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Netia reports first quarter 2011 results

WARSAW, Poland – May 5, 2011 – Netia SA ("Netia" or the "Company") (WSE: NET), Poland's largest alternative provider of fixed-line telecommunications services, today announced its unaudited consolidated financial results for the quarter ended March 31, 2011.

1 Key highlights

1.1 FINANCIAL

- *Revenue* was PLN 401.2m in Q1 2011, up by 4% versus Q1 2010 and up by 2% sequentially.

- *Adjusted EBITDA* was PLN 101.5m for Q1 2011, up by 12% from Q1 2010, reflecting the increased subscriber base, firming ARPUs and an increasing share of LLU in the customer mix. Sequentially, Adjusted EBITDA increased by 16% from PLN 87.7m in Q4 2010. Adjusted EBITDA margin was 25.3% for Q1 2011 versus 23.5% for Q1 2010 and 22.3% in Q4 2010.

- *EBITDA* was PLN 101.4m for Q1 2011, up by 8% versus Q1 2010 and down by 67% versus Q4 2010. The unusual gains reflected in EBITDA were related to the PLN 221.2m reversal of earlier impairment charges in Q4 2010 and the PLN 2.9m gain on the disposal of a tranche of transmission equipment to P4 in Q1 2010. The unusual items expensed were restructuring costs related to Project "Profit" with PLN 0.1m in Q1 2010 and PLN 0.3m in Q4 2010 and the costs of M&A projects which totalled PLN 0.1m in Q1 2011 and PLN 0.7m in Q4 2010, respectively. EBITDA margin was 25.3% in Q1 2011 as compared to 24.2% for Q1 2010 and 78.1% for Q4 2010.

- *EBIT* grew by 33% to PLN 26.0m (up by 55% YoY to PLN 26.2m profit when excluding all one-offs) in Q1 2011 as compared to PLN 19.6m (PLN 16.8m profit when excluding one-offs) in Q1 2010 and PLN 231.3m (PLN 11.2m profit when excluding one-offs) in Q4 2010.

- *In Q1 2011 Netia expensed PLN 58.3m paid during 2010 in relation to the Company's corporate income tax ("CIT") for the year 2003* following the ruling of the Voivodship Administrative Court of March 15, 2011, which dismissed Netia's appeal of the earlier decision of the Director of the Tax Chamber in Warsaw. The Company intends to file a motion for cassation to the Supreme Administrative Court (see section Other Developments).

- *Net profit excluding one-offs and the 2003 tax adjustment* was up by 191% to PLN 35.4m for Q1 2011 versus PLN 12.1m for Q1 2010. Reported net loss for Q1 2011 was PLN 23.0m versus net profit of PLN 14.3m for Q1 2010.

- *Cash resources* at March 31, 2011 totalled PLN 382.0m (PLN 210.4m in cash and cash equivalents plus PLN 171.6m in treasury bills at market value), up by PLN 36.8m from December 2010.

- *Netia was operating free cash flow positive in Q1 2011*. Operating free cash flow, measured as Adjusted EBITDA less capital investment excluding Ethernet acquisitions, was PLN 60.6m for Q1 2011.

- *Netia's Annual General Shareholders Meeting* was convened for June 2, 2011. The proposed meeting agenda includes, among others, the approval of the 2010 financial statements and distribution of profits. In particular, Netia is proposing to allocate up to PLN 350.0m of funds for a *share buy-back programme* to acquire and redeem up to 12.5% of the Company's share capital (see section Other Developments).

- *Netia maintains its full year 2011 guidance* published originally on February 22, 2011.

1.2 OPERATIONAL

- *Netia's broadband subscriber base* reached 704,082 at March 31, 2011, growing by 2% from 690,247 at December 31, 2010 and by 17% from 603,367 at March 31, 2010. Netia estimates that its total fixed broadband market share increased to 11.5% from 10.5% at March 31, 2010. Netia added 13,835 net broadband customers during Q1 2011 versus 36,346 net additions in Q4 2010 and 44,050 net additions in Q1 2010. The decrease in net additions seen in Q1 reflects mainly tougher price competition, which is limiting volumes particularly on lower margin bitstream wholesale access services. At the same time, Netia's offering over its own network and LLU, operating on higher margins, remains attractively priced versus our competitors and the Company continued to make good progress on LLU with the subscriber base increasing by 19,175 to 146,070.

- *On April 14, 2011 Netia introduced a new, revolutionary offer,* with best effort transmission speed and no requirement for a loyalty agreement. For 2011, Netia forecasts its broadband customer base to reach between 780,000 and 800,000, with further Ethernet acquisitions to come on top.

- *Netia's voice subscriber base* (own network, WLR and LLU) was 1,225,967 at March 31, 2011 as compared to 1,230,965 at December 31, 2010 and 1,173,008 at March 31, 2010. In total, Netia recorded a net decrease of 4,998 voice subscribers during Q1 2011, associated mainly with clients churning from traditional direct voice services on analogue lines. Netia estimates that its total fixed voice market share increased to 13.4% from 11.8% over the past twelve months. Of the total voice customers served at March 31, 2011, 32% received service over Netia's own access infrastructure.

- *Netia made significant progress on its LLU network* with 535 nodes unbundled for total coverage of approximately 4.4m lines and a total of 146,070 LLU clients as at March 31, 2011. LLU net additions totalled 19,175 in Q1 2011 as compared to a record 28,340 in Q4 2010 and 11,388 in Q1 2010. Of the net additions for Q1 2011, 13,573 were related to migration of BSA/WLR customers onto LLU and 5,602 were organic. Netia plans to unbundle 700 nodes by year-end 2011.

- *Netia initiated the process of its total rebranding*, which results from the adoption of the long-term Strategy 2020 in January 2011. The changes are reflecting the Company's new mission: „We deliver the world on-line", and include such action items as the implementation of a new corporate identity, a new ATL advertising platform and new web site as well as the introduction of new offers and services (please see sections Operational Review and Other Developments).

Miroslaw Godlewski, Netia's President and CEO, commented: *"Netia made a promising start to 2011 and today I am pleased to be announcing quarterly revenues in excess of PLN 400 million and quarterly EBITDA in excess of PLN 100 million for the first time in the Group's history. These strong financial results have been achieved against the back-drop of a significantly more competitive market environment in which we still managed to increase our broadband subscriber base by almost 14 thousand subscribers to bring the total to 704 thousand at March 31, 2011 and we believe our share in customer net additions continues to lead the Polish broadband market. In this regard we calculate that our net additions share was a creditable 14% during the first quarter and that our broadband market share currently stands at 11.5%.*

The first quarter saw us take the first steps to building a new Netia with the public announcement and internal roll-out of our New Strategy 2020. The entire Netia work-force is now up-to-speed with our new strategy and the first elements of Strategy 2020 are now visible to the market and our customers. In March we announced the change of our corporate identity and launched a new logo that represents the "rebraining" of the Netia Group into a business capable of executing on our mission to "Deliver the World Online". This was followed up with a revolutionary new broadband bundled offering that features best effort broadband speed, unlimited domestic voice service and a basic TV offering for the highly competitive monthly price of PLN 99 and we have backed this best value offering with the removal of traditional contractual loyalty terms. The initial market response to both the new logo and the new offer has been very positive and I am expecting net additions to accelerate significantly in the coming quarters.

Our TV pilot has now been up and running for more than three months with approximately 30 thousand homes passed with 50 Mb/s VDSL or 100 Mb/s Ethernet broadband and initial results look very promising. We are finalising plans to roll-out this network upgrade to reach 500 thousand homes passed by the end of 2011and this project is built into our full year capex guidance of PLN 230 million. First quarter capital investment was up 41% on the prior year at PLN 41 million as we continue to roll-out our LLU network to 700 nodes and coverage of 5.0 million lines, expand broadband capacity and accelerate our acquisition of business customers.

Whilst we work to put in place the foundations for future organic growth, the existing broadband driven business continues to deliver acceptable profitability and free cash flows and our initial 2011 guidance remains unchanged. This leaves us very well placed for any major in-market consolidation opportunity that might occur during 2011 and also allows us to think about improving leverage and returning funds to our shareholders. To this end, I am pleased to be recommending that our investors support a motion to assign up to PLN 350 million of reserves to a buy-back programme of up to 12.5% of Netia's share capital at the forthcoming annual shareholders' meeting."

