

**NETIA GROUP  
COMMENT ON THE FINANCIAL REPORT  
FOR THE THIRD QUARTER OF 2010**

*(All amounts in thousands, except as otherwise stated)*

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

## **1. The Netia Group's structure**

The interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 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
- Netia 2 Sp. z o.o.

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

- Internetia Sp. z o.o. and its wholly-owned subsidiaries eTychy Sp. z o.o., Multiplay Polska 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 thousands) shares in the share capital of SSI Net Sp. z o.o. each with the nominal value of PLN 500 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price of these shares has been set at PLN 612.

On September 30, 2010, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, concluded an agreement for the acquisition of 200,000 (not in thousands) shares in the share capital of Multiplay Polska Sp. z o.o. ("Multiplay"), each with the nominal value of PLN 50 (not in thousands), which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders. The total price for all Multiplay shares has been set at PLN 7,998.

On October 6, 2010, Internetia purchased 100% of the share capital of Igloonet Sp. z o.o. ("Igloonet"), an internet service provider offering broadband Internet access to residential clients. At the date of the acquisition Igloonet had 2,968 active customers.

#### **Registration of a new subsidiary (not in thousands)**

On September 15, 2010, the Company's subsidiary, Netia 2 Sp. z o.o. ("Netia 2"), was registered in the National Court Register. Netia acquired 100 Netia 2's shares (with a par value of PLN 50 per share) constituting 100% of Netia 2's share capital and giving Netia 100% of the voting power at Netia 2' general meeting of shareholders.

## **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 November 3, 2010):

#### *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.

#### *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

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Company has received no information concerning changes in the number of shares held by ING Otwarty Fundusz Emerytalny 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.

**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 "2003 Plan") on April 10, 2003 and September 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 September 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 three- month period ended September 30, 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.

There were no changes in the number of Netia's shares held by members of the Company's Management Board during the third quarter 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 Mirosław Godlewski held 10,000 shares,
- Mr Jonathan Eastick held 50,000 shares,
- Mr Tom Ruhan held 253,593 shares.

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, to be administered by the Company's Supervisory Board, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia with a latest possible exercise date of May 26, 2020 (the "New Plan"). In addition, the Shareholders Meeting resolved to authorize additional authorised share capital in the form of 13,626,837 class L shares to be used to satisfy claims arising from the exercising of options under the New Plan and also under the 2003 Plan in the event all class K shares are consumed. The Supervisory Board has not granted any share options under the New Plan as at the date of these interim consolidated financial statements.

There were no changes in the number of Netia's shares held by members of the Company's Supervisory Board during the third quarter 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.

The Company's Extraordinary General Shareholders Meeting held on July 26, 2010 approved changes of the rules of remunerating the Supervisory Board members dated April 9, 2009. The change of the rules was effective from the day the resolution was adopted.

Due to the changes of rules of remunerating the Supervisory Board Members approved by the Extraordinary General Shareholders Meeting on July 26, 2010, each independent Supervisory Board Member shall receive an annual grant of 15,000 Restricted Stock Units ("RSU"). The first annual RSU grant was made on July 27, 2010 and subsequent grants will occur on the same date in the following years. One third of each grant vests 12, 24 and 36 months after the grant date. One RSU corresponds to one ordinary share in the Company having a value equal to the market price of Company shares.

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Changes in the number of RSU held by members of the Company's Supervisory Board are presented below:

<i>Three-month period ended September 30, 2010</i>	At the beginning of the period	RSUs granted	At the end of the period
Stan Abbeloos .....	50,000	15,000	65,000
Benjamin Duster .....	50,000	15,000	65,000
Raimondo Eggink .....	50,000	15,000	65,000
George Karaplis .....	50,000	15,000	65,000
Nicolas Maguin .....	50,000	15,000	65,000
Ewa Pawluczuk .....	50,000	15,000	65,000
Jerome de Vitry .....	50,000	15,000	65,000
Tadeusz Radziwiński .....	-	65,000	65,000
<b>Total RSU</b>	<b>350,000</b>	<b>170,000</b>	<b>520,000</b>

#### 4. Legal proceedings

##### **Jupiter**

Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") 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. On August 12, 2010 the Appeal Court dismissed the Jupiter's appeal. Both District and Appeal Courts' decisions are legally binding.

##### **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 results 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

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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. 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.

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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 half of the 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.

A draft law on the amendment of several acts related to implementation of the Budget Law (hereinafter referred to as the "VAT act"), providing for 1%-increase of VAT rate on telecommunications services purchases was passed on October 29, 2010 by the lower chamber of the Polish Parliament (Sejm) and was forwarded to the upper chamber of the Polish Parliament (Senat). Pursuant to the draft provisions of the VAT act relating to the changes in the Telecommunications Act, telecommunications undertakings will be allowed to change their tariffs with regard to application of higher VAT rate on the basis of public announcement of the changes by the telecommunications undertaking. These provisions relieve the telecommunications undertakings from the obligation to announce all of the tariffs modifications to each of the subscribers individually and one month prior to entry into force of the higher VAT rate.

At this stage of legislative procedure, the Management Board is unable to assure that the projected facilitations of tariffs changes with regard to increased VAT rate as of January 1, 2011 will enter into force and that the contracts modifications procedure conducted pursuant to the Telecommunications Act will not be necessary and that the rise of the VAT rate will have no impact on the amount of net income earned for services provided after December 31, 2010 or it will not invoke any other consequences for the Company, which cannot be predicted.

