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

1. The Netia Group's structure

The interim condensed consolidated financial statements as at and for the nine-month period ended September 30, 2009 include the financial statements of the Company and the following subsidiaries:

Netia Spółka Akcyjna UMTS Spółka komandytowo – akcyjna
Netia UMTS Sp. z o.o.
In2Loop Polska Sp. z o.o.
Net 2 Net Sp. z o.o.
InterNetia Holdings Sp. z o.o. Group (previously operating under the name InterNetia Sp. z o.o.)

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

- Internetia Sp. z o.o. (previously operating under the name Air Bites Polska Sp. z o.o.)
- UNI-Net Poland Sp. z o.o.

2. Changes within the Netia Group's structure

The Management of Netia S.A. has executed the transactions described below as part of an ongoing plan to simplify the Netia Group and consolidate operations into Netia S.A. and Internetia Sp. z o.o. in order to extract increased operational synergies.

***Registration of new subsidiaries (not in thousand*)**

On January 30, 2009, the Company 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.

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.

Mergers with subsidiaries

On February 27, 2009 Netia merged with its wholly-owned subsidiary Tele2 Polska Sp. z o.o. ("Tele2 Polska"). The merger was carried out through the transfer of the acquired company's assets to Netia (merger by acquisition) without any increase in Netia's share capital and without any share exchanges.

On May 29, 2009 Lanet Sp. z o.o. ("Lanet") merged with its wholly-owned subsidiaries Seal-Net Sp. z o.o. ("Seal – Net") and Easy Com Sp. z o.o. ("Easy Com"). The merger was carried out through the transfer of the acquired companies' assets to Lanet (merger by acquisition) without any increase in Lanet's share capital and without any share exchanges.

On May 29, 2009 Connect Systemy Komputerowe Sp. z o.o. ("Connect") merged with its wholly-owned subsidiaries Cybertech Sp. z o.o. ("Cybertech") and Netster Sp. z o.o. ("Netster"). The merger was carried out through the transfer of the acquired companies' assets to Connect (merger by acquisition) without any increase in Connect's share capital and without any share exchanges.

On June 30, 2009 Systemy Informatyczne Netis Sp. z o.o. ("Netis") merged with its wholly-owned subsidiary Ticom Sp. z o.o. ("Ticom"). The merger was carried out through the transfer of the Ticom's assets to Netis (merger by acquisition) without any increase in Netis' share capital and without any share exchanges.

On July 31, 2009 InterNetia Holdings merged with its wholly-owned subsidiary Uni-Net Sp. z o.o. ("Uni-Net"). The merger was carried out through the transfer of the Uni-Net's assets to InterNetia Holdings (merger by acquisition) without any increase in InterNetia Holdings' share capital and without any share exchanges.

On August 31, 2009 Internetia Sp. z o.o. ("Internetia") merged with the following subsidiaries:

- Connect Systemy Komputerowe Sp. z o.o.
- Interbit Sp. z o.o.
- Lanet Sp. z o.o.
- Przedsiębiorstwo Informatyczne Punkt Sp. z o.o.
- Systemy Informatyczne Netis Sp. z o.o.

The merger was carried out through the transfer of the acquired companies' assets to Internetia (merger by acquisition) in exchange of shares in the increased Internetia's share capital.

Transfer of shares' ownership (not in thousands)

On February 27, 2009, the InterNetia Holdings, Netia's subsidiary, transferred the ownership of the below mentioned shares in its subsidiaries:

- 2,039 shares in the share capital of Easy Com, with the total nominal value of PLN 1,019,500, to another Netia's subsidiary operating under the business name Lanet. These shares represent 100% of the share capital and confer the right to 100% of the votes at Easy Com's meeting of shareholders. The transfer of the above referred shares was made in execution of the agreement concluded by InterNetia Holdings and Lanet on February 27, 2009. The shares represent an in-kind contribution in exchange for which InterNetia Holdings acquired 400 newly issued shares in Lanet, with the nominal value of PLN 500 and at the issue price of PLN 21,182.20 each for a total price of PLN 8,472,880.

- 200 shares in the share capital of Cybertech, with the total nominal value of PLN 50,000, to another Netia's subsidiary operating under the business name Connect. These shares represent 100% of the share capital and confer the right to 100% of the votes at Cybertech's meeting of shareholders. The transfer of the above referred shares was made in execution of the agreement concluded by InterNetia Holdings and Connect on February 27, 2009. The shares represent an in-kind contribution in exchange for which InterNetia Holdings acquired 2,000 newly issued shares in Connect, with the nominal value of PLN 50 and at the issue price of PLN 2,079 each, i.e., for a total price of PLN 4,158,000.

Corporate separation of Uni-Net Poland Sp. z o.o.

On May 29, 2009 Uni-Net Poland Sp. z o.o. ("Uni-Net Poland"), a subsidiary of InterNetia Holdings, was registered in the National Court Register. Uni-Net Poland was established through the corporate separation from Uni-Net. The corporate separation has been carried out pursuant to Article 529, §1, subsection 4 of the Commercial Companies Code through the division and transfer of business to the new entity Uni-Net Poland with a decrease in Uni-Net's share capital.

