This comment presents the financial results of Netia S.A. ("Netia", the "Company") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 2011 include the financial statements of the Company and the following subsidiaries:

- In2Loop Polska Sp. z o.o.
- InterNetia Holdings Sp. z o.o. Group
- Net 2 Net Sp. z o.o.
- Netia 2 Sp. z o.o.

The financial statements of the InterNetia Holdings Sp. z o.o. Group include the financial statements of InterNetia Holdings Sp. z o.o. ("InterNetia Holdings") and its subsidiaries:

- Internetia Sp. z o.o. and its wholly-owned subsidiaries Global Connect Sp. z o.o., Multiplay Polska Sp. z o.o., Igloonet Sp. z o.o., Pronet Sp. z o.o., Netpro Sp. z o.o., Saite Sp. z o.o, E-IMG Internet Intermedia Group Sp. z o.o. and ZAX.EU Sp. z o.o.
- UNI-Net Poland Sp. z o.o.

Changes within the Netia Group's structure

Mergers with subsidiaries

On January 31, 2011 Internetia Sp. z o.o. ("Internetia") merged with its wholly-owned subsidiary E-Tychy Sp. z o.o. ("E-Tychy"). The merger was carried out through the transfer of the acquired company's assets to Internetia (merger by acquisition) without any increase in Internetia's share capital and without any share exchanges.

On January 31, 2011 Global Connect Sp. z o.o. ("Global Connect") merged with its wholly-owned subsidiary SSI Net Sp. z o.o. ("SSI Net"). The merger was carried out through the transfer of the acquired company's assets to Global Connect (merger by acquisition) without any increase in Global Connect's share capital and without any share exchanges.

On May 31, 2011 Global Connect merged with its wholly-owned subsidiary Fornet Sp. z o.o. ("Fornet"). The merger was carried out through the transfer of the acquired company's assets to Global Connect (merger by acquisition) without any increase in Global Connect's share capital and without any share exchanges.

Acquisitions

On March 30, 2011, Internetia, the Company's subsidiary, concluded an agreement for the acquisition of 200 (not in thousands) shares in the share capital of Netpro Sp. z o.o. ("Netpro"), each with the nominal value of PLN 500 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all Netpro shares has been set at PLN 600.

On June 28, 2011, Internetia concluded an agreement for the acquisition of 45,740 (not in thousands) shares in the share capital of Saite Sp. z o.o. ("Saite"), each with the nominal value of PLN 50 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all Saite shares has been set at PLN 2,331.

On August 23, 2011, Internetia concluded an agreement for the acquisition of 1,000 (not in thousands) shares in the share capital of E-IMG Internet Intermedia Group Sp. z o.o. ("E-IMG Internet"), each with the nominal value of PLN 50 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all E-IMG Internet shares has been set at PLN 2,764.

On September 30, 2011, Internetia concluded an agreement for the acquisition of 21,000 (not in thousands) shares in the share capital of ZAX.EU Sp. z o.o. ("ZAX.EU"), each with the nominal value of PLN 50 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all ZAX.EU shares has been set at PLN 2,918.

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

2. Shareholders holding more than 5% of the votes at the General Shareholders' Meeting of Netia (not in thousands)

Based on the information presented to the Company by its shareholders, as at the date of filing of this report, significant blocks of the Company's shares were held by the following entities (the ownership interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at November 2, 2011):

Third Avenue Management LLC

Third Avenue Management LLC informed the Company that on January 14, 2011 it had reduced its holdings of the Company's shares from 93,720,763 held as at December 31, 2010 constituting 23.97% of the Company's share capital and carrying 23.97% of the total number of votes at the General Shareholders' Meeting of the Company, to 85,578,145 constituting 21.88% of the Company's share capital and carrying 21.88% of the total number of votes at the General Shareholders' Meeting of the Company.

Third Avenue Management LLC informed the Company that on May 4, 2011 it had reduced its holdings of the Company's shares from 85,578,145 held as at January 14, 2011 constituting 21.88% of the Company's share capital and carrying 21.88% of the total number of votes at the General Shareholders' Meeting of the Company, to 77,812,602 constituting 19.90% of the Company's share capital and carrying 21.88% of the total number of votes at the General Shareholders' Meeting of the Company.

ING Otwarty Fundusz Emerytalny

ING Otwarty Fundusz Emerytalny held a total of 48,010,027 of the Company's shares constituting 12.28% of the Company's share capital and representing 12.28% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by ING Otwarty Fundusz Emerytalny since December 31, 2010.

Subsidiaries of SISU Capital Fund Limited

On February 25, 2011 SISU Capital Fund Limited informed the Company that subsidiaries of SISU Capital Fund Limited had increased their holdings of the Company's shares from 39,043,006 held as at December 31, 2010 constituting 9.98% of the Company's share capital and carrying 9.98% of the total number of votes at the General Shareholders' Meeting of the Company to 44,336,534 constituting 11.34 % of the Company's share capital and carrying 11.34% of the total number of votes at the General Shareholders' Meeting of the Company.

BZ WBK AIB AM

Based on the information presented to the Company, as of March 31, 2011 the clients of BZ WBK AIB Asset Management SA held a total of 19,644,773 of the Company's shares constituting 5.02% of its share capital and representing 5.02% of the total number of votes at the General Shareholders' Meeting of the Company. The Company has no information as to the holdings of BZ WBK AIB as at December 31, 2010.

3. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (not in thousands)

2003 Plan

Between the adoption of the employee share option scheme (the "Plan") on April 10, 2003 and September 30, 2011, the Supervisory Board approved and issued a total number of 65,738,333 options to members of the Management Board. From the total number of approved options, 37,821,314 were outstanding as at September 30, 2011. The options are exercisable until December 20, 2012. The strike price of the approved outstanding options, depending on the agreement, ranges between PLN 3.50 and PLN 8.25 per share.

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

Nine-month period ended September 30, 2011

At the beginning of the period	40,771,814
Exercised	(2,950,500)
At the end of the period	**37,821,314**

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 subscription price per share 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. These share options vest after three years and vesting is also subject to performance conditions. 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 under 2011 Plan. 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. Accordingly the participant will not be required to pay the strike price of PLN 5.23.

Nine-month period ended September 30, 2011

At the beginning of the period	-
Granted	1,725,000
At the end of the period	**1,725,000**

The following changes in the number of options granted to members of the Management Board occurred during the nine-month period ended September 30, 2011:

Nine-month period ended September 30, 2011	At the beginning of the period	Granted	Exercised	At the end of the period
Mirosław Godlewski	13,334,000	575,000	(1,134,000)	12,775,000
Jonathan Eastick	10,938,314	287,500	(866,500)	10,359,314
Grzegorz Esz	4,166,500	287,500	-	4,454,000
Piotr Nesterowicz	6,666,500	287,500	-	6,954,000
Tom Ruhan	5,666,500	287,500	(950,000)	5,004,000
Total number of options	**40,771,814**	**1,725,000**	**(2,950,500)**	**39,546,314**

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.

There were no other changes in the number of options granted to members of the Management Board as at the date of filing this report.

The members of the Supervisory Board did not hold any options as at September 30, 2011 and as at the date of filing this report.

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. On October 5, 2011, Mr. Jonathan Eastick, purchased 10,000 shares of the Company increasing his holding to 360,000 shares as at the date of filing this report.

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.

In accordance with rules of remunerating the Supervisory Board Members approved by the Extraordinary General Shareholders Meeting on July 26, 2010, on July 27, 2011 each independent Supervisory Board Member received an annual grant of 15,000 Restricted Stock Units ("RSU"). The vesting period for the RSU ranges from 12 to 36 months after the grant date. One RSU corresponds to one ordinary share in the Company having a value equal to the market price of the Company's shares. As a result, as at the date of filing this report each member of the Company's Supervisory Board held 80,000 RSU.

