This comment presents the financial results of Netia S.A. ("Netia", the "Company") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the three-month period ended March 31, 2012 include the financial statements of the Company and the following subsidiaries:

- CDP Netia Sp. z o.o. (previously operating under the name Crowley Data Poland Sp. z o.o)
- In2Loop Polska Sp. z o.o. in liquidation
- InterNetia Holdings Sp. z o.o. Group
- Net 2 Net Sp. z o.o. (previously operating under the name Netia Corpo Sp. z o.o.)
- Netia 2 Sp. z o.o.
- Netia Brand Management Sp. z o.o.
- Telefonia DIALOG Sp. z o.o. Group

The financial statements of the InterNetia Holdings Sp. z o.o. Group include the financial statements of InterNetia Holdings Sp. z o.o. ("InterNetia Holdings") and its subsidiaries:

- Internetia Sp. z o.o. and its wholly-owned subsidiaries Saite Sp. z o.o, E-IMG Internet Intermedia Group Sp. z o.o., ZAX.EU Sp. z o.o., Silesia Multimedia Sp. z o.o., Netsystem Sp. z o.o., Sieci Multimedialne Intergeo Sp. z o.o., ComNet ITT Sp. z o.o., STI Sp. z o.o. and Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o
- UNI-Net Poland Sp. z o.o.

The financial statements of the Telefonia DIALOG Sp. z o.o. Group include the financial statements of Telefonia DIALOG Sp. z o.o. (transformed from Telefonia DIALOG S.A. on April 30, 2012) and its subsidiaries:

- wholly-owned Avista Media Sp. z o.o. ,
- Petrotel Sp. z o.o. with 99,99% Telefonia DIALOG Sp z o.o. ownership

Changes within the Netia Group's structure

Acquisitions

On February 14, 2012, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, concluded an agreement for the acquisition of 42 (not in thousands) shares in the share capital of Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o. ("Elpro"), each with the nominal value of PLN 1,000 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all Elpro shares has been set at PLN 2,202.

On March 7, 2012, Internetia Sp. z o.o, the Company's subsidiary, concluded an agreement for the acquisition of 150 (not in thousands) shares in the share capital of STI Sp. z o.o. ("STI"), each with the nominal value of PLN 500 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all STI shares has been set at PLN 1,598.

2. Shareholders holding more than 5% of the votes at the General Shareholders' Meeting of Netia (not in thousands)

Based on the most recent information presented to the Company by its shareholders, as at the date of filing this report, significant blocks of the Company's shares were held by the following entities (the ownership interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at May 14, 2012):

Third Avenue Management LLC

On May 4, 2012 *Third Avenue Management LLC* informed the Company that *Third Avenue Management LLC* had decreased its holdings of the Company's shares from 69,988,577 held on December 9, 2011 constituting 18.12% of the Company's share capital and carrying 18.12% of the total number of votes at the General Shareholders' Meeting of the Company to 61,168,227 constituting 15.84% of the Company's share capital and carrying 15.84% of the total number of votes at the General Shareholders' Meeting of the Company.

ING Otwarty Fundusz Emerytalny

ING Otwarty Fundusz Emerytalny held a total of 48,010,027 of the Company's shares constituting 12.43% of the Company's share capital and representing 12.43% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by ING Otwarty Fundusz Emerytalny since December 31, 2010.

Subsidiaries of SISU Capital Fund Limited

Subsidiaries of SISU Capital Fund Limited held a total of 44,336,534 of the Company's shares constituting 11.48% of the Company's share capital and representing 11.48% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by Subsidiaries of SISU Capital Fund Limited since February 25, 2011.

3. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (not in thousands)

2003 Plan

Between the adoption of the employee share option scheme (the " 2003 Plan") on April 10, 2003 and March 31, 2011, the Supervisory Board approved and issued a total number of 65,738,333 options to members of the Management Board. From the total number of approved options, 17,900,000 were outstanding as at March 31, 2012. The options are exercisable until December 20, 2012. The strike price of the approved outstanding options, depending on the agreement, ranges between PLN 3.50 and PLN 8.25 per share.

During the first quarter of 2012 the following changes took place in the number of options granted under the 2003 Plan:

Three-month period ended March 31, 2012

At the beginning of the period	36,489,064
Exercised	(11,254,814)
Resignation from Management Board	(7,334,250)
At the end of the period	**17,900,000**

New Plan

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, to be administered by the Company's Supervisory Board, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia, each option authorising its holder to receive, free of charge, up to ½ of a subscription warrant issued by the Company with the latest possible exercise date of May 26, 2020 (the "New Plan"). Each warrant entitles its holder to subscribe for one series L share for the nominal value of PLN 1, which shall be paid by the Company or its subsidiaries. In order to satisfy the claims arising from the exercise of the options under New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

In 2011 the Supervisory Board granted 1,725,000 options to members of the Management Board under the New Plan. As at March 31, 2012, the weighted average remaining contractual life of the outstanding options was 8.2 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and strike price of the options. The participant will not be required to pay the strike price of PLN 5.23.

During the first quarter of 2012 the following changes took place in the number of options granted under the New Plan:

Three-month period ended March 31, 2012

At the beginning of the period	1,725,000
Resignation from Management Board	(575,000)
At the end of the period	**1,150,000**

The New Plan participants are entitled to exercise their stock options on the condition that they continue their engagement with the Netia Group until the vesting date of the stock options (subject to change of control events and the termination of their engagement by the Netia Group without material cause) and the fulfilment of the business criteria set by the supervisory board for each year of the New Plan. In the event of termination by the Company, unvested options are retained prorata to the period worked during the vesting period. The proportion of the stock options exercised versus the number of stock options granted shall be equal to the lower of: 100% or the actual performance of the objectives set out as part of the performance criteria approved by the supervisory board and applicable in the financial year in which the stock options were granted. Each year within the period following the publication of the financial statements of the Company for the previous financial year and prior to the date of the Annual General Meeting of the Company, the Supervisory Board shall adopt a conditional resolution in which it shall determine the level performance of the business criteria for the previous financial year. The resolution of the Supervisory Board shall enter into force upon the approval of the financial statements of the Company and the Netia Group by the Annual General Meeting of the Company. Such conditional resolution of Supervisory Board regarding the performance criteria for 2011 was taken on April 25th, 2012 and the performance level was determined at 58.9%.

The following changes in the number of options granted to members of the Management Board occurred during the first quarter of 2012:

Three-month period ended March 31, 2012	At the beginning of the period	Exercised	Resignation from Management Board	At the end of the period
Mirosław Godlewski	12,775,000	(4,700,000)	-	8,075,000
Jonathan Eastick	9,859,314	(2,171,814)	-	7,687,500
Tom Ruhan	5,004,000	(1,716,500)	-	3,287,500
Grzegorz Esz	4,454,000	(2,666,500)	(1,787,500)	-
Piotr Nesterowicz	6,121,750	-	(6,121,750)	6,954,000
Total number of options	**38,214,064**	**(11,254,814)**	**(7,909,250)**	**19,050,000**

On April 25, 2012 Netia's Supervisory Board granted new stock options to the Management Board members.

Mr. Mirosław Godlewski, President of the Management Board, was granted 690,000 stock options, and Mr. Jonathan Eastick and Mr.Tom Ruhan were granted 345,000 stock options each. The strike price for the options granted to the Management Board is PLN 6.16 and the earliest vesting date is April 25, 2015. The final exercise date for all granted stock options is May 26, 2020. Furthermore, these Stock Options may be cancelled in whole or in part depending on the Netia Group's performance against business criteria for 2012. These business criteria have been set by the Supervisory Board on the basis of the Group's 2012 budget which in turn was accepted by the Supervisory Board.

Moreover, the Supervisory Board authorized the Management Board of the Company to grant to employees of the Netia Group the Stock Options for the year 2012 in the total amount of 2,144,000.

The members of the Supervisory Board did not hold any options as at March 31, 2011 and as at the date of filing this report.

Number of shares held by members of the Management Board (not in thousands)

As at March 31, 2012 and December 31, 2011, Mr. Mirosław Godlewski – the Company's President of the Management Board – held 393,716 shares of the Company. Following the issuance of the Company's shares on April 5 and 20, 2012 (see Note 9) Mr. Mirosław Godlewski acquired 1,389,415 shares, increasing his holding to 1,783,131 shares as at the date of these consolidated financial statements.

As at March 31, 2012 and December 31, 2011, Mr. Jonathan Eastick – a member of the Company's Management Board – held 499,175 shares of the Company. Following the issuance of the Company's shares on April 4 and 20, 2012 (see Note 9) Mr. Jonathan Eastick acquired 572,188 shares, increasing his holding to 1,071,363 shares as at the date of these consolidated financial statements.

As at March 31, 2012 and December 31, 2011, Mr. Tom Ruhan – a member of the Company's Management Board – held 592,379 shares of the Company. Following the issuance of the Company's shares on April 4 and 20, 2012 (see Note 9) Mr. Tom Ruhan acquired 464,632 shares, increasing his holding to 1,057,011 shares as at the date of these consolidated financial statements.

Number of shares held by members of the Supervisory Board (not in thousands)

As at March 31, 2012 and December 31, 2011, Mr. Benjamin Duster – Chairman of the Company's Supervisory Board – held 21,000 shares of the Company.

As at March 31, 2012 and December 31, 2011, Mr. George Karaplis – Vice-Chairman of the Company's Supervisory Board – held 20,000 shares of the Company.

As at March 31, 2012 and December 31, 2011, and December 31, 2010, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 40,000 shares of the Company.

As at March 31, 2012 and December 31, 2011, Mr. Nicolas Maguin, – a member of the Company's Supervisory Board – held 21,300 shares of the Company.

As at March 31, 2012 and December 31, 2011, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 20,001 shares of the Company.

As at March 31, 2012 and December 31, 2011, Mr. Jerome de Vitry – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at March 31, 2012, Mr. Stan Abbeloos– a member of the Company's Supervisory Board – held 20,650 shares of the Company.

There were no changes in the number of Restricted Stock Units ("RSU") held by members of the Company's Supervisory Board during the first quarter of 2012 and as at the date of filing this report. RSU corresponds to one ordinary share in the Company having the value equal to the market price of Company's shares. RSU held by members of the Company's Supervisory Board are presented below:

- Mr Stan Abbeloos held 80,000 RSU,
- Mr Benjamin Duster held 80,000 RSU,
- Mr Raimondo Eggink held 80,000 RSU,
- Mr George Karaplis held 80,000 RSU,
- Mr Nicolas Maguin held 80,000 RSU,
- Mr Ewa Pawluczuk held 80,000 RSU,
- Mr Jerome de Vitry held 80,000 RSU,
- Mr Tadeusz Radziminski held 80,000 RSU,

4. Legal proceedings

Tax Authorities

A detailed description of an ongoing dispute with Tax Authorities is presented in point "Tax regulations and their interpretation" in section 5 below.

