Annual Financial Report

Containing:

- Independent auditors' opinion
- Consolidated financial statements
  as at and for the year ended December 31, 2009

www.investor.netia.pl

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INDEPENDENT AUDITORS' OPINION

To the Shareholders and Supervisory Board of Netia S.A

We have audited consolidated financial statements of Netia S.A. Group ('the Group'), for which the holding company is Netia S.A. ('the Company'), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to consolidated financial statements ("the attached consolidated financial statements").

Management's Responsibility for the Financial Statements

The Company's management is responsible for the preparation and fair presentation of the attached consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the EU. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the attached consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the attached consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the attached consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

ERNST & YOUNG W POLSCE JEST CZŁONKIEM GLOBALNEJ PRAKTYKI ERNST & YOUNG
Sąd Rejonowy dla m.st. Warszawy w Warszawie, XII Wydział Gospodarczy Krajowego Rejestru Sądowego, KRS: 0000006468
NIP 526-020-79-76, Kapitał zakładowy: 5 210 500 zł

ERNST & YOUNG

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The convenience translations are disclosed as part of the consolidated financial statements. The convenience translation for the year ended 31 December 2009 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at 31 December 2009 of PLN 4.1082 to EUR 1.00. We have not audited these translations and accordingly we do not report thereon. The Euro amounts presented in these consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp zoo

Ernst & Young Audit Sp. z o.o.

Warsaw, 19 February 2010

NETIA S.A.
CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2009

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NETIA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at December 31, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated) (PLN)	December 31, 2009 (PLN)	Convenience Translation December 31, 2009 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	1,415,994	1,384,714	337,061
Intangible assets	8, 9	412,480	388,557	94,581
Investment property	10	36,133	35,574	8,659
Deferred income tax assets	33	564	79,400	19,327
Available for sale financial assets		10	10	2
Long term receivables	12	6,623	676	165
Prepaid expenses and accrued income	13	16,867	8,830	2,149
Total non-current assets		**1,888,671**	**1,897,761**	**461,944**
Current assets				
Inventories	11	5,060	3,143	765
Trade and other receivables	12	168,664	173,606	42,259
Current income tax receivables		201	59	14
Prepaid expenses and accrued income	13	18,294	20,228	4,924
Derivative financial instruments	16	-	110	27
Financial assets at fair value through profit and loss	16	5,905	3,660	891
Held to maturity investments	14	-	58,489	14,237
Restricted cash	15	2,712	2,330	567
Cash and cash equivalents	15	192,685	181,203	44,108
		393,521	**442,828**	**107,792**
Assets classified as held for sale		513	87	21
Total current assets		**394,034**	**442,915**	**107,813**
Total assets		**2,282,705**	**2,340,676**	**569,757**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Grzegorz Esz
Member of the Management Board

Warsaw, Poland
February 19, 2010

NETIA S.A.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONT'D)
as at December 31, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated)	December 31, 2009	Convenience Translation December 31, 2009
		(PLN)	(PLN)	(EUR)
EQUITY				
Share capital		389,277	389,277	94,756
Share premium		1,556,489	1,356,652	330,230
Retained earnings		(41,245)	247,258	60,186
Other components of equity		23,960	32,264	7,854
Total equity	17	**1,928,481**	**2,025,451**	**493,026**
LIABILITIES				
Non-current liabilities				
Provisions	18	7,537	1,401	341
Deferred income	22	7,779	7,289	1,774
Deferred income tax liabilities	33	9,121	-	-
Other long term liabilities	20	2,898	5,895	1,435
Total non-current liabilities		**27,335**	**14,585**	**3,550**
Current liabilities				
Trade and other payables	20	297,809	255,788	62,264
Derivative financial instruments	16	-	4,423	1,077
Borrowings	19	-	347	84
Other financial liabilities		304	80	19
Current income tax liabilities		53	1	0
Provisions	18	6,345	4,888	1,190
Deferred income	22	22,378	35,113	8,547
Total current liabilities		**326,889**	**300,640**	**73,181**
Total liabilities		**354,224**	**315,225**	**76,731**
Total equity and liabilities		**2,282,705**	**2,340,676**	**569,757**

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)	Convenience Translation Year ended December 31, 2009 (EUR)
CONSOLIDATED INCOME STATEMENT				
Revenue		1,112,394	1,505,871	366,553
Revenue generated by group of assets held for sale		8,774	-	-
Total revenue	23	**1,121,168**	**1,505,871**	**366,553**
Cost of sales	24	(823,513)	(1,005,518)	(244,759)
Gross profit		**297,655**	**500,353**	**121,794**
Selling and distribution costs	25	(275,185)	(338,446)	(82,383)
General and administration costs	26	(146,270)	(173,458)	(42,222)
Other income	28	11,599	17,890	4,355
Other expenses	29	(447)	(2,068)	(503)
Other gains / (losses), net	30	12,942	9,965	2,426
Operating profit / (loss)		**(99,706)**	**14,236**	**3,467**
Finance income	31	10,689	7,564	1,841
Finance costs	31	(9,859)	(20,707)	(5,040)
Gain on sale of an associate		353,381	-	-
Share of losses of former associates		(22,625)	-	-
Profit before income tax		**231,880**	**1,093**	**268**
Income tax benefit / (charge)	33	(1,275)	87,572	21,316
Profit		**230,605**	**88,665**	**21,584**
Profit attributable to:				
Owners of the Company		230,605	88,665	21,584
Non-controlling interest		-	-	-
		230,605	**88,665**	**21,584**
Earnings per share (expressed in PLN per share)				
- basic	34	0.59	0.23	0.01
- diluted	34	0.59	0.23	0.01

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

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)	Convenience Translation Year ended December 31, 2009 (EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME				
Profit		**230,605**	**88,665**	**21,584**
Cash flow hedges (acquisition of Tele2 Polska)	8	(284)	284	69
Cash flow hedges (equipment and construction contracts)	16	-	(2,391)	(582)
Income tax relating to components of other comprehensive income		-	454	111
Other comprehensive income		**(284)**	**(1,653)**	**(402)**
TOTAL COMPREHENSIVE INCOME		**230,321**	**87,012**	**21,182**
Total comprehensive income attributable to:				
Owners of the Company		230,321	87,012	21,182
Non-controlling interest		-	-	-
		230,321	**87,012**	**21,182**

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Share premium	Retained earnings	Other supplementary capital associated with former associate	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2008		**389,277**	**1,641,398**	**(356,759)**	**40,102**	**14,676**	**(425)**	**1,728,269**
Dilution gain in former associate...........		-	-	-	9,530	-	-	9,530
Sale of investment in associate.............		-	-	-	(49,632)	-	425	(49,207)
Coverage of Netia's 2007 loss		-	(84,909)	84,909	-	-	-	-
Employee share option scheme:								
- value of services provided................	17	-	-	-	-	9,568	-	9,568
Total comprehensive income		-	-	230,605	-	-	(284)	230,321
Balance as at December 31, 2008......		**389,277**	**1,556,489**	**(41,245)**	**-**	**24,244**	**(284)**	**1,928,481**

	Note	Share capital	Share premium	Retained earnings	Other supplementary capital associated with former associate	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2009		**389,277**	**1,556,489**	**(41,245)**	**-**	**24,244**	**(284)**	**1,928,481**
Coverage of Netia's 2008 loss		-	(199,837)	199,837	-	-	-	-
Employee share option scheme:								
- value of services provided................	17	-	-	-	-	9,957	-	9,957
Total comprehensive income		-	-	88,665	-	-	(1,653)	87,012
Balance as at December 31, 2009......		**389,277**	**1,356,652**	**247,258**	**-**	**34,201**	**(1,937)**	**2,025,451**

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)	Convenience Translation Year ended December 31, 2009 (EUR)
Cash flows from operating activities:				
Profit		**230,605**	**88,665**	**21,584**
Adjustments for:				
Depreciation and amortization	7, 9, 10	270,347	298,566	72,676
Impairment charges for specific individual assets		447	2,068	503
Share of losses of former associates		22,625	-	-
Deferred income tax charge / (benefit)	33	846	(88,303)	(21,494)
Interest expense and fees charged on bank loans	19	7,667	4,520	1,100
Other interest charged		928	430	105
Financial guarantee contract		(435)	-	-
Interest accrued on loans granted		(24)	(5)	(1)
Share-based compensation	17	9,568	10,332	2,515
Fair value (gains) / losses on financial assets / liabilities		(167)	1,171	285
Fair value (gains) / losses on derivative financial instruments		-	5,018	1,221
Foreign exchange (gains) / losses		(315)	7,249	1,764
Gain on disposal of fixed assets		(5,748)	(7,369)	(1,794)
Gain on sale of an associate		(353,381)	-	-
Gain on disposal of group of assets		(5,093)	-	-
Gain on sale of investments		(9)	(148)	(36)
Changes in working capital	36	(7,067)	(22,075)	(5,374)
Net cash provided by operating activities		**170,794**	**300,119**	**73,054**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(257,053)	(237,774)	(57,878)
Purchase of operational networks	8	(1,567)	(2,850)	(694)
Proceeds from sale of fixed assets		8,851	48,847	11,890
Proceeds from sale of group of assets		6,000	2,000	487
Investment in former associate		(8,124)	-	-
Proceeds from sale of an associate		453,770	-	-
Purchase of subsidiaries, net of cash received	8, 36	(132,976)	(57,762)	(14,060)
Purchase of treasury bonds / notes, net		-	(57,055)	(13,888)
Sale of investments		25	999	243
Loan repayments		462	278	68
Net cash used in / provided by investing activities		**69,388**	**(303,317)**	**(73,832)**
Cash flows from financing activities:				
Finance lease payments		(2,150)	(3,392)	(826)
Proceeds from borrowings	19	110,000	-	-
Loan payments	19	(205,502)	-	-
Interest payments		(5,980)	-	-
Payments of fees relating to bank loans		(4,484)	(3,645)	(887)
Net cash used in / provided by financing activities		**(108,116)**	**(7,037)**	**(1,713)**
Net change in cash and cash equivalents		**132,066**	**(10,235)**	**(2,491)**
Exchange gains / (losses) on cash and cash equivalents		**2,922**	**(1,247)**	**(304)**
Cash and cash equivalents at beginning of period		57,697	192,685	46,903
Cash and cash equivalents at end of period		**192,685**	**181,203**	**44,108**

1. The Company and the Netia Group

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

The consolidated financial statements of Netia S.A. for the year ended December 31, 2009 comprise the Company and its subsidiaries. A list of the Company’s subsidiaries is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company’s Management Board on February 19, 2010.

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

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

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

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

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 22 such operators with a total of 94,188 (not in thousands) active customers. Additionally, since the end of 2008 the Netia Group has acquired 6,523 (not in thousands) customers and local networks from other Ethernet operators.

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

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

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

Going concern

As at December 31, 2009, the Company’s equity amounted to PLN 2,025,451 and the Netia Group had working capital of PLN 142,275. As at December 31, 2009 the Netia Group had net cash available of PLN 181,203, PLN 60,000 in nominal value of treasury notes and undrawn borrowing facilities of PLN 295,000 (see Notes 14 and 19). Furthermore, Netia’s operations were free cash flow generative in 2009 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company’s ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Significant subsidiaries of the Company

The consolidated financial statements include the accounts of the Company's directly or indirectly held subsidiaries:

Subsidiary	Ownership Percentage	
	December 31, 2008	December 31, 2009
Subsidiaries held directly:		
InterNetia Holdings Sp. z o.o. (previously InterNetia Sp. z o.o.)	100	100
In2Loop Sp. z o.o.	100	100
Netia Corpo Sp. z o.o. (previously Net 2 Net Sp. z o.o.)	-	100
Tele2 Polska Sp. z o.o. [1]	100	N/A
Netia Spółka Akcyjna UMTS a limited joint stock partnership [1]	100	N/A
Netia UMTS Sp. z o.o. [1]	-	N/A
Subsidiaries held indirectly:		
Connect Systemy Komputerowe Sp. z o.o. [5]	100	N/A
Cybertech Sp. z o.o. [2]	100	N/A
Easy Com Sp. z o.o. [2]	100	N/A
eTychy Sp. z o.o.	-	100
Global Connect Sp. z o.o.	-	100
Interbit Sp. z o.o. [5]	100	N/A
Internetia Sp. z o.o (previously Air Bites Polska Sp. z o.o.)	100	100
Lanet Sp. z o.o. [5]	100	N/A
Systemy Informatyczne Netis Sp. z o.o. [5]	100	N/A
Netster Sp. z o.o. [2]	100	N/A
Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. [5]	100	N/A
Seal-Net Sp. z o.o. [3]	100	N/A
Ticom Sp. z o.o. [4]	100	N/A
UNI-Net Sp. z o.o. [6]	100	N/A
UNI-Net Poland Sp. z o.o.(established through a corporate separation from UNI-Net Sp. z o.o.)	-	100

[1] *merged with Netia*
[2] *merged with Connect Systemy Komputerowe Sp. z o.o.*
[3] *merged with Lanet Sp. z o.o.*
[4] *merged with Systemy Informatyczne Netis Sp. z o.o.*
[5] *merged with Internetia Sp. z o.o.*
[6] *merged with InterNetia Holdings Sp. z o.o.*

Shares held by Netia in its subsidiaries give the Company a corresponding number of votes at the shareholders' meetings.

All the Company's subsidiaries are incorporated in Poland.

3. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of December 31, 2009, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued and effective as at the time of preparing these consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2008, except for new accounting standards adopted as of January 1, 2009.

Certain Group entities (acquired in 2009) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities into conformity with IFRS.

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2009 of PLN 4.1082 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

Changes in estimates

In the year ended December 31, 2009 the Netia Group reassessed the useful lives of its property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Increase / (Decrease) in the depreciation charge recognized in 2009	Relevant decrease in the depreciation charge in 2010
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2010	(86)	86
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2010,	(792)	788
	- useful lives of various assets were shortened to December 2009	3,019	(1,087)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2009	(187)	187
Total impact		**1,954**	**(26)**

Reclassifications of comparatives

In 2009 the Netia Group implemented a new reporting format, aligned with internal management reporting therefore certain prior periods' amounts have been reclassified to conform to the presentation for the year ended December 31, 2009. Presentations of revenue and expenses have been reclassified in order to better reflect the specifics of the operations, but without any impact on previously reported total revenue, gross profit, operating profit / (loss) and net results. As a result, certain revenue or cost items for the comparative periods included in the notes may vary from data presented previously.

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

In 2009, the Netia Group adopted the following new standards, amendments to standards and new interpretations:

- IFRS 8, 'Operating Segments';
- Amendments to IFRS 2 "Share-based payments";
- Revised IAS 1 "Presentation of Financial Statements";
- Revised IAS 23, 'Borrowing costs';
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation";
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" - "Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate";
- Amendments to IFRS 7 - Improving disclosures about financial instruments;
- Amendments to IFRS resulting from the annual improvements project;
- Amendments to IFRIC 9 "Reassessment of embedded derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - "Embedded Derivatives";
- IFRIC 13, 'Customer Loyalty Programmes';
- IFRIC 15, "Agreements for the Construction of Real Estate";
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation";
- IFRIC 18, "Transfers of Assets from Customers ".

