Quarterly Financial Report

Containing:

- Independent auditor’s review report
- Interim condensed consolidated financial statements
  as at and for the nine-month period ended September 30, 2009

ERNST & YOUNG

Ernst & Young Audit sp. z o.o.
Rondo ONZ 1
00-124 Warszawa
Tel. +48 22 557 70 00
Faks +48 22 557 70 01
warszawa@pl.ey.com
www.ey.com/pl

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

1. We have reviewed the attached interim condensed consolidated statement of financial position of Netia S.A. ('the Group') as at September 30, 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 9 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 9 months period ended September 30, 2009 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2009 of PLN 4,2226 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp. z o.o.

Ernst & Young Audit Sp. z o.o.

Warsaw, November 4, 2009

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

Index to the interim condensed consolidated financial statements

Interim condensed consolidated statement of financial position 1
Interim condensed consolidated statement of comprehensive income 3
Interim condensed consolidated statement of changes in equity 4
Interim condensed consolidated statement of cash flows 5
Notes to the interim condensed consolidated financial statements

1. The Company and the Netia Group 6
2. Summary of significant accounting policies 7
3. Segment information 9
4. Significant one-off transactions recorded in the current interim period 11
5. Property, plant and equipment 13
6. Intangible assets 15
7. Acquisitions 17
8. Financial instruments 20
9. Shareholders' equity 21
10. Borrowings 22
11. Dividends per share 22
12. Supplemental disclosures to interim condensed consolidated statement of cash flows 22
13. The Management Board and Supervisory Board 23
14. Related party transactions 23
15. Commitments 25
16. Contingencies 25
17. Subsequent events 27

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated)	September 30, 2009	Convenience Translation September 30, 2009
		(PLN)	(PLN)	(EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,415,994	1,375,168	325,669
Intangible assets	6	412,480	382,053	90,478
Investment property		36,133	35,608	8,433
Deferred income tax assets		564	67	16
Available for sale financial assets		10	10	2
Long term receivables		6,623	6,623	1,568
Prepaid expenses and accrued income		16,867	6,931	1,641
Total non-current assets		**1,888,671**	**1,806,460**	**427,807**
Current assets				
Inventories		5,060	5,571	1,319
Trade and other receivables		168,664	161,029	38,135
Current income tax receivables		201	119	28
Prepaid expenses and accrued income		18,294	21,671	5,132
Derivative financial instruments	8	-	3,876	918
Financial assets at fair value through profit and loss		5,905	5,590	1,324
Held to maturity investments	8	-	48,303	11,439
Restricted cash		2,712	2,330	552
Cash and cash equivalents		192,685	163,338	38,682
		393,521	**411,827**	**97,529**
Assets classified as held for sale		513	-	-
Total current assets		**394,034**	**411,827**	**97,529**
Total assets		**2,282,705**	**2,218,287**	**525,336**

Mirosław Godlewski
President of the Company

Piotr Nesterowicz
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Tom Ruhan
Member of the Management Board

Grzegorz Esz
Member of the Management Board

Warsaw, Poland
November 4, 2009

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2008 (Restated) (PLN)	September 30, 2009 (PLN)	Convenience Translation September 30, 2009 (EUR)
EQUITY				
Share capital		389,277	389,277	92,189
Share premium		1,556,489	1,356,652	321,284
Retained earnings		(41,245)	148,169	35,090
Other components of equity		23,960	26,774	6,341
Total equity	9	**1,928,481**	**1,920,872**	**454,904**
LIABILITIES				
Non-current liabilities				
Provisions		7,537	8,126	1,924
Deferred income		7,779	7,411	1,755
Deferred income tax liabilities		9,121	7,372	1,746
Other long term liabilities		2,898	7,235	1,714
Total non-current liabilities		**27,335**	**30,144**	**7,139**
Current liabilities				
Trade and other payables		297,809	216,833	51,348
Derivative financial instruments	8	-	9,803	2,322
Financial liabilities at fair value through profit and loss		304	271	64
Current income tax liabilities		53	1	0
Provisions		6,345	9,197	2,178
Deferred income		22,378	31,166	7,381
Total current liabilities		**326,889**	**267,271**	**63,293**
Total liabilities		**354,224**	**297,415**	**70,432**
Total equity and liabilities		**2,282,705**	**2,218, 287**	**525,336**

