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

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the six-month period ended June 30, 2010 include the financial statements of the Company and the following subsidiaries:

- In2Loop Polska Sp. z o.o.
- Net 2 Net Sp. z o.o. (previously operating under the name Netia Corpo Sp. z o.o.)
- InterNetia Holdings Sp. z o.o. Group

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

- Internetia Sp. z o.o. and its wholly-owned subsidiaries eTychy Sp. z o.o. and Global Connect Sp. z o.o. with its subsidiary SSI Net Sp. z o.o.
- UNI-Net Poland Sp. z o.o.

Changes within the Netia Group's structure

Acquisitions

On June 15, 2010 Global Connect Sp. z o.o., the Company's subsidiary, concluded an agreement for the acquisition of 100 (not in thousand) shares in the share capital of SSI Net Sp. z o.o. each with the nominal value of PLN 50, which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price of these shares has been set at PLN 612.

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

Based on the information presented to the Company by its shareholders, as at the date filing of this report, significant blocks of the Company's shares were held by the following entities (the ownership interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at August 4, 2010):

ING Otwarty Fundusz Emerytalny

ING Otwarty Fundusz Emerytalny held a total of 48,010,027 of the Company's shares constituting 12.33% of the Company's share capital and representing 12.33% of the total number of votes at the General Shareholders' Meeting. The Company has received no information concerning changes in the number of shares held by ING Otwarty Fundusz Emerytalny since 31 December, 2009.

Pioneer Pekao Investment Management SA

The clients of Pioneer Pekao Investment Management SA held a total of 38,891,802 of the Company's shares constituting 9.99 % of its share capital and representing 9.99 % of the total number of votes at the General Shareholders' Meeting of the Company, inclusive of the shareholding of Pioneer Fundusz Inwestycyjny Otwarty described below. The Company has received no information concerning changes in the number of shares held by Pioneer Pekao Investment Management SA since 31 December, 2009.

Pioneer Fundusz Inwestycyjny Otwarty

Pioneer Fundusz Inwestycyjny Otwarty, formed through a transformation of certain open investment funds into subfunds, held a total of 19,484,821 of the Company's shares constituting 5.00 % of its share capital and representing 5.00 % of the total number of votes at the General Shareholders' Meeting of the Company. The Company has received no information concerning changes in the number of shares held by Pioneer Fundusz Inwestycyjny Otwarty since 31 December, 2009

Subsidiaries of SISU Capital Limited

The subsidiaries of SISU Capital Limited held a total of 39,043,006 of the Company's shares constituting 10.03% of its share capital and carrying 10.03% of the total number of votes at the General Shareholders' Meeting of the Company. The Company has received no information concerning changes in the number of shares held by SISU Capital Limited since 31 December, 2009.

Third Avenue Management LLC

Third Avenue Management LLC held 93,720,763 shares constituting 24.07% of the Company's share capital and carrying 24.07% of the total number of votes at the General Shareholders' Meeting of the Company, inclusive of the shareholding of Third Avenue International Value Fund described below. The Company has received no information concerning changes in the number of shares held by Third Avenue Management LLC since 31 December, 2009.

Third Avenue International Value Fund

Third Avenue International Value Fund held 19,594,034 of the Company's shares constituting 5.03% of the Company's share capital and representing 5.03% of the total number of votes at the General Shareholders' Meeting of the Company. The Company has received no information concerning changes in the number of shares held by Third Avenue International Value Fund since 31 December, 2009.

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

Between the adoption of the employee share option scheme (the "Plan") on April 10, 2003 and June 30, 2010, the Supervisory Board approved and issued a total number of 87,877,470 options to members of the Management Board and to Netia's key employees. From the total number of approved options, 53,606,373 were outstanding as at June 30, 2010 including 40,771,814 options held by members of the Management Board. No members of the Supervisory Board hold options in the Company. The options are exercisable until December 20, 2012. The strike price of the approved outstanding options, depending on the terms of the grant, ranges between PLN 3.50 and PLN 8.25 per share.

During the first half of 2010 no changes took place in the number of options granted under the Plan to the members of the Management Board.

