DIRECTORS' REPORT
NETIA S.A. GROUP
for the year ended December 31, 2007

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(All amounts in thousands, except as otherwise stated)

This Directors' Report presents the financial results of Netia S.A. ("Netia", the "Company", the "Issuer") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1 Characteristics of the Netia Group

1.1 The Netia Group's structure

The consolidated financial statements as at and for the year ended December 31, 2007 include the financial statements of the Company and the following subsidiaries:

UNI-Net Sp. z o.o.
Netia WiMax S.A. (previously operating under the name Netia WiMax II S.A.)
Netia Mobile Sp. z o.o.
Świat Internet S.A. Group
InterNetia Sp. z o.o. Group
KOM-NET Systemy Komputerowe Sp. z o.o.
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.
Lanet Sp. z o.o. Group

The financial statements of the Świat Internet S.A. Group include the financial statements of Świat Internet S.A. and its subsidiary Premium Internet S.A.

The financial statements of the Lanet Sp. z o.o. Group include the financial statements of Lanet Sp. z o.o. and its subsidiaries:
- Akron Sp. z o.o.
- 3Vnet Sp. z o.o.
- Ikatel Telekom Sp. z o.o.
- Inet Sp. z o.o.
- Ozimek Net Sp. z o.o.
- Verizone Sp. z o.o.
- Zielona Burza Sp. z o.o.

The financial statements of the InterNetia Sp. z o.o. Group include the financial statements of InterNetia Sp. z o.o. and its subsidiaries: Netis Sp. z o.o. and Interbit Sp. z o.o.

The Netia Group accounts for the investment in associate company P4 Sp. z o.o. ("P4") using the equity method.

Increase of the Netia Group's share in UNI-Net Sp. z o.o.

On January 9, 2007 and December 27, 2007 the Company purchased from the minority shareholders 4% and 37.8%, respectively, of the share capital of the Company's subsidiary UNI-Net Sp. z o.o. ("UNI-Net"), for a total of PLN 7,800. As a result of these transactions, the Netia Group holds 100% of UNI-Net's share capital and the corresponding number of votes at its General Shareholders' Meeting.

Decrease of the Company's share in Świat Internet S.A.

On January 20, 2007, the Company sold to its subsidiary Pro Futuro S.A. 100 shares of Świat Internet S.A. („Świat Internet"), representing 0,057% of its share capital, for a total of PLN 0.1. As a result of this transaction, the Company holds 99.99% of Świat Internet's share capital and the corresponding number of votes at its General Shareholders' Meeting.

Merger with a subsidiary

On May 31, 2007 the District Court for the Capital City of Warsaw entered in the register of entrepreneurs the merger between Netia and its wholly-owned subsidiary, which operated previously under the name Pro Futuro S.A. (the "Acquired Company"). The Acquired Company was conducting telecommunications activities. The merger was carried out through the transfer of the Acquired Company's assets by Netia (merger by acquisition) without any increase in Netia's share capital, without any share exchanges and without amending Netia's statute. As of May 31, 2007 Netia assumed all the rights and liabilities of the Acquired Company that was dissolved. The merger completed the procedure of internal consolidation of the Acquired Company within the Netia Group.

Due to the merger, the Company's share in Świat Internet's capital increased from 99.99% to 100%.

(All amounts in thousands, except as otherwise stated)

Acquisitions

During the year ended December 31, 2007 the Netia Group purchased twelve internet service providers. Details of those transactions are specified below:

Company	Date	Share capital acquired	Purchase price (PLN)
Acquired by Netia:			
KOM-NET Systemy Komputerowe Sp. z o.o.	June 6, 2007	100.0 %	9,418
Lanet Sp. z o.o	June 6, 2007	100.0 %	10,076
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.	June 25, 2007	100.0 %	7,941
Acquired by Lanet, the Company's subsidary:			
Akron Sp. z o.o.	September 26, 2007	99.9 %*	800
3Vnet Sp. z o.o.	December 19, 2007	100.0 %	394
Ikatel Telekom Sp. z o.o.	December 21, 2007	100.0 %	532
Inet Sp. z o.o.	December 19, 2007	100.0 %	951
Ozimek Net Sp. z o.o.	December 21, 2007	100.0 %	257
Verizone Sp. z o.o.	December 19, 2007	100.0 %	686
Zielona Burza Sp. z o.o	December 19, 2007	100.0 %	455
Acquired by InterNetia, the Company's subsidary:			
Netis Sp. z o.o.	December 6, 2007	100.0 %	4,040
Interbit Sp. z o.o.	December 21, 2007	100.0 %	3,439
Total			**38,989**

* Prior to this transaction, Lanet Sp. z o.o. owned Akron's shares representing 0.1% of Akron Sp. z o.o.'s share capital.

Decrease of the Netia Group's share in P4

On January 31, 2007 the Company concluded an investment agreement, which provided for the accession of a new shareholder, Tollerton Investments Limited ("Tollerton") to P4 in exchange for the in-kind contribution of certain companies active in the retailing of mobile telephony products and services. On May 24, 2007, Tollerton became a new shareholder of P4, and subscribed for a 22% equity stake in the increased share capital of P4 in exchange for 100% shareholding in the share capital of Germanos Polska Sp. z o.o., Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o., which have been contributed to P4 to pay for the new shares subscribed for by Tollerton. As a result of the above transaction the Netia Group's share in P4's share capital decreased to 23.4%. For further details see "Amendment of the P4 shareholders agreement" in "Agreements essential for the Netia Group's operations".

1.2 Information on basic products and services

The Netia Group offers advanced telecommunications services. These services include Telephony Services, as well as Data Transmission and Commercial Network Services.

Within the scope of Telephony Services, the Netia Group offers a range of services based on public wire line Telephony Services provided by means of Line Switching, as well as services in VoIP technology. The traditional voice services include: Analogue, ISDN, Centrex, "Komfort" voice mail and the "Komfort Plus" voice and fax mail, switched Internet Access and additional Telephony Services such as call forwarding, wake-up calls, automatic switching of local calls PABX, call barring, hotline, conference calls.

Traditional Voice Services are also offered indirectly via 1055 and 1077 prefixes and using WLR (wholesale line rental) technology to customers of other operators.

Telephony Services based on VoIP technology have been rendered by the Netia Group since June 1, 2005. In 2006 the Netia Group commenced rendering services corresponding to PABX functionalities to business customers; these services are offered within the range of the Integralnet product and Voice Solution services. VoIP technology will be also used in other Netia Group's leading products including SoHo/SME packages, which will be launched in mid 2008.

Services based upon intelligent networks (free phone, split charge and premium rate services) are supplementary to voice services offered by the Netia Group.

The group of data transmission services includes fixed Internet access (for business and residential customers), secure Internet access (with firewall, antivirus and antyspyware in one packet), Frame Relay, IPVPN / MPLS, Biznes VPN and digital leased lines of various capacity, while services based upon intelligent networks include free phone, split charge and premium rate services.

The Netia Group offers commercial network services to other operators based on the use of network infrastructure, e.g. voice transit and transmission services, leased lines and access to the backbone network resources (e.g. fibre lease) or Hosting Services (e-mail, WebPages) or related to the use of telecommunications infrastructure owned by the Netia Group, e.g. Equipment Co-location Services.

Acting through its subsidiary Uni-Net, the Netia Group offers also Trunk Services within the entire territory of Poland and sells radio communication equipment.

Currently the Netia Group is intensifies its activities to be able to offer mobile services to business customers under its own brand, but through P4's network. Commercial launch of these services is planned for H2 2008.

One of the most important factors influencing the Netia Group's development is a wide range of access technologies used for providing above mentioned services. Besides its own network based on dark fibre, copper and radio (including new WiMax technology) the Netia Group has an access to TP SA's clients through Bitstream Access (BSA), Wholesale Line Rental (WLR) and Local Loop Unbundling (LLU). These technologies do not have any direct impact on the Netia Group's products' portfolio, but they constitute the basis for territorial expansion.

The Netia Group's revenues in 2006 and 2007 are presented below:

	Year ended December 31, 2006	Share in total revenues	Year ended December 31, 2007	Share in total revenues
	(PLN)	%	(PLN)	%
Direct voice services	411,986	48 %	369,499	45 %
Monthly fees	*133,954*	*16 %*	122,348	*15 %*
Calling charges	*278,032*	*32 %*	247,151	*30 %*
Indirect voice	50,528	6 %	54,203	6 %
Data	171,486	20 %	242,242	29 %
Interconnection revenue	43,445	5 %	28,517	3 %
Wholesale services	150,327	17 %	110,977	13 %
Intelligent network services	15,349	2 %	14,374	2 %
Other telecommunication revenue	7,492	1 %	8,757	1 %
	850,613	**99 %**	**828,569**	**99 %**
Sales of goods	2,735	0 %	2,120	0 %
	853,348	**99 %**	**830,689**	**99 %**
Radio communication services	8,709	1 %	7,336	1 %
	862,057	**100 %**	**838,025**	**100 %**

1.3 Sales market (not in thousands)

The Netia Group operates on the telecommunications services market. The market, as far as fixed line telephony services are concerned, decreased from approximately 11.5 million lines at the end of 2006 to 10.8 at the end of 2007 and is believed to be continuing to fall. The penetration of fixed line telephony in Poland was 28% at the end of 2007.

Following the market liberalization and introduction of services based on bitstream access (BSA), the Netia Group is able to offer Internet access and voice services based on VoIP technology, nationwide, on the TP SA's copper network. As a result, Netia has modified its strategy to focus on this new opportunity. The market for broadband services, has increased significantly to 4,7 mln subscribers at the end of 2007 from 3,9 mln in December 2006. This market has the highest growth as distinct from other telecomunication segments and this trend is expected to continue over the next few years. In 2007 household Internet penetration reached 33,5% and the Netia Group became the main alternative for broadband services to national telecom operator (TP SA). Based on published market share estimates, Netia acquired 19% of broadband net additions during 2007. The Netia Group's broadband subscribers increased to 217,518 at December 31, 2007 from 60,366 a year earlier. The Netia Group estimates that its share of total broadband market subscribers has increased from 1.5% to 4.6% during the past twelve months. Since January 2007, Netia estimates that approximately 78% of TP SA customers switching to altnet service over bitstream access have chosen Netia.

The Netia Group currently offers direct access to the telecommunications services in an area inhabited by approximately 65% of Poland's population. The country-wide backbone network and the ability to upgrade the existing access network allows the Group to broaden its operations, simultaneously obtaining independence from the networks of other operators.

The Netia Group started an important expansion of access and backbone networks in 2006 as a result of the implementation of its WiMAX project. At the end of 2007 telecommunications services based on WiMAX technology were available in 64 cities and towns. The number of WiMAX broadband Internet ports reached 5,861 at December 31, 2007 (up from 836 at the end of 2006). Using WiMAX radio base station infrastructure, the Group intends to spread its activities to additional cities offering a full scope of telecommunications services (telephony services, Internet access and data transmission).
The Netia Group runs its operations within one geographical area, that is the territory of Poland.

The Netia Group renders its services both to business and residential customers. In 2007 none of the customers exceeded 10% share in the Netia Group's sales. TP S.A. "Łącza" was the largest supplier for the Netia Group (approx. 10% of the turnover). TP S.A. "Łącza" is not a related party to the Company.

