NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month period ended March 31, 2006

REVIEW REPORT OF INDEPENDENT AUDITORS

To the Supervisory Board and Shareholders
of Netia S.A.

We have reviewed the accompanying interim condensed consolidated balance sheet of Netia S.A. (the "Company") and its subsidiaries (the "Netia Group") as at March 31, 2006, and the related interim condensed consolidated statements of income, changes in shareholders' equity and cash flows for the three-month period ended March 31, 2006, all of them expressed in Polish Złoty ("PLN"). These interim condensed consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim condensed consolidated financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance about whether the interim condensed consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements have not been prepared, in all material respects, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

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, 2006 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at March 31, 2006 of PLN 3.9357 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.

PricewaterhouseCoopers Sp. z o.o.

Warsaw, Poland
May 15, 2006

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	March 31, 2006 (PLN)	Convenience Translation March 31, 2006 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	4	1,766,911	1,715,632	435,915
Intangible assets				
Goodwill		13,843	13,843	3,517
Licenses, net		220,736	215,124	54,660
Computer software, net		74,851	71,538	18,177
Investments in associates	6	105,633	108,548	27,580
Deferred income tax assets	12	14,182	11,179	2,840
Available for sale financial assets		10	10	3
Other long term assets		323	-	-
Total non-current assets		**2,196,489**	**2,135,874**	**542,692**
Current assets				
Inventories		2,262	1,795	456
Trade and other receivables	8	156,924	118,048	29,994
Current income tax receivables		38	12	3
Prepaid expenses		10,876	37,658	9,568
Financial assets at fair value through profit and loss		63,059	63,946	16,248
Cash and cash equivalents		197,387	228,957	58,174
		430,546	**450,416**	**114,443**
Assets classified as held for sale	9	-	2,329	592
Total current assets		**430,546**	**452,745**	**115,035**
Total assets		**2,627,035**	**2,588,619**	**657,727**

Wojciech Madalski
President of the Company
Chief Executive Officer

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Piotr Czapski
Member of the Management Board

Paul Kearney
Member of the Management Board

Paweł Karłowski
Member of the Management Board

Tom Ruhan
Member of the Management Board

Warsaw, Poland
May 15, 2006

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	March 31, 2006 (PLN)	Convenience Translation March 31, 2006 (EUR)
EQUITY				
Share capital		408,615	414,225	105,248
Treasury shares		(122,806)	(122,806)	(31,203)
Supplementary capital		1,939,572	1,924,837	489,071
Other reserves		1,758	3,273	832
Retained earnings		126,502	84,879	21,566
Total capital and reserves attributable to the Company's equity holders	10	**2,353,641**	**2,304,408**	**585,514**
Minority interest		6,349	6,492	1,650
Total equity		**2,359,990**	**2,310,900**	**587,164**
LIABILITIES				
Non-current liabilities				
Long term liabilities for licenses	5	14,000	13,091	3,326
Provisions		1,231	1,084	275
Other long term liabilities		741	676	172
Total non-current liabilities		**15,972**	**14,851**	**3,773**
Current liabilities				
Short term liabilities for licenses	5	43,413	47,133	11,976
Trade and other payables	11	193,957	193,421	49,144
Current income tax liabilities		-	2	1
Provisions		2,969	2,709	688
Deferred income		10,734	19,603	4,981
Total current liabilities		**251,073**	**262,868**	**66,790**
Total liabilities		**267,045**	**277,719**	**70,563**
Total equity and liabilities		**2,627,035**	**2,588,619**	**657,727**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005	Three-month period ended March 31, 2005	Three-month period ended March 31, 2006	Convenience Translation Three-month period ended March 31, 2006
		(PLN)	(PLN)	(PLN)	(EUR)
Telecommunication services revenue	13	898,694	214,250	216,073	54,901
Radio communication services revenue		9,931	2,444	2,299	584
Total revenue		**908,625**	**216,694**	**218,372**	**55,485**
Interconnection charges		(191,322)	(41,520)	(56,119)	(14,259)
Salaries and benefits		(115,210)	(28,624)	(28,803)	(7,318)
Social security costs		(17,454)	(5,716)	(5,534)	(1,406)
Professional services		(14,244)	(2,942)	(8,037)	(2,042)
Insurance		(6,382)	(1,503)	(1,726)	(439)
Taxes and fees		(47,727)	(11,467)	(13,145)	(3,340)
Advertising and promotion expenses		(27,422)	(4,025)	(4,223)	(1,073)
Cost of rented lines and network maintenance		(75,632)	(16,183)	(17,843)	(4,534)
Depreciation of fixed assets		(199,985)	(48,995)	(52,363)	(13,304)
Amortization of intangible assets		(48,472)	(11,769)	(12,239)	(3,110)
Impairment charges for non-current assets	4, 9	-	-	(5,733)	(1,457)
Reversal of impairment charges	4	2,289	-	329	84
Other gains/(losses), net	14, 18	2,780	(246)	(598)	(152)
Other income	15	11,447	331	1,244	316
Other expenses	16	(90,982)	(19,138)	(19,425)	(4,937)
Operating profit / (loss)		**90,309**	**24,897**	**(5,843)**	**(1,486)**
Finance income	17, 18	15,453	4,662	3,077	782
Finance costs	17	(7,205)	(1,704)	(1,713)	(435)
Share of losses of associates	6	(3,073)	-	(3,077)	(782)
Profit / (Loss) before income tax		**95,484**	**27,855**	**(7,556)**	**(1,921)**
Income tax charge	12	(35,294)	(4,550)	(3,082)	(783)
Profit / (Loss)		**60,190**	**23,305**	**(10,638)**	**(2,704)**
Attributable to:					
Equity holders of the Company		59,027	23,113	(10,781)	(2,740)
Minority interest		1,163	192	143	36
		60,190	**23,305**	**(10,638)**	**(2,704)**
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	19	**0.16**	**0.06**	**(0.03)**	**(0.01)**
Diluted earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	19	**0.15**	**0.06**	**(0.03)**	**(0.01)**

