Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements
  as at and for the three-month period ended March 31, 2007

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS TO THE SUPERVISORY BOARD OF NETIA S.A.

1. We have reviewed the attached interim condensed consolidated balance sheet of NETIA S.A. ('the Company') as at March 31, 2007 and the related interim condensed consolidated income statement, interim condensed consolidated cash flow statement, interim condensed consolidated statement of changes in equity for the three-month period then ended and the notes to the interim condensed consolidated statement ('the attached interim condensed consolidated financial statements').

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

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

4. The financial consolidated financial statements for the financial year ended December 31, 2006 were subject to an audit by an auditor acting for another authorised audit firm who issued an unqualified opinion, on these consolidated financial statements, dated March 1, 2007.

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

6. Without qualifying our review report we draw attention to the fact that the consolidated financial statements of an associate - P4 Sp. z o.o. Group which provide a basis for the preparation of the attached interim condensed consolidated financial statements, were reviewed by another authorised audit firm. The value of the assets of this entitiy, prior to consolidation adjustments, represents 19.6 % of the consolidated assets of the NETIA Group, with no consolidation adjustments being taken into account.

7. The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the three-month period ended March 31, 2007 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2007 of PLN 3.8695 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp. z o.o.

Warsaw, Poland
May 15, 2007

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month period ended March 31, 2007

Index to the interim condensed consolidated financial statements

Notes to interim condensed consolidated financial statements:

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
as at March 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	March 31, 2007 (PLN)	Convenience Translation March 31, 2007 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	4, 5	1,458,029	1,431,496	369,943
Intangible assets		239,597	233,141	60,251
Investments in associates	7	141,394	145,683	37,649
Deferred income tax assets		4,865	5,674	1,466
Available for sale financial assets		10	10	3
Long term receivables		484	427	110
Prepaid expenses		3,303	3,220	832
Total non-current assets		**1,847,682**	**1,819,651**	**470,254**
Current assets				
Inventories		1,584	1,679	434
Trade and other receivables		131,833	106,370	27,489
Prepaid expenses		6,888	6,565	1,697
Derivative financial instruments		600	1,157	299
Financial assets at fair value through profit and loss		14,757	-	-
Restricted cash		6,100	2,500	646
Cash and cash equivalents		143,586	152,129	39,315
		305,348	**270,400**	**69,880**
Non-current assets classified as held for sale		2,329	3,081	796
Total current assets		**307,677**	**273,481**	**70,676**
Total assets		**2,155,359**	**2,093,132**	**540,930**

Mirosław Godlewski
President of the Company

Piotr Czapski
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Bertrand Le Guern
Member of the Management Board

Warsaw, Poland
May 15, 2007

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)
as at March 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	March 31, 2007 (PLN)	Convenience Translation March 31, 2007 (EUR)
EQUITY				
Share capital		389,168	389,168	100,573
Supplementary capital		1,809,434	1,641,256	424,152
Other reserves		29,644	2,843	735
Retained earnings		(283,248)	(124,802)	(32,253)
Total capital and reserves attributable to the Company's equity holders	8	**1,944,998**	**1,908,465**	**493,207**
Minority interest	6	6,902	6,294	1,627
Total equity		**1,951,900**	**1,914,759**	**494,834**
LIABILITIES				
Non-current liabilities				
Provisions		630	499	129
Deferred income		8,760	8,637	2,232
Deferred income tax liabilities		990	862	223
Financial guarantee contract		558	-	-
Other long term liabilities		774	765	198
Total non-current liabilities		**11,712**	**10,763**	**2,782**
Current liabilities				
Trade and other payables		168,267	143,325	37,038
Current income tax liabilities		38	3	1
Provisions		4,166	4,263	1,102
Financial guarantee contract		8,847	8,607	2,224
Deferred income		10,429	11,412	2,949
Total current liabilities		**191,747**	**167,610**	**43,314**
Total liabilities		**203,459**	**178,373**	**46,096**
Total equity and liabilities		**2,155,359**	**2,093,132**	**540,930**

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
for the three-month period ended at March 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2006 (PLN)	Three-month period ended March 31, 2007 (PLN)	Convenience Translation Three-month period ended March 31, 2007 (EUR)
Telecommunication revenue		216,081	202,586	52,354
Radio communication services revenue		2,299	1,806	467
Total revenue		**218,380**	**204,392**	**52,821**
Cost of sales		(152,584)	(155,041)	(40,068)
Gross profit		**65,796**	**49,351**	**12,753**
Selling and distribution costs		(29,920)	(37,957)	(9,808)
General and administration costs		(33,063)	(35,298)	(9,120)
Other income		1,141	11,047	2,855
Other expenses		(9,623)	(4,764)	(1,231)
Other gains / (losses), net		(174)	2,711	701
Operating loss		**(5,843)**	**(14,910)**	**(3,850)**
Finance income		3,077	1,816	469
Finance costs		(1,713)	(28)	(7)
Share of losses of associates	7	(3,077)	(25,618)	(6,620)
Loss before income tax		**(7,556)**	**(38,740)**	**(10,008)**
Income tax benefit / (charge)		(3,082)	938	242
Loss		**(10,638)**	**(37,802)**	**(9,766)**
Attributable to:				
Equity holders of the Company		(10,781)	(37,855)	(9,780)
Minority interest		143	53	14
		(10,638)	**(37,802)**	**(9,766)**
Basic earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)		**(0.03)**	**(0.10)**	**(0.03)**
Diluted earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)		**(0.03)**	**(0.10)**	**(0.03)**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the three-month period ended at March 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2006		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Issuance of series J shares		4,557	-	6,972	-	-	-	-	11,529
Cost of issuance *		-	-	(15)	-	-	-	-	(15)
Employee share option scheme:									
- value of services provided		-	-	-	-	186	-	-	186
- issuance of series K shares		1,053	-	601	-	(1,483)	-	-	171
Coverage of negative difference in retained earnings related to adoption of International Financial Reporting Standards by Netia S.A.		-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend		-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital		-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital		-	-	-	20,312	-	(20,312)	-	-
Profit / (Loss)		-	-	-	-	-	(10,781)	143	(10,638)
Balance as at March 31, 2006		**414,225**	**(122,806)**	**1,661,625**	**263,212**	**3,273**	**84,879**	**6,492**	**2,310,900**