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a "management approach" to segment reporting, under which segment information is presented on the same basis as that used for internal reporting purposes. Previously, under IAS 14, the Netia Group had only one business segment – telecommunications (due to small relative size of mobile radio services operations, the Netia Group did not treat it as a separate segment). The new standard has resulted in the designation of four new reportable segments (for details see Note 6). As goodwill must be allocated at the segment level, the change in reportable segments has required the allocation of goodwill to the newly identified operating segments. This allocation has not resulted in any additional impairment of goodwill.

The adoption of revised IAS 1 has resulted in a change in presentation of certain items of income and expenses in the statement of changes in equity ('non-owner changes in equity' are presented separately from 'owner changes in equity'). All 'non-owner changes in equity' are shown in the statement of comprehensive income comprising a separate income statement and a statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. As the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

The adoption of amended IFRS 7 resulted in additional disclosures regarding fair value measurement and liquidity risk (see Note 4).

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

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2009 and have not been adopted early:

- Revised IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements" applicable for annual periods beginning on or after July 1, 2009. The revised standards bring a further development of the acquisition accounting model and compulsory adoption of the economic entity approach;

- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" - "Eligible Hedged Items", effective for annual periods beginning on or after July 1, 2009. This amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations;

- Restructured IFRS 1 "First-time Adoption of International Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009. The amendment corrects a potential technical problem arising from the interaction of IFRS 1 and the revised IFRS 3 "Business Combinations" and amended IAS 27 "Consolidated and Separate Financial Statements";

- IFRIC 17, " Distributions of Non-cash Assets to Owners", effective for annual periods beginning on or after July 1, 2009. IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, the dividend payable should be measured at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss;

- Amendments to IFRS resulting from the annual improvements project, effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, depending on which IFRS the amendment relates to. The amendments have not yet been endorsed by the EU;

- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions", effective for annual periods beginning on or after January 1, 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments have not yet been endorsed by the EU;

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters", effective for annual periods beginning on or after January 1, 2010. The amendment has not yet been endorsed by the EU;

- Amendment to IAS 32 "Financial Instruments: Presentation. Classification of Rights Issues" applicable for annual periods beginning on or after February 1, 2010. The amended standard clarifies the classification of rights issues. This amendment has not yet been endorsed by the EU;

- Revised IAS 24 "Related Party Disclosures" applicable for annual periods beginning on or after January 1, 2011. The revised standard simplifies the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition. This revised standard has not yet been endorsed by the EU;

- IFRS 9 "Financial Instruments" applicable for annual periods beginning on or after January 1, 2013. IFRS 9 is the first part of Phase 1 of the Board's project to replace IAS 39. IFRS 9 improves and simplifies the approach for classification and measurement of financial assets compared with the requirements of IAS 39. This standard has not yet been endorsed by the EU;

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after July 1, 2010. This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability. This interpretation has not yet been endorsed by the EU;

- Amendments to IFRIC 14 "Prepayments of a Minimum Funding Requirement", effective for annual periods ending on or after January 1, 2011. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset. The amendments have not yet been endorsed by the EU;

- Amendment to IFRS 1 "Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters" , effective for annual periods beginning on or after July 1, 2010. The amendment applies the same transition provisions for first-time adopters as for existing preparers of financial statements included in Amendments to IFRS 7 "Improving Disclosures about Financial Instruments". The amendment has not yet been endorsed by the EU.

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

Consolidation

(a) Subsidiaries

Subsidiaries, which are those entities in which the Company has a shareholding of more than one half of the voting rights or otherwise has the power to govern the financial and operating policies, are consolidated. The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Company controls another entity.

Subsidiaries are consolidated from the date on which control is transferred to the Company. From the date that control ceases, subsidiaries are no longer consolidated and investment in such an entity is accounted for in accordance with IAS 39, provided that it does not become an associate.

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets transferred, equity instruments or liabilities incurred or assumed at the date of acquisition plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognized directly in the income statement. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated but considered an impairment indicator of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Netia Group.

(b) Associates

Associates are all entities over which the Netia Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights or otherwise has power to participate in the financial and operating policy decisions.

Investments in associates are accounted for using the equity method and are initially recognized at cost. The Netia Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition. The Netia Group's share of its associates' post-acquisition profits or losses is recognized in the income statement. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Netia Group's share of losses in an associate equals or exceeds its interest in the associate, including any other long-term unsecured receivables, the Netia Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealized gains on transactions between the Netia Group and its associates are eliminated to the extent of the Netia Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Dilution gains and losses in associates, resulting from changes recognized directly in other comprehensive income of associates, are recognised in other comprehensive income.

Indemnification assets and liabilities in business combinations

When an indemnification asset appears during purchase price allocation, it is treated as a separate element purchased by the Netia Group in addition to the business acquired. This asset is not offset against the contingent liability recognised during valuation of the acquired companies. Any amount received under the indemnity is treated as a realisation of that asset and is not adjusted against the cost of the business combination.

Contingent assets are recognized when it is virtually certain that inflow of economic benefits will arise. In situations where the Netia Group has agreed to share the benefits of such contingent assets with the seller, a corresponding liability is also recognized if it is probable that the outflow of future economic benefits will be required.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Management Board. The Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement. As at each reporting day assets and liabilities denominated in foreign currencies are revalued at average exchange rates of the National Bank of Poland prevailing at the date of financial statement.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment in value, plus related inflation adjustment through December 31, 1996. Fixed assets under construction represent the accumulation of costs associated with the construction of telecommunication and data transmission networks and other tangible fixed assets. The Netia Group includes in the construction cost of its networks all eligible borrowing costs and expenditures that are directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Costs relating to the fixed assets under construction are transferred to the related property, plant and equipment account and depreciation begins when they are available for use.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Netia Group and the cost can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Upon purchase, fixed assets are divided into components, which represent items with a significant value and to which a separate useful life can be allocated.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings	10 to 40 years
Fixed telecommunications network	15 to 40 years
Telecommunications equipment	5 to 15 years
Machinery and equipment	5 to 12 years
Office machinery and equipment	3 to 10 years
Vehicles	5 to 8 years

Land and fixed assets under construction are not depreciated.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with the carrying amount. These are included in the income statement.

Investment property

Investment property consists of the former head office held to earn rentals or for capital appreciation (only an insignificant portion may be held for supply of services or for administrative purposes). Investment property is measured at cost less any accumulated depreciation and impairment losses.

Depreciation expense is recorded utilizing the straight-line method over the estimated useful lives of the assets. These lives are summarized as follows:

	Term
Buildings	10 to 40 years
Fixed telecommunications network	15 to 40 years
Office machinery and equipment	3 to 10 years

Land is not depreciated.

Non-current assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use. Those assets are available for immediate sale in their present condition subject only to terms that are usual and customary for sales of such assets and the sale is highly probable.

Leases

(a) Group as a lessee

Leases where the Netia Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the income statement over the lease period. The property, plant and equipment acquired under finance leases are depreciated over the useful life of the asset. If there is no reasonable certainty that the Netia Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the lease term and its useful life.

Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term.

(b) Group as a lessor

Leases where a significant portion of the risks and rewards of ownership are retained by the Group (the lessor) are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Intangible assets

(a) Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization and impairment losses. If payment for the license is deferred beyond normal credit terms, its cost is the net present value of the obligation. The present value of the obligation is calculated using the Netia Group's effective borrowing rates at the time the license was granted. Any differences between the nominal price of the license and its present value are treated as interest costs. Interest costs are capitalized until substantially all the activities to prepare the asset for its intended use are complete and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is capable of operating in the manner intended by management and is calculated on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years. As at December 31,2009 the Netia Group possessed only telecommunication licenses.

(b) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Netia Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Separately recognized goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

(c) Computer software costs

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful lives (up to 5 years).

Costs associated with maintaining computer software programmes are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Netia Group and that will probably generate economic benefits, exceeding costs, beyond one year, are recognized as intangible assets. Direct costs include staff costs of the software development team and an appropriate portion of relevant overheads. Computer software development costs, recognized as assets, are amortized using the straight-line method over their estimated useful lives, not exceeding a period of 5 years.

(d) Customer relationships

Customer relationships acquired separately are measured on initial recognition at cost. The cost of customer relationship acquired in a business combination is recognized at fair value as at the date of acquisition. Customer relationships are amortized using the straight-line method over their estimated useful lives of 3 - 5 years.

Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses relating to non-financial assets other than goodwill may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If this is the case, the carrying amount of the asset is increased to its recoverable amount. That increased carrying amount cannot exceed the lower of its recoverable amount and the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such a reversal is recognized in the income statement. After such a reversal the depreciation charge for the asset is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial assets

The Netia Group classifies its financial assets in the following categories: available-for-sale financial assets, financial assets at fair value through profit and loss, held-to-maturity investments and loans and receivables.

(a) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative assets that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless Management intends to dispose of the financial assets within 12 months of the balance sheet date.

(b) Financial assets at fair value through profit and loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term. Financial assets, designated as at fair value through profit or loss at inception, are those that are managed and their performance is evaluated on a fair value basis, in accordance with the Netia Group's documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the Netia Group's key management personnel. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that Management has the positive intention and ability to hold to maturity. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date, which are classified as current assets.

(d) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as "trade and other receivables" in the balance sheet.

Purchase and sales of financial assets are recognized at the trade date on which the Group commits to purchase or sell the asset. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Netia Group has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets and financial assets at fair value through profit and loss are subsequently carried at fair value. Loans and receivables are carried at amortized cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets at fair value through profit and loss category are included in the income statement in the period in which they arise. Unrealized gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognized in other comprehensive income. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

The Netia Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value.

The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Netia Group designates certain derivatives as hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge).

The Netia Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Netia Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. When the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, purchases of fixed assets), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory, or in depreciation in case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

Gains and losses arising from changes in fair value of derivatives that economically hedge commercial transactions and were not designated as hedging instruments are presented within finance income / cost.

Inventories

Inventories are stated at the lower of cost and net realizable value, determined on a first-in first-out (FIFO) basis. Net realizable value is the estimated selling price in the ordinary course of business less applicable variable selling expenses.

Trade and other receivables

Trade and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. If it is probable that the Netia Group will not be able to collect amounts due, according to the original terms of receivables, a provision for impairment is recognized in the income statement within "Selling and distribution costs". The amount of the provision is measured as the difference between the carrying amount of receivables and the present value of expected future cash flows, discounted at the effective interest rate. Any amounts reversed during the period are presented net with the impairment provisions. The carrying amount of the asset is reduced through the use of an allowance account. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank and short-term deposits with an original maturity of three months or less. Cash is carried in the balance sheet at nominal value.

Share capital

All shares outstanding issued by the Company are classified as equity. External costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share-based compensation

The Netia Group operates an equity-settled, share-based compensation plan. Share options are granted to employees and board members of the managing bodies of the Company. Upon exercise of the options, the Company will issue to each exercising participant the number of shares representing the value equivalent to the participant's gain from the exercise of the options. No proceeds are received when the options are exercised. The vesting period for the options ranges up to three years from the date of grant or upon achieving certain specified conditions.

The fair value of the employee services received in exchange for the grant of options is recognized as an employee benefit expense with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to other reserves.

Retirement benefits

The Netia Group makes contributions to the Government's retirement benefit scheme at the applicable rate during the period based on gross salary payments (the "State Plan").

The State Plan is funded on a pay-as-you-go basis, i.e. the Netia Group is only obliged to pay the contributions as they fall due based upon a percentage of salary and if the Netia Group ceases to employ members of the State Plan, it will have no obligation to pay any additional benefits. The State Plan is a defined contribution plan. The expense for the contributions is charged to the income statement in the same period as the related salary expense.

Employees are entitled to severance payments, which are paid on a one-off basis on retirement. The amount of retirement severance payments is defined in the Labour Code (an average monthly remuneration). The provision recognised in the Netia Group's balance sheet in respect of retirement severance payments is the present value of the future obligation. This provision is calculated annually by independent actuaries using the projected unit credit method. The present value of the retirement severance payments is determined by discounting the estimated future cash outflows using interest rates of long-term bonds that are denominated in the currency in which the benefits will be paid. Actuarial gains and losses are charged or credited to the income statement.

Provisions

Provisions are recognized when the Netia Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Netia Group has recognized provisions for loss on rental contracts, a contract related to voice termination services (onerous contracts)legal claims and restructuring. Costs related to the ongoing activities of Netia Group are not provided in advance. Provisions are not recognized for future operating losses.

Provisions for onerous contracts are recognized when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

Provisions for claims (legal, regulatory and contractual) are recognized when, based on all available evidence, it is more likely than not that a present obligation exists at the balance sheet date, the outflow of benefits relating to the claim is probable and it is possible to estimate this reliably.

Provisions for claims are recorded at the estimated value of costs to be incurred. Provisions for onerous contracts are calculated based on the value of future net cash outflows by the termination of a contract. If a contract is concluded for a period exceeding the 12-month period from the balance sheet date, the provision is recorded based on the discounted value of net cash outflows.

Employment restructuring and termination benefits provisions comprise employee termination payments and are recognized in the period in which Netia Group becomes legally or constructively committed to payment.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessment of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Trade and other payables

Trade and other payables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Corresponding borrowing costs are recognized in profit or loss in the period in which they are incurred, unless they are capitalized.

Borrowings are derecognized when the obligation under the liability is discharged or cancelled or expires. Where existing borrowings are replaced by others from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the income statement.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Revenue

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Netia Group's activities. Revenue is shown net of value added tax, rebates and discounts and after eliminated sales within the Group.

Telecommunications revenue includes direct voice products, such as monthly charges and calling charges. Revenue from calling charges is recognized in the income statement at the time a call is made over the Netia Group's network. Telecommunications revenue includes also services other than traditional direct voice, such as indirect voice, data transmission, interconnection, wholesale and other telecommunication services, as well as sales of goods. Other telecommunication revenue comprises intelligent network services, the provision of Internet dial-in services for Netia's indirect customers, Internet callback services, as well as other non-core revenues. Other telecommunication revenues are recognized in the income statement in the period to which the services relate.

Revenues relating to promotional offers are stated net of discounts. For certain commercial offers where customers are offered a free or significantly discounted service over a certain period in exchange for contracting for a fixed period (time-based incentives), the total revenue generated under the contract is spread over the fixed, non cancelable period of the contract, thereby creating accrued income.

Interconnection revenues are derived from calls and other traffic that originate in other domestic or foreign operators' networks but use the Netia Group's network. The Netia Group receives interconnection fees based on agreements entered into with other telecommunication operators. These revenues are recognized in the income statement in the period the services relate to.

Radio communications revenue includes revenue from specialized mobile radio service (public trunking), through the Company's subsidiary UNI-Net Poland Sp. z o.o. Service revenues are recorded when the service is provided. Revenue from the sale of equipment is recorded when the equipment is delivered to the customer.

Deferred income

Deferred income is recognized when the income is invoiced during an accounting period, but for which the Netia Group has still to supply the related services. It includes deferred revenues from rental contracts and subscriptions relating to future periods. Deferred income is classified as current if the service is expected to be supplied within 12 months of the balance sheet date.

