Quarterly Financial Report

Containing:

- Independent auditor’s review report
- Interim condensed consolidated financial statements
  as at and for the nine-month period ended September 30, 2010

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Report on review of interim condensed consolidated financial statements to the Supervisory Board of Netia S.A.

1. We have reviewed the attached interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at September 30, 2010 and the related interim condensed consolidated statement of comprehensive income, interim condensed consolidated income statement, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 9 months period then ended and notes to interim condensed consolidated financial statements ('the attached interim condensed consolidated financial statements').

2. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting' as adopted by the European Union ('IAS 34'). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

3. We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

4. Based on our review, nothing has come to our attention that causes us to believe that the attached interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

5. The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 9 months period ended September 30, 2010 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2010 of PLN 3,987 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp z o.o.

Ernst &Young Audit Sp. z o.o.

Warsaw, 3 November 2010

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the nine-month period ended September 30, 2010

Index to the interim condensed consolidated financial statements

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at September 30, 2010

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2009 (restated) (PLN)	September 30, 2010 (PLN)	Convenience Translation September 30, 2010 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,386,727	1,289,269	323,368
Intangible assets	6	388,891	361,086	90,566
Investment property		35,574	35,310	8,856
Deferred income tax assets	13	79,400	65,733	16,487
Available for sale financial assets		10	10	3
Long term receivables		676	217	54
Prepaid expenses and accrued income		7,555	10,660	2,674
Total non-current assets		**1,898,833**	**1,762,285**	**442,008**
Current assets				
Inventories		3,143	7,147	1,793
Trade and other receivables		173,519	173,191	43,439
Tax Office receivables	4	-	58,325	14,629
Current income tax receivables		59	777	195
Prepaid expenses and accrued income		20,216	44,690	11,209
Derivative financial instruments	8	110	131	33
Financial assets at fair value through profit and loss	8	3,660	-	-
Held to maturity investments	8	58,489	155,886	39,099
Restricted cash		2,330	2,123	532
Cash and cash equivalents		181,203	157,427	39,485
		442,729	**599,697**	**150,414**
Assets classified as held for sale		87	-	-
Total current assets		**442,816**	**599,697**	**150,414**
Total assets		**2,341,649**	**2,361,982**	**592,422**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Grzegorz Esz
Member of the Management Board

Warsaw, Poland
November 3, 2010

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2009 (restated)	September 30, 2010	Convenience Translation September30, 2010
		(PLN)	(PLN)	(EUR)
EQUITY				
Share capital		389,277	389,338	97,652
Supplementary capital		1,356,652	1,599,287	401,125
Retained earnings		247,984	47,681	11,959
Other components of equity		32,264	38,835	9,740
Total equity		**2,026,177**	**2,075,141**	**520,476**
LIABILITIES				
Non-current liabilities				
Bank loans	10	-	334	84
Provisions		1,401	1,168	293
Deferred income		7,289	10,576	2,653
Other long term liabilities		13,054	11,157	2,799
Total non-current liabilities		**21,744**	**23,235**	**5,829**
Current liabilities				
Trade and other payables		248,876	213,046	53,436
Derivative financial instruments	8	4,423	964	242
Borrowings		347	-	-
Other financial liabilities		80	-	-
Current income tax liabilities		1	1	-
Provisions		4,888	3,636	912
Deferred income		35,113	45,959	11,527
Total current liabilities		**293,728**	**263,606**	**66,117**
Total liabilities		**315,472**	**286,841**	**71,946**
Total equity and liabilities		**2,341,649**	**2,361,982**	**592,422**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2009 (restated) (PLN)	Nine-month period ended September 30, 2009 (restated) (PLN)	Three-month period ended September 30, 2010 (PLN)	Nine-month period ended September 30, 2010 (PLN)	Convenience Translation Nine-month period ended September 30, 2010 (EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		**370,281**	**1,119,625**	**394,465**	**1,175,142**	**294,743**
Cost of sales		(246,973)	(756,038)	(278,595)	(801,026)	(200,909)
Gross profit		**123,308**	**363,587**	**115,870**	**374,116**	**93,834**
Selling and distribution costs		(84,227)	(253,647)	(78,062)	(233,123)	(58,471)
General and administration costs		(41,314)	(129,487)	(35,328)	(107,395)	(26,936)
Other income		3,090	9,152	6,961	13,365	3,352
Other expenses		(100)	(300)	-	(782)	(196)
Other gains / (losses), net	11	6,312	9,745	4,938	8,237	2,066
Operating profit / (loss)		**7,069**	**(950)**	**14,379**	**54,418**	**13,649**
Finance income	12	1,462	5,296	1,284	8,456	2,121
Finance costs	12	(4,334)	(15,256)	(1,308)	(8,281)	(2,077)
Profit / (Loss) before income tax		**4,197**	**(10,910)**	**14,355**	**54,593**	**13,693**
Income tax benefit / (charge)	13	39	511	(1,945)	(12,275)	(3,079)
Profit / (Loss)		**4,236**	**(10,399)**	**12,410**	**42,318**	**10,614**
Profit / Loss attributable to:						
Owners of the Company		4,236	(10,399)	12,410	42,318	10,614
Non-controlling interest		-	-	-	-	-
		4,236	**(10,399)**	**12,410**	**42,318**	**10,614**
Earnings per share (expressed in PLN per share)						
- basic		0.01	(0.03)	0.03	0.11	0.03
- diluted		0.01	(0.03)	0.03	0.11	0.03

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2009 (restated)	Nine-month period ended September 30, 2009 (restated)	Three-month period ended September 30, 2010	Nine-month period ended September 30, 2010	Convenience Translation Nine-month period ended September 30, 2010
		(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME						
Profit / (Loss)		**4,236**	**(10,399)**	**12,410**	**42,318**	**10,614**
Cash flow hedges	8	(1,042)	(4,669)	(1,400)	1,865	468
Income tax relating to components of other comprehensive income		63	(4)	262	(378)	(95)
Other comprehensive income / (loss)		**(979)**	**(4,673)**	**(1,138)**	**1,487**	**373**
TOTAL COMPREHENSIVE INCOME/ (LOSS)		**3,257**	**(15,072)**	**11,272**	**43,805**	**10,987**
Total comprehensive income / (loss) attributable to:						
Owners of the Company		3,257	(15,072)	11,272	43,805	10,987
Non-controlling interest		-	-	-	-	-
		3,257	**(15,072)**	**11,272**	**43,805**	**10,987**