5. Factors which may have an impact on the result of the Netia Group

Risk of changes to the Netia Group's strategy

On January 13, 2011 the Company announced the main assumptions of its new long term strategy spanning over the period until year 2020 ("Strategy 2020"). Financial guidance regarding the Strategy 2020 was announced at the same time in order to reflect Netia's long term plans for the further roll out of Local Loop Unbundling ("LLU") as well as the upgrade of select regions of ETTH and copper network to broadband speeds of 50MB and higher (Next Generation Access "NGA"). Additionally, in December 2011 Netia acquired two sizeable telecom assets – Dialog Group and Crowley Data Poland - both of which increased the scale of operations of the Netia Group significantly. Therefore Strategy 2020 may be subject to certain revisions or redirection by the Netia Group including the impact of these acquisitions. In particular, the newly announced financial guidance for 2012 and long term financial goals include the planned capital expenditures with respect to NGA project, envisaged mainly in the 2012 - 2013 period and a range of financial KPIs of the Company's future potential performance. No assurance can be given as to whether strategic initiatives included in Netia's strategy will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

Risk of changes in the shareholder structure, which may influence business activity

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Company in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Company cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Risk connected with the impact of potential future takeovers and acquisitions of large-scale businesses

Revenues and financial performance of the Netia Group may be materially affected by takeovers of and mergers with other entities that operate large scale telecommunications businesses. Upon the Company's takeover of another entity, the process of fully integrating this entity may carry high risks, e.g. resignation of key employees, the loss of a certain segment of its customers or high costs of the entire integration process including the lack of certain portion of contemplated synergies to be extracted from the acquisition.

The already consolidating, however still relatively fragmented market of alternative operators rendering wire line telephone services may result in continuing consolidation within the Polish market. The Company intends to evaluate potential takeovers and acquisitions whenever such possibilities arise. The performance of such transactions requires the special involvement of the Company's high-ranking managers and may entail high costs connected with the identification and evaluation of the candidates for takeover, the negotiating of agreements and integration of the entities acquired. The Netia Group may require additional funding in order to conduct such transactions.

The benefits from potential takeovers will depend mostly on the extent to which the Netia Group is able to integrate the acquired entities into its structures. Future company acquisitions may entail acquiring existing liabilities and the risk of undisclosed liabilities. The Netia Group cannot guarantee that beneficial takeover possibilities will arise in the future, nor, if such possibilities arise, that they will result in the successful integration of the acquired entities with the Netia Group. Failure to integrate the acquired entities into the structures of the Netia Group and / or the failure to generate the expected operating and strategic synergies may adversely affect the operations and financial standing of the Netia Group.

Specifically in regard to the above described risks, in December 2011 Netia announced that it had closed the transactions of the acquisition of the two large scale telecommunication entrepreneurs: Dialog and its subsidiaries and Crowley Data Poland. Management initially estimated potential annual synergies from these acquisitions at the level of PLN 115,000 and expected that all projects necessary to deliver such synergies can be completed within two years from the respective dates of acquisition. Management has now completed its detailed integration planning and, based on the results of this work, has revised up synergy estimates to 130,000 but also recognizes that certain synergies cannot be obtained before 2014. Management cannot exclude the possibility that further revisions to the synergy targets or timing may be necessary as the integration proceeds. All other general risks described above in this risk factor fully apply to the Dialog Group and Crowley.

Specific risks associated with the acquisition of Dialog

In addition to general risks inherent in acquisitions of businesses of significant scale relative to the buyer, the acquisition of Dialog is associated with certain risks specific to this integration:

- Full integration will require migration of Dialog billing and customer relationship management systems onto the Netia platform. This process is likely to take at least until mid 2013 and certain material operational synergies are dependent on this migration being successful. Problems with the migration might lead to problems with billing and customer service for all or a significant part of the customer base.

- Netia is in the middle of a three year project to upgrade its core business IT platforms in a "Network Architecture Project". As part of this project, a Customer Relationship Management system must be selected for implementation during 2013 following the systems migration described above. Selecting and implementing a system that will satisfy the legacy requirements of both Netia and Dialog creates significant logistical and operational challenges.

- Dialog customers are billed their monthly fees in arrears whereas Netia customers are billed in advance as in most other telecom operators in Poland. Migrating to a single set of billing rules may prove difficult as Dialog customers may need to pay two months subscription in one month in order to be consistent with Netia policy, potentially leading to significant customer dissatisfaction.

- Significant elements of Dialog's network are located on leased premises. Should Dialog cease to be able to lease these properties at reasonable cost or at all, significant costs may be incurred to relocate or replace the affected infrastructure.

- Dialog has made significant investments in Passive Optical Networks ("PON") over the last two years on the basis that a significant part of the investment will be reimbursed from European Union funds by Polish Agency for Enterprise Development ("PARP"). As at March 31, 2012 most reimbursements are still to be recovered and several commitments by Dialog towards PARP are still to be achieved. Given market conditions and the project of integrating with Netia, some of these requirements may not be achieved and the refunds may not be received in the amounts originally planned by Dialog. No assets have been recognized in respect to these grants in the acquisition balance sheet of Dialog.

Management can give no assurance that one or more of the above risks may not result in the Netia Group suffering significant additional costs or reduced cash flows.

Risks relating to the acquisition, integration and development of Ethernet network operators

An important element of Netia's strategy to expand its broadband subscriber base is the acquisition of Ethernet network operators. Our plans require that these companies, which typically have no more than 5,000 customers at the time of acquisition, are integrated into Netia's core operations. We aim to continue to grow the subscriber bases connected to the networks that we acquire and to upsell their customers voice and TV services in addition to the internet access that they currently purchase. We cannot provide any assurance that we will be successful in implementing this strategy in whole or in part in any or all of the Ethernet networks that we have acquired or will acquire. Costs of integration may exceed our plans or we may discover undisclosed liabilities post acquisition. Customers may prove reluctant to switch to services provided by Netia directly or unwilling to switch to Netia voice or TV services from their current providers. Moreover the price of such Ethernet networks may increase to the point that further acquisitions are uneconomic, making it more difficult for Netia to reach its subscriber growth objectives. Failure to fully implement our strategy in regard to Ethernet network operators may adversely affect the operations and financial standing of the Netia Group.

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of fixed-line telephony, wireless transmission and voice services based on Internet or cable television telephony. In particular, the business activities of the Netia Group may be affected by the trend to provide telecom services via wireless or portable platforms, with wireless broadband access and third/fourth generation mobile cellular telephone systems equipped with IP. Due to the difficulties in predicting future technological developments, market potential and regulatory environment, Netia may sometimes invest in technologies that ultimately do not deliver the expected returns. When such a situation occurs, it can have a significant negative impact on our results and financial condition.

Risks related to the uptake of new services and the financial returns available from investment in upgraded networks

During the first half of 2011, Netia has piloted the introduction of upgraded broadband speeds to its copper and Ethernet ("ETTH") networks and adding television and content services to its offering. Whilst these pilots have delivered promising results and the Group has decided to continue investing, no assurance can be given that these upgrade projects will be successful as financial results obtained in the future from such investments implemented on a wide scale may differ significantly from the results of those pilots.

The speed of roll-out and relative performance of fast mobile broadband networks (such as HSDPA and LTE), the speed of upgrade of cable networks and the incumbent's own investment plans may have a significant impact on the relative attractiveness of our broadband and television offers and sales results. Furthermore, our new content services may turn out to be inferior to those of key competitors and we may not be able to meet sales targets or ARPU targets as a result.

Risk associated with property rights

In order to deliver services to its customers, Netia owns, leases or uses properties through "rights of way" easements. In some cases the property rights are unclear or Netia may be unaware of the defects in the property rights used by the Company and Management can give no assurance that legal issues or challenges will not occur from time to time. That may result in Netia incurring significant costs to protect its rights or move its infrastructure. Similarly, the leases may unexpectedly be cancelled by lessors with the result that Netia incurs significant expenses to relocate its network elements.

Foreign currency risk

Approximately 40% of Netia's annual capital investment programme and up to 10% of typical operating expenses are either invoiced in foreign currencies or are invoiced in Polish Złoty based on price lists expressed in foreign currencies. Netia operates a Risk Management Committee that decides, from time to time, to hedge these exposures to foreign currency risks and if so, the proportion of the exposure to be hedged. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's currency exposures.

Risk of employment termination by key executives and difficulties related to the recruitment of new, competent executives

The activity of the Netia Group is dependent on the quality of the work of its staff and employees in executive positions. The Management Board cannot guarantee that the possible termination of employment by some of its key executives will not adversely affect the financial standing and performance of the Netia Group, which, should some of its executives terminate their employment, may then lack executives with sufficient knowledge and experience in the field of management and operating activity. Changes in composition at the Company's executive levels may result in disruptions in the Netia Group's business activity.

Risk resulting from changes in the Telecommunications Law

The current Telecommunications Law came into force on September 3, 2004, except for certain regulations that came into force on January 1, 2005 in result of implementation of so-called "2002 directives package". On July 6, 2009, the act on the amendment of the Telecommunications Law and other acts entered into force. The purpose of the above-mentioned amendment was to further harmonize Polish provisions with the legal framework of the European Union.

A further amendment of the Telecommunications Law entered into force on July 20, 2010. According to this latest amendment, the definition of "subscriber" was changed, so that it now covers also users of services who have not concluded a written contract for the provision of telecommunications services. After the entry of this law into force, the obligations of telecommunications undertakings with regard to the conclusion, amendment, and performance of contracts apply to these users as well. Netia, as well as other telecommunications entrepreneurs, was obliged to adjust its standard client contracts to the new requirements within six months following the entry of the amendment into force.

On June 2, 2011, an amendment of the Telecommunications Law came into force, with regard to provisions concerning rules for verification whether fees for telecommunications access calculated by an operator with significant market power on the basis of justified or incurred costs are correct.

Pursuant to the amended law, as far as imposition of obligation to set fees on the basis of justified costs is concerned, in the absence of the auditor's opinion on the consistency of an annual regulatory accounting statement and the results of cost calculation with the binding regulations, or in case of a negative opinion or a qualified positive opinion, as well as in case of occurrence of significant discrepancies between the amount of fees calculated by an operator and established by the President of UKE on the basis of an auditor's opinion, the President of UKE establishes the amounts of fees for telecommunications access or their maximum or minimum levels, using methods specified in a decision designating an operator as holding significant market power and imposing an obligation to calculate fees for telecommunications access taking account of justified or incurred costs recovery.

As far as obligation to calculate fees on the basis of incurred costs is concerned, in a decision designating an operator as holding significant market power the President of UKE specifies methods of verification and calculation of fees. In order to verify whether the fees set by an operator on whom an obligation to calculate fees on the basis of incurred costs was imposed are correct, the President of UKE may apply the methods of fees verification specified in this decision. If the executed verification reveals that the amount of fees set by an operator is incorrect, the President of UKE establishes the amount of fees or their maximum or minimum level taking account of the promotion of efficiency and sustainable competition as well as the assurance of maximum benefits for end users. The fees shall be established in a separate decision.

Despite the fact that the amount of fees for telecommunications access to the network of TP SA that Netia currently pays with regard to use of different wholesale services was established between the Companies as binding until December 31, 2012, the Management Board is unable to assure neither that application of the amended regulations will not affect the costs of activity of the Companies from the Group before the end of year 2012, nor that whether – and when, as well as in what way – it will ensure the change of the amount of fees for telecommunications access to be borne by Netia after the end of this period.

