Annual Financial Report

Containing:

- Independent auditor's report
- Consolidated financial statements
  as at and for the year ended December 31, 2007

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

We have audited the attached consolidated financial statements of Netia S.A. Group ('the Group'), for which the holding company is Netia S.A. ('the Company'), which comprise the consolidated balance sheet as at 31 December 2007 and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and the summary of significant accounting policies and other explanatory notes ("the attached consolidated financial statements").

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

The consolidated financial statements for the year ended 31 December 2007 were audited by Certified Auditor, acting on behalf of other firm, that on 1 March 2007 issued an audit opinion on this consolidated financial statements.

Opinion

In our opinion, the attached consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU.

Without qualifying our opinion we draw attention to the fact that the consolidated financial statements for a year ended 31 December 2007 of an associate P4 Sp. z o.o. Group which provide a basis for the preparation of the attached consolidated financial statements, were audited by an auditor acting for another authorized audit firm who issued an audit opinion dated February 27, 2008, drawing the attention to the fact that the consolidated financial statements of P4 Sp. z o.o. Group have been prepared on a basis which assumes that the P4 Sp. z o.o. Group will continue as a going concern and which contemplates the recoverability of assets and the satisfaction of liabilities and commitments in the normal course of business. The consolidated financial statements of P4 Sp. z o.o. Group do not include any adjustments that might have been necessary if the above assumptions are not appropriate.

The convenience translations are disclosed as part of the consolidated financial statements. The convenience translation for the year ended December 31, 2007 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2007 of PLN 3.582 to EUR 1.00. We have not audited these translations and accordingly we do not report thereon. The Euro amounts presented in these consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate

Ernst & Young Audit Sp. z o.o.

Warsaw, Poland
February 27, 2008

NETIA S.A.
CONSOLIDATED FINANCIAL STATEMENTS
As at and for the year ended December 31, 2007

Index to the consolidated financial statements

NETIA S.A.
CONSOLIDATED BALANCE SHEET
as at December 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	December 31, 2007 (PLN)	Convenience Translation December 31, 2007 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	6	1,458,029	1,408,597	393,243
Intangible assets	7, 8	239,597	267,946	74,803
Investments in associates	9	141,394	150,435	41,997
Deferred income tax assets	24	4,865	2,162	604
Available for sale financial assets		10	10	3
Long term receivables	11	484	250	70
Prepaid expenses		3,303	5,667	1,582
Total non-current assets		**1,847,682**	**1,835,067**	**512,302**
Current assets				
Inventories	10	1,584	2,903	810
Trade and other receivables	11	131,833	127,339	35,550
Current income tax receivables		-	22	6
Prepaid expenses and accrued income		6,888	10,899	3,043
Derivative financial instruments	13	600	-	-
Financial assets at fair value through profit and loss	14	14,757	-	-
Restricted cash	15	6,100	-	-
Cash and cash equivalents	16	143,586	57,700	16,108
		305,348	**198,863**	**55,517**
Non-current assets classified as held for sale	12	2,329	36,721	10,252
Total current assets		**307,677**	**235,584**	**65,769**
Total assets		**2,155,359**	**2,070,651**	**578,071**

Mirosław Godlewski
President of the Company

Piotr Czapski
Member of the Management Board

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Bertrand Le Guern
Member of the Management Board

Tom Ruhan
Member of the Management Board

Warsaw, Poland
February 27, 2008

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	December 31, 2007 (PLN)	Convenience Translation December 31, 2007 (EUR)
EQUITY				
Share capital	17	389,168	389,277	108,676
Supplementary capital	17	1,809,434	1,681,500	469,430
Other reserves	17	29,644	14,251	3,979
Retained earnings		(283,248)	(356,759)	(99,598)
Total capital and reserves attributable to the Company's equity holders		**1,944,998**	**1,728,269**	**482,487**
Minority interest	18	6,902	-	-
Total equity		**1,951,900**	**1,728,269**	**482,487**
LIABILITIES				
Non-current liabilities				
Borrowings	21	-	87,344	24,384
Provisions	19	630	97	27
Deferred income		8,760	8,567	2,392
Deferred income tax liabilities	24	990	1,954	546
Financial guarantee contract	20	558	-	-
Other long term liabilities	22	774	3,454	964
Total non-current liabilities		**11,712**	**101,416**	**28,313**
Current liabilities				
Trade and other payables	22	168,267	219,486	61,275
Borrowings	21	-	7,397	2,065
Current income tax liabilities		38	154	43
Provisions	19	4,166	562	157
Financial guarantee contract	20	8,847	435	121
Deferred income		10,429	12,932	3,610
Total current liabilities		**191,747**	**240,966**	**67,271**
Total liabilities		**203,459**	**342,382**	**95,584**
Total equity and liabilities		**2,155,359**	**2,070,651**	**578,071**

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)	Convenience Translation Year ended December 31, 2007 (EUR)
Revenue	25	**862,057**	**838,025**	**233,955**
Cost of sales	26	(629,875)	(637,552)	(177,987)
Gross profit		**232,182**	**200,473**	**55,968**
Selling and distribution costs	27	(148,049)	(201,170)	(56,159)
General and administration costs	28	(138,902)	(144,751)	(40,412)
Other income	30	13,006	41,315	11,534
Other expenses	31	(364,933)	(5,068)	(1,415)
Other gains / (losses), net	32	65,312	5,361	1,497
Operating loss		**(341,384)**	**(103,840)**	**(28,987)**
Finance income	33	8,234	3,994	1,115
Finance costs	33	(7,259)	(1,517)	(424)
Share of losses of associates	9	(30,724)	(165,237)	(46,130)
Loss before income tax		**(371,133)**	**(266,600)**	**(74,426)**
Income tax benefit / (charge)	24	(7,222)	(2,281)	(637)
Loss		**(378,355)**	**(268,881)**	**(75,063)**
Attributable to:				
Equity holders of the Company		(378,908)	(269,484)	(75,231)
Minority interest	18	553	603	168
		(378,355)	**(268,881)**	**(75,063)**
Basic earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)	35	**(0.98)**	**(0.69)**	**(0.19)**
Diluted earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)	35	**(0.97)**	**(0.69)**	**(0.19)**

NETIA S.A.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2006		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Cash flow hedges, net of tax		-	-	-	-	486	-	-	486
Net income recognised directly in equity		-	-	-	-	486	-	-	486
Profit / (Loss)		-	-	-	-	-	(378,908)	553	(378,355)
Total recognised income / (expense) for the year 2006		**-**	**-**	**-**	**-**	**486**	**(378,908)**	**553**	**(377,869)**
Issuance of series J shares		7,662	-	11,723	-	-	-	-	19,385
Cost of issuance*		-	-	(175)	-	-	-	-	(175)
Employee share option scheme:									
- value of services provided		-	-	-	-	721	-	-	721
- issuance of series K shares		1,053	-	601	-	(1,483)	-	-	171
Coverage of negative difference in retained earnings related to adoption of International Financial Reporting Standards by Netia S.A.		-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend		-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital		-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital		-	-	-	20,312	-	(20,312)	-	-
Transfer related to repurchase of series C and E shares		-	-	2,343	469	(2,812)	-	-	-
Cancellation of treasury shares		(28,162)	122,806	(2,343)	(120,463)	28,162	-	-	-
Balance as at December 31, 2006		**389,168**	**-**	**1,666,216**	**143,218**	**29,644**	**(283,248)**	**6,902**	**1,951,900**