Deferred income also includes government grants relating to property, plant and equipment. Government grants are credited to the income statement on a straight-line basis over the expected lives of the related assets.

Interconnection charges

Interconnection with other telecommunication operators is required to complete calls that originate in but terminate outside of the Netia Group's network or originate outside the network and terminate within it, or are only transferred through the Netia Group's network. The Netia Group pays interconnection charges based on agreements entered into with other telecommunication operators.

Subscriber acquisition costs

Subscriber acquisition costs are recognized as an expense of the period in which they are incurred.

Interest income

Interest income is recognized on a time-proportion basis using the effective interest method. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

Interest and foreign exchange gains / (losses)

The amounts of interest and foreign exchange gains / (losses), which do not relate to debt and management of cash and cash equivalents are presented at appropriate categories of revenues and operating income/expenses.

Current and deferred income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in Poland where the company's subsidiaries operate and generate taxable income.

Deferred income tax is provided, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes and for tax losses. Currently enacted tax rates are used to determine deferred income tax. The principal temporary differences arise from different valuations of depreciable assets and accruals for tax and accounting purposes.

Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which temporary differences can be utilized. Deferred income tax assets are also recognized for unused tax losses carried forward and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilized:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of goodwill, an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, the Company or its subsidiaries have a legally enforceable right to set off current tax assets against current tax liabilities, and the deferred income tax assets and the deferred income tax liabilities relate to income taxes levied by the same taxation authority on the same taxable base.

Value Added Tax

Revenues, expenses and assets are recognised net of the amount of value added tax except:

- where the value added tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case value added tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of value added tax included.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Dividend distribution

Dividend distributions to the Company's shareholders are recognized as a liability in the Netia Group's consolidated financial statements in the period in which the dividends are approved by the Company's General Shareholders' Meeting.

4. Financial risk management

Financial risk factors

The Netia Group's activities expose it to a variety of financial risks: market risk (including currency risk and price risk), credit risk and liquidity risk. The Netia Group's overall risk management program focuses on minimizing potential adverse effects of those risks on the financial performance of the Netia Group. The Netia Group uses derivative financial instruments to hedge certain risk exposure. The Management Board provides written principles for overall risk management, as well as written policies covering specific areas, such as use of derivative financial instruments, credit risk and price risk.

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in Polish Złoty, other than some payments made under the equipment and construction contracts, which are linked to Euro and U.S. Dollars. In order to mitigate the currency risk the Netia Group sometimes holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, in the year ended December 31, 2009 the Company entered into several forward transactions to hedge exposure against currency risk related to planned capital expenditures and expected operational expenses.

At December 31, 2009, if the Polish Złoty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated profit for the year ended December 31, 2009 would have been PLN 35 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated trade, investment and other payables partially offset by Euro denominated cash deposits and trade receivables. Furthermore, at December 31, 2009, the hedging reserve in shareholders' equity would have been PLN 167 higher (lower) and the profit for the year ended December 31, 2009 would have been PLN 214 higher (lower), as a result of fair value gains (losses) on Euro denominated forward contracts designated as cash-flow hedges of future planned capital expenditures.

At December 31, 2008, if the Polish Złoty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated profit for the year ended December 31, 2008 would have been PLN 141 higher (lower), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated cash deposits, partially offset by Euro denominated other payables.

At December 31, 2009, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated profit for the year ended December 31, 2009 would have been PLN 7 (PLN 17 for the corresponding period in 2008) higher (lower), mainly as a result of foreign exchange gains (losses) on translation of U.S. Dollar denominated cash deposits and trade receivables, partially offset by U.S. Dollar denominated trade and investment payables. Furthermore, at December 31, 2009, the hedging reserve in shareholders' equity would have been PLN 114 higher (lower) and the profit for the year ended December 31, 2009 would have been PLN 48 higher (lower), as a result of fair value gains (losses) on U.S. Dollar denominated forward contracts designated as cash-flow hedges of future planned capital expenditures.

- Interest rate risk:

The Netia Group's exposure to the risk of changes in market interest rates relates primarily to finance lease obligations with floating interest rates. If the market interest rates had been 50 basis points higher (lower) during the year ended December 31, 2009, interest costs relating to finance lease obligations would have been PLN 49 (PLN 17 for the corresponding period in 2008) higher (lower).

- Price risk:

The Netia Group is exposed to equity securities price risk because of its investment in equity of another entity that is publicly traded. If the market price of these shares had been higher (lower) by 1% as at December 31, 2009, finance costs recognized by the Netia Group in the consolidated income statement would have been PLN 12 lower (higher).

Credit risk

Credit risk arises from cash and cash equivalents, including deposits with banks, as well as credit exposures to customers, including outstanding receivables.

The Netia Group had no significant concentrations of credit risk throughout the year 2009. Cash deposits are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilization of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

Liquidity risk

Management monitors rolling forecasts of the Netia Group's liquidity reserve on the basis of expected cash flow. The Company invests surplus cash in interest bearing current accounts, time deposits and marketable securities, choosing instruments with appropriate maturities or sufficient liquidity to provide sufficient cash to service forecasted payments. Due to the dynamic nature of the underlying business, the Netia Group aims to maintain flexibility in funding by keeping borrowing facilities available.

The table below analyses the Netia Group's non-derivative financial liabilities that will be settled on a net basis into relevant maturity groupings based on the remaining period from the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their nominal values, as the impact of discounting is not significant.

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
As at December 31, 2009				
Bank borrowings	347	-	-	-
Trade and other payables excluding statutory liabilities	222,730	4,222	1,452	382
Other financial liabilities	80	-	-	-
As at December 31, 2008				
Trade and other payables excluding statutory liabilities	287,377	1,749	372	896
Other financial liabilities	304	-	-	-

The table below analyses the Netia Group's derivative financial instruments with a negative fair value, that will be settled on a net basis, based on their contractual maturities. The table presents the gross undiscounted cash flows and a reconciliation of those amounts to their carrying amounts.

As at December 31, 2009	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
EUR forward contracts				
Inflows	34,281	-	-	-
Outflows	(36,798)	-	-	-
Net	(2,517)	-	-	-
Discounted at the applicable interbank rates	(2,504)	-	-	-
USD forward contracts				
Inflows	14,971	-	-	-
Outflows	(16,904)	-	-	-
Net	(1,933)	-	-	-
Discounted at the applicable interbank rates	(1,919)	-	-	-

Fair value estimation

Effective January 1, 2009, the Netia Group adopted the amendment to IFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Netia Group's assets and liabilities that are measured at fair value at December 31, 2009:

	Level 1 (PLN)	Level 2 (PLN)	Level 3 (PLN)	Total balance (PLN)
Assets				
Financial assets at fair value through profit or loss				
- Trading securities	3,060	-	-	3,060
- Trading derivatives	-	600	-	600
Derivatives used for hedging	-	110	-	110
Available-for-sale financial assets	-	-	10	10
Total assets	**3,060**	**710**	**10**	**3,780**
Liabilities				
Financial assets at fair value through profit or loss				
- Trading derivatives	-	80	-	80
Derivatives used for hedging	-	4,423	-	4,423
Total liabilities	**-**	**4,503**	**-**	**4,503**

The fair value of financial instruments traded in active markets (such as equity securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The fair value of forward currency contracts is determined using quoted forward exchange rates at the balance sheet date. Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

The nominal value less impairment provision of receivables and liabilities with a maturity of less than one year are assumed to approximate their fair values.

Capital risk management

The Netia Group's objectives when managing capital are to safeguard the Netia Group's ability to continue as a going concern in order to provide returns for shareholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Netia Group may return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Netia Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital employed. Net debt is calculated as total borrowings, as shown in the consolidated balance sheet, less cash and cash equivalents. Total capital employed is calculated as equity, as shown in the consolidated balance sheet, plus net debt.

As at December 31, 2009 and December 31, 2008, the Netia Group had net cash available of PLN 181,203 and PLN 192,685, respectively.

Financial instruments by category

December 31, 2009	Loans and receivables	Assets at fair value through profit and loss	Derivatives used for hedging	Available for sale financial assets	Held to maturity investments	Total
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Financial assets						
Available-for-sale financial assets	-	-	-	10	-	10
Trade and other receivables excluding statutory receivables	173,581	-	-	-	-	173,581
Derivative financial instruments	-	-	110	-	-	110
Financial assets at fair value through profit or loss	-	3,660	-	-	-	3,660
Held to maturity investments	-	-	-	-	58,489	58,489
Restricted cash	2,330	-	-	-	-	2,330
Cash and cash equivalents	181,203	-	-	-	-	181,203
Total financial assets	**357,114**	**3,660**	**110**	**10**	**58,489**	**419,383**

December 31, 2009	Liabilities at fair value through profit and loss	Derivatives used for hedging	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Financial liabilities					
Finance leases	-	-	-	10,591	10,591
Trade and other payables excluding statutory liabilities	-	-	217,553	-	217,553
Derivative financial instruments	-	4,423	-	-	4,423
Borrowings	-	-	347	-	347
Other financial liabilities	80	-	-	-	80
Total liabilities	**80**	**4,423**	**217,900**	**10,591**	**232,994**

December 31, 2008	Loans and receivables	Assets at fair value through profit and loss	Available for sale financial assets	Total
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Financial assets				
Available-for-sale financial assets	-	-	10	10
Trade and other receivables excluding statutory receivables	173,264	-	-	173,264
Financial assets at fair value through profit or loss	-	5,905	-	5,905
Restricted cash	2,712	-	-	2,712
Cash and cash equivalents	192,685	-	-	192,685
Total financial assets	**368,661**	**5,905**	**10**	**374,576**

December 31, 2008	Liabilities at fair value through profit and loss	Other financial liabilities at amortised cost	Finance leases	Total
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Financial liabilities				
Finance leases	-	-	4,029	4,029
Trade and other payables excluding statutory liabilities	-	285,975	-	285,975
Other financial liabilities	304	-	-	304
Total liabilities	**304**	**285,975**	**4,029**	**290,308**

5. Critical accounting estimates and judgments

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the current or next financial year are described below.

(a) Deferred income tax

As part of the process of preparing the consolidated financial statements, the Management is required to estimate the Netia Group's income taxes. This process involves estimating the Netia Group's actual current tax exposure together with assessing temporary differences resulting from different treatment for tax purposes compared to the accounting treatment, such as the valuation of tangible fixed assets, accruals and provisions. These differences result in deferred income tax assets and liabilities, which are recognized in the consolidated balance sheet.

The deferred income tax calculation is based on the probability that future taxable profit will be available against which temporary differences, the unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which contain a considerable amount of uncertainty.

The Management is required to assess the likelihood that deferred income tax assets will be recovered from future taxable income, and to the extent the recovery is probable the deferred income tax assets are recognized. Significant management estimates are required in the valuation of the Netia Group's deferred income tax assets. These estimates take into consideration future taxable income projections, potential volatility in those projections, historical results and ongoing tax planning strategies. Management's assessment also considered such factors as: the stability and trend of past earnings, the nature of the business and industry, the economic environment in which the Netia Group operates and the stability of local legislation.

Based on the above assumptions and Management's assessment of the Netia Group tax position as of December 31, 2009, including tax projections, the recognized deferred income tax assets as at December 31, 2009 amounted to PLN 79,400.

Because of the above and also due to results of final reviews of our tax returns by tax authorities actual results may differ and our estimates may be altered to reflect changes in the economic, technological and competitive environment in which the Netia Group operates. Consequently, we may need to adjust the valuation of our deferred income tax assets, which could potentially materially impact our financial position and results of operations.

(b) Impairment of goodwill and other non-financial assets

The Netia Group tests annually whether goodwill has suffered any impairment and assesses at each balance sheet date whether there is any indication that an asset may be impaired.

As a result of previous annual impairment tests the Netia Group recorded impairment charges of PLN 354,672 and PLN 799,695 in 2006 and 2003, respectively.

For the purpose of impairment testing of goodwill the total amount of goodwill was allocated to the following operating segments:

	Home	SOHO / SME	Corporate	Carriers	Total goodwill
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at December 31, 2009............................	136,640	10,006	-	3,278	149,924
As at December 31, 2008...........................	127,221	9,941	-	3,256	140,418

For the purpose of impairment testing of other non-financial assets the Management identified the entire Netia Group (besides non-current assets of UNI-Net Poland Sp. z o.o.) as one cash-generating unit ("CGU"). Non-current assets of UNI-Net Poland Sp. z o.o. represent a separate CGU and no indications of impairment have been identified for them.

The recoverable amount of goodwill allocated to operating segments and the CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on assumptions underlying the budget for the next year and an approved updated business plan covering a five-year period. The business plan assumptions are consistent with main strategic objectives announced by Netia in April 2007 and subsequently updated periodically in a medium-term outlook. Only currently active projects are included in projections. As a result, cash-flows from expected future acquisitions of Ethernet operators or from investments in IPTV are not included in the cash-flow projections. Cash flows beyond the five-year period are extrapolated using a long term growth rate of 0.5%, which is compatible with the industry projections for the operations concerned. The discount rate used of 13.2% (in 12.8% 2008) is pre-tax and reflects Management assessment of the Company's weighted average cost of capital ("WACC"). In estimating WACC, Management assesses specific risks relating to the Netia Group operations, such as regulatory and technology risks, that may increase volatility of expected cash flows. The post-tax equivalent of the WACC used in value-in-use calculations is 12.1% (11.9% in 2008).

The impairment test of non-current assets show that the recoverable amount of the CGU is approximately equal to its carrying value and, consequently, any adverse change in a key assumption would result in a further impairment loss, whilst any favorable change would result in a reversal of previously recorded impairments. The results of the test are highly sensitive to key assumptions as illustrated in the following table:

	Impairment reversal / (charge)	
Change in key assumptions	(PLN)	(PLN)
WACC of 13.2% pre-tax		
(increase / decrease by 1 percentage point)	(126,534)	150,234
Terminal growth rate of 0.5% per annum		
(increase / decrease by 1 percentage point)	101,699	(85,556)
Cash flow projections 2010 - 2014		
(increase / decrease by 1% in each year)	16,693	(16,693)

The recoverable amount of goodwill allocated to operating segments is higher than their carrying amounts and as a result no impairment loss has been recognized. Sensitivity of the estimated pre-tax WACC of 13.2% applied to the discounted cash flows of each operating segment is summarized in the following table:

	Home	SOHO / SME	Corporate	Carriers
The Netia Group would have to recognise an impairment loss on goodwill if pre-tax WACC of 13.2% had been increased to......................................	14.7%	20.5%	23.0%	19.1%

The determination of impairment of goodwill and non-current assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment. Impairment is based on a large number of factors, such as changes in the current competitive conditions, expectations of growth in the telecommunications industry, cost of capital, technological obsolescence and other changes in circumstances that indicate an impairment exists. While the estimation of recoverable amount is based on current assessment of telecommunication market conditions and Management's best estimates and judgment, these estimates include a considerable amount of uncertainty. The actual outcome is uncertain and Management estimates may change in the future to reflect changes in the economic, technological and competitive environment, in which the Company operates.