3. Shareholders holding at least 5% of the votes at the General Shareholders' Meeting of Netia as at the date of filing this report and changes in the ownership structure in the period since the submission of the previous quarterly report (not in thousands)

Based on the information presented to the Company by its shareholders, as at the date filing of this report, significant blocks of the Company's shares were held by the following entities (the interest and the number of votes are calculated on the basis of the number of shares constituting the Company's share capital as at November 4, 2009):

Third Avenue Management LLC

Third Avenue Management LLC held 93,720,763 shares constituting 24.1% of the Company's share capital, inclusive of the shareholding of Third Avenue International Value Fund described below, and representing 5.0% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by Third Avenue Management LLC has not changed since the submission of the previous quarterly report.

Third Avenue International Value Fund

Third Avenue International Value Fund held 19,594,034 of the Company's shares constituting 5.0% of the Company's share capital and representing 5.0% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of Third Avenue International Value Fund has not changed since the submission of the previous quarterly report.

Subsidiaries of SISU Capital Limited

The subsidiaries of SISU Capital Limited held a total of 39,043,006 of the Company's shares constituting 10.0% of its share capital and carrying 10.0% of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by the subsidiaries of SISU Capital Limited has not changed since the submission of the previous quarterly report.

ING Otwarty Fundusz Emerytalny

In the period from the submission of the previous quarterly report ING Otwarty Fundusz Emerytalny increased their share holding in the Company's share capital and held a total of 39,941,766 (previously 36,950,861) of the Company's shares constituting 10.3% of its share capital and representing 10.3% of the total number of votes at the General Shareholders' Meeting of the Company.

Pioneer Pekao Investment Management SA

The clients of Pioneer Pekao Investment Management SA held a total of 38,891,802 of the Company's shares constituting 10.0 % of its share capital and representing 10.0 % of the total number of votes at the General Shareholders' Meeting of the Company. The number of the Company's shares held by all Pioneer Pekao Investment Management SA's clients has not changed since the submission of the previous quarterly report.

4. Changes in shares and share options held by members of the Company's Management Board and Supervisory Board (not in thousands)

Between the adoption of the employee share option scheme (the "Plan") on April 10, 2003 and September 30, 2009, the Supervisory Board approved and issued a total number of 87,531,470 options to members of the Management Board and to Netia's key employees. From the total number of approved options, 54,907,873 were outstanding as at September 30, 2009. The options are exercisable until December 20, 2012. The strike price of the approved outstanding options, depending on the agreement, ranges between PLN 3.50 and PLN 8.25 per share.

During the third quarter of 2009 the following changes took place in the number of options granted under the Plan:

Three-month period ended September 30, 2009

At the beginning of the period	50,811,373
Granted	4,166,500
Forfeited / expired	(70,000)
At the end of the period	54,907,873

There were no changes in the number of options granted to members of the Management Board during the third quarter of 2009. Options held by members of the Company's Management Board are presented below:

- Mr Mirosław Godlewski held 13,334,000 options,
- Mr Jonathan Eastick held 10,938,314 options,
- Mr Piotr Nesterowicz held 6,666,500 options,
- Mr Tom Ruhan held 5,666,500 options.

On August 4, 2009 the Company's Supervisory Board appointed Mr. Grzegorz Esz as member of the Management Board, effective October 1, 2009, and granted 4,166,500 options to Mr. Grzegorz Esz authorizing him to subscribe for series K shares in accordance with the Plan.

The members of the Supervisory Board did not hold any options as at September 30, 2009 and as at the date of filing this report.

There were no changes in the number of Netia's shares held by members of the Company's Management Board during the third quarter of 2009 and as at the date of filing this report. Shares held by members of the Company's Management Board are presented below:

- Mr Mirosław Godlewski held 10,000 shares,
- Mr Jonathan Eastick held 25,000 shares,
- Mr Tom Ruhan held 253,593 shares.

There were no changes in the number of Netia's shares held by members of the Company's Supervisory Board during the third quarter of 2009 and as at the date of filing this report. Shares held by members of the Company's Supervisory Board are presented below:

- Mr Tadeusz Radzimiński held 6,000 shares,
- Mr Raimondo Eggink held 20,000 shares.

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

5. Legal proceedings

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.

TP SA

As a result of Telekomunikacja Polska S.A. ("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.

Furthermore, Netia is a party of various proceedings conducted by TP SA, UKE, UOKiK and SOKiK described in detail under the point "Factors which may have an impact on the result of the Netia Group" ("Dependence of the Company on TP SA due to telecommunication access services" and " Risks related to Tele2 Polska's business").

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 filing this report 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.

