2012

Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 2012

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NETIA

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at September 30, 2012 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 9 months period then ended and notes to interim condensed consolidated financial statements ('the interim condensed consolidated financial statements').

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

Scope of review

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

Conclusion

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

Convenience translations

The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 9 months period ended September 30, 2012 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 28, 2012 of PLN 4.1138 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these accompanying interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp. z o.o.

Ernst &Young Audit sp. z o.o.

Warsaw, November 7, 2012

NETIA S.A.

INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

As at and for the nine-month period ended September 30, 2012

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at September 30, 2012

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)	Convenience Translation September 30, 2012 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	2,091,055	2,184,268	508,303
Intangible assets	7	699,543	765,549	170,048
Investment property		-	26,399	-
Deferred income tax assets	13	120,576	108,901	29,309
Available for sale financial assets		115	115	28
Long term receivables		1	218	-
Prepaid expenses and accrued income		13,603	11,832	3,307
Total non-current assets		**2,924,893**	**3,097,282**	**710,995**
Current assets				
Inventories		3,502	5,314	851
Trade and other receivables		250,804	255,596	60,966
Current income tax receivables		45	262	11
Prepaid expenses and accrued income		34,583	30,091	8,407
Derivative financial instruments	8	1	2,723	-
Financial assets at fair value through profit and loss		15	16	4
Held to maturity investments		48	-	12
Restricted cash		2,263	2,263	550
Cash and cash equivalents		131,122	156,509	31,874
		422,383	**452,774**	**102,675**
Assets held for sale	4	26,770	-	6,507
Total current assets		**449,153**	**452,774**	**109,182**
Total assets		**3,374,046**	**3,550,056**	**820,177**

Mirosław Godlewski
President of the Company

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Mirosław Suszek
Member of the Management Board

Warsaw, Poland
November 7, 2012

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

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)	Convenience Translation September 30, 2012 (EUR)
EQUITY				
Share capital	9	386,212	391,602	93,882
Treasury shares	9	(70,487)	(49,582)	(17,134)
Supplementary capital		2,059,135	1,867,421	500,543
Retained earnings		46,479	251,012	11,298
Other components of equity		23,321	39,915	5,669
Equity attributable to equity owners		**2,444,660**	**2,500,368**	**594,258**
Non-controlling interests		-	5	-
Total equity		**2,444,660**	**2,500,373**	**594,258**
LIABILITIES				
Non-current liabilities				
Borrowings	10	450,745	514,584	109,569
Provisions		9,432	3,086	2,293
Deferred income		20,157	22,123	4,900
Other long term liabilities		4,790	9,392	1,164
Total non-current liabilities		**485,124**	**549,185**	**117,926**
Current liabilities				
Trade and other payables		235,455	263,126	57,235
Derivative financial instruments	8	8,212	84	1,996
Borrowings	10	139,268	180,593	33,854
Current income tax liabilities		1	1	-
Provisions	4	20,192	12,660	4,908
Deferred income		41,134	44,034	10,000
Total current liabilities		**444,262**	**500,498**	**107,993**
Total liabilities		**929,386**	**1,049,683**	**225,919**
Total equity and liabilities		**3,374,046**	**3,550,056**	**820,177**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2012 (PLN)	Three-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2011 (PLN)	Convenience Translation Nine-month period ended September 30, 2012 (EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		**521,073**	**1,601,824**	**394,616**	**1,192,085**	**389,379**
Cost of sales		(362,946)	(1,120,789)	(269,946)	(812,504)	(272,446)
Gross profit		**158,127**	**481,035**	**124,670**	**379,581**	**116,933**
Selling and distribution costs		(89,275)	(297,499)	(70,841)	(218,248)	(72,317)
General and administration costs		(45,137)	(156,539)	(31,104)	(106,568)	(38,053)
Other income		4,636	17,374	3,107	10,523	4,223
Other expenses		(958)	(2,868)	(2)	(998)	(697)
Other gains/(losses), net	11	(45)	2,744	1,732	2,215	667
Operating profit		**27,348**	**44,247**	**27,562**	**66,505**	**10,756**
Finance income	12	669	4,763	7,493	14,609	1,158
Finance costs	12	(11,017)	(38,166)	(91)	(302)	(9,278)
Profit before income tax		**17,000**	**10,844**	**34,964**	**80,812**	**2,636**
Income tax benefit/ (charge)	13	(6,965)	10,363	(10,308)	(66,290)	2,519
Profit		**10,035**	**21,207**	**24,656**	**14,522**	**5,155**
Profit attributable to owners of the Company		**10,035**	**21,207**	**24,656**	**14,522**	**5,155**
Earnings per share (expressed in PLN per share)						
- basic		0.03	0.06	0.06	0.04	0.01
- diluted		0.03	0.06	0.06	0.04	0.01

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2012 (PLN)	Three-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2011 (PLN)	Convenience Translation Nine-month period ended September 30, 2012 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit		**10,035**	**21,207**	**24,656**	**14,522**	**5,155**
Interest rate cash flow hedges	8	(2,222)	(4,976)	-	-	(1,210)
Foreign exchange rate cash flow hedges (equipment and construction contracts)	8	(2,795)	(4,147)	2,893	2,639	(1,008)
Foreign exchange rate cash flow hedges (acquisitions)		-	(203)	3,460	3,460	(49)
Income tax relating to components of other comprehensive income		862	1,705	(1,138)	(1,115)	414
Other comprehensive income/(loss)		**(4,155)**	**(7,621)**	**5,215**	**4,984**	**(1,853)**
TOTAL COMPREHENSIVE INCOME		**5,880**	**13,586**	**29,871**	**19,506**	**3,302**
Total comprehensive income attributable to owners of the Company		**5,880**	**13,586**	**29,871**	**19,506**	**3,302**

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the nine-month period ended September 30, 2012

(All amounts in thousands, except as otherwise stated)

				Supplementary capital			Other components of equity					
	Note	Share capital	Treasury shares	Share premium	Other supplementary capital	Retained earnings	Employee share option scheme	Hedging reserve	Other reserve	Total	Non-controlling interest	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)		
Balance as at January 1, 2012		**391,602**	**(49,582)**	**1,357,768**	**509,653**	**251,012**	**38,486**	**1,429**	**-**	**2,500,368**	**5**	**2,500,373**
Profit for the period		-	-	-	-	21,207	-	-	-	21,207	-	21,207
Other comprehensive loss		-	-	-	-	-	-	(7,621)	-	(7,621)	-	(7,621)
Total comprehensive income		-	-	-	-	21,207	-	(7,621)	-	13,586	-	13,586
Transfer of Netia's 2011 profit	9	-	-	-	225,004	(225,004)	-	-	-	-	-	-
Transfer of 2010 adjustment to Netia's 2009 and earlier profits		-	-	-	726	(726)	-	-	-	-	-	-
Repurchase of own shares	9	-	(70,487)	-	-	-	-	-	-	(70,487)	-	(70,487)
Redemption of own shares	9	(9,775)	49,582	(49,582)	-	-	-	-	9,775	-	-	-
Employee share option scheme:												
- value of services provided	9	-	-	-	-	-	1,327	-	-	1,327	-	1,327
- issuance of series K shares	9	4,385	-	15,690	-	-	(20,075)	-	-	-	-	-
Cost of issuance		-	-	(124)	-	-	-	-	-	(124)	-	(124)
Acquisition of non-controlling interest		-	-	-	-	(10)	-	-	-	(10)	(5)	(15)
Balance as at September 30, 2012		**386,212**	**(70,487)**	**1,323,752**	**735,383**	**46,479**	**19,738**	**(6,192)**	**9,775**	**2,444,660**	**-**	**2,444,660**

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Treasury shares	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Other components of equity: Employee share option scheme	Other components of equity: Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2011		**389,459**	**-**	**1,356,678**	**242,621**	**269,258**	**39,798**	**(268)**	**2,297,546**
Profit for the period		-	-	-	-	14,522	-	-	14,522
Other comprehensive income		-	-	-	-	-	-	4,984	4,984
Total comprehensive income		-	-	-	-	14,522	-	4,984	19,506
Transfer of Netia's 2010 profit		-	-	-	267,032	(267,032)	-	-	-
Repurchase of own shares		-	(24,738)	-	-	-	-	-	(24,738)
Employee share option scheme:									
- value of services provided		-	-	-	-	-	1,748	-	1,748
- issuance of series K shares		1,602	-	789	-	-	(2,391)	-	-
Cost of issuance		-	-	(41)	-	-	-	-	(41)
Balance as at September 30, 2011		**391,061**	**(24,738)**	**1,357,426**	**509,653**	**16,748**	**39,155**	**4,716**	**2,294,021**

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2011 (PLN)	Convenience Translation Nine-month period ended September30, 2012 (EUR)
Cash flows from operating activities:				
Profit		**21,207**	**14,522**	**5,155**
Adjustments for:				
Depreciation and amortization	5, 7	363,199	226,928	88,288
Impairment charges for specific individual assets	5,7	1,895	958	461
Reversal of impairment charges		(293)	(1,007)	(71)
Deferred income tax (benefit)/charge	13	(10,294)	7,628	(2,502)
Interest expense and fees charged on bank loans		35,692	-	8,676
Other interest charged / (earned)		384	(5,327)	93
Share-based compensation		2,329	2,526	566
Fair value losses/ (gains) on financial assets / liabilities		1	(10)	-
Fair value losses/(gains) on derivative financial instruments	8	1,936	(1,999)	471
Foreign exchange (gains)/losses		316	(790)	77
Loss/(gain) on disposal of fixed assets		636	(2,063)	155
Changes in working capital	15	(14,835)	9,800	(3,609)
Tax expense relating to prior periods		-	58,325	-
Net cash provided by operating activities		**402,173**	**309,491**	**97,760**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(209,900)	(197,553)	(51,023)
Purchase of operational networks		-	(2,680)	-
Proceeds from sale of fixed assets		450	7,420	109
Purchase of Ethernet operators, net of cash received	6	(5,285)	(8,412)	(1,284)
Purchase price adjustment for Crowley	6	(2,775)	-	(675)
Purchase of non-controlling interest		(15)	-	(4)
Sale of investments		28	-	7
Purchase of treasury bonds / notes		(48)	(204,031)	(12)
Repurchase of treasury bonds / notes		-	165,000	-
Net cash used in investing activities		**(217,545)**	**(240,256)**	**(52,882)**
Cash flows from financing activities:				
Government grants received		6,595	-	1,603
Loan repayments		(116,981)	(138)	(28,436)
Payments of interests, fees and interest rate swap settlements relating to bank loans		(24,695)	-	(6,003)
Repurchase of own shares		(70,487)	(22,744)	(17,133)
Finance lease payments		(4,131)	(3,344)	(1,003)
Net cash used in financing activities		**(209,699)**	**(26,226)**	**(50,972)**
Net change in cash and cash equivalents		**(25,071)**	**43,009**	**(6,094)**
Exchange (gains)/ losses on cash and cash equivalents		**(316)**	**790**	**(77)**
Cash and cash equivalents at beginning of period		156,509	173,600	38,045
Cash and cash equivalents at end of period		**131,122**	**217,399**	**31,874**

(All amounts in thousands, except as otherwise stated)

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2012 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 7, 2012 and were subject to a review by an independent auditor.

