DIRECTORS' REPORT
NETIA S.A. GROUP
for the year ended December 31, 2008

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This Directors' Report presents the financial results of Netia S.A. ("Netia", the "Company", the "Issuer") and the consolidated financial results for the Netia S.A. Group ("Netia Group").

1 Characteristics of the Netia Group

1.1 The Netia Group's structure

The consolidated financial statements as at and for the year ended December 31, 2008 include the financial statements of the Company and the following subsidiaries:

Netia Spółka Akcyjna UMTS Spółka komandytowo – akcyjna (previously operating under the name Netia Mobile Sp. z o.o.)
InterNetia Sp. z o.o. Group
Tele2 Polska Sp. z o.o. and its wholly-owned subsidiary In2Loop Sp. z o.o.

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

- Interbit Sp. z o.o.
- Netis Sp. z o.o. and its wholly-owned subsidiary Ticom Sp. z o.o.
- Przedsiębiorstwo Informatyczne Punkt Sp. z o.o.
- Connect Systemy Komputerowe Sp. z o.o. and its wholly-owned subsidiary Netster Sp. z o.o.
- Cybertech Sp. z o.o.
- Lanet Sp. z o.o. and its wholly-owned subsidiary Seal-Net Sp. z o.o.
- UNI-Net Sp. z o.o.
- Air Bites Polska Sp. z o.o.
- Easy Com Sp. z o.o.

The Netia Group accounted for the investment in its former associate company P4 Sp. z o.o. ("P4") using the equity method, until the date of receiving a consent of the Supervisory Board of the Company to sign an agreement to sell P4's shares.

Changes within the Netia Group's structure

Decrease of Netia's share in Netia Mobile

On January 21, 2008, the Company sold 1 share of Netia Mobile Sp. z o.o. („Netia Mobile", currently Netia Spółka Akcyjna UMTS Spółka komandytowo – akcyjna) to its subsidiary InterNetia Sp. z o.o. („Internetia"), representing 0,01% of its share capital, for a total of PLN 10. As a result of this transaction, the Company holds 99.99% of Netia Mobile's share capital.

Transformation of Netia's subsidiary

On February 20, 2008 Warsaw Regional Court registered the transformation of Netia's subsidiary, Netia Mobile Sp. z o.o. (a limited liability company), into Netia Spółka Akcyjna UMTS, a limited joint stock partnership (spółka komandytowo - akcyjna).

Sale of investment in P4

On February 22, 2008 the Company concluded an agreement to sell its interest in P4 held by Netia Mobile to Tollerton Investments Limited ("Tollerton") and Novator Telecom Poland S.a.r.l. ("Novator Telecom Poland"). 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 six-month period ended June 30, 2008 amounted to PLN 353,427.

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.

Acquisitions

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.

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 subsidiary:			
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 subsidiary:			
Netster Sp. z o.o. ("Netster").	November 20, 2008	100.0 %	383**
Acquired by Netis Sp. z o.o., InterNetia's subsidiary:			
Ticom Sp. z o.o. ("Ticom").	December 12 , 2008	100.0 %	592
Acquired by Lanet, the Company's subsidiary:			
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. This transaction was an auxiliary element of closing the purchase of Netster's shares.*

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.

Transfer of shares (not in thousands)

On January 31, 2008, the Company transferred the following investments in telecommunications companies to its subsidiary Lanet Sp. z o.o. („Lanet"):

(i) 946 shares in the share capital of Magma Systemy Komputerowe Schmidt i S-ka S.J. ("Magma") with the nominal value of PLN 500 each and the total nominal value of PLN 473,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Magma's meeting of shareholders,

(ii) 100 shares in the share capital of Kom-Net Systemy Komputerowe Sp. z o.o. ("Kom-Net") with the nominal value of PLN 500 each and the total nominal value of PLN 50,000 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at Kom-Net's meeting of shareholders.

These transfers were made in execution of the agreement concluded by Netia and Lanet on January 31, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 400 newly issued shares in Lanet, with the nominal value of PLN 500 and at the issue price of PLN 44,545.43 each, i.e., at the total price of PLN 17.8 million.

On April 29, 2008 the Company transferred ownership of 500 shares in the share capital of Lanet, with the nominal value of PLN 500 each and the total nominal value of PLN 250,000, to its subsidiary Internetia. These shares represent 100% of the share capital and confer the right to 100% of the votes at Lanet's meeting of shareholders. The transfer of the shares was made in execution of the agreement concluded by Netia and Internetia on April 29, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 500 newly issued shares in Internetia, with the nominal value of PLN 500 and at the issue price of PLN 68,200 each, i.e., for a total price of PLN 34.1 million.

On September 8, 2008 Netia transferred ownership of 435,610 shares in the share capital of Uni-Net Sp. z o.o. ("Uni-Net") with the nominal value of PLN 50 each and the total nominal value of PLN 21.8 million to its subsidiary Internetia. These shares represent 100% of the share capital and confer the right to 100% of the votes at Uni-Net's meeting of shareholders. The transfer of the shares was made in execution of the agreement concluded by Netia and Internetia on September 8, 2008. The shares represent an in-kind contribution in exchange for which Netia acquired 280 newly issued shares in Internetia, with the nominal value of PLN 500 and at the issue price of PLN 67,860 each, i.e., for a total price of PLN 19 million.

On October 28, 2008 Świat Internet SA ("Świat Internet"), the Company's subsidiary transferred ownership of 464,000 shares in the share capital of Premium Internet SA ("Premium Internet") with the nominal value of PLN 100 each and the total nominal value of PLN 46.4 million to another fellow subsidiary Tele2 Polska. These shares represent 100% of the share capital and confer the right to 100% of the votes at shareholders' meeting of Premium Internet. The transfer of the shares was made in execution of the agreement concluded by Świat Internet and Tele2 Polska on October 28, 2008. Premium Internet's shares were transferred for the total price of PLN 1.00, while Tele2 Polska took over the balance of Premium Internet's financial liabilities towards its related parties, which totalled PLN 17.3 million (main liability) as at October 28, 2008.

Mergers with subsidiaries

On February 19, 2008 Lanet merged with its wholly-owned subsidiary Akron Sp. z o.o. and on May 30, 2008 Lanet merged with the following subsidiaries:

- 3Vnet Sp. z o.o.
- Ikatel Telekom Sp. z o.o.
- Inet Sp. z o.o.
- KOM-NET Systemy Komputerowe Sp. z o.o.
- Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.
- Ozimek Net Sp. z o.o.
- Verizone Sp. z o.o.
- Zielona Burza Sp. z o.o.

On September 29, 2008 Lanet merged with its wholly-owned subsidiary Kom-Net Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o.

The mergers were carried out through the transfer of the acquired companies' assets to Lanet (merger by acquisition) without any increase in Lanet's share capital and without any share exchanges.

On October 31, 2008 Netia merged with its wholly-owned subsidiaries Świat Internet and Netia Wimax S.A. The mergers were carried out through the transfer of the acquired companies' assets to Netia (merger by acquisition) without any increase in Netia's share capital and without any share exchanges.

On December 31, 2008 Tele2 Polska merged with its wholly-owned subsidiary Premium Internet. The merger was carried out through the transfer of the acquired companies' assets to Tele2 Polska (merger by acquisition) without any increase in Tele2 Polska's share capital and without any share exchanges.

1.2 Information on basic products and services

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"), 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 were acquired during 2008 with a total of 46,103 (not in thousands) customers.

Netia has signed a letter of intent with Telewizja "n", Poland's third satellite TV platform, to offer "n"'s content over IPTV utilising Netia's copper, Ethernet and LLU networks. Laboratory tests and contract negotiations are ongoing with plans for trials and commercial launch of the service enabling Netia to offer a triple play of TV, internet and telephone, during 2009.

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, enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services.

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.

(All amounts in thousands, except as otherwise stated)

The Netia Group's revenues in 2008 and 2007 are presented below:

	Year ended December 31, 2008	Share in total revenues	Year ended December 31, 2007	Share in total revenues
	(PLN)	%	(PLN)	%
Direct voice services	486,781	43 %	369,499	45 %
Monthly fees	*226,436*	*20 %*	122,348	*15 %*
Calling charges	*260,345*	*23 %*	247,151	*30 %*
Indirect voice	56,809	5 %	54,203	6 %
Data	371,582	33 %	242,226	29 %
Interconnection revenue	89,175	8 %	28,517	3 %
Wholesale services	71,905	6 %	53,854	6 %
Intelligent network services	14,726	1 %	14,374	2 %
Other telecommunication revenue	11,148	2 %	8,757	1 %
	1,102,126	**98 %**	**771,430**	**92 %**
Sales of goods	2,506	0 %	2,118	0 %
	1,104,632	**98 %**	**773,548**	**92 %**
Radio communication services	7,762	1 %	7,336	1 %
	1,112,394	**99 %**	**780,884**	**93 %**
Wholesale international voice traffic termination	8,774	1 %	57,141	7 %
	1,121,168	**100 %**	**838,025**	**100 %**

1.3 Sales market (not in thousands)

The Netia Group operates on the telecommunications services market. The market, as far as fixed line telephony services are concerned, decreased from approximately 10,8 million lines at the end of 2007 to 10,7 at the end of 2008 and is believed to be continuing to fall. The penetration of fixed line telephony in Poland was 74,6 % of households at the end of 2008.

Following the market liberalization and introduction of services based on bitstream access (BSA) and wholesale line rental (WLR), the Netia Group is able to offer Internet access and voice services, nationwide, via the TP SA's copper network. As a result, Netia has modified its strategy to focus on this new opportunity. The market for broadband services has increased significantly to an estimated 5,45 mln subscribers at the end of 2008 from 4,7 mln in December 2007. This market has the highest growth of all fixed telecommunication segments and this trend is expected to continue over the next few years. In 2008 household Internet penetration reached 38% and the Netia Group became the main alternative for broadband services to national telecom operator (TP SA). Based on published market share estimates, Netia acquired 26% of broadband net additions during 2008. The Netia Group's broadband subscribers increased to 413,645 at December 31, 2008 from 217,518 a year earlier. The Netia Group estimates that its share of total broadband market subscribers has increased from 4,6% to 7,6% during the past twelve months.