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2007		**389,168**	**-**	**1,666,216**	**143,218**	**29,644**	**(283,248)**	**6,902**	**1,951,900**
Cash flow hedges, net of tax		-	-	-	-	450	-	-	450
Difference between purchase price and book value of minority	6	-	-	-	-	-	(39)	-	(39)
Net income recognised directly in equity		-	-	-	-	450	(39)	-	411
Profit / (Loss)		-	-	-	-	-	(37,855)	53	(37,802)
Total recognised income / (expense) for the period		**-**	**-**	**-**	**-**	**450**	**(37,894)**	**53**	**(37,391)**
Employee share option scheme:									
- value of services provided		-	-	-	-	911	-	-	911
Acquisition of shares from minority		-	-	-	-	-	-	(661)	(661)
Coverage of Netia's 2006 loss	8	-	-	(24,960)	(143,218)	(28,162)	196,340	-	-
Balance as at March 31, 2007		**389,168**	**-**	**1,641,256**	**-**	**2,843**	**(124,802)**	**6,294**	**1,914,759**

*Transaction costs deducted from share premium for both series J shares and series K shares.

The total income and expense for the three-month period ended March 31, 2006 recognized in the equity are equal to the profit / (loss) for the period.

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
for the three-month period ended at March 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended March 31, 2006	Three-month period ended March 31, 2007	Convenience Translation Three-month period ended March 31, 2007
		(PLN)	(PLN)	(EUR)
Cash flows from operating activities:				
Loss)		**(10,638)**	**(37,802)**	**(9,766)**
Adjustments for:				
Depreciation and amortization		64,602	69,519	17,966
Impairment charges for specific individual assets		5,733	-	-
Reversal of impairment charges		(329)	-	-
Share of losses of associates	7	3,077	25,618	6,620
Deferred income tax charge / (benefit)		3,003	(1,044)	(270)
Interest expense accrued on license liabilities		1,641	-	-
Financial guarantee contract		-	(798)	(206)
Interest accrued on loans		-	(13)	(3)
Share-based compensation		357	911	235
Fair value gains on financial assets at fair value through profit and loss		(671)	(21)	(5)
Decrease in other long term assets		323	-	-
Foreign exchange (gains) / losses		782	(302)	(81)
Loss / (gain) on sale of fixed assets		(424)	57	15
Gain on sale of subsidiaries and decrease of purchase consideration		(20)	(1,940)	(501)
Changes in working capital		14,183	30,602	7,908
Net cash provided by operating activities		**81,619**	**84,787**	**21,912**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(56,522)	(61,906)	(15,998)
Proceeds from sale of fixed assets		889	1,120	289
Investment in associate	7	(6,000)	(29,907)	(7,729)
Purchase of subsidiary, net of cash received	6	-	(700)	(181)
Sale of subsidiaries, net of cash in subsidiaries		25	-	-
Sale of financial assets at fair value through profit and loss		-	14,777	3,819
Loan repayments		-	69	18
Net cash used in investing activities		**(61,608)**	**(76,547)**	**(19,782)**
Cash flows from financing activities:				
Proceeds from share issuance		11,463	-	-
Cost of share issuance		(15)	-	-
Finance lease payments		(49)	-	-
Redemption of notes for warrants		(10)	-	-
Net cash provided by financing activities		**11,389**	**-**	**-**
Exchange gains / (losses) on cash and cash equivalents		**170**	**303**	**78**
Net change in cash and cash equivalents		**31,570**	**8,543**	**2,208**
Cash and cash equivalents at beginning of period		197,387	143,586	37,107
Cash and cash equivalents at end of period		**228,957**	**152,129**	**39,315**

1. The Company and the Netia Group

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its principal executive office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland.

The interim condensed consolidated financial statements of Netia S.A. for the three-month period ended March 31, 2007 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on May 15, 2007.

The Netia Group provides various voice telephone and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long distance, international long distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, dial-up and fixed-access Internet, leased lines and frame relay and MPLS services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with ADSL technology.

To further broaden Netia's product offer, including convergent services, Netia intends to offer mobile services. On May 9, 2005 the Company's current associate, P4 Sp. z o.o. ("P4") (until August 23, 2005 the Company's subsidiary, see also Notes 7 and 13), was announced the winner of the UMTS tender, organized by the Polish regulator. In March 2007 P4 began commercial service offering a range of mobile telephony services under the brand name "Play".

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (currently operating under the name "Netia WiMax S.A.", "Netia WiMax"), received the reservation of the 3.6-3.8 GHz frequencies. Since 2006, the Netia Group has been using these frequencies to provide broadband data and voice transmission services based on WiMAX technology.

Taking advantage of the new opportunities arising from changes in the regulatory environmet, the Company concluded a bitstream agreement with Telekomunikacja Polska S.A. ("TP SA") and commercially launched its broadband Internet access services over TP SA's network in January 2007.

The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its 62.2% owned subsidiary (see Note 6), UNI-Net Sp. z o.o.

The Company's ordinary shares have been listed on the Warsaw Stock Exchange since July 2000 and are part of the WIG-20 index. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting requirements for companies listed on the Warsaw Stock Exchange.

Current financial condition

As at March 31, 2007, the Company's equity amounted to PLN 1,914,759 and the Netia Group had working capital of PLN 105,871. In 2006 the Company performed an impairment test for the telecommunications segment. The test resulted in an impairment charge of PLN 354,672, which was recognized in the consolidated statement of operations for the year ended December 31, 2006. Since 2004 the Netia Group has been generating positive cash flows from operating activities and as at March 31, 2007 it had PLN 152,129 of cash available and no outstanding financial debt. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

2. Summary of significant accounting policies

Basis of preparation

Following the European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 with later amendments) in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"). As of March 31, 2007 there are no differences as regards policies adopted by the Netia Group between these standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2006, except for new accounting standards adopted as of January 1, 2007.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The Company makes estimates and assumptions concerning the future. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment, customer relationships, deferred income tax and financial guarantee contract.