4. Legal proceedings

Tax Authorities

A detailed description of an ongoing dispute with Tax Authorities is presented in point "Tax regulations and their interpretation" in section 5 below.

5. Factors which may have an impact on the result of the Netia Group

Risk of changes to the Netia Group's strategy

On January 13, 2011 the Company announced the main assumptions of its new long term strategy spanning over the period until year 2020 ("Strategy 2020"). Financial guidance regarding the Strategy 2020 was announced at the same time in order to reflect Netia's long term plans for the further roll out of Local Loop Unbundling ("LLU") as well as the upgrade of select regions of ETTH and copper network to broadband speeds of 50MB and higher (Next Generation Access "NGA"). The newly announced financial guidance includes the planned capital expenditures with respect to NGA project, envisaged mainly in the 2011 - 2013 period as well as the Management's estimation of potentially achievable market shares in fixed broadband and fixed telephony in the Polish telecom market as well as a range of financial KPIs of the Company's future potential performance. No assurance can be given as to whether strategic initiatives included in Netia's strategy will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance. The previous strategy and guidance until 2012, as announced on April 6, 2007 (including subsequent revisions) remains valid while 2011 and 2012 will become transition years for Netia in the pursue of the long term Strategy 2020.

Risk of changes in the shareholder structure, which may influence business activity

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Company in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Company cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Risk connected with the impact of potential future takeovers and acquisitions of large-scale businesses (not in thousands)

Revenues and financial performance of the Netia Group may be materially affected by takeovers of and mergers with other entities that operate large scale telecommunications businesses. Upon the Company's takeover of another entity, the process of fully integrating this entity may carry high risks, e.g. resignation of key employees, the loss of a certain segment of its customers or high costs of the entire integration process.

The fragmented market of alternative operators rendering wireline telephone services may result in increasing consolidation within the Polish market. The Company intends to evaluate potential takeovers and acquisitions whenever such possibilities arise. The performance of such transactions requires the special involvement of the Company's high-ranking managers and may entail high costs connected with the identification and evaluation of the candidates for takeover, the negotiating of agreements and integration of the entities acquired. The Netia Group may require additional funding in order to conduct such transactions.

The benefits from potential takeovers will depend mostly on the extent to which the Netia Group is able to integrate the acquired entities into its structures. Future company acquisitions may entail acquiring existing liabilities and the risk of undisclosed liabilities. The Netia Group cannot guarantee that beneficial takeover possibilities will arise in the future, nor, if such possibilities arise, that they will result in the successful integration of the acquired entities with the Netia Group. Failure to integrate the acquired entities into the structures of the Netia Group and / or the failure to generate the expected operating and strategic synergies may adversely affect the operations and financial standing of the Netia Group.

Specifically in regard to the above described risks, on September 29, 2011 Netia announced that it had signed conditional agreements to acquire two other large scale telecommunication entrepreneurs: Dialog and its subsidiaries and Crowley. Management has estimated potential annual synergies from these acquisitions, should they be closed, at PLN 106 m and expects that all projects necessary to deliver such synergies can be completed within two years from the respective dates of acquisition. The synergy estimate is tentative and based on high level information provided by the sellers during due diligence and no assurance can be given that it is accurate in the amount or timing. Management intends to undertake detailed integration planning as soon as it controls the two businesses and, based on the results of this work, may revise synergy estimates. All other general risks described above in this risk factor fully apply to the Dialog Group and Crowley.

Risks relating to the acquisition, integration and development of Ethernet network operators

An important element of Netia's strategy to expand its broadband subscriber base is the acquisition of Ethernet network operators. Our plans require that these companies, which typically have no more than 5,000 customers at the time of acquisition, are integrated into Netia's core operations. We aim to continue to grow the subscriber bases connected to the networks that we acquire and to upsell their customers voice services in addition to the internet access that they currently purchase. We cannot provide any assurance that we will be successful in implementing this strategy in whole or in part in any or all of the Ethernet networks that we have acquired or will acquire. Costs of integration may exceed our plans or we may discover undisclosed liabilities post acquisition. Customers may prove reluctant to switch to services provided by Netia directly or unwilling to switch to Netia voice services from their current providers. Moreover the price of such Ethernet networks may increase to the point that further acquisitions are uneconomic, making it more difficult for Netia to reach its subscriber growth objectives. Failure to fully implement our strategy in regard to Ethernet network operators may adversely affect the operations and financial standing of the Netia Group.

Technological risk

The telecommunications sector is an area witnessing dynamic technological changes. In designing and expanding its networks, the Netia Group uses the latest technical solutions. However, it is not possible to predict how the Netia Group's operations may be affected by technological advances in the field of fixed-line telephony, wireless transmission and voice services based on Internet or cable television telephony. In particular, the business activities of the Netia Group may be affected by the trend to provide telecom services via wireless or portable platforms, with wireless broadband access and third/fourth generation mobile cellular telephone systems equipped with IP. Due to the difficulties in predicting future technological developments, market potential and regulatory environment, Netia may sometimes invest in technologies that ultimately do not deliver the expected returns. When such a situation occurs, it can have a significant negative impact on our results and financial condition.

Risks related to the uptake of new services and the financial returns available from investment in upgraded networks

During the first half of 2011, Netia has piloted the introduction of upgraded broadband speeds to its copper and Ethernet ("ETTH") networks and adding television and content services to its offering. Whilst these pilots have delivered promising results and the Group has decided to continue investing, no assurance can be given that these upgrade projects will be successful as financial results obtained in the future from such investments implemented on a wide scale may differ significantly from the results of those pilots.

The speed of roll-out and relative performance of fast mobile broadband networks (such as HSDPA and LTE), the speed of upgrade of cable networks and the incumbent's own investment plans may have a significant impact on the relative attractiveness of our broadband offer and sales results. Furthermore, our new content services may turn out to be inferior to those of key competitors and we may not be able to meet sales targets or ARPU targets as a result.

Foreign currency risk

Approximately 35% of Netia's annual capital investment programme and up to 10% of typical operating expenses are either invoiced in foreign currencies or are invoiced in Polish Złoty based on price lists expressed in foreign currencies. Netia operates a Risk Management Committee that decides, from time to time, to hedge these exposures to foreign currency risks and if so, the proportion of the exposure to be hedged. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows than if we had not hedged the Company's currency exposures.

Risk of employment termination by key executives and difficulties related to the recruitment of new, competent executives

The activity of the Netia Group is dependent on the quality of the work of its staff and employees in executive positions. The Management Board cannot guarantee that the possible termination of employment by some of its key executives will not adversely affect the financial standing and performance of the Netia Group, which, should some of its executives terminate their employment, may then lack executives with sufficient knowledge and experience in the field of management and operating activity. Changes in composition at the Company's executive levels may result in disruptions in the Netia Group's business activity.

Risk resulting from changes in the Telecommunications Law

The current Telecommunications Law came into force on September 3, 2004, except for certain regulations that came into force on January 1, 2005 in result of implementation of so-called "2002 directives package". On April 24, 2009, the lower chamber of the Polish Parliament (Sejm) passed the act on the amendment of the Telecommunications Law and other acts. The purpose of the above-mentioned amendment was to further harmonize Polish provisions with the legal framework of the European Union and this amendment to the Telecommunications Law entered into force on July 6, 2009.

A further amendment of the Telecommunications Law entered into force on July 20, 2010. According to this latest amendment, the definition of "subscriber" was changed, so that it now covers also users of services who have not concluded a written contract for the provision of telecommunications services. After the entry of this law into force, the obligations of telecommunications undertakings with regard to the conclusion, amendment, and performance of contracts apply to these users as well. Netia, as well as other telecommunications entrepreneurs, was obliged to adjust its standard client contracts to the new requirements within six months following the entry of the amendment into force.

