



PRESS RELEASE
May 13, 2004

First Quarter results Priority Telecom show steady EBIT improvement

Financial Results (EUR million)	Q1 2004	Q1 2003
Revenue	24.1	26.6
Direct Cost	(7.9)	(9.5)
Gross Margin	16.2	17.1
Gross Margin %	67.2%	64.2%
Operating Expenses	(12.6)	(14.5)
EBITDA	3.6	2.6
EBIT	(8.4)	(9.9)
Net Result	(8.7)	(8.5)
CAPEX	(3.8)	(3.5)
Cash and Cash Equivalents	29.8	21.3
Working Capital	(12.1)	(10.0)
Long-Term Debt	26.4	22.0

Highlights

- Decrease in revenue due to reduced recurring revenue from the educational sector, continuing revenue rationalization and migration of customers to more cost effective IP and Ethernet enabled network solutions;
- Improved EBIT due to sustainable reductions in the company's cost base and increased sales of new services with higher margins;
- Maintained strong financial position with nearly EUR 30 million in available cash;
- Signed large Ethernet contracts with high profile customers such as a public municipality and regional training centers in the Netherlands;
- Commenced first commercial trial of a new generation ISDN service within the Corporate Office Solutions service portfolio;
- Expanded Ethernet coverage within the Netherlands to several new metropolitan areas allowing more companies to cost effectively connect their LANs on Priority Telecom's network.

David Chadwick, Chief Executive Officer of Priority Telecom, commented on the results: "I am pleased with the progress we are making towards reaching EBIT profitability. We have made progress in transitioning our service offerings from a set of diverse telecommunications products to an integrated portfolio of cost effective telecommunications solution groups. This strategy has allowed us to offer our target customers a set of solutions which will enable them to reduce their



overall telecommunications costs and still provide us with healthy margins in a market where the prices of commoditized telecommunications services continue to erode.”

Operational Review

Several large customers renewed their contracts during the first quarter of 2004. They acknowledged the cost effective and high quality of services provided by Priority Telecom and in many instances upgraded their data networks to the IP and Ethernet based services offered by Priority Telecom. In addition, Priority Telecom signed several new contracts with high profile customers such as the municipality of Barneveld and the regional training centers of ROC A12 and ROC Aventus in the Netherlands, Edelweiss Medienwerkstatt and Frequentis in Austria, and Gresvig, the largest chain of sports shops in Norway.

Priority Telecom has extended its addressable market for many of its voice and data services to a nationwide basis within the Netherlands, Austria and Norway. The availability of high-end Ethernet services within the Network Solutions group of services was furthermore extended during the first quarter of 2004.

During the first quarter of 2004 a commercial trial commenced relating to a new generation ISDN service (branded ISDNflex) within the Corporate Office Solutions group of services. The ISDNflex service offers many advantages, including the delivery of voice traffic from multiple locations connected on a virtual private network directly to Priority Telecom’s network as IP data traffic, thereby reducing equipment investments.

The Customer Contact Solutions group of services was upgraded to include a new set of software based features and functions. Upgrades are scheduled to deliver version compatibility, support, stability, features and functions required by the call centers that buy this service.

Priority Telecom was able to renegotiate maintenance contracts with several equipment vendors during the first quarter of 2004 due to the policy of stocking and installing spare parts using internal engineering resources. In addition, investments were made in an automated network register. This system will limit network outages and expenses associated with third party network provisioning and construction. Jointly, these actions will improve the cost effectiveness of Priority Telecom’s network.

Financial Review

Revenue decreased by EUR 2.5 million to EUR 24.1 million in the first quarter of 2004 compared to EUR 26.6 million in the first quarter of 2003. Recurring revenue decreased by nearly EUR 3 million in the first quarter of 2004 compared to the previous quarter as a result of the anticipated reduction in revenue from the educational sector, the revenue rationalization and migration of customers to the more cost effective IP and Ethernet enabled network solutions. However, the ongoing reduction was partially off-set by an one-off revenue increase of EUR 0.9 million associated with providing professional and migration services to nl.tree for the migration of several educational institutions to other service providers.

The distribution of revenue over the countries remained stable with 72% out of the Netherlands, 18% out of Norway and 12% out of Austria. Compared to the first quarter of 2003, Priority Telecom reduced the percentage of revenue from national carrier sales from 31% to 23%. Direct sales revenue to the corporate and public sector currently amount to 75% of the total revenue.



Gross margin increased to 67.2% in the first quarter of 2004 compared to 64.2% in the first quarter of 2003. This improvement of the gross margin percentage results from the one-off services provided to nl.tree, the migration of off-net customers to less expensive access technologies, reduction in leased equipment cost and equipment maintenance fees on the backbone network, and elimination of redundant third party leased lines. In the first quarter, certain expenses accounted for as operational expenses for an amount of EUR 0.7 million have been reclassified and included in the direct costs to reflect the direct relationship to products and services supplied to our customers.