Options held by members of the Company's Management Board are presented below:

- Mr Mirosław Godlewski held 13,334,000 options,
- Mr Jonathan Eastick held 10,938,314 options,
- Mr Grzegorz Esz held 4,166,500 options,
- Mr Piotr Nesterowicz held 6,666,500 options,
- Mr Tom Ruhan held 5,666,500 options.

Changes in the number of Netia's shares held by members of the Company's Management Board are presented below:

Six-month period ended June 30, 2010	Mirosław Godlewski	Tom Ruhan	Jonathan Eastick	Total
At the beginning of the period	10,000	253,593	35,500	299,093
Purchase of Netia's shares	-	-	14,500	14,500
At the end of the period	10,000	253,593	50,000	313,593

There were no changes in the number of Netia's shares held by members of the Company's Supervisory Board during the first half of 2010 nor through to the date of filing this report. Shares held by members of the Company's Supervisory Board are presented below:

- Mr Raimondo Eggink held 20,000 shares,
- Mr Tadeusz Radzimiński held 6,000 shares.

There were no changes in the number of Restricted Stock Units ("RSU") held by members of the Company's Supervisory Board during the first half of 2010. One RSU corresponds to one ordinary share in the Company having the value equal to the market price of Company shares. RSU held by members of the Company's Supervisory Board are presented below:

- Mr Stan Abbeloos held 50,000 RSU,
- Mr Benjamin Duster held 50,000 RSU,
- Mr Raimondo Eggink held 50,000 RSU,
- Mr George Karaplis held 50,000 RSU,
- Mr Nicolas Maguin held 50,000 RSU,
- Mr Ewa Pawluczuk held 50,000 RSU,
- Mr Jerome de Vitry held 50,000 RSU.

Following changes of Rules of Remunerating the Supervisory Board Members approved by the Extraordinary General Meeting on July 26, 2010, each above mentioned Supervisory Board Member received an additional grant of 15,000 RSU on July 27, 2010. Each of the above listed board members who continues to serve on the Supervisory Board as of 27 July in each future year will receive an additional grant of 15,000 RSU and any new independent Supervisory Board member shall also receive annual grants of 15,000 RSU,as of the first day following each annual shareholders meeting, provided that such member continues to serve on the Supervisory Board.

4. Legal proceedings

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 February 5, 2010, Jupiter representatives filed 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.

Tax Authorities

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

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

Risk of changes to the Netia Group's strategy

On April 18, 2007 the Company announced the main assumptions of its new operational strategy. Financial guidance regarding this strategy was last updated on April 6, 2009 to take account of the material impact of the Netia's strategic cost reduction project. No assurance can be given as to whether strategic initiatives included in Netia's strategy, will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

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

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

Risk connected with the impact of potential future takeovers and acquisitions of large-scale businesses

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

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

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

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

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

Technological risk

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

Foreign currency risk

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

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

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

Risk resulting from changes in the Telecommunications Law

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

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

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

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

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

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

- owners of the telecommunications ducts situated on the real estate or in the building – the obligation to make the telecommunications ducts accessible for telecommunications undertaking which has no possibility to use another, existing telecommunications ducts;
- owner of telecommunications cable supplied to or distributed within the building – the obligation to make the whole or a part of this cable accessible for telecommunications undertaking in case the supply of another telecommunications cable to the building is not possible;

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

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

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

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

Two other amendments of Telecommunications Law are currently in the legislative process. At current stage it is not possible to state if and when the new provisions will enter into force as well as what will be their impact on the activity of the Companies from the Group.

The Ministry of Infrastructure has also commenced preparation of an amendment of Telecommunications Act in order to implement the amendments of the 2002 Directives package, that entered into force in the EU in December 2009. The Directives amending the 2002 package, among other issues, forbid to enter into an agreement of providing telecommunications services longer than 24 months and oblige telecommunications entrepreneurs to extend their offer to include 12 month contracts (or shorter), broaden the obligatory content of contract for the provision of telecommunications services, and obligations with regard to network safety, including the prevention of unsolicited communications (spam). National regulators are authorized to perform analyses of relevant product markets while taking into consideration the regional differences in development of competition throughout the country.