1.4 Development perspectives for the Netia Group's operations

Strategy of the Netia Group (not in thousands)

On April 18, 2007, Netia announced its new operating strategy focused on growth through dynamic expansion of the customer base and an increase in customer value.

The Company plans to build on new opportunities to access the fixed-line network of the incumbent operator (via bitstream access, local loop unbundling and wholesale line rental), to leverage Netia's investment in PLAY mobile project, and to capitalize on the Company's already strong position in the business market.

In particular, Netia aims to become the market leader for broadband services in Poland with the objective of acquiring 1 million broadband customers over the next three years. In addition, our close partnership with PLAY will allow Netia to offer mobile and convergent products while simultaneously achieving cost and infrastructure synergies. Netia also intends to focus on the most attractive segments of the business market, significantly increasing the number of SME & SOHO clients and increasing profitability from large corporate clients while minimizing cash burn. The above growth strategy will be supported by corporate culture changes aimed at strengthening our customer focus.

The Netia Group is considering investments of up to PLN 700 million over the next three years, driven primarily by customer acquisition and LLU roll-out, to deliver profitable growth from broadband services. This may include up to PLN 500 million of capital expenditures and up to PLN 200 million of related operational costs.

New Access Infrastructure

Deregulation of telecommunication market results in dynamic development of Netia Network both in terms of Backbone Network capacity and coverage of Access Network based on TP SA infrastructure. Delivery of broadband access to the customers is realized both by capacity upgrades of existing points of interconnect with TP SA and by construction of additional POI enabling delivery of services based on Bit Stream Access regulations. In parallel to BSA extension, construction of LLU access nodes in the TP SA network is under intensive development. Implementation of modern ADSL/VDAL technologies in LLU nodes will enable delivery of advanced services requiring broadband access (i.e IPTV, VoD, VoiP, MPLS).

Development of Netia's own broadband access based on copper infrastructure is focused on implementation of new technologies increasing bandwidth delivered to the customer. In 2008 Netia plans to complete process of replacement old narrow band radio systems by WiMax technology, enabling delivery broadband services to customers connected by radio access systems.

2 Major factors for the activities of the Netia Group

2.1 Major risks and threats related to the operational activities

Risk of changes to the Netia Group's strategy

On April 18, 2007 the Company announced the main assumptions of its new operational strategy. No assurance can be given as to whether new strategic initiatives included in the new strategy, will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

Funding Risk

Although Netia has maintained a significant cash surplus over the past few years and the Company's core activities remain cash generative, the Company has recently changed its strategy to one which requires significant investments and start-up losses in order to develop new sources of revenue and to expand Netia's market share. Netia has raised funding from medium-term senior debt of PLN 300.000 and is in the process of raising EUR 130,000 from sale of its stake in P4. Whilst these amounts are currently expected to be sufficient for Netia to reach cash flow break-even, no assurance can be given that Netia's plans will be reached as expected and, if performance is significantly below expectations, the Company may need to raise additional financing from financial institutions and or from its shareholders. We cannot guarantee that such funding would be available on acceptable market conditions or at all and, if this proved to be the case, Netia would have to significantly modify its development plans.

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

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Novator Telecom Poland II S.a.r.l. („Novator"), is the largest single shareholder of Netia and according to the information furnished to the Company it holds 113,941,170 shares which represented 29.3% of the Company's share capital and 29.3% of the aggregate number of votes at the Company's General Shareholders' Meeting. During 2007, Third Avenue Management LLC increased its stake in the Company's share capital and holds 79,955,192 shares representing 20.5% of the Company's share capital and 20.5% of the aggregate number of votes at the Company's General Meeting of Shareholders' Meeting. The subsidiaries of SISU Capital Limited also increased their stake in the Company's share capital in 2007, and hold 39,043,006 shares representing 10.0% of the Company's share capital and 10.0% of the aggregate number of votes at the Company's General Shareholders' Meeting. Moreover, in 2007 Banca Akros S.p.A. exceeded the threshold of 5% of the total number of votes at the General Shareholders' Meeting of the Company and holds 23,262,944 shares representing 6.0% of the Company's share capital. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Issuer in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Issuer cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Conflict of interests between major and minority shareholders

Novator, as the owner of 29.3% of the Shares, is currently the Company's largest shareholder. Even though the equity stake held by Novator does not entitle it to exercise control over the Company, it nevertheless enables Novator to have a significant degree of influence on key decisions taken by the Company. In particular, Novator may materially influence the composition of the Company's Supervisory Board, especially given the fact that the remaining shareholders do not represent a single unified position. The Company's Statute provides that the consent of the majority of Supervisory Board members is required to adopt resolutions on key matters affecting the Company's operations. Furthermore, Novator Telecom Poland S.a.r.l, Novator's related entity, holds a controlling stake (currently 54.6%) in the share capital of P4, an affiliate of the Company.

Any potential conflicts between Novator and the remaining shareholders may adversely affect the operations of the Netia Group.

Risk concerning the liquidity of the market for the Company's shares

Based on information provided to the Company, almost 66 % of Netia's share capital is currently held by four investors each holding at least 5 % of the Company's equity. As these investors have built their positions, we have noted a steady reduction in the average volume of the Company's shares traded on the Warsaw stock exchange. The relatively low liquidity in the market for our shares may make it difficult for a shareholder to sell their shareholding at the previously prevailing market price.

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

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

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

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

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

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

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of fixed-line telephony, wireless transmission, voice transmission protocol via the Internet or cable television telephony. In particular, the business activities of the Netia Group may be affected by the tendency to provide telecom services via wireless or portable platforms, with wireless broadband access and third generation mobile cellular telephone systems equipped with IP. Even if the Netia Group succeeds in adapting its operations to such technological advances, new market participants may emerge as a result of the new technology with a competitive advantage over Netia or existing competitors may benefit relatively more than Netia from the new technologies.

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

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

Risk resulting from changes in the Telecommunications Law

The Telecommunications Law transposed the so-called new set of directives and entered into force on September 3, 2004, with the exception of several provisions, which entered into force on January 1, 2005.

The Management may not, however, assure that Netia will not be considered by the President of the UKE as a significant market power operator in the market for termination in its own network and that regulatory obligations will not be imposed on it with regard to granting reasonable requests for telecommunications access filed by other entrepreneurs, equal treatment obligations, and an obligation to publish information necessary to allow them to use the services provided in this market. In this regard, the President of the UKE has already consulted a draft decision. It was also subject to consolidation procedure and the European Commission has not raised any substantial reservations or a veto.

Pursuant to the Telecommunications Law, each public telecommunications network operator is required to conduct negotiations concerning interconnection agreements upon another telecom operator's request. However, the President of the UKE is required to resolve any disputes between the parties to the negotiations by way of an administrative decision, which shall replace the relevant agreement only if one of the negotiating parties is a public telecommunications network operator required to provide the interconnection.

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 the UKE issued after a tender procedure. On November 7, 2006 the President of the UKE issued a decision assigning TP SA as an operator required to provide universal services commencing on May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 will have to co-finance the performance of this obligation, by co-financing the funding of universal services, if the funding has been assigned to the telecommunications provider selected on the basis of the decision of the President of the UKE. 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 the 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.

On June 29, 2007 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 of the period from May 8, 2006 to December 31, 2006. With the Decision dated September 13, 2007 (no. DHRT-WKO-6044-1/07(34)) UKE refused to subsidize to TP SA the costs of services provided by TP SA that form a part of the universal service. TP SA applied for reconsideration. Regulator affirmed the Decision of September 13, 2007. with the Decision dated 11 February, 2008 (no. DHRT-WKO-6044-1/07(94)).The Management is unable to assure that decisions will not be canceled by an administrative court, in case of appealing against it by TP.

The Telecommunications Law requires that telecommunications providers pay annual telecommunications fees of up to 0.05 % of the provider's annual revenues from telecommunications activities generated in the financial year 2 years prior to the year to which the annual fee pertains, if the annual revenues exceed PLN 4,000. The amount of the annual telecommunications fee shall constitute a deductible cost as defined by the Act on Corporate Income Tax.

As from January 1, 2006, Netia is required to provide subscribers' with a right to retain their numbers when changing operators. Despite the fact that Netia performs this obligation, the Management Board cannot guarantee that it will be possible to enter into an agreement with particular telecommunication operators to define the terms and conditions of cooperation between the parties to the extent required to execute the subscribers' rights to retain his/her number.

The Ministry of Transport has prepared three amendments to the Telecommunications Law. Two legislative projects have not been submitted to the Sejm. The Management Board would like to point out that the drafts impose many additional obligations on telecommunications operators (including the companies within the Netia Group). It is difficult to determine if and when the draft will become law at this stage.

Risks related to holding a position of SMP

On April 26, 2007, UKE issued the decision no. DRTD-SMP-6043-10/06 (20), whereby it has appointed Netia as a telecommunications operator holding significant market power in the market for the call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);

- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A., on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia in the above mentioned decision of the President of UKE, the Company published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia S.A., at: http://www.netia.pl/informacje,dla_biznesu,42,921.html. The published document, hereinafter the "Netia IC Offer" contains information as required in the Decision of the President of UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia.

Netia filed an appeal against the Decision of the President of UKE No. DRTD-SMP-6043-10/06 (20) dated April 26, 2007 to the District Court in Warsaw – The Court of Competition and Consumer Protection. By virtue of the decision of January 23rd, 2008, the Court suspended legal proceedings, due to the juridicial question filed to the Supreme Court in another case and concerning the correctness of appointing the President of the Office of Electronic Communications and certain related issues.

By virtue of the resolution of February 20, 2008, the Supreme Court has decided that the President of UKE may effectively undertake all activities, such as the issuing decisions and provisions, as well as the granting of power(s) of attorney.

Dependence of the Company on TP SA due to interconnections

The rendering of telecommunications services by the Netia Group is dependent on the possibility of accessing the telephony network of TP SA. Except for some cases, calls initiated in Netia's network ending outside this network, including the majority of international and domestic long distance calls by subscribers of the Netia Group companies, are - due to technical reasons - executed via the network of TP SA. According to the provisions of the new Telecommunications Law TP SA is required to connect companies such as Netia to its network.

In the past Netia has had many disputes with TP SA over interconnection, in particular in relation to the interconnection agreements of its former subsidiary El-Net (now merged with Netia SA) and due to the continued existence of the interconnection agreements between TP SA and the Netia Group companies for local calls based on a bill & keep payment systems. In order to avoid further disputes and to prevent conflict escalation, in December 2006 Netia concluded an agreement with TP SA on closing all disputed issues. Finally, on June 30, 2007 Netia and TP SA concluded contracts on interconnection that thoroughly regulate the cooperation between operators.

With a motion dated September 17, 2007, TP SA has requested from Netia the renegotiation of fees for call termination in the public fixed telecommunications network of Netia. Despite the lack of legal obligation to follow the motion of TP SA, the Board may provide no assurance that TP SA will not request from UKE to issue a decision that substitutes the amendment to the contract in relation to the fees and that UKE will not consider that the fees should be aligned with the fees of TP SA.

With a motion dated September 28, 2007, TP SA requested to raise fees for wholesale access to its network. Despite the lack of legal obligation to follow the proposal of TP SA, the Board may provide no assurance that UKE will not consider necessary to change the fees for that service in line with the motion of TP SA.

The Management cannot guarantee that new sources of dispute with TP SA will not emerge in the future and, if they do emerge, whether these will have a material impact on the business of the Netia Group.