On June 2, 2011, an amendment of the Telecommunications Law came into force, with regard to provisions concerning rules for verification whether fees for telecommunications access calculated by an operator with significant market power on the basis of justified or incurred costs are correct.

Pursuant to the amended law, as far as imposition of obligation to set fees on the basis of justified costs is concerned, in the absence of the auditor's opinion on the consistency of an annual regulatory accounting statement and the results of cost calculation with the binding regulations, or in case of a negative opinion or a qualified positive opinion, as well as in case of occurrence of significant discrepancies between the amount of fees calculated by an operator and established by the President of UKE on the basis of an auditor's opinion, the President of UKE establishes the amounts of fees for telecommunications access or their maximum or minimum levels, using methods specified in a decision designating an operator as holding significant market power and imposing an obligation to calculate fees for telecommunications access taking account of justified or incurred costs recovery.

As far as obligation to calculate fees on the basis of incurred costs is concerned, in a decision designating an operator as holding significant market power the President of UKE specifies methods of verification and calculation of fees. In order to verify whether the fees set by an operator on whom an obligation to calculate fees on the basis of incurred costs was imposed are correct, the President of UKE may apply the methods of fees verification specified in this decision. If the executed verification reveals that the amount of fees set by an operator is incorrect, the President of UKE establishes the amount of fees or their maximum or minimum level taking account of the promotion of efficiency. sustainable competition as well as the assurance of maximum benefits for end users. The fees shall be established in a separate decision.

Despite the fact that the amount of fees for telecommunications access to the network of TP SA that Netia currently pays with regard to use of different wholesale services was established between the Companies as binding until December 31, 2012, the Management Board is unable to assure neither that application of the amended regulations will not affect the costs of activity of the Companies from the Group before the end of year 2012, nor that whether – and when, as well as in what way – it will ensure the change of the amount of fees for telecommunications access to be borne by Netia after the end of this period.

The President has signed the amendment of the Telecommunications Law pursuant to premium rate services providers were obliged, *inter alia*, to provide their subscribers with the right to block access to such services free of charge, as well to inform subscribers that the limit of payments due for such services that was established by them in their contracts was exceeded. The new regulations will enter into force within 6 months after their publication in the Journal of Laws. The Management Board is unable to assure that the new regulations will be uniformly interpreted by the regulatory bodies and that this interpretation will allow for provision of premium rate services without requiring increase of costs of adjustment of the Companies from the Group to the obligations stipulated therein.

On July 17, 2010 the act „for the support of the development of telecommunications networks and services" (hereinafter referred to as "the Act on Development") entered into force. One of the goals of the act is to improve the investment process in telecommunications infrastructure. It authorizes municipalities to construct infrastructure and telecommunications networks, to make it available, and to provide telecommunications services in areas where the demand of end users is not satisfied by commercially provided access to telecommunications services. In such a case, subject to consent of the President of UKE, Internet access services can be provided for prices lower than market prices, and even for free, if the provision of services in a given area under such preferential conditions will not lead to a distortion of effective and equal competition.

Furthermore, if in order to satisfy group needs of the municipal community, the making available of the infrastructure and provision of services is entrusted to a telecommunications entrepreneur, and due to economic conditions the performance of this activity in a given area will not be financially profitable, the entrepreneur may use the municipal infrastructure for fees that will not recover its full construction cost. The cost borne due to the provision of telecommunications services in that area can be partially co-financed by the municipality.

The Act on Development imposes the following obligations on the selected groups of entities:

- real estate owners, real estate perpetual usufructuaries and real estate administrators – the obligation to ensure access to the building as well as to the place in a building in which the cables supplied to the premises in the building are gathered; the access is to be ensured in order to ensure telecommunications and to the benefit of telecommunications entrepreneur which supplied the building with the public telecommunications network;

- owners of the telecommunications ducts situated on the real estate or in the building – the obligation to make the telecommunications ducts accessible for telecommunications undertaking which has no possibility to use another, existing telecommunications ducts;

- owner of telecommunications cable supplied to or distributed within the building – the obligation to make the whole or a part of this cable accessible for telecommunications undertaking in case the supply of another telecommunications cable to the building is not possible;

In case no agreement describing the conditions for access to the infrastructure is executed, the President of UKE may, upon a motion of any of the parties, issue a decision substituting the agreement.

The Management Board is unable to assure that the agreements on the access to infrastructure, concluded by Companies from the Netia Group in the scope of ownership rights to the cable and ducts infrastructure as well as the rights concerning real estate, will be in each case established with interested telecommunications undertaking in accordance with the principle of freedom of contract, without the necessity to settle the technical or financial conditions of co-operation by the President of UKE.

Under the Act on Development the President of UKE is also authorized to issue a decision obliging an operator authorized to use assigned frequencies in an area indicated by the President of UKE in a specified manner.

The Act on Development introduces the possibility of new sources of competition for Netia from municipalities and other interested entities and the risk of overbuild of our existing networks.

The Minister of Infrastructure has commenced consultations of draft law amending the Telecommunications Act (hereinafter referred to as "the Draft Law"), aiming to implement the amendments of the 2002 Directives package, that entered into force in the EU in December 2009. The Draft Law, among other issues, forbids to enter into an agreement of providing telecommunications services longer than 24 months and obliges telecommunications entrepreneurs to extend their offer to include 12 month contracts (or shorter), broadens the obligatory content of contract for the provision of telecommunications services, and obligations with regard to network safety, including the prevention of unsolicited communications (spam). Moreover, the Draft Law provides for, *inter alia*, making telecommunications undertakings responsible for compliance with quality parameters of broadband Internet access, extension of the obligation to provide facilities for disabled persons onto all of the telecommunications undertakings, increase of information obligations with regard to Subscribers as well as extension of obligation to transfer of data concerning telecommunications activity of a given telecommunications undertaking to the President of UKE. The National Chamber of Commerce for Electronics and Telecommunications (hereinafter referred to as "the KIGEiT") participated in consultations of the guidelines for the Draft Law and submitted its statement expressing its opinion against the said amendments, as well as concerning other draft amendments. The KIGEiT participates in consultations of the Draft Law, as well. The Management Board, however, is unable to assure that the KIGEiT remarks will be accepted nor that the Draft Law will not impose other obligations on telecommunications undertakings, including Netia. Member states, including Poland, were obliged to implement the new regulation by May 25, 2011. Until the date of the election to the lower (Sejm) and upper (Senat) chamber of the Polish Parliament in October 2011, the process of adjusting the Telecommunications Act to the Directives package has remained in progress.

At this stage it cannot be determined whether the draft law will remain subject to the legislative works and how material the impact of these new European obligations on the conditions for doing business by the Companies from the Group will be. Most of the changes described above may increase of their costs or increase competition.

Before the day of election to Sejm and Senat in October 2011 the Minister of Infrastructure has also commenced consultations of the draft law on conversion of payments due to fees for licenses granted to mobile public telecommunications network operators. The draft law provides for, *inter alia*, conversion of part of payments into investments.

Consultations have been also commenced with regard to "The Guidelines for the draft law on Interministerial Operator of the Information and Communications Technology System ("ICT System)" (hereinafter referred to as "the Guidelines") that provide for establishment of an Interministerial Operator of the ICT System. This entity would be an obligatory service provider for government agencies as well as a number of other entities whose subjective scope was not specified. This concept would lead to establishment of an entity enjoying a statutory monopoly which would constitute a serious exclusion of competition in this scope as well as in Management Board's opinion breach of both the European Union and national regulations. As a result of preference of the ICT network operator as projected in the Guidelines the alternative operators, including Netia, would lose the possibility to provide services to government bodies and agencies which would lead to lower effectiveness of use of their businesses potential and in turn to decline of revenues with regard to services provided to Clients in this sector.