(All amounts in thousands, except as otherwise stated)

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

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

The Netia Group has only one business segment – telecommunications and operates in one geographical area, which is the territory of Poland.

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

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

All Euro amounts shown as supplementary information in the interim condensed consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2007 of PLN 3.8695 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

Reclassifications of comparatives

The interim condensed consolidated income statement for the three-month period ended March 31, 2007 is presented in a new format, using the function of expense method. Expenses are classified according to their function as part of either cost of sales, cost of selling and distribution or as cost of administrative activities. Management considers that formatting according to the function of expense method provides more pertinent information about the Company.

The comparative data in the interim condensed consolidated income statement has been restated taking into account the new format of presentation. These changes did not impact revenue and operating profit. Expenses were allocated among functions as follows:

	Cost of sales	Selling and distribution costs	General and administration costs	Other expenses
	(PLN)	(PLN)	(PLN)	(PLN)
Interconnection charges	(56,119)	-	-	-
Services purchased				
Professional services	(48)	(1,626)	(2,473)	(3,890)
Advertising and promotion expenses	(6)	(3,687)	(530)	-
Cost of rented lines and network maintenance	(17,120)	(122)	(601)	-
Information technology services	-	(1,700)	(2,490)	-
Office and car maintenance	(326)	(69)	(1,954)	-
Insurance	(611)	(97)	(1,018)	-
Mailing services	(15)	(1,410)	(106)	-
Travel and accommodation	(338)	(366)	(414)	-
Other services	(585)	(2,568)	(1,480)	-
Salaries and benefits	(7,276)	(11,023)	(15,382)	-
Depreciation of fixed assets	(49,675)	(647)	(2,041)	-
Amortization of intangible assets	(6,209)	(4,417)	(1,613)	-
Other expenses				-
Taxes and fees	(11,910)	(74)	(1,161)	-
Provision for impaired receivables	-	(1,930)	-	-
Materials and energy	(1,492)	(126)	(622)	-
Other operating costs	(854)	(58)	(1,178)	-
Impairment charges for non-current assets	-	-	-	(5,733)
Total	**(152,584)**	**(29,920)**	**(33,063)**	**(9,623)**

Changes in estimates

In the three-month period ended March 31, 2007 the Netia Group reassessed the useful lives of its property, plant and equipment and intangible assets and in consequence, for certain subcategories of buildings, transmission network, switching system, machinery and equipment, office furniture and equipment, and computer software the remaining period over which they will be depreciated or amortized was shortened (in most cases) and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Additional charge recognized in current period	Relevant increase in the depreciation / amortization charge for the remaining period in 2007
		(PLN)	(PLN)
Buildings	- certain leasehold improvements - until the end of 2007	228	43
Transmission network	- until the end of June 2007	11	8
Switching system (mainly narrowband radio equipment)	- narrowband radio equipment - until the end of September 2007 - certain switches - until the end of 2007 - certain radiolinks - until the end of 2010 - certain other transmission equipment - depreciation period was shortened from 15 years to 8 or 5 years	11,416	22,726
Machinery and equipment	- certain machinery - depreciation period was shortened from 12 to 8 years	84	248
Office furniture and equipment	- certain computers - until the end of March 2007 - other office equipment - until January 2009	119	60
Total property, plant and equipment		**11,858**	**23,085**
Computer software	- certain software - until the end of 2007	251	291
Total non-current assets		**12,109**	**23,376**

New standards, interpretations and amendments to existing standards

The following new standards and interpretations are mandatory for the financial year ended December 31, 2007:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after March 1, 2006. This interpretation is not relevant for the Netia Group;

- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after May 1, 2006.As equity instruments are only issued to employees in accordance with a share option plan, the interpretation had no impact on the financial position of the Netia Group;

- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after June 1, 2006. This interpretation did not have any effect on the financial position or performance of the Netia Group;

- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after November 1, 2006. The adoption of the interpretation did not have any effect on the financial position or performance of the Netia Group;

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after January 1, 2007 and the complementary Amendments to IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after January 1, 2007. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions', effective for annual periods beginning on or after March 1, 2007. IFRIC 11 provides guidance on applying IFRS 2 in share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation, a parent grants rights to its equity instruments to employees of its subsidiary and when a subsidiary grants rights to equity instruments of its parent to its employees. Management do not expect the interpretation to be relevant for the Netia Group;

- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after January 1, 2008. IFRIC 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. Management is currently assessing the impact of IFRIC 12 on the Netia Group's operations;

- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management approach to segment reporting. Management is currently assessing the impact of IFRS 8 on the Netia Group's operations.

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

On January 22, 2007, Netia concluded an agreement with its subsidiary Świat Internet S.A. ("Świat Internet"), whereupon Netia made an in-kind contribution of telecommunications network elements in exchange for new shares in its subsidiary. The related assets were valued by a property appraisal expert at the amount of PLN 950,703. The tax on civil law transactions levied on this capital contribution in the amount of PLN 4,764 was recognized as other expense in the interim condensed consolidated income statement for the three-month period ended March 31, 2007. Subsequently, Netia concluded an agreement with Świat Internet to enable Netia to lease the network elements in order to provide service its customers. This reorganization of the Netia Group's activities is expected to deliver various operating efficiencies in the future.

As a result of the settlement of interconnection related disputes between Netia and TP SA, signed on December 22, 2006, PLN 9,139 was recorded as other income in the interim condensed consolidated income statement for the three-month period ended March 31, 2007

On January 31, 2007 the Company concluded an investment agreement which provides for the accession of a new shareholder to P4, provides for an amendment of the Shareholders Agreement of P4 and specifies the key principles of commercial cooperation of Netia and certain companies – for further details see Note 13 and 14.