On December 4, 2011, the amendment of the Telecommunications Law entered into force pursuant to which premium rate services providers were obliged, inter alia, to provide their subscribers with the right to block access to these services free of charge. In May 4th, 2012 new regulations have entered into force obliging the providers of these services to inform subscribers that the limit of payments due for such services that was established by them in their contracts was exceeded. The Management Board is unable to assure that the new regulations will be uniformly interpreted by the regulatory bodies and that this interpretation will allow for provision of premium rate services without requiring increase of costs of adjustment of the Companies from the Group to the obligations stipulated therein.

On July 17, 2010 the act „for the support of the development of telecommunications networks and services" (hereinafter referred to as "the Act on Development") entered into force. One of the goals of the act is to improve the investment process in telecommunications infrastructure. It authorizes municipalities to construct infrastructure and telecommunications networks, to make it available, and to provide telecommunications services in areas where the demand of end users is not satisfied by commercially provided access to telecommunications services. In such a case, subject to consent of the President of UKE, Internet access services can be provided for prices lower than market prices, and even for free, if the provision of services in a given area under such preferential conditions will not lead to a distortion of effective and equal competition.

Furthermore, if in order to satisfy group needs of the municipal community, the making available of the infrastructure and provision of services is entrusted to a telecommunications entrepreneur, and due to economic conditions the performance of this activity in a given area will not be financially profitable, the entrepreneur may use the municipal infrastructure for fees that will not recover its full construction cost. The cost borne due to the provision of telecommunications services in that area can be partially co-financed by the municipality.

The Act on Development imposes the following obligations on the selected groups of entities:

- real estate owners, real estate perpetual usufructuaries and real estate administrators – the obligation to ensure access to the building as well as to the place in a building in which the cables supplied to the premises in the building are gathered; the access is to be ensured in order to ensure telecommunications and to the benefit of telecommunications entrepreneur which supplied the building with the public telecommunications network;

- owners of the telecommunications ducts situated on the real estate or in the building – the obligation to make the telecommunications ducts accessible for telecommunications undertaking which has no possibility to use another, existing telecommunications ducts;

- owner of telecommunications cable supplied to or distributed within the building – the obligation to make the whole or a part of this cable accessible for telecommunications undertaking in case the supply of another telecommunications cable to the building is not possible;

In case no agreement describing the conditions for access to the infrastructure is executed, the President of UKE may, upon a motion of any of the parties, issue a decision substituting the agreement.

The Management Board is unable to assure that the agreements on the access to infrastructure, concluded by Companies from the Netia Group in the scope of ownership rights to the cable and ducts infrastructure as well as the rights concerning real estate, will be in each case established with interested telecommunications undertaking in accordance with the principle of freedom of contract, without the necessity to settle the technical or financial conditions of co-operation by the President of UKE.

Under the Act on Development the President of UKE is also authorized to issue a decision obliging an operator authorized to use assigned frequencies in an area indicated by the President of UKE in a specified manner.

The Act on Development introduces the possibility of new sources of competition for Netia from municipalities and other interested entities and the risk of overbuild of our existing networks.

The Minister of Administration and Digitalization, and previously Minister of Infrastructure has conducted consultations of draft law amending the Telecommunications Act and some other acts including the Act on Development (hereinafter referred to as "the Draft Law"), aiming to implement the amendments of the 2002 Directives package, that entered into force in the EU in December 2009 and were to be transposed in May 2011. The Draft Law, among other issues, forbids to enter into an agreement of providing telecommunications services longer than 24 months and obliges telecommunications entrepreneurs to extend their offer to include 12 month contracts (or shorter), broadens the obligatory content of contract for the provision of telecommunications services, and obligations with regard to network safety, including the prevention of unsolicited communications (spam). Moreover, the Draft Law provides for, inter alia, detailed rules of responsibility for number portability incompatibly with the will of the subscriber, extends the the obligation to provide facilities for disabled persons onto all of the telecommunications undertakings, increases the information obligations with regard to Subscribers as well as extends of obligation to transfer of data concerning telecommunications activity of a given telecommunications undertaking to the President of UKE. The National Chamber of Commerce for Electronics and Telecommunications (hereinafter referred to as "the KIGEiT") participated in consultations both of the guidelines for the Draft Law and its previous versions submitted its position against these and some other projected amendments. The KIGEiT also objected to the proposed obligations of telecommunications undertakings providing services in fixed networks to specify in contracts with subscribers the values of quality broadband access to Internet. According to the information provided by The Minister of Administration and Digitalization to the KIGEiT, abovementioned amendment was withdrawn.. The Management Board, however, is unable to assure that the other KIGEiT remarks will be also accepted nor that the Draft Law will not impose other obligations on telecommunications undertakings, including Companies of the Netia Group. Member states, including Poland, were obliged to implement the new regulation by May 25, 2011. Until the date of approval of this consolidated report, the process of adjusting the Telecommunications Act to the Directives package remains in progress.

At this stage it cannot be determined in which reading and scope the provisions of the draft law will change the Telecommunications Act in forceand how material the impact of these new European obligations on the conditions for doing business by the Companies from the Group will be. Most of the changes described above may increase of their costs.

Before the day of election to Sejm and Senat in October 2011 the Minister of Infrastructure has also commenced consultations of the draft law on conversion of payments due to fees for licenses granted to mobile public telecommunications network operators. The draft law provided for, inter alia, conversion of part of payments into investments. It follows from the information made public by the

President of UKE, Ms Magdalena Gaj who was before February 1, 2012 Undersecretary of State in the Ministry of Administration and Digitalization that the Government abandoned conducting legislative process of this draft of law.

Consultations have been also commenced with regard to "The Guidelines for the draft law on Interministerial Operator of the Information and Communications Technology System ("ICT System)" (hereinafter referred to as "the Guidelines") that provide for establishment of an Interministerial Operator of the ICT System. This entity would be an obligatory service provider for government agencies as well as a number of other entities whose subjective scope was not specified. This concept would lead to establishment of an entity enjoying a statutory monopoly which would constitute a serious exclusion of competition in this scope as well as in Management Board's opinion breach of both the European Union and national regulations. As a result of preference of the ICT network operator as projected in the Guidelines the alternative operators, including Netia, would lose the possibility to provide services to government bodies and agencies which would lead to lower effectiveness of use of their businesses potential and in turn to decline of revenues with regard to services provided to Clients in this sector.

The KIGEiT submitted its statement in the consultations of the Guidelines expressing its disapproval of the proposed solutions. Neither the Guidelines of law nor the draft law were published in the Public Information Bulletin of the Ministry of Administration and Digitalization. The Management Board, however, is unable to assure that in future the Guidelines will not be reflected in any draft legal act.

At the present stage it cannot be determined whether the projected regulations will enter into force, and in such case, what their impact on conditions of doing business by the Companies from the Netia Group will be.

Risks resulting from the obligation to provide universal services

The telecommunications law stipulates that the obligation to provide universal service should be designated by the President of UKE following completion of a tender procedure. The President of UKE issued a decision designating TP SA to provide universal service until May 8, 2011. Telecommunications undertakings, whose relevant annual revenue from telecommunications activity exceeds PLN 4,000, are obliged to participate in financing of the universal service obligation. The exact participation amount of a telecommunications undertaking obliged to pay subsidy will be established by virtue of the President of UKE decision and cannot exceed 1% of revenues of a given telecommunications undertaking in a given calendar year.

TP SA filed with the President of UKE applications for awarding subsidy towards incurred costs of universal service provision. The applications cover subsidy towards costs incurred in the period from May 8, 2006, until December 31, 2010. The deadline to file an application for awarding subsidy towards incurred costs of USO in respect to year 2011 has not yet lapsed.

The total amount claimed by TP SA on all applications for 2006-2009 was PLN 1,073,089.

In May 2011, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service as follows:

- in 2006 - amounting to PLN 745 - due to provision of facilities for customers with disabilities
- in 2007 - amounting to PLN 1,269 - due to provision of facilities for customers with disabilities
- in 2008 - amounting to PLN 1,830 - due to provision of facilities for customers with disabilities
- in 2009 - amounting to PLN 63,150 - due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones,

On January 10, 2012 the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones.
Jointly for the provision of universal service within the years 2006-2010 TP SA was awarded the total amount of PLN 122,096.

Both TP SA and KIGEiT filed for reconsideration by the President of UKE of the matters concluded by issuing of the above-mentioned decisions. By virtue of a decision issued on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009. By virtue of a decision issued on April 11, 2012, the President of UKE also upheld the decisions awarding subsidies towards incurred costs of universal service for 2010. TP SA challenged the decisions of the President of UKE before the Voivodeship Administrative Court (further "WSA"). On February 3, 2012 WSA dismissed the complaints of TP SA against the decisions granting subsidy towards costs of provision of universal service in 2006 and 2007.

The Management Board is convinced of the validity of the issued judgements, but cannot assure that in cases of appeal by TP SA of decisions granting subsidy towards the costs of universal service for the following years of its providing, there will also be judgements issued dismissing the claims of TP SA and that in case of submitting by TP SA appeals against sentence, they will be dismissed by the Supreme Administrative Court, so that the amounts of the subsidies granted in the above-mentioned decisions cannot be increased.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Until the date of approval of these consolidated financial statement Companies of the Netia Group have received no such decisions.

Based on Management's best estimates of Netia's revenue market share in the years 2006 - 2011 and the decisions of the President of UKE awarding TP SA 122,096 in USO subsidies for years 2006-2010, Netia has made a provision of PLN 5,104 for potential obligation under the subsidy for universal service provided in years 2006 - 2011. The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 – 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2010 were granted in the total amount of PLN 122,096 and estimated amount of potential subsidy to the cost of USO for the year 2011 is PLN 7,156. In this amount, the

(All amounts in thousands, except as otherwise stated)

Companies of the Netia Group have made a provision for covering potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

Should TP SA prevail in any of mentioned litigation, the USO liability in respect to 2006 – 2011 could still rise materially above the amount provided to date.

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from the Netia Group amounts to approximately PLN 56,838 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies		Provision			
	Old Netia Group	New Netia Group	Old Netia Group	Dialog Group	Crowley	New Netia Group
	PLN	PLN	PLN	PLN	PLN	PLN
2006	4,854	6,293	27	6	1	34
2007	7,462	10,862	43	17	3	63
2008	6,389	9,202	55	21	4	80
2009	8,492	11,964	2,270	777	152	3,199
2010	9,934	13,888	2,032	673	135	2,840
2011	3,311	4,629	677	218	45	940
	40,442	56,838	5,104	1,712	340	7,156

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date and, according to the published position of the President of UKE, will not be designated. No assurance can be given that Management best estimate of USO provision for 2006-2011 will be sufficient or that the President of UKE will not make full or partial awards to TP SA in respect to 2011 in the future or that TPSA will not be successful in its appeal measures against decisions regarding subsidies for years 2006-2010 and the size of the subsidies will not be increased.

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has designated Netia and Dialog as telecommunications operators holding significant market power in the market for call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A. and Dialog, on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia and Dialog in the above mentioned decisions of the President of the UKE, Netia and Dialog published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia, at:
http://www.netia.pl/informacje,dla_biznesu,42,921.html
and Dialog at:
http://dialog.pl/sites/default/files/files/download/Informacja_w_sprawie_dost%C4%99pu_telekomunikacyjnego_do_sieci_Telefonii_DIALOG.pdf.
The published documents contain information as required in the Decision of the President of the UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia.