By virtue of the judgment of February 25, 2008, the Court of Competition and Consumer Protection annulled the decision of the President of UKE (decision no. DRT-WWM-60600-47/06(39), dated January 26, 2007. The above-mentioned decision was establishing the rules for the wholesale access to the network of TP S.A. Despite the deep conviction of the legitimacy of the appeal charges, the Management Board can not ensure that the Court of Appeal will change the judgment of the Court of Competition and Consumer Protection.

Other regulatory risks

UKE is regularly carrying out inspections of Netia's compliance with legal requirements related to the provision of internet services to subscribers utilizing Bitstream Access over the TP SA network. To date, none of these inspections have ended with a monetary penalty.

The Management may not assure that with regard to all control procedures UKE agrees that the position of Netia and the activities undertaken on its basis by the Netia Group are consistent with regulatory requirements and the law.

Risk of increased competition

The Netia Group's main competitors in the field of telephone services are TP SA and cellular network operators, and in some geographic areas also other operators providing wireline telephone services including some cable television networks. Within the market for data transmission services, the main competitors are numerous providers of various sizes, the most significant of which is TP SA. Poland has witnessed a considerable increase in competition, which, as can be expected, will intensify even further, considering the lack of legal barriers in entering the market and increasing integration within the European Union. Netia is unable to evaluate the extent to which new market participants will use the availability of their rights, particularly with regard to the significantly lower costs of entering the market than those incurred by the Netia Group. The Management is unable to evaluate the extent to which the intensification of competition will affect the Netia Group's activity.

Risk of competition from TP SA and TP SA's compliance with regulatory decisions

TP SA occupies a leading position among wireline telephone service operators in Poland. At the same time, it enjoys a stable position on the market for data transmission. Within the scope of wireline telephone services, the Netia Group encounters competition from TP SA in all the geographic areas in which it operates. TP SA is a much larger entity than the Netia Group and possesses a much wider backbone and access networks. It enjoys long-established relationships with many customers which the Netia Group considers its target customers, including many companies operating in areas where the Netia Group conducts its business activities. The infrastructure used by TP SA in these areas is comparable to the infrastructure of the Netia Group in terms of the technologies employed.

Moreover, TP SA still maintains a leading position among operators of domestic long-distance calls, which enables it to offer more flexible tariffs. It is difficult to predict what policies TP SA will pursue with regard to tariffs, the selection of target markets and arrangements concerning access to its infrastructure and interconnections as a reaction to the extension of the network by the Netia Group and more intense competition from the Netia Group in various areas of the country. However, the Management expects that TP SA will compete with the Netia Group on prices and for the most attractive customers. In the past, the Netia Group was forced to lower its prices in order to attract new customers and retain the current ones, and such measures may also be necessary in the future. The Management expects that TP SA will maintain a strong competitive position against the Netia Group on the Warsaw market and in most geographic areas where the Netia Group provides telephone services, and will continue to compete with the Netia Group in other fields, including data transmission services and internet access. It is possible that aggressive competition from TP SA will materially and adversely affect the revenues of the Netia Group and the results of its operating activity.

TP SA owns most local loop access networks and has, in the past, offered other operators access to the network of these local loops on terms that, in many cases, render the addition of a customer to the network too expensive. However, during the course of 2006 a new telecommunications regulator has issued new decisions creating unified offers in the area of regulatory access to the TP SA network which Netia currently considers to be commercially viable. As a result, in 2006 the Netia Group signed a new cooperation agreement with TP SA that allows Netia to offer Internet access to TP SA's customers using a regulated TP SA wholesale service known as bitstream access. In January 2007 President of UKE issued a decision changing an interconnect agreement between TP SA and Premium Internet SA., the Company's subsidiary, regarding wholesale line rental (WLR). This decision constituted the basis for a new type of access to TP SA's network, enabling the Netia Group to offer voice services to TP SA customers. Moreover, in April 2007 the Company concluded an agreement with TP SA on local loop unbundling. The Netia Group plans to use it in providing voice, data and differentiated value added services such as IPTV. Whilst key commercial terms of these services, as set by the regulatory decisions, are currently commercially attractive, operational cooperation with TP SA in order to provide and maintain such services to end customers needs to be much more coordinated than has been the case in the past. The Management can give no assurance that TP SA will provide the required level of cooperation or that the regulator will respond by effectively enforcing TP SA's cooperation. Furthermore, we can give no assurance that market developments or future regulatory decisions may not render the current opportunities to reach customers via TP SA access networks no longer commercially viable.

Competition from other independent operators

According to the regulations in force before January 1, 2001, the Minister of Telecommunications granted licenses for the provision of local telecom services within a given geographic area (usually within a given numbering zone) to one private operator (apart from TP SA). Obtaining licenses usually entailed significant investments. Pursuant to the New Telecommunications Law, telecommunications activity may be pursued on the basis of an entry in the Register of Telecommunications Providers kept by the President of the UKE. Therefore, the Netia Group expects the number of operators active in the areas in which it conducts its activities to increase. In 2003 there was a swap of license fee liabilities of the then-operating subsidiaries of the Netia Group, and in the case of the fees which El-Net was required to pay, the swap for capital expenditures took place in 2006. However, the license fees installments paid prior to the change in the Telecommunications Law have not been repaid to Netia. Operators who have not paid license fees and, therefore, do not need to recover the costs of such license fees, hold a competitive advantage.

In some areas in which the Netia Group operates, there are large institutions with their own internal telecommunications networks (where the users of the telecom services of such institutions include, additionally, the inhabitants of the given area), which reduces the potential revenues that the Netia Group could generate in these areas, and such operators may be a potential source of competition in the future.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, where subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs.

To help mitigate the losses to mobile operators, Netia has invested in Poland's newest mobile phone operator, P4. In 2007 P4 began commercial service offering a range of mobile telephony services. Despite Netia's 2008 decision to sell its interest in P4 Netia expects to benefit from cooperation with P4 by being able to offer convergent products and by having a wholesale mobile service provider agreement to serve mobile services from P4 that Netia may resell under the Netia brand to Netia customers.

(All amounts in thousands, except as otherwise stated)

Other sources of competition

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging, however, Netia is reviewing alternatives to combat this threat. Specifically, IPTV offers fixed line telephone operators the ability to compete head on with cable television operators. The importance of IPTV and related services (such as video on demand) is being analyzed in the context of Netia's strategy to expand its share of the broadband market.

Market consolidation

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

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

Investment in P4 and strategic importance of P4 to Netia's future development

There is considerable uncertainty as to the future performance of P4, which was an associate of Netia throughout 2007. P4 is a start-up phase enterprise and P4's business model is based on its planned limited coverage UMTS network with national GSM coverage provided to its customers via a national roaming agreement with an incumbent GSM operator. The overall level of competition in the market, including market prices for voice and data services, the future take-up of new mobile data services, access to sufficient distribution channels and the impact of possible new infrastructure-based operators on the 1800MHz band and mobile virtual network operators (MVNOs) entering the market, may all impact P4's ability to generate revenues and the future success of P4's business model. Observed delays in building and utilizing its own UMTS network and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the rate of decrease in unit costs of UMTS handsets and market levels of handset subsidies generate uncertainties over achievable profit margins. Allocation of newly available frequencies and decisions about extension or reallocation of frequencies currently controlled by P4's competitors will have long term implications for P4's competitive position. Uncertainties as to the availability of additional sources of financing and the ability to attract the experienced employees necessary to implement P4's plans may also impact significantly on the success of P4's business.

Furthermore, P4 has made losses since its inception and is expected to make further losses in the medium term until it builds sufficient scale to break-even. The Management of P4 is presently engaged in the raising of additional debt financing to fund further developments, the securing of which is likely to require additional commitments from P4's shareholders. P4's accounts have been prepared by P4's Management using the going concern principle on their assumption that such financing will be available on acceptable terms when needed.

Furthermore, on October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150 million granted to P4 by China Development Bank. The guarantee provided by the Company (as amended on May 24, 2007 due to the accession of a new shareholder to P4) covers the repayment of 23.4% of the outstanding amounts under one of the tranches of the credit facility (not exeeding a total of EUR 75 million) increased by interest and costs (capped at EUR 90 million) (see "Warranties and collateral granted" for details). The Company's Management is not aware of any payment default by P4. Should P4 default on its payment obligations in the future, Netia may be required to pay up to EUR 21 million in respect to these guarantees and may lose its shares in P4.

On February 22, 2008 the Company, Tollerton and Novator signed a binding agreement in which the Company agreed to sell its shares in P4. The completion of the transaction is dependant on the satisfaction or waiver of certain conditions precedent including receiving from China Development Bank, Comverse Limited and Huawei the release and confirmation of the full discharge from all obligations and liability of the Company under the CDB Facility Agreement and subordinate agreements (see "Warranties and collateral granted").

Regardless the outcome of the above agreement, the Netia Group expects to continue to leverage the results of its founding investment in P4 through the continuation of existing UMTS Transmission and Mobile Service Provider contracts.

The successful development of P4 into an important player on the Polish mobile market, having significant market share and being able to self-finance its continued development is in turn important for Netia with respect to being able to achieve its own development plans. The successful and profitable implementation of the Transmission Agreement with P4, under which Netia is providing all the transmission services for P4's UMTS network depends on P4's long term ability to build out its network and meet its obligations to Netia. Furthermore, Netia's opportunities to cross sell its fixed line services to P4's mobile subscribers and for the joint development of fixed-mobile convergent services in the future depend upon P4 building a significant market share in order to be commercially viable.

The Management can provide no assurance that P4 will develop in accordance with its current business plans and, should P4 underperform those plans, this may have a material financial impact upon the results and cash flows of Netia from its commercial agreements with P4 and may also limit Netia's opportunities to grow its own fixed line business. No assurance can be given that Netia can find an alternative supplier of wholesale mobile services on acceptable financial terms or at all if P4 ceases to operate or is sold to another owner.

2.2 Factors and events having a significant influence on the operations of the Netia Group and the financial results achieved in 2007

Investment in associates (not in thousands)

At December 31, 2007, the Netia Group held a 23.4% interest in P4 while Novator and Tollerton held 54.6% and 22.0% stakes, respectively. Following payments made in 2007 of PLN 136,3m Netia's remaining commitment to P4's share capital stood at EUR 2.0m as at December 31, 2007 and this final amount was paid in January 2008. On February 22, 2008 Netia signed with Novator and Tollerton a contract to dispose of its minority stake in P4 for EUR 130.0m (details are in "Subsequent events").

On May 24, 2007, following the provisions of the investment agreement and the amended shareholders agreement (see "Agreements essential for the Netia Group's operations"), P4 increased its share capital in exchange for an in-kind contribution made by a new shareholder. Upon the accession of a new shareholder, the Netia Group interest in P4 decreased from 30% to 23.4%. A dilution gain of PLN 40.1m, arising on that transaction was recorded by the Netia Group directly in equity.

Share of losses of associates recorded for 2007 was PLN 165.2m as compared to PLN 30.7m in 2006 and was related to Netia's equity participation in the P4 mobile venture. Expenditures on subscriber acquisition costs, advertising and promotion, and national roaming expenses were the main drivers of P4's start-up loss for the period.