Member states, including Poland, are obliged to implement the new regulation by June 2011 and this is the deadline for adjusting the Telecommunications Act.

At this stage it cannot be determined how material will be the impact of these new European obligations whilst most of the changes described above may increase the Company's costs or increase competition.

Risks resulting from the obligation to provide 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 TP SA 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.

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. The President of UKE refused to subsidize the costs of services provided by TP SA that form a part of the universal service in 2006. Having considered TP SA's claim, the court reversed the decision of the President of the UKE. The Presidents of UKE and KIGEiT filed cassation appeals against the decision of the court. The Supreme Administrative Court dismissed the cassation appeals. The Management Board is unable to give any assurance that, following re-examination of the case, TP SA's motion for a subsidy towards the universal service will not be granted. 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 - 2009.

Due to uncertainties over the data covered by the calculation, it is not currently possible to make a reliable estimate of the potential liability for USO. Using the amounts claimed by TPSA and the Company's estimates of the revenues of the telecommunications providers who would be subject to universal service contributions as a basis, the amount of USO payments potentially claimable by TP SA from the Netia Group amounts to approximately PLN 27,000 for the period 2006 - 2009 inclusive. However, the actual amount, if any, may significantly differ depending on (i) whether the TPSA applications are accepted in full or in part by UKE and (ii) Netia's estimates of telecommunications services revenues being the same as those used by UKE.

Management believes that TP SA's investment record does not justify payment of universal service subsidies and intends to take all possible steps to avoid having to make such contributions. At the present stage the management board may not assure that the motions of TP SA will not be granted and that the Group will not be required to co-finance the subsidies towards universal services.

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has designated Netia as a telecommunications operator holding significant market power in the market for call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:
- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A., on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

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

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

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

Asymmetry of interconnection rates depends on the policy of UKE

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

The Management Board is unable to give any assurance that the term for achieving rate symmetry for call termination in Netia’s network in relation to the rates for call termination in TP SA’s network, will not be accelerated or otherwise changed by the President of UKE.

Dependence of the Company on TP SA due to telecommunication access services

Risks relating to regulatory access rates

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

In the case of bitstream access the settlement is more complex. The wholesale fees specified for broadband access under the BSA offer will be fixed based on the retail prices of the TP SA’s offer from October 10, 2009. Potential further reductions in fees set in this way, plus the wholesale rates to be paid when TP SA introduces new speeds to its bitstream offer in the future, are to be controlled by a new margin squeeze test (“MS”) introduced by the President of UKE.

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

Under the above-mentioned principle, Netia and TP SA have specified conditions for settlements for broadband access to TP SA network. Payments for the use of subscribers’ connections applied for to TP SA until October 10, 2009 are, from January 1, 2010 calculated at their nominal value, while taking into account retail prices of TP SA as of October 10, 2009. The parties have also adjusted the amount of wholesale rebate to the BSA reference offer, and introduced payments for settlements between operators according to the currently binding BSA Offer.

Payments for the use of subscribers' connections, for which the applications were filed to TP SA after October 10, 2009 will be settled under previous rules specified in the BSA reference offer, until transition to settlement rules which takes the amount of fees, established with the use MS test, into account. The amount of these fees may not be higher than established according to the currently binding BSA reference offer, i.e. according to the "retail-minus" methodology for the day of October 10, 2009. Alternative operators, including Netia, passed information on the costs to the President of UKE for the purpose of the MS model. According to the test results published by the President of UKE on July 23, 2010 the retail offers of TP SA (examined with the use of MS test) do not constitute price discrimination of Alternative Operators and may be used with the current wholesale fees for BSA services, i.e. the fees calculated on the basis of a "retail-minus" methodology but also expressed in nominal values.

The Management cannot assure that the rules of MS test will provide sufficient guarantee of price non-discrimination by TP SA.