***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 be established by a decision of the President of UKE;

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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](http://www.netia.pl/informacje,dla_biznesu,42,921.html). The published document, hereinafter the "Netia IC Offer" contains information as required in the Decision of the President of the UKE, necessary for the preparation by the interested entrepreneurs of an application pertaining to the provision of telecommunications access with regard to call termination services in the fixed public telephone network of Netia.

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

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

***Asymmetry of interconnection rates depends on the policy of UKE***

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

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

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***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 principles, Netia and TP SA have specified conditions for settlements for broadband access to TP SA's 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.

When TP SA's new tariffs were announced October 1, 2010, Netia's Management was surprised that such deep price cuts on low broadband speeds passed the MS test. The Regulator has temporarily suspended the MS test and is working with TP and the altnets association, KIGEiT, to improve the transparency of the test procedure in future.

The Management cannot assure that the rules of MS test will provide sufficient guarantee of price non-discrimination by TP SA. The approval by the President of UKE of the present TP SA retail offers could result in Netia losing some share of market net additions and lowering our rate of growth, thereby putting at risk our strategic and financial objectives.

*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.

Moreover, on September 29, 2010, by virtue of a decision of the President of UKE, reference offer providing frame terms of telecommunications access with regard to calls origination and termination, wholesale line rental, access to local loop ensuring both full and shared access, as well as access to the local loop provided through the nodes of a telecommunications network for the purposes of broadband data transmission, was introduced ("hereinafter referred to as the "RO"). The RO regulates frame terms of contracts for all kinds of telecommunications services that are currently used by Netia under contracts and decisions issued upon reference offers. The RO superseded all currently valid reference offers, apart from the offer for the lease of telecommunications fibers.

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

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

Due to the fact that the RO regulates the terms and rules of co-operation TP SA has with other telecommunications undertakings differently from the terms and rules of co-operation contained in the binding agreements entered into with Netia, the Management Board cannot give assurance that the contracted terms based on which Netia accesses the network of TP SA will not need to be changed in the future in order to remain competitive with other alternative operators.

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***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 or that the regulatory obligations imposed on TP SA shall be repealed or limited. 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 the whole relevant market or 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.

***Risks related to Tele2 Polska's business***

In February 2009 the President of UKE issued the decision fining Tele2 Polska with the amount of PLN 500 for the exchange of traffic between Tele2 Polska and TP SA in breach of conditions of the so-called "flat interconnection rate". Tele2 Polska appealed against the above-mentioned decision, nevertheless the Management Board cannot assure that the appeal will be allowed and the decision will be 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 cannot 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 cannot assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities of the Netia Group are consistent with regulatory requirements and the law to the extent that eliminates the risk of a fine.

***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



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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's 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 become 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.

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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 market importance of IPTV and related services (such as video on demand) is continually being analyzed in the context of Netia's strategy to expand its share of the broadband market. The Company is working on solutions to provide profitable TV services to its customers and expects that such services should reduce churn and increase margins per customer. However no assurance can be given that Netia will be successful in implementing a profitable TV service business model. Should such services be insufficiently well received by our existing and potential customers, it may adversely affect our revenues and margins in the future.

***Market consolidation***

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

Whilst acquisitions of large scale telecommunications businesses are not crucial to the Company's strategy Netia continues to closely monitor the situation of all its main internet 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.

***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 anticipated results.

***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 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 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

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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 hearing in this matter at the Voivodship Administrative Court is scheduled for November 5, 2010.

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.

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## 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 17) and interim condensed financial statements of Netia (Note 14).

## 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:

	<b>Guidance 2010</b>
Number of broadband service clients <i>(excl. Ethernet acquisitions)</i>	700,000
Number of voice service clients <i>(own network, WLR and LLU)</i>	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:

<b>Mid term outlook</b>	
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***

Effective from August 5, 2010 Netia terminated its existing loan facilities totalling PLN 295,000 available under the Facility concluded on May 15, 2007 with Rabobank Polska S.A. as the arranger, Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A.

The cumulative draw downs under the Facility made in previous years amounted to PLN 205,000 and were repaid in full in 2008. During the nine-month period ended September 30, 2010 PLN 5,741 of accumulated deferred transaction costs related to the Facility was recognized in the income statement as finance cost.

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.

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

The total amount of external financing which may be obtained under the Mandate was increased by PLN 100,000 to PLN 700,000.

**Outstanding Bank Loans**

At September 30, 2010, the Netia Group had outstanding bank loans of total PLN 334 from the following banks: ING Bank Śląski S.A., Bank Zachodni WBK S.A., Raiffeisen Bank Polska S.A., and Getin Bank S.A.

These loans were drawn by the Company's subsidiary Multiplay which was acquired on September 30, 2010. The loans were repaid on the following dates: October 26, 2010, October 19, 2010, October 26, 2010 and October 28, 2010 respectively. At December 31, 2009 the Netia Group had no outstanding bank debt.

**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 was purchased by P4 in three batches.
2. The total price for the transmission equipment was PLN 65,418, of which:
  - a) PLN 22,832 was 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 was 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 was 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 was transferred to P4 after P4 paid the price for a given batch.

In January 2010 and July 2010 the Company transferred to P4 the second and third batches of the transmission equipment and recognized gains on disposal of PLN 2,865 and PLN 4,433, respectively (a gain of PLN 5,298 was recognized on disposal of the first batch in the third quarter of 2009).

**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.

**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 dated 9 April 2009.

Warsaw, November 3, 2010