2011

Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2011

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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 interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at June 30, 2011 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 6 months period then ended and notes to interim condensed consolidated financial statements ('the accompanying 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 6 months period ended June 30, 2011 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2011 of PLN 3.9866 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, August 3, 2011

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the six-month period ended June 30, 2011

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30, 2011

(All amounts in thousands, except as otherwise stated)

	Note	June 30, 2011 (PLN)	December 31, 2010 (PLN)	Convenience Translation June 30, 2011 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,461,309	1,475,682	366,555
Intangible assets	7	371,585	389,444	93,208
Investment property	8	25,808	45,084	6,474
Deferred income tax assets	14	55,242	52,762	13,857
Available for sale financial assets		115	10	29
Long term receivables		218	217	55
Prepaid expenses and accrued income		8,819	10,508	2,212
Total non-current assets		**1,923,096**	**1,973,707**	**482,390**
Current assets				
Inventories		6,893	11,393	1,729
Trade and other receivables		170,052	139,691	42,656
Tax Office receivables	4	-	58,325	-
Current income tax receivables		51	120	13
Prepaid expenses and accrued income		33,407	37,876	8,380
Derivative financial instruments	9	112	117	28
Financial assets at fair value through profit and loss		1	1	-
Held to maturity investments	9	210,680	171,616	52,847
Restricted cash		2,123	2,123	533
Cash and cash equivalents		219,388	173,600	55,031
Total current assets		**642,707**	**594,862**	**161,217**
Total assets		**2,565,803**	**2,568,569**	**643,607**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Grzegorz Esz
Member of the Management Board

Warsaw, Poland
August 3, 2011

(All amounts in thousands, except as otherwise stated)

	Note	June 30, 2011 (PLN)	December 31, 2010 (PLN)	Convenience Translation June 30, 2011 (EUR)
EQUITY				
Share capital	10	391,043	389,459	98,089
Supplementary capital		1,866,857	1,599,299	468,283
Retained earnings		(7,908)	269,258	(1,984)
Other components of equity		38,463	39,530	9,649
Total equity		**2,288,455**	**2,297,546**	**574,037**
LIABILITIES				
Non-current liabilities				
Provisions		842	988	211
Deferred income		21,185	21,619	5,314
Other long term liabilities		7,846	9,264	1,968
Total non-current liabilities		**29,873**	**31,871**	**7,493**
Current liabilities				
Trade and other payables		202,743	206,351	50,857
Derivative financial instruments	9	846	849	212
Borrowings	11	107	31	27
Current income tax liabilities		1	1	-
Provisions		1,584	1,855	397
Deferred income		42,194	30,065	10,584
Total current liabilities		**247,475**	**239,152**	**62,077**
Total liabilities		**277,348**	**271,023**	**69,570**
Total equity and liabilities		**2,565,803**	**2,568,569**	**643,607**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended June 30, 2011	Six-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010	Convenience Translation Six-month period ended June 30, 2011
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		**396,280**	**797,469**	**393,698**	**780,677**	**200,037**
Cost of sales		(272,324)	(542,558)	(262,215)	(522,431)	(136,095)
Gross profit		**123,956**	**254,911**	**131,483**	**258,246**	**63,942**
Selling and distribution costs		(75,136)	(147,407)	(77,125)	(155,061)	(36,976)
General and administration costs		(39,424)	(75,464)	(35,118)	(72,067)	(18,929)
Other income		2,702	7,416	1,491	6,404	1,860
Other expenses		-	(996)	(782)	(782)	(250)
Other gains, net	12	795	483	528	3,299	121
Operating profit		**12,893**	**38,943**	**20,477**	**40,039**	**9,768**
Finance income	13	4,246	7,528	4,409	7,172	1,888
Finance costs	13	(401)	(623)	(2,081)	(6,973)	(155)
Profit before income tax		**16,738**	**45,848**	**22,805**	**40,238**	**11,501**
Income tax charge	14	(3,827)	(55,982)	(7,249)	(10,330)	(14,043)
Profit / (Loss)		**12,911**	**(10,134)**	**15,556**	**29,908**	**(2,542)**
Profit / (Loss) attributable to:						
Owners of the Company		12,911	(10,134)	15,556	29,908	(2,542)
Non-controlling interest		-	-	-	-	-
		12,911	**(10,134)**	**15,556**	**29,908**	**(2,542)**
Earnings per share (expressed in PLN per share)						
- basic		0.03	(0.03)	0.04	0.08	(0.01)
- diluted		0.03	(0.03)	0.04	0.08	(0.01)

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended June 30, 2011	Six-month period ended June 30, 2011	Three-month period ended June 30, 2010	Six-month period ended June 30, 2010	Convenience Translation Six-month period ended June 30, 2011
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit / (Loss)		**12,911**	**(10,134)**	**15,556**	**29,908**	**(2,542)**
Cash flow hedges	9	(14)	(254)	3,716	3,265	(64)
Income tax relating to components of other comprehensive income		(18)	23	(615)	(640)	6
Other comprehensive income		**(32)**	**(231)**	**3,101**	**2,625**	**(58)**
TOTAL COMPREHENSIVE INCOME		**12,879**	**(10,365)**	**18,657**	**32,533**	**(2,600)**
Total comprehensive income attributable to:						
Owners of the Company		12,879	(10,365)	18,657	32,533	(2,600)
Non-controlling interest		-	-	-	-	-
		12,879	**(10,365)**	**18,657**	**32,533**	**(2,600)**

(All amounts in thousands, except as otherwise stated)

			Supplementary capital					
	Note	**Share capital**	**Share premium**	**Other supplementary capital**	**Retained earnings**	**Employee share option scheme**	**Hedging reserve**	**Total equity**
		(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**
Loss for the period		-	-	-	(10,134)	-	-	(10,134)
Other comprehensive income		-	-	-	-	-	(231)	(231)
Total comprehensive income		-	-	-	(10,134)	-	(231)	(10,365)
Transfer of Netia's 2010 profit		-	-	267,032	(267,032)	-	-	-
Employee share option scheme:								
- value of services provided	10	-	-	-	-	1,313	-	1,313
- issuance of series K shares	10	1,584	565	-	-	(2,149)	-	-
Cost of issuance		-	(39)	-	-	-	-	(39)
Balance as at June 30, 2011		**391,043**	**1,357,204**	**509,653**	**(7,908)**	**38,962**	**(499)**	**2,288,455**