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

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2009		**389,277**	**1,556,489**	**-**	**(41,245)**	**24,244**	**(284)**	**1,928,481**
Changes in accounting policies	2	-	-	-	694	-	-	694
Balance as at January 1, 2009 (restated)		**389,277**	**1,556,489**	**-**	**(40,551)**	**24,244**	**(284)**	**1,929,175**
Loss for the period		-	-	-	(10,399)	-	-	(10,399)
Other comprehensive loss		-	-	-	-	-	(4,673)	(4,673)
Total comprehensive loss		-	-	-	(10,399)	-	(4,673)	(15,072)
Coverage of Netia's 2008 loss		-	(199,837)	-	199,837	-	-	-
Employee share option scheme:								
- value of services provided	9	-	-	-	-	7,487	-	7,487
Balance as at September 30, 2009		**389,277**	**1,356,652**	**-**	**148,887**	**31,731**	**(4,957)**	**1,921,590**

	Note	Share capital	Supplementary capital: Share premium	Supplementary capital: Other supplementary capital	Retained earnings	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2010 (restated)		**389,277**	**1,356,652**	**-**	**247,984**	**34,201**	**(1,937)**	**2,026,177**
Profit for the period		-	-	-	42,318	-	-	42,318
Other comprehensive income		-	-	-	-	-	1,487	1,487
Total comprehensive income		-	-	-	42,318	-	1,487	43,805
Transfer of Netia's 2009 profit		-	-	242,621	(242,621)	-	-	-
Employee share option scheme:								
- value of services provided	9	-	-	-	-	5,160	-	5,160
- issuance of series K shares	9	61	15	-	-	(76)	-	-
Cost of issuance		-	(1)	-	-	-	-	(1)
Balance as at September 30, 2010		**389,338**	**1,356,666**	**242,621**	**47,681**	**39,285**	**(450)**	**2,075,141**

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2009 (restated)	Nine-month period ended September 30, 2010	Convenience Translation Nine-month period ended September 30, 2010
		(PLN)	(PLN)	(EUR)
Cash flows from operating activities:				
Profit		**(10,399)**	**42,318**	**10,614**
Adjustments for:				
Depreciation and amortization	5, 6	223,182	224,169	56,225
Impairment charges for specific individual assets	5	300	782	196
Reversal of impairment charges		-	(308)	(77)
Deferred income tax charge / (benefit)	13	(1,256)	12,777	3,205
Interest expense and fees charged on bank loans	10	3,188	5,741	1,440
Other interest charged / (earned)		942	(2,702)	(678)
Share-based compensation	9	7,688	5,684	1,426
Fair value (gains) / losses on financial assets / liabilities		283	(697)	(175)
Fair value (gains)/losses on derivative financial instruments	8	2,588	(1,255)	(315)
Foreign exchange losses		6,304	815	204
Gain on disposal of fixed assets		(7,512)	(8,009)	(2,009)
Loss on sale of investments	8	-	881	221
Changes in working capital	15	11,982	(18,577)	(4,659)
Overpaid tax	4	-	(58,325)	(14,630)
Net cash provided by operating activities		**237,290**	**203,294**	**50,988**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(190,916)	(143,991)	(36,115)
Purchase of operational networks	7	(807)	(818)	(205)
Proceeds from sale of fixed assets		26,699	23,770	5,962
Proceeds from sale of group of assets		2,000	-	-
Purchase of subsidiaries, net of cash received	7	(45,009)	(8,483)	(2,128)
Purchase of treasury bonds / notes	8	(97,464)	(144,306)	(36,194)
Repurchase of treasury bonds / notes	8	50,000	50,000	12,541
Sale of investments	8	-	3,395	852
Loan repayments		231	-	-
Net cash used in investing activities		**(255,266)**	**(220,433)**	**(55,287)**
Cash flows from financing activities:				
Finance lease payments		(2,137)	(4,362)	(1,094)
Loan payments		-	(347)	(87)
Payments of fees relating to bank loans		(3,086)	(1,113)	(279)
Net cash used in financing activities		**(5,223)**	**(5,822)**	**(1,460)**
Net change in cash and cash equivalents		**(23,199)**	**(22,961)**	**(5,759)**
Exchange gains / (losses) on cash and cash equivalents		**(6,148)**	**(815)**	**(204)**
Cash and cash equivalents at beginning of period		192,685	181,203	45,448
Cash and cash equivalents at end of period		**163,338**	**157,427**	**39,485**

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2010 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 3, 2010 and were subject to a review by an independent auditor.

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

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

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

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

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 24 such operators with a total of 101,213 (not in thousands) active customers. Additionally, since the end of 2008 the Netia Group has acquired 7,810 (not in thousands) customers and local networks from other Ethernet operators.

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

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

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

Going concern

As at September 30, 2010, the Company's equity amounted to PLN 2,075,141 and the Netia Group had working capital of PLN 336,091. As at September 30, 2010 the Netia Group had net cash available of PLN 157,427 and PLN 160,000 in nominal value of treasury notes. Furthermore, Netia's operations were free cash flow generative in 2009 and the nine-month period ended September 30, 2010 and Management expects this to continue over the medium term. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2009, No. 152, item 1,223 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of November 3, 2010, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2009, except for new accounting standards adopted as of January 1, 2010. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2009 consolidated financial statements and the related notes.

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

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2010 of PLN 3.987 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment (estimation of the recoverable amount and economic useful lives), customer relationships (estimation of future economic benefits) and deferred income tax (estimation of future taxable profits).

Costs that arise unevenly during the financial year are anticipated or deferred in the interim consolidated financial statements only if it would be also appropriate to anticipate or defer such costs at the end of the financial year.

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

Changes in estimates

In the nine-month period ended September 30, 2010 the Netia Group reassessed the useful lives of its computer software and property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Increase / (Decrease) in the depreciation charge recognized in current period	Relevant increase / (decrease) in the depreciation charge for the remaining period in 2010
		(PLN)	(PLN)
Computer software	- useful lives of certain assets were shortened until December 2010	2,686	895
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2013	(195)	8
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2013	(4,326)	266
Machinery and equipment	- useful lives of certain assets were extended until the end of 2013	(269)	1
Total impact		**(2,104)**	**1,170**

Changes in presentation

The prior year financial information has been restated in respect of presentation of the long-term part of the Company's obligation resulting from rental contracts' of PLN 7,159, which previously were presented as trade and other payables. The Company's management believes that the presentation of the long-term part of the Company's obligation in respect of future rental contracts' expenditures as other long-term liabilities better reflects their character. The following adjustments were made in this respect:

As of December 31, 2009:

Net decrease in trade and other payables: PLN 7,159
Net increase in other long-term liabilities: PLN 7,159

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

In 2010, the Netia Group adopted the following new standards, amendments to standards and new interpretations:

- Revised IFRS 3 "Business Combinations" and amendments to IAS 27 "Consolidated and Separate Financial Statements";
- Amendment to IAS 39 "Financial Instruments: Recognition and Measurement" - "Eligible Hedged Items";
- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions";
- Restructured IFRS 1 "First-time Adoption of International Financial Reporting Standards";
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters";
- Amendments to IFRS resulting from the annual improvements project;
- IFRIC 17, " Distributions of Non-cash Assets to Owners".