(c) Useful lives of non-current assets

Non-current assets, consisting primarily of property, plant and equipment and intangibles, comprise a significant portion of the Netia Group's total assets. Changes in the intended use of these assets, technological development and market conditions may cause the estimated period of use or the value of these assets to change. The Netia Group perform internal studies on an annual basis to confirm the appropriateness of its estimates of the economic useful lives for each category of current property, plant and equipment and other non-current assets. In determining the initial and remaining estimated useful life of a fixed asset, Management considers:

- the physical life of the asset;
- the technological life of the asset;
- the lives for similar productive assets; and
- the expected period that benefits will be derived from the asset.

The foregoing estimates and assumptions are inherently uncertain and subject to change, including as a result of factors outside the Netia Group's control. If the estimated useful life is shortened, the Netia Group depreciate or amortize the remaining value of the asset over the revised remaining life of the asset. Likewise, if the anticipated technological or other changes occur more slowly than expected, the life of the group could be extended based on the life assigned to new assets added to the group. This could result in a reduction of depreciation and amortization expense in future periods. Management's estimates of useful lives affect the amount of gains or losses reported on the disposal or retirement of non-current assets.

(d) Customer relationships

In 2009 and previous years the Netia Group acquired Tele2 Polska, Pro Futuro and numerous internet service providers or local networks. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the expected present value of the future economic benefits that will flow to an owner of an intangible asset. These analyses require certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

6. Segment information

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

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

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

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

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the years ended December 31, 2009 and 2008, respectively:

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Year ended December 31, 2009							
Revenue from external customers	**772,008**	**179,448**	**349,514**	**198,249**	**1,499,219**	**6,652**	**1,505,871**
EBITDA	106,886	55,954	175,043	102,613	440,496	(127,694)	312,802
Depreciation and Amortization	(36,126)	(24,033)	(141,664)	(65,229)	(267,052)	(31,514)	(298,566)
Operating profit / (loss)	**70,760**	**31,921**	**33,379**	**37,384**	**173,444**	**(159,208)**	**14,236**
Finance income / (cost), net	-	-	-	-	-	(13,143)	(13,143)
Income tax benefit / (charge)	-	-	-	-	-	87,572	87,572
Profit / (Loss)	**70,760**	**31,921**	**33,379**	**37,384**	**173,444**	**(84,779)**	**88.665**
Capital expenditure	78,146	15,954	87,698	31,804	213,602	32,821	246,423
Year ended December 31, 2008							
Revenue from external customers	**412,572**	**142,417**	**344,900**	**211,896**	**1,111,785**	**9,383**	**1,121,168**
EBITDA	4,696	30,457	162,283	73,731	271,167	(100,526)	170,641
Depreciation and amortization	(66,566)	(29,287)	(112,930)	(26,699)	(235,482)	(34,865)	(270,347)
Operating profit / (loss)	**(61,870)**	**1,170**	**49,353**	**47,032**	**35,685**	**(135,391)**	**(99,706)**
Gain on sale of an associate	-	-	-	-	-	353,381	353,381
Finance income / (cost), net	-	-	-	-	-	830	830
Share of loss of former associate	-	-	-	-	-	(22,625)	(22,625)
Income tax benefit / (charge)	-	-	-	-	-	(1,275)	(1,275)
Profit / (Loss)	**(61,870)**	**1,170**	**49,353**	**47,032**	**35,685**	**194,920**	**230,605**
Capital expenditure	54,862	17,796	67,412	55,423	195,493	52,170	247,663

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

	Year ended December 31, 2008	**Year ended December 31, 2009**
	(PLN)	(PLN)
EBIT for reportable segments	35,685	173,444
Radio communication segment	1	(220)
Gain on disposal of group of assets	5,093	-
General fixed costs (incl. administration, IT, professional services)	(99,069)	(109,642)
Restructuring costs	-	(11,740)
Other operating expenses	(7,157)	(6,645)
Depreciation and amortization of unallocated assets (excluding radio communication segment)	(34,259)	(30,961)
Gain on sale of an associate	353,381	-
Finance income / (cost), net	830	(13,143)
Share of loss of former associate	(22,625)	-
Income tax benefit / (charge)	(1,275)	87,572
Profit / (Loss)	230,605	88,665

The following table presents assets allocated to certain segments, as at the end of the current period and at the end of the most recent annual financial year. Segment assets do not include telecommunications licenses and permits, investment property, deferred tax, cash and other financial assets as these assets are managed on a group basis.

Segment assets	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at December 31, 2009	428,993	162,492	827,594	393,792	1,812,871	527,805	2,340,676
As at December 31, 2008	643,057	218,230	774,364	208,155	1,843,806	438,899	2,282,705

A reconciliation of assets for reportable segments to total assets is provided as follows:

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Assets for reportable segments	1,843,806	1,812,871
Telecommunication licenses / permits	110,139	91,555
Investment property	36,133	35,574
Deferred income tax assets	564	79,400
Indemnities received	12,188	4,550
Transaction costs related to the credit facility	5,486	1,522
VAT and other government receivables	2,003	698
Loans	273	-
Derivative financial instruments	-	110
Financial assets at fair value through profit and loss	5,905	3,660
Held to maturity investments	-	58,489
Restricted cash	2,712	2,330
Cash and cash equivalents	192,685	181,203
Assets classified as held for sale	513	87
Radio communication segment	3,224	3,945
Other unallocated assets	67,074	64,682
Total assets	2,282,705	2,340,676

Revenues of approximately PLN 44,814 (PLN 42,645 for the corresponding period in 2008) are derived from a single external customer. These revenues are attributable to the “Carriers” segments.

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

(All amounts in thousands, except as otherwise stated)

7. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2009	36,121	3,395	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,123,251
Additions	218	-	652	321	200	925	201	219,582	222,099
Purchase of subsidiary	-	-	837	186	348	6	60	930	2,367
Purchase of operational networks	-	-	991	278	-	-	-	223	1,492
Transfers	8,092	-	43,106	150,509	6,316	4,924	-	(212,947)	-
Disposals	-	(281)	(931)	(21,960)	(470)	(2,982)	(3,703)	(741)	(31,068)
Other movements	1,095	-	13,464	(8,262)	(3,349)	(2,824)	-	-	124
Gross book value as at December 31, 2009	45,526	3,114	2,026,040	1,895,760	110,263	123,778	5,993	107,791	4,318,265
Accumulated depreciation as at January 1, 2009	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Depreciation expense	2,878	-	72,181	144,851	6,646	6,994	1,547	-	235,097
Purchase of subsidiary	-	-	-	-	-	-	-	-	-
Disposals	-	-	(505)	(3,881)	(334)	(2,727)	(2,336)	-	(9,783)
Other movements	149	-	91	3,285	(3,685)	309	-	-	149
Accumulated depreciation as at December 31, 2009	20,203	-	794,051	910,493	64,420	100,844	3,668	-	1,893,679
Accumulated impairment as at January 1, 2009	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Impairment charge for specific assets	-	-	-	-	-	-	-	1,683	1,683
Transfers	18	-	29	366	26	8	-	(447)	-
Disposals	-	(113)	(184)	(290)	(26)	(244)	-	(4)	(861)
Other movements	10	-	124	(699)	567	(3)	-	10	9
Accumulated impairment as at December 31, 2009	7,341	1,125	631,419	368,640	18,404	10,133	30	2,780	1,039,872
Net book value as at January 1, 2009	11,632	2,157	614,187	639,187	27,588	17,089	4,948	99,206	1,415,994
Net book value as at December 31, 2009	**17,982**	**1,989**	**600,570**	**616,627**	**27,439**	**12,801**	**2,295**	**105,011**	**1,384,714**

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2008	31,893	3,380	1,916,212	1,723,266	96,223	114,671	12,203	130,083	4,027,931
Additions	1,590	-	969	1,113	970	3,070	121	197,301	205,134
Purchase of subsidiary	365	-	804	20,529	588	3,380	186	1,787	27,639
Purchase of operational networks	-	-	782	192	-	-	1	-	975
Transfers	4,721	114	43,515	162,854	8,379	7,267	1	(226,851)	-
Transfers to assets held for sale	(1,688)	-	(121)	(7,765)	(44)	(398)	(5)	(807)	(10,828)
Disposals	(365)	(99)	(564)	(116,276)	(2,335)	(3,911)	(3,072)	(768)	(127,390)
Other movements	(395)	-	6,324	(9,225)	3,437	(350)	-	(1)	(210)
Gross book value as at December 31, 2008	36,121	3,395	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,123,251
Accumulated depreciation as at January 1, 2008	15,577	-	653,274	723,207	56,053	93,809	5,084	-	1,547,004
Depreciation expense	1,860	-	67,993	131,668	5,998	6,530	1,781	-	215,830
Transfers to assets held for sale	(16)	-	-	(2,115)	(16)	(176)	(5)	-	(2,328)
Disposals	(244)	-	(78)	(84,149)	(2,192)	(3,618)	(2,404)	-	(92,685)
Other movements	(1)	-	1,095	(2.373)	1,950	(277)	1	-	395
Accumulated depreciation as at December 31, 2008	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Accumulated impairment as at January 1, 2008	7,347	1,278	631,084	399,616	16,747	10,693	238	5,327	1,072,330
Impairment charge for specific assets	-	-	-	373	-	-	-	74	447
Transfers	40	1	80	3,031	162	41	-	(3,355)	-
Transfers to assets held for sale	(7)	-	-	(1,068)	(5)	(42)	-	(295)	(1,417)
Disposals	(67)	(41)	(16)	(31,195)	(91)	(320)	(208)	(74)	(32,012)
Other movements	-	-	302	(1,494)	1,024	-	-	(139)	(307)
Accumulated impairment as at December 31, 2008	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Net book value as at January 1, 2008	8,969	2,102	631,854	600,443	23,423	10,169	6,881	124,756	1,408,597
Net book value as at December 31, 2008	**11,632**	**2,157**	**614,187**	**639,187**	**27,588**	**17,089**	**4,948**	**99,206**	**1,415,994**

The transfers recorded in the year ended December 31, 2009 mainly relate to transfers from fixed assets under construction to fixed assets following the completion of construction.

During the year ended December 31, 2009 the Netia Group recognized impairment charges of PLN 1,056 for obsolete telecommunication equipment (PLN 74 in 2008) and of PLN 627 relating to discontinued investment projects.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 13,163 and PLN 15,173 were capitalized to fixed assets under construction during the year ended December 31, 2009 and December 31, 2008, respectively. Furthermore, in 2009 the Company capitalized PLN 1,117 of net cash losses on closed forward contracts, while PLN 610 of borrowing costs was capitalized in 2008.

The net carrying value of assets held under finance leases as at December 31, 2009 and December 31, 2008 is presented below:

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Fixed telecommunications network	17	44
Telecommunications equipment	4,596	15,245
Vehicles	387	-
	5,000	**15,289**

8. Acquisitions

Registration of new subsidiaries (not in thousand)

On January 30, 2009, the Company's subsidiary, Netia UMTS Sp. z o.o. ("Netia UMTS"), was registered in the National Court Register. Netia acquired 100 Netia UMTS shares (with a par value of PLN 50 per share) constituting 100% of Netia UMTS' share capital and giving Netia 100% of the voting power at Netia UMTS' general meeting of shareholders. Netia UMTS was merged with Netia on November 30, 2009.

On August 4, 2009, the Company's subsidiary, Net 2 Net Sp. z o.o. (currently operating under the name Netia Corpo Sp. z o.o., "Netia Corpo"), was registered in the National Court Register. Netia acquired 100 Netia Corpo shares (with a par value of PLN 50 per share) constituting 100% of Netia Corpo's share capital and giving Netia 100% of the voting power at Netia Corpo's general meeting of shareholders. The book value of Netia Corpo in Netia's accounts amounts to PLN 5,000. The investment is treated as long-term.

Corporate separation of a subsidiary

On May 29, 2009 Uni-Net Poland Sp. z o.o. ("Uni-Net Poland"), a subsidiary of InterNetia Holdings, was registered in the National Court Register. Uni-Net Poland was established through the corporate separation from Uni-Net. The corporate separation has been carried out through the division and transfer of business to the new entity Uni-Net Poland with a decrease in Uni-Net Sp. z o.o.'s share capital.

Operational networks

In February and December 2009 the Netia Group purchased networks and customers from Ethernet operators for a total price of PLN 3,073 (costs directly attributable to the acquisition amounted to PLN 260). Fair values of the acquired fixed assets and customer relationships were estimated at PLN 1,492 and PLN 1,181, respectively. Total cash outflow in the year 2009 relating to these acquisitions amounted to PLN 2,850. The goodwill of PLN 400 that arose on these transactions is based on the fair value of net assets acquired and is attributable to the synergies expected to arise after the Netia Group's acquisition of the above networks.

Tele2 Polska

On September 15, 2008 the Company finalised the purchase of 1,000 (not in thousand) shares in Tele2 Polska of nominal value of PLN 1,000, representing 100% of Tele2 Polska's share capital and conferring the right to 100% of the votes at the shareholders' meeting of Tele2 Polska. Upon closing of the transaction Netia paid EUR 31,385 in cash. The purchase consideration also reflected a future additional payment of up to EUR 4,800 dependent on Tele2 Polska's performance during the 12 month period after closing and a further future payment for the difference between actual net cash and net working capital and their respective target levels, provisionally estimated at PLN 24,394. The purchase price also included PLN 2,110 of restricted cash to be reimbursed to the seller if it is released by the Court.

On September 17, 2008 Tele2 Polska purchased 63,524 (not in thousand) shares in the share capital of In2Loop Sp. z o.o („In2Loop"), which represent 100% of the share capital and confer the right to 100% of votes at its shareholders' meeting. The total price for the shares was set at EUR 1.5. The share ownership transfer was made as a consequence of a share purchase agreement concluded by Tele2 Polska with Tele2 Sverige AB on September 10, 2008 and this purchase of shares by Tele2 Polska was an auxiliary element of the purchase transaction by Netia of 100% shares in Tele2 Polska. Following the purchase of In2Loop's shares, Tele2 Polska controlled one subsidiary.

The Netia Group accounted for the acquisition of Tele2 Polska using the purchase method and started consolidating the financial statements as of September 1, 2008 adjusting the consolidated statement of comprehensive income and the consolidated statement of financial position for material transactions, which took place between September 1, 2008 and September 15, 2008. The acquired company contributed revenue of PLN 129,466 and profit of PLN 21,006 in the four-month period ended December 31, 2008, after taking into account intercompany eliminations. If the acquisition had occurred on January 1, 2008, the Netia Group's revenue would have amounted to PLN 1,448,461, and profit would have been PLN 247,372.

During the twelve month period following Tele2 Polska's acquisition the Netia Group performed a valuation of Tele2 Polska's assets, liabilities and contingent liabilities. Additionally, during the purchase price allocation process the Netia Group identified customer relationships and a trademark as intangible assets. The fair value of customer relationships was estimated using the excess earnings method. The fair value of the trademark was based on estimated royalties. The valuation included provision for claims against the acquired company that may result in fines or costs being incurred by the Netia Group where relevant. The valuation also includes the indemnification asset equal to the part of any contingent loss that was indemnified by the seller.