			Supplementary capital					
	Note	**Share capital**	**Share premium**	**Other supplementary capital**	**Retained earnings**	**Employee share option scheme**	**Hedging reserve**	**Total equity**
		(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Balance as at January 1, 2010		**389,277**	**1,356,652**	**-**	**247,984**	**34,201**	**(1,937)**	**2,026,177**
Profit for the period		-	-	-	29,908	-	-	29,908
Other comprehensive income		-	-	-	-	-	2,625	2,625
Total comprehensive income			-	-	29,908	-	2,625	32,533
Transfer of Netia's 2009 profit		-	-	242,621	(242,621)	-	-	-
Employee share option scheme:								
- value of services provided	10	-	-	-	-	4,163	-	4,163
- issuance of series K shares	10	61	15	-	-	(76)	-	-
Cost of issuance		-	(1)	-	-	-	-	(1)
Balance as at June 30, 2010		**389,338**	**1,356,666**	**242,621**	**35,271**	**38,288**	**688**	**2,062,872**

(All amounts in thousands, except as otherwise stated)

	Note	Six-month period ended June 30, 2011 (PLN)	Six-month period ended June 30, 2010 (PLN)	Convenience Translation Six-month period ended June 30, 2011 (EUR)
Cash flows from operating activities:				
Profit/ (loss)		**(10,134)**	**29,908**	**(2,542)**
Adjustments for:				
Depreciation and amortization	5, 7, 8	151,111	148,758	37,905
Impairment charges for specific individual assets	5	958	782	240
Reversal of impairment charges		(1,007)	(58)	(253)
Deferred income tax charge / (benefit)	14	(2,602)	10,172	(653)
Interest expense and fees charged on bank loans		-	5,741	-
Other interest charged / (earned)		(3,273)	(1,505)	(821)
Share-based compensation	10	1,955	4,396	490
Fair value gains on financial assets / liabilities		-	(697)	-
Fair value gains on derivative financial instruments	9	(105)	(2,443)	(26)
Foreign exchange losses		153	1,286	38
Gain on disposal of fixed assets		(661)	(3,630)	(166)
Loss on sale of investments		-	881	-
Changes in working capital	16	5,285	(30,638)	1,326
Tax expense relating to prior periods	4	58,325	(58,325)	14,631
Net cash provided by operating activities		**200,005**	**104,628**	**50,169**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(118,599)	(94,869)	(29,749)
Purchase of operational networks		-	(818)	-
Proceeds from sale of fixed assets		4,872	23,760	1,222
Purchase of subsidiaries, net of cash received		(2,197)	(516)	(551)
Purchase of treasury bonds / notes	9	(115,594)	(77,008)	(28,996)
Repurchase of treasury bonds / notes	9	80,000	10,000	20,067
Sale of investments		-	3,395	-
Net cash used in investing activities		**(151,518)**	**(136,056)**	**(38,007)**
Cash flows from financing activities:				
Finance lease payments		(2,515)	(2,828)	(631)
Loan payments		(31)	(347)	(8)
Payments of fees relating to bank loans		-	(1,113)	-
Net cash used in financing activities		**(2,546)**	**(4,288)**	**(639)**
Net change in cash and cash equivalents		**45,941**	**(35,716)**	**11,523**
Exchange losses on cash and cash equivalents		**(153)**	**(263)**	**(38)**
Cash and cash equivalents at beginning of period		173,600	181,203	43,546
Cash and cash equivalents at end of period		**219,388**	**145,224**	**55,031**

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 six-month period ended June 30, 2011 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on August 3, 2011 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 the third quarter of 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 28 such operators with a total of 108,373 (not in thousands) active customers. Additionally, the Netia Group has acquired 10,761 (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 is introducing 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.).

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 June 30, 2011, the Group's equity amounted to PLN 2,288,455 and the Netia Group had working capital of PLN 395,232 inclusive of cash available of PLN 219,388 and PLN 215,000 in nominal value of treasury notes. Furthermore, Netia's operations were free cash flow generative in 2010 and the six-month period ended June 30, 2011 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions presently exist which may cast significant doubt on the Company's ability to continue as a going concern.

Notwithstanding the above, Management also notes that successful completion of a major market consolidating acquisition would likely result in the Netia Group moving into a net debt position with the effect that liquidity ratios would become significantly tighter.

(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 August 3, 2011, 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, 2010, except for new accounting standards adopted as of January 1, 2011. 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, 2010 consolidated financial statements and the related notes.

Certain Group entities (acquired in 2009, 2010 and 2011) 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 as of June 30, 2011 of PLN 3.9866 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 consolidated financial statements are prepared under the historic cost convention as modified by the revaluation of available-for-sale financial assets and financial assets and financial liabilities at fair value through profit and loss. However, until December 31, 1996, Poland was considered to be a hyperinflationary economy. The consolidated financial statements for the periods through that date were prepared under the historical cost convention as adjusted for the effects of inflation in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies". The inflated values in PLN at December 31, 1996 for balance sheet items became the new historical basis for subsequent periods.

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 six-month period ended June 30, 2011 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 / amortization	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 changed to 22 years from the date of original capitalisation	(17,473)	17,473
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2012	(145)	145
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2012	(4,955)	4,955
Machinery and equipment	- useful lives of certain assets were extended until the end of 2012	(343)	343
Total impact		**(22,916)**	**22,916**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

In 2011, the Netia Group adopted the following new standards, amendments to standards and new interpretations:

- Amendment to IAS 32 "Financial Instruments: Presentation. Classification of Rights Issues" applicable for annual periods beginning on or after February 1, 2010. The amended standard clarifies the classification of rights issues;

- Revised IAS 24 "Related Party Disclosures" applicable for annual periods beginning on or after January 1, 2011. The revised standard simplifies the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition.

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after July 1, 2010. This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement", effective for annual periods ending on or after January 1, 2011. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" , effective for annual periods beginning on or after July 1, 2010. The amendment applies the same transition provisions for first-time adopters as for existing preparers of financial statements included in Amendments to IFRS 7 "Improving Disclosures about Financial Instruments".

- Amendments to IFRS resulting from the annual improvements project, issued in May 2010 and effective for annual periods beginning the earliest on or after July 1, 2010, depending on which IFRS the amendment relates to.

Adoption of amendments and interpretations listed above did not have any effect on the financial position of the Netia Group's operations.

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 2011 and have not been adopted early:

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2013. IFRS 9 is the first part of 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.

- 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. The amendments 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.

- 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.

(All amounts in thousands, except as otherwise stated)

- 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. The amendments have not yet been endorsed by the EU.

- Amendment to IAS 1 "Presentation of Financial Statements" effective for annual periods beginning on or after 1 January 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. 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 assets, 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. Following a management change from January 1, 2011, responsibility for servicing local Internet providers was moved from the Corporate segment to the Carrier segment. Comparative information has been adjusted accordingly to reflect this reclassification.