Amendment to IFRS 8 "Operating Segments" (included in the annual improvements project) clarified that an entity is required to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision-maker. The Netia Group do not use segment assets for internal reporting purposes and they are not used as a basis for decision making, therefore adoption of the amendment has resulted in a change in the content of disclosure (see Note 3).

Revised IFRS 3 "Business Combinations" introduces significant changes in the accounting for business combinations occurring after January 1, 2010. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. The change in accounting policy was applied prospectively and had no material impact on financial position of the Netia Group's operations.

Under the amendment to IAS 17 "Leases", a land lease with a lease term of several decades may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible. Prior to amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease. The Netia Group has reassessed the classification of land elements of unexpired leases and consequently leased land has been newly classified as a finance lease. The Netia Group recognized the assets at their fair value at the inception of those leases. The change has been applied retrospectively. The prior year financial information has therefore been restated and the following adjustments were made:

As of January 1, 2009:

Net increase in property, plant and equipment: PLN 2,013
Net decrease in prepaid expenses: PLN 1,319
Net increase in opening retained earnings: PLN 694

As of December 31, 2009:

Net increase in property, plant and equipment: PLN 2,013
Net decrease in prepaid expenses: PLN 1,286
Net increase in opening retained earnings: PLN 694
Net decrease in cost of sales: PLN 33

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

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2010 and have not been adopted early:

- Amendment to IAS 32 "Financial Instruments: Presentation. Classification of Rights Issues" applicable for annual periods beginning on or after February 1, 2010. The amended standard clarifies the classification of rights issues;

- Revised IAS 24 "Related Party Disclosures" applicable for annual periods beginning on or after January 1, 2011. The revised standard simplifies the definition of a related party, clarifies its intended meaning and eliminates inconsistencies from the definition.

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

- IFRIC 19, "Extinguishing Financial Liabilities with Equity Instruments", effective for annual periods beginning on or after July 1, 2010. This Interpretation addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability.

- Amendments to IFRIC 14 ”Prepayments of a Minimum Funding Requirement”, effective for annual periods ending on or after January 1, 2011. The amendments apply in limited circumstances: when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

- Amendment to IFRS 1 ”Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters” , effective for annual periods beginning on or after July 1, 2010. The amendment applies the same transition provisions for first-time adopters as for existing preparers of financial statements included in Amendments to IFRS 7 “Improving Disclosures about Financial Instruments”;

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

- Amendments to IFRS 7 ”Disclosures - Transfers of Financial Assets”. Amendments to the IFRS are to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position and will promote transparency in the reporting of transfer transactions, particularly those that involve securitisation of financial assets. Entities are required to apply the amendments for annual periods beginning on or after 1 July 2011. The amendments have not yet been endorsed by the EU.

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

3. Segment information

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

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

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

No operating segments have been aggregated to form these reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the nine and three-month periods ended September 30, 2010 and 2009, respectively.

(All amounts in thousands, except as otherwise stated)

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Nine-month period ended September 30, 2010							
Revenue from external customers	**614,310**	**136,427**	**258,434**	**160,798**	**1,169,969**	**5,173**	**1,175,142**
EBITDA	**97,667**	**42,469**	**137,735**	**81,205**	**359,076**	**(80,489)**	**278,587**
Depreciation and Amortization	(54,877)	(37,943)	(75,986)	(29,358)	(198,164)	(26,005)	(224,169)
Operating profit / (loss)	42,790	4,526	61,749	51,847	160,912	(106,494)	54,418
Finance income / (cost), net	-	-	-	-	-	175	175
Income tax benefit / (charge)	-	-	-	-	-	(12,275)	(12,275)
Profit / (Loss)	**42,790**	**4,526**	**61,749**	**51,847**	**160,912**	**(118,594)**	**42,318**
Capital expenditure	47,626	11,439	37,320	12,619	109,004	16,954	125,958
Nine-month period ended September 30, 2009 (restated)							
Revenue from external customers	**566,631**	**133,958**	**262,684**	**151,304**	**1,114,577**	**5,048**	**1,119,625**
EBITDA	**76,302**	**41,268**	**131,852**	**80,543**	**329,965**	**(107,733)**	**222,232**
Depreciation and amortization	(27,039)	(17,988)	(106,030)	(48,822)	(199,879)	(23,303)	(223,182)
Operating profit / (loss)	49,263	23,280	25,822	31,721	130,086	(131,036)	(950)
Finance income / (cost), net	-	-	-	-	-	(9,960)	(9,960)
Income tax benefit / (charge)	-	-	-	-	-	511	511
Profit / (Loss)	**49,263**	**23,280**	**25,822**	**31,721**	**130,086**	**(140,485)**	**(10,399)**
Capital expenditure	48,387	9,423	64,856	26,430	149,096	21,179	170,275

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended September 30, 2010							
Revenue from external customers	**203,194**	**46,280**	**85,609**	**57,329**	**392,412**	**2,053**	**394,465**
EBITDA	**26,841**	**13,224**	**44,941**	**27,794**	**112,800**	**(23,010)**	**89,790**
Depreciation and Amortization	(18,564)	(12,836)	(25,706)	(9,931)	(67,037)	(8,374)	(75,411)
Operating profit / (loss)	8,277	388	19,235	17,863	45,763	(31,384)	14,379
Finance income / (cost), net	-	-	-	-	-	(24)	(24)
Income tax benefit / (charge)	-	-	-	-	-	(1,945)	(1,945)
Profit / (Loss)	**8,277**	**388**	**19,235**	**17,863**	**45,763**	**(33,353)**	**12,410**
Capital expenditure	15,176	3,585	13,976	5,653	38,390	5,652	44,042
Three-month period ended September 30, 2009 (restated)							
Revenue from external customers	**193,839**	**44,098**	**86,806**	**43,634**	**368,377**	**1,904**	**370,281**
EBITDA	**28,888**	**15,636**	**44,359**	**29,271**	**118,154**	**(35,253)**	**82,901**
Depreciation and amortization	(9,152)	(6,089)	(35,892)	(16,527)	(67,660)	(8,172)	(75,832)
Operating profit / (loss)	19,736	9,547	8,467	12,744	50,494	(43,425)	7,069
Finance income / (cost), net	-	-	-	-	-	(2,872)	(2,872)
Income tax benefit / (charge)	-	-	-	-	-	39	39
Profit / (Loss)	**19,736**	**9,547**	**8,467**	**12,744**	**50,494**	**(46,258)**	**4,236**
Capital expenditure	18,789	3,846	19,050	2,672	44,357	4,698	49,055

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

	Three -month period ended September 30, 2009 (restated)	**Nine -month period ended September 30, 2009 (restated)**	**Three -month period ended September 30, 2010**	**Nine -month period ended September 30, 2010**
	(PLN)	(PLN)	(PLN)	(PLN)
EBIT for reportable segments	50,494	130,086	45,763	160,912
Radio communication segment	(55)	(278)	73	246
General fixed costs (incl. administration, IT, professional services)	(28,754)	(92,466)	(25,485)	(79,803)
Reorganization and restructuring costs	(4,314)	(10,281)	(168)	(468)
Other operating expenses	(2,269)	(5,111)	2,469	(813)
Depreciation and amortization of unallocated assets	(8,033)	(22,900)	(8,273)	(25,656)
Finance income / (cost), net	(2,872)	(9,960)	(24)	175
Income tax benefit / (charge)	39	511	(1,945)	(12,275)
Profit / (Loss)	4,236	(10,399)	12,410	42,318

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

4. Significant one-off transactions recorded in the current interim period

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).