The Netia Group currently offers direct access to the telecommunications services in an area inhabited by approximately 65% of Poland's population. The country-wide backbone network and the ability to upgrade the existing access network allows the Group to broaden its operations, simultaneously obtaining independence from the networks of other operators.

The Netia Group started an important expansion of access and backbone networks in 2006 as a result of the implementation of its WiMAX project. At the end of 2008 telecommunications services based on WiMAX technology using 92 active base stations, were available in 181 cities and towns. The number of WiMAX broadband Internet ports reached 16,834 at December 31, 2008 (up from 5,861 at the end of 2007). Using WiMAX radio base station infrastructure, the Group intends to spread its activities to additional cities and suburbs offering a full scope of telecommunications services (telephony services, Internet access and data transmission).

The Netia Group runs its operations within one geographical area, that is the territory of Poland.

The Netia Group renders its services both to business and residential customers. In 2008 none of the customers exceeded 10% share in the Netia Group's sales. TP S.A. "Łącza" was the largest supplier for the Netia Group (approx. 16% of the turnover). TP S.A. "Łącza" is not a related party to the Company.

(All amounts in thousands, except as otherwise stated)

1.4 Development perspectives for the Netia Group's operations

Growth prospects (not in thousands)

Our key objective is to achieve an established leadership position among alternative telecom operators in the Polish broadband market. We aim to reach one million broadband customers until the end of 2012, predominantly based on Local Loop Unbundling (LLU), wholesale Bitsteam Access (BSA) and Netia's own access network. Our priority in this area is to strongly increase our customer base using LLU access, both by targeting new customers in our LLU coverage areas and by migrating customers from Wholesale Line Rental (WLR) and BSA onto LLU. We expect that those activities will enable us to enhance the profitability of voice and broadband services and will allow us to offer a broader range services to a greater number of our customers. A key priority is to continue to boost the proportion of our customer base taking more than one service from Netia as this drives profitability through the proportionate reduction in back office expenses.

Our aspiration is to comprehensibly meet our customers' communications needs. To achieve that, we have started offering mobile services to our business segment customers since September 2008, both as extension to existing product bundles and as stand-alone mobile services. Owing to the functionality enabled by NGN platform we will be able to offer our customers convergent services (integrated fixed and mobile services), which are an attractive alternative to solutions currently available in the market. In 2009 we also plan to launch IPTV services in cooperation with satellite platform "n", which will be offered in bundles with fixed voice and broadband services. IPTV services will be provided based on our own access network and LLU. Making the IPTV and mobile services available to our customers will enable us to boost the value of our customer base, as well as will contribute to meeting a wider range of our customers' needs and strengthening our relationships with them.

The next element of our strategy is related to maintaining our position in the corporate and carrier segments. We will focus on the most attractive areas in the business segment, aiming to improve profitability in the corporate segment while minimising incremental capital expenditure. In the carrier segment our goal is to increase the utilisation of existing capacity and other assets by selectively pursuing projects that require limited investment.

In September 2008 we finalised the acquisition of Tele2 Polska, which significantly enhanced the scale of our operations and also increased the potential for up-selling of broadband, value-added services and content to Tele2 Polska customer base. We are currently progressing with the integration activities, which will enable us to capture the originally planned synergies from the transaction. Going forward, we may consider further acquisitions, in particular we seek to continue acquisitions of local Ethernet-based networks (concurrently with efforts to maximise the value of already acquired networks) and opportunistically larger altnet players that may become available.

By the end of 2008 we also initiated a cost reduction and efficiency improvement programme. In the coming months we will plan to identify and execute initiatives that will enable us to significantly reduce the cost of operations to help us achieve the targeted EBITDA margin of 20% by 2010 and 25% by 2012.

A critical enabler for successful accomplishment of Netia's growth plans is further transformation of our organisational culture towards one that is characterised by focus on customer needs, entrepreneurship and efficiency. Our objective is to make Netia an organisation that is full of dynamism and initiative, and that is able to effectively face the challenges posed by the market and our competitors.

Network Infrastructure

Deregulation of telecommunication market results in dynamic development of Netia Network both in terms of backbone network capacity and coverage of access networks based on TP SA infrastructure. In parallel to geographical expansion of access networks, backbone network is expanded in new areas based on leased infrastructure from other vendors. Delivery of broadband access to the customers is realized both by capacity upgrades of existing points of interconnect with TP SA and by construction of additional POI enabling delivery of services based on Bit Stream Access regulations. In parallel to BSA extension, construction of LLU access nodes in the TP SA network is under intensive development. Implementation of modern ADSL/VDSL technologies in LLU nodes will enable delivery of advanced services requiring broadband access (i.e IPTV, VoD, VoiP, MPLS).

Development of Netia's own broadband access based on copper infrastructure is focused on implementation of new technologies increasing bandwidth delivered to the customer. Acquisition of many Operators of Ethernet networks generated necessity of upgrade this kind of their infrastructure in terms of capacity delivered to access nodes required by modern services i.e. IPTV and in terms of enabling remote management and automatic service provisioning of new services in these networks. As a result of upgrades Netia Ethernet Networks build in Fiber To The Building technology will be able to deliver up to 100Mb/s capacity to each customer.

2 Major factors for the activities of the Netia Group

2.1 Major risks and threats related to the operational activities

Risk of changes to the Netia Group's strategy

On April 18, 2007 the Company announced the main assumptions of its new operational strategy. Financial guidance regarding this strategy was last updated on October 14, 2008 to take account of the material impact of the acquisition of Tele2 Polska in enlarging the Netia Group. No assurance can be given as to whether new strategic initiatives included in the new strategy, will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

Funding risk

Although Netia has maintained a significant cash surplus over the past few years and the Company's core activities remain cash generative, the Company has recently changed its strategy to one which requires significant investments and start-up losses in order to develop new sources of revenue and to expand Netia's market share. In 2008 Netia received EUR 131,795 for its stake in P4 and paid EUR 31,385 for the acquisition of Tele2 Polska. Furthermore, the Company has raised funding from medium-term senior debt of PLN 375.000, which has not yet needed to be drawn. Whilst these amounts are currently expected to be sufficient for Netia to reach cash flow break-even, no assurance can be given that Netia's plans will be reached as expected and, if performance is significantly below expectations, the Company may need to raise additional financing from financial institutions and or from its shareholders. We cannot guarantee that such funding would be available on acceptable market conditions or at all and, if this proved to be the case, Netia would have to significantly modify its development plans.

Foreign currency risk

Approximately 65% of Netia's typical annual capital investment programme and up to 10% of typical operating expenses are either invoiced in foreign currencies or are invoiced in Polish Złoty based on price lists expressed in foreign currencies. Netia operates a Risk Management Committee that decides, from time to time, to hedge these exposures to foreign currency risks and if so, the proportion of the exposure to be hedged. Whilst Netia's hedging activities are designed always to reduce Netia's exposure to earnings volatility through changes in exchange rates (i.e. Netia does not speculate), we can give no assurance that entering into hedging transactions will result in higher earnings or cash-flows that if we had not hedged the Company's currency exposures.

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

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Novator Telecom Poland II S.a.r.l. („Novator"), is the largest single shareholder of Netia and according to the information furnished to the Company it holds 121,784,294 shares which represents 31.3% of the Company's share capital and 31.3% of the aggregate number of votes at the Company's General Shareholders' Meeting. Third Avenue Management LLC holds 93,720,763 shares representing 24.1% of the Company's share capital and 24.1% of the aggregate number of votes at the Company's General Shareholders' Meeting. The subsidiaries of SISU Capital Limited hold 39,043,006 shares representing 10.0% of the Company's share capital and 10.0% of the aggregate number of votes at the Company's General Shareholders' Meeting. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Issuer in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Issuer cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

Conflict of interests between major and minority shareholders

Novator, as the owner of 31.3% of the Shares, is currently the Company's largest shareholder. Even though the equity stake held by Novator does not entitle it to exercise control over the Company, it nevertheless enables Novator to have a significant degree of influence on key decisions taken by the Company. In particular, Novator may materially influence the composition of the Company's Supervisory Board, especially given the fact that the remaining shareholders do not represent a single unified position. The Company's Statute provides that the consent of the majority of the Company's Supervisory Board members is required to adopt resolutions on key matters affecting the Company's operations.

Any potential conflicts between Novator and the remaining shareholders may adversely affect the operations of the Netia Group.

Risk concerning the liquidity of the market for the Company's shares

Based on information provided to the Company, almost 65 % of Netia's share capital is currently held by three investors each holding at least 5 % of the Company's equity. As these investors have built their positions, we have noted a steady reduction in the average volume of the Company's shares traded on the Warsaw stock exchange. The relatively low liquidity in the market for our shares may make it difficult for a shareholder to sell their shareholding at the previously prevailing market price.

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

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

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

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

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

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

Technological risk

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

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

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

Risk resulting from changes in the Telecommunications Law

The Telecommunications Law transposed the so-called "set of directives 2002" and entered into force on 3 September 2004, with the exception of several provisions, which entered into force on 1 January 2005.

Pursuant to the Telecommunications Law, each public telecommunications network operator is required to conduct negotiations concerning interconnection agreements upon another telecom operator's request. However, the President of the UKE is required to resolve any disputes between the parties to the negotiations by way of an administrative decision, which shall replace the relevant agreement only if one of the negotiating parties is a public telecommunications network operator required to provide the interconnection.

The Polish Sejm is soon to decide on an amendment to the Telecommunications Law. The proposed amendment will introduce new obligations for telecommunications operators. The entry into force of this amendment, specifically with respect to the increased protection for subscribers and new duties regarding national defence and security, public security and the safeguard of the public order, could increase the operational costs of the Group Companies. The Minister of Infrastructure is working on a further amendment to the Telecommunications Law. However, at this stage it is difficult to determine whether and when new regulations will be introduced.

(All amounts in thousands, except as otherwise stated)

Risks resulting from the obligation to provide universal services

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

TP SA applied to the President of the UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs for the period from 8 May 2006 to 31 December 2006 and for the year 2007. The President of the UKE refused to subsidize the costs of services provided by TP SA that form a part of the universal service in 2006. Having considered TP's claim, the court reversed decision of the President of the UKE. The President of the UKE and KIGEiT filed cassation appeals *(skarga kasacyjna)* with the Supreme Court against the unfavourable decision rendered by the court. The Management Board is unable to assure that the decision of the court will be repealed. The proceedings regarding TP's application for a subsidy towards the costs incurred in 2007 have not been closed.