6. Factors which may have an impact on the result of the Netia Group

Risk of changes to the Netia Group's strategy

On April 18, 2007 the Company announced the main assumptions of its new operational strategy. Financial guidance regarding this strategy was last updated on April 6, 2009 to take account of the material impact of the Netia's strategic cost reduction project. No assurance can be given as to whether new strategic initiatives included in the new strategy, will be successful, and if not, whether they may adversely affect the operating activity of the Netia Group, its financial standing or its overall performance.

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

Currently, Netia is not controlled by any strategic investors, and its shares are held by a large number of shareholders. Novator Telecom Poland II S.a.r.l. („Novator"), previously the largest single shareholder of Netia (31.3% of the Company's share capital). sold all of its holdings of Netia shares during the first half of 2009. In the same period ING Otwarty Fundusz Emerytalny and clients of Pioneer Pekao Investment Management SA increased their share in the Company's share capital and according to the information provided to the Company hold 39,941,766 and 38,891,802 shares constituting 10.3% and 10.0% of the Company's share capital and representing 10.3% and 10.0% of the total number of votes at the General Shareholders' Meeting of the Company, respectively. Moreover Third Avenue Management LLC ("Third Avenue") holds 93,720,763 shares representing 24.1% of the Company's share capital and 24.1% of the aggregate number of votes at the Company's General Shareholders' Meeting. The subsidiaries of SISU Capital Limited hold 39,043,006 shares representing 10.0% of the Company's share capital and 10.0% of the aggregate number of votes at the Company's General Shareholders' Meeting. Neither Netia's corporate documents nor the provisions of Polish law provide for any serious restrictions to changes in control over the Issuer in the event of third parties acquiring a considerable number of shares. Thus, such changes of control may materially affect the composition of the Company's Supervisory Board and the Management Board and, in turn, the strategy and business activity of the Netia Group. Due to the above, the Issuer cannot guarantee that any adopted strategy of the Netia Group will be pursued in accordance with its initial objectives.

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

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

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

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

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

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

Technological risk

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

Foreign currency risk

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

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

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

Risk resulting from changes in the Telecommunications Law

The Telecommunications Law came into force on September 3, 2004 (except for certain regulations that came into force on January 1, 2005 in result of implementation of so-called "2002 directives package"). On April 24, 2009, the lower chamber of the Polish Parliament (Sejm) passed the act on the amendment of Telecommunications Law and other acts. The purpose of the above-mentioned amendment was to harmonize Polish provisions with the legal framework of the European Union. This amendment to the Telecommunications Law (the "New Amendment") entered into force on July 6, 2009.

Pursuant to the Telecommunications Law, binding until July 6, 2009, each public telecommunications network operator was required to conduct negotiations concerning interconnection agreements upon another telecom operator's request. According to the New Amendment, the extent of an obligation to negotiate agreements on telecommunications access, imposed on non-SMP operators, has been limited to cover only the obligation to negotiate agreements for the interconnection of networks.

The President of UKE is entitled to settle the dispute between parties to the negotiations; the dispute can be settled by virtue of an administrative decision, which will replace an agreement on that issue if one of the negotiating parties is a public telecommunications network operator obliged to provide telecommunications access.

Provisions of the New Amendment introduce a number of other changes in the current obligations of telecommunications entrepreneurs, concerning, in particular, the terms and conditions regarding entering into and the modification of retail agreements (i.e. agreements with clients), protection of subscribers, number portability, data retention, as well as national defence, security and public safety and order obligations. The act specifies also the competences of President of UKE concerning the methods of verification of charges, proposed by SMP entrepreneurs for wholesale services provided by such an entrepreneur; the act introduces also the guarantees concerning the independence of the Regulator (amendment required by relevant EU legislation; according to the act, the prerequisites for the recall of the Regulator are limited to extraordinary circumstances. The act ensures also the durability of the term of office of the President of UKE). Compliance with the provisions of the New Amendment, specifically with respect to the increased protection for subscribers and new duties regarding national defence and security, public security and the safeguard of the public order, may increase the operational costs of the Group Companies.

The Minister of Infrastructure is working on a further amendment to the Telecommunications Law. The Minister of Infrastructure delivered to the Government a draft of the act „for the support of the development of services and networks for broadband telecommunications", prepared by UKE. According to the guidelines for the law published by the President of UKE, one of the goals of the drafted act is to improve the investment process in telecommunications infrastructure. At this stage it is hard to indicate whether and when the new regulation enters into force, and how they will affect the activities of the Group.

Risks resulting from the obligation to provide universal services

The Telecommunications Law states that the obligation to provide universal services shall rest with the operator selected pursuant to a decision of the President of UKE issued after a tender procedure. The President of UKE issued a decision assigning TP SA as the operator required to provide universal services until May 8, 2011. Telecommunications providers whose revenues from telecom activities exceed PLN 4,000 have to co-finance the funding of this obligation. The share in the funding that a telecommunications provider will be required to provide shall also be established by a decision of the President of 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 TP SA that form a part of the universal service in 2006. Having considered TP SA's claim, the court reversed decision of the President of the UKE. The Presidents of UKE and KIGEiT filed cassation appeals against decision of the court. The Supreme Administrative Court dismissed the cassation appeals. The Management Board is unable to give any assurance that, following re-examination of the case, TP SA's motion for a subsidy towards the universal service will not be granted.