4. Impairment of non-current assets

In 2006 the Netia Group performed an impairment test in accordance with IAS 36 "Impairment of Assets". The test resulted in an impairment charge of PLN 354,672, which was recorded in the consolidated income statement for the year ended December 31, 2006 and was allocated to the carrying amount of goodwill and then to the non-current assets in the telecommunications segment on a pro rata basis.

As at March 31, 2007 the Netia Group assessed whether there was any indication that the impairment loss recognized for non-current assets in the prior year may no longer exist or may have reversed. After assessing both the external and internal sources of information, no indications were identified which could result in a new assessment of the impairment loss recorded in 2006.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Transmission network (PLN)	Switching system (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at December 31, 2006	73,157	17,308	1,888,100	1,557,141	85,782	127,302	12,918	134,111	3,895,819
Additions	4	-	-	29	44	418	-	31,678	32,173
Transfers	1,288	22	3,154	38,828	1,461	32	-	(44,785)	-
Transfers to non-current assets held for sale	-	(987)	-	-	-	-	-	-	(987)
Disposals and other movements	(295)	-	3	(1,207)	1,422	(656)	(411)	(341)	(1,485)
Gross book value as at March 31, 2007	74,154	16,343	1,891,257	1,594,791	88,709	127,096	12,507	120,663	3,925,520
Accumulated depreciation as at December 31, 2006	20,478	-	587,898	582,734	50,180	101,649	4,082	-	1,347,021
Depreciation expense	902	-	16,346	37,363	1,157	1,728	516	-	58,012
Transfers to non-current assets held for sale	-	-	-	-	-	-	-	-	-
Disposals and other movements	(250)	-	1	(526)	692	(570)	(276)	-	(929)
Accumulated depreciation as at March 31, 2007	21,130	-	604,245	619,571	52,029	102,807	4,322	-	1,404,104
Accumulated impairment as at December 31, 2006	16,477	5,108	629,552	388,517	15,080	12,736	305	22,994	1,090,769
Transfers	188	4	465	4,975	196	7	-	(6,280)	(445)
Transfers to non-current assets held for sale	-	(235)	-	-	-	-	-	-	(235)
Disposals and other movements	(45)	-	1	(254)	306	(71)	(18)	(88)	(169)
Accumulated impairment as at March 31, 2007	16,620	4,877	630,018	393,238	15,582	12,672	287	16,626	1,089,920
Net book value as at December 31, 2006	36,202	12,200	670,650	585,890	20,522	12,917	8,531	111,117	1,458,029
Net book value as at March 31, 2007	**36,404**	**11,466**	**656,994**	**581,982**	**21,098**	**11,617**	**7,898**	**104,037**	**1,431,496**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Transmission network (PLN)	Switching system (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at December 31, 2005	73,272	17,684	1,855,368	1,488,393	82,439	138,948	17,369	72,855	3,746,328
Additions	-	-	-	-	-	-	-	12,706	12,706
Transfers	54	-	4,205	15,771	502	4,626	178	(27,592)	(2,256)
Transfers to non-current assets held for sale	(1,079)	(1,363)	(2,464)	-	-	-	-	-	(4,906)
Disposals and other movements	119	-	(930)	(5,075)	5,706	(1,558)	(4,724)	(1,226)	(7,688)
Gross book value as at March 31, 2006	72,366	16,321	1,856,179	1,499,089	88,647	142,016	12,823	56,743	3,744,184
Accumulated depreciation as at December 31, 2005	17,645	-	511,946	473,690	49,268	110,087	8,420	-	1,171,056
Depreciation expense	762	-	18,899	28,038	1,319	2,874	471	-	52,363
Transfers to non-current assets held for sale	(141)	-	(583)	-	-	-	-	-	(724)
Disposals and other movements	12	-	(5)	(1,337)	1,442	(1,559)	(4,170)	-	(5,617)
Accumulated depreciation as at March 31, 2006	18,278	-	530,257	500,391	52,029	111,402	4,721	-	1,217,078
Accumulated impairment as at December 31, 2005	14,481	4,821	491,023	274,558	9,898	10,667	874	2,039	808,361
Impairment charge for specific assets	-	-	1	4,749	10	-	-	-	4,760
Transfers to non-current assets held for sale	-	(379)	(501)	-	-	-	-	-	(880)
Disposals and other movements	2	-	(247)	(1,064)	1,311	(28)	(426)	(315)	(767)
Accumulated impairment as at March 31, 2006	14,483	4,442	490,276	278,243	11,219	10,639	448	1,724	811,474
Net book value as at December 31, 2005	41,146	12,863	852,399	740,145	23,273	18,194	8,075	70,816	1,766,911
Net book value as at March 31, 2006	**39,605**	**11,879**	**835,646**	**720,455**	**25,399**	**19,975**	**7,654**	**55,019**	**1,715,632**

(All amounts in thousands, except as otherwise stated)

6. Acquisitions

UNI-Net Sp. z o.o.

On January 9, 2007, the Company purchased from the minority shareholders 4% of the share capital of the Company's subsidiary UNI-Net Sp. z o.o. ("UNI-Net"), for a total of PLN 700. As a result of these transactions, the Netia Group holds 62,2% of UNI-Net's share capital and the corresponding number of votes at its shareholders' meeting.

As such transactions with minority shareholders are not governed by IFRS 3 "Business Combinations", the Netia Group decided to apply the economic entity model for this acquisition. The negative difference between purchase price and book value of minority in the amount of PLN 39 was deducted directly from equity.

Pro Futuro S.A.

In July 2006, the Company purchased 100% of the share capital of Pro Futuro S.A. ("Pro Futuro") for a total of PLN 37,893 (including a retention of PLN 2,500, which was to be paid from the escrow account in 2007 subject to all conditions being met by the seller). On April 27, 2007, PLN 1,940 of this retention was repaid to the Company and the total purchase price was decreased accordingly.

