# QUARTERLY REPORT
## Mediatel Capital Group

**as at and for the 3 month period**
**ended on 31 March 2010**

Warsaw, 11 May 2010

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**(all amounts are quoted in thousands, unless otherwise specified)**

# I. Information provided by the Management Board

## 1. Basic information about the Company and the Capital Group

*Parent company*

The parent company of the Mediatel Capital Group (hereafter called “Capital Group”, “Group”) is Mediatel S.A. (hereafter “Company”, “Mediatel”, "Issuer").

| | |
|---|---|
| registered office: | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw |
| Registration court: | District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register |
| KRS: | 0000045784 |
| Share capital: | 1,816,503 PLN |

Mediatel S.A. is a dynamically expanding, independent provider of integrated telecommunications services. Within the interoperation, in the broad meaning of the word, with other domestic and foreign operators, Mediatel offers the possibility to receive and transit telecommunications voice traffic to fixed and mobile networks as well as international traffic. The services are provided using the company's own switchboards, interconnection points to networks of other operators (among others in Frankfurt upon Main and New York) and under the interoperator agreements with Telekomunikacja Polska S.A. and other domestic operators.

*The entities that make up Mediatel Capital Group (subsidiaries):*

*Elterix S.A. (“Elterix”)*

| | |
|---|---|
| registered office: | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw |
| Registration court: | District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register |
| type of control: | subsidiary |
| KRS no. | 0000020560 |
| Share capital: | 20,075,000 PLN |
| Controlled as of: | 20.06.2008 |

Percent of share capital owned by Mediatel: 99.16 %
The share in the total number of votes at the General Meeting of Shareholders: 99.16%

The main line of business of Elterix is the provision of telecommunications services, namely landline telephony connections and access to the Internet for business and individual customers and wholesale of landline and mobile telephony connection services. Elterix S.A. has its own fibre network and copper and radio access network in the area of Tricity.

*Mediatel 4B Sp. z o. o. („Mediatel 4B”)*

| | |
|---|---|
| registered office: | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw |
| Registration court: | District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register |
| type of control: | indirect subsidiary through Elterix |
| KRS | no. 0000007392 |
| Share capital: | 8,000,000 PLN |
| Controlled as of: | 18.02.2008 |

Percentage of share capital held by Elterix: 100%
The share in the total number of votes at the General Meeting of Shareholders of Elterix S.A.: 100%

Mediatel 4B offers comprehensive solutions for corporate clients, including high-quality voice services together with added services, data transmission and the Internet services. Currently, the company provides its services to business clients throughout the country.

**(all amounts are quoted in thousands, unless otherwise specified)**

*Concept-T Sp. z o. o. („Concept-T")*

| | |
|---|---|
| registered office: | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warszawa |
| Registration court: | District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register |
| type of control: | indirect subsidiary through Elterix |
| KRS | 0000137749 |
| Share capital: | 50.000 PLN |
| Controlled as of: | 20.06.2008 |

Percentage of share capital held by Elterix: 100 %
The share in the total number of votes at the General Meeting of Shareholders held by Elterix S.A.: 100%

The main business activity of Concept-T is the wholesale telecommunications traffic exchange. Concept-T offers also cheap international phone call services under the brand *"Tanifon"*.

*Velvet Telecom LLC („Velvet Telecom")*

| | |
|---|---|
| registered office: | 550-H Grand Street, Suite GB New York, NY 100002-422, 6 USA |
| type of control: | subsidiary |
| Share capital: | 100 USD |
| Controlled as of: | 30 June 2009 |

Percent of share capital owned by Mediatel: 100 %
The share in the total number of votes at the General Meeting of Shareholders: 100%

The main line of business of Velvet Telecom is wholesale exchange of telecommunications traffic. The Company mainly operates in the territory of the USA. The services provided by Velvet Telecom are mainly the services of termination of calls generated in the USA to destinations outside its telecommunications traffic, mainly in Latin America and Asia.

As part of its core business the Mediatel Group provides telecommunication services addressed to individual customers, business customers and telecommunications operators.

Telecommunication services offered by the Mediatel Group can be categorized as follows:

- telephone services, including wholesale call termination services,
- Internet access services,
- collocation centre services.

The services offered to individual clients comprise telephone connections accessible via prefix, pre-paid telephone connections, the Internet services, IP services.

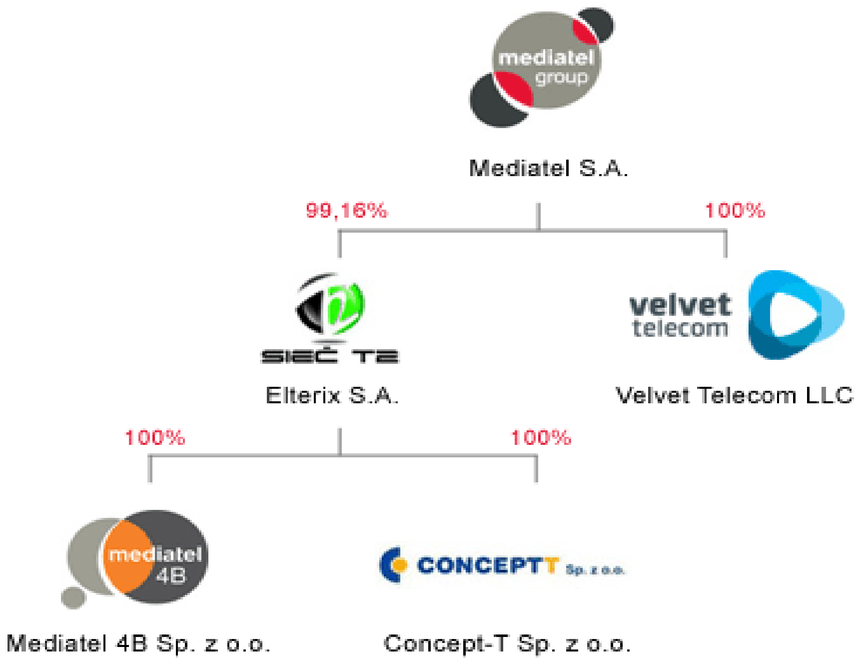
Mediatel Capital Group offers telecommunications services based on its own and leased telecommunications infrastructure. An important part of its operations is to have a number of contracts with other national and foreign operators. Mediatel Group has its own access networks in Warsaw and Gdynia.

## 2. Changes in the structure of Mediatel Capital Group in the period from 1 January 2010 to 31 March 2010 and the effects thereof

*Motion to the court for the registration of decrease in the share capital of Concept-T*

A motion for entering the decrease in share capital of Concept-T from 50,000 PLN to 5,000 PLN was filed with the District Court for the capital city of Warsaw, XII Commercial Division of the National Court Register. The share capital was decreased as a result of redemption of 90 shares of the value of 500 PLN each, making up the total of the nominal value of 45,000 PLN. after the registration of the decrease in the share capital of Concept-T, the share capital shall be divisible into 10 shares of the nominal value of 500 PLN each.

## 3. Organizational structure of Mediatel Capital Group and related entities




## 4. Selected financial data

The table below presents the selected financial data as at 31 March 2010 and comparative data as of 31 March 2010 and 31 December 2009. The information contained in the table should be read in conjunction with the information contained in the consolidated financial statement of the Group as at 31 March 2010.

The financial data selected from the consolidated profit and loss account and consolidated cash flow statement was calculated at 1 EUR rate of 3.9669 PLN , which is an arithmetic mean value of average rates set by the National Bank of Poland (‘NBP’) on the last day of each month of the accounting period (from 01 January 2010 to 31 March 2010. The financial data selected from the consolidated balance sheet was calculated at 1 EUR rate of 3.8622 PLN (NBP exchange rate of 31 March 2010).

**(all amounts are quoted in thousands, unless otherwise specified)**

| | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|---|
| | PLN | PLN | EUR | EUR |
| **Consolidated profit and loss account** | | | | |
| Income on sales | 25 358 | 55 339 | 6 392 | 12 032 |
| Profit (loss) on operating activities | (4 484) | 1 156 | (1 130) | 251 |
| Pre-tax profit (loss) | (4 823) | 3 071 | (1 216) | 668 |
| Net profit (loss) | (4 874) | 2 499 | (1 229) | 543 |
| **Consolidated cash flow statement** | | | | |
| Net cash and cash equivalents from operating activities | 6 659 | (575) | 1 679 | (125) |
| Cash flows from investment activities | (6 329) | (179) | (1 595) | (39) |
| Cash flows from financial activities | 165 | (1 258) | 42 | (274) |
| Increase / (decrease) in net cash and cash equivalents | 495 | (2 012) | 125 | (437) |

| | As at 31 March 2010 | As at 31 December 2009 | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|---|---|
| **Consolidated balance sheet** | | | | |
| Total assets | 85 488 | 84 573 | 22 135 | 20 586 |
| Long term liabilities | 4 240 | 4 722 | 1 098 | 1 149 |
| Short-term liabilities | 43 643 | 37 372 | 11 300 | 9 097 |
| Equity | 37 606 | 42 480 | 9 737 | 10 340 |
| Share capital | 1 817 | 1 817 | 470 | 442 |

| | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|---|
| Number of shares (in items) | 9 082 515 | 6 416 186 | 9 082 515 | 6 416 186 |
| Profit (loss) per one ordinary share (in PLN / EUR) | (0,54) | 0,39 | (0,14) | 0,08 |
| Book value per one share (in PLN / EUR) | 4,14 | 6,41 | 1,07 | 1,56 |

**(all amounts are quoted in thousands, unless otherwise specified)**

**Return on equity of the capital group**

| | Period to 31 March 2010 | Period to 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| ROE | -13% | 12,04% |
| ROA | -5,70% | 6,05% |
| Sales yield | -19,22% | 2,79% |
| Gross margin on sales | -17,68% | 4,61% |
| EBITDA % | -7,53% | 9,89% |

**Financial liquidity assessment**

| | Period to 31 March 2010 | Period to 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| Current liquidity ratio | 1,08 | 1,19 |
| Quick ratio | 0,79 | 0,99 |
| Acid ratio | 0,18 | 0,05 |

**Debt analysis**

| | Period to 31 March 2010 | Period to 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| Debt rate | 56,01% | 49,77% |
| The share of equity in the financed assets | 43,99% | 50,23% |
| Liabilities to equity ratio | 127,33% | 99,09% |

Principles of calculating ratios:
ROE: *net profit/ equity*
ROA: *net profit/ total assets*
Sales yield: *net profit/ net sales income*
Gross margin on sales: *Profit (loss) on operating activities/ sales income*
Operating profitability rate: *Profit (loss) on sales/ net sales income*
EBITDA %: *(operating profit + depreciation for a given period)/ net sales income*
Current liquidity ratio: C*urrent assets/ short-term liabilities*
Quick ratio: *Current assets in total - inventories/ short-term liabilities*
Acid ratio: *Cash and cash equivalents + other financial assets/ short term liabilities*
Debt rate: *short-term and long-term liabilities/ total assets*
The share of equity in the financed assets: *total equity/ total assets*
Liabilities to equity ratio: *total liabilities/ equity*.

## 5. Information specified in the regulation policies (particularly the information about changes to the applicable rules / policies of accounting)

The condensed interim financial statement of Mediatel Capital Group, condensed interim individual financial statement of Mediatel and financial statement of the Group entities for the period from 01 January 2010 to 31 March 2010 were prepared in accordance with the International Accounting Standards (IAS), International Financial Reporting Standards (IFRS) and related interpretations announced as regulations of the European Commission (hereafter called IAS and collectively accounting rules adopted for use in the European Union). The Company's accounting year runs from 1 January until 31 December.

## 6. Description of major successful operations or failures and significant events in Mediatel Group from 1 January 2010 to this date of drawing up this report

*Preliminary agreement between NFI Magna Polonia S.A. and NFI Midas S.A.*

On 16 March 2009 an agreement was concluded between Mediatel, the fund Narodowy Fundusz Inwestycyjny Magna Polonia S.A.(hereinafter „NFI Magna Polonia") - a parent company with regard to Mediatel, and Narodowy Fundusz Inwestycyjny Midas S.A. fund with the seat in Warsaw (hereinafter „NFI Midas"). By virtue of the provisions of the agreement NFI Midas and Mediatel represented that they would conclude agreements which would provide for the conclusion of the acquisition agreement for the purchase of 100% of shares of CenterNet S.A. (hereinafter „CenterNet") by Mediatel followed by the take up by NFI Midas of 17,600,000 shares of the new issue in the Company, at the issue price not lower than 15 PLN per one share. The purpose for the conclusion of the said agreements was defined as the creation of a platform which would allow for the provision of complementary services.

As a result of the conclusion of the aforementioned preliminary agreement, the Company signed a Letter of Intent concerning the construction of such telecommunications infrastructure that would allow for the provision of the mobile telephony services and concerning the principles of using the said infrastructure with the most important regional operator in Wielkopolska - INEA S.A. In accordance with the Letter of Intent, cooperation with INEA S.A. was conditioned upon the conclusion of the final agreement for the sale of CenterNet shares.

On 6 April 2010 the Supervisory Board of NFI Midas voted against the resolution on granting consent for the conclusion between Mediatel, NFI Magna Polonia and NFI Midas of the preliminary sale-purchase agreement for the sale of shares in the share capital of CenterNet and the preliminary agreement for the take up of the new issue of shares in the share capital of Mediatel. Thus, the condition precedent necessary for the agreement of 16 March 2010 to come into force was not complied with.

*Purchase and sale of bonds issued by NFI Magna Polonia SA*

On 6 April 2010 the Company sold 6 (six) bonds to the bearer series A, purchased in the 1st quarter of 2010, issued by NFI Magna Polonia SA and took up 60 (sixty) registered bonds series B issued by the same entity. The bonds were described in point 12. "Transactions with related parties".

*The sale of shares in Latcom du Brazil by Velvet Telecom, a subsidiary*

On 10 April 2010 Velvet Telecom concluded a sale purchase agreement for the sale of 100% of shares in Latcom du Brazil with the seat in Rio de Janeiro, Brasil for the benefit of Indian Orchard Capital LLC with the seat in New York, the USA. The shares were sold for the total price of 275,000 USD, which was offset with the liabilities of Mediatel with regard to Indian Orchard Capital LLC under the acquisition of 100% of shares in Velvet Telecom by virtue of an Annex dated of 21 December 2009. The ownership of shares was transferred upon the conclusion of the agreement. The sale of shares was effected under the improvement in the organizational structure of Mediatel Capital Group.

*Ordinary General Meeting of Shareholders*

The Ordinary General Meeting of Shareholders, during its meeting on 27 April 2010, adopted the resolutions concerning:

- the approval of the reports of the Management Board on the operations of the Company and Mediatel Capital Group for the accounting year of 2009, the individual financial statement of the Company for the accounting year of 2009, the consolidated financial statement of Mediatel Capital Group for 2009 and the report of the Supervisory Board for the accounting year of 2009;
- granting the approval of performance to all the Members of the Management and Supervisory Boards with respect to the performance of their duties in 2009;
- financing the losses for the accounting year of 2009 out of the supplementary capital of the Company;
- discontinuation of voting over the resolution on the increase of share capital by issue of shares series J by way of private subscription excluding the preference rights of the existing shareholders and the introduction of the shares and rights to the shares series J to trading on the regulated market run by WSE in Warsaw and amendments to the Company Articles of Association; shares series J were to be issued to perform the provisions of the Contract of 16 March 2010 which in fact failed to be effected by and between Mediatel, 'NFI Magna Polonia and 'NFI Midas'.

The Ordinary General Meeting of Shareholders, during its meeting adjourned and resumed on 6 May 2010, adopted the resolutions concerning:

- changes in the Articles of Association consisting in granting powers to the Management Board in the period until 26 May 2011 to increase the share capital by an amount not exceeding 1,362,377 PLN and powers to issue the subscription warrants, entitling to the subscription for or take up of the shares of the Company issued within the authorised capital, excluding the preference rights. The resolution was adopted in order to provide the Management Board with an efficient tool for carrying out the increase in the share capital, which, under fast changing market growth or decline shall increase the flexibility of management of the Company resources and shall allow for financing investments and capital outlay as planned by the Company.
- the Articles of Association were changed following the necessity to adjust the provisions thereof to the amended provisions of the Commercial Companies Code.

## 7. Description of factors and events exerting material effect upon the obtained financial result

### 7.1. Operating activities of Mediatel Group

In the 1st quarter of 2010 operating activities of Mediatel Group focused on attracting the international wholesale traffic.

**Wholesale traffic**

In the reporting period the company intensified its efforts in the wholesale trade in telecommunications services. The first quarter of 2010 saw an increase in the costs of sales of the wholesale traffic as a result of activities aiming at the acquisition of new clients of the international call termination.

In the 1st quarter 2010 tests were carried out to test the PathFinder billing system which automatically searches the paths of connections at the lowest rates in the international telecommunications traffic. In the 2nd quarter of 2010 the offer of the international telecommunications traffic shall be sold in two systems simultaneously and subsequent operators shall gradually be connected to the system.