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
(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 December 31, 2004 (Restated)		**366,956**	**(2,812)**	**1,605,357**	**203,565**	**1,892**	**110,474**	**5,186**	**2,290,618**
Change in accounting policy for negative goodwill		-	-	-	-	-	77,657	-	**77,657**
Balance as at January 1, 2005 (Restated)		**366,956**	**(2,812)**	**1,605,357**	**203,565**	**1,892**	**188,131**	**5,186**	**2,368,275**
Issuance of series J shares		6,554	-	10,028	-	-	-	-	16,582
Cost of issuance of series J shares		-	-	(67)	-	-	-	-	(67)
Issuance of series I shares		5,876	-	485	-	-	-	-	6,361
Cost of issuance of series I shares		-	-	(1,337)	-	-	-	-	(1,337)
Employee share option scheme:									
- value of services provided		-	-	-	-	388	-	-	388
- issuance of series K shares		163	-	-	-	-	-	-	163
Appropriation of Netia's 2004 net profit:									
- dividend		-	-	-	-	-	(38,710)	-	(38,710)
- transfer to other supplementary capital		-	-	-	81,946	-	(81,946)	-	-
Profit		-	-	-	-	-	23,113	192	23,305
Balance as at March 31, 2005		**379,549**	**(2,812)**	**1,614,466**	**285,511**	**2,280**	**90,588**	**5,378**	**2,374,960**

	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 December 31, 2005		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Issuance of series J shares	10	4,557	-	6,972	-	-	-	-	11,529
Cost of issuance*		-	-	(15)	-	-	-	-	(15)
Employee share option scheme:									
- value of services provided	10	-	-	-	-	186	-	-	186
- issuance of series K shares	10	1,053	-	601	-	(1,483)	-	-	171
Transfer from other supplementary capital	10	-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend	10	-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital	10	-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital	10	-	-	-	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**

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

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED CASH FLOW STATEMENT
(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005	Three-month period ended March 31, 2005	Three-month period ended March 31, 2006	Convenience Translation Three-month period ended March 31, 2006
		(PLN)	(PLN)	(PLN)	(EUR)
Cash flows from operating activities:					
Profit / (loss)		**60,190**	**23,305**	**(10,638)**	**(2,704)**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation of fixed assets and amortization of licenses and other intangible assets		248,457	60,764	64,602	16,414
Impairment charges for non-current assets	4	-	-	5,733	1,457
Reversal of impairment charges	4	(2,289)	-	(329)	(84)
Share of losses of associates	6	3,073	-	3,077	782
Deferred income tax charge	12	34,720	4,395	3,003	763
Interest expense accrued on license liabilities		6,495	1,531	1,641	417
Interest accrued on loans		(351)	-	-	-
Share-based compensation		3,395	551	357	91
Fair value gains on financial assets at fair value through profit and loss		(2,631)	(751)	(671)	(170)
Other provisions		-	74	-	-
Decrease/(increase) in long term assets		(573)	594	323	82
Foreign exchange (gains) / losses		(4,153)	(971)	782	199
Profit on sale of fixed assets		(345)	-	(424)	(108)
Gain on sale of subsidiaries and other investments		(11)	-	(20)	(5)
Changes in working capital		(7,847)	3,657	14,183	3,604
Net cash provided by operating activities		**338,130**	**93,149**	**81,619**	**20,738**
Cash flows used in investing activities:					
Purchase of fixed assets and computer software		(146,102)	(50,030)	(56,522)	(14,361)
Proceeds from sale of fixed assets		2,077	-	889	226
Investment in associate		(109,465)	-	(6,000)	(1,525)
Purchase of subsidiary, net of received cash		5,051	-	-	-
Sale of subsidiaries, net of cash in subsidiaries		260	-	25	6
Sale of financial assets at fair value through profit and loss		5,160	-	-	-
Loans granted		(24,899)	-	-	-
Loans repaid		1,002	-	-	-
Interest repaid		32	-	-	-
Payments for licenses		(24,250)	(4,050)	-	-
Net cash used in investing activities		**(291,134)**	**(54,080)**	**(61,608)**	**(15,654)**
Net cash used in financing activities:					
Proceeds from share issuance		82,364	16,582	11,463	2,913
Cost of share issuance		(1,916)	(1,404)	(15)	(4)
Dividend paid to the Company's shareholders		(38,710)	-	-	-
Repurchase of shares and warrants		(123,052)	-	-	-
Repayment of installment obligations		(5,511)	-	-	-
Finance lease payments		-	-	(49)	(12)
Redemption of notes for warrants		(31)	(1)	(10)	(3)
Net cash provided by financing activities		**(86,856)**	**15,177**	**11,389**	**2,894**
Effect of exchange rate change on cash and cash equivalents		**1,310**	**970**	**170**	**43**
Net change in cash and cash equivalents		**(38,550)**	**55,216**	**31,570**	**8,021**
Cash and cash equivalents at beginning of period		235,937	235,937	197,387	50,153
Cash and cash equivalents at end of period		**197,387**	**291,153**	**228,957**	**58,174**

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

1. The Company and the Netia Group

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its principal executive office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The Company and its subsidiaries (collectively, the "Netia Group") is the largest independent fixed-line telecommunication operator in Poland. The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its 58.2% owned subsidiary, UNI-Net Sp. z o.o. ("UNI-Net").

The interim condensed consolidated financial statements of Netia S.A. for the three-month period ended March 31, 2006 comprise the Company and its subsidiaries.

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 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 the intelligent network (free phone, split charge and premium rate services) and provides a broadband Internet access in 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 Note 24), was announced the winner of the UMTS tender, organized by the Polish regulator.

In addition, on October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. ("Netia WiMax") and Netia WiMax II S.A. ("Netia WiMax II"), received the reservation of the 3.6-3.8 GHz frequencies. The Company plans to use the frequencies to provide telecommunication services based on WiMAX technology. The WiMAX based access network will be used to provide high quality data and voice transmission. The new WiMAX network will interconnect with Netia's fiber-optic backbone infrastructure and integrate seamlessly with its existing access network.

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.

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 (uniform text, 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 (the "accounting standards as adopted by the EU"). As of March 31, 2006 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". These interim condensed consolidated financial statements have been prepared in accordance with those accounting standards as adopted by the EU issued and effective as at the time of preparing these statements. 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, 2005, except for new accounting standards adopted as of January 1, 2006.

The preparation of financial statements in conformity with accounting standards 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 license liabilities, fixed assets and deferred tax.

The Company's or the Netia Group's activities are not subject to any significant seasonal or cyclical trends of operations.

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.

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.

All Euro amounts shown as supplementary information in the accompanying 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, 2006 of PLN 3.9357 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.

Assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction than through continuing use.