In July 2006, Pro Futuro sold 456,166 (not in thousands) shares of dataCOM S.A. ("dataCOM") with a total nominal value of PLN 3,193, representing 18.6% of its share capital for a total price of PLN 2,007. The disposal of dataCOM's shares was agreed in advance and was directly related to the above transaction.

Pro Futuro was an independent telecommunications operator providing data transmission, internet access, hosting and VoIP transmission services. It provided the services based on its own broadband telecommunications network (Infostrada Futuro) created based on modern LMDS technologies. The company provided services based on the Infostrada network in Poland's largest cities: Warsaw, Łódź, Katowice, Kraków, Kielce, Gdańsk, Gdynia, Szczecin, Wrocław, Poznań, Bielsko-Biała and Lublin.

The Netia Group accounted for the acquisition of Pro Futuro using the purchase method and started consolidating the financial statements of Pro Futuro as of July 1, 2006 adjusting the consolidated income statement and the consolidated balance sheet for material transactions, which took place between July 1, 2006 and July 4, 2006. The acquired business contributed revenue of PLN 9,426 and profit of PLN 2,545 in the three-month period ended March 31, 2007, after taking into account intercompany eliminations and a gain of PLN 1,940 described below.

During the year ended December 31, 2006 the Netia Group performed a preliminary valuation of Pro Futuro's assets, liabilities and contingent liabilities, which was further up-dated during the three-month period ended March 31, 2007. In particular, the Netia Group assessed fair values of identifiable assets, liabilities and contingent liabilities according to IFRS 3, including fixed asset items which have been adjusted on the basis of an independent valuation, and recorded a deferred income tax liability. Additionally, in the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced in 2007 if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of fair value of net assets acquired and the excess of the fair value of net assets over cost as at the date of the acquisition are as follows:

	(PLN)
Purchase consideration, including a retention of PLN 2,500 and transaction costs of PLN 933	70,933
Settlement of the retention	(1,940)
Sale of Pro Futuro's investment	(2,007)
Fair value of net assets acquired	(67,970)
Excess of the fair value of net assets over purchase consideration	**(984)**

Based on the preliminary valuation performed during the year ended December 31, 2006, the Netia Group recognized goodwill of PLN 956, which was fully impaired in 2006. Therefore the decrease in the total purchase price of PLN 1,940 was recognized as a gain in the interim condensed income statement for the three-month period ended March 31, 2007.

The purchase consideration made by the Company in exchange for control over the net assets of Pro Futuro encompassed: the price for 100% shares of PLN 35,953, the amounts paid for Pro Futuro's convertible bonds issued to its previous shareholder of PLN 32,107 and transaction costs of PLN 933. The purchase consideration was decreased by PLN 2,007 received due to the disposal of Pro Futuro's investment in dataCOM shares.

(All amounts in thousands, except as otherwise stated)

The assets, liabilities and contingent liabilities recognized in the consolidated balance sheet arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Fair value
	(PLN)	(PLN)
Property, plant and equipment	65,189	62,921
Computer software	2,681	2,645
Customer relationships	-	18,827
Investments	2,002	-
Receivables	3,341	2,712
Prepayments	325	325
Cash and cash equivalents	638	638
Short-term loans	(2,500)	(2,500)
Trade liabilities	(4,028)	(4,026)
Other liabilities and accruals	(7,843)	(10,181)
Deferred income tax liabilities	(770)	(3, 391)
Net assets acquired	**59,035**	**67,970**

	(PLN)
Total purchase consideration settled in cash	(68,926)
Cash and cash equivalents in the subsidiary acquired	638
Cash outflow on acquisition	**(68,288)**

The investment in Pro Futuro shares is of a long-term nature.

7. Investments in associates

P4

As of March 31, 2007, the Netia Group had a 30% interest in P4, which was announced as the winner of the mobile telephony UMTS frequency tender in May 2005 (see also Note 13). P4 controlls one wholly owned subsidiary, 3G Network Services Sp. z o.o.

The following table summarizes financial information of the P4 Group:

	December 31, 2006	March 31, 2007
	(PLN)	(PLN)
Assets	567,652	679,113
Liabilities	131,342	228,201

	Three-month period ended March 31, 2006	Three-month period ended March 31, 2007
	(PLN)	(PLN)
Revenue	-	957
Loss for the period	(10,256)	(85,395)

The following table summarizes changes in the investment in the associate:

	Three-month period ended March 31, 2006	Three-month period ended March 31, 2007
	(PLN)	(PLN)
At the beginning of the period	105,633	141,394
Investment in the associate	6,000	30,000
Unrealized profits on transaction with associate	(8)	-
Settlement of hedge transaction	-	(93)
Share of loss	(3,077)	(25,618)
At the end of the period	**108,548**	**145,683**

Following the provisions of P4's Shareholders' Agreement (see Note 13), during the three-month period ended March 31, 2007 the Company contributed share capital of PLN 30,000. As a result, the Company is the holder of 10,920 (not in thousands) P4's shares constituting 30% of the shares in P4's share capital.

P4 is not listed on any public stock exchange market and therefore there is no published quotation price for the fair value of this investment.

8. Shareholders' equity

Share capital (not in thousands)

At March 31, 2007, the Company's share capital consisted of 389,166,839 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at shareholders' meetings. The holder of 1,000 series A1 shares had the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. The Company's share capital has not changed since December 31, 2006.

Changes in supplementary capital and other reserves

The Shareholders' Meeting held on March 21, 2007, resolved to cover the loss of Netia S.A. in the amount of PLN 279,037, incurred in 2006, by transfer of: PLN 28,162 from separate reserve capital, PLN 82,697 from retained earnings being a surplus relating to merger of Netia S.A. with its subsidiaries, PLN 143,218 from other supplementary capital and PLN 24,960 from share premium.

