | *(992)* | *(1,169)* |
| *Depreciation of fixed assets* | *(3,395)* | *(3,145)* | *(1,016)* | *(1,177)* |
| *Amortization of intangible assets* | *(13,393)* | *(14,489)* | *(4,617)* | *(4,445)* |
| *Salaries and benefits* | *(52,896)* | *(37,620)* | *(20,727)* | *(16,434)* |
| *Other costs* | *(2,129)* | *(1,278)* | *(657)* | *(858)* |
| General and administration costs | (106,826) | (101,063) | (35,629) | (35,899) |
| *Professional services* | *(7,822)* | *(8,343)* | *(1,975)* | *(2,860)* |
| *Information technology services* | *(6,028)* | *(7,233)* | *(2,420)* | *(1,831)* |
| *Office and car maintenance* | *(5,574)* | *(6,361)* | *(1,522)* | *(2,263)* |
| *Insurance* | *(1,711)* | *(3,063)* | *(346)* | *(361)* |
| *Other services* | *(10,412)* | *(8,115)* | *(3,802)* | *(3,720)* |
| *Depreciation of fixed assets* | *(3,546)* | *(5,880)* | *(1,174)* | *(1,095)* |
| *Amortization of intangible assets* | *(4,764)* | *(4,732)* | *(1,876)* | *(1,441)* |
| *Salaries and benefits* | *(58,662)* | *(46,566)* | *(19,670)* | *(19,292)* |
| *Other costs* | *(8,307)* | *(10,770)* | *(2,844)* | *(3,036)* |
| Other income | 36,317 | 5,116 | 6,704 | 18,566 |
| Other expense | (4,764) | (9,664) | - | - |
| Other gains/ (losses), net | 5,154 | 51,982 | 1,375 | 1,068 |
| **EBIT** | **(58,873)** | **9,796** | **(35,714)** | **(8,249)** |
| ***Margin (%)*** | ***(9.6%)*** | ***1.5%*** | ***(17.4%)*** | ***(4.0%)*** |
| Finance income | 3,349 | 6,826 | 339 | 1,194 |
| Finance cost | (103) | (5,176) | (42) | (33) |
| Share of losses of associates | (112,345) | (14,989) | (43,733) | (42,994) |
| **Loss before tax** | **(167,972)** | **(3,543)** | **(79,150)** | **(50,082)** |
| Tax charge | (1,383) | (1,965) | (1,393) | (928) |
| **Loss** | **(169,355)** | **(5,508)** | **(80,543)** | **(51,010)** |
| *Attributable to:* | | | | |
| Equity holders of the Company | (169,582) | (5,958) | (80,642) | (51,085) |
| Minority interest | 227 | 450 | 99 | 75 |
| ***Margin (%)*** | ***(27.5%)*** | ***(0.8%)*** | ***(39.2%)*** | ***(24.8%)*** |
| Earnings per share for loss attributable to equity holders (not in thousands) | (0.44) | (0.02) | (0.21) | (0.13) |
| Diluted earnings per share for loss attributable to equity holders (not in thous.) | (0.44) | (0.02) | (0.21) | (0.13) |

## EBITDA/Adjusted EBITDA Reconciliation to Operating Profit / (Loss) *(unaudited)*

(PLN in thousands unless otherwise stated)

| **Time periods:** | **YTD 2007** | **YTD 2006** | **Q3 2007** | **Q2 2007** |
|---|---|---|---|---|
| **Operating profit / (loss)** | **(58,873)** | **9,796** | **(35,714)** | **(8,249)** |
| Add back: | | | | |
| Depreciation of fixed assets | 176,239 | 163,674 | 59,406 | 58,820 |
| Amortization of intangible assets | 35,639 | 38,442 | 12,468 | 11,665 |
| **EBITDA** | **153,005** | **211,912** | **36,160** | **62,236** |
| *Reversal of reassessment of the carrying value of El-Net license fee liabilities* | - | *51,150* | - | - |
| **Adjusted EBITDA** | **153,005** | **160,762** | **36,160** | **62,236** |
| ***Margin (%)*** | ***24.9%*** | ***24.6%*** | ***17.6%*** | ***30.3%*** |

## Note to Other Income *(unaudited)*

(PLN in thousands unless otherwise stated)

| **Time periods:** | **YTD 2007** | **YTD 2006** | **Q3 2007** | **Q2 2007** |
|---|---|---|---|---|
| Sale of services to associate | 2,137 | 1,654 | 925 | 651 |
| Reversal of accrued other income on sale of services to associate | - | (303) | - | - |
| Financial guarantee contract | 5,707 | - | 3,077 | 1,832 |
| Settlement of disputes with TP | 24,239 | - | - | 15,100 |
| Reversal of impairment charges | - | 1,315 | - | - |
| Forgiveness of liabilities | 508 | 359 | 508 | - |
| Other operating income | 3,726 | 2,091 | 2,194 | 983 |
| **Total** | **36,317** | **5,116** | **6,704** | **18,566** |