Reclassifications of comparatives

As at March 31, 2006 the Netia Group had funds of PLN 63,946 deposited in money market investment funds. Following detailed analysis of liquidity and risks connected with these financial assets, performed in the three-month period ended March 31, 2006, the Company's management decided to no longer classify these financial assets as cash equivalents. As at March 31, 2006 these financial assets are presented as a separate balance sheet item – financial assets at fair value through profit and loss. The comparative amount of PLN 63,059 presented in these interim condensed consolidated financial statements has been reclassified to conform to the presentation for the three-month period ended March 31, 2006. The relevant changes have also been made to the consolidated cash flow statement.

Changes in accounting policies

In 2006, the Netia Group adopted the standards and amendments to existing standards below, which are relevant to its operations:

- IFRIC 4 "Determining whether an Arrangement Contains a Lease"
- IFRIC 6 "Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment"
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement. The fair value option."
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement. Cash Flow Hedge Accounting of Forecast Intragroup Transactions."

The adoption of the interpretations and amendments to existing standards listed above did not have a significant impact on these interim condensed consolidated financial statements.

The Netia Group is not affected by standard IFRS 6 "Exploration and Evaluation of Mineral Resources" and interpretations IFRIC 5 "Rights to Interests arising from the Decommissioning, Restoration and Environmental Rehabilitation Funds" and IFRIC 7 "Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies".

Standards and amendments to published standards that are not yet effective

The following new standards and amendments to existing standards have been published that are mandatory for accounting periods beginning on or after January 1, 2007, but which the Netia Group has not elected to adopt early:

- IFRS 7 "Financial Instruments: Disclosures",
- Amendment to IAS 1 "Presentation of Financial Statements – Capital Disclosures".

Current financial condition

As at March 31, 2006, the equity amounted to PLN 2,310,900 and the Netia Group had working capital of PLN 189,877. In 2003 the financial restructuring and the cancellation of local license fee obligations of Netia were completed. The Management of the Company has an expectation that the outstanding local license fee obligations of Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net") may be cancelled in accordance with the applicable law. For further details on the current situation and the Company's plans in this respect, see Notes 5 and 24. In 2004, 2005 and the three-month period ended March 31, 2006 the Netia Group generated positive cash flows from operating activities. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

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

During the three-month period ended March 31, 2006 the Company recorded the professional fees of PLN 3,890 relating to investment bank advisory services obtained during the public tender offer to purchase Netia shares carried out by Novator Telecom Poland II S.a.r.l. in December 2005 and January 2006.

Furthermore, the Company recorded an impairment charge for non-current assets of PLN 5,733 in total, resulting from the replacement of telecommunications equipment and switching systems (see Note 4) and valuation of certain fixed assets classified as held for sale (see Note 9).

4. Property, plant and equipment

Current period:

Gross book value	December 31, 2005 (PLN)	Additions (PLN)	Transfers (PLN)	Disposals and other movements (PLN)	March 31, 2006 (PLN)
Buildings	73,272	-	54	(960)	72,366
Land	17,684	-	-	(1,363)	16,321
Transmission network	1,855,368	-	4,205	(3,394)	1,856,179
Switching system	1,488,393	-	15,771	(5,075)	1,499,089
Machinery and equipment	82,439	-	502	5,706	88,647
Office furniture and equipment	138,948	-	4,626	(1,558)	142,016
Vehicles	17,369	-	178	(4,724)	12,823
	3,673,473	-	25,336	(11,368)	3,687,441
Fixed assets under construction	72,855	12,706	(27,592)	(1,226)	56,743
	3,746,328	**12,706**	**(2,256)**	**(12,594)**	**3,744,184**

Accumulated depreciation	December 31, 2005 (PLN)	Depreciation expense (PLN)	Disposals and other movements (PLN)	March 31, 2006 (PLN)
Buildings	17,645	762	(129)	18,278
Transmission network	511,946	18,899	(588)	530,257
Switching system	473,690	28,038	(1,337)	500,391
Machinery and equipment	49,268	1,319	1,442	52,029
Office furniture and equipment	110,087	2,874	(1,559)	111,402
Vehicles	8,420	471	(4,170)	4,721
	1,171,056	**52,363**	**(6,341)**	**1,217,078**

Accumulated impairment	December 31, 2005 (PLN)	Impairment charge (PLN)	Disposals and other movements (PLN)	March 31, 2006 (PLN)
Buildings	14,481	-	2	14,483
Land	4,821	-	(379)	4,442
Transmission network	491,023	1	(748)	490,276
Switching system	274,558	4,749	(1,064)	278,243
Machinery and equipment	9,898	10	1,311	11,219
Office furniture and equipment	10,667	-	(28)	10,639
Vehicles	874	-	(426)	448
	806,322	4,760	(1,332)	809,750
Fixed assets under construction	2,039	-	(315)	1,724
	808,361	**4,760**	**(1,647)**	**811,474**

(All amounts in thousands, except as otherwise stated)

Net book value	**December 31, 2005**	**March 31, 2006**
	(PLN)	**(PLN)**
Buildings	41,146	39,605
Land	12,863	11,879
Transmission network	852,399	835,646
Switching system	740,145	720,455
Machinery and equipment	23,273	25,399
Office furniture and equipment	18,194	19,975
Vehicles	8,075	7,654
	1,696,095	1,660,613
Fixed assets under construction	70,816	55,019
	1,766,911	**1,715,632**

The impairment charge for specific assets recorded in the three-month period ended March 31, 2006 amounting to PLN 4,760 relates to telecommunication equipment and switching systems due to their replacement.

The reversal of impairment of fixed assets under construction in the amount of PLN 270 (net of VAT) recorded in the three-month period ended March 31, 2006, relates to those fixed assets, which the Company began to use in its operations.

The transfers recorded in the three-month period ended March 31, 2006 mainly relate to transfers from fixed assets under construction to fixed assets due to the completion of construction. Additionally, transfers between switching system and machinery and equipment were made due to reclassifications of selected computer based equipment.

Furthermore, during the three-month period ended March 31, 2006 the Company reclassified certain non-current assets (land and buildings) at the total net book value of PLN 3,302, to assets held for sale (see Note 9).

