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NETIA SA REPORTS 2005 FIRST HALF RESULTS

WARSAW, Poland – August 10, 2005 – 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, 2005.

Financial Highlights:

- **Revenues** for H1 2005 were PLN 440.2m (EUR 108.9m), a year-on-year increase of 4%. Revenues for Q2 2005 were PLN 223.8m (EUR 55.4m), also representing a year-on-year increase of 4%.
- **EBITDA** for H1 2005 was PLN 172.7m (EUR 42.7m), representing an EBITDA margin of 39.2% and a year-on-year increase of 8%. EBITDA for Q2 2005 was PLN 87.1m (EUR 21.6m), representing an EBITDA margin of 38.9% and a year-on-year increase of 4%.
- **Net profit** for H1 2005 was PLN 48.4m (EUR 12.0m), representing a net profit margin of 11.0%. Net profit for Q2 2005 was PLN 25.1m (EUR 6.2m), representing a net profit margin of 11.2%.
- **Cash** at June 30, 2005 was PLN 371.2m (EUR 91.9m) as compared to PLN 217.2m at June 30, 2004 and PLN 357.8m at March 31, 2005.
- **Netia Mobile Sp. z o.o. ("Netia Mobile") was announced as a winner of Poland's UMTS tender** on May 9, 2005. On May 16, 2005, Netia Mobile filed an application for the reservation of the UMTS frequencies with the Polish regulator ("URTiP") and currently awaits the regulator's decision. In addition, on May 9, 2005, Netia Mobile re-applied for the reservation of the GSM 1800 MHz frequencies (see section "Other Highlights").
- **Netia Globe SA ("Netia Globe") and Netia Świat SA ("Netia Świat") were announced as winners of Poland's tender for frequency reservations in 3.6-3.8 GHz range,** on July 25, 2005. On August 1, 2005 both companies filed applications for their respective frequency reservations and currently await the URTiP's decisions. Netia plans to use these frequencies to provide telecommunications services based on the WiMax technology (see section "Other Highlights").

(*) In accordance with the International Financial Reporting Standards ("IFRS"), the International Accounting Standards ("IAS") and the related interpretations announced in the form of regulations of the European Commission.

<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 of total revenues from telecom services to 44% or PLN 96.3m (EUR 23.8m) in Q2 2005 from 35% in Q2 2004 and to 42% or PLN 180.8m (EUR 44.7m) in H1 2005 from 34% in H1 2004.
- **Revenues from business customers** accounted for 74% and 73% of total telecom revenues in Q2 2005 and H1 2005, respectively.
- **Subscriber lines** (net of voluntary churn and disconnections) were 423,678 at June 30, 2005 as compared to 426,606 at June 30, 2004 and 424,585 at March 31, 2005. Business customer lines increased by 4% year-on-year to 149,093 and these now account for 35.2% of total subscriber lines.
- **ADSL active ports** increased to 31,470 at June 30, 2005, reaching a 7% penetration of Netia's total subscriber lines.
- **Average monthly revenue per line (with regard to direct voice services)** decreased by 9% to PLN 98 (EUR 24) in Q2 2005 from PLN 108 in Q2 2004 and by 3% from PLN 101 in Q1 2005, reflecting the continued overall tariff reduction trends in the sector.
- **Headcount** of the Netia group was 1,201 at June 30, 2005, compared to 1,340 at June 30, 2004 and 1,204 at March 31, 2005.

Wojciech Madalski, Netia's President and Chief Executive Officer, commented: "Netia delivered another quarter of solid profitable growth and strong free cash flow generation. Revenue growth in the first half of 2005 was driven by a 28% increase in sales from strategically targeted products other than traditional direct voice. This segment now represents 42% of total revenues compared to 34% a year ago. We are especially pleased by the rising contribution from data transmission and the fast roll-out of ADSL broadband Internet access, which accounted for more than 30,000 active ports or 7% of total subscriber lines at period end.

"Our mobile venture's winning bid for Polish UMTS frequencies will enable us to pursue new opportunities for broadening Netia's product offering to comprise the full range of telecommunications services, including fixed, mobile and convergent products, while limiting the Company's financial commitment to no more than EUR 100m. In addition, our rights to the 3.6-3.8 GHz frequencies and plans to develop the WiMax-based access network will provide additional opportunities to grow our customer base by expanding nationwide in an efficient and cost-effective manner, including in areas beyond Netia's existing network footprint."