Risks related to amendments to reference offers

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

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

The President of UKE is currently holding a procedure to approve the draft new reference offer from TP SA ("Offer"). The Offer covers frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The Offer is expected to supersede all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

Netia obtains access to TP SA network with regard to:
– interconnections ("RIO") and wholesale network access ("WLR"), under the reference offer of TP on the telecommunications access with regard to call initiation, call termination, and wholesale network access"
– broadband access service ("BSA" or "Bitstream"), under the "the reference offer of TP SA of the terms of telecommunications access with regard to broadband access service, including the broadband data transmission"
– access to local loops and sub-loops („RUO") under the "the reference offer of TP SA on the framework terms of telecommunications access with regard to local loop and sub-loop access service and related facilities with regard to full and shared access".

Due to the possibility that the President of UKE approves - in the scope previously regulated in separate reference offers, the Reference Offer which regulates the terms of co-operation with TP SA differently than compared to the binding relations with Netia, the Management Board cannot assure that the terms on which Netia uses access to the network of TP SA will remain unchanged in the future.

Risks related to a threat to the stability of the conditions on telecommunication access services

Beyond reach of Netia's own network, provision of telecommunications services by Netia Group is conditional upon access to the network of TP SA. The terms and conditions for the use of telecommunication access to the network of TP SA substantially arise from decisions of the President of the UKE. These decisions amend or replace contracts with TP SA on telecommunications access.

In the Understanding Netia and TP SA undertook to conclude a WLR contract and to amend current BSA contract and collocation contracts in order to replace decisions of the President of UKE with such contracts and to adjust the terms of cooperation between the Parties to currently existing reference offers of TP SA. Although these contracts ensure the durability of Netia's rights to access to TP SA network, the Management Board cannot assure that individual conditions of telecommunications access contained in the new contracts may not become less favourable than future decisions of the President of UKE.

The court proceedings that were conducted prior to the execution of the Understanding as a result of TP SA's appeals against President of UKE's decisions on the conditions for use of telecommunications access to the network of TP in the scope of interconnection, wholesale line rental (WLR), bitstream access by Netia have been finally completed and the risk of repealing the above-mentioned decisions has been eliminated.

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

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

PTK Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o. appealed against the temporary decisions of the President of UKE. The Management Board cannot assure that the decisions will not be amended or reversed by the court, thereby materially increasing our interconnection costs and in such a case, that PTK Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o. will not raise the claims against Netia.

Risks related to the analysis of relevant markets

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

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

In the opinion of the Management, relevant markets are not developed sufficiently to allow for their geographical segmentation, but it cannot assure that in the next analysis of relevant markets the President of UKE will not differentiate on geographical grounds. Even in such a case, in the opinion of the Management, there would be no grounds to hold that TP SA has lost its significant market power on any market. Despite this opinion, the Management Board cannot assure that as a result of relevant markets analysis, the President of UKE would not modify or waive some or all regulatory obligations imposed on TP SA with regard to specific geographical areas of the country. If so, this could materially affect Netia's access to the TP SA network and our ability to offer services nationally.

Risks related to Tele2 Polska's business

TP has withdrawn its claims filed against Tele2 Polska demanding payments as well as the appeals against the decisions of the President of UKE, issued for Tele2 Polska, establishing the conditions for use of telecommunications access to the network of TP; in consequence the court proceedings in the scope concerning the activity of Tele2 Polska overtaken by Netia, conducted before the execution of the Understanding, have been finally completed.

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

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

Despite the deep conviction of the legitimacy of the appeal charges, the Management Board can not ensure that, in appeals proceeding, the court will change the decision of President of UOKiK, and specifically, that the fine will be repealed or decreased.

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

Other regulatory risks

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

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

Risk of group proceedings

On July 19, 2010, the law on enforcement of claims by way of group proceedings has come into force. It foresees class actions. Under this law a group of at least 10 persons may bring a joint action against defendant and the judgment is passed with respect to all members of such group. Management cannot exclude the risk that in the future class actions may be brought against the company.

Risk of increased competition

The Netia Group's main competitors in the field of telephone services are TP SA and mobile network operators, and in some geographic areas also other operators providing wireline telephone services including cable television networks. Within the market for corporate telephony services, there are numerous providers of various sizes, the most significant of which is TP SA. Poland has witnessed a considerable increase in competition, which may intensify even further, considering the lack of legal barriers in entering the market and the improving terms of regulated access to TP SA's network. Netia is unable to evaluate the extent to which new market participants will use the availability of their rights, particularly with regard to the significantly lower costs of entering the market than those incurred by the Netia Group. The Management is unable to evaluate the extent to which intensification of competition would adversely affect the Netia Group's activity.