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

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

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

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

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 37 such operators with a total of 129,808 (not in thousands) active customers. Additionally, the Netia Group has acquired 10,723 (not in thousands) customers and local access networks from other Ethernet operators.

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

Netia introduced IPTV services into its offering during 2011 and is gradually upgrading its copper and Ethernet access networks using VDSL and fibre to the building (FTTB) technology to deliver faster broadband.

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

In December 2011 Netia acquired Telefonia DIALOG S.A. ("Dialog",which was transformed into Telefonia DIALOG Sp. z o.o. on April 30, 2012) with its subsidiaries Avista Media Sp. z o.o. ("Avista", merged with Dialog in July 2012) and Petrotel Sp. z o.o. ("Petrotel") (together, the "Dialog Group") and Crowley Data Poland Sp. z o.o ("Crowley", later CDP Netia Sp. z o.o., merged with Netia in August 2012), two other Polish alternative operators, which increased materially the size of the Netia Group. Dialog and Petrotel provide a similar range of telecommunication services to Netia and serve business and residential customers. Crowley was providing telecommunications services exclusively to business customers. Avista was providing call center services mainly for Dialog but also for some third party customers.

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

Going concern

As at September 30, 2012, the Group's equity amounted to PLN 2,444,660 and the Netia Group had net working capital of PLN 4,891 inclusive of cash available of PLN 131,122 and short-term bank loans of PLN 139,268. Netia's operations were free cash flow generative in 2011 and in the nine-month period ended September 30, 2012 as were those of the Dialog Group, and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of November 7, 2012, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2011, except for new accounting standards adopted as of January 1, 2012. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2011 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2011 and 2012) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 28, 2012 of PLN 4.1138 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

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

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

Changes in estimates

In the nine-month period ended September 30, 2012 the Netia Group reassessed the useful lives of its fixed telecommunication network, telecommunications equipment and machinery and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation	Decrease in the depreciation charge recognized in current period	Relevant increase in the depreciation charge for the remaining useful life
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2015	(219)	219
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2013	(405)	405
Machinery and equipment	- useful lives of certain assets were extended until the end of 2013 and 2015	(420)	420
Equipment (IT servers)	- useful lives of certain assets were extended until the end of 2013 and 2015	(79)	79
Total impact		**(1,123)**	**1,123**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

- Amendments to IFRS 7 "Disclosures - Transfers of Financial Assets". Amendments to the IFRS are to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitization of financial assets. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011.

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2012 and have not been adopted early:

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2015. IFRS 9 is the Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU.

- IFRS 10 "Consolidated Financial Statements ", which supersedes IAS 27 and SIC-12 "Consolidation – Special Purpose Entities", effective for annual periods beginning on or after 1 January 2013. IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when entity controls one or more other entities. This standard has not yet been endorsed by the EU.

- IFRS 12 "Disclosure of Interests in Other Entities" effective for annual periods beginning on or after 1 January 2013. IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This standard has not yet been endorsed by the EU.

- IFRS 11 "Joint Arrangements" effective for annual periods beginning on or after 1 January 2013. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities – Non-Monetary Contributions by Venturers". This standard has not yet been endorsed by the EU.

- IFRS 13 "Fair Value Measurement" applicable for annual periods beginning on or after 1 January 2013. IFRS 13 defines fair value, sets out a framework for measuring fair value and requires disclosures about fair value measurement. IFRS 13 applies to IFRSs that require or permit fair value measurement or disclosures about fair value measurements, except in specified circumstances. This standard has not yet been endorsed by the EU.

- Amendments to IAS 27 reissued as IAS 27 "Separate Financial Statements", effective for annual periods beginning on or after 1 January 2013. Consolidation requirements previously forming part of IAS 27 (2008) have been revised and are now contained in IFRS 10. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 28 reissued as IAS 28 " Investments in associates and Joint Ventures", effective for annual periods beginning on or after 1 January 2013. The amendments were issued for conforming changes based on the issuance of IFRS 10, IFRS 11 and IFRS 12. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 19 "Employee Benefits", effective for annual periods beginning on or after 1 January 2013. These amendments finalise proposals in the exposure draft Defined Benefit Plans, published in April 2010 and proposals related to termination benefits in the exposure draft IAS 37 Provisions, Contingent Liabilities and Contingent Assets, published in June 2005. These amendments will make it easier for users of financial statements to understand how defined benefit plans affect an entity's financial position, financial performance and cash flows.

- IFRIC 20 "Accounting for stripping costs in the production phase of a surface mine", effective for annual periods beginning on or after 1 January 2013. This interpretation has not yet been endorsed by the EU.

- Amendment to IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after 1 July 2012. The amendments require entities to group items presented in Other Comprehensive Income based on whether they are potentially reclassifiable to profit or loss subsequently.

- Amendments to IFRS 7 "Financial Instruments: Disclosers: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.

- Amendments to IAS 32 "Financial Instruments: Presentation: Offsetting Financial Assets and Financial Liabilities", effective for annual periods beginning on or after 1 January 2014. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 1 "First–time Adoption of International Financial Reporting Standards: Government Loans" – effective for financial years beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 10, IFRS 11 and IFRS 12 "Transition Guidance" - effective for financial years beginning on or after 1 January 2013. The amendments have not yet been endorsed by the EU.

- Improvements to IFRSs issued in May 2012 – effective for financial years beginning on or after 1 January 2013. The improvements have not yet been endorsed by the EU.

- Amendments to IAS 12 "Income Tax: Deferred Tax: Recovery of Underlying Assets", effective for financial years beginning on or after 1 January 2012. The amendments have not yet been endorsed by the EU.

- Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards: Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters, effective for financial years beginning on or after 1 July 2011. The amendments have not yet been endorsed by the EU.

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

3. Segment information

For management purposes, the Netia Group is organized into business units based on their customer segments, and has four reportable operating segments, as follows:

- Home, i.e. residential clients,
- SOHO / SME, i.e. small and medium enterprises,
- Corporate, i.e. large enterprises,
- Carriers, i.e. other telecom service providers.

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

In December 2011 Netia acquired the Dialog Group and Crowley. Customers of Dialog and Crowley have been allocated into their respective customers segments whilst Petrotel has been assigned to the unallocated segment as it continues to operate as a stand-alone operating business.

No operating segments have been aggregated to form the above reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the nine-month and the three-month periods ended September 30, 2012 and 2011, respectively:

(All amounts in thousands, except as otherwise stated)

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Nine-month period ended September 30, 2012							
Revenue from external customers	**818,565**	**218,517**	**348,795**	**191,418**	**1,577,295**	**24,529**	**1,601,824**
Adjusted EBITDA	**195,840**	**83,889**	**191,711**	**76,878**	**548,318**	**(101,677)**	**446,641**
Expenses incurred on mergers and acqusitions	-	-	-	-	-	(950)	(950)
Integration costs	-	-	-	-	-	(16,505)	(16,505)
Restructuring costs	-	-	-	-	-	(21,740)	(21,740)
EBITDA	**195,840**	**83,889**	**191,711**	**76,878**	**548,318**	**(140,872)**	**407,446**
Depreciation and Amortization	(89,371)	(56,654)	(116,080)	(48,539)	(310,644)	(52,555)	(363,199)
Operating profit / (loss)	**106,469**	**27,235**	**75,631**	**28,339**	**237,674**	**(193,427)**	**44,247**
Finance income / (cost), net	-	-	-	-	-	(33,403)	(33,403)
Income tax benefit	-	-	-	-	-	10,363	10,363
Profit / (Loss)	**106,469**	**27,235**	**75,631**	**28,339**	**237,674**	**(216,467)**	**21,207**
Capital expenditure	66,145	12,471	45,102	16,075	139,793	62,780	202,573

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Nine-month period ended September 30, 2011							
Revenue from external customers	**617,091**	**150,530**	**253,021**	**166,745**	**1,187,387**	**4,698**	**1,192,085**
Adjusted EBITDA	**115,313**	**48,940**	**132,701**	**79,134**	**376,088**	**(76,296)**	**299,792**
Restructuring cost	-	-	-	-	-	(273)	(273)
Expenses incurred on merger and acquisition projects	-	-	-	-	-	(3,706)	(3,706)
USO provision	-	-	-	-	-	(2,380)	(2,380)
EBITDA	**115,313**	**48,940**	**132,701**	**79,134**	**376,088**	**(82,655)**	**293,433**
Depreciation and Amortization	(49,119)	(36,617)	(74,534)	(38,786)	(199,056)	(27,872)	(226,928)
Operating profit / (loss)	**66,194**	**12,323**	**58,167**	**40,348**	**177,032**	**(110,527)**	**66,505**
Finance income/ (cost), net	-	-	-	-	-	14,307	14,307
Income tax charge	-	-	-	-	-	(66,290)	(66,290)
Profit / (Loss)	**66,194**	**12,323**	**58,167**	**40,348**	**177,032**	**(162,510)**	**14,522**
Capital expenditure	63,581	11,144	46,671	17,785	139,181	25,244	164,425

(All amounts in thousands, except as otherwise stated)

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended September 30, 2012							
Revenue from external customers	**265,120**	**71,593**	**115,302**	**60,409**	**512,424**	**8,649**	**521,073**
Adjusted EBITDA	**67,872**	**28,263**	**65,046**	**25,953**	**187,134**	**(29,684)**	**157,450**
Expenses incurred on mergers and acqusitions	-	-	-	-	-	(256)	(256)
Integration costs	-	-	-	-	-	(4,537)	(4,537)
Restructuring costs	-	-	-	-	-	(4,230)	(4,230)
EBITDA	**67,872**	**28,263**	**65,046**	**25,953**	**187,134**	**(38,707)**	**148,427**
Depreciation and Amortization	(29,742)	(18,857)	(38,633)	(16,148)	(103,380)	(17,699)	(121,079)
Operating profit / (loss)	**38,130**	**9,406**	**26,413**	**9,805**	**83,754**	**(56,406)**	**27,348**
Finance income / (cost), net	-	-	-	-	-	(10,348)	(10,348)
Income tax charge	-	-	-	-	-	(6,965)	(6,965)
Profit / (Loss)	**38,130**	**9,406**	**26,413**	**9,805**	**83,754**	**(73,719)**	**10,035**
Capital expenditure	18,823	4,202	14,330	6,422	43,777	29,975	73,752