Comparative period:

Gross book value	**December 31, 2004**	**Additions**	**Transfers**	**Disposals and other movements**	**March 31, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	74,116	-	14	(499)	73,631
Land	17,422	-	-	-	17,422
Transmission network	1,825,950	-	3,199	(52)	1,829,097
Switching system	1,398,748	-	2,442	(1,954)	1,399,236
Machinery and equipment	77,362	36	88	64	77,550
Office furniture and equipment	129,186	-	3,785	194	133,165
Vehicles	12,181	-	-	(130)	12,051
	3,534,965	36	9,528	(2,377)	3,542,152
Fixed assets under construction	86,222	14,138	1,019	61	101,440
	3,621,187	**14,174**	**10,547**	**(2,316)**	**3,643,592**

Accumulated depreciation	**December 31, 2004**	**Depreciation expense**	**Disposals and other movements**	**March 31, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	15,006	764	(125)	15,645
Transmission network	437,711	18,625	(612)	455,724
Switching system	378,345	24,463	310	403,118
Machinery and equipment	43,498	1,338	55	44,891
Office furniture and equipment	97,401	3,427	1,031	101,859
Vehicles	8,834	378	(38)	9,174
	980,795	**48,995**	**621**	**1,030,411**

(All amounts in thousands, except as otherwise stated)

Accumulated impairment	**December 31, 2004**	**Transfers**	**Disposals and other movements**	**March 31, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	14,633	-	75	14,708
Land	4,821	-	-	4,821
Transmission network	490,220	25	569	490,814
Switching system	283,680	-	(113)	283,567
Machinery and equipment	9,445	-	9	9,454
Office furniture and equipment	11,621	-	(867)	10,754
Vehicles	1,095	-	(84)	1,011
	815,515	25	(411)	815,129
Fixed assets under construction	7,721	(63)	64	7,722
	823,236	**(38)**	**(347)**	**822,851**

Net book value	**December 31, 2004**	**March 31, 2005**
	(PLN)	**(PLN)**
Buildings	44,477	43,278
Land	12,601	12,601
Transmission network	898,019	882,559
Switching system	736,723	712,551
Machinery and equipment	24,419	23,205
Office furniture and equipment	20,164	20,552
Vehicles	2,252	1,866
	1,738,655	1,696,612
Network under construction	78,501	93,718
	1,817,156	**1,790,330**

5. Licenses

El-Net license fee liabilities

El-Net, the subsidiary acquired in 2004, obtained licenses from the Ministry of Communications for the provision of local telephone services in areas including Warsaw, Bydgoszcz and smaller cities in the northern part of Poland. As of January 1, 2001, pursuant to the 2001 Act, all telephone licenses were converted by virtue of law into telecommunication permits. At that date the total nominal value of outstanding license fee obligations of El-Net was EUR 104,624 (PLN 411,769 at the exchange rate prevailing on March 31, 2006) increased by prolongation fees of PLN 37,733.

On December 30, 2002, El-Net submitted applications for cancellation of certain outstanding local license fee obligations in accordance with the applicable law enacted in 2002. Following its purchase by the Netia Group, El-Net filed an amendment to the previous application asking for cancellation of license fee obligations of EUR 75,690 (PLN 297,893 at the exchange rate prevailing March 31, 2006) and related prolongation fees of PLN 37,733, based on capital expenditure incurred between 2001 and 2003 as well as future capital expenditure to be incurred until the end of 2006 within the Netia Group. On August 16, 2004 El-Net received a decision of the Minister of Infrastructure dated July 12, 2004 granting the promise to cancel the outstanding license fees obligations, amounting to EUR 75,690 and prolongation fees amounting to PLN 37,733. The above cancellation shall occur upon the verification of capital expenditure incurred in accordance with the applicable law. The Minister of Infrastructure also decided that this cancellation could apply to El-Net's capital expenditure incurred from January 1, 2001 until December 30, 2006, upon the assumption that capital expenditure already incurred by El-Net in 2001-2003 amounted to PLN 85,459. Pursuant to this decision all license fee payments and prolongation fees subject to the decision have been deferred until December 30, 2006.

Furthermore, on October 29, 2004, El-Net filed an application for cancellation of the remaining license fee installments payable in 2010 and 2011 amounting to a nominal value of EUR 28,934 (PLN 113,876 at the exchange rate prevailing on March 31, 2006). El-Net declared that it would cover these obligations by capital expenditure to be incurred in 2007-2008. On April 3, 2006 El-Net, received a decision granting the promise to cancel these obligations (see Note 25).

On March 22, 2006, El-Net received the decision of the Polish Minister of Transportation and Construction (a successor of the Minister of Infrastructure), dated March 21, 2006, canceling part of outstanding local license fee obligations and the prolongation fees owed in connection with the prior deferrals of the license fee installments, in exchange for expenditure on the telecommunications infrastructure incurred in years 2001, 2002 and 2003. The total nominal value of the local license fees cancelled was EUR 20,940 (PLN 81,597 at the exchange rate prevailing on March 21, 2006) and the total nominal value of prolongation fees cancelled was PLN 8,566.

As at March 31, 2006 the outstanding liabilities continued to be recorded at amortized cost. At the acquisition of El-Net they were recorded at fair value based on the assessment performed in 2004 by the Management, which took into account the probability of future payments of license fee liabilities. According to this assessment, there was a 100% probability of cancellation in relation to the capital expenditure incurred between 2001 and 2003 for which the relevant cancellation has been received. Thus the decision of the Minister of Transportation and Construction relating to the partial cancellation of the license fee liabilities has not affected the consolidated balance sheet and consolidated income statement. The only change in the value of licence fee liabilities as compared to December 31, 2005 relates to interest accrued and foreign exchange differences as presented below:

	(EUR)	(PLN)
Carrying value as at December 31, 2005	**14,875**	**57,413**
Interest accrued in the period ended March 31, 2006	427	1,641
Foreign exchange losses on the translation of EUR balances	-	1,170
Carrying value as at March 31, 2006	**15,302**	**60,224**
out of which:		
Non-current liabilities	3,326	13,091
Current liabilities	11,976	47,133

6. Investments in associates

The Netia Group has a 30% interest in P4 (until August 23, 2005 the Company's subsidiary), which was announced a winner of the mobile telephony UMTS frequency tender in May 2005.