TP SA applied to the President of UKE for a subsidy towards the incurred costs of the universal service provision for the years 2007 and 2008. The Management Board is unable to give any assurance that both of the above-mentioned applications of TP SA will be granted.

Risks related to holding a position of SMP

The President of the UKE issued the decision, whereby it has appointed Netia as a telecommunications operator holding significant market power in the market for the call termination in its fixed public telephone network, in the area of the network where the termination is executed. At the same time, UKE imposed regulatory obligations that relate to:

- providing access to the network (including the use of network elements and associated facilities to the extent they are used to provide call termination services in the fixed public telephone network of Netia),
- non-discrimination (obligation not to discriminate between telecommunications operators with regard to telecommunications access to the call termination services in its fixed public telecommunications network, in particular to offer the same conditions in comparable circumstances, as well as to offer the services and to provide the information on the conditions not less favorable than used within own enterprise or in relations with affiliates);
- transparency (comprising the publication of the information in matters concerning provision of telecommunications access with regard to the provision of call termination services in the fixed public telecommunications network of Netia S.A., on technical specifications of networks and telecommunications equipment, network characteristics, terms and conditions of the services and of the use of networks, as well as on the fees).

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

No assurance can be given as to whether Netia will not be obliged to perform some other duties set out in the Telecommunications Law imposed on a telecommunications operator holding significant market power in the market with respect to call termination services in the fixed public telephone network.

The President of UKE issued a decision amending the agreement between Netia and TP SA on interconnection of networks in which it established the level of asymmetry of rates for call termination on Netia's network in relation to the rates for call termination on TP's network. According to the above-mentioned decision, rates for the services are to be symmetrical by January 1, 2014.

The Management Board is unable to give any assurance that term sheet of achieving of rate's asymmetry for call termination in Netia's network in relation to the rates for call termination in TP SA's network, will not be accelerated or otherwise changed by the President of UKE.

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

On October 22, 2009 the President of UKE and TP SA signed an agreement laying down rules for the performance by TP SA of obligations with regard to telecommunications access ("The Settlement Agreement"). The Settlement Agreement provides that the fees for individual services in the scope of telecommunications access that follow from the applicable reference offers will be valid until January 31, 2012. The nominal value of the fees specified for that period for broadband access under the BSA offer will be determined while taking under consideration the retail prices of the TP SA's offer for the day October 10, 2009. Changes to the rules for financial settlements for broadband access to TP SA's network as specified in the Settlement Agreement will be effective as a result of a decision of the President of UKE on the introduction and adoption of the relevant reference offer and after prior publication of the position of the President of UKE on the rules of a margin squeeze test for operators alternative to TP SA.

The Management cannot assure that TP will perform its obligations specified in the Settlement Agreement, including investment obligations and that Netia will secure conditions of access to TP SA's network to Netia on conditions not worse than the current ones.

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

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

In the Settlement Agreement, TP has undertaken an obligation towards the President of UKE to withdraw court cases relating to reference offers. The Management cannot provide any assurance that TP will perform this obligation.

Frame interconnection offer

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

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

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

Frame offer with regard to access to local loops and sub-loops („RUO")

The President of UKE approved "the reference offer of TP SA on the framework terms of telecommunications access with regard to local loop and sub-loop access service and related facilities with regard to full and shared access". Following the examination of TP SA and KIGEiT's motion for reconsideration of the case, the President of UKE amended the above-mentioned approved framework offer by means of a decision. The changes are not significant.

Due to the possibility that TP SA's reference offers, based on which the companies from the Netia Group concluded contracts for telecommunications access with TP SA, and subsequent decisions of the President of UKE that replaced or amended the contract, may be withdrawn or new reference offers may be approved by President of the UKE, the Management Board cannot assure that the terms on which Netia uses access to the network of TP SA will remain unchanged in the future, despite the fact that according to the Settlement Agreement, TP undertook to withdraw the appeals.

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

The terms and conditions under which the companies from the Netia Group use the services requiring telecommunication access to the network of TP SA substantially arise from decisions of the President of the UKE. These decisions amend or replace contracts with TP SA on telecommunications access.

In the Settlement Agreement, TP SA undertook to withdraw appeals against decisions issued by the President of UKE for Netia with regard to the use of WLR, PSI services and BSA discounts), provided that Netia and TP enter into a separate understanding, the formula of which constitutes an attachment to the Settlement Agreement between the President of UKE and TP SA.

Management can give no assurance that such an agreement between Netia and TP SA will be executed and what will be its exact content.