Plans of Mediatel Group regarding the operating activities:
- strengthen the company's position on the wholesale of IP services and collocation solutions market;
- launch IP transit - the service intended mainly for operators, offering the transit of IP signal directly from/to the Client;
- launch of the Internet access services provided across the country in xDSL technology and resale of TP infrastructure.

### 7.2. Income on sales

Consolidated net income on sales of Mediatel Group in the 1st quarter of 2010 was 25,358,000 PLN. As compared to the same reporting period of 2009 income decreased by 29,981,000 PLN that is by 54%. What mainly lay behind the drop was lower income on sales of the wholesale traffic to Carriers segment due to material decline in the rates of interoperator settlements for connections to mobile networks, the so called MTR rates.

**(all amounts are quoted in thousands, unless otherwise specified)**

In comparison to the 4th quarter of 2009, income generated in the 1st quarter dropped by 19% i.e. 5,949,000 PLN due to the decrease in the volume in the domestic and international wholesale traffic as well as in calls to mobile telephony networks.

## Geographical structure of sales

Due to the nature of the services provided (telephone connections, and virtual services) the geographical structure of sales can not be unambiguously determined (except for foreign customers). Due to the specific nature of the provided services, it cannot be precisely determined whether the technical equipment located in a given region is utilized only by the clients of this region nor whether the location of the technical equipment reflects the sales in the region. It can only be estimated that the major part of the sales (because of the technical facilities owned) takes place in Warsaw, and a small part of sales is effected through the nodes in Gdynia and Łódź.
Today, in order to provide services to end customers (consumers and business clients) Mediatel has interconnection points with TP S.A., which give access to all numbering areas to handle traffic termination and traffic initiation using NAN numbers. Mediatel also has its own points of support for its own numbering schemes and those transferred in the 22 and 58 areas. In other area code zones Mediatel offers numbering services through interconnection contracts with operators.

Mediatel Group’s income on sales, broken down by countries, is as follows:

| | Three month period ended on 31 March 2010 | Three month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Income on sales in Poland: | 13 772 | 15 814 |
| Income on sales in other countries: | 11 586 | 39 525 |
| Austria | 82 | 253 |
| Belgium | 133 | 178 |
| The Czech Republic | 22 | - |
| France | 4 | - |
| Spain | 11 | 9 |
| The Netherlands | 218 | 2 281 |
| Ireland | - | 88 |
| Canada | 10 | 200 |
| Latvia | 28 | 94 |
| Germany | 943 | 890 |
| Russia | 8 | 22 |
| Slovakia | 297 | 560 |
| Switzerland | 3 363 | 6 047 |
| The USA | 5 056 | 27 595 |
| Hungary | 14 | - |
| Great Britain | 1 323 | 527 |
| Italy | 74 | 781 |
| | **25 358** | **55 339** |

In the 1st quarter of 2010 income on sales of Mediatel Group earned abroad went down significantly as compared to the same period of the previous year and at present represents about 45.6% of income (71.4% in the 1st quarter of 2009).
Sales of telecommunications traffic generated in the USA and Switzerland significantly contributed to the

income. The Group also gains proceeds on sales from other telecommunications operators in Europe.

### 7.3. The result of sales and the operational result

After the 1st quarter of 2010 gross profit on sales was 1,251,000 PLN and in the same reporting period of the previous year it was 6,999,000 PLN. With regard to the result of the operating activities, the Group recorded a loss in the amount of 4,484,000 PLN as compared to 1,156,000 PLN of the operating profit in comparative period.

The total depreciation for the 1st quarter of 2010 amounted to 2,570,000 PLN, so EBITDA (operating profit) amounted to 1,910,000 PLN.

The following factors exerted positive influence upon the presented results of Mediatel Group attained in the 1st quarter of 2010 on the business clients market:

- an increase in the number of new corporate clients as a result of the sale activities rendered through both direct and indirect distribution channels;
- supplementary sale of services to the subscribers of voice and telephony services based on WLR (Wholesale Line Rental), the sale involved the use of the client data bases;
- reduction in the costs of operating the subscribers telecommunications traffic connected with the cost reduction of providing the services to the subscribers telecommunications traffic following the activation of new points of interconnection;

The following factors exerted adverse effect upon the presented on the Carriers clients market:

- increased costs/ reduced margins connected with launching the international calls termination services on the market
- change in the exchange rates - Polish currency grew stronger (against Euro and USD) the return on export dropped as a result;
- regulations which resulted in the drop in MTR rates that is rates for the termination of connections to cellular networks;
- competition with other operators.

### 7.4. Assets

At the end of March 2010 fixed assets of the Group amounted to 37,448,000 PLN. As compared to the amount reached by 31 March 2009 the value of the fixed assets decreased by 2,707,000 PLN (that is by 6.7%). The said decrease is among others connected with reclassification of fixed assets to the item 'fixed assets for sale' in connection with the sale-purchase agreement of 10 April 2010 by and between Velvet Telecom and Indian Orchard.

Current assets of the Group as at 31 March 2010 amounted to 47,173,000 PLN. The following items constituted the largest percentage in current assets: trade and other receivables - 82% of the current assets. As compared to the financial result at the end of December 2009, the value of current assets increased by 2,755,000 PLN (where the sharpest drop was in trade and other receivables item, the figures dropped by 3,138,000 PLN), further, the value of cash and cash equivalents increased by 496,000 PLN as compared to December 2009.

### 7.5. Liabilities

Total short-term and long-term liabilities of Mediatel Group as at 31 March 2009 amounted to 47,883,000 PLN, which means, as compared to the result as at the end of December 2009, an increase by 5,789,000 PLN (i.e. by 13%).

Short-term liabilities under deliveries and services and other liabilities as at 31 March 2009 amounted to 31,117,000 PLN.

There are no risks as to the ability to meet the commitments entered into by Mediatel Group in accordance with the schedule.

Secured funding and resources generated from operating activities represent the financial coverage for the planned capital expenditures and maturing debt. A high rate of overall debt is specific to the telecommunications industry.

### 7.6. Costs

Provision of the telecommunications services consists in the operation of connections generated by the subscribers of Mediatel network and in the transit of the telecommunications traffic from the networks of other operators. Main costs incurred at the provision of telecommunications services by the companies of the Group are:

- costs of termination of traffic to external networks,
- fixed costs connected with the maintenance of the telecommunications infrastructure and the points of interconnection with telecommunications networks of other operators;
- costs connected with the exchange of the Internet traffic,
- costs of administration.

In the 1st quarter of 2010 as compared to the 1st quarter of 2009 costs fell significantly (by 46%), mainly the costs of the services of external services, which was the result mainly of the decrease in the operating income of Mediatel Group, therefore also the decrease in direct costs of the termination of telecommunications traffic to external networks.

### 7.7. Investment expenses

In the reporting period no significant investment expenses were incurred, but for the settlement of prior contracted liabilities.

## 8. Reserves and allowance for the value of assets

In the period under report no significant reserves were created neither any allowance for the value of assets were provided for.

## 9. Seasonal or cyclical nature of Mediatel and Mediatel Group operations

The level of the sale of the services of Mediatel Group fluctuates only on a weekly basis and on public holidays. Domestic traffic, the so-called business traffic, declines dramatically during the weekends and holidays. Foreign traffic volume is relatively resistant to seasonality. It shows a slight increase during the weekends and holidays.

## 10. Other information relevant for the assessment of the human resources, assets, financial standing, financial results of the Company and the Capital Group, its revisions, and information that is relevant for the assessment of the feasibility of implementation of commitments by the Company and the Group

The Management Board knows of no other information that would be relevant to the assessment of the human resources, assets, financial standing, financial results of the Company and the Capital Group and their revisions, and information that is relevant to the assessment of the feasibility of implementation of commitments by the Company and the Group.

## 11. Factors that will affect the financial results of the Company and Mediatel Group in the perspective of the next quarter

In the 2nd quarter of 2010 the Company shall continue works connected with extension of its wholesale operations and acquisition of business clients.

Factors that will affect the financial results at least in the perspective of the next quarter

- continued expansion on the wholesale IP services market as well as on the market of collocation solutions and telehousing,
- development of products based on the Company's own infrastructure with regard to help-line services,
- dynamic expansion of WLR and NAN indirect sales channels.

There are, however, many external and internal factors which, directly or indirectly, may influence the financial results in the next quarters:

a) external factors:
   - progressive liberalization of the telecommunications market,
   - strengthening competition with operators of fixed and mobile telephony services, resulting in a decline in prices and margins,
   - capacity of the telecommunications market in Poland,
   - regulatory activities of UKE (Office of Electronic Communications)
   - factors that influence the provision of export services e.g. exchange rates, VAT regulations,
   - overall economic situation may have an impact on the demand for telecommunications services.

b) internal factors:
   - usage of its own infrastructure in the provision of services,
   - rate of adaptation of the scope of operations to continuously changing conditions in telecommunications market,
   - diversifying sources of revenue, i.e. presence in several market segments with a broad product portfolio,
   - geographical expansion,
   - launching of new business lines or new products as part of the existing lines.

## 12. Transactions with related parties

Information on the conclusion by Mediatel or its subsidiary, one or more transactions with related entities, which were neither typical nor regular transactions.

*An annex to the share sale agreement for the sale of shares of Mediatel 4B*

On 22 January 2010 Mediatel and Elterix, a subsidiary, concluded an annex to the agreement for the sale of shares of Mediatel 4B concluded on 16 December 2008 (CR no 119/2008 of 17.12.2008) Under the Annex, the due date of the payment of the liability due to the Company from Elterix falling to 31 December 2009 by virtue of the Annex of 28 April 2009 was extended. The new payment of the liability, which after the partial payment, as at the date of publication of the current report amounted to 5,210,000 PLN including the due interest was extended until 31 December 2010.

*Acquisition of bonds in Mediatel by its indirect subsidiary*

On 24 February 2010, Concept-T, an indirect subsidiary of Mediatel, purchased, following the offer to purchase 1 (one) unsecured registered bond (series G, no. 1) issued by Mediatel on 24 February 2010. The bond was purchased at the issue price equal to the nominal value of PLN 1,000,000 (one million zloties). Redemption of the bond: 31 December 2010

On 26 February 2010, Concept-T, an indirect subsidiary of Mediatel, purchased, following the offer to purchase 1 (one) unsecured registered bond (series H, no. 1) issued by Mediatel on 26 February 2010. The bond was purchased at the issue price equal to the nominal value of PLN 1,000,000. Redemption of the bond: 31 December 2010

On 11 March 2010, Concept-T, an indirect subsidiary of Mediatel, purchased 1 (one) unsecured registered bond (series I, no. 1) issued by Mediatel on 11 March 2010 at the issue price equal to the nominal value of PLN 1,000,000. The bond redemption date is on 31 December 2010.

On 12 March 2010, Concept-T, an indirect subsidiary of Mediatel, purchased 1 (one) unsecured registered bond (series J, no. 1) issued by Mediatel on 11 March 2010 at the issue price equal to the nominal value of PLN 875,000. The bond redemption date is on 31 December 2010.

The issue and sale of the bond aimed at pooling the funds for investment activities of the Company.

*Take up and sale of bonds issued by NFI Magna Polonia SA*

Mediatel concluded the following transactions on the private equity market concerning the acquisition of bonds issued by NFI Magna Polonia :

- On 15 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 05 of the nominal value of 1,000,000.00 PLN for the price of 1,002,500.00 PLN with maturity falling to 10 January 2011,
- On 22 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 04 of the nominal value of 1,000,000.00 PLN for the price of 1,002,500.00 PLN with maturity falling to 10 January 2011,
- On 25 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 03 of the nominal value of 1,000,000.00 PLN for the price of 1,012,091.23 PLN with maturity falling to 10 January 2011,
- On 10 March 2010 Mediatel purchased 1 ordinary bearer bond series A no 02 of the nominal value of 1,000,000.00 PLN for the price of 1,016,189.75 PLN with maturity falling to 10 January 2011,
- On 11 March 2010 Mediatel purchased 1 ordinary bearer bond series A no 01 of the nominal value of 1,000,000.00 PLN for the price of 1,016,962.22 PLN with maturity falling to 10 January 2011.

NFI Magna Polonia S.A. bonds series A were interest accruing bonds, where interest accrued at WIBOR 6M rate as of the interest set up date plus 5% per annum. The bonds were secured with registered pledge set upon 5,000,000 shares in share capital of Mediatel S.A.

After the reporting period ended, the Company sold 6 (six) bonds to the bearer series A, of the nominal value of 1,000,000 PLN each, issued by NFI Magna Polonia. The sale price of one bond series A was 1,012,124.38 PLN. The bond was sold following the commission to sell the bond filed with the Brokerage House maintaining the records of bonds series A, the commission was settled on 6 April 2010.

On 6 April 2010 the Company took up 60 (sixty) registered bonds series B, of the nominal value of 100,000 PLN each, issued by NFI Magna Polonia on 6 April 2010 for the issue price amounting to 100,000 PLN per one bond. The bond maturity falls to 31 December 2011. The legal basis for the acquisition of bonds was an offer filed by NFI Magna Polonia on 6 April 2010 and acceptance of the offer of the bond purchase on the date as above.

In the reporting period, the Company concluded the following transactions with its subsidiaries:

- sale and purchase of telecommunications services,
- lease of parts of telecommunications networks,
- sale of other services (space rental) technical consultancy,
- sale of goods

Detailed list of transactions with related entities is comprised in the condensed consolidated financial statement of Mediatel Group (Note 25) and condensed financial statement of the Company (Note 12)

## 13. Court proceedings, the authority responsible for arbitration or a public authority

As at 31 March 2009 there were no proceedings pending before court, body of the proper jurisdiction for the arbitration proceedings or public administration body concerning the liabilities of Mediatel or its subsidiary of the value of exceeding 10% of the share capital of the Issuer. Further, total amount of the scope of the proceedings pending as at 31 March 2010 before court, body of the proper jurisdiction for the arbitration proceedings or public administration body concerning the liabilities of Mediatel or its subsidiary did not exceed the value of 10% of the share capital of the Issuer, either.

*Information concerning the most significant proceedings*

*The statement of claim brought by Mediatel against the European Telecommunications Group EUROTELEKOM Sp. z o.o. („EGT EUROTELEKOM”)*

On 7 May 2008 Mediatel filed with the Regional Court in Warsaw, XX Commercial Division (case file no GC 17/09), a statement of claim for the payment of 390,541.77 PLN including the interest against EGT EUROTELEKOM under failure to pay by the defendant the invoices issued for sales under the cooperation agreement concerning the interconnection of networks and the principles of settlement of 1 February 2006. On 15 February 2010 the Court issued a judgment where it ordered the defendant to pay for the benefit of Mediatel the amount of 390,541.77 PLN with statutory interest and the amount of 26.728 PLN as a reimbursement of the costs of the court proceedings. In the remaining part of the claim, the proceedings were discontinued.

*The statement of claim filed by Mediatel S.A. against EGT EUROTELEKOM*

On 4 February 2009 Mediatel S.A. filed with the Regional Court in Warsaw a statement of claim against EGT EUROTELEKOM for the discontinuation of enforcement of the enforceable document - order of payment of 27 August 2008, issued by the Regional Court in Gdansk, IX Commercial Division in the case file no IX GNc 315/08, (adverse claim).
On 25 June 2009, Mediatel replaced the statement of claim for the discontinuation of enforcement with the statement of claim against EGT EUROTELEKOM for the payment of: 637,707.86 PLN under unjust enrichment and damage sustained by Mediatel as a result of unjust enforcement effected by the enforcement officer at the District Court for the city of Warsaw, file case no KM 150/09, effected under the order of payment of 27 August 2008 issued by the Regional Court in Gdansk, IX Commercial Division. In the opinion of Mediatel the enforcement was groundless as the liability, ordered to be paid by the Court in Gdansk, expired. The liability expired as a result of the offset of Mediatel receivables due from EGT EUROTELEKOM with receivables of EGT EUROTELEKOM due from Mediatel in the proceedings opened by the Regional Court in Warsaw file case no XX GNc 17/09. No notification on a date of the appeal proceedings has yet been served.
The Management Board is of the opinion that the claim is fully grounded.

## 14. Granted loans or credit securities or guaranties

On 30 March 2010 BRE Bank SA (hereinafter the „Bank”), Mediatel, Mediatel 4B and Elterix (the Borrowers) concluded an Annex to the agreement of 31 March 2009. By virtue of the Annex:

– - the line of credit was extended to the total amount of 8,000,000 PLN;
– - the Borrowers undertook to repay the overdrafts by 29 April 2011 at the latest;
– - security for the repayment of liabilities arising under the Agreement was increased, the Borrowers filed declarations of will on submission to enforcement procedures up to 8,800,000 PLN.

A blank promissory note, issued by Mediatel, endorsed by its subsidiaries: Mediatel 4B and Elterix, enclosed with the promissory note statement of the Company is the Bank's collateral for the repayment of the debt. Mediatel and its subsidiaries Mediatel 4B and Elterix shall not bear any costs nor should they earn any income under the issued promissory note and the avals granted.

## 15. Information on changes in contingent liabilities or assets occurring since the end of the last accounting year

As at 31 March 2009 no contingent liabilities arose in Mediatel Group.

There were no changes in contingent liabilities in the period under report.

## 16. Issue, redemption and repayment of debt and equity securities during the period under report

In the 1st quarter of 2010 Mediatel Group effected no issues. In the reporting period the Company acquired bonds issued by Magna Polonia as specified in section 12. "Transactions with related parties".

As at the balance sheet day Mediatel liabilities under the issued bonds were 9,461 thousand PLN including interest.

## 17. Information concerning the paid (or declared) dividend, cumulatively and per one share, separately for ordinary shares and preference shares.

In the 1st quarter of 2010 the Company declared nor paid no dividend.

## 18. Projected results

In 2010 the Company has not published any forecasts of financial results.

## 19. Information concerning the members of the Management and the Supervisory Boards

*The Management Board*

In the period under report there were no changes in the composition of the management body.

Composition of the Management Board as at 31 March 2010 and as at the publication date of this quarterly report:

Marcin Kubit - President of the Management Board,
Iwona Rytel - Member of the Management Board,

*The Supervisory Board*

In the period under report there were no changes in the composition of the Supervisory Board.

Composition of the Supervisory Board as at 31 March 2010 and as at the publication date of this quarterly report:

Zbigniew Kazimierczak – Chairman of the Supervisory Board,
Mirosław Janisiewicz – Member of the Supervisory Board,
Marcin Łolik – Member of the Supervisory Board,
Albert Kuźmicz – Member of the Supervisory Board,
Krzysztof Urbański – Member of the Supervisory Board,
Piotr Nadolski – Member of the Supervisory Board.

Marcin Łolik and Piotr Nadolski, in accordance with their declarations , meet the criteria of independence with respect to the Company and its related entities, specified in rule no 6, section III of the 'Code of Best Practices for WSE Listed Companies'.

During the reporting period no changes were made in the basic principles of management.

(all amounts are quoted in thousands, unless otherwise specified)

## 20. Mediatel shares held by Members of the Management and Supervisory Boards

Breakdown of changes in the percentage of the shares of Mediatel held by Members of the Management and Supervisory Boards in the period from the date of submission of the previous quarterly report that is from 10.11.2009 till the date of the publication of the report for the 1st quarter of 2010 that is 11.05.2010.

| *Shareholder* | *Position* | *As at 11 May 2010* | *As at 10 November 2009* |
|---|---|---|---|
| **The Management Board** | | | |
| Executive [1] | Member of the Management Board | 1.200 | 1.200 |
| **Supervisory Board** | | | |
| Zbigniew Kazimierczak | Chairman of the Supervisory Board | 136.000 | 136.000 |

[1] The person not yet given permission for the publication of their personal data.

As at the date of drawing up the report for the first quarter of 2010 and as at the day of drawing up the previous quarterly report that is 10 November 2009 Members of the Management Board and Supervisory Board held no share options.

## 21. Shareholders who hold, directly or indirectly through related parties, at least 5 % in the total number of votes at the General Meeting of Shareholders of the Company.

Share capital of Mediatel remained unchanged in the 1st quarter of 2010. Share capital of Mediatel as at 31 March 2010 amounted to 1,816,503 PLN divided into 9,082,515 shares of the nominal value of 0.20 PLN each.

In accordance with the information held by the Company, the following were the shareholders who hold, directly or indirectly through related parties, at least 5% in the total number of votes at the General Meeting of Shareholders of the Company as at the date of submission of the previous quarterly report, i.e. 10 November 2009 were as follows:

| *Shareholder* | *Number of shares held and votes exercised at the General Meeting as at 10 November 2009* | *% in the share capital equal % of votes at the General Meeting as at 10 November 2009* |
|---|---|---|
| NFI Magna Polonia S.A.[1] | 5.994.459 | 66,00% |
| Mediatel shareholders' agreement[2] | 735.700 | 8,10% |
| *including: Maciej Gawęda* | *535.700* | *5,90%* |

**(all amounts are quoted in thousands, unless otherwise specified)**

| | | |
|---|---|---|
| Open-end investment funds under the management of Pioneer Pekao Investment Management S.A.[3] | 454.130 | 5,00% |
| - *Pioneer Małych i Średnich Spółek Rynku Polskiego open-end investment fund*[4] | *454 860* | *5,01%* |

[1] Rasting Limited, with the seat in Nicosia, Cyprus, indirectly via NFI Magna Polonia, its subsidiary, holds 5,994,459 shares of Mediatel entitling Rasting to exercise 5,994,459 votes at the General Meeting of Shareholders of the Company, constituting 66% in the share capital and representing 66% of votes at the General Meeting of Shareholders.
Number of shares as at the day of making the results of the tender for the subscription for Mediatel shares public i.e. as at 6 April 2009, which tender was prior opened by NFI Magna Polonia S.A. on 26 February 2009.

[2] The shareholders' agreement of 9 April 2004, extended with the annex of 10 April 2008 in force until 9 April 2011. The shareholders' agreement was dissolved as of 15 January 2010 in accordance with the notification sent by a representative of the shareholders' agreement, Wojciech Gawęda, of 7 January 2010. The parties to the agreement were: Maria Gawęda, Maciej Gawęda and Wojciech Gawęda.

[3] Number of shares based on the notification filed with the Company on 14 September 2009 by Pioneer Pekao Investment Management SA concerning all the PPIM clients in performance by PPIM of the financial instruments portfolio management services, provided with respect to financial instruments comprised in the managed portfolios as well as in the name of the following funds: Pioneer Akcji Polskich open-end fund, Pioneer Małych i Średnich Spółek Rynku Polskiego open-end fund, Pioneer Zrównoważony open-end fund.

[4] Number of shares based on the notification filed with the Company on 13 October 2009 by Pioneer Pekao Investment Management SA in the name of Pioneer Małych i Średnich Spółek Rynku Polskiego open-end fund.

In accordance with the information held by the Company, the following were the shareholders who hold, directly or indirectly through related parties, at least 5% in the total number of votes at the General Meeting of Shareholders of the Company as at the date of submission of the quarterly report for the 1st quarter of 2010 i.e. 11 May 2010:

| ***Shareholder*** | ***Number of shares held and votes exercised at the General Meeting as at 11 May 2010*** | ***% in the share capital equal % of votes at the General Meeting as at 11 May 2010*** |
|---|---|---|
| NFI Magna Polonia S.A.[1] | 5.994.459 | 66,00% |
| Pioneer Fundusz Inwestycyjny Otwarty open end investment fund managed by Pioneer Pekao Investment S.A. | 883.689 | 9,73% |
| Maciej Gawęda | 535.700 | 5,90% |
| Pekao Otwarty Fundusz Emerytalny open end pension fund managed by Powszechne Towarzystwo Emerytalne S.A. | 513.812 | 5,66% |

[1] Rasting Limited, with the seat in Nicosia, Cyprus, indirectly holds 5,994,459 shares of Mediatel entitling Rasting to exercise 5,994,459 votes at the General Meeting of Shareholders of the Company, constituting

66% in the share capital and representing 66% of votes at the General Meeting of Shareholders via its subsidy NFI Magna Polonia S.A. Number of shares as at the day of making the results of the tender for the subscription for Mediatel shares public i.e. as at 6 April 2009, which tender was prior opened by NFI Magna Polonia S.A.

On 15 April 2010 the Company received a notification dated of 14 April 2010 sent by Pioneer Pekao Investment Management SA concerning their increase in the number of votes exercised by them up to the level of 9.73% of the total number of votes at the General Meeting of Shareholders of Mediatel with respect to financial instruments comprised in the portfolio of the open-end investment fund Pioneer Fundusz Inwestycyjny Otwarty (Pioneer FIO) set up by the company of investment funds Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA. The said change is the result of the reorganization of the open-end investment funds set up by Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA into sub-funds of Pioneer FIO fund.

**Mediatel S.A. Capital Group**

# CONDENSED CONSOLIDATED FINANCIAL STATEMENT for the 1st QUARTER of 2010

Condensed quarterly consolidated balance sheet

Condensed quarterly consolidated profit and loss account

Condensed quarterly consolidated statement on changes in the shareholders' equity

Condensed quarterly consolidated cash flow statement

Notes to the condensed quarterly consolidated financial statement

**MEDIATEL S.A. CAPITAL GROUP**
**CONDENSED QUARTERLY CONSOLIDATED BALANCE SHEET**
**for the 1st quarter of 2010**
**(all amounts are quoted in thousands, unless otherwise specified)**

| | Note | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|---|
| | | PLN | PLN |
| **Fixed assets** | | | |
| Tangible fixed assets | 6 | 18 345 | 19 301 |
| Intangible assets | 5 | 15 834 | 17 207 |
| Goodwill | | 1 488 | 2 123 |
| Deferred tax assets | | 976 | 976 |
| Trade and other receivables | | 96 | 40 |
| Accruals | | 709 | 500 |
| Other financial assets | | - | 8 |
| **Total fixed assets** | | **37 448** | **40 155** |
| | | | |
| **Current assets** | | | |
| Inventories | | 82 | 118 |
| Trade receivables | 7 | 32 685 | 35 959 |
| Other receivables | 7 | 6 003 | 5 867 |
| Deferred expenditures | | 550 | 550 |
| Cash and cash equivalents | 8 | 1 720 | 1 224 |
| Other financial assets | 9 | 6 133 | 700 |
| **Total current assets** | | **47 173** | **44 418** |
| | | | |
| **Available for sale non-current assets** | 10 | 867 | - |
| | | | |
| **Total assets** | | **85 488** | **84 573** |

(all amounts are quoted in thousands, unless otherwise specified)

| | Note | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|---|
| | | PLN | PLN |
| **Equity** | | | |
| Share capital | 11 | 1 817 | 1 817 |
| Supplementary capital | | 34 525 | 34 525 |
| Share premium | 12 | 5 286 | 5 286 |
| Revaluation reserve | | 83 | 83 |
| Profit (loss) brought forward | | 769 | (4 347) |
| Net profit (loss) in the financial period | | (4 874) | 5 116 |
| **Capital attributable to the shareholders of the parent company** | | **37 606** | **42 480** |
| **Shares of the minority shareholders** | | - | - |
| **Total equity** | | **37 606** | **42 480** |
| | | | |
| **Long term liabilities** | | | |
| Bank loans and credits | 13 | 2 670 | 3 004 |
| Deferred tax liabilities | | 176 | 126 |
| Long-term liabilities under financial lease | | 1 394 | 1 592 |
| **Total long term liabilities** | | **4 240** | **4 722** |
| | | | |
| **Short-term liabilities** | | | |
| Trade liabilities | | 25 807 | 20 743 |
| Other liabilities | | 5 310 | 5 028 |
| Income tax liabilities | | 111 | 110 |
| Short-term liabilities under financial lease | | 1 012 | 1 052 |
| Short-term bank loans and credits | 13 | 10 453 | 9 463 |
| Short-term reserves | | 950 | 976 |
| **Total short-term liabilities** | | **43 643** | **37 372** |
| | | | |
| **Total liabilities** | | **85 488** | **84 573** |

**MEDIATEL S.A. CAPITAL GROUP**
**CONDENSED QUARTERLY CONSOLIDATED PROFIT AND LOSS ACCOUNT**
**for the 1st quarter of 2010**
**(all amounts are quoted in thousands, unless otherwise specified)**

| | Note | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|---|
| | | PLN | PLN |
| Income on sales | 14 | 25 358 | 55 339 |
| Costs of goods sold | | 24 107 | 48 341 |
| **Gross profit (loss) on sales** | | **1 251** | **6 999** |
| Cost of sales | | 1 275 | 1 418 |
| Management overheads | | 3 161 | 3 739 |
| **Profit (loss) on sales** | | **(3 185)** | **1 841** |
| Other operating income | 16 | 244 | 102 |
| Other operating cost | 17 | 1 543 | 786 |
| **Profit (loss) on operating activities** | | **(4 484)** | **1 156** |
| Financial income | 18 | 196 | 2 152 |
| Financial cost | 19 | 535 | 237 |
| **Pre-tax profit (loss)** | | **(4 823)** | **3 071** |
| Income tax | | (51) | (572) |
| **Net profit (loss)** | | **(4 874)** | **2 499** |
| **Total profit** | | | |
| Net profit attributable to: | | | |
| -shareholders of Mediatel Group | | (4 874) | 2 499 |
| - minority shareholders | | - | - |
| | | **(4 874)** | **2 499** |
| Total profit attributable to | | | |
| -shareholders of Mediatel Group | | (4 874) | 2 499 |
| - minority shareholders | | - | - |
| | | **(4 874)** | **2 499** |
| **Earnings per share attributable to Mediatel shareholders (in PLN per share)** | | | |
| Number of shares (in items) | | **9 082 515** | **6 416 186** |
| - basic and diluted | | (0,54) | 0,39 |

**MEDIATEL S.A. CAPITAL GROUP**
**CONDENSED QUARTERLY CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**for the 1st quarter of 2010**
**(all amounts are quoted in thousands, unless otherwise specified)**

| | Note | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|---|
| | | PLN | PLN |
| **Share capital** | | | |
| The opening balance | | 1 817 | 1 817 |
| Issue of share capital | | - | - |
| **The closing balance** | 11 | **1 817** | **1 817** |
| **Share premium** | | **29 471** | **29 471** |
| **Other capital (from the transformation of the entity, financing of losses brought forward)** | | **3 949** | **3 949** |
| **Share premium** | | | |
| The opening balance | | 5 286 | - |
| Distribution of the financial result brought forward | | - | 5 286 |
| **The closing balance** | 12 | **5 286** | **5 286** |
| **Profit brought forward** | | **1 105** | **1 105** |
| **Retained profit/loss brought forward** | | | |
| The opening balance | | **(6 307)** | **(6 307)** |
| Distribution of the financial result brought forward | | 8 608 | 8 608 |
| Distribution of profit - dividend | | (1 362) | (1 362) |
| Allocation to supplementary capital | | (5 286) | (5 286) |
| **The closing balance** | | **(4 347)** | **(4 347)** |
| **Net profit (loss)** | | | |
| The opening balance | | 5 116 | - |
| Revaluation reserve | | 83 | 83 |
| Financial result earned in the accounting period | | (4 874) | 5 116 |
| **The closing balance** | | **325** | **5 199** |
| **Total equity** | | **37 606** | **42 480** |
| **The opening balance** | | **42 480** | **38 644** |
| **The closing balance** | | **37 606** | **42 480** |

**MEDIATEL S.A. CAPITAL GROUP**
**CONDENSED QUARTERLY CONSOLIDATED CASH FLOW STATEMENT**
**for the 1st quarter of 2010**
**(all amounts are quoted in thousands, unless otherwise specified)**

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| **Net cash and cash equivalents from operating activities** | | |
| Pre-tax profit adjusted with the balance sheet value of cash and cash equivalents | (4 823) | 2 499 |
| **Total adjustments** | **2 758** | **1 448** |
| Depreciation | 1 030 | 862 |
| Amortisation | 1 540 | 1 132 |
| Profit (loss) on the sale of fixed assets | 126 | - |
| Change in the reserves | (25) | (37) |
| FX gains and losses | 87 | - |
| Other adjustments | - | (509) |
| Net cash flows from operating activities | **(2 065)** | **3 947** |
| **Net cash flows from operating activities prior to changes in the working capital** | | |
| Change in the inventories | 36 | 83 |
| Change in the receivables | 2 940 | (2 537) |
| Change in the liabilities | 5 748 | (1 615) |
| **Net cash flows from operating activities** | **6 659** | **(122)** |
| **Cash flows from operating activities** | | |
| Interest, share in profit | - | (12) |
| Paid income tax | - | (441) |
| **Net cash flows from operating activities** | **6 659** | **(575)** |
| **Cash flows from investment activities** | | |
| Interest | - | 17 |
| Inflows from the sale of fixed assets | 15 | 80 |
| Expenditure for the purchase of fixed assets | (254) | (276) |
| Purchase of a subsidy | (848) | - |
| Loans granted | (40) | - |
| Purchase of securities | (5 202) | - |
| Net cash and cash equivalents from investment activities | **(6 329)** | **(179)** |
| **Cash flows from financial activities** | | |
| Paid interest | (198) | (187) |
| Repayment of loans | (952) | (532) |
| Obtained loans and credits | 423 | (288) |
| Repayment of liabilities under financial lease | (234) | (251) |
| Change in overdrafts | 1 126 | - |
| **Net cash and cash equivalents from financial operations** | **165** | **(1 258)** |
| **Increase / (decrease) in net cash and cash equivalents** | 495 | (2 012) |
| Opening balance of cash and cash equivalents | 1 224 | 6 237 |
| change in cash and cash equivalents under FX gains and losses | - | 276 |
| Closing balance of cash and cash equivalents | **1 719** | **4 501** |

(all amounts are quoted in thousands, unless otherwise specified)

## 1. General Information

Mediatel S.A. (hereinafter „the Company", „Mediatel", „the Dominant Unit", „the Dominant Entity", „the Parent Company") is a joint stock company registered in Poland. The seat of the Dominant Unit is in Warsaw, at ul. Bitwy Warszawskiej 1920 7A.