Changes in Tele2 Polska's valuation from the date of acquisition in relation to contingent liabilities and indemnification asset are presented in the table below:

	Acquiree's carrying amount	Provisional fair value estimated as at December 31, 2008	Adjustments	Fair value as at December 31, 2009
	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	11,627	9,631	-	9,631
Customer relationships	-	32,314	-	32,314
Other intangible assets	975	3,855	-	3,855
Deferred income tax asset	1,901	396	-	396
Inventories	42	42	-	42
Receivables	50,524	64,433	(1,812)	62,621
Prepayments	5,030	5,030	-	5,030
Restricted cash	2,110	2,110	-	2,110
Cash and cash equivalents	27,039	27,039	-	27,039
Trade liabilities	(23,885)	(20,752)	-	(20,752)
Other liabilities and accruals	(25,535)	(43,167)	2,011	(41,156)
Deferred income	(6,376)	(6,376)	-	(6,376)
Deferred income tax liabilities	(1,901)	(6,704)	-	(6,704)
Net assets acquired	**41,551**	**67,851**	**199**	**68,050**

The 2008 comparative information has been restated to reflect the above adjustments in provisional valuation.

Upon the final settlement of the purchase consideration relating to the difference between Tele2 Polska's actual and contractually targeted levels of net cash and net working capital, the following changes to goodwill were recorded in the current period:

	Provisional fair value as at December 31, 2008	Adjustments	Fair value as at December 31, 2009
	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	147,780	334	148,114
Transaction costs	7,580	234	7,814
Goodwill adjustment	(1,617)	-	(1,617)
Fair value of net assets acquired	(67,851)	(199)	(68,050)
Goodwill	**85,892**	**369**	**86,261**

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Total purchase consideration settled in cash	(114,981)	(40,895)
Cash and cash equivalents in the subsidiary acquired	27,039	-
Cash outflow on acquisition	**(87,942)**	**(40,895)**

Ethernet operators

<u>Current period</u>

During the year ended December 31, 2009 Internetia Sp. z o.o., the Company's subsidiary, purchased two internet service providers offering broadband Internet access to residential clients. Details of those transactions are specified below:

Company	Date	Share capital acquired	Purchase price
			(PLN)
eTychy Sp. z o.o. ("eTychy")	December 7, 2009	100.0 %	4,798 *
Global Connect Sp. z o.o. ("Global Connect").	December 22, 2009	100.0 %	8,245
Total			**13,043**

* *The total price of all eTychy's shares has been set at PLN 4,798. The purchase price may be reduced to PLN 4,323 in case of non-fulfillment of certain conditions included in the related share purchase agreement.*

The Netia Group accounted for the acquisition of the acquired internet service providers using the purchase method and started consolidating the financial statements as of the following dates:

- December 1, 2009 – eTychy,
- December 31, 2009 – Global Connect.

The consolidated statements of operations and the consolidated balance sheet were adjusted for any material transactions, which took place between dates of acquisition and dates when the Netia Group began to consolidate financial statements of the acquired companies.

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

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

	Purchase consideration, excluding transaction costs	Transaction costs	Provisional fair values of net assets acquired	Goodwill
	(PLN)	(PLN)	(PLN)	(PLN)
eTychy	4,798	133	1,543	3,388
Global Connect	8,245	202	3,309	5,138
Total	**13,043**	**335**	**4,852**	**8,526**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisitions.

The assets and liabilities recognized in the consolidated balance sheet arising from the acquisition, as at the acquisition date, are as follows:

Acquiree's carrying amount	**eTychy**	**Global Connect**	**Total**
	(PLN)	(PLN)	(PLN)
Property, plant and equipment	764	1,603	2,367
Other intangible assets	2	1	3
Receivables	128	837	965
Prepayments	-	7	7
Cash and cash equivalents	100	51	151
Borrowings	-	(347)	(347)
Trade liabilities	(10)	(848)	(858)
Other liabilities and accruals	(234)	(124)	(358)
Net assets acquired	**750**	**1,180**	**1,930**

Provisional fair value	**eTychy**	**Global Connect**	**Total**
	(PLN)	(PLN)	(PLN)
Property, plant and equipment	764	1,603	2,367
Customer relationships	979	3,231	4,210
Other intangible assets	2	1	3
Receivables	128	349	477
Prepayments	-	7	7
Cash and cash equivalents	100	51	151
Borrowings	-	(347)	(347)
Trade liabilities	(10)	(848)	(858)
Other liabilities and accruals	(234)	(124)	(358)
Deferred income tax liabilities	(186)	(614)	(800)
Net assets acquired	**1,543**	**3,309**	**4,852**

Cash outflow	**eTychy**	**Global Connect**	**Total**
	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(4,456)	(8,447)	(12,903)
Cash and cash equivalents in the subsidiary acquired	100	51	151
Cash outflow on acquisition (see Note 36)	**(4,356)**	**(8,396)**	**(12,752)**

The following table presents contributed revenues and profits / (losses) of the acquired businesses from the date of acquisitions (after taking into account intercompany eliminations), as well as the Netia Group's revenue and loss if the acquisitions had occurred on January 1, 2009.

Company	Revenue of the acquired business	Profit / (Loss) of the acquired business	Revenue of the Netia Group	Profit of the Netia Group
	(PLN)	(PLN)	(PLN)	(PLN)
The Netia Group	*N/A*	*N/A*	1,505,871	88,665
eTychy	174	54	1,508,032	88,602
Global Connect	-	-	1,511,110	88,233
Total	**174**	**54**	**1,513,271**	**88,170**

The above investments are of a long-term nature.

Comparative period

During the year ended December 31, 2008 the Netia Group purchased the following internet service providers:

Company	Date	Share capital acquired	Purchase price
			(PLN)
Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. ("Punkt")	February 18, 2008	100.0 %	6,701
Connect Systemy Komputerowe Sp. z o.o. ("Connect").	June 11, 2008	100.0 %	4,503
Cybertech Sp. z o.o. ("Cybertech")	June 27, 2008	100.0 %	3,975
Internetia Sp. z o.o. (previously operating under the name Air Bites Polska Sp. z o.o., "Air Bites").	December 22, 2008	100.0 %	21,655
Easy Com Sp. z o.o. ("Easy Com").	December 22, 2008	100.0 %	6,068
Netster Sp. z o.o. ("Netster").	November 20, 2008	100.0 %	383
Ticom Sp. z o.o. ("Ticom")	December 12 , 2008	100.0 %	592
KOM-NET Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o. ("Kom-Net SK")	April 18, 2008	100.0 %	129
Seal-Net Sp. z o.o. ("Seal-Net").	October 7, 2008	100.0 %	456
Total			**44,462**

The Netia Group accounted for the acquisition of the acquired internet service providers using the purchase method and started consolidating the financial statements as of the following dates:

- February 29, 2008 – Punkt,
- June 2, 2008 – Connect,
- June 30, 2008 – Cybertech,
- April 30, 2008 – Kom-Net SK,
- October 2, 2008 – Seal-Net,
- November 30, 2008 – Netster,
- December 10 , 2008 – Ticom,
- December 31, 2008 – Air Bites and Easy Com.

The consolidated statement of comprehensive income and the consolidated statement of financial position were adjusted for material transactions, which took place between dates of acquisition and dates when the Netia Group began to consolidate financial statements of the acquired companies.

The following table presents contributed revenues and profits / (losses) of the acquired businesses during the period ended December 31, 2008 from the date of acquisitions (after taking into account intercompany eliminations), as well as the Netia Group's telecommunication revenue and loss if the acquisitions had occurred on January 1, 2008:

Company	Revenue of the acquired business	Profit / (Loss) of the acquired business	Revenue of the Netia Group	Profit of the Netia Group
	(PLN)	(PLN)	(PLN)	(PLN)
The Netia Group	*N/A*	*N/A*	*1,121,168*	*230,605*
Punkt	1,994	417	1,122,641	231,217
Connect *	1,726	(155)	1,121,168	230,290
Cybertech	1,042	35	1,122,686	230,917
Kom-Net SK	-	(5)	1,121,168	230,598
Seal-Net *	83	25	1,121,168	230,616
Netster	38	(22)	1,121,723	230,517
Ticom*	29	(6)	1,121,168	230,588
Air Bites	-	-	1,133,395	217,727
Easy Com*	-	-	1,121,168	230,174
Total	**4,912**	**289**	**1,136,941**	**217,804**

* *Connect, Seal-Net, Ticom and Easy Com were created before acquisition through the transformation of civil law partnership into a limited liability company and their revenues and profits prior to transformation cannot be reliably estimated by Netia.*

The Netia Group performed a valuation of the acquired companies' assets, liabilities and contingent liabilities, identified customer relationships as an intangible asset and recorded a related deferred income tax liability. The fair value of customer relationships was estimated using the excess earnings method.

(All amounts in thousands, except as otherwise stated)

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

	Purchase price provisionally estimated as at December 31, 2008	Transaction costs	Management Fee provisionally estimated as at December 31, 2008	Adjustments to purchase consideration made in 2009 *	Fair values of net assets acquired	Goodwill
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Punkt	6,701	411	-	-	3,495	3,617
Connect	4,503	184	-	-	2,136	2,551
Cybertech	3,975	148	-	-	2,309	1,814
Kom-Net SK	129	-	-	-	50	79
Seal-Net	456	33	343	-	138	694
Netster	383	30	-	-	164	249
Ticom	592	37	150	-	346	433
Air Bites	21,655	1,959	-	-	14,688	8,926
Easy Com	6,068	84	1,413	1,231	3,281	5,515
Total	**44,462**	**2,886**	**1,906**	**1,231**	**26,607**	**23,878**

** The 2008 comparative information has been restated to reflect the above adjustments in provisional valuation.*

The goodwill is based on the fair value of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition of the above companies.

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition of Ethernet operators in the year ended December 31, 2008, as at the acquisition date, are as follows:

	Acquiree's carrying amount	Fair value
	(PLN)	(PLN)
Property, plant and equipment	17,941	18,008
Customer relationships	1,088	9,719
Other intangible assets	446	447
Deferred income tax assets	-	23
Inventories	646	646
Receivables	880	880
Prepayments	203	203
Cash and cash equivalents	4,627	4,627
Assets held for sale	17	17
Borrowings	(642)	(642)
Trade liabilities	(2,139)	(2,161)
Other liabilities and accruals	(3,478)	(3,509)
Deferred income	(18)	(18)
Deferred income tax liabilities	-	(1,633)
Net assets acquired	**19,571**	**26,607**

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Total purchase consideration settled in cash	(46,391)	(4,104)
Cash and cash equivalents in the subsidiary acquired	4,627	-
Bank overdraft	(141)	-
Cash outflow on acquisition	**(41,905)**	**(4,104)**

The investments in the above companies' shares are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

9. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	**Trademark**	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2009 (Restated)........	140,418	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,085,392
Additions..	-	-	-	-	-	-	802	23,522	-	24,324
Purchase of subsidiaries	9,106	-	-	-	-	-	3	-	4,210	13,319
Purchase of operational networks	400	-	-	-	-	-	-	-	1,181	1,581
Transfers..	-	-	-	-	-	-	21,833	(21,833)	-	-
Gross book value as at December 31, 2009.................	149,924	2,970	432,823	7,417	107,354	20,329	317,073	6,382	80,344	1,124,616
Accumulated amortization as at January 1, 2009	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Amortization expense...	-	1,485	14,494	-	4,088	1,170	25,669	-	15,701	62,607
Other movements...	-	-	-	-	-	-	68	-	87	155
Accumulated amortization as at December 31, 2009..	-	2,970	208,456	1,539	51,865	4,057	193,487	-	31,510	493,884
Accumulated impairment as at January 1, 2009	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Impairment charge for specific assets	-	-	-	-	-	-	-	385	-	385
Transfers..	-	-	-	-	-	-	7	(7)	-	-
Other movements...	-	-	-	-	-	-	-	-	-	-
Accumulated impairment as at December 31, 2009....	-	-	159,788	5,878	28,511	3,408	43,998	385	207	242,175
								-		
Net book value as at January 1, 2009	140,418	1,485	79,073	-	31,066	14,034	82,694	4,686	59,024	412,480
Net book value as at December 31, 2009.....................	**149,924**	**-**	**64,579**	**-**	**26,978**	**12,864**	**79,588**	**5,997**	**48,627**	**388,557**

9. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	**Trademark (PLN)**	**Local telecommunication licenses / permits (PLN)**	**Data communications and internet licenses / permits (PLN)**	**Domestic long-distance licenses / permits (PLN)**	**WiMAX licenses (PLN)**	**Computer software (PLN)**	**Capital work in progress (PLN)**	**Customer relationships (PLN)**	**Total (PLN)**
Gross book value as at January 1, 2008	44,175	-	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Additions	-	-	-	-	-	-	664	40,066	232	40,962
Purchase of subsidiaries	110,086	2,970					1,332	-	42,033	156,421
Purchase of operational networks	-	-	-	-	-	-	-	-	592	592
Transfers	-	-	-	-	-	-	47,267	(47,267)	-	-
Transfers to assets held for sale	-	-	-	-	-	-	(54)	-	-	(54)
Disposals	-	-	-	-	-	-	(720)	-	-	(720)
Other movements	(13,843)	-	-	-	-	-	596	-	-	(13,247)
Gross book value as at December 31, 2008	140,418	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,085,392
Accumulated amortization as at January 1, 2008	-	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Amortization expense	-	1,485	14,910	-	3,673	1,170	23,492	-	8,833	53,563
Transfers to assets held for sale	-	-	-	-	-	-	(28)	-	-	(28)
Disposals	-	-	-	-	-	-	(485)	-	-	(485)
Other movements	-	-	-	-	-	-	63	-	-	63
Accumulated amortization as at December 31, 2008	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Accumulated impairment as at January 1, 2008	13,843	-	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Transfers	-	-	-	-	-	-	304	(304)	-	-
Transfers to assets held for sale	-	-	-	-	-	-	(2)	-	-	(2)
Disposals	-	-	-	-	-	-	(83)			(83)
Other movements	(13,843)	-	-	-	-	-	96	139	-	(13,608)
Accumulated impairment as at December 31, 2008	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Net book value as at January 1, 2008	30,332	-	93,983	-	34,739	15,204	56,966	11,722	25,000	267,946
Net book value as at December 31, 2008	**140,418**	**1,485**	**79,073**	**-**	**31,066**	**14,034**	**82,694**	**4,686**	**59,024**	**412,480**

Transfers to assets held for sale recorded in the year ended December 31, 2008 relate to the disposal of group of assets comprising the Netia Group's wholesale international voice traffic termination activities.

During the year ended December 31, 2009 the Netia Group recognized an impairment charge of PLN 385 relating to discontinued investment projects.

Telecommunication licenses / permits

Prior to the completion of the legal merger of the Company with its operating subsidiaries on December 31, 2003, its subsidiaries held fixed-term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization periods of the permits range between 3 and 6 years.

Domestic long-distance licenses / permits

In May 2000, one of the operating subsidiaries currently legally merged into Netia, was granted a domestic long-distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide intercity telecommunication services. The remaining amortization period of the permit is 6 years.

Data communications and internet licenses / permits

In April 1999, one of the operating subsidiaries currently merged into Netia, obtained a data communications license covering the entire territory of Poland. This license was fully impaired in 2003.