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended September 30, 2011							
Revenue from external customers	**202,735**	**51,360**	**84,401**	**54,584**	**393,080**	**1,536**	**394,616**
Adjusted EBITDA	**37,476**	**16,705**	**45,388**	**27,015**	**126,584**	**(21,128)**	**105,456**
Restructuring cost	-	-	-	-	-	(38)	(38)
Expenses incurred on merger and acquisition projects	-	-	-	-	-	(2,039)	(2,039)
EBITDA	**37,476**	**16,705**	**45,388**	**27,015**	**126,584**	**(23,205)**	**103,379**
Depreciation and Amortization	(16,251)	(12,114)	(24,657)	(12,832)	(65,854)	(9,963)	(75,817)
Operating profit / (loss)	**21,225**	**4,591**	**20,731**	**14,183**	**60,730**	**(33,168)**	**27,562**
Finance income/ (cost), net	-	-	-	-	-	7,402	7,402
Income tax charge	-	-	-	-	-	(10,308)	(10,308)
Profit / (Loss)	**21,225**	**4,591**	**20,731**	**14,183**	**60,730**	**(36,074)**	**24,656**
Capital expenditure	27,264	3,884	18,796	7,975	57,919	8,997	66,916

(All amounts in thousands, except as otherwise stated)

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

	Three -month period ended September 30, 2012	**Nine -month period ended September 30, 2012**	**Three -month period ended September 30, 2011**	**Nine -month period ended September 30, 2011**
	(PLN)	(PLN)	(PLN)	(PLN)
Operating profit for reportable segments	83,754	237,674	60,730	177,032
Operating profit for Petrotel business	1,525	3,919	-	-
Operating profit for radio communication business	(152)	(470)	(110)	(114)
General fixed costs (incl. administration, IT, professional services)	(35,663)	(123,503)	(24,650)	(85,386)
Reorganization and restructuring costs	(4,230)	(21,740)	(38)	(273)
Integration costs	(4,537)	(16,505)	-	-
Other operating income / (expenses), net	2,419	11,677	1,492	2,846
Depreciation and amortization of unallocated assets (excluding Petrotel and radio communication business)	(15,768)	(46,805)	(9,862)	(27,600)
Finance income/(costs), net	(10,348)	(33,403)	7,402	14,307
Income tax benefit/(charge)	(6,965)	10,363	(10,308)	(66,290)
Profit	**10,035**	**21,207**	**24,656**	**14,522**

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

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

Restructuring

Following the acquisition of Dialog Group and Crowley in December 2011 which significantly augmented the scale of the business, the Netia Group performed a comprehensive cost review across all functional areas of the Company and identified areas for operating cost optimization. The reorganization program includes a reduction of headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. In connection with the restructuring program, in April 2012 the Netia Group announced a headcount reduction, which assumed a decrease of employment by approximately 519 full time employees and changes in terms of employment contracts of approximately 129 employees by the end of 2012.

Total reorganization costs recorded during the nine-month period ended September 30, 2012 amounted to PLN 38,245 (out of which PLN 21,740 related to the restructuring program announced in April 2012 and PLN 16,505 related to integration costs) and were included in the following cost categories:

Nine-month period ended September 30, 2012	***Restructuring costs*** (PLN)	***Integration costs*** (PLN)
Cost of sales		
Salaries and benefits	(5,274)	(34)
Other	-	(207)
Selling and distribution costs		
Salaries and benefits	(9,343)	(11)
Other	-	(84)
General and administration costs		
Salaries and benefits	(7,123)	(4,880)
Other	-	(11,289)
	(21,740)	**(16,505)**

Initial agreement to sell the Company's investment property

On March 23, 2012 the Company and Tilia SKA, a Company related to Ghelamco Group signed a conditional purchase agreement to sell Netia's land totalling 23,600 m2 (not in thousands) in Warsaw at Poleczki 13 and two buildings located thereon.

The Management of the Company plans to close the transaction for a value between PLN 25,920 - 32,020, depending on the size of the rentable area approved for construction by the local authorities. As an integral part of the agreement, Netia has committed to lease one of the buildings that Ghelamco plans to develop on the site, starting from 2015. Finalization of the sale depends on receipt of various authorizations from the relevant local authorities in a form satisfactory to the buyer. Management currently expects that receipt of all such authorisations will be completed in the first half of 2013 and that the sale transaction should be closed by July 31, 2013.

Consequently, as at September 30, 2012, the property of PLN 26,105 (reclassified from investment property) and land of PLN 631 and infrastructure of PLN 34 (reclassified from land) which will be sold to Tilia SKA were presented as assets held for sale.

This agreement does not relate to land and one building at the same location which houses network equipment crucial for the operation of Netia's network and is presented as property, plant and equipment as at September 30, 2012.

Interest rate risk hedging

On January 5, 2012 and January 10, 2012 the Company entered into IRS contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan (See Note 10 Borrowings). For these IRS contracts hedge accounting was applied. For details see Note 8.

Intercompany purchase of fixed assets (not in thousands)

In second quarter of 2012 the Company acquired passive telecommunications network elements from its Dialog subsidiary as part of the on-going integration of Dialog into the Netia Group. These network elements will be managed jointly with Netia's existing network to reduce operating costs in the future. Telefonia Dialog Sp. z o.o. will continue to utilise the telecommunications network elements to service its clients via a long-term agreement put in place between Netia and Telefonia Dialog Sp. z o.o. This asset sale transaction resulted in Dialog incurring significant tax losses, which can be utilised over the next five years. Simultaneously Dialog crystalised timing differences on fixed assets generated by earlier asset impairment provisions for which no deferred tax asset had been recognised due to the length of time necessary for those timing differences to reverse. Netia Group recognised net additional deferred tax assets on this transaction of PLN 21 mln (see Note 13).

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings	Land	Fixed telecommunications network	Telecommunications equipment	Machinery and equipment	Office furniture and equipment	Vehicles	Fixed assets under construction	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2012 (restated)	114,326	8,477	2,462,104	2,229,024	127,660	84,291	4,447	106,940	5,137,269
Additions	55	-	914	551	185	1,990	53	176,729	180,477
Transfer to assets held for sale	-	(631)	-	-	-	-	-	(33)	(664)
Transfer from investment property	283	-	156	-	-	2,078	-	-	2,517
Purchase of subsidiary	11	12	80	31	2	74	32	5	247
Transfers	2,209	-	49,508	118,172	8,097	3,639	175	(181,800)	-
Disposals	(162)	(11)	(227)	(1,598)	(2,178)	(6,866)	(920)	(84)	(12,046)
Other movements	(41)	-	(1,088)	(219)	1,035	565	(208)	161	205
Gross book value as at September 30, 2012	116,681	7,847	2,511,447	2,345,961	134,801	85,771	3,579	101,918	5,308,005
Accumulated depreciation as at January 1, 2012	34,287	-	926,780	1,186,824	75,815	60,364	1,159	-	2,285,229
Depreciation expense	5,238	-	102,162	145,923	7,475	6,976	1,819	-	269,593
Transfer from investment property	13	-	98	-	-	2,010	-	-	2,121
Disposals	(40)	-	(22)	(498)	(1,808)	(5,561)	(729)	-	(8,658)
Other movements	(14)	-	(676)	51	687	(48)	-	-	-
Accumulated depreciation as at September 30, 2012	39,484	-	1,028,342	1,332,300	82,169	63,741	2,249	-	2,548,285
Accumulated impairment as at January 1, 2012	7,301	-	359,747	277,530	13,967	5,092	18	4,117	667,772
Impairment charge for specific assets	-	-	-	-	-	-	-	1,895	1,895
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(293)	(293)
Transfer from investment property	23	-	21	-	-	68	-	-	112
Disposals	-	-	-	(55)	(307)	(436)	-	(23)	(821)
Other movements	(2)	-	(94)	(189)	285	-	-	-	-
Accumulated impairment as at September 30, 2012	7,322	-	359,674	277,286	13,945	4,724	18	5,696	668,665
Net book value as at January 1, 2012	72,738	8,477	1,175,577	764,670	37,878	18,835	3,270	102,823	2,184,268
Net book value as at September 30, 2012	**69,875**	**7,847**	**1,123,431**	**736,375**	**38,687**	**17,306**	**1,312**	**96,222**	**2,091,055**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2011	63,788	4,979	2,076,941	1,965,036	115,102	72,620	1,578	83,256	4,383,300
Additions	-	-	137	149	147	1,038	246	143,366	145,083
Transfer from investment property	26,434	-	-	-	-	-	-	-	26,434
Purchase of subsidiary (see Note 6)	-	-	230	188	43	9	19	61	550
Purchase of operational networks	-	-	60	94	12	11	2	-	179
Transfers	3,129	-	33,687	75,157	4,203	586	1	(116,763)	-
Disposals	-	(179)	(7,757)	(8,403)	(1,969)	(1,640)	(484)	(98)	(20,530)
Other movements	(68)	-	99	(840)	811	(2)	-	-	-
Gross book value as at September 30, 2011	93,283	4,800	2,103,397	2,031,381	118,349	72,622	1,362	109,822	4,535,016
Accumulated depreciation as at January 1, 2011	23,686	-	868,326	1,040,579	69,602	54,902	910	-	2,058,005
Depreciation expense	3,822	-	45,111	112,735	5,512	5,009	328	-	172,517
Transfer from investment property	5,417	-	-	-	-	-	-	-	5,417
Disposals	(41)	-	(3,652)	(5,821)	(1,412)	(1,304)	(412)	-	(12,642)
Other movements	(10)	-	23	(423)	411	(1)	-	-	-
Accumulated depreciation as at September 30, 2011	32,874	-	909,808	1,147,070	74,113	58,606	826	-	2,223,297
Accumulated impairment as at January 1, 2011	6,491	534	510,546	308,801	15,878	5,312	18	2,033	849,613
Impairment charge for specific assets	-	-	-	-	-	67	-	891	958
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(1,007)	(1,007)
Transfer from investment property	1,844	-	-	-	-	-	-	-	1,844
Transfers	-	-	-	5	1	-	-	(6)	-
Disposals	(27)	(38)	(814)	(788)	(346)	(257)	-	(145)	(2,415)
Other movements	(1)	-	30	(247)	218	-	-	-	-
Accumulated impairment as at September 30, 2011	8,307	496	509,762	307,771	15,751	5,122	18	1,766	848,993
Net book value as at January 1, 2011	33,611	4,445	698,069	615,656	29,622	12,406	650	81,223	1,475,682
Net book value as at September 30, 2011	**52,102**	**4,304**	**683,827**	**576,540**	**28,485**	**8,894**	**518**	**108,056**	**1,462,726**

(All amounts in thousands, except as otherwise stated)

6. Acquisitions

<u>Current period</u>

Acquisition of Ethernet operators

<u>Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o.</u>

On February 14, 2012, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, purchased 100% of the share capital of Elpro-Elektronika Profesjonalna Waldemar Nitka Sp. z o.o. ("Elpro"), an internet service provider offering broadband Internet access to residential clients. The total price for all Elpro shares has been set at PLN 2,202.