PLAY (the new brand developed by P4) mobile network launched commercially nationwide on March 16, 2007. PLAY offers both post- and pre-paid services using simple, unified pricing plans. PLAY has been steadily developing its distribution capacity and had approximately 450 postpaid outlets and over 40,000 locations where its prepaid products are available by the end of 2007. During 2007 PLAY increased its subscriber base to 850,000 customers bringing market share of net additions to 27%. The subscriber base was comprised of approximately 230,000 postpaid and 620,000 prepaid subscribers as at December 31, 2007. As of January 24, 2008, PLAY's subscriber base surpassed 1,000,000 and the company is targeting to reach 2,000,000 subscribers by the year-end. At December 31, 2007 PLAY had over 700 UMTS base stations (Node Bs) in commercial operation in 19 cities. The company has now largely overcome delays caused by legislation that extended the time period required to obtain environmental permits for its base stations, and the roll-out is accelerating rapidly. As the network is rolled out, PLAY's margins improve as traffic moves from the national roaming service to PLAY's own UMTS network.

The launch of PLAY allows Netia to achieve one of its primary strategic objectives; providing access to mobile products and services to its own customers. Under this plan, Netia will become a mobile service provider, selling mobile services under its own brand to its business customers, and introducing convergent fixed-mobile products together with PLAY. Both initiatives are targeted for 2008 launch once PLAY's UMTS network coverage has reached over 20% of the Polish population. In addition, Netia intends to capture cost and infrastructure synergies at the group level from economies of scale in the back-office, distribution network and procurement areas. In particular, the Company secured the long-term access to the Germanos retail network to be used for distribution of Netia's residential fixed-line products, such as broadband Internet access and WLRbased voice services. Netia provides PLAY with transmission network solutions based on a five-year agreement signed on July 3, 2006. The Netia Group plans to continue these activities after disposal of its investment in P4

Acquisitions (not in thousands)

Between June and December 2007 Netia acquired twelve Internet service providers. The total purchase consideration for these network operators was PLN 42.8m, including PLN 3.9m in transaction costs and management fees. The above companies operate networks in multi-family housing developments, with approximately 122,000 households passed and, as of December 31, 2007, provided broadband access to a total of 37,362 residential customers using FastEthernet technology that allows for transmission speeds of up to 100 Mb/s. These high performance networks enables the provision of other web-based services, e.g., video on demand or IPTV, with relatively low incremental capital expenditures. The acquisitions will also enable Netia to up-sell its other services, such as voice and hosting, to the customers of the acquired companies. The acquisitions are part of Netia's strategic objective to acquire one million broadband customers. The acquired companies were consolidated into Netia's financial results from the dates of their acquisitions.

Operational data (not in thousands)

Broadband subscribers increased to 217,518 at December 31, 2007 from 60,366 a year earlier. As announced in April 2007, Netia's key strategic objective is to become the market leader amongst alternative operators and reach one million broadband customers by the end of 2010. Netia provides its broadband services using the following technologies:

Number of broadband ports	**2006**	**2007**
xDSL and FastEthernet over Netia's own fixed-line network	58,250	111,223
Bitstream access	n/a	99,346
WiMAX Internet	836	5,861
Others	1,280	1,088
Total	**60,366**	**217,518**

Broadband ARPU was PLN 75 in Q4 2007 as compared to PLN 128 in Q4 2006. The decline in broadband ARPU reflects the growing proportion of residential customers in the customer mix and is expected to continue to trend downward as Netia continues to add residential broadband subscribers. When customers receive significant promotional discounts over part of their contract period, Netia recognizes revenue evenly over the full life of the contract.

(All amounts in thousands, except as otherwise stated)

Bitstream

In 2006 Netia and TP SA signed an agreement to obtain bitstream access, enabling Netia to provide broadband data transmission services, including Internet access, to TP SA's customers. The agreement was concluded based on the terms introduced by the regulator in its bitstream access reference offer and is binding from August 16, 2006. In January 2007 Netia, as the first alternative operator, launched commercially its broadband Internet access services to TP SA clients.

Total net activated additions in 2007 were 99,346. In September 2007 Netia's bitstream coverage of the TP network reached 100%, increasing from 55% at the service launch in January 2007, enabling the provision of Netia's bitstream-based services nationwide. In late August 2007, Netia also began to offer bundled broadband Internet and voice contracts on TP SA lines through its bitstream (BSA) and wholesale line rental (WLR) offering. The competitively priced, flexible service packages are targeted to individual clients and small and medium-sized companies and are distributed by all Netia sales channels, including the PLAY Germanos chain of stores. Netia began activating its first clients switching to its bundled packages in November 2007, following the expiry of the termination periods of customers' previous contracts with TP.

In 2007 the Company has made significant progress working with TP SA and the regulator on improving the conversion rate of signed bitstream contracts into activated services. As a result of TP SA failing to meet certain obligations under the bitstream access agreement, Netia demanded payment from TP for contractual penalties totalling PLN 21.8m, following the expiration of an initial grace period. Netia's management intends to use all legal means to enforce the penalties and will recognize income when TP SA either pays or settles the liability in a manner acceptable to Netia.

Ethernet operators

During 2007, Netia acquired a total of 12 Ethernet operators with a total 35,935 broadband customers. These operators are expected to be fully integrated into Netia's operations with the subscriber bases expected to continue to grow organically and for additional services, primarily voice services, to be upsold to these customers.

Voice lines (own network and WLR *(wholesale line rental)*) totaled 421,752 at December 31, 2007 as compared to 398,276 at December 31, 2006.

The sequential increase in number of voice lines resulted from the introduction of WLR-based voice services, sold to both voice-only customers and bitstream broadband customers as a double play offering. The first WLR lines went active on November 1, 2007 and their number reached 31,128 at December 31, 2007. Management expects to increase its base of voice clients thanks newly connected WLR voice customers to increase and stabilize voice revenues during the next few quarters.

Netia network subscriber voice lines (net of voluntary churn and disconnections) were 390,624 at December 31, 2007 as compared to 398,276 at December 31, 2006. The decline in the direct voice subscriber base reflects the deactivation of certain legacy narrowband radio voice customers (operating in 2.4 GHz band) who chose not to switch to Netia's WiMAX services where minimum monthly charges are higher. These legacy radio technologies must be disconnected by all operators in Poland during 2007 and 2008 due to changes in frequency allocations imposed by the regulator. As the higher ARPU clients are switching to WiMAX, Management does not expect a material negative impact on revenues or EBITDA from this migration process.

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

Number of voice lines	**2006**	**2007**
Traditional direct voice	396,808	377,104
Incl. ISDN	*104,280*	*113,704*
Voice over IP	689	2,495
WiMAX voice	779	11,025
WLR	n/a	31,128
Total	**398,276**	**421,752**

Voice ARPU decreased by 11% to PLN 73 in Q4 2007 from PLN 82 in Q4 2006, reflecting the continued overall tariff reduction trends and a decrease in traffic volumes year-on-year and a sequential introduction to the voice ARPU definition of WLR customers.

2.3 Agreements essential for the Netia Group's operations

Agreement on local loop unbundling

The Company signed an agreement with TP SA on provisioning by TP SA to Netia of the local loop unbundling services (LLU) (the "Agreement on LLU"). The Agreement on LLU was concluded based on the terms established in the local loop unbundling reference offer, introduced by the decision of the President of the Office of Electronic Communications (UKE) dated October 5, 2006 (decision No. DRT-WWM-6062-2/06(41)). The Agreement is binding since March 1, 2007.

Provisioning Netia's broadband services to TP SA's clients through the local loop unbundling access constitutes one of the significant elements in execution of the recently announced Netia's growth strategy.

(All amounts in thousands, except as otherwise stated)

Interconnect agreement with TP SA

Netia and TP SA signed an interconnect agreement (the "Agreement") that introduces new rules of cooperation with regard to both operators networks' connection and mutual exchange of telecommunications traffic. The Agreement sets forth new rules for interconnection settlements, which are based on the reference interconnect offer (RIO) and benchmarked to market standards for similar agreements. The Agreement was concluded on June 30, 2007 and became effective from September 30, 2007. The Agreement and the related contracts signed in parallel replaced all previously binding interconnect agreements between both parties. The Agreement normalizes the interconnection relationship with TP SA and allows the Netia Group to fully benefit from regulatory access opportunities, such as WLR, that were previously only available via subsidiary companies that always operated under the RIO regime. Furthermore, Netia was able to negotiate asymmetric interconnection rates with TP that are expected to contribute to higher margins than had previously been projected. As part of the settlement, almost all court cases between the two companies shall be canceled and outstanding balances have been settled such that Netia recorded a gain of PLN 24,239 in "Other income" for the year ended December 31, 2007.

Service Provider Agreement with P4

On December 7, 2007, the Company concluded a service provision agreement (the "Service Provider Agreement") with P4, its associate. The Service Provider Agreement provides for cooperation with respect to:
- incorporation of P4's mobile products and services to the offer available to Netia's clients or/and
- introduction of a joint offer of fixed-line and mobile services

and the distribution of the said products by Netia, in its own name and on its own behalf.

The Service Provider Agreement will allow Netia to offer both mobile and convergent products under its own brand. The expansion of Netia's product portfolio with these services constitutes one of the Company's strategic targets in reaching Netia's goal to become the leading alternative provider for broadband services in Poland. The commercial launch of mobile and convergent services by Netia is planned for 2008.

This Service Provider Agreement shall came into effect during January 2008 and shall remain in force until December 31, 2022, or until P4 ceases to carry out its business activities in any form, whichever occurs later.

The Service Provider Agreement may be terminated before the lapse of the above deadlines only in the cases provided for therein, and subject to the contractual notice periods.

Amendment of P4's Shareholders Agreement (not in thousands)

On January 31, 2007 the Company concluded an investment agreement (the "Investment Agreement"), which provided for the accession of a new shareholder, Tollerton Investments Limited ("Tollerton") to P4. The Investment Agreement further provided for an amendment of the Shareholders Agreement of P4 dated August 23, 2005 after the transactions contemplated in the Investment Agreement had been completed.
On May 24, 2007, Tollerton became a new shareholder of P4, and subscribed for a 22% equity stake in the increased share capital of P4 in exchange for 100% shareholding in the share capital of Germanos Polska Sp. z o.o., Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o. (the "Distribution Companies"), which have been contributed to P4 to pay for the new shares subscribed for by Tollerton. Tollerton additionally contributed EUR 9 million pursuant to the Investment Agreement.

Following the above transactions Netia Mobile held 11,349 shares constituting 23.4% of the share capital of P4, and Novator held shares constituting a total of 54.6% of the share capital.

The following entities are parties to the amended Shareholders Agreement: the Company, Netia Mobile, Novator One L.P., Novator, Novator Poland Pledge Sp. z o.o, Olympia Development S.A., Tollerton (Novator, Netia Mobile and Tollerton jointly called "Shareholders"), and P4. Tollerton is a wholly-owned subsidiary of Olympia Development S.A.

The Shareholders reiterated their earlier commitments to make contributions to P4, pro rata to their respective changed shareholdings in P4's share capital. From EUR 300 million of the aggregate cash contributions committed by the shareholders in the Shareholders Agreement, the cash contributions made and agreed to be made prior to and in connection with the closing of the transaction, amounted to EUR 185.8 million, including Netia's contributions of EUR 52.8 million (out of total committed cash contributions of EUR 79.5 million); Novator's contributions of EUR 123.1 million (out of total committed cash contributions of EUR 185.5 million) and Tollerton's contributions of EUR 9.9 million. Post closing of the transaction further shareholders' committed cash contributions amounted to EUR 114.2 million in the aggregate, including Netia's committed contribution of EUR 26.7 million; Novator's committed contribution of EUR 62.4 million and Tollerton's committed contribution of EUR 25.1 million.