## Note to Other Expense *(unaudited)*

(PLN in thousands unless otherwise stated)

| **Time periods:** | **YTD 2007** | **YTD 2006** | **Q3 2007** | **Q2 2007** |
|---|---|---|---|---|
| Impairment charges for specific individual assets | - | (5,774) | - | - |
| Professional services | - | (3,890) | - | - |
| Transaction tax on contribution in-kind to subsidiary company | (4,764) | - | - | - |
| **Total** | **4,764)** | **(9,664)** | **-** | **-** |

## Balance Sheet

(PLN in thousands unless otherwise stated)

| Time Periods | September 30, 2007 *unaudited* | December 31, 2006 *audited* |
|---|---|---|
| Property, pant and equipment, net | 1,412,752 | 1,458,029 |
| Intangible assets | 256,838 | 239,597 |
| Investments in associates | 168,169 | 141,394 |
| Deferred income tax assets | 2,924 | 4,865 |
| Available for sale financial assets | 10 | 10 |
| Long-term receivables | 310 | 484 |
| Prepaid expenses | 6,095 | 3,303 |
| **Total non-current assets** | **1,847,098** | **1,847,682** |
| Inventories | 2,890 | 1,584 |
| Trade and other receivables | 106,532 | 131,833 |
| Prepaid expenses and accrued income | 9,661 | 6,888 |
| Derivative financial instruments | - | 600 |
| Financial assets at fair value through profit and loss | - | 14,757 |
| Restricted cash | - | 6,100 |
| Cash and cash equivalents | 48,416 | 143,586 |
| | **167,499** | **305,348** |
| Non-current assets classified as held for sale | 2,137 | 2,329 |
| **Total current assets** | **169,636** | **307,677** |
| **TOTAL ASSETS** | **2,016,734** | **2,155,359** |
| Share capital | 389,277 | 389,168 |
| Supplementary capital | 1,681,500 | 1,809,434 |
| Other reserves | 9,840 | 29,644 |
| Retained earnings | (256,529) | (283,248) |
| **Total capital and reserves attributable to the Company's equity holders** | **1,824,088** | **1,944,998** |
| Minority interest | 6,468 | 6,902 |
| **TOTAL EQUITY** | **1,830,556** | **1,951,900** |
| Borrowings | 4,963 | - |
| Provisions | 236 | 630 |
| Deferred income | 8,391 | 8,760 |
| Deferred income tax liabilities | 1,327 | 990 |
| Financial guarantee contract | - | 558 |
| Other long-term liabilities | 922 | 774 |
| **Total non-current liabilities** | **15,839** | **11,712** |
| Derivative financial instruments | 94 | - |
| Trade and other payables | 152,415 | 168,267 |
| Current income tax liabilities | 78 | 38 |
| Provisions | 4,001 | 4,166 |
| Financial guarantee contract | 1,609 | 8,847 |
| Deferred income | 12,142 | 10,429 |
| **Total current liabilities** | **170,339** | **191,747** |
| **Total liabilities** | **186,178** | **203,459** |
| **TOTAL EQUITY AND LIABILITIES** | **2,016,734** | **2,155,359** |

## Cash Flow Statement *(unaudited)*

(PLN in thousands unless otherwise stated)