The President of UKE is obliged to perform market analysis not less often than every 2 years. Given that this period lapsed, the President initiated a procedure for the determination of the market for the termination of calls in Netia's network, determination of Netia's market power in that market, and evaluation whether there are reasons to uphold, amend, or waive Netia's regulatory obligations.

No assurance can be given as to whether Netia or Dialog will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network, or whether in the future a significant market power of another Company of the Netia Group in this market is not determined or whether a significant market power of any Company of the Netia Group in another wholesale market is not determined, as well as that any Company of the Netia Group will not be subject to regulatory obligations specified in Telecommunications Law.

Interconnection rates depend on the policy of UKE

The President of UKE issued a decision amending the agreement between Netia and TP SA on interconnection of networks in which it established the level of asymmetry of rates for call termination on Netia's network in relation to the rates for call termination on TP SA's network. According to the above-mentioned decision, rates for the services will become symmetrical by January 1, 2014.

The Management Board is unable to give any assurance that the term for achieving rate symmetry for call termination in Netia's network in relation to the rates for call termination in TP SA's network, will not be accelerated or otherwise changed by the President of UKE. Should such an adverse decision occur, it would be likely to have a material adverse impact on Netia's profit margins.
The President of UKE issued decision by virtue of which it established the rules of asymmetry for termination of calls in the network Dialog in relation to rates for termination of calls in the network TP SA. According to this decision from January 1, 2014 rates for these services will be symmetric. Dialog appealed against this decision to SOKIK. Despite the Management Board is convinced of validity of the appeal, there is no certainty whether it will be accepted by the Court.
TP also appealed against this decision, demanding symmetry of termination rates or, alternatively asymmetry of termination rates differentiated in three tariff periods, instead of one tariff period. Despite the Management Board is convinced that there is no grounds for this appeal, there is no certainty whether it will be rejected by the Court.

TP SA filed an application to the President of UKE for amendment of rates for call termination in Netia's public fixed telephone networks by differentiation of the amounts of rates for each tariff period. The President of UKE by virtue of issued Decision refused the change of the Contracts pursuant to the applications of TP. Despite the fact, that the decisions were issued in accordance with previous regulatory practice, the Management Board cannot assure that SOKIK will dismiss the TP appeal against decision refusing the change of FTR in Dialog network as well as decision refusing the change of FTR in Netia network in case of TP appeal of this decision and that the decisions will remain in circulation.

TP SA also filed with the President of UKE for:
1) the issuance of decision replacing the change of the contract on interconnection between Netia and TP SA, by setting a flat rate for termination of calls of Netia's network in the amount symmetric to the rates of termination of calls in TP SA;
2) the issuance of decision replacing the change of the contract on interconnection between Dialog and TP SA, by setting a flat rate for termination of calls of Dialog's network in the amount symmetric to the rates of termination of calls in TP SA;
3) the issuance of decision replacing the change of the contract on interconnection between Netia and TP SA through making fees symmetric for use of Netia's infrastructure for the purposes of connection of the network to the fees for the use of TP SA infrastructure.

The Management Boards believes that currently there are no grounds for application of rates for termination of calls in the networks of the Companies of the Group and use of their infrastructure for the purposes of the connection of the networks at the amount as claimed by TP SA. One cannot assure, however, that the amount of these rates will not be changed, including that the amount of the rate of termination of calls in the Netia and Dialog network will not be amended before the end of the term following from the decision of the President of UKE, i.e. before January 1, 2014 and that rules of asymmetry of rates for termination of calls in the network Dialog in relation to rates for termination of calls in the network TP SA will be established on the same rules.

TP SA has also filed with the President of UKE for the issuance of decision replacing the change of the contract on interconnection between Netia and TP SA through defining fees for number portability. The Management Boards believes that defining fees for number portability in accordance with TPSA's motion is not justified, however the Management Boards is not able to assure that TP SA's claims will not be taken into account by President of UKE and the costs of using LLU by Netia will not increase as an effects of decision which will be issued in this case.

TP appealed also against the President of UKE decision defining principles and fees for Dialog infrastructure exploitation for the purposes of interconnection. The Management Board is unable to give any assurance that TP SA appeal shall not be successful and that the principles and fees established in decision shall remain in circulation.

Risk of changes of UKE decisions and changes in UKE's approach to regulations

The conditions of performing telecommunications services by the Netia Group are in part set out in decisions issued by the President of UKE and most of them are immediately enforceable. The Management Board is unable to exclude the risk that the decisions will not be reversed or amended by the court nor that the terms of telecommunications access established therein will not be changed by the President of UKE during the period within which the Group's Companies make use of the regulatory conditions introduced by such decisions. The Management Board cannot assure, that in such a case, costs of providing services by the Netia Group will not increase and that operators providing wholesale services based on such decisions will not raise the claims against the Netia Group.

Moreover, on February 1, 2012 a new President of UKE was appointed for a five year term of office and on April 15, 2012, a new Vice President of UKE. No assurance can be given that the President of UKE will follow policies and practices similar to those of the previous regulator, possibly leading to new risks and challenges for Netia's operations not foreseen elsewhere in these risk factors.

Risks relating to regulatory access rates

On October 22, 2009 the President of UKE and TP SA signed an agreement laying down rules for the performance by TP SA of obligations with regard to telecommunications access ("The Settlement Agreement between the President of UKE and TP SA"). The Settlement Agreement provides that the fees for individual services in the scope of telecommunications access that follow from the applicable reference offers will be valid until January 31, 2012. This general rule in effect froze the cost of unbundled local loop services and wholesale line rental voice services.

On the basis of a draft understanding, constituting an appendix to the Settlement Agreement between the President of UKE and TP, Netia and TP executed a separate understanding ("Understanding") on the December 23, 2009. The Understanding provides that the rates for specific services in the scope of telecommunications access, arising from reference offers, shall be binding until December 31, 2012.

The wholesale rates for broadband access (BSA) were established at a fixed level taking account of retail prices in TP SA offer binding on October 10, 2009. Possible further decrease of rates established in the above manner, as well as wholesale rates paid to TP SA since implementation of new speeds to its BSA Offer, are controlled by a margin squeeze test, rules for carrying out of which were established by the President of UKE ("MS test").

Netia was surprised that TP SA's new prices for the lowest transmission speeds somehow passed the margin squeeze tests carried out by the President of UKE. In view of the President of UKE's opinion that the TP SA retail offers examined with the use of the MS test do not constitute price discrimination of Alternative Operators and may be used with the current wholesale fees for BSA services, i.e. the fees calculated on the basis of a "retail-minus" methodology but expressed in nominal values, Netia has had its costs verified by an independent auditor, and after simulating the margin squeeze test, using the audited costs. On the basis of the received outcome of the test it still seems surprising that the TP retail offers for the lowest transmission speeds should pass the margin squeeze test.

On February 9, 2011, the President of UKE published a position indicating amendments to the MS Test procedure that were introduced after carrying out consultations with the market players.

Within the amended MS test procedure, an operator that passed his relevant cost data to the President of UKE for the purposes of carrying out of MS/PS test is provided with access to information on average costs accepted for the test. After market launch of a retail offer that underwent the MS test, an operator that passed his relevant cost data to the President of UKE is also granted right to access data included in TP SA application for carrying out of the MS test, i.e.: the price accepted for the test, as well as the validity period of an agreement concluded on the basis of this offer. Upon motion of such an operator the President of UKE is obliged to carry out the MS test concerning TP SA retail offer one more time.

If the MS test outcome indicates that the relation between prices included in the retail offer launched into the market and wholesale rates applied by TP SA is discriminatory towards operators using wholesale services, then, according to new rules of MS test procedure, TP SA is obliged to withdraw this retail offer from the market. In case of non-performance of this obligation by TP SA, prices set out in it will constitute a basis for calculation of wholesale rates on the basis of "retail-minus" methodology.

In the opinion of the Management Board, the amendments to the procedure of the MS test, comparing with the previously binding procedure, increase protection of operators using TP SA network, including Netia, against price discrimination.
Netia submitted to the President of UKE its cost data regarding the fiscal year 2010 for the purpose of MS test concerning examination of new TP SA retail offers. The submitted data are based on the results of the auditor's verification of the correctness of methodology applied for these costs calculation. The President of UKE considered them actual and reliable, accepted them and decided that they will be taken into account in the process of application to MS and PS tests.

After having conducted with market participants subsequent agreements concerning the procedure of conduct of MS test, the President of UKE decided on January 24, 2012, not to introduce major modifications in the existing procedure. The introduced changes do not affect the rules for applying the MS test. According to them, Netia has notified to the President of UKE the will to provide data on costs for the year 2011 for the purposes of investigation with MS test of the new retail offers of TP SA. The transfer of these data shall happen before June 30, 2012.

The Management Board is unable to assure that the MS Test rules as applied by the Regulator will constitute a sufficient guarantee of TP SA price non-discrimination. The President of UKE's approval of the TP SA retail offers that have undergone the MS Test may result in Netia's and Dialog's loss of part of its share in net subscribers' connections and in decrease of its growth rate, and consequently lead to risk of failure to achieve our strategic and financial goals.

Risks related to amendments to reference offers

Beyond reach of Netia's own network, provision of telecommunications services by the Netia Group is conditional upon access to the network of TP SA.

According to Telecommunications Law and the decisions of the President of UKE, TP SA is obliged to provide telecommunications access to telecommunications entrepreneurs, such as Netia, to its network and to offer frame terms and conditions of contracts on telecommunications access to its network for particular wholesale services, not worse than the terms and conditions specified in TP reference offers approved by the President of UKE.

On September 29, 2010, by virtue of a decision of the President of UKE, a new Reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to TP network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services, was introduced (hereinafter referred to as the "RO"). The RO laid down frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The RO superseded all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

The RO introduced new solutions to cooperation of network providers, so far not included in telecommunications access regulations, including:

1) unification of rules and timeframes of regulated services provision;
2) regulation of terms of broadband service access (BSA) with IP DSLAM technology;
3) introduction of electronic form of communication with TP in the form of IT System Interface into the network providers cooperation.

The RO also introduced significant increases in the fees for fixed line number portability.

KIGEiT and TP SA filed for re-consideration of the case concluded by issuance of RO.

Upon such reconsideration, on April 5, 2011, the President of UKE issued a decision by virtue of which it amended the RO by reducing several fees, i.e.:

a) due to LLU services provision, inter alia due to:

- connection of subscriber's line to TP SA network within launch of the Non-active Line - from 63.4 to 39.48 PLN (not in thousands);
- launch of service provided on the Active Line (switch-over of a pair of cables, servicing of orders for line) - from 55.51 to 46.98 PLN (not in thousands);
- service deactivation (switch-over of a pair of cables, servicing) - from 21.21 to 18.28 PLN (not in thousands);
- as well as due to number portability in such a way that its present amount does not exceed than the one binding prior to issue of the RO;

b) as well as BSA, inter alia due to:

- launch of service on the Subscriber's Line - from 40.98 to 38.68 PLN (not in thousands);
- change of Service Options - from 45.22 to 34.07 PLN (not in thousands);
- Service deactivation - from 40.98 to 38.68 PLN (not in thousands).