As at December 31, 2007, the total cash contributions made by Netia Mobile in connection with the above agreements amounted to EUR 77.5 million (of which EUR 36.6 million was made in the year ended December 31, 2007) and the total outstanding amount of committed contributions amounted to EUR 2.0 million (see also "Subsequent events").

P4's Supervisory Board (the "Supervisory Board") shall consist of nine members appointed for a five-year term of office. As long as Netia Mobile continues to hold: (i) at least 20% of the Shares – Netia Mobile shall be entitled to appoint, suspend and dismiss two members of the Supervisory Board, and (ii) 10% – 20% of the Shares – Netia Mobile shall be entitled to appoint, suspend and dismiss one Supervisory Board member, and to appoint the Chairman of the Supervisory Board. The remaining members of the Supervisory Board shall be appointed by Novator and Tollerton and/or the shareholders' meeting of P4.

The Management Board of P4 (the "Management Board') shall be composed of up to six members appointed by the Supervisory Board in accordance with specific procedures ensuring that all Shareholders have a transparent and equitable share in the decision-making process. Netia Mobile will retain the right to suspend and dismiss specific Management Board members if their appointment is inconsistent with the above-mentioned procedures.

No P4 shareholder may transfer its Shares before August 23, 2008 without the consent of the other Shareholders, except for certain permitted transfers within their respective capital groups. If a change of control event affects any Shareholder, the other Shareholders will be entitled to purchase the Shares of such affected Shareholder pro rata to their respective shareholdings in P4.

The amended Shareholders Agreement includes standard procedures governing the sale of the Shares by the Shareholders following the lock-up period until August 23, 2008. If the Shareholder affected by the change-of-control event wishes to dispose of its Shares, the other Shareholders will be entitled to require the prospective third-party buyer to purchase their Shares on the same terms and pro-rata to the Shares sold by such Shareholder. Furthermore, should Novator select to sell its entire shareholding in P4, it will be entitled to require the other Shareholders to sell all of their shares on the same terms. The observance of these provisions is secured with contractual penalties of EUR 25 million. The payment of such contractual penalties does not exclude the rights of the parties to the amended Shareholders Agreement to claim damages in an amount exceeding the amount of such penalties. Any transfers of the Shares in breach of the Share transferability restrictions will be ineffective vis-à-vis P4.

The Agreement contains a list of specific matters requiring unanimous approvals from the Shareholders regarding potential alterations to the share capital structure, issuing securities, disposals and acquisitions of assets, certain business, commercial and accounting matters, indebtedness levels and dividend payouts. If, at any time, any P4 Shareholder which is a member of the Novator or Tollerton group transfers any P4 shares to a person who is not a party to the amended Shareholders Agreement, all resolutions of the shareholders' meeting will require the consent of Netia Mobile, and all resolutions of the Supervisory Board will require the consent of all Supervisory Board members appointed by Netia Mobile.

If, after the lapse of the lock-up period until August 23, 2008, certain key issues regarding the management of P4's affairs have not been successfully agreed upon, the amended Shareholders Agreement includes an option for Novator to purchase the Shares held by Netia Mobile and Tollerton at market price plus 10%, and an option for Netia Mobile and Tollerton to sell such Shares to Novator at market price with a 10% discount.

The Shareholders Agreement specifies the key principles of commercial cooperation of Netia and the Distribution Companies based on which the Issuer and P4 have concluded and will conclude commercial contract providing for Netia's access to the Distribution Companies' sales network.

The amended Shareholders Agreement shall expire following the sale of all Shares by the Shareholders in accordance with its provisions. The amended Shareholders Agreement provides for restrictions on competitive activity, a confidentiality undertaking, and a ban on employee recruitment during an agreed period following the expiration of the Shareholders Agreement. The Shareholders accept an option of P4's conversion into a joint stock company, however, not earlier than after August 23, 2007, and an option to introduce P4's shares to public trading after August 23, 2008.

Credit facility agreement

Credit facility agreement has been described in detail under the point "Loans Agreements".

2.4 Development program for the Netia Group's operations in 2008

In 2008 Netia will continue development strategy, which was presented in April 2007.

The Company intend constantly to develop the customer base of Internet access services and fixed line telephony using nationwide access to TP SA fixed network through bitstream (BSA). Netia will also focus on expanding access to the TPSA local fixed loop through Local Loop Unbundling (LLU). A key focus is to grow the number of customers who use both Internet access and voice telephony from Netia. Netia will upsell voice services to bitstream customers using WLR voice service and to Ethernet based internet customers using a VOIP voice service. Despite selling P4 shares during 2008, Netia will introduce mobile services based on Play's mobile network. The Netia Group will continue strengthening today's strong position in the business market segment.

The Netia Group intends to keep a high growth rate and leadership amongst alternative operators on the polish broadband services market. For this purpose, Netia will launch innovative offers widening the service range, lead intensive commercial campaigns and dynamically expand its network access range via LLU in the most attractive cities.

Furthermore, close co-operation with Play will let Netia to offer mobile and convergent services in second half 2008. The expect new offer will increase the range of services offered to business clients positively influencing revenue and loyalty.

Netia Group plan to continue its development in the most attractive segments of the business market, significantly increasing the number of clients in the small and medium sectors and raising profitability of the corporate clients segment.
The key strategic objectivewill be to maximize income from clients in all segments by selling packages to new clients and upselling services to current clients.

Netia plans further widening of its sale channels to the household market, particularly by using intensively Internet and call center resources.

(All amounts in thousands, except as otherwise stated)

3 Financial condition of the Netia Group

3.1 Consolidated balance sheet

As at December 31, 2007, non-current assets amounted to PLN 1,831,600 (89% of total assets) and decreased by 1% as compared to the end of 2006. This was mainly attributable to accelerated depreciation of narrowband radio equipment and the Management's decision relating to the disposal of of certain buildings and land and their reclassification to non-current assets held for sale, partially offset by increse of intangible assets (goodwill and customer relationships) relating to the acquisition of twelve ethernet companies.

Current assets at December 31, 2007 in the amount of PLN 235,584 decreased by 23% as compared to PLN 307,676 at the end of 2006. The change was mainly attributable to the lower amount of cash and cash equivalents and cash in money market funds deposits, which decreased by PLN 100,642 throughout the year (see "Consolidated cash flow statement." below)

As at December 31, 2007, the equity amounted to PLN 1,728,269, comprising 83% of total equity and liabilities (the main factors influencing the net result are described in point "Factors and events having a significant influence on the operations of the Netia Group […]")

Non-current liabilities amounted to PLN 101,416 and increased significantly as compared to PLN 11,068 at the end of 2006, mainly due to the credit facility agreement as discussed in 'Loan agreements".

As at December 31, 2007, current liabilities amounted to PLN 240,966 and increased by 26% as compared to the end of 2006, mainly due to the higher level of accrued expenses and investment liabilities, as well as part of credit facility payable during the course of 2008.

3.2 Consolidated income statement

Revenues decreased by 3% to PLN 838,025 for 2007 compared to PLN 862,057 for 2006. Total telecommunications revenues decreased by 3% to PLN 830,689 from PLN 853,348 in 2006. Data revenues increased to PLN 242,242 during 2007, up by 41%. From this growth, 27 percentage points were organic and 14 percentage points were contributed by acquisitions. Data revenues from new bitstream broadband customers acquired for 2007 were PLN 21,297. Revenues from direct voice services decreased by 10% to PLN 369,499 from PLN 411,986 for 2006, mainly reflecting the overall tariff reduction trend in this product segment. Aggressive recruitment and retention of new indirect voice resellers has paid off in indirect voice revenue of PLN 54,203, up by 7% on 2006. Carrier revenues from interconnection and wholesale were down by 34% and 26%, respectively, compared to 2006. These declines reflect the movement away from low margin transit business in 2007, lower interconnection rates in general and increased competition in international voice termination. Data revenue growth is now more than compensating for the declines in voice revenues and, combined, they were up by 5% over the previous year. The overall revenue decline is wholly attributable to weak wholesale and interconnection revenues.

Cost of sales increased by 1% to PLN 637,552 from PLN 629,875 for 2006 and represented 76% of total revenues in 2007 as compared to 73% in the previous year. This increase was driven by the costs of leased lines to large business customers, bitstream and WLR wholesale access, the new Ethernet networks and the new WiMAX network. It was partially offset by a decrease in interconnection charges, due to lower voice traffic volumes and lower interconnection rates. In addition, Netia greatly reduced low margin transit of mobile traffic in 2007, significantly reducing both revenue and costs.

Gross profit for 2007 was PLN 200,473 as compared to PLN 232,182 for 2006. Gross profit margin was 23.9% as compared to 26.9% for 2006. The lower gross margin reflects the increasing presence of lower margin data and regulated access services in the sales mix.

Selling and distribution costs increased by 36% to PLN 201,170 from PLN 148,049 for 2006 and represented 24% of total revenues as compared to 17% in 2006. Expenditures associated with the acquisition of new broadband customers and the impact of the 2006 expansion of the sales organization supporting the business market are the main drivers behind the increased spending.

General and administration costs increased by 4% to PLN 144,751 from PLN 138,902 for 2006 and represented 17% of total revenues as compared to 16% in 2006. This increase principally reflects the non-cash accrual of the notional value of new management stock options (PLN 12,646 in 2007 vs. PLN 721 in 2006).

Other income was PLN 41,315 as compared to PLN 13,006 in 2006. This included PLN 24,239 related to the Company's settlement of interconnection disputes with TP and PLN 6,882 related to Netia's guarantees partially securing the vendor financing extended to P4 recorded during 2007.

Other expense was PLN 5,068 as compared to PLN 364,933 in 2006. This was mostly represented by a stamp duty tax on Netia's in-kind contribution made to its subsidiary, Świat Internet in January 2007. The contribution included elements of Netia's telecommunications network. Subsequently, Netia and Świat Internet finalized a long-term lease agreement, entitling Netia to use these assets to carry out its telecommunications activities. In 2006, the "other expense" category included PLN 354,672 of impairment charges on non-current assets and PLN 6,371 of impairment charges on specific individual assets.

Other gains/(losses), net were PLN 5,361 as compared to PLN 65,312 in 2006 and included PLN 1,940 returned in Q1 2007 from an escrow account in connection with the Pro Futuro acquisition. In the prior year, this position included a gain of PLN 64,469 representing a non-cash exceptional item adjustment made in connection with the reassessment and subsequent cancellation of the carrying value of El-Net's license fee liabilities.

Operating loss (EBIT) was PLN 103,840 as compared to operating loss of PLN 341,384 for 2006. Operating loss for 2006 included a PLN 354,672 of an impairment charge on non-current assets and a PLN 64,469 gain related to the reassessment and cancellation of the carrying value of El-Net's license fee liabilities, which Netia classified as an adjustment to EBITDA.

Net finance income was PLN 2,477 as compared to PLN 975 in 2006 and was related mainly to interest earned on cash. In the prior year Netia recorded a financial cost of PLN 7,259 in connection with the amortization of the carrying value of El-Net's potential license fee liabilities.