(All amounts in thousands, except as otherwise stated)

The KIGEiT submitted its statement in the consultations of the Guidelines expressing its disapproval of the proposed solutions. The Management Board, however, is unable to assure that the KIGEiT remarks will be accepted and the Guidelines will not be reflected in the draft law.

At the present stage it cannot be determined whether the projected regulations will enter into force, and in such case, what their impact on conditions of doing business by the Companies from the Netia Group will be.

Risks resulting from the obligation to provide 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,

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

Both TP SA and KIGEiT appealed against these decisions. By virtue of a decision issued on September 7, 2011, the President of UKE upheld the above decisions.

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 provision of universal service 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. The President of UKE commenced proceedings concerning designation of telecommunications undertakings obliged to participate in subsidies for years 2006 and 2007 and establishment of their shares in the subsidies. Until the date of approval of these consolidated financial statements Netia has received no such decision.

Based on Management's best estimates of Netia's revenue market share in the years 2006 – 2009 and the decision of the President of UKE awarding TP SA 66,994 in USO subsidies, Netia has made a reserve of 2,380 for potential USO payments in the financial statements for the 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.

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 claim 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 on the amount of subsidy claimed by TP SA, Management are of the opinion that it is not possible to make a reliable estimate the size of any potential liability.

Pursuant to the decision of the President of UKE designating TP SA to provide universal service the above obligation of TP SA expired as of May 8, 2011. No undertaking obliged to provide USO as of May 8, 2011 has been designated to date and, according to the published position of the President of UKE, will not be designated. No assurance can be given that Management best estimate of USO provision for 2006-2009 will be sufficient or that the President of UKE will not make full or partial awards to TP SA in respect to 2010 or 2011 in the future.

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has designated Netia as a telecommunications operator holding significant market power in the market for call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A., on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

In the performance of the obligation imposed on Netia in the above mentioned decision of the President of the UKE, the Company published information on the conditions of telecommunications access with regard to call termination services in the fixed public telephone network of Netia by posting them on the internet site of Netia, at: http://www.netia.pl/informacje,dla_biznesu,42,921.html. The published document, hereinafter the "Netia IC Offer" contains information as required in the Decision of the President of the UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia.

The President of UKE is obliged to perform market analysis not less often than every 2 years. Given that this period lapsed, the President initiated a procedure for the determination of the market for the termination of calls in Netia's network, determination of Netia's market power in that market, and evaluation whether there are reasons to uphold, amend, or waive Netia's regulatory obligations.

No assurance can be given as to whether Netia will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network, or whether in the future a significant market power of Netia in another wholesale market is determined, as well as that Netia will not be subject to regulatory obligations specified in Telecommunications Law.

Asymmetry of interconnection rates depends on the policy of UKE

The President of UKE issued a decision amending the agreement between Netia and TP SA on interconnection of networks in which it established the level of asymmetry of rates for call termination on Netia's network in relation to the rates for call termination on TP SA's network. According to the above-mentioned decision, rates for the services will become symmetrical by January 1, 2014.

The Management Board is unable to give any assurance that the term for achieving rate symmetry for call termination in Netia's network in relation to the rates for call termination in TP SA's network, will not be accelerated or otherwise changed by the President of UKE. Should such an adverse decision occur, it would be likely to have a material adverse impact on Netia's profit margins.

TP SA filed an application to the President of UKE for amendment of rates for call termination in Netia's public fixed telephone network by differentiation of the amounts of rates for each tariff period. Despite the fact that in case of disputes between other operators the President of UKE decided that rates for call termination in public fixed telephone network should be the same for all the tariff periods, the Management Board cannot assure that the TP SA application will not be accepted by the President of UKE.

TP SA also filed with the President of UKE for specifying the time limit for closing negotiations with regard to setting a flat termination rate in the Netia network at the amount symmetric to the termination rate in the TP SA network. The President of UKE specified the time limit for closing negotiations on October 28, 2011. The Management Board believes that currently there are no grounds for Netia to set termination rates in its networks at the amount as claimed by TP SA. One cannot assure, however, that the amount of the termination rate in the Netia network will not be amended before the end of the term following from the decision of the President of UKE, i.e. before January 1, 2014.

Risk of changes of UKE decisions

The conditions of performing telecommunications services by the Netia Group are in part set out in decisions issued by the President of UKE and most of them are immediately enforceable. The Management Board is unable to exclude the risk that the decisions will not be reversed or amended by the court nor that the terms of telecommunications access established therein will not be changed by the President of UKE during the period within which the Group's Companies make use of the regulatory conditions introduced by such decisions. The Management Board cannot assure, that in such a case, costs of providing services by the Netia Group will not increase and that operators providing wholesale services based on such decisions will not raise the claims against the Netia Group.

Risks relating to regulatory access rates

On October 22, 2009 the President of UKE and TP SA signed an agreement laying down rules for the performance by TP SA of obligations with regard to telecommunications access ("The Settlement Agreement between the President of UKE and TP SA"). The Settlement Agreement provides that the fees for individual services in the scope of telecommunications access that follow from the applicable reference offers will be valid until January 31, 2012. This general rule in effect froze the cost of unbundled local loop services and wholesale line rental voice services.

On the basis of a draft understanding, constituting an appendix to the Settlement Agreement between the President of UKE and TP, Netia and TP executed a separate understanding ("Understanding") on the December 23, 2009. The Understanding provides that the rates for specific services in the scope of telecommunications access, arising from reference offers, shall be binding until December 31, 2012.

The wholesale rates for broadband access (BSA) were established at a fixed level taking account of retail prices in TP SA offer binding on October 10, 2009. Possible further decrease of rates established in the above manner, as well as wholesale rates paid to TP SA since implementation of new speeds to its BSA Offer, are controlled by a margin squeeze test, rules for carrying out of which were established by the President of UKE ("MS test").

Netia was surprised that TP SA's new prices for the lowest transmission speeds somehow passed the margin squeeze tests carried out by the President of UKE. In view of the President of UKE's opinion that the TP SA retail offers examined with the use of the MS test do not constitute price discrimination of Alternative Operators and may be used with the current wholesale fees for BSA services, i.e. the fees calculated on the basis of a "retail-minus" methodology but expressed in nominal values, Netia has had its costs verified by an independent auditor, and after simulating the margin squeeze test, using the audited costs. On the basis of the received outcome of the test it still seems surprising that the TP retail offers for the lowest transmission speeds should pass the margin squeeze test.

On February 9, 2011, the President of UKE published a position indicating amendments to the MS Test procedure that were introduced after carrying out consultations with the market players.

Within the amended MS test procedure, an operator that passed his relevant cost data to the President of UKE for the purposes of carrying out of MS/PS test is provided with access to information on average costs accepted for the test. After market launch of a retail offer that underwent the MS test, an operator that passed his relevant cost data to the President of UKE is also granted right to access data included in TP SA application for carrying out of the MS test, i.e.: the price accepted for the test, as well as the validity period of an agreement concluded on the basis of this offer. Upon motion of such an operator the President of UKE is obliged to carry out the MS test concerning TP SA retail offer one more time.

If the MS test outcome indicates that the relation between prices included in the retail offer launched into the market and wholesale rates applied by TP SA is discriminatory towards operators using wholesale services, then, according to new rules of MS test procedure, TP SA is obliged to withdraw this retail offer from the market. In case of non-performance of this obligation by TP SA, prices set out in it will constitute a basis for calculation of wholesale rates on the basis of "retail-minus" methodology.