The Netia Group accounted for the acquisition of Elpro using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,601,935 and profit would have been PLN 21,298.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values of net assets acquired and goodwill as of the date of the acquisition are as follows:

	(PLN)
Purchase consideration	2,202
Provisional fair value of net assets acquired	(608)
Goodwill	**1,594**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Provisional fair value
	(PLN)	(PLN)
Customer relationships	-	712
Property, plant and equipment	12	12
Trade receivables	40	40
Cash and cash equivalents	52	52
Prepayments	5	5
Trade liabilities	(2)	(2)
Tax and other liabilities	(76)	(76)
Deferred income tax, net	-	(135)
Net assets acquired	**31**	**608**

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	2,202
Total consideration	**2,202**

	(PLN)
Total purchase consideration settled in cash	(2,202)
Cash and cash equivalents in the subsidiary acquired	52
Cash outflow on acquisition	**(2,150)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

STI Sp. z o.o.

On March 7, 2012, Internetia Sp. z o.o. purchased 100% of the share capital of STI Sp. z o.o. ("STI"), an internet service provider offering broadband Internet access to residential clients. The total purchase considertion for all STI shares has been set at PLN 1,623.

The Netia Group accounted for the acquisition of STI using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,601,945 and profit would have been PLN 21,196.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values of net assets acquired and goodwill as of the date of the acquisition are as follows:

	(PLN)
Purchase consideration	1,623
Provisional fair value of net assets acquired	(540)
Goodwill	**1,083**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	**Provisional fair value**
	(PLN)	(PLN)
Customer relationships	-	581
Property, plant and equipment	162	162
Investments	28	28
Trade receivables	65	65
Cash and cash equivalents	35	35
Prepayments	7	7
Borrowings	(61)	(61)
Trade liabilities	(76)	(76)
Tax and other liabilities	(69)	(69)
Deferred income	(22)	(22)
Deferred income tax, net	-	(110)
Net assets acquired	**69**	**540**

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	1,623
Total consideration	**1,623**

	(PLN)
Total purchase consideration settled in cash	(1,623)
Cash and cash equivalents in the subsidiary acquired	35
Cash outflow on acquisition	**(1,588)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

Sanetja Sp. z o.o.

On May 29, 2012, Internetia Sp. z o.o. purchased 100% of the share capital of Sanetja Sp. z o.o. ("Sanetja"), an internet service provider offering broadband Internet access to residential clients. The total purchase considertion for all Sanetja shares has been set at PLN 1,556.

The Netia Group accounted for the acquisition of Sanetja using the acquisition method.

If the acquisition had occurred on January 1, 2012, the Netia Group's revenue would have amounted to PLN 1,601,825 and profit would have been PLN 21,190.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values of net assets acquired and goodwill as of the date of the acquisition are as follows:

	(PLN)
Purchase consideration	1,556
Provisional fair value of net assets acquired	(303)
Goodwill	**1,253**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	**Provisional fair value**
	(PLN)	(PLN)
Customer relationships	-	410
Property, plant and equipment	73	73
Trade receivables	8	8
Cash and cash equivalents	10	10
Borrowings	(51)	(51)
Trade liabilities	(22)	(22)
Tax and other liabilities	(47)	(47)
Deferred income tax, net	-	(78)
Net assets acquired	**(29)**	**303**

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	1,556
Total consideration	**1,556**

	(PLN)
Total purchase consideration settled in cash	(1,556)
Cash and cash equivalents in the subsidiary acquired	10
Cash outflow on acquisition	**(1,546)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

Ethernet operators: changes in provisional accounting in 2012

During the year ended December 31, 2011 the Netia Group acquired several ethernet operators and performed a provisional valuation of the acquired companies' assets, liabilities and contingent liabilities. During the nine-month period ended September 30, 2012 the company adjusted provisional values of the purchase consideration and net assets of some subsidiaries acquired in 2011. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained.

During the year ended December 31, 2011 the Netia Group purchased the following internet service providers:

Company	**Date**	**Share capital acquired**	**Purchase price**	
			(PLN)	
Netpro Sp. z o.o. ("Netpro")	March 30, 2011	100.0 %	600	end of provisional accounting
Saite Sp. z o.o. ("Saite")	June 28, 2011	100.0 %	2,331	end of provisional accounting
E-IMG Internet Multimedia Group Sp. z o.o. ("E-IMG Internet")	August 23, 2011	100.0 %	2,764	end of provisional accounting
ZAX.EU Sp. z o.o. ("ZAX.EU")	September 30, 2011	100.0 %	2,960	end of provisional accounting
Silesia Multimedia Sp. z o.o. ("Silesia")	November 18, 2011	100.0 %	3,712	provisional accounting
Netsystem Sp. z o.o. ("Netsystem")	December 16, 2011	100.0 %	2,958	provisional accounting
Sieci Multimedialne Intergeo Sp. z o.o. ("Intergeo")	December 21, 2011	100.0 %	1,206	provisional accounting
ComNet ITT Sp. z o.o. ("ComNet")	December 29, 2011	100.0 %	6,707	provisional accounting
Total			**23,238**	

Details of provisional fair values of net assets acquired and goodwill as of the date of the acquisition estimated as at September 30, 2012 and December 31, 2011 are as follows:

	Silesia	**Netsystem**	**Intergeo**	**ComNet**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Purchase price provisionally estimated as at December 31, 2011	3,712	2,890	1,206	6,707	14,515
Adjustments to purchase consideration made in 2012 *	-	68	-	-	68
Purchase price provisionally estimated as at September 30, 2012	**3,712**	**2,958**	**1,206**	**6,707**	**14,583**
Provisional fair value of net assets acquired estimated as at December 31, 2011	(665)	(753)	(198)	(1,990)	(3,606)
Adjustments to fair value of net assets acquired made in 2012 *	-	-	(105)	-	(105)
Provisional fair value of net assets acquired estimated as at September 30, 2012	**(665)**	**(753)**	**(303)**	**(1,990)**	**(3,711)**
Goodwill	**3,047**	**2,205**	**903**	**4,717**	**10,872**

* The 2011 comparative information has been restated to reflect the above adjustments in provisional valuation.

(All amounts in thousands, except as otherwise stated)

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisitions, as at the acquisitions' dates, are as follows:

Acquiree's carrying amount	**Silesia** (PLN)	**Netsystem** (PLN)	**Intergeo** (PLN)	**ComNet** (PLN)	**Total** (PLN)
Property, plant and equipment	28	215	115	741	1,099
Inventories	-	-	-	9	9
Receivables	60	1	1	55	117
Prepayments	22	-	-	-	22
Cash and cash equivalents	111	99	5	56	271
Borrowings	-	-	(36)	(320)	(356)
Trade liabilities	(76)	(59)	(14)	(57)	(206)
Other liabilities and accruals	(35)	(18)	(9)	(41)	(103)
Net assets acquired	**110**	**238**	**62**	**443**	**853**

Provisional fair value estimated as at September 30, 2012	**Silesia** (PLN)	**Netsystem** (PLN)	**Intergeo** (PLN)	**ComNet** (PLN)	**Total** (PLN)
Property, plant and equipment	28	215	115	741	1,099
Customer relationships	685	636	297	1,910	3,528
Inventories	-	-	-	9	9
Receivables	60	1	1	55	117
Prepayments	22	-	-	-	22
Cash and cash equivalents	111	99	5	56	271
Borrowings	-	-	(36)	(320)	(356)
Trade liabilities	(76)	(59)	(14)	(57)	(206)
Other liabilities and accruals	(35)	(18)	(9)	(41)	(103)
Deferred income tax liabilities	(130)	(121)	(56)	(363)	(670)
Provisional fair value of net assets acquired	**665**	**753**	**303***	**1,990**	**3,711**

* Provisional fair value of property, plant and equipment increased by PLN 115 in 2012 with corresponding decrease in fair value of customer relationship by PLN 13 in 2012. Total provisional fair value of net assets acquired increased by PLN 105 net of tax.

Acquisition of Crowley : changes in provisional accounting in 2012

On December 14, 2011 Netia purchased from Crowley Data, LLC and Crowley Poland, LLC (the "Sellers") 197,862 shares (not in thousands) in Crowley Data Poland sp. z o.o., with its registered office in Warsaw ("Crowley"), constituting 100% of the shares in the share capital of Crowley and representing 100% of the votes at the meetings of the shareholders of Crowley (the "Shares"). The total purchase price for the enterprise was USD 30,797 and comprised the purchase of a shareholder loan advanced by the Sellers to Crowley with the balancing amount paid for 100 % of the shares. The purchase price for the Shares is subject to adjustment for the difference between the certain amounts stated in the balance sheet of Crowley as at 31 December 2010 and the respective amounts stated in the balance sheet of Crowley as at 30 November 2011.

On September 16, 2011, Netia executed a foreign exchange risk hedging transaction at the USD/PLN exchange rate of PLN 3.14 per USD 1.00 to mitigate the foreign currency risk associated with the acquisition.

A deposit in the amount of PLN 5,000 was paid directly after signing the share purchase agreement and this amount was treated as part of the purchase consideration. On December 14, 2011 the Company paid the outstanding (net of hedging gains) PLN 91,894 for all shares in Crowley (including purchase of the shareholder loan extended to Crowley) and as of December 31, 2011 accrued for the purchase price adjustment of PLN 4,055 (from which PLN 2,775 was paid on March 15, 2012). Based on provisionally agreed adjustments to the balance sheet as at November 30, 2011 between Netia and the seller under the terms of the share purchase agreement, in the third quarter of 2012 the Company accrued for additional purchase price adjustment of PLN 169.