No operating segments have been aggregated to form these reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the six-month and the three-month periods ended June 30, 2011 and 2010, respectively:

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Six-month period ended June 30, 2011							
Revenue from external customers	**414,356**	**99,170**	**168,620**	**112,161**	**794,307**	**3,162**	**797,469**
Adjusted EBITDA	**77,837**	**32,235**	**87,313**	**52,119**	**249,504**	**(55,168)**	**194,336**
Restructuring cost	-	-	-	-	-	(235)	(235)
Expenses incurred on merger and acquisition projects	-	-	-	-	-	(1,667)	(1,667)
USO provision	-	-	-	-	-	(2,380)	(2,380)
EBITDA	**77,837**	**32,235**	**87,313**	**52,119**	**249,504**	**(59,450)**	**190,054**
Depreciation and Amortization	(32,868)	(24,503)	(49,877)	(25,954)	(133,202)	(17,909)	(151,111)
Operating profit / (loss)	44,969	7,732	37,436	26,165	116,302	(77,359)	38,943
Finance income, net	-	-	-	-	-	6,905	6,905
Income tax charge	-	-	-	-	-	(55,982)	(55,982)
Profit / (Loss)	**44,969**	**7,732**	**37,436**	**26,165**	**116,302**	**(126,436)**	**(10,134)**
Capital expenditure	36,317	7,260	27,875	9,810	81,262	16,247	97,509

(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)
Six-month period ended June 30, 2010							
Revenue from external customers	**411,116**	**90,147**	**164,845**	**111,449**	**777,557**	**3,120**	**780,677**
Adjusted EBITDA	**70,826**	**29,245**	**87,661**	**55,679**	**243,411**	**(57,179)**	**186,232**
Restructuring cost	-	-	-	-	-	(300)	(300)
Profit on sale of P4 Transmission assets	-	-	-	2,865	2,865	-	2,865
EBITDA	**70,826**	**29,245**	**87,661**	**58,544**	**246,276**	**(57,479)**	**188,797**
Depreciation and Amortization	(36,313)	(25,107)	(47,955)	(21,752)	(131,127)	(17,631)	(148,758)
Operating profit / (loss)	34,513	4,138	39,706	36,792	115,149	(75,110)	40,039
Finance income, net	-	-	-	-	-	199	199
Income tax charge	-	-	-	-	-	(10,330)	(10,330)
Profit / (Loss)	**34,513**	**4,138**	**39,706**	**36,792**	**115,149**	**(85,241)**	**29,908**
Capital expenditure	32,450	7,854	23,344	6,966	70,614	11,302	81,916

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended June 30, 2011							
Revenue from external customers	**206,536**	**50,007**	**83,165**	**55,033**	**394,741**	**1,539**	**396,280**
Adjusted EBITDA	**38,008**	**15,718**	**41,172**	**25,149**	**120,047**	**(27,215)**	**92,832**
Restructuring cost	-	-	-	-	-	(235)	(235)
Expenses incurred on merger and acquisition projects	-	-	-	-	-	(1,538)	(1,538)
USO provision	-	-	-	-	-	(2,380)	(2,380)
EBITDA	**38,008**	**15,718**	**41,172**	**25,149**	**120,047**	**(31,368)**	**88,679**
Depreciation and Amortization	(16,255)	(12,118)	(24,668)	(12,835)	(65,876)	(9,910)	(75,786)
Operating profit / (loss)	21,753	3,600	16,504	12,314	54,171	(41,278)	12,893
Finance income, net	-	-	-	-	-	3,845	3,845
Income tax charge	-	-	-	-	-	(3,827)	(3,827)
Profit / (Loss)	**21,753**	**3,600**	**16,504**	**12,314**	**54,171**	**(41,260)**	**12,911**
Capital expenditure	20,067	3,908	15,101	5,179	44,255	12,334	56,589

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended June 30, 2010							
Revenue from external customers	**205,570**	**45,697**	**80,992**	**59,866**	**392,125**	**1,573**	**393,698**
Adjusted EBITDA	**37,543**	**15,686**	**41,649**	**29,063**	**123,941**	**(28,515)**	**95,426**
Restructuring cost	-	-	-	-	-	(163)	(163)
EBITDA	**37,543**	**15,686**	**41,649**	**29,063**	**123,941**	**(28,678)**	**95,263**
Depreciation and Amortization	(18,211)	(12,591)	(23,999)	(10,960)	(65,761)	(9,025)	(74,786)
Operating profit / (loss)	19,332	3,095	17,650	18,103	58,180	(37,703)	20,477
Finance income, net	-	-	-	-	-	2,328	2,328
Income tax charge	-	-	-	-	-	(7,249)	(7,249)
Profit / (Loss)	**19,332**	**3,095**	**17,650**	**18,103**	**58,180**	**(42,624)**	**15,556**
Capital expenditure	23,098	5,258	12,575	3,597	44,528	8,359	52,887

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

	Three -month period ended June 30, 2011	**Six -month period ended June 30, 2011**	**Three -month period ended June 30, 2010**	**Six -month period ended June 30, 2010**
	(PLN)	(PLN)	(PLN)	(PLN)
EBIT for reportable segments	54,171	116,302	58,180	115,149
Radio communication segment	11	(4)	89	173
General fixed costs (incl. administration, IT, professional services)	(30,076)	(60,736)	(27,013)	(54,318)
Reorganization and restructuring costs	(235)	(235)	(163)	(300)
Other operating income/(expenses)	(1,155)	1,354	(1,747)	(3,282)
Depreciation and amortization of unallocated assets	(9,823)	(17,738)	(8,869)	(17,383)
Finance income, net	3,845	6,905	2,328	199
Income tax charge	(3,827)	(55,982)	(7,249)	(10,330)
Profit / (Loss)	**12,911**	**(10,134)**	**15,556**	**29,908**

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

Tax decision (not in thousands)

In February 2010 the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") issued a decision ("Decision") according to which Netia's corporate income tax due for the year 2003 was set at PLN 34.2 million plus penalty interest of approximately PLN 25.3 million. The decision closed proceedings related to Netia's appeal of a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax due for the year 2003 was originally set at PLN 58.7 million plus penalty interest amounting to PLN 41.3 million.

The decision of the Tax Chamber Director was issued despite legal arguments presented by the Company, which claimed that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the Tax Chamber Director and the UKS Director, Netia understated its taxable income by PLN 247.5 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in earlier years to subsidiaries which subsequently merged with Netia on December 31, 2003. The Director of UKS, as the first instance tax authority, claimed in its earlier decision that Netia understated its taxable income by PLN 303 million.

The Tax Chamber Director's decision, which partially upheld the decision of the UKS Director, was enforceable as a decision of the second instance tax authority. The liability of PLN 59.6 million was settled in February 2010, from which PLN 1.3 million was returned by the tax office to Netia.

Netia received opinions from several independent tax and legal advisors, as well as tax law experts, which concluded that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, following the payment of the PLN 58.3 million and having recourse to two levels of independent civil court in which to obtain a positive ruling, Management took the position during 2010 that recovery through the courts is virtually certain and did not recognize the Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2010 and instead treated funds paid over to the tax authorities as an overpayment of tax.

