Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements
  as at and for the six-month period ended June 30, 2009

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

1. We have reviewed the attached interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at June 30, 2009 and the related interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of cash flows, interim condensed consolidated statement of changes in equity for the 6 months period then ended and the interim condensed consolidated summary of significant accounting policies and other explanatory notes ('the attached interim condensed consolidated financial statements').

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

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

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

5. The convenience translations are disclosed as part of the interim condensed consolidated financial statements. The convenience translation for the 6 months period ended June 30, 2009 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2009 of PLN 4,4696 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp zoo

Ernst & Young Audit Sp. z o.o.

Warsaw, August 5, 2009

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
As at and for the six-month period ended June 30, 2009

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NETIA S.A.
INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
as at June 30, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated)	June 30, 2009	Convenience Translation June 30, 2009
		(PLN)	(PLN)	(EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,415,994	1,411,882	315,886
Intangible assets	6	412,554	390,187	87,298
Investment property		36,133	35,784	8,006
Deferred income tax assets		564	233	52
Available for sale financial assets		10	10	2
Long term receivables		6,623	6,623	1,482
Prepaid expenses and accrued income		16,867	12,323	2,758
Total non-current assets		**1,888,745**	**1,857,042**	**415,484**
Current assets				
Inventories		5,060	3,372	754
Trade and other receivables		168,352	159,721	35,735
Current income tax receivables		201	96	21
Prepaid expenses and accrued income		18,294	22,303	4,990
Derivative financial instruments	8	-	3,042	681
Financial assets at fair value through profit and loss		5,905	5,086	1,138
Held to maturity investments	8	-	49,911	11,167
Restricted cash		2,712	2,626	588
Cash and cash equivalents		192,685	112,975	25,276
		393,209	**359,132**	**80,350**
Assets classified as held for sale		513	118	26
Total current assets		**393,722**	**359,250**	**80,376**
Total assets		**2,282,467**	**2,216,292**	**495,860**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Warsaw, Poland
August 5, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated)	June 30, 2009	Convenience Translation June 30, 2009
		(PLN)	(PLN)	(EUR)
EQUITY				
Share capital		389,277	389,277	87,094
Share premium		1,556,489	1,356,652	303,529
Retained earnings		(41,245)	143,941	32,204
Other components of equity		23,960	25,557	5,718
Total equity	9	**1,928,481**	**1,915,427**	**428,545**
LIABILITIES				
Non-current liabilities				
Provisions		7,537	7,964	1,782
Deferred income		7,779	7,534	1,686
Deferred income tax liabilities		9,121	7,870	1,761
Other long term liabilities		2,898	8,455	1,891
Total non-current liabilities		**27,335**	**31,823**	**7,120**
Current liabilities				
Trade and other payables		297,571	229,237	51,290
Derivative financial instruments	8	-	6,038	1,351
Financial liabilities at fair value through profit and loss		304	176	39
Current income tax liabilities		53	1	0
Provisions		6,345	5,771	1,291
Deferred income		22,378	27,819	6,224
Total current liabilities		**326,651**	**269,042**	**60,195**
Total liabilities		**353,986**	**300,865**	**67,315**
Total equity and liabilities		**2,282,467**	**2,216,292**	**495,860**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)	Three-month period ended June 30, 2009 (PLN)	Six-month period ended June 30, 2009 (PLN)	Convenience Translation Six-month period ended June 30, 2009 (EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		243,483	472,179	373,679	749,344	167,654
Revenue generated by group of assets held for sale		-	8,774	-	-	-
Total revenue		**243,483**	**480,953**	**373,679**	**749,344**	**167,654**
Cost of sales		(191,557)	(373,351)	(257,263)	(509,081)	(113,898)
Gross profit		**51,926**	**107,602**	**116,416**	**240,263**	**53,756**
Selling and distribution costs		(60,562)	(117,617)	(85,316)	(169,420)	(37,906)
General and administration costs		(32,662)	(67,218)	(41,588)	(88,173)	(19,727)
Other income		1,207	3,570	3,119	6,062	1,356
Other expenses		(31)	(51)	(100)	(200)	(45)
Other gains / (losses), net		6,892	11,405	2,485	3,433	768
Operating loss		**(33,230)**	**(62,309)**	**(4,984)**	**(8,035)**	**(1,798)**
Finance income		4,085	4,718	1,730	3,834	858
Finance costs		(9,707)	(12,041)	(4,935)	(10,922)	(2,444)
Gain on sale of an associate		353,427	353,427	-	-	-
Share of losses of former associates		-	(22,625)	-	-	-
Profit / (Loss) before income tax		**314,575**	**261,170**	**(8,189)**	**(15,123)**	**(3,384)**
Income tax benefit / (charge)		6	(1,883)	(61)	472	106
Profit / (Loss)		**314,581**	**259,287**	**(8,250)**	**(14,651)**	**(3,278)**
OTHER COMPREHENSIVE INCOME						
Cash flow hedges	8	(476)	(476)	(6,766)	(3,627)	(811)
Income tax relating to components of other comprehensive income	8	-	-	495	(67)	(15)
Other comprehensive income		**(476)**	**(476)**	**(6,271)**	**(3,694)**	**(826)**
TOTAL COMPREHENSIVE INCOME/ (LOSS)		**314,105**	**258,811**	**(14,521)**	**(18,345)**	**(4,104)**
Profit / Loss attributable to:						
Owners of the Company		314,581	259,287	(8,250)	(14,651)	(3,278)
Non-controlling interest		-	-	-	-	-
		314,581	**259,287**	**(8,250)**	**(14,651)**	**(3,278)**
Total comprehensive loss attributable to:						
Owners of the Company		314,105	258,811	(14,521)	(18,345)	(4,104)
Non-controlling interest		-	-	-	-	-
		314,105	**258,811**	**(14,521)**	**(18,345)**	**(4,104)**
Earnings per share (expressed in PLN per share)						
- basic		0.81	0.67	(0.02)	(0.04)	(0.01)
- diluted		0.81	0.67	(0.02)	(0.04)	(0.01)

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

(All amounts in thousands, except as otherwise stated)

	Note	Share capital	Share premium	Retained earnings	Other supplementary capital associated with former associate	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2008		**389,277**	**1,641,398**	**(356,759)**	**40,102**	**14,676**	**(425)**	**1,728,269**
Dilution gain in former associate		-	-	-	9,530	-	-	9,530
Sale of investment in associate		-	-	-	(49,632)	-	425	(49,207)
Coverage of Netia's 2007 loss		-	(84,909)	84,909	-	-	-	-
Employee share option scheme:								
- value of services provided	9	-	-	-	-	7,223	-	7,223
Total comprehensive income		-	-	259,287	-	-	(476)	258,811
Balance as at June 30, 2008		**389,277**	**1,556,489**	**(12,563)**	**-**	**21,899**	**(476)**	**1,954,626**