Share of losses of associates recorded for 2007 was PLN 165,237 as compared to PLN 30,724 in 2006 and was related to Netia's equity participation in the P4 mobile venture, which was 30% until May 2007 and fell to 23.4% thereafter. Expenditures on subscriber acquisition costs, advertising and promotion, and national roaming expenses were the main drivers of P4's start-up loss for the period.

Loss was PLN 268,881 as compared to loss of PLN 378,355 for 2006. As mentioned above, loss recorded for 2006 included an impairment charge and a gain related to El-Net's license fee liabilities. Adjusting the loss for 2006 by these two exceptional items, the change in the net result was mainly due to Netia's share in losses generated by P4's subscriber acquisition costs and advertising expenditures after the commercial launch of PLAY mobile services as PLAY builds its customer base and revenues..

3.3 Consolidated cash flow statement

Net cash generated from operating activities amounted to PLN 217,059 for 2007 and decreased by 8% as compared to 2006. The decrease was due to the lower operating margins and lower revenues recorded in 2007.

Net cash used for the purchase of fixed assets and computer software increased by 30% to PLN 235,382 for 2007 from PLN 180,574 for 2006. Investments in Netia's existing network and IT combined was down by 4% in comparison to 2006 with overall investment growth driven by broadband and the P4 transmission project.

Other significant cash outflow / inflow items during 2007 included Netia's equity contribution to the PLAY mobile venture of PLN 136,689, the purchase consideration for the acquisitions, principally of twelve Ethernet network operators of PLN 39,312 and PLN 14,777 received in Q1 2007 on the sale of deposits in money market investment funds. As a result, net cash used in investing activities amounted to PLN 396,193 for 2007 as compared to PLN 252,839 for 2006.

Net cash provided by financing activities amounted to PLN 93,823 in 2007. It was related to PLN 95,000 of proceeds from borrowings (this credit facility is described in "Loans agreement"). In 2006 net cash used in financing activities amounted to PLN 34,313 and related mainly to dividend payment to Netia shareholders, partially offset by proceeds from share issuance related to the expiration of three-year subscription warrants.

3.4 Financial resources management and assessment of the possibility of executing the planned investments

The Netia Group has been generating positive free cash flows between 2004 and 2006 but, following its new strategy announcement in April 2007, intends to invest in broadband and other services such that free cash flows are expected to be negative between 2007 and 2009. Therefore, on May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement (see "Loans agreements" below). The above facility is fully secured and is to be repaid by November 15, 2011. As at December 31, 2007 the total draw downs under this facility amounted to PLN 95,000 and the outstanding PLN 205,000 may be drown down until November 15, 2008. The proceeds from the facility are principally used to finance Netia's investment requirements.

However, in 2007 most of the current financial needs relating to the operational and investment expenditure were executed from the Company's own financial resources. Out of PLN 396,193 of net cash used in investment activities (the main items of investment expenditures are described above in "Consolidated cash flow statement"), only PLN 95,000 was financed through the credit facility and as at December 31, 2007 the Netia Group still had PLN 57,700 of cash at bank and in hand. Furthermore, on February 22, 2008 the Company concluded an agreement to sell the 23.4% interest in P4 for the price of EUR 130,000. In Management's opinion, this price is expected to provide the funding necessary for the Company to implement its broadband-driven growth strategy.

A detailed description of risks related to the Netia Group's financial instruments has been presented in the consolidated financial statements (Note 4).

3.5 Loans Agreements

Bank loan

On May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement with Rabobank Polska SA (the "Bank") as arranger, credit facility agent, security agent and lender (the "Facility"). The Facility is to be repaid by November 15, 2011. The proceeds from the Facility will be used to finance Netia's capital expenditures and current operations and may be drawn down until November 15, 2008. As at December 31, 2007 the total draw downs under this Facility amounted to PLN 95,000.

The repayment of the Facility is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights constituting an organised part of the enterprise of Świat Internet, registered pledges and financial pledges on the shares of Świat Internet, UNI-Net, InterNetia Sp. z o.o, Netia WiMax, Premium Internet S.A. and assignment as collateral security of Netia's receivables under certain agreements. The financial pledges on shares were in place until registration of the registered pledges was completed. Moreover, the Company's subsidiaries (Świat Internet, Netia WiMax, Premium Internet S.A, InterNetia Sp. z o.o,) jointly, severally, irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 375,000.

Undrawn borrowing facilities

On November 6, 2006, Netia entered into two one-year financing agreements with Bank Handlowy w Warszawie SA. Netia secured an overdraft facility in the amount of PLN 40,000 and a term loan facility of PLN 160,000. On December 29, 2006 the PLN 160,000 loan facility was reduced to PLN 60,000. During the year ended December 31, 2007 the facility agreements were terminated. There were no drawdowns under these facilities.

3.6 Loans, warranties and collaterals granted

Agreements partially securing the repayment of the vendor financing extended to P4

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 (the "Facility") granted to P4 by China Development Bank, acting as the Mandated Lead Arranger, and BPH SA (currently PeKaO S.A.), as the Facility Agent and Security Agent, under the Facility Agreement dated October 31, 2006. The Facility agreement provides for a ten year amortising term Facility with a three year availability period. The funds will be used by P4 for the purchase of equipment for its UMTS network from Huawei Polska Sp. z o.o., including the acquisition of transmitter construction sites and related network construction costs. In order to facilitate the conclusion of part of the vendor financing package assumed in P4's original business plans, the Netia Group and Novator provided certain undertakings and separate guarantees in direct proportion to their shareholdings in P4. Accordingly, Netia concluded the following agreements:

Share Retention Agreement. Under the Share Retention Agreement (as amended on May 24, 2007, see also "Agreements essential for the Netia Group's operations"), Netia provided a guarantee to a maximum amount of EUR 21,060. The guarantee covers the repayment of 23.4% of the outstanding amounts under one of the tranches of the Facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). Furthermore, Netia is obliged to ensure that the P4 equity stake currently held by the Netia Group shall not be disposed of before August 23, 2008. Thereafter, the current shareholders of P4 may not reduce their combined holdings below 50% of P4's share capital without the prior consent of China Development Bank.

Equity Contribution Agreement. Under the Equity Contribution Agreement, Netia and Novator One L.P. agreed to ensure that during the scheduled Facility repayment period, P4's share capital will be increased or the shareholders will grant subordinated loans to P4 pro rata to their respective shareholdings in P4 to ensure that P4 can meet its obligations up to a maximum committed amount of EUR 300,000. The total outstanding amount of committed contributions was EUR 2,040 as at December 31, 2007 (see also "Subsequent events").

The Subordination Agreement. Under the Subordination Agreement, Netia agreed to subordinate all of its, and the Netia Group's, financial receivables due from P4, including any subordinated shareholders loans, by giving priority to the receivables due under the Facility granted to P4. The subordination does not affect commercial agreements concluded with P4 and other agreements, once accepted by the creditors on a case-by-case basis. Netia had no such receivables subject to subordination as at December 31, 2007.

The Agreement for the Registered and Financial Pledges on Shares and the Agreement on Change of Priority of the Pledges. Under the Agreement for the Registered and Financial Pledges on Shares, Netia Mobile (P4's shareholder), established a registered and a financial pledge in favour of the Security Agent on its entire equity stake in P4 to secure P4's obligations under the Facility. At the same time, under a separate Agreement on Change of Priority of the Pledges, Netia Mobile agreed that the registered pledge established in its favour by Telecom Poland S.a.r.l. on P4's shares in connection with the conclusion of P4's Shareholders' Agreement be subordinated to the registered and financial pledges established by Telecom Poland S.a.r.l. on the same date in favour of the Security Agent to secure P4's obligations under the Facility.

Loans granted

The following loans were paid out by the Company in 2007:

- to Netia Mobile Sp. z o.o., the Company's subsidiary, with a total value of PLN 145,382. The loans are not due as at the balance sheet date;
- to Netia WiMax S.A., the Company's subsidiary, with a total value of PLN 17,000. The loans are not due as at the balance sheet date;
- to Świat Internet S.A., the Company's subsidiary, with a total value of PLN 3,500. The loan was repaid during the year;
- to Premium Internet S.A., the Company's subsidiary, with a total value of PLN 11,041. The loans are not due as at the balance sheet date;
- to Lanet Sp. z o.o., the Company's subsidiary, with a total value of PLN 7,175. The loans are not due as at the balance sheet date;
- to Internetia Sp. z o.o., the Company's subsidiary, with a total value of PLN 7,750. The loans are not due as at the balance sheet date.

The following loans granted by the Company were repaid in 2007:

- by Świat Internet S.A. in the amount of PLN 13,920,
- by Neotel Communications Polska Sp. z o.o. in the amount of PLN 278.

4 The Company's supervisory or governing authority

4.1 Rights of the Supervisory and Management Board's members

According to the Company's Statute valid in 2007, the bodies of the Company are the General Assembly of Shareholders, the Supervisory Board and the Management Board.

General Shareholders' Meeting ("GSM") decides in matters provided for in the Commercial Companies Code, and in particular regarding decisions on the division and distribution of profit. No approval of the GSM is required for the purchase or sale of the right of real estate ownership, the right of perpetual usufruct or share in such right, without limitations upon the value of such transaction.

The Supervisory Board shall consist of up to 7 members. Members of the Supervisory Board shall be elected and dismissed by the GSM for a term of office of 5 years. One member of the Supervisory Board shall be appointed and dismissed by holders of series A1 shares. At all times at least two of the Supervisory Board members shall be "independent".

The competency of the Supervisory Board shall include general supervision of the activities of the Company. Resolutions of the Supervisory Board shall be required in matters provided for in the Commercial Companies Code and:

a) presentation to the Company's GSM of a written report on the results of the Supervisory Board's examination of the Company's financial statements, Management Board report and Management Board's recommendations with respect to the distribution of profits or coverage of losses;

b) the issuance of by-laws for the Management Board and the appointment and removal of the members of the Management Board, setting or changing the compensation and defining other terms and conditions of employment of the Management Board members, as well as setting and changing any incentive plan for the Management Board members and other key employees;

c) approval of business plans and budgets for the Company;

d) granting consent for any transaction whose value exceeds the PLN equivalent of EUR 1,250 in a single or a series of related transactions, or in the course of one year in the case of agreements entered into for unlimited duration or for periods longer than one year;

e) making any investments in or financing the activities of companies whose core and actual scope of business activity does not include telecommunications activity, as well as investing in or financing the activities of UNI-Net Sp. z o.o. with its registered seat in Warsaw;

f) consent to the commencement, settlement, assignment, compromise or release of any claim of or against the Company in excess of the PLN equivalent of EUR 600 in a single or series of related acts or the equivalent amount in PLN or other currencies;

g) consent to the adoption of a performance stock option plan in accordance with § 5A of the Statute;

h) appointment of the expert auditor to audit the Company's financial statements;

i) provided that the value of the Company's obligations exceeds the PLN equivalent of EUR 100, the conclusion by the Company of any contracts with an Affiliate shall; require the approval of at least one of the independent members. For the purposes of this point, an "Affiliate" shall mean: (i) a member of the Management Board or Supervisory Board of the Company or the cousin or relative of up to the second degree of such member, or an entity controlled by such person or their cousin or relative of up to the second degree; (ii) a shareholder holding shares entitling it to at least 5% of votes at the General Meeting; or (iii) an entity controlled by, controlling or under common control with the persons listed under (i) and (ii); (iv) an entity in which the Company has, directly or indirectly, any equity stakes or voting powers. "Control" shall mean the possibility of exerting influence, whether direct or indirect, on the management or business policy of the controlled entity through holding voting shares in such entity, under a shareholders' agreement, an agreement for official receivership of votes (umowa syndykowania głosów) or in any other similar manner, even if not connected with a written agreement. For the purposes of the above definition, "control" shall not apply to any companies controlled by Netia S.A.