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in July 2006) and Netia WiMax II S.A. (since November 2006 operating under the name "Netia WiMax S.A.", merged with Netia in October 2008), received the reservation of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on WiMAX technology. The license covers the entire territory of Poland and is valid for 15 years. The remaining amortization period of the permit is 11 years.

10. Investment property

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Gross book value at the beginning of the period	-	59,649
Reclassification from assets held for sale	59,649	-
Additions	-	303
Gross book value at the end of the period	59,649	59,952
Accumulated depreciation at the beginning of the period	-	(10,454)
Reclassification from assets held for sale	(9,500)	-
Adjustment for depreciation expense due to reclassification	(861)	-
Depreciation expense	(93)	(862)
Accumulated depreciation at the end of the period	(10,454)	(11,316)
Accumulated impairment at the beginning of the period	-	(13,062)
Reclassification from assets held for sale	(13,062)	-
Accumulated impairment at the end of the period	(13,062)	(13,062)
Net book value at the beginning of the period	-	36,133
Net book value at the end of the period	**36,133**	**35,574**

Due to Management's decision to hold the Company's former head office as a long-term investment, on November 30, 2008 the Company reclassified the relating assets from assets held for sale and recognized them as investment property. The fair value of this property as at the date of reclassification was estimated by an independent, professionally qualified valuer at PLN 76,000. This estimation has not changed materially as at the balance sheet date.

11. Inventories

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Materials	819	103
Goods for resale	4,483	3,546
Less provision for impairment charge	(242)	(506)
Inventories, net	**5,060**	**3,143**

During the years ended December 31, 2009 and 2008 the Netia Group recognized PLN 17,141 and PLN 8,781, respectively as the cost of inventories included in "cost of goods sold". Moreover, during the year ended December 31, 2009 PLN 4 (PLN 12 in 2008) of previous inventory provisions were utilized.

12. Trade and other receivables

	December 31, 2008 (Restated) (PLN)	December 31, 2009 (PLN)
Trade receivables	189,924	194,406
Less provision for impairment of trade receivables	(40,650)	(35,628)
Trade receivables, net	149,274	158,778
VAT and other government receivables	2,023	701
Other receivables	12,135	10,496
Less provision for impairment of other receivables	(606)	(243)
Other receivables, net	11,529	10,253
Loans*	65,565	-
Less provision for impairment of loans*	(65,292)	-
Loans, net	273	-
Indemnities received**	12,188	4,550
	175,287	**174,282**
Of which,		
Current	168,664	173,606
Non-current	6,623	676

* Loans included a loan of PLN 11,500 (plus PLN 53,791 of accrued interest) which has been claimed by the Company in the bankruptcy proceedings relating to Millennium Communications S.A. The loan and accrued interest were fully provided for. Upon closing of the proceedings in 2009 the Company recovered its receivables in the amount of PLN 329. The remaining receivables from Millennium Communications S.A. were written-off.

** The asset corresponds to the part of the possible costs resulting from the pending claims against acquired companies that are reimbursable by the seller according to the relevant purchase agreement.

The carrying amount of non-current receivables approximates their fair value.

The provision for impairment of the Netia Group's receivables recognized during the year ended December 31, 2009 and 2008 amounted to PLN 8,586 and PLN 4,618, respectively and was included in "selling and distribution costs" in the consolidated income statement.

As of December 31, 2009 and December 31, 2008 trade and other receivables of PLN 53,759 and PLN 52,506, respectively, were past due but not fully provided for. The ageing analysis of these trade receivables net of provisions for doubtful accounts is as follows:

	Less than 3 months (PLN)	3 – 6 months (PLN)	More than 6 months (PLN)	Total (PLN)
As at December 31, 2009	49,362	2,903	1,494	53,759
As at December 31, 2008	50,115	1,544	847	52,506

In addition, as at December 31, 2009 and December 31, 2008 the amounts of PLN 521 and PLN 638, respectively were excluded from other receivables as they were legally reserved for spending on social purposes.

13. Prepaid expenses and accrued income

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Accrued income and prepaid expenses relating to promotional offers	19,768	15,958
Transaction costs related to the credit facility (see Note 19)	5,486	4,567
Rental costs prepaid	3,120	2,989
IT service	1,778	2,580
Insurance.	568	609
Other prepaid expenses.	4,441	2,355
	35,161	**29,058**
Of which,		
Current	18,294	20,228
Non-current	16,867	8,830

(All amounts in thousands, except as otherwise stated)

14. Investments held to maturity

As at **December 31**, 2009	Maturity date	Nominal value	Carrying amount
52-week treasury notes	June 30, 2010	10,000	9,774
52-week treasury notes	July 14, 2010	10,000	9,788
52-week treasury notes	August 4, 2010	10,000	9,748
52-week treasury notes	August 11, 2010	10,000	9,751
52-week treasury notes	August 11, 2010	10,000	9,750
52-week treasury notes	October 27, 2010	10,000	9,678
		60,000	**58,489**

15. Cash, cash equivalents and restricted cash

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Cash at bank and in hand	192,685	181,203
	192,685	**181,203**

The effective interest rate on short-term bank deposits was 3.5% and 5.3%, respectively for the year ended December 31, 2009 and the year ended December 31, 2008.

In addition, as at December 31, 2009 and December 31, 2008 the amounts of PLN 722 and PLN 565, respectively were excluded from cash and cash equivalents as they were legally reserved for spending on social purposes.

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Restricted cash	2,712	2,330
	2,712	**2,330**

As at December 31, 2009 and December 31, 2008, PLN 2,110 of restricted cash represents the Court's deposit (see Note 8) and the amounts of PLN 220 and PLN 602, respectively, were restricted as they were placed as collaterals securing payments to vendors.

16. Other financial instruments

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts, which are linked to foreign currency, in year ended December 31, 2009 the Company entered into forward transactions to purchase a total of USD 32,840 and EUR 25,280 and sell a total of USD 18,600 and EUR 12,760 with expiration dates spread throughout 2009 and 2010. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognized in the hedging reserve in equity on these contracts as of December 31, 2009 amounted to PLN 2,391 (PLN 1,937, net of tax). During year ended December 31, 2009, PLN 1,117 of net cash losses on closed forward contracts were capitalized, PLN 3,014 of net cash losses were recorded as finance cost due to excess of the amount of closed forward contracts over purchases made, and the ineffective portion of open forward contracts of PLN 89 was recorded as finance cost.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, in year ended December 31, 2009 the Company entered into forward transactions to purchase a total of USD 4,390 and EUR 15,630 and sell a total of USD 630 and EUR 4,380 with expiration dates spread throughout 2009 and 2010. During year ended December 31, 2009, PLN 1,915 of fair value losses on open forward contracts were recorded as finance costs.

As at December 31, 2009 the related derivative financial instruments of PLN 4,313 (PLN 110 of assets and PLN 4,423 of liabilities) represent the net value of the outstanding open forward transactions.

Equity securities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination activities to Mediatel S.A. ("Mediatel") for PLN 13,619, of which PLN 8,000 was settled in cash and PLN 5,619 was the estimated fair value of 440 shares issued by Mediatel and related "put" and "call" options. During the year ended December 31, 2009 100 Mediatel shares were sold and the Company recognized a gain of PLN 148 on disposal. The following table presents fair values of these shares and options:

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Mediatel shares	4,840	3,060
"Put" options	1,065	600
"Call" options	(304)	(80)
	5,601	**3,580**

17. Shareholders' equity

Share capital (not in thousands)

At December 31, 2009, the Company's share capital consisted of 389,276,294 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at the shareholders' meetings. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. The Company's share capital has not changed since December 31, 2008.

	Number of shares authorized and issued (not in thousands)	Share capital (PLN)
At January 1, 2008	**389,277,294**	**389,277**
At December 31, 2008	**389,277,294**	**389,277**
At December 31, 2009	**389,277,294**	**389,277**

According to the information provided to the Company by its shareholders, as at December 31, 2009 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	% of share capital
Third Avenue Management LLC	93,720,763	24.08
ING Otwarty Fundusz Emerytalny	48,010,027	12.33
SISU Capital Limited and related entities	39,043,006	10.03
Pioneer Pekao Investment Management SA	38,891,802	9.99
Shares held by public and other shareholders	169,611,696	43.57
	389,277,294	**100.00**

Share premium

The Shareholders' Meeting held on April 9, 2009, resolved to cover PLN 173,185 of Netia S.A.'s loss incurred in 2008 and PLN 26,652 of uncovered losses from previous years resulting from a merger of subsidiaries with the Company during 2008 by transfer of PLN 199,837 from share premium.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at December 31, 2009, the distributable reserve amounted to PLN 236,803.

Stock options (not in thousands)

In the year ended December 31, 2009 and 2008 the following changes took place in the number of options granted under the Netia Performance Stock Option Plan of June 28, 2002, as amended ("Plan"):

	Year ended December 31, 2008		Year ended December 31, 2009	
Options	Average strike price	Options	Average strike price	Options
At the beginning of the period	6.61	43,128,873	5.88	50,268,123
Granted	4.64	18,268,250	5.43	5,566,500
Forfeited / expired	6.65	(11,129,000)	5.78	(1,888,250)
At the end of the period	**5.88**	**50,268,123**	**5.84**	**53,946,373**

As at December 31, 2009 the total number of options approved by the Supervisory Board and issued was 87,527,470 as compared to 81,964,470 as at December 31, 2008. Out of these approved options 53,946,373 options were outstanding as at December 31, 2009 and 50,268,123 options were outstanding as at December 31, 2008. As at December 31, 2009 and December 31, 2008 the total number of vested options was 22,718,373 and 7,929,458, respectively. The vesting period for the options is up to three years from the date of grant. As at December 31, 2009, the weighted average remaining contractual life of the outstanding options was 3 years. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.50 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. For the outstanding options, the valuation model takes into account such factors as strike price (presented above), total expected life of the options (4 - 7 years), time to vest, expected volatility of the share price returns (24.31% - 35.13%), employee exit rate (5% - 10%), exercise multiple (1.5) and the risk free interest rate at the date of the grant (ranging from 4.13% to 6.07%). The expected volatility is based on historical volatility. The cost of options recorded in the year ended December 31, 2009 and 2008 amounted to PLN 10,522 thousands and PLN 14,238 thousands, respectively, while PLN 565 thousands and PLN 4,670 thousands was derecognized in the income statement in the respective periods.

18. Provisions

	December 31, 2008 (Restated)	December 31, 2009
	(PLN)	(PLN)
Expected loss on a contract related to voice termination services	655	-
Loss on rental contract	246	1,824
Claims	12,981	3,780
Restructuring	-	685
	13,882	**6,289**
Of which,		
Current	6,345	4,888
Non-current	7,537	1,401
	13,882	**6,289**

	Expected loss on a contract related to voice termination services	Loss on rental contracts	Claims	Restructuring	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2008	655	246	12,981	-	13,882
Reclassification from accruals	-	-	251	-	251
Settlement of disputes with TPSA (Note 40) (charged to the income statement)	-	-	(4,837)	-	(4,837)
Recognition and changes in estimates (charged to the income statement)	-	2,143	(4,315)	7,835	5,663
Used during the period	(655)	(572)	(300)	(7,150)	(8,677)
Discount unwinding (charged to the income statement)	-	7	-	-	7
As at December 31, 2009	**-**	**1,824**	**3,780**	**685**	**6,289**

Expected loss on a contract related to voice termination services

The provision was created for an expected loss on a contract, which was a part of the transaction to sell a group of assets comprising Premium Internet S.A.'s IVT activities. Following the provisions of this contract the Netia Group shall rendered voice termination services to Mediatel for a one-year period, with estimated revenues significantly lower than costs.

Loss on rental contracts

The provision was created for loss on rental contracts and relates to the excess of office space held in certain locations in Warsaw following acquisitions and restructuring, which have been sub-leased at a loss by the Netia Group. The loss on rental contracts is calculated as discounted committed rental costs less discounted revenues expected to be received from sub-lessees. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2015.

Claims

The amounts represent provisions for legal and regulatory claims and for a contractual penalty due to delays in the performance of a contract. In the opinion of the Management the outcome of the outstanding provisions will not give rise to any significant losses beyond the amounts provided. The Netia Group is unable to determine the timing of cash outflows related to legal and regulatory claims with reasonable accuracy.

Restructuring

The provision for restructuring was recorded in connection with the restructuring program announced by the Netia Group in April 2009 and September 2009, which assumed a total decrease of employment by approximately 231 full time employees by the end of 2009 (see also Note 27). The remaining balance as at December 31, 2009 comprises the provision created for those committed redundancies where the employment contract has not been yet terminated. The Netia Group expects that the cash outflows relating to this provision will be incurred during 2010.

19. Borrowings

Undrawn Borrowing facilities

On June 29, 2009 the Company concluded an annex to the Amended and Restated Credit Facility Agreement ("Annex") with Rabobank Polska S.A. as the arranger, Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A., relating to the Facility Agreement concluded on 15 May 2007 (the "Facility").

Pursuant to the Annex the total Facility amount was decreased by PLN 80,000 from PLN 375,000 to PLN 295.000 (the amount of the term loan was decreased from PLN 325,000 to PLN 245,000; the revolving loan has not changed and continues to amount to PLN 50,000). The Facility is to be repaid by June 30, 2013. The Facility bears interest at a variable interest rate of WIBOR plus a margin dependent on financial ratios and the Company must pay a commitment fee on the undrawn, uncancelled amount of the

Facility commitment. The proceeds from the Facility can be used to finance the Netia Group's capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group. Furthermore, pursuant to the Annex, the Company may use funds accumulated on its accounts to repurchase its own shares for a total consideration up to PLN 100,000. Netia may utilize up to PLN 50,000 in each of 2009 and 2010. Netia was also granted consent to dispose of certain fixed assets whereby the first PLN 80,000 of proceeds may be retained by the Company without making mandatory facility prepayments or cancellations. The specific assets consented are: the former head office located in Warsaw at ul. Poleczki 13, and the transmission equipment used by Netia to provide backhaul services to P4 under the UMTS transmission solutions delivery frame agreement.

The cumulative draw downs under the Facility made in previous years amounted to PLN 205,000 and were repaid in full in 2008. As at December 31, 2009 accumulated deferred transaction costs related to the Facility amounted to PLN 9,849, out of which PLN 4,520 was amortized during the year ended December 31, 2009. The incurred transaction costs are being amortized over the availability period, that expires on June 30, 2011.

The repayment of the Facility is secured by the following: capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw; registered pledges on: (i) the collection of movables and property rights acquired by Netia as a result of its merger with Świat Internet S.A., (ii) a collection of Netia's movables and property rights, (iii) shares in InterNetia Holdings Sp. z o.o.; and assignment as collateral security of Netia's receivables under certain agreements. Moreover, the Company's subsidiary (InterNetia Holdings Sp. z o.o.) irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 468,750. Until the mergers of Uni-Net Sp. z o.o. and InterNetia Holdings Sp. z o.o. on July 31, 2009, and the Company and Netia Spółka Akcyjna UMTS s.k.a. on November 30, 2009, the repayment of the Facility was also secured by registered pledges on shares in Uni-Net Sp. z o.o. and Netia Spółka Akcyjna UMTS s.k.a., which were also guarantors.

