netia

FOR IMMEDIATE RELEASE

Contact: Anna Kuchnio (IR)
+48-22-330-2061
Jolanta Ciesielska (Media)
+48-22-330-2407
Netia
- or -
Erin Gordon
Taylor Rafferty, London
+44-(0)20-7614-2900
- or -
Reema Parikh
Taylor Rafferty, New York
+1-212-889-4350

NETIA SA REPORTS 2006 FIRST QUARTER RESULTS

WARSAW, Poland – May 15, 2006 – 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 IFRS EU*(*)* for the first quarter ended March 31, 2006.

Financial Highlights:

- **Revenues** for Q1 2006 were PLN 218.4m (EUR 55.5m), representing a year-on-year increase of 1%.
- **EBITDA** for Q1 2006 was PLN 58.8m (EUR 14.9m), representing an EBITDA margin of 26.9%.
- **Loss** for Q1 2006 was PLN 10.6m (EUR 2.7m).
- **Cash and cash equivalents** at March 31, 2006 were PLN 229.0m (EUR 58.2m) as compared to PLN 197.4m at December 31, 2005.
- **A dividend of PLN 0.13 (EUR 0.03) per share for 2005**, representing a 30% increase over the PLN 0.10 dividend per share paid for 2004, was approved by Netia's annual general meeting of shareholders held on March 29, 2006 (see also "Other Highlights").

(*) In accordance with the accounting standards as adopted by the European Union.

<u>Operational Highlights</u>:

- **Sales of telecommunications products other than traditional direct voice** (including indirect voice, data transmission, interconnection revenues, wholesale, intelligent network and other telecom services) increased their share in total revenues from telecom services to 50% or PLN 107.0m (EUR 27.2m) in Q1 2006 from 40% in Q1 2005.
- **Revenues from business customers** accounted for 74% of total telecom revenues in Q1 2006 as compared to 72% in Q1 2005.
- **Subscriber lines** (net of voluntary churn and disconnections) were 406,738 at March 31, 2006 as compared to 424,585 at March 31, 2005 and 413,011 at December 31, 2005. Business customer lines increased by 5% year-on-year to 152,818 and these now account for 37.6% of total subscriber lines.
- **ADSL active ports** increased to 43,040 at March 31, 2006 as compared to 25,193 at March 31, 2005, reaching a penetration rate of 11% of Netia's total subscriber lines.
- **ARPU (average monthly revenue per line with regard to direct voice services only)** decreased by 12% to PLN 89 (EUR 23) in Q1 2006 from PLN 101 in Q1 2005 and by 2% from PLN 91 in Q4 2005, reflecting the continued overall tariff reduction trends in the sector.
- **Headcount** of the Netia group was 1,246 at March 31, 2006, compared to 1,201 at March 31, 2005 and 1,221 at December 31, 2005. Headcount growth supports WiMAX and anti-churn strategic initiatives.
- **Managed services contract on network maintenance and transfer of employees** was signed between Netia and Ericsson on April 28, 2006 (see section "Other Highlights").

Wojciech Madalski, Netia's President and Chief Executive Officer, commented: "Sales of telecommunications products other than traditional direct voice grew by 26% compared to the first quarter of 2005. These strategically important products now account for 50% of Netia's revenues compared to 40% a year ago, led by strong sales of wholesale services and data transmission, including the continued roll-out of ADSL and broadband Internet access products.

"We expect our pre-investments in WiMAX and mobile strategic initiatives this year to drive double-digit growth in 2007 and 2008. During the quarter, successful customer technical trials of WiMAX service were launched in Lublin and field trials are getting underway in Warsaw. We believe the development of Netia's WiMAX-based access network will give us a significant future cost advantage and enhance our opportunities for efficiently growing our customer base nationwide. Our mobile venture P4 is making preparations to launch mobile services in the second half of 2006, broadening Netia's product offering to include a full range of telecoms services.

"We are also pleased to announce Netia's new outsourcing agreement signed with Ericsson in late April, which will further enhance our expansion potential while reducing employment costs.

"Lastly, we welcome the ministerial decision on the cancellation of part of El-Net license fee obligations, amounting in nominal terms to PLN 90.9m, in exchange for investments in telecommunications infrastructure. The decision further reduces the uncertainty for Netia's shareholders, especially as El-Net received the promises to cancel all of its outstanding local licence fee obligations."