In the opinion of the Management Board, the amendments to the procedure of the MS test, comparing with the previously binding procedure, increase protection of operators using TP SA network, including Netia, against price discrimination.
Netia submitted to the President of UKE its cost data regarding the fiscal year 2010 for the purpose of MS test concerning examination of new TP SA retail offers. The submitted data are based on the results of the auditor's verification of the correctness of methodology applied for these costs calculation. The President of UKE considered them actual and reliable, accepted them and decided that they will be taken into account in the process of application to MS and PS tests.

The Management Board is also unable to assure that the MS Test rules as applied by the Regulator will constitute a sufficient guarantee of TP SA price non-discrimination. The President of UKE's approval of the TP SA retail offers that have undergone the MS Test may result in Netia's loss of part of its share in net subscribers' connections and in decrease of its growth rate, and consequently lead to risk of failure to achieve our strategic and financial goals.

Risks related to amendments to reference offers

Beyond reach of Netia's own network, provision of telecommunications services by the Netia Group is conditional upon access to the network of TP SA.

According to Telecommunications Law and the decisions of the President of UKE, TP SA is obliged to provide telecommunications access to telecommunications entrepreneurs, such as Netia, to its network and to offer frame terms and conditions of contracts on telecommunications access to its network for particular wholesale services, not worse than the terms and conditions specified in TP reference offers approved by the President of UKE.

On September 29, 2010, by virtue of a decision of the President of UKE, a new Reference offer providing frame terms of telecommunications access with regard to calls initiation and termination, wholesale access to TP network, access to subscribers lines in the mode ensuring both full and shared access, as well as access to subscriber lines through telecommunications network loops intended for the purposes of sale of broadband data transmission services, was introduced (hereinafter referred to as the "RO"). The RO laid down frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The RO superseded all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

The RO introduced new solutions to cooperation of network providers, so far not included in telecommunications access regulations, including:

1) unification of rules and timeframes of regulated services provision;
2) regulation of terms of broadband service access (BSA) with IP DSLAM technology;
3) introduction of electronic form of communication with TP in the form of IT System Interface into the network providers cooperation.

The RO also introduced significant increases in the fees for fixed line number portability.

KIGEiT and TP SA filed for re-consideration of the case concluded by issuance of RO.

Upon such reconsideration, on April 5, 2011, the President of UKE issued a decision by virtue of which it amended the RO by reducing several fees, i.e.:

a) due to LLU services provision, *inter alia* due to:

- connection of subscriber's line to TP SA network within launch of the Non-active Line - from 63.4 to 39.48 PLN (not in thousands);
- launch of service provided on the Active Line (switch-over of a pair of cables, servicing of orders for line) - from 55.51 to 46.98 PLN (not in thousands);
- service deactivation (switch-over of a pair of cables, servicing) - from 21.21 to 18.28 PLN (not in thousands);
- as well as due to number portability in such a way that its present amount does not exceed than the one binding prior to issue of the RO;

b) as well as BSA, *inter alia* due to:

- launch of service on the Subscriber's Line - from 40.98 to 38.68 PLN (not in thousands);
- change of Service Options - from 45.22 to 34.07 PLN (not in thousands);
- Service deactivation - from 40.98 to 38.68 PLN (not in thousands).

The RO does not provide for a fee due to cooperation between operators.
The procedure of MS test was amended, according to the position of the President of UKE of February 9, 2011.

One cannot predict whether, in case of an appeal against the RO, the conditions stipulated in it by virtue of the decision of the President of UKE issued after reconsideration of the case will not be amended or reversed.

By a decision of September 4, 2011, the President of UKE amended the RO with regard to conditions for BSA telecommunications access with use of VDSL technology.

Due to the fact that the RO regulates the terms and rules of co-operation of TP SA with other telecommunications undertakings differently than compared to the binding relations with Netia, the Management Board cannot assure that the agreed terms on which Netia uses access to the network of TP SA will not be changed or deteriorated in the future with the aim to ensure competitiveness comparing with other alternative operators.

TP SA filed with the President of UKE a draft offer setting out frame terms of LLU services provision with regard to FTTx access. The offer that will be approved of by the President of UKE in this scope will make up frame terms of using LLU stipulated in the RO. TP SA also applied for amendment of the RO in the scope of BSA accessincluding as regards application of Ethernet level, and also for modification of the BSA service in option with capacity 10 Mbit/s and canceling options: 1, 2 and 6 Mbit/s, since April 1, 2012. Application for amendments of the RO in the scope of options of BSA services TP SA justified by the fact, that TP SA has been going to withdraw retail offers of services delivered in options: 1, 2 and 6 Mbit/s on April 1, 2012. However at this stage of proceedings one cannot predict the results of the proceeding, in the opinion of the Management Board the application of the TP SA should not be admitted. TP SA is obliged to ensure of not worse conditions of wholesale services for others operators, including Netia, than TP SA uses inside of its own undertaking in order to delivering services TP SA's subscribers. Taking under consideration, that TP SA still offers retail broadband services in options: 1, 2 and 6 Mbit/s for period: 12 and 24 months, on April 1, 2012 TPSA will be delivering services in such options. Therefore TP SA should be still obliged to ensure BSA services in the options: 1, 2 and 6 Mbit/s for others operators, including Netia .

TP SA applied also for approval of reference offer with regard to leased lines. At this stage of proceedings one cannot determine what new frame terms of using access to LLU and BSA and within what time frame will be approved by the President of UKE, as well as how the projected amendment of the RO as well as the reference offer stipulating terms of use of leased lines will affect the conditions of doing business by Netia.

In the Understanding as of December 23, 2009, Netia and TP SA agreed that the amount of service rates for access to TP SA network will remain unchanged until December 31, 2012, which is why by that time any change to methodology of rates calculation into calculating them taking account of incurred costs will not affect settlement rules between Netia and TP SA due to access to local loop and local sub-loop built according to copper technology. However, the Management Board cannot assure that no circumstances leading to increase of the amount of costs of using LLU service by Netia will not emerge in future.

The Management cannot assure, as well, that rules of access to LLU built using fiber technology will be sufficient for ensuring Netia the opportunity to use of access to fiber local loop in TP SA's network on a mass scale.

Risks related to the decisions of the President of UKE on the service of termination of calls in mobile networks (hereinafter referred to as "MTRs") (not in thousands)

In January 2009 the President of UKE issued temporary decisions amending agreements on the interconnection of networks between Netia and Polska Telefonia Cyfrowa Sp. z o.o., Netia and Polkomtel SA as well as Netia and Polska Telefonia Komórkowa Centertel Sp. z o.o. by lowering the mobile termination rates (MTRs) in public mobile telephone networks of the above-mentioned mobile networks operators to the level of PLN 0.2162 per minute. In June and July 2009 the President of UKE issued decisions (which replaced the above-mentioned temporary decisions) on the amendment of the interconnection agreements, concluded between Netia and the above-mentioned operators, by setting the MTR at the level of PLN 0.1677 per minute.

Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o. appealed against the temporary decisions of the President of UKE. The lower court reversed the temporary decision amending MTRs stipulated in the agreement between Polska Telefonia Cyfrowa Sp. z o.o. and Netia. The Management Board cannot assure that the Appellate Court will reverse or amend the judgment of the lower court and that the decision itself will not be reversed. Moreover, the Management Board cannot assure that the remaining decisions will not be amended or reversed by the court, thereby materially increasing our interconnection costs and in such a case, that Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o. will not raise the claims against Netia nor how the courts might treat such claims.