Jon Eastick, Netia's CFO, commented: *"The first quarter of 2011 saw Netia deliver a solid set of financial results with year on year revenue growth of 4% to PLN 401.2 million and Adjusted EBITDA up 12% on a year earlier at a record PLN 101.5 million for a margin of 25.3%. The revenue growth was broad based and came across all the Group's four customer segments and was underpinned by stabilising ARPUs relative to the prior quarter. Our net additions share was resilient at 14% for the first quarter and I am confident that our new "No Limits" broadband offer will accelerate volumes significantly over the coming months. Accordingly, we are reconfirming our full year guidance, including over PLN 1,610 million of revenues and over PLN 405 million in EBITDA for 2011.*

March unfortunately saw us suffer a significant set-back in our efforts to recover PLN 58.3 million from the tax authorities in respect to corporate income tax for 2003. The Voivodship Administrative Court decided to ignore the extensive arguments presented by our advisors and found in favour of the tax office, leaving Netia with only one further level of appeal to try to obtain a favourable decision in the matter. Although Management, and our advisors, continue to strongly hold the view that the tax decision is fatally flawed on many grounds, we reluctantly took the decision to expense these taxes in the first quarter accounts. These amounts were paid in full to the tax office in February last year and, should we prevail at the Supreme Administrative Court, the result will further enhance Netia's already very strong liquidity position. Although this write-down means we made a net loss in the first quarter, we are confident that we will still make a net profit for the full year 2011.

Netia is targeting 28% EBITDA margins for 2012 and the increasing profit trend means that we expect that the medium term increased investment requirements of our NGA roll-out can be met from operating cash flows and continue to deliver 10% of annual sales in free cash flows. These cash flows, together with the PLN 382 million of net cash already on our March 31, 2011 balance sheet, and the PLN 700 million of lending we have arranged, put us in a strong position to compete for market consolidating acquisitions. Moreover, this liquidity allows us to address the continuing value gap between our plans and our share price by proposing a share buy-back programme to our shareholders to acquire up to 12.5 % of the Company's shares with up to PLN 350 million. The timing, scale and pricing of the buy-backs will be agreed with the Supervisory Board and depend on the speed of progress with major acquisition projects."

2 Operational overview

2.1 BROADBAND

Broadband subscribers increased to 704,082 at March 31, 2011, up by 2% from 690,247 at December 31, 2010 and by 17% from 603,367 at March 31, 2010.

By the end of 2011, Netia aims to reach between 780,000 and 800,000 broadband subscribers through further organic growth, with potential for a higher figure from additional Ethernet network acquisitions.

Netia provides its broadband services using the following technologies:

Number of broadband ports	*Q1 2010*	*Q2 2010*	*Q3 2010*	*Q4 2010*	*Q1 2011*
xDSL and FastEthernet over Netia's own fixed-line network	205,045	206,154	213,238	223,169	223,862
WiMAX Internet	18,094	18,826	19,079	18,974	18,570
LLU	59,505	73,101	98,555	126,895	146,070
Bitstream access	320,470	325,289	322,871	321,075	315,464
Other	253	207	158	134	116
Total	**603,367**	**623,579**	**653,901**	**690,247**	**704,091**

Broadband net additions totalled 13,835 during Q1 2011 as compared to 36,346 during Q4 2010 and 44,050 in Q1 2010, with the vast majority of all additions acquired through organic growth. Additions from Ethernet network acquisitions of 667 subscribers for Q1 2011 compare to 6,785 subscribers for Q4 2010 and 1,287 subscribers for Q1 2010. Lower net additions in Q1 2011 reflect the impact of increased price competition on broadband products and from the incumbent in particular. This has virtually eliminated Netia's retail price advantage on 1play BSA services and reduced gross additions run rates across the broadband portfolio. Nevertheless, Netia continued to grow its base of LLU services, which provide higher margin than bitstream access, with 19,175 net LLU additions in Q1 2011. This included 13,573 migrations to LLU from BSA and BSA/WLR services and 5,602 net organic new sales. Netia estimates that its total fixed broadband market share has increased during the past twelve months from 10.5% to approximately 11.5% and that its market share of total net additions in Q1 2011 was approximately 14%.

Broadband ARPU was PLN 52 in Q1 2011 as compared to PLN 56 in Q1 2010 and PLN 53 in Q4 2010. The declining ARPUs reflect the impact of aggressive offers run during early 2010 plus discounts given to focus sales on more profitable 2play voice and data bundles. Broadband ARPU is expected to settle between PLN 50 and PLN 60 per month in the medium term.

Broadband SAC was PLN 227 in Q1 2011 as compared to PLN 186 in Q1 2010 and PLN 203 in Q4 2010. The sequential increase in Broadband SAC was associated mainly with the higher cost of modems delivered to customers under the recent promotional offers coupled with a shift towards higher margin, including 2play, sales with a corresponding adverse impact on unit commission costs.

Local loop unbundling (LLU). In Q1 2011 Netia continued to extend the reach of its LLU-based services, with 19,175 net additions for the quarter. Netia had 535 unbundled nodes at March 31, 2011 versus 512 nodes at December 31, 2010, reaching approximately 4.4 million customer lines. Netia expects to take the total of unbundled nodes to 700 by the end of 2011, reaching approximately 5.0 million customer lines.

Netia served 146,070 customers over LLU as at March 31, 2011 as compared to 126,895 at December 31, 2010 and 59,505 at March 31, 2010. During Q1 2011 Netia migrated 5,784 1play and 7,789 2play clients onto LLU, increasing the cumulative number of 1play and 2play migrations to 77,884. Of the new LLU sales for Q1 2011, a sizable portion (37% or over 2,000 clients) came from re-activation of previously dormant TP lines or activation of new fixed lines.

At the end of Q1 2011, Netia served an average of 273 customers per LLU node as compared to 194 customers per LLU node in Q1 2010.

Acquisitions of local Ethernet network operators. As of March 31, 2011, Ethernet networks acquired by Netia provided broadband access to a total of 114,485 mostly residential customers as compared to 115,194 customers at December 31, 2010 and 106,420 customers at March 31, 2010, with approximately 502,000 homes passed. The acquisition program is part of Netia's strategic objective to acquire one million broadband customers and to up-sell voice services to the existing subscriber base of the acquired Ethernet providers.

During Q1 2011 Netia acquired another Ethernet network with 667 active customers and 3,200 homes passed. Netia remains fully dedicated to consolidation of the fragmented Polish Ethernet ISP market and is making good progress on a pipeline of acquisitions for 2011.

Multiplay services. Netia continues to increase the share of services sold in voice and data bundles. As at March 31, 2011, bundled services were delivered on 29% and 42% of lines in the Residential and SOHO/SME segments, respectively. This represents increases by 5 and 3 percentage points in the respective segments from March 31, 2010.

Development of IPTV services. Netia is committed to introducing a commercially viable IPTV offer into its product portfolio as the provision of 3play services is considered important in supporting ARPU and improving customer retention in the medium term. In December 2010 Netia launched a commercial pilot of its 3play services in select areas of Toruń and Wrocław. Following its successful results, in February 2011 Netia expanded the reach of its IPTV services under the commercial pilot to new locations, bringing total coverage to nearly 30,000 households. This included, among others, selected areas near Warsaw, Poznań, Kraków and Gdynia. Netia offers fast Internet access with transmission speeds of up to 50 Mb/s and up to 100 Mb/s over its copper (VDSL) and Ethernet networks, respectively, in a bundle with a TV service (2play) or a TV + voice service (3play). The IPTV offering includes HD channels and was developed in co-operation with a local partner. The pilot is proceeding well with sales efficiency comparable to LLU 2play sales. Depending on the final results of this pilot, Netia intends to upgrade its existing copper and Ethernet networks to NGA (Next Generation Access) standard, in line with the recently announced Strategy 2020. In this respect firm roll-out plans are in place that will expand NGA coverage to 500,000 homes passed by the end of 2011.

New, flat rate-based broadband offering 'No Limits' and e-commerce services. On April 14, 2011, Netia launched a new broadband offering 'No Limits', based on the unique for the Polish market concept of providing Internet services at a flat rate. In its basic variant, the offering includes a bundle of Internet access at the highest transmission speed available over a given line (i.e. "best effort") plus unlimited fixed-line domestic calls plus, where provided, a basic bundle of TV services at a monthly fee of PLN 99.90 gross. In parallel, Netia resigned from concluding contracts with its customers for a defined period (so called "loyalty contracts"). Instead, upon dissolving a contract the Company will be charging a deferred activation fee, the amount of which gradually reduces from PLN 300 gross for Internet access and PLN 123 gross for voice services in the 1st month of a contract to PLN 0.01 gross in the 25th month and onwards. Netia's flat rate broadband offering is supported by a new ATL advertising campaign.

