Annual Financial Report

Containing:

- Independent auditor's report
- Consolidated financial statements
  as at and for the year ended December 31, 2008

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INDEPENDENT AUDITOR'S OPINION
TO THE SUPERVISORY BOARD AND SHAREHOLDERS OF NETIA S.A.

We have audited the attached consolidated financial statements of Netia S.A. Group ('the Group'), for which the holding company is Netia S.A. ('the Company'), which comprise the consolidated balance sheet as at 31 December 2008 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the summary of significant accounting policies and other explanatory notes ("the attached consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The consolidated financial statements for the year ended 31 December 2007 were audited by Certified Auditor, acting on behalf of our firm, that on 27 February 2008 issued an audit opinion on this consolidated financial statements.

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

The convenience translations are disclosed as part of the consolidated financial statements. The convenience translation for the year ended December 31, 2008 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2008 of PLN 4.1724 to EUR 1.00. We have not audited these translations and accordingly we do not report thereon. The Euro amounts presented in these consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate

Ernst & Young Audit Sp. z o.o.

Warsaw, Poland
February 23, 2009

NETIA S.A.
CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2008

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NETIA S.A.
CONSOLIDATED BALANCE SHEET
as at December 31, 2008

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2007 (PLN)	December 31, 2008 (PLN)	Convenience Translation December 31, 2008 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	6	1,408,597	1,415,994	339,372
Intangible assets	7, 8	267,946	411,448	98,612
Investment property	9	-	36,133	8,660
Investments in associates	14	150,435	-	-
Deferred income tax assets	33	2,162	564	135
Available for sale financial assets		10	10	2
Long term receivables	11	250	6,623	1,587
Prepaid expenses and accrued income	12	5,667	16,867	4,043
Total non-current assets		**1,835,067**	**1,887,639**	**452,411**
Current assets				
Inventories	10	2,903	5,060	1,213
Trade and other receivables	11	127,339	170,477	40,858
Current income tax receivables		22	201	48
Prepaid expenses and accrued income	12	10,899	18,294	4,385
Other financial assets		-	5,905	1,415
Restricted cash		-	2,712	650
Cash and cash equivalents	15	57,700	192,685	46,181
		198,863	**395,334**	**94,750**
Assets classified as held for sale	13	36,721	513	123
Total current assets		**235,584**	**395,847**	**94,873**
Total assets		**2,070,651**	**2,283,486**	**547,284**

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

Warsaw, Poland
February 23, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2007 (PLN)	December 31, 2008 (PLN)	Convenience Translation December 31, 2008 (EUR)
EQUITY				
Share capital		389,277	389,277	93,298
Share premium		1,641,398	1,556,489	373,044
Other supplementary capital associated with former associate		40,102	-	-
Other reserves		14,251	23,960	5,742
Retained earnings		(356,759)	(41,245)	(9,885)
Total equity	16	**1,728,269**	**1,928,481**	**462,199**
LIABILITIES				
Non-current liabilities				
Borrowings	19	87,344	-	-
Provisions	17	97	7,537	1,806
Deferred income		8,567	7,779	2,186
Deferred income tax liabilities	33	1,954	9,121	1,864
Other long term liabilities	20	3,454	2,898	695
Total non-current liabilities		**101,416**	**27,335**	**6,551**
Current liabilities				
Trade and other payables	20	219,486	296,390	71,037
Borrowings	19	7,397	-	-
Other financial liabilities		-	304	73
Current income tax liabilities		154	53	13
Provisions	17	562	8,545	2,048
Financial guarantee contract	18	435	-	-
Deferred income		12,932	22,378	5,363
Total current liabilities		**240,966**	**327,670**	**78,534**
Total liabilities		**342,382**	**355,005**	**85,085**
Total equity and liabilities		**2,070,651**	**2,283,486**	**547,284**

CONSOLIDATED INCOME STATEMENT
for the year ended December 31, 2008

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)	Convenience Translation Year ended December 31, 2008 (EUR)
Revenue	23	780,884	1,112,394	266,609
Revenue generated by group of assets held for sale	14	57,141	8,774	2,103
Total revenue		**838,025**	**1,121,168**	**268,712**
Cost of sales	24	(637,552)	(823,513)	(197,371)
Gross profit		**200,473**	**297,655**	**71,341**
Selling and distribution costs	25	(201,170)	(275,185)	(65,954)
General and administration costs	26	(144,751)	(146,270)	(35,056)
Other income	28	41,315	11,599	2,780
Other expenses	29	(5,068)	(447)	(107)
Other gains / (losses), net	30	5,361	12,942	3,102
Operating loss		**(103,840)**	**(99,706)**	**(23,894)**
Finance income	31	3,994	10,689	2,562
Finance costs	31	(1,517)	(9,859)	(2,363)
Gain on sale of an associate	14	-	353,381	84,695
Share of losses of former associates	14	(165,237)	(22,625)	(5,423)
Profit / (Loss) before income tax		**(266,600)**	**231,880**	**55,577**
Income tax benefit / (charge)	33	(2,281)	(1,275)	(306)
Profit / (Loss)		**(268,881)**	**230,605**	**55,271**
Attributable to:				
Equity holders of the Company		(269,484)	230,605	55,271
Minority interest		603	-	-
		(268,881)	**230,605**	**55,271**
Earnings per share for profit / (loss) attributable to the equity holders of the Company (expressed in PLN per share)				
- basic	34	(0.69)	0.59	0.14
- diluted	34	(0.69)	0.59	0.14

NETIA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2008

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders					Minority interest	Total equity
			Supplementary capital					
		Share capital	Share premium	Other supplementary capital associated with former associate	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2007		**389,168**	**1,666,216**	**143,218**	**29,644**	**(283,248)**	**6,902**	**1,951,900**
Cash flow hedges, net of tax	16	-	-	-	(911)	-	-	(911)
Dilution gain in associate	14	-	-	40,102	-	-	-	40,102
Difference between purchase price and book value of minority		-	-	-	-	(367)	-	(367)
Net income / (expense) recognised directly in equity		-	-	40,102	(911)	(367)	-	38,824
Profit / (Loss)		-	-	-	-	(269,484)	603	(268,881)
Total recognised income / (expense) for the period		**-**	**-**	**40,102**	**(911)**	**(269,851)**	**603**	**(230,057)**
Employee share option scheme:								
- value of services provided	16	-	-	-	14,004	-	-	14,004
- issuance of series K shares		109	215	-	(324)	-	-	-
Cost of issuance		-	(73)	-	-	-	-	(73)
Transactions with minorities		-	-	-	-	-	(7,505)	(7,505)
Coverage of Netia's 2006 loss		-	(24,960)	(143,218)	(28,162)	196,340	-	-
Balance as at December 31, 2007		**389,277**	**1,641,398**	**40,102**	**14,251**	**(356,759)**	**-**	**1,728,269**

	Note	Attributable to the Company's equity holders					Minority interest	Total equity
			Supplementary capital					
		Share capital	Share premium	Other supplementary capital associated with former associate	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2008		**389,277**	**1,641,398**	**40,102**	**14,251**	**(356,759)**	**-**	**1,728,269**
Cash flow hedges, net of tax	16	-	-	-	(284)	-	-	(284)
Dilution gain in associate	14	-	-	9,530	-	-	-	9,530
Sale of investment in associate	14	-	-	(49,632)	425	-	-	(49,207)
Net income / (expense) recognised directly in equity		-	-	(40,102)	141	-	-	(39,961)
Profit		-	-	-	-	230,605	-	230,605
Total recognised income / (expense) for the period		**-**	**-**	**(40,102)**	**141**	**230,605**	**-**	**190,644**
Employee share option scheme:								
- value of services provided	16	-	-	-	9,568	-	-	9,568
Coverage of Netia's 2007 loss	16	-	(84,909)	-	-	84,909	-	-
Balance as at December 31, 2008		**389,277**	**1,556,489**	**-**	**23,960**	**(41,245)**		**1,928,481**

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)	Convenience Translation Year ended December 31, 2008 (EUR)
Cash flows from operating activities:				
Profit / (Loss)		**(268,881)**	**230,605**	**55,271**
Adjustments for:				
Depreciation and amortization	6, 8	274,522	270,347	64,794
Impairment charges for specific individual assets		304	447	107
Reversal of impairment charges		(509)	-	-
Share of losses of former associates	14	165,237	22,625	5,423
Deferred income tax charge	33	1,664	846	203
Interest expense charged on bank loans	19	702	7,667	1,838
Other interest charged		184	928	223
Financial guarantee contract	18	(6,882)	(435)	(104)
Interest accrued on loans granted		(43)	(24)	(6)
Share-based compensation	16	14,004	9,568	2,293
Fair value gains on financial assets at fair value through profit and loss		(21)	17	4
Fair value adjustments on other receivables		-	(184)	(44)
Foreign exchange (gains) / losses		579	(315)	(78)
Gain on disposal of fixed assets		(780)	(5,748)	(1,378)
Gain on sale of an associate	14	-	(353,381)	(84,695)
Gain on disposal of group of assets	14	-	(5,093)	(1,221)
Gain on sale of investments	14	-	(9)	(2)
Decrease of purchase consideration		(1,940)	-	-
Changes in working capital	36	38,919	(11,551)	(2,768)
Net cash provided by operating activities		**217,059**	**166,310**	**39,860**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(235,382)	(258,620)	(61,984)
Proceeds from sale of fixed assets		6,067	8,851	2,121
Proceeds from sale of group of assets	14	-	6,000	1,438
Investment in former associate	14	(136,689)	(8,124)	(1,947)
Proceeds from sale of an associate	14	-	453,770	108,755
Purchase of subsidiaries, net of cash received	36	(37,372)	(132,976)	(31,870)
Increase of interest in subsidiary	7	(7,872)	-	-
Sale of investments	14	-	25	6
Sale of financial assets at fair value through profit and loss		14,777	-	-
Loan repayments		278	462	111
Net cash used in / provided by investing activities		**(396,193)**	**69,388**	**16,630**
Cash flows from financing activities:				
Cost of share issuance		(73)	-	-
Finance lease payments		(626)	(2,150)	(515)
Proceeds from borrowings	19	95,000	110,000	26,364
Loan payments	19	-	(205,502)	(49,253)
Interest payments	19	(477)	(5,980)	(1,433)
Redemption of notes for warrants		(1)	-	-
Net cash used in / provided by financing activities		**93,823**	**(103,632)**	**(24,837)**
Net change in cash and cash equivalents		**(85,311)**	**132,066**	**31,653**
Exchange gains on cash and cash equivalents		**(578)**	**2,922**	**700**
Cash and cash equivalents at beginning of period		143,586	57,697	13,828
Cash and cash equivalents at end of period		**57,697**	**192,685**	**46,181**

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 principal executive office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The Company and its subsidiaries (together, the “Netia Group”) is the largest alternative fixed-line telecommunication operator in Poland.

The consolidated financial statements of Netia S.A. for the year ended December 31, 2008 comprise the Company and its subsidiaries. A list of the Company’s subsidiaries is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company’s Management Board on February 23, 2009.

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 Netia Group provides various voice telephony and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long-distance, international long-distance and fixed-to-mobile services), Integrated Services Digital Network (“ISDN”), Voice over Internet Protocol (“VoIP”), voice mail, dial-up and fixed-access Internet, leased lines and frame relay and MPLS services. The Netia Group also offers wholesale services (including the wholesale termination of in-bound traffic, ducts, dark fiber and co-location services), services based upon intelligent networks (free phone, split charge and premium rate services) and provides broadband Internet access with ADSL technology.

On October 27, 2005 the Company’s subsidiaries, Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (since November 2006 operating under the name “Netia WiMax S.A.”, “Netia WiMax”, merged with Netia in October 2008), received the reservation of the 3.6-3.8 GHz frequencies. Since 2006, the Netia Group has been using these frequencies to provide broadband data and voice transmission services based on WiMAX technology.

Taking advantage of the new opportunities arising from changes in the regulatory environment, the Company concluded a bitstream agreement with Telekomunikacja Polska S.A. (“TP SA”) and commercially launched its broadband Internet access services over TP SA's network in January 2007. During the third quarter of 2007 the Company began offering Netia voice services to TP SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia in turn has to pay a line rental fee to TP SA under the Wholesale Line Rental (WLR) administrative decision issued by the 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.

On September 15, 2008 the Company acquired Tele2 Polska Sp. z o.o. (“Tele2 Polska”) (see Note 7), 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. During 2007, the Netia Group acquired 12 such operators with a total of 35,294 (not in thousands) active customers and a further 8 operators (see Note 7) were acquired during 2008 with a total of 46,103 (not in thousands) customers.

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 April 2008 Netia sold its minority stake in mobile operator P4 (see Note 14). Furthermore, in March 2008 the Company also disposed of its activities providing international voice termination services to foreign telecommunications operators.

The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its subsidiary 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.