Moreover, along with other market participants, Netia has made significant cuts in its customer tariffs for calls to mobile operators on the basis of the Regulator's MTR decision. In the event that the court raises the MTR rates once more, Netia will be unlikely to be able to pass on the higher costs to its customers through higher tariffs. No assurance can be given that possible damages claims against the Regulator would be upheld by the courts.

The President of UKE issued decisions stipulating the amount of MTRs to be paid to Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o.: as of July, 1, 2011 – at the level of 0.1520 PLN per minute and as of July 1, 2012 – at the level of 0.1223 PLN per minute, as well as the amount of MTRs to be paid to P4 Sp. z o.o., calculated on the basis of an index of asymmetry in relation to the remaining rates. Moreover, these decisions stipulate investment obligations of individual mobile networks operators in the so called "white areas", i.e. areas with low population density, excluded from GSM network coverage.

Due to issue of the decisions establishing the amount of MTRs at the level of 0.1520 PLN per minute and 0.1223 PLN per minute the President of UKE discontinued proceedings regarding issue of decisions obliging Polska Telefonia Komórkowa Centertel Sp. z o.o. and Polkomtel SA to apply MTRs amounting to 0.0966 PLN per minute.

The Alternative Operators associated at the KIGEiT, including Netia, concluded agreements with Polska Telefonia Komórkowa Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o., in which the said mobile networks operators confirmed rates paid for MTRs in line with the decision of the President of UKE and the mobile operators restricted their ability to make retrospective claims.

Risks related to the analysis of relevant markets

According to the Telecommunications Law, the President of UKE performs an analysis of telecommunications services market („relevant market") not less often than every 2 years and upholds, modifies or waives regulatory obligations imposed on an entrepreneur, who as a result of a previous analysis has held a significant market power.

TP SA holds significant market power in individual wholesale markets countrywide and is obliged, in particular, to provide telecommunications access to other entrepreneurs, under non-discriminatory terms.

On December 30, 2010, the President of UKE issued a decision defining a market, in which TP SA was so far obliged to provide access to local loop or a local sub-loop in copper technology, as a market of wholesale (physical) access to network infrastructure service provision (including full and shared access) in a fixed location, designated TP SA as holding a significant market power on the relevant market, as well as imposed regulatory obligations on TP SA.

By virtue of the President of UKE decision TP SA was obliged to maintain telecommunications access to local loop and sub-local loop, as well as to provide access to the telecommunications ducts or to dark fibers, and - in case of lack of possibility of access provision for an operator applying for access to the above elements of infrastructure – to provide access to local loop and local sub-loop using fiber technology.

So far TP SA had an obligation to calculate costs and set telecommunications fees taking account of justified costs. This was replaced in the decision by an obligation to set fees taking account of incurred costs. The method TP SA is obliged to apply, allows for recovery of costs actually incurred in the process of telecommunications access provision and not justified costs i.e. costs that a hypothetical telecommunications undertaking would incur if it operated on a fully competitive market, with scope of activity and demand for its services comparable to those specific for an actually existing telecommunications undertaking obliged to run costs calculation.

In the opinion of the Management Board the amendment of the imposed obligation concerning method of calculation of costs of telecommunications access provision introduced by the President of UKE's decision is premature. No circumstances arose on the market that could justify application of the method of costs calculation taking account of incurred costs and not justified costs.

KIGEiT filed an appeal with SOKiK against the President of UKE's decision of December 30, 2010. In spite of its conviction of validity of the claims raised in the appeal, the Management Board is unable to assure that the decision will be changed in the scope of the appeal.

On April 28, 2011 the President of UKE issued a decision holding TP SA as having a significant market power in the market for provision of wholesale broadband access services. The analysis of the President of UKE included the national market, within which regulatory obligations of TP SA in the areas of separate groups of municipalities were differentiated. The decision also provides for change of obligation to establish telecommunications access fees according to cost calculation, from the method based on justified costs to incurred costs. Eleven municipalities were excluded from the national market area.

On July 27, 2011 the President of UKE commenced consultation and consolidation proceedings concerning a draft decision identifying a broadband access market within the administrative borders of eleven municipalities: Warszawa, Płońsk, Nowy Dwór Mazowiecki, Lublin, Zielona Góra, Bielawa, Olsztyn, Łomża, Białystok, Elbląg, Braniewo and stating that within the areas of these municipalities effective competition is present and no SMP undertaking operates.

In the opinion of the Management, relevant markets, including broadband access markets within the area of the eleven municipalities comprised in the draft decision, are not developed sufficiently to allow for geographical differentiation of TP SA regulatory obligations, nor are there any grounds, to hold that TP SA has lost its significant market power in any market or that the regulatory obligations imposed on TP SA should be repealed or limited.

At this stage of the consultation proceedings concerning the draft decision one cannot predict, however, whether and when a decision concerning provision of wholesale broadband access services within the borders of the eleven municipalities will be issued nor whether in such a case it will be consistent with the draft decision published. Therefore it is impossible to determine what terms of wholesale broadband access will be binding within the borders of the above mentioned eleven municipalities in case of issue of the decision as well as when and how they will affect the existing ability of Netia to provide services with use of such type of access to TP SA network within the mentioned area.

Despite the Management Board position that within the geographic area of the above mentioned eleven municipalities effective competition is not present and obligations of TP SA as a designated telecommunications undertaking should be maintained, the Management Board is unable to assure that the President of UKE will not issue a decision consistent with the draft decision, and as a consequence will not withdraw regulatory obligations currently imposed on TP SA as regards broadband access within the above mentioned eleven municipalities. The Management Board is unable to assure, as well, that in such a case the court will render a legally binding judgment in which it will accept a complaint against this decision, if any will be lodged, and will restore obligations of TP SA in the scope necessary for preservation of effective competition within the areas of the above mentioned municipalities.

In the Understanding of December 23, 2009, Netia and TP SA established that the amount of rates for access to TP SA network within BSA will remain unchanged until December 31, 2012, which is why until this time, the change of methodology of setting fees into its calculation taking account of incurred costs will have no impact on settlement rules between Netia and TP SA due to provision of access BSA lines unbundled according to the rules binding until the date of issue of the respective decision, as well as of the decision comprising the above mentioned eleven municipalities if issued by the President of UKE. However, the Management Board is unable to assure that circumstances will not arise in future that could lead to increase of the amount of costs of provision of broadband access service to subscribers to whom they will be provided with use of BSA service.

Netia possesses infrastructure and uses LLU services within the area of the eleven municipalities comprised in the draft decision which is why the possible withdrawal of regulatory obligations of TP SA within the borders of these municipalities will not affect continuity of provision of broadband services by Netia to majority of end users to whom they are currently provided within these areas. The Management Board is unable to assure, however, that the change of technology from BSA to LLU will be possible in case of each subscriber's line within the area of these municipalities and that in this regard provision of broadband access services within these borders to all of the current users of Netia's services will be possible in future.

Risks related to Tele2 Polska's business

In February 2009 the President of UKE issued the decision fining Tele2 Polska with the amount of PLN 500 for the exchange of traffic between Tele2 Polska and TP SA in breach of conditions of the so-called "flat interconnection rate". Tele2 Polska appealed against the above-mentioned decision, nevertheless the Management Board cannot assure that the appeal will be allowed and the decision will be reversed.

In December 2008 the President of the Office for the Protection of Competition and Consumers ("UOKiK") issued a decision in which he stated that Tele2 Polska had breached the collective consumer interest by charging a fee of PLN 100 (not in thousands) to its clients for early termination of agreements concluded for a specified term. In the decision the President of UOKiK imposed on Tele2 Polska a fine of PLN 3,978. The decision of the President of UOKiK was not made immediately binding and enforceable. Tele2 Polska has appealed against the said decision. Due to the merger of Tele2 Polska and Netia, on February 27, 2009 Netia became a party to the above-mentioned proceedings conducted by SOKiK. In the decision dated on January 15, 2010 SOKiK has decreased the fine to PLN 1,989.