The following table summarises financial information of the associate:

	December 31, 2005 (PLN)	March 31, 2006 (PLN)
Assets	354,337	369,459
Liabilities	5,618	10,996

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Loss for the period	(10,326)	(10,256)

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

	Four-month period ended December 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
At the beginning of the period	-	105,633
Investment in the associate	108,706	6,000
Unrealized profits on transaction with associate (see Note 7)	-	(8)
Share of loss	(3,073)	(3,077)
At the end of the period	**105,633**	**108,548**

Following the provisions of the P4's Shareholders' Agreement (see Note 24), during the three-month period ended March 31, 2006 the Company and Novator Telecom Poland S.a.r.l. ("Novator") contributed PLN 6,000 and PLN 14,000 in the P4's share capital. The increase of share capital was registered on April 4, 2006. As a result, the Company is the holder of 10,350 (not in thousands) P4's shares constituting 30% of the shares in the P4's share capital. Consequently, Novator is the holder of 24,150 (not in thousands) P4's shares constituting 70% of the shares in the 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.

7. Sale of investments

On March 30, 2006 Netia transferred to P4 ownership of 100 (not in thousands) shares of Netia Ventures Sp. z o.o. ("Netia Ventures"), with a total nominal value of PLN 50, representing 100% of its share capital, for a total price of PLN 75. The profit on the disposal of Netia Ventures' shares, recognized in the interim condensed consolidated financial statements, amounted to PLN 20.

8. Trade and other receivables

	December 31, 2005 (PLN)	March 31, 2006 (PLN)
Trade receivables	227,639	176,716
Less provision for impairment of trade receivables	(82,582)	(69,662)
Trade receivables, net	145,057	107,054
Trade receivables from an associate	2,051	608
VAT and other government receivables	7,226	7,916
Other receivables	3,260	3,190
Less provision for impairment of other receivables	(670)	(720)
Other receivables, net	2,590	2,470
Short-term loans	13,070	13,064
Accrued interest	42,909	44,965
Less provision for impairment of short-term loans and accrued interest	(55,979)	(58,029)
Short-term loans, net	-	-
	156,924	**118,048**

9. Assets classified as held for sale

	Three-month period ended March 31, 2006
At the beginning of the period	-
Net book value of reclassified land	984
Net book value of reclassified buildings	2,318
Impairment charge	(973)
At the end of the period	**2,329**

Due to the Management decision relating to the disposal of certain non-current assets (land and buildings), in the three-month period ended March 31, 2006, the Company reclassified those assets to assets held for sale. The sales transactions are expected to be completed within 12 months.

10. Shareholders' equity

Shareholders' Rights (number of shares not in thousands)

At December 31, 2005, the Company's share capital consisted of 408,613,873 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.

In May 2003, the Company issued 64,848,442 warrants to the pre-restructuring shareholders of the Company. On April 29, 2005, 1,361,947 two-year subscription warrants expired. In the three-month period ended March 31, 2006 4,557,044 of the warrants were exercised and the Company's share capital was accordingly increased by 4,557,044 series J shares. The issue price was PLN 2.53 per share. From the issuance date of warrants, the total number of series J shares issued at the exercise of warrants through March 31, 2006 was 59,358,721.

The Company also plans to issue up to 18,373,785 ordinary series K shares under a key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"). In the three-month period ended March 31, 2006 the Company issued 1,052,691 ordinary series K shares due to the exercise by certain persons of their rights arising from the Plan. The total nominal value of series K shares issued through March 31, 2006 was PLN 4,945.

As a result at March 31, 2006 the Company's share capital consisted of 414,223,608 ordinary shares and of 1,000 series A1 shares (par value of PLN 1 per share). All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these interim condensed consolidated financial statements.

As at March 31, 2006 Netia Group held 28,162,110 own treasury shares, which were redeemed in accordance with resolutions of the Company's General Shareholders' meeting (the "Shareholders Meeting") held on March 29, 2006. The redemption is effective as of the day of the registration of the share capital decrease, i.e. as of April 19, 2006 (see Note 25).

Other supplementary capital

As at December 31, 2005 other supplementary capital amounted to PLN 285,505. The Shareholders Meeting held on March 29, 2006, resolved to transfer from the other supplementary capital the amount of PLN 42,605 to cover the accumulated deficit of Netia S.A., which resulted from the adoption of accounting standards as adopted by the EU, as of January 1, 2005. Furthermore, the Shareholders Meeting resolved to distribute the net profit of Netia S.A. for the year ended December 31, 2005 amounting to PLN 73,447 as follows: transfer the amount of PLN 2,812 to the Company's special reserve capital (in connection with the purchase of own shares series C and E), approved the dividend of PLN 0.13 (not in thousands) per share and transfer the remaining 2005 profit, in the amount of PLN 20,312, to other supplementary capital.

Stock options (number of options not in thousands)

In the three-month period ended March 31, 2006 the following changes took place in the number of options granted under the Plan:

	Year ended December 31, 2005		**Three-month period ended March 31, 2006**	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	2.65	7,206,097	3.06	2,776,650
Granted	3.56	2,698,125	-	-
Forfeited / expired	3.77	(1,389,272)	-	-
Exercised	2.60	(5,738,300)	2.59	(1,817,188)
At the end of the period	**3.06**	**2,776,650**	**3.94**	**959,462**

Furthermore, as at March 31, 2006 the total number of options approved for issue by the Supervisory Board was 14,567,347. There were no vested options as at March 31, 2006. The vesting period for the options is up to three years from the date of grant or upon achieving certain specified market conditions. The options are exercisable until December 20, 2007.

Due to the exercise of 1,817,188 options, in the three-month period ended March 31, 2006, the Company issued 1,052,691 series K shares, at the nominal value of PLN 1 each. The share price at the date of exercise was PLN 6.15 per share.

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 period ended March 31, 2006 amounted to PLN 186.

(All amounts in thousands, except as otherwise stated)

11. Trade and other payables

	December 31, 2005 (PLN)	March 31, 2006 (PLN)
Trade payables	56,662	23,536
Investment payables	74,477	24,823
Dividend	-	50,323
VAT and other taxes	10,408	50,801
Accruals and other	52,410	43,938
	193,957	**193,421**

12. Corporate income tax

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Current tax	(574)	(155)	(79)
Deferred income tax charge, net	(34,720)	(4,395)	(3,003)
Income tax charge	**(35,294)**	**(4,550)**	**(3,082)**

Current tax

The tax on the Netia Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated companies as follows:

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Profit before tax	95,484	(7,556)
Tax calculated at tax rates applicable to profit	18,142	(1,436)
Income not subject to tax	(4,669)	(6,614)
Expenses not deductible for tax purposes	17,871	10,412
Expenses deductible for tax purposes in previous periods	-	739
Utilization of previously unrecognized tax losses	(24,879)	(2,761)
Tax losses for which no deferred income tax asset was recognized	4,334	1,403
Reassessment of tax bases of assets and liabilities	28,009	1,339
Recognition of previously unrecognized deferred tax asset (opening balances)	(3,514)	-
Income tax charge	**35,294**	**3,082**

The corporate income tax rate applicable to the Company and its subsidiaries for 2005 and onwards – 19%.