Risk of competition from TP SA and TP SA's compliance with regulatory decisions

TP SA occupies a leading position among wireline telephone service operators in Poland. At the same time, it enjoys a stable position on the market for data transmission. Within the scope of wireline telephone services, the Netia Group encounters competition from TP SA in all the geographic areas in which it operates its own access networks. TP SA is a much larger entity than the Netia Group and possesses a much wider backbone and access networks. It enjoys long-established relationships with many customers which the Netia Group considers its target customers. The infrastructure used by TP SA in these areas is comparable to the infrastructure of the Netia Group in terms of the technologies employed. However, TP SA is also able to leverage the offers of its mobile subsidiary, Orange and of television services in ways which are currently difficult for Netia to duplicate. It is possible that aggressive competition from TP SA will materially and adversely affect the revenues of the Netia Group and the results of its operating activity.

TP SA owns most local loop access networks and has, in the past, offered other operators access to the network of these local loops on terms that, in many cases, render the addition of a customer to the network too expensive. However, since 2006 the regulator has issued decisions creating unified offers in the area of regulatory access to the TP SA network which Netia currently considers to be commercially viable. As a result, in 2006 the Netia Group signed a cooperation agreement with TP SA that allows Netia to offer Internet access to TP SA's customers using a regulated TP SA wholesale service known as bitstream access. In June 2007 Netia and TP SA concluded contracts on interconnection, regulating the rules for cooperation between operators. The contract applied to the cooperation with TP SA also with regard to matters regulated before in separate interconnection contracts concluded by Group Companies, rights and obligations of which were assumed by Netia under the Commercial Companies Code. In the performance of the Settlement Netia confirmed this rule on January 22, 2010 by filing with TP SA a binding statement for the indication of contract for interconnection concluded between Netia and TP SA on June 30, 2007 as the basis for servicing of all users of Netia' services with regard to interconnection. In January 2007 President of UKE issued a decision changing an interconnect agreement between TP SA and Premium Internet SA., the Company's subsidiary (merged with Tele2 Polska in 2008, and then merged with Netia in February 2009), regarding wholesale line rental (WLR). This decision constituted the basis for a new type of access to TP SA's network, enabling the Netia Group to offer voice services to TP SA customers. In October 2008, WLR decision was issued to the benefit of Netia as well. Moreover, in April 2007 the Company concluded an agreement with TP SA on local loop unbundling. The Netia Group uses local loop unbundling in providing voice and data services and in the future intends to offer differentiated value added services such as IPTV. Whilst key commercial terms of these services, as set by the regulatory decisions, are currently commercially attractive, operational cooperation with TP SA in order to provide and maintain such services to end customers needs to be much more coordinated than has been the case in the past.

Despite the conclusion of the Settlement and the Understanding, the Management can give no assurance that TP SA will provide the required level of cooperation or that the regulator will respond by effectively enforcing TP SA's cooperation. Furthermore, we can give no assurance that market developments, future court judgments or future regulatory decisions may not render the current opportunities to reach customers via TP SA access networks no longer commercially viable.

Possible future competition from new generation networks

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

Competition from cellular mobile telephone operators

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

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

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

Other sources of competition

Over the last several years, competition for voice and Internet services has increased from cable television operators. Triple play bundles (voice telephony, Internet access and cable television) have proven to be particularly challenging. However, Netia is reviewing alternatives to combat this threat. Specifically, IPTV offers fixed line telephone operators the ability to compete directly with cable television operators. The importance of IPTV and related services (such as video on demand) is being analyzed in the context of Netia's strategy to expand its share of the broadband market. In particular, the Company is considering the launch of IPTV and video on demand services taking content from the "n" satellite TV platform. A letter of intent has been signed and tests have been conducted, but we can provide no assurance that this innovative partnering approach will be concluded with a commercial agreement, will be successful with Netia's customers or that returns on investment will be acceptable. Other more investment intensive solutions to provide IPTV services may also be deployed by Netia in the future but, again, no assurance can be provided that such services will be commercially successful if introduced.