On November 19, 2010, the Appellate Court dismissed the appeal. The fine was paid.

Netia filed a cassation appeal against the judgment of the Appellate Court. However, the cassation appeal was not accepted for consideration by the Supreme Court. .

The Appellate Court rendered two judgments in which it held that the standard terms and conditions and price lists used by Tele2 Polska are abusive with respect to an obligation of a subscriber to reimburse the operator for the costs of requests for payment and debt collection proceedings. Both judgments of the appellate court are final and binding. Therefore Tele2 Polska is obliged to amend the standard contracts. The Management Board cannot assure that as a result of the aforementioned judgments, the Netia Group will not incur further costs regarding possible private claims for reimbursement.

Other regulatory risks

The President of the UKE is regularly carrying out inspections of compliance of the companies from the Netia Group with the provisions of the Telecommunications Law and using frequency and numbering conditions. In cases provided for in the Telecommunications Law, the President of UKE may fine the companies from the Group with a fine up to 3% of revenues of the previous calendar year.

The Management Board cannot assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine.

The President of UOKiK is entitled, *inter alia*, to conduct proceedings concerning compliance of standard terms and conditions applied by the Companies belonging to the Group with requirements stemming from the law on protection of competition and consumers, as well as other regulations aiming at protecting consumers' interest. In cases provided for in the law on protection of competition and consumers the President of UOKiK may impose on the Companies belonging to the Group a fine amounting up to 10% of their income earned in the preceding calendar year.

The Management Board is unable to assure that within the scope of the explanatory proceedings the President of UOKiK will consider standard terms and conditions applied by the Companies belonging to the Group to be compliant with the respective legal requirements, thus excluding the risk of fine imposition.

Risk of collective suits

On July 19, 2010, a law on prosecution of claims in collective procedure, which provides for possibility of bringing an action to the court by a group of at least 10 people, came into force. A judgment passed as a result of such a suit regards all the members of such a group. The Management Board cannot exclude risk of bringing such actions against the Company in the future.

Risk of growth of competition as market converge

The Company's current core offerings are voice telephony and broadband data services. In addition to the incumbent and other alternative operators, mobile operators and cable operators provide significant competition for both types of service.

Moreover cable operators and TP SA also offer television and content services and some cable operators now offer quadruple play bundles including mobile telephony. Certain satellite TV operators are responding to the situation by also moving into the resale of fixed telephony and/or broadband thereby further increasing the competition to Netia's core services. Netia intends to respond to this competitive pressure and convergence of product offerings by itself offering television services over upgraded networks. However no assurance can be given that this tendency of operators of different types of infrastructure to offer similar multi-service bundles will not lead to the gradual erosion of margins, profitability and cash flows.

In addition, significant new operators may enter the Polish market or mergers between existing market participants may significantly alter the competitive landscape in a way that might materially deteriorate Netia's competitive position.

Risk of competition from TP SA and TP SA obedience to the UKE decisions

TP SA occupies a leading position in Poland among operators paying cable phone services. At the same time its position in the market of data transmission is well established. In the scope of cable phone services, Netia Group has to face competition from TP SA in all the geographic areas it operates on. TP SA is a much larger entity than Netia Group and possesses far broader backbone and access network. TP SA is engaged in many years' relations with numerous clients that constitute a target client group of Netia Group. Infrastructure exploited by TP SA in the main cities of the country is comparable in terms of advancement of applied technologies to the infrastructure of Netia Group. However, TP SA may also make use of the offer of its main subsidiary unit, the Orange mobile network operator, as well as of TV services, in a manner that Netia currently would not be able to copy. One cannot exclude that aggressive competition from TP SA will have a significant adverse effect on Netia Group revenues and its operating activities outcomes.

TP SA is the owner of local access networks (local loops) and offers access to these local loops networks to other operators on terms that in many cases make it unprofitable to connect client to the network. However, since 2006 the Regulator has issued decisions establishing reference offers for access to TP SA networks that currently is regarded by Netia to be commercially profitable. Due to the above in 2006 Netia signed a cooperation agreement with TP SA enabling Netia to offer Internet access to TP SA clients on the basis of regulatory TP SA wholesale offer called bit stream access. In June 2007 Netia and TP SA concluded networks interconnection agreements that complexly regulate terms of cooperation between operators. This agreement also applies to cooperation with TP SA in the scope previously addressed in separate agreements on networks interconnection concluded by companies from Netia Group, whose rights and obligations Netia entered into under regulations of the code of commercial partnerships and companies. By virtue of the Settlement Agreement Netia acknowledged this rule on January 22, 2010, placing with TP SA a binding statement on regarding the interconnection agreement between Netia and TP SA of June 30, 2007, as the basis for serving all of the Netia services users in the scope of networks interconnection. In January 2007 the President of UKE issued a decision on amendment of interconnection agreement between TP SA and Premium Internet – a company belonging to Netia Group (which in 2008 merged with Tele 2 Polska, the latter in February 2009 merged with Netia), in the scope of wholesale line rental (WLR). The decision of the President of UKE introduced a basis for a new form of access to TP SA network enabling Netia Group to offer voice services to TP SA clients. In October 2008 a WLR decision in favor of Netia was issued, as well. Moreover, in April 2007 Netia concluded an agreement with TP SA on full and shared local loop unbundling, with use of which Netia Group offers voice and data transmission services, and in the future plans to pay different value-added services such as interactive TV service (IPTV). Whereas the key commercial terms of these services provision laid down in the Regulator's decisions are currently attractive, still the operational cooperation with TP SA aiming at provision and maintenance of such services for end users will require closer cooperation than it used to be in the past.

Notwithstanding the Settlement Agreement between the President of UKE and TP SA, the Management Board is not able to guarantee that TP SA will cooperate on an adequate level of engagement, nor that the regulatory body will react forcing TP SA to realize the cooperation. Moreover, we are unable to give assurance that change of market situation, future court judgments or regulatory body decisions will not cause that currently existing possibilities of services provision for clients through use of TP access networks to be no longer profitable from the commercial point of view.

Possible future competition from new generation networks

The most modern fixed line telephony networks being deployed around Europe by incumbent operators and by cable TV operators utilize fiber to the curb (FTTC), fiber to the building (FTTB) or fiber to the home (FTTH) to significantly increase bandwidth delivered to the end user. New built Networks based on IP protocols may gradually eliminate the traditional telephony equipment and copper access cables and will replace it by fiber optic cables and new generation optical transmission systems. Moreover, many incumbents are lobbying to receive relief from regulatory obligations for a period of time in order to improve their returns from such large investments. In the future it may also become possible for public authorities or public/private partnerships to gain access to investment subsidies that could lead to new sources of competition from NGN networks. New generation networks (NGNs), if deployed in Poland, could materially deteriorate the economic returns Netia plans to earn from regulatory access products such as bitstream, WLR and LLU. Management can give no assurance that NGN networks will not be deployed in Poland by entities having access to public funding not available to Netia and, if this does occur, whether the regulator will ensure alternative network operators such as Netia enjoy fair access to such a network on acceptable economic terms.

Competition from cellular mobile telephone operators

In recent years, services offered by cellular telephone operators have negatively affected wire line telephone operators. This stems largely from mobile substitution, whereby subscribers choose to make telephone calls using their mobile phones in preference over fixed telephones, resulting either in less traffic or disconnections for fixed line operators. Mobile substitution becomes more pronounced as mobile tariffs decline, as they have in recent years, converging with traditionally lower cost fixed line tariffs. Similar substitution effects may also apply to broadband services, given the increased take-up of mobile broadband services offered by mobile operators.