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2007		**389,168**	**-**	**1,666,216**	**143,218**	**29,644**	**(283,248)**	**6,902**	**1,951,900**
Cash flow hedges, net of tax	13, 17	-	-	-	-	(911)	-	-	(911)
Dilution gain in associate	5	-	-	-	40,102	-	-	-	40,102
Difference between purchase price and book value of minority	9, 18	-	-	-	-	-	(367)	-	(367)
Net income / (expense) recognised directly in equity		-	-	-	40,102	(911)	(367)	-	38,824
Profit / (Loss)		-	-	-	-	-	(269,484)	603	(268,881)
Total recognised income / (expense) for the period		**-**	**-**	**-**	**40,102**	**(911)**	**(269,851)**	**603**	**(230,057)**
Employee share option scheme:									
- value of services provided	17	-	-	-	-	14,004	-	-	14,004
- issuance of series K shares	17	109	-	215	-	(324)	-	-	-
Cost of issuance		-	-	(73)	-	-	-	-	(73)
Transactions with minorities	9, 18	-	-	-	-	-	-	(7,505)	(7,505)
Coverage of Netia's 2006 loss	17	-	-	(24,960)	(143,218)	(28,162)	196,340	-	-
Balance as at December 31, 2007		**389,277**	**-**	**1,641,398**	**40,102**	**14,251**	**(356,759)**	**-**	**1,728,269**

**Transaction costs deducted from share premium for both series J shares and series K shares.*

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)	Convenience Translation Year ended December 31, 2007 (EUR)
Cash flows from operating activities:				
Loss		**(378,355)**	**(268,881)**	**(75,063)**
Adjustments for:				
Depreciation and amortization	6, 8	272,465	274,522	76,639
Impairment charges for non-current assets	5	354,672	-	-
Impairment charges for specific individual assets	6	6,371	304	85
Reversal of impairment charges	6	(2,968)	(509)	(142)
Share of losses of associates	9	30,724	165,237	46,130
Deferred income tax charge	24	6,802	1,664	465
Reassessment of the carrying value of license fee liabilities		(64,469)	-	-
Interest expense accrued on bank loans and license liabilities		5,247	702	196
Other interest accrued		-	184	51
Financial guarantee contract	20	(88)	(6,882)	(1,921)
Interest accrued on loans granted		(17)	(43)	(12)
Share-based compensation	17	892	14,004	3,910
Fair value gains on financial assets at fair value through profit and loss		(2,251)	(21)	(6)
Fair value adjustments on other receivables		(4,613)	-	-
Decrease / (increase) in other long term assets		323	-	-
Foreign exchange (gains) / losses		3,298	579	160
Gain on disposal of fixed assets		(2,574)	(780)	(218)
Decrease of purchase consideration	7, 15	-	(1,940)	(542)
Gain on sale of subsidiaries		(20)	-	-
Changes in working capital	37	9,798	38,919	10,864
Net cash provided by operating activities		**235,237**	**217,059**	**60,596**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(180,574)	(235,382)	(65,712)
Proceeds from sale of fixed assets		4,280	6,067	1,694
Investment in associate	9	(57,000)	(136,689)	(38,160)
Purchase of subsidiaries, net of cash received	7	(68,288)	(37,372)	(10,433)
Increase of interest in subsidiary	7	-	(7,872)	(2,198)
Sale of subsidiaries, net of cash in subsidiaries		25	-	-
Sale of financial assets at fair value through profit and loss		49,834	14,777	4,125
Loans granted		(1,533)	-	-
Loan repayments		417	278	78
Net cash used in investing activities		**(252,839)**	**(396,193)**	**(110,606)**
Cash flows from financing activities:				
Proceeds from share issuance		19,385	-	-
Cost of share issuance		(175)	(73)	(20)
Dividend paid to the Company's shareholders		(50,323)	-	-
Finance lease payments		(199)	(626)	(175)
Proceeds from borrowings	21		95,000	26,521
Loan repayments		(2,500)	-	-
Interest repayments		(167)	(477)	(133)
Redemption of notes for warrants		(334)	(1)	(0)
Net cash used in / provided by financing activities		**(34,313)**	**93,823**	**26,193**
Net change in cash and cash equivalents		**(51,915)**	**(85,311)**	**(23,817)**
Exchange gains on cash and cash equivalents		**(1,886)**	**(578)**	**(161)**
Cash and cash equivalents at beginning of period		197,387	143,586	40,085
Cash and cash equivalents at end of period		**143,586**	**57,697**	**16,107**

(All amounts in thousands, except as otherwise stated)

1. The Company and the Netia Group

Netia S.A. (the "Company" or "Netia") was formed in 1990 as a limited liability company under the laws of Poland and was transformed into a joint stock company in 1992. In 2003 a general meeting of shareholders adopted a resolution changing the Company's name from Netia Holdings S.A. to Netia S.A. The Company is incorporated and domiciled in Poland with its principal executive office located at ul. Poleczki 13, 02-822 Warsaw, Poland. The Company and its subsidiaries (together, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland.

The consolidated financial statements of Netia S.A. for the year ended December 31, 2007 comprise the Company and its subsidiaries. A list of the Company's subsidiaries is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company's Management Board on February 27, 2008.

The parent company is entered in the Register of Entrepreneurs kept by the District Court, XIII Economic Department of the National Court Register, Entry No. KRS 0000041649. The parent company was granted statistical REGON number 011566374.

The parent company and other Group entities have an unlimited period of operation.

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

To further broaden Netia's product offer, including convergent services, Netia intends to offer mobile services. On May 9, 2005 the Company's current associate, P4 Sp. z o.o. ("P4") (until August 23, 2005 the Company's subsidiary, see also Note 9 and 40), was announced the winner of the UMTS tender, organized by the Polish regulator. In March 2007 P4 began commercial service offering a range of mobile telephony services under the brand name "Play". On December 7, 2007, Netia signed a Mobile Service Provider Agreement with P4. The agreement enables Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. Commercial service is scheduled to begin in 2008.

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (currently operating under the name "Netia WiMax S.A.", "Netia WiMax"), 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. On June 30, 2007 the Company concluded an interconnect agreement with TP SA that introduces new rules of cooperation with regard to both operators networks' connection and mutual exchange of telecommunications traffic, and sets the new rules of interconnection settlements. This agreement became binding as of September 30, 2007. During the third quarter of 2007 the Company began offering Netia voice services to TP SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia in turn has to pay a line rental fee to TP SA under the Wholesale Line Rental (WLR) administrative decision issued by the UKE.

During the year ended December 31, 2007 the Netia Group acquired twelve internet service providers (see Note 7). The Company intends to integrate these operations into its existing network and to offer the acquired customers a broader range of services under the Netia brand.

The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its subsidiary UNI-Net Sp. z o.o. (see Note 7).

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

Current financial condition

As at December 31, 2007, the Company's equity amounted to PLN 1,728,269 and the Netia Group had a working capital deficit of PLN 5,382. In 2006 the Company performed an impairment test for the telecommunications segment. The test resulted in an impairment charge of PLN 354,672, which was recognized in the consolidated statement of operations for the year ended December 31, 2006. The Netia Group has been generating positive free cash flows between 2004 and 2006 but, following its new strategy announcement in April 2007, intends to invest in broadband and other services such that free cash flows are expected to be negative between 2007 and 2009. As at December 31, 2007 the Netia Group had PLN 57,697 of cash, PLN 95,000 of debt and undrawn borrowing facilities of PLN 205,000. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Significant subsidiaries and associates of the Company

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

Subsidiary	Ownership Percentage December 31, 2006	Ownership Percentage December 31, 2007
Subsidiaries held directly:		
UNI-Net Sp. z o.o.**	58	100
Netia WiMax S.A.	100	100
Świat Internet S.A.	100	100
Netia Mobile Sp. z o.o.	100	100
InterNetia Sp. z o.o.	100	100
Pro Futuro S.A.*	100	N/A
KOM-NET Systemy Komputerowe Sp. z o.o.**	-	100
Lanet Sp. z o.o.**	-	100
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o**.	-	100
Subsidiaries held indirectly:		
Premium Internet S.A.	100	100
Akron Sp. z o.o.**	-	100
Netis Sp. z o.o.**	-	100
3Vnet Sp. z o.o. **	-	100
Ikatel Telekom Sp. z o.o. **	-	100
Inet Sp. z o.o. **	-	100
Ozimek Net Sp. z o.o. **	-	100
Verizone Sp. z o.o. **	-	100
Zielona Burza Sp. z o.o. **	-	100
Interbit Sp. z o.o. **	-	100

* *merged with Netia*
** *see Note 7*

The Company has one associate company, P4 Sp. z o.o. Group, in which it held an indirect 23.4% interest (30.0% interest as at December 31, 2006) via its 100% subsidiary Netia Mobile Sp. z o.o. (see Notes 7 and 40).

