Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements
  as at and for the three-month period ended March 31, 2010

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Report on review of interim condensed consolidated financial statements to the Supervisory Board of Netia S.A.

1. We have reviewed the attached interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at March 31, 2010 and the related interim condensed consolidated statement of comprehensive income, interim condensed consolidated income statement, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 3 months period then ended and notes to interim condensed consolidated financial statements ('the attached interim condensed consolidated financial statements').

2. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard applicable to interim financial reporting ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

3. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review, nothing has come to our attention that causes us to believe that the attached interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

5. The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 3 months period ended March 31, 2010 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2010 of PLN 3.8622 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp z o.o.

Ernst &Young Audit Sp. z o.o.

Warsaw, 5 May 2010

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month period ended March 31, 2010

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at March 31, 2010

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2009 (PLN)	March 31, 2010 (PLN)	Convenience Translation March 31, 2010 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,384,714	1,335,542	345,798
Intangible assets	7	388,557	374,420	96,945
Investment property		35,574	35,538	9,201
Deferred income tax assets	11	79,400	76,379	19,776
Available for sale financial assets		10	10	3
Long term receivables		676	217	56
Prepaid expenses and accrued income		8,830	7,721	1,999
Total non-current assets		**1,897,761**	**1,829,827**	**473,778**
Current assets				
Inventories		3,143	4,446	1,151
Trade and other receivables		173,606	162,965	42,195
Current income tax receivables	4	59	59,645	15,443
Prepaid expenses and accrued income		20,228	32,888	8,515
Derivative financial instruments	8	110	63	16
Financial assets at fair value through profit and loss	8	3,660	-	-
Held to maturity investments	8	58,489	97,636	25,280
Restricted cash		2,330	2,330	603
Cash and cash equivalents		181,203	108,703	28,145
		442,828	**468,676**	**121,348**
Assets classified as held for sale		87	-	-
Total current assets		**442,915**	**468,676**	**121,348**
Total assets		**2,340,676**	**2,298,503**	**595,126**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Grzegorz Esz
Member of the Management Board

Warsaw, Poland
May 5, 2010

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2009 (PLN)	March 31, 2010 (PLN)	Convenience Translation March 31, 2010 (EUR)
EQUITY				
Share capital		389,277	389,338	100,807
Share premium		1,356,652	1,356,666	351,268
Retained earnings		247,258	261,602	67,734
Other components of equity		32,264	34,894	9,035
Total equity		**2,025,451**	**2,042,500**	**528,844**
LIABILITIES				
Non-current liabilities				
Provisions		1,401	1,319	342
Deferred income		7,289	7,275	1,884
Other long term liabilities		5,895	5,367	1,390
Total non-current liabilities		**14,585**	**13,961**	**3,616**
Current liabilities				
Trade and other payables		255,788	196,361	50,838
Derivative financial instruments	8	4,423	4,453	1,153
Borrowings		347	-	-
Other financial liabilities		80	-	-
Current income tax liabilities		1	1	0
Provisions		4,888	4,012	1,039
Deferred income		35,113	37,215	9,636
Total current liabilities		**300,640**	**242,042**	**62,666**
Total liabilities		**315,225**	**256,003**	**66,282**
Total equity and liabilities		**2,340,676**	**2,298,503**	**595,126**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)	Convenience Translation Three-month period ended March 31, 2010 (EUR)
CONSOLIDATED INCOME STATEMENT				
Revenue		**375,665**	**386,979**	**100,197**
Cost of sales		(251,818)	(260,224)	(67,377)
Gross profit		**123,847**	**126,755**	**32,820**
Selling and distribution costs		(84,104)	(77,936)	(20,180)
General and administration costs		(46,585)	(36,949)	(9,565)
Other income		2,943	4,913	1,272
Other expenses		(100)	-	-
Other gains / (losses), net		948	2,771	717
Operating profit / (loss)		**(3,051)**	**19,554**	**5,064**
Finance income		2,104	2,763	715
Finance costs		(5,987)	(4,892)	(1,267)
Profit / (Loss) before income tax		**(6,934)**	**17,425**	**4,512**
Income tax benefit / (charge)		533	(3,081)	(798)
Profit / (Loss)		**(6,401)**	**14,344**	**3,714**
Profit / (Loss) attributable to:				
Owners of the Company		(6,401)	14,344	3,714
Non-controlling interest		-	-	-
		(6,401)	**14,344**	**3,714**
Earnings per share (expressed in PLN per share)				
- basic		(0.02)	0.04	0.01
- diluted		(0.02)	0.04	0.01

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)	Convenience Translation Three-month period ended March 31, 2010 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit/ (Loss)		**(6,401)**	**14,344**	**3,714**
Cash flow hedges (equipment and construction contracts)	8	3,139	(451)	(117)
Income tax relating to components of other comprehensive income		(562)	(25)	(6)
Other comprehensive income		**2,577**	**(476)**	**(123)**
TOTAL COMPREHENSIVE INCOME/ (LOSS)		**(3,824)**	**13,868**	**3,591**
Total comprehensive income attributable to:				
Owners of the Company		(3,824)	13,868	3,591
Non-controlling interest		-	-	-
		(3,824)	**13,868**	**3,591**

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Share premium	Retained earnings	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2009		**389,277**	**1,556,489**	**(41,245)**	**24,244**	**(284)**	**1,928,481**
Employee share option scheme:							
- value of services provided................	9	-	-	-	3,242	-	3,242
Total comprehensive loss		-	-	(6,401)	-	2,577	(3,824)
Balance as at March 31, 2009		**389,277**	**1,556,489**	**(47,646)**	**27,486**	**2,293**	**1,927,899**