Market consolidation

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

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

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

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

Importance of P4 to Netia's future development

The successful development of P4 into an important player on the Polish mobile market, having significant market share and being able to self-finance its continued development is in turn important for Netia with respect to being able to achieve its own development plans. The Management can provide no assurance that P4 will become self-financing or remain independent and if P4 were to cease independent operation, it may have a material financial impact upon the results and cash flows of Netia from its commercial agreements with P4 and may also limit Netia's opportunities to grow its own fixed line and mobile service provider activities. No assurance can be given that Netia can find an alternative supplier of wholesale mobile services on acceptable financial terms or at all if P4 ceases to operate or is sold to another owner.

Cost reduction project

On April 6, 2009 Netia announced the implementation of project "Profit", a comprehensive operating cost reduction project aimed at cutting PLN 100 million (not in thousands) from ongoing operating expenses on an annual basis starting from 2010. Whilst the project was planned in detail with assistance from experienced international management consultants and the project was completed smoothly in line with Management's expectations, Management can give no assurance that in future all savings delivered under the project will be sustainable. Moreover, cost-reduction activities may generate unforeseen costs elsewhere in the organization or may need to be cancelled or reversed due to unexpected adverse impacts on quality or customer satisfaction. Accordingly, Management can give no assurance that the "Profit" project will deliver results in line with the announced plans.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (merged with Netia in 2008) received the reservations of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's former subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. Considering changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 the Polish regulator issued a decision reducing the initial milestones. The amended milestones alloted 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 limit or confiscate the relevant license, if the issue is not rectified. However, historically such measures have rarely been used.

Tax regulations and their interpretation (not in thousands)

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

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

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

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

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

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

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

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

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

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

4. Netia's taxable losses were settled incorrectly, resulting in a significant overstatement of tax being claimed. Whilst the Tax Chamber Director has recognized some of the Company's corrections to the CIT calculation in respect to 2003, reducing the claimed amount by PLN 15.0 million, the Company continues to claim other increases in taxable expenses that the Tax Chamber Director has not accepted.

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

Netia 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 Tax Chamber's decision as a taxation expense for the financial year ended December 31, 2009 and instead treats funds paid over to the tax authorities as an overpayment of tax.

Netia has filed an appeal to the Decision with the Voivodship Administrative Court and will undertake all possible legal steps to prove that the decision of the Tax Chamber Director was groundless. The date of the first hearing at the Voivodship Administrative Court is still to be set.

Although there is a significant degree of instability in the interpretation of tax regulations by the Tax Authorities and the Courts, Management is highly confident that the merits of its arguments will prevail in the Courts and the funds will be returned by the tax office together with interest currently calculated at 10% per annum. However, should Netia lose this case and all subsequent appeals, the amount of PLN 58.3 million would have to be reclassified as a taxation expense relating to prior years.

(All amounts in thousands, except as otherwise stated)

6. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 14) and interim condensed financial statements of Netia (Note 15).

7. Guidance for 2010 and medium-term outlook for 2010-2012 (not in thousands)

In February 2010 Netia announced its guidance for 2010 and in May 2010 increased its broadband service clients guidance by 3% from 680,000 to 700,000, reflecting the progress made in net subscriber additions during Q1 2010. Full guidance for 2010 is set out below:

	Guidance 2010
Number of broadband service clients *(excl. Ethernet acquisitions)*	700,000
Number of voice service clients (own network, WLR and LLU)	1,225,000
Unbundled local loop (LLU) nodes	500+
Revenue (PLN m)	1,550.0+
Adjusted EBITDA (PLN m)	355.0+
Adjusted EBITDA margin (PLN m)	23%
EBITDA (PLN m)	360.0+
EBIT (PLN m)	60.0+
Capital investment (excl. M&A) (PLN m)	220.0
Capital investment to sales (%)	14%

Subscriber guidance excludes potential for further Ethernet network acquisitions which remain important to Netia's strategy but are difficult to forecast in time and amount. In addition, Netia forecasts to be net profitable for the full year 2010.