Interconnection

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

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

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

Wholesale network access service of TP SA (WLR)

SOKiK reversed the decision of the President of UKE (nevertheless, SOKiK did not suspend the enforcement of the decision in subject), specifying the rules of using by Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of the merger of companies effective as of December 31, 2008 (and subsequently, the above-mentioned rights and obligations were assumed by Netia on February 27, 2009), the wholesale network access service of TP SA. On May 6, 2009, the Court of Appeal reversed the judgment of SOKiK and ordered a de novo trial to be conducted by the court of first instance. Despite the fact Management Board is convinced that the objections, raised by TP SA are ungrounded, the Management Board can not assure that, following reconsideration of the case, SOKiK will dismiss the appeal motioned by TP SA.

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

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

Bitstream Access

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

- the decision that modified the contract between Netia and TP SA dated September 15, 2006 on the access to the local loop by access to nodes of telecommunications network for the sale of broadband data transmission ("BSA services"). In that decision, TP SA was obliged to change rules for calculating the termination fee in case of resignation of the service on a given subscriber line;

- the decision that modified rules for calculating remuneration for TP SA for the BSA services provided to Netia. Rules were modified by raising the bulk rebate for the special version of the service (i.e., provided on the basis of the periodic contract) from 41% to 51%;

- the decision amending the contract referred to above, in the scope of (i) lowering the fee for making the link available from PLN 81 to PLN 40,98 (not in thousands) (ii) the principles of forecasting and the settling of forecasts in relation to the installation fee, provided for in the decision, (iii) introduction of charge of PLN 40,98 (not in thousands) for resignation from the service - in exchange for the balancing fee Netia was previously obliged to pay in case subscriber terminates contract on the provision of broadband access with the usage of TP's links prior to the lapse of the term, for which the contract was concluded; (iv) other significant terms of using the BSA service by Netia.

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

Local loop access services (not in thousands)

The President of UKE issued decision amending the local loop access agreement, concluded between Netia and TP SA by decreasing the amount of a subscription fee for the full access to local loop (from PLN 36 to PLN 22), for the shared access to the loop (from PLN 13 to PLN 5.81) and one-time fees, related to launching the service on a given Active Subscriber Line (from PLN 182 to PLN 55.51).

Despite being of the opinion that the decision of the President of UKE is correct, the Management Board cannot assure that the decision will not be amended or reversed during court proceedings.

Risks related to the decisions of the President of UKE on the service of termination of calls in mobile networks (hereinafter referred to as "MTRs") (not in thousands)

In January 2009 the President of UKE issued temporary decisions amending agreements on the interconnection of networks between Netia and Polska Telefonia Cyfrowa Sp. z o.o., Netia and Polkomtel SA as well as Netia and PTK Centertel Sp. z o.o. by lowering the mobile termination rates (MTRs) in public mobile telephone networks of the above-mentioned mobile networks operators to the level of PLN 0.2162 per minute. In June and July 2009 the President of UKE issued decisions (which replace the above-mentioned temporary decisions) on the amendment of the interconnection agreements, concluded between Netia and the above-mentioned operators, by setting the MTR at the level of PLN 0.1677 per minute.

PTK Centertel Sp. z o.o., Polkomtel SA and Polska Telefonia Cyfrowa Sp. z o.o. appealed against the temporary decisions of the President of UKE. The Management Board can not assure that the decisions will not be amended or reversed by the court.

The Management Board also cannot assure that the other decisions, setting the level of MTRs, were not appealed against by the mobile operators and, if so, that the above-mentioned decisions will not be amended or reversed by Court.

<u>Risks related to requests from TP SA to change the obligations with respect to telecommunications access</u>

Interconnection

In letters from October 2008 TP SA requested from Netia and Tele2, whose rights and obligations were assumed by Netia as a result of the merger of companies, effective as of February 27, 2009, renegotiation of fees for special subscriber services ("AUS"), provided within the framework of agreements regarding number portability as well as the fees for the use of collocation services, all set forth in the interconnection contracts between TP SA and Netia and Premium Internet respectively. Despite their opinion that the request of TP SA in the above motions are ungrounded and despite that under the Settlement Agreement the fees for telecommunications access, including WLR will be valid until December 31, 2012, the Management Board cannot assure that the President of UKE will not accept the above motions of TP SA and will not change the terms of settlements between Netia and TP SA with regard to the above services.

Wholesale network access service of TP SA (WLR)

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

With the motion dated October 2008 TP SA requested from Premium Internet, whose rights and obligations were assumed by Tele2 Polska as a result of the merger effective as of December 31, 2008 (and, subsequently, the above-mentioned rights and obligations were assumed by Netia on February 27, 2009), renegotiation of fees for using WLR services. The Management Board is of the opinion that TP SA's request is groundless. Also, under the Settlement Agreement the fees for telecommunications access, including WLR will be valid until December 31, 2012. However, the Management Board cannot assure that the regulator will not accept the above motions of TP SA and change the terms of settlements with TP SA.