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2008 (PLN)	Nine-month period ended September 30, 2008 (PLN)	Three-month period ended September 30, 2009 (PLN)	Nine-month period ended September 30, 2009 (PLN)	Convenience Translation Nine-month period ended September 30, 2009 (EUR)
CONSOLIDATED INCOME STATEMENT						
Revenue		271,159	743,338	370,281	1,119,625	265,150
Revenue generated by group of assets held for sale		-	8,774	-	-	-
Total revenue		**271,159**	**752,112**	**370,281**	**1,119,625**	**265,150**
Cost of sales		(197,439)	(570,790)	(246,981)	(756,062)	(179,051)
Gross profit		**73,720**	**181,322**	**123,300**	**363,563**	**86,099**
Selling and distribution costs		(65,279)	(182,896)	(84,227)	(253,647)	(60,070)
General and administration costs		(34,432)	(101,650)	(41,314)	(129,487)	(30,665)
Other income		2,520	6,090	3,090	9,152	2,167
Other expenses		(22)	(73)	(100)	(300)	(71)
Other gains / (losses), net		779	12,184	6,312	9,745	2,308
Operating profit / (loss)		**(22,714)**	**(85,023)**	**7,061**	**(974)**	**(232)**
Finance income		3,696	8,414	1,462	5,296	1,254
Finance costs		592	(11,449)	(4,334)	(15,256)	(3,613)
Gain on sale of an associate		(46)	353,381	-	-	-
Share of losses of former associates		-	(22,625)	-	-	-
Profit / (Loss) before income tax		**(18,472)**	**242,698**	**4,189**	**(10,934)**	**(2,591)**
Income tax benefit / (charge)		(114)	(1,997)	39	511	121
Profit / (Loss)		**(18,586)**	**240,701**	**4,228**	**(10,423)**	**(2,470)**
OTHER COMPREHENSIVE INCOME						
Cash flow hedges	8	192	(284)	(1,042)	(4,669)	(1,106)
Income tax relating to components of other comprehensive income	8	-	-	63	(4)	(1)
Other comprehensive income		**192**	**(284)**	**(979)**	**(4,673)**	**(1,107)**
TOTAL COMPREHENSIVE INCOME/ (LOSS)		**(18,394)**	**240,417**	**3,249**	**(15,096)**	**(3,577)**
Profit / Loss attributable to:						
Owners of the Company		(18,586)	240,701	4,228	(10,423)	(2,470)
Non-controlling interest		-	-	-	-	-
		(18,586)	**240,701**	**4,228**	**(10,423)**	**(2,470)**
Total comprehensive income/ (loss) attributable to:						
Owners of the Company		(18,394)	240,417	3,249	(15,096)	(3,577)
Non-controlling interest		-	-	-	-	-
		(18,394)	**240,417**	**3,249**	**(15,096)**	**(3,577)**
Earnings per share (expressed in PLN per share)						
- basic		(0.05)	0.62	0.01	(0.04)	(0.01)
- diluted		(0.05)	0.62	0.01	(0.04)	(0.01)

(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	-	-	-	-	8,312	-	8,312
Total comprehensive income		-	-	240,701	-	-	(284)	240,417
Balance as at September 30, 2008		**389,277**	**1,556,489**	**(31,149)**	**-**	**22,988**	**(284)**	**1,937,321**

	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	-	-	-	-	7,487	-	7,487
Total comprehensive loss	8	-	-	(10,423)	-	-	(4,673)	(15,096)
Balance as at September 30, 2009		**389,277**	**1,356,652**	**148,169**	**-**	**31,731**	**(4,957)**	**1,920,872**

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

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2008 (PLN)	Nine-month period ended September 30, 2009 (PLN)	Convenience Translation Nine-month period ended September 30, 2009 (EUR)
Cash flows from operating activities:				
Profit / (Loss)		**240,701**	**(10,423)**	**(2,470)**
Adjustments for:				
Depreciation and amortization	5, 6	198,088	223,182	52,854
Impairment charges for specific individual assets		73	300	71
Share of losses of former associates		22,625	-	-
Deferred income tax charge / (benefit)		1,621	(1,256)	(297)
Interest expense charged on bank loans and transaction costs write -off	10	7,040	3,188	755
Other interest		281	942	223
Financial guarantee contract		(435)	-	-
Share-based compensation	9	8,312	7,688	1,821
Fair value (gains) / losses on financial assets / liabilities		(381)	283	67
Fair value (gains) / losses on derivative financial instruments	8	(284)	2,588	613
Foreign exchange losses		2,924	6,304	1,495
Gain on disposal of fixed assets		(5,990)	(7,512)	(1,779)
Gain on sale of an associate		(353,381)	-	-
Gain on disposal of group of assets		(5,093)	-	-
Changes in working capital	12	(9,617)	8,920	2,111
Net cash provided by operating activities		**106,484**	**234,204**	**55,464**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(187,361)	(190,916)	(45,213)
Purchase of operational networks	7	-	(807)	(191)
Proceeds from sale of fixed assets		8,242	26,699	6,323
Proceeds from sale of group of assets		6,000	2,000	474
Investment in former associate		(8,124)	-	-
Proceeds from sale of an associate		453,770	-	-
Purchase of subsidiaries, net of cash received	12	(98,708)	(45,009)	(10,659)
Purchase of treasury bonds / notes, net	8	-	(47,464)	(11,240)
Loan and interest repayments		392	231	54
Net cash used in / provided by investing activities		**174,211**	**(255,266)**	**(60,452)**
Cash flows from financing activities:				
Finance lease payments		(1,723)	(2,137)	(506)
Proceeds from borrowings		85,000	-	-
Loan payments		(180,196)	-	-
Interest payments		(5,814)	-	-
Net cash used in / provided by financing activities		**(102,733)**	**(2,137)**	**(506)**
Net change in cash and cash equivalents		**177,962**	**(23,199)**	**(5,494)**
Exchange gains on cash and cash equivalents		**(2,923)**	**(6,148)**	**(1,456)**
Cash and cash equivalents at beginning of period		57,697	192,685	45,632
Cash and cash equivalents at end of period		**232,736**	**163,338**	**38,682**

1. The Company and the Netia Group

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

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

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 4, 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 telecommunications regulator (Urząd Komunikacji Elektronicznej, "UKE"). During 2008 Netia has begun to install its own equipment in the TP SA network nodes using a form of regulated access called Local Loop Unbundling (LLU) and has begun connecting customers using this form of regulated access.