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

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

3. Summary of significant accounting policies

Basis of preparation

Following European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of September 29, 1994 (Journal of Laws of 2002, No. 76, item 694 with later amendments, "the Accounting Act") in accordance with International Financial Reporting Standards as adopted by the European Union ("EU"). As of December 31, 2007 there are no differences as regards policies adopted by the Netia Group between these standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These consolidated financial statements have been prepared in accordance with IFRS as adopted by the EU, issued and effective as at the time of preparing these consolidated financial statements. The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2006, except for new accounting standards adopted as of January 1, 2007.

Certain Group entities (acquired in 2007) keep books of accounts in accordance with accounting policies specified in the Accounting Act and regulations issued based on that Act ("Polish Accounting Standards"). The consolidated financial statements include a number of adjustments not included in the books of account of the Group entities, which were made in order to bring the financial statements of those entities to conformity with IFRS.

The consolidated financial statements are prepared under the historic cost convention as modified by the revaluation of financial assets 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 consolidated financial statements are disclosed in Note 5.

All Euro amounts shown as supplementary information in the consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at December 31, 2007 of PLN 3.5820 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.

(All amounts in thousands, except as otherwise stated)

Reclassifications of comparatives

The consolidated income statement for the year ended December 31, 2007 is presented in a new format, using the function of expense method. Expenses are classified according to their function as part of either cost of sales, cost of selling and distribution or as cost of administrative activities. Management considers that formatting according to the function of expense method provides more pertinent information about the Company.

The comparative data in the consolidated income statement has been restated taking into account the new format of presentation. These changes did not impact revenue and operating profit. Expenses were allocated among functions as follows:

	Year ended December 31, 2006			
	Cost of sales	Selling and distribution costs	General and administration costs	Other expenses
	(PLN)	(PLN)	(PLN)	(PLN)
Interconnection charges	(213,330)	-	-	-
Services purchased				
Professional services	(224)	(10,272)	(11,734)	(3,890)
Advertising and promotion expenses	(31)	(26,633)	(2,105)	-
Cost of rented lines and network maintenance	(95,524)	(726)	(2,039)	-
Information technology services	-	(5,599)	(9,386)	-
Office and car maintenance	(1,212)	(642)	(8,945)	-
Insurance	(1,642)	(460)	(4,086)	-
Mailing services	(63)	(5,644)	(526)	-
Travel and accommodation	(933)	(1,510)	(2,130)	-
Other services	(3,177)	(12,868)	(6,091)	-
Salaries and benefits	(17,868)	(50,464)	(62,657)	-
Restructuring costs	(621)	(527)	(229)	-
Depreciation of fixed assets	(208,318)	(4,634)	(7,556)	-
Amortization of intangible assets	(26,267)	(19,264)	(6,426)	-
Other expenses				-
Taxes and fees	(48,682)	(296)	(4,475)	-
Provision for impaired receivables	-	(7,662)	-	-
Materials and energy	(6,460)	(686)	(2,558)	-
Other operating costs	(5,523)	(162)	(7,959)	-
Impairment charges for specific individual assets	-	-	-	(6,371)
Impairment charges for non-current assets	-	-	-	(354,672)
Total	**(629,875)**	**(148,049)**	**(138,902)**	**(364,933)**

Furthermore, the Netia Group's deferred income includes government's grants relating to certain fixed telecommunications networks, which are recognized as income over the useful life of the related assets. As at December 31, 2007, government's grants of PLN 600 were recognized as long term deferred income. The comparative amount of PLN 644 presented in these consolidated financial statements has been reclassified from short term to long term deferred income to conform to the current presentation.

Changes in estimates

In the year ended December 31, 2007 the Netia Group reassessed the useful lives of its property, plant and equipment and intangible assets, and in consequence, for certain subcategories of buildings, fixed telecommunications network, telecommunications equipment, machinery and equipment, office furniture and equipment, and computer software the remaining period over which they will be depreciated or amortized was shortened (in most cases) and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Additional charge recognized in 2007	Relevant increase / (decrease) in the depreciation / amortization charge in 2008
		(PLN)	(PLN)
Buildings	- certain leasehold improvements - until the end of 2007	226	(388)
Fixed telecommunications network	- until the end of June 2007	19	(4)
Telecommunications equipment (mainly narrowband radio equipment)	- narrowband radio equipment - until the end of September 2007 - certain switches - until the end of 2007 - certain radiolinks - until the end of 2010 - certain other transmission equipment - depreciation period was shortened from 15 years to 8 or 5 years	34,141	(771)
Machinery and equipment	- certain machinery - depreciation period was shortened from 12 to 8 years	333	141
Office furniture and equipment	- certain computers - until the end of March 2007 - other office equipment - until January 2009	179	(129)
Total property, plant and equipment		**34,898**	**(1,151)**
Computer software	- certain software - until the end of 2007	542	(326)
Total non-current assets		**35,440**	**(1,477)**

New standards, interpretations and amendments to existing standards

The following new standards and interpretations are mandatory for the financial year ended December 31, 2007:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies', effective for annual periods beginning on or after March 1, 2006. This interpretation is not relevant for the Netia Group;

- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after May 1, 2006. As equity instruments are only issued to employees in accordance with a share option plan, the interpretation had no impact on the financial position of the Netia Group;

- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after June 1, 2006. This interpretation did not have any effect on the financial position or performance of the Netia Group;

- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after November 1, 2006. The adoption of the interpretation did not have any effect on the financial position or performance of the Netia Group;

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after January 1, 2007 and the complementary Amendments to IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after January 1, 2007. The adoption of this standard and amendments had an impact on the extent of disclosures presented in this consolidated financial statement.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2007 and have not been early adopted:

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions', effective for annual periods beginning on or after March 1, 2007. IFRIC 11 provides guidance on applying IFRS 2 in share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation, a parent grants rights to its equity instruments to employees of its subsidiary and when a subsidiary grants rights to equity instruments of its parent to its employees. Management do not expect the interpretation to have a significant impact on the Netia Group's operations;

- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after January 1, 2008. IFRIC 12 provides guidance on the accounting by operators in public-to-private service concession arrangements. Management is currently assessing the impact of IFRIC 12 on the Netia Group's operations;

- IFRIC 13, 'Customer Loyalty Programmes', effective for annual periods beginning on or after July 1, 2008. IFRIC 13 addresses accounting by entities that grant loyalty award credits (such as 'points' or travel miles) to customers who buy other goods or services. Specifically, it explains how such entities should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem award credits. Management does not expect the interpretation to be relevant for the Netia Group. This interpretation has not yet been endorsed by the EU;

- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after January 1, 2008. IFRIC 14 addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS 19 "Employee Benefits' on the measurement of the defined benefit asset or liability. Management do not expect the interpretation to have a significant impact on the Netia Group's operations. This interpretation has not yet been endorsed by the EU;

- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management approach to segment reporting. Management is currently assessing the impact of IFRS 8 on the Netia Group's operations;

- Revised IAS 23, 'Borrowing costs', effective for annual periods beginning on or after January 1, 2009. The main change from the previous version is the removal of the option of immediately recognising as an expense borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. An entity is, therefore, required to capitalise borrowing costs as part of the cost of such assets. The revised IAS 23 does not require the capitalisation of borrowing costs relating to assets measured at fair value, and inventories that are manufactured or produced in large quantities on a repetitive basis, even if they take a substantial period of time to get ready for use or sale. Management do not expect the amendment to have a significant impact on the Netia Group's operations;

- Revised IAS 1 "Presentation of Financial Statements" applicable for annual periods beginning on or after January 1, 2009. The changes made are to require information in financial statements to be aggregated on the basis of shared characteristics and to introduce a statement of comprehensive income. Management is currently assessing the impact of the revised standard on the Netia Group's operations. This standard has not yet been endorsed by the EU.