	Note	Share capital	Share premium	Retained earnings	Other supplementary capital associated with former associate	Employee share option scheme	Hedging reserve	Total equity
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2009		**389,277**	**1,556,489**	**(41,245)**	**-**	**24,244**	**(284)**	**1,928,481**
Coverage of Netia's 2008 loss		-	(199,837)	199,837	-	-	-	-
Employee share option scheme:								
- value of services provided	9	-	-	-	-	5,291	-	5,291
Total comprehensive loss	8	-	-	(14,651)	-	-	(3,694)	(18,345)
Balance as at June 30, 2009		**389,277**	**1,356,652**	**143,941**	**-**	**29,535**	**(3,978)**	**1,915, 427**

(All amounts in thousands, except as otherwise stated)

	Note	Six-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2009 (PLN)	Convenience Translation Six-month period ended June 30, 2009 (EUR)
Cash flows from operating activities:				
Profit / (Loss)		**259,287**	**(14,651)**	**(3,278)**
Adjustments for:				
Depreciation and amortization	5, 6	131,545	147,350	32,967
Impairment charges for specific individual assets		51	200	45
Share of losses of former associates		22,625	-	-
Deferred income tax charge / (benefit)		1,626	(986)	(221)
Interest expense charged on bank loans and transaction costs write -off	10	7,040	1,744	390
Other interest		183	1,138	255
Financial guarantee contract		(435)	-	-
Share-based compensation	9	7,223	5,375	1,203
Fair value (gains) / losses on financial assets / liabilities		(297)	692	155
Fair value gains on derivative financial instruments	8	-	(131)	(29)
Foreign exchange losses		3,663	5,815	1,298
Gain on disposal of fixed assets		(5,990)	(1,334)	(298)
Gain on sale of an associate		(353,427)	-	-
Gain on disposal of group of assets		(5,093)	-	-
Changes in working capital	12	(21,704)	8,171	1,830
Net cash provided by operating activities		**46,297**	**153,383**	**34,317**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(117,301)	(140,742)	(31,488)
Purchase of operational networks		-	(807)	(181)
Proceeds from sale of fixed assets		9,687	2,191	491
Proceeds from sale of group of assets		4,000	2,000	447
Investment in former associate		(8,124)	-	-
Proceeds from sale of an associate		453,770	-	-
Purchase of subsidiaries, net of cash received	12	(16,070)	(39,724)	(8,888)
Purchase of treasury bonds / notes	8	-	(49,491)	(11,073)
Loan repayments		323	139	31
Net cash used in / provided by investing activities		**326,285**	**(226,434)**	**(50,661)**
Cash flows from financing activities:				
Finance lease payments		(1,191)	(1,272)	(285)
Proceeds from borrowings		85,000	-	-
Loan payments		(180,006)	-	-
Interest payments		(5,814)	-	-
Net cash used in / provided by financing activities		**(102,011)**	**(1,272)**	**(285)**
Net change in cash and cash equivalents		**270,571**	**(74,323)**	**(16,629)**
Exchange gains on cash and cash equivalents		**(4,251)**	**(5,387)**	**(1,205)**
Cash and cash equivalents at beginning of period		57,697	192,685	43,110
Cash and cash equivalents at end of period		**324,017**	**112,975**	**25,276**

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

1. The Company and the Netia Group

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

The interim condensed consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2009 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on August 5, 2009.

The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland. The Netia Group provides various voice telephony and data transmission services. These services include switched, fixed-line voice telephone services (including domestic long-distance, international long-distance and fixed-to-mobile services), Integrated Services Digital Network ("ISDN"), Voice over Internet Protocol ("VoIP"), voice mail, 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.

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

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. 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.

To further broaden Netia's product offer, including convergent services, Netia started offering mobile services in September 2008. Netia provides its mobile service based on a Mobile Service Provider Agreement with P4 Sp. z o.o. ("P4"), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services.

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

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

Going concern

As at June 30, 2009, the Company's equity amounted to PLN 1,915,427 and the Netia Group had a working capital of PLN 90,208. The Netia Group's strategy to expand its customer base primarily through provision of broadband services and acquisitions of Ethernet operators is expected to consume cash resources until 2010. As at June 30, 2009 the Netia Group had net cash available of PLN 112,975, PLN 50,000 in nominal value of treasury bonds/notes and undrawn borrowing facilities of PLN 295,000 (see Note 10). Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2002, No. 76, item 694 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). As of June 30, 2009, in light of the current process of IFRS endorsement in the EU and the nature of the Netia Group's activities, there is no difference between IFRS applied by the Netia Group and IFRS endorsed by the EU.

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2008, except for new accounting standards and interpretations adopted as of January 1, 2009. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2008 consolidated financial statements and the related notes.

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

All Euro amounts shown as supplementary information in the interim condensed consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2009 of PLN 4.4696 to EUR 1.00. These amounts are included for the convenience of the reader only. Such translation should not be construed as a representation that the PLN amounts have been or could be converted into Euros at this or any other rate.

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

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

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

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

Changes in estimates

In the six-month period ended June 30, 2009 the Netia Group reassessed the useful lives of its property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Increase / (Decrease) in the depreciation charge recognized in current period	Relevant increase / (decrease) in the depreciation charge for the remaining period in 2009
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2010	(37)	(7)
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2010,	(370)	832
	- useful lives of certain assets were shortened until December 2009,	1,510	1,510
Machinery and equipment	- useful lives of certain assets were extended until the end of 2009	(69)	(25)
Total non-current assets		**1,034**	**2,310**

New standards, interpretations and amendments to existing standards

Adoption of new accounting standards and interpretations

In 2009, the Netia Group adopted the following new standards, amendments to standards and new interpretations, which are relevant to its operations:
- IFRS 8, 'Operating Segments';
- Amendments to IFRS 2 "Share-based payments";
- Revised IAS 1 "Presentation of Financial Statements";
- Revised IAS 23, 'Borrowing costs';
- Amendments to IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements";
- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 27 "Consolidated and Separate Financial Statements" - "Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate";
- Amendments to IFRS 7 - Improving disclosures about financial instruments,
- Amendments to IFRS resulting from the annual improvements project;
- IFRIC 13, 'Customer Loyalty Programmes';
- IFRIC 15, "Agreements for the Construction of Real Estate";
- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation";

IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a "management approach" to segment reporting, under which segment information is presented on the same basis as that used for internal reporting purposes. Previously, under IAS 14, the Netia Group had only one business segment – telecommunications (due to small relative size of mobile radio services operations, the Netia Group did not treat it as a separate segment). The new standard has resulted in a designation of four new reportable segments (for details see Note 3). As goodwill must be allocated at a segment level, the change in reportable segments has required the allocation of goodwill to the newly identified operating segments. This allocation has not resulted in any additional impairment of goodwill.

The adoption of revised IAS 1 has resulted in a change in presentation of certain items of income and expenses in the statement of changes in equity ('non-owner changes in equity' are presented separately from 'owner changes in equity'). All 'non-owner changes in equity' are shown in the statement of comprehensive income.