Bitstream Access

With motions dated October 2008 TP SA requested Netia to renegotiate fees for BSA. The Management Board is of the opinion that the request of TP SA in the above motions are ungrounded and under the Settlement Agreement the fees for telecommunications access, including WLR will be valid until December 31, 2012, however, the Management Board cannot assure that in case TP SA applies to the President of the UKE for a decision in this matter, the regulator will not accept the above motions of TP SA and change the terms of settlements between Netia and TP SA and PI SA and TP SA for the above services.

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

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

Risks related to Tele2 Polska’s business

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

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

Interconnection

TP SA appealed against the Decision of the President of the UKE dated November 4, 2004, that specified conditions of the contract for interconnection between Tele2 Polska and TP SA dated December 19, 2002, with regard to long - distance and local connections. The Appellate Court reversed the decision of the Court for the Protection of Competition and Consumers (“SOKIK”) that dismissed the appeal of TP SA and remanded it for a de novo hearing. In April 2009 SOKiK dismissed the appeal of TP SA.

TP SA appealed also against the Decision of the President of the UKE that specified conditions for the use of “Flat Rate” service by Tele2 Polska as well as the refusal to amend the above-mentioned decision. The Management Board cannot assure that the SOKIK will dismiss the appeals of TP SA.

Wholesale network access service of TP SA (WLR)

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

Bitstream Access

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

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

Wholesale network access service of TP SA (WLR)

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

Risks related to TP SA’s claims for payment

TP SA filed against Tele 2 Polska

- a claim demanding the payment of PLN 59,091 as damages incurred by TP SA as a result of the performance of the decision of UKE specifying wholesale access to the TP’s network (WLR). In the opinion of the Management Board, based on an external legal opinion, the TP SA claim for the payment of the said sum raised against Tele 2 Polska is groundless. The Management Board cannot, however, assure that the court will not uphold TP SA’s claim in whole or in part.

- a claim demanding the payment of PLN 3,313 as a remuneration for the traffic terminated or originated in TP SA’s network in the excess of the agreed on the basis of the usual wholesale rates and the flat rate (PSI) for the period from November 13, 2007 to January 4, 2008. In December 2008 the court issued the order to pay for the sum of PLN 3,313 Netia objected the order to pay, so the order turned invalid. The Management Board cannot, however, assure that the court will not award the TP SA’s claim.

- a claim demanding the payment of 7,600 for the difference between usual wholesale rates and the flat rate (PSI) for the traffic terminated or originated in TP SA’s network for the period from May 1, 2007 to November 13, 2007. In July 2009 the court issued an order to pay. Netia appealed the order, but the Management Board cannot assure that the court will not award TP SA’s claim.

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

Apart from the above, in February and March 2008 TP SA sent to Tele2 Polska orders to pay the total sum of PLN 10,957 on the basis of improper, according to TP SA performance of the contract in relation to PSI. Netia disputes these claims but can give no assurance as to the outcome of any proceedings that TP SA may decide to instigate in relation to this matter.

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

In February 2009 the President of UKE issued the decision fining Tele2 Polska with the amount of PLN 500 for the exchange of traffic between Tele2 Polska and TP SA in breach of conditions of the so-called "flat interconnection rate". Tele2 Polska appealed against the above-mentioned decision, nevertheless the Management Board can not assure that the appeal will be allowed and the decision will be reserved.

The fines which may be imposed by the President of the UKE in the aforementioned proceedings (a party to which became, on February 27, 2009, Netia), cannot exceed 3% of the income gained in the preceding calendar year. Any fine imposed may be appealed against. The Management Board cannot assure that the President of the UKE will take under consideration explanations of Tele2 Polska (and, following the merger – Netia) and consider them sufficient for deciding that the case is without basis.

In December 2008 the President of the Office for the Protection of Competition and Consumers (UOKiK) issued a decision in which he stated that Tele 2 Polska had breached the collective consumer interest by charging a fee of PLN 100 (not in thousands) to its consumer clients for early termination of agreements concluded for a specified term. In the decision the President of UOKiK imposed on Tele 2 Polska a fine of PLN 3,978. With respect to the imposed fine, the decision of the President of UOKiK was not made immediately binding and enforceable. Tele2 Polska has appealed against the said decision. Due to the merger of Tele2 Polska and Netia, on February 27, 2009 Netia became a party to the above-mentioned proceedings conducted by SOKiK.

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

Before SOKIK and the Appellate Court there are proceedings with regard to practices of Tele2 Polska infringing collective interests of consumers. Due to the merger of the Tele2 Polska and Netia, on February 27, 2009 Netia entered into the rights and obligations of a party to the above-mentioned proceedings.

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

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

Other regulatory risks

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

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

Risk of increased competition

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

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

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

(All amounts in thousands, except as otherwise stated)

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

TP SA owns most local loop access networks and has, in the past, offered other operators access to the network of these local loops on terms that, in many cases, render the addition of a customer to the network too expensive. However, during the course of 2006 a new telecommunications regulator has issued decisions creating unified offers in the area of regulatory access to the TP SA network which Netia currently considers to be commercially viable. As a result, in 2006 the Netia Group signed a new cooperation agreement with TP SA that allows Netia to offer Internet access to TP SA's customers using a regulated TP SA wholesale service known as bitstream access. In January 2007 President of UKE issued a decision changing an interconnect agreement between TP SA and Premium Internet SA., the Company's subsidiary (merged with Tele2 Polska in 2008, and then merged with Netia in February 2009), regarding wholesale line rental (WLR). This decision constituted the basis for a new type of access to TP SA's network, enabling the Netia Group to offer voice services to TP SA customers. Moreover, in April 2007 the Company concluded an agreement with TP SA on local loop unbundling. The Netia Group uses local loop unbundling in providing voice and data services and in the future intends to offer differentiated value added services such as IPTV. Whilst key commercial terms of these services, as set by the regulatory decisions, are currently commercially attractive, operational cooperation with TP SA in order to provide and maintain such services to end customers needs to be much more coordinated than has been the case in the past. The Management can give no assurance that TP SA will provide the required level of cooperation or that the regulator will respond by effectively enforcing TP SA's cooperation. Furthermore, we can give no assurance that market developments, future court judgments or future regulatory decisions may not render the current opportunities to reach customers via TP SA access networks no longer commercially viable.

TP SA may decide to build a new generation network

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

Competition from cellular mobile telephone operators

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

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

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

Other sources of competition

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

Market consolidation

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

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

Certain potential acquisition targets, should they become available for sale, would require Netia to raise significant amounts of financial indebtedness and / or to issue new shares or equity related instruments in order to fund a transaction. Management cannot guarantee that such funding will be available when needed on acceptable terms or that such an acquisition would not significantly increase the funding risk profile of the Netia Group.

Moreover, should we be outbid by a competitor on any particular large acquisition opportunity, our position as the leading alternative operator on the Polish telecommunications market and the strategic advantages that this position creates may be materially affected.

Strategic importance of P4 to Netia's future development

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

Partly in order to mitigate the above described risks, on July 24, 2009 Netia and P4 concluded an agreement for the sale of the transmission equipment used by Netia to provide services to P4 under the Transmission Agreement. Based on this agreement P4 will purchase the transmission network from Netia in exchange for extending the notice periods in the Transmission Agreement, thereby reducing Netia's exposure to P4's financial situation and business prospects.

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

Cost reduction project

On April 6, 2009 Netia announced the implementation of project "Profit", a comprehensive operating cost reduction project aimed at cutting PLN 100 million (not in thousands) from ongoing operating expenses on an annual basis starting from 2010. Whilst the project has been planned in detail with assistance from experienced international management consultants and currently is proceeding smoothly in line with Management's expectations, Management can give no assurance that in future all planned initiatives will be successfully implemented or that the savings from the implemented projects will be as originally expected. Moreover, cost-reduction activities may generate unforeseen costs elsewhere in the organization or may need to be cancelled or reversed due to unexpected adverse impacts on quality or customer satisfaction. Accordingly, Management can give no assurance that the "Profit" project will deliver results in line with the announced plans.

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.

(All amounts in thousands, except as otherwise stated)

Tax regulations and their interpretation (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 filing this report, 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.

7. Transactions with related parties

A detailed list of transactions with related parties has been presented in the interim condensed consolidated financial statements of the Netia Group (Note 14) and interim condensed financial statements of Netia (Note 14).

8. Revised guidance for 2009 and medium-term outlook for 2010-2012 (not in thousands)

On April 6, 2009 the Management Board of the Company raised its guidance for Adjusted EBITDA (excluding one-off restructuring cost) for the 2009 financial year from PLN 260 million to PLN 290 million. This update in the earnings outlook follows further strong progress on Company's profitability in the first quarter.

Following extensive preparatory work, in the first quarter of 2009 the Management began implementation of a comprehensive cost reduction project with the objective of eliminating PLN 100 million of operating expenses from the cost base for the 2010 financial year. Accordingly, EBITDA for 2009, net of reorganization expenses, was forecasted at PLN 265 million.

Having taken note of the more difficult trading conditions in the first half of 2009, the impact of the sale of the transmission network to P4 and the smooth implementation of "Profit" project, on August 6, 2009 Netia increased its EBITDA guidance for 2009 by 4% to PLN 275 million with Adjusted EBITDA guidance remaining unchanged at PLN 290 million.

On November 5, 2009 Netia increased its EBITDA guidance for 2009 to PLN 290.0 million and Adjusted EBITDA guidance to PLN 300.0 million. Capital investment outlays guidance was decreased to PLN 250.0 million and revenue guidance was decreased to PLN 1,495.0 million. The continued weakness in corporate segment sales and reduction of the carrier segment's exposure to low margin or riskier projects is behind reduced revenue guidance whilst accelerated delivery on Tele2 Polska integration synergies and Project Profit cost reductions are driving the profitability upgrades. At the same time, a stronger than previously expected rebound in demand for broadband services and an aggressive promotions pipeline has allowed Netia to return to its original 2009 guidance of 525,000 broadband customers. In parallel, the voice service target has been revised downwards to 1,165,000.