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

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. Since the beginning of 2007, the Netia Group has acquired 20 such operators with a total of 81,397 (not in thousands) active customers. Additionally, since the end of 2008 the Netia Group has acquired 3,200 (not in thousands) customers and local networks from other Ethernet operators.

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

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

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

Going concern

As at September 30, 2009, the Company's equity amounted to PLN 1,920,872 and the Netia Group had working capital of PLN 144,556. 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 September 30, 2009 the Netia Group had net cash available of PLN 163,338, PLN 50,000 in nominal value of treasury notes and undrawn borrowing facilities of PLN 295,000 (see Notes 8 and 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 September 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 September 30, 2009 of PLN 4.2226 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 nine-month period ended September 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	(31)	24
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2010,	139	693
	- useful lives of certain assets were shortened until the end of 2009,	2,265	755
Machinery and equipment	- useful lives of certain assets were extended until the end of 2009	(38)	13
Total non-current assets		**2,335**	**1,485**

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 amendments to 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;

- 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 ending 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. The amendments have not yet been endorsed by the EU;

- 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;

(All amounts in thousands, except as otherwise stated)

- Amendments to IFRS 1 "First-time Adoption of International Financial Reporting Standards: Additional Exemptions for First-time Adopters", effective for annual periods beginning on or after January 1, 2010. The amendment has not yet been endorsed by the EU;

- Amendment to IAS 32 "Financial Instruments: Presentation" applicable for annual periods beginning on or after February 1, 2010. This amendment has not been endorsed by the EU.

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

3. Segment information

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

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

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

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

In September 2009 the former Tele2 Polska's customers were migrated onto Netia's IT platforms, resulting in the resegmentation of certain customers between "Home" and "SOHO / SME" customer segments. The related revenue, EBITDA, operating profit / (loss) and assets presented in previous periods were adjusted accordingly.

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

	Home	SOHO / SME	Corporate	Carriers	Total reportable segments	Unallocated	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Nine-month period ended September 30, 2009							
Revenue from external customers	**566,631**	**133,958**	**262,684**	**151,304**	**1,114,577**	**5,048**	**1,119,625**
EBITDA	76,302	41,268	131,852	80,543	329,965	(107,757)	222,208
Depreciation and Amortization	(27,039)	(17,988)	(106,030)	(48,822)	(199,879)	(23,303)	(223,182)
Operating profit / (loss)	49,263	23,280	25,822	31,721	130,086	(131,060)	(974)
Finance income / (cost), net	-	-	-	-	-	(9,960)	(9,960)
Income tax benefit / (charge)	-	-	-	-	-	511	511
Profit / (Loss)	**49,263**	**23,280**	**25,822**	**31,721**	**130,086**	**(140,509)**	**(10,423)**
Capital expenditure	48,387	9,423	64,856	26,430	149,096	21,179	170,275
Nine-month period ended September 30, 2008							
Revenue from external customers	**231,456**	**97,165**	**260,438**	**155,901**	**744,960**	**7,152**	**752,112**
EBITDA	(10,840)	18,000	125,731	51,387	184,278	(71,213)	113,065
Depreciation and amortization	(48,235)	(21,221)	(81,831)	(19,346)	(170,633)	(27,455)	(198,088)
Operating profit / (loss)	**(59,075)**	**(3,221)**	**43,900**	**32,041**	**13,645**	**(98,668)**	**(85,023)**
Gain on sale of an associate	-	-	-	-	-	353,381	353,381
Finance income / (cost), net	-	-	-	-	-	(3,035)	(3,035)
Share of loss of former associate	-	-	-	-	-	(22,625)	(22,625)
Income tax benefit / (charge)	-	-	-	-	-	(1,997)	(1,997)
Profit / (Loss)	**(59,075)**	**(3,221)**	**43,900**	**32,041**	**13,645**	**227,056**	**240,701**
Capital expenditure	31,129	10,145	41,329	36,650	119,253	33,482	152,735

(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 September 30, 2009							
Revenue from external customers	**193,839**	**44,098**	**86,806**	**43,634**	**368,377**	**1,904**	**370,281**
EBITDA	28,888	15,636	44,359	29,271	118,154	(35,261)	82,893
Depreciation and Amortization	(9,152)	(6,089)	(35,892)	(16,527)	(67,660)	(8,172)	(75,832)
Operating profit / (loss)	19,736	9,547	8,467	12,744	50,494	(43,433)	7,061
Finance income / (cost), net	-	-	-	-	-	(2,872)	(2,872)
Income tax benefit / (charge)	-	-	-	-	-	39	39
Profit / (Loss)	**19,736**	**9,547**	**8,467**	**12,744**	**50,494**	**(46,266)**	**4,228**
Capital expenditure	18,789	3,846	19,050	2,672	44,357	4,698	49,055
Three-month period ended September 30, 2008							
Revenue from external customers	**95,248**	**33,993**	**87,198**	**52,563**	**269,002**	**2,157**	**271,159**
EBITDA	154	7,619	43,763	18,557	70,093	(26,264)	43,829
Depreciation and amortization	(16,104)	(7,085)	(27,321)	(6,459)	(56,969)	(9,574)	(66,543)
Operating profit / (loss)	**(15,950)**	**534**	**16,442**	**12,098**	**13,124**	**(35,838)**	**(22,714)**
Gain on sale of an associate	-	-	-	-	-	(46)	(46)
Finance income / (cost), net	-	-	-	-	-	4,288	4,288
Income tax benefit / (charge)	-	-	-	-	-	(114)	(114)
Profit / (Loss)	**(15,950)**	**534**	**16,442**	**12,098**	**13,124**	**(31,710)**	**(18,586)**
Capital expenditure	12,173	3,717	16,066	13,966	45,922	19,505	65,427