The reassessment of tax bases of assets and liabilities is related to de-recognition of deferred tax assets previously recognized in connection with deductible temporary differences in the Company's subsidiary Świat Internet S.A. This was caused by change of plans in relation to internal merger of Netia Group companies including Świat Internet.

The main titles of income not subject to tax and expenses not deductible for tax purposes areshare of losses of an associate, amortization of license assets and interest and foreign exchange differences related to license fee liabilities.

Deferred tax

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

(All amounts in thousands, except as otherwise stated)

The Management assessment considered that entities in the Netia Group expect that future taxable profits will be generated based on the 2006 budget and business plan covering the period up to 2008. For temporary differences, which reverse beyond 2008, no deferred tax asset was recognized. Management's assessment also considered factors such as: the stability and trend of past earnings; the nature of the business and industry; the economic environment in which the Netia Group is located; and the stability of the legislation to which the companies in the Netia Group are subject. Based on the above assumptions, the recognized deferred tax assets as at March 31, 2006 amounted to PLN 11,179.

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

	December 31, 2005 (PLN)	March 31, 2006 (PLN)
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	(20,098)	(8,749)
- Deferred tax assets to be recovered within 12 months	(19,453)	(22,488)
	(39,551)	(31,237)
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	5,478	2,348
- Deferred tax liabilities to be recovered within 12 months	19,891	17,710
	25,369	20,058
	(14,182)	**(11,179)**

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable, based on the Netia Group business plan covering the period to December 31, 2008. As of March 31, 2006, the Netia Group had total deductible temporary differences of PLN 494,916 and unutilized tax loss carry-forwards of PLN 435,549 (total potential deferred tax asset of PLN 176,788).

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

13. Telecommunication services revenue

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Direct voice services	485,482	129,445	109,027
Monthly fees	142,824	35,736	35,470
Calling charges	342,658	93,709	73,557
Local calls	*108,548*	*30,688*	*22,437*
Domestic long distance calls	*65,658*	*18,085*	*13,966*
International long distance calls	*34,693*	*10,835*	*7,244*
Fixed-to-mobile	*114,692*	*28,381*	*26,234*
Other	*19,067*	*5,720*	*3,676*
Indirect voice	78,919	22,283	13,866
Data	128,258	28,617	35,199
Interconnection revenue	80,264	11,352	10,859
Wholesale services	97,867	15,299	40,990
Intelligent network services	19,960	5,152	4,257
Other telecommunication revenue	7,944	2,102	1,875
	898,694	**214,250**	**216,073**

(All amounts in thousands, except as otherwise stated)

14. Other gains/(losses), net

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Gain on sale of subsidiaries and other investments	11	-	20
Gain on sale of impaired receivables	-	-	676
Net foreign exchange gains	2,769	(246)	(1,294)
	2,780	**(246)**	**(598)**

15. Other income

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Forgiveness of liabilities	4,357	-	-
Sale of services to associate	1,696	-	182
Reversal of accrued other income on sale of services to associate (see Note 23)	-	-	(303)
Profit on sale of fixed assets	345	-	424
Other operating income	5,049	331	941
	11,447	**331**	**1,244**

16. Other expenses

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Information technology services	15,975	3,515	4,190
External services	15,703	3,454	4,633
Provision for impaired receivables	17,514	2,584	1,930
Office and car maintenance	10,929	2,337	2,349
Materials and energy	8,699	1,900	2,240
Mailing services	6,709	1,675	1,531
Travel and accommodation	4,977	1,078	1,118
Other operating costs	10,476	2,595	1,434
	90,982	**19,138**	**19,425**

17. Finance income and finance costs

Finance income

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Interest income	12,320	3,317	2,018
Gain on fair value adjustment of financial assets	2,436	690	615
Net foreign exchange gains	502	595	389
Other finance income	195	60	55
	15,453	**4,662**	**3,077**

Finance costs

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Interest expense	(6,851)	(1,620)	(1,713)
Net foreign exchange losses	(354)	(84)	-
	(7,205)	**(1,704)**	**(1,713)**

18. Net foreign exchange gains/(losses)

The exchange differences credited/(charged) to the income statement are included as follows:

	Year ended December 31, 2005 (PLN)	Three-month period ended March 31, 2005 (PLN)	Three-month period ended March 31, 2006 (PLN)
Other gains/(losses), net	2,769	(246)	(1,294)
Finance income	502	595	389
Finance costs	(354)	(84)	-
	2,917	**265**	**(905)**

19. Earnings per share

Basic

Basic earnings per share have been calculated based on the net profit attributable to the equity holders of the Company for each period divided by the weighted average number of shares in issue during the year. The weighted average number of ordinary shares in issue (not in thousands) excludes 468,648 treasury shares in each of the periods presented. Additionally, in the three-month period ended March 31, 2006 and in the year ended December 31, 2005, the weighted average number of ordinary shares excludes 27,693,462 and 12,889,141, respectively, of weighted average number of own shares repurchased within the share and subscription warrant buy-back program completed in 2005.

	Year ended December 31, 2005	Three-month period ended March 31, 2005	Three-month period ended March 31, 2006
Profit / (loss) attributable to the equity holders of the Company	59,027	23,113	(10,781)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	372,089,141	384,523,533
Basic earnings per share (not in thousands)	0.16	0.06	(0.03)

Diluted

Diluted earnings per share (for profit/(loss) attributable to the equity holders of the Company) is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: warrants (which upon their exercise trigger the issue of the series J shares) and the employees' share options (which upon their exercise trigger the issue of the series K shares). For the share options and warrants a calculation is done to determine the number of shares that could have been acquired at fair value based on the monetary value of the subscription rights attached to the outstanding share options and warrants. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Year ended December 31, 2005	Three-month period ended March 31, 2005	Three-month period ended March 31, 2006
Profit / (loss) attributable to the equity holders of the Company	59,027	23,113	(10,781)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	372,089,141	384,523,533
Adjustments for:			
- Share options	3,401,532	2,984,533	831,417
- Warrants	10,283,419	15,902,820	2,602,702
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	391,090,055	390,976,494	387,957,652
Diluted earnings per share (not in thousands)	0.15	0.06	(0.03)

20. Dividends per share

The Company's Shareholder's Meeting held on March 29, 2006, approved the 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 will be paid on May 16, 2006 to shareholders of record as at April 20, 2006.