Tax decision (not in thousands)

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

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

The Tax Chamber Director's decision, which partially upheld the decision of the UKS Director, was enforceable as a decision of the second instance tax authority. The liability of PLN 59.6 million was settled in February 2010, from which PLN 1.3 million was 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 first hearing at the Voivodship Administrative Court is expected on November 5, 2010.

(All amounts in thousands, except as otherwise stated)

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 nine-month period ended September 30, 2010, Netia recorded an income of PLN 1,461.

Reorganization and restructuring

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

Total reorganization costs recorded during the nine-month periods ended September 30, 2010 and 2009 were included in the following cost categories presented in the table below:

	Nine-month period ended September 30, 2009		**Nine-month period ended September 30, 2010**	
	Total reorganization costs	***Out of which restructuring costs***	**Total reorganization costs**	***Out of which restructuring costs***
	(PLN)	(PLN)	**(PLN)**	(PLN)
Cost of sales				
Salaries and benefits	(1,712)	*(1,712)*	-	-
Selling and distribution costs				
Salaries and benefits	(1,806)	*(1,069)*	(241)	*(241)*
General and administration costs				
Salaries and benefits	(2,273)	*(1,391)*	(202)	*(202)*
Other expenses	(176)	*(176)*	-	-
	(5,967)	***(4,348)***	**(443)**	***(443)***

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2010 (restated)	45,526	5,127	2,026,040	1,895,760	110,263	123,778	5,993	107,791	4,320,278
Additions	685	-	125	325	389	656	68	109,478	111,726
Subsidiary purchased (see Note 7)	-	-	-	-	537	-	29	-	566
Purchase of operational networks	-	-	340	45	-	7	-	-	392
Transfers	8,950	-	32,575	82,903	3,952	1,030	143	(129,553)	-
Disposals	(2)	(114)	(55)	(44,642)	(2,699)	(56,810)	(3,646)	(218)	(108,186)
Other movements	(254)	-	225	(1,070)	1,076	(66)	-	-	(89)
Gross book value as at September 30, 2010	54,905	5,013	2,059,250	1,933,321	113,518	68,595	2,587	87,498	4,324,687
Accumulated depreciation as at January 1, 2010	20,203	-	794,051	910,493	64,420	100,844	3,668	-	1,893,679
Depreciation expense	2,548	-	55,513	104,442	5,056	4,623	457	-	172,639
Disposals	(2)	-	(20)	(9,173)	(2,409)	(47,318)	(2,465)	-	(61,387)
Other movements	(46)	-	61	(679)	753	(58)	5	-	36
Accumulated depreciation as at September 30, 2010	22,703	-	849,605	1,005,083	67,820	58,091	1,665	-	2,004,967
Accumulated impairment as at January 1, 2010	7,341	1,125	631,419	368,640	18,404	10,133	30	2,780	1,039,872
Impairment charge for specific assets	-	-	-	-	-	-	-	782	782
Reversal of impairment charge for specific assets	-	-	-	-	-	-	-	(308)	(308)
Transfers	-	-	22	408	43	-	-	(473)	-
Disposals	-	(46)	(17)	(88)	(203)	(9,435)	(9)	(97)	(9,895)
Other movements	(8)	-	8	(285)	337	(52)	-	-	-
Accumulated impairment as at September 30, 2010	7,333	1,079	631,432	368,675	18,581	646	21	2,684	1,030,451
Net book value as at January 1, 2010	17,982	4,002	600,570	616,627	27,439	12,801	2,295	105,011	1,386,727
Net book value as at September 30, 2010	**24,869**	**3,934**	**578,213**	**559,563**	**27,117**	**9,858**	**901**	**84,814**	**1,289,269**

During the nine-month period ended September 30, 2010 the Netia Group recognized an impairment charge of PLN 782 (PLN 300 in respective period in 2009) relating to discontinued investment projects.

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2009 (restated)	36,121	5,408	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,125,264
Additions	29	-	81	318	131	708	142	152,210	153,619
Purchase of operational networks	-	-	404	121	-	-	-	-	525
Transfers	7,140	-	28,953	113,945	4,628	4,027	-	(158,693)	-
Disposals	-	-	(869)	(21,831)	(392)	(1,162)	(1,622)	(433)	(26,309)
Other movements	1,101	-	13,095	(7,325)	(3,924)	(2,824)	-	21	144
Gross book value as at September 30, 2009	44,391	5,408	2,009,585	1,859,916	107,661	124,478	7,955	93,849	4,253,243
Accumulated depreciation as at January 1, 2009	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Depreciation expense	2,090	-	54,227	107,698	4,979	5,308	1,211	-	175,513
Disposals	-	-	(475)	(3,815)	(269)	(1,061)	(1,020)	-	(6,640)
Other movements	150	-	(6)	3,745	(4,052)	286	-	-	123
Accumulated depreciation as at September 30, 2009	19,416	-	776,030	873,866	62,451	100,801	4,648	-	1,837,212
Accumulated impairment as at January 1, 2009	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Impairment charge for specific assets	-	-	-	-	-	-	-	300	300
Transfers	18	-	25	266	25	7	-	(341)	-
Disposals	-	-	(166)	(244)	(17)	(86)	1	-	(512)
Other movements	10	-	(3)	(427)	423	(3)	-	21	21
Accumulated impairment as at September 30, 2009	7,341	1,238	631,306	368,858	18,268	10,290	31	1,518	1,038,850
Net book value as at January 1, 2009	11,632	4,170	614,187	639,187	27,588	17,089	4,948	99,206	1,418,007
Net book value as at September 30, 2009	**17,634**	**4,170**	**602,249**	**617,192**	**26,942**	**13,387**	**3,276**	**92,331**	**1,377,181**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