	Note	Share capital	Share premium	Retained earnings	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2010		**389,277**	**1,356,652**	**247,258**	**34,201**	**(1,937)**	**2,025,451**
Employee share option scheme:							
- value of services provided................	9	-	-	-	3,182	-	3,182
- issuance of series K shares	9	61	15	-	(76)	-	-
Cost of issuance....................................		-	(1)	-	-	-	(1)
Total comprehensive income................		-	-	14,344	-	(476)	13,868
Balance as at March 31, 2010		**389,338**	**1,356,666**	**261,602**	**37,307**	**(2,413)**	**2,042,500**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)	Convenience Translation Three-month period ended March 31, 2010 (EUR)
Cash flows from operating activities:				
Profit		**(6,401)**	**14,344**	**3,714**
Adjustments for:				
Depreciation and amortization	5, 7	72,962	73,972	19,153
Impairment charges for specific individual assets	5	100	-	-
Deferred income tax charge / (benefit)	11	(835)	2,996	776
Interest expense and fees charged on bank loans	10	-	2,838	735
Other interest charged / (earned)		855	(530)	(137)
Interest accrued on loans granted		(3)	-	-
Share-based compensation	9	3,242	3,327	861
Fair value (gains) / losses on financial assets / liabilities		765	(697)	(180)
Fair value (gains) / losses on derivative financial instruments	8	1,954	368	95
Foreign exchange (gains) / losses		1,793	1,172	302
Loss / (Gain) on disposal of fixed assets		56	(3,196)	(828)
Gain on sale of investments	8	-	881	228
Changes in working capital	13	2,581	(14,315)	(3,705)
Overpaid tax	4	-	(59,586)	(15,428)
Net cash provided by operating activities		**77,069**	**21,574**	**5,586**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(73,959)	(56,565)	(14,646)
Purchase of operational networks	6	(807)	(818)	(212)
Proceeds from sale of fixed assets		181	1,540	399
Proceeds from sale of group of assets		2,000	-	-
Purchase of subsidiaries, net of cash received		(6,963)	-	-
Purchase of treasury bonds / notes, net		(19,762)	(38,487)	(9,965)
Sale of investments	8	-	3,395	879
Loan repayments		69	-	-
Net cash used in investing activities		**(99,241)**	**(90,935)**	**(23,545)**
Cash flows from financing activities:				
Finance lease payments		(484)	(1,414)	(366)
Loan payments		-	(347)	(90)
Payments of fees relating to bank loans		(808)	(552)	(143)
Net cash used in financing activities		**(1,292)**	**(2,313)**	**(599)**
Net change in cash and cash equivalents		**(23,464)**	**(71,674)**	**(18,558)**
Exchange gains / (losses) on cash and cash equivalents		**1,575**	**(826)**	**(214)**
Cash and cash equivalents at beginning of period		192,685	181,203	46,917
Cash and cash equivalents at end of period		**170,796**	**108,703**	**28,145**

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

1. The Company and the Netia Group

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its registered office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The parent company is entered in the Register of Entrepreneurs kept by the District Court, XIII Economic Department of the National Court Register, Entry No. KRS 0000041649. The parent company was granted statistical REGON number 011566374. The parent company and other Group entities have an unlimited period of operation.

The interim condensed consolidated financial statements of Netia S.A. for the three-month period ended March 31, 2010 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on May 5, 2010 and were subject to a review by an independent auditor.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long-distance, international long-distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, dial-up and fixed-access Internet, leased lines and frame relay and MPLS services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with ADSL technology. These services are offered over Netia's own copper or fiber networks and, selectively, over network facilities leased from other operators.

Since 2006, the Netia Group has been providing voice and broadband services using WIMAX technology running over 3.6 – 3.8 GHz frequencies that were acquired by the Group in 2005.

Taking advantage of the new opportunities arising from changes in the regulatory environment, the Company concluded a bitstream agreement with Telekomunikacja Polska S.A. ("TP SA") and commercially launched its broadband Internet access services over TP SA's network in January 2007. During the third quarter of 2007 the Company began offering Netia voice services to TP SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia in turn has to pay a line rental fee to TP SA under the Wholesale Line Rental (WLR) administrative decision issued by the telecommunications regulator (Urząd Komunikacji Elektronicznej, "UKE"). During 2008 Netia has begun to install its own equipment in the TP SA network nodes using a form of regulated access called Local Loop Unbundling (LLU) and has begun connecting customers using this form of regulated access.

In September 2008 the Company acquired Tele2 Polska Sp. z o.o. ("Tele2 Polska", merged with Netia in February 2009), a company providing voice and broadband services Poland-wide on the basis of regulated access to the TP SA network, including call by call, WLR and BSA.

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 22 such operators with a total of 94,188 (not in thousands) active customers. Additionally, since the end of 2008 the Netia Group has acquired 7,810 (not in thousands) customers and local networks from other Ethernet operators.

To further broaden Netia's product offer, including convergent services, Netia started offering mobile services in September 2008. Netia provides its mobile service based on a Mobile Service Provider Agreement with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. In the third quarter of 2009, the scope of this cooperation has been expanded to cover mobile broadband services as well as mobile handset based voice and data services.

The Netia Group is also engaged in the installation and supply of specialized mobile radio communication services (public trunking) in Poland through its subsidiary UNI-Net Poland Sp. z o.o. (established in May 2009 through a corporate separation from UNI-Net Sp. z o.o.).

The Company's ordinary shares have been listed on the Warsaw Stock Exchange ("WSE") since July 2000. The Company's shares are currently a component of the mWIG40 index comprising companies of medium capitalization. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting for companies listed on the WSE.

Going concern

As at March 31, 2010, the Company's equity amounted to PLN 2,042,500 and the Netia Group had working capital of PLN 226,634. As at March 31, 2010 the Netia Group had net cash available of PLN 108,703, PLN 100,000 in nominal value of treasury notes and undrawn borrowing facilities of PLN 295,000 (see Notes 8 and 10). Furthermore, Netia's operations were free cash flow generative in 2009 and the first quarter of 2010 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of May 5, 2010, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2009, except for new accounting standards adopted as of January 1, 2010. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2009 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2009) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

Items included in the financial statements of each of the Netia Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Polish Złoty ("PLN"), which is the Company's functional and presentation currency.

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2010 of PLN 3.8622 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

The consolidated financial statements are prepared under the historic cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit and loss. However, until December 31, 1996, Poland was considered to be a hyperinflationary economy. The consolidated financial statements for the periods through that date were prepared under the historical cost convention as adjusted for the effects of inflation in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies". The inflated values in PLN at December 31, 1996 for balance sheet items became the new historical basis for subsequent periods.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment (estimation of the recoverable amount and economic useful lives), customer relationships (estimation of future economic benefits) and deferred income tax (estimation of future taxable profits).

