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NETIA SA REPORTS 2006 FIRST HALF RESULTS

WARSAW, Poland – August 9, 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 second quarter and six months ended June 30, 2006.

Financial Summary:

- **Revenues** for H1 2006 were PLN 421.7m (EUR 104.3m), representing a year-on-year decrease of 4%. Revenues for Q2 2006 were PLN 203.3m (EUR 50.3m), representing a year-on-year decrease of 9%.
- **EBITDA** for H1 2006 was PLN 117.2m (EUR 29.0m), representing an EBITDA margin of 27.8%. EBITDA for Q2 2006 was PLN 58.4m (EUR 14.5m), representing an EBITDA margin of 28.8%. In Q2 2006, Netia recorded a non-cash exceptional adjustment of PLN 10.4m (EUR 2.6m) as a result of reassessment of the carrying value of El-Net's license fee liabilities upon receiving positive decisions on their partial cancellation (see section "Other Highlights"). Accordingly, EBITDA for H1 2006 adjusted by the above one-off item amounted to PLN 106.8m (EUR 26.4m), representing an adjusted EBITDA margin of 25.3%. Adjusted EBITDA for Q2 2006 was 48.0m (EUR 11.9m), representing an adjusted EBITDA margin of 23.6%.
- **Loss** for H1 2006 was PLN 23.3m (EUR 5.8m). Loss for Q2 2006 was PLN 12.8m (EUR 3.2m).
- **Cash and cash equivalents** at June 30, 2006 were PLN 136.0m (EUR 33.6m) as compared to PLN 308.6m at June 30, 2005 and PLN 229.0m at March 31, 2006. In addition, at June 30, 2006 Netia held PLN 54.6m (EUR 13.5m) in money market funds deposits, as compared to PLN 63.9m at March 31, 2006, and a further PLN 61.5m (EUR 15.2m) represented prepaid consideration for the acquisition of Pro Futuro SA.
- **The acquisition of Pro Futuro SA, an independent telecommunications operator,** for the total amount of PLN 70.0m (EUR 17.3m), net of transaction costs, was completed by Netia in July 2006 (see section "Other Highlights").
- **A dividend** in the total amount of PLN 50.3m (EUR 12.4m) was paid to Netia shareholders in May 2006 (see section "Other Highlights").

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

Operational Highlights:

- **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 49% or PLN 98.8m (EUR 24.4m) in Q2 2006 from 44% in Q2 2005 and to 49% or PLN 205.8m (EUR 50.9m) in H1 2006 from 42% in H1 2005.
- **Revenues from business customers** accounted for 75% and 76% of total telecom revenues in Q2 2006 and H1 2006, respectively, as compared to 74% in Q2 2005 and 73% in H1 2005.
- **Subscriber lines** (net of voluntary churn and disconnections) were 404,451 at June 30, 2006 as compared to 423,678 at June 30, 2005 and 406,738 at March 31, 2006. Business customer lines increased by 5% year-on-year to 156,184 and now account for 38.6% of total subscriber lines as compared to 35.2% a year ago.
- **ADSL active ports** increased to 46,566 at June 30, 2006 as compared to 31,470 at June 30, 2005, reaching a penetration rate of 12% of Netia's total subscriber lines.
- **ARPU (average monthly revenue per line with regard to direct voice services only)** decreased by 14% to PLN 84 (EUR 21) in Q2 2006 from PLN 98 in Q2 2005 and by 6% from PLN 89 in Q1 2006, reflecting the continued overall tariff reduction trends in the sector.
- **Headcount** of the Netia group was 1,295 at June 30, 2006, compared to 1,201 at June 30, 2005 and 1,246 at March 31, 2006. Headcount growth principally supports WiMAX and anti-churn strategic initiatives. As of July 1, 2006, 301 Netia employees were transferred to Ericsson under the managed services contract for network maintenance signed on April 28, 2006 (see section "Other Highlights").
- **A framework agreement on delivering transmission solutions for P4's UMTS network** was signed between Netia and P4 on July 3, 2006 (see section "Other Highlights").

Wojciech Madalski, Netia's President and Chief Executive Officer, commented: "Netia was faced with a challenging operating environment this quarter, as continued weakness in the direct voice segment impacted our financial performance. To counter the difficulty in this market, we continue our efforts to grow our business related products other than traditional voice, and have increased these sales as a percentage of total revenues to 49% from 42% in the first half of 2005. At the same time, fixed costs remain under tight control while we continue to invest in new initiatives such as WiMAX and anti-churn projects.

"Netia has been successful in building and expanding the scope of its capabilities in support of our growth strategy. We are pleased to announce that in early July we signed a five-year agreement with P4 for the delivery of transmission solutions on its 3G network. We expect to recognize significant revenue over the five-year period as a result of this agreement, beginning in 2007. We also completed the acquisition of Pro Futuro, an independent telecommunications operator, from which we expect to realize significant synergies and cross selling opportunities. Specifically, we expect to leverage Pro Futuro's extensive radio network to accelerate our progress in WiMAX.