- Revised IFRS 3 "Business Combinations" and IAS 27 "Consolidated and Separate Financial Statements" applicable for annual periods beginning on or after July 1, 2009. The revised standards bring a further development of the acquisition accounting model and compulsory adoption of the economic entity approach. Management is currently assessing the impact of the revised standard on the Netia Group's operations. This standard has not yet been endorsed by the EU.

- Revised IFRS 2 "Share-based payments" applicable for annual periods beginning on or after January 1, 2009. The revised standard clarifies terms 'vesting conditions' and 'cancellations'. Management is currently assessing the impact of the revised standard on the Netia Group's operations. This standard has not yet been endorsed by the EU.

- Revised IAS 32 "Financial Instruments: Presentation" and IAS 1 "Presentation of Financial Statements" applicable for annual periods beginning on or after July 1, 2009. The revised IAS 32 addresses the classification of some puttable financial instruments, and instruments (or components of instruments), that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation standards. IAS 1 has been amended to require additional disclosures for puttable financial instruments classified as equity. Management is currently assessing the impact of the revised standard on the Netia Group's operations. This standard has not yet been endorsed by the EU.

Consolidation

(a) Subsidiaries

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

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

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

(b) Transactions with minority interests

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

(All amounts in thousands, except as otherwise stated)

(c) Associates

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

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

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

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

Segment reporting

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

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Property, plant and equipment

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

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

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

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

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

Land and fixed assets under construction are not depreciated.

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

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

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

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

Non-current assets classified as held for sale

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

Leases

(a) Group as a lessee

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

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

(b) Group as a lessor

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

Intangible assets

(a) Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization and impairment losses. If payment for the license is deferred beyond normal credit terms, its cost is the net present value of the obligation. The present value of the obligation is calculated using the Netia Group's effective borrowing rates at the time the license was granted. Any differences between the nominal price of the license and its present value are treated as interest costs. Interest costs are capitalized until substantially all the activities to prepare the asset for its intended use are complete and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is capable of operating in the manner intended by management and is calculated on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years. As at December 31,2007 the Netia Group possessed only telecommunication licenses.

(b) Goodwill

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

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

(c) Computer software costs

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

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

(d) Customer relationships

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

Impairment of non-financial assets

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

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

Financial assets

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

(a) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

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

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

(All amounts in thousands, except as otherwise stated)

Derivative financial instruments and hedging activities

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

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

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

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

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

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

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

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

Share capital

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

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

Share-based compensation

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

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

Retirement benefits

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

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

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

Provisions

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

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

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

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

Headcount restructuring and termination benefits provisions comprise employee termination payments and are recognized in the period in which Netia Group becomes legally or constructively committed to payment.

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

Trade payables

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

Financial guarantee contract

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

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

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

(All amounts in thousands, except as otherwise stated)

Borrowings

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

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

Borrowing costs

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

Revenue

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

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

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

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

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

Deferred income

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

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

Interconnection charges

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

Interest income

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

Deferred income taxes

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

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

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

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

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

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

Dividend distribution

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

4. Financial risk management

Financial risk factors

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

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in Polish Zloty, other than some payments made under the equipment and construction contracts, which are linked to the U.S. Dollar and Euro. In order to mitigate the currency risk Netia Group holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, the Netia Group has a commitment to make contributions to P4's capital, denominated in Euros. In order to manage the related currency risks, a certain part of those planned equity payments were hedged.

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

At December 31, 2006, if the Polish Zloty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated loss for the year ended December 31, 2006 would have been PLN 221 lower (higher), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated cash deposits and trade receivables, partially offset by Euro denominated trade and investment payables. Furthermore, at December 31, 2006, the hedging reserve in shareholders' equity and the fair value of the hedging instruments would have been PLN 704 higher (lower).

At December 31, 2007, if the Polish Zloty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated loss for the year ended December 31, 2007 would have been PLN 40 (PLN 235 for the corresponding period in 2006) lower (higher), mainly as a result of foreign exchange gains (losses) on translation of U.S. Dollar denominated cash deposits and trade receivables, partially offset by U.S. Dollar denominated trade and investment payables.

- Interest rate risk:

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

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

(All amounts in thousands, except as otherwise stated)

- Price risk:

The Netia Group does not participate in the market trading of securities. The investments held by the Netia Group and classified as short term deposits have an agreed redemption price and are regarded as having low market risk.

Credit risk

The Netia Group had no significant concentrations of credit risk throughout the year 2007. Cash transactions are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilisation of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

On October 31, 2006 the Company granted to P4, an associate company, a guarantee partially securing the repayment of the credit facility. The Netia Group's maximum exposure to a credit risk is limited to EUR 21,060 (see Note 41) and may arise from a payment default by P4, that is covered by this guarantee.

Liquidity risk

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

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

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

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
As at December 31, 2007				
Bank borrowings	7,904	31,616	55,480	-
Trade and other payables	219,486	1,430	1,228	796
As at December 31, 2006				
Trade and other payables	168,267	37	106	631

Fair value estimation

The fair value of financial instruments that are not traded in an active market (for example available-for-sale financial assets) is determined by using valuation techniques.

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

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

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

Capital risk management

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

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

The gearing ratios at December 31, 2007 and 2006 were 13.1% and 1.3%, respectively.

5. Critical accounting estimates and judgments

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

(a) Deferred income tax

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

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

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

Based on the above assumptions and Management's assessment of the Netia Group tax position as of December 31, 2007, including tax projections, the recognized deferred income tax assets as at December 31, 2007 amounted to PLN 2,162.

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

(b) Impairment of investments in associates

As at December 31, 2007 the Netia Group assessed whether there are any indications that investments in associates may be impaired. The Netia Group's only investment in an associate is P4, the holder of a UMTS license. After assessing both the external and internal sources of information, the Management concluded that no such indication exists.

However, as P4 is a start-up phase enterprise, there is considerable uncertainty as to the recoverable amount of the Netia Group's investment in P4. The future success of P4's business model, based on its planned limited coverage UMTS network with national GSM coverage provided to its customers via a national roaming agreement with an incumbent GSM operator, is dependent on many factors. The overall level of competition in the market, including market prices for voice and data services, the future take-up of new mobile data services, access to sufficient distribution channels and the impact of possible mobile virtual network operators (MVNOs) and new mobile network operators (MNOs) that are entering the market, may all impact P4's ability to generate sufficient revenues. Observed delays in building and utilizing its own UMTS network and uncertainties over the market regulator's approach to new entrants relative to market incumbents, the rate of decrease in unit costs of UMTS handsets and market levels of handset subsidy generate uncertainties over achievable profit margins. Uncertainties as to the availability of additional sources of financing and the ability to attract the experienced employees necessary to implement P4's plans may also impact significantly on the success of P4's business.