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

	Three -month period ended September 30, 2008	Nine -month period ended September 30, 2008	Three -month period ended September 30, 2009	Nine -month period ended September 30, 2009
	(PLN)	(PLN)	(PLN)	(PLN)
EBIT for reportable segments	13,124	13,645	50,494	130,086
Radio communication segment	85	167	(55)	(278)
Gain on disposal of group of assets	-	5,093	-	-
General fixed costs (incl. administration, IT, professional services)	(24,324)	(70,340)	(28,754)	(92,466)
Restructuring costs	-	-	(4,314)	(10,281)
Other operating expenses	(2,163)	(6,599)	(2,277)	(5,135)
Depreciation and amortization of unallocated assets	(9,436)	(26,989)	(8,033)	(22,900)
Gain on sale of an associate	(46)	353,381	-	-
Finance income / (cost), net	4,288	(3,035)	(2,872)	(9,960)
Share of loss of former associate	-	(22,625)	-	-
Income tax benefit / (charge)	(114)	(1,997)	39	511
Profit / (Loss)	(18,586)	240,701	4,228	(10,423)

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 September 30, 2009	412,606	160,884	817,770	386,746	1,778,006	440,281	2,218,287
As at December 31, 2008	423,022	161,614	851,830	407,340	1,843,806	438,899	2,282,705

(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	September 30, 2009
	(PLN)	(PLN)
Assets for reportable segments	1,843,806	1,778,006
Telecommunication licenses / permits	110,139	96,201
Investment property	36,133	35,608
Deferred income tax assets	564	67
Indemnities received	12,188	12,188
Transaction costs related to the credit facility	5,486	5,328
VAT and other government receivables	2,003	120
Loans	273	70
Derivative financial instruments	-	3,876
Financial assets at fair value through profit and loss	5,905	5,590
Held to maturity investments	-	48,303
Restricted cash	2,712	2,330
Cash and cash equivalents	192,685	163,338
Assets classified as held for sale	513	-
Radio communication segment	3,224	2,997
Other unallocated assets	67,074	64,265
Total assets	2,282,705	2,218,287

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

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 September 30, 2009 as the Management expects to record a profit on disposal (a gain of PLN 5,298 was recognized on disposal of the first batch, which took place during the current 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 and September 2009 the Netia Group announced headcount reductions, which assumed a total decrease of employment by approximately 231 full time employees by the end of 2009.

Total reorganization costs recorded during the nine-month period ended September 30, 2009 amounted to PLN 10,279 (out of which PLN 8,211 related to the restructuring program announced in April 2009 and September 2009) and were included in the following cost categories presented in the table below. As at September 30, 2009 the related restructuring provision amounted to PLN 3,572.

(All amounts in thousands, except as otherwise stated)

Nine-month period ended September 30, 2009	**Total reorganization costs**	***Out of which restructuring costs***
	(PLN)	***(PLN)***
Cost of sales		
Salaries and benefits	(2,437)	*(2,118)*
Selling and distribution costs		
Salaries and benefits	(3,323)	*(2,505)*
General and administration costs		
Salaries and benefits	(4,155)	*(3,224)*
Other expenses	(364)	*(364)*
	(10,279)	***(8,211)***

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	29	-	81	318	131	708	142	152,210	153,619
Purchase of operational networks	-	-	404	121	-	-	-	-	525
Transfers	7,140	-	28,953	113,945	4,628	4,027	-	(158,693)	-
Disposals	-	-	(869)	(21,831)	(392)	(1,162)	(1,622)	(433)	(26,309)
Other movements	1,101	-	13,095	(7,325)	(3,924)	(2,824)	-	21	144
Gross book value as at September 30, 2009	44,391	3,395	2,009,585	1,859,916	107,661	124,478	7,955	93,849	4,251,230
Accumulated depreciation as at January 1, 2009	17,176	-	722,284	766,238	61,793	96,268	4,457	-	1,668,216
Depreciation expense	2,090	-	54,227	107,698	4,979	5,308	1,211	-	175,513
Disposals	-	-	(475)	(3,815)	(269)	(1,061)	(1,020)	-	(6,640)
Other movements	150	-	(6)	3,745	(4,052)	286	-	-	123
Accumulated depreciation as at September 30, 2009	19,416	-	776,030	873,866	62,451	100,801	4,648	-	1,837,212
Accumulated impairment as at January 1, 2009	7,313	1,238	631,450	369,263	17,837	10,372	30	1,538	1,039,041
Impairment charge for specific assets	-	-	-	-	-	-	-	300	300
Transfers	18	-	25	266	25	7	-	(341)	-
Disposals	-	-	(166)	(244)	(17)	(86)	1	-	(512)
Other movements	10	-	(3)	(427)	423	(3)	-	21	21
Accumulated impairment as at September 30, 2009	7,341	1,238	631,306	368,858	18,268	10,290	31	1,518	1,038,850
Net book value as at January 1, 2009	11,632	2,157	614,187	639,187	27,588	17,089	4,948	99,206	1,415,994
Net book value as at September 30, 2009	**17,634**	**2,157**	**602,249**	**617,192**	**26,942**	**13,387**	**3,276**	**92,331**	**1,375,168**