Stock options (number of options not in thousands)

In the three-month period ended March 31, 2007 the following changes took place in the number of options granted under the key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"):

	Three-month period ended March 31, 2006		**Three-month period ended March 31, 2007**	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	3.06	2,776,650	4.44	1,935,149
Granted	-	-	6.78	10,000,000
Exercised	2.59	(1,817,188)	-	-
At the end of the period	**3.94**	**959,462**	**6.40**	**11,935,149**

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the three-month periods ended March 31, 2007 and March 31, 2006 amounted to PLN 911 and PLN 186, respectively.

9. Dividends per share

The Company's Shareholder's Meeting held on March 29, 2006, approved a dividend of PLN 0.13 (not in thousands) per share to be paid out of the net profit of Netia S.A. for the year ended December 31, 2005. Due to that resolution, PLN 50,323 of dividend was paid on May 16, 2006 to shareholders of record as at April 20, 2006.

No dividend has been proposed or paid in respect to the financial year ended December 31, 2006.

10. Supplemental disclosures to interim condensed consolidated statement of cash flows

Supplemental disclosures to operating activities:

	Three-month period ended March 31, 2006 (PLN)	**Three-month period ended March 31, 2007 (PLN)**
Income taxes paid	57	141
Interest received	(1,770)	(2,126)

11. Changes in the Management Board and Supervisory Board

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.

On March 21, 2007, the Company's Supervisory Board appointed Mr. Bertrand Le Guern as Member of the Management Board and Chief Operations Officer, effective as of April 1, 2007.

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.

12. Related party transactions

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

As at March 31, 2007, the total number of options granted to members of the Company's Management Board under the Plan, was 11,087,256 of which 271,814 had vested as of that date. Strike prices for the options granted to the Management Board range from PLN 4.44 to 8.25 per share. The market price of the Company's shares at March 31, 2007 was PLN 4.13 per share.

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

Options	Three-month period ended March 31, 2006	Three-month period ended March 31, 2007
At the beginning of the period	1,812,094	1,721,489
Granted	-	10,000,000
Status changed due to resignation from Management Board	-	(634,233)
Exercised	(906,047)	-
At the end of the period	**906,047**	**11,087,256**

As at December 31, 2006 Mr. Paul Kearney and Mr. Paweł Karłowski – the former members of the Company's Management Board (see Note 11) – held 362,419 and 271,814 options, respectively. Due to their resignations from their positions, these options are no longer treated as options held by members of the Management Board.

As at March 31, 2007 Mr. Piotr Czapski – a member of the Company's Management Board – held 543,628 options and is unchanged from December 31, 2006.

As at March 31, 2007 Mr. Jonathan Eastick – a member of the Company's Management Board – held 543,628 options and is unchanged from December 31, 2006.

As at March 31, 2007 Mr. Mirosław Godlewski – the Company's President of the Management Board (see Note 11) – held 10,000,000 options.

Members of the Supervisory Board did not hold any options as at March 31, 2007 and December 31, 2006.

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

As at March 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 March 31, 2007, Mr. Andrzej Radzimiński – a member of the Company's Supervisory Board – held 10,000 ordinary shares and 1,000 series A1 shares. The number of shares held has not changed since December 31, 2006.

As at March 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 March 31, 2007, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held 43,000 shares of the Company. The number of shares held has not changed since December 31, 2006.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the three-month periods ended March 31, 2007 and March 31, 2006 amounted to PLN 1,748 and PLN 1,968, respectively. In addition, the cost of share-based payments in the amounts of PLN 879 and PLN 180 was recognized in the respective periods. In addition, termination benefits for the former members of the Management Board of PLN 1,116 were recognized as a cost in the three-month period ended March 31, 2007.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the three-month periods ended March 31, 2007 and March 31, 2006 amounted to PLN 28 and PLN 75, respectively. These amounts were paid to certain employees of the Netia Group who are not past or present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the three-month periods ended March 31, 2007 and March 31, 2006 amounted to PLN 130 and PLN 95, respectively.

Transactions with former members of the Supervisory Board and Management Board of the Company's subsidiary

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 aquired by the Netia Group in June 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.

Transactions with the associate

The following transactions were carried out with P4 Group (see also Notes 7, 13 and 14):

	Three-month period ended March 31, 2006 (PLN)	Three-month period ended March 31, 2007 (PLN)
Sale of services	245	560
Reversal of accrued other income on sale of services*	(303)	-
Other sales transactions	-	676
	(58)	**1,236**

	December 31, 2006 (PLN)	March 31, 2007 (PLN)
Trade receivables	1,658	346
	1,658	**346**

* Reversal of accrued other income on sale of services resulted from the adjustment of estimated prices for services provided to P4 during 2005 to contractual prices negotiated with P4 during the three-month period ended March 31, 2006, but also applicable retrospectively to 2005.

13. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 27,317 as at December 31, 2006 and PLN 33,023 as at March 31, 2007 of which, PLN 1,945 and PLN 2,961, respectively, related to the planned acquisition of intangible assets.

P4 related commitments

In 2005 P4 - previously the Company's subsidiary, was announced a winner of the mobile telephony UMTS frequency tender. On August 23, 2005 Shareholders' Agreement ("Agreement") was concluded by the following entities: the Company, Netia Mobile Sp. z o.o. ("Netia Mobile", previously operating under the name "Netia Ventures Sp. z o.o."), P4, Novator One L.P., Novator and Novator Poland Pledge Sp. z o.o. (Novator and Netia Mobile both called "Shareholders"). Netia Mobile is a 100% subsidiary of the Company, and Novator is a 100% subsidiary of Novator One L.P.