However, having heard Netia's appeal of the decision of the Tax Chamber Director, on March 15, 2011 the Voivodship Administrative Court ("WSA") in Warsaw announced a judgment with respect to the Decision and the Court dismissed the Company's claim in its entirety. On July 5, 2011 the Company received the written justification of this decision.

Following the WSA decision in favour of the tax office, Management recognizes that there is now only one instance remaining to obtain a favourable ruling and the existence of strong tax opinions is no longer sufficient to maintain the judgment that recovery is virtually certain.

Consequently, in the first quarter of the year 2011 the Company recognized the taxes and related penalty interest already paid in 2010 as an income tax expense relating to the year 2003 of PLN 58,325 thousands.

The Voivodship Administrative Court's judgment is not final. On August 3, 2011 the Company filed a cassation claim to the Supreme Administrative Court.

Universal services obligation (see also Note 20)

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.

In May 2011, the President of UKE considered the applications for awarding subsidy towards costs of universal service incurred in period from May 8, 2006 until December 2009 that were filed by TP SA, and issued decisions by virtue of which TP SA was awarded subsidies towards incurred costs of several services falling within the scope of universal service, the total amount of which was PLN 66,994. Netia must receive an individual decision from the President of UKE as to its share of the total amount before any amounts will be due and payable.

In view of the fact that, following the Regulator's decision it is now possible to estimate the amount of Netia's share in the subsidy towards the incurred costs of services falling within the scope of universal services, the Management Board decided to establish a provision amounting to the total value of Netia's estimated share in the subsidy.

The amount of Netia's share in the subsidy was estimated at PLN 2,380 for the period from 2006 until 2009 inclusive.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current 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	-	-	134	56	56	756	70	83,220	84,292
Transfer from investment property	26,500	-	-	-	-	-	-	-	26,500
Purchase of subsidiary	-	-	235	120	-	-	16	-	371
Purchase of operational networks	-	-	-	59	119	-	2	-	180
Transfers	356	-	22,502	42,570	2,688	278	-	(68,394)	-
Disposals	-	(154)	(4,816)	(5,719)	(222)	(1,051)	(91)	(42)	(12,095)
Other movements	(25)	-	(13)	(235)	273	-	-	-	-
Gross book value as at June 30, 2011	90,619	4,825	2,094,983	2,001,887	118,016	72,603	1,575	98,040	4,482,548
Accumulated depreciation as at January 1, 2011	23,686	-	868,326	1,040,579	69,602	54,902	910	-	2,058,005
Depreciation expense	2,526	-	30,015	74,599	3,610	3,388	194	-	114,332
Transfer from investment property	5,417	-	-	-	-	-	-	-	5,417
Disposals	-	-	(1,647)	(3,989)	(132)	(872)	(63)	-	(6,703)
Other movements	-	-	(41)	(3)	43	1	-	-	-
Accumulated depreciation as at June 30, 2011	31,629	-	896,653	1,111,186	73,123	57,419	1,041	-	2,171,051
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	-	(33)	(248)	(609)	(25)	(166)	-	(139)	(1,220)
Other movements	-	-	5	(120)	115	-	-	-	-
Accumulated impairment as at June 30, 2011	8,335	501	510,303	308,077	15,969	5,213	18	1,772	850,188
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 June 30, 2011	**50,655**	**4,324**	**688,027**	**582,624**	**28,924**	**9,971**	**516**	**96,268**	**1,461,309**

(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, 2010	45,526	5,126	2,026,040	1,895,760	110,263	123,778	5,993	107,791	4,320,277
Additions	564	-	80	166	81	447	58	70,949	72,345
Purchase of operational networks	-	-	340	45	-	7	-	-	392
Transfers	6,963	-	21,478	55,715	2,273	481	143	(87,053)	-
Disposals	-	(115)	(55)	(22,729)	(366)	(6,091)	(3,631)	(155)	(33,142)
Other movements	(252)	-	374	(967)	871	(134)	-	-	(108)
Gross book value as at June 30, 2010	52,801	5,011	2,048,257	1,927,990	113,122	118,488	2,563	91,532	4,359,764
Accumulated depreciation as at January 1, 2010	20,203	-	794,051	910,493	64,420	100,844	3,668	-	1,893,679
Depreciation expense	1,629	-	36,881	69,077	3,321	3,076	337	-	114,321
Disposals	-	-	(19)	(4,313)	(252)	(5,628)	(2,449)	-	(12,661)
Other movements	(45)	-	61	(547)	628	(68)	5	-	34
Accumulated depreciation as at June 30, 2010	21,787	-	830,974	974,710	68,117	98,224	1,561	-	1,995,373
Accumulated impairment as at January 1, 2010	7,341	1,125	631,419	368,640	18,404	10,133	30	2,780	1,039,872
Impairment charge for specific assets	-	-	-	-	-	-	-	782	782
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(58)	(58)
Transfers	-	-	19	316	43	-	-	(378)	-
Disposals	-	(46)	(17)	(84)	(51)	(418)	(9)	(68)	(693)
Other movements	(7)	-	4	(241)	283	(61)	-	-	(22)
Accumulated impairment as at June 30, 2010	7,334	1,079	631,425	368,631	18,679	9,654	21	3,058	1,039,881
Net book value as at January 1, 2010	17,982	4,001	600,570	616,627	27,439	12,801	2,295	105,011	1,386,726
Net book value as at June 30, 2010	**23,680**	**3,932**	**585,858**	**584,649**	**26,326**	**10,610**	**981**	**88,474**	**1,324,510**

(All amounts in thousands, except as otherwise stated)

6. Acquisitions

Current period

Acquisition of Ethernet operators

Netpro Sp. z o.o.

On March 30, 2011, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, purchased 100% of the share capital of Netpro Sp. z o.o. ("Netpro"), an internet service provider offering broadband Internet access to residential clients. The total price for all Netpro shares has been set at PLN 600.

The Netia Group accounted for the acquisition of Netpro using the purchase method and started consolidating the financial statements of Netpro as of March 31, 2011.

If the acquisition had occurred on January 1, 2011, the Netia Group's revenue would have amounted to PLN 797,560 and loss would have been PLN 10,125.

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	600
Provisional fair value of net assets acquired	(249)
Goodwill	**351**

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 (PLN)	**Provisional fair value** (PLN)
Customer relationships	-	165
Property, plant and equipment	101	101
Intangible assets	7	7
Trade receivables	9	9
Inventory	4	4
Cash and cash equivalents	27	27
Trade liabilities	(10)	(10)
Tax and other liabilities	(23)	(23)
Deferred income tax, net	-	(31)
Net assets acquired	**115**	**249**

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	600
Total consideration	**600**

	(PLN)
Total purchase consideration settled in cash	(600)
Cash and cash equivalents in the subsidiary acquired	27
Cash outflow on acquisition	**(573)**

(All amounts in thousands, except as otherwise stated)

Saite Sp. z o.o.