Kent Holding, Netia's Chief Financial Officer, added: "Revenue growth of 4% in the first half of 2005 is in line with our guidance of mid-single digit organic growth for 2005. Our continued cost management resulted in a year-to-date EBITDA increase to PLN 173m, representing an EDITDA margin of 39.2% for H1 2005 and 38.9% in Q2 2005, exceeding Netia's stated strategic objective of a minimum 35% EBITDA margin.

"In Q2 2005, we also considerably improved our cash position despite the dividend payout and the ongoing execution of the share and warrant buy-back program. Our cash position improved in Q2 2005 by 70% year-on-year and 4% compared with Q1 2005 to PLN 371m even after share and warrant repurchases equivalent to PLN 33m and an additional PLN 39m in dividend payments. This evidences Netia's strong cash generation and ability to reward shareholders while simultaneously investing in new growth opportunities.

"In the future, we intend to target our dividend payout at levels comparable with the last year's yield. Because dividends are only payable from Netia SA, the stand-alone entity, we have started to report net profits for this entity in addition to consolidated group financial statements."

<u>Other Highlights</u>:

- **Repayment of installment obligations.** Decision on early repayment of outstanding installment obligations resulting from Netia's arrangement proceedings approved in 2002 was announced on November 8, 2004. Netia proposed that the creditors entitled to installment obligations, totaling PLN 11.9m (EUR 2.9m), exchange their installment obligations for new Netia series I shares or be repaid in cash. Out of the total value of outstanding installment obligations, PLN 6.4m (EUR 1.6m) was exchanged for 5,875,610 new series I shares of Netia on February 16, 2005, based on received creditor claims for such an exchange. The series I shares began trading on the Warsaw Stock Exchange as of April 13, 2005, following their assimilation with Netia's remaining shares. Out of the remaining PLN 5.5m (EUR 1.4m), PLN 1.5m (EUR 0.4m) was repaid in cash (to those creditors who submitted their respective claims by April 29, 2005) while PLN 4.0 (EUR 1.0m) will be deposited with the Polish court depository. Creditors who did not submit information required for the cash repayment by April 29, 2005 will be entitled to apply for the repayment to the depository court. Depositing the above amount with the court depository will have the same effect as the actual repayment of installment obligations by the Company. The repayment of all installment obligations will allow to apply for the formal completion of all Netia's arrangement proceedings in advance of the scheduled maturity of the installment obligations, set originally for years 2007-2012. On April 26, 2005 the Regional Court in Warsaw issued an order on completion of the arrangement proceedings of Netia South Sp. z o.o., of which Netia is the legal successor, further to full repayment of receivables provided in the arrangement plan adopted by Netia South Sp. z o.o. and its creditors, which constituted a part of the court arrangement proceedings performed in connection with the financial restructuring of Netia group.
- **Netia's first ever dividend and the share and subscription warrant buy-back program** were adopted by the Company's ordinary shareholders' meeting held on March 17, 2005 (the "Meeting"). The dividend of PLN 0.10 per share, amounting in total to PLN 38.7m (EUR 9.6m), was paid on April 22, 2005 to shareholders of record as at April 7, 2005. As a further move to return capital to shareholders, a share and subscription warrant buy-back program was approved by the Meeting. The program, funded by up to PLN 120m (EUR 29.7m), commenced on May 9, 2005 and will be run up to June 30, 2006 in compliance with all Polish and EU rules and regulations. The buy-back envisages shares and warrants purchased only on the Warsaw Stock Exchange – no off-exchange block purchases – in order to ensure maximum transparency and to give all shareholders equal access. As of August 10, 2005, Netia acquired under the buy-back program 17,095,423 of its own shares and 3,569 of subscription warrants for the total amount of PLN 70.9m (EUR 17.5m). The shares to be purchased under this program shall not exceed 10% of Netia's share capital as of the last day of the program's execution.
- **Netia's issued and outstanding share capital** equaled PLN 393,928,518 as of June 30, 2005 and was divided into 393,928,518 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 subscription warrants and options, which were issued in connection with Netia's financial restructuring. As of August 10, 2005, 43,522,723 subscription warrants had been exercised and 1,361,947 two-year subscription warrants had expired out of a total of 64,848,442 two- and three-year subscription warrants issued. As at August 10, 2005, Netia's share capital equaled PLN 394,377,644.
- **UMTS.** Netia Mobile, Netia's subsidiary, won a UMTS tender and filed an application for the reservation of the UMTS frequency. In addition, on May 9, 2005 Netia Mobile re-applied for the reservation of GSM 1800 MHz channels (the earlier tender for acquiring GSM 1800 MHz spectrum, in which Netia participated in parallel, remained unresolved). It is envisaged that Netia will be a minority partner in Netia Mobile (the majority stake will be held by Novator Telecom Poland SARL) and the Company's total financial commitment in the mobile venture will not exceed EUR 100m. The ability to offer UMTS wireless services alongside of Netia's fixed-line offering creates significant strategic opportunities to broaden the Company's product offering, including convergent services, and to increase the size of the accessible market for business customers. Netia awaits the regulator's decision on granting the UMTS frequency to Netia Mobile and is also finalizing negotiations with telecommunications equipment suppliers. In addition, Netia is in discussions with the existing Polish mobile operators on potential network interconnection and national roaming agreements.
- **WiMax.** Netia Globe and Netia Świat, Netia's subsidiaries, filed applications for the reservation of 3.6-3.8 GHz range frequencies, which were awarded to them in the URTiP tender proceeding. Netia plans to use the above frequencies to provide high quality data and voice transmission in WiMax technology. 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.
- **Ms. Irene Cackett, member of Netia's management board, announced her plans to leave the Company** at the end of August 2005. Until that time Ms. Cackett will continue to hold her current position of Chief Commercial Officer.

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Consolidated Financial Information

Please note that due to the changes in presentation introduced as of January 1, 2005 in connection with the implementation of the IFRS 2 "Share-based payments", a related adjustment to employee benefit costs was made.

In addition, changes in the presentation format were introduced as of January 1, 2005 with regard to the reclassification of the cost of traffic termination, including intelligent network revenue sharing, (previously shown separately under the "Other operating expenses" category). Following the IFRS good practice in the telecom sector, these expenses are now transferred to telecommunications revenue and netted against the related revenue categories (i.e., "Interconnection revenues" and "Intelligent network services" lines).

Due to the above, the revenues and operating costs comparative figures for periods ended through December 31, 2004 were adjusted accordingly and therefore vary from the figures reported previously.

Moreover, pursuant to the adoption of the IFRS 3 "Business Combinations" by the Netia group, as of January 1, 2005 the amount of PLN 77.7m (EUR 19.2m), representing the unamortized part of the negative goodwill, was transferred to retained earnings. Consequently, as of January 1, 2005 Netia ceased the amortization of negative goodwill, which decreased EBIT and net profit results compared to earlier periods.

Please also see our interim consolidated financial statements for the six-month period ended June 30, 2005.

H1 2005 vs. H1 2004

Revenues increased by 4% to PLN 440.2m (EUR 108.9m) for H1 2005 compared to PLN 423.1m for H1 2004.

Revenues from telecommunications services increased by 4% to PLN 435.1m (EUR 107.7m) from PLN 417.7m in H1 2004. The increase was attributable to the expansion of products other than traditional direct voice such as data transmission, interconnection revenues and wholesale services as well as the acquisition of El-Net, closed in January and consolidated as of February 2004. Total revenues from products other than direct voice increased by 28% to PLN 180.8m (EUR 44.7m) in H1 2005 from PLN 141.8m in H1 2004, and constituted 42% of total revenues from telecommunications services as compared to 34% in H1 2004. The revenues from direct voice services decreased by 8% to PLN 254.3m (EUR 63.0m) in H1 2005 from PLN 275.9m in H1 2004, reflecting mainly the overall tariff reduction trend in this product segment. In April 2005 Netia introduced new tariff plans for mass market clients of its direct voice services and continued the roll-out of ADSL products of a broadband Internet access. In March and April 2005 Netia introduced also new tariffs plans with regard to the indirect voice services (see section "Operational Review").

Interconnection charges increased by 11% to PLN 84.5m (EUR 20.9m) for H1 2005 as compared to PLN 76.2m for H1 2004, driven by an increase in traffic volumes associated with wholesale services.

Operating expenses (excluding interconnection charges) represented 42% of total revenues for H1 2005 as compared to 45% for H1 2004. This improvement was attributable to the continuous increase in key operating cost efficiencies, led by lower manpower costs (15.0% of total revenues for H1 2005 vs. 16.6% for H1 2004) and professional services costs (1.3% of total revenues for H1 2005 vs. 1.6% for H1 2004).

EBITDA increased by 8% to PLN 172.7m (EUR 42.7m) for H1 2005 from PLN 159.5m for H1 2004. EBITDA margin increased to 39.2% from 37.7%. This was due to increases in revenues combined with our continuous effort to optimize the level of operating costs.

Depreciation of fixed assets increased by 9% to PLN 98.4m (EUR 24.3m) compared to PLN 90.4m for H1 2004, mainly in connection with the completion of the investment projects and the revision of useful lives of certain fixed assets, resulting in the introduction of higher depreciation rates as of January 1, 2005.

Amortization of intangible assets decreased by 6% to PLN 23.9m (EUR 5.9m) from PLN 25.4m for H1 2004.

Profit from operations (EBIT) was PLN 50.5m (EUR 12.5m) as compared to PLN 56.4m in H1 2004. EBIT recorded for H1 2004 included the positive impact of the amortization of negative goodwill of PLN 12.7m. Following the implementation of the IFRS 3 as of January 1, 2005, Netia ceased the amortization of negative goodwill as of that date.

Net financial income was PLN 6.8m (EUR 1.7m) as compared to PLN 12.7m for H1 2004.

Income tax charge of PLN 8.9m (EUR 2.2m) was recorded in H1 2005. This was mainly due to a change in value of the deferred income tax asset as recognized in Q2 2005 and Q4 2004 (i.e., in the amount of PLN 38.3m and PLN 46.8m, respectively), which resulted from the partial utilization of temporary differences, higher depreciation rates applied as of January 1, 2005 and an update of Netia's assessment with regard to the Company's income tax position for the years 2006-2008.

Net profit was PLN 48.4m (EUR 12.0m) as compared to PLN 68.8m for H1 2004. The change in net profit was associated with the ceased amortization of negative goodwill, higher amortization of fixed assets, lower net financial income and the income tax charge, as mentioned above.

Net cash used for the purchase of fixed assets and computer software decreased by 23% to PLN 71.2m (EUR 17.6m) for H1 2005 from PLN 91.9m for H1 2004 (the spending in H1 2004 included the purchase of equipment increasing the bandwidth capacity of Netia's backbone network). In addition, PLN 4.1m (EUR 1.0m) was paid in the last installment for Netia's domestic long-distance license in January 2005. As a result, cash used for investing activities amounted to PLN 74.6m (EUR 18.5m) for H1 2005 as compared to PLN 192.8m for H1 2004. The amount of cash used for investing activities in H1 2004 included the cost of the El-Net purchase, net of received cash, of PLN 95.6m (EUR 23.7m) and an installment payment for Netia's domestic long-distance license of PLN 4.8m (EUR 1.2m).

Cash and cash equivalents at June 30, 2005 in the amount of PLN 371.2m (EUR 91.9m) were available to fund Netia's operations.

Q2 2005 vs. Q1 2005

Revenues increased by 3% to PLN 223.8m (EUR 55.4m) for Q2 2005 from PLN 216.4m for Q1 2005. The revenues from telecommunications products other than traditional direct voice increased by 14% to PLN 96.3m (EUR 23.8m) in Q2 2005 from PLN 84.5m in Q1 2005. Direct voice revenues were PLN 124.9m (EUR 30.9m) for Q2 2005 as compared to PLN 129.4m in Q1 2005. Netia introduced new tariff plans with regard to all its voice services (including both direct and indirect voice products) in March and April 2005 (see section "Operational Review").

EBITDA increased by 2% to PLN 87.1m (EUR 21.6m) in Q2 2005 as compared to PLN 85.6m in Q1 2005. EBITDA margin was 38.9% for Q2 2005 as compared to 39.5% for Q1 2005. The increase in EBITDA was a result of higher sales, offset mainly by increased advertising and promotion expenses as well as higher costs of rented lines and network maintenance.

Net profit increased by 8% to PLN 25.1m (EUR 6.2m) in Q2 2005 as compared to PLN 23.3m in Q1 2005, driven by steadily improving operating performance.

Operational Review

Subscriber lines in service were 423,678 at June 30, 2005 as compared to 426,606 at June 30, 2004 and 424,585 at March 31, 2005. ISDN equivalent lines increased to 93,807 at June 30, 2005 from 85,938 at June 30, 2004 and 90,680 at March 31, 2005.

Business customer lines in service increased to 149,093 at June 30, 2005, i.e., by 4% from 143,167 at June 30, 2004 and by 2% from 145,658 at March 31, 2005.

Business lines as a percentage of total subscriber lines at June 30, 2005 reached 35.2%, up from 33.6% at June 30, 2004 and from 34.3% at March 31, 2004.

New tariff plans within Netia's direct voice services were introduced effective April 4, 2005. The new tariff plans are targeted to mass market customers using Netia's analogue lines. Depending on a customer profile, clients now have a choice between seven tariff plan options with competitive pricing terms, including, among others, the packages of free local and domestic long distance calls within a monthly subscription fee and unified rates for local, domestic long-distance and fixed-to-mobile calls.

New tariff plans for Telekomunikacja Polska customers using Netia's indirect voice services ("Netia 1055") were introduced effective March 15, 2005. The new tariff plans "Optymalna 1055" and "Zyskowna 1055", with competitive pricing terms, are targeted to medium and large corporate clients, respectively, and are based on a per-second billing. In addition, the price reductions were introduced within the "Specjalna 1055" tariff plan, offered to TP customers of Netia 1055 service since November 2004, with regard to fixed-to-mobile and international long-distance calls, effective March 1, 2005 and April 15, 2005, respectively.

Local calls in two stage access for Telekomunikacja Polska customers using "Netia 1055" service were introduced as of May 1, 2005. The calls will be set-up after dialing a free access number (having obtained a connection with the dial-in number, a client dials "0", then an area code and a local number).

New product options within Netia's ADSL broadband Internet access service "Net24" were offered as of April 4, 2005. The new options "Net24 Optimum" and "Net24 VIP" are addressed to Netia's residential subscribers using both analog or ISDN lines and complement the existing "Net24" service offering with regard to data transmission speeds (i.e., download speeds of 256 kb/s and 1024 kb/s, respectively, and outbound speeds of 64 kb/s and 160 kb/s, respectively). Currently, the "Net24" service is offered in four options: "Net24 Premium", "Net24 Komfort", "Net24 Optimum" and "Net24 VIP".

A new ADSL service "SuperNet24" (in SADSL technology) was launched on April 15, 2005. The service is targeted to Netia's subscribers using analog lines, mostly to medium and large enterprises. It is offered in two options – "SuperNet24 Komfort" and "SuperNet24 Premium" – providing a choice of data transmission speeds, with unlimited data transfer in each case, (i.e., two-way speeds of 1 Mb/s and 2 Mb/s, respectively) and fixed IP addresses.

As of August 10, 2005 there were in total 32,771 ports used by Netia's clients for all type of its ADSL services (i.e., "Net24", "BiznesNet24" and "SuperNet24" services).

New rates for international long-distance calls will be introduced effective September 5, 2005. The changes apply to all ILD connections (traditional and VoIP technology) in tariff plans for direct and indirect voice products.

Key Figures ^

PLN'000	H1 2005	1H 2004	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenues	440,163	423,066	223,787	216,376	219,988	220,340	215,884
y-o-y % change	*4.0%*	*25.2%*	*3.7%*	*4.4%*	*20.5%*	*24.8%*	*21.8%*
EBITDA / Adjusted EBITDA	172,702	159,479	87,148	85,554	81,297	83,493	83,742
Margin %	*39.2%*	*37.7%*	*38.9%*	*39.5%*	*37.0%*	*37.9%*	*38.8%*
y-o-y change %	8.3%	70.2%	4.1%	13.0%	49.6%	56.2%	65.9%
EBIT	50,468	56,374	25,678	24,790	(358)	29,139	28,190
Margin %	*11.5%*	*13.3%*	*11.5%*	*11.5%*	*(0.2%)*	*13.2%*	*13.1%*
Net profit of the Netia Group *(consolidated)*	48,442	68,821	25,137	23,305	45,841	44,710	32,002
Margin %	*11.0%*	*16.3%*	*11.2%*	*10.8%*	*20.8%*	*20.3%*	*14.8%*
Net profit of Netia SA *(stand alone)*^^	50,972		23,587	27,385			
Cash and cash equivalents	371,157	217,172	371,157	357,848	301,863	257,072	217,172
Capex related payments	71,153	91,906	21,123	50,030	50,472	49,019	52,220

EUR '000 *	H1 2005	1H 2004	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004
Revenues	108,948	104,717	55,391	53,557	54,451	54,538	53,435
y-o-y % change	*4.0%*	*25.2%*	*3.7%*	*4.4%*	*20.5%*	*24.8%*	*21.8%*
EBITDA / Adjusted EBITDA	42,746	39,474	21,570	21,176	20,123	20,666	20,728
Margin %	*39.2%*	*37.7%*	*38.9%*	*39.5%*	*37.0%*	*37.9%*	*38.8%*
y-o-y change %	*8.3%*	*70.2%*	*4.1%*	*13.0%*	*49.6%*	*56.2%*	*65.9%*
EBIT	12,491	13,954	6,355	6,136	(89)	7,212	6,978
Margin %	*11.5%*	*13.3%*	*11.5%*	*11.5%*	*(0.2%)*	*13.2%*	*13.1%*
Net profit of the Netia Group *(consolidated)*	11,989	17,034	6,221	5,768	11,347	11,067	7,921
Margin %	*11.0%*	*16.3%*	*11.2%*	*10.8%*	*20.8%*	*20.3%*	*14.8%*
Net profit of Netia SA *(stand alone)*^^	12,617		5,839	6,778			
Cash and cash equivalents	91,868	53,754	91,868	88,574	74,717	63,630	53,754
Capex related payments	17,612	22,748	5,228	12,383	12,493	12,133	12,925

* The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.0401 = EUR 1.00, the average rate announced by the National Bank of Poland at June 30, 2005. These figures are included for the convenience of the reader only.

^ Please note that due to the changes in presentation introduced as of January 1, 2005 in connection with the implementation of the IFRS 2 "Share-based payments", a related adjustment to employee benefit costs was made. In addition, the changes in the presentation format consistent with good IFRS practices were introduced as of January 1, 2005 with regard to the reclassification of the cost of traffic termination, including intelligent network revenue sharing, (previously shown separately under the "Other operating expenses" category). These costs are now transferred to telecommunications revenue and netted against the related revenue categories (i.e., "Interconnection revenues" and "Intelligent network services" lines). Due to the above, the comparative figures for periods ended through December 31, 2004 were adjusted accordingly and therefore vary from the figures reported previously.

^^ The net profit of Netia SA (stand alone) is being used for purpose of a dividend calculation.

Key Operational Indicators

	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Network data						
Backbone (km)	5,002	5,002	5,002	4,939	4,876	4,874
Number of connected lines (cumulative)	518,792	516,272	514,202	513,662	511,562	509,882
Subscriber data						
(with regard to direct voice services)						
Subscriber lines (cumulative)	423,678	424,585	424,802	426,523	426,606	424,658
incl. ISDN equivalent of lines	*93,807*	*90,680*	*89,566*	*89,132*	*85,938*	*81,698*
Total net additions	(907)	(217)	(1,721)	(83)	1,948	64,511
Business net additions...	3,435	-	159	2,332	4,144	20,490
Business subscriber lines (cumulative)	149,093	145,658	145,658	145,499	143,167	139,023
Business mix of total subscriber lines (cumulative)...	35.2%	34.3%	34.3%	34.1%	33.6%	32.7%
Monthly ARPU (PLN) ^...	98	101	105	105	108	113
Other						
Headcount	1,201	1,204	1,234	1,253	1,340	1,393

^ 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

(PLN in thousands unless otherwise stated)

Time periods:	H1 2005	H1 2004	Q2 2005	Q1 2005
Telecommunications revenue				
Direct Voice	254,331	275,860	124,886	129,445
monthly charges	71,110	71,619	35,374	35,736
calling charges	183,221	204,241	89,512	93,709
– *local calls*	*59,303*	*69,643*	*28,615*	*30,688*
– *domestic long-distance calls*	*35,431*	*41,397*	*17,346*	*18,085*
– *international long-distance calls*	*19,595*	*18,267*	*8,760*	*10,835*
– *fixed-to-mobile calls*	*58,112*	*59,604*	*29,731*	*28,381*
– *other*	*10,780*	*15,330*	*5,060*	*5,720*
Indirect Voice	43,200	50,647	20,917	22,283
Data	59,615	42,224	30,998	28,617
Interconnection revenues	32,093	14,997	20,741	11,352
Wholesale services	32,447	19,292	17,148	15,299
Intelligent network services	9,984	10,130	4,832	5,152
Other telecommunications revenues	3,455	4,534	1,671	1,784
Total telecommunications revenue	**435,125**	**417,684**	**221,193**	**213,932**
Other revenue	5,038	5,382	2,594	2,444
Total revenues	**440,163**	**423,066**	**223,787**	**216,376**
Other operating income	**1,711**	**3,066**	**1,415**	**296**
Interconnection charges	(84,549)	(76,212)	(43,029)	(41,520)
Salaries & benefits, incl. social security costs	(65,848)	(70,406)	(31,508)	(34,340)
Professional services	(5,683)	(6,795)	(2,741)	(2,942)
Insurance	(3,117)	(3,357)	(1,614)	(1,503)
Taxes and fees	(22,984)	(21,424)	(11,517)	(11,467)
Cost of rented lines & network maintenance	(35,111)	(34,876)	(18,928)	(16,183)
Advertising & promotion	(11,629)	(12,096)	(7,604)	(4,025)
Other operating expenses	(40,251)	(41,487)	(21,113)	(19,138)
EBITDA	**172,702**	**159,479**	**87,148**	**85,554**
Margin (%)	***39.2%***	***37.7%***	***38.9%***	***39.5%***
Depreciation of fixed assets	(98,370)	(90,431)	(49,375)	(48,995)
Amortization of negative goodwill	-	12,706	-	-
Amortization of intangible assets	(23,864)	(25,380)	(12,095)	(11,769)
EBIT	**50,468**	**56,374**	**25,678**	**24,790**
Margin (%)	***11.5%***	***13.3%***	***11.5%***	***11.5%***
Net financial income	6,836	12,690	3,771	3,065
Profit before tax	**57,304**	**69,064**	**29,449**	**27,855**
Tax (charges)	(8,862)	(243)	(4,312)	(4,550)
Net profit	**48,442**	**68,821**	**25,137**	**23,305**
Attributable to:				
Equity holders of the Company	48,028	68,455	24,915	23,113
Minority interest	414	366	222	192
Margin (%)	***11.0%***	***16.3%***	***11.2%***	***10.8%***
Earnings per share (not in thousands)	0.13	0.19	0.06	0.06
Diluted earnings per share (not in thousands)	0.12	0.18	0.06	0.06
Weighted average number of shares outstanding (not in thousands)	380,418,106	353,978,841	388,655,545	372,089,141
Weighted average diluted number of shares (not in thousands)	394,982,490	379,041,299	399,435,526	390,976,494

Note to Net Financial Income

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2005**	**H1 2004**	**Q2 2005**	**Q1 2005**
Net interest income, incl. gain on valuation of financial assets	4,786	3,826	2,003	2,783
Net foreign exchange gains	1,378	3,299	1,113	265
Gain on sale of subsidiaries	-	396	-	-
Amortization of discount on installment obligations	-	(306)	-	-
Other	672	5,475	655	17
			-	
Total	**6,836**	**12,690**	**3,771**	**3,065**

EBITDA Reconciliation to Profit from Operations

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2005**	**H1 2004**	**Q2 2005**	**Q1 2005**
Profit from operations	**50,468**	**56,374**	**25,678**	**24,790**
Add back:				
Depreciation of fixed assets	98,370	90,431	49,375	48,995
Amortization of negative goodwill	-	(12,706)	-	-
Amortization of intangible assets	23,864	25,380	12,095	11,769
EBITDA	**172,702**	**159,479**	**87,148**	**85,554**

Note to Other Operating Expenses

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2005**	**H1 2004**	**Q2 2005**	**Q1 2005**
Information technology	7,185	7,569	3,670	3,515
External services	7,535	5,896	4,081	3,454
Bad debt expense	6,465	6,467	3,881	2,584
Office and car maintenance	4,867	6,238	2,530	2,337
Materials and energy	4,041	3,919	2,141	1,900
Mailing services	3,426	3,434	1,751	1,675
Travel and accommodation	2,276	2,144	1,198	1,078
Other	4,456	5,819	1,861	2,595
Total	**40,251**	**41,486**	**21,113**	**19,138**

Balance Sheet

(PLN in thousands unless otherwise stated)

Time Periods	June 30, 2005	December 31, 2004
Cash and cash equivalents	371,157	301,863
Trade and other receivables	121,401	122,734
Current income tax receivables	-	29
Inventories	977	2,488
Prepaid expenses	32,354	10,432
Total current assets	**525,889**	**437,546**
Available for sale financial assets	51	51
Fixed assets, net	1,756,981	1,817,156
Licenses, net	211,632	222,783
Computer software, net	76,105	84,690
Negative goodwill	-	(77,657)
Deferred income tax asset	38,304	46,843
Other long-term assets	1,450	1,149
Total non-current assets	**2,084,523**	**2,095,015**
TOTAL ASSETS	**2,610,412**	**2,532,561**
Short-term liabilities for licenses	-	4,049
Short-term installment obligations	4,006	11,872
Trade and other payables	126,462	150,234
Current income tax liabilities	21	-
Provisions	3,212	7,758
Deferred income	11,436	10,589
Total current liabilities	**145,137**	**184,502**
Long-term liabilities for licenses	56,713	54,088
Provisions	1,529	2,137
Other long-term liabilities	881	1,216
Total non-current liabilities	**59,123**	**57,441**
Total liabilities	**204,260**	**241,943**
Share capital	393,929	366,956
Treasury shares	(33,325)	(2,812)
Supplementary capital	1,922,276	1,809,445
Other reserves	1,439	639
Retained earnings	116,233	111,204
Total capital and reserve attributable to the Company's equity holders	**2,400,552**	**2,285,432**
Minority interest	5,600	5,186
TOTAL EQUITY	**2,406,152**	**2,290,618**
TOTAL LIABILITIES AND EQUITY	**2,610,412**	**2,532,561**

Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	**H1 2005**	**H1 2004**	**Q2 2005**	**Q1 2005**
Net profit	**48,442**	**68,821**	**25,137**	**23,305**
Depreciation of fixed assets and amortization of licenses and other intangible assets	122,234	115,811	61,470	60,764
Amortization of negative goodwill	-	(12,706)	-	-
Amortization of notes issuance costs	-	306	-	-
Deferred income tax benefit	8,539	-	4,144	4,395
Interest expense accrued on license liabilities	3,174	678	1,643	1,531
Non-cash employee benefits	963	276	412	551
Other provisions	161	33	87	74
Decrease/(Increase) in long-term assets	(301)	(732)	(895)	594
Foreign exchange gains	(2,435)	(2,953)	(1,464)	(971)
Profit on sale of fixed assets	(156)	-	(156)	-
Gain on sale of subsidiaries	-	(426)	-	-
Changes in working capital	(16,287)	(28,477)	(19,944)	3,657
Net cash provided by operating activities	**164,334**	**140,631**	**70,434**	**93,900**
Purchase of fixed assets and computer software	(71,153)	(91,906)	(21,123)	(50,030)
Proceeds from sale of fixed assets	637	-	637	-
Purchase of subsidiary, net of received cash	-	(95,608)	-	-
Disposal of subsidiaries	-	(504)	-	-
Payments for licenses	(4,050)	(4,790)	-	(4,050)
Net cash used in investing activities	**(74,566)**	**(192,808)**	**(20,486)**	**(54,080)**
Proceeds from share issue	52,962	42,659	36,380	16,582
Cost of share issuance	(1,622)	(522)	(218)	(1,404)
Dividend paid to the Company's shareholders	(38,710)	-	(38,710)	-
Repurchase of shares and warrants	(33,331)	-	(33,331)	-
Repayment of installment obligations	(1,505)	-	(1,505)	-
Redemption of notes for warrants	(1)	(5)	-	(1)
Net cash provided by financing activities	**(22,207)**	**42,132**	**(37,384)**	**15,177**
Effect of exchange rate change on cash and cash equivalents	1,733	(784)	745	988
Net change in cash and cash equivalents	**69,294**	**(10,829)**	**13,309**	**55,985**
Cash and cash equivalents at the beginning of the period	301,863	228,001	357,848	301,863
Cash and cash equivalents at the end of the period	**371,157**	**217,172**	**371,157**	**357,848**

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 net income/(loss) as measured by IFRS, adjusted for depreciation and amortization, net financial income/(expense), income taxes and minority interest. EBITDA has been further adjusted for impairment of goodwill and impairment and write-offs of non-current assets 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 net income/(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 operating expenses	– include primarily costs of office and car maintenance, information technology services, costs of materials and energy, mailing services, bad debt expense 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;
Other 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 11, 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 Mark Walter at Taylor Rafferty London on +44 (0) 20 7614 2900 or Yuhau Lin at Taylor Rafferty New York on +1 212 889 4350.

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