The Management Board of the Company shall consist up to 10 members. The Supervisory Board shall decide on the number of Management Board members. The Management Board members shall be appointed and dismissed by the Supervisory Board for a term of office of 5 years.

The Management Board shall manage the activities of the Company, shall adopt resolutions necessary for performance of tasks and shall represent the Company before courts, authorities, offices and third parties. The Management Board shall handle the matters, which are not within the exclusive competence of the GSM or the Supervisory Board. Two members of the Management Board acting together or one member of the Management Board acting together with a commercial proxy (prokurent) shall be authorised to make declarations and to sign on behalf of the Company.

The members of the Management Board do not have any rights related to deciding about the issue or redemption of the Company's shares.

(All amounts in thousands, except as otherwise stated)

4.2 Changes in the Management Board and Supervisory Board in 2007

Changes in the Management Board

Effective February 15, 2007 Mr. Mirosław Godlewski was appointed as Netia's President of the Management Board and Chief Executive Officer.

Effective March 20, 2007 Mr. Paweł Karłowski, Member of the Management Board, resigned from his position.
Effective March 20, 2007 Mr. Paul Kearney, Member of the Management Board, resigned from his position.

Effective April 1, 2007 Mr. Bertrand Le Guern was appointed as a Member of the Management Board and Chief Operations Officer.

Effective September 6, 2007 Mr. Piotr Buława, Sales Director, was appointed as a Member of the Management Board and on December 22, 2007 resigned from his position.

Changes in the Supervisory Board

Effective March 21, 2007 Ms. Alicja Kornasiewicz, Chairman of the Company's Supervisory Board, resigned from the position of Member and Chairman of the Company's Supervisory Board.

On March 21, 2007, the Company's Shareholder's Meeting appointed Mr. Wojciech Sobieraj to Netia's Supervisory Board.

Effective April 30, 2007 Mr. Andrzej Radzimiński resigned from the position of Member of the Company's Supervisory Board. In parallel, exercising his right to appoint one member of Netia's Supervisory Board that results from the ownership of 1,000 (not in thousands) preferred registered series A1 shares of the Company, Mr. Andrzej Radzimiński appointed Mr. Tadeusz Radzimiński as Netia's Supervisory Board member, effective April 30, 2007.

Appointment of Chairperson of Netia's Supervisory Board

On April 13, 2007 the Company's Supervisory Board appointed Mr. Wojciech Sobieraj as the Chairman of the Supervisory Board and Mr. Constantine Gonticas as the Deputy Chairman of the Supervisory Board.

4.3 System for controlling employee share option schemes

At present, there is one incentive scheme in force in the Netia Group (an employee share option scheme) approved by the Supervisory Board in 2002 ("the Scheme"). The Scheme is aimed at providing incentives which will encourage, retain and motivate highly-qualified people in senior management positions, employees, co-operators, consultants and the members of the Company's Management Board, its associates and subsidiaries to act in the shareholders' interests by granting them options for the Company's series K shares of the new issue. As soon as the options granted to the participants in the Scheme are exercised, the Company will issue shares in the Company, constituting an equivalent of the profit on the options exercised. The participants are not obliged to pay for the nominal value of the shares. The number of series K shares which can be issued for the purposes of the Scheme may not exceed 18,373,785.

The execution of the Scheme has been entrusted to the Company's Supervisory Board. To the extent provided for in the Scheme, the Supervisory Board, at its exclusive discretion, shall make decisions relating to, among other things, participation in the Scheme, the allotment of options, and the terms & conditions of their being exercised. The Company's Management Board may present the Supervisory Board with recommendations related to other employees' participating in the Scheme.

4.4 Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2007

The compensation and related cost of remuneration (including bonus paid and accrued and nominal value of shares issued resulting from exercise of options) of members of the Company's Management and Supervisory Board are presented below:

	PLN
Remuneration of current members of the Management Board	
Mirosław Godlewski	1,284
Piotr Czapski	872
Jonathan Eastick	1,317
Bertrand Le Guern	763
Tom Ruhan	1,046
	5,282
Remuneration and termination benefits for the former members of the Management Board	1,843

	PLN
Remuneration of current members of the Supervisory Board	
Wojciech Sobieraj	73
Constantine Gonticas	90
Raimondo Eggink	90
Bruce McInroy	90
Bogusław Kasprzyk	90
Tadeusz Radzimiński	48
Pantelis Tzortzakis	71
	552
Remuneration and termination benefits for the former members of the Supervisory Board	47
Remuneration of current members of management boards of subsidiaries	335
Remuneration and termination benefits for the former members of management boards of subsidiaries	495
Total	**8,554**

The members of the Company's Management Board and Supervisory Board do not collect any additional remuneration for being members of the authorities of the subsidiaries.

In addition, the members of the Management Board participate in a scheme which consists of awarding bonuses in the form of Netia's shares, under which they have received share options.

The movements in the number of options held by members of the Company's Management Board are presented below (number of options not in thousands):

Options	Mirosław Godlewski	Piotr Czapski	Jonathan Eastick	Bertrand Le Guern	Tom Ruhan	Former members of the Management Board	Total
At the beginning of the year	-	543,628	543,628	-	-	634,233	1,721,489
Granted	10,000,000	5,000,000	9,000,000	5,000,000	4,000,000	5,000,000	38,000,000
Status changed due to resignation from Management Board	-	-	-	-	-	(5,634,233)	(5,634,233)
Expired	-	(543,628)	(271,814)	-	-		(815,442)
At the end of the year	10,000,000	5,000,000	9,271,814	5,000,000	4,000,000	-	33,271,814

The members of the Supervisory Board did not have any share options as at December 31, 2007.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period. Due to the above the cost of options granted to the members of the Management Board recorded in the year ended December 31, 2007, is as follows:

	Cost of options PLN
Mirosław Godlewski	3,833
Piotr Czapski	1,524
Jonathan Eastick	2,948
Bertrand Le Guern	1,363
Tom Ruhan	1,160
Former members of the Management Board	234
	11,062

4.5 Shares held by the members of the Management Board and Supervisory Board of the Netia Group

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

As at December 31, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 series K shares of the Company. The number of shares held has not changed since December 31, 2006.

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

As at December 31, 2006, Mr. Andrzej Radzimiński – the former member of the Company's Supervisory Board – held 10,000 ordinary shares and 1,000 series A1 shares. Due to his resignation from his position, these shares are no longer treated as shares held by members of the Supervisory Board.

As at December 31, 2007, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 20,000 shares of the Company. The number of shares held has not changed since December 31, 2006.

As at December 31, 2006 and December 31, 2007, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held respectively 43,000 and 93,000 shares of the Company.

As at December 31, 2006 and December 31, 2007, Mr. Bruce McInroy – a member of the Company's Supervisory Board – held respectively nil and 50,000 shares of the Company.

As at December 31, 2007, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 2,000 shares of the Company.

4.6 Agreements concluded by the Company and the members of the Management Board, providing for compensation in the event of their resigning or being dismissed from their positions without a sound reason or when they are dismissed or made redundant due to the Company's merging through acquisition

Under a labour contract the Supervisory Board of Netia granted one member of the Management Board compensation should that person be dismissed from his position without the justified reason. Should that member of the Management Board be dismissed, Netia will be required to pay a one-off severance payment stipulated in the employment agreement, being the equivalent of the three times the monthly salary in the amount of PLN 255, as at December 31, 2007.

4.7 Changes in the basic management principles of the Netia Group

Changes in the Management Board and Supervisory Board

Changes in the Management Board and Supervisory Board were discussed in point 4.2 above.

Legal and organizational changes

Due to the ongoing process of internal consolidation of Netia's subsidiaries, in 2007 Netia merged with its wholly-owned subsidiary (the merger was described in "The Netia Group's structure"). The purpose of the internal consolidation is to simplify and make the Netia Group's capital structure more transparent. The Management Board believes that this will positively impact the Netia Group's operations through reduction of administrative costs, including a decrease in the scale of intercompany transactions in its daily operations.

On January 22, 2007, Netia concluded an agreement with its wholly owned subsidiary Świat Internet, with regard to the taking up of the shares in the increased share capital of Świat Internet. The agreement effected in the in-kind contribution of the telecommunications network elements owned by Netia to the Świat Internet's capital. The increase of Świat Internet's share capital will be executed through the private subscription, that is the taking up by Netia of all new issued shares in exchange for the contribution, valuated by a property appraisal expert at the amount of PLN 950,703.

The contribution is related with the intended course of the Świat Internet's development. To date, the Świat Internet's activities have been focused on the provision of complex, value-added telecommunications services based on the independent international Internet lines as well as the Świat Internet's modern IP backbone network. Świat Internet will focus on the acquisition of the ownership of the infrastructural telecommunication assets (cable lines and ducts) of the Netia Group companies. This will allow for the unification of the hitherto accounting policy in the scope of the recording of the telecommunication assets, as well as will ensure the more efficient management of the said assets.

5 Major Shareholders and share capital

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

Based on the information presented to the Company by the shareholders, as at December 31, 2007 significant blocks of the Company's shares were held by the following entities (the interest and the number of votes calculated on the basis of the number of shares constituting the Company's share capital as at the balance sheet date):

Novator Telecom Poland II S.a.r.l.

In 2007 Novator Telecom Poland II S.a.r.l. increased its share in the Company's capital and held 113,941,170 shares constituting 29.3% of the Company's share capital and carrying 29.3% of the total number of votes at the General Shareholders' Meeting of the Company.

Subsidiaries of SISU Capital Limited

In 2007 the subsidiaries of SISU Capital Limited increased its share in the Company's capital and held a total of 39,043,006 of the Company's shares constituting 10.0% of its share capital and carrying 10.0% of the total number of votes at the General Shareholders' Meeting of the Company.

Third Avenue Management LLC

In 2007, Third Avenue Management LLC increased its share in the Company's capital and held 79,955,192 shares constituting 20.5% of the Company's share capital and carrying 20.5% of the total number of votes at the General Shareholders' Meeting of the Company, inclusive of the shareholding of Third Avenue International Value Fund described below.

Third Avenue International Value Fund

Third Avenue International Value Fund held 19,594,034 of the Company's shares constituting 5.03% of the Company's share capital and representing 5.03% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of Third Avenue International Value Fund has not changed since December 31, 2006.

Banca Akros S.p.A.

In 2007 Banca Akros S.p.A. increased its share in the Company's share capital and exceeded the threshold of 5% of the total number of votes at the General Shareholders' Meeting of the Company. Banca Akros S.p.A. held 23,262,944 shares constituting 5.98% of the Company's share capital and representing 5.98% of the total number of votes at the General Shareholders' Meeting of the Company.

5.2 Agreements which could lead to changes in shareholding proportions in the future

On the basis of an incentive scheme, the Company may also issue a maximum of 18,373,785 series K shares no later than by December 31, 20012. In connection with certain authorised people having exercised the rights arising from that scheme, the Company has issued 5,054,520 series K shares as at December 31, 2007.