Simultaneously, Netia entered the e-commerce market by launching its new e-store. Netia's e-store offers at present approximately 1,000 products delivered by external content providers, such as e-books, audiobooks, business applications and e-learning courses and is expected to expand significantly in the near future.

These actions, along with the recently implemented changes of Netia's corporate web site and corporate identity are each elements of the Company's total rebranding, and are executed in line with its new mission: "We deliver the world on-line".

2.2 VOICE

2.2.1 Own network, WLR & LLU

Voice lines (own network, WLR and LLU) totalled 1,225,967 at March 31, 2011 as compared to 1,173,088 at March 31, 2010 and 1,230,965 at December 31, 2010. In Q1 2011 Netia recorded a net decrease of 4,998 voice lines, associated mainly with clients churning from traditional direct voice services on analogue lines.

Netia is steadily growing its base of voice customers using relatively low cost VoIP technology, principally in the business segment or over LLU, and Ethernet to residential customers. Over time, the Company expects to gradually reduce its reliance on traditional switched telephony, thereby reducing its cost base.
Netia aims to at least maintain its voice subscriber base during 2011.

Netia provides its voice services through the following types of access:

Number of voice lines	*Q1 2010*	*Q2 2010*	*Q3 2010*	*Q4 2010*	*Q1 2011*
Traditional direct voice	346,731	342,975	336,074	332,657	326,982
Incl. ISDN	*139,182*	*141,884*	*141,110*	*143,560*	*144,582*
Incl. Legacy wireless	*37,582*	*37,629*	*38,132*	*38,666*	*38,504*
Voice over IP (excl. LLU)	23,848	29,549	37,342	42,987	45,220
WiMAX voice	21,699	21,334	20,788	20,043	19,197
Netia network subscriber voice lines	**392,278**	**393,858**	**394,204**	**395,687**	**391,399**
WLR	746,959	745,248	758,096	752,899	739,456
LLU voice over IP	33,771	43,210	61,284	82,379	95,112
Total	**1,173,008**	**1,182,316**	**1,213,584**	**1,230,965**	**1,225,967**

Voice ARPU per WLR line amounted to PLN 49 in Q1 2011 as compared to PLN 50 in Q1 2010 and PLN 48 in Q4 2010.

Voice ARPU per Netia network subscriber line amounted to PLN 54 in Q1 2011 as compared to PLN 60 in Q1 2010 and PLN 54 in Q4 2010, with the year-on-year decrease reflecting overall tariff reduction trends and pressure on prices in the business segment in particular.

Blended voice ARPU was PLN 51 in Q1 2011 as compared to PLN 53 in Q1 2010 and PLN 50 in Q4 2010.

2.2.2 Indirect voice

CPS lines (carrier pre selection) totalled 76,156 at March 31, 2011 as compared to 108,705 at March 31, 2010 and 82,983 at December 31, 2010. Netia is focused on the conversion of CPS customers to WLR and is not actively acquiring new CPS customers. CPS clients are not counted in the total Netia voice subscriber base of 1,225,967 clients as at March 31, 2011.

Indirect voice ARPU per CPS line was PLN 27 in Q1 2011 as compared to PLN 34 in Q1 2010 and PLN 28 in Q4 2010. Tariff reductions, reduced call volumes and conversion of higher ARPU customers to Netia's WLR or LLU offers is responsible for the year-on-year ARPU decline.

2.3. OTHER

Headcount for the Netia group was 1,452 at March 31, 2011, compared to 1,410 at March 31, 2010 and 1,441 at December 31, 2010. Active headcount was 1,399 at March 31, 2011 versus 1,359 at March 31, 2010 and 1,392 at December 31, 2010. The increase in headcount was driven by the acquisition of new Ethernet companies.

The movement in headcount can be analyzed as follows

	Active	***Total***
Headcount at March 31, 2010	**1,359**	**1,410**
Ethernet networks' acquired headcount	39	44
Headcount increase / (reductions)	1	(2)
Headcount at March 31, 2011	**1,399**	**1,452**

Management expects the current employment level at Netia group to remain broadly stable during 2011, subject to any new employees acquired along with Ethernet networks.

Capital investment additions

Capital investment additions (PLN'M)	*Q1 2010*	*Q1 2011*	*Change %*
Existing network and IT	12.5	15.9	27%
Broadband networks	15.0	25.0	67%
P4 transmission project	1.7	-	na
Total	**29.2**	**40.9**	**40%**

Higher capital investments in existing network and IT reflect an acceleration on capex spending to activate new corporate customers. Capital expenditures related to broadband networks in Q1 2011 reflect mainly the LLU roll-out with respect to newly unbundled nodes and upgrades to transmission capacity. Due to the sale of the P4 radio transmission network back to P4 in 2010, the P4 related spending is now largely limited to Netia's core backbone network. Capex related cash payments were PLN 68.9m for Q1 2011 as payables related to investments made in Q4 2010 were paid down.

3 OTHER DEVELOPMENTS

Financing and contemplated distribution of profits through a share buy-back programme. On March 31, 2011, Netia had PLN 382.0m in cash and treasury bills at market value. In addition, Netia may obtain additional external financing of PLN 700.0m under a mandate signed with a consortium of banks in July 2010. Moreover, the parent company, Netia SA, had distributable reserves of PLN 504.6m at December 31, 2010 versus PLN 236.8m a year earlier.

Netia's broadband-driven growth strategy to reach 1 million broadband subscribers by the end of 2012 is self-financing, with loan facilities needed only in relation to funding in-market consolidation opportunities, should they occur.

On January 13, 2011, Netia announced its distribution policy as follows:

- Management intends to propose returning surplus funds above a PLN 300m 'acquisition fund' to shareholders through buy-backs and/or dividends;
- Should circumstances lead Management to conclude that transformational market consolidating opportunities are no longer feasible, then Management will also propose the return of the PLN 300m 'acquisition fund' to shareholders.

In line with the above distribution policy, Netia's Management Board, having first obtained a consent from the Supervisory Board, is proposing to the Annual General Shareholders' Meeting that 100% of Netia SA's 2010 net profit of PLN 267.0m and a further PLN 83.0m from capital reserves to be allocated to fund a share buy-back programme of up to PLN 350.0m to acquire and redeem up to 12.5% of the Company's share capital. If this proposal is accepted, Management, after further consultation with the Supervisory Board and taking into account the status of market consolidation opportunities and developments on the equity stock market, will proceed to buy shares back through open market purchases and/or a tender offer.

New strategy and total rebranding ("rebraining") of Netia. On January 13, 2011 Netia announced the main assumptions of its strategy towards year 2020 ("Strategy 2020"). Netia's new mission statement is: "We deliver the world on-line". Netia's vision is to become Poland's No. 1 on-line gateway through: (i) delivering integrated and easy-to-use solutions, (ii) providing superior customer experience, and (iii) the drive of passionate employees inspired by the values of the Company.

On March 31, 2011, with the launch of its new corporate identity and logo, Netia initiated the process of profound changes in its way of thinking and acting on the market, reflecting the above mentioned new mission and vision. Netia views today's world as the one enriched by the possibilities offered by the Internet and without the boundaries between its off-line and on-line component, which are blurring further on a daily basis. Netia's aspiration is to become a guide in exploring this new world and helping to understand its nature. Accordingly, Netia intends to offer its customers the unique, revolutionary products and services characterized by simplicity, innovation and good value, delivered by a passionate team. In the first step, on April 14, 2011 Netia introduced, for the first time on the Polish market, the flat rate-based broadband offering and launched its new e-store.

Netia's new strategic philosophy is being communicated to the market through a new ATL advertising campaign and supported by new corporate identity, including new web site and new logo.

Customer satisfaction initiatives (the "Klientomania" project). Following the adoption of Netia's Strategy 2020 in January 2011, which defines customer experience as one of the main strategic focus areas in the Company's operations, Netia will continue its "Klientomania" project from 2010, aimed at delivering best-in-market customer service and increasing customer satisfaction at every stage of the customer life cycle, as a continuous improvement process embedded in the Group's operations.