Consequently, Netia expects to close the transaction at a consideration of PLN 101,119 comprising the enterprise value of PLN 97,758 and net cash and cash equivalents of PLN 3,361.

The Netia Group accounted for the acquisition of Crowley using the purchase method and started consolidating the financial statements of Crowley as of December 14, 2011.

The Netia Group performed a valuation of the acquired company's assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values as of September 30, 2012 and December 31, 2011 and of net assets acquired and goodwill as of the date of the acquisition are as follows:

	Provisional accounting as at December 31, 2011	**Adjustments to purchase price and to fair value of net assets acquired made in 2012**	**Provisional accounting as at September 30, 2012**
	(PLN)	(PLN)	(PLN)
Purchase consideration	100,950	169	101,119
Provisional fair value of net assets acquired	(53,329)	485	(52,844)
Goodwill	**47,621**	**654**	**48,275**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes. The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Provisional fair value as at December 31, 2011	Adjustments to fair value of net assets acquired made in 2012	Provisional fair value as at September 30, 2012
	(PLN)	(PLN)	(PLN)	(PLN)
Customer relationships	-	30,006	-	30,006
Property, plant and equipment	40,350	31,179	(29)	31,150
Other intangible assets	2,041	2,041	-	2,041
Receivables	10,907	10,907	179	11,086
Inventory	120	120	-	120
Cash and cash equivalents	3,221	3,221	-	3,221
Restricted cash	140	140	-	140
Prepayments	242	242	-	242
Trade liabilities	(6,418)	(6,418)	-	(6,418)
Tax and other liabilities	(11,143)	(11,143)	(635)	(11,778)
Provisions	(1,406)	(2,883)	-	(2,883)
Deferred income	(2,545)	(105)	-	(105)
Deferred income tax, net	(20)	(3,978)	-	(3,978)
Net assets acquired	**35,489**	**53,329**	**(485)**	**52,844**

Crowley was legally merged into Netia on August 31, 2012.

Acquisition of Dialog: changes in provisional accounting in 2012

On December 16, 2011 Netia acquired 19,598,000 shares (not in thousands) in Dialog, with a nominal value of PLN 25 (not in thousands) each and the aggregate nominal value of PLN 489,950, which constitute 100% of the shares in the share capital of Dialog and represent 100% of the votes at the general meetings of Dialog. In consequence of the acquisition of the shares, Netia became an indirect owner of shares in two material subsidiaries of Dialog: Petrotel and Avista (merged with Dialog in July 2012).

The final price paid by the Company was PLN 968,927 and comprised Dialog's enterprise value of PLN 880,388 and net cash and cash equivalents of PLN 88,539.

The Netia Group accounted for the acquisition of Dialog Group using the purchase method and started consolidating the financial statements of Dialog Group as of December 16, 2011.

The Netia Group performed a valuation of the acquired Dialog's Group assets, liabilities and contingent liabilities. In the purchase price allocation process the Netia Group identified customer relationships and trademarks as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Details of provisional fair values as of September 30, 2012 and December 31, 2011 and of net assets acquired and goodwill as of the date of the acquisition are as follows:

	Provisional accounting as at December 31, 2011	Adjustments to fair value of net assets acquired made in 2012	Provisional accounting as at September 30, 2012
	(PLN)	(PLN)	(PLN)
Purchase consideration	968,927	-	968,927
Provisional fair value of net assets acquired	(834,525)	(4,751)	(839,276)
Non-controlling interests (0,01%)	5	-	5
Goodwill	**134,407**	**(4,751)**	**129,656**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

(All amounts in thousands, except as otherwise stated)

	Acquiree's carrying amount	Provisional fair value as at December 31, 2011	Adjustments to fair value of net assets acquired made in 2012	Provisional fair value as at September 30, 2012
	(PLN)	(PLN)	(PLN)	(PLN)
Customer relationships	-	102,100	-	102,100
Trademarks	-	10,900	-	10,900
Property, plant and equipment	655,499	501,544	31	501,575
Other intangible assets	35,346	35,346	(98)	35,248
Receivables	84,959	84,959	5,932	90,891
Prepayments	8,451	8,451	-	8,451
Inventory	1,013	1,013	-	1,013
Deferred income tax, net	85,060	79,165	(1,114)	78,051
Cash and cash equivalents	90,314	90,314	-	90,314
Borrowings	(1,775)	(1,775)	-	(1,775)
Trade liabilities	(29,493)	(29,493)	-	(29,493)
Tax and other liabilities	(33,488)	(33,488)	-	(33,488)
Provisions	(5,387)	(6,142)	(45)	(6,187)
Deferred income	(8,369)	(8,369)	45	(8,324)
Net assets acquired	**882,130**	**834,525**	**4,751**	**839,276**

(All amounts in thousands, except as otherwise stated)

7. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark/ know how (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (PLN)
Gross book value as at January 1, 2012 (restated)	356,249	17,477	432,823	7,417	107,354	20,329	409,856	5,958	224,529	1,581,992
Additions	-	2	-	-	-	-	6,804	15,291	-	22,097
Purchase of subsidiary	3,930	-	-	-	-	-	-	-	1,704	5,634
Transfers	-	-	-	-	-	-	11,053	(11,053)	-	-
Disposals	-	-	-	-	-	-	(663)	-	-	(663)
Other movements	-	-	-	-	-	-	4,950	(4,995)	-	(45)
Gross book value as at September 30, 2012	360,179	17,479	432,823	7,417	107,354	20,329	432,000	5,201	226,233	1,609,015
Accumulated amortization as at January 1, 2012	-	3,185	242,152	1,539	61,350	6,637	257,894	-	65,238	637,995
Amortization expense	-	3,846	21,782	-	5,513	1,057	31,695	-	29,713	93,606
Disposals	-	-	-	-	-	-	(557)	-	-	(557)
Accumulated amortization as at September 30, 2012	-	7,031	263,934	1,539	66,863	7,694	289,032	-	94,951	731,044
Accumulated impairment as at January 1, 2012	-	-	115,549	5,878	13,231	974	42,617	-	199	178,448
Disposals	-	-	-	-	-	-	(20)	-	-	(20)
Accumulated impairment as at September 30, 2012	-	-	**115,549**	**5,878**	**13,231**	**974**	**42,597**	**-**	**199**	**178,428**
Net book value as at January 1, 2012	356,249	14,292	75,122	-	32,773	12,718	109,345	5,958	159,092	765,549
Net book value as at September 30, 2012	**360,179**	**10,448**	**53,340**	**-**	**27,260**	**11,661**	**100,371**	**5,201**	**131,083**	**699,543**

(All amounts in thousands, except as otherwise stated)

7. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill	Trademark/ know how	Local telecommunication licenses / permits	Data communications and internet licenses / permits	Domestic long-distance licenses / permits	WiMAX licenses	Computer software	Capital work in progress	Customer relationships	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gross book value as at January 1, 2011	159,446	2,970	432,823	7,417	107,354	20,329	339,672	11,333	85,269	1,166,613
Additions	-	-	-	-	-	-	1,118	18,224	-	19,342
Purchase of subsidiary (see note 6)	6,649	7	-	-	-	-	20	-	2,404	9,080
Purchase of operational networks	1,279	-	-	-	-	-	-	-	1,221	2,500
Transfers	-	-	-	-	-	-	24,032	(24,032)	-	-
Other movements	-	-	-	-	-	-	35	(35)	-	-
Gross book value as at September 30, 2011	167,374	2,977	432,823	7,417	107,354	20,329	364,877	5,490	88,894	1,197,535
Accumulated amortization as at January 1, 2011	-	2,970	222,952	1,539	55,952	5,227	224,625	-	48,562	561,827
Amortization expense	64	1	14,400	-	4,049	1,057	21,880	-	12,431	53,882
Accumulated amortization as at September30, 2011	64	2,971	237,352	1,539	60,001	6,284	246,505	-	60,993	615,709
Accumulated impairment as at January 1, 2011	-	-	143,739	5,878	21,547	974	42,620	385	199	215,342
Accumulated impairment as at September 30, 2011	-	-	143,739	5,878	21,547	974	42,620	385	199	215,342
Net book value as at January 1, 2011	159,446	-	66,132	-	29,855	14,128	72,427	10,948	36,508	389,444
Net book value as at September 30, 2011	**167,310**	**6**	**51,732**	**-**	**25,806**	**13,071**	**75,752**	**5,105**	**27,702**	**366,484**

(All amounts in thousands, except as otherwise stated)

8. Financial instruments

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are indexed to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. Effective portion of the change in net fair value of forward contracts recognized in the hedging reserve in equity on these contracts as of September 30, 2012 amounted to PLN 4,147 (PLN 3,408, net of tax). During the nine-month period ended September 30, 2012, 328 of net cash gains on closed forward contracts were capitalized, and the ineffective portion of open forward contracts of PLN 34 was recorded as finance costs.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are denominated to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was not applied. During the nine-month period ended September 30, 2012, PLN 1,903 of fair value losses on open forward contracts were recorded as finance costs.

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

	Hedged nominal amount	Hedged nominal amount	Fair value		
			Asset	Liability	Other comprehensive (loss)/income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)
As at September 30, 2012					
Forward transactions related to equipment and construction contracts	7,600	6,050	-	(2,332)	(4,147)
Forward transactions related to commercial contracts	3,400	1,650	1	(905)	-
As at September 30, 2011					
Forward transactions related to equipment and construction contracts	2,680	2,660	2,086	-	2,639
Forward transactions related to commercial contracts	3,180	940	1,604	-	-
Forward transactions related to the shares purchase contract	-	29,992	3,498	-	3,460
As at December 31, 2011					
Forward transactions related to equipment and construction contracts	3,915	4,530	1,692	(52)	1,892
Forward transactions related to commercial contracts	3,015	1,380	1,031	(32)	-

Non-derivative hedging instruments

As of December 31, 2011, the Company held a cash balance of USD 736 purchased upon realization of a hedging forward contract and designated as a hedging instrument to mitigate foreign exchange risk associated with the planned payment of a purchase price adjustment pursuant to the Conditional Agreement to acquire shares in Crowley. For this cash balance hedge accounting was applied. A fair value gain on this instrument of PLN 21 decreased the purchase price adjustment paid by the Company on March 15, 2012.

Interests rate risk hedging instruments

On January 5, 2012 and January 10, 2012, the Company entered into interest rate swap ("IRS") contracts hedging interest rate risk associated with interest payments in the amount of fifty per cent of all amounts projected to be outstanding under the Term Loan (See Note 10 Borrowings). For these IRS contracts hedge accounting was applied. As of September 30, 2012 effective portion of change in net fair value of IRS contracts recognized in the hedging reserve in equity amounted to PLN 4,976 (PLN 4,048, net of tax). During the nine-month period ended September 30, 2012, PLN 9 of net realized cash gains on IRS contracts decreased interest costs.

9. Shareholders' equity

Share capital (not in thousands)

At December 31, 2011, the Company's share capital consisted of 391,601,064 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share has one vote at the shareholders' meeting. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

In the nine-month period ended September 30, 2012 the Company issued 4,385,166 ordinary series K shares due to three current and two former Management Board members, twelve persons who hold managerial positions and one former manager (none of whom are or were management board members) exercising their rights arising from the key employee share option plan adopted by Netia's Supervisory Board in 2003 (the "2003 Plan").

At December 31, 2011, Netia held 9,775,000 own treasury shares. On December 15, 2011 the Extraordinary General Meeting of the Company resolved to redeem these treasury shares. The redemption was effective from January 30, 2012, when the decrease of the Company's share capital was registered in in the National Court Registry. The redemption of shares in January 2012 resulted in a decrease of share capital by PLN 9,775,000 and a decrease in other supplementary capital by PLN 49,582,145, from which PLN 9,775,000 was transferred to the separate reserve capital of the Company established in accordance with Article 457, §2 of the Commercial Companies Code.

As a result at September 30, 2012, the Company's share capital consisted of 386,211,230 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each share had one vote at shareholders' meetings. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Netia held 11,936,541 own treasury shares as at September 30, 2012. See Note 14: Repurchase of own shares.

The 5,115,579 series K shares issued prior to Netia's General Meeting of Shareholders held on May 26, 2010, were redesignated in accordance with a resolution adopted by Netia's General Meeting of Shareholders, as series B shares. Following this change of the Company's Statute in 2010 up to 13,258,206 series K shares may be issued. The total number of series K shares issued through September 30, 2012 was 6,648,877 and their nominal value was PLN 6,648,877.

Supplementary capital

The Annual General Meeting of the Company held on June 19, 2012, resolved that the Company's net profit for the year 2011, in the amount of PLN 225,004 and the retained earnings of PLN 726 relating to the adjustment made in 2010 to the Company's profit from 2009 and the previous years, shall be transferred to the Company's supplementary capital.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at September 30, 2012, the distributable reserves of Netia S.A. amounted to PLN 641,957.

Stock options (not in thousands)

2003 Plan

In the nine-month period ended September 30, 2012 and 2011 the following changes took place in the number of options granted under the 2003 Plan:

	Nine-month period ended September 30, 2012		Nine-month period ended September 30, 2011 (restated)*	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	6.22	46,754,751	5.89	54,245,436
Exercised	4.97	(23,566,937)	3.62	(4,943,435)
Forfeited	7.00	(429,000)	6.54	(325,000)
At the end of the period	**7.49**	**22,758,814**	**6.11**	**48,977,001**

* in 2012 the Company found an error in its record of the number of outstanding options, which was due to a 1 mln overstatement in the number of forfeited options from 2008. The 2011 comparative information has been restated to reflect the above adjustments in number of outstanding options. The error had no impact on the Company's financial results neither in 2011 nor in earlier periods.

As at September 30, 2012 and December 31, 2011, the total number of options approved by the Supervisory Board and issued under the 2003 Plan was 87,877,470. Of these approved options 22,758,814 options were outstanding as at September 30, 2012 and 46,754,751 options were outstanding as at December 31, 2011. As at September 30, 2012 and December 31, 2011 the total number of outstanding vested options was 22,758,814 and 45,304,751, respectively. The vesting period for the options is up to three years from the date of grant. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 5.30 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 88 thousands and PLN 949 thousands, respectively.

New Plan

As at September 30, 2012 and December 31, 2011, the total number of options approved by the Supervisory Board and issued under the New Plan was 7,322,000 and 3,653,000, respectively. Of these approved options 5,454,290 options were outstanding as at September 30, 2012 and 3,621,000 options were outstanding as at December 31, 2011. As at September 30, 2012, the weighted average remaining contractual life of the outstanding options was 8 years. The outstanding options are exercisable until May 26, 2020. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the market price of the Company's shares as of the date of exercise of the options and the strike price of the options, limited to half of one series L share for each option exercised. The participant will not be required to pay the strike price ranging from PLN 5.23 to PLN 6.16.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model and taking into account business performance criteria in the financial year in which the options were granted. The cost of options recorded in the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 1,239 thousands and PLN 799 thousands, respectively.

In the nine-month period ended September 30, 2012 and 2011 the following changes took place in the number of options granted under the New Plan:

	Nine-month period ended September 30, 2012		Nine-month period ended September 30, 2011	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.24	3,621,000	-	-
Granted	6.16	3,669,000	5.24	3,553,000
Forfeited / expired	5.25	(1,835,710)	5.24	(32,000)
At the end of the period	**5.86**	**5,454,290**	**5.24**	**3,521,000**

10. Borrowings

	September 30, 2012	December 31, 2011
	(PLN)	(PLN)
Bank loans	590,013	695,177
	590,013	**695,177**
Of which:		
Current	139,268	180,593
Non-current	450,745	514,584

Bank loans

On September 29, 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent") and BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares Dialog, constituting 100% of its share capital, and a PLN 50,000 revolving facility for general operating purposes. The term loan was drawn on December 16, 2011 and the revolving loan was drawn on December 15, 2011. The revolving loan was repaid in full on March 15, 2012. As at September 30, 2012 the value of these loans at amortised cost was PLN 590,013.

The loan accrues annual interest at the rate of 3M WIBOR plus a margin established depending on the level of debt. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The borrowing is measured at amortized cost using an effective interest rate of 7.7%. Total transaction costs included in the calculation of the effective interest rate amounted to PLN 12,511. The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to make relevant representations on submission to enforcement, and to execute agreements on assignment as collateral security. The repayment of the loan is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights of Netia and Internetia Sp. z o.o., registered pledges and financial pledges on the shares of Internetia Sp. z o.o., Netia Brand Management Sp. z o.o. and Dialog. Moreover, the Borrowers made relevant representations on submission to enforcement up to the amount of PLN 1,050,000.

On March 8, 2012, Netia entered into an overdraft credit facility agreement with BRE Bank S.A. of PLN 50,000. The facility will be disbursed for general operating purposes of the Company. The Company is entitled to become indebted under the facility agreement in the period between March 12, 2012 and December 27, 2012. The terms and conditions of the agreement comply with market practice and are not different from the terms and conditions generally applied to such types of agreements. The outstanding balance of the overdraft credit as at September 30, 2012, amounted to zero.

(All amounts in thousands, except as otherwise stated)

11. Other gains, net

	Nine-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2011 (PLN)
Gain on sale of impaired receivables	3,005	586
Gain/ (loss) on disposal of fixed assets	(340)	2,167
Net foreign exchange gains / (losses)	79	(538)
	2,744	**2,215**

12. Finance income and finance costs

Finance income

	Nine-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2011 (PLN)
Interest income on cash and cash equivalents	4,737	6,391
Amortization of held to maturity investments	-	5,612
Fair value gains on open forward contracts hedging commercial exposures	-	2,005
Net foreign exchange gains	23	551
Other financial income	3	50
	4,763	**14,609**

Finance costs

	Nine-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2011 (PLN)
Interests and fees charged on bank loans	(35,827)	-
Amortization of finance lease liability	(305)	(233)
Amortization of provisions	(79)	(52)
Fair value losses on open forward contracts hedging commercial exposures (see Note 8)	(1,903)	-
Ineffective portion of cash flow hedges (see Note 8)	(34)	(6)
Loss on financial assets valuation	(4)	(1)
Other finance costs	(14)	(10)
	(38,166)	**(302)**

13. Corporate income tax

	Nine-month period ended September 30, 2012 (PLN)	Nine-month period ended September 30, 2011 (PLN)
Current income tax charge	(1,393)	(337)
Adjustment in respect of current income tax for the year 2003	-	(34,183)
Penalty interests relating to current income tax for the year 2003	1,462	(24,142)
Deferred income tax benefit/ (charge) , net	10,294	(7,628)
Income tax benefit/(charge)	**10,363**	**(66,290)**

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

As of December 31, 2011 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2012 budget and long term business plan covering period until 2016. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located. As at September 30, 2012 the Management upholds its assessment regarding future taxable profits and the recognition of deferred income tax.

(All amounts in thousands, except as otherwise stated)

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

	September 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	156,792	126,364
- Deferred income tax assets to be recovered within 12 months	40,961	63,939
	197,753	190,303
Deferred income tax liabilities:		
- Deferred income tax liabilities to be incurred after more than 12 months	38,084	35,270
- Deferred income tax liabilities to be incurred within 12 months	39,093	46,132
	77,177	81,402
Deferred income tax assets, net	**120,576**	**108,901**

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

	September 30, 2012 (PLN)	December 31, 2011 (restated) (PLN)
Deferred income tax assets:		
- Tax losses	83,377	44,768
- Accrued expenses	22,524	17,067
- Impairment provisions for receivables	7,127	6,351
- Depreciation and impairment	81,403	121,031
- Foreign exchange differences	195	454
- Forward and IRS contracts	1,560	16
- Interest	1,463	-
- Other	104	616
	197,753	190,303
Deferred income tax liabilities:		
- Depreciation and impairment	60,069	66,644
- Accrued revenue	9,420	8,690
- Other taxable temporary differences relating to revenues	5,107	4,005
- Forward contracts	-	517
- Other	2,581	1,546
	77,177	81,402
Deferred income tax assets, net	**120,576**	**108,901**

Deferred income tax recognized in equity as at September 30, 2012 in the amount of PLN 1,705 (PLN 398 as at December 31, 2011) relates to the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of September 30, 2012, the Netia Group had total deductible temporary differences of PLN 634,716 and unutilised tax loss carry-forwards of PLN 552,316 (total potential deferred income tax asset net of PLN 225,536).

The Netia Group did not recognize deferred income tax assets of PLN 21,563 relating to tax losses of PLN 113,489 of the Company and Company's subsidiaries, due to insufficient likelihood of future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at September 30, 2012 will expire in the following years: PLN 102,421 in 2012, PLN 6,937 in 2013, PLN 2,736 in 2014, PLN 1,052 in 2015, PLN 289 in 2016 and PLN 54 in 2017.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 83,397, relating to deductible temporary differences of PLN 438,930 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	309,525	58,810
Trademark	116,309	22,099
Deferred income	5,930	1,127
Other	7,166	1,361
	438,930	**83,397**

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

14. Repurchase of own shares

In accordance with the approved distribution policy, the Management Board proposed and the shareholders granted (by approval of resolution 18 at the annual General Shareholders' Meeting held on June 2, 2011) an authorisation to the Company's Management Board to purchase its own shares for the purpose of their redemption pursuant to the procedure set forth in in Art. 362 § 1 point 5 of the Commercial Companies Code (the "General Program"). The Annual General Meeting of the Company assigned the total amount of up to PLN 350,000 for the execution of the General Program, out of which the amount of up to PLN 267,032 shall be utilized from the supplementary capital created out of profits for the year 2010 and the amount of up to PLN 82,968 shall be utilized from the supplementary capitals created out of profits in the previous years. Any specific buy-back proposal within the scope of the General Program must be accepted by the Supervisory Board prior to the implementation.

The first tranche of share buy-backs approved under the General Program began on August 17, 2011. The Company allocated an amount of up to PLN 60,000 for the tranche to repurchase a maximum of 2.5% of the Company's outstanding share capital. On November 9, 2011 the Company completed the repurchase of 9,775,000 (not in thousands) own shares constituting 2.5% of the Company share capital for a total of PLN 49,582 and the tranche was completed. The repurchased shares were redeemed on January 30, 2012.

Netia obtained the relevant consent from its Supervisory Board and on May 18, 2012 commenced a further tranche of buy-backs. The Company allocated an amount of up to PLN 75,000 for the tranche to repurchase a maximum of 3.5% of the Company's outstanding share capital. As of September 30, 2012 the Company had repurchased 11,936,541 (not in thousands) own shares constituting 3.09% of Company share capital for a total of PLN 70,487 and the repurchases continued until the completion of the second tranche on October 11, 2012. In the second tranche the Company repurchased a total of 12,700,477 (not in thousands) shares constituting 3.29% of Company share capital for a total of 75,000 PLN plus transaction costs of PLN 103.

Netia obtained a third relevant consent from its Supervisory Board on June19, 2012 and the Company commenced a third tranche of buy-backs on October 12, 2012. The Company has allocated an amount of up to PLN 50,000 for the third tranche to repurchase a maximum of 2.5% of the Company's outstanding share capital.

Netia's distributable reserves are disclosed in Note 9.

15. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Nine-month period ended September 30, 2012	Nine-month period ended September 30, 2011
	(PLN)	(PLN)
Receivables	5,339	(27,300)
Inventories	2,845	5,504
Prepaid expenses	(6,922)	13,153
Provisions, accruals and payables	(11,209)	8,482
Restricted cash	-	-
Deferred income	(4,888)	9,961
	(14,835)	**9,800**
Out of which:		
Change in long -term position	*(817)*	*(960)*

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2012	Nine-month period ended September 30, 2011
	(PLN)	(PLN)
Income taxes paid	(1,234)	(112)
Interest received	4,737	12,558

16. The Management Board and Supervisory Board

Management Board

Effective January 1, 2012 Mr. Piotr Nesterowicz resigned from his position as a member of the Company's Management Board.

Effective March 16, 2012 Mr. Grzegorz Esz resigned from his position as a member of the Company's Management Board.

On April 25, 2012 the Supervisory Board of the Company appointed Mr. Mirosław Suszek as a member of the Management Board with effect from May 1, 2012.

Due to the above changes, as at September 30, 2012 the Company's Management Board consisted of the following members:

- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Tom Ruhan,
- Mirosław Suszek.

Supervisory Board

As at September 30, 2012 and December 31, 2011 the Company's Supervisory Board consisted of the following members:

- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry.

There were no changes to the Company's Supervisory Board during the nine-month period ended September 30, 2012.

17. Related party transactions

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

As at September 30, 2012, the total number of outstanding options granted to members of the Company's Management Board under the 2003 Plan and the New Plan, was 16,202,351 of which 13,800,000 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 5.23 and 8.25 per share. The market price of the Company's shares at September 30, 2012 was PLN 6.15 per share.

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

Options	**Nine-month period ended September 30, 2012**	**Nine-month period ended September 30, 2011**
At the beginning of the period	38,214,064	40,771,814
Granted	1,725,000	1,725,000
Exercised	(15,354,814)	(2,950,500)
Resignation from Management Board	(7,909,250)	-
Forfeited	(472,649)	-
At the end of the period	**16,202,351**	**39,546,314**

As at September 30, 2012, Mr. Mirosław Godlewski – the Company's President of the Management Board – held 7,028,675 options, out of which 6,000,000 had vested. As at December 31, 2011, Mr. Mirosław Godlewski held 12,775,000 options, out of which 12,200,000 had vested.

As at September 30, 2012, Mr. Jonathan Eastick – a member of the Company's Management Board – held 5,914,338 options, out of which 5,400,000 had vested. As at December 31, 2011, Mr. Jonathan Eastick held 9,859,314 options, out of which 9,571,814 had vested.

As at September 30, 2012, Mr. Tom Ruhan – a member of the Company's Management Board – held 2,914,338 options, out of which 2,400,000 had vested. As at December 31, 2011, Mr. Tom Ruhan held 5,004,000 options, out of which 4,716,500 had vested.

As at September 30, 2012, Mr. Mirosław Suszek – a member of the Company's Management Board – held 345,000 options, none of which had vested.

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

As at September 30, 2012 and December 31, 2011, Mr. Mirosław Godlewski – the Company's President of the Management Board – held 1,610,000 and 393,716 shares of the Company, respectively

As at September 30, 2012 and December 31, 2011, Mr. Jonathan Eastick – a member of the Company's Management Board – held 750,000 and 499,175 shares of the Company, respectively.

As at September 30, 2012 and December 31, 2011, Mr. Tom Ruhan – a member of the Company's Management Board – and the company closely related to Mr. Tom Ruhan held 555,575 and 592,379 shares of the Company, respectively. During the nine-month period ended September 30, 2012, a company closely related to Mr. Ruhan acquired 1,057,011 shares in Netia S.A. from Mr. Ruhan and subsequently disposed of 501,436 shares in Netia S.A. Accordingly, the company closely related to Mr. Ruhan held 555,575 shares in Netia S.A. as at September 30, 2012.

Details of the changes in the number of shares held by members of the Company's Management Board in the nine-month period ended September 30, 2012 are presented below:

	December 31, 2011	Received from exercise of options	Reductions in shareholdings	September 30, 2012
Mirosław Godlewski	393,716	1,389,415	(173,131)	1,610,000
Jonathan Eastick	499,175	572,188	(321,363)	750,000
Tom Ruhan, (including closely related company holdings)	592,379	464,632	(501,436)	555,575
Mirosław Suszek	-	-	-	-
Total	**1,485,270**	**2,426,235**	**(995,930)**	**2,915,575**

Participation Units in the Change of Control Transaction Bonus Scheme (not in thousands)

On April 25, 2012, the Supervisory Board approved a new bonus plan known as the Change of Control Transaction Bonus (CoCTB) for the Company's Management Board Members. The CoCTB is a cash settled share based bonus scheme under which up to 11,400,000 Participation Units (PUs) may be issued to Management Board Members. Each PU has a strike price of 7,00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from 31 January 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the positive difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties as at December 31, 2012 and has not resigned from his position prior to such Trigger Event. See also Note 19.

As at September 30, 2012, the members of the Management Board held Participation Units in the Change of Control Transaction Bonus Scheme as follows:

	Number of Participation Units
Mirosław Godlewski	3,800,000
Jonathan Eastick	1,900,000
Tom Ruhan	1,900,000
Mirosław Suszek	1,900,000
Total	9,500,000

A further 1,900,000 Participation Units may be assigned by the Supervisory Board.

See also Possible liabilities under the Change of Control Transaction Bonus Scheme in Note 19.

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

As at September 30, 2012 and December 31, 2011, Mr. Benjamin Duster – Chairman of the Company's Supervisory Board – held nil and 21,000 shares of the Company, respectively.

As at September 30, 2012 and December 31, 2011, Mr. George Karaplis – Vice-Chairman of the Company's Supervisory Board – held nil and 20,000 shares of the Company, respectively.

As at September 30, 2012 and December 31, 2011, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 40,000 shares of the Company.

As at September 30, 2012 and December 31, 2011, Mr. Nicolas Maguin, – a member of the Company's Supervisory Board – held 21,300 shares of the Company.

As at September 30, 2012 and December 31, 2011, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 20,001 shares of the Company.

As at September 30, 2012 and December 31, 2011, Mr. Jerome de Vitry – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at September 30, 2012 and December 31, 2011, Mr. Stan Abbeloos– a member of the Company's Supervisory Board – held nil shares of the Company.

Restricted Stock Units (not in thousands)

As at September 30, 2012 and December 31, 2011, the total number of outstanding Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 715,000 and 640,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSUs recorded in the nine-month period ended September 30, 2012 amounted to PLN 1,273 thousands (PLN 778 thousands in the nine-month period ended September 30, 2011).

Changes in the number of RSU held by members of the Company's Supervisory Board in the nine-month period ended September 30, 2012 are presented below:

	December 31, 2011	RSU granted	RSUs exercised	September 30, 2012
Stan Abbeloos	80,000	15,000	(15,000)	80,000
Benjamin Duster	80,000	15,000	(15,000)	80,000
Raimondo Eggink	80,000	15,000	-	95,000
George Karaplis	80,000	15,000	(15,000)	80,000
Nicolas Maguin	80,000	15,000	-	95,000
Ewa Pawluczuk	80,000	15,000	-	95,000
Jerome de Vitry	80,000	15,000	-	95,000
Tadeusz Radzimiński	80,000	15,000	-	95,000
Total RSU	**640,000**	**120,000**	**(45,000)**	**715,000**

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 5,675 and PLN 4,827, respectively. In addition, the non-cash gross cost of share-based payments in the amounts of PLN 720 and PLN 1,185 was recognized in the respective periods. Moreover, upon exercise of the options, Management Board members received the following number of shares with a par value of PLN 1 (not in thousands) per share for which they were not required to pay (PIT and social security cost were incurred by the Company).