Furthermore, P4 has made losses since its inception and is expected to make further losses in the medium term until it builds sufficient scale to break-even. The Management of P4 is presently engaged in the raising of additional debt financing to fund further developments, the securing of which requires additional commitments from P4's shareholders. P4's accounts have been prepared by P4's Management using the going concern principle on their assumption that such financing will be available on acceptable terms when needed.

As a result of these and other uncertainties, including possible significant changes in mobile technology, the actual recoverable amount from Netia's investment in P4 may differ significantly in the future from Netia's current estimates (see also Note 42).

(c) Impairment of goodwill and other non-current assets

The Group tests annually whether goodwill has suffered any impairment and assesses at each balance sheet date whether there is any indication that an asset may be impaired, in accordance with the accounting policy stated in Note 3.

The total amount of goodwill is allocated to the cash-generating unit ("CGU") identified as the entire Netia Group besides the investments in P4 and non-current assets of UNI-Net Sp. z o.o. which were excluded from the assets being tested as they represent different CGUs and no indications of impairment have been identified for them.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use financial projections based on assumptions underlying the budget for year 2008 and an updated business plan covering the period to December 31, 2012, as approved by the Management Board. The business plan assumptions (i.e. reaching 1.000 broadband customers, optimizing Netia's strong position in the business market segment, increasing profitability of large corporate clients while minimizing capital expenditures, maximizing utilization of the existing assets) are in line with main strategic objectives announced by Netia in April 2007. After that period, the projections, prepared for the purposes of the impairment test, are extrapolated using a long term growth rate, which is compatible with the industry projections for the operations concerned. The discount rate used (of 10.0%) is pre-tax and reflects specific risks relating to the Netia Group operations.

The test shows that the recoverable amount of the CGU is higher than the carrying amount of the CGU. As a result no impairment loss has been recognized. If the estimated pre-tax discount rate applied to the discounted cash flows had been higher than 10.5%, with other assumptions unchanged, the Netia Group would have to recognise an impairment loss.

In 2006 the Netia Group performed an impairment test in accordance with IAS 36 "Impairment of Assets". The test resulted in an impairment charge of PLN 354,672, which was recorded in the consolidated income statement for the year ended December 31, 2006 and was allocated to the carrying amount of goodwill and then to the non-current assets in the telecommunications segment on a pro rata basis.

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

(d) Useful lives of non-current assets

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

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

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

(e) Financial guarantee

The valuation of fair value of the financial guarantee contract (see Note 20) requires the Netia Group to make estimates about expected future cash flows, discount rates and probability of default, and hence they are subject to uncertainty.

The initial carrying amount of the financial guarantee contract would be an estimated PLN 740 lower or PLN 740 higher were the probability of default used in the discounted cash flow analysis to differ by 10% from management's estimates.

(f) Customer relationships

In 2006 the Netia Group acquired Pro Futuro and in 2007 the Netia Group acquired twelve internet service providers (see Note 7). In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the present value of the future economic benefits that will flow to an owner of an intangible asset. This analysis requires certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

(g) Dilution gain in the associate

Following the provisions of the investment agreement and the amended shareholders agreement (see Note 40), P4, the Netia Group's associate, increased its share capital in exchange for an in-kind contribution made by a new shareholder. A dilution gain of PLN 40,102, arising on that transaction was based on P4's provisional fair valuation of the issued shares. However, if any of the key assumptions used for the estimation were to change, P4 might have recognized total purchase consideration in a different amount. Then the dilution gain recognized by the Netia Group would change accordingly. If the rate of perpetuity growth of free cash flows after 2015, used by P4 in determining the fair value of shares issued, was reduced by 2 p.p., the dilution gain would amount to PLN 22,409. If the rate of perpetuity growth of free cash flows after 2015 was increased by 2 p.p., the dilution gain would amount to PLN 63,894. If additional risk premium for P4 was reduced by 1 p.p., the dilution gain would amount to PLN 72,279. If additional risk premium for P4 was increased by 1 p.p., the dilution gain would amount to PLN 14,868.

(All amounts in thousands, except as otherwise stated)

6. Property, plant and equipment

Current period:

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

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2006	73,272	17,684	1,855,368	1,488,393	82,439	138,948	17,369	72,855	3,746,328
Additions	207	-	157	1,543	614	2,151	3,175	144,618	152,465
Purchase of subsidiary	449	987	12,437	43,287	327	745	867	3,822	62,921
Transfers	386	-	24,609	52,291	2,190	5,644	44	(85,164)	-
Transfers to non-current assets held for sale	(1,079)	(1,363)	(2,464)	-	-	-	-	-	(4,906)
Disposals	(196)	-	-	(21,325)	(8,844)	(20,122)	(8,537)	(2,020)	(61,044)
Other movements	118	-	(2,007)	(7,048)	9,056	(64)	-	-	55
Gross book value as at December 31, 2006	73,157	17,308	1,888,100	1,557,141	85,782	127,302	12,918	134,111	3,895,819
Accumulated depreciation as at January 1, 2006	17,645	-	511,946	473,690	49,268	110,087	8,420	-	1,171,056
Depreciation expense	3,087	-	76,783	123,089	5,046	10,470	2,033	-	220,508
Transfers to non-current assets held for sale	(141)	-	(583)	-	-	-	-	-	(724)
Disposals	(125)	-	-	(11,396)	(7,136)	(18,836)	(6,371)	-	(43,864)
Other movements	12	-	(248)	(2,649)	3,002	(72)	-	-	45
Accumulated depreciation as at December 31, 2006	20,478	-	587,898	582,734	50,180	101,649	4,082	-	1,347,021
Accumulated impairment as at January 1, 2006	14,481	4,821	491,023	274,558	9,898	10,667	874	2,039	808,361
Impairment charge	2,006	431	139,556	121,931	4,031	2,671	12	22,747	293,385
Impairment charge for specific assets	50	235	1	4,861	10	-	88	153	5,398
Reversal of impairment	-	-	-	(2,513)	-	-	(15)	(359)	(2,887)
Transfers	-	-	-	-	10	18	-	(28)	-
Transfers to non-current assets held for sale	-	(379)	(501)	-	-	-	-	-	(880)
Disposals	(63)	-	-	(8,945)	(752)	(604)	(654)	(1,546)	(12,564)
Other movements	3	-	(527)	(1,375)	1,883	(16)	-	(12)	(44)
Accumulated impairment as at December 31, 2006	16,477	5,108	629,552	388,517	15,080	12,736	305	22,994	1,090,769
Net book value as at January 1, 2006	41,146	12,863	852,399	740,145	23,273	18,194	8,075	70,816	1,766,911
Net book value as at December 31, 2006	**36,202**	**12,200**	**670,650**	**585,890**	**20,522**	**12,917**	**8,531**	**111,117**	**1,458,029**

(All amounts in thousands, except as otherwise stated)

The transfers recorded in the year ended December 31, 2007 mainly relate to transfers from fixed assets under construction to fixed assets due to the completion of construction.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 13,062, and PLN 11,054 were capitalized to network under construction during the year ended December 31, 2007 and December 31, 2006, respectively. Furthermore, during the year ended December 31, 2007 the Company capitalized PLN 528 of borrowing costs.