(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	-	551	824	435	1,387	78	122,000	125,300
Purchase of subsidiaries	365	-	660	6,187	569	2,870	78	927	11,656
Transfers	3,183	170	29,921	112,588	6,516	3,970	-	(156,348)	-
Transfers to assets held for sale	(1,138)	-	(121)	(7,765)	(44)	(398)	(5)	(807)	(10,278)
Disposals	(175)	(101)	(380)	(114,899)	(319)	(2,823)	(2,912)	(520)	(122,129)
Other movements	48	-	6,263	(9,483)	2,539	323	-	(1)	(311)
Gross book value as at September 30, 2008	34,201	3,449	1,953,106	1,710,718	105,919	120,000	9,442	95,334	4,032,169
Accumulated depreciation as at January 1, 2008	15,577	-	653,274	723,207	56,053	93,809	5,084	-	1,547,004
Depreciation expense	1,446		50,936	97,358	4,430	4,725	1,354	-	160,249
Transfers to assets held for sale	(16)	-	-	(2,115)	(16)	(176)	(5)	-	(2,328)
Disposals	(74)	-	(11)	(83,403)	(257)	(2,428)	(2,322)	-	(88,495)
Other movements	(1)	-	1,001	(2,407)	1,412	101	1	-	107
Accumulated depreciation as at September 30, 2008	16,932	-	705,200	732,640	61,622	96,031	4,112	-	1,616,537
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	-	-	-	-	-	-	-	200	200
Transfers	31	1	83	2,651	137	24	-	(2,927)	-
Transfers to assets held for sale	(7)	-	-	(1,068)	(5)	(42)	-	(295)	(1,417)
Disposals	(55)	(41)	(21)	(30,931)	(12)	(304)	(208)	(5)	(31,577)
Other movements	-	-	294	(1,226)	780	54	-	(177)	(275)
Accumulated impairment as at September 30, 2008	7,316	1,238	631,440	369,042	17,647	10,425	30	2,123	1,039,261
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 September 30, 2008	**9,953**	**2,211**	**616,466**	**609,036**	**26,650**	**13,544**	**5,300**	**93,211**	**1,376,371**

(All amounts in thousands, except as otherwise stated)

6. Intangible assets

Current period:

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

(All amounts in thousands, except as otherwise stated)

6. Intangible assets (cont'd)

Comparative period:

			Licences				Computer software costs			
	Goodwill (PLN)	Trademark (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long-distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (PLN)
Gross book value as at January 1, 2008	44,175	-	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Additions	-	-	-	-	-	-	252	28,002	-	28,254
Purchase of subsidiaries	94,059	2,970	-	-	-	-	927	-	36,994	134,950
Transfers to assets held for sale	(13,843)	-	-	-	-	-	-	-	-	(13,843)
Transfers	-	-	-	-	-	-	35,867	(35,869)	2	-
Disposals	-	-	-	-	-	-	(639)	-	-	(639)
Other movements	-	-	-	-	-	-	550	-	-	550
Gross book value as at September 30, 2008	124,391	2,970	432,823	7,417	107,354	20,329	282,307	4,027	69,092	1,050,710
Accumulated amortization as at January 1, 2008	-	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Amortization expense	-	-	10,871	-	3,066	877	17,852	-	5,173	37,839
Transfers to assets held for sale	-	-	-	-	-	-	(28)	-	-	(28)
Disposals		-	-	-	-	-	(489)	-	-	(489)
Other movements	-	-	-	-	-	-	129	-	-	129
Accumulated amortization as at September 30, 2008	-	-	189,923	1,539	47,170	2,594	162,172	-	12,062	415,460
Accumulated impairment as at January 1, 2008	13,843	-	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Transfers	-	-	-	-	-	-	170	(170)	-	-
Transfers to assets held for sale	(13,843)	-	-	-	-	-	-	-	-	(13,843)
Disposals	-	-	-	-	-	-	(85)	-	-	(85)
Other movements	-	-	-	-	-	-	97	12	-	109
Accumulated impairment as at September 30, 2008	-	-	159,788	5,878	28,511	3,408	43,858	14	207	241,664
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 September 30, 2008	**124,391**	**2,970**	**83,112**	**-**	**31,673**	**14,327**	**76,277**	**4,013**	**56,823**	**393,586**

(All amounts in thousands, except as otherwise stated)

7. Acquisitions

Registration of new subsidiaries (not in thousand)

On January 30, 2009, the Company's subsidiary, Netia UMTS Sp. z o.o. ("Netia UMTS"), was registered in the National Court Register. Netia acquired 100 Netia UMTS' shares (with a par value of PLN 50 per share) constituting 100% of Netia UMTS' share capital and giving Netia 100% of the voting power at Netia UMTS' general meeting of shareholders. The book value of Netia UMTS in Netia's accounts amounts to PLN 5,000. The investment is treated as long-term.