The scope of business of the Parent Company and its subsidiaries consists in the services:

- telecommunications services and data transmission services (including telephone connections, Voice over Internet Protocol („VoIP"), voice mail, access to the Internet)
- services of the collocation centre,
- services of the wholesale termination of telephone connections

This consolidated financial statement incorporates financial statements of the Parent Company and its subsidiaries (jointly called 'the Group'). The list of the Issuer's subsidies is comprised in Note 2.

The Dominant Unit is entered into the register of business entities of the National Court Register kept by the District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register, under entry no KRS 0000045784

## 2. The companies consolidated in the consolidated financial statement Companies covered by the consolidated statement

This condensed consolidated quarterly financial statement drawn up as at 31 March 2010 relates to the following business units:

| *No* | *Company Name* | *Seat* | *Scope of the Company Business* | *Direct shares of the Parent Company in the share capital* | *Total share of the Parent Company (direct and indirect) in the total number of votes* |
|---|---|---|---|---|---|
| 1. | Mediatel S.A. – **Parent Company** | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw | telecommunications activity, access to the Internet, wholesale of telephone connections, services of the collocation centre | N/A | N/A |
| 2. | Elterix S.A. – **Subsidiary** | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw | telecommunications activity, access to the Internet, wholesale of telephone connections, services of the collocation centre | 99,16% | 99,16% |
| 3. | Mediatel 4B Sp. z o. o. (formerly e-Tel Polska Sp. z o.o.) – **Subsidiary** | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw | Elterix S.A. subsidiary, telecommunications activity, access to the Internet, wholesale of telephone connections, services of the collocation centre | 0% | 99,16% |
| 4. | –Concept-T Sp. z o.o. – **Subsidiary** | ul. Bitwy Warszawskiej 1920r. 7A, 02-366 Warsaw | Elterix S.A. subsidiary, telecommunications activity, wholesale of telephone connections, services of the collocation centre. | 0% | 99,16% |
| 5. | Velvet Telecom LLC – **Subsidiary** | 550-H Grand Street, Suite GB New York, NY 100002-4226 USA | Mediatel S.A. subsidiary, telecommunications activity, wholesale of telephone connections, | 100% | 100% |

## 3. Basis for drawing up the consolidated financial statement

This condensed quarterly consolidated financial statement drawn up for the period from 1 January 2010 to 31 March 2010 was prepared in accordance with the International Financial Reporting Standards approved of by the EU, hereinafter referred to IFRS, effective as at 1 January 2010. The condensed quarterly consolidated financial statement was prepared in accordance with the International Accounting Standards 34 'Interim Financial Reporting' (IAS 34). The accounting principles adopted at drawing up of this interim consolidated financial statement are compliant with the principles adopted at drawing up of the annual consolidated financial statement for the accounting year ended on 31 December 2009, except for new accounting standards applied as of 1 January 2010.

All the entities of the Group keep their books of accounts in accordance with the International Accounting Principles.  All the subsidiary entities, i.e. those whose financial and business operations are controlled by the Group as a result of exercising the majority of votes with regard to the decision making bodies of those companies are subject to consolidation.

The operating activities of the Dominant Unit and its subsidiaries are neither of seasonal nor of cyclical nature.

For the financial statements to be in compliance with IFRS approved of by EU, it is necessary to apply certain accounting estimates and to adopt certain assumptions on future events. The areas where the assumptions were of significant value for this financial statement were specified in Note 4.

**New standards, amendments and interpretations**

The following new accounting standards, amendments to the standards and interpretations have been applied by the Group in 2010:

- IFRS 3 (revised) "Business combinations", IAS 27 (revised) “Consolidated and Separate Financial Statements” ;

- Revised IAS 39 'Financial Instruments: Recognition and Measurement” -, Hedged items eligible for hedge accounting';

- Revised IFRS 2 “Group cash-settled share-based payments”

- Revised IFRS 1 "First-time Adoption of International Financial Reporting"

- Changes resulting from the annual review of IFRS,

- IFRIC 17, "Distribution of non-cash assets to owners",

**The new accounting standards, amendments to the standards and interpretations that were not mandatory in 2010 and were not applied by Mediatel Group have already been published:**

- Revised IAS 32 'Financial Instruments: presentation - "Classification of rights issues' effective for annual periods beginning on or after 1 February 2010. The revised standard defines how to recognize the shareholders' rights. The changes have not yet been approved of by EU.

- IAS 24 (amendment) "Related Party Disclosures", effective for annual periods beginning on or after 1 January 2011. The amended standard simplifies the definition of a related party, specifies it more precisely and eliminates ambiguities of the previous definition (not yet approved by EU).

- IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2013. IFRS 9 is the first part of Stage I of IASB project to replace IAS 39. IFRS 9 introduces improved and simplified approach to the classification and evaluation of financial assets as compared to the requirements of IAS 39 (not yet approved by EU).

- IFRIC 19 ' Settlement of Financial Liabilities with Equity' effective for annual periods beginning on or after 1 July 2010. It explains the accounting principles applied in the situation when, as a result of negotiations by an entity of its debt repayment conditions, the financial liability is paid in total or in part through the issue of capital instruments for the benefit of the Borrower (not yet approved by EU).

- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement' effective for annual periods beginning on or after 1 January 2011. The changes apply in a limited scope: when an entity complies with the minimum financial requirements and pays the contributions earlier to comply with the requirements. The changes allow such an entity to recognize such earlier payment as an item of assets (not yet approved by EU).

- Revised IFRS 1 "First-time Adoption of International Financial Reporting" limited release from the duty to present comparative data required by IFRS 7 for those adopting IFRS for the first time, effective for annual periods beginning on or after 1 July 2010. In accordance with the change the entities adopting IFRS for the first time adopt the same transitional provisions as other entities, comprised in the Amendments to IFRS 7 "Improvements to financial instruments disclosures (not yet approved by EU).

**Changes in estimated values**

In the accounting period ended on 31 March 2010 the Group did not make any material changes in estimated values.

**Assumption of the ongoing business activity**

The financial statement prepared as of 31 March 2010 was drawn up at the assumption of the ongoing business activity by the entities of the Group in the foreseeable future, in the period not shorter than 12 months until 31 March 2011.

## 4. Significant accounting estimates and judgments

Mediatel Group makes estimates and adopts assumptions concerning the future. The so prepared judgments and estimates are subject to review. Main estimates are specified below:

**Useful life of fixed assets**

Fixed assets comprising mainly fixed tangible and intangible assets constitute the crucial part of the assets of Mediatel Group. First of all, market conditions may affect the change in their estimated value over their useful lives. Mediatel Group shall carry out annual reviews to ascertain the correctness of their estimates.

The following indicators are taken into account by the Management Board of the Company at the initial determination and subsequent reviews of the estimated useful life of an asset:

- expected physical wear,
- technological loss of usability,
- useful lives of similar assets,
- period of foreseeable economic profits from the asset.

**Customer relationships**

In March 2008 Mediatel Company acquired selected assets of Premium Internet S.A. („PI”) from PI. The selected assets comprise the rights and duties under the agreements and other rights and movables, the assets of PI, connected with the international voice termination services. Allocating the purchase price Mediatel classified customer relationships as an item of intangible assets. Fair value of the customer relationships was assessed on the basis of the economic surplus method. The analysis required the adoption of certain assumptions concerning, among others: expected annual cash flows, expected period of economic benefits in the utility period as well as the risk-adjusted discount rate.

(all amounts are quoted in thousands, unless otherwise specified)

## 5. Intangible assets

*Current period*

| | Software and computer licenses | Patents, licences, other - customer relationships | Total |
|---|---|---|---|
| **GROSS VALUE** | | | |
| **As at 1 January 2010** | 6 503 | 26 222 | 32 725 |
| Accruals | 400 | - | 400 |
| in this created internally | - | - | - |
| Reductions | - | (254) | (254) |
| **As at 31 March 2010** | **6 903** | **25 968** | **32 871** |
| **REDEMPTION** | | | |
| **As at 1 January 2010** | 5 783 | 9 735 | 15 518 |
| Depreciation for the year | 259 | 1 281 | 1 540 |
| Reduction | - | (21) | (21) |
| **As at 31 March 2010** | **6 042** | **10 995** | **17 037** |
| **NET VALUE** | | | |
| As at 1 January 2010 | **720** | **16 487** | **17 207** |
| in this lease | - | - | - |
| As at 31 March 2010 | **861** | **14 973** | **15 832** |
| in this lease | - | - | - |

(all amounts are quoted in thousands, unless otherwise specified)

*Comparative period*

| | Software and computer licenses | Patents, licences, other - customer relationships | Total |
|---|---|---|---|
| **GROSS VALUE** | | | |
| **As at 1 January 2009** | 351 | 23 155 | 23 506 |
| Accruals | 6 | 7 | 13 |
| in this created internally | - | - | - |
| Reductions | - | - | - |
| **As at 31 March 2009** | **357** | **23 162** | **23 519** |
| **REDEMPTION** | | | |
| **As at 1 January 2009** | 266 | 9 632 | 9 898 |
| Depreciation for the year | 16 | 1 117 | 1 133 |
| Reduction | - | - | - |
| **As at 31 March 2009** | **282** | **10 749** | **11 031** |
| **NET VALUE** | | | |
| As at 1 January 2009 | **85** | **13 523** | **13 608** |
| in this lease | - | - | - |
| As at 31 March 2009 | **75** | **12 413** | **12 488** |
| in this lease | - | - | - |

**(all amounts are quoted in thousands, unless otherwise specified)**

## 6. Tangible fixed assets

### *Current period*

| | Land, building and plant | Machines and machinery | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| **As at 1 January 2010** | 7 170 | 44 466 | 2 988 | 648 | 2 166 | 57 438 |
| Accruals | 6 | 238 | 83 | 4 | 291 | 622 |
| Direct acquisition | 6 | 238 | - | 4 | 10 | 258 |
| Lease | - | - | 83 | - | 175 | 258 |
| Investments in a third party facility | - | - | - | - | - | - |
| Revaluation | - | - | - | - | - | - |
| Created internally | - | - | - | - | 106 | 106 |
| Reductions | - | (88) | (493) | (2) | (455) | (1 038) |
| **As at 31 March 2010** | **7 176** | **44 616** | **2 578** | **650** | **2 002** | **57 022** |
| **REDEMPTION AND IMPAIRMENT** | - | - | - | - | - | - |
| **As at 1 January 2010** | 4 921 | 31 490 | 1 181 | 545 | - 0 | 38 137 |
| Depreciation for the year | 137 | 610 | 263 | 20 | - | 1 030 |
| Reductions under liquidation or sale | - | (54) | (436) | - | - | (490) |
| Reductions under revaluation | - | - | - | - | - | - |
| **As at 31 March 2010** | 5 058 | 32 046 | 1 008 | 565 | 0 | 38 677 |
| **NET VALUE** | - | - | - | - | - | - |
| As at 1 January 2010 | 2 249 | 12 976 | 1 807 | 103 | 2 166 | 19 301 |
| in this lease | - | 1 624 | 1 807 | - | - | 3 431 |
| As at 31 March 2010 | 2 118 | 12 570 | 1 570 | 85 | 2 002 | 18 346 |
| in this lease | - | 1 558 | 1 570 | - | - | 3 128 |

(all amounts are quoted in thousands, unless otherwise specified)

### *Comparative period*

| | Land, building and plant | Machines and machinery | Means of transport | Other fixed assets | Fixed assets under construction | Total |
|---|---|---|---|---|---|---|
| **Non-current assets** | | | | | | |
| **As at 1 January 2009** | 8 207 | 53 860 | 4 421 | 301 | 300 | 67 089 |
| Accruals | - | 77 | 40 | 15 | 306 | 438 |
| Acquisition | - | 47 | - | 15 | 306 | 368 |
| Direct acquisition | - | - | - | - | - | - |
| Lease | - | - | 40 | - | - | 40 |
| Investments in a third party facility | - | - | - | - | - | - |
| Revaluation | - | - | - | - | - | - |
| Created internally | - | - | - | - | - | - |
| Reductions | - | - | (24) | - | - | (24) |
| **As at 31 March 2009** | **8 207** | **53 937** | **4 437** | **316** | **606** | **67 503** |
| **REDEMPTION AND IMPAIRMENT** | | | | | | |
| **As at 1 January 2009** | 5 518 | 39 125 | 1 585 | 162 | - | 46 390 |
| Costs of redemption | - | - | - | - | - | - |
| Depreciation for the year | 26 | 589 | 182 | 8 | - | 805 |
| Reductions under liquidation or sale | - | - | (4) | - | - | (4) |
| Reductions under revaluation | - | - | - | - | - | - |
| **As at 31 March 2009** | 5 544 | 39 714 | 1 763 | 170 | - | 47 191 |
| **NET VALUE** | - | - | - | - | - | - |
| As at 1 January 2009 | 2 689 | 14 735 | 2 836 | 139 | 300 | 20 699 |
| in this lease | - | - | 2 647 | - | - | 2 647 |
| As at 31 March 2009 | 2 663 | 14 223 | 2 674 | 146 | 606 | 20 312 |
| in this lease | - | - | 2 674 | - | - | 2 674 |

As at the date of drawing up this financial statement none of the fixed assets of the Group was pledged.

In the last three month period the Group recognized no write offs with regard to fixed assets.

(all amounts are quoted in thousands, unless otherwise specified)

## 7. Trade and other receivables

The Management Board of the Group is of the opinion that the book value of financial liabilities is similar to their fair value. Main credit risk of the Group is first of all connected with trade receivables. Figures presented in the balance sheet are net values less write downs, estimated on the basis of former experiences and current evaluation of the market situation

Ageing of receivables as at 31 March 2010 and as at 31 December 2009 is as follows:

| | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| Trade receivables due up to 30 days | 14 213 | 19 890 |
| Trade receivables due from 30 days to 90 days | 3 642 | 7 992 |
| Trade receivables due from 90 days to 180 days | 139 | 0 |
| Past due receivables, collectable within 30 days | 6 149 | 976 |
| Past due receivables, collectable the period from 30 to 90 days | 4 377 | 440 |
| Past due receivables, collectable the period from 90 to 180 days | 3 683 | 4 859 |
| Past due receivables, collectable the period over 180 days | 1 103 | 2 731 |
| Uncollectable receivables and bad debt | 1 418 | 911 |
| **Total gross trade receivables** | **34 724** | **37 799** |
| Add back of uncollectable trade receivables and bad debt | (2 039) | (1 840) |
| **Total net trade receivables** | **32 685** | **35 959** |
| Statutory receivables (except for deferred expenditure) | 1 575 | 1 267 |
| Pursued in court | - | 28 |
| Deposits | 2 762 | 2 701 |
| Receivables from employees | 11 | 76 |
| Accruals and other receivables | 927 | 1 176 |
| **Total gross other receivables** | **5 275** | **5 248** |
| Add back of other receivables | (72) | (210) |
| **Total net other receivables** | **5 203** | **5 038** |
| **Total gross receivables:** | **39 999** | **43 047** |
| Total add back of receivables | (2 111) | (2 050) |
| **Total net receivables:** | **37 888** | **40 997** |
| Deferred expenditures | 550 | 550 |
| **Total receivables:** | **38 438** | **41 547** |

(all amounts are quoted in thousands, unless otherwise specified)

## 8. Cash and cash equivalents

| | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| Cash and cash equivalents | 1 720 | 1 224 |
| Overdrafts | (7 090) | (5 964) |
| | (5 370) | (4 740) |

For the requirements of the consolidated cash flow statement, cash and cash equivalents as at 31 March 2010 and as at 31 December 2009 comprise the overdraft in the amounts 7,090,000 PLN and 5,964 PLN respectively.

## 9. Other short-term financial assets/ Available for sale assets

On 29 December 2009 Mediate S.A. acquired from Rasting Limited 1 ordinary bearer bond series A number 06 of the nominal valued of 1,000,000 PLN with the maturity falling to 10 January 2011. The price was paid on the following dates: 700,000 PLN on 29 December 2009 and 300,000 PLN until 31 December 2010. As at the date of drawing up this financial statement the amount outstanding under the acquisition of bonds was 150,000 PLN.

In the period under report Mediatel S.A. concluded the following transactions on the private equity market concerning the acquisition of bonds issued by NFI Magna Polonia S.A. :

- On 15 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 05 of the nominal value of 1,000,000.00 PLN for the price of 1,002,500.00 PLN with maturity falling to 10 January 2011,
- On 22 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 04 of the nominal value of 1,000,000.00 PLN for the price of 1,002,500.00 PLN with maturity falling to 10 January 2011,
- On 25 February 2010 Mediatel purchased 1 ordinary bearer bond series A no 03 of the nominal value of 1,000,000.00 PLN for the price of 1,012,091.23 PLN with maturity falling to 10 January 2011,
- On 10 March 2010 Mediatel purchased 1 ordinary bearer bond series A no 02 of the nominal value of 1,000,000.00 PLN for the price of 1,016,189.75 PLN with maturity falling to 10 January 2011,
- On 11 March 2010 Mediatel purchased 1 ordinary bearer bond series A no 01 of the nominal value of 1,000,000.00 PLN for the price of 1,016,962.22 PLN with maturity falling to 10 January 2011,

NFI Magna Polonia S.A. bonds series A are interest accruing bonds, where interest accrues at WIBOR 6M rate as of the interest set up date plus 5% per annum. The bonds are secured with registered pledge set upon 5,000,000 shares in share capital of Mediatel S.A.