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

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

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2009 and have not been early adopted:

- Revised IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" applicable for annual periods beginning on or after July 1, 2009. The revised standards bring a further development of the acquisition accounting model and compulsory adoption of the economic entity approach;

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

- Restructured IFRS 1 "First-time Adoption of International Financial Reporting Standards", effective for annual periods beginning on or after July 1, 2009. The amendment corrects a potential technical problem arising from the interaction of IFRS 1 and the revised IFRS 3 "Business Combinations" and amended IAS 27 "Consolidated and Separate Financial Statements". The amendment have not yet been endorsed by the EU;

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

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

- Amendments to IFRIC 9 "Reassessment of embedded derivatives" and IAS 39 "Financial Instruments: Recognition and Measurement" - "Embedded Derivatives", effective for annual periods beginning on or after June 30, 2009. The amendments clarify the accounting treatment of embedded derivatives for entities that make use of the reclassification amendment issued by the IASB in October 2008. The amendments have not yet been endorsed by the EU;

- Amendments to IFRS resulting from the annual improvements project, effective for annual periods beginning on or after July 1, 2009 or January 1, 2010, depending on which IFRS the amendment relates to;

- Amendments to IFRS 2 "Group Cash-settled Share-based Payment Transactions", effective for annual periods beginning on or after January 1, 2010. The amendments clarify the scope and the accounting for group cash-settled share-based payment transactions in the separate or individual financial statements of the entity receiving the goods or services when that entity has no obligation to settle the share-based payment transaction. The amendments have not yet been endorsed by the EU.

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

(All amounts in thousands, except as otherwise stated)

3. Segment information

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

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

Management monitors the operating results of its customer segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on EBITDA (defined as operating profit / (loss) excluding depreciation and amortization) which is derived from the information in the consolidated financial statements. The Netia Group financing (including finance costs and finance income) and income taxes are managed on a group basis and are not allocated to operating segments.

No operating segments have been aggregated to form the above reportable operating segments.

The following tables present revenue and profit / (loss) information regarding the Netia Group's operating segments for the six and three-month periods ended June 30, 2009 and 2008, respectively:

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Six-month period ended June 30, 2009							
Revenue from external customers	**389,221**	**73,432**	**175,878**	**107,670**	**746,201**	**3,143**	**749,344**
EBITDA	53,905	19,141	87,493	51,272	211,811	(72,496)	139,315
Depreciation and Amortization	(17,886)	(11,899)	(70,138)	(32,295)	(132,218)	(15,132)	(147,350)
Operating profit / (loss)	**36,019**	**7,242**	**17,355**	**18,977**	**79,593**	**(87,628)**	**(8,035)**
Finance income / (cost), net	-	-	-	-	-	(7,088)	(7,088)
Income tax benefit / (charge)	-	-	-	-	-	472	472
Profit / (Loss)	**36,019**	**7,242**	**17,355**	**18,977**	**79,593**	**(94,244)**	**(14,651)**
Capital expenditure	29,598	5,577	45,806	23,758	104,739	16,481	121,220
Six-month period ended June 30, 2008							
Revenue from external customers	**136,208**	**63,172**	**173,240**	**103,338**	**475,958**	**4,995**	**480,953**
EBITDA	(10,994)	10,381	81,968	32,830	114,185	(44,949)	69,236
Depreciation and amortization	(32,131)	(14,136)	(54,510)	(12,887)	(113,664)	(17,881)	(131,545)
Operating profit / (loss)	**(43,125)**	**(3,755)**	**27,458**	**19,943**	**521**	**(62,830)**	**(62,309)**
Gain on sale of an associate	-	-	-	-	-	353,427	353,427
Finance income / (cost), net	-	-	-	-	-	(7,323)	(7,323)
Share of loss of former associate	-	-	-	-	-	(22,625)	(22,625)
Income tax benefit / (charge)	-	-	-	-	-	(1,883)	(1,883)
Profit / (Loss)	**(43,125)**	**(3,755)**	**27,458**	**19,943**	**521**	**258,766**	**259,287**
Capital expenditure	18,956	6,428	25,263	22,684	73,331	13,977	87,308

(All amounts in thousands, except as otherwise stated)

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Three-month period ended June 30, 2009							
Revenue from external customers	**196,026**	**36,820**	**87,564**	**51,666**	**372,076**	**1,603**	**373,679**
EBITDA	27,069	7,330	44,017	25,973	104,389	(34,985)	69,404
Depreciation and Amortization	(9,050)	(6,021)	(35,491)	(16,342)	(66,904)	(7,484)	(74,388)
Operating profit / (loss)	18,019	1,309	8,526	9,631	37,485	(42,469)	(4,984)
Finance income / (cost), net	-	-	-	-	-	(3,205)	(3,205)
Income tax benefit / (charge)	-	-	-	-	-	(61)	(61)
Profit / (Loss)	18,019	1,309	8,526	9,631	37,485	**(45,735)**	**(8,250)**
Capital expenditure	10,960	2,535	19,437	8,176	41,108	10,328	51,436
Three-month period ended June 30, 2008							
Revenue from external customers	**70,515**	**32,378**	**85,442**	**52,475**	**240,810**	**2,673**	**243,483**
EBITDA	(7,697)	6,106	38,876	16,555	53,840	(18,404)	35,436
Depreciation and amortization	(16,700)	(7,347)	(28,330)	(6,698)	(59,075)	(9,591)	(68,666)
Operating profit / (loss)	(24,397)	(1,241)	10,546	9,857	(5,235)	(27,995)	(33,230)
Gain on sale of an associate	-	-	-	-	-	353,427	353,427
Finance income / (cost), net	-	-	-	-	-	(5,622)	(5,622)
Income tax benefit / (charge)	-	-	-	-	-	6	6
Profit / (Loss)	**(24,397)**	**(1,241)**	**10,546**	**9,857**	**(5,235)**	**319,816**	**314,581**
Capital expenditure	11,520	3,758	14,442	13,073	42,793	9,310	52,103

A reconciliation of EBIT for reportable segments to profit / (loss) is provided as follows:

	Three -month period ended June 30, 2008	Six -month period ended June 30, 2008	Three -month period ended June 30, 2009	Six -month period ended June 30, 2009
	(PLN)	(PLN)	(PLN)	(PLN)
EBIT for reportable segments	(5,235)	521	37,485	79,593
Radio communication segment	53	82	(162)	(223)
Gain on disposal of group of assets	-	5,093	-	-
General fixed costs (incl. administration, IT, professional services)	(16,271)	(46,016)	(29,629)	(63,712)
Restructuring costs	-	-	(5,967)	(5,967)
Other operating expenses	(2,358)	(4,436)	617	(2,858)
Depreciation and amortization of unallocated assets	(9,419)	(17,553)	(7,328)	(14,868)
Gain on sale of an associate	353,427	353,427	-	-
Finance income / (cost), net	(5,622)	(7,323)	(3,205)	(7,088)
Share of loss of former associate	-	(22,625)	-	-
Income tax benefit / (charge)	6	(1,883)	(61)	472
Profit / (Loss)	314,581	259,287	(8,250)	(14,651)

The following table presents assets allocated to certain segments, as at the end of the current period and at the end of the most recent annual financial year. Segment assets do not include investment property, deferred tax, cash and other financial assets as these assets are managed on a group basis.

Segment assets	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
As at June 30, 2009	424,814	150,759	841,577	398,619	1,815,769	400,523	2,216,292
As at December 31, 2008	432,068	151,766	852,378	407,594	1,843,806	438,661	2,282,467

(All amounts in thousands, except as otherwise stated)

A reconciliation of assets for reportable segments to total assets is provided as follows:

	December 31, 2008	June 30, 2009
	(PLN)	(PLN)
Assets for reportable segments	1,843,806	1,815,769,
Telecommunication licenses / permits	110,139	100,846
Investment property	36,133	35,784
Deferred income tax assets	564	233
Indemnities received	11,876	11,876
Transaction costs related to the credit facility	5,486	6,090
VAT and other government receivables	2,003	539
Loans	273	139
Derivative financial instruments	-	3,042
Financial assets at fair value through profit and loss	5,905	5,086
Held to maturity investments	-	49,911
Restricted cash	2,712	2,626
Cash and cash equivalents	192,685	112,975
Assets classified as held for sale	513	118
Radio communication segment	3,224	3,045
Other unallocated assets	67,148	68,213
Total assets	2,282,467	2,216,292

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

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

Restructuring

Following the acquisition of Tele2 Polska in September 2008 which significantly augmented the scale of the business, the Netia Group performed a comprehensive cost review across all functional areas of the Company and indentified areas for operating cost optimization. The reorganization program includes a reduction of headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. In connection with the restructuring program, in April 2009 the Netia Group announced a headcount reduction, which assumed a decrease of employment by approximately 130 full time employees by the end of first half of 2009.

Total reorganization costs recorded during the six-month period ended June 30, 2009 amounted to PLN 5,967 (out of which PLN 4,348 related to the restructuring program announced in April 2009) and were included in the following cost categories:

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

Tele2 Polska

In June 2009 the Company paid EUR 7,086 (PLN 27,288), including EUR 172 (PLN 786) of interest, for the acquisition of Tele2 Polska, which represented the final settlement of the purchase consideration relating to the difference between Tele2 Polska's actual and targeted levels of net cash and net working capital on the date of acquisition (see Note 7).

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2009	36,121	3,395	1,967,921	1,774,688	107,218	123,729	9,435	100,744	4,123,251
Additions	-	-	81	169	64	489	74	110,721	111,598
Purchase of operational networks	-	-	404	121	-	-	-	-	525
Transfers	6,687	-	19,387	79,951	2,978	3,991	-	(113,004)	(10)
Disposals	-	-	(823)	(947)	(263)	(1,146)	(115)	(306)	(3,600)
Other movements	1,141	-	12,780	(12,645)	1,769	(2,882)	-	-	163
Gross book value as at June 30, 2009	**43,949**	**3,395**	**1,999,750**	**1,841,337**	**111,766**	**124,181**	**9,394**	**98,155**	**4,231,927**
Accumulated depreciation as at January 1, 2009	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Depreciation expense	1,319	-	36,022	70,317	3,316	3,447	829	-	115,250
Disposals	-	-	(453)	(485)	(184)	(1,046)	(115)	-	(2,283)
Other movements	151	-	(339)	(833)	843	281	-	-	103
Accumulated depreciation as at June 30, 2009	**18,646**	**-**	**757,514**	**835,237**	**65,768**	**98,950**	**5,171**	**-**	**1,781,286**
Accumulated impairment as at January 1, 2009	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Impairment charge for specific assets	-	-	-	-	-	-	-	200	200
Transfers	18	-	16	165	22	7	-	(228)	-
Disposals	-	-	(160)	(220)	(16)	(86)	-	-	(482)
Other movements	10	-	(10)	(407)	411	(4)	-	-	-
Accumulated impairment as at June 30, 2009	**7,341**	**1,238**	**631,296**	**368,801**	**18,254**	**10,289**	**30**	**1,510**	**1,038,759**
Net book value as at January 1, 2009	11,632	2,157	614,187	639,187	27,588	17,089	4,948	99,206	1,415,994
Net book value as at June 30, 2009	**17,962**	**2,157**	**610,940**	**637,299**	**27,744**	**14,942**	**4,193**	**96,645**	**1,411,882**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2008	31,893	3,380	1,916,212	1,723,266	96,223	114,671	12,203	130,083	4,027,931
Additions	25	-	471	674	334	537	36	67,652	69,729
Purchase of subsidiary	365	-	675	48	305	42	27	559	2,021
Transfers	2,598	-	18,725	74,734	5,171	2,365	-	(103,593)	-
Transfers to assets held for sale	(1,138)	-	(121)	(7,765)	(44)	(398)	(5)	-	(9,471)
Disposals	(175)	(101)	(112)	(114,865)	(130)	(1,317)	(78)	(1,232)	(118,010)
Other movements	48	-	5,929	(8,148)	1,321	284	-	1	(565)
Gross book value as at June 30, 2008	33,616	3,279	1,941,779	1,667,944	103,180	116,184	12,183	93,470	3,971,635
Accumulated depreciation as at January 1, 2008	15,577	-	653,274	723,207	56,053	93,809	5,084	-	1,547,004
Depreciation expense	921	-	33,761	65,015	2,919	3,186	903	-	106,705
Transfers to assets held for sale	(16)	-	-	(2,115)	(16)	(176)	(5)	-	(2,328)
Disposals	(74)	-	(11)	(83,399)	(73)	(1,233)	(28)	-	(84,818)
Other movements	(1)	-	965	(1,884)	793	77	-	-	(50)
Accumulated depreciation as at June 30, 2008	16,407	-	687,989	700,824	59,676	95,663	5,954	-	1,566,513
Accumulated impairment as at January 1, 2008	7,347	1,278	631,084	399,616	16,747	10,693	238	5,327	1,072,330
Impairment charge for specific assets	-	-	-	-	-	-	-	120	120
Transfers	16	-	85	2,160	101	12	-	(2,374)	-
Transfers to assets held for sale	(7)	-	-	(1,068)	(5)	(42)	-	(295)	(1,417)
Disposals	(55)	(41)	(21)	(30,924)	(11)	(80)	(9)	(5)	(31,146)
Other movements	-	-	271	(861)	434	57	-	(80)	(179)
Accumulated impairment as at June 30, 2008	7,301	1,237	631,419	368,923	17,266	10,640	229	2,693	1,039,708
Net book value as at January 1, 2008	8,969	2,102	631,854	600,443	23,423	10,169	6,881	124,756	1,408,597
Net book value as at June 30, 2008	**9,908**	**2,042**	**622,371**	**598,197**	**26,238**	**9,881**	**6,000**	**90,777**	**1,365,414**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

			Licences				Computer software costs			
	Goodwill (PLN)	**Trademark (PLN)**	**Local telecommunication licenses / permits (PLN)**	**Data communications and internet licenses / permits (PLN)**	**Domestic long-distance licenses / permits (PLN)**	**WiMAX licenses (PLN)**	**Computer software (PLN)**	**Capital work in progress (PLN)**	**Customer relationships (PLN)**	**Total (PLN)**
Gross book value as at January 1, 2009 (Restated)	140,492	2,970	432,823	7,417	107,354	20,329	294,435	4,693	74,953	1,085,466
Additions	-	-	-	-	-	-	29	8,782	4	8,815
Purchase of operational networks	-	-	-	-	-	-	-	-	282	282
Subsidiaries purchased in previous periods	295	-	-	-	-	-	-	-	-	295
Transfers	-	-	-	-	-	-	11,291	(11,291)	-	-
Gross book value as at June 30, 2009	140,787	2,970	432,823	7,417	107,354	20,329	305,755	2,184	75,239	1,094,858
Accumulated amortization as at January 1, 2009	-	1,485	193,962	1,539	47,777	2,887	167,750	-	15,722	431,122
Amortization expense	-	1,485	7,249	-	2,043	585	12,432	-	7,887	31,681
Other movements	-	-	-	-	-	-	78	-	-	78
Accumulated amortization as at June 30, 2009	-	2,970	201,211	1,539	49,820	3,472	180,260	-	23,609	462,881
Accumulated impairment as at January 1, 2009	-	-	159,788	5,878	28,511	3,408	43,991	7	207	241,790
Transfers	-	-	-	-	-	-	7	(7)	-	-
Accumulated impairment as at June 30, 2009	-	-	159,788	5,878	28,511	3,408	43,998	-	207	241,790
Net book value as at January 1, 2009	140,492	1,485	79,073	-	31,066	14,034	82,694	4,686	59,024	412,554
Net book value as at June 30, 2009	**140,787**	**-**	**71,824**	**-**	**29,023**	**13,449**	**81,497**	**2,184**	**51,423**	**390,187**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

		Licences				Computer software costs			
	Goodwill	**Local telecommunication licenses / permits**	**Data communications and internet licenses / permits**	**Domestic long-distance licenses / permits**	**WiMAX licenses**	**Computer software**	**Capital work in progress**	**Customer relationships**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Gross book value as at January 1, 2008	44,175	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Additions	-	-	-	-	-	240	17,339	-	17,579
Subsidiaries purchased in current period	7,684	-	-	-	-	41	-	4,680	12,405
Subsidiaries purchased in previous periods	516	-	-	-	-	-	-	-	516
Transfers	-	-	-	-	-	19,111	(19,111)	-	-
Transfers to assets held for sale	(13,843)	-	-	-	-	(54)	-	-	(13,897)
Other movements	-	-	-	-	-	551	-	-	551
Gross book value as at June 30, 2008	38,532	432,823	7,417	107,354	20,329	265,239	10,122	36,776	918,592
Accumulated amortization as at January 1, 2008	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Amortization expense	-	7,455	-	1,837	585	11,632	-	3,331	24,840
Transfers to assets held for sale	-	-	-	-	-	(28)	-	-	(28)
Other movements	-	-	-	-	-	63	-	-	63
Accumulated amortization as at June 30, 2008	-	186,507	1,539	45,941	2,302	156,375	-	10,220	402,884
Accumulated impairment as at January 1, 2008	13,843	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Transfers	-	-	-	-	-	177	(177)	-	-
Transfers to assets held for sale	(13,843)	-	-	-	-	(2)	-	-	(13,845)
Other movements	-	-	-	-	-	95	19	-	114
Accumulated impairment as at June 30, 2008	-	159,788	5,878	28,511	3,408	43,946	14	207	241,752
Net book value as at January 1, 2008	30,332	93,983	-	34,739	15,204	56,966	11,722	25,000	267,946
Net book value as at June 30, 2008	**38,532**	**86,528**	**-**	**32,902**	**14,619**	**64,918**	**10,108**	**26,349**	**273,956**

(All amounts in thousands, except as otherwise stated)

7. Acquisitions

Current period:

Registration of a subsidiary (not in thousand)

On January 30, 2009, the Company's 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. 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.

Changes in provisional valuation

During the year ended December 31, 2008 the Netia Group acquired Tele2 Polska and several ethernet operators and performed a provisional valuation of the acquired companies' assets, liabilities and contingent liabilities.

Changes in Tele2 Polska's provisional valuation at the date of acquisition related to contingent liabilities and indemnification asset are presented in the table below:

	Acquiree's carrying amount	Provisional fair value estimated as at December 31, 2008	Adjustments	Provisional fair value estimated as at June 30, 2009
	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	11,627	9,631	-	9,631
Customer relationships	-	32,314	-	32,314
Other intangible assets	975	3,855	-	3,855
Deferred income tax asset	1,901	396	-	396
Inventories	42	42	-	42
Receivables	50,524	64,433	(2,125)	62,308
Prepayments	5,030	5,030	-	5,030
Restricted cash	2,110	2,110	-	2,110
Cash and cash equivalents	27,039	27,039	-	27,039
Trade liabilities	(23,885)	(20,752)	-	(20,752)
Other liabilities and accruals	(25,535)	(43,167)	2,011	(41,156)
Defferred income	(6,376)	(6,376)	-	(6,376)
Deferred income tax liabilities	(1,901)	(6,704)	-	(6,704)
Net assets acquired	**41,551**	**67,851**	**(114)**	**67,737**

Changes in the provisional fair value of Easy Com Sp. z o.o.'s contingent consideration were made in the current period:

	Provisional fair value as at December 31, 2008	Adjustments	Provisional fair value as at June 30, 2009
	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	6,068	992	7,060
Transaction costs	84	-	84
Management Fee	1,413	-	1,413
Provisional fair value of net assets acquired	(3,281)	-	(3,281)
Goodwill	**4,284**	**992**	**5,276**

The 2008 comparative information has been restated to reflect the above adjustments in provisional valuation.

Upon the final settlement of the purchase consideration relating to the difference between Tele2 Polska's actual and contractually targeted levels of net cash and net working capital, there were the following changes in goodwill calculation recorded in the current period:

	Provisional fair value as at December 31, 2008	Adjustments	Provisional fair value as at June 30, 2009
	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	147,780	50	147,830
Transaction costs	7,580	234	7,814
Goodwill adjustment	(1,617)	-	(1,617)
Provisional fair value of net assets acquired	(67,851)	114	(67,737)
Goodwill	**85,892**	**398**	**86,290**

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

(All amounts in thousands, except as otherwise stated)

Comparative period:

During the six-month period ended June 30, 2008 the Netia Group purchased three internet service providers. Details of those transactions are specified below:

Company	Date	Share capital acquired	Purchase price
			(PLN)
Acquired by InterNetia Holdings Sp. z o.o. (previously operating under the name Internetia Sp. z o.o.), the Company's subsidary:			
Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. ("Punkt")	February 18, 2008	100.0 %	6,701
Connect Systemy Komputerowe Sp. z o.o. ("Connect").	June 11, 2008	100.0 %	4,503
Cybertech Sp. z o.o. ("Cybertech").	June 27, 2008	100.0 %	3,975
Acquired by Lanet Sp. z o.o., the Company's subsidary:			
KOM-NET Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o. ("Kom-Net SK")	April 18, 2008	100.0 %	129
Total			**15,308**

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

- February 29, 2008 – Punkt,
- June 2, 2008 – Connect,
- June 30, 2008 – Cybertech,
- April 30, 2008 – Kom-Net SK.

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

The following table presents contributed revenues and profits / (losses) of the acquired businesses during the period ended June 30, 2008 from the date of acquisitions (after taking into account intercompany eliminations), as well as the Netia Group's telecommunication revenue and loss if the acquisitions had occurred on January 1, 2008.

Company	Revenue of the acquired business	Profit / (Loss) of the acquired business	Revenue of the Netia Group	Profit of the Netia Group
	(PLN)	(PLN)	(PLN)	(PLN)
Punkt	729	172	482,426	259,691
Connect	222	89	480,953	259,147
Cybertech	-	-	482,471	259,786
Kom-Net SK	-	(1)	480,953	259,284
Total	**951**	**260**	**483,943**	**260,047**

During the year ended December 31, 2008 the Netia Group performed a valuation assets, liabilities and contingent liabilities of acquired companies. In particular, the Netia Group identified customer relationships as an intangible asset and recorded a related deferred income tax liability. The fair value of customer relationships was estimated using the excess earnings method.

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

Provisional valuation as at June 30, 2008	**Punkt**	**Connect**	**Cybertech**	**Kom-Net SK**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	6,701	4,503	3,975	129	15,308
Transaction costs	411	64	-	-	475
Fair value of net assets acquired	(3,495)	(2,146)	(2,408)	(50)	(8,099)
Goodwill	**3,617**	**2,421**	**1,567**	**79**	**7,684**

Valuation as at December 31, 2008	**Punkt**	**Connect**	**Cybertech**	**Kom-Net SK**	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	6,701	4,503	3,975	129	15,308
Transaction costs	411	184	148	-	743
Fair value of net assets acquired	(3,495)	(2,136)	(2,309)	(50)	(7,990)
Goodwill	**3,617**	**2,551**	**1,814**	**79**	**8,061**

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

(All amounts in thousands, except as otherwise stated)

The assets and liabilities recognized in the consolidated statement of financial position arising from the acquisition, as at the acquisition date, are as follows:

Acquiree's carrying amount	Punkt	Connect	Cybertech	Kom-Net SK	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	448	808	765	-	2,021
Other intangible assets	-	41	-	-	41
Inventories	38	3	36	-	77
Receivables	29	42	115	2	188
Prepayments	24	2	44	-	70
Cash and cash equivalents	2,311	8	616	48	2,983
Borrowings	-	(196)	(140)	-	(336)
Trade liabilities	(139)	(52)	(94)	-	(285)
Other liabilities and accruals	(243)	(66)	(262)	-	(571)
Deferred income	(17)	-	-	-	(17)
Net assets acquired	**2,451**	**590**	**1,080**	**50**	**4,171**

Fair value	Punkt	Connect	Cybertech	Kom-Net SK	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	448	847	793	-	2,088
Customer relationships	1,270	1,921	1,489	-	4,680
Other intangible assets		42	-	-	42
Deferred income tax assets	15	11	-	-	26
Inventories	38	3	36	-	77
Receivables	29	42	115	2	188
Prepayments	24	2	44	-	70
Cash and cash equivalents	2,311	8	616	48	2,983
Borrowings	-	(196)	(140)	-	(336)
Trade liabilities	(139)	(52)	(94)	-	(285)
Other liabilities and accruals	(243)	(119)	(262)	-	(624)
Deferred income	(17)	-	-	-	(17)
Deferred income tax liabilities	(241)	(373)	(288)	-	(902)
Fair value of net assets acquired	**3,495**	**2,136**	**2,309**	**50**	**7,990**

Six-month period ended June 30, 2008	Punkt	Connect	Cybertech	Kom-Net SK	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(7,112)	(4,567)	(3,975)	(129)	(15,783)
Cash and cash equivalents in the subsidiary acquired	2,311	8	616	48	2,983
Bank overdraft	-	(117)	(24)	-	(141)
Cash outflow on acquisition	**(4,801)**	**(4,676)**	**(3,383)**	**(81)**	**(12,941)**

Year ended December 31, 2008	Punkt	Connect	Cybertech	Kom-Net SK	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(7,112)	(4,687)	(4,123)	(129)	(16,051)
Cash and cash equivalents in the subsidiary acquired	2,311	8	616	48	2,983
Bank overdraft	-	(117)	(24)	-	(141)
Cash outflow on acquisition	**(4,801)**	**(4,796)**	**(3,531)**	**(81)**	**(13,209)**

The investments in the above companies' shares are of a long-term nature.

8. Financial instruments

Derivative financial instruments

In order to mitigate the currency risk related to the planned payments to be made under equipment and construction contracts, which are linked to foreign currency, in the six-month period ended June 30, 2009 the Company entered into forward transactions to purchase a total of USD 31,340 and EUR 23,400 and sell a total of USD 18,600 and EUR 12,760 with expiration dates spread throughout 2009 and the first half of 2010. For these forward contracts hedge accounting was applied. Net fair value losses on forward contracts recognised in the hedging reserve in equity on these contracts as of June 30, 2009 amounted to PLN 3,627 (PLN 3,694 including tax). During the six-month period ended June 30, 2009, PLN 1,073 of net cash gains on closed forward contracts were recorded as a reduction in the cost of construction in progress, PLN 468 of net cash gains were recorded as finance income due to excess of the amount of closed forward contracts over purchases made, and PLN 8 of ineffective portion of open forward contracts was recorded as finance income.

Furthermore, in order to mitigate the currency risk related to the planned payments to be made under commercial contracts associated with various types of operating expense, which are linked to foreign currency, in the six-month period ended June 30, 2009 the Company entered into forward transactions to purchase a total of USD 3,690 and EUR 13,530 and sell a total of USD 630 and EUR 4,380 with expiration dates spread throughout 2009 and the first half of 2010. During the six-month period ended June 30, 2009, PLN 345 of fair value losses on open forward contracts were recorded as finance costs.

As at June 30, 2009 the related derivative financial instruments of PLN 2,996 (PLN 3,042 of assets and PLN 6,038 of liabilities) represent the net value of the outstanding open forward transactions.

Held to maturity investments

As at June 30, 2009	Maturity date	Nominal value	Carrying amount
10-years treasury bonds	July 26, 2009	20,000	19,966
10-years treasury bonds	July 26, 2009	10,000	9,975
52-weeks treasury notes	July 15, 2009	20,000	19,970
		50,000	**49,911**

9. Shareholders' equity

Share capital (not in thousands)

At June 30, 2009, the Company's share capital consisted of 389,276,294 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at the shareholders' meetings. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. The Company's share capital has not changed since December 31, 2008.

Share premium

The Shareholders' Meeting held on April 9, 2009, resolved to cover PLN 173,185 of Netia S.A.'s loss incurred in 2008 and PLN 26,652 of uncovered losses from previous years resulting from a merger of subsidiaries with the Company during the financial year of 2008, by transfer of PLN 199,837 from share premium.

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. Due to Netia S.A.'s loss for the six-month period ended June 30, 2009 of PLN 28,574, the distributable reserve, as at June 30, 2009, amounted to PLN nil.

Stock options (not in thousands)

In the six-month periods ended June 30, 2009 and 2008 the following changes took place in the number of options granted under the Netia Performance Stock Option Plan of June 28, 2002, as amended ("Plan"):

	Six-month period ended June 30, 2008		Six-month period ended June 30, 2009	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	6.61	43,128,873	5.88	50,268,123
Granted	6.14	1,000,000	4.42	1,400,500
Forfeited / expired	6.14	(1,359,000)	5.74	(857,250)
At the end of the period	**6.60**	**42,769,873**	**5.84**	**50,811,373**

As at June 30, 2009 the total number of options approved by the Supervisory Board and issued was 83,364,970 as compared to 81,964,470 as at December 31, 2008. Out of these approved options 50,811,373 options were outstanding as at June 30, 2009 and 50,268,123 options were outstanding as at December 31, 2008. As at June 30, 2009 and December 31, 2008 the total number of vested options was 17,958,958 and 7,929,458, respectively. The vesting period for the options is up to three years from the date of grant. As at June 30, 2009, the weighted average remaining contractual life of the outstanding options was 3 years. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.50 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the six-month period ended June 30, 2009 and 2008 amounted to PLN 5,664 thousands and PLN 7,731 thousands, respectively, while PLN 373 thousands and PLN 508 thousands was derecognized in the income statement in the respective periods.

(All amounts in thousands, except as otherwise stated)

10. Borrowings

On June 29, 2009 the Company concluded an annex to the Amended and Restated Credit Facility Agreement (concluded on June 27, 2008 and on December 4, 2008) with Rabobank Polska S.A. as the arranger, Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A., relating to the Facility Agreement concluded on 15 May 2007 (the “Facility”).

Pursuant to the annex to the Amended and Restated Credit Facility Agreement the total Facility amount was decreased by PLN 80,000 from PLN 375,000 to PLN 295.000 (the amount of the term loan was decreased from PLN 325,000 to PLN 245,000; the revolving loan has not changed and continues to amount to PLN 50,000). The Facility is to be repaid by June 30, 2013. The Facility bears interest at a variable interest rate of WIBOR plus a margin dependent on financial ratios and the Company must pay a commitment fee on the undrawn, uncancelled amount of the Facility commitment. The proceeds from the Facility can be used to finance the Netia Group’s capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group. Furthermore, pursuant to the annex to the Amended and Restated Credit Facility Agreement, the Company may use funds accumulated on its accounts to repurchase its own shares for a total consideration up to PLN 100,000. Netia may utilize up to PLN 50,000 in each of 2009 and 2010. Netia was also granted consent to dispose of certain fixed assets whereby the first PLN 80,000 of proceeds may be retained by the Company without making mandatory facility prepayments or cancellations. The specific assets consented are: the former head office located in Warsaw at ul. Poleczki 13, and the transmission equipment used by Netia to provide backhaul services to P4 under the UMTS transmission solutions delivery frame agreement.

The cumulative draw downs under the Facility made in previous years amounted to PLN 205,000 and were repaid in full in 2008. As at June 30, 2009 total accrued transaction costs related to the Facility amounted to PLN 7,833, out of which PLN 1,744 was written off due to modifications of the credit facility made on June 29, 2009.

The repayment of the Facility is secured by the following: capped mortgages on the right of perpetual usufruct of the Company’s real estate at ul. Poleczki 13 in Warsaw; registered pledges on: (i) a set of movables and property rights acquired by Netia as a result of its merger with Świat Internet S.A., (ii) a collection of Netia’s movables and property rights, (iii) shares in UNI-Net Sp. z o.o. and InterNetia, and (iv) the shares and general partner’s rights in Netia Spółka Akcyjna UMTS s.k.a.; and assignment as collateral security of Netia’s receivables under certain agreements. Moreover, the Company’s subsidiaries (InterNetia, UNI-Net Sp. z o.o., Netia Spółka Akcyjna UMTS s.k.a.) 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.

11. Dividends per share

No dividends were proposed or paid in respect to the financial years ended December 31, 2008 and 2007. Netia’s distributable reserves are described in Note 9.

12. Supplemental disclosures to interim condensed consolidated statement of cash flows

Changes in working capital components:

	Six-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2009 (PLN)
Receivables	182	6,497
Inventories	502	1,688
Prepaid expenses	(14,536)	(1,209)
Restricted cash	(761)	86
Provisions, accruals and other payables	(7,556)	(4,087)
Deferred income	465	5,196
	(21,704)	**8,171**

Supplemental disclosures to operating activities:

	Six-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2009 (PLN)
Income taxes paid	(293)	(490)
Interest received	5,425	4,313

Supplemental disclosures to investing activities:

	Six-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2009 (PLN)
Subsidiary purchased in current period	(12,941)	-
Subsidiaries purchased in previous periods	(3,129)	(39,724)
Purchase of subsidiaries, net of cash received	**(16,070)**	**(39,724)**

Non-cash transactions:

During the six-month period ended June 30, 2009 the Netia Group entered into finance lease agreements for telecommunication equipment. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 9,924.

13. The Management Board and Supervisory Board

Management Board

As at June 30, 2009 and December 31, 2008 the Company's Management Board consisted of the following members:
- Mirosław Godlewski – President,
- Jonathan Eastick – Chief Financial Officer,
- Piotr Nesterowicz,
- Tom Ruhan.

Supervisory Board

Effective March 9, 2009 Mr. Pantelis Tzortzakis resigned from his position as Member of the Company's Supervisory Board.

Effective April 9, 2009 Mr. Marek Gul resigned from his position as Chairman and member of the Company's Supervisory Board.

Effective April 9, 2009 Mr. Piotr Czapski, Mr. Constantine Gonticas, Mr. Bruce McInroy and Mr. Kazimierz Marcinkiewicz resigned from their positions as Members of the Company's Supervisory Board.

The Company's ordinary shareholder's meeting held on April 9, 2009 appointed to Netia's Supervisory Board the following individuals: Mr. Stan Abbeloos, Mr. Benjamin Duster, Mr. George Karaplis, Mr. Nicolas Maguin, Ms. Ewa Pawluczuk and Mr. Piotr Żochowski.

Due to the above changes as at June 30, 2009 the Company's Supervisory Board consisted of the following members:
- Benjamin Duster – Chairman,
- Stan Abbeloos,
- Raimondo Eggink,
- George Karaplis – Vice-Chairman,
- Nicolas Maguin,
- Ewa Pawluczuk,
- Tadeusz Radzimiński,
- Jerome de Vitry,
- Piotr Żochowski.

14. Related party transactions

Options granted to members of the Management and Supervisory Boards (not in thousands)

As at June 30, 2009, the total number of options granted to members of the Company's Management Board under the Plan, was 36,605,314 of which 12,971,814 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.50 to 8.25 per share. The market price of the Company's shares at June 30, 2009 was PLN 3.55 per share.

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

Options	**Six-month period ended June 30, 2008**	**Six-month period ended June 30, 2009**
At the beginning of the period	33,271,814	36,605,314
At the end of the period	**33,271,814**	**36,605,314**

As at June 30, 2009 and December 31, 2008 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 13,334,000 options, out of which 5,000,000 had vested as at June 30, 2009.

As at June 30, 2009 and December 31, 2008 Mr. Jonathan Eastick – a member of the Company's Management Board – held 10,938,314 options, out of which 4,771,814 had vested as at June 30, 2009.

As at June 30, 2009 and December 31, 2008 Mr. Piotr Nesterowicz – a member of the Company's Management – held 6,666,500 options, out of which 1,200,000 had vested as at June 30, 2009.

As at June 30, 2009 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 5,666,500 options, out of which 2,000,000 had vested as at June 30, 2009.

As at December 31, 2008 Mr. Piotr Czapski – the former member of both the Company's Supervisory Board and Management Board (see Note 13) – held 1,000,000 options, all of which had vested. Due to his resignation from his position, these options are no longer treated as options held by members of the Supervisory Board.

(All amounts in thousands, except as otherwise stated)

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

As at June 30, 2009 and December 31, 2008 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000 and nil shares of the Company, respectively.

As at June 30, 2009 and December 31, 2008 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 shares of the Company.

As at June 30, 2009 and December 31, 2008, Mr. Jonathan Eastick – a member of the Company's Management Board – held 25,000 shares of the Company.

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

As at June 30, 2009 and December 31, 2008, Mr. Raimondo Eggink – a member of the Company's Supervisory Board – held 20,000 shares of the Company.

As at June 30, 2009 and December 31, 2008, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – held 6,000 and 2,000 shares of the Company, respectively.

As at December 31, 2008, Mr. Constantine Gonticas and Mr. Bruce McInroy – the former members of the Company's Supervisory Board (see Note 13) – held 143,000 and 150,000 shares of the Company, respectively.

Restricted Stock Units (not in thousands)

The Company's ordinary shareholder's meeting held on April 9, 2009 approved changes of rules of remunerating the Supervisory Board members, according to which each independent Supervisory Board member (as defined in the Company's Statute) elected by the General Meeting, who remains in office after these rules come into force received a one time grant of 50,000 Restricted Stock Units ("RSU") corresponding to one ordinary share in the Company having the value equal to the market price of Company shares. Under the terms of the scheme one of the Supervisory Board's members has waived his right to participate in the scheme. As at June 30, 2009 the total number of RSU granted to the members of the Company's Supervisory Board was 350,000.

The vesting period for the RSU is up to three years from the date of grant. The Company recognizes the cost of cash-settled share-based payment transactions (including RSU) over the vesting period. The cost of RSU recorded in the six-month period ended June 30, 2009 amounted to PLN 84 thousands.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the six-month period ended June 30, 2009 and June 30, 2008 amounted to PLN 2,935 and PLN 3,883, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 4,033 and PLN 5,449 was recognized in the respective periods.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the six-month periods ended June 30, 2009 and June 30, 2008 amounted to PLN 621 and PLN 287, respectively. These amounts were paid to certain employees of the Netia Group who are not past or present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the six-month periods ended June 30, 2009 and June 30, 2008 amounted to PLN 387 and PLN 306, respectively. In addition, the cost of RSU in the amount of PLN 84 (as described above) was recognized in current period.

One Supervisory Board member, Mr Piotr Żochowski, has waived his rights to cash remuneration and to participate in the RSU scheme.

Other transactions with related parties

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

15. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 33,571 as at June 30, 2009 and PLN 64,753 as at December 31, 2008 of which, PLN 5,987 and PLN 7,994, respectively, related to the planned acquisition of intangible assets.

(All amounts in thousands, except as otherwise stated)

16. Contingencies

Contingent assets

Claims against TP SA

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

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

Contingent liabilities

Claims against Netia as legal successor of Tele2 Polska

TP SA has instigated various proceedings aimed at overturning UKE decisions enforcing the terms of TP SA's cooperation with Tele2 Polska in the area of WLR and these legal proceedings are ongoing. During the first six months of 2009, by virtue of legal merger, Tele2 Polska's WLR activities have been combined with Netia's own activities and Management believes the existence of alternative WLR decisions within Netia SA significantly mitigates risks of material losses, should TP SA be successful with overturning WLR decisions originally issued to Tele2 Polska.

In parallel, TP SA has commenced proceedings alleging that Netia (as legal successor to Tele2 Polska) is causing damage to TP SA through unlawful enrichment by continuing to rely on the challenged WLR decisions in its settlements with TP SA. This claim amounts to PLN 59,091 and Netia, as legal successor to Tele2 Polska, will vigorously defend its position in this matter. The Company's Management, having obtained legal advice that the claim is premature, does not believe resolution of the matter described above will have a material adverse effect on the Netia Group's financial condition.

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

On February 27, 2009, as a result of the merger with Tele2 Polska Netia became a party to the above proceedings.

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

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

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 May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 have to co-finance the funding of this obligation. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of 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 May 8, 2006 to December 31, 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 SA'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 President of UKE also refused to subsidise TP SA towards the costs, claimed by TP SA due to the provision of the universal service in the year 2007. TP SA appealed against the above-mentioned decision of the President of UKE to the court. The Management Board is unable to give any assurance that the decision will not be repealed or amended.

Management intends to fight any decisions that may result in Netia being assessed for universal service contributions as they believe the incumbent's investment record does not justify such payments at this time. Accordingly no provision for potential universal service contributions has been made at the balance sheet date.

Jupiter

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

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

Since Jupiter did not agree with the price reduction, it filed a suit against the Company on September 7, 2007. The amount claimed by Jupiter comprises the amount of the reduced price, increased by statutory interest. On October 30, 2007, the Company responded to the suit, requesting dismissal of the claim on the grounds that it was entirely unfounded. The matter is still pending.

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

WiMAX license requirements

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

Tax contingent liability

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

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

17. Subsequent events

Annex to the UMTS Agreement

On July 24, 2009 Netia and P4 concluded an agreement for the sale of the transmission equipment (the "Sale Agreement") used by Netia to provide transmission services to P4 under the UMTS transmission solutions delivery frame agreement dated July 3, 2006 (the "UMTS Agreement") and an annex to the UMTS Agreement. The Sale Agreement was entered into on the following terms and conditions:

1. The transmission equipment will be purchased by P4 in three batches.
2. The total price for the transmission equipment is PLN 65,418, of which:
   a) PLN 22,832 is payable by P4 on the date of purchase of the first batch of the transmission equipment, i.e. August 1, 2009;
   b) PLN 21,141 is payable by P4 on the date of purchase of the second batch of the transmission equipment, i.e. January 1, 2010; and
   c) PLN 21,445 is payable by P4 on the date of purchase of the third batch of the transmission equipment, i.e. July 1, 2010.
3. The legal title to the given batches of the transmission equipment will be transferred to P4 after P4 pays the price for a given batch, however not earlier that on the dates indicated above.

No adjustments to the net book value of these assets was made at June 30, 2009 as the Management expects to record a profit on disposal.

On July 31, 2009 Netia received payment from P4 for the first batch of the transmission equipment.

Appointment of a new Management Board member (not in thousands)

On August 4, 2009 the Company's Supervisory Board appointed Mr. Grzegorz Esz as member of the Management Board and Chief Commercial Director, effective October 1, 2009.

In addition, on August 4, 2009 Netia's Supervisory Board consented to grant 4,166,500 options to Mr. Grzegorz Esz authorizing him to subscribe for series K shares in accordance with the Plan. The grant is divided into four tranches of 1,666,500, 1,000,000, 750,000 and 750,000 options. The strike prices of the options for each tranche are: PLN 4.25, PLN 5.50, PLN 7.00 and PLN 8.25, respectively. These options will be granted on October 1, 2009.