On August 4, 2009, the Company's subsidiary, Net 2 Net Sp. z o.o. ("Net 2 Net"), was registered in National Court Register. Netia acquired 100 Net 2 Net's shares (with a par value of PLN 50 per share) constituting 100% of Net 2 Net's share capital and giving Netia 100% of the voting power at Net 2 Net's general meeting of shareholders. The book value of Net 2 Net in Netia's accounts amounts to PLN 5,000. The investment is treated as long-term.

Operational networks

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

Tele2 Polska

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. The purchase consideration also reflected 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, provisionally estimated at PLN 24,394 (see also Note 4). The purchase price also included PLN 2,110 of restricted cash to be reimbursed to the seller if it is released by the Court.

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

The Netia Group accounted for the acquisition of Tele2 Polska using the purchase method and started consolidating the financial statements as of September 1, 2008 adjusting the consolidated statement of comprehensive income and the consolidated statement of financial position for material transactions, which took place between September 1, 2008 and September 15, 2008. The acquired company contributed revenue of PLN 18,552 and profit of PLN 1,686 in the one-month period ended September 30, 2008, after taking into account intercompany eliminations. If the acquisition had occurred on January 1, 2008, the Netia Group's revenue would have amounted to PLN 1,079,405, and profit would have been PLN 264,530.

During the twelve month period following Tele2 Polska's acquisition the Netia Group performed a valuation of Tele2 Polska's assets, liabilities and contingent liabilities. Additionally, during the purchase price allocation process the Netia Group identified customer relationships and a trademark as intangible assets. The fair value of customer relationships was estimated using the excess earnings method. The fair value of trademark was based on estimated royalties. The valuation includes provision for claims against the acquired company that may result in fines or costs being incurred by the Netia Group where relevant. The valuation also includes the indemnification asset equal to the part of any contingent loss that has been indemnified by the seller.

Changes in Tele2 Polska's valuation as at the date of acquisition in relation 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**	**Fair value as at September 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	(1,812)	62,621
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)
Deferred income	(6,376)	(6,376)	-	(6,376)
Deferred income tax liabilities	(1,901)	(6,704)	-	(6,704)
Net assets acquired	**41,551**	**67,851**	**199**	**68,050**

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

(All amounts in thousands, except as otherwise stated)

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, the following changes to goodwill were recorded in the current period:

	Provisional fair value as at December 31, 2008	**Adjustments**	**Fair value as at September 30, 2009**
	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	147,780	334	148,114
Transaction costs	7,580	234	7,814
Goodwill adjustment	(1,617)	-	(1,617)
Fair value of net assets acquired	(67,851)	(199)	(68,050)
Goodwill	**85,892**	**369**	**86,261**

	Nine-month period ended September 30, 2008	**Nine-month period ended September 30, 2009**
	(PLN)	(PLN)
Total purchase consideration settled in cash	(109,634)	(40,895)
Cash and cash equivalents in the subsidiary acquired	27,039	-
Cash outflow on acquisition	**(82,595)**	**(40,895)**

Ethernet operators

During the year ended December 31, 2008 the Netia Group acquired several ethernet operators and performed a provisional valuation of the acquired companies' assets, liabilities and contingent liabilities. The following 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 September 30, 2009**
	(PLN)	(PLN)	(PLN)
Purchase consideration, excluding transaction costs	6,068	992	7,060
Transaction costs	84	-	84
Management Fee	1,413	239	1,652
Provisional fair value of net assets acquired	(3,281)	-	(3,281)
Goodwill	**4,284**	**1,231**	**5,515**

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

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

Acquisitions of Ethernet operators in comparative period

During the nine-month period ended September 30, 2008 the Netia Group purchased the following internet service providers:

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 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
Acquired by Lanet Sp. z o.o., 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
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.

(All amounts in thousands, except as otherwise stated)

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 September 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	1,362	417	753,585	241,313
Connect	859	18	752,112	240,559
Cybertech	520	85	753,630	241,162
Kom-Net SK	-	(5)	752,112	240,079
Total	**2,741**	**515**	**755,103**	**241,010**

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 September 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	43	-	518
Fair value of net assets acquired	(3,495)	(2,146)	(2,286)	(50)	(7,977)
Goodwill	**3,617**	**2,421**	**1,732**	**79**	**7,849**

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.