Bank loans

Following the acquisition of Global Connect (see Note 8) the Netia Group acquired bank loans in the amounts of PLN 347. The loans were repaid in February 2010.

20. Trade and other payables

	December 31, 2008 (Restated) (PLN)	December 31, 2009 (PLN)
Trade payables	74,027	75,197
Investment payables	54,321	52,919
Accrued expenses (see Note 21)	107,631	82,858
VAT and other taxes	10,703	12,298
Retirement severance payments	781	387
Finance lease payments	4,029	10,591
Payables to former owners of acquired subsidiaries	44,951	4,229
Advance payment for the second batch of transmission equipment (see Note 30)	-	21,141
Other payables	4,264	2,063
	300,707	**261,683**
Of which,		
Current	297,809	255,788
Non-current	2,898	5,895

In addition, as at December 31, 2009 and December 31, 2008 the amounts of PLN 1,243 and PLN 1,203, respectively were excluded from other payables as they were legally reserved for funding social purposes.

Retirement severance payments

The provision for retirement severance payments was calculated by an independent actuary using the projected unit credit method. It represents the present value of the future obligation of the Company to make severance payments on its employee's retirement, required by the Polish Labour Code. A valuation was performed using a discount rate of 6.25% and a salary increase rate of 2.5% above inflation of 2.5%. Retirement severance payments will be paid on Netia Group employees upon their retirement.

21. Accrued expenses

	December 31, 2008 (Restated) (PLN)	December 31, 2009 (PLN)
Construction costs	8,013	4,142
Uninvoiced services	40,558	28,461
Interconnection charges	24,911	16,312
Holidays accrual	3,622	2,667
Employees bonuses and accrued salaries	16,712	22,300
Rental costs accrued	4,624	8,827
Other	9,191	149
	107,631	**82,858**

22. Deferred income

	December 31, 2008	December 31, 2009
	(PLN)	(PLN)
Invoiced income from subscriptions relating to future periods	21,324	23,704
Rental contracts	7,669	16,086
Government grants	739	655
Other	425	1,957
	30,157	**42,402**
Of which,		
Current	22,378	35,113
Non-current	7,779	7,289

23. Revenue

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Direct voice	487,609	743,395
Monthly fees	*226,436*	*457,523*
Calling charges	*260,345*	*285,541*
Other	*828*	*331*
Indirect voice	56,809	65,654
Data	373,533	520,460
Interconnection revenue	89,175	66,917
Wholesale services	71,905	81,592
Other telecommunication service revenue	25,601	22,489
Telecommunication revenue	**1,104,632**	**1,500,507**
Radio communication services revenue	7,762	5,364
Revenue	**1,112,394**	**1,505,871**
Discontinued activity - wholesale international voice traffic termination	8,774	-
Total revenue	**1,121,168**	**1,505,871**

24. Cost of sales

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Interconnection charges	(218,499)	(196,718)
Network maintenance	(294,225)	(483,969)
Cost of goods sold	(8,781)	(17,141)
Depreciation and amortization	(233,405)	(251,367)
Salaries and benefits	(19,568)	(21,526)
Restructuring	-	(2,368)
Taxes, frequency fees and other expenses	(49,035)	(32,429)
	(823,513)	**(1,005,518)**

25. Selling and distribution costs

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Advertising and promotion	(60,435)	(61,138)
Third party commissions	(36,192)	(48,247)
Billing, mailing & logistics	(28,959)	(49,722)
Outsourced customer service	(20,240)	(29,538)
Provision for impaired receivables	(4,618)	(8,586)
Depreciation and amortization	(24,496)	(30,730)
Salaries and benefits	(83,761)	(86,856)
Restructuring	-	(3,405)
Other expenses	(16,484)	(20,224)
	(275,185)	**(338,446)**

26. General and administration costs

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Professional services	(8,454)	(10,678)
Information technology services	(9,390)	(16,305)
Office and car maintenance	(12,330)	(18,787)
Depreciation and amortization	(12,446)	(16,469)
Salaries and benefits	(74,211)	(78,941)
Restructuring	-	(5,967)
Other expenses	(29,439)	(26,311)
	(146,270)	**(173,458)**

27. Salaries and benefits

	Year ended December 31, 2008	Year ended December 31, 2009
	(PLN)	(PLN)
Wages and salaries	(147,526)	(152,749)
Social security costs	(10,297)	(11,618)
Defined contribution plan (the State Plan)	(10,050)	(10,603)
Provision for retirement severance payment	(101)	394
Equity-settled share-based compensation	(9,566)	(9,957)
Cash-settled share-based compensation	-	(375)
PIT and social security costs accrued referring to share-based compensation	-	(2,415)
Restructuring	-	(10,018)
	(177,540)	**(197,341)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme in the form of social security payments. The Netia Group is not required to make any contributions in excess of this statutory rate.

Reorganization and restructuring

Following the acquisition of Tele2 Polska in September 2008 which significantly augmented the scale of the business, the Netia Group performed a comprehensive cost review across all functional areas of the Company and indentified areas for operating cost optimization. The reorganization program includes a reduction of headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. In connection with the restructuring program, in April 2009 and September 2009 the Netia Group announced headcount reductions, which assumed a total decrease of employment by approximately 231 full time employees by the end of 2009.

Total reorganization costs recorded during the year ended December 31, 2009 amounted to PLN 11,740 (out of which PLN 8,453 related to the restructuring program announced in April 2009 and September 2009) and were included in the following cost categories presented in the table below (see also Note 18).

Year ended December 31, 2009	Total reorganization costs	***Out of which restructuring costs***
	(PLN)	*(PLN)*
Cost of sales		
Salaries and benefits	(2,368)	*(2,029)*
Selling and distribution costs		
Salaries and benefits	(3,405)	*(2,552)*
General and administration costs		
Salaries and benefits	(4,245)	*(3,254)*
Provision for rental contract	(1,104)	-
Other expenses	(618)	*(618)*
	(11,740)	***(8,453)***

28. Other income

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Reminder fees and penalties	5,210	6,205
Settlement of disputes with TPSA	-	5,630
Forgiveness of liabilities	210	379
Receivables recovered (see Note 12)	-	329
Sale of services to former associate	904	-
Financial guarantee	435	-
Reversal of impairment charges and provisions	1,000	699
Other operating income	3,840	4,648
	11,599	**17,890**

As a result of the settlement of disputes between Netia and TPSA signed on December 23, 2009 (see Note 40), during the year ended December 31, 2009, PLN 5,630 was recorded as other income, PLN 3,745 reduced network maintenance costs and PLN 5,951 reduced other expenses within "Cost of sales" category.

29. Other expenses

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Impairment charges for specific individual assets (see Notes 7 and 9)	(447)	(2,068)
	(447)	**(2,068)**

30. Other gains / (losses), net

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Gain on sale of impaired receivables	1,204	1,232
Gain on disposal of fixed assets	6,446	7,835
Gain on disposal of a group of assets comprising Premium Internet's IVT activities	5,093	-
Gain on sale of investments	9	-
Net foreign exchange gains / (losses)	190	898
	12,942	**9,965**

On July 24, 2009 Netia and P4 concluded an agreement for the sale of the transmission equipment (the "Sale Agreement") used by Netia to provide transmission services to P4 under the UMTS transmission solutions delivery frame agreement dated July 3, 2006 (the "UMTS Agreement") and an annex to the UMTS Agreement. The Sale Agreement was entered into on the following terms and conditions:

1. The transmission equipment will be purchased by P4 in three batches.
2. The total price for the transmission equipment is PLN 65,418, of which:
   a) PLN 22,832 is payable by P4 on the date of purchase of the first batch of the transmission equipment, i.e. August 1, 2009;
   b) PLN 21,141 is payable by P4 on the date of purchase of the second batch of the transmission equipment, i.e. January 1, 2010; and
   c) PLN 21,445 is payable by P4 on the date of purchase of the third batch of the transmission equipment, i.e. July 1, 2010.
3. The legal title to the given batches of the transmission equipment will be transferred to P4 after P4 pays the price for a given batch, however not earlier that on the dates indicated above.

No adjustments to the net book value of these assets was made at December 31, 2009 as the Management expects to record a profit on disposal (a gain of PLN 5,298 was recognized on disposal of the first batch, which took place during the current period).

On December 31, 2009 Netia received a payment for the second batch of the transmission equipment (see Note 20).

31. Finance income and finance costs

Finance income

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Interest income on cash and cash equivalents	10,577	5,881
Amortization of held to maturity investments	-	1,434
Net foreign exchange gains	112	-
Gain on sale of equity securities	-	148
Other finance income	-	101
	10,689	**7,564**

Finance costs

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Interest expense and fees charged on bank loans	(7,667)	(4,520)
Amortization of finance lease liability	(379)	(506)
Interest expense and amortization of other payables	(503)	(1,351)
Amortization of provisions	(47)	(7)
Fair value gain / (loss) on equity securities (see Note 16)	440	(929)
Fair value loss on other financial assets / liabilities (see Note 16)	(1,703)	(242)
Net foreign exchange losses	-	(8,134)
Excess of the amount of closed forward contracts over purchases made (see Note 16)	-	(3,014)
Fair value losses on open forward commercial contracts (see Note 16)	-	(1,915)
Ineffective cash flow hedges (see Note 16)	-	(89)
	(9,859)	**(20,707)**

32. Net foreign exchange gains / (losses)

The exchange differences credited / (charged) to the consolidated income statement are included as follows:

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Other gains / (losses), net	190	898
Finance costs	-	(8,134)
Finance income	112	-
	302	**(7,236)**

33. Corporate income tax

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Current income tax	(429)	(731)
Deferred income tax benefit / (charge), net	(846)	88,303
Income tax benefit / (charge)	**(1,275)**	**87,572**

Current income tax

The tax on the Netia Group's profit before tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the consolidated companies as follows:

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Profit before tax	242,698	1,093
Tax calculated at tax rates applicable to profit	(46,113)	(208)
Income and expense not subject / deductible for tax purposes, net	(10,022)	10,122
Deductible temporary differences arising during the year for which no deferred tax assets were recognized	(10,913)	(11,762)
Recognition of previously unrecognized tax losses	-	88,751
Tax effect on sale of investment in P4	66,870	-
Utilization of previously unrecognized tax losses	1,952	1,583
Tax losses for which no deferred income tax asset was recognized	(516)	(914)
Derecognition of previously recognized tax asset	(2,533)	-
Income tax benefit / (charge)	**(1,275)**	**87,572**

The corporate income tax rate applicable to the Company and its subsidiaries for 2008 and onwards is 19%.

The main sources of income not subject to tax and expenses not deductible for tax purposes are timing differences on the recognition of sales, operating expenses, provisions and foreign exchange differences related to sales of currency and non deductable reserves for the stock option plan.

Deferred income tax

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

As of December 31, 2009 the Management updated its previous year's assessment regarding the recognition of deferred income tax. The new assessment concluded that the Netia Group expects that future taxable profits will be generated based on the 2010 budget and 2010-2014 business plan. Management's assessment also considered factors such as: the stability and trend of past earnings, the nature of the business and industry, and the economic environment in which the Netia Group is located.

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

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	7,255	77,086
- Deferred income tax assets to be recovered within 12 months	13,649	33,512
	20,904	110,598
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	14,255	14,902
- Deferred income tax liabilities to be recovered within 12 months	15,206	16,296
	29,461	31,198
Deferred income tax assets / (liabilities), net	**(8,557)**	**79,400**
out of which:		
Deferred income tax assets	564	79,400
Deferred income tax liabilities	(9,121)	-

The movement in deferred income tax assets and liabilities during the period, without taking into consideration the offsetting of balances, is as follows:

Current period:

Deferred income tax liabilities	**Deferred revenue**	**Foreign exchange differences**	**Depreciation and impairment**	**Forward contract**	**Interest**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2009	7,746	1,116	19,451	-	-	1,148	29,461
- Charged / (credited) to the income statement................	(1,501)	(1,097)	(1,081)	9	1,532	3,063	925
- Charged / (credited) to other comprehensive income	-	-	-	12	-	-	12
- Deferred income tax on acquisition...........................	-	-	800		-	-	800
As at December 31, 2009........	**6,245**	**19**	**19,170**	**21**	**1,532**	**4,211**	**31,198**

Deferred income tax assets	**Tax losses**	**Impairment provisions for receivables**	**Depreciation and impairment**	**Accrued expenses**	**Foreign exchange differences**	**Forward contract**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2009	-	1,881	9,520	4,032	613	-	4,858	20,904
- Credited / (charged) to the income statement	88,751	1,266	(7,595)	10,906	(571)	374	(3,903)	89,228
- Credited / (charged) to other comprehensive income	-	-	-	-	-	466	-	466
As at December 31, 2009........	**88,751**	**3,147**	**1,925**	**14,938**	**42**	**840**	**955**	**110,598**

Comparative period:

Deferred income tax liabilities	**Deferred revenue**	**Foreign exchange differences**	**Depreciation and impairment**	**Interest**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2008	4,120	17	9,290	2,343	154	15,924
- Charged / (credited) to the income statement................	51	1,099	1,832	(2,343)	994	1,633
- Deferred income tax on acquisition...........................	3,575	-	8,329	-	-	11,904
As at December 31, 2008........	**7,746**	**1,116**	**19,451**	**-**	**1,148**	**29,461**

Deferred income tax assets	**Tax losses**	**Impairment provisions for receivables**	**Depreciation and impairment**	**Accrued expenses**	**Foreign exchange differences**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2008	1,202	2,519	11,403	789	-	219	16,132
- Credited / (charged) to the income statement	(1,202)	(990)	(2,285)	1,285	613	3,366	787
- Deferred income tax on acquisition	-	352	402	1,958	-	1,273	3,985
As at December 31, 2008........		**1,881**	**9,520**	**4,032**	**613**	**4,858**	**20,904**

The deferred income tax recognized in equity in an amount of PLN 454 relates to movements in the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of December 31, 2009, the Netia Group had total deductible temporary differences of PLN 362,408 and unutilised tax loss carry-forwards of PLN 500,210 (total potential deferred income tax asset of PLN 163,897).

The Netia Group did not recognize deferred income tax assets of PLN 6,288 relating to tax losses of PLN 33,097 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at December 31, 2009 will expire in the following years: PLN 6 in 2010, PLN 1,318 in 2011, PLN 25,959 in 2012,PLN 3,408 in 2013 and PLN 2,406 in 2014.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 78,208, relating to deductible temporary differences of PLN 411,623 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	406,475	77,230
Deferred income	4,541	863
Others	607	115
	411,623	**78,208**

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

34. Earnings per share

Basic

Basic earnings per share have been calculated based on the net profit attributable to the equity holders of the Company for each period divided by the weighted average number of shares in issue during the year.

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Profit attributable to the equity holders of the Company	230,605	88,665
Weighted average number of ordinary shares in issue (not in thousands)	389,277,294	389,277,294
Basic earnings per share (not in thousands)	0.59	0.23

Diluted

Diluted earnings per share for loss attributable to the equity holders of the Company are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had one category of potentially dilutive ordinary shares - the employees' share options (which upon their exercise trigger the issue of the series K shares). For the share options a calculation was made to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares applicable under the Plan as at December 31, 2009) based on the monetary value of the subscription rights attached to the outstanding share options. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options.