Jon Eastick, Netia's newly-appointed Chief Financial Officer, commented: "First quarter revenue growth and EBITDA margin were in line with our guidance for 2006. Revenues grew 1% despite a 16% year-on-year decline in revenues from direct voice services attributable to tariff reductions and fewer subscriber lines within residential segment. EBITDA performance this quarter reflects the shifting revenue mix towards lower margin but faster growing data, wholesale and interconnection services and one-off cost items. These factors and Netia's 30% share in the start-up losses of the P4 mobile venture resulted in a loss for Q1 2006 of PLN 10.6m compared to a loss of PLN 11.1m in Q4 2005 and profit of PLN 23.3m in the first quarter last year.

"Netia ended the quarter in a strong financial position with PLN 229.0m in cash and additional PLN 63.9m in investment funds deposits. This net cash position gives Netia the flexibility to selectively pursue consolidation opportunities in the fixed-line sector while supporting the development of P4. Finally, Netia has increased its dividend by 30% compared to last year, and will effect a payout of PLN 0.13 per share for a total dividend amount of PLN 50.3m in May".

- more -

<u>Other Highlights</u>:

- **Update of Netia's 2006-2008 business plan.** ***(**)*** Following the completion of the first three years of Netia's 2003-2008 business plan and based on the Company's broadening strategic scope, Netia has updated its plans for the remaining three years (i.e., 2006-2008), which now show a detailed path to delivering its strategic growth and profitability commitments by 2008 based on organic performance alone and without a need to rely on M&A activity. Achieving this will require increased opex and capex investment levels in 2006 supporting additional organic growth sources that will drive Netia's business in 2007 and 2008. As a result, EBITDA margins are expected to fall slightly below 30% and the Company plans to spend most of its operating cash flow generated in 2006 on capital investments. Thanks to these pre-investments, however, organic growth rates should return to double digits in both 2007 and 2008, and EBITDA margins should exceed 30% and 35% in 2007 and 2008, respectively. At the same time, any success in M&A initiatives, which Netia does not cease to pursue, will represent an upside to its original strategic goals.
- **Netia's annual shareholders meeting** held on March 29, 2006 approved a dividend payout of PLN 0.13 (EUR 0.03) per share, to be paid on May 16, 2006 to shareholders of record as at April 20, 2006. In addition to the standard annual resolutions regarding, among others, 2005 statements, the management board's reports and profit distribution, the AGM adopted resolutions concerning changes within Netia's supervisory board, redemption of 28,162,110 treasury shares, and the prolongation of the maximum term for the issuance of series K shares, supporting the current performance stock option plan, until December 31, 2012.
- **Changes within Netia's supervisory board.** Effective March 29, 2006 Netia's supervisory board is composed of the following seven members: Raimondo Eggink, Constantine Gonticas, Bogusław Kasprzyk, Alicja Kornasiewicz, Bruce McInroy, Andrzej Radzimiński and Pantelis Tzortzakis. Effective April 5, 2006, Netia's supervisory board unanimously appointed Alicja Kornasiewicz as its Chairperson.
- **Changes within Netia's management board.** Effective April 5, 2006 Netia's management board is composed of the following six members: Wojciech Madalski (President and CEO), Piotr Czapski (Strategy and Business Development), Jon Eastick (Chief Financial Officer), Paweł Karłowski (Chief Commercial Officer), Paul Kearney (Chief Technology Officer) and Tom Ruhan (Chief Legal Officer).
- **Novator Telecom Poland II S.a.r.l. ("Novator") notified Netia that its ownership in the Company exceeds 25% of Netia's share capital and voting rights.** Novator Telecom Poland II S.a.r.l. is a subsidiary of the Novator group, partnering with Netia in the P4 mobile venture. Following their prior notification on exceeding the 20% threshold in January 2006, the 25% threshold was exceeded as a result of the redemption of 28,162,110 Netia's own shares. As per Novator's notification, dated April 28, 2006, Novator held 98,243,602 Netia shares, each share giving right to one vote at Netia's general meeting of shareholders. As of April 28, 2006, these shares represented 25.34% of both Netia's share capital and the aggregate number of votes at Netia's general meeting of shareholders.
- **Netia's three-year subscription warrants expired** on April 29, 2006. Out of a total of 64,848,442 two- and three-year subscription warrants issued in connection with Netia's financial restructuring, 62,464,062 subscription warrants had been exercised while 1,361,947 two- and 1,022,433 three-year subscription warrants had expired.
- **Netia's issued and outstanding share capital** totaled PLN 414,224,608 as of March 31, 2006 and was comprised of 414,224,608 shares, PLN 1 par value per share, each representing one right to vote at Netia's general meeting of shareholders. Netia's share capital continues to increase upon the exercise of options, which were issued under the performance stock option plan. As of May 15, 2006, 4,945,065 series K shares were issued as a result of the exercise of certain options granted under this plan (the total number of series K shares that may be issued under the performance stock option plan will not exceed 18,373,785 shares). As at May 15, 2006, following the redemption of 28,162,110 treasury shares on April 19, 2006, Netia's share capital equaled PLN 389,167,839.

(**) The update of the 2006-2008 business plan does not constitute a change of Netia's strategy, announced on May 22, 2003.

- **Managed services contract with Ericsson.** On April 28, 2006, Netia signed a five-year managed services contract with Ericsson covering maintenance and management of the Netia group's networks, as well as the support in the provision of standard services to Netia group customers, inclusive of the installation of lines at customer's site. Approximately 300 Netia employees will be transferred to Ericsson under the scope of this contract. Netia will gain flexibility in extending its telecommunications network, while reducing staffing requirements and employment costs, with a positive contribution to results beginning in 2006.
- **P4 Sp. z o.o. ("P4") mobile preparations.** P4 is preparing to launch mobile services in the second half of 2006. All P4's management appointments are near completion and staff recruitment is well underway. The company selected Huawei as its 3G infrastructure supplier and Comverse as its supplier for rating, billing and customer care. In addition, P4 is in discussions with the existing Polish mobile operators on potential network interconnection and national roaming agreements. Netia holds a 30% minority interest in P4 with the majority 70% stake held by Novator Telecom Poland S.a.r.l. Netia group started accounting for its investment in P4 using the equity method from August 23, 2005, when it became an associate.
- **WiMAX preparations.** Netia plans to use the 3.6-3.8 GHz range frequency reservations received in Q4 2005 to provide high quality data and voice transmission over WiMAX technology allowing cost efficient geographic expansion beyond Netia's existing fixed-line network. Netia also expects to benefit from the WiMAX and UMTS network build-out by taking advantage of such operational synergies as site sharing and common utilization of transmission equipment. At present, Netia is finalizing the negotiations with WiMAX equipment vendors and is in the process of acquiring both the sites for locations of the base stations and the required construction permits. The successful customer technical trials of WiMAX service were launched in the city of Lublin in January 2006. Currently, field trials of selected versions of the 3.7 GHz system are getting underway in Warsaw. In addition, Netia has placed the first order for 20 WiMAX base stations to allow an extended commercial trial in the second half of 2006.
- **El-Net's license fee obligations.** Outstanding obligations related to local license fees of Regionalne Sieci Telekomunikacyjne El-Net SA ("El-Net"), measured at fair value as at acquisition date and subsequently at amortized cost, amounted to PLN 60.2m (EUR 15.3m) at March 31, 2006 (PLN 358.5m in nominal terms, including prolongation costs). El-Net filed motions for cancellation of all license fee installments based on its past capital expenditures incurred since 2001 as well as the capital expenditures to be carried out within the Netia group until the end of 2008. The company received the promises to cancel all of the outstanding liabilities, including the prolongation fees, issued by the Minister of Infrastructure and its successor the Minister of Transport and Construction. On March 21, 2006, the Minister of Transport and Construction cancelled part of the outstanding local license fee obligations along with the prolongation fees owed in connection with the prior deferrals of the license fee installments, in exchange for investments in the telecommunications infrastructure incurred by El-Net in years 2001-2003. The total amount of the local license fees cancelled was EUR 20.9m. The total amount of the prolongation fees cancelled was PLN 8.6m.
- **Plan for merger between Netia and its 3 wholly-owned subsidiaries: Regionalne Sieci Telekomunikacyjne El-Net SA, Netia WiMax SA and Polbox Sp. z o. o.** was announced on February 28, 2006. The merger, scheduled for completion in Q3 2006, is expected to result in facilitating the implementation of Netia's updated business plan for years 2006-2008 thanks to cost reductions and decreased scale of intercompany transactions in Netia group's daily operations. In addition, it will allow for utilization of Netia group's capital expenditures as part of the ongoing license fee cancellation proceedings of El-Net.
- **Guidance for 2006.**
  - **Revenues**. Netia has given guidance of revenue growth in the low single digits for 2006. While conditions in the direct voice market were even more challenging than originally expected during the first quarter, management is continuing to maintain its earlier guidance by identifying compensating growth opportunities in data and wholesale services.
  - **EBITDA**. EBITDA margin percentage guidance in the high twenties is being maintained. It should be noted that excluding WiMAX-related costs EBITDA margin for the year would exceed 30%.
  - **Net result**. While Netia has not customarily given net result guidance due to the general unpredictability of income statement items below the EBITDA level, management believes that Netia is likely to post a net consolidated loss for the full year 2006. This is due to the lower expected operating profits during this transitional year prior to WiMAX operations contributing fully to results and to Netia's share of P4's start-up losses.

- more -

Consolidated Financial Information

Please note that, pursuant to the requirements of the IAS 1 "Presentation of Financial Statements", a reclassification within "Net financial income" was made in Q4 2005. The amounts not related to debt and cash management were transferred to relevant revenue and operating income/(expenses) categories. Additionally, finance income and finance cost lines are now shown separately, as opposed to the previous presentation of their net figure in the "Net financial income" line.

Due to the above, the revenues and operating costs comparative figures for periods ended through September 30, 2005 were adjusted accordingly and therefore vary from the figures reported previously.

In addition, a reclassification was made in Q1 2006 with regard to certain financial assets previously shown under "Cash and cash equivalents" line, which are now presented as a separate balance sheet item "Financial assets at fair value through profit and loss". Accordingly, comparative figures for the periods ended through December 31, 2005 were adjusted and relevant changes to the consolidated cash flow statement were made.

Please also see our interim condensed consolidated financial statements for the three-month period ended March 31, 2006.

Q1 2006 vs. Q1 2005

Revenues increased by 1% to PLN 218.4m (EUR 55.5m) for Q1 2006 compared to PLN 216.7m for Q1 2005.

Revenues from telecommunications services increased by 1% to PLN 216.1m (EUR 54.9m) from PLN 214.3m in Q1 2005. The increase was attributable to the expansion of products other than traditional direct voice such as data transmission and wholesale services. Total revenues from products other than direct voice increased by 26% to PLN 107.0m (EUR 27.2m) in Q1 2006 from PLN 84.8m in Q1 2005, and constituted 50% of total revenues from telecommunications services as compared to 40% in Q1 2005. The revenues from direct voice services decreased by 16% to PLN 109.0m (EUR 27.7m) in Q1 2006 from PLN 129.4m in Q1 2005, reflecting mainly the overall tariff reduction trend in this product segment and lower number of residential segment subscriber lines.

Interconnection charges increased by 19% to PLN 56.1m (EUR 14.3m) for Q1 2006 as compared to PLN 41.5m for Q1 2005, driven by an increase in traffic volumes associated with wholesale services.

Operating expenses (excluding interconnection charges) represented 48% of total revenues for Q1 2006 as compared to 41% for Q1 2005. This change was mainly attributable to two one-off items, i.e., an impairment charge for non-current assets of PLN 5.7m (EUR 1.4m), resulting from the replacement of telecommunications equipment and switching system as well as valuation of certain properties classified as held of sale, and an investment bank advisory fee of PLN 3.9m (EUR 1.0m) related to services obtained during the public tender offer carried out by Novator in December 2005 and January 2006.

EBITDA was PLN 58.8m (EUR 14.9m) for Q1 2006 as compared to PLN 85.7m for Q1 2005. EBITDA margin was 26.9% for Q1 2006 as compared to 39.5% for Q1 2005. The decrease in EBITDA and EBITDA margin reflects the shifting revenue mix towards lower margin data, wholesale and interconnection services and one-off items mentioned above.

Depreciation of fixed assets increased by 7% to PLN 52.4m (EUR 13.3m) compared to PLN 49.0m for Q1 2005, due to the 2005 capital investments program coming into operation.

Amortization of intangible assets increased by 4% to PLN 12.2m (EUR 3.1m) from PLN 11.8m for Q1 2005.

Operating loss (EBIT) was PLN 5.8m (EUR 1.5m) as compared to operating profit of PLN 24.9m for Q1 2005.

Finance income and finance costs were PLN 3.1m (EUR 0.8m) and PLN 1.7m (EUR 0.4m), respectively, as compared to PLN 4.7m and PLN 1.7m, respectively, for Q1 2005.

Share of losses of associates recorded for Q1 2006 was PLN 3.1m (EUR 0.8m) and was related to Netia's 30% equity participation in the P4 mobile venture.

Income tax charge recorded for Q1 2006 was PLN 3.1m (EUR 0.8m) as compared to an income tax charge of PLN 4.6m for Q1 2005. This charge was mainly due to a change in value of the deferred income tax asset as recognized in Q1 2006 and as at December 31, 2005 (i.e., in the amount of PLN 11.2m and PLN 14.2m, respectively), which resulted mainly from utilization of tax losses and an update of Netia's assessment with regard to the Company's income tax position for the years 2006-2008.

Loss was PLN 10.6m (EUR 2.7m) as compared to profit of PLN 23.3m for Q1 2005. The change in net result was mainly due to the shifting revenue mix towards lower margin higher growth services, one-off items, higher depreciation and amortization charges and Netia's share of losses recorded by P4, as described above.

Net cash used for the purchase of fixed assets and computer software increased by 13% to PLN 56.5m (EUR 14.4m) for Q1 2006 from PLN 50.0m for Q1 2005. In addition, PLN 6.0m (EUR 1.5m) was transferred in January 2006 to P4 as part of Netia's equity contribution to the mobile venture while PLN 0.9m (EUR 0.2m) was earned on the sale of certain fixed assets. As a result, cash used for investing activities amounted to PLN 61.6m (EUR 15.7m) for Q1 2006 as compared to PLN 54.1m for Q1 2005.

Cash and cash equivalents at March 31, 2006 in the amount of PLN 229.0m (EUR 58.2m) were available to fund Netia's operations.

Q1 2006 vs. Q4 2005

Revenues decreased by 8% to PLN 218.4m (EUR 55.5m) for Q1 2006 from PLN 237.1m for Q4 2005 versus a 2% decline in the comparable periods a year earlier. This change was driven by a decline in interconnection revenues, resulting from a decrease in traffic volumes incoming to El-Net's network. Direct voice revenues were PLN 109.0m (EUR 27.7m) for Q1 2006 as compared to PLN 113.5m in Q4 2005.

EBITDA decreased by 19% to PLN 58.8m (EUR 14.9m) in Q1 2006 as compared to PLN 72.4m in Q4 2005. EBITDA margin was 26.9% in Q1 2006 as compared to 30.5% in Q4 2005. The decrease in EBITDA and EBITDA margin was mainly a result of lower revenues and the ongoing shift in revenue and margin mix towards lower margin services.

Loss of PLN 10.6m (EUR 2.7m) was recorded in Q1 2006 as compared to a loss of PLN 11.1m in Q4 2005. The improvement in net result between the periods was due to a lower deferred income tax charge (of PLN 3.1m (EUR 0.8m) in Q1 2006 as compared to PLN 19.1m in Q4 2005).

Operational Review

Subscriber lines in service were 406,738 at March 31, 2006 as compared to 424,585 at March 31, 2005 and 413,011 at December 31, 2005. This included ISDN equivalent lines which increased to 98,451 at March 31, 2006 from 90,680 at March 31, 2005 and 96,949 at December 31, 2005.

Business customer lines in service increased to 152,818 at March 31, 2006, i.e., by 5% from 145,658 at March 31, 2005 and by 1% from 151,787 at December 31, 2005.

Business lines as a percentage of total subscriber lines at March 31, 2006 reached 37.6%, up from 34.3% at March 31, 2005 and from 36.8% at December 31, 2005.

Residential lines in service were 253,920 at March 31, 2006 as compared to 278,927 at March 31, 2005 and 261,224 at December 31, 2005.

ADSL active ports increased to 43,040 at March 31, 2006 as compared to 25,193 at March 31, 2005 and 38,640 at December 31, 2005.

ADSL ports' penetration of Netia's total subscriber lines at March 31, 2006 reached 11%, up from 6% at March 31, 2005 and 9% at December 31, 2005.

"Netia IPVPN" data transmission service in MPLS (Multiprotocol Label Switching) technology was launched on December 1, 2005, with a view to extend and supplement Netia's product portfolio for business customers. "Netia IPVPN" service is targeted to corporate clients searching for an integrated solution within data and voice transmission. It enables the multi-location clients to establish a dedicated network of fixed IP connections between their branches, allowing for the transmission of all types of data. The service offers the possibility to prioritize the traffic types and guarantee their transmission parameters. Clients can control and monitor their traffic parameters in the Internet. The optimization of the transmission bandwidth and traffic prioritization give the advantage of transmission costs reduction. The administration of the WAN network and customer premises equipment is handled by Netia. Netia's outsourcing services include the data transmission solutions tailored to a client's individual needs as well as after-sale support on technical and business level.

- more -

Key Figures ^

PLN'000	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Revenues	218,372	237,073	230,709	224,148	216,694
y-o-y % change	*0.8%*	*7.5%*	*4.6%*	*3.6%*	*4.4%*
EBITDA	58,759	72,405	92,693	88,008	85,661
Margin %	*26.9%*	*30.5%*	*40.2%*	*39.3%*	*39.5%*
y-o-y change %	*(31.4%)*	*10.9%*	*7.8%*	*0.2%*	*3.9%*
EBIT	(5,843)	10,120	28,755	26,538	24,897
Margin %	*(2.7%)*	*4.3%*	*12.5%*	*11.8%*	*11.5%*
Profit/(Loss) of the Netia Group *(consolidated)*	(10,638)	(11,086)	22,834	25,137	23,305
Margin %	*(4.9%)*	*(4.7%)*	*9.9%*	*11.2%*	*10.8%*
Profit/(Loss) of Netia SA *(stand alone)*^^	10,369	(6,098)	28,573	23,587	27,385
Cash and cash equivalents	228,957	197,387	174,812	308,603	291,153
Capex related payments	56,522	43,537	31,412	21,123	50,030

EUR '000 *	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Revenues	55,485	60,237	58,620	56,953	55,059
y-o-y % change	*0.8%*	*7.5%*	*4.6%*	*3.6%*	*4.4%*
EBITDA	14,930	18,397	23,552	22,361	21,765
Margin %	*26.9%*	*30.5%*	*40.2%*	*39.3%*	*39.5%*
y-o-y change %	*(31.4%)*	*10.9%*	*7.8%*	*0.2%*	*3.9%*
EBIT	(1,485)	2,571	7,306	6,743	6,326
Margin %	*(2.7%)*	*4.3%*	*12.5%*	*11.8%*	*11.5%*
Profit/(Loss) of the Netia Group *(consolidated)*	(2,703)	(2,817)	5,802	6,387	5,921
Margin %	*(4.9%)*	*(4.7%)*	*9.9%*	*11.2%*	*10.8%*
Profit/(Loss) of Netia SA *(stand alone)*^^	2,635	(1,549)	7,260	5,993	6,958
Cash and cash equivalents	58,174	50,153	44,417	78,411	73,977
Capex related payments	14,361	11,062	7,981	5,367	12,712

* The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 3.9357 = EUR 1.00, the average rate announced by the National Bank of Poland at March 31, 2006. These figures are included for the convenience of the reader only.

^ Please note that pursuant to the requirements of the IAS 1 "Presentation of Financial Statements", a reclassification within "Net financial income" was made in Q4 2005. The amounts not related to debt and cash management were transferred to relevant revenue and operating income/(expenses) categories. Due to the above, the comparative figures for periods ended through September 30, 2005 were adjusted accordingly and therefore vary from the figures reported previously. In addition, a reclassification was made in Q1 2006 with regard to certain financial assets previously shown under "Cash and cash equivalents" line, which are now presented as a separate balance sheet item "Financial assets at fair value through profit and loss". Accordingly, comparative figures for the periods ended through December 31, 2005 were adjusted and relevant changes to the consolidated cash flow statement were made.

^^ 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.

Key Operational Indicators

	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Network data					
Backbone (km)	5,022	5,002	5,002	5,002	5,002
Number of connected lines (cumulative)	521,432	521,432	520,742	518,792	516,272
Subscriber data					
(with regard to direct voice services)					
Subscriber lines (cumulative)	406,738	413,011	419,225	423,678	424,585
incl. ISDN equivalent of lines	*98,451*	*96,949*	*95,637*	*93,807*	*90,680*
Total net additions	(6,273)	(6,214)	(4,453)	(907)	(217)
Business net additions	1,031	934	1,760	3,435	-
Business subscriber lines (cumulative)	152,818	151,787	150,853	149,093	145,658
Business mix of total subscriber lines (cumulative)	37.6%	36.8%	36.0%	35.2%	34.3%
Monthly ARPU (PLN) ^	89	91	93	98	101
Other					
Headcount	1,246	1,221	1,210	1,201	1,204

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

All data, except for the number of connected lines, includes the effect of the acquisition of El-Net.

(Tables to Follow)

Income Statement *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**Q1 2006**	**Q1 2005**	**Q4 2005**
Telecommunications revenue			
Direct Voice	109,027	129,445	113,532
monthly charges	35,470	35,736	35,930
calling charges	73,557	93,709	77,602
– *local calls*	*22,437*	*30,688*	*24,465*
– *domestic long-distance calls*	*13,966*	*18,085*	*14,564*
– *international long-distance calls*	*7,244*	*10,835*	*7,294*
– *fixed-to-mobile calls*	*26,234*	*28,381*	*27,189*
– *other*	*3,676*	*5,720*	*4,090*
Indirect Voice	13,866	22,283	16,420
Data	35,199	28,617	35,605
Interconnection revenues	10,859	11,352	23,488
Wholesale services	40,990	15,299	38,968
Intelligent network services	4,257	5,152	4,685
Other telecommunications revenues	1,875	2,102	1,907
Total telecommunications revenue	**216,073**	**214,250**	**234,605**
Radiocommunications revenue	2,299	2,444	2,468
Total revenues	**218,372**	**216,694**	**237,073**
Interconnection charges	(56,119)	(41,520)	(56,652)
Salaries & benefits, incl. social security costs	(34,337)	(34,340)	(36,308)
Professional services	(8,037)	(2,942)	(5,865)
Insurance	(1,726)	(1,503)	(1,632)
Taxes and fees	(13,145)	(11,467)	(13,008)
Advertising & promotion	(4,223)	(4,025)	(10,706)
Cost of rented lines & network maintenance	(17,843)	(16,183)	(20,896)
Impairment charges for non-current assets	(5,733)	-	-
Reversal of impairment charges	329	-	2,289
Other gains/(losses), net	(598)	(246)	760
Other income	1,244	331	8,352
Other expenses	(19,425)	(19,138)	(31,002)
EBITDA	**58,759**	**85,661**	**72,405**
Margin (%)	***26.9%***	***39.5%***	***30.5%***
Depreciation of fixed assets	(52,363)	(48,995)	(49,812)
Amortization of intangible assets	(12,239)	(11,769)	(12,473)
EBIT	**(5,843)**	**24,897**	**10,120**
Margin (%)	***(2.7%)***	***11.5%***	***4.3%***
Finance income	3,077	4,662	2,265
Finance costs	(1,713)	(1,704)	(1,846)
Share of losses of associates	(3,077)	-	(2,549)
Profit / (Loss) before tax	**(7,556)**	**27,855**	**7,989**
Tax charge	(3,082)	(4,550)	(19,075)
Profit / (Loss)	**(10,638)**	**23,305**	**(11,086)**
Attributable to:			
Equity holders of the Company	(10,781)	23,113	(11,637)
Minority interest	143	192	551
Margin (%)	***(4.9%)***	***10.8%***	***(4.7%)***
Earnings per share (not in thousands)	(0.03)	0.06	(0.03)
Diluted earnings per share (not in thousands)	(0.03)	0.06	(0.03)
Weighted average number of shares outstanding (not in thousands)	384,523,533	372,089,141	373,294,877
Weighted average diluted number of shares (not in thousands)	387,957,652	390,976,494	383,759,283

EBITDA Reconciliation to Operating profit *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**Q1 2006**	**Q1 2005**	**Q4 2005**
Operating profit / (loss)	**(5,843)**	**24,897**	**10,120**
Add back:			
Depreciation of fixed assets	52,363	48,995	49,812
Amortization of intangible assets	12,239	11,769	12,473
EBITDA	**58,759**	**85,661**	**72,405**

Note to Finance Income *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**Q1 2006**	**Q1 2005**	**Q4 2005**
Interest income	2,018	3,317	1,911
Gain on fair value adjustment of financial assets	615	690	398
Net foreign exchange gains/(losses)	389	595	(95)
Other	55	60	51
Total	**3,077**	**4,662**	**2,265**

Note to Finance Costs *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**Q1 2006**	**Q1 2005**	**Q4 2005**
Interest expense	(1,713)	(1,620)	(1,753)
Net foreign exchange gains/(losses)	-	(84)	(93)
Total	**(1,713)**	**(1,704)**	**(1,846)**

Note to Other Expenses *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**Q1 2006**	**Q1 2005**	**Q4 2005**
Information technology	4,190	3,515	4,817
External services	4,633	3,454	4,277
Provision for impaired receivables	1,930	2,584	9,614
Office and car maintenance	2,349	2,337	3,468
Materials and energy	2,240	1,900	2,547
Mailing services	1,531	1,675	1,669
Travel and accommodation	1,118	1,078	1,408
Other	1,434	2,595	3,202
Total	**19,425**	**19,138**	**31,002**

Balance Sheet

(PLN in thousands unless otherwise stated)

Time Periods	March 31, 2006 *unaudited*	December 31, 2005 *audited*
Property, pant and equipment, net	1,715,632	1,766,911
Goodwill	13,843	13,843
Licenses, net	215,124	220,736
Computer software, net	71,538	74,851
Investments in associates	108,548	105,633
Deferred income tax assets	11,179	14,182
Available for sale financial assets	10	10
Other long-term assets	-	323
Total non-current assets	**2,135,874**	**2,196,489**
Inventories	1,795	2,262
Trade and other receivables	118,048	156,924
Current income tax receivables	12	38
Prepaid expenses	37,658	10,876
Financial assets at fair value through profit and loss	63,946	63,059
Cash and cash equivalents	228,957	197,387
	450,416	**430,546**
Assets classified as held for sale	2,329	-
Total current assets	**452,745**	**430,546**
TOTAL ASSETS	**2,588,619**	**2,627,035**
Share capital	414,225	408,615
Treasury shares	(122,806)	(122,806)
Supplementary capital	1,924,837	1,939,572
Other reserves	3,273	1,758
Retained earnings	84,879	126,502
Total capital and reserve attributable to the Company's equity holders	**2,304,408**	**2,353,641**
Minority interest	6,492	6,349
TOTAL EQUITY	**2,310,900**	**2,359,990**
Long-term liabilities for licenses	13,091	14,000
Provisions	1,084	1,231
Other long-term liabilities	676	741
Total non-current liabilities	**14,851**	**15,972**
Short-term liabilities for licenses	47,133	43,413
Trade and other payables	193,421	193,957
Current income tax liabilities	2	-
Provisions	2,709	2,969
Deferred income	19,603	10,734
Total current liabilities	**262,868**	**251,073**
Total liabilities	**277,719**	**267,045**
TOTAL EQUITY AND LIABILITIES	**2,588,619**	**2,627,035**

- more -

Cash Flow Statement *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	Q1 2006	Q1 2005	Q4 2005
Profit / (Loss)	**(10,638)**	**23,305**	**(11,087)**
Depreciation of fixed assets and amortization of licenses and other intangible assets	64,602	60,764	62,285
Impairment charges for non-current assets	5,733	-	-
Reversal of impairment charges	(329)	-	(2,289)
Share of losses of associates	3,077	-	3,073
Deferred income tax charge	3,003	4,395	18,951
Interest expense accrued on license liabilities	1,641	1,531	1,665
Interest accrued on loans	-	-	241
Share-based compensation	357	551	2,371
Fair value gains on financial assets at fair value through profit and loss	(671)	(751)	(449)
Other provisions	-	74	(117)
Decrease/(Increase) in long-term assets	323	594	(323)
Foreign exchange (gains)/losses	782	(971)	(737)
Profit on sale of fixed assets	(424)	-	(207)
Gain on sale of subsidiaries	(20)	-	-
Changes in working capital	14,183	3,657	(3,060)
Net cash provided by operating activities	**81,619**	**93,149**	**70,317**
Purchase of fixed assets and computer software	(56,522)	(50,030)	(43,537)
Proceeds from sale of fixed assets	889	-	1,309
Investment in associate	(6,000)	-	(1,005)
Purchase of subsidiary, net of received cash	-	-	(126)
Sale of subsidiaries; net of cash in subsidiaries	25	-	190
Loans repaid	-	-	1,002
Interest repaid	-	-	32
Payments for licenses	-	(4,050)	(20,200)
Net cash used in investing activities	**(61,608)**	**(54,080)**	**(62,335)**
Proceeds from share issue	11,463	16,582	19,603
Cost of share issuance	(15)	(1,404)	(209)
Repurchase of shares and warrants	-	-	(914)
Repayment of installment obligations	-	-	(4,000)
Finance lease payments	(49)	-	-
Redemption of notes for warrants	(10)	(1)	(30)
Net cash provided by financing activities	**11,389**	**15,177**	**14,450**
Effect of exchange rate change on cash and cash equivalents	170	970	143
Net change in cash and cash equivalents	**31,570**	**55,216**	**22,575**
Cash and cash equivalents at the beginning of the period	197,387	235,937	174,812
Cash and cash equivalents at the end of the period	**228,957**	**291,153**	**197,387**

Definitions

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;
Backbone	– a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Capex	– cash spending related to capital expenditures during 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 rented lines & network 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 and IP Transit;
Direct voice revenues	– telecommunications revenues from voice services offered by Netia to its subscribers. 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	– 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. 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 expenses	– include primarily costs of office and car maintenance, information technology services, costs of materials and energy, mailing services, provision for impaired receivables and other provisions and external services;
Other telecommunications 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;
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 tomorrow, May 16, at 4:00 PM (UK) / 5:00 PM (Continent) / 11:00 AM (Eastern). To register for the call and obtain dial in numbers please contact Erin Gordon at Taylor Rafferty London on +44 (0) 20 7614 2900 or Reema Parikh at Taylor Rafferty New York on +1 212 889 4350.

Some of the information contained in this news release contains forward-looking statements. Readers are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks and uncertainties, and that actual results may differ materially from those in the forward-looking statements as a result of various factors. Netia undertakes no obligation to publicly update or revise any forward-looking statements.

# # #