	Nine-month period ended September 30, 2012	**Nine-month period ended September 30, 2011**
Number of shares (not in thousands)	2,426,235	1,015,703
PIT and employee ZUS costs incurred by the Company (PLN)	1,300	544

Amounts paid and payable to former Management Board members in the course of termination of their employment relationship with the Netia Group during the nine-month period ended September 30, 2012 totalled PLN 879.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 1,556 and PLN 433, respectively.

Amounts paid and payable to former members of Management Boards of the Company's subsidiaries in the course of termination of their employment relationship with the Netia Group during the nine-month period ended September 30, 2012 totalled PLN 386. These amounts were paid to certain employees and one non-employee of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 630 and PLN 630, respectively.

Compensation and related costs associated with members of the Supervisory Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2012 and 2011 amounted to PLN 58 and PLN nil, respectively. This amount was paid to persons who were neither past or present members of Netia's Management Board.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 198 and PLN 118 during the nine-month periods ended September 30, 2012 and 2011, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the nine-month periods ended September 30, 2012 and 2011, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

18. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 34,083 as at September 30, 2012 and PLN 30,586 as at December 31, 2011 of which, PLN 6,906 and PLN 3,708 respectively, related to the planned acquisition of intangible assets.

19. Contingencies

Universal services

The telecommunications law stipulates that the obligation to provide universal service should be designated by the President of UKE following completion of a tender procedure. The President of UKE issued a decision designating TP SA to provide universal service until May 8, 2011. Telecommunications undertakings, whose relevant annual revenue from telecommunications activity exceeds PLN 4,000, are obliged to participate in financing of the universal service obligation. The exact participation amount of a telecommunications undertaking obliged to pay subsidy will be established by virtue of the President of UKE decision and cannot exceed 1% of revenues of a given telecommunications undertaking in a given calendar year.

TP SA filed with the President of UKE applications for awarding subsidy towards incurred costs of universal service provision. The applications cover subsidy towards costs incurred in the period from May 8, 2006, until May 8, 2011, i.e. the whole period of obligation to provide universal service by TP. The total amount claimed by TP SA on all applications for 2006-2011 was PLN 1,106,994. The last application was filed by TP on 29 June 2012 and included a request for subsidy for the period from January 1 to May 8, 2011 in the amount of PLN 33,837.

In May 2011, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service as follows:

- in 2006 - amounting to PLN 745 - due to provision of facilities for customers with disabilities
- in 2007 - amounting to PLN 1,269 - due to provision of facilities for customers with disabilities
- in 2008 - amounting to PLN 1,830 - due to provision of facilities for customers with disabilities
- in 2009 - amounting to PLN 63,150 - due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones

By virtue of a decision issued on September 7, 2011, the President of UKE upheld the decisions awarding subsidies towards incurred costs of universal service for years 2006-2009. TP SA challenged the decisions of the President of UKE before the Voivodeship Administrative Court (further "WSA"). WSA dismissed the complaints of TP SA against the decisions granting subsidy towards costs of provision of universal service in 2006 - 2009. TP appealed against sentences regarding subsidies for 2006 and 2007.

On January 10, 2012, the President of UKE issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service for 2010 amounting to PLN 55,102 due to provision of facilities for customers with disabilities as well as provision of telephone services with use of public pay phones.

This decision was upheld in decision of April 11, 2012. TP SA challenged those decisions before the WSA.

The Management Board is convinced of the validity of the issued decisions, however, it cannot be guaranteed that it will be released judgment dismissing the claims of TP SA.

Jointly, TP SA was awarded the total amount of PLN 122,096 for the provision of universal service within the years 2006-2010.

Despite the fact that in the opinion of the Management Board the application of the TP SA for reconsideration should not be admitted, and that so far the applications of TP SA for subsidies towards costs of universal service provision within 2006-2010 have been only partially admitted by the President of UKE, the Management Board is unable to assure neither that TP SA will not be finally awarded the subsidy for 2011, nor that the amount of the subsidy will not be established as higher than awarded in proportion to the sums claimed by the TP SA for the previous years.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Until the date of approval of these consolidated financial statement Companies of the Netia Group have received no such decisions.

The total amount of potential obligation of Companies of the Netia Group, estimated by the Management Board taking into account their market shares in 2006 – 2011, decisions of the President of UKE, in which the amounts of subsidies towards the costs of providing universal service in years 2006 – 2010 were granted in the total amount of PLN 122,096 and estimated amount of potential subsidy to the cost of USO for the year 2011, is PLN 7,156. In this amount, the Companies of the Netia Group have made a provision for covering potential obligations under the subsidy for universal service provided in the years 2006 – 2011.

Should TP SA prevail in any of mentioned litigation, the USO liability in respect to 2006 – 2011 could still rise materially above the amount provided to date.

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from the Netia Group amounts to approximately PLN 56,838 for the period from 2006 until 2011 inclusive as follows:

	Maximum subsidies	Provision
	PLN	*PLN*
2006	6,293	34
2007	10,862	63
2008	9,202	80
2009	11,964	3,199
2010	13,888	2,840
2011	4,629	940
	56,838	**7,156**

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date and, according to the published position of the President of UKE, will not be. Nevertheless, on October 16, 2012 the President of UKE has begun consultations of new model of USO. At this stage of the Regulatory work on the model, the Management Board cannot assure that a new model of USO will not be associated with additional costs to be incurred by Netia Group.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 and on December 13, 2011 the Polish regulator issued decisions reducing the initial milestones. The milestones established for the year 2011 regarding population coverage and area coverage were achieved. In the event that reservation obligations are not met by an operator, the UKE has the power to limit or confiscate the reservation, if the entrepreneur is not able to assure effective use of possessed right. However, historically such measures have rarely been used.

Tax contingent liability

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

Overpayment of tax (not in thousands)

On February 19, 2010 Netia received a binding and enforceable decision of the Director of the Tax Chamber according to which the Company's corporate income tax due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m.

Netia executed the decision of the Tax Chamber Director, which was enforceable as a decision of the second instance tax authority, on February 23, 2010. Of the PLN 59.6m paid, PLN 1.3m was subsequently conceded by the Tax Authority as overpayment. During 2010, Netia treated the tax paid as a receivable in its accounts rather than as an expense, due to Management's expectations, based on the expert advice received, that the amounts paid will ultimately be recovered.

The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director. However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company's claim in its entirety. Following the WSA decision in favour of the tax office in the first quarter of the year 2011 the Company recognized an income tax expense relating to the year 2003 of PLN 58,325 thousands.

On July 5, 2011 the Company received the written justification of this decision and the Company filed a cassation claim to the Supreme Administrative Court on August 3, 2011.

On December 30, 2011 Netia received further repayment of PLN 6.4m related to penalty interests paid previously by the Company and subsequently conceded by the Tax Authority as incorrectly claimed.

On February 22, 2012 Netia received payment of PLN 1.4m concerning penalty interests on the amount returned in December 2011.

Should the appeal to the Supreme Administrative Court be positive for the Company, the amount of unduly paid tax plus interest will be treated as an overpayment and must be returned by the tax authorities together with interest.

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless and reclaim the remaining net amount of PLN 51.9 m paid to tax office, together with related interest.

Possible liabilities under the Change of Control Transaction Bonus Scheme (CoCTB) (not in thousands)

Following a decision of the Supervisory Board on April 25, 2012, the current four members of Netia's Management Board have been awarded Participation Units (PUs) in a new cash paid bonus scheme known as the Change of Control Transaction Bonus Scheme (CoCTB). As of the date of these financial statements, a total of 9,500,000 from a possible 11,400,000 PUs have been allocated to the Management Board Members.

Each PU has a strike price of 7.00 zloty per share and a term of 36 months commencing on December 31, 2012. The strike price adjusts upward over time by one percent per month from January 31, 2013 and is reduced by any dividends paid out by the Company ("the Adjusted Strike Price"). In the event that an investor or consortium of investors holds at least 90 % of Netia's equity on or prior to December 31, 2015 ("Trigger Event"), each PU shall be worth the difference between the acquisition price paid in a successful tender offering that secures the 90 % share-holding and the Adjusted Strike Price. For the purpose of calculating the value of the PU, the acquisition price is capped at 10 zloty per share. Should a Trigger Event occur after December 31, 2012 and prior to the expiration of the PUs on December 31, 2015, the Company shall pay the cash equivalent of the value of the PUs to each participating Management Board Member who was fulfilling his duties as at December 31, 2012 and has not resigned from his position prior to such Trigger Event.

The PUs will expire without value if there is no Trigger Event on or prior to December 31, 2015 or if the Management Board Member to whom they are allocated resigns prior to the Trigger Event or if the Trigger Event occurs at a price below the Adjusted Strike Price. Conversely, should a Trigger Event occur for an acquisition price of 10 zloty or above occur in January 2013 and if all four Management Board Members are still performing their duties at the Company on the day of the Trigger Event, the maximum possible liability incurred by the Company could reach 28,500,000 PLN. This amount would fall towards zero as December 31, 2015 approaches without a Trigger Event occurring and as the Adjusted Strike Price increases towards 10 zloty per share.

Given that Netia is not presently controlled by any single large investor and given that Management is not in possession of information concerning the circumstances under which existing large shareholders may consider disposing of their shares in the Company, it is not possible for Management to make a reliable estimate of the likelihood of a Trigger Event occurring during the validity period of the PUs or to reliably estimate at what price such a Trigger Event might occur. Accordingly, Management is presently unable to reliably estimate the fair value of the CoCTB contingent liability as would otherwise be required in accordance with IFRS 2, Share Based Payments.

20. Subsequent events

Buy-back program (not in thousands)

In addition to the 11,936,541 of its own shares held as of September 30, 2012 (see Note 14: Repurchase of own shares) between September 30, 2012 and the date of the approval of these interim condensed consolidated financial statements the company has repurchased a further 763,936 (not in thousands) of its own shares at a total cost of PLN 4,616,040 under the second tranche of a share buy-back program. Under the third tranche of a share buy back program (see Note 14: Repurchase of own shares) the Company repurchased 1,061,247 of its own shares at a total cost of PLN 6,159,847 until the date of the approval of these interim condensed consolidated financial statements.

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

In October 2012, a company closely related to Mr. Godlewski, President of the Management Board of Netia S.A., acquired 1,600,000 shares in Netia S.A. from Mr. Godlewski and subsequently disposed of 205,000 shares in Netia S.A. Accordingly, Mr. Godlewski and the company closely related to Mr. Godlewski held a total of 1,405,000 shares in Netia S.A. as at the date of the approval of these interim condensed consolidated financial statements.