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**

(All amounts in thousands, except as otherwise stated)

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**

Nine-month period ended September 30, 2008	Punkt	Connect	Cybertech	Kom-Net SK	Total
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(7,112)	(4,567)	(4,018)	(129)	(15,826)
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)**	**(3,426)**	**(81)**	**(12,984)**

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 nine-month period ended September 30, 2009 the Company entered into forward transactions to purchase a total of USD 32,240 and EUR 24,480 and sell a total of USD 18,600 and EUR 12,760 with expiration dates spread throughout 2009 and the first three quarters 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 September 30, 2009 amounted to PLN 4,953 (PLN 4,957 including tax). During the nine-month period ended September 30, 2009, PLN 5 of net cash losses on closed forward contracts were recorded as a reduction in the cost of construction in progress, PLN 500 of net cash losses were recorded as finance cost due to excess of the amount of closed forward contracts over purchases made, and the ineffective portion of open forward contracts of PLN 70 was recorded as finance cost.

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 nine-month period ended September 30, 2009 the Company entered into forward transactions to purchase a total of USD 4,070 and EUR 14,530 and sell a total of USD 630 and EUR 4,380 with expiration dates spread throughout 2009 and the first three quarters of 2010. During the nine-month period ended September 30, 2009, PLN 2,018 of fair value losses on open forward contracts were recorded as finance costs.

As at September 30, 2009 the related derivative financial instruments of PLN 5,927 (PLN 3,876 of assets and PLN 9,803 of liabilities) represent the net value of the outstanding open forward transactions.

Held to maturity investments

As at September 30, 2009	Maturity date	Nominal value	Carrying amount
52-week treasury notes	June 30, 2010	10,000	9,661
52-week treasury notes	July 14, 2010	10,000	9,690
52-week treasury notes	August 4, 2010	10,000	9,649
52-week treasury notes	August 11, 2010	10,000	9,653
52-week treasury notes	August 11, 2010	10,000	9,650
		50,000	**48,303**

9. Shareholders' equity

Share capital (not in thousands)

At September 30, 2009, the Company's share capital consisted of 389,276,294 ordinary shares and 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at the shareholders' meetings. The holder of 1,000 series A1 shares has the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. 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 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 nine-month period ended September 30, 2009 of PLN 18,288, the distributable reserve, as at September 30, 2009, amounted to PLN nil.

Stock options (not in thousands)

In the nine-month periods ended September 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"):

	Nine-month period ended September 30, 2008		Nine-month period ended September 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	4.83	14,333,500	5.43	5,567,000
Forfeited / expired	6.59	(5,709,000)	5.77	(927,250)
At the end of the period	**6.12**	**51,753,373**	**5.84**	**54,907,873**

As at September 30, 2009 the total number of options approved by the Supervisory Board and issued was 87,531,470 as compared to 81,964,470 as at December 31, 2008. Out of these approved options 54,907,873 options were outstanding as at September 30, 2009 and 50,268,123 options were outstanding as at December 31, 2008. As at September 30, 2009 and December 31, 2008 the total number of vested options was 17,942,373 and 7,929,458, respectively. The vesting period for the options is up to three years from the date of grant. As at September 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 nine-month period ended September 30, 2009 and 2008 amounted to PLN 7,860 thousands and PLN 10,706 thousands, respectively, while PLN 373 thousands and PLN 2,394 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 ("Annex") 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 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, 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 September 30, 2009 total accrued transaction costs related to the Facility amounted to PLN 8,517, out of which PLN 3,188 was written off during the nine-month period ended September 30, 2009. The accrued transaction costs are being amortized over the availability period, that expires on June 30, 2011.

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) the collection 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 InterNetia Holdings Sp. z o.o., 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 Holdings Sp. z o.o. and 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. Until the merger of Uni-Net Sp. z o.o. and InterNetia Holdings Sp. z o.o. on July 31, 2009, the repayment of the Facility was also secured by registered pledges on shares in Uni-Net Sp. z o.o., which was also a guarantor.

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:

	Nine-month period ended September 30, 2008	Nine-month period ended September 30, 2009
	(PLN)	(PLN)
Receivables	2,789	5,432
Inventories	(757)	(511)
Prepaid expenses	(13,468)	3,372
Restricted cash	(763)	382
Provisions, accruals and other payables	(2,876)	(8,175)
Deferred income	5,458	8,420
	(9,617)	**8,920**

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2008	Nine-month period ended September 30, 2009
	(PLN)	(PLN)
Income taxes paid	(508)	(572)
Interest received	9,162	5,640

Supplemental disclosures to investing activities:

	Nine-month period ended September 30, 2008	Nine-month period ended September 30, 2009
	(PLN)	(PLN)
Subsidiary purchased in current period	(95,579)	(10)
Subsidiaries purchased in previous periods	(3,129)	(44,999)
Purchase of subsidiaries, net of cash received	**(98,708)**	**(45,009)**

Non-cash transactions:

During the nine-month period ended September 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 9,991.

13. The Management Board and Supervisory Board

Management Board

As at September 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.

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.

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 September 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 September 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 and 8.25 per share. The market price of the Company's shares at September 30, 2009 was PLN 4.01 per share.

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

Options	**Nine-month period ended September 30, 2008**	**Nine-month period ended September 30, 2009**
At the beginning of the period	33,271,814	36,605,314
Granted	13,333,500	-
Status changed due to resignation from Management Board	(5,000,000)	-
At the end of the period	**41,605,314**	**36,605,314**

As at September 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 September 30, 2009.

As at September 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 September 30, 2009.

As at September 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 September 30, 2009.

As at September 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 September 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 or Management Board.