The RO does not provide for a fee due to cooperation between operators.
The procedure of MS test was amended, according to the position of the President of UKE of February 9, 2011.

TP SA introduced an appeal against the RO. WSA stated that the decision is in fact decision on regulatory obligations, therefore the competent court should not be administrative court but common court. The KIGEiT, the President of UKE and TP SA appealed against this ruling. The Management Board cannot assure that the conditions established in the RO by the decision of the President of UKE will not be in future amended or reversed.

By a decision of September 4, 2011, the President of UKE amended the RO with regard to conditions for BSA telecommunications access with use of VDSL technology.

Due to the fact that the RO regulates the terms and rules of co-operation of TP SA with other telecommunications undertakings differently than compared to the binding relations with Netia, the Management Board cannot assure that the agreed terms on which Netia uses access to the network of TP SA will not be changed or deteriorated in the future with the aim to ensure competitiveness comparing with other alternative operators.

TP SA filed with the President of UKE a draft offer setting out frame terms of LLU services provision with regard to FTTx access. The offer that will be approved of by the President of UKE in this scope will make up frame terms of using LLU stipulated in the RO. TP SA also applied for amendment of the RO in the scope of BSA access including as regards application of Ethernet level, and also for modification of the BSA service in option with capacity 10 Mbit/s and canceling options: 1, 2 and 6 Mbit/s, since April 1, 2012. Application for amendments of the RO in the scope of options of BSA services TP SA justified by the fact, that TP SA has been going to withdraw retail offers of services delivered in options: 1, 2 and 6 Mbit/s on April 1, 2012. However at this stage of proceedings one cannot predict the results of the proceeding, in the opinion of the Management Board the application of the TP SA should not be admitted. TP SA is obliged to ensure of not worse conditions of wholesale services for others operators, including Netia, than TP SA uses inside of its own undertaking in order to delivering services TP SA's subscribers. Taking under consideration, that TP SA still offers retail broadband services in options: 1, 2 and 6 Mbit/s for period: 12 and 24 months, on April 1, 2012 TPSA will be delivering services in such options. Therefore TP SA should be still obliged to ensure BSA services in the options: 1, 2 and 6 Mbit/s for others operators, including Netia .

TP SA applied also for approval of reference offer with regard to leased lines. At this stage of proceedings one cannot determine what new frame terms of using access to LLU and BSA and within what time frame will be approved by the President of UKE, as well as how the projected amendment of the RO as well as the reference offer stipulating terms of use of leased lines will affect the conditions of doing business by Netia.

In the Understanding as of December 23, 2009, Netia and TP SA agreed that the amount of service rates for access to TP SA network will remain unchanged until December 31, 2012, which is why by that time any change to methodology of rates calculation into calculating them taking account of incurred costs will not affect settlement rules between Netia and TP SA due to access to local loop and local sub-loop built according to copper technology. However, the Management Board cannot assure that no circumstances leading to increase of the amount of costs of using LLU service by Netia will not emerge in future.

The Management Board cannot assure, as well, that rules of access to LLU built using fiber technology will be sufficient for ensuring Netia the opportunity to use of access to fiber local loop in TP SA's network on a mass scale.

Moreover, on January 31, 2012, the President of UKE obliged TP SA to change RO, i.a. in the scope of liquidation of tariff periods O1, O2, and O3 (it also concerns calculation of flat rate interconnection) and definition of fees for number portability. In consequence, the changed RO in accordance with the decision of the President of UKE may raise costs of using services of termination of calls in TP SA's network by Companies of the Netia Group.
KIGEiT has appealed against this resolution as far as liquidation of tariff periods O1, O2 and O3 is concerned. The Management Board is convinced of validity of the appeal, however it cannot assure that it will be accepted by the President of UKE.

TP SA has also filed an application to the President of UKE for amendment of RO in relation to premium rate services provided within wholesale access to TP S.A. network (WLR). In management Board opinion not every amendments proposed by TP SA are necessary to perform duties stemming from amendment of Telecommunications Law related to provision of premium rate services. However, the Management Board cannot assure that the President of UKE shall not approve the RO amendment in a manner that will not increase the cost of WLR.

Risks related to the decisions of the President of UKE on the service of termination of calls in mobile networks (hereinafter referred to as "MTRs") (not in thousands)

In January and February 2009 the President of UKE issued temporary decisions amending agreements on the interconnection of networks concluded by Netia and Dialog with Polska Telefonia Cyfrowa S.A., Netia and Polkomtel Sp. z o.o. as well as Netia and Polska Telefonia Komórkowa Centertel Sp. z o.o. by lowering the mobile termination rates (MTRs) in public mobile telephone networks of the above-mentioned mobile networks operators to the level of PLN 0.2162 per minute. In June and July 2009 the President of UKE issued decisions (which replaced the above-mentioned temporary decisions) on the amendment of the interconnection agreements, concluded by Netia and Dialog with the above-mentioned operators, by setting the MTR at the level of PLN 0.1677 per minute. The same MTR was defined by President of UKE in the decision amending agreements on the interconnection of networks concluded by Petrotel with Polkomtel.
Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A. appealed against the temporary decisions of the President of UKE. The lower court reversed the temporary decision amending MTRs stipulated in the agreement between Polska Telefonia Cyfrowa s.A. and Netia. Netia appealed against these rulings.

The temporary decision changing MTR rates specified in the contract between Polska Telefonia Cyfrowa S.A. and Dialog was also repealed. Dialog filed an application for justification and shall appeal against this ruling.

The temporary decision changing MTR rates specified in the contract between Polkomtel Sp. z o.o. and Dialog was also repealed. Dialog appealed against these rulings. However, in accordance with the agreements concluded between Dialog and Polkomtel Sp. z o.o., Polkomtel Sp. z o.o. had withdrew its appeal, and as a result of it, proceeding related to the temporary decision for Dialog the proceeding has been discontinued.

The agreements with Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. Z o.o. and Polska Telefonia Cyfrowa S.A. (hereinafter the "MTR Agreement") were concluded by most of Alternative Operators being members of the KIGEiT, including Netia and Dialog. According to the MTR Agreement the forementioned mobile operators confirmed MTR paid in accordance with the President of UKE decision and limited the possibility of requesting retrospective claims.

In proceedings before courts Polska Telefonia Komórkowa Centertel Sp. z o.o. and Polkomtel Sp. z o.o. withdrew their appeals from the President of UKE decisions. As a result of withdrawal of appeal filed by these enterprises, as at the day of approval of this consolidated report, the Appellate Court:
- has discontinued proceeding regarding appeals of Polska Telefonia Komórkowa Centertel Sp. z o.o.;
- has also reversed the SOKiK ruling repealing the temporary decision changing MTR rates specified in the contract between Dialog and Polkomtel Sp z o.o. and has discontinued the proceeding (mentioned above) ;
- has also discontinued proceeding regarding appeals of Polkomtel Sp. z o.o. against final decision changing MTR rates specified in the contract between Dialog and Polkomtel Sp z o.o.

The Management Board cannot assure that the Appellate Court will reverse or amend the judgments of the lower court in the cases related to appeals filed by Polska Telefonia Cyfrowa S.A. from decisions regarding MTR and that the decisions itself will not be reversed. Despite the fact that MTR Agreement was concluded between Netia, Dialog and Polska Telefonia Cyfrowa S.A., the Management Board cannot also assure that Polska Telefonia Cyfrowa S.A. shall not make claims related to results of mentioned proceedings. The Management Board cannot predict the result of proceeding regarding such claims.
Along with other market participants, Netia, Dialog and Petrotel have made significant cuts in its customer tariffs for calls to mobile operators on the basis of the Regulator's MTR decision. In the event that the court raises the MTR rates once more, Companies of the Netia Group will be unlikely to be able to pass on the higher costs to its customers through higher tariffs. No assurance can be given that possible damages claims against the Regulator would be taken into consideration by the courts.

The President of UKE issued decisions stipulating the amount of MTRs to be paid to Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel Sp. z o.o. and Polska Telefonia Cyfrowa S.A.: as of July, 1, 2011 – at the level of 0.1520 PLN per minute and as of July 1, 2012 – at the level of 0.1223 PLN per minute, as well as the amount of MTRs to be paid to P4 Sp. z o.o., calculated on the basis of an index of asymmetry in relation to the remaining rates. Moreover, these decisions stipulate investment obligations of individual mobile networks operators in the so called "white areas", i.e. areas with low population density, excluded from GSM network coverage.

Due to issue of the decisions establishing the amount of MTRs at the level of 0.1520 PLN per minute and 0.1223 PLN per minute the President of UKE discontinued proceedings regarding issue of decisions obliging Polska Telefonia Komórkowa Centertel Sp. z o.o. and Polkomtel Sp. z o.o. to apply MTRs amounting to 0.0966 PLN per minute.

In MTR Agreements concluded by Netia and Dialog with mentioned mobile network operators the MTR provided by mentioned decisions were confirmed.

Risk related to reversal of President of UKE decisions stipulating conditions of the access to IN services in Netia and Dialog networks for mobile networks users

The President of UKE issued decisions stipulating conditions of access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users.

The Appellate Court in Warsaw reversed these decisions stipulating access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. users.

Polkomtel Sp. z o.o. ha salso appealed against the decision stipulating conditions of the access to IN services Dialog networks for users of Polkomtel Sp. z o.o. network. r. The Management Board cannot assure that the decision will not be reversed as a result of Polkomtel Sp. z o.o. appeal.

The Management Board cannot assure that agreements stipulating conditions of the access to IN services in Netia and Dialog networks for Polska Telefonia Cyfrowa S.A. and Polkomtel Sp. z o.o. users will be concluded, and if these enterprises shall not make claims related to results of mentioned proceedings. The Management Board cannot predict the result of proceeding regarding any eventual claims.

Risks related to the analysis of relevant markets

According to the Telecommunications Law, the President of UKE performs an analysis of telecommunications services market („relevant market") not less often than every 2 years and upholds, modifies or waives regulatory obligations imposed on an entrepreneur, who as a result of a previous analysis has held a significant market power.

TP SA holds significant market power in individual wholesale markets countrywide and is obliged, in particular, to provide telecommunications access to other entrepreneurs, under non-discriminatory terms.

On December 30, 2010, the President of UKE issued a decision defining a market, in which TP SA was so far obliged to provide access to local loop or a local sub-loop in copper technology, as a market of wholesale (physical) access to network infrastructure service provision (including full and shared access) in a fixed location, designated TP SA as holding a significant market power on the relevant market, as well as imposed regulatory obligations on TP SA.

By virtue of the President of UKE decision TP SA was obliged to maintain telecommunications access to local loop and sub-local loop, as well as to provide access to the telecommunications ducts or to dark fibers, and - in case of lack of possibility of access provision for an operator applying for access to the above elements of infrastructure – to provide access to local loop and local sub-loop using fiber technology.

So far TP SA had an obligation to calculate costs and set telecommunications fees taking account of justified costs. This was replaced in the decision by an obligation to set fees taking account of incurred costs. The method TP SA is obliged to apply, allows for recovery of costs actually incurred in the process of telecommunications access provision and not justified costs i.e. costs that a hypothetical telecommunications undertaking would incur if it operated on a fully competitive market, with scope of activity and demand for its services comparable to those specific for an actually existing telecommunications undertaking obliged to run costs calculation.

In the opinion of the Management Board the amendment of the imposed obligation concerning method of calculation of costs of telecommunications access provision introduced by the President of UKE's decision is premature. No circumstances arose on the market that could justify application of the method of costs calculation taking account of incurred costs and not justified costs.

KIGEiT filed an appeal with SOKiK against the President of UKE's decision of December 30, 2010. In spite of its conviction of validity of the claims raised in the appeal, the Management Board is unable to assure that the decision will be changed in the scope of the appeal.

On April 28, 2011 the President of UKE issued a decision holding TP SA as having a significant market power in the market for provision of wholesale broadband access services. The analysis of the President of UKE included the national market, within which regulatory obligations of TP SA in the areas of separate groups of municipalities were differentiated. The decision also provides for change of obligation to establish telecommunications access fees according to cost calculation, from the method based on justified costs to incurred costs. Eleven municipalities were excluded from the national market area.

On July 27, 2011 the President of UKE commenced consultation and consolidation proceedings concerning a draft decision identifying a broadband access market within the administrative borders of eleven municipalities: Warszawa, Płońsk, Nowy Dwór Mazowiecki, Lublin, Zielona Góra, Bielawa, Olsztyn, Łomża, Białystok, Elbląg, Braniewo and stating that within the areas of these municipalities effective competition is present and no SMP undertaking operates.

On February 1, 2012, the President of UKE commenced consultation proceedings of the draft decision, in which it defines the relevant market as the market for provision of wholesale broadband access services, states that there is no competition on this market, TP SA has significant position on this market, and in this connection imposes regulatory obligations on TP SA. Within administrative borders of four municipalities: Toruń, Lublin, Warszawa and Wrocław, in the area of which the competition distortions are in the opinion of the President of UKE significantly less important than in the rest of the country's market area, imposes on TP SA the obligation to assure telecommunication access along with obligation to keep realized access and obligation of non-discrimination. On March 26, 2012 within consolidation proceeding the President of UKE provided the draft of decision to the Body of European Regulators for Electronic Communications (BEREC) and national regulatory authorities in other member states.

The European Commission has started an in-depth investigation and has issued a serious doubts letter concerning the project of the decision in the scope of measures of the access to TP's FTTH infrastructures proposed by Polish Regulator. President of UKE may work with the Commission and BEREC on regulatory rules of the access to TP's FTTH infrastructures for three months. In the other case, President of UKE will not be allowed to issue the decision based on the project.

In the opinion of the Management, relevant markets, including broadband access markets within the area of the four municipalities comprised in the draft decision, are not developed sufficiently to allow for geographical or technological differentiation of TP SA regulatory obligations, nor are there any grounds, to hold that on the area of these municipalities the regulatory obligations imposed on TP SA should be limited.

At this stage of the consolidation proceedings concerning the draft decision one cannot predict, however, whether and when it will be issued nor how the rules of the access to TP's FTTH infrastructures will be defined. Therefore it is impossible to determine what terms of wholesale broadband access will be binding within the borders of the above mentioned municipalities as well as when and how they will affect the existing ability of Companies of the Netia Group to provide services with use of such type of access to TP SA network within the mentioned area.

Despite the Management Board position that within the geographic area of the above mentioned municipalities all the obligations of TP SA as a designated telecommunications undertaking of significant market power should be maintained, the Management Board is unable to assure that the President of UKE will not issue a decision consistent with the draft decision, as a consequence will not withdraw regulatory obligations currently imposed on TP SA as regards broadband access within the above mentioned four municipalities, not foreseen in the consulted draft decision. The Management Board is unable to assure, as well, that in such a case the court will validly accept the allegations of the appeal against the decision of the President of UKE, if any will be lodged, and will restore obligations of TP SA in the scope necessary for preservation of effective competition within the areas of the above mentioned municipalities. In the Understanding of December 23, 2009, Netia and TP SA established that the amount of rates for access to TP SA network within BSA will remain unchanged until December 31, 2012, which is why until this time, the change of methodology of setting fees into its calculation taking account of incurred costs will have no impact on settlement rules between Netia and TP SA due to provision of access BSA lines unbundled according to the rules binding until the date of issue of the respective decision, if issued by the President of UKE. However, the Management Board is unable to assure that circumstances will not arise in future that could lead to increase of the amount of costs of provision of broadband access service by Companies of the Netia Group to subscribers to whom they will be provided with use of BSA service.

Netia possesses infrastructure and uses LLU services within the area of the four municipalities, in which according to the draft decision the regulatory obligations of TP SA shall be limited, which beyond the obligation, foreseen in the motioned draft decision, to assure by TPSA of continuity of broadband access on links, with use of which retail telecommunication services are provided, allows maintaining continuity of provision of broadband services by Companies of the Group to majority of end users to whom they are currently provided within these areas. The Management Board is unable to assure, however, that the change of technology from BSA to LLU will be possible in case of each subscriber's line within the area of these municipalities and that in this regard provision of broadband access services within these borders to all of the current users of Netia's and Dialog's services will be possible in future.

Risks related to Tele2 Polska's business

In February 2009 the President of UKE issued the decision fining Tele2 Polska with the amount of PLN 500 for the exchange of traffic between Tele2 Polska and TP SA in breach of conditions of the so-called "flat interconnection rate". Tele2 Polska appealed against the above-mentioned decision. SOKiK reversed decision of the Presiden of UKE, However, the Management Board cannot assure that in case of appeal filed by the President of UKE this ruling shall not be reversed by Appelate Court.

The Appellate Court rendered two judgments in which it held that the standard terms and conditions and price lists used by Tele2 Polska are abusive with respect to an obligation of a subscriber to reimburse the operator for the costs of requests for payment and debt collection proceedings. Both judgments of the appellate court are final and binding. Therefore Tele2 Polska is obliged to amend the standard contracts. The Management Board cannot assure that as a result of the aforementioned judgments, the Netia Group will not incur further costs regarding possible private claims for reimbursement.

Risks related to Dialog's business

TPSA has summoned Dialog to pay the amount of PLN 632 (including interests) for account of outstanding receivables arising from the use of telecommunication access to the TP SA's network by Dialog. Despite the fact that in the Management Board's opinion TP SA's claims are at least partly unjustified, it cannot be assured that in case of court proceedings they will not be taken into account or that Dialog's claims for payment against TP SA arising from the contracts and decisions on telecommunication access or using Dialog's infrastructure by TP SA will be paid in the amount of exceeding the amount TP SA's claims.

Moreover, TP SA has issued invoices for transit to ported numbers. These invoices cover fees for period between January 1, 2012 and March 31, 2012. Dialog claims the invoices are unjustified because neither interconnection agreement nor agreement on number portability provide the title for the charging fees for such service. Despite the fact that in the Management Board's opinion TP SA's claims are unjustified, it cannot be assured that in case of court proceedings they will not be granted.

Risks arising from the presumption of the powers of the organizations for the collective administration of the rights of authors of neighboring rights.

The Law on Copyrights and Related Rights defined a presumption, that the organizations for the collective administration of the rights of authors of neighboring rights (hereinafter referred to as "OZZ") are entitled to give consent (grant license) to rebroadcast TV channels via cable networks and are entitled to collect remuneration for the hereinabove rebroadcasting in scope of the copyrights managed by certain OZZ. Tables of remuneration of the use of works or objects of related rights covered with collective management are established on the percentage basis in relation to the gross revenue earned by the operator from the rebroadcasting of the TV channels and are approved by the Copyrights Commission (Komisja Prawa Autorskiego; hereinafter referred to as "KPA") upon the application for the approval submitted by OZZ to KPA. KPA is also entitled to settle disputes connected with concluding of the contracts between OZZ and cable network operators.

The obligation of obtaining from OZZ the channels' rebroadcasting license following from The Law on Copyrights and Related Rights is contrary to the legal regulations of the EU Directive No 93/83/EWG. EU legislator compulsory excluded the said obligation in case where the cable networks operators are granted with this license directly by the TV channels' broadcasters. According to the constitutional principle of the EU law dominance over the Polish law, there is no need to obtain the additional OZZ's license in scope of the rights already granted directly by the broadcasters. Bearing in mind the practice of dealings in Poland, the Management Boards may not guarantee that the above mentioned UE law principle shall apply to Dialog and Netia. However, this contradiction in law does not exclude the statutory, resulting from The Law on Copyrights and Related Rights, obligation imposed upon the rebroadcasting operators to pay the so-called additional remuneration of the use of works or objects of related rights covered with collective management for the benefit of OZZs.

As regards the TV channels' rebroadcasting, it is Polish Filmmakers Association (hereinafter referred to as "SFP") that is widely entitled to represent the producer's rights and is involved in collective copyright management. However, as long as it is not proved which works or objects of related rights are covered with collective management by Authors' Association "ZAIKS" and others OZZ, it is not possible to determine the scope of the hereinabove presumption arising from The Law on Copyrights and Related Rights and if in case of the TV channels' rebroadcasting without the agreement with Authors' Association "ZAIKS" or other OZZ, on the basis of the Polish law, OZZs shall be entitled to request abandonment of further TV channels' rebroadcasting by Netia or Dialog effectively and payment of the compensation in the amount of 300% of the gross revenue earned from rebroadcasting.

KPA had determined the remuneration of the use of works or objects of related rights covered with collective management of SFP in the amount of 1.6% and covered with collective management of Authors' Association "ZAIKS" in the amount of 0.6% (in UPC's case) and 0.9% (in Sat-Film case), but Commission judgments were appealed. In consequence the said remunerations in amounts defined by KPA are not in force. At this stage, the Management Board may not foresee the result of these KPA's proceedings, in particular it is not possible to predict the amount of OZZ's remunerations, which will be defined, if it is higher or lower than 1.6% (SFP) and 0.6-0.9% (Authors' Association "ZAIKS") and when this fact has an influences on accounting conditions between Netia, Dialog and OZZs .

According to the agreement currently in force, Dialog pays for the benefit of SFP the remuneration in the amount 1.6% of revenue earned by Dialog from rebroadcasting of the TV channels. The agreement between Dialog and Authors' Association "ZAIKS" is terminated, however Dialog pays in favour of Authors' Association "ZAIKS" the advance payments in the amount 0.6% of revenue earned by Dialog from rebroadcast of the TV channels and this OZZ accepts these payments. In order to avoid payment fees for rebroadcasting some works to both Artists Performing Music and Music-Verbal Works Association SAWP (hereinafter the SAWP) and Union of Performing Artist STOART (hereinafter the STOART) Dilaog has served notices of termination with respect to agreements establishing current settlement rules with these organizations. Establishing the rights to represent by SAWP and STOART the property rights to works rebroadcasted by Dialog will require to point relevant organization by KPA and, in dispute cases, pursuing the mediation proceedings by KPA. Netia carries activities aiming to regulate with SFP and ZAIKS in the scope of copyrights they manage the compensation rules for rebroadcasting of TV channels. Despite this fact, SFP summoned Netia to pay the amount of 2.2% of gross revenue earned by Netia from rebroadcasting of the TV channels during the period between August 1st, 2009 and December 31st, 2011 and proposed that the said rate shall apply for the future settlements between Netia and SFP.

Even though Netia doesn't provide activity in TVC technology and Management Board is convinced of that the amounts of compensation demanded by OZZ are unjustified, it couldn't be guaranteed that Netia and Dialog shall not be obliged to pay to SFP such amount of compensation demanded by OZZ until KPA approves the lower rate of the remuneration and amendment of settlement rules with OZZ.

At this stage of Netia's activity of TV channels' rebroadcasting, taking into account the circumstances that it is conducted via IP technology, not cable technology, and taking also under consideration the legal and the factual doubts concerning the scope of the power of each OZZ and also lack of the approved SFP's and ZAIKS's tables of remuneration of the use of works or objects of related rights covered with collective management, it couldn't be predicted what the final part of the revenue earned from providing TV services by Netia and Dialog, they will be obliged to pay to OZZ. However, the Management Board is convinced of that, the total final amount of these receivables is expected to be lower than paid to OZZ by cable operators. On the basis of the resolutions of the disputes between cable networks operators and OZZs and tables of remuneration of the use of works or objects of related rights to be approved by KPA, Management Board estimates that total definitive amount of the remuneration to be paid by cable network operators to OZZ may be up to 4% of revenue earned by them.

Other regulatory risks

The President of the UKE is regularly carrying out inspections of compliance of the companies from the Netia Group with the provisions of the Telecommunications Law and using frequency and numbering conditions. In cases provided for in the Telecommunications Law, the President of UKE may fine the companies from the Group with a fine up to 3% of revenues of the previous calendar year.

The Management Board cannot assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine.

The President of UOKiK is entitled, inter alia, to conduct proceedings concerning compliance of standard terms and conditions applied by the Companies belonging to the Group with requirements stemming from the law on protection of competition and consumers, as well as other regulations aiming at protecting consumers' interest. In cases provided for in the law on protection of competition and consumers the President of UOKiK may impose on the Companies belonging to the Group a fine amounting up to 10% of their income earned in the preceding calendar year.

The Management Board is unable to assure that within the scope of the explanatory proceedings the President of UOKiK will consider standard terms and conditions applied by the Companies belonging to the Group to be compliant with the respective legal requirements, thus excluding the risk of fine imposition.

The business conducted by the Companies of the Netia Group is also subject to control by other regulatory authorities and to inspections based on the relevant laws and within the scope of the granted to such authorities. If such regulatory authorities determine that the Companies of the Netia Group are not acting in compliance with the respective laws the regulatory authorities may impose various administrative sanctions on the Companies of the Netia Group as prescribed in the relevant laws, including monetary fines or orders prohibiting/compelling the Companies of the Netia Group to perform certain actions.

The Management Board cannot assure that with regard to all inspection procedures the authorities conducting the control agree that the position of Netia or other companies of the Netia Group and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine and prohibition of performing the activity being a subject of a control.

Risk of collective suits

On July 19, 2010, a law on prosecution of claims in collective procedure, which provides for possibility of bringing an action to the court by a group of at least 10 people, came into force. A judgment passed as a result of such a suit regards all the members of such a group. The Management Board cannot exclude risk of bringing such actions against the Company in the future.

Risk of growth of competition as market converge

The Company's current core offerings are voice telephony and broadband data services. In addition to the incumbent and other alternative operators, mobile operators and cable operators provide significant competition for both types of service.

Moreover cable operators and TP SA also offer television and content services and some cable operators now offer quadruple play bundles including mobile telephony. Certain satellite TV operators are responding to the situation by also moving into the resale of fixed telephony and/or broadband thereby further increasing the competition to Netia's core services. Companies of the Netia Group intend to respond to this competitive pressure and convergence of product offerings by itself offering television services over upgraded networks. However no assurance can be given that this tendency of operators of different types of infrastructure to offer similar multi-service bundles will not lead to the gradual erosion of margins, profitability and cash flows.

In addition, significant new operators may enter the Polish market or mergers between existing market participants may significantly alter the competitive landscape in a way that might materially deteriorate Netia's competitive position.

Risk of competition from TP SA and TP SA obedience to the UKE decisions

TP SA occupies a leading position in Poland among operators paying cable phone services. At the same time its position in the market of data transmission is well established. In the scope of cable phone services, Netia Group has to face competition from TP SA in all the geographic areas it operates on. TP SA is a much larger entity than Netia Group and possesses far broader backbone and access network. TP SA is engaged in many years' relations with numerous clients that constitute a target client group of Netia Group. Infrastructure exploited by TP SA in the main cities of the country is comparable in terms of advancement of applied technologies to the infrastructure of Netia Group. However, TP SA may also make use of the offer of its main subsidiary unit, the Orange mobile network operator, as well as of TV services, in a manner that Netia currently would not be able to copy. One cannot exclude that aggressive competition from TP SA will have a significant adverse effect on Netia Group revenues and its operating activities outcomes.

TP SA is the owner of local access networks (local loops) and offers access to these local loops networks to other operators on terms that in many cases make it unprofitable to connect client to the network. However, since 2006 the Regulator has issued decisions establishing reference offers for access to TP SA networks that currently is regarded by Netia to be commercially profitable. Due to the above in 2006 Netia signed a cooperation agreement with TP SA enabling Netia to offer Internet access to TP SA clients on the basis of regulatory TP SA wholesale offer called bit stream access. In June 2007 Netia and TP SA concluded networks interconnection agreements that complexly regulate terms of cooperation between operators. This agreement also applies to cooperation with TP SA in the scope previously addressed in separate agreements on networks interconnection concluded by companies from Netia Group, whose rights and obligations Netia entered into under regulations of the code of commercial partnerships and companies. By virtue of the Settlement Agreement Netia acknowledged this rule on January 22, 2010, placing with TP SA a binding statement on regarding the interconnection agreement between Netia and TP SA of June 30, 2007, as the basis for serving all of the Netia services users in the scope of networks interconnection. In January 2007 the President of UKE issued a decision on amendment of interconnection agreement between TP SA and Premium Internet – a company belonging to Netia Group (which in 2008 merged with Tele 2 Polska, the latter in February 2009 merged with Netia), in the scope of wholesale line rental (WLR). The decision of the President of UKE introduced a basis for a new form of access to TP SA network enabling Netia Group to offer voice services to TP SA clients. In October 2008 a WLR decision in favor of Netia was issued, as well. Moreover, in April 2007 Netia concluded an agreement with TP SA on full and shared local loop unbundling, with use of which Netia Group offers voice and data transmission services, and in the future plans to pay different value-added services such as interactive TV service (IPTV). Whereas the key commercial terms of these services provision laid down in the Regulator's decisions are currently attractive, still the operational cooperation with TP SA aiming at provision and maintenance of such services for end users will require closer cooperation than it used to be in the past.

Notwithstanding the Settlement Agreement between the President of UKE and TP SA, the Management Board is not able to guarantee that TP SA will cooperate on an adequate level of engagement, nor that the regulatory body will react forcing TP SA to realize the cooperation. Moreover, we are unable to give assurance that change of market situation, future court judgments or regulatory body decisions will not cause that currently existing possibilities of services provision for clients through use of TP access networks to be no longer profitable from the commercial point of view.

Possible future competition from new generation networks

The most modern fixed line telephony networks being deployed around Europe by incumbent operators and by cable TV operators utilize fiber to the curb (FTTC), fiber to the building (FTTB) or fiber to the home (FTTH) to significantly increase bandwidth delivered to the end user. New built Networks based on IP protocols may gradually eliminate the traditional telephony equipment and copper access cables and will replace it by fiber optic cables and new generation optical transmission systems. Moreover, many incumbents are lobbying to receive relief from regulatory obligations for a period of time in order to improve their returns from such large investments. In the future it may also become possible for public authorities or public/private partnerships to gain access to investment subsidies that could lead to new sources of competition from NGN networks. New generation networks (NGNs), if deployed in Poland, could materially deteriorate the economic returns Netia plans to earn from regulatory access products such as bitstream, WLR and LLU. Management can give no assurance that NGN networks will not be deployed in Poland by entities having access to public funding not available to Netia and, if this does occur, whether the regulator will ensure alternative network operators such as Netia enjoy fair access to such a network on acceptable economic terms.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, whereby subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs. Similar substitution effects may also apply to broadband services, given the increased take-up of mobile broadband services offered by mobile operators.

To help mitigate the losses to mobile operators, Netia has begun to offer convergent products via a wholesale mobile service provider agreement to take mobile services, both voice and broadband, from P4 that Netia may then resell under the Netia brand to Netia customers.

Since 2008, certain Polish mobile operators have been marketing fixed internet access services via the fixed access network of TP SA, on the basis of regulated bitstream access decisions. This represents a significant new source of competition for market share in the fixed broadband market.

Competition from cable operators

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging. However, Netia is reviewing alternatives to combat this threat. Specifically, IPTV offers fixed line telephone operators the ability to compete directly with cable television operators. The market importance of IPTV and related services (such as video on demand) is continually being analyzed in the context of Netia's strategy to expand its share of the broadband market. The Company is working on solutions to provide profitable TV services to its customers and expects that such services should reduce churn and increase margins per customer. However no assurance can be given that Netia will be successful in implementing a profitable TV service business model. Should such services be insufficiently well received by our existing and potential customers, it may adversely affect our revenues and margins in the future.

Market consolidation

Market consolidation through acquisitions remains an effective way for fixed line operators to strengthen their market position by utilizing the effects of scale. In the past Netia has successfully acquired several telecommunications operators making it the market leader for consolidation.

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy, Netia continues to closely monitor the situation of all its main altnet competitors and may choose to try to acquire one or more of these competitors in the future if the opportunity arises. Some acquisitions may consume a considerable portion of Netia's financial resources and no assurance can be given that expected synergies from such acquisitions will be reached as planned.

Certain potential acquisition targets, should they become available for sale, would require Netia to raise significant amounts of financial indebtedness and / or to issue new shares or equity related instruments in order to fund a transaction. Management cannot guarantee that such funding will be available when needed on acceptable terms or that such an acquisition would not significantly increase the funding risk profile of the Netia Group.

Moreover, should we be outbid by a competitor on any particular large acquisition opportunity, our position as the leading alternative operator on the Polish telecommunications market and the strategic advantages that this position creates may be materially affected.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 and on December 13, 2011 the Polish regulator issued decisions reducing the initial milestones. The milestones established for the year 2011 regarding population coverage and area of the country were achieved. In the event that reservation obligations are not being met by an operator, the President of UKE has the power to limit or confiscate the reservation, if the undertaking is not able to assure effective use of possessed right. However, historically such measures have rarely been used.

Tax regulations and their interpretation

Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes have radically changed in comparison to the tax regulations, which existed prior to the economic and political transformation in Poland. The lack of reference to well-established practices and the relatively short period in which these new tax regulations have been in place often results in a lack of clarity and consistency in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. Tax settlements, together with other areas of legal compliance are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems. The tax authorities may at any time inspect the books and records of the Company and may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year when a tax is due.

Dispute over Corporate Income Tax (CIT) paid for 2003 (not in thousands)

In February 2010 the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") issued a decision ("Decision") according to which Netia's corporate income tax due for the year 2003 was set at PLN 34.2 million plus penalty interest of approximately PLN 25.3 million. The decision closed proceedings related to Netia's appeal of a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was set at PLN 58.7 million plus penalty interest amounting to PLN 41.3 million.

The decision of the Tax Chamber Director was issued despite legal arguments presented by the Company, which claimed that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the Tax Chamber Director and the UKS Director, Netia understated its taxable income by PLN 247.5 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in earlier years to subsidiaries which subsequently merged with Netia on December 31, 2003. The Director of UKS, as the first instance tax authority, claimed in its earlier decision that Netia understated its taxable income by PLN 303 million.

According to Netia, the decisions of the UKS Director and the Tax Chamber Director are in conflict with the relevant tax regulations. In addition to major procedural faults, Netia believes that the tax authorities' decisions incorrectly interpret and apply a number of material regulations. According to the Company the following are the most important deficiencies:

1. Incorrect interpretation of art. 11 of the CIT Act (which deals with transfer pricing), especially the notion of "services" and "more favorable conditions" and assumption that the non-commencement of the execution procedure constitutes such a service of the lender towards the debtor on non-market conditions. Such interpretation of this provision and its application towards the Company is not justified in the light of the fact that in the decision issued by the tax authorities it was confirmed that loans were granted on market terms; (interest, payment terms, etc.).

2. Failure to consider the absolutely mandatory prohibition on broadening the interpretation of art. 11 of the CIT Act, which covers exceptions from the principle of taxing actual revenue, without special care and consideration of all business, legal and economic circumstances. In the case of Netia the tax authorities did not take into account issues such as:

   - Netia was not able to report interest income in 2003 because even if Netia had received interest from its subsidiaries the amount received would have been spent on the repayment of Netia's interest liabilities (and the repayment of the interest would have been a tax deductible cost);

   - the execution of interest by court enforcement proceedings, which according to the Tax Chamber Director and the UKS Director is the only proper way to proceed when debts remain unpaid, would be inefficient from a business and economic point of view and would have led to the bankruptcy of the subsidiaries. The Company chose the less expensive way, by settling its receivables through merger with its subsidiaries and thereby taking over their operating assets. In parallel to this restructuring, Netia restructured its own liabilities with the external lenders to the group;

   - to assess Netia's conduct of non-commencement of a formal execution procedure (comparable market transaction) in the case of loans granted to its subsidiaries the tax authorities considered exclusively the loan granted by Netia to Millennium Communications; in fact, Netia was involved in numerous litigations with Millennium Communications due to the unsuccessful acquisition of that company by Netia.

3. Ignoring the norms of art. 12 of the CIT act by rejecting in the decision the rule that exclusively interest received constitutes taxable revenue (on the cash basis) and leading to the situation where the tax payer's revenue is assessed in violation of general principles relating to the mode of revenue generation.

4. Netia's taxable losses were settled incorrectly, resulting in a significant overstatement of tax being claimed. Whilst the Tax Chamber Director has recognized some of the Company's corrections to the CIT calculation in respect to 2003, reducing the claimed amount by PLN 15 million, the Company continues to claim other increases in taxable expenses that the Tax Chamber Director has not accepted.

The Tax Chamber Director's decision, which partially upheld the decision of the UKS Director, was enforceable as a decision of the second instance tax authority. The liability of PLN 59.6 million was settled in February 2010, from which PLN 1.3 million was subsequently conceded by the Tax Authority as overpayment.

Netia received opinions from several independent tax and legal advisors, as well as tax law experts, which concluded that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, following the payment of the PLN 58.3 million and having recourse to two levels of independent administrative courts in which to obtain a positive ruling, Management took the position during 2010 that recovery through the courts is virtually certain did not recognize the Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2010 and instead treated funds paid over to the tax authorities as an overpayment of tax.

However, having heard Netia's appeal of the decision of the Tax Chamber Director, on 15 March 2011 the Voivodeship Administrative Court ("WSA") in Warsaw announced a judgment with respect to the Decision and the Court dismissed the Company's claim in its entirety. On July 5, 2011 the Company received the written justification of this decision.

Following the WSA decision in favour of the tax office, Management recognizes that there is now only one instance remaining to obtain a favourable ruling and the existence of strong tax opinions is no longer sufficient to maintain the judgment that recovery is virtually certain.

Consequently, in the first quarter of the year 2011 the Company recognized the taxes and related penalty interest already paid in 2010 as an income tax expense relating to the year 2003 of PLN 58,325 thousands.

The Voivodeship Administrative Court's judgment is not final. On August 3, 2011 the Company filed a cassation claim to the Supreme Administrative Court.

On December 30, 2011 Netia received further repayment of PLN 6.4m related to penalty interests paid previously by the Company and subsequently conceded by Tax Authority as incorrectly claimed.

On February 22, 2012 Netia received payment of PLN 1.4m concerning penalty interests on the amount returned in December 2011. Should the appeal to the Supreme Administrative Court be positive for the Company, the amount of unduly paid tax plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest.

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless and reclaim the remaining net amount of PLN 51.9 m paid to tax office, together with related interest.

Although the Management are committed to taking all possible legal steps to win this claim and continues to hold the view that the Company's legal arguments are strong, Management can give no assurance that any or all of these amounts will be ultimately recovered from the tax authorities.

Possible Material Claims (not in thousands)

On Jun 22, 2011 the European Commission has fined TPSA 127 mln Euro for, abuse of dominant position by obstructing access to its wholesale broadband products which took place from August 3, 2005 until at least October 22, 2009. TPSA has appealed this judgement. Netia's management is monitoring these proceedings as they may allow Netia to make significant follow-on claims against TPSA at some point in the future.

6. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 17) and interim condensed financial statements of Netia (Note 16).

7. Guidance for 2012 and Long-term strategic financial goals until 2020 (not in thousands)

Netia's guidance for FY2012 is as follows:

	Guidance 2012
Number of services (RGUs) ('000)	2,900
Revenue (PLN m)	2,185
Adjusted EBITDA (PLN m)	600.0
Adjusted EBITDA margin (%)	27.5%
Adjusted EBIT (PLN m)	125.0
Capital investment (excl. M&A and integration capex) (PLN m)*	300.0
Capital investment (excl. M&A and integration capex) to sales (%)	14%
Adjusted operating free cash flow (Adj. OpFCF) (PLN m)**	300

** Capital investments excluding New Netia's integration related capital investments*
***Adjusted EBITDA less capital investments*

The above guidance excludes the impact of one-off integration costs and one-off integration capex, estimated currently at up to PLN 50.0m and up to PLN 30.0m, respectively.

New Netia now focuses on the total number of services (RGUs) target based on its subscriber base, reflecting a multiplay approach and stressing the importance of ARPU increase per active subscriber.

The long-term strategic financial goals issued together with the Strategy 2020 were updated to reflect the expanded New Netia Group as follows:

Long-term strategic financial goals (until 2020)
Continued growth in the number of services(RGUs)
Services (RGUs) per subscriber to reach 2.0x
Continuously increasing value share
EBITDA margins in 27%-29% range throughout
Capex to sales ratio to stay below 15% during network upgrade (2012-2013) and falling to 10%-12% thereafter
OpFCF margin to sales continuously above 12%

8. Loans, warranties and collaterals

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent") and BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. The revolving loan was repaid in full on March 15, 2012. As at March 31, 2012 the value of these loans at amortised cost was PLN 644,099.

The loan accrues annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditional generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate of 7.3%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 9,272. The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to make relevant representations on submission to enforcement, and to execute agreements on assignment as collateral security. The repayment of the loan is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights of Netia and Internetia Sp. z o.o., registered pledges and financial pledges on the shares of Internetia, Netia Brand Management Sp. z o.o. and Dialog. Moreover, the Borrowers made relevant representations on submission to enforcement up to the amount of PLN 1,050,000.

On March 8, 2012 Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility may be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the facility agreement in the period between March 12, 2012 and December 27, 2012. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The outstanding balance of the overdraft credit as at March 31, 2012, amounted to zero.

Moreover, as at March 31, 2012, the Netia Group had outstanding bank loans of PLN 58 drawn by the Company's subsidiary STI Sp. z o.o.

9. Other information

Planned reduction in employment (not in thousands)

In April 2012 Netia management announced layoffs across the New Netia group totalling 519 employees and an intent to propose changes to the employment contracts of a further 129 employees. The headcount reduction process will be conducted in H2 2012 in accordance with regulations for the group reductions and will cover terminations of approximately 121, 360 and 38 contracts in Old Netia, Dialog Group and Crowley, respectively. Netia intends to provide outplacement support to employees leaving the Company.

Initial agreement to sell the Company's investment property

On March 23, 2012 the Company and Tilia SKA a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling of 23.600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon.

The Management of the Company plans to close the transaction by December 31, 2012 for PLN 25,920 - 32,020, depending on the size of the rentable area approved for construction by the local authorities. As an integral part of the agreement, Netia has committed to lease one of the buildings that Ghelamco plans to develop on the site, starting from 2015.

Consequently, as at March 31, 2012, property with a carrying value of PLN 26,105 (reclassified from investment property) and land with a carrying value of PLN 631 (reclassified from land) which will be sold to Tilia SKA were presented as assets held for sale.

This agreement does not relate to land and one building at the same location which houses network equipment crucial for the operation of Netia's network and is presented as property, plant and equipment as at March 31, 2012.

Issuance of series K shares (not in thousands)

On April 4 and April 5, 2012 due to the exercise of 17,770,687 stock options from the 2003 Plan by five current and former Management Board members, twelve persons who hold managerial positions (but not management board members) and one entitled persons which held managerial position in the past (but not a management board member) the Company issued from its authorized capital 3,287,314 ordinary bearer series K shares with a nominal value of PLN 1 each, which give the right to 3,287,314 votes at Netia's General Meeting of Shareholders.

On April 20, 2012 due to the exercise of 4,100,000 stock options from the 2003 Plan by three Management Board members in April 2012 the Company issued from its authorized capital 1,019,366 ordinary bearer series K shares with a nominal value of PLN 1 each, which give the right to 1,019,366 votes at Netia's General Meeting of Shareholders.

Netia's issued and outstanding share capital, following the issuance is PLN 386,169,783 and represents 386,169,783 shares, PLN 1 par value per share, each share giving the right to one vote at Netia's General Meeting of Shareholders.

Appointment of a member of the Management Board

On April 25, 2012 the Supervisory Board of the Company appointed Mr. Mirosław Suszek as a member of the Management Board with effect from May 1, 2012.

Stock options granted to the new member of the Management Board (not in thousands)

On May 1, 2012 the Supervisory Board granted 345,000 stock options to Mr. Mirosław Suszek, a newly appointed Management Board member. The strike price for the granted options is PLN 6.16 and the earliest vesting date is May 1, 2015. The final exercise date for all granted stock options is May 26, 2020.

Furthermore, these stock options may be cancelled in whole or in part depending on the Netia Group's performance against business criteria for 2012. These business criteria have been set by the Supervisory Board on the basis of the Group's 2012 budget which in turn was accepted by the Supervisory Board.

Warsaw, May 14, 2012