The net carrying value of assets held under finance lease as at December 31, 2006 and December 31, 2007 is presented below:

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Fixed telecommunications network	405	-
Telecommunications equipment	-	3,387
Vehicles	-	309
Fixed assets under construction	-	733
	405	**4,429**

7. Acquisitions

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

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

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

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

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

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

During the year ended December 31, 2007 the Netia Group performed a valuation of the acquired companies' assets, liabilities and contingent liabilities. In particular, the Netia Group assessed fair values of identifiable assets and liabilities according to IFRS and recorded a deferred income tax liability. Additionally, in the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. Further changes to the valuation may be introduced during the course of 12 months from the acquisition dates if additional information in respect of acquired assets, liabilities and contingent liabilities is obtained. Such additional information may include information related to pre-acquisition contingencies and calculation of the related deferred income taxes. The Netia Group will continue evaluating fair values of these assets, liabilities and contingent liabilities, which may result in further adjustments to the carrying amounts of identifiable net assets.

(All amounts in thousands, except as otherwise stated)

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

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

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

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

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

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

The above investments are of a long-term nature.

(All amounts in thousands, except as otherwise stated)

7. Acquisitions (cont'd)

The assets and liabilities recognized in the consolidated balance sheet arising from the acquisition, as at the acquisition date, are as follows:

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

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

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

UNI-Net Sp. z o.o.

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

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

Pro Futuro S.A.

In July 2006, the Company purchased 100% of the share capital of Pro Futuro S.A. ("Pro Futuro") for a total of PLN 37,893 (including a retention of PLN 2,500, which was to be paid from the escrow account in 2007 subject to all conditions being met by the seller). On April 27, 2007, PLN 1,940 of this retention was repaid to the Company and the total purchase price was decreased accordingly (see also Note 41).

In July 2006, Pro Futuro sold 456,166 (not in thousands) shares of dataCOM S.A. ("dataCOM") with a total nominal value of PLN 3,193, representing 18.6% of its share capital for a total price of PLN 2,007. The disposal of dataCOM's shares was agreed in advance and was directly related to the above transaction.

Pro Futuro was an independent telecommunications operator providing data transmission, internet access, hosting and VoIP transmission services. It provided the services based on its own broadband telecommunications network (Infostrada Futuro) created based on modern LMDS technologies. The company provided services based on the Infostrada network in Poland's largest cities: Warsaw, Łódź, Katowice, Kraków, Kielce, Gdańsk, Gdynia, Szczecin, Wrocław, Poznań, Bielsko-Biała and Lublin.

The Netia Group accounted for the acquisition of Pro Futuro using the purchase method and started consolidating the financial statements of Pro Futuro as of July 1, 2006 adjusting the consolidated income statement and the consolidated balance sheet for material transactions, which took place between July 1, 2006 and July 4, 2006. The acquired business contributed revenue of PLN 14,745 and profit of PLN 4,200 in the five-month period ended May 31, 2007, after taking into account intercompany eliminations and a gain of PLN 1,940 described below. On May 31, 2007 the Company merged with Pro Futuro.

During the year ended December 31, 2006 the Netia Group performed a preliminary valuation of Pro Futuro's assets, liabilities and contingent liabilities, which was further up-dated during the three-month period ended March 31, 2007. In particular, the Netia Group assessed fair values of identifiable assets, liabilities and contingent liabilities according to IFRS 3, including fixed asset items, which have been adjusted on the basis of an independent valuation, and recorded a deferred income tax liability. Additionally, in the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method.

Details of fair value of net assets acquired and the excess of the fair value of net assets over cost as at the date of the acquisition are as follows:

	(PLN)
Purchase consideration, including a retention of PLN 2,500 and transaction costs of PLN 933	70,933
Settlement of the retention	(1,940)
Sale of Pro Futuro's investment	(2,007)
Fair value of net assets acquired	(67,970)
Excess of the fair value of net assets over purchase consideration	**(984)**

Based on the preliminary valuation performed during the year ended December 31, 2006, the Netia Group recognized goodwill of PLN 956, which was fully impaired in 2006. Therefore the decrease in the total purchase price of PLN 1,940 was recognized as a gain in the income statement for the year ended December 31, 2007.

The purchase consideration made by the Company in exchange for control over the net assets of Pro Futuro encompassed: the price for 100% shares of PLN 35,953, the amounts paid for Pro Futuro's convertible bonds issued to its previous shareholder of PLN 32,107 and transaction costs of PLN 933. The purchase consideration was decreased by PLN 2,007 received due to the disposal of Pro Futuro's investment in dataCOM shares.

(All amounts in thousands, except as otherwise stated)

The assets, liabilities and contingent liabilities recognized in the consolidated balance sheet arising from the acquisition, as at the acquisition date, are as follows:

	Acquiree's carrying amount (PLN)	Fair value (PLN)
Property, plant and equipment	65,189	62,921
Computer software	2,681	2,645
Customer relationships	-	18,827
Investments	2,002	-
Receivables	3,341	2,712
Prepayments	325	325
Cash and cash equivalents	638	638
Short-term loans	(2,500)	(2,500)
Trade liabilities	(4,028)	(4,026)
Other liabilities and accruals	(7,843)	(10,181)
Deferred income tax liabilities	(770)	(3, 391)
Net assets acquired	**59,035**	**67,970**

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Total purchase consideration settled in cash	(68,926)	1,940
Cash and cash equivalents in the subsidiary acquired	638	-
Cash outflow on acquisition	**(68,288)**	**1,940**

(All amounts in thousands, except as otherwise stated)

8. Intangible assets

Current period:

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

(All amounts in thousands, except as otherwise stated)

8. Intangible assets (cont'd)

Comparative period:

		Licences				Computer software costs			
	Goodwill (PLN)	Local telecommunication licenses / permits (PLN)	Data communications and internet licenses / permits (PLN)	Domestic long distance licenses / permits (PLN)	WiMAX licenses (PLN)	Computer software (PLN)	Capital work in progress (PLN)	Customer relationships (PLN)	Total (PLN)
Gross book value as at January 1, 2006	13,843	432,823	7,417	107,354	20,329	191,089	11,648	-	784,503
Additions	-	-	-	-	-	2,194	17,638	1,221	21,053
Purchase of subsidiary	956	-	-	-	-	2,646	-	18,827	22,429
Transfers	-	-	-	-	-	21,581	(21,581)	-	-
Disposals	-	-	-	-	-	(47)	-	-	(47)
Other movements	-	-	-	-	-	(103)	18	-	(85)
Gross book value as at December 31, 2006	14,799	432,823	7,417	107,354	20,329	217,360	7,723	20,048	827,853
Accumulated amortization as at January 1, 2006	-	146,661	1,539	35,465	-	97,576	-	-	281,241
Amortization expense	-	17,482	-	4,967	547	27,060	-	1,901	51,957
Disposals	-	-	-	-	-	(46)	-	-	(46)
Other movements	-	-	-	-	-	(13)	-	-	(13)
Accumulated amortization as at December 31, 2006	-	164,143	1,539	40,432	547	124,577	-	1,901	333,139
Accumulated impairment as at January 1, 2006	-	137,127	5,878	20,517	-	30,310	-	-	193,832
Impairment charge	14,799	22,661	-	7,994	3,408	10,746	1,472	207	61,287
Disposals	-	-	-	-	-	(1)	-	-	(1)
Other movements	-	-	-	-	-	(1)	-	-	(1)
Accumulated impairment as at December 31, 2006	14,799	159,788	5,878	28,511	3,408	41,054	1,472	207	255,117
Net book value as at January 1, 2006	13,843	149,035	-	51,372	20,329	63,203	11,648	-	309,430
Net book value as at December 31, 2006	**-**	**108,892**	**-**	**38,411**	**16,374**	**51,729**	**6,251**	**17,940**	**239,597**

Telecommunication licenses / permits

Prior to the completion of the legal merger of the Company with its operating subsidiaries on December 31, 2003 its subsidiaries held fixed term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization periods of the permits range between 5 and 8 years.

Domestic long distance licenses / permits

In May 2000, one of the operating subsidiaries currently legally merged into Netia, was granted a domestic long distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide inter-city telecommunication services. The remaining amortization period of the permit is 8 years.