21. Cash generated from operations

Supplemental disclosures to operating activities:

	Year ended December 31, 2005	Three-month period ended March 31, 2005	Three-month period ended March 31, 2006
	(PLN)	(PLN)	(PLN)
Income taxes paid	592	113	57
Interest received	(12,503)	(3,140)	(1,770)

Non-cash transactions:

During the three-month period ended March 31, 2006 the principal non-cash transactions were issuances of 1,052,691 (not in thousands) ordinary series K shares due to exercise of options granted under the Plan.

22. Changes in the Management Board and Supervisory Board

Changes in the Management Board

Effective March 1, 2006 Mr. Paweł Karłowski was appointed as Member of the Management Board and Chief Commercial Officer.

Changes in the Supervisory Board

Effective January 5, 2006 Mr. Nicholas Cournoyer, Chairman of the Company's Supervisory Board, resigned from the position of Member and Chairman of the Company's Supervisory Board.

On January 9, 2006 the Supervisory Board appointed Mr. Hubert Janiszewski, Netia's Supervisory Board member, for the position of Chairman of the Company's Supervisory Board. On March 29, 2006, the Company's Shareholder's Meeting dismissed Mr. Hubert Janiszewski as Chairman and member of Netia's Supervisory Board.

Effective January 15, 2006 Mr. Richard Moon, a Member of Netia's Supervisory Board, resigned from his position.

Effective March 29, 2006 Mr. Mark Holdsworth, a Member of Netia's Supervisory Board, resigned from his position.

On March 29, 2006, the Company's Shareholder's Meeting appointed Mr. Raimondo Eggink, Mr. Bruce McInroy, Mr. Constantine Gonticas and Mr. Pantelis Tzortzakis to Netia's Supervisory Board.

23. Related party transactions

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

As at March 31, 2006, the total number of options granted to members of the Company's Management Board under the Plan, was 906,047 and none of them had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.12 to 4.44 per share. The market price of the Company's shares at March 31, 2006 was PLN 4.83 per share.

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

Options	**December 31, 2005**	**March 31, 2006**
At the beginning of the period	5,526,888	1,812,094
Granted	1,721,489	-
Status changed due to resignation from Management Board	(1,087,256)	-
Exercised	(4,349,027)	(906,047)
At the end of the period	**1,812,094**	**906,047**

Management Board remuneration

Compensation and related costs associated with current members of the Company's Management Boards during the three-month periods ended March 31, 2006 and March 31, 2005 amounted to PLN 2,223 and PLN 1,745, respectively. These amounts include PLN 180 and PLN 145, respectively of share-based payments.

Supervisory Board remuneration

Compensation and related costs associated with current members of the Company's Supervisory Boards during the three-month periods ended March 31, 2006 and March 31, 2005 amounted to PLN 51 and PLN 120, respectively. Furthermore, the compensation and related costs for the former members of the Supervisory Board of PLN 44 were recognized as a cost in the three-month period ended March 31, 2006.

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

As at March 31, 2006 and December 31, 2005 Mr. Wojciech Mądalski – the Company's President and Chief Executive Officer – held 2,576,607 and 2,043,292, respectively, series K shares of the Company.

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

As at March 31, 2006, 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 the Company's shares has not changed since December 31, 2005.

As at March 31, 2006, Mr. Raimondo Eggink – a member of the Company's Supervisory Board (see Note 22) – held 20,000 shares of the Company.

As at March 31, 2006, Mr. Constantine Gonticas – a member of the Company's Supervisory Board (see Note 22) – held 43,000 shares of the Company.

As at December 31, 2005, Mr. Nicholas Cournoyer – the-then Chairman of the Supervisory Board – held 3,000 series A shares of the Company and 6,000 series J shares of the Company. Due to his resignation from the position of the member of the Supervisory Board his shares are no longer recognized as shares held by members of the Company's Supervisory Board.

Transactions with an associate

The following transactions were carried out with P4 (see also Note 6and 24):

	Three-month period ended March 31, 2006
	(PLN)
Sale of services	245
Reversal of accrued other income on sale of services*	(303)
	(58)

	March 31, 2006
	(PLN)
Trade receivables	608
	608

* 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.

24. Commitments and contingencies

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the interim condensed consolidated financial statements amounted to PLN 20,157 as at March 31, 2006 and PLN 27,366 as at December 31, 2005 of which, PLN 5,546 and PLN 2,327, respectively, related to the planned acquisition of intangible assets.

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 11.4 million at the March 31, 2006 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. 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.

In September 2003, Newman Finance Corp. ("Newman"), Millennium's sole shareholder, filed a claim against the Company for damages of PLN 45.4 million, which is the equivalent of EUR 11.5 million plus interest accrued since the date of filing the claim until the date of payment. This claim was filed for damages incurred when a security was placed over Millennium's shares between January 4, 2000 and November 1, 2002 in connection with litigation concerning Millennium's failure to perform the agreements entered in August and September 2002. On June 8, 2005 the District Court dismissed the claim. The District Court determined that Newman neither proved the damage occurrence nor its magnitude. On July 20, 2005, Newman filed an appeal. The matter is still pending.

On April 5, 2005, Millennium filed a claim against El-Net in connection with the alleged acts of unfair competition of El-Net against Millennium. Millennium sought to prohibit El-Net from submitting offers or other market proposals and conducting any commercial activities in relation to a pool of 30,000 telephone numbers held by El-Net. 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. The matter is still pending.

In May 2005, Millennium filed a motion to secure the claim against Netia in connection with the alleged acts of unfair competition of Netia against Millennium. On August 21, 2005 Millennium filed a motion against Netia in connection with the claim. Netia filed an answer to the claim on September 7, 2005 in which it rejected the claim as wholly groundless and unsubstantiated. 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 the 30,000 telephone numbers by Millennium was not effectively terminated by El-Net. The District Court issued a decision on August 8, 2005, in which the claim was secured by an injunction prohibiting El-Net from submitting offers or other market proposals and conducting any commercial activities in relation to those 30,000 telephone numbers. The motion was delivered to El-Net on August 31, 2005, and was appealed by El-Net on September 5, 2005. 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. 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. At the court hearing held on February 4, 2004, the District Court in Warsaw decided to forward the claim to the Regional Court for the capital city of Warsaw for its determination. At the hearing held on April 21, 2005 the Regional Court returned the claim due to the plaintiff's failure to comply with the legal claim requirements. On May 19,2005, the minority shareholders filed a complaint regarding this return. The matter is still pending.