On June 28, 2011, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, purchased 100% of the share capital of Saite Sp. z o.o. ("Saite"), an internet service provider offering broadband Internet access to residential clients. The acquisition-date fair value of total consideration transferred for all Saite shares was PLN 2,335.

The Netia Group accounted for the acquisition of Saite using the purchase method and started consolidating the financial statements of Saite as of June 30, 2011.

If the acquisition had occurred on January 1, 2011, the Netia Group's revenue would have amounted to PLN 797,552 and loss would have been PLN 10,141.

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	2,335
Provisional fair value of net assets acquired	(712)
Goodwill	**1,623**

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	-	599
Goodwill	2,053	-
Property, plant and equipment	270	270
Intangible assets	20	20
Trade and other receivables	44	44
Inventory	1	1
Cash and cash equivalents	67	67
Bank loans	(60)	(60)
Trade liabilities	(44)	(44)
Tax and other liabilities	(71)	(71)
Deferred income tax, net	-	(114)
Net assets acquired	**2,280**	**712**

The fair value of the trade receivables amounts to PLN 33 and corresponds to their gross amount. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected.

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	1,691
A liability for contingent consideration	644
Total consideration	**2,335**

	(PLN)
Total purchase consideration settled in cash	(1,691)
Cash and cash equivalents in the subsidiary acquired	67
Cash outflow on acquisition	**(1,624)**

The above investments are of a long-term nature.

Operational networks

During the second quarter of 2011 the Netia Group purchased a network and customers from an Ethernet operator for a total consideration transferred of PLN 2,715. This purchase was treated as acquisitions of a part of continuing business. Fair values of the acquired fixed assets and customer relationships were estimated at PLN 179 and PLN 1,238, respectively. Total cash outflow relating to this acquisition till the date of these consolidated financial statements amounted to PLN 2,651. The goodwill of PLN 1,298 that arose on these transactions is based on the fair value of net assets acquired and is attributable to the synergies expected to arise after the Netia Group's acquisition of the above network. The assets recognized in the consolidated statement of financial position arising from the purchase of operational networks are presented in note 5 and 7.

(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, 2011	159,446	2,970	432,823	7,417	107,354	20,329	339,672	11,333	85,269	1,166,613
Additions	-	-	-	-	-	-	637	12,578	-	13,215
Purchase of subsidiary (see note 6)	1,974	7	-	-	-	-	20	-	764	2,765
Purchase of operational networks	1,298	-	-	-	-	-	-	-	1,238	2,536
Transfers	-	-	-	-	-	-	16,310	(16,310)	-	-
Gross book value as at June 30, 2011	162,718	2,977	432,823	7,417	107,354	20,329	356,639	7,601	87,271	1,185,129
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	-	-	9,600	-	2,699	705	14,465	-	8,906	36,375
Accumulated amortization as at June 30, 2011	-	2,970	232,552	1,539	58,651	5,932	239,090	-	57,468	598,202
Accumulated impairment as at January 1, 2011	-	-	143,739	5,878	21,547	974	42,620	385	199	215,342
Accumulated impairment as at June 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 June 30, 2011	**162,718**	**7**	**56,532**	**-**	**27,156**	**13,423**	**74,929**	**7,216**	**29,604**	**371,585**

(All amounts in thousands, except as otherwise stated)

7. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark (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, 2010	150,718	2,970	432,823	7,417	107,354	20,329	317,073	6,382	80,344	1,124,870
Additions	-	-	-	-	-	-	526	8,229	-	8,755
Subsidiary purchased	341	-	-	-	-	-	-	-	192	533
Purchase of operational networks	34	-	-	-	-	-	-	-	390	424
Transfers	-	-	-	-	-	-	7,521	(7,521)	-	-
Disposals	-	-	-	-	-	-	(22)	-	-	(22)
Other movements	-	-	-	-	-	-	113	-	-	113
Gross book value as at June 30, 2010	150,553	2,970	432,823	7,417	107,354	20,329	325,211	7,090	80,926	1,134,673
Accumulated amortization as at January 1, 2010	-	2,970	208,456	1,539	51,865	4,057	193,487	-	31,510	493,884
Amortization expense	-	-	7,249	-	2,043	585	15,642	-	8,432	33,951
Disposals	-	-	-	-	-	-	(16)	-	-	(16)
Other movements	-	-	-	-	-	-	75	-	-	75
Accumulated amortization as at June 30, 2010	-	2,970	215,705	1,539	53,908	4,642	209,188	-	39,942	527,894
Accumulated impairment as at January 1, 2010	-	-	159,788	5,878	28,511	3,408	43,998	385	207	242,175
Transfers	-	-	-	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	29	-	-	29
Accumulated impairment as at June 30, 2010	-	-	159,788	5,878	28,511	3,408	44,027	385	207	242,204
								-		
Net book value as at January 1, 2010	150,178	-	64,579	-	26,978	12,864	79,588	5,997	48,627	388,811
Net book value as at June 30, 2010	**150,553**	**-**	**57,330**	**-**	**24,935**	**12,279**	**71,996**	**6,705**	**40,777**	**364,575**

(All amounts in thousands, except as otherwise stated)

8. Investment property

	Six-month period ended June 30, 2011 (PLN)	Six-month period ended June 30, 2010 (PLN)
Gross book value at the beginning of the period	60,768	59,952
Additions	366	198
Transfer to property, plant and equipment	(26,500)	-
Gross book value at the end of the period	34,634	60,150
Accumulated depreciation at the beginning of the period	(12,123)	(11,316)
Depreciation expense	(403)	(431)
Transfer to property, plant and equipment	5,417	-
Accumulated depreciation at the end of the period	(7,109)	(11,747)
Accumulated impairment at the beginning of the period	(3,561)	(13,062)
Reversal of impairment charge	-	(1)
Transfer to property, plant and equipment	1,844	-
Accumulated impairment at the end of the period	(1,717)	(13,063)
Net book value at the beginning of the period	**45,084**	**35,574**
Net book value at the end of the period	**25,808**	**35,340**

Management decided to cease marketing one of three buildings comprising the Company's former head office for a potential sale and leaseback transaction and therefore reclassified this building from investment property to property, plant and equipment as at March 31, 2011. This reclassified building houses network equipment crucial for the operation of Netia's network. The remaining buildings and land classified as investment property are surplus to the Company's requirements. The investment property is currently rented to third party tenants and is being marketed for sale or joint redevelopment.