Data communications and internet licenses / permits

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

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in July 2006) and Netia WiMax II S.A. (currently Netia WiMax), received the reservation of the 3.6-3.8 GHz frequencies, which are used to provide telecommunication services based on WiMAX technology. The license covers the entire territory of Poland and is valid for 15 years. The remaining amortization period of the permit is 13 years.

9. Investments in associates

As of December 31, 2006, the Netia Group had a 30% interest in P4, which was announced as the winner of the mobile telephony UMTS frequency tender in May 2005. On May 24, 2007, upon the accession of a new shareholder, the Netia Group interest in P4 decreased to 23.4% (see Note 40).

P4 controls the following wholly owned subsidiaries: 3G Network Services Sp. z o.o. and Germanos Polska Sp. z o.o. (as at December 31, 2007 Germanos Polska Sp. z o.o. merged with its subsidiaries Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o.).

The following table summarizes financial information of the associate:

	December 31, 2006	December 31, 2007
	(PLN)	(PLN)
Assets	567,652	1,235,860
Liabilities	131,342	628,944

	Year ended December 31, 2006	Year ended December 31, 2007
	(PLN)	(PLN)
Revenue	17	235,416
Loss for the period	(102.412)	(657,025)

The following table summarizes changes in the investment in the associate:

	Year ended December 31, 2006	Year ended December 31, 2007
	(PLN)	(PLN)
At the beginning of the period	105,633	141,394
Investment in the associate	57,000	136,264
Dilution gain in associate	-	40,102
Financial guarantee contract (see Note 20)	9,493	(2,088)
Unrealized profits on transaction with associate	(8)	-
Share of loss	(30,724)	(165,237)
At the end of the period	**141,394**	**150,435**

Following the provisions of P4's Shareholders' Agreement (see Note 40), during the year ended December 31, 2007 the Company contributed share capital of PLN 136,260. As a result, the Company was the holder of 12,285 (not in thousands) P4's shares constituting 23.4% of the shares in P4's share capital (see Note 42).

P4 is not listed on any public stock exchange market and therefore there is no published quotation price for the fair value of this investment.

The distribution of P4's dividend may occur when certain conditions specified in P4's credit facility agreement (described in Note 41) are met.

(All amounts in thousands, except as otherwise stated)

10. Inventories

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Materials	1,053	326
Less provision for impairment charge	(865)	(4)
Materials, net	188	322
Goods for resale	1,572	2,760
Less provision for impairment charge	(176)	(179)
Goods for resale, net	1,396	2,581
Inventories, net	**1,584**	**2,903**

During the year ended December 31, 2007 and 2006 the Netia Group recognized PLN 7,306 and PLN 4,868, respectively as the cost of inventories included in “cost of goods sold”. Moreover, during the ended December 31, 2007 the amount of PLN 541 (PLN 210 in 2006) of a previous inventory provision was utilized and PLN 323 was reversed.

11. Trade and other receivables

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Trade receivables	163,639	142,397
Less provision for impairment of trade receivables	(68,597)	(39,216)
Trade receivables, net	95,042	103,181
Trade receivables from the associate	1,658	4,023
VAT and other government receivables	12,152	16,799
Other receivables	23,311	3,681
Less provision for impairment of other receivables	(608)	(623)
Other receivables, net	22,703	3,058
Loans*	64,688	66,003
Less provision for impairment of loans*	(63,926)	(65,475)
Loans, net	762	528
	132,317	**127,589**
Of which,		
Current	131,833	127,339
Non-current	484	250

* Loans include a short term loan of PLN 11,500 granted to Millennium Communications S.A. (described in Note 41). As at December 31, 2007 and 2006, interest accrued on that loan amounted to PLN 53,791 and PLN 51,214, respectively. The loan and accrued interest were fully provided for.

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

The provision for impairment of the Netia Group’s receivables recognized during the year ended December 31, 2007 and 2006 amounted to PLN 2,028 and PLN 7,662, respectively and was included in “selling and distribution costs” in the consolidated income statement.

As of 31 December 2007 and 2006, trade receivables of PLN 30,255 and PLN 27,925, respectively, were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Less than 3 months (PLN)	3 – 6 months (PLN)	More than 6 months (PLN)	Total (PLN)
As at December 31, 2007	28,415	1,066	774	30,255
As at December 31, 2006	26,177	830	918	27,925

(All amounts in thousands, except as otherwise stated)

12. Non-current assets classified as held for sale

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
At the beginning of the period	-	2,329
Net book value of reclassified land	984	10,130
Net book value of reclassified buildings	2,318	25,937
Impairment charge (buildings)	(973)	-
Reversal of previous reclassification (buildings)	-	(298)
Disposal of reclassified buildings	-	(625)
Disposal of reclassified land	-	(752)
At the end of the period	**2,329**	**36,721**

Due to Management's decision relating to the disposal of certain non-current assets (land and buildings) the Netia Group reclassified those assets to non-current assets held for sale. For all these assets an active program to locate potential buyers has been already initiated.

13. Derivative financial instruments

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Forward currency contracts (cash flow hedges) - asset	600	-
Forward currency contracts (cash flow hedges) - liability	-	-
	600	**-**

In December 2006 the Netia Group entered into several forward currency contracts designated as hedges of expected future contributions to P4's capital (see Note 40). During the year ended December 31, 2007, the Company closed all of the opened positions of the forward currency contracts and the ineffective portion of PLN 59 was recognized in the consolidated income statement as "Finance cost".

As at December 31, 2007, an unrealised loss of PLN 425 was included in hedging reserve in equity.

14. Financial assets at fair value through profit and loss

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Financial assets at fair value through profit and loss	14,757	-
	14,757	**-**

The above financial assets were classified as at fair value through profit or loss on initial recognition and were disposed during the year ended December 31, 2007.

Financial assets designated as at fair value through profit or loss at inception were those that were managed and whose performance was evaluated on a fair value basis, in accordance with a documented investment strategy of the Netia Group. The Netia Group's investment strategy was to invest in money market investment funds, which invested in various short term, low risk debt instruments.

Changes in fair values of financial assets at fair value through profit and loss were recorded in "Finance income" in the income statement (Note 33).

15. Restricted cash

During the year ended December 31, 2006 the Netia Group established an escrow account in the amount of PLN 3,600 to secure contractual obligations in favour of another telecommunication operator. The agreement was concluded for an undefined period of time. Following commercial negotiations between the parties funds deposited on the escrow account were released in February 2007.

Furthermore, to secure the payment obligations arising pursuant to the provisions of the agreement relating to the acquisition of Pro Futuro (see Note 7), on May 19, 2006 the Company established an escrow account in the amount of PLN 60,967. During the year 2006, payments of PLN 58,467 in total were made from this account leaving a retention amount of PLN 2,500 at December 31,2006. On April 27, 2007, PLN 1,940 out of the total amount of the retention was repaid to the Company and the escrow account was closed (see also Note 7).

(All amounts in thousands, except as otherwise stated)

16. Cash and cash equivalents

	December 31, 2006	December 31, 2007
	(PLN)	(PLN)
Cash at bank and in hand	143,586	57,700
	143,586	**57,700**

The effective interest rate on short-term bank deposits was 4.09% and 3.78%, respectively for the year ended December 31, 2007 and 2006.

As at December 31, 2007 and 2006 the amounts of PLN 1,477 and PLN 1,349, respectively were restricted as they were placed as collateral securing payments to vendors.

In addition, as at December 31, 2007 and 2006 the amounts of PLN 540 and PLN 397, respectively were excluded from cash and cash equivalents as they were legally reserved for spending on social purposes.