On 6 April 2010 6 bonds to the bearer series A, numbers from 1 to 6 were sold by Mediatel following the commission filed with the Brokerage House BOŚ S.A. The transaction value was 6,072,746.28 PLN.

On 6 April 2010 Mediatel acquired 60 registered, unsecured bonds series B issued by NFI Magna Polonia S.A., of the nominal value 100,000 PLN each, with the maturity date falling to 31 December 2011. The bond accrues interest in the rate 7.25% per annum.

## 10. Available for sale assets

On 10 April 2010 Velvet Telecom concluded with Indian Orchard Capital LLC a contract for the sale of 100% of shares in its subsidiary Latcom de Brazil. The value of the transaction was 275,000 USD. The payment due under the conclusion of the contract of 10 April 2010 shall be settled in two equal instalments

(all amounts are quoted in thousands, unless otherwise specified)

(dated of 10 April and 30 April 2010) and offset with the liability of Mediatel S.A. with regard to Indian Orchard Capital arising under the acquisition of shares of Velvet Telecom.
In connection with the aforementioned contract the assets being the scope thereof were recognised as available for sale assets. The ownership of the shares was transferred on the day the contract was concluded.

## 11. Share capital of the Dominant Unit

As at 31 March 2010 the share capital of the Company consisted of 9,082,515 ordinary shares. Each ordinary share carried one vote at the General Meeting of Shareholders. Members of the Management Board are elected by majority of votes by the Members of the Supervisory Board.

| | Number of issued shares | Share capital |
|---|---|---|
| **As at 1 January 2007** | **3 035 300** | **607 060** |
| **As at 31 December 2007** | **3 035 300** | **607 060** |
| Issue of shares series F | 300 000 | 60 000 |
| Issue of shares series G | 1 385 500 | 277 100 |
| Issue of shares series H | 3 921 715 | 784 343 |
| Issue of shares series I | 440 000 | 88 000 |
| **As at 31 March 2010** | **9 082 515** | **1 816 503** |

In accordance with the information in possession of the Company submitted by the shareholders, as at 31 March 2010 the following persons and (entities) other than members of administrative, managing and supervising bodies of the Company held over 5% of shares in the share capital of Mediatel:

| ***Shareholder*** | ***Number of shares held and number of votes exercised at the General Meeting of Shareholders as at 31 March 2010*** | ***% in the share capital equal % of votes at the General Meeting of Shareholders as at 31 March 2010*** |
|---|---|---|
| NFI Magna Polonia S.A.(1) | 5.994.459 | 66,00% |
| Maciej Gawęda | 535.700 | 5,90% |
| Pekao Otwarty Fundusz Emerytalny open end pension fund managed by Powszechne Towarzystwo Emerytalne S.A. | 513.812 | 5,66% |
| Open-end investment funds under the management of Pioneer Pekao Investment Management S.A.(3) | 454.130 | 5,00% |
| *- Pioneer Małych i Średnich Spółek Rynku Polskiego Fundusz Inwestycyjny Otwarty(4)* | *454 860* | *5,01%* |

(1) Rasting Limited, with the seat in Nicosia, Cyprus, indirectly via NFI Magna Polonia, its subsidiary, holds 5,994,459 shares of Mediatel entitling Rasting to exercise 5,994,459 votes at the General Meeting of Shareholders of the Company, constituting 66% in the share capital and representing 66% of votes at the General Meeting of Shareholders.
Number of shares as at the day of making the results of the tender for the subscription for Mediatel shares public i.e. as

at 6 April 2009, which tender was prior opened by NFI Magna Polonia S.A. on 26 February 2009.

(2) Number of shares based on the notification filed with the Company on 14 September 2009 by Pioneer Pekao Investment Management SA(hereinafter "PPIM") concerning all the PPIM clients in performance by PPIM of the financial instruments portfolio management services, provided with respect to financial instruments comprised in the managed portfolios as well as in the name of the following funds: Pioneer Akcji Polskich open-end fund, Pioneer Małych i Średnich Spółek Rynku Polskiego open-end fund, Pioneer Zrównoważony open-end fund.

(3) Number of shares based on the notification filed with the Company on 13 October 2009 by PPIM in the name of Pioneer Małych i Średnich Spółek Rynku Polskiego open-end fund.

All the shares issued by the Dominant Company were the ordinary shares entitling to no preference in the distribution of profit.

### Capital available for the distribution to shareholders

Under the Commercial Companies Code of 15 September 2000 only the capital raised from the net profit disclosed in the financial statement of the individual company may be distributed among the shareholders.

## 12. Share premium

| | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| **Share premium** | | |
| The opening balance | - | - |
| Distribution of the financial result brought forward | 5 286 | - |
| **The closing balance** | **5 286** | **-** |

On 26 May 2009 Ordinary General Meeting of Shareholders adopted a resolution on allocating the remaining part of profit in the amount of 5,285,789.05 PLN to the created in this purpose reserve capital with the intention of further dividend or dividend advance payments.

## 13. Liabilities under loans and credits

As at 31 March 2010 companies of Mediatel Group are parties to the following loans:

| | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|
| | PLN in thousands | PLN in thousands |
| **Long-term** | | |
| Bank credits | 2 670 | 3 004 |
| | **2 670** | **3 004** |
| **Short-term** | | |
| Overdrafts | 7 090 | 5 964 |
| Loan from NFI Magna | 204 | 348 |
| Other bank credits | 3 159 | 3 150 |
| | **10 453** | **9 462** |

The fair value of the liabilities does not differ from the carrying amount of the bank credit.

*Investment credit agreement between BRE Bank and Mediatel*

On 27 March 2008 BRE Bank S.A. granted Mediatel an investment loan of 6,000,000 PLN to refinance the purchase of shares in Mediatel 4B Sp. z o.o. The loan was granted in one tranche. The interest shall accrue in 1-month periods and shall be paid by the Borrower on the last working day of each month during the credit period and the final repayment day of the last single draw down.

The bank loan shall be repaid in equal monthly instalments payable on the last working day of each month, where 35 instalments shall amount to 167 thousand PLN and the 36th instalment - to 155 thousand PLN. The first instalment was paid on 29 August 2008.

The security for the repayment of the bank loans is as follows:

1) blank bill, issued by the Borrower, endorsed by the Borrower
2) cash in the amount of 1,700,000 PLN deposited with the Bank
3) credit debt accession agreement concluded by the Borrower and Elterix S.A. and Concept – T Sp. z o.o. of 27 March 2008

*The Credit Agreement No 02/061/09/Z/VU for an overdraft and Annex no 1 thereto of 30 March 2010.*

The Credit Agreement as at 31 March 2009 („Agreement”) signed between BRE Bank and Mediatel S.A. (Borrower 1), Mediatel 4B Sp. z o.o. (Borrower 2) and Elterix S.A. (Borrower 3), based on which BRE Bank S.A. granted the Borrowers the cumulative overdraft credit in the amount not exceeding 6.000.000,- PLN.

Financial means from the credit will be allocated and used for:
a) repayment of the overdraft granted by the Bank, Credit Agreement No 02/424/07/Z/VV of 6 November 2007;
b) repayment of the overdraft granted by the Bank, Credit Agreement No 02/070/06/Z/VV of 20 March 2006;
c) financing current business activity of the Borrowers.

From the amount of credit used the Bank will retrieve the variable interest rate calculated on an annual basis. The amount of variable rate will be equal to the rate for deposits WIBOR O / N quotations for 1 day before the date to bring the resources available (and before the update date) increased by 2.7 % for Bank margin. The interest shall accrue in 1-month periods and shall be paid by the Borrowers on the last working day of each month during the credit period and the final repayment of the loan.

The Borrowers jointly and severally undertake to repay the loan, accrued interest, commissions and possibly other costs in the first place before any other payments, and that all liabilities under this Agreement shall apply to the Borrowers jointly and severally. The loan was granted until 31 March 2010.

A blank promissory note, issued by Mediatel S.A., endorsed by its subsidiaries: Mediatel 4B sp z o.o. and Elterix S.A., enclosed with the promissory note statement of the Company is the Bank's collateral for the repayment of the debt. Declarations of will filed by the Borrowers on submission to enforcement procedures up to PLN 6,600,000, authorization to submit a motion to the court for assigning the enforceability clause to the declarations and agreement for the sale of past due claims of BRE Bank are the Bank's collateral for the repayment of the Company liabilities resulting from this agreement.

On 30 March 2010 the Companies signed with BRE Bank S.A. Annex no 1 to the Credit Agreement for an overdraft. By virtue of the provisions of the Annex the total amount of available overdraft was increased up to 8,000,000 PLN. The maturity for the repayment of the loan falls to 29 April 2011. The interest rate shall remain unchanged.

*Investment credit agreement with an annex of 31 December 2009 concluded between BRE Bank and Mediatel 02/232/09/D/IN*

On 21 September 2009 the Company concluded an investment credit agreement for the credit of 1 200 000 USD with BRE Bank. Financial means from the credit will be allocated and used for financing 2/3 of the 6 instalments due for payment under the acquisition of shares in Velvet Telecom LLC. The first tranche in the amount of 300 000 USD was used on 30 September 2009 and other tranches amounting from 150 000 to 300 000 USD were eventually used until 15 January 2009.
The credit shall be repaid in 36 instalments, payable on the last day of a given month. Maturity of the first instalment in the amount of 33 500 USD fell to 29 January 2010, maturity of the last instalment (27 500 USD) falls to 31 December 2010.

Security of the repayment of the credit is as follows:
1) an Annex to the cash deposit agreement of 27 March 2008 (for the amount of 1 700 000 PLN) filed with the Bank, the deposit constitutes a collateral for the credit granted to the Company under the credit agreement no 02/066/08/Z/IN of 27 March 2008 and for the credit granted under the credit agreement no 02/232/09/D/IN of 21 September 2009.
2) blank promissory note, issued by Mediatel S.A., endorsed by Mediatel 4B Sp. z o.o., Elterix S.A. and Concept-T Sp. z o.o. enclosed with the statement of the sureties' bill of exchange of 21 September 2009.
3) the security for the repayment of the liabilities resulting for the Agreement is also a statement by Mediatel S.A. to submit to execution of the bank enforcement title up to 1,500,000 USD, the authorization for the Bank to request the court to declare this title enforceable by 31 December 2013 at the latest.

Interest on the credit was set as LIBOR rate for 1-month deposits in USD translated at the rate quoted 2 working days prior the draw down date and prior to each interest accruing period, increased with the Bank margin (3.7% as at the conclusion of this agreement). The interest shall be payable on the last working day of the month and on the final repayment of a single draw down.

*Loan agreements concluded between NFI Magna Polonia S.A. and Mediatel S.A.*

On 11 September 2009 the Company concluded, with NFI Magna Polonia S.A, a loan agreement for a loan of 800 000 PLN for financing the current operations. On 30 November 2009 Mediatel S.A. repaid the loan.

On 30 September 2009 the Company concluded, with NFI Magna Polonia S.A, a loan agreement for a loan of 1 500 000 PLN for financing the current operations. By 4 December 2009 Mediatel S.A. had repaid 1 200 000 PLN of the loan.

Maturity for the repayment of loans increased by interest of 10.5% per annum was set for 15 December 2009, however, by virtue of the annex no 1 to the loan agreement of 30 September 2009, the final repayment date of the loan was set for 31 May 2010.

As at the balance sheet date, under the loan granted by NFI Magna Polonia S.A., the outstanding amount was 204 000 PLN.

(all amounts are quoted in thousands, unless otherwise specified)

## 14. Income on sales

Sales income of Mediatel Group is as follows:

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Income on sales of goods | 731 | 345 |
| Income on sales of telecommunications services | 24 627 | 54 994 |
| | **25 358** | **55 339** |

Mediatel Group's income on sales, broken down by countries, is as follows:

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Income on sales in Poland: | 13 772 | 15 814 |
| Income on sales in other countries: | 11 586 | 39 525 |
| Austria | 82 | 253 |
| Belgium | 133 | 178 |
| The Czech Republic | 22 | - |
| The Netherlands | 218 | 2 281 |
| Ireland | - | 88 |
| Canada | 10 | 200 |
| Latvia | 28 | 94 |
| Germany | 943 | 890 |
| Russia | 8 | 22 |
| Slovakia | 297 | 560 |
| Switzerland | 3 363 | 6 047 |
| The USA | 5 056 | 27 595 |
| Hungary | 14 | - |
| Great Britain | 1 323 | 527 |
| Italy | 74 | 781 |
| | **25 358** | **55 339** |

(all amounts are quoted in thousands, unless otherwise specified)

## 15. Costs by type

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Depreciation of fixed tangible assets and amortization of intangible assets and impairment write-downs | 1 827 | 1 994 |
| Third party services | 22 571 | 46 293 |
| Materials and energy | 252 | 383 |
| Taxes and charges | 60 | 161 |
| Personal costs | 2 034 | 2 107 |
| Social insurance | 363 | 233 |
| Office rent | 501 | 640 |
| Consultancy | 813 | 1 225 |
| Other costs | 110 | 445 |
| Value of materials sold | 12 | 17 |
| **Total** | **28 543** | **53 498** |
| | | |
| Costs of goods sold | 24 107 | 48 341 |
| Management overheads | 3 161 | 3 739 |
| Cost of sales | 1 275 | 1 418 |
| | **28 543** | **53 498** |

## 16. Other operating income

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Release of add back receivables | 8 | - |
| Liability write-off | 33 | - |
| Sale of a fixed asset | 137 | 82 |
| Gains under re-invoicing | 15 | 18 |
| Lease of fixed assets | 20 | - |
| Other income | 31 | 2 |
| | **244** | **102** |

## 17. Other operating cost

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Add back of receivables | 621 | - |
| Donations | - | 3 |
| Loss on the sale of non-financial assets | 31 | 21 |
| Amortization of customer relationships | 747 | 741 |
| Penalties paid | 33 | - |
| Re-invoiced costs | 3 | - |
| Balance sheet write offs and redeemed amounts | 52 | - |
| Other operating cost | 56 | 21 |
| **Total** | **1 543** | **786** |

(all amounts are quoted in thousands, unless otherwise specified)

## 18. Financial income

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Income under interest accruing on bank deposits | 10 | 17 |
| FX gains | 98 | 2 134 |
| Interest on available for sale assets | 82 | - |
| Interest on the loans granted | 2 | - |
| Other financial income | 4 | 1 |
| **Total financial income** | **196** | **2 152** |

## 19. Financial cost

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Costs of credit and loan interest | 204 | 123 |
| Finance lease interest costs | 33 | 29 |
| Costs of interest on delayed payments | 45 | 11 |
| Costs of bank fees - loan agreements | 5 | 39 |
| FX losses | 247 | 32 |
| Other financial costs | 1 | 3 |
| **Total financial costs** | **535** | **237** |

## 20. Earnings per share

Basic earnings per share are measured as ratio of income due to the shareholders of the Company to the weighted average number of ordinary shares in the year, excluding ordinary shares acquired by the Company and listed as own shares.
As at the balance sheet day the Company had no instruments effecting the dilution of the number of shares, for that reason the presented financial result was not diluted. In view of the above stated basic earnings per share equal diluted earning per share.

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| Profit due to the shareholders of the Company | (4 873 864) | 2 499 350 |
| Number of shares (in items) | 9 082 515 | 6 416 186 |
| Basic earnings/(loss) per share (in PLN per share) | (0,54) | 0,39 |

## 21. EBITDA

Basic measure of profit is EBITDA. This level of profit is the reflection of cash generating abilities of the Company in similar conditions. Mediatel Group defines EBITDA as profit from operating activities adjusted with depreciation. The profitability level EBITDA is not defined by IFRS UE and may be calculated differently by different business entities.

(all amounts are quoted in thousands, unless otherwise specified)

| | 3 month period ended on 31 March 2010 | 3 month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Profit (loss) on operating activities | (4 484) | 1 156 |
| Depreciation | 2 574 | 1 994 |
| EBITDA | **(1 910)** | **3 150** |

## 22. Information on paid or declared dividend in the Mediatel Group, in total and per share

In the 1st quarter of 2010 the Company declared nor paid no dividend.

## 23. Remuneration of Members of the Management Board and Supervisory Board

***Number of shares held by the Members of the Management Board***

As at 31 March 2010 Member of the Management Board* held 1,200 shares of the Company.

* The person not yet given permission for the publication of their personal data

***Number of shares held by the Members of the Supervisory Board***

As at 31 March 2010 Mr. Zbigniew Kazimierczak – Chairman of the Supervisory Board held 136 000 shares of the Company.

As at the date of drawing up this statement Members of the Management Board and Supervisory Board held no share options.

***Remuneration of Members of the Management Board***

Costs arising due to remuneration paid to the Members of the Management and Supervisory Boards of the Issuer in the Dominant Unit in the 3 month period ended on 31 March 2010 and 31 March 2009 amounted to 150 thousand PLN and 126 thousand PLN respectively.