The medium term outlook for Netia remains unchanged, as set out below:

Mid term outlook	
Revenue growth (CAGR) total	3% - 5%
Revenue growth (CAGR) in retail market segments	5% - 10%
EBITDA margin in 2010 (%)	23%
EBITDA margin in 2012 (%)	28%
Net profit by	2010
Capex to sales down to 15% by	2010
1 million broadband subscribers	2012

Netia will continue to monitor the possibilities of achieving the forecast results on a quarterly basis. The achievement of the forecast results will be assessed, and any necessary adjustments will be introduced after the end of a given quarter of the financial year based on an analysis of sales revenues, investment expenditure, number of customers and any other factors it may consider relevant.

8. Loans, warranties and collaterals

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 May 15, 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.

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) a set 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; and assignment as collateral security of Netia's receivables under certain agreements. Moreover, the Company's subsidiary (InterNetia Holdings) 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.

On July 29, 2010 Netia sent written notice to Rabobank Polska S.A. ("Rabobank") cancelling the available commitment under the Facility. In consequence of the above notice, the commitments available under the Facility, i.e. PLN 245,000 in the form of a term loan and PLN 50,000 of a revolving facility, will be irrevocably cancelled in their entirety effective from August 5, 2010. Simultaneously, the Company requested Rabobank for, inter alia, issuance of confirmation of expiry of receivables under the Facility thus allowing the Company to delete from the relevant registers all the instruments securing the Facility that were established by the Company and by companies in the Netia Group.

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

9. Other information

Disposal of transmission equipment

On July 24, 2009 Netia and P4 concluded an agreement for the sale of the transmission equipment used by Netia to provide transmission services to P4. The sale agreement was entered into on the following terms and conditions:

1. The transmission equipment is being 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.

In January 2010 the Company transferred to P4 the second batch of the transmission equipment and recognized PLN 2,865 of a gain on disposal (a gain of PLN 5,298 was recognized on disposal of the first batch in the third quarter of 2009). On June 30, 2010 Netia received a payment for the third batch of the transmission equipment.

Settlement with Tele2 Sverige AB

On March 29, 2010 the Company and Tele2 Sverige AB signed an agreement ("Settlement Agreement") in which the parties agreed to settle all claims that they have or may have against one another under the Share Purchase Agreement ("SPA") and all ancillary agreements. In particular, the Company waived its right to the indemnities provided in the SPA (a part of any Tele2 Polska's contingent loss was indemnified by the seller) and Tele2 Sverige AB made a cash payment and waived its right to the restricted cash deposit if it is released by the Court. As a result of the Settlement Agreement, during the three-month period ended March 31, 2010, Netia recorded an income of PLN 1,461.

Increase of Netia's share capital (not in thousands)

As a result of an exercise of stock options by Netia managers (who are not management board members), which were granted under the Company's incentive program, on March 30, 2010 Netia issued, from its authorized capital, 61,059 ordinary bearer series K shares with a nominal value of PLN 1 each, which give the right to 61,059 votes at Netia's general meeting of shareholders. The newly issued shares were admitted to trading on the Warsaw Stock Exchange from April 15, 2010, following their assimilation with the remaining Netia's shares. Currently, Netia's issued and outstanding share capital is PLN 389,338,353 (389,338,353 shares issued and outstanding at PLN 1 par value per share). Under the existing stock option program, the Company may issue up to a further 13,258,206 new shares until December 20, 2012.

(All amounts in thousands, except as otherwise stated)

Shareholders meetings

Netia's annual general shareholders meeting held on May 26, 2010 approved the financial statements for 2009 and reinvestments of 2009 profits, issuance of subscription warrants and the conditional increase of Netia's authorized share capital by 13.6 million shares to provide for stock option plans for 2010-2020 for Netia's management board and key managers, as well as related amendments of the Company's statute.

A second shareholders meeting held on July 26, 2010 approved changes to the remuneration by-laws applicable to supervisory board members.

Warsaw, August 4, 2010