Costs that arise unevenly during the financial year are anticipated or deferred in the interim consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

Neither the Company's nor the Netia Group's activities are subject to any significant seasonal or cyclical trends of operations.

Changes in estimates

In the three-month period ended March 31, 2010 the Netia Group reassessed the useful lives of its computer software and property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	**Main changes in the period of depreciation / amortization**	**Increase / (Decrease) in the depreciation charge recognized in current period**	**Relevant increase / (decrease) in the depreciation charge for the remaining period in 2010**
		(PLN)	**(PLN)**
Computer software	- useful lives of certain assets were shortened until December 2010	1,187	3,560
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2013	(103)	(84)
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2013	(2,246)	(1,815)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2013	(119)	(150)
Total impact		**(1,281)**	**1,511**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

In 2010, the Netia Group adopted the following new standards, amendments to standards and new interpretations:
- Revised IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements";
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" - "Eligible Hedged Items";
- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions";
- Restructured IFRS 1 "First-time Adoption of International Financial Reporting Standards";
- Amendments to IFRS resulting from the annual improvements project;
- IFRIC 17, " Distributions of Non-cash Assets to Owners".

Amendment to IFRS 8 "Operating Segments" (included in the annual improvements project) clarified that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Netia Group do not use segment assets for internal reporting purposes and they are not used as a basis for decision making, therefore adoption of the amendment has resulted in a change in the content of disclosure (see Note 3).

Revised IFRS 3 "Business Combinations" introduces significant changes in the accounting for business combinations occurring after January 1, 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The change in accounting policy was applied prospectively and had no material impact on financial position of the Netia Group's operations.

Adoption of other amendments and interpretations listed above did not have any effect on the financial position of the Netia Group's operations.

Furthermore, the International Accounting Standards Board has issued amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters" which are effective for annual periods beginning on or after January 1, 2010. The amendments have not yet been endorsed by the EU.

Standards, interpretations and amendments to published standards that are not yet effective

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2010 and have not been adopted early:

- Amendment to IAS 32 "Financial Instruments: Presentation. Classification of Rights Issues" applicable for annual periods beginning on or after February 1, 2010. The amended standard clarifies the classification of rights issues;

- Revised IAS 24 "Related Party Disclosures" applicable for annual periods beginning on or after January 1, 2011. The revised standard simplifies the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition. This revised standard has not yet been endorsed by the EU;

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2013. IFRS 9 is the first part of Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU;

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after July 1, 2010. This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation has not yet been endorsed by the EU;

- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement", effective for annual periods ending on or after January 1, 2011. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The amendments have not yet been endorsed by the EU;

- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" , effective for annual periods beginning on or after July 1, 2010. The amendment applies the same transition provisions for first-time adopters as for existing preparers of financial statements included in Amendments to IFRS 7 "Improving Disclosures about Financial Instruments". The amendment has not yet been endorsed by the EU.

Management is currently assessing the impact of the above standards and interpretations on the Netia Group's operations.

3. Segment information

For management purposes, the Netia Group is organized into business units based on their customer segments, and has four reportable operating segments, as follows:
- Home, i.e. residential clients,
- SOHO / SME, i.e. small and medium enterprises,
- Corporate, i.e. large enterprises,
- Carriers, i.e. other telecom service providers.

(All amounts in thousands, except as otherwise stated)

Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (defined as operating profit / (loss) excluding depreciation and amortization) which is derived from the information in the consolidated financial statements. The Netia Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments. As Netia considers its network to be a single cash generating unit, non-current assets are not acquired by individual operating segments, but shared between them. In order to produce EBIT results for each segment, depreciation and amortization from the shared assets also has to be allocated. The Company uses expected future cash flows from each segment as a basis to allocate depreciation and amortization. The resulting allocations can be volatile between periods, but unlike EBITDA, Management does not place reliance on these segment EBIT results for decision making purposes.

No operating segments have been aggregated to form these reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the three-month periods ended March 31, 2010 and 2009, respectively:

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended March 31, 2010							
Revenue from external customers	**205,546**	**44,450**	**87,729**	**47,707**	**385,432**	**1,547**	**386,979**
EBITDA	**33,283**	**13,559**	**48,553**	**26,940**	**122,335**	**(28,807)**	**93,528**
Depreciation and Amortization	(18,102)	(12,516)	(25,064)	(9,684)	(65,366)	(8,606)	(73,972)
Operating profit / (loss)	15,181	1,043	23,489	17,256	56,969	(37,415)	19,554
Finance income / (cost), net	-	-	-	-	-	(2,129)	(2,129)
Income tax benefit / (charge)	-	-	-	-	-	(3,081)	(3,081)
Profit / (Loss)	**15,181**	**1,043**	**23,489**	**17,256**	**56,969**	**(42,625)**	**14,344**
Capital expenditure	9,352	2,596	10,769	3,369	26,086	2,942	29,029
Three-month period ended March 31, 2009							
Revenue from external customers	**184,601**	**45,205**	**88,314**	**56,004**	**374,124**	**1,541**	**375,665**
EBITDA	**23,410**	**15,237**	**43,476**	**25,299**	**107,422**	**(37,511)**	**69,911**
Depreciation and amortization	(8,835)	(5,878)	(34,647)	(15,953)	(65,313)	(7,649)	(72,962)
Operating profit / (loss)	14,575	9,359	8,829	9,346	42,109	(45,160)	(3,051)
Finance income / (cost), net	-	-	-	-	-	(3,883)	(3,883)
Income tax benefit / (charge)	-	-	-	-	-	533	533
Profit / (Loss)	**14,575**	**9,359**	**8,829**	**9,346**	**42,109**	**(48,510)**	**(6,401)**
Capital expenditure	18,638	3,042	26,369	15,582	63,631	6,153	69,784

Unallocated revenues comprise mainly revenues from the radio communication segment. A reconciliation of earnings before interest and tax ("EBIT") for reportable segments to profit / (loss) is provided as follows:

	Three-month period ended March 31, 2009	**Three-month period ended March 31, 2010**
	(PLN)	(PLN)
EBIT for reportable segments	42,109	56,969
Radio communication segment	(61)	84
General fixed costs (incl. administration, IT, professional services)	(34,083)	(27,305)
Reorganization and restructuring costs	(1,619)	(138)
Other operating expenses	(1,856)	(1,542)
Depreciation and amortization of unallocated assets (excluding radio communication segment)	(7,541)	(8,514)
Finance income / (cost), net	(3,883)	(2,129)
Income tax benefit / (charge)	533	(3,081)
Profit / (Loss)	(6,401)	14,344

The Netia Group operates in one geographical area, which is the territory of Poland.

4. Significant one-off transactions recorded in the current interim period

Disposal of transmission equipment

On July 24, 2009 Netia and P4 concluded an agreement for the sale of the transmission equipment used by Netia to provide transmission services to P4. The sale agreement was entered into on the following terms and conditions:

1. The transmission equipment will be purchased by P4 in three batches.
2. The total price for the transmission equipment is PLN 65,418, of which:
   a) PLN 22,832 is payable by P4 on the date of purchase of the first batch of the transmission equipment, i.e. August 1, 2009;
   b) PLN 21,141 is payable by P4 on the date of purchase of the second batch of the transmission equipment, i.e. January 1, 2010; and
   c) PLN 21,445 is payable by P4 on the date of purchase of the third batch of the transmission equipment, i.e. July 1, 2010.
3. The legal title to the given batches of the transmission equipment will be transferred to P4 after P4 pays the price for a given batch, however not earlier that on the dates indicated above.

In January 2010 the Company transferred to P4 the second batch of the transmission equipment and recognized PLN 2,865 as a gain on disposal (a gain of PLN 5,298 was recognized on disposal of the first batch in the third quarter of 2009).

Tax decision (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.

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.

Netia has received opinions from several independent tax and legal advisors, as well as tax law experts, which conclude that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, Management has not recognised the Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2009 and instead treats funds paid over to the tax authorities as an overpayment of tax.

Netia has filed an appeal to the Decision with the Voivodship Administrative Court and will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless. The date of the first hearing at the Voivodship Administrative Court is still to be set.

Settlement with Tele2 Sverige AB

On March 29, 2010 the Company and Tele2 Sverige AB signed an agreement ("Settlement Agreement") in which the parties agreed to settle all claims that they have or may have against one another under the Share Purchase Agreement ("SPA") and all ancillary agreements. In particular, the Company waived its right to the indemnities provided in the SPA (a part of any Tele2 Polska's contingent loss was indemnified by the seller) and Tele2 Sverige AB made a cash payment and waived its right to the restricted cash deposit if it is released by the Court. As a result of the Settlement Agreement, during the three-month period ended March 31, 2010, Netia recorded an income of PLN 1,461.

Reorganization and restructuring

Following the acquisition of Tele2 Polska in September 2008 which significantly augmented the scale of the business, the Netia Group performed a comprehensive cost review across all functional areas of the Company and indentified areas for operating cost optimization. The reorganization program includes a reduction of headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. In connection with the restructuring program, in April 2009 and September 2009 the Netia Group announced headcount reductions, which assumed a total decrease of employment by approximately 231 full time employees by the end of 2009. Although implementation of these headcount reductions was largely completed in 2009, certain residual costs were incurred in the current period.

Total reorganization costs recorded during the three-month periods ended March 31, 2010 and 2009 were included in the following cost categories presented in the table below:

	Three-month period ended March 31, 2009	**Three-month period ended March 31,** 2010
	(PLN)	**(PLN)**
Cost of sales		
Salaries and benefits	-	-
Selling and distribution costs		
Salaries and benefits	(737)	(84)
General and administration costs		
Salaries and benefits	(882)	(54)
	(1,619)	**(138)**

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2010	45,526	3,114	2,026,040	1,895,760	110,263	123,778	5,993	107,791	4,318,265
Additions	204	-	80	166	72	201	172	25,669	26,564
Purchase of operational networks	-	-	340	45	-	7	-	-	392
Transfers	2,466	-	12,528	27,429	1,294	344	-	(44,061)	-
Disposals	-	(115)	(53)	(21,977)	(142)	(2,312)	(2,973)	(102)	(27,674)
Other movements	(7)	-	496	(936)	458	(135)	-	-	(124)
Gross book value as at March 31, 2010	48,189	2,999	2,039,431	1,900,487	111,945	121,883	3,192	89,297	4,317,423
Accumulated depreciation as at January 1, 2010	20,203	-	794,051	910,493	64,420	100,844	3,668	-	1,893,679
Depreciation expense	810	-	18,291	34,213	1,658	1,485	201	-	56,658
Disposals	-	-	(18)	(3,782)	(95)	(2,179)	(1,978)	-	(8,052)
Other movements	(1)	-	69	(430)	425	(63)	-	-	-
Accumulated depreciation as at March 31, 2010	21,012	-	812,393	940,494	66,408	100,087	1,891	-	1,942,285
Accumulated impairment as at January 1, 2010	7,341	1,125	631,419	368,640	18,404	10,133	30	2,780	1,039,872
Impairment charge for specific assets									
Transfers	-	-	16	170	20	-	-	(206)	-
Disposals	-	(46)	(17)	(4)	(7)	(133)	(9)	(60)	(276)
Other movements	-	-	22	(152)	191	(61)	-	-	-
Accumulated impairment as at March 31, 2010	7,341	1,079	631,440	368,654	18,608	9,939	21	2,514	1,039,596
Net book value as at January 1, 2010	17,982	1,989	600,570	616,627	27,439	12,801	2,295	105,011	1,384,714
Net book value as at March 31, 2010	**19,836**	**1,920**	**595,598**	**591,339**	**26,929**	**11,857**	**1,280**	**86,783**	**1,335,542**

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment (cont'd)

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2009	36,121	3,395	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,123,251
Additions	-	-	-	84	47	338	74	64,044	64,587
Purchase of operational networks	-	-	404	121	-	-	-	-	525
Transfers	3,957	-	11,742	42,157	1,515	66	-	(59,437)	-
Disposals	-	-	(21)	(866)	(167)	(984)	(115)	(172)	(2,325)
Other movements	1,141	-	(426)	626	1,160	(2,398)	-	-	103
Gross book value as at March 31, 2009	41.219	3,395	1,979,620	1,816,810	109,773	120,751	9,394	105,179	4,186,141
Accumulated depreciation as at January 1, 2009	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Depreciation expense	611	-	17,434	34,004	1,594	2,194	418	-	56,255
Disposals	-	-	(13)	(428)	(122)	(917)	(116)	-	(1,596)
Other movements	151	-	(294)	(583)	564	265	-	-	103
Accumulated depreciation as at March 31, 2009	17,938	-	739,411	799,231	63,829	97,810	4,759	-	1,722,978
Accumulated impairment as at January 1, 2009	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Impairment charge for specific assets	-	-	-	-	-	-	-	100	100
Transfers	-	-	7	73	7	6	-	(93)	-
Disposals	-	-	(4)	(206)	(10)	(53)	-	-	(273)
Other movements	9	-	(3)	(261)	254	-	1	-	-
Accumulated impairment as at March 31, 2009	7,322	1,238	631,450	368,869	18,088	10,325	31	1,545	1,038,868
Net book value as at January 1, 2009	11,632	2,157	614,187	639,187	27,588	17,089	4,948	99,206	1,415,994
Net book value as at March 31, 2009	**15,959**	**2,157**	**608,759**	**648,710**	**27,856**	**12,616**	**4,604**	**103,634**	**1,424,295**

6. Acquisitions

Operational networks

During the first quarter of 2010 the Netia Group purchased networks and customers from Ethernet operators for a total price of PLN 818. Fair values of the acquired fixed assets and customer relationships were estimated at PLN 394 and PLN 390, respectively. Total cash outflow relating to these acquisitions amounted to PLN 818. The goodwill of PLN 34 that arose on these transactions is based on the fair value of net assets acquired and is attributable to the synergies expected to arise after the Netia Group's acquisition of the above networks.

<u>*Comparative period*</u>

Registration of a new subsidiary (not in thousand**)**

On January 30, 2009, the Company's subsidiary, Netia UMTS Sp. z o.o. ("Netia UMTS"), was registered in the National Court Register. Netia acquired 100 Netia UMTS shares (with a par value of PLN 50 per share) constituting 100% of Netia UMTS' share capital and giving Netia 100% of the voting power at Netia UMTS' general meeting of shareholders. Netia UMTS was merged with Netia on November 30, 2009.

Operational networks

In February 2009 the Netia Group purchased from an Ethernet operator its network and customers for a total price of PLN 789 (costs directly attributable to the acquisition amounted to PLN 18). Fair values of the acquired fixed assets and customer relationships were estimated at PLN 525 and PLN 282, respectively. The fair value of acquired assets equals the purchase consideration, therefore no goodwill arose on this transaction.

(All amounts in thousands, except as otherwise stated)

7. Intangible assets

Current period:

			Licences				**Computer software costs**			
	Goodwill (PLN)	**Trademark (PLN)**	**Local telecommunication licenses / permits (PLN)**	**Data communications and internet licenses / permits (PLN)**	**Domestic long-distance licenses / permits (PLN)**	**WiMAX licenses (PLN)**	**Computer software (PLN)**	**Capital work in progress (PLN)**	**Customer relationships (PLN)**	**Total (PLN)**
Gross book value as at January 1, 2010	149,924	2,970	432,823	7,417	107,354	20,329	317,073	6,382	80,344	1,124,616
Additions	-	-	-	-	-	-	239	2,226	-	2,465
Purchase of operational networks	34	-	-	-	-	-	-	-	390	424
Transfers	-	-	-	-	-	-	4,533	(4,533)	-	-
Disposals	-	-	-	-	-	-	(19)	-	-	(19)
Other movements	-	-	-	-	-	-	126	-	-	126
Gross book value as at March 31, 2010	149,958	2,970	432,823	7,417	107,354	20,329	321,952	4,075	80,734	1,127,612
Accumulated amortization as at January 1, 2010	-	2,970	208,456	1,539	51,865	4,057	193,487	-	31,510	493,884
Amortization expense	-	-	3,625	-	1,022	292	7,901	-	4,204	17,044
Disposals	-	-	-	-	-	-	(14)	-	-	(14)
Other movements	-	-	-	-	-	-	74	-	-	74
Accumulated amortization as at March 31, 2010	-	2,970	212,081	1,539	52,887	4,349	201,448	-	35,714	510,988
Accumulated impairment as at January 1, 2010	-	-	159,788	5,878	28,511	3,408	43,998	385	207	242,175
Transfers	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	29	-	-	29
Accumulated impairment as at March 31, 2010	-	-	159,788	5,878	28,511	3,408	44,027	385	207	242,204
								-		
Net book value as at January 1, 2010	149,924	-	64,579	-	26,978	12,864	79,588	5,997	48,627	388,557
Net book value as at March 31, 2010	**149,958**	**-**	**60,954**	**-**	**25,956**	**12,572**	**76,477**	**3,690**	**44,813**	**374,420**

(All amounts in thousands, except as otherwise stated)

7. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (PLN)
Gross book value as at January 1, 2009	140,428	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,085,402
Additions	-	-	-	-	-	-	1	4,390	-	4,391
Purchase of operational networks	-	-	-	-	-	-	-	-	286	286
Transfers	-	-	-	-	-	-	5,581	(5,581)	-	-
Other movements	-	-	-	-	-	-	69	-	-	69
Gross book value as at March 31, 2009	140,428	2,970	432,823	7,417	107,354	20,329	300,086	3,502	75,239	1,090,148
Accumulated amortization as at January 1, 2009	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Amortization expense	-	1,485	3,624	-	1,022	292	6,129	-	3,941	16,493
Other movements	-	-	-	-	-	-	69	-	-	69
Accumulated amortization as at March 31, 2009	-	2,970	197,586	1,539	48,799	3,179	173,948	-	19,663	447,684
Accumulated impairment as at January 1, 2009	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Transfers	-	-	-	-	-	-	7	(7)	-	-
Other movements	-	-	-	-	-	-	-	-	-	-
Accumulated impairment as at March 31, 2009	-	-	159,788	5,878	28,511	3,408	43,998	-	207	241,790
Net book value as at January 1, 2009	140,428	1,485	79,073	-	31,066	14,034	82,694	4,686	59,024	412,490
Net book value as at March 31, 2009	**140,428**	**-**	**75,449**	**-**	**30,044**	**13,742**	**82,140**	**3,502**	**55,369**	**400,674**

8. Financial instruments

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are linked to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. During the three-month period ended March 31, 2010, PLN 607 of net cash losses on closed forward contracts were capitalized, PLN 158 of net cash losses were recorded as finance cost due to excess of the amount of closed forward contracts over purchases made, and the ineffective portion of open forward contracts of PLN 5 was recorded as finance income.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD EUR for periods consistent with currency transaction exposures, generally up to 12 months. During the three-month period ended March 31, 2010, PLN 215 of fair value losses on open forward contracts were recorded as finance costs.

The table below presents outstanding forward transactions as at balance sheet date:

	Hedged nominal amount	Hedged nominal amount	Fair value		
			Asset	Liability	Hedging reserve
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)
As at March 31, 2010					
Forward transactions related to equipment and construction contracts	4,960	3,100	41	(4,216)	451
Forward transactions related to commercial contracts	6,480	1,400	22	(237)	-
As at December 31, 2009					
Forward transactions related to equipment and construction contracts	4,100	4,000	60	(2,458)	2,391
Forward transactions related to commercial contracts	5,110	1,650	50	(1,965)	-

Equity securities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination activities to Mediatel S.A. (“Mediatel”) for PLN 13,619, of which PLN 8,000 was settled in cash and PLN 5,619 was the estimated fair value of 440 shares issued by Mediatel and related “put” and “call” options. During the three-month period ended March 31, 2010 the remaining 340 Mediatel shares were sold (100 shares were sold in 2009). In the three-month period ended March 31, 2010 the Company recognized a loss of PLN 881 on disposal of shares and a gain of PLN 697 on the expiration of the related “put” and “call” options.

Held to maturity investments

	Maturity date	Nominal value	Carrying amount	
			December 31, 2009	March 31, 2010
		(PLN)	(PLN)	(PLN)
52-week treasury notes...	June 30, 2010	10,000	9,774	9,886
52-week treasury notes...	July 14, 2010	10,000	9,788	9,885
52-week treasury notes...	August 4, 2010	10,000	9,748	9,859
52-week treasury notes...	August 11, 2010	10,000	9,751	9,853
52-week treasury notes...	August 11, 2010	10,000	9,750	9,852
52-week treasury notes...	October 27, 2010	10,000	9,678	9,763
52-week treasury notes...	March 16, 2011	10,000	-	9,641
52-week treasury notes...	March 16, 2011	10,000	-	9,637
52-week treasury notes...	March 23, 2011	10,000	-	9,631
52-week treasury notes...	March 23, 2011	10,000	-	9,629
		100,000	**58,489**	**97,636**

9. Shareholders’ equity

Share capital (not in thousands)

At December 31, 2009, the Company’s share capital consisted of 389,276,294 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at the shareholders' meetings. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

In the three-month period ended March 31, 2010 the Company issued 61,059 ordinary series K shares due to the exercise by certain persons (who were not Management Board members) of their rights arising from the key employee share option plan adopted by Netia’s Supervisory Board in 2002 (the “Plan”). Under the Company’s Statute up to 18,373,785 series K shares may be issued. The total number of series K shares issued through March 31, 2010 was 5,115,579 and their nominal value was PLN 5,116 thousands.

As a result at March 31, 2010, the Company's share capital consisted of 389,337,353 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each share had one vote at shareholders' meetings. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at March 31, 2010, the distributable reserves amounted to PLN 251,031.

Stock options (not in thousands)

In the three-month period ended March 31, 2010 and 2008 the following changes took place in the number of options granted under the Plan:

	Three-month period ended March 31, 2009		**Three-month period ended March 31, 2010**	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.88	50,268,123	5.84	53,946,373
Granted	4.42	1,400,500	-	-
Exercised	-	-	3.50	(210,000)
Forfeited / expired	6.14	(551,000)	-	-
At the end of the period	**5.89**	**51,117,623**	**5.85**	**53,736,373**

As at March 31, 2010 and December 31, 2009 the total number of options approved by the Supervisory Board and issued was 87,527,470. Out of these approved options 53,736,373 options were outstanding as at March 31, 2010 and 53,946,373 options were outstanding as at December 31, 2009. As at March 31, 2010 and December 31, 2009 the total number of vested options was 39,827,373 and 22,718,373, respectively. The vesting period for the options is up to three years from the date of grant. As at March 31, 2010, the weighted average remaining contractual life of the outstanding options was 3 years. The outstanding options are exercisable until December 20, 2012. 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. The participant will not be required to pay the strike price ranging from PLN 3.50 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the three-month periods ended March 31, 2010 and 2009 amounted to PLN 3,182 thousands and PLN 3,460 thousands, respectively, while PLN 218 thousands was derecognized in the income statement in the three-month period ended March 31, 2009.

10. Borrowings

Undrawn Borrowing facilities

On June 29, 2009 the Company concluded an annex to the Amended and Restated Credit Facility Agreement ("Annex") with Rabobank Polska S.A. as the arranger, Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A., relating to the Facility Agreement concluded on May 15, 2007 (the "Facility").

Pursuant to the Annex the total Facility amount was decreased by PLN 80,000 from PLN 375,000 to PLN 295,000 (the amount of the term loan was decreased from PLN 325,000 to PLN 245,000; the revolving loan has not changed and continues to amount to PLN 50,000). The Facility is to be repaid by June 30, 2013. The Facility bears interest at a variable interest rate of WIBOR plus a margin dependent on financial ratios and the Company must pay a commitment fee on the undrawn, uncancelled amount of the Facility commitment. The proceeds from the Facility can be used to finance the Netia Group's capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group. Furthermore, pursuant to the Annex, the Company may use funds accumulated on its accounts to repurchase its own shares for a total consideration up to PLN 100,000. Netia may utilize up to PLN 50,000 in each of 2009 and 2010. Netia was also granted consent to dispose of certain fixed assets whereby the first PLN 80,000 of proceeds may be retained by the Company without making mandatory facility prepayments or cancellations. The specific assets consented are: the former head office located in Warsaw at ul. Poleczki 13, and the transmission equipment used by Netia to provide backhaul services to P4 under the UMTS transmission solutions delivery frame agreement.

The cumulative draw downs under the Facility made in previous years amounted to PLN 205,000 and were repaid in full in 2008. As at March 31, 2010 accumulated deferred transaction costs related to the Facility amounted to PLN 2,284 and PLN 2,838 was recognized in the income statement as finance cost during the three-month period ended March 31, 2010. Management has decided to shorten the amortization period over which the incurred transaction costs are being amortized from June 30, 2011, when the availability period expires to June 30, 2010, when the Facility is expected to be cancelled.

The repayment of the Facility is secured by the following: capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw; registered pledges on: (i) the collection of movables and property rights acquired by Netia as a result of its merger with Świat Internet S.A., (ii) a collection of Netia's movables and property rights, (iii) shares in InterNetia Holdings Sp. z o.o.; and assignment as collateral security of Netia's receivables under certain agreements. Moreover, the Company's subsidiary (InterNetia Holdings Sp. z o.o.) irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 468,750.

(All amounts in thousands, except as otherwise stated)

11. Deferred income tax

	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)
Current income tax	(302)	(85)
Deferred income tax benefit / (charge), net	835	(2,996)
Income tax benefit / (charge)	**533**	**(3,081)**

The deferred income tax calculation is based upon the probability that future taxable profit will be available against which temporary differences, unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which are subject to considerable uncertainty and the actual outcome may differ. These estimates may be altered to reflect changes in the economic, technological and competitive environment in which the Netia Group operates.

As of December 31, 2009 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2010 budget and 2010-2014 business plan. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located. As at March 31, 2010 the Management upholds its assessment regarding future taxable profits and the recognition of deferred income tax.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	December 31, 2009 (PLN)	March 31, 2010 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	77,086	74,491
- Deferred income tax assets to be recovered within 12 months	33,512	33,643
	110,598	108,134
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	14,902	15,062
- Deferred income tax liabilities to be recovered within 12 months	16,296	16,693
	31,198	31,755
Deferred income tax assets, net	**79,400**	**76,379**

The deferred income tax assets and liabilities consists of the following items:

	December 31, 2009 (PLN)	March 31, 2010 (PLN)
Deferred income tax assets:		
- Tax losses	88,751	88,029
- Accrued expenses	14,938	14,955
- Impairment provisions for receivables	3,147	3,259
- Depreciation and impairment	1,925	215
- Foreign exchange differences	42	98
- Forward contract	840	846
- Other	955	732
	110,598	108,134
Deferred income tax liabilities:		
- Depreciation and impairment	19,170	18,261
- Deferred revenue	6,245	9,165
- Interest	1,532	1,318
- Forward contract	21	12
- Foreign exchange differences	19	31
- Other	4,211	2,968
	31,198	31,755
Deferred income tax assets, net	**79,400**	**76,379**

The deferred income tax recognized in equity as at March 31, 2010 in the amount of PLN 429 (PLN 454 as at December 31, 2009) relates to the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of March 31, 2010, the Netia Group had total deductible temporary differences of PLN 350,822 and unutilised tax loss carry-forwards of PLN 490,654 (total potential deferred income tax asset of PLN 159,880).

The Netia Group did not recognize deferred income tax assets of PLN 5,195 relating to tax losses of PLN 27,342 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at March 31, 2010 will expire in the following years: PLN 6 in 2010, PLN 18 in 2011, PLN 22,478 in 2012,PLN 2,921 in 2013 and PLN 1,919 in 2014.

(All amounts in thousands, except as otherwise stated)

Furthermore, due to the lack of conclusive evidence of sufficient future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 78,307, relating to deductible temporary differences of PLN 412,140 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	407,096	77,348
Deferred income	4,428	842
Others	616	117
	412,140	**78,307**

The Polish tax system has restrictive provisions for grouping of tax losses for multiple legal entities under common control, such as those of the Netia Group. Thus, each of the Company's subsidiaries may only utilize its own tax losses to offset taxable income in subsequent years. Losses are not indexed to inflation. Tax losses are permitted to be utilized over five years with a 50% utilization restriction per annum.

12. Dividends per share

No dividends were proposed or paid in respect to the financial years ended December 31, 2009 and 2008. Management intends to reinvest the Netia Group's liquid funds on further expansion of the business and the pursuit of further acquisitions. Netia's distributable reserves are described in Note 9.

13. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)
Receivables	13,798	11,100
Inventories	175	(1,303)
Prepaid expenses	775	(13,838)
Restricted cash	78	-
Provisions, accruals and other payables	(14,247)	(12,362)
Deferred income	2,002	2,088
	2,581	**(14,315)**
Out of which:		
Change in long -term position	*2,425*	*1,617*

Supplemental disclosures to operating activities:

	Three-month period ended March 31, 2009 (PLN)	Three-month period ended March 31, 2010 (PLN)
Income taxes paid	(250)	(26)
Interest received	2,732	1,633

Non-cash transactions:

During the three-month period ended March 31, 2010 the Netia Group entered into finance lease agreements for vehicles. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 141.

14. The Management Board and Supervisory Board

Management Board

As at March 31, 2010 and December 31, 2009 the Company's Management Board consisted of the following members:
- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Grzegorz Esz,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

As at March 31, 2010 and December 31, 2009 the Company's Supervisory Board consisted of the following members:
- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry,
- Piotr Żochowski.

15. Related party transactions

Options granted to members of the Management Board (not in thousands)

As at March 31, 2010, the total number of options granted to members of the Company's Management Board under the Plan, was 40,771,814 of which 30,005,314 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.50 and 8.25 per share. The market price of the Company's shares at March 31, 2010 was PLN 5.08 per share.

The movements in the number of options held by Members of the Company's Management Board are presented below:

Options	**Three-month period ended March 31, 2009**	**Three-month period ended March 31, 2010**
At the beginning of the period	36,605,314	40,771,814
At the end of the period	**36,605,314**	**40,771,814**

As at March 31, 2010 and December 31, 2009 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 13,334,000 options, out of which 11,334,000 had vested as at March 31, 2010.

As at March 31, 2010 and December 31, 2009 Mr. Jonathan Eastick – a member of the Company's Management Board – held 10,938,314 options, out of which 9,938,314 had vested as at March 31, 2010.

As at March 31, 2010 and December 31, 2009 Mr. Grzegorz Esz– a member of the Company's Management Board – held 4,166,500 options, out of which 600,000 had vested as at March 31, 2010.

As at March 31, 2010 and December 31, 2009 Mr. Piotr Nesterowicz – a member of the Company's Management – held 6,666,500 options, out of which 3,466,500 had vested as at March 31, 2010.

As at March 31, 2010 and December 31, 2009 Mr. Tom Ruhan – a member of the Company's Management Board – held 5,666,500 options, out of which 4,666,500 had vested as at March 31, 2010.

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

As at March 31, 2010 and December 31, 2009 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000 shares of the Company.

As at March 31, 2010 and December 31, 2009 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 shares of the Company.

As at March 31, 2010 and December 31, 2009, Mr. Jonathan Eastick – a member of the Company's Management Board – held 35,500 shares of the Company.

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

As at March 31, 2010 and December 31, 2009, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at March 31, 2010 and December 31, 2009, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 6,000 shares of the Company.

Restricted Stock Units (not in thousands)

As at March 31, 2010 the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 350,000. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU is three years from the date of grant. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period. The cost of RSU recorded in the three-month period ended March 31, 2010 amounted to PLN 145 thousands.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the three-month periods ended March 31, 2010 and 2009 amounted to PLN 1,565 and PLN 1,527, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 2,616 and PLN 2,534 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the three-month periods ended March 31, 2010 and 2009 amounted to PLN 418 and PLN 356, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the three-month periods ended March 31, 2010 and 2009 amounted to PLN 204 and PLN 194, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 50 and PLN nil during the three-month periods ended March 31, 2010 and 2009, respectively, and mainly related to travel and accommodation.

Pioneer Pekao TFI

In 2009 Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA ("Pioneer Pekao TFI") became a significant shareholder of the Company and Mr Piotr Żochowski, a Vice President of this investment fund company, was appointed to Netia's Supervisory Board. During the three-month period ended March 31, 2010 transactions with Pioneer Pekao TFI included telecommunication services of PLN 29.

Other transactions with related parties

During the three-month periods ended March 31, 2010 and 2009, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

16. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 29,422 as at March 31, 2010 and PLN 14,975 as at December 31, 2009 of which, PLN 5,395 and PLN 2,294, respectively, related to the planned acquisition of intangible assets.

17. Contingencies

Universal services

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of UKE issued after a tender procedure. The President of UKE issued a decision assigning TPSA as the operator required to provide universal services until May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 have to co-finance the funding of this obligation. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of UKE; however, it may not exceed 1% of the telecommunications provider's revenues in the given calendar year. The amount of the share in the funding of the universal service shall constitute a deductible cost, as defined by the Act on Corporate Income Tax. At the present stage one may not guarantee that the Netia Group will not be required to co-finance the funding of universal services.

TP SA applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs for the period from May 8, 2006 to December 31, 2006. The President of UKE refused to subsidize the costs of services provided by TPSA that form a part of the universal service in 2006. Having considered TPSA's claim, the court reversed decision of the President of UKE. The Presidents of UKE and KIGEiT filed cassation appeals *(skarga kasacyjna)* against decision of the court. The Supreme Administrative Court dismissed the cassation appeals and the case has returned to UKE for re-examination. TPSA has also applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision for the years 2007 and 2008.

Management intends to appeal against any decisions that may result in Netia being assessed for universal service contributions as they believe the incumbent's investment record does not justify such payments at this time. Accordingly no provision for potential universal service contributions has been made at the balance sheet date.

Jupiter

Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") has sued the Company for payment of PLN 2,084 on alleging improper performance of the Share and Bonds Purchase Agreement dated May 22, 2006 (the "Agreement") relating to the Company's purchase of Pro Futuro S.A. ("Pro Futuro").

Having identified unrecorded liabilities the Company applied the price reduction mechanism provided for in the Agreement and requested the escrow agent to reimburse part of the price paid for the Pro Futuro shares. The escrow agent reimbursed the Company in the amount of PLN 1,940 on account of the breach of the Agreement. The existence of unrecorded liabilities was confirmed by an independent auditor.

Since Jupiter did not agree with the price reduction, it filed a suit against the Company on September 7, 2007. The amount claimed by Jupiter comprises the amount of the reduced price, increased by statutory interest. On December 7, 2009, the District Court in Warsaw dismissed the suit against Netia. On February 5, 2010 Jupiter representatives filed an appeal to the District Court's decision.

Management, having obtained legal advice, does not believe resolution of the matter described above will have a material adverse effect on the Netia Group's financial condition and no liability has been recorded for the claim.

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 the Polish regulator issued a decision reducing the initial milestones. The amended milestones allotted for the years 2008 and 2009 regarding population coverage were exceeded whilst there was a marginal underperformance of the territorial coverage requirements. In the event that license obligations are not met by an operator, the UKE has the power to limit or confiscate the relevant license, if the issue is not rectified. However, historically such measures have rarely been used.

Tax contingent liability

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 (see also Note 4).

Overpayment of tax

According to Netia, the decisions of the UKS Director and the Tax Chamber Director described in Note 4 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. Netia bases its position on opinions from several independent tax and legal advisors, as well as tax law experts, which conclude that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds.

Due to the above, the Company does not treat PLN 59,586 of taxes and interest paid to the tax Authorities in February 2010, as an expense. The said amount is instead treated by Netia as a receivable from the tax authorities. Should the decision of the Voivodship Administrative Court and any subsequent appeals, be positive for the Company, the amount of unduly paid tax plus interest will be proven to be an overpayment of tax and interest and must be returned by the tax authorities together with interest, currently calculated at the annual rate of 10%.

Although there is a significant degree of instability in the interpretation of tax regulations by the Tax Authorities and the Courts, Management is highly confident that the merits of its arguments will prevail in the Courts and the funds will be returned by the tax office. However, should Netia lose this case and all subsequent appeals, the amount of PLN 59,586 would have to be reclassified as a taxation expense relating to prior years.