(All amounts in thousands, except as otherwise stated)

The following table presents the Company's current estimates of all elements of the 2009 guidance in comparison to the guidance published previously on August 6, 2009:

2009 Guidance	**previous**	**updated**
Number of broadband service clients *(excl. Ethernet acquisitions)*	510,000	525,000 +
Number of voice service clients (own network, WLR and LLU)	1,200,000	1,165,000 +
Unbundled local loop (LLU) nodes	300	300
Revenues (PLN m)	1,500	1,495
Adjusted EBITDA [1] (PLN m)	290	300
EBITDA (PLN m)	275	285
Investment outlays (excl. M&A) (PLN m)	260	250

[1] *Adjusted EBITDA excludes one-off restructuring costs related to the cost reduction program (the "Profit" project) of PLN 15m and a gain of PLN 5m on the sale of the first tranche of P4 transmission assets.*

Subscriber guidance excludes potential for further Ethernet network acquisitions which remain important to Netia's strategy but are difficult to forecast in time and amount.

In the medium term, Netia expects to sustain the annual revenue growth in the retail market segments (Home, Corpo, SOHO/SME) at a combined 5% - 10% CAGR. However, due to lower revenue contribution from the carrier segment following the sale of a part of the transmission network to P4, Netia's total revenue growth is now expected at the level of 3% - 5% CAGR in 2010 – 2012 period. At the same time Netia is now guiding for positive free cash flows including acquisitions of Ethernet networks already in 2009, a year earlier than forecast previously. Moreover, the Company is bringing forward its deadline for reducing capex to sales to 15% from 2011 to 2010.

The following table presents the Company's current estimates of all elements of the medium term outlook for Netia Group:

Medium-term outlook	**previous**	**updated**
Revenue growth (CAGR)	5% - 10%	3% - 5%
EBITDA margins in 2010 (%) EBITDA margins in 2012 (%)	23% 28%	23% 28%
Net profit by	2010	2010
Free cash flow positive by	2010	2009
Capex to sales down to 15% by	2011	2010
1 million broadband subscribers	2012	2012

Netia will continue to monitor the possibilities of achieving the forecast results on a quarterly basis. The achievement of the forecast results will be assessed, and any necessary adjustments introduced, after the end of a given quarter of the financial year based on an analysis of sales revenues, investment expenditure and the number of broadband clients and any other factors it may consider relevant.

9. Loans, warranties and collaterals

Undrawn borrowing facilities

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.

The repayment of the Facility is secured by the following: capped mortgages on the right of perpetual usufruct of the Company's real estate at ul. Poleczki 13 in Warsaw; registered pledges on: (i) a set of movables and property rights acquired by Netia as a result of its merger with Świat Internet S.A., (ii) a collection of Netia's movables and property rights, (iii) shares in InterNetia Holdings, 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 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.

Bonds

On the basis of the resolution of the Management Board and of the foreign currency permit dated 11 September 2008 Netia S.A. issued 1 (not in thousands) unsecured registered bond AA series, in the nominal value of PLN 94,500 and 1 (not in thousands) unsecured registered bond BB series, in the nominal value of EUR 40,340 with the repurchase date falling on 12 September 2010 and with a right of Netia S.A. for an earlier repurchase.

The above bonds were offered on 11 September 2008 to the Company's subsidiary, Netia Spółka Akcyjna UMTS Spółka komandytowo-akcyjna for the issue price equal to the nominal value of each of the bonds,

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

In addition on September 30, 2008 Tele2 Polska purchased from Netia 1 (not in thousand) unsecured registered bond, CC series, in the nominal value of PLN 20,000. The Company's liability under this bond was eliminated due to merger of Netia and Tele2 Polska in February 2009.

10. Other information

Cost saving initiatives (not in thousands)

Following the acquisition of Tele2 Polska in September 2008 which significantly augmented the scale of the business, Netia performed a comprehensive cost review across all functional areas of the Company. Areas for operating cost optimization were indentified, with a target to reduce full year operating expenses for year 2010 and onwards by PLN 100 million. Now in implementation for over 6 months, the program includes a reduction of Netia's headcount, review of control and reporting processes, increase in work effectiveness, span of control increase and contract renegotiations. The Profit project is proceeding smoothly, with 75% of all initiatives already completed and another 25% in the implementation phase. Value-wise, already implemented initiatives are projected to produce 85% of the total savings envisaged for year 2009 and 63% of 2010 savings target. One-off reorganization costs of up to PLN 15 million associated with this project are expected to be recorded during 2009. The first PLN 10.3 million of one time restructuring cost was recorded in the nine-month period ended September 30, 2009 pertaining mainly, but not limited to the labour downsizing process. Management is confident that the 2009 and 2010 savings objectives of the Profit project will be met or exceeded.

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).

Warsaw, November 4, 2009