In addition, on August 4, 2009 the Company's Supervisory Board granted 4,166,500 options to Mr. Grzegorz Esz, who became a member of the Management Board, effective October 1, 2009 (see Note 13).

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

As at September 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 September 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 September 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 September 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 September 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. Due to their resignations from their positions, these shares are no longer treated as shares held by members of the Supervisory Board .

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, Mr Piotr Żochowski, has waived his right to participate in the scheme. As at September 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 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 nine-month period ended September 30, 2009 amounted to PLN 201 thousands.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the nine-month period ended September 30, 2009 and September 30, 2008 amounted to PLN 4,334 and PLN 5,425, respectively. In addition, the gross cost of share-based payments in the amounts of PLN 5,547 and PLN 7,612 was recognized in the respective periods. Furthermore PLN 1,724 of costs accrued for share options that may no longer vest due to resignation were reversed in the nine-month period ended September 30, 2008.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2009 and September 30, 2008 amounted to PLN 817 and PLN 463, respectively. Additional to the above, termination benefits of PLN 55 for the former members of the Management Board of the Company's subsidiaries were recognized as a cost during the current period. 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 nine-month periods ended September 30, 2009 and September 30, 2008 amounted to PLN 591 and PLN 468, respectively. In addition, the cost of RSU in the amount of PLN 201 (as described above) was recognized in the 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 nine-month period ended September 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 31,116 as at September 30, 2009 and PLN 64,753 as at December 31, 2008 of which, PLN 7,401 and PLN 7,994, respectively, related to the planned acquisition of intangible assets.

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 nine 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 valuation of Tele2 Polska as at the date of acquisition (see Note 7).

Settlement with TPSA

On October 22, 2009 UKE published a non-binding settlement with TPSA that requires TPSA, amongst other obligations, to enter into bi-lateral agreements with alternative operators, including Netia. The scope of these bi-lateral agreements should include, but is not limited to, the settlement of the contingent assets and liabilities and cancellation of the related court proceedings between Netia and TPSA. At the date of these financial statements it was not possible for Netia's Management to estimate the likelihood of such a settlement with TPSA being achieved nor was it possible to estimate any potential impact on the carrying values of the related assets and liabilities.

Universal services

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

TP SA applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision. The application pertains to the subsidy towards the costs for the period from May 8, 2006 to December 31, 2006 and for the year 2007. The President of UKE refused to subsidize the costs of services provided by TPSA that form a part of the universal service in 2006. Having considered TPSA's claim, the court reversed decision of the President of UKE. The Presidents of UKE and KIGEiT filed cassation appeals *(skarga kasacyjna)* against decision of the court. The Supreme Administrative Court dismissed the cassation appeals and the case has returned to UKE for re-examination. TPSA has also applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision for the years 2007 and 2008.

Management intends to appeal against 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 submitted applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 the Polish regulator issued a decision reducing the initial milestones. The amended milestones 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 (not in thousands)

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

On August 17, 2009 the Company's proxy received information about the delivery of a decision of the Director of the Tax Control Office in Warsaw ("UKS Director") according to which Netia's corporate income tax ("CIT") due for the year 2003 was set at PLN 58.7 million plus accrued penalty interest of PLN 41.5 million ("The Tax Decision"). The Tax Decision was issued despite the legal arguments presented by the Company, which stated that the conclusions delivered by the Tax Control Office were incorrect and groundless. According to the UKS Director, Netia understated its taxable revenues by PLN 303 million by excluding from its revenues the accrued and not received interest from loans granted by Netia in previous years to its subsidiaries which subsequently merged with Netia on December 31, 2003.

According to Netia, the Tax Decision of the UKS Director is in conflict with the relevant tax regulations and the Company has appealed against the Tax Decision issued by the UKS Director and also against various procedural decisions of the Tax Authorities. The UKS Director's Tax Decision is not final and it is not enforceable as it was issued by the first instance tax authority. The Company has received opinions from several independent tax and legal advisors which conclude that the claims of the Director of the Tax Control Office have no legal grounds. Due to the above, the Company has not created a provision for any part of the alleged tax arrears reported in the Tax Decision.

Management notes that, on the basis of current tax regulations, the Director of the Tax Office may order enforcement of the decision prior to expiry of the statute of limitations on December 31, 2009 prior to the tax authority of second instance issuing its decision on the merit of Netia's appeals. Furthermore, Management has been informed that UKS has commenced penal proceedings against the Company's officers and managers responsible for taxation affairs in 2003 that, should such proceedings be continued, may lead to the statute of limitations in respect to the Company's purported tax liabilities for 2003 being extended beyond December 31, 2009.

As at the date of these interim condensed financial statements, Management is unable to predict what approach the Tax Authorities will finally take to enforce this Tax Decision, if at all. However, based on the tax and legal advice received, Management intends to take all legal measures necessary to overturn this Tax Decision.

17. Subsequent events

Acquisition of operational networks

In October 2009 the Netia Group finalized the purchase of a local network providing broadband access to customers in South-Western Poland for a total price of PLN 1,003. In addition, the Netia Group agreed to acquire another local network and related customers from an Ethernet operator. The purchase price is estimated at PLN 1,045, however it is dependant on the number of customers transferred. The transaction is to be finalized by the end of 2009.