The recently completed tasks under this project include, among others:

- Implementing new invoice layout with simplified presentation of the key invoice data
- Improved tools for checking the availability of services in certain locations
- Reduced number of pro-rata monthly billings for services
- Regular monitoring of the impact of improvement projects on customer satisfaction
- New e-tools for measuring customer satisfaction (the Netia on Line survey)

The "Klientomania" project is being conducted with participation of all functions in the Company and is expected to deliver measurable improvements in customer satisfaction and be self-financing through increased sales, better customer retention performance and lower customer care costs.

Administrative court rejects Netia's claim for a refund of tax. On February 19, 2010 Netia received a decision of the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") according to which the Company's corporate income tax ("CIT") due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m.

Netia paid in full the decision of the Tax Chamber Director, which was enforceable as a decision of the second instance tax authority, on February 23, 2010 using some of the Company's cash deposits. Of the PLN 59.6m settled, PLN 1.3m was subsequently conceded by the Tax Authority as overpayment. During 2010, Netia treated the taxes paid as a receivable in its accounts rather than as an expense, due to Management's expectations, based on the expert advice received, that the amounts paid will ultimately be recovered.

The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director. However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company's claim in its entirety. The Company filed a motion for a written justification of the judgment and expects to file a motion for cassation to the Supreme Administrative Court.

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 (currently the interest rate on tax liabilities amounts to 13% per annum).

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless. Nevertheless, taking into consideration the recent adverse judgment of an independent court, Management has decided to treat the claim as a contingent asset and therefore expensed the PLN 58.3m paid during 2010 in the financial statements for Q1 2011.

Regulatory issues (margin squeeze test) and recent market developments. During Q4 2010 Netia participated, together with other operators associated in telecom chamber KIGEiT and TP, in consultations initiated by the Regulator, aimed at improving the margin squeeze test procedure for BSA to increase its transparency going forward. As a result of these consultations, during February 2011, a new test procedure was published by the Regulator which, in Netia's opinion, increases transparency of the margin squeeze test and provides alternative operators with access to the data indispensible to verify its results. The new procedure will become binding from the date of submitting new cost input by the operators, which is expected by the end of June 2011.

Despite TP's current broadband tariffs passing the exisiting margins squeeze test, Netia's broadband offering over its own network and LLU remain competitively priced while economics for services based on bitstream access are now more challenging. Accordingly, Netia decided to expand its LLU roll-out to 700 nodes from over 500 nodes planned previously while simultaneously reducing its projections for customers served over bitstream access.

Exercise of options under Netia's stock option plan. Given that the Company's employee stock option plan adopted in 2002, as amended in 2003 (the "Plan 2003") expires at the end of 2012, Netia management participants can be expected to exercise their options under the Plan 2003 and acquire Netia shares over the next two years. In this regard, Netia has so far issued 1.6m shares during 2011 in consideration of 4.7m exercised options, and the highest possible number of shares that may still be issued under the Plan 2003 is 11.5m.

On February 28, 2011, Netia's Supervisory Board adopted a set of rules for the new stock option plan covering years 2011-2020 (the "Plan 2011"), in line with the authorization of Netia's Annual General Shareholders' Meeting of May 26, 2010, which resolved for the issuance of up to 27.3m options and up to 13.6m shares for the purposes of Plan 2011. As of March 31, 2011, 3.5m options were granted under Plan 2011. The outstanding options are exercisable until May 26, 2020, with the earliest possible vesting date being February 25, 2014. 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 exercise price of the Company's shares and strike price of the options. Furthermore, the number of shares which can be issued to the participant is capped at half the number of granted options.

Netia was recognized as the Best Service and Infrastructure Company of 2011 by the "Rzeczpospolita" daily and awarded its Eagle prize. The prizes were granted along with the announcement of the ranking of the 500 largest Polish enterprises in three categories, including manufacturers, service or infrastructure providers and financial services companies. The winners were selected from among the companies which reported net profits in each of the last three years based on criteria such as efficiency, stability and development prospects.

Consolidated Financial Information

Please also refer to our financial statements for the three-month period ended March 31, 2011.

Q1 2011 vs. Q1 2010

Revenue rose by 4% YoY to PLN 401.2m for Q1 2011 from PLN 387.0m for Q1 2010, with Home, Soho/SME, Corporate and Carrier revenue segments all showing growth versus the prior year quarter.

Telecommunications revenue increased by 4% YoY to PLN 400.0m in Q1 2011 from PLN 385.7m in Q1 2010. Data revenue increased to PLN 147.8m, up by 7% YoY from PLN 137.8m in Q1 2010, 8 percentage points being attributable to broadband-related organic growth and 1 percentage point to acquisitions of Ethernet operators while data transmission connections for P4 accounted for a decrease of 2 percentage points. Revenue from direct voice services decreased by 1% or PLN 1.6m as a result of decreasing tariffs and lower usage, with lower ARPUs largely offset by the increase in the customer base.

The overall revenue level was supported by growth in the carrier segment associated with higher volumes of transit and termination traffic with increases in wholesale services by 23% YoY or PLN 5.5m and interconnection revenue by PLN 5.3m or 33% YoY. The gradual run-down in indirect voice customers produced a revenue decrease of PLN 5.3m or 45% YoY.

Cost of sales increased by 4% YoY to PLN 270.2m from PLN 260.2m for Q1 2010 and represented 67% of total revenue in both Q1 2011 and Q1 2010.

Network operations and maintenance cost remained unchanged YoY at PLN 130.2m in Q1 2011 as compared to PLN 130.4m for Q1 2010, despite the increasing customer base, which reflects the increasing share of LLU in the customer mix.

Depreciation and amortization related to the cost of sales increased by 2% to PLN 62.7m in Q1 2011 as compared to PLN 61.3m for Q1 2010.

Interconnection charges increased by 19% to PLN 58.3m in Q1 2011 as compared to PLN 48.9m for Q1 2010. This was mainly the result of increased voice termination and transit traffic services in the carrier segment.

Taxes, frequency fees and other expenses decreased by 7% to PLN 9.7m from PLN 10.5m.

Gross profit for Q1 2011 was PLN 130.9m as compared to PLN 126.8m for Q1 2010. Gross profit margin was 32.6% in Q1 2011 versus 32.8% in Q1 2010.

Selling and distribution costs decreased by 7% YoY to PLN 72.1m from PLN 78.0m for Q1 2010 and represented 18% of total revenue as compared to 20% in Q1 2010.

Third party commissions paid for the acquisition of new customers were down by 24% YoY to PLN 8.5m from PLN 11.1m, reflecting relatively lower customer intake overall as well as ongoing optimization of sales channel-mix, despite the increase in SAC due to higher focus on 2play and LLU.

Impairment of receivables decreased to PLN 0.4m from PLN 2.7m in Q1 2010.

Billing, mailing and logistics costs decreased by 12% YoY to PLN 8.1m from PLN 9.2m in Q1 2010, mainly as a result of more customers accepting electronic invoice tickets.

Other expenses related to selling and distribution cost increased by 34% YoY to PLN 7.1m from PLN 5.3m in Q1 2010, driven by higher retention costs related to fees payable to TP upon increasing broadband transmission speeds to Netia's bitstream access customers and higher cost of licenses for providing Internet access security in line with increased sales volumes of value added broadband services.

Advertising and promotion spending fell by 3% from PLN 11.2m to PLN 11.0m.

General and administration costs decreased by 2% YoY to PLN 36.0m from PLN 36.9m for Q1 2010 and represented 9% of total revenue as compared to 10% in Q1 2010, with savings in most expense cost categories.

Adjusted EBITDA increased by 12% YoY to PLN 101.5m from PLN 90.8m for Q1 2010 and Adjusted EBITDA margin increased to 25.3% as compared to 23.5% for Q1 2010. Including the PLN 2.9m gain on disposal of a tranche of transmission equipment to P4 in Q1 2010, restructuring costs related to Project "Profit" of PLN 0.1m in Q1 2010 and the costs of M&A projects of PLN 0.1m in Q1 2011, *EBITDA* was PLN 101.4m for Q1 2011 as compared to PLN 93.5m for Q1 2010. EBITDA margin increased to 25.3% for Q1 2011 as compared to 24.2% for Q1 2010.