Costs arising due to remuneration paid to the Members of the Management and Supervisory Boards of the Issuer who were not Members of the Management Board of the Dominant Unit in the 3 month period ended on 31 March 2010 were 57 thousand PLN.

***Remuneration of Members of the Supervisory Board***

Costs arising due to remuneration paid to the Supervisory Board of the Issuer in the periods of three months ended on 31 March 2010 and 31 March 2009 amounted to 0 thousand PLN and 18 thousand PLN respectively.

(all amounts are quoted in thousands, unless otherwise specified)

## 24. Employment

| | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|
| Number of people: | | |
| The Management Board | 6 | 10 |
| Executives | 18 | 44 |
| Employees | 87 | 69 |
| Total | **111** | **123** |
| External consultants employed under contract agreement | 12 | 25 |
| Total of the employed | **123** | **148** |

## 25. Transactions with related parties

| | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| **Investments in controlled companies:** | **11 234** | **355** |
| Elterix | 355 | 355 |
| Velvet Telecom LLC | 10 879 | - |
| **Other short term receivables from:** | **23 289** | **27 704** |
| Elterix | 22 361 | 22 163 |
| Mediatel 4 B | 870 | 5 541 |
| Velvet Telecom LLC | 58 | - |
| **Short-term loans received (including interest):** | **204** | **5 121** |
| Concept-T | - | 5 121 |
| NFI Magna | 204 | - |
| **Short-term receivables under the delivery of goods and services due from:** | **3 434** | **2 548** |
| Concept-T | 24 | 349 |
| Elterix | 587 | 869 |
| Mediatel 4B | 648 | 1 330 |
| Velvet Telecom LLC | 2 175 | - |
| **Short-term liabilities under the delivery of goods and services due to:** | **4 923** | **1 425** |
| Concept-T | 211 | 34 |
| Elterix | 60 | 494 |
| Mediatel 4B | 2 566 | 897 |
| Velvet Telecom LLC | 2 086 | - |

(all amounts are quoted in thousands, unless otherwise specified)

| | | |
|---|---|---|
| **Short-term liabilities due to:** | **9 461** | **-** |
| Concept-T | 9 461 | - |
| | | |
| **Net income from the sale of products and services from related entities:** | **4 154** | **2 438** |
| Concept-T | 52 | 469 |
| Elterix | 622 | 339 |
| Mediatel 4B | 1 345 | 1 630 |
| Velvet Telecom LLC | 2 135 | - |
| | | |
| **Costs of products and services sold of which from related entities:** | **4 276** | **1 118** |
| Elterix | 43 | 267 |
| Concept-T | 201 | 132 |
| Mediatel 4B | 1 947 | 719 |
| Velvet Telecom LLC | 2 086 | - |
| | | |
| **Costs of sales to related entities:** | **-** | **115** |
| Elterix | - | 115 |
| | | |
| **Other operating income:** | **-** | **150** |
| Elterix | - | 20 |
| Concept-T | - | 8 |
| Mediatel 4B | - | 122 |
| | | |
| **Financial income:** | **457** | **249** |
| Elterix | 325 | 193 |
| Mediatel 4B | 132 | 56 |
| | | |
| **Financial cost:** | **104** | **69** |
| Concept-T | 98 | 69 |
| NFI Magna | 6 | - |

## 26. Contingent liabilities

### *Contingent liabilities to telecommunications companies*

On 19 October 2007 a float hold of 200,00 PLN was set up on the bank account for the benefit of Telekomunikacja Polska S.A. The held funds were the security for the claims of Telekomunikacja Polska S.A. concerning the interoperation of the access to the local subscriber loop via the nodes of the telecommunications network.

The remaining contingent liabilities are blank notes left at the disposal of MNI Mobile S.A., which in case of default of the contract dated 5 February 2008 between MNI Mobile S.A. and Mediatel Group, Mediatel Group will be eligible to meet the note up to the amount of 870 thousand PLN plus interest. The Management Board does not know of any circumstances which could result in the use of currently established security.

## 27. Actions in court and proceedings before administrative bodies

Court proceedings, the authority responsible for arbitration or a public authority

As at 31 March 2010 there were no proceedings pending before court, body of the proper jurisdiction for the arbitration proceedings or public administration body concerning the liabilities of Mediatel or its subsidiary of the value of at least of 10% of the equity of the Company. Further, total amount of liabilities in all the proceedings pending as at 31 March 2010 before court, body of the proper jurisdiction for the arbitration proceedings or public administration body concerning the liabilities of Mediatel or its subsidiary did not exceed the value of 10% of the equity of the Issuer.

*Information on significant proceedings*

*Statement of claim brought by First Data Polska S.A. against Mediatel 4B*

On 13 of February 2007 a statement of claim against Mediatel 4B, a subsidiary, was filed by First Data Polska S.A. (formerly Polcard S.A.). The claim concerned the payments resulting under the agreement for the provision of telecommunications services from gains earned from other operators under the termination services, file case no: XX GC/115/07. Value of the dispute was 789,275.97 PLN plus the interest.

On 17 April 2008 the Regional Court in Warsaw issued a decision where it ordered the payment for the benefit of First Data Poland S.A. the amount of 789,275.97 PLN and the statutory interest on the following amounts: 139,492.26 PLN as of 22 January 2006 until the day of payment, 446,998.52 PLN as of 31 March 2006 until the day of payment, 202,785.19 PLN as of 5 May 2006 until the day of payment and the payment of the amount of 46,681 PLN as the reimbursement of the costs of the proceedings. The respondent filed an appeal against this decision, date of the appeal proceedings was set for 22 September 2009. The Company created provisions for any potential liabilities that might arise under the brought action.

On 21 September 2009 Mediatel 4B concluded a settlement with First Data Polska S.A. (FDP), by virtue of the settlement Mediatel 4B undertook to pay for the benefit of FDP the amount of 789,275.97 PLN in the following instalments and by the following dates:

- I instalment in the amount of 263,091.99 PLN payable by 31 January 2010.
- II instalment in the amount of 263,091.99 PLN payable by 28 February 2010.
- III instalment in the amount of 263,091.99 PLN payable by 31 May 2010.

Mediatel 4B undertook to pay the interest in the amount of 110,724.03 PLN arising under the default period of outstanding liabilities. The interest was paid by 30 November 2009.

*The statement of claim brought by Mediatel against the European Telecommunications Group EUROTELEKOM Sp. z o. o.* („EGT EUROTELEKOM")

On 7 May 2008 Mediatel S.A. filed with the Regional Court in Warsaw, XX Commercial Division, a statement of claim for the payment of 390,541.77 PLN and the interest against the European Telecommunications Group EGT EUROTELEKOM Sp. z o. o., under the outstanding sales invoices issued to the Respondent under the interoperator agreement on the network interconnection and principles of settlements of 1 February 2006.

On 30 September 2008 the Regional Court in Warsaw issued the order of payment against the European Telecommunications Group EUROTELEKOM Sp. z o.o. in the proceedings by writ of payment 390,541.77 PLN and the interest and of 12,099.00 PLN as the reimbursement of the costs of the proceedings for the benefit of Mediatel. The Respondent filed an appeal against the order of payment and the case was remanded for review in ordinary proceedings.

On the hearing on 1 February 2010, the trial was closed. On 15 February 2010 the court entered into the decision, it decided that EGT EUROTELEKOM was obliged to pay for the benefit of Mediatel S.A. the amount of 390,541.77 PLN plus the statutory interest accruing as of the payment date (interest shall accrue as of 1 February 2008 on the amount of 389,194.89 PLN and of 1 April 2008 - on the amount of 1,346.88 PLN). Further, the Court ordered the payment of 26,728.00 PLN as the reimbursement of the legal costs.

*The statement of claim filed by Mediatel S.A. against EGT EUROTELEKOM*

On 4 February 2009 Mediatel S.A. filed with the Regional Court in Warsaw a statement of claim against EGT EUROTELEKOM for the discontinuation of enforcement of the enforceable document - order of payment of 27 August 2008, issued by the Regional Court in Gdansk, IX Commercial Division in the case file no IX GNc 315/08, (adverse claim).

On 25 June 2009, Mediatel replaced the statement of claim for the discontinuation of enforcement with the statement of claim against EGT EUROTELEKOM for the payment of: 637,707.86 PLN under unjust enrichment and damage sustained by Mediatel as a result of unjust enforcement effected by the enforcement officer at the District Court for the city of Warsaw, file case no KM 150/09, effected under the order of payment of 27 August 2008 issued by the Regional Court in Gdansk, IX Commercial Division. In the opinion of Mediatel the enforcement was groundless as the liability, ordered to be paid by the Court in Gdansk, expired. The liability expired as a result of the offset of Mediatel receivables due from EGT EUROTELEKOM with receivables of EGT EUROTELEKOM due from Mediatel in the proceedings opened by the Regional Court in Warsaw file case no XX GNc 17/09. No notification on the date of the appeal proceedings has yet been served.

The Management Board is of the opinion that the claim is fully grounded.

## 28. Events occurring after the balance sheet date

On 6 April 2010 6 bonds to the bearer series A, numbers from 1 to 6, were sold by Mediatel following the commission filed with the Brokerage House BOŚ S.A. The transaction value was 6,072,746.28 PLN.

On 6 April 2010 Mediatel acquired 60 registered, unsecured bonds series B issued by NFI Magna Polonia S.A., of the nominal value 100,000 PLN each, with the maturity date falling to 31 December 2011. The bond accrues interest in the rate 7.25% per annum.

On 10 April 2010 Velvet Telecom concluded with Indian Orchard Capital LLC a contract for the sale of 100% of shares in its subsidiary Latcom de Brazil. The value of the transaction was 275,000 USD. The payment due under the conclusion of the contract of 10 April 2010 shall be settled in two equal instalments (dated of 10 April and 30 April 2010) and offset with the liability of Mediatel S.A. with regard to Indian Orchard Capital arising under the acquisition of shares of Velvet Telecom. The ownership of the shares was transferred on the day the contract was concluded.

Warsaw, 11 May 2010

Marcin Kubit - President of the Management Board ____________________________

Iwona Rytel - Member of the Management Board ____________________________

# Mediatel S.A.

# CONDENSED INTERIM INDIVIDUAL FINANCIAL STATEMENT
## as at and for the 3 month period
## ended on 31 March 2010

Condensed interim consolidated profit and loss account

Condensed interim consolidated balance sheet

Condensed interim consolidated statement of changes in the shareholders' equity

Condensed interim consolidated cash flow statement

Notes to the condensed interim consolidated financial statement

**(all amounts are quoted in thousands, unless otherwise specified)**

## Total profit and loss account

| | Three month period ended on 31 March 2010 | Three month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| Income on sales | 20 531 | 19 278 |
| Costs of goods sold | 21 340 | 17 561 |
| **Gross profit (loss) on sales** | **(809)** | **1 717** |
| Cost of sales | 641 | 921 |
| Management overheads | 1 433 | 1 723 |
| **Profit (loss) on sales** | **(2 883)** | **(927)** |
| Other operating income | 207 | 179 |
| Other operating cost | 236 | 31 |
| **Profit (loss) on operating activities** | **(2 912)** | **(779)** |
| Financial income | 1 637 | 1 945 |
| Interest, in this: | 420 | 264 |
| from related entities | 326 | 249 |
| Other financial income RK | 1 217 | 1681 |
| Financial cost | 1 831 | 343 |
| Interest, in this: | 366 | 234 |
| to related entities | 104 | 69 |
| Other financial costs RK | 1 465 | 110 |
| **Pre-tax profit (loss)** | **(3 106)** | **823** |
| Current income tax | | |
| Deferred income tax | (32) | (553) |
| **Net profit (loss)** | **(3 138)** | **270** |
| | | |
| **Profit (loss) per ordinary share (in PLN per share)** | | |
| Number of shares (in items) | **9 082 515** | **9 082 515** |
| - basic | (0,35) | 0,03 |
| - diluted | (0,35) | 0,03 |

**(all amounts are quoted in thousands, unless otherwise specified)**

## Balance sheet

### *Assets*

| | as at 31 March 2010 | as at 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| **Fixed assets** | | |
| Tangible fixed assets | 11 166 | 11 366 |
| Intangible assets | 1 706 | 1 969 |
| Goodwill | 14 815 | 14 815 |
| Investments in controlled companies: | 11 234 | 11 234 |
| Trade and other receivable assets | 788 | 40 |
| Other financial assets | 6 133 | 734 |
| **Total fixed assets** | **45 842** | **40 158** |
| | | |
| **Current assets** | | |
| Inventories | 19 | 39 |
| Trade receivables | 18 516 | 14 069 |
| in this from related entities | 3 543 | 1 595 |
| Other receivables | 28 171 | 27 862 |
| in this from related entities | 23 231 | 22 905 |
| Deferred expenditures | 550 | 550 |
| Loans granted | 154 | 98 |
| in this related entities | 58 | 58 |
| Other financial assets | - | 660 |
| Cash and cash equivalents | 1 237 | 122 |
| **Total current assets** | **48 647** | **43 400** |
| | | |
| **Total assets** | **94 489** | **83 558** |

**(all amounts are quoted in thousands, unless otherwise specified)**

## *Liabilities*

| | as at 31 March 2010 | as at 31 December 2009 |
|---|---|---|
| | PLN | PLN |
| **Equity** | | |
| Share capital | 1 817 | 1 817 |
| Supplementary capital | 34 525 | 34 525 |
| Undivided financial result | 1 183 | 1 183 |
| Profit (loss) brought forward | (7 482) | (6 306) |
| Net profit (loss) in the financial period | (3 138) | (1 175) |
| Share premium | 5 286 | 5 286 |
| **Total equity** | **32 191** | **35 330** |
| **Long term liabilities** | | |
| Bank loans and credits | 2 670 | 3 004 |
| Deferred tax liabilities | 129 | 97 |
| Long-term liabilities under financial lease | 1 069 | 1 184 |
| **Total long term liabilities** | **3 868** | **4 285** |
| **Short-term liabilities** | | |
| Trade liabilities | 23 115 | 7 185 |
| in this to related entities | 5 543 | 88 |
| Other liabilities | 13 150 | 9 418 |
| in this to related entities | 9 461 | 29 |
| Short-term liabilities under financial lease | 673 | 639 |
| Short-term bank loans and credits | 9 931 | 14 950 |
| in this to related entities | 204 | 5 835 |
| Short-term reserves | - | 159 |
| Other prepayments and accruals | 11 561 | 11 592 |
| **Total short-term liabilities** | **58 430** | **43 943** |
| **Total liabilities** | **94 489** | **83 558** |

**(all amounts are quoted in thousands, unless otherwise specified)**

## Statement of changes in the shareholders' equity

| | Three month period ended on 31 March 2010 | Three month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| **Share capital** | | |
| The opening balance | 1 817 | 1 817 |
| Issue of share capital | - | - |
| **The closing balance** | **1 817** | **1 817** |
| **Supplementary capital** | | |
| The opening balance: | 34 525 | |
| Share premium | - | 30 238 |
| Capital from the distribution of profit (over the required minimum statutory value) | - | 4 287 |
| **The closing balance** | **34 525** | **34 525** |
| **Retained profit brought forward** | | |
| The opening balance | 1 183 | (6 306) |
| Distribution of the financial result brought forward | - | 8 129 |
| **The closing balance** | **1 183** | **1 823** |
| **Profit (loss) brought forward** | | |
| The opening balance | (6 306) | - |
| Distribution of the financial result brought forward | (1 176) | - |
| **The closing balance** | **(7 482)** | **-** |
| **Share premium** | | |
| The opening balance | 5 286 | - |
| Accruals | - | - |
| **The closing balance** | **5 286** | **-** |
| **Net profit (loss)** | | |
| The opening balance | - | - |
| Financial result earned in the accounting period | (3 138) | 270 |
| **The closing balance** | **(3 138)** | **270** |
| **Total equity** | **32 191** | **38 435** |
| **The opening balance** | **35 330** | **38 165** |
| **The closing balance** | **32 191** | **38 435** |

**(all amounts are quoted in thousands, unless otherwise specified)**

## Cash flow statement

| | Three month period ended on 31 March 2010 | Three month period ended on 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| **Net cash and cash equivalents from operating activities** | | |
| Cash inflows from operating activities | 3 579 | (2 279) |
| Paid interest | - | (9) |
| Paid income tax | - | (421) |
| Net cash flows from operating activities | **3 579** | **(2 709)** |
| **Cash flows from investment activities** | | |
| Interest | - | 16 |
| Expenditure for the purchase of fixed assets | (63) | (227) |
| Inflows from the sale of short-term securities | 3 875 | - |
| Inflows from the sale of fixed assets | 25 | - |
| Acquisition of short-term securities | (5 202) | - |
| Loans granted | (40) | - |
| Purchase of a subsidy | - | - |
| Net cash and cash equivalents from investment activities | **(1 405)** | **(211)** |
| **Cash flows from financial activities** | | |
| Paid dividend | - | - |
| Paid interest | (197) | (147) |
| Loans granted | - | - |
| Repayment of loans/credits | (951) | (532) |
| Repayment of liabilities under financial lease | (89) | (41) |
| Expenditure for the purchase of shares | (848) | - |
| Inflows from the issue of shares/bonds | - | 1 700 |
| Bank credits | 423 | - |
| Received loans | - | - |
| Other (redemption of debts) | - | - |
| Change in overdrafts | 603 | - |
| **Net cash and cash equivalents from financial operations** | **(1 059)** | **980** |
| **Increase / (decrease) in net cash and cash equivalents** | 1 115 | (1 940) |
| Opening balance of cash and cash equivalents | 122 | 4 359 |
| Change in cash and cash equivalents under FX gains and losses | - | 178 |
| Closing balance of cash and cash equivalents | **1 237** | **2 598** |

## *III. NOTES TO INDIVIDUAL FINANCIAL STATEMENT DRAWN UP FOR THE REPORTING PERIOD FROM 1 JANUARY TO 31 MARCH 2010.*

### 1. General Information

**Mediatel S.A. (hereinafter „the Company", „Mediatel", „the Dominant Unit", „the Dominant Entity", „the Parent Company") is a joint stock company registered in Poland. The seat of the Company is in Warsaw, at ul. Bitwy Warszawskiej 1920 7A.**

Mediatel S.A. is entered into the register of business entities National Court Register kept by the District Court for the capital city of Warsaw in Warsaw, XII Commercial Division of the National Court Register, under entry no KRS 0000045784

The scope of business of the Company and its subsidiaries consists in the services:

- telecommunications services and data transmission services (including telephone connections, Voice over Internet Protocol („VoIP"), voice mail, access to the Internet)
- services of the collocation centre,
- services of the wholesale termination of telephone connections

This individual financial statement comprises: condensed interim individual balance sheet, condensed interim individual profit and loss account, condensed interim individual statement of changes in the shareholders' equity, condensed interim individual cash flow statement and additional notes.