9. 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 linked 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. Net fair value losses on forward contracts recognized in the hedging reserve in equity on these contracts during the six-month period ended June 30, 2011 amounted to PLN 254 (PLN 231, net of tax). During the six-month period ended June 30, 2011, PLN 432 of net cash losses on closed forward contracts were capitalized and the ineffective portion of open and closed forward contracts of PLN 14 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 linked 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 six-month period ended June 30, 2011, PLN 119 of fair value gains on open forward contracts were recorded as finance income.

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

	Hedged nominal amount (EUR)	Hedged nominal amount (USD)	Fair value Asset (PLN)	Fair value Liability (PLN)	Fair value Other comprehensive income (PLN)
As at June 30, 2011					
Forward transactions related to equipment and construction contracts	2,660	3,600	71	(523)	(254)
Forward transactions related to commercial contracts	3,680	1,450	41	(323)	-
As at June 30, 2010					
Forward transactions related to equipment and construction contracts	3,820	1,950	1,150	(169)	3,265
Forward transactions related to commercial contracts	5,700	990	978	(198)	-
As at December 31, 2010					
Forward transactions related to equipment and construction contracts	2,700	2,380	77	(408)	2,060
Forward transactions related to commercial contracts	4,380	1,330	40	(441)	-

Held to maturity investments

		June 30, 2011		December 31, 2010	
	Maturity date	**Nominal value**	**Carrying amount**	**Nominal value**	**Carrying amount**
		(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
52-week treasury notes	March 16, 2011	-	-	10,000	9,922
52-week treasury notes	March 16, 2011	-	-	10,000	9,921
52-week treasury notes	March 23, 2011	-	-	10,000	9,914
52-week treasury notes	March 23, 2011	-	-	10,000	9,914
52-week treasury notes	April 27, 2011	-	-	10,000	9,879
52-week treasury notes	June 1, 2011	-	-	10,000	9,842
52-week treasury notes	June 8, 2011	-	-	10,000	9,834
52-week treasury notes	June 15, 2011	-	-	10,000	9,823
52-week treasury notes	July 6, 2011	10,000	9,993	10,000	9,794
52-week treasury notes	August 10, 2011	10,000	9,956	10,000	9,764
52-week treasury notes	August 10, 2011	10,000	9,956	10,000	9,763
52-week treasury notes	August 10, 2011	10,000	9,956	10,000	9,765
52-week treasury notes	August 10, 2011	10,000	9,956	10,000	9,762
52-week treasury notes	August 31, 2011	10,000	9,934	10,000	9,743
52-week treasury notes	September 28, 2011	10,000	9,905	10,000	9,716
52-week treasury notes	September 28, 2011	15,000	14,859	15,000	14,580
52-week treasury notes	October 26, 2011	10,000	9,873	10,000	9,680
52-week treasury notes	February 1, 2012	40,000	38,957	-	-
52-week treasury notes	February 29, 2012	10,000	9,709	-	-
52-week treasury notes	February 29, 2012	10,000	9,708	-	-
52-week treasury notes	February 29, 2012	10,000	9,707	-	-
52-week treasury notes	March 28, 2012	10,000	9,678	-	-
52-week treasury notes	March 28, 2012	10,000	9,676	-	-
52-week treasury notes	March 28, 2012	10,000	9,667	-	-
52-week treasury notes	May 30, 2012	10,000	9,597	-	-
52-week treasury notes	May 30, 2012	10,000	9,593	-	-
		215,000	**210,680**	**175,000**	**171,616**

10. Shareholders' equity

Share capital (not in thousands)

At December 31, 2010, the Company's share capital consisted of 389,458,229 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 six-month period ended June 30, 2011 the Company issued 1,583,739 ordinary series K shares due to three Management Board members and certain persons who were not 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").

The 5,115,579 series K shares issued prior to Netia's General Meeting of Shareholders held on May 26, 2010, including 61,059 shares issued in 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 such redefined series K shares issued through June 30, 2011 was 1,704,615 and their nominal value was PLN 1,704,615.

On May 26, 2010, the Annual Shareholders Meeting resolved to authorize the issuance of up to 13,626,832 series L shares to meet obligations that may arise from execution of share options to be issued under a new stock option plan ("New Plan").

As a result at June 30, 2011, the Company's share capital consisted of 391,041,968 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.

Supplementary capital

The Annual General Meeting of the Company held on June 2, 2011, resolved that the Company's net profit for the year 2010, in the amount of PLN 267,032, shall be transferred to the Company's supplementary capital, which may be used to finance a buy-back program of the shares in the Company for the purpose of their redemption or for future dividend distributions.

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 June 30, 2011, the distributable reserves of Netia S.A. amounted to PLN 499,955.

Stock options (not in thousands)

2003 Plan

In the six-month period ended June 30, 2011 and 2010 the following changes took place in the number of options granted under the Plan:

	Six-month period ended June 30, 2011		Six-month period ended June 30, 2010	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.87	53,245,436	5.84	53,946,373
Granted	-	-	6.59	350,000
Exercised	3.54	(4,710,622)	3.50	(210,000)
Forfeited / expired	6.14	(175,000)	5.61	(480,000)
At the end of the period	**6.10**	**48,359,814**	**5.86**	**53,606,373**

As at June 30, 2011 and December 31, 2010 the total number of options approved by the Supervisory Board and issued was 87,877,470. Out of these approved options 48,359,814 options were outstanding as at June 30, 2011 and 53,245,436 options were outstanding as at December 31, 2010. As at June 30, 2011 and December 31, 2010 the total number of outstanding vested options was 45,971,564 and 46,788,436, respectively. The vesting period for the options is up to three years from the date of grant. As at June 30, 2011, the weighted average remaining contractual life of the outstanding options was 1.5 years. 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 3.50 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 six-month periods ended June 30, 2011 and 2010 amounted to PLN 728 thousands and PLN 4,163 thousands, respectively.

New Plan

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, to be administered by the Company's Supervisory Board, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia Group, each option authorising its holder to receive up to half of one series L share for a subscription price equal to the nominal value of the shares in the Company i. e. PLN 1, such subscription price to be paid by the Company or its subsidiaries. The vesting period for the options is three years from the date of grant. The latest exercise date of these share options may be not later than May 26, 2020. In order to satisfy the claims arising from the exercise of the options under New Plan, the Shareholders Meeting resolved to authorize the issuance of up to 13,626,837 series L shares.

In the six-month period ended June 30, 2011 the Supervisory Board granted 1,725,000 options to members of the Management Board and authorized the Management Board to grant a further 2,168,382 options to Netia's Group key employees under the New Plan. On the basis of this authorization, the Management Board granted 1,748,000 options to key employees. As at June 30, 2011, the weighted average remaining contractual life of the outstanding options was 9 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 strike price of the options. The participant will not be required to pay the strike price ranging from PLN 5.23 to PLN 5.24. The fair value of these granted options was PLN 6,201 thousand as at the grant date.

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 six-month periods ended June 30, 2011 amounted to PLN 585 thousands.

	Six-month period ended June 30, 2011		Six-month period ended June 30, 2010	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	-	-	-	-
Granted	5.24	3,473,000	-	-
At the end of the period	**5.24**	**3,473,000**	-	-

11. Borrowings

Undrawn Borrowing facilities

On July 29, 2010 Netia signed a mandate letter with Rabobank, Raiffeisen Bank Polska S.A. and BRE Bank S.A. for arrangement of new financing for a potential market consolidating acquisition within the telecommunications sector in Poland.

On October 4, 2010 bank BNP Paribas, Polish branch, (BNP Paribas SA Oddział w Polsce) joined the mandate letter signed by the Company on July 29, 2010 with Rabobank Polska S.A., Raiffeisen Bank Polska S.A. and BRE Bank S.A. (the "Mandate") for arrangement of new financing fund potential acquisitions by Netia.

The total amount of external financing which may be obtained under the Mandate is PLN 700,000.

(All amounts in thousands, except as otherwise stated)

Outstanding Loans

As at June 30, 2011, the Netia Group had outstanding bank loans of total PLN 69 from PKO BP and the outstanding loan of PLN 38 from former owners of the Company's' subsidiary Saite. The loans were drawn by the Company's newly acquired subsidiary Saite.

12. Other gains, net

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	(PLN)	(PLN)
Gain on sale of impaired receivables	241	782
Gain on disposal of fixed assets	721	3,716
Net foreign exchange gains losses	(479)	(1,199)
	483	**3,299**

13. Finance income and finance costs

Finance income

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	(PLN)	(PLN)
Interest income on cash and cash equivalents	3,939	2,191
Amortization of held to maturity investments	3,470	1,751
Fair value gains on open forward contracts hedging commercial exposures (Note 9)	119	2,443
Other finance income	-	787
	7,528	**7,172**

Finance costs

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	(PLN)	(PLN)
Fees charged on bank loans	-	(5,741)
Amortization of finance lease liability	(164)	(213)
Interest expense and amortization of other payables	-	(14)
Amortization of provisions	(33)	(33)
Fair value gain / (loss) on equity securities	-	(881)
Net foreign exchange losses	(408)	(87)
Ineffective cash flow hedges	(14)	-
Other finance costs	(4)	(4)
	(623)	**(6,973)**

14. Corporate income tax

	Six-month period ended June 30, 2011	Six-month period ended June 30, 2010
	(PLN)	(PLN)
Current income tax	(259)	(158)
Adjustment in respect of current income tax for the year 2003 (Note 4)	(34,183)	-
Penalty interests relating to current income tax for the year 2003 (Note 4)	(24,142)	-
Deferred income tax benefit / (charge), net	2,602	(10,172)
Income tax charge	**(55,982)**	**(10,330)**

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, 2010 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 2011 budget and 2011-2015 long term business plan. 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 June 30, 2011 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:

	June 30, 2011 (PLN)	December 31, 2010 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	76,001	74,596
- Deferred income tax assets to be recovered within 12 months	25,700	28,072
	101,701	102,668
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	15,151	16,390
- Deferred income tax liabilities to be recovered within 12 months	31,308	33,516
	46,459	49,906
Deferred income tax assets, net	**55,242**	**52,762**

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

	June 30, 2011 (PLN)	December 31, 2010 (PLN)
Deferred income tax assets:		
- Tax losses	61,461	78,499
- Accrued expenses	17,267	14,044
- Impairment provisions for receivables	3,146	3,057
- Depreciation and impairment	18,406	5,884
- Forward contracts	161	-
- Other	1,260	1,184
	101,701	102,668
Deferred income tax liabilities:		
- Depreciation and impairment	32,397	34,301
- Accrued revenue	8,851	11,304
- Interest	821	805
- Forward contract	21	63
- Other	4,369	3,433
	46,459	49,906
Deferred income tax assets, net	**55,242**	**52,762**

The deferred income tax recognized in equity as at June 30, 2011 in the amount of PLN 23 (PLN 391 as at December 31, 2010) 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 June 30, 2011, the Netia Group had total deductible temporary differences of PLN 137,736 and unutilised tax loss carry-forwards of PLN 334,532 (total potential deferred income tax asset of PLN 89,731).

The Netia Group did not recognize deferred income tax assets of PLN 2,101 relating to tax losses of PLN 11,056 of the 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 June 30, 2011 will expire in the following years: PLN 18 in 2011, PLN 3,578 in 2012, PLN 2,921 in 2013, PLN 2,996 in 2014 and PLN 1,543 in 2015.

Furthermore, due to the lack of conclusive evidence of sufficient future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 32,388, relating to deductible temporary differences of PLN 170,463 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	161,305	30,648
Deferred income	9,158	1,740
	170,463	**32,388**

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.

15. Dividends per share

No dividends have been proposed or paid in respect to the financial year ended December 31, 2010.

(All amounts in thousands, except as otherwise stated)

In accordance with the approved distribution policy, the Management Board proposed and the shareholders granted (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 "Program"). The Annual General Meeting of the Company assigned the total amount of up to PLN 350,000 for the execution of the 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 82,968 shall be utilized from the supplementary capitals created out of profits in the previous years. Any specific buy-back proposal must be accepted by the Supervisory Board prior to the implementation. The shareholders' authorization to start the share buy-back process is valid for 12 months. The Netia Group is currently involved in certain acquisition projects and the Management Board is monitoring progress on these projects in deciding when to propose share buy-backs, in what amounts and at what prices, to the Supervisory Board.

Netia's distributable reserves are disclosed in Note 10.

16. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Six-month period ended June 30, 2011 (PLN)	Six-month period ended June, 2010 (PLN)
Receivables	(30,239)	1,012
Inventories	4,505	(2,830)
Prepaid expenses	6,120	(31,169)
Provisions, accruals and other payables	12,920	(8,118)
Deferred income	11,979	10,467
	5,285	**(30,638)**
Out of which:		
Change in long -term position	*901*	*(4,634)*

Supplemental disclosures to operating activities:

	Six-month period ended June 30, 2011 (PLN)	Six-month period ended June, 2010 (PLN)
Income taxes paid	(100)	(182)
Interest received	6,931	2,855

17. The Management Board and Supervisory Board

Management Board

As at June 30, 2011 and December 31, 2010 the Company's Management Board consisted of the following members:
- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Grzegorz Esz,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

As at June 30, 2011 and December 31, 2010 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.