| Time periods: | YTD 2007 | YTD 2006 | Q3 2007 | Q2 2007 |
|---|---|---|---|---|
| **Loss** | **(169,355)** | **(5,508)** | **(80,543)** | **(51,010)** |
| Depreciation and amortization | 211,878 | 202,116 | 71,874 | 70,485 |
| Impairment charges for specific individual assets | - | 5,774 | - | - |
| Reversal of impairment charges for specific individual assets | - | (1,315) | - | - |
| Share of losses of associates | 112,345 | 14,989 | 43,733 | 42,994 |
| Deferred income tax charge | 999 | 1,684 | 1,194 | 849 |
| Reassessment of the carrying value of license fee liabilities | - | (51,150) | - | - |
| Interest expense accrued on license liabilities | - | 4,933 | - | - |
| Financial guarantee contract | (5,707) | - | (3,077) | (1,832) |
| Interest accrued on loans | (34) | 5 | (10) | (11) |
| Share-based compensation | 9,245 | 625 | 5,013 | 3,321 |
| Fair value gains on financial assets at fair value through profit and loss | (21) | (1,722) | - | - |
| Decrease in other long-term assets | - | 323 | - | - |
| Foreign exchange (gains)/losses | 52 | 1,961 | 377 | (23) |
| Gain on sale of fixed assets | (1,585) | (2,677) | (351) | (1,291) |
| Decrease of purchase consideration | (1,940) | - | - | - |
| Gain on sale of subsidiaries | - | (20) | - | - |
| Changes in working capital | 30,520 | 6,770 | 30,926 | (31,008) |
| **Net cash provided by operating activities** | **186,397** | **176,788** | **69,136** | **32,474** |
| Purchase of fixed assets and computer software | (177,576) | (127,999) | (67,415) | (48,255) |
| Proceeds from sale of fixed assets | 4,778 | 2,902 | 609 | 3,049 |
| Investment in associate | (101,106) | (49,500) | (56,301) | (14,898) |
| Purchase of subsidiaries, net of received cash | (27,238) | (68,227) | (876) | (25,662) |
| Sale of subsidiaries; net of cash in subsidiaries | - | 25 | - | - |
| Sale of financial assets at fair value through profit and loss | 14,777 | 12,161 | - | - |
| Loans granted | - | (1,533) | - | - |
| Loans repayments | 208 | 23 | 69 | 70 |
| **Net cash used in investing activities** | **(286,157)** | **(232,148)** | **(123,914)** | **(85,696)** |
| Proceeds from share issuance | - | 19,385 | - | - |
| Cost of share issuance | (73) | (175) | (73) | - |
| Dividend paid to the Company's shareholders | - | (50,323) | - | - |
| Finance lease payments | (284) | (150) | (216) | (68) |
| Loan repayment | - | (2,500) | - | - |
| Interest repayment | - | (167) | - | - |
| Proceeds from borrowings | 5,000 | - | - | 5,000 |
| Redemption of notes for warrants | (1) | (334) | - | (1) |
| **Net cash provided by/(used in) financing activities** | **4,642** | **(34,264)** | **(289)** | **4,931** |
| Effect of exchange rate change on cash and cash equivalents | (52) | 20 | (378) | 23 |
| **Net change in cash and cash equivalents** | **(95,170)** | **(89,604)** | **(55,445)** | **(48,268)** |
| Cash and cash equivalents at the beginning of the period | 143,586 | 197,387 | 103,861 | 152,129 |
| **Cash and cash equivalents at the end of the period** | **48,416** | **107,783** | **48,416** | **103,861** |

## Definitions

| | | |
|---|---|---|
| **Backbone** | – | a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network; |
| **Bitstream SAC** | – | a cost per unit related to the acquisition of new customers through a bitstream access, including a one-time payment to TP (the incumbent), the third-party commissions, postal services and the cost of modems sold; |
| **Broadband ARPU** | – | average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; |
| **Broadband port** | – | a broadband port which became activated at the end of the period; |
| **Cash** | – | cash and cash equivalents at the end of period; |
| **Connected line** | – | a telecommunications line which was constructed, tested and connected to Netia's network/switching node and is ready for activation after signing an agreement for providing telecommunications services; |
| **Cost of network operations and maintenance** | – | cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network; |
| **Data revenues** | – | revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit; |
| **Direct voice revenues** | – | telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x -type calls originated by Netia's subscribers); |
| **EBITDA / Adjusted EBITDA** | – | to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense, income taxes and share of losses of associates. EBITDA has been further adjusted for an impairment charge on non-current assets attributable to Netia's telecommunications segment, recorded upon performance of an impairment test, and a gain recorded upon reassessment of carrying value of El-Net's license fee liabilities and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of |

| | | |
|---|---|---|
| | | EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies; |
| **Headcount** | – | full time employment equivalents; |
| **Indirect voice revenues** | – | telecommunications revenues from the services offered through Netia's prefix (1055) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls; |
| **Intelligent network services** | – | revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; |
| **Interconnection charges** | – | payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks; |
| **Interconnection revenues** | – | payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination; |
| **Professional services** | – | costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties; |
| **Other telecommunications services revenues** | – | revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)), as well as other non-core revenues; |
| **Radiocommunications revenue** | – | revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Sp. z o.o.; |
| **Subscriber line** | – | a connected line which became activated and generated revenue at the end of the period; |
| **Voice ARPU** | – | average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period; |
| **Wholesale services** | – | revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services. |

Netia management will hold a conference call to review the results today, November 14, at 3:00 PM (UK) / 4:00 PM (Continent) / 10:00 AM (Eastern). To register for the call and obtain dial in numbers please contact Maria Ruiz at Taylor Rafferty London on +44 (0) 20 7614 2900 or Reema Parikh at Taylor Rafferty New York on +1 212 889 4350.



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