As at 31 March 2010 the Management Board was composed as follows:

Marcin Kubit - President of the Management Board,
Iwona Rytel - Member of the Management Board,

*The Supervisory Board*

In the period under report there were no changes in the composition of the Supervisory Board.

As at 31 March 2010 the Supervisory Board was composed as follows:

Zbigniew Kazimierczak – Chairman of the Supervisory Board,
Mirosław Janisiewicz – Member of the Supervisory Board,
Marcin Łolik – Member of the Supervisory Board,
Albert Kuźmicz – Member of the Supervisory Board,
Krzysztof Urbański – Member of the Supervisory Board,
Piotr Nadolski – Member of the Supervisory Board.

**(all amounts are quoted in thousands, unless otherwise specified)**

## Selected financial data

The table below presents the selected financial data as at 31 March 2010 and comparative data. The information contained in the table should be read in conjunction with the information contained in the individual financial statement of the Group.

The financial data selected as at 31 March 2010 from the profit and loss account and cash flow statement was calculated at 1 EUR rate of 3.9669 PLN, which is an arithmetic mean value of average rates set by the National Bank of Poland ('NBP') on the last day of each month of the accounting period (from 01 January 2010 to 31 March 2010.) The financial data selected from the balance sheet was calculated at 1 EUR rate of 3.8622 PLN (NBP exchange rate of 31 March 2010).

| | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|---|
| | PLN | PLN | EUR | EUR |
| **Profit and loss account** | | | | |
| Income on sales | 20 531 | 19 278 | 5 176 | 4 191 |
| Profit (loss) on operating activities | (2 912) | (779) | (734) | (169) |
| Pre-tax profit (loss) | (3 106) | 823 | (783) | 179 |
| Net profit (loss) | (3 138) | 270 | (791) | 59 |
| **Cash flow statement** | | | | |
| Net cash and cash equivalents from operating activities | 3 578 | (2 709) | 902 | (589) |
| Cash flows from investment activities | (1 405) | (211) | (354) | (46) |
| Cash flows from financial activities | (1 059) | 980 | (267) | 213 |
| Increase / (decrease) in net cash and cash equivalents | 1 115 | (1 940) | 281 | (422) |

| | As at 31 March 2010 | As at 31 December 2009 | As at 31 March 2010 | As at 31 December 2009 |
|---|---|---|---|---|
| **Balance sheet** | | | | |
| Total assets | 96 456 | 83 558 | 24 974 | 20 339 |
| Long term liabilities | 7 027 | 4 285 | 1 819 | 1 043 |
| Short-term liabilities | 57 238 | 43 943 | 14 820 | 10 696 |
| Equity | 32 191 | 35 330 | 8 335 | 8 600 |
| Share capital | 1 817 | 1 817 | 470 | 442 |

| | As at 31 March 2010 | As at 31 March 2009 | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|---|---|
| Number of shares (in items) | 9 082 515 | 6 416 186 | 9 082 515 | 6 416 186 |
| Profit (loss) per one ordinary share (in PLN / EUR) | (0,35) | 0,04 | (0,09) | 0,01 |
| Book value per one share (in PLN / EUR) | 3,54 | 5,69 | 0,92 | 1,38 |

## 2. Basis for drawing up the individual financial statement

This condensed interim individual financial statement drawn up for the period from 1 January 2010 to 31 March 2010 was prepared in accordance with the International Financial Reporting Standards approved of by the EU, hereinafter referred to IFRS, effective as at 1 January 2010.
The Company has applied the principles of accounting based on IAS, IFRS since 1 January 2009 in accordance with the resolution of the General Meeting of Shareholders no 31 of 26 May 2009.

For the financial statements to be in compliance with IFRS approved of by EU, it is necessary to apply certain accounting estimates and to adopt certain assumptions on future events.
Irregular costs incurred in the accounting year are settled in the interim financial statements only if they are to be settled in the same manner at the end of the accounting year.

**New standards, amendments and interpretations**

The following new accounting standards, amendments to the standards and interpretations have been applied by the Group in 2010:
- IAS 27 (revised) "Consolidated and Separate Financial Statements"
- Revised IAS 39 'Financial Instruments: Recognition and Measurement" -, Hedged items eligible for hedge accounting';
- Revised IFRS 1 "First-time Adoption of International Financial Reporting"
- Changes resulting from the annual review of IFRS,

Changes to IFRS 8, 'Operating Segments', (comprised in the draft of annual amendments) explain that disclosures of assets of a segment are only required when such information is disclosed on regular basis to persons responsible for making operating decisions. The Company divides no assets into segments for the internal reporting purposes and such division constitutes no basis for making decisions.

Revised IFRS 3 "Business Combinations" introduced significant changes in the recognition of mergers of entities effected after 1 January 2010 in the books of accounts. The changes concern the evaluation of non-controlling shares, recognition of costs connected with an acquisition, initial recognition and further evaluation of conditional payment and merger of entities effected in stages. The changes shall affect the evaluation of goodwill, results presented in the period when the acquisition took place and future results. The change in the accounting policy has been applied prospectively and has no material effect upon the balance sheet of the Company.

The application of the other, aforementioned interpretations and revised standards has had no effect upon the balance sheet of the Company.

Moreover, the International Accounting Standards Board issued revisions to IFRS 1 "First-time Adoption of International Financial Reporting": additional exemptions for first-time adopters, binding for annual periods beginning on or after 1 January 2010. The changes have not yet been approved of by EU.

**Adopted International Financial Reporting Standards (IFRS) which are not mandatory in 2010:**

The following new accounting standards, amendments to the existing standards and interpretations which are not mandatory in 2010 and not prior applied by Mediatel have already been published:

- Revised IAS 32 'Financial Instruments: presentation - "Classification of rights issues' effective for annual periods beginning on or after 1 February 2010. The revised standard defines how to recognize the shareholders' rights. The changes have not yet been approved of by EU.

- IAS 24 (amendment) "Related Party Disclosures", effective for annual periods beginning on or after 1 January 2011. The amended standard simplifies the definition of a related party, specifies it more precisely and eliminates ambiguities of the previous definition. The changes have not yet been approved of by EU.

- IFRS 9 'Financial Instruments' effective for annual periods beginning on or after 1 January 2013. IFRS 9 is the first part of Stage I of IASB project to replace IAS 39. IFRS 9 introduces improved and simplified approach to the classification and evaluation of financial assets as compared to the requirements of IAS 39. The changes have not yet been approved of by EU.

- IFRIC 19 ' Settlement of Financial Liabilities with Equity' effective for annual periods beginning on or after 1 July 2010. This interpretation explains the accounting principles applied in the situation when, as a result of negotiations by an entity of its debt repayment conditions, the financial liability is paid in total or in part through the issue of capital instruments for the benefit of the Lender. The interpretation has not yet been approved of by EU.

- Amendments to IFRIC 14 'Prepayments of a Minimum Funding Requirement' effective for annual periods beginning on or after 1 January 2011. The changes apply in a limited scope: when an entity complies with the minimum financial requirements and pays the contributions earlier to comply with the requirements. The changes allow such an entity to recognize such earlier payment as an item of assets. The changes have not yet been approved of by EU.

- Revised IFRS 1 "First-time Adoption of International Financial Reporting" limited release from the duty to present comparative data required by IFRS 7 for those adopting IFRS for the first time, effective for annual periods beginning on or after 1 July 2010. In accordance with the change the entities adopting IFRS for the first time adopt the same transitional provisions as other entities, comprised in the Amendments to IFRS 7 "Improvements to financial instruments disclosures". The change has not yet been approved of by EU.

The Management Board is currently evaluating the effect of the aforementioned standards and interpretations upon the Company reporting.

## 3. The applied accounting principles

The below presented accounting policy principles are applied to all the accounting periods presented in the individual statement of the Company.

### a) Basis of the evaluation

The financial statement was drawn up on the basis of the historical cost principle, except for derivative financial instruments.

### b) Assumption of the ongoing business activity

The financial statement prepared as of 31 March 2010 was drawn up at the assumption of the ongoing business activity by the Company in the foreseeable future, in the period not shorter than 12 months beginning on 31 March 2010.

### c) Functional and presentation currency

This financial statement presents the financial data in Polish zloties, rounded to full thousands. Polish zloty is the functional currency of the Parent Company.

### d) Judgments and estimates

To prepare the financial statement in accordance with IFRS UE, the Management Board is obliged to prepare judgments, estimates and assumptions which affect the adopted principles and the presented values of assets, liabilities, income and costs. Estimates and related assumptions are based on the historical data and other indicators deemed justifiable in given circumstances and their results make up the basis for the accounting judgment concerning the balance sheet value of the assets and liabilities and not directly resulting from other sources. The actual value may differ from the estimated value.

Estimates and related assumptions are reviewed on regular basis. Changes in the accounting estimates are recognized in the period when the change to the estimates was made or in current and future periods if such a change refers to the current and future periods.

### e) Foreign currency

Transactions in foreign currencies are denominated in zloties at the exchange rate prevailing at one day prior to the date of the conclusion of the transaction. Cash items of assets and liabilities in foreign currencies are translated into zloties at the exchange rates prevailing at the balance sheet day in accordance with the average exchange rate of the currency published by the National Bank of Poland and binding for the day. Foreign exchange gains and losses, resulting from the settlements of the transactions in foreign currencies and balance sheet evaluation of cash assets and liabilities denominated in foreign currency, are recognized in the profit and loss account. Non-cash items of assets and liabilities evaluated in accordance with the historical cost method in foreign currency are translated into zloties in accordance with the average exchange rates published by the National Bank of Poland and prevailing at the balance sheet day. Non-cash balance sheet items, denominated in foreign currency and evaluated at fair value, are translated into zloties in accordance with the average exchange rates published by the National Bank of Poland and prevailing at the day of the fair value estimation.

### f) Financial instruments

*Financial instruments other than derivatives*

Financial instruments other than derivatives comprise capital investments, debt securities, receivables under the delivery of goods and services and other receivables, cash and cash equivalents, loans and credits/overdrafts and liabilities under the delivery of goods and services, foreign currency futures and other liabilities.

Financial instruments other than derivatives are initially recognized at fair value, increased by additional costs except for investments evaluated at fair value of the financial result - increased by direct costs of acquisition (except for the exceptions specified below).

A financial instrument is recognized if the Company becomes a party to the agreement concerning a given financial instrument. Financial assets are not recognized in the balance sheet if the rights of the Company under the agreement to the cash flow from the financial assets shall expire or if the Company shall transfer the financial assets and no longer exercise the control over them (or over the related risk and benefits). Standardized sale and purchase transactions of a financial asset are recognized as at the date of conclusion of the transaction, i.e. at the day at which the Company undertakes to purchase or sell the asset. Financial liabilities cease to be recognized in the balance sheet if the liabilities expire (that is when the obligation specified in the agreement has been fulfilled, redeemed or when it has expired).

Cash and cash equivalents comprise cash at hand and at bank deposits payable on demand. Balance of cash and cash equivalents reported in the individual cash flow statement incorporates the above stated cash and cash equivalents.

*Loans and receivables and other financial liabilities*

Loans and receivables which are not derivative instruments are evaluated at the amortized cost with the effective interest method, less the impairment write down. Other financial liabilities which are not derivative instruments are evaluated at the amortized cost with the effective interest method.

*Financial assets available for sale*

Investments into capital instruments and some debt securities are classified as available for sale financial assets. After the initial recognition, the available for sale assets are then revaluated at fair value and changes in the fair value are recognized directly in the capital, except for write downs due to the impairment loss and, in the case of cash items such as e.g. bonds - except for foreign exchange gains and losses. If such investments are not recorded in the balance sheet, profits or losses prior recognized directly in the equity are recognized in the profit and loss account. If the investments are interest bearing, then the interest is calculated with the effective interest method and recognized in the profit and loss account.

*Derivative financial instruments*

Derivative financial instruments are initially recognized at fair value; related costs of the transaction are recognized in the profit and loss account as at their inception. After the initial recognition, the Company evaluates the derivative financial instruments at fair value and gains or losses resulting from the change in the fair value are recognized in the profit and loss account.

**g) Equity**

*Ordinary shares*

Costs directly connected with the issue of ordinary shares reduce the equity.

*Preference shares*

Preference shares are recognized in the equity if they are not subject to redemption or if they are subject to redemption exclusively upon a motion from the Company and the dividend on these shares is not obligatory. Payment of the dividend directly affects the value of equity. Preference shares are recognized as liabilities if they are subject to redemption at a set date or upon a motion from the shareholder or if the dividend payment is obligatory. Paid dividend is recognized as interest cost in the profit and loss account.

*Costs connected with the issue of shares and their public offering*

Costs connected with the issue of shares are recognized in the equity and costs connected with the public offering of shares are recognized directly in the financial costs. In the event when the costs incurred concern both the new issue of shares and the sale of the existing shares, they are recognized respectively in proportion in the equity and financial costs.

*Supplementary capital*

Supplementary capital incorporates the capital established by joint stock companies by virtue of the Commercial Companies Code. Joint stock companies are obliged to transfer at least 8% of the annual net profit into the supplementary capital until it reaches 1/3 of the share capital. Supplementary capital is not subject to distribution but may be applied to finance the losses.

S*hare premium*

This capital incorporates the difference between the fair value of the shares subscribed for by the Management Board of the Company and their issue price.

### h) Fixed tangible assets

*Own fixed tangible assets*

Fixed tangible assets are recognized in the books of accounts at the purchase price and the cost price, less depreciation and impairment write downs.

The purchase price includes the purchase price of an asset and costs directly connected with the purchase and adaptation of an asset for use, including the costs of transport, loading, unloading and storage. Discounts, reductions and similar withholdings or recoveries reduce the purchase price of an asset. The cost price of a tangible asset or a tangible asset under construction incorporates the total costs incurred by the entity during the construction, installation, modification or refurbishment and borne until such an asset is put into operation (or until the balance sheet day if the asset has not yet been put into operation). The cost price also includes, where required, the initial estimate of the costs of disassembly and removal of the fixed tangible assets and restoration to the original condition. The purchased software, essential for the proper functioning of the device connected therewith is capitalized as part of the device. In the event where a fixed tangible asset incorporates separate and significant components of different useful lives, these parts are recognized as separate assets.

*Outlay to be borne at a later date*

Costs of the replaceable parts of fixed tangible assets for which a reliable estimate can be made and which make it probable that the Company will draw economic profits in relation therewith borne at a later date are subject to capitalization. Other outlay is recognized on regular basis in the profit and loss account as costs.

*Depreciation*

Tangible property assets, or their significant and separate components, are depreciated on the straight-line basis over their useful lives with the account for the estimated net sales price of the remaining tangible asset (residual value) at the liquidation. Land is not subject to depreciation.

The Company assumes the following useful lives for respective categories of the fixed assets:

| | |
|---|---|
| Buildings | 10 to 40 years |
| Telecommunications network | 15 to 40 years |
| Other technical equipment and machines | 3 to 14 years |
| Means of transport | 5 years |
| Furniture and fittings | 2 to 10 years |

Correctness of the adopted useful lives, depreciation methods and residual values of fixed tangible assets (if it is material) is annually verified by the Company.

*Assets utilized under lease agreements*

Assets utilized under leasing agreements, tenancy agreement, lease agreements or similar agreements which meet the criteria of finance lease are stated as fixed assets and evaluated at the lower of the fair value of the leased property and current value of minimum lease payments. Depreciation rates of the assets utilized under the leasing agreements are consistent with the depreciation principles applicable for the assets being the property of the Company and depreciation is calculated in accordance with IAS 16 "Property, plant and equipment". When there is no sufficient certainty that the leaseholder will obtain the ownership title to the asset before the expiry of the leasing period, a given asset is depreciated for the shorter of the two periods: leasing period or the useful life.