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

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. Due to that obligation, as of March 31, 2006, Netia Mobile has made contributions to P4’s equity in the amount of PLN 113,700 (of which PLN 6,000 was made in the three-month period ended March 31, 2006) in order to cover the UMTS frequency reservation fee and initial operational expenses.

Furthermore, during a 3-year period of time 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.

Additionally, 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 includes material terms and conditions for commercial cooperation based on which the Company and P4 shall conclude the following commercial agreements: (i) framework commercial agreement, (ii) distribution agreement, (iii) co-development agreement, (iv) IT sharing agreement, (v) fixed telephony supply agreement, (vi) WiMax supply agreement, (vii) interconnection agreement, and (viii) intellectual property sharing agreement. Parties' obligations under the framework commercial agreement and the distribution agreement are secured by the 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.

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge on shares regarding 10,260 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.

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 (beginning 2006), subject to demand in the territory and population of Poland.

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.

25. Subsequent events

The promise to cancel licence fee liabilities

On April 3, 2006 El-Net, Netia's subsidiary, received a decision of the Minister of Transport and Construction, dated March 28, 2006, in reply to its application filed on October 28, 2004. By the above decision the Minister of Transport and Construction granted the promise to cancel the outstanding license fee obligations, resulting from licenses for rendering local telecommunications services, in the amount of EUR 28,934 based on investments to be incurred from January 1, 2007 to October 28, 2008. The above cancellation shall occur upon the verification of investments incurred documented pursuant to provisions of article 8 of the act dated November 23, 2002 on the conversion of license fees of fixed line public telecommunications operators (see also Note 5).

Appointment of Chairperson of Netia's Supervisory Board

On April 5, 2006 the Company's Supervisory Board unanimously appointed Ms. Alicja Kornasiewicz, Netia's Supervisory Board member, for the position of Chairperson of the Company's Supervisory Board, with immediate effect.

Changes in the Management Board

On April 5, 2006 the Company's Supervisory Board unanimously appointed Mr. Tom Ruhan as member of the Management Board and Chief Legal Officer and Mr. Jonathan Eastick as member of the Management Board and Chief Financial Officer, effective immediately.

Registration of changes to Netia's share capital and statute

On April 25, 2006 the Company received a decision of the Regional Court in Warsaw, dated April 19, 2006, on registration of Netia's share capital decrease by the redemption of 28,162,110 (not in thousands) Company's own shares and on registration of changes to the Company's statute. The share capital decrease and changes to Netia's statute were adopted by Netia's annual shareholders' meeting held on March 29, 2006 (see Note 10). Registration of changes to the Company's statute included a change of § 5 of the statute, which reflects the structure of the Company's share capital following the shares redemption, and a change of § 5B point 6 of the statute, which extends the period for the execution of the priority right to acquire series K shares to December 31, 2012.

Audit Committee and Remuneration Committee

On April 5, 2006 the Company's Supervisory Board of Netia S.A. established the Audit Committee and appointed Messrs. Raimondo Eggink, Bruce McInroy and Andrzej Radzimiński as members of this Committee. At the same date the Supervisory Board established the Remuneration Committee and appointed Messrs. Constantine Gonticas and Bogusław Kasprzyk as members of this Committee.

Managed services contract with Ericsson

On April 28, 2006, the Company signed a five-year managed services contract with Ericsson Sp. z o.o. ("Ericsson "). The contract covers maintenance and management of the Netia Group's networks, as well as the support in the provision of standard services to Netia Group customers, inclusive of the installation of lines at customer's site. Approximately 300 (not in thousands) of the Netia Group's employees will be transferred to Ericsson under the scope of this contract.

The transaction consists of two joint elements: (I) the contract covering services provision and (II) transfer contracts concerning employees, assets and agreements of the Netia Group. The infrastructure and telecommunications lines will remain the property of the Netia Group. Investment projects will also remain the Netia Group's responsibility. The Netia Group will be the owner of network and equipment installed in the future.

Payment to P4

Following the provisions of the P4's Shareholders' Agreement (see Note 24), on April 28, 2006, Netia Mobile, the Company's subsidiary, made an advance payment of PLN 5,000 for P4's share capital.

Repurchase of Netia's series I and II notes (not in thousands)

On May 4, 2006, following the expiration of the subscription warrants program, the Company repurchased 31,419,172 series I ordinary bearer notes, PLN 0.01 par value per each, and 1,005,154 series II ordinary bearer notes, PLN 0.01 par value per each, (jointly "Notes"), issued by Netia based on the Shares and Notes Prospectus dated April 17, 2002 ("Prospectus"). According to the provisions of the Prospectus the Notes were repurchased from the trustee after the three-year period following their issuance, at the price of PLN 0.01 per Note. At the same date, in connection with the repurchase, the Notes were deregistered from the depositary accounts by the National Deposit of Securities. The Notes were redeemed at the time of their repurchase.

Expiration of three-year subscription warrants

On April 29, 2006, 1,022,433 (not in thousands) three-year subscription warrants, that authorized to subscribe for Netia's ordinary series J shares, expired.

Exercise of warrants (not in thousands)

As at May 10, 2006, the day of establishment of final number of series J shares issued, 62,464,062 of warrants have been exercised and the Company's share capital was accordingly increased by 62,464,062 series J shares. As a result at May 10, 2006 the Company's share capital consisted of 389,166,839 ordinary shares and of 1,000 of series A1 shares.

Completion of the arrangement proceedings of Netia Telekom S.A.

On May 12, 2006, Netia received a decision of the Regional Court in Warsaw dated May 4, 2006, on completion of the arrangement proceedings of Netia Telekom S.A. ("Netia Telekom"), of which Netia is legal successor, further to full repayment of receivables provided in the arrangement plan adopted by Netia Telekom and its creditors. Arrangements proceedings of Netia Telekom constituted a part of the court arrangement proceedings performed in connection with the financial restructuring of the Netia Group.