As a result of that Agreement, Novator was the holder of 24,010 (not in thousands) of P4's shares ("Shares") constituting 70% of the Shares in P4's share capital and Netia Mobile was the holder of 10,290 (not in thousands) Shares constituting 30% of the Shares in P4's share capital. In total, based on the Agreement, the Shareholders are obligated to make contributions of up to the amount of EUR 300,000 in proportion to their share of P4's share capital. As a result, Netia Mobile is obligated to make contributions of up to EUR 90,000 (see also the amendment of the P4 shareholders agreement described below). Due to that obligation, as of March 31, 2007, Netia Mobile has made contributions to P4's equity in the amount of PLN 194,700 (of which PLN 30,000 was made in the three-month period ended March 31, 2007) in order to cover the UMTS frequency reservation fee and initial operational expenses and capital investments in fixed assets. As at March 31, 2007, the remaining obligation amounted to EUR 41,021 (PLN 158,732 at the March 31, 2007 exchange rate). Of this amount, EUR 19,350 was hedged.

Furthermore, during a 3-year period following execution of the Agreement (i.e. until August 23, 2008), the Shareholders may not dispose of their Shares without the consent of the other Shareholder, except for permitted transfers within their respective capital groups (the "3-year lock-up period"). In the event of a change of control of any Shareholder, the other Shareholder has the right to repurchase Shares held by the Shareholder which underwent the change of control.

The Agreement includes standard procedures which regulate the sale of Shares by the Shareholders following the 3-year lock up period. If a Shareholder wishes to dispose of its Shares, the other Shareholder is entitled to require the potential third party buyer to purchase its Shares on the same terms in the amounts commensurate with the percentages of Shares held by each Shareholder. Moreover, if Novator decides to sell all of its Shares, it is entitled to require the other Shareholder to sell all of its Shares on the same terms. These provisions are secured by contractual penalties in the maximum amount of EUR 25,000. The payment of the contractual penalties does not exclude the right of the parties to the Agreement to claim damages in an amount exceeding the amount of such penalties. Any transfer of shares in violation of these transfer restrictions will be ineffective against P4.

The Agreement includes a list of specific matters requiring unanimous approvals from both Shareholders regarding potential alterations to the share capital or articles of association, issuing securities, disposals and acquisitions of assets, certain business, trading and accounting matters, indebtedness and dividend levels. In the event at any time any shareholder who is a member of the Novator group transfers any shares in P4 to a person who is not a party to the 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 members of the supervisory board appointed by Netia Mobile.

If key issues regarding running P4's business cannot be agreed following the expiration of the 3-year lock up period, the Agreement includes an option for Novator to purchase Netia Mobile's Shares at market price plus 10% and an option for Netia Mobile to sell such Shares to Novator at market price with a 10% discount.

The Agreement, to be amended upon the accession of Tollerton Investments Limited to P4, includes material terms and conditions for commercial cooperation based on which the Company and P4 shall conclude a number of commercial agreements. The parties' obligations under the service provider agreement are to be secured by contractual penalties in the maximum amount of EUR 50,000.

The Agreement shall expire following a valid sale of all Shares by the Shareholders in accordance with its provisions. The Agreement includes limitations of competing activities, a non-disclosure clause and a ban on employee recruitment during an agreed period following the expiration of the Agreement. The Shareholders accept an option of P4's conversion into a joint stock company no earlier than after the 2-year period following the date of the Agreement, and an option to introduce P4's Shares to public trading following three years from the date of the Agreement.

Amendment of the P4 shareholders agreement

On January 31, 2007 the Company concluded an investment agreement (the "Investment Agreement"), which provides for the accession of a new shareholder, Tollerton Investments Limited ("Tollerton") to P4 and for the subscription by Tollerton for a 22% equity stake in the increased share capital of P4 in return for 100% of shares in Germanos Polska Sp. z o.o. together with its two subsidiaries Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o. (the "Distribution Companies"), which will be contributed to P4 to pay for the new shares subscribed for by Tollerton. The Investment Agreement further provides for an amendment of the Shareholders Agreement of P4 dated August 23, 2005 after the transactions contemplated in the Investment Agreement have been completed.

Following the increase of P4's share capital, Netia Mobile will hold 23.4% of P4's share capital while Novator will hold 54.6% of P4's share capital. The above is conditional on obtaining the consent of the Chairman of the Polish Office for the Protection of Competition and Consumers and the consent of China Development Bank, as required under the terms of the facility of EUR 150,000 granted to P4 (see Note 14) to the transactions contemplated in the Investment Agreement, and on the Distribution Companies terminating certain existing exclusive distribution agreements to which they are the parties.

In the amended Shareholders Agreement, which will be concluded upon Tollerton subscribing for P4's shares, the Shareholders reiterate their earlier commitments to make contributions to P4 up to EUR 300.000, pro rata to their respective changed shareholdings in P4's share capital, whereby Tollerton has agreed to make contributions of EUR 35,000 and the investment commitment of Netia Mobile will be reduced to EUR 79,500 from EUR 90,000.

The Investment Agreement and the amended Shareholders Agreement specify the key principles of commercial cooperation of Netia and the Distribution Companies based on which the Company and P4 will conclude commercial agreements providing for Netia's access to the Distribution Companies' sales network.

14. Contingencies

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 11.2 million at the March 31, 2007 exchange rate) increased by the applicable interest is outstanding from Millennium. In December 2000, the Company brought a claim for the repayment of the loan against Millennium in the District Court in Warsaw. On October 16, 2006, the Regional Court granted the Company's claim and ordered Millennium to pay PLN 11.5 million with interest. The Court has also dismissed Millennium's counterclaim. Millennium filed an appeal. The matter is still pending.

In 2001, a valuation allowance of PLN 17.0 million was recorded as other operating expense against the outstanding amount receivable from Millennium as a result of the events described above.

On April 5, 2005, Millennium filed a claim against Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net"), the subsidiary merged with Netia in July 2006, in connection with the alleged acts of unfair competition of El-Net against Millennium. El-Net filed an answer to the claim on June 6, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On December 23, 2006, the Court dismissed Millennium's claim in its entirety. Millennium filed an appeal. The matter is still pending.