5.3 Holders of all securities which grant special control rights in relation to the Issuer

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

5.4 Limitations on the transfer of ownership rights to the Issuer's securities and limitations on exercising the voting rights carried by the Issuer's shares

Netia's corporate documents do not contain any limitations, which significantly limit changes in the control of the Issuer as a result of third parties' purchasing substantial amounts of shares.

Each Netia share carries one vote at the GSM. There are no limitations on exercising the voting rights from the Company's shares.

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

5.5 Description of the proceeds from the issue used by the Company in the reporting period (not in thousands)

In the year ended December 31, 2007 the Company issued 109,455 bearer series K shares, due to the exercise by certain persons authorised thereto of their rights under the employee share option scheme. The total number of series K shares issued until December 31, 2007 amounted to 5,054,520 shares. Participants in the scheme are not obligated to pay up for shares received.

6 Other information

6.1 Transactions with related parties

The following transactions were concluded between the Issuer and its subsidiaries and associate during 2007:

- sale and purchase of telecommunications services;
- sale of other services (rental and book-keeping services) to subsidiaries;
- sale and purchase of fixed and intangible assets.

(All amounts in thousands, except as otherwise stated)

The income and costs from these transactions and income from interest on loans, the total value of which in relation to each subsidiary and associate exceeded 500 EUR, amounted respectively to:

	Income (PLN)	Costs (PLN)	Interest (PLN)
Świat Internet S.A.	4.908	67.086	1.099
Premium Internet S.A.	12.409	11.960	1.260
Netia WiMax S.A.	1.384	1.876	2.047
Netia Mobile Sp. z o.o.	11	-	9.966
P4	13.713	2.524	-

A detailed list of transactions with subsidiaries and associates has been presented in the Issuer's Financial Statements (Note 38).

Futhermore, former members of the Supervisory Board and Management Board of one of the Company's subsidiaries were related parties to Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o. ("ZIT"), a company, which rendered managerial services for Premium Internet S.A. and was acquired by the Netia Group in September 2006. The amount due for those managerial services equalled the purchase price of ZIT's shares. In accordance with the terms of the transaction, the purchase price of the above shares was ultimately set at PLN 15,541, based on the value of ZIT's net assets as at 2006 year-end. An advance payment of PLN 5,324 was made in 2006 and the remaining PLN 10,217 was paid in January 2007.

Other transactions with associates have been described in points "Loans, warranties and collaterals granted" and "Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2007".

6.2 Explanation for the differences between the financial results of the annual report and forecasts that had been published

On April 18, 2007 together with the main assumptions of operational strategy the Company announced the following guidance for 2007:

1. Number of broadband clients. Netia intends to have more than 200,000 broadband clients by the end of 2007,
2. 2007 revenues are forecasted to reach a level of PLN 830-865 million.
3. Adjusted 2007 EBITDA is forecasted to reach PLN 130 million. The forecast of adjusted 2007 EBITDA allows for start-up losses of up to PLN 80 million connected with the investments in new client access methods made available under the applicable regulatory decisions, i.e., bitstream access, wholesale line rental and local loop unbundling.
4. 2007 investment outlays are expected to reach up to PLN 300 million.

Based on results of an analysis of sales revenues, investment expenditure and the number of broadband clients of the Netia Group, the Management has updated its earlier guidance as follows:

1. Number of broadband service clients: More than 210,000.
2. Number of voice service clients (own network and WLR): A range of 415,000 – 420,000.
3. Revenues forecast range is being narrowed to PLN 835.0 million – PLN 850.0 million.
4. EBITDA/Adjusted EBITDA forecast is being increased to PLN 165.0 million. This includes start-up losses of up to PLN 60.0 million for the development of the regulatory access methods (i.e., bitstream access, local loop unbundling, wholesale line rental) and reaching 210,000 broadband subscribers.
5. Investment outlays: Forecast is being decreased to PLN 230.0 million - PLN 240.0 million, following a reduction in the expected investment necessary to maintain Netia's existing network and reduced roll-out of transmission solutions to support P4's partially delayed UMTS roll-out.

The final operating and financial results of the Netia Group for 2007 were materially in line with the above guidance.

6.3 Information on the registered audit company

The financial statements of Netia and the consolidated financial statements of the Netia Group for 2006 were audited by PricewaterhouseCoopers Sp. z o.o. on the basis of a contract concluded on December 11, 2006. The financial statements of Netia and the consolidated financial statements of the Netia Group for 2007 were audited by Ernst & Young Audit Sp. z o.o. on the basis of a contract concluded on March 30, 2007.

The total fees specified in the contract with the registered audit companies, payable or paid for the audit and review of the financial statements and for other services are presented below:

Item	2006	2007
Audit of stand-alone and consolidated financial statements	545	213
Review of stand-alone and consolidated financial statements	404	320
Other services	127	76
Total	**1,076**	**609**

6.4 Subsequent events

Payment to P4

Following the provisions of the P4's Shareholders' Agreement (see Note 40), in January 2008, Netia Mobile, the Company's subsidiary, contributed to P4's share capital PLN 8,124 and increased its holdings by 234 newly issued shares. As a result, Netia's obligation to contribute EUR 79.500 of share capital to P4 has been paid in full.

Decrease of Netia's share in Netia Mobile

On January 21, 2008, the Company sold to its subsidiary InterNetia Sp. z o.o. 1 share of Netia Mobile, representing 0,01% of its share capital, for a total of PLN 10. As a result of this transaction, the Company holds 99.99% of Netia Mobile's share capital.

Transfer of shares' ownership (not in thousands)

On January 31, 2008, the Company transferred the ownership of the below mentioned shares in telecommunications companies to its subsidiary Lanet Sp. z o.o. ("Lanet"):

(i) 946 shares in the share capital of Magma Systemy Komputerowe Schmidt i S-ka S.J. ("Magma") with the nominal value of PLN 500 each and the total nominal value of PLN 473,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Magma's meeting of shareholders,
(ii) 100 shares in the share capital of Kom-Net Systemy Komputerowe Sp. z o.o. ("Kom-Net") with the nominal value of PLN 500 each and the total nominal value of PLN 50,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Kom-Net's meeting of shareholders.

The transfer of the above mentioned shares in Magma and Kom-Net (the "Shares") was made in execution of the agreement concluded by Netia and Lanet on January 31, 2008. The Shares represent an in-kind contribution in exchange for which Netia acquired 400 newly issued shares in Lanet, with the nominal value of PLN 500 and at the issue price of PLN 44,545.43 each, i.e., at the total price of PLN 17.8 million.

The transfer of the Shares represents one of the elements of the Ethernet companies' consolidation process within the Netia Group.

Annex to Shareholders' Agreement (not in thousands)

On February 1, 2008 the Company executed an annex (the "Annex") to the Shareholders' Agreement of P4. The Annex was executed in order to establish the basis upon which the shareholders will provide equity contributions to finance P4's current operations in 2008.

The Annex relates to further equity contributions above the initial EUR 300 million and applies to amounts of up to EUR 150 million that may be contributed to P4 during 2008. Netia has agreed to accept such share capital increases and not to contribute any new equity itself before July 1, 2008. Netia has agreed a valuation for its existing 12,519 shares in P4 of EUR 130 million for purposes of calculating the capitalization of P4 and the dilutive effect on Netia's shareholding that will result from Novator and Tollerton subscribing for new shares without Netia's participation until September 30, 2008. Should Netia continue to decline to contribute to new share issues after October 1, 2008, a new valuation of Netia's stake shall be established at that time.

Acqusition of another Internet service provider

On February 18, 2008 Internetia Sp. z o.o., the Company's subsidiary, purchased from: Ms. Marlena Lewandowska, Mr. Dariusz Lewandowski, Mr. Jerzy Kołodziej, Mr. Krzysztof Staś and Mr. Ryszard Szyłak (the "Sellers") 200 shares in the share capital of a company operating under the business name Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. with its seat in Opole ("Punkt") with the total nominal value of PLN 100 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders of Punkt (the "Shares"). The total price of all the Shares has been set at PLN 5,126. This represents an equivalent of the value of Punkt's active customers as agreed with the Sellers of PLN 4,179, increased by balances of the cash and cash equivalents held by Punkt, and decreased by Punkt's debt and overdue liabilities as at February 13, 2008. The purchase price may be increased up to PLN 6,701 in case of the fulfillment of certain conditions included in the Shares purchase agreement and related to execution of certain transactions by Punkt's business partners.

The acquisition of Shares was effected following the payment of PLN 5,126 of the price specified in the Shares purchase agreement concluded by Internetia and Punkt on February 13, 2008.

Punkt is a service provider offering broadband Internet access to residential clients in the town of Opole in the Silesian region of Southern Poland. The company is using FastEthernet technology, which allows for transmission speed of up to 100 Mb/s. As of February 13, 2008, Punkt's network provided broadband access to 4,367 clients, with approximately 14,000 households passed.

Transformation of Netia's subsidiary

On February 20, 2008 Warsaw Regional Court registered the transformation of Netia's subsidiary, Netia Mobile Sp. z o.o. (a limited liability company), into Netia Spółka Akcyjna UMTS a limited joint stock partnership (spółka komandytowo - akcyjna).

Netia will will hold 99.99% of the share capital and 99.99% of the votes at the meetings of the shareholders of the company and be the general partner in the transformed company, i.e. the partner liable without limitation for the obligations of the transformed company. InterNetia Sp. z o.o., the Company's subsidiary, will hold 1 share, which will amount to 0.01% of the share capital and 0.01% of the votes at the meetings of the shareholders of the company.

The goal of this transformation is the restructuring of some of the companies of Netia Group.

The execution of an agreement to sell the investment in P4 (not in thousands)

On February 22, 2008 the Company concluded an agreement to sell the 23.4% interest in P4 held by the Company's subsidiary, Netia Mobile (currently Netia Spółka Akcyjna UMTS S.K.A.) to Tollerton and Novator.

Following negotiations, the Company, Tollerton and Novator signed a binding agreement in which the Company agreed to sell P4 on the following terms:
(i) the price of EUR 130 million, payable in cash on closing;
(ii) an additional amount payable to the Company in case of a future change of control over P4 or the disposal of the enterprise of P4 by Tollerton and Novator during the 12 months after signing of the agreement;
(iii) The agreement foresees changes to be made to the commercial agreements between the Company and P4 that will bring them into line with non-related party agreements (such changes to be executed after the closing).

The completion of the transaction is dependant on the satisfaction or waiver of the following conditions precedent:
(i) the Company and Netia receive from China Development Bank, Comverse Limited and Huawei the release and confirmation of the full discharge from all obligations and liability of the Company and Netia under the CDB Facility Agreement and subordinate agreements. The Company is entitled to waive this condition and upon such waiver Tollerton, Novator will be obliged to indemnify the Company and Netia for all loses incurred under the Facility Agreement and subordinate agreements;
(ii) the Company receives confirmation from P4's Facility Agent stating that the Facility Agent has received a duly-executed Accession Deed together with the documents required by the Share Retention Agreement. By executing the Accession Deed the new shareholder of P4 assumes all rights and duties of the former shareholder under the Guarantee and Share Retention Agreement;
(iii) the audited financial statements of Novator One L.P. indicate that its net assets comply with the required net asset level as specified in the Share Retention Agreement;
The sale agreement does not contain clauses regarding contractual penalties.

Warsaw, February 27, 2008