Current financial condition

As at December 31, 2008, the Company’s equity amounted to PLN 1,928,481 and the Netia Group had a working capital of PLN 68,177. The Netia Group’s strategy to expand its customer base primarily through provision of broadband services is expected to consume cash resources until 2010. As at December 31, 2008 the Netia Group had net cash available of PLN 192,685 and undrawn borrowing facilities of PLN 375,000. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company’s ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Significant subsidiaries and associates of the Company

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

Subsidiary	Ownership Percentage December 31, 2007	Ownership Percentage December 31, 2008
Subsidiaries held directly (as at December 31, 2008):		
Tele2 Polska Sp. z o.o.	-	100
Netia Spółka Akcyjna UMTS a limited joint stock partnership (transferred from Netia Mobile Sp. z o.o.)	100	100
InterNetia Sp. z o.o.	100	100
Netia WiMax S.A.*	100	N/A
Świat Internet S.A.*	100	N/A
Subsidiaries held indirectly (as at December 31, 2008):		
UNI-Net Sp. z o.o. (directly held by Netia on December 31, 2007)	100	100
Lanet Sp. z o.o.	100	100
Netis Sp. z o.o.	100	100
Interbit Sp. z o.o.	100	100
Przedsiębiorstwo Informatyczne Punkt Sp. z o.o.	-	100
Connect Systemy Komputerowe Sp. z o.o.	-	100
Cybertech Sp. z o.o.	-	100
Seal-Net Sp. z o.o.	-	100
Netster Sp. z o.o.	-	100
Ticom Sp. z o.o.	-	100
Air Bites Polska Sp. z o.o.	-	100
Easy Com Sp. z o.o.	-	100
In2Loop Sp. z o.o.	-	100
KOM-NET Systemy Komputerowe Sp. z o.o.**	100	N/A
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o**.	100	N/A
Akron Sp. z o.o.**	100	N/A
3Vnet Sp. z o.o.**	100	N/A
Ikatel Telekom Sp. z o.o.**	100	N/A
Inet Sp. z o.o. **	100	N/A
Ozimek Net Sp. z o.o.**	100	N/A
Verizone Sp. z o.o.**	100	N/A
Zielona Burza Sp. z o.o.**	100	N/A
Kom-Net Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o.**	-	N/A
Premium Internet S.A.***	100	N/A

* *merged with Netia*
** *merged with Lanet Sp. z o.o.*
*** *merged with Tele2 Polska Sp. z o.o.*

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

As at December 31, 2007 the Company had one associate company, P4 Sp. z o.o. Group, in which it held an indirect interest via its 100% subsidiary Netia Spółka Akcyjna UMTS a limited joint stock partnership (see Note 14).

All the Company's subsidiaries and associates are incorporated in Poland.

3. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2002, No. 76, item 694 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of December 31, 2008, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued and effective as at the time of preparing these consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2007, except for new accounting standards adopted as of January 1, 2008.

Certain Group entities (acquired in 2008) 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 to conformity with IFRS.

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

(All amounts in thousands, except as otherwise stated)

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

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

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2008 of PLN 4.1724 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

Changes in estimates

In the year ended December 31, 2008 the Netia Group reassessed the useful lives of its property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Increase / (Decrease) in the depreciation charge recognized in 2008	Relevant decrease in the depreciation charge in 2009
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2009	(5)	2
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2009,	(1,911)	474
	- useful lives of certain assets were shortened until June 2008,	2,629	0
Machinery and equipment	- useful lives of certain assets were extended until the end of 2009	(142)	44
Total non-current assets		**571**	**520**

New standards, interpretations and amendments to existing standards

The following new standards and interpretations are mandatory for the financial year ended December 31, 2008:

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions', effective for annual periods beginning on or after March 1, 2007.;
- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after January 1, 2008. This interpretation has not yet been endorsed by the EU;
- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after January 1, 2008;
- Amendments to IAS 39 "Financial Instruments: Recognition and Measurement" and IFRS 7 "Financial Instruments: Disclosures" - "Reclassification of Financial Assets", effective from July 1, 2008.

Adoption of the above interpretations had no impact on the financial position of the Netia Group's operations. The amendments to IAS 39 and IFRS 7 have not resulted in any reclassification of the Netia Group's financial assets.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted:

- IFRIC 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits;
- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management approach to segment reporting;
- Revised IAS 23, 'Borrowing costs', effective for annual periods beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised IAS 23 does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale;
- Revised IAS 1 "Presentation of Financial Statements" applicable for annual periods beginning on or after January 1, 2009. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income;

- Revised IFRS 3 “Business Combinations” and IAS 27 “Consolidated and Separate Financial Statements” applicable for annual periods beginning on or after July 1, 2009. The revised standards bring a further development of the acquisition accounting model and compulsory adoption of the economic entity approach. This standard has not yet been endorsed by the EU;

- Revised IFRS 2 “Share-based payments” applicable for annual periods beginning on or after January 1, 2009. The revised standard clarifies terms 'vesting conditions' and 'cancellations';

- Revised IAS 32 “Financial Instruments: Presentation” and IAS 1 “Presentation of Financial Statements” applicable for annual periods beginning on or after July 1, 2009. The revised IAS 32 addresses the classification of some puttable financial instruments, and instruments (or components of instruments), that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation standards. IAS 1 has been amended to require additional disclosures for puttable financial instruments classified as equity;

- IFRIC 15, "Agreements for the Construction of Real Estate", effective for annual periods beginning on or after January 1, 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. This interpretation has not yet been endorsed by the EU;

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation", effective for annual periods beginning on or after October 1, 2008. IFRIC 16 provides guidance on: (i) indentifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment; (ii) where within the group the hedging instrument(s) can be held in the hedge of a net investment; and (iii) how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. This interpretation has not yet been endorsed by the EU;

- Amendments to IFRS resulting from the annual improvements project, effective for annual periods beginning on or after January 1, 2009;

- Amendment to IAS 39 ”Financial Instruments: Recognition and Measurement” - ”Eligible Hedged Items”, effective for annual periods beginning on or after July 1, 2009. Amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. The amendment have not yet been endorsed by the EU;

- Amendments to IFRS 1 “First-time Adoption of International Financial Reporting Standards” and IAS 27 “Consolidated and Separate Financial Statements” - “Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate”, effective for annual periods beginning on or after January 1, 2009. These amendments have not been endorsed by the EU;

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

- IFRIC 17, "Agreements Distributions of Non-cash Assets to Owners", effective for annual periods beginning on or after January 1, 2009. IFRIC 17 clarifies that a dividend payable should be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity, the dividend payable should be measured at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognised in profit or loss. This interpretation has not yet been endorsed by the EU;

- IFRIC 18, "Transfers of Assets from Customers ", effective for annual periods beginning on or after July 1, 2009. IFRIC 18 clarifies the requirements of IFRSs for agreements in which an entity receives from a customer an item of property, plant, and equipment that the entity must then use either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods or services (such as a supply of electricity, gas or water). This interpretation has not yet been endorsed by the EU.

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

Consolidation

(a) Subsidiaries

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

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

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

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests are also recorded in equity. For disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

(c) Associates

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

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

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

Dilution gains and losses in associates, resulting from changes recognized directly in the equity of associates, are recognised in equity.

Indemnification assets and liabilities in business combinations

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

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

Segment reporting

The Netia Group has only one business segment – telecommunications and operates in one geographical area, which is the territory of Poland. Due to small relative size of mobile radio services operations, the Netia Group does not treat it as a separate segment.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Property, plant and equipment

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

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

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

(All amounts in thousands, except as otherwise stated)

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

	Term
Buildings	10 to 40 years
Fixed telecommunications network	15 to 40 years
Telecommunications equipment	5 to 15 years
Machinery and equipment	5 to 12 years
Office machinery and equipment	3 to 10 years
Vehicles	6 to 8 years

Land and fixed assets under construction are not depreciated.

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

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

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

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

Investment property

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

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

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

Land is not depreciated.

Non-current assets classified as held for sale

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

Leases

(a) Group as a lessee

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

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

(b) Group as a lessor

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

Intangible assets

(a) Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization and impairment losses. If payment for the license is deferred beyond normal credit terms, its cost is the net present value of the obligation. The present value of the obligation is calculated using the Netia Group's effective borrowing rates at the time the license was granted. Any differences between the nominal price of the license and its present value are treated as interest costs. Interest costs are capitalized until substantially all the activities to prepare the asset for its intended use are complete and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is capable of operating in the manner intended by management and is calculated on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years. As at December 31,2008 the Netia Group possessed only telecommunication licenses.

(b) Goodwill

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

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

(c) Computer software costs

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

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

(d) Customer relationships

Customer relationships acquired separately are measured on initial recognition at cost. The cost of customer relationship acquired in a business combination is recognized at fair value as at the date of acquisition. Customer relationships are amortized using the straight-line method over their estimated useful lives of 4 - 5 years.

Impairment of non-financial assets

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

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

Financial assets

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

(a) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

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

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

Derivative financial instruments and hedging activities

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

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

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

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

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within "Other gains/(losses), net".

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

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

Cash and cash equivalents include cash in hand, cash at bank, short-term deposits with an original maturity of three months or less and financial assets at fair value through profit and loss that meet the definition of cash equivalents.

Cash is carried in the balance sheet at nominal value. Financial assets at fair value through profit and loss classified as cash equivalents are measured at fair value. The fair value is based on dealer quotes obtained at each balance sheet date. Gains or losses arising from changes in the fair value are recognized in the income statement.

Share capital

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

Treasury shares are shares issued by the Company for the purpose of the previous stock option plan and shares redeemed in relation to the buy-back program. The consideration paid for those shares is deducted from equity until they are cancelled, reissued or disposed.

Share-based compensation

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

For options which were granted after November 7, 2002 and had vested at January 1, 2005 only the nominal value of shares issued, increased by costs of exercise, are charged to the income statement as incurred upon exercise of the options. For options granted after November 7, 2002 and not vested at January 1, 2005 and for all options granted after January 1, 2005 the fair value of the employee services received in exchange for the grant of options is recognized as an employee benefit expense with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to other reserves.

Retirement benefits

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

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

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

Provisions

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

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

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

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

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

Trade payables

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

Financial guarantee contract

Financial guarantee contracts are accounted for as financial instruments. Such contracts are recognized initially at fair value (equal to premium received or estimated using a valuation technique) and subsequently measured at the higher of: (i) the amount of provision determined based on the best estimate of the probable expenditure required to settle the obligation from the guarantee contract and (ii) the amount initially recognized less cumulative amortization.

The initially deferred revenue is recognized over the contract period by amortizing it to the income statement in the amounts assigned by the initial fair valuation model to each period (on a monthly basis).

At each reporting date, the Netia Group considers whether payment under the guarantee contract is probable and therefore requires a provision to be recognized. If a provision is recognized, and the provision amount is greater than the existing carrying amount (after amortization of revenue), an adjustment is made to reflect the provision and the difference is recognized in the income statement.

Borrowings

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

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

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

Borrowing costs

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

Revenue

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

Telecommunications revenue includes direct voice products, such as monthly charges and calling charges. Calling charges include the following traffic fractions: local calls, domestic long-distance (DLD) calls, international long-distance (ILD) calls, fixed-to-mobile calls and other services (incl. Internet dial-in, emergency calls and intelligent network services). Revenue from calling charges is recognized in the income statement at the time a call is made over the Netia Group's network. Telecommunications revenue includes also services other than traditional direct voice, such as indirect voice, data transmission, interconnection, wholesale, intelligent network services and other telecommunication services, as well as sales of goods. Other telecommunication revenue comprises the provision of Internet dial-in services for Netia's indirect customers, Internet callback services, payphones, as well as other non-core revenues. Other telecommunication revenues are recognized in the income statement in the period to which the services relate.

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

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

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

Deferred income

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

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

Interconnection charges

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

Subscriber acquisition costs

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

Interest income

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

Deferred income taxes

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

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

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

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

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

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

Dividend distribution

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

4. Financial risk management

Financial risk factors

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

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in Polish Złoty, other than some payments made under the equipment and construction contracts, which are linked to Euro and U.S. Dollars. In order to mitigate the currency risk the Netia Group holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, during the year ended December 31, 2008, the Netia Group concluded two agreements: to sell its interest in P4 and to buy a 100% interest in Tele2 Polska (see Note 7 and 14), both denominated in Euro. To manage the foreign exchange risk arising from planned payments related to the Tele2 Polska acquisition the Netia Group held certain part of the Euros received from the disposal of P4 as deposits. During 2007, the Netia Group had a commitment to make contributions to P4's capital, denominated in Euros. In order to manage the related currency risks, a certain part of those planned equity payments were hedged.

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

At December 31, 2007, if the Polish Złoty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated loss for the year ended December 31, 2007 would have been PLN 94 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated cash deposits and trade receivables, partially offset by Euro denominated trade and investment payables.

At December 31, 2008, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated profit for the year ended December 31, 2008 would have been PLN 17 higher (lower) (the consolidated loss for 2007 would have been PLN 40 lower (higher)), mainly as a result of foreign exchange gains (losses) on translation of U.S. Dollar denominated cash deposits and trade receivables, partially offset by U.S. Dollar denominated trade and investment payables.

At December 31, 2008, if the Polish Złoty had weakened (strengthened) by 1% against the GBP with all other variables held constant, consolidated profit for the year ended December 31, 2008 would have been PLN 8 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of GBP denominated investment payables.

- Interest rate risk:

As the Group has no significant long-term interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Company entered into a credit facility agreement in May 2007. The Netia Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Netia Group to cash flow interest rate risk. The Netia Group analyses its interest rate exposure on a regular basis. Various scenarios are simulated taking into consideration refinancing and hedging. Based on these scenarios, the Group calculates the impact on borrowing costs of a defined interest rate shift. If the market interest rates had been 100 basis points higher (lower) during the year ended December 31, 2008, borrowing costs would have been PLN 698 (PLN 172 for the corresponding period in 2007) higher (lower).

- Price risk:

The Netia Group is exposed to equity securities price risk because of its investment in equity of other entity that is publicly traded (see Note 14). If the market price of these shares had been higher (lower) by 1% as at December 31, 2008, finance costs rercognized by the Netia Group in the consolidated income statement would have been PLN 30 lower (higher).

The investments held by the Netia Group and classified as short-term deposits have an agreed redemption price and are regarded as having low market risk.

Credit risk

The Netia Group had no significant concentrations of credit risk throughout the year 2008. Cash transactions are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilisation of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

Liquidity risk

The Netia Group policy assumes maintaining sufficient cash to service its current payments. Surpluses are deposited in bank deposits. Due to the dynamic nature of the underlying business, the Netia Group aims to maintain flexibility in funding by keeping borrowing facilities available.

Management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flow.

(All amounts in thousands, except as otherwise stated)

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

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
As at December 31, 2008				
Trade and other payables	292,539	1,749	372	896
Other financial liabilities	-	304	-	-
As at December 31, 2007				
Bank borrowings	7,904	31,616	55,480	-
Trade and other payables	219,486	1,430	1,228	796

Fair value estimation

The fair value of financial instruments traded in active markets (such as available-for sale securities) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques.

The fair value of forward currency contracts is determined using quoted forward exchange rates at the balance sheet date.

The fair value of the financial guarantee contract is determined by using valuation techniques (probability-adjusted discounted cash flow analysis). Estimated discounted cash flows are used to determine fair value for the remaining financial instruments.

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

Capital risk management

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

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

The gearing ratio at December 31, 2007 was 2.1%. As at December 31, 2008, the Netia Group had net cash available of PLN 192,685.

5. Critical accounting estimates and judgments

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

(a) Deferred income tax

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

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

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

Based on the above assumptions and Management's assessment of the Netia Group tax position as of December 31, 2008, including tax projections, the recognized deferred income tax assets as at December 31, 2008 amounted to PLN 564.

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

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

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

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

The total amount of goodwill is allocated to the cash-generating unit ("CGU") identified as the entire Netia Group besides non-current assets of UNI-Net Sp. z o.o. which were excluded from the assets being tested as they represent different CGU and no indications of impairment have been identified for them.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on assumptions underlying the budget for the next year and an approved by the Supervisory Board updated business plan covering a five-year period. The business plan assumptions (i.e. reaching 1.000 broadband customers, optimizing Netia's strong position in the business market segment, increasing profitability of large corporate clients while minimizing capital expenditures, maximizing utilization of the existing assets) are in line with main strategic objectives announced by Netia in April 2007 and medium-term outlook updated thereafter. Cash flows beyond the five-year period are extrapolated using a long term growth rate, which is compatible with the industry projections for the operations concerned. The discount rate used (of 12.8%) is pre-tax and reflects specific risks relating to the Netia Group operations.

The test shows that the recoverable amount of the CGU is higher than its carrying amount. As a result no impairment loss has been recognized. If the estimated pre-tax discount rate applied to the discounted cash flows had been higher than 13%, with other assumptions unchanged, the Netia Group would have to recognise an impairment loss.

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

(c) Useful lives of non-current assets

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

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

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

(d) Customer relationships

In 2008 and previous years the Netia Group acquired Tele2 Polska, Pro Futuro and several internet service providers. In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the expected present value of the future economic benefits that will flow to an owner of an intangible asset. These analyses require certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

(All amounts in thousands, except as otherwise stated)

6. 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, 2008	31,893	3,380	1,916,212	1,723,266	96,223	114,671	12,203	130,083	4,027,931
Additions	1,590	-	1,751	1,305	970	3,070	122	197,301	206,109
Purchase of subsidiary	365	-	804	20,529	588	3,380	186	1,787	27,639
Transfers	4,721	114	43,515	162,854	8,379	7,267	1	(226,851)	-
Transfers to assets held for sale	(1,688)	-	(121)	(7,765)	(44)	(398)	(5)	(807)	(10,828)
Disposals	(365)	(99)	(564)	(116,276)	(2,335)	(3,911)	(3,072)	(768)	(127,390)
Other movements	(395)	-	6,324	(9,225)	3,437	(350)	-	(1)	(210)
Gross book value as at December 31, 2008	36,121	3,395	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,123,251
Accumulated depreciation as at January 1, 2008	15,577	-	653,274	723,207	56,053	93,809	5,084	-	1,547,004
Depreciation expense	1,860	-	67,993	131,668	5,998	6,530	1,781	-	215,830
Transfers to assets held for sale	(16)	-	-	(2,115)	(16)	(176)	(5)	-	(2,328)
Disposals	(244)	-	(78)	(84,149)	(2,192)	(3,618)	(2,404)	-	(92,685)
Other movements	(1)	-	1,095	(2.373)	1,950	(277)	1	-	395
Accumulated depreciation as at December 31, 2008	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Accumulated impairment as at January 1, 2008	7,347	1,278	631,084	399,616	16,747	10,693	238	5,327	1,072,330
Impairment charge for specific assets	-	-	-	373	-	-	-	74	447
Transfers	40	1	80	3,031	162	41	-	(3,355)	-
Transfers to assets held for sale	(7)	-	-	(1,068)	(5)	(42)	-	(295)	(1,417)
Disposals	(67)	(41)	(16)	(31,195)	(91)	(320)	(208)	(74)	(32,012)
Other movements	-	-	302	(1,494)	1,024	-	-	(139)	(307)
Accumulated impairment as at December 31, 2008	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Net book value as at January 1, 2008	8,969	2,102	631,854	600,443	23,423	10,169	6,881	124,756	1,408,597
Net book value as at December 31, 2008	**11,632**	**2,157**	**614,187**	**639,187**	**27,588**	**17,089**	**4,948**	**99,206**	**1,415,994**

(All amounts in thousands, except as otherwise stated)

6. 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, 2007	73,157	17,308	1,888,100	1,557,141	85,782	127,302	12,918	134,111	3,895,819
Additions	111	-	140	2,242	995	2,409	13	203,417	209,327
Purchase of subsidiary	47	-	-	3,701	-	169	390	997	5,304
Transfers	2,129	51	28,310	167,583	7,026	1,120	-	(206,219)	-
Transfers to non-current assets held for sale	(41,437)	(13,979)	(935)	-	(120)	(2,134)	-	(5)	(58,610)
Disposals	(2,092)	-	(52)	(2,587)	(1,850)	(13,980)	(1,104)	(834)	(22,499)
Other movements	(22)	-	649	(4,814)	4,390	(215)	(14)	(1,384)	(1,410)
Gross book value as at December 31, 2007	31,893	3,380	1,916,212	1,723,266	96,223	114,671	12,203	130,083	4,027,931
Accumulated depreciation as at January 1, 2007	20,478	-	587,898	582,734	50,180	101,649	4,082	-	1,347,021
Depreciation expense	3,008	-	65,684	144,412	5,144	6,373	1,850	-	226,471
Transfers to non-current assets held for sale	(6,940)	-	(519)	-	(21)	(2,066)	-	-	(9,546)
Disposals	(958)	-	-	(1,453)	(1,716)	(11,964)	(842)	-	(16,933)
Other movements	(11)	-	211	(2,486)	2,466	(183)	(6)	-	(9)
Accumulated depreciation as at December 31, 2007	15,577	-	653,274	723,207	56,053	93,809	5,084	-	1,547,004
Accumulated impairment as at January 1, 2007	16,477	5,108	629,552	388,517	15,080	12,736	305	22,994	1,090,769
Impairment charge for specific assets	62	-	-	-	77	-	-	165	304
Reversal of impairment charge for specific assets	-	-	-	(509)	-	-	-	-	(509)
Transfers	254	19	1,634	13,305	764	72	-	(16,048)	-
Transfers to non-current assets held for sale	(9,046)	(3,849)	(312)	-	(20)	(68)	-	-	(13,295)
Disposals	(396)	-	(4)	(618)	(73)	(1,994)	(66)	(36)	(3,187)
Other movements	(4)	-	214	(1,079)	919	(53)	(1)	(1,748)	(1,752)
Accumulated impairment as at December 31, 2007	7,347	1,278	631,084	399,616	16,747	10,693	238	5,327	1,072,330
Net book value as at January 1, 2007	36,202	12,200	670,650	585,890	20,522	12,917	8,531	111,117	1,458,029
Net book value as at December 31, 2007	**8,969**	**2,102**	**631,854**	**600,443**	**23,423**	**10,169**	**6,881**	**124,756**	**1,408,597**

(All amounts in thousands, except as otherwise stated)

The transfers recorded in the year ended December 31, 2008 mainly relate to transfers from fixed assets under construction to fixed assets following the completion of construction.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 15,173, and PLN 13,062 were capitalized to network under construction during the year ended December 31, 2008 and December 31, 2007, respectively. Furthermore, during the corresponding periods the Company capitalized PLN 610 and PLN 528 of borrowing costs.

The net carrying value of assets held under finance lease as at December 31, 2008 and December 31, 2007 is presented below:

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Fixed telecommunications network	-	17
Telecommunications equipment	3,387	4,596
Vehicles	309	387
Fixed assets under construction	733	-
	4,429	**5,000**

7. Acquisitions

Current period:

On September 15, 2008 the Company finalised the purchase of 1,000 (not in thousand) shares in Tele2 Polska, of the nominal value of PLN 1,000, representing 100% of Tele2 Polska's share capital and conferring the right to 100% of the votes at the shareholders' meeting of Tele2 Polska. Upon closing of the transaction Netia paid EUR 31,385 in cash comprising EUR 29,100 for the enterprise and EUR 2,285 for net cash balances. The purchase consideration also reflects a future additional payment of up to EUR 4,800 dependent on Tele2 Polska performance during the 12 month period after closing and a further future payment for the difference between actual net cash and net working capital and their respective target levels (amounting to EUR 2,285 for net cash and EUR 1,600 for net working capital), estimated at PLN 24,394. The difference between actual and target net financial debt and net financial capital was calculated by the seller at PLN 26,837. However the Company's Management has not accepted the calculation and the final settlement was not agreed as at the date of these financial statements. The purchase price also includes PLN 2,110 of restricted cash to be reimbursed to the seller if it is released by the Court.

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

During the year ended December 31, 2008 the Netia Group purchased the following internet service providers. Details of those transactions are specified below:

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

* *The total price of all Punkt's shares has been set at PLN 5,126. The purchase price may be increased up to PLN 6,701 in case of the fulfillment of certain conditions included in the related share purchase agreement and related to execution of certain transactions by Punkt's business partners.*

** *The purchase price was increased by PLN 25 that Netster obtained from the sale of all its shares in IQSerwis Sp. z o.o. (see Note 14). This transaction was an auxiliary element of closing the purchase of Netster's shares.*

(All amounts in thousands, except as otherwise stated)

Punkt, Seal-Net, Ticom and Air Bites are service providers offering broadband Internet access to residential clients in many Polish towns, primarily in Southern Poland. Easy Com is a service provider offering broadband Internet access to residential clients in South-Western Poland. Connect, Cybertech and Netster are service providers offering broadband Internet access to residential clients in North-Eastern Poland. Kom-Net SK owns the rights of access to the telecommunications infrastructure in the city of Wrocław in the Southern Poland.

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

- February 29, 2008 – Punkt,
- June 2, 2008 – Connect,
- June 30, 2008 – Cybertech,
- April 30, 2008 – Kom-Net SK,
- September 1, 2008 – Tele2 Polska,
- October 2, 2008 – Seal-Net,
- November 30, 2008 – Netster,
- December 10 , 2008 – Ticom,
- December 31, 2008 – Air Bites and Easy Com.

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

During the year ended December 31, 2008 the Netia Group performed a valuation of the acquired companies' assets, liabilities and contingent liabilities. In particular, the Netia Group assessed fair values of identifiable assets and liabilities according to IFRS and recorded a deferred income tax liability. Additionally, in the purchase price allocation process the Netia Group identified customer relationships and trademark as intangible assets. The fair value of customer relationships was estimated using the excess earnings method. The fair value of trademark was based on estimated royalties. Valuation includes provision for claims against the acquired company that may result in fines or costs being incurred by the Netia Group where relevant. The valuation also includes the indemnification asset equal to the part of any contingent loss that has been indemnified by the seller. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

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

	Purchase consideration, excluding transaction costs	Transaction costs	Management Fee	Provisional fair values of net assets acquired	Goodwill adjustment	Goodwill
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Punkt	6,701	411	-	(3,495)	-	3,617
Connect	4,503	184	-	(2,136)	-	2,551
Cybertech	3,975	148	-	(2,309)	-	1,814
Kom-Net SK	129	-	-	(50)	-	79
Tele2 Polska Group	147,780	7,580	-	(67,851)	(1,617)	85,892
Seal-Net	456	33	343	(138)	-	694
Netster	383	30	-	(164)	-	249
Ticom	592	37	150	(346)	-	433
Air Bites	21,655	1,959	-	(14,688)	-	8,926
Easy Com	6,068	84	1,413	(3,281)	-	4,284
Total	**192,242**	**10,466**	**1,906**	**(94,458)**	**(1,617)**	**108,539**

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

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

Company	Revenue of the acquired business	Profit / (Loss) of the acquired business	Revenue of the Netia Group	Profit of the Netia Group
	(PLN)	(PLN)	(PLN)	(PLN)
Punkt	1,994	417	1,122,641	231,217
Connect *	1,726	(155)	1,121,168	230,290
Cybertech	1,042	35	1,122,686	230,917
Kom-Net SK	-	(5)	1,121,168	230,598
Tele2 Polska	129,466	21,006	1,448,461	280,333
Seal-Net *	83	25	1,121,168	230,616
Netster	38	(22)	1,121,723	230,517
Ticom*	29	(6)	1,121,168	230,588
Air Bites	-	-	1,133,395	217,727
Easy Com*	-	-	1,121,168	230,174
Total	**134,378**	**21,295**	**1,464,234**	**267,532**

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

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

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	Punkt	Connect	Cybertech	Kom-Net SK	Tele2 Polska Group	**Seal-Net**	**Netster**	**Ticom**	**Air Bites**	**Easy Com**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment....	448	808	765	-	11,627	-	192	43	14,711	974	29,568
Customer relationships	-	-	-	-	-	-	68	-	1,020	-	1,088
Other intangible assets	-	41	-	-	975	-	5	-	400	-	1,421
Deferred income tax asset..........	-	-	-	-	1,901	-	-	-	-	-	1,901
Inventories	38	3	36	-	42	-	-	-	569	-	688
Receivables	29	42	115	2	50,524	11	74	20	514	73	51,404
Prepayments..............................	24	2	44	-	5,030	-	6	-	127	-	5,233
Restricted cash	-	-	-	-	2,110	-	-	-	-		2,110
Cash and cash equivalents.........	2,311	8	616	48	27,039	74	21	22	1,169	358	31,666
Assets held for sale	-	-	-	-	-	-	17	-	-	-	17
Borrowings.................................	-	(196)	(140)	-	-	-	(306)	-	-	-	(642)
Trade liabilities...........................	(139)	(52)	(94)	-	(23,885)	-	(65)	(8)	(1,654)	(127)	(26,024)
Other liabilities and accruals.......	(243)	(66)	(262)	-	(25,535)	(24)	(59)	(27)	(2,640)	(157)	(29,013)
Defferred income	(17)	-	-	-	(6,376)	-	-	-	(1)	-	(6,394)
Deferred income tax liabilities.....	-	-	-	-	(1,901)	-	-	-	-	-	(1,901)
Net assets acquired	**2,451**	**590**	**1,080**	**50**	**41,551**	**61**	**(47)**	**50**	**14,215**	**1,121**	**61,122**

Provisional fair value	Punkt	Connect	Cybertech	Kom-Net SK	Tele2 Polska Group	**Seal-Net**	**Netster**	**Ticom**	**Air Bites**	**Easy Com**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment....	448	847	793	-	9,631	-	192	43	14,711	974	27,639
Customer relationships	1,270	1,921	1,489	-	32,314	95	308	366	1,604	2,666	42,033
Other intangible assets	-	42	-	-	3,855	-	5	-	400	-	4,302
Deferred income tax asset..........	15	11	(5)	-	396	-	2	-	-	-	419
Inventories	38	3	36	-	42	-	-	-	569	-	688
Receivables	29	42	115	2	64,433	11	74	20	514	73	65,313
Prepayments..............................	24	2	44	-	5,030	-	6	-	127	-	5,233
Restricted cash	-	-	-	-	2,110						2,110
Cash and cash equivalents.........	2,311	8	616	48	27,039	74	21	22	1,169	358	31,666
Assets held for sale	-	-	-	-	-	-	17	-	-	-	17
Borrowings.................................	-	(196)	(140)	-	-	-	(306)	-	-	-	(642)
Trade liabilities...........................	(139)	(52)	(94)	-	(20,752)	(22)	(65)	(8)	(1,654)	(127)	(22,913)
Other liabilities and accruals.......	(243)	(119)	(262)	-	(43,167)	(2)	(59)	(27)	(2,640)	(157)	(46,676)
Deferred income	(17)	-	-	-	(6,376)	-	-	-	(1)	-	(6,394)
Deferred income tax liabilities.....	(241)	(373)	(283)	-	(6,704)	(18)	(31)	(70)	(111)	(506)	(8,337)
Provisional fair value of net assets acquired......................	**3,495**	**2,136**	**2,309**	**50**	**67,851**	**138**	**164**	**346**	**14,688**	**3,281**	**94,458**

Provisional fair value	Punkt	Connect	Cybertech	Kom-Net SK	Tele2 Polska Group	**Seal-Net**	**Netster**	**Ticom**	**Air Bites**	**Easy Com**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(7,112)	(4,687)	(4,123)	(129)	(114,981)	(489)	(413)	(629)	(22,657)	(6,152)	(161,372)
Cash and cash equivalents in the subsidiary acquired	2,311	8	616	48	27,039	74	21	22	1,169	358	31,666
Bank overdraft	-	(117)	(24)	-	-	-	-	-	-	-	(141)
Cash outflow on acquisition (see Note 35).........................	**(4,801)**	**(4,796)**	**(3,531)**	**(81)**	**(87,942)**	**(415)**	**(392)**	**(607)**	**(21,488)**	**(5,794)**	**(129,847)**

(All amounts in thousands, except as otherwise stated)

Comparative period:

UNI-Net Sp. z o.o.

On January 9, 2007 and December 27, 2007, the Company purchased from the minority shareholders 4% and 37.8%, respectively, of the share capital of the Company's subsidiary UNI-Net Sp. z o.o. ("UNI-Net"), for a total of PLN 7,800. Transaction costs amounted to PLN 72. As a result of these transactions, the Netia Group holds 100% of UNI-Net's share capital and the corresponding number of votes at its shareholders' meeting.

As such transactions with minority shareholders are not governed by IFRS 3 "Business Combinations", the Netia Group decided to apply the economic entity model for this acquisition. The negative difference between purchase price and book value of minority in the amount of PLN 367 was deducted directly from equity.

Internet service providers

During the year ended December 31, 2007 the Company purchased twelve internet service providers. Details of those transactions are specified below:

Company	**Date**	**Share capital acquired**	**Purchase price**
			(PLN)
Acquired by Netia:			
KOM-NET Systemy Komputerowe Sp. z o.o. ("KOM-NET")	June 6, 2007	100.0 %	9,418
Lanet Sp. z o.o ("Lanet").	June 6, 2007	100.0 %	10,076
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o. ("Magma")	June 25, 2007	100.0 %	7,941
Acquired by Lanet, the Company's subsidary:			
Akron Sp. z o.o. ("Akron")	September 26, 2007	99.9 %*	800
3Vnet Sp. z o.o. ("3Vnet")	December 19, 2007	100.0 %	394
Ikatel Telekom Sp. z o.o. ("Ikatel Telekom")	December 21, 2007	100.0 %	532
Inet Sp. z o.o. ("Inet")	December 19, 2007	100.0 %	951
Ozimek Net Sp. z o.o. ("Ozimek Net")	December 21, 2007	100.0 %	257
Verizone Sp. z o.o. ("Verizone")	December 19, 2007	100.0 %	686
Zielona Burza Sp. z o.o. ("Zielona Burza")	December 19, 2007	100.0 %	455
Acquired by InterNetia, the Company's subsidary:			
Netis Sp. z o.o. ("Netis")	December 6, 2007	100.0 %	4,040
Interbit Sp. z o.o. ("Interbit")	December 21, 2007	100.0 %	3,439
Total			**38,989**

** Prior to this transaction, Lanet owned Akron's shares representing 0.1% of Akron's share capital.*

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

- June 1, 2007 - KOM-NET and Lanet,
- June 30, 2007 – Magma,
- September 30, 2007 – Akron,
- December 1, 2007 – Netis,
- December 31, 2007 – Interbit, 3Vnet, Ikatel Telekom, Inet, Ozimek Net, Verizone, Zielona Burza.

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

During the year ended December 31, 2007 the Netia Group performed a valuation of the acquired companies' assets, liabilities and contingent liabilities. In particular, the Netia Group assessed fair values of identifiable assets and liabilities according to IFRS and recorded a deferred income tax liability. Additionally, 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.

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

	Purchase consideration, excluding transaction costs	**Transaction costs**	**Management Fee**	**Fair values of net assets acquired**	**Goodwill**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
KOM-NET	9,418	215	-	(3,421)	6,212
Lanet	10,076	222	-	(1,695)	8,603
Magma	7,941	244	-	(2,832)	5,353
Akron	800	44	450	(386)	908
3Vnet	394	87	260	(183)	558
Ikatel Telekom	532	52	225	(246)	563
Inet	951	94	492	(373)	1,164
Ozimek Net	257	50	201	(153)	355
Verizone	686	242	407	(424)	911
Zielona Burza	455	49	234	(158)	580
Netis	4,040	156	-	(1,381)	2,815
Interbit	3,439	126	-	(1,255)	2,310
Total	**38,989**	**1,581**	**2,269**	**(12,507)**	**30,332**

(All amounts in thousands, except as otherwise stated)

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

The following table presents contributed in 2007 revenues and profits / (losses) of the acquired businesses from the date of acquisitions (after taking into account intercompany eliminations), as well as the Netia Group's revenue and loss for 2007 if the acquisitions had occurred on January 1, 2007:

Company	**Revenue** of the acquired business	**Profit / (Loss)** of the acquired business	**Revenue** of the Netia Group	**Loss** of the Netia Group
	(PLN)	(PLN)	(PLN)	(PLN)
KOM-NET	2,567	545	839,858	(268,667)
Lanet	2,919	(953)	840,417	(268,881)
Magma	1,634	430	839,727	(268,691)
Akron*	-	(32)	838,025	(269,001)
3Vnet	-	-	838,050	(268,881)
Ikatel Telekom	-	-	838,048	(268,878)
Inet	-	-	838,078	(268,874)
Ozimek Net	-	-	838,044	(268,875)
Verizone	-	-	838,515	(268,960)
Zielona Burza	-	-	838,051	(268,880)
Netis	188	(10)	839,912	(269,034)
Interbit	-	-	840,005	(268,790)
Total	**7,308**	**(20)**	**848,455**	**(268,720)**

** Akron was created through an in-kind contribution of a unincorporated business activity, whose revenues prior to incorporation cannot be reliably estimated by Netia. Since Akron's creation its revenues comprise only transactions within the Netia Group.*

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

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	KOM-NET	Lanet	Magma	Akron	3Vnet	Ikatel Telekom	Inet	Ozimek Net	Verizone	Zielona Burza	Netis	Interbit	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	640	1,048	1,014	220	21	146	141	53	145	57	304	256	4,045
Other intangible assets	-	-	4	858	-	-	-	-	-	-	5	-	867
Deferred income tax asset	5	-	-	-	-	-	-	-	-	-	-	-	5
Investment	-	7	-	-	-	-	-	-	-	-	-	-	7
Inventories	71	178	64	-	5	-	1	-	-	-	28	7	354
Receivables	163	257	74	35	46	24	9	24	76	10	34	57	809
Prepayments	22	13	3	-	-	-	-	-	-	-	1	4	43
Cash and cash equivalents	377	114	42	6	26	4	79	3	2	23	19	345	1,040
Bank overdraft/Loan	-	(93)	-	-	-	-	-	-	(156)	-	(31)	-	(280)
Trade liabilities	(63)	(706)	(62)	(3)	(28)	(19)	(67)	(14)	(10)	(27)	(26)	(54)	(1,079)
Other liabilities and accruals	(191)	(437)	(275)	(2)	(4)	(2)	(6)	(4)	-	(2)	(154)	(167)	(1,244)
Defferred income	-	(219)	-	-	-	-	-	-	-	-	-	(144)	(363)
Net assets acquired	**1,024**	**162**	**864**	**1,114**	**66**	**153**	**157**	**62**	**57**	**61**	**180**	**304**	**4,204**

Fair value	KOM-NET	Lanet	Magma	Akron	3Vnet	Ikatel Telekom	Inet	Ozimek Net	Verizone	Zielona Burza	Netis	Interbit	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	806	1,811	1,014	228	21	146	141	53	146	57	414	467	5,304
Customer relationships	2,955	1,884	2,429	203	145	115	267	112	264	119	1,475	1,145	11,113
Other intangible assets	-	-	4	-	-	-	-	-	-	-	5	-	9
Deferred income tax asset	5	-	-	-	-	-	-	-	-	-	-	-	5
Investments	-	7	-	-	-	-	-	-	-	-	-	-	7
Inventories	71	178	64	-	5	-	1	-	-	-	28	7	354
Receivables	163	257	74	2	46	24	9	24	76	10	34	57	776
Prepayments	22	13	3	-	-	-	-	-	-	-	1	4	43
Cash and cash equivalents	377	114	42	6	26	4	79	3	2	23	19	345	1,040
Bank overdraft/Loan	-	(93)	-	-	-	-	-	-	(3)	-	(31)	-	(127)
Trade liabilities	(63)	(706)	(62)	(3)	(28)	(19)	(67)	(14)	(10)	(27)	(26)	(54)	(1,079)
Other liabilities and accruals	(353)	(1,192)	(274)	(12)	(5)	(2)	(6)	(4)	(1)	(1)	(256)	(349)	(2,455)
Deferred income	-	(219)	-	-	-	-	-	-	-	-	-	(144)	(363)
Deferred income tax liabilities	(562)	(359)	(462)	(38)	(27)	(22)	(51)	(21)	(50)	(23)	(282)	(223)	(2,120)
Fair value of net assets acquired	**3,421**	**1,695**	**2,832**	**386**	**183**	**246**	**373**	**153**	**424**	**158**	**1,381**	**1,255**	**12,507**

Fair value	KOM-NET	Lanet	Magma	Akron	3Vnet	Ikatel Telekom	Inet	Ozimek Net	Verizone	Zielona Burza	Netis	Interbit	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(9,633)	(10,298)	(8,185)	(838)	(481)	(478)	(1,045)	(227)	(775)	(504)	(4,196)	(3,565)	(40,225)
Cash and cash equivalents in the subsidiary acquired	377	114	42	6	26	4	79	3	2	23	19	345	1,040
Bank overdraft	-	(93)	-	-	-	-	-	-	(3)	-	(31)	-	(127)
Cash outflow on acquisition	(9,256)	(10,277)	(8,143)	(832)	(455)	(474)	(966)	(224)	(776)	(481)	(4,208)	(3,220)	**(39,312)**

(All amounts in thousands, except as otherwise stated)

8. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill	**Trademark**	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2008	44,175	-	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Additions	-	-	-	-	-	-	664	40,066	824	41,554
Subsidiaries purchased in current period	108,539	2,970	-	-	-	-	1,332	-	42,033	154,874
Subsidiaries purchased in previous periods	515	-	-	-	-	-	-	-	-	515
Transfers	-	-	-	-	-	-	47,267	(47,267)	-	-
Transfers to assets held for sale	-	-	-	-	-	-	(54)	-	-	(54)
Disposals	-	-	-	-	-	-	(720)	-	-	(720)
Other movements	(13,843)	-	-	-	-	-	596	-	-	(13,247)
Gross book value as at December 31, 2008	139,386	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,084,360
Accumulated amortization as at January 1, 2008	-	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Amortization expense	-	1,485	14,910	-	3,673	1,170	23,492	-	8,833	53,563
Transfers to assets held for sale	-	-	-	-	-	-	(28)	-	-	(28)
Disposals	-	-	-	-	-	-	(485)	-	-	(485)
Other movements	-	-	-	-	-	-	63	-	-	63
Accumulated amortization as at December 31, 2008	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Accumulated impairment as at January 1, 2008	13,843	-	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Transfers	-	-	-	-	-	-	304	(304)	-	-
Transfers to assets held for sale	-	-	-	-	-	-	(2)	-	-	(2)
Disposals	-	-	-	-	-	-	(83)			(83)
Other movements	(13,843)	-	-	-	-	-	96	139	-	(13,608)
Accumulated impairment as at December 31, 2008	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Net book value as at January 1, 2008	30,332	-	93,983	-	34,739	15,204	56,966	11,722	25,000	267,946
Net book value as at December 31, 2008	**139,386**	**1,485**	**79,073**	**-**	**31,066**	**14,034**	**82,694**	**4,686**	**59,024**	**411,448**

(All amounts in thousands, except as otherwise stated)

8. Intangible assets (cont'd)

Comparative period:

		Licences				Computer software costs			
	Goodwill (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, 2007	14,799	432,823	7,417	107,354	20,329	217,360	7,723	20,048	827,853
Additions	-	-	-	-	-	872	33,270	935	35,077
Purchase of subsidiary	30,332	-	-	-	-	9	-	11,113	41,454
Transfers	-	-	-	-	-	30,487	(30,487)	-	-
Disposals	-	-	-	-	-	(3,378)	-	-	(3,378)
Other movements	(956)	-	-	-	-	-	1,388	-	432
Gross book value as at December 31, 2007	44,175	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Accumulated amortization as at January 1, 2007	-	164,143	1,539	40,432	547	124,577	-	1,901	333,139
Amortization expense	-	14,909	-	3,672	1,170	23,312	-	4,988	48,051
Disposals	-	-	-	-	-	(3,181)	-	-	(3,181)
Accumulated amortization as at December 31, 2007	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Accumulated impairment as at January 1, 2007	14,799	159,788	5,878	28,511	3,408	41,054	1,472	207	255,117
Transfers	-	-	-	-	-	2,815	(2,815)	-	-
Disposals	-	-	-	-	-	(193)	-	-	(193)
Other movements	(956)	-	-	-	-	-	1,515	-	559
Accumulated impairment as at December 31, 2007	13,843	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Net book value as at January 1, 2007	-	108,892	-	38,411	16,374	51,729	6,251	17,940	239,597
Net book value as at December 31, 2007	**30,332**	**93,983**	**-**	**34,739**	**15,204**	**56,966**	**11,722**	**25,000**	**267,946**

(All amounts in thousands, except as otherwise stated)

Transfers to assets held for sale recorded in the year ended December 31, 2008 relate to the disposal of group of assets comprising Premium Internet's IVT activities (see Note 14).

Telecommunication licenses / permits

Prior to the completion of the legal merger of the Company with its operating subsidiaries on December 31, 2003, its subsidiaries held fixed-term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization periods of the permits range between 4 and 7 years.

Domestic long-distance licenses / permits

In May 2000, one of the operating subsidiaries currently legally merged into Netia, was granted a domestic long-distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide intercity telecommunication services. The remaining amortization period of the permit is 7 years.

Data communications and internet licenses / permits

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

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in July 2006) and Netia WiMax II S.A. (since November 2006 operating under the name "Netia WiMax S.A.", merged with Netia in October 2008), received the reservation of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on WiMAX technology. The license covers the entire territory of Poland and is valid for 15 years. The remaining amortization period of the permit is 12 years.

9. Investment property

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Gross book value at the beginning of the year	-	-
Reclassification from assets held for sale	-	59,649
Gross book value at the end of the year	-	59,649
Accumulated depreciation at the beginning of the year	-	-
Reclassification from assets held for sale	-	(9,500)
Adjustment for depreciation expense due to reclassification	-	(861)
Depreciation expense	-	(93)
Accumulated depreciation at the end of the year	-	(10,454)
Accumulated impairment at the beginning of the year	-	-
Reclassification from assets held for sale	-	(13,062)
Accumulated impairment at the end of the year	-	(13,062)
Net book value at the beginning of the year	-	-
Net book value at the end of the year	**-**	**36,133**

Due to Management's decision to hold the Company's former head office as a long-term investment, on November 30, 2008 the Company reclassified the relating assets from assets held for sale and recognized them as investment property (see Note 13). The fair value of this property as at the date of reclassification was estimated by an independent, professionally qualified valuer at PLN 76,000.

10. Inventories

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Materials	326	819
Less provision for impairment charge	(4)	(100)
Materials, net	322	719
Goods for resale	2,760	4,483
Less provision for impairment charge	(179)	(142)
Goods for resale, net	2,581	4,341
Inventories, net	**2,903**	**5,060**

(All amounts in thousands, except as otherwise stated)

During the year ended December 31, 2008 and 2007 the Netia Group recognized PLN 8,781and PLN 7,306, respectively as the cost of inventories included in "cost of goods sold". Moreover, the amounts of PLN 12 (PLN 541 in 2007) of a previous inventory provision was utilized during the year ended December 31, 2008 and PLN 25 was reversed.

11. Trade and other receivables

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Trade receivables	142,397	189,924
Less provision for impairment of trade receivables	(39,216)	(40,650)
Trade receivables, net	103,181	149,274
Trade receivables from the former associate	4,023	-
VAT and other government receivables	16,799	2,023
Other receivables	3,681	12,135
Less provision for impairment of other receivables	(623)	(606)
Other receivables, net	3,058	11,529
Loans*	66,003	65,565
Less provision for impairment of loans*	(65,475)	(65,291)
Loans, net	528	273
Indemnities received**	-	14,001
	127,589	**177,100**
Of which,		
Current	127,339	170,477
Non-current	250	6,623

* Loans include a short term loan of PLN 11,500 granted to Millennium Communications S.A. (described in Note 40). As at December 31, 2008 and December 31, 2007 interest accrued on that loan amounted to PLN 53,791. The loan and accrued interest were fully provided for.

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

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

The provision for impairment of the Netia Group's receivables recognized during the year ended December 31, 2008 and 2007 amounted to PLN 4,618 and PLN 2,028, respectively and was included in "selling and distribution costs" in the consolidated income statement.

As of December 31, 2008 and December 31, 2007 trade and other receivables of PLN 52,506 and PLN 30,255, respectively, were past due but not fully provided for. The ageing analysis of these trade receivables net of provisions for doubtful accounts is as follows:

	Less than 3 months (PLN)	3 – 6 months (PLN)	More than 6 months (PLN)	Total (PLN)
As at December 31, 2008	50,115	1,544	847	52,506
As at December 31, 2007	28,415	1,066	774	30,255

12. Prepaid expenses and accrued income

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Accrued income and prepaid expenses relating to promotional offers	4,665	19,768
Transaction costs related to the credit facility (see Note 19)	2,696	5,486
Other prepaid expenses.	9,205	9,907
	16,566	**35,161**
Of which,		
Current	10,899	18,294
Non-current	5,667	16,867

13. Assets classified as held for sale

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Netia's former head office (land and buildings)	35,224	-
Other non-current assets classified as held for sale	1,497	513
Total	**36,721**	**513**

Due to Management's decision relating to the disposal of certain non-current assets (land and buildings) the Netia Group reclassified those assets to non-current assets held for sale. However, after observing deteriorating conditions on the commercial property market, the Management decided to hold the Company's former head office as long-term investment instead of selling it (see Note 9). For all outstanding assets an active program to locate potential buyers has been initiated and in most cases the interested parties have been found and negotiations are in progress.

14. Sale of investments and group of assets

Sale of investment in P4 (number of shares not in thousands)

In 2005 P4 - previously the Company's subsidiary, was announced a winner of the mobile telephony UMTS frequency tender. On August 23, 2005, a Shareholders' Agreement ("Shareholders Agreement") was concluded by the following entities: the Company, Netia Mobile Sp. z o.o. ("Netia Mobile", currently transferred into Netia Spółka Akcyjna UMTS a limited joint stock partnership), P4, Novator One L.P., Novator and Novator Poland Pledge Sp. z o.o. Netia Mobile is a 100% subsidiary of the Company, and Novator is a 100% subsidiary of Novator One L.P.

As a result of that Agreement, at August 23, 2005 Novator was the holder of 24,010 of P4's shares ("Shares") constituting 70% of the Shares in P4's share capital and Netia Mobile was the holder of 10,290 Shares constituting 30% of the Shares in P4's share capital.

On January 31, 2007 the Company concluded an investment agreement (the "Investment Agreement"), which provided for the accession of a new shareholder, Tollerton, to P4. The Investment Agreement further provided for an amendment of the Shareholders Agreement of P4 dated August 23, 2005 after the transactions contemplated in the Investment Agreement had been completed.

On May 24, 2007, Tollerton became a new shareholder of P4, and subscribed for a 22% equity stake in the increased share capital of P4 in exchange for its 100% shareholdings in the share capital of Germanos Polska Sp. z o.o., Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o. (the "Distribution Companies") and a cash contribution of EUR 9,000.

Following the above transactions Netia Mobile held 11,349 shares constituting 23.4% of the share capital of P4, and Novator held shares constituting a total of 54.6% of the share capital.

The following became parties to the amended Shareholders Agreement dated May 24, 2007: the Company, Netia Mobile, Novator One L.P., Novator, Novator Poland Pledge Sp. z o.o, Olympia Development S.A., Tollerton (Novator, Netia Mobile and Tollerton jointly called "Shareholders"), and P4. Tollerton is a wholly-owned subsidiary of Olympia Development S.A.

The Shareholders reiterated their earlier commitments to make contributions to P4, pro rata to their respective changed shareholdings in P4's share capital. From EUR 300,000 of the aggregate cash contributions committed by the shareholders in the Shareholders Agreement, the cash contributions made and agreed to be made prior to and in connection with the closing of the transaction, amounted to EUR 185,797, including Netia's contributions of EUR 52,835 (out of total committed cash contributions of EUR 79,500); Novator's contributions of EUR 123,087 (out of total committed cash contributions of EUR 185,500) and Tollerton's contributions of EUR 9,875. Post closing of the transaction further shareholders' committed cash contributions amounted to EUR 114,202 in the aggregate, including Netia's committed contribution of EUR 26.665; Novator's committed contribution of EUR 62,413 and Tollerton's committed contribution of EUR 25,124.

Following the contributions of EUR 2,040 made in January 2008, the total cash contributions made by Netia Mobile in connection with the above agreements amounted to EUR 79,500 and the obligation to contribute to P4's share capital has been settled. As a result, the Company held 12,519 P4's shares constituting 23.4% of P4's share capital.

The following table summarizes changes in the investment in P4:

	Year ended December 31, 2007 (PLN)	Until February 21, 2008 (PLN)
At January 1	141,394	150,435
Investment in associate	136,264	8,124
Dilution gain in associate *	40,102	9,530
Financial guarantee contract	(2,088)	-
Share of loss recognized until reclassification to assets held for sale	(165,237)	(22,625)
At the end of the period	**150,435**	**145,464**

* *As a result of the accession of a new shareholder to P4 on May 24, 2007 and Novator and Tollerton's equity contributions to P4's capital on February 5, 2008, the Netia Group's interest in P4 decreased from 30% to 23.4% and then to 22.7%. A dilution gain of PLN 40,102 and PLN 9,530, respectively, arising on these transactions was recorded directly in equity.*

(All amounts in thousands, except as otherwise stated)

Following the consent of the Supervisory Board of the Company to sign the agreement to sell P4's shares, received on February 21, 2008, the Netia Group reclassified the investment in P4 of PLN 145,464 to non-current assets held for sale.

On February 22, 2008 the Company concluded an agreement to sell its interest in P4 held by Netia Mobile to Tollerton and Novator, on the following terms:

(i) the price of EUR 130,000, payable in cash on closing;
(ii) an additional amount payable to the Company in case of a future change of control over P4 or the disposal of the enterprise of P4 by Tollerton and Novator during the 12 months after signing of the agreement;
(iii) The agreement foresees changes to be made to the commercial agreements between the Company and P4 that will bring them into line with non-related party agreements (such changes to be executed after the closing).

The transaction was closed on April 30, 2008 for a final price of EUR 131,795. The gain on this transaction recognized in the consolidated income statement for the year ended December 31, 2008 amounted to PLN 353,381.

The gain on disposal of the investment in P4 recognized in this consolidated income statement was as follows:

	Year ended December 31, 2008 (PLN)
Proceeds from sale of an associate	453,770
Carrying value of the investment in associate	(145,464)
Dilution gain in associate	49,632
Settlement of hedge transaction	(425)
Other transaction costs	(4,132)
	353,381

Simultaneously, on April 30, 2008 the Shareholders Agreement of P4 dated May 24, 2007 was terminated with respect to the Company and Netia Mobile. Upon the termination of the Shareholders Agreement the Company and Netia Mobile were released from the obligation to finance P4. The commercial agreements between the Company and P4 (service provider, transmission and distribution agreements) remain in force.

Sale of group of assets comprising Premium Internet S.A.'s IVT activities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination (IVT) activities to Mediatel S.A. ("Mediatel") for PLN 13,619, of which PLN 8,000 was settled in cash (PLN 6,000 in 2008 and PLN 2,000 in January 2009) and PLN 5,619 was the estimated fair value of 440 shares issued by Mediatel and related "put" and "call" options. Mediatel acquired the IVT specific business assets, principally customer contracts, employees and telecommunications switching equipment, of the Company's subsidiary Premium Internet S.A. whilst Netia retained the Premium Internet S.A. ("Premium Internet") legal entity and its interconnection infrastructure, used both for IVT and for the provision of wholesale line rental voice and indirect access services to Netia's retail customers.

The revenues and costs associated with the IVT activities recognized in this consolidated income statement were as follows:

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Data	16	5
Wholesale services	57,123	8,769
Sales of goods	2	-
Total revenue	**57,141**	**8,774**
Cost of sales	(45,864)	(9,474)
Gross profit/ (loss)	**11,277**	**(700)**
Operating costs	(1,335)	(197)
Other gains / (losses), net	(421)	(50)
Profit/ (loss)	**9,521**	**(947)**

The gain on disposal of the IVT activities recognized in this consolidated income statement was as follows:

	Year ended December 31, 2008 (PLN)
Fair value of the sale transaction	13,619
Net book value of disposed property, plant and equipment	(5,327)
Net book value of disposed software	(24)
Net book value of disposed inventory	(304)
Provision for expected losses	(2,621)
Other transaction costs	(250)
Gain on disposal of a group of assets comprising Premium Internet's IVT activities	**5,093**
Income tax charge	(783)
Total gain	**4,310**

Sale of investment

On December 18, 2008 Netia's subsidiary Netster transferred ownership of 33 (not in thousands) shares of IQSerwis Sp. z o.o., with the total nominal value of PLN 16.5, representing 33% of its share capital. The fair value of this investment was PLN 16.5 and it was sold for the total price of PLN 25.

15. Cash and cash equivalents

	December 31, 2007	December 31, 2008
	(PLN)	(PLN)
Cash at bank and in hand	57,700	192,685
	57,700	**192,685**

The effective interest rate on short-term bank deposits was 5.3% and 4.09%, respectively for the year ended December 31, 2008 and the year ended December 31, 2007.

As at December 31, 2007 the amount of PLN 1,477 was restricted as it was placed as collateral securing payments to vendors.

In addition, as at December 31, 2008 and December 31, 2007 the amounts of PLN 565 and PLN 540, respectively were excluded from cash and cash equivalents as they were legally reserved for spending on social purposes.

For the purposes of the consolidated cash flow statement, cash and cash equivalents at December 31, 2007 include PLN 3 of bank overdrafts (see Note 19).

16. Shareholders' equity

Share capital (not in thousands)

At December 31, 2008, the Company's share capital consisted of 389,276,294 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at shareholders' meetings. The holder of 1,000 series A1 shares had the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. The Company's share capital has not changed since December 31, 2007.

	Number of shares authorized and issued (not in thousands)	Share capital
		(PLN)
At January 1, 2007	**389,167,839**	**389,168**
Issuance of series K shares	109,455	109
At December 31, 2007	**389,167,839**	**389,277**
At December 31, 2008	**389,277,294**	**389,277**

According to the information provided to the Company by its shareholders, as at December 31, 2008 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	% of share capital
Novator Telecom Poland II S.a.r.l.	121,784,294	31.28
Third Avenue Management LLC	93,720,763	24.08
SISU Capital Limited and related entities	39,043,006	10.03
Shares held by public and other shareholders	134,729,231	34.61
	389,277,294	**100.00**

Share premium

The Shareholders' Meeting held on May 7, 2008, resolved to cover PLN 73,217 of Netia S.A.'s loss incurred in 2007 and PLN 11,692 of uncovered losses from previous years resulting from a merger of a subsidiary with the Company during the financial year of 2007, by transfer of: PLN 84,909 from share premium.

(All amounts in thousands, except as otherwise stated)

Other reserves

Changes in other reserves are presented in the table below:

	Employee share option scheme (PLN)	Separate reserve capital (PLN)	Hedging reserve (PLN)	Total (PLN)
Balance as at January 1, 2007	996	28,162	486	29,644
Employee share option scheme:				
- value of services provided	14,004	-	-	14,004
- issuance of series K shares	(324)			(324)
Coverage of Netia's 2006 loss	-	(28,162)	-	(28,162)
Cash flow hedges:				
- fair value losses	-	-	(966)	(966)
- tax on fair value losses	-	-	114	114
- transfers to investments in associates	-	-	(59)	(59)
Balance as at December 31, 2007	**14,676**	**-**	**(425)**	**14,251**
Balance as at January 1, 2008	14,676	-	(425)	14,251
Employee share option scheme:				
- value of services provided	9,568	-	-	9,568
Cash flow hedges:				
- fair value losses *	-	-	(284)	(284)
- transfers to consolidated income statement (see Note 14)	-	-	425	425
Balance as at December 31, 2008	**24,244**	**-**	**(284)**	**23,960**

** On April 30, 2008 the Netia Group received EUR 131,795 as a result of the sale of its interest in P4 (see Note 14) and on June 29, 2008, the Company concluded an agreement to buy a 100% interest in Tele2 (see Note 7). To hedge the foreign exchange risk arising from future payments related to the planned acquisition the Netia Group decided to hold a deposit of EUR 38,685. The transaction was closed on September 15, 2008.*

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. Due to Netia S.A.'s loss for the year ended December 31, 2008 of PLN 173,185, the distributable reserve, as at December 31, 2008, amounted to PLN nil.

Stock options (not in thousands)

In the year ended December 31, 2008 the following changes took place in the number of options granted under the Plan:

	Year ended December 31, 2007		Year ended December 31, 2008	
Options	Average strike price	Options	Average strike price	Options
At the beginning of the period	4.44	1,935,149	6.61	43,128,873
Granted	6.64	48,425,000	4.64	18,268,250
Forfeited / expired	6.40	(6,868,857)	6.65	(11,129,000)
Exercised	3.12	(362,419)	-	-
At the end of the period	**6.61**	**43,128,873**	**5.88**	**50,268,123**

As at December 31, 2008 the total number of options approved by the Supervisory Board and issued was 81,964,470 as compared to 63,696,220 as at December 31, 2007. Out of these approved options 50,268,123 options were outstanding as at December 31, 2008 and 43,128,873 options were outstanding as at December 31, 2007. As at December 31, 2008 and December 31, 2007 the total number of vested options was 7,929,458 and 325,229, respectively. The vesting period for the options is up to three years from the date of grant. As at December 31, 2008, the weighted average remaining contractual life of the outstanding options was 4 years. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.50 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. For the outstanding options, the valuation model takes into account such factors as strike price (presented above), total expected life of the options (4 - 7 years), time to vest, expected volatility of the share price returns (24.31% - 34.21%), employee exit rate (5% - 10%), exercise multiple (1.5) and the risk free interest rate at the date of the grant (ranging from 4.13% to 6.07%). The expected volatility is based on historical volatility. The cost of options recorded in the year ended December 31, 2008 and 2007 amounted to PLN 14,238 thousands and PLN 14,951 thousands, respectively, while PLN 4,670 thousands and PLN 947 thousands was derecognized in the income statement in the respective periods.

(All amounts in thousands, except as otherwise stated)

17. Provisions

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Expected loss on a contract related to voice termination services	-	655
Loss on rental contract	470	246
Claims	189	15,181
	659	**16,082**
Of which,		
Current	562	8,545
Non-current	97	7,537
	659	**16,082**

	Expected loss on a contract related to voice termination services (PLN)	Loss on rental contracts (PLN)	Claims (PLN)	Total (PLN)
As at January 1, 2008	-	470	189	**659**
Reclassification from liabilities directly associated with assets held for sale	2,621	-	-	2,621
Provisions in acquired subsidiaries	-	-	14,890	14,890
Charged to the income statement	-	277	114	391
Used during the period	(1,966)	(548)	(12)	(2,526)
Discount unwinding (charged to the income statement)	-	47	-	47
As at December 31, 2008	**655**	**246**	**15,181**	**16,082**

Expected loss on a contract related to voice termination services

The provision was created for an expected loss on a contract, which was a part of the transaction to sell a group of assets comprising Premium Internet S.A.'s IVT activities (see Note 14). Following the provisions of this contract the Netia Group shall render voice termination services to Mediatel for a one-year period, with estimated revenues significantly lower than costs. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2009.

Loss on rental contracts

The provision was created for loss on rental contracts and relates to the excess of office space held in certain locations in Warsaw, which have been sub-leased at a loss by the Netia Group. The loss on rental contracts is calculated as discounted committed rental costs less discounted revenues expected to be received from sub-contractors. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2009.

Claims

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

18. Financial guarantee contract

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 granted to P4 by China Development Bank (the "CDB Facility"). Under the Guarantee and Share Retention Agreement, Netia provided a guarantee to a maximum amount of EUR 27,000. Due to the accession of a new shareholder to P4, on May 24, 2007 (see Note 14) the agreement was amended and the guaranteed amount decreased to EUR 21,060. The guarantee covered the repayment of 23.4% (previously 30%) of the outstanding amounts under one of the tranches of the credit facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). The amount of guarantee was reduced gradually as the network assets were put into commercial service (effectively the guarantee was reduced to zero in November 2008).

The guarantee was measured initially at fair value. As the guarantee was issued without a premium, the fair value was estimated using a probability-adjusted discounted cash flow analysis. The probability of default by P4 (estimated at 30.95%) was based on default rates amongst companies with a similar credit rating to that which might have been granted to P4, had P4 requested such a credit rating. The discount rate (of 10%) was based on the estimated risk adjusted cost of capital. The time horizon used in this analysis was directly related to the planned network build out (with the result that the guarantee was assumed to expire in 2008).

(All amounts in thousands, except as otherwise stated)

Changes in the value of the financial guarantee contract are presented below:

	Year ended December 31, 2007	Year ended December 31, 2008
	(PLN)	(PLN)
At the beginning of the period	9,405	435
Derecognition of a part of initially recognized guarantee	(2,088)	-
Amortization (credited to other income)	(6,882)	(435)
Carrying value at the end of the period	**435**	**-**

19. Borrowings

	December 31, 2007	December 31, 2008
	(PLN)	(PLN)
Credit facility	94,738	-
Bank overdraft	3	-
	94,741	**-**
Of which:		
Current	7,397	-
Non-current	87,344	-

Credit facility

On May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement with Rabobank Polska SA (the “Bank”) as arranger, credit facility agent, security agent and lender (the “Facility”). As at December 31, 2008 the cumulative draw downs under this Facility amounted to PLN 205,000 and were repaid in full.

The Facility bore interest at a variable interest rate of WIBOR plus a margin dependant on financial ratios. During the year ended December 31, 2008, the Company paid PLN 5,980 (PLN 477 in 2007) of interest under this Facility. As at December 31, 2008 total transaction costs amounted to PLN 8,536, out of which PLN 1,015 and PLN 1,820 related to the draw downs made in 2007 and 2008, respectively, and were included in the calculation of the effective interest rate.

On June 27, 2008, the Company entered into an Accession, Amendment and Restatement Agreement (the “Amendment Agreement”) with the Bank (as the arranger), Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A. (the “Banks”), relating to the Facility. The effect of the Amendment Agreement was, among others, to extend the draw-down availability period to December 31, 2010 from November 15, 2008 (with respect to the term loan), and reduce the Facility amount from PLN 300,000 to PLN 275,000, available to Netia in the form of a term loan and a revolving loan of up to PLN 225,000 and PLN 50,000, respectively. The Facility was to be repaid by December 31, 2012 instead of November 15, 2011.

On December 4, 2008, under the Amendment Agreement, the Facility was increased by PLN 100,000 (with respect to the term loan) up to PLN 375,000. The availability and repayment periods have been extended by 6 months to June 30, 2011 and to June 30, 2013, respectively. The Facility continues to bear interest at a variable interest rate of WIBOR plus a margin dependent on financial ratios and the Company must pay a commitment fee on the undrawn, uncancelled amount of the Facility commitment. The proceeds from the Facility can be used to finance the Netia Group’s capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group.

Following changes in the Netia Group’s structure and above amendments, relevant changes were made in the security interests for the Facility Agreement. Currently the repayment of the Facility is secured by the following: capped mortgages on the right of perpetual usufruct of the Company’s real estate at ul. Poleczki 13 in Warsaw, registered pledges on a set of movables and property rights acquired by Netia as a result of its merger with Świat Internet S.A. , registered pledges on a collection of Netia’s movables and property rights, registered pledges on the shares of UNI-Net, Netia Spółka Akcyjna UMTS s.k.a and Tele2 Polska, registered pledges and financial pledges on the shares in InterNetia Sp. z o.o. (the financial pledges expired upon the registration of the registered pledges) and assignment as collateral security of Netia’s receivables under certain agreements. Moreover, the Company’s subsidiaries (InterNetia Sp. z o.o, UNI-Net, Netia Spółka Akcyjna UMTS s.k.a., Tele2 Polska) jointly, severally, irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 468,750.

(All amounts in thousands, except as otherwise stated)

20. Trade and other payables

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Trade payables	64,383	74,027
Investment payables	75,743	54,321
Trade payables to former associate	3,060	-
Accrued expenses (see Note 21)	61,636	107,442
VAT and other taxes	7,659	10,703
Retirement severance payments	680	781
Finance lease payments	4,278	4,029
Payables to former owners of acquired subsidiaries	-	43,959
Other payables	5,501	4,026
	222,940	**299,288**
Of which,		
Current	219,486	296,390
Non-current	3,454	2,898

Retirement severance payments

The provision for retirement severance payments was calculated by an independent actuary using the projected unit credit method. It represents the present value of the future obligation of the Company to make severance payments on its employee's retirement, required by the Polish Labour Code. A valuation was performed using a discount rate of 5.5% and a salary increase rate of 3,5% above inflation of 2,5%. A related cost recognized during the year ended December 31, 2008 amounted to PLN 101 (PLN 150 in 2007). Retirement severance payments will be paid on the Netia Group's employees' retirement.

21. Accrued expenses

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Construction costs	3,149	8,013
Uninvoiced services	20,800	40,369
Interconnection charges	13,307	24,911
Holidays accrual	3,765	3,622
Employees bonuses and accrued salaries	16,773	16,712
Other	3,842	13,815
	61,636	**107,442**

22. Deferred income

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Invoiced income from subscriptions relating to future periods	12,255	21,324
Rental contracts	8,116	7,669
Government grants	644	739
Other	484	425
	21,499	**30,157**
Of which,		
Current	12,932	22,378
Non-current	8,567	7,779

(All amounts in thousands, except as otherwise stated)

23. Revenue

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Direct voice services	369,499	486,781
Monthly fees	122,348	226,436
Calling charges	247,151	260,345
Local calls	*65,250*	*59,559*
Domestic long-distance calls	*38,994*	*34,429*
International long-distance calls	*27,457*	*28,788*
Fixed-to-mobile	*100,149*	*102,956*
Other	*15,301*	*34,613*
Indirect voice	54,203	56,809
Data	242,226	371,582
Interconnection revenue	28,517	89,175
Wholesale services	53,854	71,905
Intelligent network services	14,374	14,726
Other telecommunication service revenue	8,757	11,148
Telecommunication services revenue	**771,430**	**1,102,126**
Sales of goods	2,118	2,506
Telecommunication revenue	**773,548**	**1,104,632**
Radio communication services revenue	7,336	7,762
Revenue	**780,884**	**1,112,394**
Revenue generated by group of assets held for sale (see Note 14)	57,141	8,774
Total revenue	**838,025**	**1,121,168**

24. Cost of sales

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Interconnection charges	(159,866)	(218,510)
Network maintenance	(173,015)	(281,856)
Cost of goods sold	(7,306)	(8,781)
Depreciation of fixed assets	(217,360)	(207,712)
Amortization of intangible assets	(23,499)	(25,693)
Salaries and benefits	(9,971)	(19,568)
Other costs	(46,535)	(61,393)
	(637,552)	**(823,513)**

25. Selling and distribution costs

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Advertising and promotion	(41,255)	(62,018)
Mailing services	(10,664)	(18,718)
Information technology services	(5,027)	(10,077)
Other services	(39,703)	(68,953)
Provision for impaired receivables	(2,028)	(4,618)
Depreciation of fixed assets	(4,416)	(4,293)
Amortization of intangible assets	(17,987)	(20,203)
Salaries and benefits	(77,126)	(83,761)
Other costs	(2,964)	(2,544)
	(201,170)	**(275,185)**

(All amounts in thousands, except as otherwise stated)

26. General and administration costs

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Professional services	(10,615)	(8,454)
Information technology services	(8,201)	(9,406)
Office and car maintenance	(7,259)	(10,081)
Insurance	(2,291)	(1,405)
Other services	(15,160)	(16,860)
Depreciation of fixed assets	(4,695)	(4,779)
Amortization of intangible assets	(6,565)	(7,667)
Salaries and benefits	(78,429)	(74,211)
Other costs	(11,536)	(13,407)
	(144,751)	**(146,270)**

27. Salaries and benefits

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Wages and salaries	(131,297)	(147,526)
Social security costs	(12,152)	(10,297)
Defined contribution plan (the State Plan)	(7,923)	(10,050)
Provision for retirement severance payment	(150)	(101)
Share-based compensation	(14,004)	(9,566)
	(165,526)	**(177,540)**

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

28. Other income

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Reminder fees and penalties	1,955	5,210
Forgiveness of liabilities	1,024	210
Sale of services to former associate	3,404	904
Settlement of interconnection related disputes	24,239	-
Financial guarantee	6,882	435
Reversal of impairment charges and provisions	509	1,000
Other operating income	3,302	3,840
	41,315	**11,599**

As a result of the settlement of interconnection related disputes between Netia and TP SA signed on December 22, 2006, and the interconnection agreement signed on June 30, 2007, during the year ended December 31, 2007, PLN 24,239 was recorded as other income.

29. Other expenses

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Impairment charges for specific individual assets	(304)	(447)
The tax on civil law transactions	(4,764)	-
	(5,068)	**(447)**

On January 22, 2007, Netia concluded an agreement with its former subsidiary Świat Internet S.A. ("Świat Internet", merged with Netia in October 2008), whereupon Netia made an in-kind contribution of telecommunications network elements in exchange for new shares in its subsidiary. The related assets were valued by a property appraisal expert at the amount of PLN 950,703. The tax on civil law transactions levied on this capital contribution in the amount of PLN 4,764 was recognized as other expense.

(All amounts in thousands, except as otherwise stated)

30. Other gains / (losses), net

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Decrease of purchase consideration	1,940	-
Gain on sale of impaired receivables	2,040	1,204
Gain on disposal of fixed assets	1,747	6,446
Gain on disposal of a group of assets comprising Premium Internet's IVT activities (see Note 14)	-	5,093
Gain on sale of investments	-	9
Net foreign exchange gains / (losses)	(366)	190
	5,361	**12,942**

31. Finance income and finance costs

Finance income

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Interest income	3,973	10,577
Net foreign exchange gains / (losses)	-	112
Fair value gains on financial assets	21	-
	3,994	**10,689**

Finance costs

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Interest expense	(885)	(8,596)
Fair value loss on financial assets / liabilities	-	(1,263)
Net foreign exchange losses	(573)	-
Ineffectiveness of cash flow hedges	(59)	-
	(1,517)	**(9,859)**

32. Net foreign exchange gains / (losses)

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

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Other gains / (losses), net	(366)	190
Finance costs	(573)	-
Finance income	-	112
	(939)	**302**

33. Corporate income tax

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Current income tax	(617)	(429)
Deferred income tax benefit / (charge), net	(1,664)	(846)
Income tax benefit / (charge)	**(2,281)**	**(1,275)**

(All amounts in thousands, except as otherwise stated)

Current income tax

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

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Profit / (Loss) before tax	(270,067)	242,698
Tax calculated at tax rates applicable to profit	51,313	(46,113)
Income and expense not subject / deductible for tax purposes, net	(22,127)	(10,022)
Deductible temporary differences arising during the year for which no deferred tax assets were recognized	(15,387)	(10,913)
Recognition of previously unrecognized tax losses	-	(1,202)
Tax effect on sale of investment in P4	-	66,870
Tax effect on in-kind contribution of telecommunication infrastructure	77,429	-
Utilization of previously unrecognized tax losses	191	1,952
Tax losses for which no deferred income tax asset was recognized	(90,776)	(516)
Derecognition of previously recognized tax asset	(2,924)	(1,331)
Income tax benefit / (charge)	**(2,281)**	**(1,275)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2007 and onwards is 19%.

The main titles of income not subject to tax and expenses not deductible for tax purposes are share of losses of an associate, foreign exchange differences related to sales of currency, reserve for option plan.

Deferred income tax

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

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, 2007 (PLN)	December 31, 2008 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	464	7,255
- Deferred income tax assets to be recovered within 12 months	15,668	13,649
	16,132	20,904
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	2,604	14,255
- Deferred income tax liabilities to be recovered within 12 months	13,320	15,206
	15,924	29,461
Deferred income tax assets / (liabilities), net	**208**	**(8,557)**
out of which:		
Deferred income tax assets	2,162	564
Deferred income tax liabilities	(1,954)	(9,121)

At December 31, 2008 and December 31, 2007 the deferred income tax liabilities relate to timing differences recognized on tax and accounting value of customer relationships in newly acquired subsidiaries.

(All amounts in thousands, except as otherwise stated)

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

Current period:

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

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

Comparative period:

Deferred income tax liabilities	Deferred revenue	Interest income and foreign exchange differences	Depreciation and impairment	Other receivables	Other	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2007	5,889	127	3,536	3,781	114	13,447
- Charged / (credited) to the income statement	(1,769)	(110)	3,403	(1,438)	154	240
- Deferred income tax on acquisition	-	-	2,351	-	-	2,351
- Credited / (charged) to the equity	-	-	-	-	(114)	(114)
As at December 31, 2007	**4,120**	**17**	**9,290**	**2,343**	**154**	**15,924**

Deferred income tax assets	Tax losses	Impairment provisions for receivables	Depreciation and impairment	Accrued expenses	Other	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2007	4,109	4,707	3,059	4,482	965	17,322
- Credited / (charged) to the income statement	(2,907)	(2,188)	8,344	(3,693)	(980)	(1,424)
- Deferred income tax on acquisition	-	-	-	-	234	234
As at December 31, 2007	**1,202**	**2,519**	**11,403**	**789**	**219**	**16,132**

The deferred income tax recognized in equity in an amount of PLN 7,919 resulted from the acquisition of new subsidiaries.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of December 31, 2008, the Netia Group had total deductible temporary differences of PLN 473,529 and unutilised tax loss carry-forwards of PLN 560,372 (total potential deferred income tax asset of PLN 196,441).

The Netia Group did not recognize deferred income tax assets of PLN 106,471 relating to tax losses of PLN 560,372 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses before they expire. These unrecognized tax losses of the Netia Group available for use as at December 31, 2008 will expire in the following years: PLN 61,086 in 2009, PLN 6,687 in 2010, PLN 243,239 in 2011, PLN 243,798 in 2012 and 5,562 in 2013.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 89,970, relating to deductible temporary differences of PLN 473,529 as follows:

	Timing differences	Deferred income tax asset
	(PLN)	(PLN)
Depreciation and impairment	388,889	73,889
Accrued expenses	66,153	12,569
Impairment provisions for receivables	18,487	3,512
	473,529	**89,970**

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

34. Earnings per share

Basic

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

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Profit / (loss) attributable to the equity holders of the Company	(269,484)	230,605
Weighted average number of ordinary shares in issue (not in thousands)	389,220,018	389,277,294
Basic earnings per share (not in thousands)	(0.69)	0.59

Diluted

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

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Profit / (loss) attributable to the equity holders of the Company	(269,484)	230,605
Weighted average number of ordinary shares in issue (not in thousands)	389,220,018	389,277,294
Adjustments for:		
- Share options	109,455	-
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	389,329,473	389,277,294
Diluted earnings per share (not in thousands)	(0.69)	0.59

35. Dividends per share

No dividends were proposed or paid in respect to the financial years ended December 31, 2008 and 2007. Netia's distributable reserves are described in Note 16.

36. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Receivables	3,286	17,639
Inventories	(964)	(1,469)
Prepaid expenses	(7,347)	(15,398)
Restricted cash	6,100	(602)
Provisions, accruals and other payables	35,898	(13,985)
Deferred income	1,946	2,264
	38,919	**(11,551)**

Changes reflected in working capital in the period post acquisition are presented in Note 7.

Supplemental disclosures to operating activities:

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Income taxes paid	624	783
Interest received	(6,066)	(12,332)

Supplemental disclosures to investing activities:

	Year ended December 31, 2007 (PLN)	Year ended December 31, 2008 (PLN)
Subsidiary purchased in current period	(39,312)	(129,847)
Subsidiaries purchased in 2007	-	(3,129)
Decrease of purchase consideration (see Note 40)	1,940	-
Purchase of subsidiaries, net of cash received	**(37,372)**	**(132,976)**

Non-cash transactions:

The principal non-cash transactions were a decrease of the Netia Group's stake in P4 and sale of group of assets which was settled in shares issued by Mediatel, described in Note 14.

During the year ended December 31, 2008 the Netia Group entered into finance lease agreements for telecommunication equipment and a vehicle. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 1,480.

Payments relating to the acquisition of Tele2 Polska estimated at PLN 24,394 in respect to excess cash and working capital balances and up to EUR 4,800 of additional consideration based on performance for 12 months post closing were recognized as liabilities at December 31, 2008 and these amounts have been included in the purchase consideration (see Note 7).

37. The Management Board and Supervisory Board

Management Board

Effective August 22, 2008 Mr. Piotr Czapski resigned from the position of Member of the Company's Management Board.

On September 9, 2008, the Company's Supervisory Board appointed Mr. Piotr Nesterowicz as member of the Management Board, effective as of the date of Netia's acquisition of 100% shares in Tele2 Polska, i.e. September 15, 2008.

Effective December 15, 2008 Mr. Bertrand Le Guern resigned from the position of Member of the Company's Management Board.

Due to the above changes as at December 31, 2008 the Company's Management Board consisted of the following members:
- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

Effective May 7, 2008 Mr. Wojciech Sobieraj, Chairman of the Company's Supervisory Board, resigned from the position of Member and Chairman of the Company's Supervisory Board.

Effective May 7, 2008 Mr. Bogusław Kasprzyk resigned from his position as Member of the Company's Supervisory Board.

On May 7, 2008, the Company's Shareholder's Meeting appointed Messrs. Jerome de Vitry and Marek Gul to Netia's Supervisory Board.

On June 24, 2008 the Company's Supervisory Board appointed Mr Marek Gul as the Chairman of the Supervisory Board.

Effective September 23, 2008, the Company's Shareholder's Meeting appointed Messrs Piotr Czapski and Kazimierz Marcinkiewicz to Netia's Supervisory Board.

Due to the above changes as at December 31, 2008 the Company's Supervisory Board consisted of the following members:
- Marek Gul – Chairman,
- Constantine Gonticas – Deputy Chairman,
- Piotr Czapski,
- Raimondo Eggink,
- Bruce McInroy,
- Kazimierz Marcinkiewicz,
- Tadeusz Radzimiński,
- Pantelis Tzortzakis,
- Jerome de Vitry.

38. Related party transactions

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

As at December 31, 2008, the total number of options granted to members of the Company's Management Board under the Plan, was 36,605,314 of which 4,871,814 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.50 to 8.25 per share. The market price of the Company's shares at December 31, 2008 was PLN 2.40 per share.

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

Options	Year ended December 31, 2007	Year ended December 31, 2008
At the beginning of the period	1,721,489	33,271,814
Granted	38,000,000	13,333,500
Status changed due to resignation from Management Board	(5,634,233)	(10,000,000)
Expired	(815,442)	-
At the end of the period	**33,271,814**	**36,605,314**

As at December 31, 2007 Mr. Piotr Czapski – the former member of the Company's Management Board (see Note 37) – held 5,000,000 options. Due to his resignation from his position, these options are no longer treated as options held by members of the Management Board.

As at December 31, 2007 and December 31, 2008 Mr. Jonathan Eastick – a member of the Company's Management Board – held 9,271,814 and 10,938,314 options, respectively, out of which 2,071,814 had vested as at December 31, 2008.

As at December 31, 2007 and December 31, 2008 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000,000 and 13,334,000 options, respectively, out of which 2,000,000 had vested as at December 31, 2008.

As at December 31, 2007 Mr. Bertrand Le Guern – the former member of the Company's Management Board (see Note 37) – held 5,000,000 options. Due to his resignation from his position, these options were no longer treated as options held by members of the Management Board and subsequently expired.

As at December 31, 2007 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 4,000,000 and 5,666,500 options, respectively, out of which 800,000 had vested as at December 31, 2008.

As at December 31, 2008 Mr. Piotr Nesterowicz – a member of the Company's Management Board (see Note 37) – held 6,666,500 options, out of which none had vested as at December 31, 2008.

Members of the Supervisory Board did not hold any options as at December 31, 2007. Due to Mr. Piotr Czapski's appointment (see Note 37), as at December 31, 2008 members of the Supervisory Board held 1,000,000 options, out of which all had vested (4,000,000 of unvested options, previously granted to Mr. Piotr Czapski whilst he was serving as a Management Board Member, have lapsed upon his termination of the employment contract).

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

As at December 31, 2007 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 series K shares of the Company.

As at December 31, 2007 and December 31, 2008, Mr. Jonathan Eastick – a member of the Company's Management Board – held 15,000 and 25,000 series K shares of the Company, respectively.

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

As at December 31, 2007 and December 31, 2008, Mr. Raimondo Eggink – a member of the Company's Supervisory Board– held 20,000 shares of the Company.

As at December 31, 2007 and December 31, 2008, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held 93,000 and 143,000 shares of the Company, respectively.

As at December 31, 2007 and December 31, 2008, Mr. Bruce McInroy – a member of the Company's Supervisory Board – held 50,000 and 150,000 shares of the Company, respectively.

As at December 31, 2007 and December 31, 2008, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 2,000 shares of the Company.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the year ended December 31, 2008 and December 31, 2007 amounted to PLN 6,978 and PLN 5,874, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 10,099 and PLN 11,847 was recognized in the respective periods. Furthermore PLN 3,609 and PLN 785 of costs accrued for share options that may no longer vest due to resignation were reversed in 2008 and 2007 respectively. Additional to the above, termination benefits for the former members of the Management Board of zero and PLN 1,251 were recognized as a cost in the year ended December 31, 2008 and December 31, 2007 respectively.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the years ended December 31, 2008 and December 31, 2007 amounted to PLN 823 and PLN 830, respectively. These amounts were paid to certain employees of the Netia Group who are not past or present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during years ended December 31, 2008 and December 31, 2007 amounted to PLN 670 and PLN 599, respectively.

(All amounts in thousands, except as otherwise stated)

Transactions with former associate

The following transactions were carried out with P4 Group until P4 ceased being an associate of the Netia Group on April 30, 2008 (see also Note 14):

	Year ended December 31, 2007 (PLN)	Four-month period ended April 30, 2008 (PLN)
Telecommunication revenue	9,867	8,868
Sale of services	3,404	482
Other sales transactions	442	234
	13,713	**9,584**
Interconnection charges	(731)	(1,651)
Telecommunication fees	(1,778)	-
Other costs	(15)	(22)
	(2,524)	**(1,673)**

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Trade receivables	4,023	N/A
Trade payables	(3,060)	N/A
	963	**N/A**

Agreements partially securing the repayment of the vendor financing extended to P4

On April 30, 2008, Netia completed the sale of its investment in the shares of P4. Upon completion of the sale, the buyers confirmed to Netia expiry of certain future obligations originally undertaken by Netia in order to partially secure the repayment of the credit facility of EUR 150,000 granted to P4 by China Development Bank (“CDB”) under the facility agreement dated October 31, 2006 (see Note 18). In particular, these obligations included a payment guarantee to CDB of up to EUR 21,060 (decreased by 50% in June 2008 and reduced to zero in November 2008).

Other transactions with related parties

During the years ended December 31, 2008 and December 31, 2007, the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

39. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 64,753 as at December 31, 2008 and PLN 62,262 as at December 31, 2007 of which, PLN 7,994 and PLN 4,934, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2008 and December 31, 2007 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Not later than 1 year	58,963	78,546
Later than 1 year and not later than 5 years	45,256	130,554
Later than 5 years	41,831	70,619
	146,050	**279,719**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for almost 4 years. Rental costs recognized in the income statement for the years ended December 31, 2008 and December 31, 2007 amounted to PLN 165,329 and PLN 116,530, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 17) in the amounts of PLN 1,264 and PLN 1,459, respectively.

(All amounts in thousands, except as otherwise stated)

Operating lease commitments – where the Netia Group is the lessor

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

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Not later than 1 year	17,277	17,015
Later than 1 year and not later than 5 years	19,032	19,112
Later than 5 years	3,118	4,375
	39,427	**40,502**

The Netia Group has entered into several commercial leases on certain parts of the fixed telecommunications network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the years ended December 31, 2008 and December 31, 2007 amounted to PLN 24,396 and PLN 23,946, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

In 2007 and 2008 Netia entered in new finance lease agreements for telecommunication equipment. Moreover, with the acquisition of certain internet providers, the Netia Group has acquired finance leases for certain telecommunication equipment as well as for some vehicles. As at December 31, 2008 and December 31, 2007 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2007 (PLN)	December 31, 2008 (PLN)
Not later than 1 year	1,730	2,027
Later than 1 year and not later than 5 years	2,548	2,002
Later than 5 years	-	-
Present value of minimum lease payments	**4,278**	**4,029**
Plus amount representing finance charges	469	390
Total minimum lease payments	**4,747**	**4,419**

40. Contingencies

Contingent assets

Claims against TP SA

As a result of TP SA failing to meet certain obligations under the bitstream access agreement, in 2007 and 2008 the Company demanded payment from TP SA for contractual penalties totaling PLN 22,622, following the expiration of an initial grace period. Netia's management intends to use all legal means to enforce the penalties and will recognize income when TP SA either pays or settles the liability in a manner acceptable to Netia. After the Company's demand for TP SA to pay contractual penalties delivered in 2007, Netia filed a claim in court against TP SA for payment of PLN 19,542 of penalties. Despite the fact that the Management Board is convinced of the legitimacy of the claim the Management Board cannot assure that the Court will decide fully in accordance with the claim.

Prior to its acquisition by Netia, Tele2 Polska has made several significant damages claims against TP SA, a number of which are the subject of legal proceedings at the present time. Netia's Management intends to use all legal means to enforce these damages claims, but will recognize income only when TP SA either pays or settles in a manner acceptable to Netia.

Contingent liabilities

Claims against Tele2 Polska

TP SA has instigated various proceedings aimed at overturning UKE decisions enforcing the terms of TP SA's cooperation with Tele2 Polska in the area of WLR and these legal proceedings are ongoing. In parallel, TP SA has made written claims to Tele2 Polska alleging that Tele2 Polska is causing damage to TP SA through unlawful enrichment by continuing to rely on the challenged UKE decisions in its settlements with TP SA. Tele2 Polska will vigorously defend this claim should TP SA instigate court proceedings and Netia's Management, having obtained legal advice, does not believe resolution of the matter described above will have a material adverse effect on the Netia Group's financial condition.

Tele2 Polska has received correspondence from TP SA claiming damages from lost profits allegedly caused by Tele2 Polska routing international traffic through interconnection points reserved for domestic traffic. These allegations originate from periods prior to Netia's acquisition of Tele2 Polska and UKE has made its own investigation into the matter. Based on representations received from Tele2 Polska's Management and previous owners that no such irregularities occurred and further relaying on specific contractual indemnities provided by the seller, Netia's Management is of the opinion that resolution of the matter will not have a material adverse effect on the Netia Group's financial condition.

Tele2 Polska is a party of various proceedings conducted by UKE, UOKiK and SOKiK concerning compliance of Tele2 Polska's customer agreements and operating practices with relevant laws and regulations. Whilst Tele2 Polska's Management is rigorously defending its position in all these proceedings, some of these proceedings may result in fines or costs being incurred by the Netia Group, although Management does not expect these issues to have a material adverse effect on the Netia Group's financial condition.

Netia's Management believes that all or most of the matters described above will be resolved satisfactorily either through relevant proceedings, commercial settlement or contractual recourse to the seller and will not have a material adverse effect on the Netia Group's financial condition. Based on legal advice and representation from Tele2 Polska Management, the Netia Group believes it has made adequate provisions for these matters in the provisional valuation of Tele2 Polska as at the date of acquisition (see Note 7).

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 12.1 million at the December 31, 2008 exchange rate) increased by the applicable interest is outstanding from Millennium. As on April 24, 2007 Millennium was declared bankrupt. The loan has been claimed by the Company in the bankruptcy proceedings relating to Millennium. The bankruptcy trustee of Millennium accepted Netia's claim against Millennium and registered it on the list of claims in the amount of PLN 65.5 million. The bankruptcy proceeding of Millennium is still pending.

In 2001, a valuation allowance of PLN 17.0 million was recorded as other operating expense against the outstanding amount receivable from Millennium as a result of the events described above.

On April 5, 2005, Millennium filed a claim against Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net"), the subsidiary merged with Netia in July 2006, in connection with the alleged acts of unfair competition of El-Net against Millennium. El-Net filed an answer to the claim on June 6, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On May 27, 2008, the Appellate Court rejected Millennium's appeal against the decision of the District Court issued on December 22, 2006 dismissing Millennium's claim. The decision of the District Court is therefore final and non-appealable.

In July 2005, Millennium filed a motion to secure the claim against El-Net for determination that an agreement between El-Net and Millennium concerning provisions of telephone services and the use of 30,000 telephone numbers by Millennium was not effectively terminated by El-Net. On August 21, 2005, Millennium filed a motion against El-Net in connection with the claim to which the injunction pertained to. El-Net filed an answer to the claim on October 19, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On April 16, 2008, the District Court dismissed Millennium's claim. The decision of the District Court is final and non-appealable. As a result of the decision, the injunction described above, was cancelled by operation of law.

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 October 30, 2007, the Company responded to the suit, requesting dismissal of the claim on the grounds that it was entirely unfounded. The matter is still pending.

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

WiMAX license requirements

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

Tax contingent liability

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.

As a result of a tax inspection conducted in 2008 with the objective of reviewing the accuracy of settlement of the corporate income tax liabilities from 2003, the Company received a post-inspection protocol in which the tax authorities claimed that the Company understated the taxable income generated thereby and its corresponding tax liability for the period subject to the review. The Company commissioned a tax opinion in which the accuracy of the legal basis given by the tax office for the increased liability was negated. Based on this opinion and the own analysis of the circumstances, the Company's Management Board believes that the conclusions of the protocol are unfounded and unjustified. In the opinion of the Management Board the Company has no material overdue tax liabilities in connection with the issues covered by the protocol and it will take all the legal action necessary to negate the conclusions drawn in that protocol. As at the date of these financial statements the Tax Authorities are still assessing Netia's position in regard to the matters raised and no adverse tax decision has been issued. Other than the said protocol, Management is not aware of any other circumstances, that would indicate any threat of material tax liabilities.

41. Subsequent events

Forward transactions

In order to mitigate the currency risk related to the planned payments to be made under the equipment and construction contracts, which are linked to foreign currency, in January and February 2009 the Company entered into several forward transactions to purchase a total of USD 21,650 and EUR 15,180 with expiration dates spread throughout 2009.

***Registration of a subsidiary (not in thousand*)**

On January 30, 2009, the Company subsidiary, Netia UMTS Sp. z o.o. ("Netia UMTS"), was registered in 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 financed the transaction from its own capital. The book value of Netia UMTS in Netia's accounts amounts to PLN 5,000. The acquisition will be treated as a long-term investment.