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Profit attributable to the equity holders of the Company	230,605	88,665
Weighted average number of ordinary shares in issue (not in thousands)	389,277,294	389,277,294
Adjustments for:		
- Share options	-	446,332
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	389,277,294	389,723,626
Diluted earnings per share (not in thousands)	0.59	0.23

35. Dividends per share

No dividends were proposed or paid in respect to the financial years ended December 31, 2009 and 2008. Management intends to reinvest the Netia Group's liquid funds on further expansion of the business and the pursuit of further acquisitions. Netia's distributable reserves are described in Note 17.

36. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Receivables	17,639	(790)
Inventories	(1,469)	1,917
Prepaid expenses	(10,914)	5,235
Restricted cash	(602)	382
Provisions, accruals and other payables	(13,985)	(41,064)
Deferred income	2,264	12,245
	(7,067)	**(22,075)**

Supplemental disclosures to operating activities:

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Income taxes paid	(783)	(595)
Interest received	12,332	6,820

Supplemental disclosures to investing activities:

	Year ended December 31, 2008 (PLN)	Year ended December 31, 2009 (PLN)
Subsidiary purchased in current period	(129,847)	(12,763)
Subsidiaries purchased in previous period	(3,129)	(44,999)
Purchase of subsidiaries, net of cash received	**(132,976)**	**(57,762)**

Non-cash transactions:

During the year ended December 31, 2009 the Netia Group entered into finance lease agreements for telecommunication equipment. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 9,958.

37. The Management Board and Supervisory Board

Management Board

On August 4, 2009 the Company's Supervisory Board appointed Mr. Grzegorz Esz as member of the Management Board, effective October 1, 2009.

Due to the above change as at December 31, 2009 the Company's Management Board consisted of the following members:
- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Grzegorz Esz,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

Effective March 9, 2009 Mr. Pantelis Tzortzakis resigned from his position as Member of the Company's Supervisory Board.

Effective April 9, 2009 Mr. Marek Gul resigned from his position as Chairman and member of the Company's Supervisory Board.

Effective April 9, 2009 Mr. Piotr Czapski, Mr. Constantine Gonticas, Mr. Kazimierz Marcinkiewicz and Mr. Bruce McInroy resigned from their positions as Members of the Company's Supervisory Board.

The Company's ordinary shareholder's meeting held on April 9, 2009 appointed the following individuals to Netia's Supervisory Board: Mr. Stan Abbeloos, Mr. Benjamin Duster, Mr. George Karaplis, Mr. Nicolas Maguin, Ms. Ewa Pawluczuk and Mr. Piotr Żochowski.

Due to the above changes as at December 31, 2009 the Company's Supervisory Board consisted of the following members:
- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry,
- Piotr Żochowski.

38. Related party transactions

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

As at December 31, 2009, the total number of options granted to members of the Company's Management Board under the Plan, was 40,771,814 of which 16,305,314 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.50 and 8.25 per share. The market price of the Company's shares at December 31, 2009 was PLN 4.90 per share.

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

Options	**Year ended December 31, 2008**	**Year ended December 31, 2009**
At the beginning of the period	33,271,814	36,605,314
Granted	13,333,500	4,166,500
Status changed due to resignation from the Management Board	(10,000,000)	-
At the end of the period	**36,605,314**	**40,771,814**

As at December 31, 2009 and December 31, 2008 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 13,334,000 options, out of which 5,000,000 had vested as at December 31, 2009.

As at December 31, 2009 and December 31, 2008 Mr. Jonathan Eastick – a member of the Company's Management Board – held 10,938,314 options, out of which 4,771,814 had vested as at December 31, 2009.

As at December 31, 2009 Mr. Grzegorz Esz – a member of the Company's Management Board (see Note 37) – held 4,166,500 options, out of which none had vested as at December 31, 2009.

As at December 31, 2009 and December 31, 2008 Mr. Piotr Nesterowicz – a member of the Company's Management – held 6,666,500 options, out of which 1,200,000 had vested as at December 31, 2009.

As at December 31, 2009 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 5,666,500 options, out of which 2,000,000 had vested as at December 31, 2009.

As at December 31, 2008 Mr. Piotr Czapski – the former member of both the Company's Supervisory Board and Management Board (see Note 37) – held 1,000,000 options, all of which had vested. Due to his resignation from his position, these options are no longer treated as options held by members of the Supervisory Board or Management Board.

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

As at December 31, 2009 and December 31, 2008 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000 and nil shares of the Company, respectively.

As at December 31, 2009 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 shares of the Company.

As at December 31, 2009 and December 31, 2008, Mr. Jonathan Eastick – a member of the Company's Management Board – held 35,500 and 25,000 shares of the Company, respectively.

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

As at December 31, 2009 and December 31, 2008, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at December 31, 2009 and December 31, 2008, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 6,000 and 2,000 shares of the Company, respectively.

As at December 31, 2008, Mr. Constantine Gonticas and Mr. Bruce McInroy – the former members of the Company's Supervisory Board (see Note 37) – held 143,000 and 150,000 shares of the Company, respectively. Due to their resignations from their positions, these shares are no longer treated as shares held by members of the Supervisory Board .

Restricted Stock Units (not in thousands)

The Company's ordinary shareholder's meeting held on April 9, 2009 approved changes of rules of remunerating the Supervisory Board members, according to which each independent Supervisory Board member (as defined in the Company's Statute) elected by the General Meeting, who remains in office after these rules come into force received a one time grant of 50,000 Restricted Stock Units ("RSU") corresponding to one ordinary share in the Company having the value equal to the market price of Company shares. Under the terms of the scheme one of the Supervisory Board's members, Mr Piotr Żochowski, has waived his right to participate in the scheme. As at December 31, 2009 the total number of RSU granted to the members of the Company's Supervisory Board was 350,000.

The vesting period for the RSU is three years from the date of grant. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period. The cost of RSU recorded in year ended December 31, 2009 amounted to PLN 375 thousands.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during year ended December 31, 2009 and December 31, 2008 amounted to PLN 6,047 and PLN 6,978, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 7,575 and PLN 10,099 was recognized in the respective periods. Furthermore PLN 3,609 of costs accrued for share options that may no longer vest due to resignation were reversed in the year ended December 31, 2008.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during years ended December 31, 2009 and December 31, 2008 amounted to PLN 994 and PLN 823, respectively. Additional to the above, termination benefits of PLN 55 for the former members of the Management Board of the Company's subsidiaries were recognized as a cost during the current period. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the years ended December 31, 2009 and December 31, 2008 amounted to PLN 795 and PLN 670, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 178 and PLN 15 during the years ended December 31, 2009 and 2008, respectively, and mainly related to travel and accommodation.

Pioneer Pekao TFI

In 2009 Pioneer Pekao Towarzystwo Funduszy Inwestycyjnych SA ("Pioneer Pekao TFI") became a significant shareholder of the Company and Mr Piotr Żochowski, a Vice President of this investment fund company, was appointed to Netia's Supervisory Board (see Note 37). During the year ended December 31, 2009 transactions with Pioneer Pekao TFI included telecommunication services of PLN 62.

Other transactions with related parties

During the year ended December 31, 2009 the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

39. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 14,975 as at December 31, 2009 and PLN 64,753 as at December 31, 2008 of which, PLN 2,294 and PLN 7,994, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2009 and December 31, 2008 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Not later than 1 year	78,546	71,406
Later than 1 year and not later than 5 years	130,554	116,769
Later than 5 years	70,619	45,666
	279,719	**233,841**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for almost 4 years. Rental costs recognized in the income statement for the years ended December 31, 2009 and December 31, 2008 amounted to PLN 424,689 and PLN 165,329, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 18) in the amounts of PLN 567 and PLN 1,264, respectively.

Operating lease commitments – where the Netia Group is the lessor

The future minimum lease payments receivable under non-cancellable operating leases are as follows:

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Not later than 1 year	17,015	16,988
Later than 1 year and not later than 5 years	19,112	23,891
Later than 5 years	4,375	3,619
	40,502	**44,498**

The Netia Group has entered into several commercial leases on certain parts of the fixed telecommunications network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the years ended December 31, 2009 and December 31, 2008 amounted to PLN 28,147 and PLN 24,396, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

In 2009 and 2008 Netia entered in new finance lease agreements for telecommunication equipment. Moreover, with the acquisition of certain internet providers, the Netia Group has acquired finance leases for certain telecommunication equipment as well as for some vehicles. As at December 31, 2009 and December 31, 2008 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2008 (PLN)	December 31, 2009 (PLN)
Not later than 1 year	2,027	5,585
Later than 1 year and not later than 5 years	2,002	5,006
Later than 5 years	-	-
Present value of minimum lease payments	**4,029**	**10,591**
Plus amount representing finance charges	390	543
Total minimum lease payments	**4,419**	**11,134**

40. Contingencies

Settlement with TPSA

On October 22, 2009 UKE published a non-binding settlement with TPSA that requires TPSA, amongst other obligations, to enter into bi-lateral agreements with alternative operators, including Netia. The scope of these bi-lateral agreements should include, but is not limited to, the settlement of the contingent assets and liabilities and cancellation of the related court proceedings between Netia and TPSA.

In relation to the above settlement, on December 23, 2009 Netia and TPSA obliged themselves to withdraw their law suits and terminate all court disputes, including the resignation from all claims. Accordingly, as at December 31, 2009, Management believes there are no material outstanding disputes with TPSA for which a provision could be considered necessary other than the matter described below.

Universal services

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of UKE issued after a tender procedure. The President of UKE issued a decision assigning TPSA as the operator required to provide universal services until May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 have to co-finance the funding of this obligation. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of UKE; however, it may not exceed 1% of the telecommunications provider's revenues in the given calendar year. The amount of the share in the funding of the universal service shall constitute a deductible cost, as defined by the Act on Corporate Income Tax. At the present stage one may not guarantee that the Netia Group will not be required to co-finance the funding of universal services.

TP SA applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs for the period from May 8, 2006 to December 31, 2006 and for the year 2007. The President of UKE refused to subsidize the costs of services provided by TPSA that form a part of the universal service in 2006. Having considered TPSA's claim, the court reversed decision of the President of UKE. The Presidents of UKE and KIGEiT filed cassation appeals *(skarga kasacyjna)* against decision of the court. The Supreme Administrative Court dismissed the cassation appeals and the case has returned to UKE for re-examination. TPSA has also applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision for the years 2007 and 2008.

Management intends to appeal against any decisions that may result in Netia being assessed for universal service contributions as they believe the incumbent's investment record does not justify such payments at this time. Accordingly no provision for potential universal service contributions has been made at the balance sheet date.

Jupiter

Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") has sued the Company for payment of PLN 2,084 on alleging improper performance of the Share and Bonds Purchase Agreement dated May 22, 2006 (the "Agreement") relating to the Company's purchase of Pro Futuro S.A. ("Pro Futuro").

Having identified unrecorded liabilities the Company applied the price reduction mechanism provided for in the Agreement and requested the escrow agent to reimburse part of the price paid for the Pro Futuro shares. The escrow agent reimbursed the Company in the amount of PLN 1,940 on account of the breach of the Agreement. The existence of unrecorded liabilities was confirmed by an independent auditor.

Since Jupiter did not agree with the price reduction, it filed a suit against the Company on September 7, 2007. The amount claimed by Jupiter comprises the amount of the reduced price, increased by statutory interest. On December 7, 2009, the District Court in Warsaw dismissed the suit against Netia. On December 14, 2009, Jupiter representatives filed an application for written grounds to the above mentioned judgment and may file an appeal to the District Court's decision.

Management, having obtained legal advice, does not believe resolution of the matter described above will have a material adverse effect on the Netia Group's financial condition and no liability has been recorded for the claim.

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 to be 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 amended milestones allotted for the years 2008 and 2009 regarding population coverage were exceeded whilst there was a marginal underperformance of the territorial coverage requirements. In the event that license obligations are not met by an operator, the UKE has the power to confiscate the relevant license, if the issue is not rectified. However, historically such measures have rarely been used.

Tax contingent liability (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 August 2009 the Company received a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax ("CIT") due for the year 2003 was set at PLN 58.7 million plus accrued penalty interest of PLN 41.5 million ("The Tax Decision"). The Tax Decision was issued despite the legal arguments presented by the Company, which stated that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the UKS Director, Netia understated its taxable revenues by PLN 303 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in previous years to its subsidiaries which subsequently merged with Netia on December 31, 2003.

According to Netia, the Tax Decision of the UKS Director is in conflict with the relevant tax regulations and the Company appealed against the Tax Decision issued by the UKS Director and also against various procedural decisions of the Tax Authorities. The UKS Director's Tax Decision was not final and was not enforceable as it was issued by the first instance tax authority. As at December 31, 2009, the Local Tax Chamber was in the process of dealing with the Company's appeal to the decisions of the UKS Director.

The Company has received opinions from several independent tax and legal advisors which conclude that the claims of the Director of the Tax Control Office have no legal grounds. Accordingly, as at December 31, 2009, the Company did not create a provision for any part of the alleged tax arrears reported in the Tax Decision.

On February 16, 2010 Company learned that the Local Tax Chamber partially upheld the Decision of the UKS Director (see Note 41 "Subsequent events"), The Local Tax Chambers' Decision is binding on the Company and must be settled whilst the Company will now appeal to the Polish Court. Based on the tax and legal advice received, Management intends to take all legal measures necessary to overturn these tax decisions in the Polish Court and believes that the Company's arguments will ultimately be upheld. Accordingly, Management has not recognised the Local Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2009 and will instead treat funds paid over to the tax authorities as an overpayment of tax.

41. Subsequent events

Disposal of transmission equipment

In January 2010 the Company transferred to P4 the second batch of the transmission equipment (see Note 30) and Management expects to recognize a gain on disposal.

Tax decision (not in thousands)

On February 16, 2010 the proxy of Netia S.A. (the "Company" or "Netia") was informed of the issuing of a decision ("Decision") of the Director of the Tax Chamber in Warsaw ("Tax Chamber Director") according to which Netia's corporate income tax ("CIT") due for the year 2003 was set at PLN 34.2 million plus penalty interest of approximately PLN 25.3 million. The decision closes 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 ("CIT") 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 (see also section "Subsequent events" in Director's Report for the year ended December 31, 2009). According to the Tax Chamber Director and the UKS Director, Netia understated its taxable income by PLN 247.5 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in earlier years to subsidiaries which subsequently merged with Netia on December 31, 2003. The Director of UKS, as the first instance tax authority, claimed in its earlier decision that Netia understated its taxable income by PLN 303 million.

The Tax Chamber Director's decision, which partially upholds the decision of the UKS Director, is enforceable as a decision of the second instance tax authority and Management expects to settle the liability without delay.

Netia has received opinions from several independent tax and legal advisors, as well as tax law experts, which conclude that the claims of the Directors of the Tax Control Office and the Tax Chamber have no legal grounds. Accordingly, Management has not recognised the Local Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2009 and will instead treat funds paid over to the tax authorities as an overpayment of tax.

Netia will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless.