2011

Quarterly Financial Report

Containing:

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

www.investor.netia.pl

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 30 September 2011 and the related interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity, interim condensed consolidated statement of cash flows for the 9 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 9 months period ended September 30, 2011 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2011 of PLN 4,4112 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, 2 November 2011

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

Index to the interim condensed consolidated financial statements

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

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2011 (PLN)	December 31, 2010 (PLN)	Convenience Translation September 30, 2011 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,462,726	1,475,682	331,594
Intangible assets	7	366,484	389,444	83,080
Investment property	8	25,682	45,084	5,822
Deferred income tax assets	14	43,563	52,762	9,876
Available for sale financial assets		115	10	26
Long term receivables		217	217	49
Prepaid expenses and accrued income		9,545	10,508	2,164
Total non-current assets		**1,908,332**	**1,973,707**	**432,611**
Current assets				
Inventories		5,958	11,393	1,351
Trade and other receivables		167,243	139,691	37,913
Tax Office receivables	4	-	58,325	-
Current income tax receivables		47	120	11
Prepaid expenses and accrued income		25,659	37,876	5,817
Derivative financial instruments	9	7,188	117	1,629
Financial assets at fair value through profit and loss		11	1	2
Held to maturity investments	9	216,259	171,616	49,025
Restricted cash		2,123	2,123	481
Cash and cash equivalents		217,399	173,600	49,283
Total current assets		**641,887**	**594,862**	**145,512**
Total assets		**2,550,219**	**2,568,569**	**578,123**

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
November 2, 2011

(All amounts in thousands, except as otherwise stated)

	Note	September 30, 2011 (PLN)	December 31, 2010 (PLN)	Convenience Translation September 30, 2011 (EUR)
EQUITY				
Share capital	10	391,061	389,459	88,652
Treasury shares	4	(24,738)	-	(5,608)
Supplementary capital		1,867,079	1,599,299	423,259
Retained earnings		16,748	269,258	3,797
Other components of equity		43,871	39,530	9,945
Total equity		**2,294,021**	**2,297,546**	**520,045**
LIABILITIES				
Non-current liabilities				
Provisions		773	988	175
Deferred income		20,399	21,619	4,624
Other long term liabilities		7,333	9,264	1,662
Total non-current liabilities		**28,505**	**31,871**	**6,461**
Current liabilities				
Trade and other payables		180,633	206,351	40,948
Derivative financial instruments	9	-	849	-
Borrowings	11	100	31	23
Other financial liabilities		1,994	-	453
Current income tax liabilities		1	1	-
Provisions	4	3,719	1,855	843
Deferred income		41,246	30,065	9,350
Total current liabilities		**227,693**	**239,152**	**51,617**
Total liabilities		**256,198**	**271,023**	**58,078**
Total equity and liabilities		**2,550,219**	**2,568,569**	**578,123**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2011	Nine-month period ended September 30, 2011	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010	Convenience Translation Nine-month period ended September 30, 2011
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		**394,616**	**1,192,085**	**394,465**	**1,175,142**	**270,241**
Cost of sales		(269,946)	(812,504)	(278,595)	(801,026)	(184,192)
Gross profit		**124,670**	**379,581**	**115,870**	**374,116**	**86,049**
Selling and distribution costs		(70,841)	(218,248)	(78,062)	(233,123)	(49,476)
General and administration costs		(31,104)	(106,568)	(35,328)	(107,395)	(24,159)
Other income		3,107	10,523	6,961	13,365	2,385
Other expenses		(2)	(998)	-	(782)	(226)
Other gains, net	12	1,732	2,215	4,938	8,237	502
Operating profit		**27,562**	**66,505**	**14,379**	**54,418**	**15,075**
Finance income	13	7,493	14,609	1,284	8,701	3,312
Finance costs	13	(91)	(302)	(1,308)	(8,526)	(68)
Profit before income tax		**34,964**	**80,812**	**14,355**	**54,593**	**18,319**
Income tax charge	14	(10,308)	(66,290)	(1,945)	(12,275)	(15,028)
Profit		**24,656**	**14,522**	**12,410**	**42,318**	**3,291**
Profit attributable to:						
Owners of the Company		24,656	14,522	12,410	42,318	3,291
Non-controlling interest		-	-	-	-	-
		24,656	**14,522**	**12,410**	**42,318**	**3,291**
Earnings per share (expressed in PLN per share)						
- basic		0.06	0.04	0.03	0.11	0,01
- diluted		0.06	0.04	0.03	0.11	0,01

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2011	Nine-month period ended September 30, 2011	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010	Convenience Translation Nine-month period ended September 30, 2011
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit		**24,656**	**14,522**	**12,410**	**42,318**	**3,291**
Cash flow hedges	9	6,353	6,099	(1,400)	1,865	1,383
Income tax relating to components of other comprehensive income		(1,138)	(1,115)	262	(378)	(253)
Other comprehensive income		**5,215**	**4,984**	**(1,138)**	**1,487**	**1,130**
TOTAL COMPREHENSIVE INCOME		**29,871**	**19,506**	**11,272**	**43,805**	**4,421**
Total comprehensive income attributable to:						
Owners of the Company		29,871	19,506	11,272	43,805	4,421
Non-controlling interest		-	-	-	-	-
		29,871	**19,506**	**11,272**	**43,805**	**4,421**

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the nine-month period ended September 30, 2011

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Treasury shares	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2011		**389,459**	**-**	**1,356,678**	**242,621**	**269,258**	**39,798**	**(268)**	**2,297,546**
Profit for the period		-	-	-	-	14,522	-	-	14,522
Other comprehensive income		-	-	-	-	-	-	4,984	4,984
Total comprehensive income		-	-	-	-	14,522	-	4,984	19,506
Transfer of Netia's 2010 profit		-	-	-	267,032	(267,032)	-	-	-
Repurchase of own shares		-	(24,738)	-	-	-	-	-	(24,738)
Employee share option scheme:									
- value of services provided	10	-	-	-	-	-	1,748	-	1,748
- issuance of series K shares	10	1,602	-	789	-	-	(2,391)	-	-
Cost of issuance		-	-	(41)	-	-	-	-	(41)
Balance as at September 30, 2011		**391,061**	**(24,738)**	**1,357,426**	**509,653**	**16,748**	**39,155**	**4,716**	**2,294,021**

	Note	Share capital	Supplementary capital: Share premium	Supplementary capital: 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		-	-	-	42,318	-	-	42,318
Other comprehensive income		-	-	-	-	-	1,487	1,487
Total comprehensive income		-	-	-	42,318	-	1,487	43,805
Transfer of Netia's 2009 profit		-	-	242,621	(242,621)	-	-	-
Employee share option scheme:								
- value of services provided	10	-	-	-	-	5,160	-	5,160
- issuance of series K shares	10	61	15	-	-	(76)	-	-
Cost of issuance		-	(1)	-	-	-	-	(1)
Balance as at September 30, 2010		**389,338**	**1,356,666**	**242,621**	**47,681**	**39,285**	**(450)**	**2,075,141**

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)	Convenience Translation Nine-month period ended September 30, 2011 (EUR)
Cash flows from operating activities:				
Profit		**14,522**	**42,318**	**3,291**
Adjustments for:				
Depreciation and amortization	5, 7, 8	226,928	224,169	51,444
Impairment charges for specific individual assets	5	958	782	217
Reversal of impairment charges		(1,007)	(308)	(228)
Deferred income tax charge	14	7,628	12,777	1,729
Interest expense and fees charged on bank loans		-	5,741	-
Other interest earned		(5,327)	(2,702)	(1,208)
Share-based compensation	10	2,526	5,684	573
Fair value gains on financial assets / liabilities		(10)	(697)	(2)
Fair value gains on derivative financial instruments	9	(1,999)	(1,255)	(453)
Foreign exchange (gains)/losses		(790)	815	(179)
Gain on disposal of fixed assets		(2,063)	(8,009)	(468)
Loss on sale of investments		-	881	-
Changes in working capital	16	9,800	(18,577)	2,221
Tax expense relating to prior periods	4	58,325	(58,325)	13,222
Net cash provided by operating activities		**309,491**	**203,294**	**70,159**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(197,553)	(143,991)	(44,784)
Purchase of operational networks	6	(2,680)	(818)	(608)
Proceeds from sale of fixed assets		7,420	23,770	1,682
Purchase of subsidiaries, net of cash received	6	(8,412)	(8,483)	(1,907)
Purchase of treasury bonds / notes	9	(204,031)	(144,306)	(46,253)
Repurchase of treasury bonds / notes	9	165,000	50,000	37,405
Sale of investments		-	3,395	-
Net cash used in investing activities		**(240,256)**	**(220,433)**	**(54,465)**
Cash flows from financing activities:				
Repurchase of own shares		(22,744)	-	(5,156)
Finance lease payments		(3,344)	(4,362)	(757)
Loan payments		(138)	(347)	(31)
Payments of fees relating to bank loans		-	(1,113)	-
Net cash used in financing activities		**(26,226)**	**(5,822)**	**(5,944)**
Net change in cash and cash equivalents		**43,009**	**(22,961)**	**9,750**
Exchange gains/(losses) on cash and cash equivalents		**790**	**(815)**	**179**
Cash and cash equivalents at beginning of period		173,600	181,203	39,354
Cash and cash equivalents at end of period		**217,399**	**157,427**	**49,283**

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

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2011 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 2, 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 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 30 such operators with a total of 113,841 (not in thousands) active customers. Additionally, the Netia Group has acquired 10,723(not in thousands) customers and local access networks from other Ethernet operators.

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

Netia 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.).

On September 29, 2011, Netia announced that it had signed conditional share purchase agreements to acquire Telefonia DIALOG S.A. and Crowley Data Poland Sp. z o.o., two other Polish alternative operators. If these acquisitions are accepted by the Polish Competition Office, the Netia Group will increase materially in size.

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

Going concern

As at September 30, 2011, the Group's equity amounted to PLN 2,294,021 and the Netia Group had working capital of PLN 414,194 inclusive of cash available of PLN 217,399 and PLN 220,000 in nominal value of treasury notes. Furthermore, Netia's operations were free cash flow generative in 2010 and the nine-month period ended September 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 closure of the two major market consolidating acquisitions announced on September 29, 2011 would result in the Netia Group moving into a net debt position with the effect that liquidity ratios would become significantly tighter.

2. Summary of significant accounting policies

Basis of preparation

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2011 include comparative information for the nine-month period ended September 30, 2010 and as at December 31, 2010 were subject to review by an independent auditor. The interim condensed consolidated statement of comprehensive income and notes to it also include information for the three-month periods ended respectively September 30, 2011 and September 30, 2010, which were not subject to review or audit by independent auditors.

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of November 2, 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 September 30, 2011 of PLN 4,4112 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 nine-month period ended September 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:

(All amounts in thousands, except as otherwise stated)

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	(26,113)	26,113
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2012	(180)	180
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2012	(5,465)	5,465
Machinery and equipment	- useful lives of certain assets were extended until the end of 2012	(395)	395
Total impact		**(32,153)**	**32,153**

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.

- 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.

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

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 nine-month and the three-month periods ended September 30, 2011 and 2010, respectively:

(All amounts in thousands, except as otherwise stated)

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

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Nine-month period ended September 30, 2010							
Revenue from external customers	**614,310**	**136,427**	**246,693**	**172,539**	**1,169,969**	**5,173**	**1,175,142**
Adjusted EBITDA	**97,509**	**42,374**	**130,488**	**81,526**	**351,897**	**(80,139)**	**271,758**
Restructuring cost	-	-	-	-	-	(469)	(469)
Profit on sale of P4 Transmission assets	-	-	-	7,298	7,298	-	7,298
EBITDA	**97,509**	**42,374**	**130,488**	**88,824**	**359,195**	**(80,608)**	**278,587**
Depreciation and Amortization	(54,877)	(37,943)	(72,532)	(32,813)	(198,165)	(26,004)	(224,169)
Operating profit / (loss)	42,632	4,431	57,956	56,011	161,030	(106,612)	54,418
Finance income, net	-	-	-	-	-	175	175
Income tax charge	-	-	-	-	-	(12,275)	(12,275)
Profit / (Loss)	**42,632**	**4,431**	**57,956**	**56,011**	**161,030**	**(118,712)**	**42,318**
Capital expenditure	47,626	11,439	37,320	12,619	109,004	16,954	125,958

(All amounts in thousands, except as otherwise stated)

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

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended September 30, 2010							
Revenue from external customers	**203,194**	**46,280**	**81,849**	**61,089**	**392,412**	**2,053**	**394,465**
Adjusted EBITDA	**26,683**	**13,128**	**42,827**	**25,847**	**108,485**	**(22,959)**	**85,526**
Restructuring cost	-	-	-	-	-	(169)	(169)
Profit on sale of P4 Transmission assets	-	-	-	4,433	4,433	-	4,433
EBITDA	**26,683**	**13,128**	**42,827**	**30,280**	**112,918**	**(23,128)**	**89,790**
Depreciation and Amortization	(18,564)	(12,836)	(24,577)	(11,060)	(67,037)	(8,374)	(75,411)
Operating profit / (loss)	8,119	292	18,250	19,220	45,881	(31,502)	14,379
Finance costs, net	-	-	-	-	-	(24)	(24)
Income tax charge	-	-	-	-	-	(1,945)	(1,945)
Profit / (Loss)	**8,119**	**292**	**18,250**	**19,220**	**45,881**	**(33,471)**	**12,410**
Capital expenditure	15,176	3,585	13,976	5,653	38,390	5,652	44,042

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

	Three -month period ended September 30, 2011	**Nine -month period ended September 30, 2011**	**Three -month period ended September 30, 2010**	**Nine-month period ended September 30, 2010**
	(PLN)	(PLN)	(PLN)	(PLN)
EBIT for reportable segments	60,730	177,032	45,881	161,030
Radio communication segment	(110)	(114)	73	246
General fixed costs (incl. administration, IT, professional services)	(24,650)	(85,386)	(25,485)	(79,803)
Reorganization and restructuring costs	(38)	(273)	(169)	(469)
Other operating income/(expenses)	1,492	2,846	2,352	(930)
Depreciation and amortization of unallocated assets	(9,862)	(27,600)	(8,273)	(25,656)
Finance income /(costs), net	7,402	14,307	(24)	175
Income tax charge	(10,308)	(66,290)	(1,945)	(12,275)
Profit	**24,656**	**14,522**	**12,410**	**42,318**

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 the 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 individual decisions from the President of UKE as to its shares in 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 awarded total subsidy.

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

Moreover, in June 2011 TP SA filed an application for subsidy towards costs of universal service provision in 2010 amounting to PLN 269,436. Due to significant uncertainty as to how the President of UKE may evaluate the TPSA filing in respect to 2010 and the fact that TPSA is yet to make a filing in respect to 2011, Management is unable to make a provision for USO liability in respect to 2010-11.

Execution of a conditional agreement creating an obligation to acquire Telefonia DIALOG S.A. from KGHM Miedź S.A.

On September 29, 2011 Netia and KGHM Polska Miedź S.A. ("KGHM") executed a conditional agreement creating an obligation for Netia to buy and KGHM to sell 19,598,000 shares (not in thousands) in Telefonia DIALOG S.A. with its registered seat in Wrocław ("Dialog"), constituting 100% of Dialog's share capital (the "Dialog Agreement").

The Dialog Agreement sets out the terms and conditions negotiated by the parties for Netia's acquisition of the shares from KGHM. The shares will be acquired on the basis of a final agreement to be executed once Netia obtains the consent of the antimonopoly authority for the acquisition. Under the Dialog Agreement the purchase price for the shares will amount to PLN 944,000. The purchase price for the shares includes the enterprise value of PLN 890,000 and the equivalent of Dialog's cash balance of approximately PLN 54,000 as at May 31, 2011 (the "locked-box" date). The price will be adjusted by the values specified in the agreement based on the "locked-box" price mechanism: (i) decreased by payments made by Dialog in favour of KGHM in the period between May 31, 2011 and the closing date; and (ii) increased by the interest accruing on the price at the rate of 4.76% per annum from May 31, 2011 until the transaction closing date. The Dialog Agreement will be terminated if antimonopoly authority consent is not obtained by June 30, 2012, unless the parties resolve otherwise.

The Dialog Agreement contains representations and warranties of KGHM customary for such types of transactions, and specifically regarding the title to the shares and the condition of Dialog as well as the liability of KGHM for a breach of such warranties. The terms of the Dialog Agreement comply with market practice and are in line with the terms generally applied in such types of agreements.

Dialog is a provider of fixed-line telephony and uses both its own and leased telecommunication networks, mostly in the region of the Lower Silesia voivodship, including fixed-line telephony, broadband internet access and television as well as mobile telephony and mobile internet access based on an MVNO agreement with a mobile network operator. In consequence of the acquisition of the shares, Netia will become an indirect owner of shares in two material subsidiaries of Dialog: Petrotel Sp. z o.o. - a provider of fixed-line telephony mostly in the city of Płock; and Avista Media Sp. z o.o. - a customer service centre.

Execution of a conditional agreement creating an obligation to acquire Crowley Data Poland Sp. z o.o. from Crowley Data, L.L.C. and Crowley Poland, L.L.C.

On September 29, 2011, Netia, Crowley Data, L.L.C. and Crowley Poland, L.L.C. (the "Sellers") executed a conditional agreement creating an obligation for the sale to Netia of 197,862 shares (not in thousands) in Crowley Data Poland Sp. z o.o. with its registered seat in Warsaw ("Crowley"), such shares (the "Shares") constituting 100% of the Crowley's share capital (the "Crowley Agreement").

Under the Crowley Agreement the total purchase price for the enterprise of USD 31,800 shall comprise the full repayment by Netia of a shareholder loan advanced by the Sellers to Crowley and the balancing amount to be paid for 100 % of the shares. The price for the Shares will be additionally adjusted by the differences between Crowley's balance sheet existing on December 31, 2010 and the transaction closing date. On September 16, 2011, Netia executed a foreign exchange risk hedging transaction at the USD/PLN exchange rate of PLN 3.14 per USD 1.00 to mitigate the foreign currency risk associated with the Crowley Agreement. Consequently, Netia expects to close the transaction for a total sum of approximately PLN 100,000 (including the repayment of the loan extended to the Crowley) regardless of the exchange rate differences existing today and on the transaction closing date.

The closing of the transaction depends on the satisfaction of a condition precedent that Netia obtains consent from the antimonopoly authority for the merger within six months from the date of the execution of the agreement with provision for such deadline to be extended to nine months.

The Crowley Agreement contains representations and warranties of the Sellers customary for such types of transactions, and specifically regarding the title to shares and the condition of Crowley's enterprise as well as the Seller's liability for a breach of such warranties. The terms of the Crowley Agreement comply with the market practice and are in line with the terms generally applied in such types of agreements.

Crowley renders such telecommunications services as data transmission, voice services and Internet access for business customers

The commencement of the Share Buy-Back Program (see also Note15)

In the performance of Resolution No. 18 adopted by the Annual General Meeting of the Company on 2 June 2011 the Management decided, after obtaining the relevant consent from the Supervisory Board of the Company, to commence a share buy-back program ("the Program") on August 17, 2011. The Company allocated an amount of up to PLN 60,000 for the Program to repurchase a maximum of 2.5% of the Company's outstanding share capital. The Program shall last until all the Company's shares authorized to be purchased in the course of the Program are acquired by the Company or until all the funds assigned to the Program are utilized, however not longer than until 2 June 2013. As of September 30, 2011 the Company had repurchased 5,009,466 (not in thousands) own shares for PLN 24,738.

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

(All amounts in thousands, except as otherwise stated)

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	5,127	2,026,040	1,895,760	110,263	123,778	5,993	107,791	4,320,278
Additions	685	-	125	325	389	656	68	109,478	111,726
Subsidiary purchased	-	-	-	-	537	-	29	-	566
Purchase of operational networks	-	-	340	45	-	7	-	-	392
Transfers	8,950	-	32,575	82,903	3,952	1,030	143	(129,553)	-
Disposals	(2)	(114)	(55)	(44,642)	(2,699)	(56,810)	(3,646)	(218)	(108,186)
Other movements	(254)	-	225	(1,070)	1,076	(66)	-	-	(89)
Gross book value as at September 30, 2010	54,905	5,013	2,059,250	1,933,321	113,518	68,595	2,587	87,498	4,324,687
Accumulated depreciation as at January 1, 2010	20,203	-	794,051	910,493	64,420	100,844	3,668	-	1,893,679
Depreciation expense	2,548	-	55,513	104,442	5,056	4,623	457	-	172,639
Disposals	(2)	-	(20)	(9,173)	(2,409)	(47,318)	(2,465)	-	(61,387)
Other movements	(46)	-	61	(679)	753	(58)	5	-	36
Accumulated depreciation as at September 30, 2010	22,703	-	849,605	1,005,083	67,820	58,091	1,665	-	2,004,967
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	-	-	-	-	-	-	-	(308)	(308)
Transfers	-	-	22	408	43	-	-	(473)	-
Disposals	-	(46)	(17)	(88)	(203)	(9,435)	(9)	(97)	(9,895)
Other movements	(8)	-	8	(285)	337	(52)	-	-	-
Accumulated impairment as at September 30, 2010	7,333	1,079	631,432	368,675	18,581	646	21	2,684	1,030,451
Net book value as at January 1, 2010	17,982	4,002	600,570	616,627	27,439	12,801	2,295	105,011	1,386,727
Net book value as at September 30, 2010	**24,869**	**3,934**	**578,213**	**559,563**	**27,117**	**9,858**	**901**	**84,814**	**1,289,269**

(All amounts in thousands, except as otherwise stated)

6. Acquisitions

<u>*Current period*</u>

Acquisition of Ethernet operators

<u>Netpro Sp. z o.o.</u>

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 1,192,176 and profit would have been PLN 15,997.

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	**Provisional fair value**
	(PLN)	(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)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

Saite Sp. z o.o.

On June 28, 2011, 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 total price for all Saite shares has been set at PLN 2,331.

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 1,192,168 and profit would have been PLN 15,974.

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	2,331
Provisional fair value of net assets acquired	(699)
Goodwill	**1,632**

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	-	598
Goodwill	2,053	-
Property, plant and equipment	270	270
Intangible assets	20	20
Trade and other receivables	32	32
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	**2,268**	**699**

The fair value of the trade receivables amounts to PLN 21 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	2,331
Total consideration	**2,331**

	(PLN)
Total purchase consideration settled in cash	(2,331)
Cash and cash equivalents in the subsidiary acquired	67
Cash outflow on acquisition	**(2,264)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

E-IMG Internet Multimedia Group Sp. z o.o.

On August 23, 2011, Internetia, the Company's subsidiary, purchased 100% of the share capital of E-IMG Internet Multimedia Group Sp. z o.o. ("E-IMG Internet"), an internet service provider offering broadband Internet access to residential clients. The total price for all E-IMG Internet shares has been set at PLN 2,764.

The Netia Group accounted for the acquisition of E-IMG Internet using the purchase method and started consolidating the financial statements of E-IMG Internet as of August 31, 2011.

If the acquisition had occurred on January 1, 2011, the Netia Group's revenue would have amounted to PLN 1,192,327 and profit would have been PLN 16,008.

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	2,764
Provisional fair value of net assets acquired	(845)
Goodwill	**1,919**

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	-	955
Property, plant and equipment	67	67
Trade receivables	34	34
Cash and cash equivalents	73	73
Trade liabilities	(24)	(24)
Tax and other liabilities	(79)	(79)
Deferred income tax, net	-	(181)
Net assets acquired	**71**	**845**

The fair value of the trade receivables amounts to PLN 34 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	2,764
Total consideration	**2,764**

	(PLN)
Total purchase consideration settled in cash	(2,764)
Cash and cash equivalents in the subsidiary acquired	73
Cash outflow on acquisition	**(2,691)**

The above investments are of a long-term nature.

ZAX.EU Sp. z o.o.

On September 30, 2011, Internetia, the Company's subsidiary, purchased 100% of the share capital of ZAX.EU Sp. z o.o. ("ZAX.EU"), an internet service provider offering broadband Internet access to residential clients. The total price for all ZAX.EU shares has been set at PLN 2,918.

The Netia Group accounted for the acquisition of ZAX.EU Internet using the purchase method and started consolidating the financial statements of ZAX.EU as of September 30, 2011.

(All amounts in thousands, except as otherwise stated)

If the acquisition had occurred on January 1, 2011, the Netia Group's revenue would have amounted to PLN 1,193,220 and profit would have been PLN 15,573.

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	2,918
Provisional fair value of net assets acquired	(171)
Goodwill	**2,747**

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	-	686
Property, plant and equipment	112	112
Inventories	64	64
Trade receivables	103	103
Prepayments	13	13
Cash and cash equivalents	34	34
Borrowings	(100)	(100)
Trade liabilities	(191)	(191)
Tax and other liabilities	(403)	(403)
Deferred income	(17)	(17)
Deferred income tax, net	-	(130)
Net assets acquired	**(385)**	**171**

The fair value of the trade receivables amounts to PLN 103 and corresponds to their gross amount of PLN 225 decreased by a bad debt allowance of PLN 122.

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	2,918
Total consideration	**2,918**

	(PLN)
Total purchase consideration settled in cash	(2,918)
Cash and cash equivalents in the subsidiary acquired	34
Cash outflow on acquisition	**(2,884)**

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 2,680. 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 1,221, respectively. Total cash outflow relating to this acquisition till the date of these consolidated financial statements amounted to PLN 2,680. The goodwill of PLN 1,279 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:

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

(All amounts in thousands, except as otherwise stated)

7. Intangible assets (cont'd)

Comparative period:

			Licences				**Computer software costs**			
	Goodwill	**Trademark**	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2010	150,258	2,970	432,823	7,417	107,354	20,329	317,073	6,382	80,344	1,124,950
Additions	-	-	-	-	-	-	864	12,550	-	13,414
Subsidiary purchased	6,288	-	-	-	-	-	-	-	2,914	9,202
Purchase of operational networks	34	-	-	-	-	-	-	-	390	424
Transfers	-	-	-	-	-	-	12,838	(12,838)	-	-
Disposals	-	-	-	-	-	-	(22)	-	-	(22)
Other movements	-	-	-	-	-	-	92	-	-	92
Gross book value as at September 30, 2010	156,580	2,970	432,823	7,417	107,354	20,329	330,845	6,094	83,648	1,148,060
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	-	-	10,871	-	3,066	877	23,296	-	12,719	50,829
Disposals	-	-	-	-	-	-	(16)	-	-	(16)
Other movements	-	-	-	-	-	-	73	-	-	73
Accumulated amortization as at September 30, 2010	-	2,970	219,327	1,539	54,931	4,934	216,840	-	44,229	544,770
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 September 30, 2010	-	-	159,788	5,878	28,511	3,408	44,027	385	207	242,204
								-		
Net book value as at January 1, 2010	150,258	-	64,579	-	26,978	12,864	79,588	5,997	48,627	388,891
Net book value as at September 30, 2010	**156,580**	**-**	**53,708**	**-**	**23,912**	**11,987**	**69,978**	**5,709**	**39,212**	**361,086**

(All amounts in thousands, except as otherwise stated)

8. Investment property

	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Gross book value at the beginning of the period	60,768	59,952
Additions	366	325
Transfer to property, plant and equipment	(26,500)	-
Gross book value at the end of the period	34,634	60,277
Accumulated depreciation at the beginning of the period	(12,123)	(11,316)
Depreciation expense	(529)	(588)
Transfer to property, plant and equipment	5,417	-
Accumulated depreciation at the end of the period	(7,235)	(11,904)
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	**25,682**	**35,310**

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 gains on forward contracts recognized in the hedging reserve in equity on these contracts during the nine-month period ended September 30, 2011 amounted to PLN 2,639 (PLN 2,181 net of tax). During the nine-month period ended September 30, 2011, PLN 669 of net cash losses on closed forward contracts were capitalized and the ineffective portion of open and closed forward contracts of PLN 5 was recorded as finance costs.

On September 16, 2011, the Company entered into forward transactions to purchase USD in order to hedge foreign exchange risk in respect of planned purchase of the shares in Crowley Poland Sp. z o.o. (See Note 4). For these forward contracts hedge accounting was applied. Net fair value gains on forward contracts recognized in the hedging reserve in equity on these contracts during the nine-month period ended September 30, 2011 amounted to PLN 3,460 (PLN 2,803 net of tax).

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 nine-month period ended September 30, 2011, PLN 2,005 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	Hedged nominal amount	Fair value		
			Asset	Liability	Other comprehensive income
	(EUR)	(USD)	(PLN)	(PLN)	(PLN)
As at September 30, 2011					
Forward transactions related to equipment and construction contracts	2,680	2,660	2,086	-	2,639
Forward transactions related to commercial contracts	3,180	940	1,604	-	-
Forward transactions related to the shares purchase contract	-	29,992	3,498	-	3,460
As at September 30, 2010					
Forward transactions related to equipment and construction contracts	3,050	2,120	66	(463)	1,865
Forward transactions related to commercial contracts	5,020	1,280	65	(501)	-

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

		September 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	9,794
52-week treasury notes	August 10, 2011	-	-	10,000	9,764
52-week treasury notes	August 10, 2011	-	-	10,000	9,763
52-week treasury notes	August 10, 2011	-	-	10,000	9,765
52-week treasury notes	August 10, 2011	-	-	10,000	9,762
52-week treasury notes	August 31, 2011	-	-	10,000	9,743
52-week treasury notes	September 28, 2011	-	-	10,000	9,716
52-week treasury notes	September 28, 2011	-	-	15,000	14,580
52-week treasury notes	October 26, 2011	10,000	9,972	10,000	9,680
52-week treasury notes	February 1, 2012	40,000	39,407	-	-
52-week treasury notes	February 1, 2012	40,000	39,403	-	-
52-week treasury notes	February 1, 2012	50,000	49,270	-	-
52-week treasury notes	February 29, 2012	10,000	9,818	-	-
52-week treasury notes	February 29, 2012	10,000	9,817	-	-
52-week treasury notes	February 29, 2012	10,000	9,813	-	-
52-week treasury notes	March 28, 2012	10,000	9,786	-	-
52-week treasury notes	March 28, 2012	10,000	9,784	-	-
52-week treasury notes	March 28, 2012	10,000	9,778	-	-
52-week treasury notes	May 30, 2012	10,000	9,707	-	-
52-week treasury notes	May 30, 2012	10,000	9,704	-	-
		220,000	**216,259**	**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 nine-month period ended September 30, 2011 the Company issued 1,602,157 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 September 30, 2011 was 1,723,033 and their nominal value was PLN 1,723,033.

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 September 30, 2011, the Company's share capital consisted of 391,060,386 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.

Netia held 5,009,466 own treasury shares as at September 30, 2011, which will be redeemed in the future.

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 September 30, 2011, the distributable reserves of Netia S.A. amounted to PLN 526,570.

Stock options (not in thousands)

2003 Plan

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

	Nine-month period ended September 30, 2011		Nine-month period ended September 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	3.62	(4,943,435)	3.50	(210,000)
Forfeited / expired	6.54	(325,000)	5.61	(480,000)
At the end of the period	**6.10**	**47,977,001**	**5.86**	**53,606,373**

As at September 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 47,977,001 options were outstanding as at September 30, 2011 and 53,245,436 options were outstanding as at December 31, 2010. As at September 30, 2011 and December 31, 2010 the total number of outstanding vested options was 45,693,751 and 46,788,436, respectively. The vesting period for the options is up to three years from the date of grant. As at September 30, 2011, the weighted average remaining contractual life of the outstanding options was 15 months. 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 nine-month periods ended September 30, 2011 and 2010 amounted to PLN 949 thousands and PLN 5,160 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 nine-month period ended September 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 1,828,000 options to key employees. As at September 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 and limited to half of one series L share for one options exercised. The participant will not be required to pay the strike price ranging from PLN 5.23 to PLN 5.64. The fair value of these granted options was PLN 6,341 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 nine-month periods ended September 30, 2011 amounted to PLN 799 thousands.

	Nine-month period ended September 30, 2011		Nine-month period ended September 30, 2010	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	-	-	-	-
Granted	5.24	3,553,000	-	-
Forfeited/expired	5.24	(32,000)	-	-
At the end of the period	**5.24**	**3,521,000**	-	-

11. Borrowings

Undrawn Borrowing facilities

On 29 September 2011, Netia and Internetia Sp. z o.o. (the "Borrowers") executed a loan agreement (the "Agreement") with Rabobank Polska S.A. (the "Facility Agent") and BNP Paribas S.A., BRE Bank S.A., Raiffeisen Bank Polska S.A. and Raiffeisen Bank International AG (jointly with the Facility Agent, the "Lenders"), whereunder the Lenders agreed to extend to the Borrowers a term facility maturing in five years with a total of PLN 650,000, designated for the Company to acquire 19,598,000 (not in thousands) shares in Telefonia DIALOG S.A. with its registered seat in Wrocław ("Dialog"), constituting 100% of the share capital of Dialog, and a PLN 50,000 revolving facility for general operating purposes.

The loan accrues annual interest at the rate of 3M WIBOR or the 6M WIBOR (at the Company's choice) plus a margin established depending on the level of debt. The terms and conditions of the Agreement comply with market practice and are not different from the terms and conditional generally applied to such types of agreements.

To secure the Lender's claims under or related to the Agreement, the Borrowers agreed to establish in favour of the Lenders mortgages, financial and registered pledges and to make relevant representations on submission to enforcement, and to execute agreements on assignment as collateral security.

Outstanding Loans

As at September 30, 2011, the Netia Group had an outstanding loan of PLN 100 to the former owner of the Company's subsidiary ZAX.EU. The loan was drawn by the Company's newly acquired subsidiary ZAX.EU.

12. Other gains, net

	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)
Gain on sale of impaired receivables	586	1,691
Gain on disposal of fixed assets	2,167	8,096
Net foreign exchange losses	(538)	(1,550)
	2,215	**8,237**

13. Finance income and finance costs

Finance income

	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)
Interest income on cash and cash equivalents	6,391	3,329
Amortization of held to maturity investments	5,612	3,091
Fair value gains on open forward contracts hedging commercial exposures (see Note 9)	2,005	1,478
Net foreign exchange gains	551	-
Ineffective cash flow hedges (see Note 9)	-	22
Other finance income	50	781
	14,609	**8,701**

Finance costs

	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)
Fees charged on bank loans	-	(5,741)
Amortization of finance lease liability	(233)	(317)
Interest expense and amortization of other payables		(10)
Amortization of provisions	(52)	(72)
Fair value gain / (loss) on equity securities	(1)	(881)
Net foreign exchange losses		(1,008)
Excess of the amount of closed forward contracts over purchases made	-	(245)
Ineffective cash flow hedges	(6)	-
Other finance costs	(10)	(252)
	(302)	**(8,526)**

(All amounts in thousands, except as otherwise stated)

14. Corporate income tax

	Nine-month period ended September 30, 2011	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Current income tax (charge)/ benefit	(337)	503
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	(7,628)	(12,778)
Income tax charge	**(66,290)**	**(12,275)**

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 September 30, 2011 the Management upholds its assessment regarding future taxable profits and the recognition of deferred income tax.

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

	September 30, 2011	December 31, 2010
	(PLN)	(PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	21,449	74,596
- Deferred income tax assets to be recovered within 12 months	68,409	28,072
	89,858	102,668
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	11,805	16,390
- Deferred income tax liabilities to be recovered within 12 months	34,490	33,516
	46,295	49,906
Deferred income tax assets, net	**43,563**	**52,762**

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

	September 30, 2011	December 31, 2010
	(PLN)	(PLN)
Deferred income tax assets:		
- Tax losses	51,747	78,499
- Accrued expenses	17,143	14,044
- Impairment provisions for receivables	3,252	3,057
- Depreciation and impairment	17,426	5,884
- Other	290	1,184
	89,858	102,668
Deferred income tax liabilities:		
- Depreciation and impairment	31,727	34,301
- Accrued revenue	8,627	11,304
- Interest	525	805
- Forward contract	1,366	63
- Other	4,050	3,433
	46,295	49,906
Deferred income tax assets, net	**43,563**	**52,762**

The deferred income tax recognized in equity as at September 30, 2011 in the amount of PLN 1,115 (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 September 30, 2011, the Netia Group had net deductible temporary differences of PLN 128,892 and unutilised tax loss carry-forwards of PLN 290,546 (total potential deferred income tax asset of PLN 79,693).

The Netia Group did not recognize deferred income tax assets of PLN 3,458 relating to tax losses of PLN 18,200 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 September 30, 2011 will expire in the following years: PLN 10,196 in 2011, PLN 1,014 in 2012, PLN 2,921 in 2013, PLN 2,757 in 2014 and PLN 1,312 in 2015.

(All amounts in thousands, except as otherwise stated)

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 32,672, relating to deductible temporary differences of PLN 171,956 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	163,015	30,973
Deferred income	8,489	1,613
Other	452	86
	171,956	**32,672**

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.

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

The first shares buy-back program approved under the General Program began on August 17, 2011 (See note 4 - Significant one-off transactions recorded in the current interim period).

Netia's distributable reserves are disclosed in Note 10.

16. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)
Receivables	(27,300)	270
Inventories	5,504	(3,996)
Prepaid expenses	13,153	(32,194)
Restricted cash	-	207
Trade creditors, provisions, accruals and other payables	8,482	3,003
Deferred income	9,961	14,133
	9,800	**(18,577)**
Out of which:		
Change in long -term position	*(960)*	*(176)*

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2011 (PLN)	Nine-month period ended September 30, 2010 (PLN)
Income taxes paid	(112)	(215)
Interest received	12,558	4,548

17. The Management Board and Supervisory Board

Management Board

As at September 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 September 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 nine-month period ended September 30, 2011 the members of the Company's Management Board exercised 2,950,500 options under the 2003 Plan. During the nine-month period ended September 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 September 30, 2011 was PLN 4,95 per share.

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

Options	**Nine-month period ended September 30, 2011**	**Nine-month period ended September, 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 September 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 December 31, 2010 Mr. Mirosław Godlewski held 13,334,000 options, out of which 13,334,000 had vested.

As at September 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 December 31, 2010 Mr. Jonathan Eastick held 10,938,314 options, out of which 10,938,314 had vested.

As at September 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 December 31, 2010 Mr. Grzegorz Esz held 4,166,500 options, out of which 1,433,250 had vested.

As at September 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 December 31, 2010 Mr. Piotr Nesterowicz held 6,666,500 options, out of which 4,466,500 had vested.

As at September 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 December 31, 2010 Mr. Tom Ruhan - held 5,666,500 options, out of which 5,666,500 had vested.

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

As at September 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 September 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 September 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 September 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 September 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 September 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 640,000 and 520,000, respectively. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU ranges from 12 to 36 months after the grant date. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period by accruing cost provisions pro-rata to elapsed time and the market price of the Company's shares. The cost of RSU recorded in the nine-month period ended September 30, 2011 amounted to PLN 778 thousands (PLN 523 thousands in the nine-month period ended September 30, 2010).

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the nine-month periods ended September 30, 2011 and 2010 amounted to PLN 4,827 and PLN 4,722, respectively. In addition, the cost of share-based payments in the amounts of PLN 1,185 and PLN 4,214 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2011 and 2010 amounted to PLN 433 and PLN 912, 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 nine-month periods ended September 30, 2011 and 2010 amounted to PLN 630 and PLN 620, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 118 and PLN 187 during the nine-month periods ended September 30, 2011 and 2010, respectively, and mainly related to travel and accommodation.

Other transactions with related parties

During the nine-month periods ended September 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 30,028 as at September 30, 2011 and PLN 12,249 as at December 31, 2010 of which, PLN 5,725 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, 2010. The total amount claimed by TP SA on all applications for 2006-2009 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

(All amounts in thousands, except as otherwise stated)

i.e. for the provision of universal service within the years 2006-2009 TP SA was awarded the total amount of PLN 66,994.

Moreover, in June 2011 TP SA filed an application for subsidy towards costs of universal service provision in 2010 amounting to PLN 269,436. Until the day of approval of these consolidated financial statements the President of UKE has not decided upon the amount of the subsidy for the year 2010.

Despite the fact that in the opinion of the Management Board the application of the TP SA should not be admitted, and that so far the applications of TP SA for subsidies towards costs of universal service provision within 2006-2009 have been only partially admitted by the President of UKE, the Management Board is unable to assure neither that TP SA will not be awarded the subsidy for 2010, nor that the amount of the subsidy will not be established as higher than awarded in proportion to the sums claimed by the TP SA for the previous years.

The exact amount of share in the subsidies to costs of universal services to be payable by each telecommunications undertaking requires the President of UKE to issue individual decisions. Until the date of approval of these consolidated financial statement Netia has received no such decisions. 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 provison of 2,380 for potential USO payments in the financial statements for the nine-month period ending September 30, 2011. On behalf of its member operators, including Netia, KIGEiT filed with the Regulator for reconsideration of its decision, as did TP SA. The Regulator did not accept either motion and issued a Decision in which it upheld its earlier decisions specifying the amounts of subsidies for the years 2006-2009. KIGEiT did not appeal the final decision of the President of UKE to the court. The Management Board has no information as to whether TP SA has appealed to the court against this final decision of the President of UKE.

Should TP SA prevail in any such appeal, the USO liability in respect to 2006 – 2009 could still rise materially above the amount provided to date.

On the basis of the full amount of subsidies claimed by TP SA and of the Company's estimations concerning revenues of telecommunications services providers that may participate in subsidies towards universal services, the amount of subsidy towards universal service that might conceivably be claimed by TP SA from Netia Group amounts to approximately PLN 36,879 for the period from 2006 until 2010 inclusive as follows:

	Maximum subsidies	Provision
2006	4,500	25
2007	7,000	41
2008	7,000	58
2009	8,500	2,256
2010	9,879	-
	36,879	**2,380**

The Management has not made USO provisions in respect to 2010 or 2011 as the President of UKE has not issued a decision concerning the claims of TP SA for subsidies for 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 decisions issued 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 of the size of any potential liability in respect to 2010 and 2011.

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 the territorial coverage requirements will not be achieved. In the event that reservation obligations are not met by an operator, the UKE has the power to limit or confiscate the reservation, if the 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 according to which the Company's corporate income tax due for the year 2003 was set at PLN 34.2m plus penalty interest of approximately PLN 25.3m.

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

The Company appealed to the Voivodship Administrative Court against the decision issued by the Tax Chamber Director. However, on March 15, 2011 the Voivodship Administrative Court delivered a judgment dismissing the Company's claim in its entirety. Following the WSA decision in favour of the tax office in the first quarter of the year 2011 the Company recognized an income tax expense relating to the year 2003 of PLN 58,325 thousands (see Note 4).

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

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

Exercise of the stock options and purchase of the Company's shares by the Company's Management Board member(not in thousands)

On October 5, 2011, Mr. Jonathan Eastick, a member of the Management Board of the Company, purchased 10,000 shares of the Company increasing his holding to 360,000 shares. On October 5, 2011 Mr. Jonathan Eastick, delivered a stock option exercise letter, for 500,000 stock options granted pursuant to the 2003 Plan. The strike price of the stock options was PLN 3.50. The139,175 shares, which will be issued following this exercise, had still not been issued as at the date of these interim condensed consolidated financial statement.

Buy-back program

Between September 30, 2011 and the date of the approval of these interim condensed consolidated financial statements the company has repurchased 3,930,990 (not in thousands) of its own shares at a total cost of PLN 22,436 under a share buy-back program (see Note 4: Significant one-off transactions recorded in the current interim period).

Acquisition of a subsidiary

On November 2, 2011, the Company purchased 100% of the share capital of Diecisiete Sp. z o.o. ("Diecisiete"). The total price for all Diecisiete shares has been set at PLN 8.