18. Related party transactions

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

As at December 31, 2010, the total number of options granted to members of the Company's Management Board under the 2003 Plan, was 40,771,814 of which 35,838,564 had vested as of that date. During the six-month period ended June 30, 2011 the members of the Company's Management Board exercised 2,950,500 options under the 2003 Plan. During the six-month period ended June 30, 2011 the members of the Company's Management Board were granted a further 1,725,000 options under the New Plan, none of which had vested. Strike prices for the options granted to the Management Board range between PLN 3.50 and 8.25 per share. The market price of the Company's shares at June 30, 2011 was PLN 5.76 per share.

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

Options	**Six-month period ended June 30, 2011**	**Six-month period ended June, 2010**
At the beginning of the period	40,771,814	40,771,814
Granted	1,725,000	-
Exercised	(2,950,500)	-
At the end of the period	**39,546,314**	**40,771,814**

As at June 30, 2011 Mr. Mirosław Godlewski - the Company's President of the Management Board - held 12,775,000 options, out of which 12,200,000 had vested as at June 30, 2011. As at December 31, 2010 Mr. Mirosław Godlewski held 13,334,000 options, out of which 13,334,000 had vested as at December 31, 2010.

As at June 30, 2011 Mr. Jonathan Eastick - a member of the Company's Management Board - held 10,359,314 options, out of which 10,071,814 had vested as at June 30, 2011. As at December 31, 2010 Mr. Jonathan Eastick held 10,938,314 options, out of which 10,938,314 had vested as at December 31, 2010.

As at June 30, 2011 Mr. Grzegorz Esz - a member of the Company's Management Board - held 4,454,000 options, out of which 2,233,250 had vested as at June 30, 2011. As at December 31, 2010 Mr. Grzegorz Esz held 4,166,500 options, out of which 1,433,250 had vested as at December 31, 2010.

As at June 30, 2011 Mr. Piotr Nesterowicz - a member of the Company's Management - held 6,954,000 options, out of which 6,666,500 had vested as at June 30, 2011. As at December 31, 2010 Mr. Piotr Nesterowicz held 6,666,500 options, out of which 4,466,500 had vested as at December 31, 2010.

As at June 30, 2011 Mr. Tom Ruhan - a member of the Company's Management Board - held 5,004,000 options, out of which 4,716,500 had vested as at June 30, 2011. As at December 31, 2010 Mr. Tom Ruhan - held 5,666,500 options, out of which 5,666,500 had vested as at December 31, 2010.

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

As at June 30, 2011 and December 31, 2010 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 393,716 and 10,000 shares of the Company, respectively.

As at June 30, 2011 and December 31, 2010 Mr. Tom Ruhan – a member of the Company's Management Board – held 592,379 and 253,593 shares of the Company, respectively.

As at June 30, 2011 and December 31, 2010, Mr. Jonathan Eastick – a member of the Company's Management Board – held 350,000 and 50,000 shares of the Company, respectively.

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

As at June 30, 2011 and December 31, 2010, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 40,000 shares of the Company.

As at June 30, 2011 and December 31, 2010, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 6,000 shares of the Company.

Restricted Stock Units (not in thousands)

As at June 30, 2011 and December 31, 2010 the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 520,000. 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 RSU recorded in the six-month period ended June 30, 2011 amounted to PLN 735 thousands (PLN 233 thousands in the six-month period ended June 30, 2010).

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the six-month periods ended June 30, 2011 and 2010 amounted to PLN 3,587 and PLN 3,147, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 895 and PLN 3,411 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the six-month periods ended June 30, 2011 and 2010 amounted to PLN 297 and PLN 662, respectively. These amounts were paid to certain employees 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 six-month periods ended June 30, 2011 and 2010 amounted to PLN 420 and PLN 410, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 93 and PLN 141 during the six-month periods ended June 30, 2011 and 2010, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the six-month periods ended June 30, 2011 and 2010, 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.

19. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 36,930 as at June 30, 2011 and PLN 12,249 as at December 31, 2010 of which, PLN 4,017 and PLN 1,620 respectively, related to the planned acquisition of intangible assets.

20. 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 December 31, 2009. The President of UKE refused to award TP SA with a subsidy towards costs of services provided by TP SA in 2006, being a part of universal service. Following a complaint by TP SA the Court repealed the President of UKE decisions. The President of UKE and KIGEiT filed cassation appeals against this judgement. The appeals were dismissed by the Supreme Administrative Court and the case was remanded to UKE for reconsideration. The total amount claimed by TP SA on all applications for 2006-2009 inclusive was PLN 803,653.

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

for a total amount of PLN 66,994.

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. Netia has received no such decision as at the date of these financial statements.

Based on Management's best estimates of Netia's revenue market share in the years 2006 – 2009 and the decision of the President of UKE awarding TP SA 66,994 in USO subsidies, Netia has made a reserve of 2,380 for potential USO payments in the financial statements for the six-month period ending June 30, 2011. Nevertheless Management continues to believe that such payments to TP SA are unjustified and notes that KIGEiT has appealed the Regulator's decision on behalf of its member operators, including Netia. Furthermore, TP SA has also appealed the decision of the President of UKE.

Should KIGEiT prevail in its appeals, Netia's liability may ultimately be reduced to zero whereas should TP SA prevail in its appeal, the USO liability in respect to 2006 – 2009 could still rise materially above the amount provided to date.

On the basis of the 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 Netia Group amounts to approximately PLN 27,000 for the period from 2006 until 2009 inclusive as follows:

2006	4,500
2007	7,000
2008	7,000
2009	8,500
	27,000

The Management has not made USO provisions in respect to 2010 or 2011 as the President of UKE has not published information as to the size of TP SA's claim in respect to year 2010, and the deadline to file an application for awarding subsidy towards incurred costs of USO in respect to year 2011 has not yet lapsed. Without information provided by the Regulator as to the size of subsidy claimed by TP SA, Management are of the opinion that it is not possible to make a reliable estimate the size of any potential liability.

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.

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 the Polish regulator issued a decision reducing the initial milestones. The milestones established for the year 2011 regarding population coverage were achieved. However it could not be assured that the territorial coverage requirements will be performed. 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 issue is not rectified. 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 Director 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 overpaid tax 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 (see Note 4).

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

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.

21. Subsequent events

Restricted Stock Units (not in thousands)

In accordance with rules of remunerating the Supervisory Board Members approved by the Extraordinary General Shareholders Meeting on July 26, 2010, on July 27, 2011 each independent Supervisory Board Member received an annual grant of 15,000 Restricted Stock Units ("RSU"). One third of each grant vests 12, 24 and 36 months after the grant date. One RSU corresponds to one ordinary share in the

Company having a value equal to the market price of the Company's shares. Accordingly, the total number of RSUs outstanding as at the date of these financial statements is 640,000.

Tax decision

On August 3, 2011 the Company filed a cassation claim to the Supreme Administrative Court in relation to the judgment of the Voivodship Administrative Court ("WSA") in Warsaw announced on March 15, 2011. For details please refer to Note 4.