Depreciation and amortization remained almost stable YoY and amounted to PLN 75.3m in Q1 2011 as compared to PLN 74.0m in Q1 2010. Following a comprehensive review of the useful lives of Netia's network assets in the light of the Group's new Strategy 2020, the useful economic lives of existing network assets, in particular ducts and cabling, have been extended significantly with effect from January 1, 2011.

Operating profit (EBIT) was PLN 26.0m as compared to an operating profit of PLN 19.6m for Q1 2010. Excluding net unusual items described above of PLN 0.1m of costs in Q1 2011 and PLN 2.7m of gains in Q1 2010, EBIT increased by 55% to PLN 26.2m in Q1 2011 from PLN 16.8m for Q1 2010.

Net finance income was PLN 3.1m as compared to net finance cost of PLN 2.1m for Q1 2010 and was related mainly to interest earned on cash and treasury bills deposits and the cancellation of the Company's old bank facility which was generating amortized costs during Q1 2010.

Income tax charge of PLN 52.1m was recorded in Q1 2011 as compared to income tax charge of PLN 3.1m for Q1 2010 and included PLN 58.3m expensed in relation to a tax dispute (see Other Developments). Excluding this item, the Group recognized income of PLN 6.1m from an upward adjustment in deferred tax assets following the lengthening of the estimated useful lives of certain network assets.

Net profit excluding one-offs and the 2003 tax adjustment was up by 191% to PLN 35.4m for Q1 2011 versus PLN 12.1m for Q1 2010. Reported net loss for Q1 2011 was PLN 23.0m versus net profit of PLN 14.3m for Q1 2010.

Cash outlays on purchase of fixed assets and computer software increased by 22% to PLN 68.9m for Q1 2011 from PLN 56.6m for Q1 2010. As in previous years, Q1 saw significant cash consumption from reducing fixed asset investment related payables generated by the fourth quarter annual peak in investment spending.

Cash and cash equivalents at March 31, 2011 totalled PLN 382.0m (PLN 210.4m in cash and cash equivalents plus PLN 171.6m in treasury bills at market value), up by PLN 175.7m versus March 31, 2010.

Netia was debt free at March 31, 2011.

Q1 2011 vs. Q4 2010

Revenue increased sequentially by 2% to PLN 401.2m in Q1 2011 as compared to 394.1m in Q4 2010.

Telecommunications revenue increased by 2% QoQ to PLN 400.0m in Q1 2011 from PLN 392.9m in Q4 2010. Data revenue increased sequentially by 3% to PLN 147.8m in Q1 2011 as a result of growth in the broadband customer base. Interconnection revenue increased sequentially by PLN 3.0m or 16% following the introduction of higher rates for traffic termination in Netia's network. Direct voice revenue remained stable QoQ at PLN 184.9m versus PLN 184.7m.

Cost of sales decreased by 2% QoQ and amounted to PLN 270.2m in Q1 2011 versus PLN 274.9m in Q4 2010, representing 67% and 70% of total revenue, respectively. Network operations and maintenance cost decreased by 2% or PLN 2.8m following the renegotiation of contracts with suppliers for servicing Netia's switches and the IP core network. The cost of goods sold was lower by 33% QoQ or PLN 1.9m in connection with sequentially lower sales volumes.

Gross profit was PLN 130.9m in Q1 2011 as compared to PLN 119.2m in Q4 2010, with gross profit margin at 32.6% as compared to 30.2% in Q4 2010.

Selling and distribution costs decreased QoQ by 9% to PLN 72.1m in Q1 2011 as compared to PLN 79.7m in Q4 2010 representing 18% and 20% of total revenue, respectively, with decreases across most cost categories. Advertising and promotion spending was lower by 12% or PLN 1.5m as a result of less intensive advertising campaigns. Sequentially lower sales volumes resulted in a decrease of third party commissions by 18% or PLN 1.8m in total.

General and administrative expenses increased by 3% to PLN 36.0m in Q1 2011 from PLN 34.8m in Q4 2010, and represented 9% of total revenue in both quarters. Most of the cost categories were down QoQ with the overall increase driven by higher cost of salaries and benefits, reflecting the seasonal cycle in ZUS (social security) costs, bonus provisioning and vacation accruals. Headcount increased by only 0.5% between the quarters.

Adjusted EBITDA was PLN 101.5m for Q1 2011, up by 16% over Q4 2010 and Adjusted EBITDA margin was 25.3% in Q1 2011 versus 22.3% in Q4 2010.

EBITDA was PLN 101.4m as compared to PLN 307.8m in Q4 2010. EBITDA for Q1 2011 included M&A related expenses of PLN 0.1m while Q4 2010 included the gain on reversal of earlier impairment charges of PLN 221.2m, and expenses related to both "Profit" Project of PLN 0.3m and M&A related activities of PLN 0.7m.

Operating profit (EBIT) was PLN 26.0m as compared to operating profit of PLN 231.3m in Q4 2010. Excluding unusual items, EBIT for Q1 2011 would have been PLN 26.2m as compared to PLN 11.2m for Q4 2010.

Net finance income was PLN 3.1m as compared to PLN 2.8m in Q4 2010, reflecting the increasing cash balance and rising yields on treasury bills.

Income tax charge of PLN 52.1m was recorded in Q1 2011 versus PLN 12.6m in Q4 2010 and included PLN 58.3m expensed in relation to a tax dispute (see Other Developments). Excluding this item, the Group recognized income of PLN 6.2m from an upward adjustment in deferred tax assets following the lengthening of the estimated useful lives of certain network assets. In Q4 2010 the tax charge included PLN 17.5m of deferred tax expenses attributable to the reversal of earlier impairment charges.

Net profit excluding one-offs and the 2003 tax adjustment was PLN 35.4m for Q1 2011 versus PLN 18.8m for Q4 2010. Reported net loss for Q1 2011 was PLN 23.0m versus net profit of PLN 221.6m for Q4 2010.

Key Figures

PLN'000	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Revenues	386,979	393,698	394,465	394,154	401,189
y-o-y % change	*3.0%*	*5.4%*	*6.5%*	*2.0%*	*3.7%*
Adjusted EBITDA	90,807	95,425	85,525	87,737	101,504
Margin %	*23.5%*	*24.2%*	*21.7%*	*22.3%*	*25.3%*
y-o-y change %	*57.7%*	*29.4%*	*4.4%*	*14.3%*	*11.8%*
EBITDA	93,534	95,263	89,790	307,852	101,375
Margin %	*24.2%*	*24.2%*	*22.8%*	*78.1%*	*25.3%*
Adjusted EBIT	16,835	20,639	10,114	11,222	26,179
Margin %	*4.4%*	*5.2%*	*2.6%*	*2.8%*	*6.5%*
EBIT	19,562	20,477	14,379	231,337	26,050
Margin %	*5.1%*	*5.2%*	*3.6%*	*58.7%*	*6.5%*
Adjusted Profit of the Netia Group (consolidated)	12,143	15,687	8,955	18,809	35,409
Margin %	*3.1%*	*4.0%*	*2.3%*	*4.8%*	*8.8%*
Profit/(Loss) of the Netia Group (consolidated)	14,352	15,556	12,410	221,577	(23,045)
Margin %	*3.7%*	*4.0%*	*3.1%*	*56.2%*	*(5.7%)*
Profit/(Loss) of Netia SA (stand alone)[1]	14,236	17,051	11,973	223,772	(21,558)
Cash and cash equivalents	108,703	145,224	157,427	173,600	210,439
Treasury bills (market value)	97,636	127,248	155,886	171,616	171,600
Bank debt	-	-	334	31	-
Capex related payments	56,565	38,304	49,122	49,243	68,927
Investments in tangible and intangible fixed assets	29,029	52,071	44,040	74,683	40,920

EUR'000[2]	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Revenues	96,458	98,133	98,324	98,246	100,000
y-o-y % change	*3.0%*	*5.4%*	*6.5%*	*2.0%*	*3.7%*
Adjusted EBITDA	22,634	23,785	21,318	21,869	25,301
Margin %	*23.5%*	*24.2%*	*21.7%*	*22.3%*	*25.3%*
y-o-y change %	*57.7%*	*29.4%*	*4.4%*	*14.3%*	*11.8%*
EBITDA	23,314	23,745	22,381	76,735	25,269
Margin %	*24.2%*	*24.2%*	*22.8%*	*78.1%*	*25.3%*
Adjusted EBIT	4,196	5,144	2,521	2,797	6,525
Margin %	*4.4%*	*5.2%*	*2.6%*	*2.8%*	*6.5%*
EBIT	4,876	5,104	3,584	57,663	6,493
Margin %	*5.1%*	*5.2%*	*3.6%*	*58.7%*	*6.5%*
Adjusted Profit of the Netia Group (consolidated)	3,027	3,910	2,232	4,688	8,826
Margin %	*3.1%*	*4.0%*	*2.3%*	*4.8%*	*8.8%*
Profit/(Loss) of the Netia Group (consolidated)	3,577	3,877	3,093	55,230	(5,744)
Margin %	*3.7%*	*4.0%*	*3.1%*	*56.2%*	*(5.7%)*
Profit/(Loss) of Netia SA (stand alone)[1]	3,548	4,250	2,984	55,777	(5,374)
Cash and cash equivalents	27,095	36,198	39,240	43,271	52,454
Treasury bills (market value)	24,337	31,718	38,856	42,777	42,773
Bank debt	-	-	83	8	-
Capex related payments	14,099	9,548	12,244	12,274	17,181
Investments in tangible and intangible fixed assets	7,236	12,979	10,977	18,615	10,200

[1] The profit of Netia SA (stand alone) is used for purpose of calculation of the amounts available for potential cash distribution to shareholders through dividends or share buy-backs.