**i) Intangible assets**

*The company created software*

Software creation costs are capitalized by the Company if its price cost as well as commencement and completion of works connected with the manufacture can be reliably determined.

*Customer relationships*

The acquired relationships with customers are carried at cost incurred for their acquisition. Customer relationships acquired due to the merger of business entities or due to the acquisition of a separated business activity including customer agreements are stated at fair value as of the acquisition date. Customer relationships are redeemed on straight line basis over the estimated economic lives, i.e. 3-5 years.

*Outlay to be borne at a later date*

Further expenses for the existing intangible assets are subject to capitalization only if they increase future profits generated by the asset. Other outlay is recognized in the profit and loss account at inception.

*Depreciation*

Intangible assets are amortized over their useful economic lives on the straight-line basis unless the economic lives are not specified. Goodwill and intangible assets with unspecified useful lives are not amortized and are subject to impairment testing as at each balance sheet day. Other intangible assets are amortized as of the day of their availability for use. Estimated useful life is 2 years.

*Investment properties*

Investment properties are the properties which are the source of income on rents or/and which are kept in possession for the expected increase in value. Investment properties are evaluated at fair value as at the balance sheet day.

Gains and losses resulting from the change in the fair value of the investment property are recognized in the profit and loss account as at their inception.

**j) Inventories**

Inventories are evaluated at purchase price or price cost, not exceeding the net recoverable value. The purchase price and price cost of inventories is determined on the basis of first in, first out method. The purchase price incorporates the purchase price increased by costs directly related to the purchase and adaptation of an asset for use or marketing.

The Company provides for obsolete inventories write-offs.

**k) Write-downs resulting from asset impairment**

*Financial assets*

Write-downs resulting from impairment of financial assets are recognized at the time when there is objective indication that certain events have arisen which might have adverse material effect on the value of the future cash flows related with a given asset.

Impairment is evaluated in reference to the financial assets evaluated on the basis of the amortized cost as the difference between the balance sheet value and the current value of the future cash flows discounted on the basis of the initial effective interest method. A write-down due to impairment in reference to the available for sale financial assets is calculated on the basis of the reference to their present fair value.

The balance sheet value of respective individual financial assets of material value is estimated as at each balance sheet day to find out whether there is any indication to their impairment. Other financial assets are evaluated in view of impairment loss collectively and classified in accordance with similar level of credit risk.
Receivables are re-valued with the account for the probability of their payment and appropriate allowance is taken to other operating costs. Allowances to reduce accounts receivable from the individual customers are established with account for the historical data concerning the repayment of due receivables and efficiency of debt recovery.

Impairment write-downs are recognized in the profit and loss account.

Impairment write-downs are reversed if there has been an increase in the recoverable amount which may be objectively allocated to an event after the impairment write down recognition date.

*Non-financial assets*

The balance sheet value of non-financial assets other than investment properties, inventories and deferred tax assets is subject to review as at each balance sheet day to find out whether there is any indication to their impairment. The Company makes an estimate of the asset's recoverable amount if an indication that an asset may be impaired exists. The recoverable amount of Goodwill, intangible assets of unspecified useful lives, intangible assets not yet available for use is evaluated as at each balance sheet day.

Where the balance sheet value of an asset or a cash generating unit exceeds its recoverable amount, the asset is written down to its recoverable amount. The cash generating unit is defined as the smallest identifiable group of assets generating cash irrespectively from other assets or other group of assets. Impairment write-downs are recognized in the profit and loss account. Impairment loss of the cash generating unit is first of all recognized as impairment of goodwill of the unit (group of units), and then it is recognized as reduction in the balance sheet value of other assets of the unit (group of units) in respective proportion.

Recoverable amount of the assets or the cash generating units is defined as the larger of net value recoverable from the sale and the usable value. For the evaluation of the usable value the future cash flows are discounted on the basis of pre-tax interest rate, which reflects the present market evaluation of the time value of money and risk indicators characteristic for a given asset. In case of the assets not generating independent cash flow the utility value is evaluated for the smallest identifiable cash generating unit incorporating the given asset.

### l) Available for sale non-current assets

Fixed assets (or assets and liabilities forming a group available for sale) assumed to generate benefits for the unit as a result of the sale rather than a long-term utilization is classified as available for sale. Directly prior to reclassification to the available for sale group, these assets (or elements of the group available for sale) are evaluated in accordance with the accounting principles of the Company. Then, as at the day of initial classification as available for sale, non-current assets or the group available for sale are recognized at the lower of the two values: balance sheet value and the fair value reduced by selling costs. Possible write-down due to the impairment loss of assets of the group available for sale is initially recognized as the impairment loss of goodwill, then it is recognized as the reduction of the balance sheet value of other assets in respective proportion subject to the impairment not affecting the value of the inventories, financial assets, deferred tax assets, investment properties which continue to be evaluated in accordance with group accounting principles. Impairment loss recognized in the initial classification as available for sale is recognized in the profit and loss account. This also concerns profits and losses resulting from subsequent changes in the value. Gains under the evaluation at fair value are recognized only up to the prior recorded impairment write-down.

### m) Employee benefit

*Premium contributions scheme*

All the entities giving employment are obliged under the binding provisions to withhold and pay retirement benefit premiums for their employees. These benefits, in accordance with IAS 19, constitute the national scheme of set premium contributions. In connection with the above stated, liabilities of the Company for each respective period are evaluated on the basis of the amounts of premium to be contributed with respect to a given period.

*Set benefits scheme - one-time retirement benefits*

The Company is obliged by virtue of the effective legal provisions to pay one-time retirement benefits in the amount required by respective provisions of the Labour Code. Minimum amount of the one-time retirement benefit results from the provisions of the Labour Code binding as at the day of its payment. It is calculated on the basis of the projected unit credit method. Job rotation of employees is evaluated on the basis of historical data and the estimated employment level in the future. Changes in the amount of liabilities under the one-time retirement benefit are applied to the profit and loss account.

*Benefits payable under the termination of employment*

Benefits payable under the termination of employment (one-time benefits) are recognized as costs if the Company is irrevocably liable, under a formal, detailed employment termination plan concerning termination of employment of the employees short before the retirement age. Benefits payable under the termination of employment in the case of voluntary employment termination are recognized as costs. If the Company made an offer to the employees encouraging them to voluntary termination of employment, it is probable that the offer will be accepted and the number of voluntary employment termination can be reliably evaluated.

*Short-term employee benefits*

Liabilities under short-term employee benefits are evaluated without the recognition of discount and are taken to cost at the performance of the liability.

**n) Provisions**

Provisions are recorded when the Company has an obligation as a result of a past event which it is probable that the Group will be required to settle by an outflow of economic benefits. In the event when the time value of money is of significant importance, provisions are evaluated via discounting the expected future cash flows on the basis of the pre-tax interest which reflects the present market estimates of changes in the time value of money and risk indicators characteristic for a given liability.

**o) Bank credits**

Interest accruing bank credits (including overdrafts) are recorded in the inflows reduced by direct costs of the acquisition of funds. Financial costs, including fees payable at repayment or redemption and direct costs of taking a credit, are recorded in the profit and loss account on the basis of the accrual method; they increase the book value of the financial instrument with the account for the repayments made in the current period.

**p) Contingent liabilities**

Contingent liabilities are hypothetical liabilities arising under the inception or lack of inception of one or several uncertain future events not fully under the control of the Company or/and present obligation arising under past events, which value could not be reliably evaluated or it was not probable that there was a necessity to spend financial means in view of the economic benefits in order to meet the obligation.

**r) Income**

Income on sales is recorded at fair value of payments received or due and constitutes the receivables for products, goods and services supplied in the ordinary course of business, reduced by discounts, VAT and other sales taxes less inside group sales.

Income on the sales of telecommunications services includes indirect and direct wholesale of voice services as well as data transmission services and collocation services.

Income on the sales of goods is recognized upon the delivery of goods and the transfer of the ownership rights.

Income on the sales of services is recognized in the period of their provision on the basis of the stage of advancement of a given transaction, specified on the basis of the actual status of the performed works in relation to the complete provision of the service.

Interest income accrues on the principal amount and is so recognized on the basis of the effective interest method.

Dividend income is recognized at the moment of vesting the right to receive the dividend with the shareholders.

**s) Costs and financial income**

Financial income incorporates interest due under the investments of cash and cash equivalents by the Company, due dividends, income on the sales of financial instruments, gains from revaluation of the fair value of the financial instruments evaluated on the basis of the financial result and foreign exchange gains. Interest income is recorded in the profit and loss account on the accrual basis with the application of the effective interest method.

**t) Taxes**

The following make up the obligatory charges to the financial result: current tax and deferred tax.

Current tax burden is charged on the taxable basis of a given accounting year. Tax profit (loss) differs from the net book profit (loss) for the fact that taxable income and tax deductible cost in subsequent years as well as tax exempt costs and income are not included. Tax burden is charged on the basis of tax rates binding for a given accounting year.

Current income tax on items directly recognized in the equity is directly recognized in the equity and not in the profit and loss account.

Deferred tax is measured with the balance sheet method as the tax due to payment or refund in future with respect to the difference between the balance sheet value of assets and liabilities and their equivalent tax used to assess the taxable basis.

Deferred tax liability is created on all the temporary taxable gains, and the deferred tax asset is recognized up to the extent probably applicable to the reduction of the future taxable profit by recognized temporary negative difference. The assets or tax liability item is not created if the temporary difference arises due to the company goodwill or due to the initial recognition of another asset or liability in a transaction which has effect neither upon the tax result nor accounting results.

Deferred tax liability is recognized based on temporary tax differences arising due to investments into subsidiaries and associates and joint enterprises where the timing of the reversal of the temporary differences can be controlled by the Company and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax asset is subject to analysis as at each balance sheet day and where the expected future tax profits will not suffice for the purchase of an asset or part of it, then the asset is written down.

Deferred tax is measured on the basis of tax rates binding at the time when an asset is recognized or a liability has become due. Deferred tax is recognized in the profit and loss account, except for tax concerning items charged or credited directly to equity. In such a case the deferred tax is also settled directly in equity.

VAT

Income, costs and assets are recognized reduced by VAT except for:

- where VAT paid at the purchase of assets or services cannot be claimed back from the tax office - it is then recognized as part of the asset acquisition price or as its price,

- receivables and liabilities which are recorded stating specifically VAT.

Net VAT which can be claimed back or which shall be paid to the tax office is recognized in the balance sheet as part of the receivables or liabilities.

**u) Earnings per share**

The Company presents basic EPS and diluted EPS for ordinary shares. Basic EPS is assessed by dividing the profit or loss from the ongoing operations due to the holders of ordinary shares by weighted average number of ordinary shares in the period. Diluted profit per share EPS is assessed by dividing the profit or loss from the ongoing operations due to the holders of ordinary shares by weighted average number of ordinary shares in the period adjusted with the diluting effect of the potential ordinary shares.

**w) Segmental information reporting**

An operating segment is a separate part of the Company which supplies specified goods or services (industry segment) or delivers goods and provides services to certain business environment (geographical segment) which is subject to risk and draws profits other than the other segments.

**x) Cash flow statement**

Cash and cash equivalents disclosed in the cash flow statement are in accord with the cash and cash equivalents disclosed in the balance sheet.

Costs incurred at the acquisition of fixed tangible and intangible assets are recognized in net amounts (excluding VAT).

## 4. Reporting by segments

The Company operates in one segment of the industry - telecommunications. Mediatel Company operates in one geographical area, which is the territory of Poland.

Since July 2004 the Company shares have been listed on the Warsaw Stock Exchange ('WSE'). Mediatel Group is subject to the information obligations concerning all companies listed on WSE.

## 5. Significant accounting estimates and judgments

Mediatel Company makes estimates and adopts assumptions concerning the future. The so prepared judgments and estimates are subject to review. Main estimates are specified below:

*Useful life of fixed assets*

Fixed assets comprising mainly fixed tangible and intangible assets constitute the crucial part of the assets of Mediatel Company. First of all, market conditions may affect the change in their estimated value over their useful lives.

Mediatel Company shall carry out annual reviews to ascertain the correctness of their estimates. The following indicators are taken into account by the Management Board of the Company at the initial determination and subsequent reviews of the estimated useful life of an asset:

- expected physical wear,
- technological loss of usability,
- useful lives of similar assets,
- period of foreseeable economic profits from the asset.

*Customer relationships*

In March 2008 Mediatel Company acquired selected assets of Premium Internet S.A. („PI") from PI. The selected assets comprise the rights and duties under the agreements and other rights and movables, the assets of PI, connected with the international voice termination services. Allocating the purchase price Mediatel classified customer relationships as an item of intangible assets. Fair value of the customer relationships was assessed on the basis of the economic surplus method. The analysis required the adoption of certain assumptions concerning, among others: expected annual cash flows, expected period of economic benefits in the utility period as well as the risk-adjusted discount rate.

### 6. Seasonal or cyclical nature of operations

The information concerning the seasonality and cyclicality of the operations was presented in note 9 of the consolidated quarterly report for the first quarter of 2010.

### 7. Changes in estimated values

No significant changes to the estimated values quoted in the previous accounting years took place.

### 8. Information concerning the issue of shares, redemption and repayment of securities and debt securities

Information concerning the issue of shares, redemption and repayment of securities and debt securities was presented in note 12 of the quarterly report of Mediatel Group for the first quarter of 2010.

### 9. Information on the dividend paid

Information on the paid dividend was presented in note 17 of the quarterly report of Mediatel Group for the first quarter of 2010.

### 10. Information on changes in contingent liabilities or contingent assets

Information on the changes in contingents liabilities or assets was presented in note 15 of the quarterly report of Mediatel Group for the first quarter of 2010.

### 11. Court proceedings

Information thereon was presented in note 13 of the quarterly report of Mediatel Group for the first quarter of 2010.

(all amounts are quoted in thousands, unless otherwise specified)

## 12. Transactions with related parties

Transactions between Mediatel S.A. and companies of Mediatel Group.

| | As at 31 March 2010 | As at 31 March 2009 |
|---|---|---|
| | PLN | PLN |
| **Investments in controlled companies:** | **11 234** | **355** |
| Elterix | 355 | 355 |
| Velvet Telecom LLC | 10 879 | - |
| **Other short term receivables from:** | **23 289** | **27 704** |
| Elterix | 22 361 | 22 163 |
| Mediatel 4 B | 870 | 5 541 |
| Velvet Telecom LLC | 58 | - |
| **Short-term loans received (including interest):** | **204** | **5 121** |
| Concept-T | - | 5 121 |
| NFI Magna | 204 | - |
| **Short-term receivables under the delivery of goods and services due from:** | **3 434** | **2 548** |
| Concept-T | 24 | 349 |
| Elterix | 587 | 869 |
| Mediatel 4B | 648 | 1 330 |
| Velvet Telecom LLC | 2 175 | - |
| **Short-term liabilities under the delivery of goods and services due to:** | **4 923** | **1 425** |
| Concept-T | 211 | 34 |
| Elterix | 60 | 494 |
| Mediatel 4B | 2 566 | 897 |
| Velvet Telecom LLC | 2 086 | - |
| **Short-term liabilities due to:** | **9 461** | **-** |
| Concept-T | 9 461 | - |
| **Net income from the sale of products and services from related entities:** | **4 154** | **2 438** |
| Concept-T | 52 | 469 |
| Elterix | 622 | 339 |
| Mediatel 4B | 1 345 | 1 630 |
| Velvet Telecom LLC | 2 135 | - |

**(all amounts are quoted in thousands, unless otherwise specified)**

| | | |
|---|---|---|
| **Costs of products and services sold of which to related entities:** | **4 276** | **1 118** |
| Elterix | 43 | 267 |
| Concept-T | 201 | 132 |
| Mediatel 4B | 1 947 | 719 |
| Velvet Telecom LLC | 2 086 | - |
| | | |
| **Costs of sales to related entities:** | **-** | **115** |
| Elterix | - | 115 |
| | | |
| **Other operating income:** | **-** | **150** |
| Elterix | - | 20 |
| Concept-T | - | 8 |
| Mediatel 4B | - | 122 |
| | | |
| **Financial income:** | **457** | **249** |
| Elterix | 325 | 193 |
| Mediatel 4B | 132 | 56 |
| | | |
| **Financial cost:** | **104** | **69** |
| Concept-T | 98 | 69 |
| NFI Magna | 6 | - |

In the reporting period, the Company concluded the following transactions with its subsidiaries:

- sale and purchase of telecommunications services,
- lease of parts of telecommunications networks,
- sale of other services (space rental) technical consultancy,
- sale of goods

## 13. Important events occurring after the balance sheet day.

Information thereon was presented in note 28 of the quarterly report of Mediatel Group for the first quarter of 2010.

Warsaw, 11 May 2010

Marcin Kubit - President of the Management Board ______________________________

Iwona Rytel - Member of the Management Board _______________________