"WiMAX roll-out continues, as we recently commenced a large-scale commercial trial. We currently have seven stations fully operational as part of this trial, and expect to have stations up and running in 20 cities nationwide by the end of August. Our goal is to install 80 base stations by the end of 2006. Successful development of WiMAX-based services is expected to be a key growth driver in 2007.

"At P4, our mobile venture, we reached a major milestone signing a national roaming agreement with Polkomtel in early June.

"Despite difficult industry trends in direct voice, through WiMAX and P4 initiatives, Netia has taken strategic steps to diversify its business and position the Company to effectively navigate through current market conditions and return to growth in the coming quarters. Furthermore, regulatory developments in the areas of bitstream access, wholesale line rental and local loop unbundling are expected to offer additional growth opportunities in the years beyond 2006."

Jon Eastick, Netia's Chief Financial Officer, commented: "The second quarter was unusually challenging for Netia. Difficult market conditions in fixed voice services impacted our entire industry, and were the main driver behind the year on year and sequential decline in our revenue and EBITDA. Fewer profitable opportunities in interconnection services and a pause in the growth trend of wholesale revenues also affected our results this quarter.

"Looking forward, we expect Netia to return to sequential growth in the second half of 2006 as a result of growth in data and wholesale services, new product launches, the expansion of our customer base and initial revenues from WiMAX. Including the contribution from Pro Futuro, we are forecasting revenues in the PLN 870-895 million range. Higher second half revenues and the impact of efficiency measures should result in an adjusted EBITDA margin above 25% for the year.

"Netia's current service lineup continues to be substantially cash generative. The company finished the quarter with PLN 136 million in cash and PLN 55 million in money market funds despite PLN 27 million in Q2 2006 capital investments in fixed assets, the pre-funding of the Pro Futuro acquisition and a PLN 50 million dividend payment. This solid liquidity enables Netia to invest with confidence in future revenue streams from WiMAX and P4, and to evaluate the opportunities presented by the accelerating deregulation of the telecommunications market in Poland."

<u>Other Highlights</u>:

- **Acquisition of Pro Futuro SA ("Pro Futuro").** On May 22, 2006, Netia purchased all convertible bonds issued by Pro Futuro for the amount of PLN 32.1m (EUR 7.9m). Following the fulfillment of certain precedent conditions, Netia also acquired 100% of Pro Futuro's share capital for the total amount of PLN 37.9m (EUR 9.4m), net of transaction costs, on July 4 and 5, 2006.

  Pro Futuro is an independent telecommunications operator providing data transmission, Internet access, hosting and VoIP transmission services. It provides the services in Poland's largest cities from its own broadband telecommunications network (Infostrada Futuro), created based on modern LMDS technology. Netia expects to benefit from significant synergies from the acquisition, including the ability to leverage Pro Futuro's extensive radio network for the WiMAX and UMTS projects, retain Pro Futuro's products as new, add-on products addressing small and medium enterprises and cross-sell existing Netia's products to Pro Futuro's customers. Pro Futuro's results will be consolidated into Netia's as of July 1, 2006.

- **Managed services contract with Ericsson.** On April 28, 2006, Netia signed a five-year managed services contract with Ericsson Sp. z .o.o. ("Ericsson") covering the maintenance and management of the Netia group's networks, as well as support in the provision of standard services to Netia group customers, including the installation of lines at customers' sites. As of July 1, 2006, 301 Netia employees were 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.

- **Netia and P4 signed a framework agreement to deliver transmission solutions for P4's UMTS network** on July 3, 2006. The contract was signed for an initial five-year term. Netia's remuneration for providing services under the framework agreement will be calculated based on the number and size of circuits delivered to P4. Expected revenues for Netia under the contract within the five year period may reach PLN 280.0m (EUR 69.2m).

- **P4 Sp. z o.o. ("P4") mobile preparations.** P4 is preparing to be ready to launch mobile services in the fourth quarter of 2006. The final decision to begin commercial operations is dependent on progress with obtaining the permits necessary to roll-out P4's UMTS network and will be taken in the coming weeks. The company selected Huawei as its 3G infrastructure supplier and Comverse as its supplier for rating, billing and customer care. In addition, P4 purchased a SAP application to support its business processes and signed a contract with Arvato to service the company's external call center in Poznan. On June 8, 2006, the company signed a national roaming agreement with Polkomtel SA, one of the existing Polish mobile operators, which allows P4 to enter the market nationally with its service offering using the Polkomtel network while developing its own UMTS network. Netia's share of losses from start-up activities reached PLN 4.7m (EUR 1.2m) in Q2 2006 and PLN 7.7m (EUR 1.9m) in H1 2006. Netia holds a 30% minority interest in P4 with the majority 70% stake held by Novator Telecom Poland S.a.r.l.

- **WiMAX roll-out.** Netia is beginning 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. Following the successful customer technical trials in Lublin and Warsaw earlier this year, Netia began wide-scale commercial trials of WiMAX-based services. Since early July Netia sales forces have been offering WiMAX in 10 cities. As of today, over 100 customers have been contracted and seven base stations are operational. Netia expects to launch stations in 20 cities by the end of August, with the goal of installing 80 base stations by the end of 2006.

- **El-Net license fee obligations.** Outstanding obligations related to local license fees of Regionalne Sieci Telekomunikacyjne El-Net SA ("El-Net"), measured at fair value and subsequently at amortized cost, amounted to PLN 53.5m (EUR 13.2m) at June 30, 2006 (PLN 326.9m in nominal terms, including prolongation costs). El-Net filed motions for the cancellation of all license fee instalments 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 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 and June 26, 2006, the decisions on partial cancellation of the outstanding local license fee obligations, along with the prolongation fees owed in connection with the prior deferrals of the license fee instalments, were made, in exchange for investments in the telecommunications infrastructure incurred by El-Net in years 2001-2003 and 2004-2005, respectively. The total nominal amount of the local license fees cancelled was EUR 30.1m. The total nominal amount of the prolongation fees cancelled was PLN 12.1m. Following the receipt of the above decisions, the reassessment of the carrying value of El-Net’s remaining deferred license fee liabilities was made in Q2 2006. This resulted in a reduction in liabilities on Netia’s balance sheet of PLN 10.4m (EUR 2.6m), and was accordingly recorded as a gain in the same amount in the statements of operations. Netia plans to secure the forgiveness of the remaining El-Net license fee liabilities against its capital investments during 2006, but management continues to prudently provision for 20% of the theoretical maximum liability.

- **The merger between Netia and its 3 wholly-owned subsidiaries: El-Net, Netia WiMax SA and Polbox Sp. z o.o.** was adopted at Netia’s shareholders’ meeting on June 8, 2006 and the relevant changes were registered by the Polish court on July 31, 2006. The merger is expected to result in facilitating the implementation of Netia’s business plans 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.

- **Formal completion of all Netia’s arrangement proceedings.** On May 22, 2006 the Regional Court in Warsaw issued an order of completion of Netia’s arrangement proceedings, performed in connection with the financial restructuring of the Netia group, further to full repayment of installment obligations provided in the arrangement plan adopted by Netia and its creditors. Following the earlier completion of arrangement proceedings of Netia Telekom SA and Netia South Sp. z .o.o., this completed the process of the financial restructuring of the Netia group, which began in 2002.

- **Third Avenue Management LLC informed Netia that its ownership in the Company exceeds 12% of Netia’s share capital and voting rights.** As per the investor’s notification, dated August 2, 2006, Third Avenue Management LLC held on behalf of its clients 47,034,707 Netia shares, representing 12.09% of both Netia’s share capital and the aggregate number of votes at Netia’s general meeting of shareholders.

- **The dividend of PLN 0.13 (EUR 0.03) per share for 2005** totaling PLN 50.3m (EUR 12.4m) was paid on May 16, 2006 to shareholders of record as at April 20, 2006. This represents a 30% increase over the PLN 0.10 dividend per share paid for 2004.

- **Guidance for 2006 – interim update.**

  - **Revenues**. Netia has lowered its year 2006 revenue guidance to the PLN 870m – 895m range, including a post-acquisition contribution from Pro Futuro of PLN 20m – 25m. Due to continued weakness in the direct voice segment during Q2 2006 combined with the potential impact of recent regulatory changes (RIO rates announced by the regulator in early July) leading to further lowering of average voice tariffs and some uncertainties over the 2006 impact of service revenues for key new products and access technologies such as IntegralNet and WiMAX, management is lowering its 2006 revenue guidance for Netia's ongoing businesses (i.e., excluding Pro Futuro results) to the PLN 850m – 870m range. This represents a fall of between 4.1% and 6.3% relative to 2005.

    New product launches and continued progress in data and wholesale revenues over the remainder of 2006 are expected to return Netia's organic business to a sequential growth trend during H2 2006. Netia expects growth to continue to accelerate in 2007 as a result of the continuing deployment of WiMAX and significant additional revenue streams related to P4 activity, including reselling of P4 mobile products as well as the provision to P4 of UMTS transmission and other telecom and back office services.

  - **Adjusted EBITDA**. Despite the weaker short-term revenue outlook prior to the full impact of Netia's growth initiatives to be realized in 2007 and 2008, management expects adjusted EBITDA margins to remain consistent with the prior guidance, i.e., above 25%.

  - **Net result**. As indicated previously, management believes that Netia is likely to post a net consolidated loss for the full year 2006, which is largely due to Netia's share of P4's start-up losses.

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 currently 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 consolidated financial statements for the three-month and six-month periods ended June 30, 2006.

H1 2006 vs. H1 2005

Revenues decreased by 4% to PLN 421.7m (EUR 104.3m) for H1 2006 compared to PLN 440.8m for H1 2005.

Revenues from telecommunications services decreased by 4% to PLN 417.1m (EUR 103.1m) from PLN 435.8m in H1 2005. This was mainly attributable to the difficult market conditions in the direct voice segment. The revenues from direct voice services decreased by 17% to PLN 211.3m (EUR 52.2m) in H1 2006 from PLN 254.3m in H1 2005, mainly reflecting the overall tariff reduction trend in this product segment and lower number of residential segment subscriber lines. Total revenues from products other than direct voice increased by 13% to PLN 205.8m (EUR 50.9m) in H1 2006 from PLN 181.5m in H1 2005, and constituted 49% of total revenues from telecommunications services as compared to 42% in H1 2005.

Interconnection charges increased by 24% to PLN 105.2m (EUR 26.0m) for H1 2006 as compared to PLN 84.5m for H1 2005, driven by increased traffic volumes in the wholesale segment.

Operating expenses (excluding interconnection charges) represented 50% of total revenues for H1 2006 as compared to 42% for H1 2005, mainly due to lower revenues.

Adjusted EBITDA was PLN 106.8m (EUR 26.4m) for H1 2006 as compared to PLN 173.7m for H1 2005. Adjusted EBITDA margin was 25.3% for H1 2006 as compared to 39.4% for H1 2005. The decrease in adjusted EBITDA and margin resulted from lower revenues from direct voice and the shifting revenue mix towards lower margin data, wholesale and interconnection services.

The following exceptional items impacted the financial results for H1 2006:

- Professional fees of PLN 3.9m (EUR 1.0m), related to investment bank advisory services obtained during the public tender offer carried out by Novator in December 2005 and January 2006, were recorded in Q1 2006;
- An impairment charge for non-current assets of PLN 5.7m (EUR 1.4m), resulting from the replacement of telecommunications equipment and switching system and the valuation of certain properties classified as held of sale, was recorded in Q1 2006;
- A non-cash exceptional item adjustment of PLN 10.4m (EUR 2.6m), related to the reassessment of the carrying value of El-Net's license fee liabilities, was recorded in Q2 2006. Following the receipt of the decision canceling part of El-Net's license fee obligations in exchange for investments in the telecommunications infrastructure incurred in years 2001-2005, the value of El-Net's outstanding license fee liabilities was reduced by PLN 10.4m (EUR 2.6m). Accordingly, the same amount was recorded as a gain in the statements of operations;
- A profit of PLN 1.7m (EUR 0.4m) on the sale of certain fixed assets, which were transferred to Ericsson under the managed services contract dated April 28, 2006, was recorded in Q2 2006;
- An impairment charge of PLN 3.6m (EUR 0.9m), related to unpaid receivables from TP SA, was recorded in H1 2006.

Depreciation of fixed assets increased by 9% to PLN 107.7m (EUR 26.6m) compared to PLN 98.4m for H1 2005, due to the capital investments program coming into operation and the reassessment of useful lives of narrowband radio equipment performed in Q2 2006, which resulted in an additional charge of PLN 2.6m (EUR 0.6m).

Amortization of intangible assets increased by 4% to PLN 24.8m (EUR 6.1m) from PLN 23.9m for H1 2005.

Operating loss (EBIT) was PLN 15.3m (EUR 3.8m) as compared to operating profit of PLN 51.4m for H1 2005.

Finance income and finance costs were PLN 5.4m (EUR 1.3m) and PLN 3.5m (EUR 0.9m), respectively, as compared to PLN 9.4m and PLN 3.5m, respectively, for H1 2005.

Share of losses of associates recorded for H1 2006 was PLN 7.7m (EUR 1.9m) and was related to Netia's 30% equity participation in the P4 mobile venture.

Income tax charge recorded for H1 2006 was PLN 2.1m (EUR 0.5m) as compared to an income tax charge of PLN 8.9m for H1 2005. This charge was mainly due to a change in value of the deferred income tax asset as recognized in Q2 2006 and as at December 31, 2005 (i.e., in the amount of PLN 12.3m and PLN 14.2m, respectively), which resulted mainly from utilization of tax losses from previous years.

Loss was PLN 23.3m (EUR 5.8m) as compared to profit of PLN 48.4m for H1 2005. The change in the net result was mainly due to lower revenues and the shifting revenue mix towards lower margin higher growth services, 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 17% to PLN 83.1m (EUR 20.6m) for H1 2006 from PLN 71.2m for H1 2005. In addition, cash outflow related to the acquisition of Pro Futuro amounted to PLN 61.5m (EUR 15.2m) and PLN 27.0m (EUR 6.7m) was transferred in H1 2006 to P4 as part of Netia's equity contribution to the mobile venture. At the same time, Netia received PLN 8.4m (EUR 2.1m) on the sale of certain financial assets. As a result, net cash used in investing activities amounted to PLN 162.4m (EUR 40.2m) for H1 2006 as compared to PLN 69.6m for H1 2005.

Cash and cash equivalents at June 30, 2006 in the amount of PLN 136.0m (EUR 33.6m) were available to fund Netia's operations. In addition, at June 30, 2006 Netia held PLN 54.6m (EUR 13.5m) in money market funds deposits.

Q2 2006 vs. Q1 2006

Revenues decreased by 7% to PLN 203.3m (EUR 50.3m) for Q2 2006 from PLN 218.4m in Q1 2006. This change was driven by a reduction in direct voice and wholesale revenues. Direct voice revenues were PLN 102.2m (EUR 25.3m) for Q2 2006 as compared to PLN 109.0m in Q1 2006 and wholesale revenues were PLN 35.1m (EUR 8.7m) for Q2 2006 as compared to PLN 41.0m in Q1 2006. While the decrease in direct voice reflects the continued downward trend in this product segment, it is important to note that the decrease in wholesale revenues is the result of lower revenues from voice termination in the quarter versus relatively strong results achieved from these revenues in Q1 2006, and is not reflective of a general trend in the wholesale business. Wholesale revenues are expected to resume year on year growth in the second half of 2006.

Adjusted EBITDA decreased by 18% to PLN 48.0m (EUR 11.9m) in Q2 2006 as compared to PLN 58.8m in Q1 2006. Adjusted EBITDA margin was 23.6% in Q2 2006 as compared to 26.9% in Q1 2006. The decrease was mainly a result of lower revenues and the ongoing shift in revenue and margin mix towards lower margin services. In addition, advertising and promotion associated with Netia's regular spring promotion campaigns resulted in higher marketing expenditures in Q2 2006 than in Q1 2006.

Loss of PLN 12.7m (EUR 3.1m) was recorded in Q2 2006 as compared to a loss of PLN 10.6m in Q1 2006. The change in net result between the periods was due to a lower revenue base and increased depreciation of fixed assets (of PLN 55.3m (EUR 13.7m) in Q2 2006 as compared to PLN 52.4m in Q1 2006) following the reassessment of useful lives of the narrowband radio equipment performed in Q2 2006. The above was partially offset by a non-cash exceptional gain of PLN 10.4m (EUR 2.6m) recorded in Q2 2006 upon reviewing the carrying value of El-Net's license fee liabilities and an income tax benefit of PLN 1.0m (EUR 0.2m) recorded in Q2 2006 as opposed to an income tax charge of PLN 3.0m for Q1 2006.

Operational Review

Subscriber lines in service were 404,451 at June 30, 2006 as compared to 423,678 at June 30, 2005 and 406,738 at March 31, 2006. This included ISDN equivalent lines which increased to 100,790 at June 30, 2006 from 93,807 at June 30, 2005 and 98,451 at March 31, 2006.

Business customer lines in service increased to 156,184 at June 30, 2006, i.e., by 5% from 149,093 at June 30, 2005 and by 2% from 152,818 at March 31, 2006.

Business lines as a percentage of total subscriber lines at June 30, 2006 reached 38.6%, up from 35.2% at June 30, 2005 and from 37.6% at March 31, 2006.

Residential lines in service were 248,267 at June 30, 2006 as compared to 274,585 at June 30, 2005 and 253,920 at March 31, 2006.

ADSL active ports increased to 46,566 at June 30, 2006 as compared to 31,470 at June 30, 2005 and 43,040 at March 31, 2006.

ADSL ports' penetration of Netia's total subscriber lines at June 30, 2006 reached 12%, up from 7% at June 30, 2005 and 11% at March 31, 2006.

IntegralNet, a NGN (Next Generation Network) service, was introduced in June 2006 to complement Netia's existing product offering for business customers. As a communication platform, IntegralNet offers integrated services of a virtual PABX switch and IT applications. A user can access the platform from any location through the IP protocol and the Internet, and will be reachable under the same fixed-line phone number at all times. Administration of a virtual IntegralNet switch is done by a client through a web interface. The service can be easily extended to new locations or users and tailored to each client's needs. In addition, it offers a number of value-added functions, including integration with local PC resources (CTI - Computer Telephone Integration).

New offering within broadband Internet access service was introduced in June 2006. Four product options targeted to business customers ("SuperNet24", "BiznesNet24", "BiznesNet-Komplex" and "TopNet") provide a wide range of data transmission speeds (up to 16 Mb/s) and value added products (including, among others, hosting services, security packages and packages of free voice calls within a monthly subscription fee). Three product options of ADSL fixed Internet access targeted to residential customers ("Net24 Komfort+", "Net24 Optimum+" and "Net24Premium+") offer increased data transmission speeds at competitive prices (with download speed of 640 kb/s as the base offer) and discounts for voice connections.

Key Figures ^

PLN'000	H1 2006	H1 2005	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Revenues	421,688	440,843	203,316	218,372	237,073	230,709	224,148
y-o-y % change	*(4.3%)*	*4.0%*	*(6.2%)*	*0.8%*	*7.5%*	*4.6%*	*3.6%*
EBITDA	117,205	173,668	58,446	58,759	72,405	92,693	88,008
Margin %	*27.8%*	*39.4%*	*28.8%*	*26.9%*	*30.5%*	*40.2%*	*39.3%*
Adjusted EBITDA	106,768	173,668	48,009	58,759	72,405	92,693	88,008
Margin %	*25.3%*	*39.4%*	*23.6%*	*26.9%*	*30.5%*	*40.2%*	*39.3%*
y-o-y change %	*(38.5%)*	*2.0%*	*(44.0%)*	*(31.4%)*	*10.9%*	*7.8%*	*0.2%*
EBIT	(15,334)	51,434	(9,491)	(5,843)	10,120	28,755	26,538
Margin %	*(3.6%)*	*11.7%*	*(4.7%)*	*(2.7%)*	*4.3%*	*12.5%*	*11.8%*
Profit/(Loss) of the Netia Group *(consolidated)*	(23,302)	48,442	(12,664)	(10,638)	(11,086)	22,834	25,137
Margin %	*(5.5%)*	*11.0%*	*(6.2%)*	*(4.9%)*	*(4.7%)*	*9.9%*	*11.2%*
Profit/(Loss) of Netia SA *(stand alone)*^^	12,153	50,972	1,784	10,369	(6,098)	28,573	23,587
Cash and cash equivalents	136,008	308,603	136,008	228,957	197,387	174,812	308,603
Capex related payments	83,102	71,153	26,580	56,522	43,537	31,412	21,123

EUR '000 *	H1 2006	H1 2005	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005
Revenues	104,290	109,028	50,283	54,007	58,632	57,058	55,436
y-o-y % change	*(4.3%)*	*4.0%*	*(6.2%)*	*0.8%*	*7.5%*	*4.6%*	*3.6%*
EBITDA	28,987	42,951	14,455	14,532	17,907	22,924	21,766
Margin %	*27.8%*	*39.4%*	*28.8%*	*26.9%*	*30.5%*	*40.2%*	*39.3%*
Adjusted EBITDA	26,406	42,951	11,873	14,532	17,907	22,924	21,766
Margin %	*25.3%*	*39.4%*	*23.6%*	*26.9%*	*30.5%*	*40.2%*	*39.3%*
y-o-y change %	*(38.5%)*	*2.0%*	*(44.0%)*	*(31.4%)*	*10.9%*	*7.8%*	*0.2%*
EBIT	(3,792)	12,720	(2,347)	(1,445)	2,503	7,112	6,563
Margin %	*(3.6%)*	*11.7%*	*(4.7%)*	*(2.7%)*	*4.3%*	*12.5%*	*11.8%*
Profit/(Loss) of the Netia Group *(consolidated)*	(5,763)	11,981	(3,132)	(2,631)	(2,742)	5,647	6,217
Margin %	*(5.6%)*	*11.0%*	*(6.3%)*	*(4.9%)*	*(4.7%)*	*9.9%*	*11.2%*
Profit/(Loss) of Netia SA *(stand alone)*^^	3,006	12,606	441	2,564	(1,508)	7,067	5,833
Cash and cash equivalents	33,637	76,323	33,637	56,625	48,817	43,234	76,323
Capex related payments	20,553	17,597	6,574	13,979	10,767	7,769	5,224

* The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.0434 = EUR 1.00, the average rate announced by the National Bank of Poland at June 30, 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

	Q2 2006	Q1 2006	Q4 2005	Q3 2005	Q2 2005	Q1 2005
Network data						
Backbone (km)	5,002	5,002	5,002	5,002	5,002	5,002
Number of connected lines (cumulative)	522,302	521,432	521,432	520,742	518,792	516,272
Subscriber data						
(with regard to direct voice services)						
Subscriber lines (cumulative)	404,451	406,738	413,011	419,225	423,678	424,585
incl. ISDN equivalent of lines	*100,790*	*98,451*	*96,949*	*95,637*	*93,807*	*90,680*
Total net additions	(2,287)	(6,273)	(6,214)	(4,453)	(907)	(217)
Business net additions	3,366	1,031	934	1,760	3,435	-
Business subscriber lines (cumulative)	156,184	152,818	151,787	150,853	149,093	145,658
Business mix of total subscriber lines (cumulative)	38.6%	37.6%	36.8%	36.0%	35.2%	34.3%
Monthly ARPU (PLN) ^	84	89	91	93	98	101
Other						
Headcount	1,295	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:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Telecommunications revenue				
Direct Voice	211,257	254,331	102,230	109,027
monthly charges	69,334	71,110	33,864	35,470
calling charges	141,923	183,221	68,366	73,557
– *local calls*	*42,566*	*59,303*	*20,129*	*22,437*
– *domestic long-distance calls*	*26,116*	*35,431*	*12,150*	*13,966*
– *international long-distance calls*	*14,164*	*19,595*	*6,920*	*7,244*
– *fixed-to-mobile calls*	*52,233*	*58,112*	*25,999*	*26,234*
– *other*	*6,844*	*10,780*	*3,168*	*3,676*
Indirect Voice	25,809	43,200	11,943	13,866
Data	71,350	59,615	36,151	35,199
Interconnection revenues	20,116	32,093	9,257	10,859
Wholesale services	76,088	32,447	35,098	40,990
Intelligent network services	7,781	9,984	3,524	4,257
Other telecommunications revenues	4,669	4,135	2,794	1,875
Total telecommunications revenue	**417,070**	**435,805**	**200,997**	**216,073**
Radiocommunications revenue	4,618	5,038	2,319	2,299
Total revenues	**421,688**	**440,843**	**203,316**	**218,372**
Interconnection charges	(105,243)	(84,549)	(49,124)	(56,119)
Services purchased	(96,288)	(80,829)	(50,638)	(45,650)
Salaries & benefits, incl. social security costs	(68,960)	(65,848)	(34,623)	(34,337)
Impairment charges for non-current assets	(5,687)	-	46	(5,733)
Reversal of impairment charges	390	-	61	329
Other gains/(losses), net	10,342	365	10,516	(174)
Other income	2,260	1,632	1,440	820
Other expenses	(41,297)	(37,946)	(22,548)	(18,749)
EBITDA	**117,205**	**173,668**	**58,446**	**58,759**
Margin (%)	***27.8%***	***39.4%***	***28.8%***	***26.9%***
Reversal of reassessment of the carrying value of license fee liabilities	*(10,437)*	-	*(10,437)*	-
Adjusted EBITDA	***106,768***	***173,668***	***48,009***	***58,759***
Margin (%)	***25.3%***	***39.4%***	***23.6%***	***26.9%***
Depreciation of fixed assets	(107,690)	(98,370)	(55,327)	(52,363)
Amortization of intangible assets	(24,849)	(23,864)	(12,610)	(12,239)
EBIT	**(15,334)**	**51,434**	**(9,491)**	**(5,843)**
Margin (%)	***(3.6%)***	***11.7%***	***(4.7%)***	***(2.7%)***
Finance income	5,401	9,393	2,324	3,077
Finance costs	(3,548)	(3,523)	(1,835)	(1,713)
Share of losses of associates	(7,727)	-	(4,650)	(3,077)
Profit / (Loss) before tax	**(21,208)**	**57,304**	**(13,652)**	**(7,556)**
Tax benefit / (charge)	(2,094)	(8,862)	988	(3,082)
Profit / (Loss)	**(23,302)**	**48,442**	**(12,664)**	**(10,638)**
Attributable to:				
Equity holders of the Company	(23,609)	48,028	(12,828)	(10,781)
Minority interest	307	414	164	143
Margin (%)	***(5.5%)***	***11.0%***	***(6.2%)***	***(4.9%)***
Earnings per share (not in thousands)	(0.06)	0.13	(0.03)	(0.03)
Diluted earnings per share (not in thousands)	(0.06)	0.12	(0.03)	(0.03)
Weighted average number of shares outstanding (not in thousands)	386,429,110	380,418,106	388,313,746	384,523,533
Weighted average diluted number of shares (not in thousands)	388,477,997	394,982,490	389,063,308	387,957,652

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

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Operating profit / (loss)	**(15,334)**	**51,434**	**(9,491)**	**(5,843)**
Add back:				
Depreciation of fixed assets	107,690	98,370	55,327	52,363
Amortization of intangible assets	24,849	23,864	12,610	12,239
Adjusted EBITDA	**106,768**	**173,668**	**48,009**	**58,759**
Add back:				
Reassessment of the carrying value of license fee liabilities	10,437	-	10,437	-
EBITDA	**117,205**	**173,668**	**58,446**	**58,759**

Note to Finance Income *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Interest income	3,829	6,626	1,811	2,018
Gain/(loss) on fair value adjustment of financial assets	1,020	1,520	405	615
Net foreign exchange gains	437	1,333	48	389
Other financial income	115	114	60	55
Total	**5,401**	**9,393**	**2,324**	**3,077**

Note to Finance Costs *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Interest expense	3,548	3,352	1,835	1,713
Net foreign exchange losses	-	171	-	-
Total	**3,548**	**3,523**	**1,835**	**1,713**

Note to Services Purchased *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Professional services	13,528	5,683	5,491	8,037
Advertising & promotion	15,326	11,629	11,103	4,223
Cost of rented lines & network maintenance	37,529	35,111	19,686	17,843
Information technology	7,533	7,185	3,343	4,190
Office and car maintenance	4,784	4,867	2,435	2,349
Insurance	3,150	3,117	1,424	1,726
Mailing services	3,077	3,426	1,546	1,531
Travel and accommodation	2,388	2,276	1,270	1,118
Other services	8,973	7,535	4,340	4,633
Total	**96,288**	**80,829**	**50,638**	**45,650**

Note to Other Expenses *(unaudited)*

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2006**	**H1 2005**	**Q2 2006**	**Q1 2006**
Taxes and fees	26,052	22,984	12,907	13,145
Provision for impaired receivables	6,621	6,465	4,691	1,930
Materials and energy	4,516	4,041	2,276	2,240
Other operating costs	4,108	4,456	2,674	1,434
Total	**41,297**	**37,946**	**22,548**	**18,749**

Balance Sheet

(PLN in thousands unless otherwise stated)

Time Periods	June 30, 2006 *unaudited*	December 31, 2005 *audited*
Property, pant and equipment, net	1,688,952	1,766,911
Goodwill	13,843	13,843
Licenses, net	209,511	220,736
Computer software, net	70,116	74,851
Investments in associates	124,898	105,633
Other long-term investments	32,787	-
Restricted cash	28,751	-
Deferred income tax assets	12,276	14,182
Available for sale financial assets	10	10
Other long-term assets	-	323
Total non-current assets	**2,181,144**	**2,196,489**
Inventories	1,731	2,262
Trade and other receivables	115,538	156,924
Current income tax receivables	12	38
Prepaid expenses	32,073	10,876
Financial assets at fair value through profit and loss	54,611	63,059
Restricted cash	3,600	-
Cash and cash equivalents	136,008	197,387
	343,573	**430,546**
Assets classified as held for sale	2,329	-
Total current assets	**345,902**	**430,546**
TOTAL ASSETS	**2,527,046**	**2,627,035**
Share capital	389,168	408,615
Treasury shares	-	(122,806)
Supplementary capital	1,809,434	1,939,572
Other reserves	28,792	1,758
Retained earnings	72,051	126,502
Total capital and reserve attributable to the Company's equity holders	**2,299,445**	**2,353,641**
Minority interest	6,656	6,349
TOTAL EQUITY	**2,306,101**	**2,359,990**
Liabilities for licenses	13,840	14,000
Provisions	937	1,231
Deferred income	8,339	-
Other long-term liabilities	297	741
Total non-current liabilities	**23,413**	**15,972**
Liabilities for licenses	39,615	43,413
Trade and other payables	144,065	193,957
Current income tax liabilities	54	-
Provisions	2,112	2,969
Deferred income	11,686	10,734
Total current liabilities	**197,532**	**251,073**
Total liabilities	**220,945**	**267,045**
TOTAL EQUITY AND LIABILITIES	**2,527,046**	**2,627,035**

Cash Flow Statement *(unaudited)*
(PLN in thousands unless otherwise stated)

Time periods:	H1 2006	H1 2005	Q2 2006	Q1 2006
Profit / (Loss)	**(23,302)**	**48,442**	**(12,664)**	**(10,638)**
Depreciation of fixed assets and amortization of licenses and other intangible assets	132,539	122,234	67,937	64,602
Impairment charges for non-current assets	5,687	-	(46)	5,733
Reversal of impairment charges	(390)	-	(61)	(329)
Share of losses of associates	7,727	-	4,650	3,077
Deferred income tax charge / (benefit)	1,906	8,539	(1,097)	3,003
Reassessment of the carrying value of license fee liabilities	(10,437)	-	(10,437)	-
Interest expense accrued on license liabilities	3,395	3,174	1,754	1,641
Share-based compensation	526	963	169	357
Fair value gains on financial assets at fair value through profit and loss	(1,135)	(1,634)	(464)	(671)
Other provisions	-	161	-	-
Decrease/(Increase) in long-term assets	323	(301)	-	323
Foreign exchange (gains)/losses	2,462	(2,228)	1,680	782
Profit on sale of fixed assets	(2,205)	(156)	(1,781)	(424)
Gain on sale of subsidiaries	(20)	-	-	(20)
Changes in working capital	15,284	(16,287)	1,101	14,183
Net cash provided by operating activities	**132,360**	**162,907**	**50,741**	**81,619**
Purchase of fixed assets and computer software	(83,102)	(71,153)	(26,580)	(56,522)
Proceeds from sale of fixed assets	896	637	7	889
Investment in associate	(27,000)	-	(21,000)	(6,000)
Purchase of subsidiary, net of received cash	(51)	-	(51)	-
Other long-term investments (including restricted cash)	(61,538)	-	(61,538)	-
Sale of subsidiaries; net of cash in subsidiaries	25	-	-	25
Sale of financial assets at fair value through profit and loss	8,411	4,953	8,411	-
Payments for licenses	-	(4,050)	-	-
Net cash used in investing activities	**(162,359)**	**(69,613)**	**(100,751)**	**(61,608)**
Proceeds from share issue	19,385	52,962	7,922	11,463
Cost of share issuance	(175)	(1,622)	(160)	(15)
Dividend paid to the Company’s shareholders	(50,323)	(38,710)	(50,323)	-
Repurchase of shares and warrants	-	(33,331)	-	-
Repayment of installment obligations	-	(1,505)	-	-
Finance lease payments	(99)	-	(50)	(49)
Redemption of notes for warrants	(334)	(1)	(324)	(10)
Net cash provided by financing activities	**(31,546)**	**(22,207)**	**(42,935)**	**11,389**
Effect of exchange rate change on cash and cash equivalents	166	1,579	(4)	170
Net change in cash and cash equivalents	**(61,379)**	**72,666**	**(92,949)**	**31,570**
Cash and cash equivalents at the beginning of the period	197,387	235,937	228,957	197,387
Cash and cash equivalents at the end of the period	**136,008**	**308,603**	**136,008**	**228,957**

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 / 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 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 expenses	– include primarily costs of taxes and fees, provision for impaired receivables, and costs of materials and energy;
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, August 10, 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.

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