To help mitigate the losses to mobile operators, Netia has begun to offer convergent products via a wholesale mobile service provider agreement to take mobile services, both voice and broadband, from P4 that Netia may then resell under the Netia brand to Netia customers.

Since 2008, certain Polish mobile operators have been marketing fixed internet access services via the fixed access network of TP SA, on the basis of regulated bitstream access decisions. This represents a significant new source of competition for market share in the fixed broadband market.

Competition from cable operators

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging. However, Netia is reviewing alternatives to combat this threat. Specifically, IPTV offers fixed line telephone operators the ability to compete directly with cable television operators. The market importance of IPTV and related services (such as video on demand) is continually being analyzed in the context of Netia's strategy to expand its share of the broadband market. The Company is working on solutions to provide profitable TV services to its customers and expects that such services should reduce churn and increase margins per customer. However no assurance can be given that Netia will be successful in implementing a profitable TV service business model. Should such services be insufficiently well received by our existing and potential customers, it may adversely affect our revenues and margins in the future.

Market consolidation

Market consolidation through acquisitions remains an effective way for fixed line operators to strengthen their market position by utilizing the effects of scale. In the past Netia has successfully acquired several telecommunications operators making it the market leader for consolidation.

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy, Netia continues to closely monitor the situation of all its main altnet competitors and may choose to try to acquire one or more of these competitors in the future if the opportunity arises. Some acquisitions may consume a considerable portion of Netia's financial resources and no assurance can be given that expected synergies from such acquisitions will be reached as planned.

Certain potential acquisition targets, should they become available for sale, would require Netia to raise significant amounts of financial indebtedness and / or to issue new shares or equity related instruments in order to fund a transaction. Management cannot guarantee that such funding will be available when needed on acceptable terms or that such an acquisition would not significantly increase the funding risk profile of the Netia Group.

Moreover, should we be outbid by a competitor on any particular large acquisition opportunity, our position as the leading alternative operator on the Polish telecommunications market and the strategic advantages that this position creates may be materially affected.

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 regulations and their interpretation (not in thousands)

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.

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 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.

According to Netia, the decisions of the UKS Director and the Tax Chamber Director are in conflict with the relevant tax regulations. In addition to major procedural faults, Netia believes that the tax authorities' decisions incorrectly interpret and apply a number of material regulations. According to the Company the following are the most important deficiencies:

1. Incorrect interpretation of art. 11 of the CIT Act (which deals with transfer pricing), especially the notion of "services" and "more favorable conditions" and assumption that the non-commencement of the execution procedure constitutes such a service of the lender towards the debtor on non-market conditions. Such interpretation of this provision and its application towards the Company is not justified in the light of the fact that in the decision issued by the tax authorities it was confirmed that loans were granted on market terms; (interest, payment terms, etc.).

2. Failure to consider the absolutely mandatory prohibition on broadening the interpretation of art. 11 of the CIT Act, which covers exceptions from the principle of taxing actual revenue, without special care and consideration of all business, legal and economic circumstances. In the case of Netia the tax authorities did not take into account issues such as:

   - Netia was not able to report interest income in 2003 because even if Netia had received interest from its subsidiaries the amount received would have been spent on the repayment of Netia's interest liabilities (and the repayment of the interest would have been a tax deductible cost);

   - the execution of interest by court enforcement proceedings, which according to the Tax Chamber Director and the UKS Director is the only proper way to proceed when debts remain unpaid, would be inefficient from a business and economic point of view and would have led to the bankruptcy of the subsidiaries. The Company chose the less expensive way, by settling its receivables through merger with its subsidiaries and thereby taking over their operating assets. In parallel to this restructuring, Netia restructured its own liabilities with the external lenders to the group;

   - to assess Netia's conduct of non-commencement of a formal execution procedure (comparable market transaction) in the case of loans granted to its subsidiaries the tax authorities considered exclusively the loan granted by Netia to Millennium Communications; in fact, Netia was involved in numerous litigations with Millennium Communications due to the unsuccessful acquisition of that company by Netia.

3. Ignoring the norms of art. 12 of the CIT act by rejecting in the decision the rule that exclusively interest received constitutes taxable revenue (on the cash basis) and leading to the situation where the tax payer's revenue is assessed in violation of general principles relating to the mode of revenue generation.

4. Netia's taxable losses were settled incorrectly, resulting in a significant overstatement of tax being claimed. Whilst the Tax Chamber Director has recognized some of the Company's corrections to the CIT calculation in respect to 2003, reducing the claimed amount by PLN 15 million, the Company continues to claim other increases in taxable expenses that the Tax Chamber Director has not accepted.

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 subsequently conceded by the Tax Authority as overpayment.

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 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 15 March 2011 the Voivodeship 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 and Netia's claim for PLN 58,325 thousands plus interest is now being treated as a contingent asset in the Group's accounts.

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

Although the Management are committed to taking all possible legal steps to win this claim and continues to hold the view that the Company's legal arguments are strong, Management can give no assurance that any or all of these amounts will be ultimately recovered from the tax authorities.

6. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 18) and interim condensed financial statements of Netia (Note 17).

7. Guidance for 2011, medium term outlook for 2011-2012 and the long term outlook beyond 2012 (not in thousands)

The Management Board of Netia SA following an analysis of the Company's financial and operating results for the nine months of the financial year 2011, releases a revised guidance for the 2011 financial year.

Netia revised guidance for 2011 is as follows:

	Guidance 2011
Revenue (PLN m)	> 1,590.0
Adjusted EBITDA (PLN m)	> 405.0
Adjusted EBITDA margin (%)	25%
Adjusted EBIT (PLN m)	> 95.0
Capital investment (excl. M&A) (PLN m)	230.0
Capital investment to sales (%)	14%
Operating free cash flow (OpFCF)	170.0
Number of broadband service clients (Growth includes Ethernet acquisitions)	750,000
Unbundled local loop (LLU) nodes	700

In addition, Netia forecasts to make a net profit for the full year 2011.

The mid-term guidance remains as follows:

Mid-term guidance (2010-2012)	
Revenue growth (CAGR) total	3% - 5%
Revenue growth (CAGR) in retail market segments	5% - 10%
EBITDA margin in 2012 (%)	28%

The Company's long-term strategic financial goals published together with Strategy 2020 in January 2011 are as originally published.

Long-term strategic financial goals (beyond 2012)*
Blended** fixed line market share to grow from 11.5% to at least 15%
Expected revenue growth above 2% per annum delivers increasing value share
EBITDA margins in 26% - 28% range throughout
Capex to sales ratio to stay below 15% during network upgrade (2011 – 2013) and falling to 10% - 12% thereafter (2014 – 2020)
OpFCF margin to sales continuously above 10%

* *The above guidance excludes impact of potential transformational M&A activities*

** *Average of the fixed voice and fixed broadband market shares in the Polish fixed telecom market.*

The medium-term guidance shown above was originally issued in 2009 and does not take into consideration the impact of the pending acquisitions of Dialog and Crowley. It shall be replaced by guidance for 2012 to be issued early next year once dates of closing the two acquisitions are established and once budgets and integration plans for the expanded Netia Group have been approved.

The long-term strategic financial goals issued together with the Strategy 2020 shall also be updated to reflect the expanded Netia Group during the course of 2012.

8. Loans, warranties and collaterals

Undrawn borrowing facilities

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.

9. Other information

The commencement of the Share Buy-Back Program

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. The shares acquired by the Company pursuant by the Company to the program comprised1.28% of the Company's share capital as at September 30, 2011.

Moreover, between September 30, 2011 and the date of filing this report 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.

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.

Warsaw, November 2, 2011