Risks related to holding a position of SMP

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

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

Netia filed an appeal against the Decision of the President of the UKE. The Management Board, however, cannot assure that the Court will repeal the decision of the President of the UKE.
No assurance can be given as to whether Netia will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network.

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

<u>Risks related to amendments to reference offers</u>

TP SA is an operator obliged by virtue of the decision of the President of the UKE to prepare and present for approval draft offers on the telecommunications access that specify frame terms and conditions of contracts on telecommunications access to the network of TP SA for particular wholesale services.

Frame interconnection offer

The President of the UKE approved the "frame offer of TP SA on the telecommunications access with regard to call initiation, call termination, and wholesale network access". The decision was made immediately binding and enforceable. After scrutinizing the motion of TP SA for reconsideration of the case, the President of the UKE issued a decision amending the content of the approved frame offer. The amendments are of an organizational nature. In particular, the President of the UKE did not approve TP SA's request to change fees for services covered in the offer. The Management Board cannot assure that the resulting court proceedings will not result in the UKE's decision being amended or annulled.

Frame interconnection offer with regard to broadband access service ("BSA" or "Bitstream")

The President of the UKE approved "the frame offer of TP SA of the terms of telecommunications access with regard to broadband access service, including the broadband data transmission", which modified the terms of the broadband access that were agreed in the contract between Netia and TP SA. The decision approving the TP's offer was made immediately binding and enforceable. After scrutinizing motion of TP SA and KIGEIT for reconsideration of the case the President of the UKE issued a decision amending the content of the approved frame offer. The amendments are of organizational nature. In particular, UKE did not approve TP SA's request to change fees for services covered in the offer. The Management Board cannot assure that the resulting court proceedings will not result in the UKE's decision being amended or annulled.

Due to the possibility that TP's frame offers, based on which the companies from the Netia Group concluded a contract for telecommunications access with TP SA, and subsequent decisions of the President of UKE replaced or amended the contract, may be withdrawn or amended by UKE or by the Courts, the Management Board cannot assure that the terms on which Netia uses access to the network of TP SA will remain unchanged in the future.

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

The terms and conditions under which the companies from the Netia Group use the services regarding telecommunication access to the network of TP SA with respect to particular wholesale services, which in a significant part arise from decisions of the President of the UKE. These decisions amend or replace contracts with TP SA on telecommunications access.

Interconnection

The rendering of telecommunications services by the Netia Group is dependent on the possibility of accessing the telephony network of TP SA. Except for some cases, calls initiated in Netia's network ending outside this network, including the majority of international and domestic long distance calls by subscribers of the Netia Group companies, are - due to technical reasons - executed via the network of TP SA. According to the provisions of the Telecommunications Law TP SA is required to connect companies such as Netia to its network.

In the past Netia has had many disputes with TP SA over interconnection, in particular in relation to the interconnection agreements of its former subsidiary El-Net (now merged with Netia SA). In order to avoid further disputes and to prevent conflict escalation, in December 2006 Netia concluded an agreement with TP SA on closing all disputed issues. Finally, on June 30, 2007 Netia and TP SA concluded contracts related to interconnection that thoroughly regulate the cooperation between operators.

At the request of Netia the President of the UKE issued a decision to modify the contract for interconnection with regard to the amount of a flat interconnection fee, applied for the settlement of the traffic, as specified in the decision, directed to flat rate interconnection points of Netia and TP SA. TP appealed from the aforementioned decision of the President of the UKE to the court. The Management Board cannot assure that this decision will not be reversed or annulled.

On 4 August 2008 the President of the UKE issued the decisions refusing to change the fees for that service in line with the motion of TP SA. TP SA appealed to the SOKIK against the decision issued to Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of a merger on 31 December 2008. Despite being of the opinion that the decision of UKE is valid, the Management Board cannot assure that SOKIK will not accept claims raised by TP SA in the appeal.

Wholesale network access service of TP SA (WLR)

SOKiK reversed the decision of the President of the UKE specifying the rules of using by Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of the merger effective as of 31 December 2008, the wholesale network access service of TP SA. The above Court's decision has been appealed against. Despite the deep conviction of the legitimacy of the appeal charges, the Management Board can not assure that the Court of Appeal will change the judgment of the SOKIK, potentially invalidating the Premium Internet WLR decision.

The President of the UKE has issued to Netia SA decision allowing wholesale network access service of TP SA. On the basis of this decision, Netia filed to TP SA a binding statement on the use of WLR services on the terms that follow from the Decision on WLR Lines of Tele2 Polska, with the consent of this company. As a result of this statement Netia SA took over the provision of WLR services on WLR Lines of Tele2 Polska.

Despite of their opinion that the decision of UKE in favour of Netia SA is valid, the Management Board cannot assure that following court proceedings the above decision will not be amended or annulled.

Bitstream Access

TP SA has appealed against decisions issued by the President of the UKE to SOKIK:

- the decision that modified the contract between Netia and TP SA dated 15 September 2006 on the access to the local loop by access to nodes of telecommunications network for the sale of broadband data transmission ("BSA services"). In that decision, TP SA was obliged to change rules for calculating the termination fee in case of resignation of the service on a given subscriber line;
- the decision that modified rules for calculating remuneration for TP SA for the BSA services provided to Netia. Rules were modified by raising the bulk rebate for the special version of the service (i.e., provided on the basis of the periodic contract) from 41% to 51%;
- the decision which introduced the rebate of 51%, and modified rules for calculating remuneration for TP SA for the BSA services provided to Tele2 Polska. Rules were modified by raising the bulk rebate for the special version of the service (i.e., provided on the basis of the periodic contract) from 41% to 51%.

Despite their opinion on the validity of UKE's decisions, the Management Board cannot assure that SOKIK will dismiss the appeals of TP SA and that it will not annul above decisions.

Risks related to requests from TP SA to change the obligations with respect to telecommunications access

Interconnection

TP SA has requested from Netia renegotiation of fees for call termination in the fixed public telephone network of Netia. Despite the lack of legal obligation to follow the motion of TP SA, the Management Board may provide no assurance that the President of the UKE will not consider that Netia's fees should be aligned with the fees paid to TP SA.

In letters from October 2008 TP SA requested from Netia and Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of the merger effective as of 31 December 2008, renegotiation of fees for AUS services, provided within the framework of agreements regarding number portability as well as the fees for the use of collocation services, all set forth in the interconnection contracts between TP SA and Netia and Premium Internet respectively. Despite their opinion that the request of TP SA in the above motions are ungrounded, the Management Board cannot assure that in case TP SA applies to the President of the UKE for a decision in this matter, the regulator will not accept the above motions of TP SA and will change the terms of settlements between Netia and TP SA and Premium Internet SA and TP SA for the above services.

Wholesale network access service of TP SA (WLR)

In October 2008 TP SA informed Netia in writing about the interest of TP SA in the provision of "[…] services of wholesale network access offered by Netia SA". Unlike TP SA, Netia is not subject to obligations to provide telecommunications network access to other operators, so despite the vagueness of the TP SA's request, the Management Board is definitely of the opinion that there is no basis for such obligations. The Management Board cannot, however, assure that in case TP SA applies to UKE, the regulator will share the opinion of the Management Board that TP SA's request is without any basis.

With the motion dated October 2008 TP SA requested from Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of the merger effective as of 31 December 2008, renegotiation of fees for using WLR services. The Management Board is of the opinion that TP SA's request is groundless. However, the Management Board cannot assure that the regulator will not accept the above motions of TP SA and change the terms of settlements with TP SA.

Bitstream Access

With motions dated October 2008 TP SA requested Netia to renegotiate fees for access to the local loop. The Management Board is of the opinion that the request of TP SA in the above motions are ungrounded, however, the Management Board cannot assure that in case TP SA applies to the President of the UKE for a decision in this matter, the regulator will not accept the above motions of TP SA and change the terms of settlements between Netia and TP SA and PI SA and TP SA for the above services.

In October 2008 TP SA informed Netia in writing about the interest of TP SA in the provision of "services of access to the local loop […] offered by Netia SA". Unlike TP SA, Netia is not subject to obligations to provide telecommunications network access to other operators, so despite the vagueness of the TP SA's request, the Management Board is definitely of the opinion that there is no basis for such obligations. The Management Board cannot, however, assure that in case TP SA applies to UKE, the regulator will share the opinion of the Management Board that the TP SA's request is without any basis.

The Management Board cannot guarantee that new sources of dispute with TP SA will not emerge in the future and, if they do emerge, whether these will have a material impact on the business of the Netia Group.

Risks related to the Tele2 Polska's business

As a consequence of the acquisition of shares in Tele2 Polska in September 2008, the Netia Group has assumed a significant part of financial risks related to its business.

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

Interconnection

TP SA appealed against the Decision of the President of the UKE dated 4 November 2004, that specified conditions of the contract for interconnection between Tele2 Polska and TP SA dated 19 December 2002, with regard to long - distance and local connections. The Appellate Court reversed the decision of the Court for the Protection of Competition and Consumers ("SOKIK") that dismissed the appeal of TP SA and remanded it for a de novo hearing. TP SA appealed also against the Decision of the President of the UKE that specified conditions for the use of "Flat Rate" service by Tele2 Polska. The Management Board cannot assure that the SOKIK will dismiss the appeals of TP SA.

Wholesale network access service of TP SA (WLR)

The President of the UKE issued a decision specifying conditions for the use by Tele2 Polska of the wholesale network access to TP SA on the conditions of the "frame offer of TP SA on the telecommunications access with regard to call initiation, call termination, and wholesale network access" approved by UKE in the decision dated April 8, 2008. TP SA appealed to SOKIK against that decision. Despite being of the opinion that the decision of UKE is valid, the Management Board cannot assure that the SOKiK will reverse the appeal of TP SA and that it will not annul that decision or will not stay the enforcement of it.

Bitstream Access

The President of the UKE issued decisions modifying the contract concluded between Tele2 Polska and TP SA on access to the local loop by way of accessing nodes of TPSA's telecommunications network for the purpose of sales of broadband data transmission services. Despite their opinion on the validity of these decisions, the Management Board cannot assure that following court proceedings the above decision will not be amended or annulled.

Risks related to the TP SA's requests to change its obligations with respect to telecommunications access

Interconnection

TP SA requested the President of the UKE to modify the contract for interconnection concluded with Tele2 Polska with respect to directing traffic to PSI bundles. The Management Board cannot assure that the President of the UKE rejects the aforementioned TP SA requests as unfounded and refrain from amending the interconnection agreement between TP SA and Tele2 Polska as requested by TP SA.

Wholesale network access service of TP (WLR)

TP SA appealed against the decision of the President of the UKE refusing the request made by TP SA to change the fees for WLR services provided to Tele2 Polska. The Management Board cannot assure that following court proceedings the decision of UKE will not be reversed or annulled.

Risks related to TP SA's claims for damages

TP SA filed a claim against Tele 2 Polska demanding the payment of PLN 59,091 as damages for applying WLR fees specified in decision of UKE dated 29 December 2006, which has been overturned by SOKiK in the first instance court. The decision of SOKiK has been already appealed against and is therefore not binding. Despite the deep conviction of the legitimacy of the appeal charges, the Management Board can not ensure that the Court of Appeal will change the judgment of the SOKIK.

In the opinion of the Management Board, reached on the basis of an external legal opinion, the TP claim raised against Tele 2 Polska is groundless. The Management Board cannot assure, however, that the court will recognize the groundlessness of TP's claim.

TP SA requested from Tele2 Polska to pay damages in the total amount of PLN 12 million for directing on the basis of the interconnection contract "forbidden" traffic to PSI bundle. Despite circumstances that allow to treat this claim as ungrounded, the Management Board cannot assure that in case of a court dispute, the court will not approve this claim in whole or in part.

Risks related to regular inspection procedures and the procedures regarding the practices infringing the collective consumer interest

The President of the UKE is currently holding proceedings that may result in fining Tele2 Polska for the exchange of traffic between Tele2 Polska and TP SA in breach conditions for the so-called flat interconnection arrangements.

In addition, UKE is examining Tele2 Polska's practices in implementing the subscribers' rights to retain his/her number when using the services of wholesale access to the network of TP.

The fines which may be imposed by the President of the UKE in the aforementioned proceedings cannot exceed 3% of the income gained by Tele2 in the preceding calendar year. Any fine imposed may be appealed against. The Management Board cannot assure that the President of the UKE will take under consideration explanations of Tele2 Polska and consider them sufficient for deciding that the case is without basis.

In December 2008 the President of the Office for the Protection of Competition and Consumers (UOKiK) issued a decision in which he stated that Tele 2 Polska had breached the collective consumer interest by charging a fee of PLN 100 to its consumer clients for early termination of agreements concluded for a specified term. In the decision the President of UOKiK imposed on Tele 2 Polska a fine of PLN 3,978,380. With respect to the imposed fine, the decision of the President of UOKiK was not made immediately binding and enforceable. Tele2 Polska has appealed against the said decision.

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

Before SOKIK and the Appellate Court there are proceedings with regard to practices of Tele2 Polska infringing collective interests of consumers and for holding clauses of terms and conditions and price lists as abusive.

The Management Board cannot assure that as a result of these procedures, the companies will not be obliged to amend their standard contracts or will not be subject to a fine from UOKiK in case the court finds a practice infringing collective interests of consumers.

The Appellate Court rendered a decision in which it held that the standard terms and conditions and price lists applied by Tele 2 Polska are abusive with respect to an obligation of a consumer subscriber to reimburse the operator for the costs of requests for payment and debt collection proceedings. The decision of the appellate court is final and binding. Therefore Tele 2 Polska is obliged to amend the standard contracts. The Management Board cannot assure that as a result of the aforementioned decision, the Netia Group will not incur further costs regarding possible private claims for reimbursement.

Other regulatory risks

The President of the UKE is regularly carrying out inspections of Netia's compliance with the provisions of the Telecommunications Law. To date, none of these inspections have ended with a monetary penalty.

The Management Board can not also assure that with regard to all inspection procedures UKE agrees that the position of Netia and the activities undertaken on its basis by the Netia Group are consistent with regulatory requirements and the law.

Risk of increased competition

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

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

TP SA occupies a leading position among wireline telephone service operators in Poland. At the same time, it enjoys a stable position on the market for data transmission. Within the scope of wireline telephone services, the Netia Group encounters competition from TP SA in all the geographic areas in which it operates. TP SA is a much larger entity than the Netia Group and possesses a much wider backbone and access networks. It enjoys long-established relationships with many customers which the Netia Group considers its target customers, including many companies operating in areas where the Netia Group conducts its business activities. The infrastructure used by TP SA in these areas is comparable to the infrastructure of the Netia Group in terms of the technologies employed.

Moreover, TP SA still maintains a leading position among operators of domestic long-distance calls, which enables it to offer more flexible tariffs. It is difficult to predict what policies TP SA will pursue with regard to tariffs, the selection of target markets and arrangements concerning access to its infrastructure and interconnections as a reaction to the extension of the network by the Netia Group and more intense competition from the Netia Group in various areas of the country. However, the Management expects that TP SA will compete with the Netia Group on prices and for the most attractive customers. In the past, the Netia Group was forced to lower its prices in order to attract new customers and retain the current ones, and such measures may also be necessary in the future. The Management expects that TP SA will maintain a strong competitive position against the Netia Group in most geographic areas where the Netia Group provides telephone services, and will continue to compete with the Netia Group in other fields, including data transmission services and internet access. It is possible that aggressive competition from TP SA will materially and adversely affect the revenues of the Netia Group and the results of its operating activity.

TP SA owns most local loop access networks and has, in the past, offered other operators access to the network of these local loops on terms that, in many cases, render the addition of a customer to the network too expensive. However, during the course of 2006 a new telecommunications regulator has issued decisions creating unified offers in the area of regulatory access to the TP SA network which Netia currently considers to be commercially viable. As a result, in 2006 the Netia Group signed a new cooperation agreement with TP SA that allows Netia to offer Internet access to TP SA's customers using a regulated TP SA wholesale service known as bitstream access. In January 2007 President of UKE issued a decision changing an interconnect agreement between TP SA and Premium Internet SA., the Company's subsidiary, regarding wholesale line rental (WLR). This decision constituted the basis for a new type of access to TP SA's network, enabling the Netia Group to offer voice services to TP SA customers. Moreover, in April 2007 the Company concluded an agreement with TP SA on local loop unbundling. The Netia Group uses local loop unbundling in providing voice and data services and in the future intends to offer differentiated value added services such as IPTV. Whilst key commercial terms of these services, as set by the regulatory decisions, are currently commercially attractive, operational cooperation with TP SA in order to provide and maintain such services to end customers needs to be much more coordinated than has been the case in the past. The Management can give no assurance that TP SA will provide the required level of cooperation or that the regulator will respond by effectively enforcing TP SA's cooperation. Furthermore, we can give no assurance that market developments, future court judgments or future regulatory decisions may not render the current opportunities to reach customers via TP SA access networks no longer commercially viable.

TP SA may decide to build a new generation network

The most modern fixed line telephony networks being deployed around Europe by incumbent operators like TP SA utilize fiber to the curb (FTTC) or fiber to the home (FTTH) to significantly increase bandwidth and all IP networks that eliminate the traditional telephony switches and digital splitter (DSCAMs). Moreover, many incumbents are lobbying to receive relief from regulatory obligations for a period of time in order to improve their returns from such large investments. Such new generation networks (NGNs), if deployed in Poland, could materially deteriorate the economic returns Netia plans to earn from regulatory access products such as bitstream, WLR and LLU. Management can give no assurance that TPSA will not finally chose to deploy such a NGN network and, if it does so, whether the regulator will ensure alternative network operators such as Netia enjoy fair access to such a network on acceptable economic terms.

Competition from other independent operators

According to the regulations in force before January 1, 2001, the Minister of Telecommunications granted licenses for the provision of local telecom services within a given geographic area (usually within a given numbering zone) to one private operator (apart from TP SA). Obtaining licenses usually entailed significant investments. Pursuant to the New Telecommunications Law, telecommunications activity may be pursued on the basis of an entry in the Register of Telecommunications Providers kept by the President of the UKE. Therefore, the Netia Group expects the number of operators active in the areas in which it conducts its activities to increase. In 2003 there was a swap of license fee liabilities of the then-operating subsidiaries of the Netia Group, and in the case of the fees which El-Net was required to pay, the swap for capital expenditures took place in 2006. However, the license fees installments paid prior to the change in the Telecommunications Law have not been repaid to Netia. Operators who have not paid license fees and, therefore, do not need to recover the costs of such license fees, hold a competitive advantage.

In some areas in which the Netia Group operates, there are large institutions with their own internal telecommunications networks (where the users of the telecom services of such institutions include, additionally, the inhabitants of the given area), which reduces the potential revenues that the Netia Group could generate in these areas, and such operators may be a potential source of competition in the future.

Competition from cellular mobile telephone operators

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

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

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

Other sources of competition

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

Market consolidation

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

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

Strategic importance of P4 to Netia's future development

The successful development of P4 into an important player on the Polish mobile market, having significant market share and being able to self-finance its continued development is in turn important for Netia with respect to being able to achieve its own development plans. The successful and profitable implementation of the Transmission Agreement with P4, under which Netia is providing substantially all the transmission services for the initial roll-out of P4's UMTS network depends on P4's long term ability to build out its network and meet its obligations to Netia. The carrying value in Netia's accounts of the transmission network built by Netia for P4 to lease is dependent on P4's financial situation, P4 Management's willingness to continue using Netia's services and any mobile market consolidation that might include P4.

The Management can provide no assurance that P4 will develop in accordance with its current business plans and, should P4 underperform those plans, this may have a material financial impact upon the results and cash flows of Netia from its commercial agreements with P4 and may also limit Netia's opportunities to grow its own fixed line and mobile service provider activities. No assurance can be given that Netia can find an alternative supplier of wholesale mobile services on acceptable financial terms or at all if P4 ceases to operate or is sold to another owner.

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 regulations and their interpretation

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 its 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.

2.2 Factors and events having a significant influence on the operations of the Netia Group and the financial results achieved in 2008

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

On February 22, 2008 the Company concluded an agreement to sell its interest in P4 held by Netia Mobile to Tollerton and Novator (for details see point "Agreements essential for the Netia Group's operations"). 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.

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.

(All amounts in thousands, except as otherwise stated)

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 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 gain on disposal of the IVT activities recognized in the consolidated income statement for the year ended December 31, 2008 amounted to PLN 5,093.

Acquisition of Tele2 Polska

On September 15, 2008 the Company finalised the purchase of 100% interest in Tele2 Polska, 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. 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 purchase price also includes PLN 2,110 of restricted cash to be reimbursed to the seller if it is released by the Court.

The acquisition of Tele2 Polska is a transformational move in realizing Netia's mass market strategy. Netia forecasts an increase in its annual revenue base by over 40%, becoming nearly 3 times larger by revenue than the next largest altnet. The combined business gains significant scale over Netia's stand-alone operations and significant potential to upsell Netia's broadband, value added and content services to Tele2 Polska's voice clients. Following early progress on marketing and sales synergies, in 2008, Tele2 Polska contributed revenues of PLN 129,466 and profit of PLN 21,006 to the Netia Group's results.

Acquisitions of Internet service providers (not in thousands)

In 2008 the Netia Group continued to acquire Internet service providers with a combined total of 46,103 broadband customers (37,362 in 2007). The total purchase consideration for these network operators was PLN 49.3m, including PLN 4.8m in transaction costs and management fees. Including these transactions and the organic growth post-acquisition, Ethernet networks acquired by the Netia Goup since mid-2007 provided broadband access to a total of 90,507 mostly residential customers as of December 31, 2008, with approximately 304,000 homes passed. The acquired in 2008 businesses contributed revenues of PLN 4.9m and loss of PLN 0.3m to the Netia Group's 2008 financial results. The acquisitions are part of Netia's strategic objective to acquire one million broadband customers and up-sell voice services to the existing subscriber base of each acquired Ethernet provider. Post acquisition, Netia works to increase penetration of Ethernet services within its addressable market defined by the number of homes passed and doing so has added 9,110 subscribers.

Operational data (not in thousands)

Broadband

Broadband subscribers increased to 413,645 at December 31, 2008 from 217,518 a year earlier. By the end of 2009, Netia aims to reach approximately 525,000 broadband subscribers through further organic growth, with potential for a higher figure due to further Ethernet networks acquisitions. Netia provides its broadband services using the following technologies:

Number of broadband ports	**2008**	**2007**
xDSL and FastEthernet over Netia's own fixed-line network	171,933	111,223
Bitstream access	227,441	99,346
WiMAX Internet	12,110	5,861
LLU	1,320	-
Others	841	1,088
Total	**413,645**	**217,518**

Broadband ARPU was PLN 60 in Q4 2008 as compared to PLN 75 in Q4 2007. The year-on-year decline in broadband ARPU reflects the growing proportion of residential customers in the customer mix. Broadband ARPU is expected to continue to trend downward as Netia continues to add residential broadband subscribers.

Broadband SAC increased to PLN 196 in Q4 2008 from PLN 164 in Q3 2008, impacted by the first full quarter of consolidating Tele2 Polska's costs. The increase was driven by Tele2 Polska's acquisition costs structure. As the integration proceeds, management expects the cost structure to shift more in line with Netia's and for SAC to fall again as a result.

Local loop unbundling (LLU)

Netia connected its first clients through an unbundled TP loop under a pilot project in Warsaw during December 2007, and the soft launch of LLU-based services was made in Q1 2008. As at December 31, 2008 Netia had 133 unbundled nodes. Netia is targeting to unbundle 300 nodes by 2009 year-end, reaching approximately 2.6m customer lines.

Following the commencement of commercial sales on the first few nodes during Q2 2008, Netia served 1,320 2play customers over LLU as at December 31, 2008 and the observed sales rates per operational node per month are accelerating.

On December 1, 2008, the Regulator announced a new Reference Unbundling Offer (RUO), which significantly reduces the amount of monthly and activation fees paid to the incumbent for the LLU access and allows for the migration of clients from BSA/WLR to LLU during the term of the existing BSA/WLR contracts with the incumbent. According to the new RUO, the monthly fees for full LLU access (with both internet and voice services being provided by an altnet) were reduced from PLN 36 to PLN 22. The monthly fees for shared LLU access (with only Internet services being provided by an altnet) were reduced from PLN 13 to PLN 5.81. The one-time installation fees were reduced to PLN 55.51 from PLN 182 and PLN 204 for shared- and full LLU access, respectively.

Netia expects to be able to migrate existing bitstream (1play) and BSA/WLR (2play) customers to its higher margin LLU services at the turn of Q2 and Q3 2009, following the successful completion of ongoing migration tests with TP. By the end of 2009, The Company plans to migrate more than 20,000 BSA and WLR clients to LLU.

Voice lines (own network and WLR)

Voice lines (own network and WLR (wholesale line rental)) totalled 1,065,516 at December 31, 2008 as compared to 421,752 at December 31, 2007. By the end of 2009, Netia aims to have approximately 1,150,000 voice subscribers (own network + WLR), with the increase acquired organically. The year-on-year increase in the number of voice lines resulted mainly from growth within WLR-based voice services. Of the total 672,969 WLR customers served at December 31, 2008, 500,234 represent the customer base of Tele2 Polska acquired in Q3 2008 and 172,735 were acquired organically. Netia began offering WLR during Q4 2007, selling to both voice-only customers and bitstream broadband customers as a 2play offering. The Company intends to up-sell its broadband services to the newly acquired Tele2 Polska voice customers and move several thousand of them from WLR to either Netia's own networks or to LLU, further improving gross margins on the services provided.

Netia provides its voice services through the following types of access:

Number of voice lines	**2008**	**2007**
Traditional direct voice	364,722	377,104
Incl. ISDN	*127,304*	*113,704*
Incl. Legacy wireless	*40,742*	*44,755*
Voice over IP	11,921	2,495
WiMAX voice	15,904	11,025
WLR	672,969	31,128
Total	**1,065,516**	**421,752**

Voice ARPU per WLR line amounted to PLN 56 in Q4 2008 as compared to PLN 13 in Q4 2007. The rising ARPU reflects the start-up nature of Netia's organic growth and the higher ARPUs generated by Tele2 Polska's more mature WLR customer base.

Voice ARPU per Netia network subscriber line amounted to PLN 67 in Q4 2008 as compared to PLN 75 in Q4 2007. The decrease reflects overall tariff reduction trends and seasonal factors reducing business customer call volumes.

Blended voice ARPU decreased by 18% to PLN 60 in Q4 2008 from PLN 73 in Q4 2007. The decrease reflects overall tariff reduction trends and the inclusion of more WLR customers into the subscriber mix.

Indirect voice

CPS lines (carrier pre selection) totalled 176,035 at December 31, 2008 as compared to 33,317 at September 30, 2007. This included 158,729 indirect voice customers from Tele2 Polska. Netia is focused on the conversion of Tele2 Polska's CPS customers to WLR and is not actively acquiring new CPS customers.

Indirect voice ARPU per CPS line decreased by 72% to PLN 39 in Q4 2008 from PLN 142 in Q4 2007 due to the inclusion of Tele2 Polska's largely retail subscriber base into the subscriber mix. CPS clients are not accounted for in the total Netia voice subscriber base of 1,065,516 clients as at December 31, 2008.

2.3 Agreements essential for the Netia Group's operations

Annex to Shareholders' Agreement (not in thousands)

On February 1, 2008 the Company executed an annex (the "Annex") to the Shareholders' Agreement of P4. The Annex was executed in order to establish the basis upon which the shareholders will provide equity contributions to finance P4's current operations in 2008.

The Annex related to further equity contributions above the initial EUR 300 million and applied to amounts of up to EUR 150 million that might be contributed to P4 during 2008. Netia had agreed to accept such share capital increases and not to contribute any new equity itself before July 1, 2008. Netia had agreed a valuation for its then existing 12,519 shares in P4 of EUR 130 million for purposes of calculating the capitalization of P4 and the dilutive effect on Netia's shareholding that would result from Novator and Tollerton subscribing for new shares without Netia's participation until September 30, 2008. Should Netia continue to decline to contribute to new share issues after October 1, 2008, a new valuation of Netia's stake shall be established at that time.

Agreement to sell the investment in P4 (not in thousands)

On February 22, 2008 the Company concluded an agreement to sell the 23.4% interest in P4 held by the Company's subsidiary, Netia Mobile (currently Netia Spółka Akcyjna UMTS S.K.A) to Tollerton and Novator.

Following negotiations, the Company, Tollerton and Novator signed a binding agreement in which the Company agreed to sell P4 on the following terms:

(i) the price of EUR 130 million, 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 completion of the transaction was dependant on the satisfaction or waiver of the following conditions precedent:

(i) the Company and Netia Mobile receive from China Development Bank, Comverse Limited and Huawei the release and confirmation of the full discharge from all obligations and liability of the Company and Netia Mobile under the CDB Facility Agreement and subordinate agreements. The Company is entitled to waive this condition and upon such waiver Tollerton, Novator will be obliged to indemnify the Company and Netia Mobile for all loses incurred under the CDB Facility Agreement and subordinate agreements;
(ii) the Company receives confirmation from P4's Facility Agent stating that the Facility Agent has received a duly-executed Accession Deed together with the documents required by the Share Retention Agreement. By executing the Accession Deed the new shareholder of P4 assumes all rights and duties of the former shareholder under the Guarantee and Share Retention Agreement;
(iii) the audited financial statements of Novator One L.P. indicate that its net assets comply with the required net asset level as specified in the Share Retention Agreement;

The sale agreement does not contain clauses regarding contractual penalties.

For further details see point "Factors and events having a significant influence on the operations of the Netia Group and the financial results achieved in 2008".

Agreement to buy an interest in Tele2 Polska

On June 29, 2008, the Company concluded an agreement to buy a 100% interest in Tele2 from Tele2 Sverige AB, a company incorporated under the laws of Sweden (the "Seller"). Following negotiations, the Company and the Seller signed a binding agreement in which the Seller agreed to sell to the Company its shares, on the following terms:

(i) a price of EUR 31,385 payable in cash on closing, to be adjusted for the difference between actual net cash and net working capital levels and their respective target levels (amounting to EUR 2,285 with respect to net cash);
(ii) an additional amount payable to the Seller in installments within 12 months from closing in accordance with the formula set forth in the Agreement but not exceeding EUR 4,800;
(iii) a contractual penalty in the maximum amount of EUR 8,000 in the event the Seller violates the prohibition on competition in the territory of Poland within three years from the closing of the transaction. The contractual penalty does not preclude the possibility of suing for damages suffered.

The completion of the transaction was dependant, among others, on the satisfaction of the following conditions precedent:

(i) the Company obtains a decision from the President of the UOKiK granting consent for the acquisition of Tele2 Polska;
(ii) the take over by the Company of obligations under the guarantee issued by the Seller for the benefit of Polkomtel SA; and
(iii) there is no material adverse change.

For further details see point "Factors and events having a significant influence on the operations of the Netia Group and the financial results achieved in 2008".

Credit facility agreement

Credit facility agreement has been described in detail under the point "Loans Agreements".

3 Financial condition of the Netia Group

3.1 Consolidated balance sheet

As at December 31, 2008, non-current assets amounted to PLN 1,887,639 (83% of total assets) and increased by 3% as compared to the end of 2007. This was mainly attributable to an increse of intangible assets (goodwill and customer relationships) relating to the acquisition of Tele2 Polska and ethernet companies, partially offset by derecognition of investment in associate being a consequence of sale the Netia Group's interest in P4 (see point "Factors and events having a significant influence on the operations of the Netia Group […]").

Current assets at December 31, 2008 in the amount of PLN 395,847 increased by 68% as compared to PLN 235,584 at the end of 2007. The change was mainly attributable to the higher amount of cash and cash equivalents, which increased by PLN 134,985 throughout the year (see "Consolidated cash flow statement." below) and an increase in trade and other receivables due to Tele2 Polska acquisition. It was partially offset by the reclassification of Company's former head office from non-current assets held for sale due to the Management decision to hold it as long-term investment instead of selling it.

As at December 31, 2008, the equity amounted to PLN 1,928,481, comprising 84% of total equity and liabilities and increased by 12% as compared to the end of 2007 (the main factors influencing the net result are described in point "Factors and events having a significant influence on the operations of the Netia Group […]")

Non-current liabilities amounted to PLN 27,335 and decreased significantly as compared to PLN 101,416 at the end of 2007, mainly due to the repayment of credit facility as discussed in 'Loan agreements".

As at December 31, 2008, current liabilities amounted to PLN 327,670 and increased by 36% as compared to the end of 2007, mainly due to the higher level of accrued expenses, provisions and deferred income following Tele2 Polska acquisition.

3.2 Consolidated income statement

Revenue rose by 34% from PLN 838,025 for 2007 to PLN 1,121,168 for 2008. Excluding revenue from the IVT (international voice termination) activities sold in Q1 2008, revenues rose by 42% to PLN 1,112,394 from PLN 780,884 in 2007. From this growth, PLN 129,466 or 17 percentage points were contributed by Tele2 Polska and consolidated by Netia in its financial results beginning September 15, 2008. The remaining 26 percentage points of growth resulted from Netia's broadband-driven growth strategy.

Data revenue increased to PLN 371,582, up by 53% from PLN 242,226 in 2007, of which 36 percentage points were attributed to broadband related organic growth, 8 percentage points to acquisitions of Ethernet operators and 10 percentage points to data transmission connections sold to P4. Revenues from direct voice services increased by 32% to PLN 486,781 from PLN 369,499 for 2007, supported by the rapid organic addition of WLR voice customers in Netia and the subsequent acquisition of Tele2 Polska.

The overall revenue increase was also supported by higher interconnection revenues (an increase of 213% or PLN 60,658), driven mostly by the introduction of the new interconnection agreement with TP from Q4 2007 and transit traffic carried to mobile networks.

Wholesale revenue from continuing activities rose by 33% from PLN 53,854 to PLN 71,905. The IVT activities excluded from the above analysis, sold during Q1 2008, amounted to PLN 57,141 in 2007 versus PLN 8,774 in Q1 2008 prior to disposal.

Cost of sales increased by 29% to PLN 823,513 from PLN 637,552 for 2007 and represented 73% of total revenue as compared to 76% in the previous year. This increase resulted from higher level of network operations and maintenance costs (driven by the costs of bitstream and WLR wholesale access, the new Ethernet networks and additional leased lines to large business customers) and interconnection charges (mainly as a result of the introduction of the new interconnect regime with TP as of Q4 2007 that eliminated the bill-and-keep arrangement for local calls and consolidating Tele2 Polska's interconnection costs as of September 15, 2008).

Gross profit for 2008 was PLN 297,655 as compared to PLN 200,473 for 2007. Gross profit margin increased to 26.5% from 23.9% for 2007.

Selling and distribution costs increased by 37% to PLN 275,185 from PLN 201,170 for the previous year and represented 25% of total revenue as compared to 24% in 2007. Expenditures associated with the acquisition of WLR customers in addition to broadband customers is the main cause of the increased spending.

General and administration costs remained almost flat at PLN 146,270 as compared to PLN 144,751 for 2007 and represented 13% of total revenue as compared to 17% in 2007 which demonstrates efficiency gains made by leveraging economies of scale. Certain categories of general and administrative expenses were reduced year over year due to successful cost saving initiatives.

Other income was PLN 11,599 as compared to PLN 41,315 in 2007. Other income recorded for 2007 included PLN 24,239 related to the Company's settlement of interconnection disputes with TP.

Other gains/(losses), net were PLN 12,942 as compared to PLN 5,361 in 2007 and included a gain of PLN 5,093 recorded in Q1 2008 on the disposal of certain assets of Premium Internet SA comprising its IVT activities and a gain of PLN 6,214 on property sales in Q2 2008.

EBITDA was PLN 170,641 as compared to PLN 170,682 for 2007. EBITDA margin was 15.2% as compared to 20.4% for the previous year. The falling EBITDA margin reflects the increased importance of regulated access services to the revenue base and, in particular, the acquisition of Tele2 Polska's regulated access business.

Operating loss (EBIT) was PLN 99,706 as compared to operating loss of PLN 103,840 for 2007 and was driven by the reduced net loss from the broadband and WLR expansion and the Tele2 Polska acquisition, offset by lower one-off gains than in the previous financial year.

Net finance income was PLN 830 as compared to net finance income of PLN 2,477 in 2007 and was related mainly to interest earned on net cash balances.

Gain on disposal of P4 shares of PLN 353,381 was recorded in Q2 2008. Consequently, share of losses of associates was PLN 22,625 as compared to PLN 165,237 in 2007 and was related to Netia's equity participation in the P4 mobile venture. Netia ceased to consolidate its share of P4 loss from February 2008.

Profit was PLN 230,605 for 2008 full year as compared to loss of PLN 268,881 for 2007 and was driven mainly by a one-off gain from the disposal of P4 shares. Tele2 Polska contributed profit of PLN 21,006.

3.3 Consolidated cash flow statement

Net cash generated from operating activities amounted to PLN 166,310 for 2008 and decreased by 23% as compared to 2007. The decrease was due to the relatively high inflow from working capital in 2007 resulting from TPSA settling interconnection disputes with Netia.

Net cash used for the purchase of fixed assets and computer software increased by 10% to PLN 258,620 for 2008 from PLN 235,382 for 2007 due to a net reduction in fixed asset payables. Investments in existing network and IT combined were up by 1% in comparison to 2007 driven by higher IT spending in support of new services. Investment in broadband and the P4 transmission projects remained on a similar level to the prior year..

Other significant cash outflow / inflow items during 2008 included proceeds of PLN 453,770 from the disposal of Netia's P4 investment in Q2 2008, purchase considerations of PLN 87,942 and PLN 45,034 for the acquisition of Tele2 Polska and the Ethernet network operators, respectively, as well as PLN 14,851 received on disposal of non-core assets. As a result, net cash from investing activities amounted to PLN 69,388 in 2008 as compared to PLN 396,193 of cash used during 2007.

Net cash used in financing activities amounted to PLN 103,632 in 2008 and net cash provided for financing activities in 2007 amounted to PLN 93,823. These outflows / inflows were related to credit facility proceeds and repayments (this credit facility is described in "Loans agreement").

3.4 Financial resources management and assessment of the possibility of executing the planned investments

The Netia Group has been generating positive free cash flows between 2004 and 2006 but, following its new strategy announcement in April 2007, intends to invest in broadband and other services such that free cash flows are expected to be negative between 2007 and 2009. Therefore, on May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement (see "Loans agreements" below) and following Tele2 Polska acquisition, in December 2008 increased the facility up to PLN 375,000. The above facility is fully secured and is to be repaid by June 30, 2013. Furthermore, on April 30, 2008 the Company received EUR 131,795 for its stake in P4. This transaction provided the funding necessary for the Company to implement its broadband-driven growth strategy. Moreover, as at December 31, 2008 the Netia Group had net cash available of PLN 192,685 and was debt free with the credit facility available to finance its future investment requirements.

A detailed description of risks related to the Netia Group's financial instruments has been presented in the consolidated financial statements (Note 4).

3.5 Loans Agreements

Bank loan

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"). 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 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. As at December 31, 2008 the cumulative draw downs under this Facility amounted to PLN 205,000 and were repaid in full.

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.

Bonds

On the basis of the resolutions of the Company's Management Board and of the foreign currency permit dated September 11, 2008, the Company issued one unsecured registered bond, AA series, in the nominal value of PLN 94,500 and one unsecured registered bond, BB series, in the nominal value of EUR 40,340, with the repurchase date falling on September 12, 2010 and with a right of the Issuer for an earlier repurchase. The offer to sell both the above bonds was addressed to Netia Spółka Akcyjna UMTS s.k.a. the Company's subsidiary. The issue price of both bonds corresponds to their nominal value.

On September 30, 2008 Tele2 Polska, the Company's subsidiary, agreed to purchase from Netia one unsecured registered bond, CC series, in the nominal value of PLN 20,000 issued on the basis of the resolution of the Company's Management Board dated September 29, 2008 - with the repurchase date falling on September 30, 2010 and with a right of Netia for an earlier repurchase. Tele2 Polska purchased the above bond for the issue price equal to the nominal value thereof.

Netia was issuing the bonds to ensure that it utilizes the group's cash deposits for the acquisition of Tele2 Polska and implementation of its ongoing growth strategy prior to beginning to draw down on its available credit lines.

3.6 Loans, warranties and collaterals granted

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

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, acting as the Mandated Lead Arranger, and BPH SA (currently PeKaO S.A.), as the Facility Agent and Security Agent, under the facility agreement dated October 31, 2006. The Facility agreement provided for a ten year amortising term facility with a three year availability period. The funds were used by P4 for the purchase of equipment for its UMTS network from Huawei Polska Sp. z o.o., including the acquisition of transmitter construction sites and related network construction costs. In order to facilitate the conclusion of part of the vendor financing package assumed in P4's original business plans, the Netia Group and other shareholders provided certain undertakings and separate guarantees in direct proportion to their shareholdings in 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 Facility. In particular, these obligations included a payment guarantee of up to EUR 21,060 (decreased by 50% in June 2008 and reduced to zero in November 2008).

Loans granted

The following loans were paid out by the Company in 2008:

- to Internetia Sp. z o.o., the Company's subsidiary, with a total value of PLN 18,250. The loans are not due as at the balance sheet date.

The following loans granted by the Company were repaid in 2008:

- by Netia Mobile in the amount of PLN 203,607,
- by Neotel Communications Polska Sp. z o.o. in the amount of PLN 278.

4 The Company's supervisory or governing authority

4.1 Rights of the Supervisory and Management Board's members

According to the Company's Statute valid in 2008, the bodies of the Company are the General Assembly of Shareholders, the Supervisory Board and the Management Board.

General Shareholders' Meeting ("GSM") decides in matters provided for in the Commercial Companies Code, and in particular regarding decisions on the division and distribution of profit. No approval of the GSM is required for the purchase or sale of the right of real estate ownership, the right of perpetual usufruct or share in such right, without limitations upon the value of such transaction.

The Supervisory Board shall consist of up to 9 members. Members of the Supervisory Board shall be elected and dismissed by the GSM for a term of office of 5 years. One member of the Supervisory Board shall be appointed and dismissed by holders of series A1 shares. At all times at least two of the Supervisory Board members shall be "independent".

The competency of the Supervisory Board shall include general supervision of the activities of the Company. Resolutions of the Supervisory Board shall be required in matters provided for in the Commercial Companies Code and:

a) presentation to the Company's GSM of a written report on the results of the Supervisory Board's examination of the Company's financial statements, Management Board report and Management Board's recommendations with respect to the distribution of profits or coverage of losses;

b) the issuance of by-laws for the Management Board and the appointment and removal of the members of the Management Board, setting or changing the compensation and defining other terms and conditions of employment of the Management Board members, as well as setting and changing any incentive plan for the Management Board members and other key employees;

c) approval of business plans and budgets for the Company;

d) granting consent for any transaction whose value exceeds the PLN equivalent of EUR 1,250 in a single or a series of related transactions, or in the course of one year in the case of agreements entered into for unlimited duration or for periods longer than one year;

e) making any investments in or financing the activities of companies whose core and actual scope of business activity does not include telecommunications activity, as well as investing in or financing the activities of UNI-Net Sp. z o.o. with its registered seat in Warsaw;

f) consent to the commencement, settlement, assignment, compromise or release of any claim of or against the Company in excess of the PLN equivalent of EUR 600 in a single or series of related acts or the equivalent amount in PLN or other currencies;

g) consent to the adoption of a performance stock option plan in accordance with § 5A of the Statute;

h) appointment of the expert auditor to audit the Company's financial statements;

i) provided that the value of the Company's obligations exceeds the PLN equivalent of EUR 100, the conclusion by the Company of any contracts with an Affiliate shall; require the approval of at least one of the independent members. For the purposes of this point, an "Affiliate" shall mean: (i) a member of the Management Board or Supervisory Board of the Company or the cousin or relative of up to the second degree of such member, or an entity controlled by such person or their cousin or relative of up to the second degree; (ii) a shareholder holding shares entitling it to at least 5% of votes at the General Meeting; or (iii) an entity controlled by, controlling or under common control with the persons listed under (i) and (ii); (iv) an entity in which the Company has, directly or indirectly, any equity stakes or voting powers. "Control" shall mean the possibility of exerting influence, whether direct or indirect, on the management or business policy of the controlled entity through holding voting shares in such entity, under a shareholders' agreement, an agreement for official receivership of votes (umowa syndykowania głosów) or in any other similar manner, even if not connected with a written agreement. For the purposes of the above definition, "control" shall not apply to any companies controlled by Netia S.A.

The Management Board of the Company shall consist up to 10 members. The Supervisory Board shall decide on the number of Management Board members. The Management Board members shall be appointed and dismissed by the Supervisory Board for a term of office of 5 years.

The Management Board shall manage the activities of the Company, shall adopt resolutions necessary for performance of tasks and shall represent the Company before courts, authorities, offices and third parties. The Management Board shall handle the matters, which are not within the exclusive competence of the GSM or the Supervisory Board. Two members of the Management Board acting together or one member of the Management Board acting together with a commercial proxy (prokurent) shall be authorised to make declarations and to sign on behalf of the Company.

The members of the Management Board do not have any rights related to deciding about the issue or redemption of the Company's shares.

4.2 Changes in the Management Board and Supervisory Board in 2008

Changes in the 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.

Changes in the 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.

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

Appointment of Chairperson of Netia's Supervisory Board

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

4.3 System for controlling employee share option schemes

At present, there is one incentive scheme in force in the Netia Group (an employee share option scheme) approved by the Supervisory Board in 2002 ("the Scheme"). The Scheme is aimed at providing incentives which will encourage, retain and motivate highly-qualified people in senior management positions, employees, co-operators, consultants and the members of the Company's Management Board, its associates and subsidiaries to act in the shareholders' interests by granting them options for the Company's series K shares of the new issue. As soon as the options granted to the participants in the Scheme are exercised, the Company will issue shares in the Company, constituting an equivalent of the profit on the options exercised. The participants are not obliged to pay for the nominal value of the shares. The number of series K shares which can be issued for the purposes of the Scheme may not exceed 18,373,785.

The execution of the Scheme has been entrusted to the Company's Supervisory Board. To the extent provided for in the Scheme, the Supervisory Board, at its exclusive discretion, shall make decisions relating to, among other things, participation in the Scheme, the allotment of options, and the terms & conditions of their being exercised. The Company's Management Board may present the Supervisory Board with recommendations related to other employees' participating in the Scheme.

4.4 Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2008

The compensation and related cost of remuneration (including bonuses paid and accrued) of members of the Company's Management and Supervisory Board are presented below:

	PLN
Remuneration of current members of the Management Board	
Mirosław Godlewski	1,858
Jonathan Eastick	1,624
Piotr Nesterowicz	397
Tom Ruhan	1,246
	5,125
Remuneration and termination benefits for the former members of the Management Board	1,853

	PLN
Remuneration of current members of the Supervisory Board	
Marek Gul	59
Constantine Gonticas	96
Piotr Czapski	20
Raimondo Eggink	96
Bruce McInroy	96
Kazimierz Marcinkiewicz	20
Tadeusz Radzimiński	84
Pantelis Tzortzakis	72
Jerome de Vitry	59
	602
Remuneration and termination benefits for the former members of the Supervisory Board	68
Remuneration of members of management boards of subsidiaries	823
Total	**8,471**

The members of the Company's Management and Supervisory Boards do not collect any additional remuneration for being members of the authorities of the subsidiaries.

In addition, the members of the Management and Supervisory Boards participate in a scheme which consists of awarding bonuses in the form of Netia's shares, under which some of them have received share options.

The movements in the number of options held by members of the Company's Management Board are presented below (number of options not in thousands):

Options	Mirosław Godlewski	Jonathan Eastick	Piotr Nesterowicz	Tom Ruhan	Former members of the Management Board	Total
At the beginning of the year	10,000,000	9,271,814	-	4,000,000	-	33,271,814
Granted	3,334,000	1,666,500	6,666,500	1,666,500	10,000,000	13,333,500
Status changed due to resignation from Management Board	-	-	-	-	(10,000,000)	(10,000,000)
At the end of the year	13,334,000	10,938,314	6,666,500	5,666,500	-	36,605,314

(All amounts in thousands, except as otherwise stated)

The members of the Supervisory Board did not have any share options as at December 31, 2007. Due to Mr. Piotr Czapski's appointment, 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).

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period. Due to the above the cost of options granted to the members of the Management Board recorded in the year ended December 31, 2008, is as follows:

	Cost of options
	PLN
Mirosław Godlewski	3,443
Jonathan Eastick	1,624
Piotr Nesterowicz	370
Tom Ruhan	1,256
Former members of the Management Board *	2,191
	10,099

** Additionally to this gross costs, PLN 3,609 of costs accrued for share options that may no longer vest due to resignation were reversed in 2008.*

4.5 Shares held by the members of the Management Board and Supervisory Board of the Netia Group

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.

4.6 Agreements concluded by the Company and the members of the Management Board, providing for compensation in the event of their resigning or being dismissed from their positions without a sound reason or when they are dismissed or made redundant due to the Company's merging through acquisition

Under a labour contract the Supervisory Board of Netia granted one member of the Management Board compensation should that person be dismissed from his position without the justified reason. Should that member of the Management Board be dismissed, Netia will be required to pay a one-off severance payment stipulated in the employment agreement, being the equivalent of the three times the monthly salary in the amount of PLN 255, as at December 31, 2008.

Furthermore, an employment contract of another member of the Management Board shall not be terminated without the Supervisory Board's recommendation in the form of resolution. Otherwise the Company will be required to pay a one-off severance payment being the equivalent of the six times the monthly salary in the amount of PLN 377, as at December 31, 2008.

4.7 Changes in the basic management principles of the Netia Group

Changes in the Management Board and Supervisory Board

Changes in the Management Board and Supervisory Board were discussed in point 4.2 above.

Legal changes

Due to the ongoing process of internal consolidation of Netia's subsidiaries, in 2008 Netia merged with two wholly-owned subsidiaries Świat Internet and Netia Wimax. Tele2 Polska merged with Premium Internet and several the Company's subsidiaries held indirectly merged as well (the mergers were described in "The Netia Group's structure"). The purpose of the internal consolidation is to simplify and make the Netia Group's capital structure more transparent. The Management Board believes that this will positively impact the Netia Group's operations through reduction of administrative costs, including a decrease in the scale of intercompany transactions in its daily operations.

Organizational changes

All the following changes to the Company's organizational structure in 2008 were introduced to increase Netia's client base, product portfolio and improve profitability and effectiveness:

Strategy & Business Development

- To improve product management and adjust it better to particular market needs, in place of Product Management and Offer Management Departments three new Departments were established:
  - Corpo Product Management and Development
  - Home/SOHO/SME Product Management and Development
  - Internet and Multimedia Services Department

Sales

- Maintaned split of Sales by three types of markets, with proper strategy and approach for each of them: Corpo, SOHO/SME, Home
- Marketing and Sales Support Department was broken up. To separate sales bonuses and provisions calculations from Sales function, employees calculating bonuses & provisions were moved to Finance Division. Trade marketing employees were split by markets to support it directly.

Customer Care

- To implement compact strategic management of Customer Care new Customer Care Director was appointed responsible for the whole function: Front-Office, Back-Office, Telesales, CRM and Effectiveness Management Department
- To ensure increasing of effectiveness, new Effectiveness Management Unit was established
- To increase sales by telephone and lower telesales costs, new Telesales Division was established in Będzin

Network / IT

- To implement compact strategic management of Network and IT Technical Director took over responsibility for all areas within the function: Projects, Infrastructure Development, Applications Development, Service Delivery, IT Operations, Service Management, Logistics and Quality
- To coordinate better running Network and IT projects, project managers were moved to one Projects Division
- To improve logistics management for the whole Netia, Logistics Team was re-established and reports directly to Technical Director

Legal

- Legal Division Director responsibility was broadened by Mergers & Acquisition and Security functions
- ISP Division, Security Division and Confidential Office was moved to Legal and Acquisition Department
- Within Legal Division Regulatory Team was distinguished, to focus on regulatory issues.

HR

- To improve trainings management, Training & Development team was established within HR&Admin Department
- To improve effectiveness of organizational structure, Organizational Effectiveness Manager was appointed

5 Major Shareholders and share capital

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

Based on the information presented to the Company by the shareholders, as at December 31, 2008 significant blocks of the Company's shares were held by the following entities (the interest and the number of votes calculated on the basis of the number of shares constituting the Company's share capital as at the balance sheet date):

Novator Telecom Poland II S.a.r.l.

In 2008 Novator Telecom Poland II S.a.r.l. increased its share in the Company's capital and held 121,784,294 shares constituting 31.28% of the Company's share capital and carrying 31.28% of the total number of votes at the General Shareholders' Meeting of the Company.

Subsidiaries of SISU Capital Limited

The subsidiaries of SISU Capital Limited held a total of 39,043,006 of the Company's shares constituting 10.03% of its share capital and carrying 10.03% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of SISU Capital Limited has not changed since.

Third Avenue Management LLC

In 2008, Third Avenue Management LLC increased its share in the Company's capital and held 93,720,763 shares constituting 24.08% of the Company's share capital and carrying 24.08% of the total number of votes at the General Shareholders' Meeting of the Company, inclusive of the shareholding of Third Avenue International Value Fund described below.

Third Avenue International Value Fund

Third Avenue International Value Fund held 19,594,034 of the Company's shares constituting 5.03% of the Company's share capital and representing 5.03% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of Third Avenue International Value Fund has not changed since December 31, 2007.

5.2 Agreements which could lead to changes in shareholding proportions in the future

On the basis of an incentive scheme, the Company may also issue a maximum of 18,373,785 series K shares no later than by December 31, 2012. In connection with certain authorised people having exercised the rights arising from that scheme, the Company has issued 5,054,520 series K shares as at December 31, 2008.

5.3 Holders of all securities which grant special control rights in relation to the Issuer

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

5.4 Limitations on the transfer of ownership rights to the Issuer's securities and limitations on exercising the voting rights carried by the Issuer's shares

Netia's corporate documents do not contain any limitations, which significantly limit changes in the control of the Issuer as a result of third parties' purchasing substantial amounts of shares.

Each Netia share carries one vote at the GSM. There are no limitations on exercising the voting rights from the Company's shares.

Mr. Andrzej Radzimiński holds 1,000 (not in thousands) series A1 shares which give him the right to appoint and dismiss a member of the Supervisory Board.

6 Other information

6.1 Transactions with related parties

The following transactions were concluded between the Issuer and its subsidiaries and associate during 2008:

- sale and purchase of telecommunications services;
- sale of other services (rental and book-keeping services) to subsidiaries;
- sale and purchase of fixed and intangible assets.

The income and costs from these transactions and income from interest on loans, the total value of which in relation to each subsidiary and associate exceeded 500 EUR, amounted respectively to:

	Income (PLN)	**Costs (PLN)**	**Interest income (PLN)**	**Interest cost**
Tele2 Polska *	19,515	(49,225)	2,061	(388)
Netia Mobile	11	-	6,715	(4,894)
P4	9,584	(1,673)	-	-

** financial data includes Premium Internet, as it was merged with Tele2 Polska in 2008*

A detailed list of transactions with subsidiaries and associates has been presented in the Issuer's Financial Statements (Note 37).

Other transactions with associates have been described in points "Loans, warranties and collaterals granted" and "Remuneration paid and payable to the members of the Management Board and the Supervisory Board in 2008".

(All amounts in thousands, except as otherwise stated)

6.2 Explanation for the differences between the financial results of the annual report and forecasts that had been published

On February 28, 2008 the Management Board of the Company announced its guidance for the 2008 financial year, which was revised on August 12, 2008, at the time of publishing the results for the first half of 2008:

2008 Guidance	Original	Revised
Number of broadband service clients	> 400,000	> 400,000
Number of voice service clients (own network and WLR)	> 580,000	> 580,000
Unbundled local loop (LLU) nodes	100	125
Revenues (PLN m)	> 950	960 – 975
EBITDA *(*PLN m*)*	125	125
of which regulatory start-up losses for the development of the regulatory access methods (i.e., bitstream access, local loop unbundling, wholesale line rental) and reaching 400,000 broadband subscribers	*80*	*80*
Investment outlays (excl. M&A) (PLN m)	280	240
M&A investment (PLN m)	40	60

Guidance amended to take account of the acquisition of Tele2 Polska

The following guidance for the Netia Group including the impact of the acquisition of Tele2 Polska was issued on October 14, 2008:

2008 Guidance	Updated
Number of broadband service clients	> 400,000
Number of voice service clients (own network and WLR)	> 1,080,000
Unbundled local loop (LLU) nodes	125
Revenues (PLN m)	1,100
EBITDA *(*PLN m*)*	145
Investment outlays (excl. M&A) (PLN m)	240
M&A investment (PLN m)	30

Having completed the acquisition of Tele2 Polska on September 15, 2008, the Netia Group has commenced a comprehensive integration project that is expected to deliver extensive operational synergies. Consequently, Netia increased its 2008 revenue guidance from the level of PLN 960m – PLN 975m to PLN 1,100m and EBITDA guidance from PLN 125m to PLN 145m. Targeted number of voice service clients has been increased to the level of 1,080,000 customers.

Targets regarding the number of broadband service clients were being maintained.

Anticipated capital expenditures remained on the level of PLN 240m, while funding for bolt-on acquisitions of Ethernet operators was being decreased by PLN 30m due to possible delays in closing a number of such networks acquisitions that were under negotiation.

Adjustments of the guidance for 2008

Following stronger than expected business performance in Q4 2008, on December 12, 2008, Netia upgraded its EBITDA guidance from PLN 145m to PLN 160m. Furthermore, having been unable to agree satisfactory terms for the acquisition of certain targeted Ethernet networks, Netia lowered its Ethernet Network M&A spending target from PLN 30m to PLN 24m.

Due to the closing of the purchase transaction of Air Bites Polska Sp. z o.o. on December 22, 2008 for PLN 21.6m, Netia increased its guidance for M&A investment in Ethernet networks from PLN 24m to PLN 45m. In addition, in connection with the closing of the above M&A transaction and the acquisition of 24.5 thousand new clients Netia increased its 2008 guidance for the number of broadband clients from 385,000 to 410,000.

The final operating and financial results of the Netia Group for 2008 were materially in line with the above guidance.

6.3 Information on the registered audit company

The financial statements of Netia and the consolidated financial statements of the Netia Group for 2007 and 2008 were audited by Ernst & Young Audit Sp. z o.o. on the basis of a contract concluded on March 30, 2007.

(All amounts in thousands, except as otherwise stated)

The total fees specified in the contract with the registered audit companies, payable or paid for the audit and review of the financial statements and for other services are presented below:

Item	**2008**	**2007**
Audit of stand-alone and consolidated financial statements	384	213
Review of stand-alone and consolidated financial statements	362	320
Other services	71	76
Total	**817**	**609**

The fees for 2008 include the review and audit of Tele2 Polska for the first time.

6.4 Compliance with corporate governance rules

The Management Board of the Company represents that in 2008 the Company complied with the corporate governance rules stated in the document entitled "Code of Best Practice for WSE Listed Companies". As per the Company's declaration published in the current report dated February 28, 2008 since the "Code of Best Practice for WSE Listed Companies" became effective on January 1, 2008, the Management Board of the Company declares that it appreciates the importance of corporate governance rules provides in that document and the role played by those rules in enhancing the transparency of stock exchange listed companies, and it has exercised duly diligent efforts for those rules to be observed in Netia to the greatest extent possible. According to the Management Board's best knowledge in 2008 non of the rules stated in the "Code of Best Practice for WSE Listed Companies" was breached by the Company. All rules were applied by the Company according to the wording presented in the above mentioned document.

6.5 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.

Resolution of the Extraordinary General Shareholders' Meeting of the Company concerning the Netia SA merger

As part of the integration project, on February 11, 2008, Netia's shareholders adopted a resolution to merge Tele2 Polska into the parent company Netia SA. This is expected to positively impact Netia Group's operations through reduction of administrative costs and facilitate full rebranding and operational integration.

Warsaw, February 23, 2009