[2] The EUR amounts shown in this table and in the entire document have been translated using an exchange rate of PLN 4.0119 = EUR 1.00, the average rate announced by the National Bank of Poland on March 31, 2011. These figures are included for the convenience of the reader only.

Adjusted EBITDA, Adjusted EBIT and Adjusted Profit for 2010 exclude the following items as appropriate: a non-cash gain on reversal of earlier impairment charges of PLN 221.2m, a gain on disposal of transmission equipment tranches to P4 of PLN 7.3m, restructuring expenses related to the "Profit" Project of PLN 0.8m, expenses related to M&A activities of PLN 0.7m and impact from these one-offs on the income tax charge of PLN 18.6m). Items excluded for Q1 2011 are the following: expenses related to the CIT 2003 tax dispute of PLN 58.3m and expenses related to M&A activities of PLN 0.1m.

Key Operational Indicators

	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Broadband data services					
Netia infrastructure-based services	223,392	225,189	232,475	242,277	242,548
Own fixed-line networks	*205,045*	*206,154*	*213,238*	*223,169*	*223,862*
WiMAX	*18,094*	*18,828*	*19,079*	*18,974*	*18,570*
Others	*253*	*207*	*158*	*134*	*116*
Bitstream access	320,470	325,289	322,871	321,075	315,464
LLU	59,505	73,101	98,555	126,895	146,070
Total broadband data services (end of period)	**603,367**	**623,579**	**653,901**	**690,247**	**704,082**
Voice services (excl. CPS)					
Traditional direct voice	346,731	342,975	336,074	332,657	326,982
incl. ISDN equivalent of lines	*139,182*	*141,884*	*141,110*	*143,560*	*144,582*
incl. legacy wireless	*37,582*	*37,629*	*38,132*	*38,666*	*38,504*
Voice over IP (excl. LLU)	23,848	29,549	37,342	42,987	45,220
WiMAX voice	21,699	21,334	20,788	20,043	19,197
Netia network subscriber voice services	392,278	393,858	394,204	395,687	391,399
WLR	746,959	745,248	758,096	752,899	739,456
LLU voice over IP	33,771	43,210	61,284	82,379	95,112
Total voice services (end of period)	**1,173,008**	**1,182,316**	**1,213,584**	**1,230,965**	**1,225,967**
Total Broadband and Voice services (end of period)	**1,776,375**	**1,805,895**	**1,867,485**	**1,921,212**	**1,930,049**
Corporate segment[1]	159,846	166,086	171,986	177,623	180,079
Carrier segment[1]	4,701	5,259	8,144	9,975	9,747
Residential segment	1,401,749	1,412,543	1,447,284	1,475,682	1,469,254
Share of lines with multiplay services	*24%*	*26%*	*27%*	*28%*	*29%*
SOHO/SME segment	210,079	222,007	240,071	257,932	270,969
Share of lines with multiplay services	*39%*	*41%*	*41%*	*43%*	*42%*
Other					
Total net additions in Broadband data services	44,050	20,212	30,322	36,346	13,835
Monthly Broadband APRU (PLN)	56	54	54	53	52
Monthly Broadband SAC (PLN)	186	212	202	203	227
Total net additions in Voice services	14,560	9,308	31,268	17,381	(4,998)
Business mix of total subscriber lines (cumulative)	26.1%	27.1%	28.1%	29.2%	30.2%
Monthly Voice ARPU in own network (PLN)	60	58	56	54	54
Monthly Voice ARPU for WLR (PLN)	50	49	48	48	49
Monthly Voice ARPU blended (PLN)	53	53	51	50	51
CPS lines (cumulative)	108,705	98,287	90,124	82,983	76,159
Monthly Voice ARPU for CPS	34	32	30	28	27
Headcount	1,410	1,416	1,450	1,441	1,452
Active headcount	1,359	1,366	1,393	1,392	1,399

[1] *In January 2011 Netia reclassified certain lines between Corporate and Carrier client segments, however without an impact on the total number of lines. Accordingly, the comparative figures for all quarters of 2010 were restated and therefore vary from the numbers reported previously.*

Income Statement (PLN in thousands unless otherwise stated)					
Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Direct Voice	186,581	185,609	184,776	184,751	184,951
Incl. monthly fees	*118,007*	*120,403*	122,052	124,724	*127,647*
Incl. calling charges	*68,456*	*65,184*	62,660	59,961	*57,225*
Indirect Voice	11,632	9,883	8,480	7,364	6,348
Data[1]	137,776	141,710	139,495	143,489	147,855
Interconnection revenues	16,191	16,059	17,663	18,481	21,492
Wholesale services	23,217	30,164	33,228	28,952	28,683
Other telecommunications revenues[1]	10,310	9,055	9,656	9,912	10,676
Total telecommunications revenue	**385,707**	**392,480**	**393,298**	**392,949**	**400,005**
Radio communications revenue	1,272	1,218	1,167	1,205	1,184
Total revenue	**386,979**	**393,698**	**394,465**	**394,154**	**401,189**
Cost of sales	**(260,216)**	**(262,215)**	**(278,595)**	**(274,953)**	**(270,234)**
Interconnection charges	(48,880)	(54,623)	(61,600)	(58,307)	(58,321)
Network operations and maintenance	(130,367)	(128,511)	(133,672)	(133,027)	(130,242)
Costs of goods sold	(4,027)	(3,269)	(6,482)	(5,616)	(3,752)
Depreciation and amortization	(61,313)	(61,786)	(62,526)	(63,407)	(62,710)
Salaries and benefits	(5,123)	(4,716)	(5,057)	(5,000)	(5,469)
Restructuring (Project Profit)	-	-	(25)	-	-
Taxes, frequency fees and other expenses	(10,506)	(9,310)	(9,233)	(9,596)	(9,740)
Gross profit	**126,763**	**131,483**	**115,870**	**119,201**	**130,955**
Margin (%)	***32.8%***	***33.4%***	***29.4%***	***30.2%***	***32.6%***
Selling and distribution costs	**(77,936)**	**(77,125)**	**(78,062)**	**(79,742)**	**(72,271)**
Advertising and promotion	(11,258)	(14,554)	(12,747)	(12,494)	(10,967)
Third party commissions	(11,089)	(7,869)	(10,161)	(10,308)	(8,460)
Billing, mailing and logistics	(9,227)	(8,549)	(8,894)	(9,330)	(8,111)
Outsourced customer service	(8,253)	(6,352)	(8,951)	(9,583)	(8,025)
Impairment of receivables	(2,668)	(2,727)	(1,960)	(2,179)	(360)
Depreciation and amortization	(7,986)	(8,303)	(8,114)	(8,161)	(7,490)
Salaries and benefits	(22,059)	(21,581)	(20,773)	(21,166)	(21,727)
Restructuring (Project Profit)	(84)	(162)	5	-	-
Other costs	(5,312)	(7,028)	(6,467)	(6,521)	(7,131)
General and administration costs	**(36,949)**	**(35,118)**	**(35,328)**	**(34,854)**	**(36,040)**
Professional services	(1,933)	(2,397)	(2,191)	(2,676)	(2,005)
Electronic data processing	(2,481)	(2,834)	(2,546)	(2,623)	(2,352)
Office and car maintenance	(3,327)	(2,586)	(3,107)	(3,193)	(2,827)
Depreciation and amortization	(4,673)	(4,697)	(4,771)	(4,947)	(5,125)
Salaries and benefits	(19,389)	(17,280)	(17,144)	(15,037)	(18,191)
Restructuring (Project Profit)	(54)	-	(148)	(322)	-
Other costs	(5,092)	(5,324)	(5,421)	(6,056)	(5,540)
Other income	4,913	1,491	6,961	226,700	4,714
Other expense	-	(782)	-	(440)	(997)
Other gains/ (losses), net	2,771	528	4,938	472	(311)
EBIT	**19,562**	**20,477**	**14,379**	**231,337**	**26,050**
Margin (%)	***5.1%***	***5.2%***	***3.6%***	***58.7%***	***6.5%***
Finance income	2,763	4,409	1,284	3,202	3,282
Finance cost	(4,892)	(2,081)	(1,308)	(363)	(222)
Profit before tax	**17,433**	**22,805**	**14,355**	**234,176**	**29,110**
Tax benefit / (charge)	(3,081)	(7,249)	(1,945)	(12,599)	(52,155)
Profit	**14,352**	**15,556**	**12,410**	**221,577**	**(23,045)**