In July 2005, Millennium filed a motion to secure the claim against El-Net for determination that an agreement between El-Net and Millennium concerning provisions of telephone services and the use of 30,000 telephone numbers by Millennium was not effectively terminated by El-Net. On August 21, 2005, Millennium filed a motion against El-Net in connection with the claim to which the injunction pertained to. El-Net filed an answer to the claim on October 19, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On October 11, 2006, the Court dismissed Millennium's claim in its entirety. Millennium filed an appeal. The matter is still pending.

Management, having obtained legal advice, does not believe that the settlement of the matters described above will have a material adverse effect on the Netia Group's financial condition. Accordingly no liability has been recorded for the claims.

Minority shareholders

On August 1, 2002, the Company received a copy of a claim filed with the District Court in Warsaw by an individual shareholder demanding the cancellation of sections 10, 11 and 13 of Resolution No. 2 adopted by the Company's General Meeting on April 4, 2002. The individual shareholder claimed that the distribution of the Company's warrants under the financial restructuring was harmful to the minority shareholders and violated good custom. On August 14, 2002, the Company responded requesting the District Court to dismiss the claim as unsubstantiated. The matter is still pending.

In a second similar matter, a minority shareholder's claim was dismissed on merits by the District Court in Warsaw. On March 25, 2005, the minority shareholder filed an appeal. On December 8, 2005 the Regional Court examining the appeal overruled the judgment of the District Court and decided that the case has to be re-examined due to the fact that it should be the Regional Court not the District Court where the case should have been examined in the first resort. The matter is still pending.

Management, having obtained legal advice, does not believe that the settlement of the matters described above will have a material adverse effect on the Netia Group's financial condition. Accordingly no liability has been recorded for the claims.

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge of 10,260 (not in thusands) shares in P4. The pledge was established for the benefit of Novator Poland Pledge Sp. z o.o. in order to secure the performance by Netia Mobile of the claims that may arise due to failure by Netia Mobile to perform certain obligations under the Agreement. The maximum amount of collateral equals to EUR 25,000. Pursuant to the Agreement on October 26, 2005 Novator has also pledged all its shares in P4 to Netia Mobile on the same terms as indicated above in order to secure the performance by Novator of the claims that may arise if Novator fails to perform certain obligations under the Agreement. On October 31, 2006, under the Agreement for the Registered and Financial Pledges on Shares (described below) the pledges were subordinated to pledges on the entire equity stake in P4, established in favour of BPH SA (currently 10,920 (not in thousands) of P4's shares are pledged).

The Company's Management is not aware of any circumstances, which may currently give rise to a utilization of the pledge.

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, 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:

(All amounts in thousands, except as otherwise stated)

- **Share Retention Agreement**. Under the Share Retention Agreement, Netia provided a guarantee to a maximum amount of EUR 27,000. The guarantee covers the repayment of 30% 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 still to be made by Netia will not exceed EUR 42,000 as at March 31, 2007 (see also Note 13).

- **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 March 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.

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 27,000 in respect to guarantees and may lose its shares in P4.

As part of the agreements with Tollerton, the existing shareholders of P4 and Tollerton have applied to China Development Bank to modify the agreements in order to permit Tollerton to take over its pro rata share of the above described contingencies upon its accession as a shareholder of P4.

WiMAX license requirements

On October 27, 2005 Netia WiMax and Netia WiMax II received the reservations of the 3.6-3.8 GHz frequencies, which will be used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. The Company overperformed the milestones regarding population coverage, alloted for the year 2006. However, the Company has considered recent changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, and decided to submit applications to change future territorial and population coverage commitments for WiMax.

Tax contingent liability

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

The Company's Management is not aware of any circumstances, which may currently give rise to a potential material liability in this respect.

15. Subsequent events

Share options granted under the Plan (not in thousands)

On April 1, 2007 the Company's Management Board member was granted 5,000,000 options to subscribe for series K shares in accordance with the Plan. The grant is divided into three tranches: 2 million, 1.5 million and 1.5 million. The strike prices of the options for each tranche are: PLN 5.50, PLN 7.00 and PLN 8.25, respectively.

On April 13, 2007 three members of the Company's Management Board were granted a total of 18,000,000 options to to subscribe for series K shares in accordance with the Plan. The stock options were granted to members of the Management Board as follows:

- 9,000,000 options divided into tranches of: 3.6 million, 2.7 million and 2.7 million;
- 5,000,000 options divided into tranches of: 2 million, 1.5 million and 1.5 million;
- 4,000,000 options divided into tranches of: 1.6 million, 1.2 million and 1.2 million.

In each case, the strike prices for the respective tranches are: PLN 5.50, PLN 7.00 and PLN 8.25.

Furthermore, Netia's Supervisory Board has consented to the granting of a total of 15,700,000 options to the Company's senior managers. Options will be granted to the senior managers in two tranches and the strike prices for the particular tranches are: PLN 5.50 and PLN 7.00 respectively. The Supervisory Board authorized the President of the Management Board to grant those options to senior managers in the future.

The options granted to members of the Management Board of the Company and to the Company's senior managers shall expire on December 20, 2012.

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.

Changes within the Company's Supervisory Board

On April 20, 2007, the Company received a notice regarding the resignation of Mr. Andrzej Radzimiński from his position of Netia's Supervisory Board member, effective April 30, 2007. 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.

Credit facility agreement

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 "Agreement", the "Facility"). The above Facility will be extended to Netia in the form of a term loan and a revolving loan of up to PLN 250,000 and PLN 50,000, respectively. The Facility is to be repaid by November 15, 2011. The Facility bears interest at a variable interest rate of WIBOR plus a margin dependant on financial ratios. The proceeds from the Facility will be used to finance Netia's capital expenditures and current operations.

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 will remain in place until registration of the registered pledges is completed.

Termination of Loan Agreements with Bank Handlowy w Warszawie SA

On May 15, 2007 the Company gave Bank Handlowy w Warszawie SA. a notification, that available facilities totalling PLN 100,000, will be terminated according to the relevant provisions of the agreements. There will be no draw downs under these facilities until their termination.