			Licences				**Computer software costs**			
	Goodwill (PLN)	**Trademark (PLN)**	**Local telecommunication licenses / permits (PLN)**	**Data communications and internet licenses / permits (PLN)**	**Domestic long-distance licenses / permits (PLN)**	**WiMAX licenses (PLN)**	**Computer software (PLN)**	**Capital work in progress (PLN)**	**Customer relationships (PLN)**	**Total (PLN)**
Gross book value as at January 1, 2010 (restated)	150,258	2,970	432,823	7,417	107,354	20,329	317,073	6,382	80,344	1,124,950
Additions	-	-	-	-	-	-	864	12,550	-	13,414
Subsidiary purchased (see Note 7).........	6,288	-	-	-	-	-	-	-	2,914	9,202
Purchase of operational networks	34	-	-	-	-	-	-	-	390	424
Transfers.........	-	-	-	-	-	-	12,838	(12,838)	-	-
Disposals	-	-	-	-	-	-	(22)	-	-	(22)
Other movements.........	-	-	-	-	-	-	92	-	-	92
Gross book value as at September 30, 2010	156,580	2,970	432,823	7,417	107,354	20,329	330,845	6,094	83,648	1,148,060
Accumulated amortization as at January 1, 2010	-	2,970	208,456	1,539	51,865	4,057	193,487	-	31,510	493,884
Amortization expense.........	-	-	10,871	-	3,066	877	23,296	-	12,719	50,829
Disposals	-	-	-	-	-	-	(16)	-	-	(16)
Other movements.........	-	-	-	-	-	-	73	-	-	73
Accumulated amortization as at September 30, 2010.........	-	2,970	219,327	1,539	54,931	4,934	216,840	-	44,229	544,770
Accumulated impairment as at January 1, 2010	-	-	159,788	5,878	28,511	3,408	43,998	385	207	242,175
Transfers.........	-	-	-	-	-	-	-	-	-	-
Other movements.........	-	-	-	-	-	-	29	-	-	29
Accumulated impairment as at September 30, 2010...	-	-	159,788	5,878	28,511	3,408	44,027	385	207	242,204
								-		
Net book value as at January 1, 2010	150,258	-	64,579	-	26,978	12,864	79,588	5,997	48,627	388,891
Net book value as at September 30, 2010.........	**156,580**	**-**	**53,708**	**-**	**23,912**	**11,987**	**69,978**	**5,709**	**39,212**	**361,086**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

			Licences				**Computer software costs**			
	Goodwill (PLN)	**Trademark (PLN)**	**Local telecommunication licenses / permits (PLN)**	**Data communications and internet licenses / permits (PLN)**	**Domestic long-distance licenses / permits (PLN)**	**WiMAX licenses (PLN)**	**Computer software (PLN)**	**Capital work in progress (PLN)**	**Customer relationships (PLN)**	**Total (PLN)**
Gross book value as at January 1, 2009	140,418	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,085,392
Additions	-	-	-	-	-	-	531	15,358	3	15,892
Purchase of operational networks	-	-	-	-	-	-	-	-	282	282
Subsidiaries purchased in previous periods	578	-	-	-	-	-	-	-	-	578
Transfers	-	-	-	-	-	-	15,985	(15,985)	-	-
Gross book value as at September 30, 2009	140,996	2,970	432,823	7,417	107,354	20,329	310,951	4,066	75,238	1,102,144
Accumulated amortization as at January 1, 2009	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Amortization expense	-	1,485	10,871	-	3,065	877	18,966	-	11,764	47,028
Other movements	-	-	-	-	-	-	76	-	75	151
Accumulated amortization as at September 30, 2009	-	2,970	204,833	1,539	50,842	3,764	186,792	-	27,561	478,301
Accumulated impairment as at January 1, 2009	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Transfers	-	-	-	-	-	-	7	(7)	-	-
Accumulated impairment as at September 30, 2009	-	-	159,788	5,878	28,511	3,408	43,998	-	207	241,790
Net book value as at January 1, 2009	140,418	1,485	79,073	-	31,066	14,034	82,694	4,686	59,024	412,480
Net book value as at September 30, 2009	**140,996**	**-**	**68,202**	**-**	**28,001**	**13,157**	**80,161**	**4,066**	**47,470**	**382,053**

(All amounts in thousands, except as otherwise stated)

7. Acquisitions

Current period

Acquisition of an Ethernet operator

On June 15, 2010, Global Connect Sp. z o.o. ("Global Connect"), the Company's subsidiary, purchased 100% of the share capital of SSI Net Sp. z o.o. ("SSI Net"), an internet service provider offering broadband Internet access to residential clients. The total price for all SSI Net shares has been set at PLN 612.

The Netia Group accounted for the acquisition of SSI Net using the purchase method and started consolidating the financial statements of SSI Net as of June 30, 2010 adjusting the consolidated income statement and the consolidated statement of financial position for material transactions, which took place between June 15, 2010 and June 30, 2010.

If the acquisition had occurred on January 1, 2010, the Netia Group's revenue would have amounted to PLN 1,175,303, and profit would have been PLN 42,322.

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

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

	(PLN)
Purchase consideration	612
Provisional fair value of net assets acquired	(283)
Goodwill	**329**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

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

	Acquiree's carrying amount	**Provisional fair value**
	(PLN)	(PLN)
Customer relationships	-	205
Receivables	81	81
Prepayments	2	2
Cash and cash equivalents	96	96
Trade liabilities	(7)	(7)
Other liabilities and accruals	(56)	(56)
Deferred income tax liabilities	-	(38)
Net assets acquired	**116**	**283**

The fair value of the trade receivables amounts to PLN 81 and corresponds to their gross amount. None of the trade receivables have been impaired and it is expected that the full contractual amount can be collected.

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	612
Total consideration	**612**

	(PLN)
Total purchase consideration settled in cash	(612)
Cash and cash equivalents in the subsidiary acquired	96
Cash outflow on acquisition	**(516)**

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

On September 30, 2010, Internetia Sp. z o.o. ("Internetia"), the Company's subsidiary, purchased 100% of the share capital of Multiplay Polska Sp. z o.o. ("Multiplay"), an internet service provider offering broadband Internet access to residential clients. The total price for all Multiplay shares has been set at PLN 7,998.

The Netia Group accounted for the acquisition of Multiplay using the purchase method and started consolidating the financial statements of Multiplay as of September 30, 2010.

If the acquisition had occurred on January 1, 2010, the Netia Group's revenue would have amounted to PLN 1,178,016 and profit would have been PLN 41,848

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

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

	(PLN)
Purchase consideration	7,998
Provisional fair value of net assets acquired	(2,039)
Goodwill	**5,959**

The goodwill is based on provisional fair values of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group's acquisition. None of the recognized goodwill is expected to be deductible for income tax purposes.

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

	Acquiree's carrying amount	**Provisional fair value**
	(PLN)	(PLN)
Customer relationships	-	2,709
Goodwill	8,377	-
Property, plant and equipment	567	567
Receivables	119	119
Inventory	8	8
Prepayments	12	12
Cash and cash equivalents	32	32
Bank loans	(334)	(334)
Trade liabilities	(399)	(399)
Other liabilities and accruals	(202)	(202)
Deferred income tax,net	-	(473)
Net assets acquired	**8,180**	**2,039**

The fair value of the trade receivables amounts to PLN 119 and corresponds to their gross amount of PLN 338 decreased by bad debt allowance of PLN 219.

Fair value of the purchase consideration transferred for the acquisition:

	(PLN)
Cash paid	7,998
Total consideration	**7,998**

	(PLN)
Total purchase consideration settled in cash	(7,998)
Cash and cash equivalents in the subsidiary acquired	32
Cash outflow on acquisition	**(7,966)**

The above investments are of a long-term nature.

Changes in provisional valuation

During the year ended December 31, 2009 the Netia Group acquired eTychy Sp. z o.o. and Global Connect and performed a provisional valuation of the acquired companies' assets, liabilities and contingent liabilities.

Changes in Global Connect's provisional valuation at the date of acquisition related to assets and liabilities are presented in the table below:

	Acquiree's carrying amount	Provisional fair value estimated as at December 31, 2009	Adjustments	Provisional fair value estimated as at September 30, 2010
	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	1,603	1,603	-	1,603
Customer relationships	-	3,231	-	3,231
Other intangible assets	1	1	-	1
Receivables	837	349	(87)	262
Prepayments	7	7	-	7
Cash and cash equivalents	51	51	-	51
Borrowings	(347)	(347)	-	(347)
Trade liabilities	(848)	(848)	(6)	(854)
Other liabilities and accruals	(124)	(124)	(241)	(365)
Deferred income tax liabilities	-	(614)	-	(614)
Net assets acquired	**1,180**	**3,309**	**(334)**	**2,975**

The 2009 comparative information has been restated to reflect the above adjustments in provisional valuation.

Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

Operational networks

During the first quarter of 2010 the Netia Group purchased networks and customers from Ethernet operators for a total price of PLN 818. Fair values of the acquired fixed assets and customer relationships were estimated at PLN 394 and PLN 390, respectively. Total cash outflow relating to these acquisitions amounted to PLN 818. The goodwill of PLN 34 that arose on these transactions is based on the fair value of net assets acquired and is attributable to the synergies expected to arise after the Netia Group's acquisition of the above networks. The assets recognized in the consolidated balance sheet arising from the purchase of operational networks are presented in note 5.

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's general meeting of shareholders.

<u>Comparative period</u>

Registration of a new subsidiary (not in thousands)

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

Operational networks

In February 2009 the Netia Group purchased from an Ethernet operator its network and customers for a total price of PLN 789 (costs directly attributable to the acquisition amounted to PLN 18). Fair values of the acquired fixed assets and customer relationships were estimated at PLN 525 and PLN 282, respectively. The fair value of acquired assets equals the purchase consideration, therefore no goodwill arose on this transaction. The assets recognized in the consolidated balance sheet arising from the purchase of operational networks are presented in note 5.

8. Financial instruments

Forward contracts

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts which are linked to foreign currencies the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. For these forward contracts hedge accounting was applied. During the nine-month period ended September 30, 2010, PLN 2,037 of net cash losses on closed forward contracts were capitalized, PLN 245 of net cash losses decreased finance income due to excess of the amount of closed forward contracts over purchases made, and the ineffective portion of open forward contracts of PLN 22 was recorded as finance income.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense which are linked to foreign currency, the Company entered into several forward transactions to purchase USD and EUR for periods consistent with currency transaction exposures, generally up to 12 months. During the nine-month period ended September 30, 2010, PLN 1,478 of fair value gains on open forward contracts were recorded as finance income.

The table below presents outstanding forward transactions as at balance sheet date:

	Hedged nominal amount (EUR)	Hedged nominal amount (USD)	Fair value Asset (PLN)	Fair value Liability (PLN)	Hedging reserve (PLN)
As at September 30, 2010					
Forward transactions related to equipment and construction contracts	3,050	2,120	66	(463)	526
Forward transactions related to commercial contracts	5,020	1,280	65	(501)	-
As at December 31, 2009					
Forward transactions related to equipment and construction contracts	4,100	4,000	60	(2,458)	2,391
Forward transactions related to commercial contracts	5,110	1,650	50	(1,965)	-

Equity securities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination activities to Mediatel S.A. ("Mediatel") for PLN 13,619, of which PLN 8,000 was settled in cash and PLN 5,619 was the estimated fair value of 440 shares issued by Mediatel and related "put" and "call" options. During the first quarter of 2010 the remaining 340 Mediatel shares were sold (100 shares were sold in 2009). In that period the Company recognized a loss of PLN 881 on disposal of shares and a gain of PLN 697 on the expiration of the related "put" and "call" options.

Held to maturity investments

	Maturity date	December 31, 2009 Nominal value (PLN)	December 31, 2009 Carrying amount (PLN)	September 30, 2010 Nominal value (PLN)	September 30, 2010 Carrying amount (PLN)
52-week treasury notes	June 30, 2010	10,000	9,774	-	-
52-week treasury notes	July 14, 2010	10,000	9,788	-	-
52-week treasury notes	August 4, 2010	10,000	9,748	-	-
52-week treasury notes	August 11, 2010	10,000	9,751	-	-
52-week treasury notes	August 11, 2010	10,000	9,750	-	-
52-week treasury notes	October 27, 2010	10,000	9,678	10,000	9,969
52-week treasury notes	March 16, 2011	-	-	10,000	9,827
52-week treasury notes	March 16, 2011	-	-	10,000	9,825
52-week treasury notes	March 23, 2011	-	-	10,000	9,818
52-week treasury notes	March 23, 2011	-	-	10,000	9,817
52-week treasury notes	April 27, 2011	-	-	10,000	9,785
52-week treasury notes	June 1, 2011	-	-	10,000	9,748
52-week treasury notes	June 8, 2011	-	-	10,000	9,739
52-week treasury notes	June 15, 2011	-	-	10,000	9,726
52-week treasury notes	July 6, 2011			10,000	9,694
52-week treasury notes	August 10, 2011			10,000	9,668
52-week treasury notes	August 10, 2011			10,000	9,666
52-week treasury notes	August 10, 2011			10,000	9,669
52-week treasury notes	August 10, 2011			10,000	9,665
52-week treasury notes	August 31, 2011			10,000	9,647
52-week treasury notes	September 28, 2011			10,000	9,623
		60,000	**58,489**	**160,000**	**155,886**

9. Shareholders' equity

Share capital (not in thousands)

At December 31, 2009, the Company's share capital consisted of 389,276,294 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at the shareholders' meetings. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

In March 2010 the Company issued 61,059 ordinary series K shares due to the exercise by certain persons (who were not Management Board members) of their rights arising from the key employee share option plan adopted by Netia's Supervisory Board in 2003 (the "2003 Plan"). Under the Company's Statute up to 18,373,785 series K shares may be issued. The total number of series K shares issued through September 30, 2010 was 5,115,579 and their nominal value was PLN 5,116 thousands.

As a result at September 30, 2010, the Company's share capital consisted of 389,337,353 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each share had one vote at shareholders' meetings. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

Other supplementary capital

The Shareholders' Meeting held on May 26, 2010, resolved that the amounts of PLN 236,803 of the Company's net profit for the year 2009 and PLN 5,818 of the undistributed profit from previous years resulting from a merger of a subsidiary with the Company during the financial year 2009 shall be transferred to the Company's supplementary capital.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at September 30, 2010, the distributable reserves amounted to PLN 280,789.

Stock options (not in thousands)

2003 Plan

In the nine-month period ended September 30, 2010 and 2009 the following changes took place in the number of options granted under the 2003 Plan:

	Nine-month period ended September 30, 2009		Nine-month period ended September 30, 2010	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	5.88	50,268,123	5.84	53,946,373
Granted	5.43	5,567,000	6.59	350,000
Exercised	-	-	3.50	(210,000)
Forfeited / expired	5.77	(927,250)	5.61	(480,000)
At the end of the period	**5.84**	**54,907,873**	**5.86**	**53,606,373**

As at September 30, 2010 the total number of options approved by the Supervisory Board and issued was 87,877,470 as compared to 87,527,470 as at December 31, 2009. Out of these approved options 53,606,373 options were outstanding as at September 30, 2010 and 53,946,373 options were outstanding as at December 31, 2009. As at September 30, 2010 and December 31, 2009 the total number of vested options was 39,347,373 and 22,718,373, respectively. The vesting period for the options is up to three years from the date of grant. As at September 30, 2010, the weighted average remaining contractual life of the outstanding options was 2 years. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and the strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.50 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the nine-month periods ended September 30, 2010 and 2009 amounted to PLN 5,160 thousands and PLN 7,860 thousands, respectively, while PLN 373 thousands was derecognized in the income statement in the nine-month period ended September 30, 2009.

New Plan

On May 26, 2010, the Annual Shareholders Meeting resolved to adopt a set of rules, to be administered by the Company's Supervisory Board, for the issuing of up to 27,253,674 share options to the Management Board and employees of Netia 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.

10. Borrowings

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.

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 (see Note 7). 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.

(All amounts in thousands, except as otherwise stated)

11. Other gains/ (losses), net

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Gain on sale of impaired receivables	948	1,691
Gain on disposal of fixed assets	7,713	8,096
Net foreign exchange gains / (losses)	1,084	(1,550)
	9,745	**8,237**

12. Finance income and finance costs

Finance income

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Interest income on cash and cash equivalents	4,457	3,329
Amortization of held to maturity investments	839	3,091
Fair value gains on open forward contracts hedging commercial exposures (see Note 8)	-	1,478
Excess of the amount of closed forward contracts over purchases made (see Note 8)	-	(245)
Ineffective cash flow hedges (see Note 8)	-	22
Other finance income	-	781
	5,296	**8,456**

Finance costs

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Fees charged on bank loans	(3,188)	(5,741)
Amortization of finance lease liability	(380)	(317)
Interest expense and amortization of other payables	(1,423)	(10)
Amortization of provisions	(5)	(72)
Fair value gain / (loss) on equity securities (see Note 8)	(283)	(881)
Net foreign exchange losses	(7,389)	(1,008)
Excess of the amount of closed forward contracts over purchases made	(2,018)	-
Fair value losses on open forward contracts hedging commercial exposures	(500)	-
Ineffective cash flow hedges	(70)	-
Other finance costs	-	(252)
	(15,256)	**(8,281)**

13. Deferred income tax

	Three -month period ended September 30, 2009	Nine -month period ended September 30, 2009	Three -month period ended September 30, 2010	Nine -month period ended September 30, 2010
	(PLN)	(PLN)	(PLN)	(PLN)
Current income tax	(231)	(745)	661	503
Deferred income tax benefit / (charge), net	270	1,256	(2,606)	(12,778)
Income tax benefit / (charge)	**39**	**511**	**(1,945)**	**(12,275)**

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

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

(All amounts in thousands, except as otherwise stated)

September 30, 2010 the Management upholds its assessment regarding future taxable profits and the recognition of deferred income tax.

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

	December 31, 2009 (PLN)	September 30, 2010 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	77,086	75,573
- Deferred income tax assets to be recovered within 12 months	33,512	27,539
	110,598	103,112
Deferred income tax liabilities:		
- Deferred income tax liabilities reversing after more than 12 months	14,902	16,454
- Deferred income tax liabilities reversing within 12 months	16,296	20,925
	31,198	37,379
Deferred income tax assets, net	**79,400**	**65,733**

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

	December 31, 2009 (PLN)	September 30, 2010 (PLN)
Deferred income tax assets:		
- Tax losses	88,751	82,201
- Accrued expenses	14,938	15,510
- Impairment provisions for receivables	3,147	3,202
- Depreciation and impairment	1,925	-
- Foreign exchange differences	42	60
- Forward currency contracts	840	183
- Other	955	1,956
	110,598	103,112
Deferred income tax liabilities:		
- Depreciation and impairment	19,170	19,775
- Deferred revenue	6,245	12,894
- Interest	1,532	743
- Forward currency contracts	21	25
- Foreign exchange differences	19	-
- Other	4,211	3,942
	31,198	37,379
Deferred income tax assets, net	**79,400**	**65,733**

The deferred income tax recognized in equity as at September 30, 2010 in the amount of PLN 378 (PLN 454 as at December 31, 2009) relates to the hedging reserve.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of September 30, 2010, the Netia Group had total deductible temporary differences of PLN 331,063 and unutilised tax loss carry-forwards of PLN 471,130 (total potential deferred income tax asset of PLN 152,417).

The Netia Group did not recognize deferred income tax assets of PLN 7,314 relating to tax losses of PLN 38,495 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at September 30, 2010 will expire in the following years: PLN 6 in 2010, PLN 18 in 2011, PLN 33,631 in 2012,PLN 2,921 in 2013 and PLN 1,919 in 2014.

Furthermore, due to the lack of conclusive evidence of sufficient future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 79,370, relating to deductible temporary differences of PLN 417,736 as follows:

	Timing differences (PLN)	Potential deferred income tax asset (PLN)
Depreciation and impairment	411,747	78,232
Deferred income	6,984	1,327
Others	(995)	(189)
	417,736	**79,370**

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

14. Dividends per share

No dividends were paid in respect to the financial years ended December 31, 2009 and 2008. Netia's distributable reserves are described in Note 9.

15. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Nine-month period ended September 30, 2009 (restated)	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Receivables	5,432	270
Inventories	(511)	(3,996)
Prepaid expenses	6,434	(32,194)
Restricted cash	382	207
Provisions, accruals and other payables	(8,175)	3,003
Deferred income	8,420	14,133
	11,982	**(18,577)**
Out of which:		
Change in long -term position	*10,357*	*(176)*

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2009	Nine-month period ended September 30, 2010
	(PLN)	(PLN)
Income taxes paid	(579)	(215)
Interest received	5,640	4,548

Non-cash transactions:

During the nine-month period ended September 30, 2010 the Netia Group entered into finance lease agreements for telecommunications equipment and vehicles. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 2,564.

16. The Management Board and Supervisory Board

Management Board

As at September 30, 2010 and December 31, 2009 the Company's Management Board consisted of the following members:

- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Grzegorz Esz,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

Effective May 25, 2010 Mr. Piotr Żochowski resigned from his position as Member of the Company's Supervisory Board.

Due to the above changes as at September 30, 2010 the Company's Supervisory Board consisted of the following members:

- Benjamin Duster – Chairman,
- George Karaplis – Vice-Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry.

17. Related party transactions

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

As at September 30, 2010, the total number of options granted to members of the Company's Management Board under the 2003 Plan, was 40,771,814 of which 30,005,314 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.50 and 8.25 per share. The market price of the Company's shares at September 30, 2010 was PLN 5.57 per share.

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

Options	**Nine-month period ended September 30, 2009**	**Nine-month period ended September 30, 2010**
At the beginning of the period	36,605,314	40,771,814
At the end of the period............	**36,605,314**	**40,771,814**

As at September 30, 2010 and December 31, 2009 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 13,334,000 options, out of which 11,334,000 had vested as at September 30, 2010.

As at September 30, 2010 and December 31, 2009 Mr. Jonathan Eastick – a member of the Company's Management Board – held 10,938,314 options, out of which 9,938,314 had vested as at September 30, 2010.

As at September 30, 2010 and December 31, 2009 Mr. Grzegorz Esz– a member of the Company's Management Board – held 4,166,500 options, out of which 600,000 had vested as at September 30, 2010.

As at September 30, 2010 and December 31, 2009 Mr. Piotr Nesterowicz – a member of the Company's Management – held 6,666,500 options, out of which 3,466,500 had vested as at September 30, 2010.

As at September 30, 2010 and December 31, 2009 Mr. Tom Ruhan – a member of the Company's Management Board – held 5,666,500 options, out of which 4,666,500 had vested as at September 30, 2010.

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

As at September 30, 2010 and December 31, 2009 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000 shares of the Company.

As at September 30, 2010 and December 31, 2009 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 shares of the Company.

As at September 30, 2010 and December 31, 2009, Mr. Jonathan Eastick – a member of the Company's Management Board – held 50,000 and 35,500 shares of the Company, respectively.

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

As at September 30, 2010 and December 31, 2009, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at September 30, 2010 and December 31, 2009, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 6,000 shares of the Company.

Restricted Stock Units (not in thousands)

As at September 30, 2010 the total number of Restricted Stock Units ("RSU") granted to the members of the Company's Supervisory Board was 520,000. RSUs entitle the holder to receive additional cash remuneration equal to the value of restricted stock units, which corresponds to the market price of the Company's shares. The vesting period for the RSU is three years from the date of grant. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the nine-month periods ended September 30, 2010 and 2009 amounted to PLN 4,722 and PLN 4,334 respectively. In addition, the gross cost of share-based payments in the amounts of PLN 4,214 and PLN 5,547 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2010 and 2009 amounted to PLN 912 and PLN 817, respectively. These amounts were paid to certain employees of the Netia Group who are neither past nor present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Cash compensation and related costs associated with members of the Company's Supervisory Board during the nine-month periods ended September 30, 2010 and 2009 amounted to PLN 620 and PLN 591, respectively. In addition, the cost of RSU recorded in the nine-month period ended September 30, 2010 and 2009 amounted to PLN 523 and PLN 201, respectively.

Incidental expenses of the Supervisory Board Members reimbursed by the Company amounted to PLN 187 and PLN 98 during the nine-month periods ended September 30, 2010 and 2009, respectively, and mainly related to travel and accommodation.

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.

Other transactions with related parties

During the nine-month periods ended September 30, 2010 and 2009, respectively the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

18. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 28,706 as at September 30, 2010 and PLN 14,975 as at December 31, 2009 of which, PLN 3,803 and PLN 2,294, respectively, related to the planned acquisition of intangible assets.

19. Contingencies

Universal services

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

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

Whilst Management cannot exclude the possibility that a decision may be issued that may result in Netia being assessed for universal service contributions, Management believes that the incumbent's investment record does not justify such payments at this time. The regulator has not accepted any of the incumbent's applications to date. Accordingly, no provision for potential universal service contributions has been made at the balance sheet date.

Jupiter

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

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

Since Jupiter did not agree with the price reduction, it filed a suit against the Company on September 7, 2007. The amount claimed by Jupiter comprises the amount of the reduced price, increased by statutory interest. On December 7, 2009, the District Court in Warsaw dismissed the suit against Netia. On 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.

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 contingent liability

Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes have radically changed in comparison to the tax regulations, which existed prior to the economic and political transformation in Poland. The lack of reference to well-established practices and the relatively short period in which these new tax regulations have been in place often results in a lack of clarity and consistency in the regulations. Frequent contradictions in legal interpretations both within government bodies and between companies and government bodies create uncertainties and conflicts. Tax settlements, together with other areas of legal compliance are subject to review and investigation by a number of authorities, which are entitled to impose severe fines, penalties and interest charges. These facts create tax risks in Poland that are substantially more significant than those typically found in countries with more developed tax systems. The tax authorities may at any time inspect the books and records of the Company and may impose additional tax assessments with penalty interest and penalties within 5 years from the end of the year when a tax is due (see also Note 4).

Overpayment of tax

According to Netia, the decisions of the UKS Director and the Tax Chamber Director described in Note 4 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. Netia bases its position on 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.

Due to the above, the Company does not treat PLN 58,325 of taxes and interest paid to the tax Authorities in February 2010, as an expense. The said amount is instead treated by Netia as a receivable from the tax authorities. Should the decision of the Voivodship Administrative Court and any subsequent appeals, be positive for the Company, the amount of unduly paid tax plus interest will be proven to be an overpayment of tax and interest and must be returned by the tax authorities together with interest, currently calculated at the annual rate of 10%.

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. However, should Netia lose this case and all subsequent appeals, the amount of PLN 58,325 would have to be reclassified as a taxation expense relating to prior years. The first hearing in this matter at the Voivodship Administrative Court is scheduled for November 5, 2010.

20. Subsequent events

Mandate letter for arranging of new financing (not in thousands)

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 (see note 10).

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

Acquisition of an Ethernet operator

On October 6, 2010, Internetia Sp. z o.o. , the Company's subsidiary, 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.