[1] *In January 2011 Netia reclassified certain revenues between Data and Other revenue related to value added services, however without an impact on the total revenue. Accordingly, the comparative figures for all quarters of 2010 were restated and therefore vary from the numbers reported previously.*

EBITDA Reconciliation to Profit
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Operating Profit	**19,562**	**20,477**	**14,379**	**231,337**	**26,050**
Add back:					
Depreciation and amortization	73,972	74,786	75,411	76,515	75,325
EBITDA	**93,534**	**95,263**	**89,790**	**307,852**	**101,375**
Add back:					
Project Profit restructuring costs	138	162	168	322	-
M&A related costs	-	-	-	747	129
Less:					
Gain on disposal of transmission equipment to P4	(2,865)	-	(4,433)	-	-
Gain on reversal of an impairment charge for non-current assets	-	-	-	(221,184)	-
Adjusted EBITDA	**90,807**	**95,425**	**85,525**	**87,737**	**101,504**
Margin (%)	***23.5%***	***24.2%***	***21.7%***	***22.3%***	***25.3%***

Note to Other Income
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Reminder fees and penalties	1,889	882	2,508	1,807	729
Forgiveness of liabilities	-	-	-	5,511	-
Fair value adjustments on other receivables and reversal of provisions	693	-	3,317	(2,469)	-
Settlement with Tele2 Sverige	1,461	-	-	-	-
Results of settlements	-	-	-	342	2,700
Other operating income	870	608	1,136	325	1,285
Reversal of an impairment charge for non-current assets	-	-	-	221,184	-
Total	**4,913**	**1,490**	**6,961**	**226,700**	**4,714**

Note to Other Expense
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Impairment charges for specific individual assets	-	(782)	-	(434)	(958)
Other expenses	-	-	-	(6)	(39)
Total	**-**	**(782)**	**-**	**(440)**	**(997)**

Note to Other Gains / (losses), net
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Gain / (loss) on sale of impaired receivables	-	782	909	542	(10)
Gain / (loss) on disposal of fixed assets	3,283	433	4,380	154	(14)
Net foreign exchange gains / (losses)	(512)	(687)	(351)	(224)	(287)
Total	**2,771**	**528**	**4,938**	**472**	**(311)**

Total comprehensive income
(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Profit	**14,352**	**15,556**	**12,410**	**221,577**	**(23,045)**
Cash flow hedges	(451)	3,716	(1,400)	195	(240)
Income tax relating to components of other comprehensive income	(25)	(615)	262	(13)	41
Other comprehensive Income / (Loss)	**(476)**	**3,101**	**(1,138)**	**182**	**(199)**
Total comprehensive Income / (Loss)	**13,876**	**18,657**	**11,272**	**221,759**	**(23,244)**
Attributable to equity holders of the Company	*13,876*	*18,657*	*11,272*	*221,759*	*(23,244)*

Statement of financial position

(PLN in thousands unless otherwise stated)

Time periods:	March 31 2010 *unaudited*	June 30 2010 *unaudited*	Sept. 30 2010 *unaudited*	Dec. 31 2010 *audited*	March 31 2011 *unaudited*
Property, plant and equipment, net	1,337,555	1,324,510	1,289,269	1,475,682	1,473,665
Intangible assets	374,674	364,654	361,086	389,444	376,102
Investment property	35,538	35,340	35,310	45,084	25,933
Deferred income tax assets	76,379	68,552	65,733	52,762	59,017
Available for sale financial assets	10	10	10	10	115
Long-term receivables	217	217	217	217	218
Prepaid expenses and accrued income	6,454	16,203	10,660	10,508	9,805
Total non-current assets	**1,830,827**	**1,809,486**	**1,762,285**	**1,973,707**	**1,944,855**
Inventories	4,446	5,973	7,147	11,393	7,120
Trade and other receivables	162,965	173,047	173,191	139,785	163,407
Current income tax receivables	59,645	58,384	59,102	58,351	30
Prepaid expenses and accrued income	32,876	38,109	44,690	37,876	38,108
Derivative financial instruments	63	2,128	131	117	117
Financial assets at fair value through profit and loss	-	-	-	1	1
Held to maturity investments	97,636	127,248	155,886	171,616	171,600
Restricted cash	2,330	2,330	2,123	2,123	2,123
Cash and cash equivalents	108,703	145,224	157,427	173,600	210,439
	468,664	**552,443**	**599,697**	**594,862**	**592,945**
Non-current assets classified as held for sale	-	-	-	-	-
Total current assets	**468,664**	**552,443**	**599,697**	**594,862**	**592,945**
TOTAL ASSETS	**2,299,491**	**2,361,929**	**2,361,982**	**2,568,569**	**2,537,800**
Share capital	389,338	389,338	389,338	389,459	390,375
Share premium	1,356,666	1,599,287	1,599,287	1,599,299	1,599,580
Retained earnings	262,336	35,272	47,681	269,258	246,213
Other components of equity	34,894	38,976	38,835	39,530	38,729
TOTAL EQUITY	**2,043,234**	**2,062,873**	**2,075,141**	**2,297,546**	**2,274,897**
Bank loans	-	-	334	-	-
Provisions	1,319	1,246	1,168	988	914
Deferred income	7,275	10,766	10,576	17,586	20,014
Other long-term liabilities	12,109	10,713	11,157	8,847	8,098
Total non-current liabilities	**20,703**	**22,725**	**23,235**	**27,421**	**29,026**
Trade and other payables	189,873	230,152	213,046	206,768	192,838
Derivative financial instruments	4,453	367	964	849	1,044
Borrowings	-	-	-	31	-
Other financial liabilities	-	-	-	-	-
Current income tax liabilities	1	1	1	1	1
Provisions	4,012	3,708	3,636	1,855	1,723
Deferred income	37,215	42,103	45,959	34,098	38,271
Total current liabilities	**235,554**	**276,331**	**263,606**	**243,602**	**233,877**
Total liabilities	**256,257**	**299,056**	**286,841**	**271,023**	**262,903**
TOTAL EQUITY AND LIABILITIES	**2,299,491**	**2,361,929**	**2,361,982**	**2,568,569**	**2,537,800**

Cash Flow Statement

(PLN in thousands unless otherwise stated)

Time periods:	Q1 2010 *unaudited*	Q2 2010 *unaudited*	Q3 2010 *unaudited*	Q4 2010 *unaudited*	Q1 2011 *unaudited*
Profit / (Loss)	**14,352**	**15,556**	**12,410**	**221,577**	**(23,045)**
Depreciation and amortization	73,972	74,786	75,411	76,515	75,325
Impairment charges for specific individual assets	-	782	-	434	958
Reversal of impairment charges	-		-	(221,184)	-
Reversal of specific impairment charges	-	(58)	(250)	-	-
Deferred income tax charge / (benefit	2,996	7,176	2,605	12,653	(6,245)
Interest expense and fees charged on bank loans	2,838	2,903	-	257	-
Other interest charged	(530)	(975)	(1,197)	(1,443)	(1,561)
Interest accrued on loans granted	-	-	-	-	-
Share-based compensation	3,327	1,069	1,288	807	829
Fair value (gains)/losses on financial assets/liabilities	(697)	-	-	-	-
Fair value (gains)losses on derivative financial instruments	368	(2,811)	1,188	1	(15)
Foreign exchange (gains)/losses	1,172	114	(471)	(717)	(68)
Gain on disposal of fixed assets	(3,196)	(434)	(4,379)	(111)	49
(Gain)/Loss on sale of investments	881	-	-	-	-
Changes in working capital	(14,323)	(16,315)	12,061	(2,600)	1,229
Tax expensed in relation to prior periods	-		-	-	58,325
Tax paid in respect to prior periods	(59,586)	1,261	-	-	-
Net cash provided by operating activities	**21,574**	**83,054**	**98,666**	**86,189**	**105,781**
Purchase of fixed assets and computer software	(56,565)	(38,304)	(49,122)	(49,243)	(68,927)
Purchase of operational networks	(818)	-	-	-	-
Proceeds from sale of non-core assets	1,540	22,220	10	454	94
Proceeds from sale of group of assets	-	-	-	-	-
Purchase of subsidiaries, net of received cash	-	(516)	(7,967)	(5,658)	(573)
Net (purchase)/receipt of treasury notes	(38,487)	(28,521)	(27,298)	(14,176)	1,676
Sale of investments	3,395	-	-	-	-
Net cash used in investing activities	**(90,935)**	**(45,121)**	**(84,377)**	**(68,623)**	**(67,730)**
Finance lease payments	(1,414)	(1,414)	(1,534)	(1,458)	(1,249)
Loan repayments	(347)	-	-	(334)	(31)
Payments of fees relating to bank loans	(552)	(561)	-	(318)	-
Net cash used in financing activities	**(2,313)**	**(1,975)**	**(1,534)**	**(2,110)**	**(1,280)**
Net change in cash and cash equivalents	**(71,674)**	**35,958**	**12,755**	**15,456**	**36,771**
Effect of exchange rate change on cash and cash equivalents	**(826)**	**563**	**(552)**	**717**	**68**
Cash and cash equivalents at the beginning of the period	181,203	108,703	145,224	157,427	173,600
Cash and cash equivalents at the end of the period	**108,703**	**145,224**	**157,427**	**173,600**	**210,439**

Definitions	
Active headcount	• Full-time employment equivalent with regard to employees who are not during maternity leaves, non-paid leaves nor long-term sick leaves (above 33 days during calendar year), who are not at military service or who were relieved from the obligation to perform work
Backbone	• a telecommunications network designed to carry the telecommunications traffic between the main junctions of the network;
Bitstream access	• a type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by TPSA. The altnet connects to the TPSA data network and may only offer services identical to those of TPSA, paying TPSA on a retail minus basis for use of the TPSA network.
Broadband SAC	• a cost per unit related to the acquisition of new customers through broadband access (i.e., Bitstream, LLU, WiMAX, xDSL), including a one-time payment to TP (the incumbent), sales commissions, postal services and the cost of modems sold;
Broadband ARPU	• average monthly revenue per broadband port during the period; Broadband ARPU is obtained by dividing the amount of monthly revenues from data services related to provisioning fixed Internet access by the average number of broadband ports, in each case for the referenced three-month period; Where significant promotional discounts are given at the beginning of contracts, revenues are averaged over the life of the contract.
Broadband port	• a broadband port which is active at the end of a given period;
Cash	• cash and cash equivalents at the end of period;
Cost of network operations and maintenance	• cost of rentals of lines and telecommunications equipment, as well as maintenance, services and related expenses necessary to operate our network;
Data revenues	• revenues from provisioning Frame Relay (including IP VPN-virtual private network services), lease of lines (including leased lines for carriers), Internet fixed-access services (provided, among others, through bitsteam and WiMAX types of access) and IP Transit;
Direct voice revenues	• telecommunications revenues from voice services offered by Netia to its subscribers (through various types of access, including, among others, WiMAX). Direct voice services include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and 0-80x/0-70x - type calls originated by Netia's subscribers);
DSLAM	• Technical infrastructure that splits data from voice traffic over a copper line and is deployed in the local network of a telecommunications operator to provide ADSL services to customers connected to a given local network node.
EBITDA / Adjusted EBITDA	• to supplement the reporting of our consolidated financial information under IFRS, we will continue to present certain financial measures, including EBITDA. We define EBITDA as profit/(loss) as measured by IFRS, adjusted for depreciation and amortization, financial income and expense, income taxes and results of investments in associates. EBITDA has been further adjusted for a non-cash gain on reversal of earlier impairment charges, one-off restructuring expenses related to the cost reduction program (the "Profit" project), M&A expenses, a gain on disposal of the transmission equipment to P4 and a positive accounting impact from the settlement agreement with TP and is therefore defined as Adjusted EBITDA. We believe EBITDA and related measures of cash flow from operating activities serve as useful supplementary financial indicators in measuring the operating performance of telecommunication companies. EBITDA is not an IFRS measure and should not be considered as an alternative to IFRS measures of profit/(loss) or as an indicator of operating performance or as a measure of cash flows from operations under IFRS or as an indicator of liquidity. The presentation of EBITDA, however, enables investors to focus on period-over-period operating performance, without the impact of non-operational or non-recurring items. It is also among the primary indicators we use in planning and operating the business. You should note that EBITDA is not a uniform or standardized measure and the calculation of EBITDA, accordingly, may vary significantly from company to company, and by itself provides no grounds for comparison with other companies;
Headcount	• full time employment equivalents;
Indirect voice revenues	• telecommunications revenues from the services offered through Netia's prefix (1055) or Tele2 Polska's prefix (1061) to customers being subscribers of other operators. Indirect access services include the following traffic fractions: domestic long-distance (DLD) calls, international long distance (ILD) calls and fixed-to-mobile calls;
Interconnection charges	• payments made by Netia to other operators for origination, termination or transfer of traffic using other operators' networks;

Interconnection revenues	• payments made by other operators to Netia for origination, termination or transfer of traffic using Netia's network, netted against the cost of traffic termination;
Local Loop Unbundling (LLU)	• A type of regulatory broadband access enabling provision of broadband service by an altnet to customers connected by a copper line owned by TPSA. The altnet installs DSLAM equipment at a TPSA local network node and connects it to its own backbone network. The altnet may offer broadband and voice service to any customer connected by TPSA copper line to the given node. The alnet can offer an unrestricted range of services and pays TPSA space rental and monthly fees per customer line used.
Professional services	• costs of legal, financial and other services (excluding insurance and taxes and fees, which are presented separately) provided to Netia by third parties;
Other telecommunications services revenues	• revenues from provisioning Internet dial-in services for Netia's indirect customers (based on a call-back principle and an access number (0-20)); revenues from provisioning free-phone, split-charge and premium rate services (i.e., 0-800, 0-801 and 0-70x type services), netted against the cost of revenue sharing; as well as other non-core revenues;
Radiocommunications revenue	• revenues from radio-trunking services provided by Netia's subsidiary, UNI-Net Sp. z o.o.;
Subscriber line	• a connected line which became activated and generated revenue at the end of the period;
Voice ARPU	• average monthly revenue per direct voice line during the period; ARPU is obtained by dividing the amount of monthly revenues from direct voice services (excluding installation fees) by the average number of subscriber lines, in each case for the referenced three-month period;
Wholesale Line Rental (WLR)	• A type of regulatory voice access enabling provision of voice service by an altnet to customers connected by a copper line owned by TPSA. The altnet connects to the TPSA voice network and charges the customer for both line rental and calls made. TPSA receives a payment for line rental plus call origination fees and keeps all interconnection revenues from incoming calls.
Wholesale services	• revenues from providing commercial network services such as voice termination, incoming Voice over Internet Protocol (VoIP), telehousing and collocation as well as backbone-based services.

Conference call on the Q1 2011 results

Netia management will hold a conference call to review the results on May 5, 2011 at 09:00 AM (UK) / 10:00 AM (Continent) / 04:00 AM (Eastern).

Dial in numbers:
(UK) +44 20 3003 2666
(US) +1 646 843 4608

Replay number:
(UK) +44 20 8196 1998
Passcode: 1357931#

A link to an audio recording of the conference call for replay on a later date will be posted on Netia's investor website (www.investor.netia.pl)

For further information, please contact Anna Kuchnio at +48 22 352 2061, email: anna_kuchnio@netia.pl.

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