Several sustainable cost reductions led to **operating expenses** of EUR 12.6 million in the first quarter of 2004 compared to EUR 14.5 million in the first quarter of 2003. Employee costs were reduced and employee productivity improved as more activities associated with audit, legal and tax tasks have been resolved internally and operational tasks such as equipment maintenance and repair have been performed by the company's own team of engineers. In addition, bad debt risk has decreased as the company continued to focus on customer credit and payment terms.

Despite the revenue reduction the **EBITDA** increased by EUR 1.0 million to EUR 3.6 million in the first quarter of 2004 due to increased direct sales generating a higher margin and cost savings.

Fixed asset **depreciation** continued to decrease as a result of assets at the end of their depreciable life, in particular investments in customer premise equipment, customer fiber connections and backbone network equipment associated with medium and large customer contracts at the end of their initial contract period.

Net loss amounted to EUR 8.7 million in the first quarter of 2004 compared to EUR 8.5 million in the first quarter of 2003, which included a positive result from investments related to nl.tree of EUR 1.7 million. Without this gain in the first quarter of 2003, there would have been an improvement of EUR 1.5 million, or 15%.

Capex investments of EUR 3.8 million in the first quarter of 2004 primarily related to connection of customers and the build out of the Ethernet based overlay network.

Cash and cash equivalents increased by EUR 8.5 million in the first quarter of 2004 to EUR 29.8 million compared to the first quarter of 2003. This includes restricted cash of EUR 1.3 million associated with commitments to interconnect guarantees, taxes, and facility guarantees. A dividend during the first quarter of 2004 from the company's investment in nl.tree contributed EUR 2.6 million to the increase in cash. In addition, strict working capital management and focus on credit and collections have contributed significantly to the increase in cash and cash equivalents.

Long-term liabilities increased by EUR 4.4 million between the first quarters of 2003 and 2004 to EUR 26.4 million as the Company increased the loan facility under the in-kind agreement related to certain services provided by majority shareholder UPC offset by repayments of outstanding vendor debt. Amounts accrued under the in-kind agreement with UPC in the first quarter of 2004 are included in the working capital of the company pending conversion in accordance with the terms of the in-kind agreement¹.

Other

As a result of the developments in the educational sector, nl.tree has decided to decentralize and subsequently terminate its operational activities by the end of 2004. The schools will continue to be serviced by the underlying providers including Priority Telecom. Priority Telecom holds 41.8% of the shares in nl.tree.

¹ The loan facility expired on December 31, 2003, with repayment commencing in the fourth quarter of 2004. The equity facility expires on June 30, 2004.



David Chadwick, CEO of Priority Telecom, has decided not to extend his contract with the Company, which terminates by the end of this year and to return to the United States during the course of this year. The Supervisory Board has started the succession planning process.

Outlook

The reduction of revenue due to the migration of customers to the more cost effective network solutions, revenue reduction in the educational sector and the revenue rationalization, will continue to effect top-line revenue during the year, as the recurring revenue has decreased with EUR 3 million in the first quarter 2004. The increased sales funnel of new corporate and public sector customers and the introduction of the new ISDNflex service will start to have positive impact on the top-line revenue in the second half of this year.

Priority Telecom N.V.

Priority Telecom, based in Amsterdam, is a facilities-based business telecommunications provider focusing primarily on its core metropolitan markets in the Netherlands, Austria and Norway. Priority Telecom provides high-speed Internet access, private data networks, customized network services and voice to over 9,500 business customers. Targeted mainly towards medium and large business customers and metropolitan/national telecommunications providers, Priority Telecom capitalizes on its dense metropolitan fiber network and experienced direct local sales force. Priority Telecom is a publicly traded company on Euronext Amsterdam under the symbol "PRIOR". News and information are available on www.prioritytelecom.com.

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Forward-looking statements

This press release contains "forward looking statements" including statements concerning plans, future events or performance and underlying assumptions and other statements which are other than statements of historical facts. Priority Telecom wishes to caution the reader that any such forward looking statements are not guarantees of future performance and certain important factors could in the future affect Priority Telecom's actual results and could cause Priority Telecom's actual results to differ materially from those expressed in any forward looking statements made by or on behalf of Priority Telecom. Priority Telecom undertakes no obligation to release publicly the results of any revision to these forward-looking statements that may be made to reflect errors after the date hereof.

Tables Attached

For the financial information included in the following tables, the same accounting principles were applied as were used in the preparation of the latest annual accounts.