For the purposes of the consolidated cash flow statement, cash and cash equivalents at December 31, 2007 include PLN 3 of bank overdrafts (see Note 21).

17. Shareholders' equity

Share capital (not in thousands)

At December 31, 2006, the Company's share capital consisted of 389,166,839 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at shareholders' meetings. The holder of 1,000 series A1 shares had the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board.

In the year ended December 31, 2007 the Company issued 109,455 ordinary series K shares due to the exercise by certain persons of their rights arising from the key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"). Under the Company's Statute up to 18,373,785 series K shares may be issued. The total number of series K shares issued through December 31, 2007 was 5,054,520 and their nominal value was PLN 5,055 thousands.

As a result at December 31, 2007 the Company's share capital consisted of 389,276,294 ordinary shares and of 1,000 series A1 shares (par value of PLN 1 per share). Each share had one vote at shareholders' meetings. All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these consolidated financial statements.

	Number of shares authorized and issued (not in thousands)	Share capital
		(PLN)
At January 1, 2006	**408,614,873**	**408,615**
Exchange of warrants for series J shares	7,662,385	7,662
Issuance of series K shares	1,052,691	1,053
Redemption of shares	(28,162,110)	(28,162)
At December 31, 2006	**389,167,839**	**389,168**
Issuance of series K shares	109,455	109
At December 31, 2007	**389,277,294**	**389,277**

According to the information provided to the Company by its shareholders, as at December 31, 2007 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	% of share capital
Novator Telecom Poland II S.a.r.l.	113,941,170	29.27
Third Avenue Management LLC	79,955,192	20.54
SISU Capital Limited and related entities	39,043,006	10.03
Banca Akros S.p.A.	23,262,944	5.98
Shares held by public and other shareholders	133,074,982	34.18
	389,277,294	**100.00**

Share premium, other supplementary capital and other reserves

The Shareholders' Meeting held on March 21, 2007, resolved to cover the loss of Netia S.A. in the amount of PLN 279,037, incurred in 2006, by transfer of: PLN 82,697 from retained earnings being a surplus relating to merger of Netia S.A. with its subsidiaries, PLN 143,218 from other supplementary capital, PLN 24,960 from share premium and PLN 28,162 from separate reserve capital. Further changes in other reserves are presented in the table below:

(All amounts in thousands, except as otherwise stated)

	Employee share option scheme (PLN)	Separate reserve capital (PLN)	Hedging reserve (PLN)	Total (PLN)
Balance as at January 1, 2006	1,758	-	-	1,758
Employee share option scheme:				
- value of services provided	721	-	-	721
- issuance of series K shares	(1,483)	-	-	(1,483)
Appropriation of Netia's 2005 net profit:				
- transfer to reserve capital	-	2,812	-	2,812
Transfer related to repurchase of series C and E shares	-	(2,812)	-	(2,812)
Decrease of share capital	-	28,162	-	28,162
Cash flow hedges:				
- fair value gains	-	-	600	600
- tax on fair value gains	-	-	(114)	(114)
Balance as at December 31, 2006	**996**	**28,162**	**486**	**29,644**
Employee share option scheme:				
- value of services provided	14,004	-	-	14,004
- issuance of series K shares	(324)			(324)
Coverage of Netia's 2006 loss	-	(28,162)	-	(28,162)
Cash flow hedges:				
- fair value losses	-	-	(966)	(966)
- tax on fair value losses	-	-	114	114
- transfers to consolidated income statement	-	-	(59)	(59)
Balance as at December 31, 2007	**14,676**	**-**	**(425)**	**14,251**

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. Due to Netia S.A.'s loss for the year ended December 31, 2007 of PLN 73,217, the distributable reserve, as at December 31, 2007, amounted to PLN nil.

Stock options (not in thousands)

In the year ended December 31, 2007 the following changes took place in the number of options granted under the Plan:

	Year ended December 31, 2006		Year ended December 31, 2007	
Options	Average strike price	Options	Average strike price	Options
At the beginning of the period	3.06	2,776,650	4.44	1,935,149
Granted	4.92	975,687	6.64	48,425,000
Forfeited / expired	-	-	6.40	(6,868,857)
Exercised	2.59	(1,817,188)	3.12	(362,419)
At the end of the period	**4.44**	**1,935,149**	**6.61**	**43,128,873**

As at December 31, 2007 the total number of options approved for issue by the Supervisory Board was 63,696,220 as compared to 15,271,220 as at December 31, 2006. Out of these approved options 43,128,873 options were outstanding as at December 31, 2007 and 2,206,963 options were outstanding as at December 31, 2006. As at December 31, 2007 and 2006, the total number of vested options was 325,229 and 687,648, respectively. The vesting period for the options is up to three years from the date of grant. As at December 31, 2007, the weighted average remaining contractual life of the outstanding options was 5 years. All 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 4.71 to PLN 8.25.

Due to the exercise of 362,419 options, in the year ended December 31, 2007, the Company issued 109,455 series K shares, at the nominal value of PLN 1 each. The share price at the date of exercise was PLN 4.43 per share.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. For the outstanding options, the valuation model takes into account such factors as strike price (presented above), total expected life of the options (5 - 7 years), time to vest, expected volatility of the share price returns (24.31% - 34.21%), employee exit rate (5% - 10%), exercise multiple (1.5) and the risk free interest rate at the date of the grant (ranging from 4.13% to 6.07%). The expected volatility is based on historical volatility. The cost of options recorded in the year ended December 31, 2007 and 2006 amounted to PLN 14,004 thousands and PLN 721 thousands, respectively.

(All amounts in thousands, except as otherwise stated)

18. Minority interest

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
At the beginning of the period	6,349	6,902
Share of net profit of subsidiaries	553	603
Transactions with minorities (see Note 7)	-	(7,505)
At the end of the period	**6,902**	**-**

19. Provisions

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Loss on rental contract	1,099	470
Claims and tax assessments	3,189	189
Restructuring	508	-
	4,796	**659**
Of which,		
Current	4,166	562
Non-current	630	97
	4,796	**659**

	Loss on rental contracts (PLN)	Claims and tax assessments (PLN)	Restructuring (PLN)	Total (PLN)
As at January 1, 2007	1,099	3,189	508	**4,796**
Charged/(Credited) to the income statement	(160)	(111)	(230)	(501)
Used during the period	(579)	-	(278)	(857)
Discount unwinding (charged to the income statement)	110	-	-	110
Reclassification	-	(2,889)		(2,889)
As at December 31, 2007	**470**	**189**	**-**	**659**

Loss on rental contracts

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

Claims and tax assessments

The amounts represent provisions for a contractual penalty due to delays in the performance of a contract and a provision for a potential income tax liability. During the year ended December 31, 2007 the provision for a potential income tax liability was reclassified to liabilities. In the opinion of the Management the outcome of the outstanding provisions will not give rise to any significant losses beyond the amounts provided. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2008.

Restructuring

The provision for restructuring was recorded in connection with the restructuring of headcount of Pro Futuro acquired in July 2006. The provision was created for those committed redundancies where the employment contract has not been yet terminated. During the year ended December 31, 2007 all the compulsory cash outflows relating to this provision were incurred and the remaining part of the provision was reversed.

20. Financial guarantee contract

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 granted to P4 by China Development Bank (see Note 41). Under the Guarantee and Share Retention Agreement, Netia provided a guarantee to a maximum amount of EUR 27,000. Due to the accession of a new shareholder to P4, on May 24, 2007 (see Note 40) the agreement was amended and the guaranteed amount decreased to EUR 21,060. The guarantee covers the repayment of 23.4% (previously 30%) of the outstanding amounts under one of the tranches of the credit facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). The amount of guarantee will be reduced gradually as the network assets are put into commercial service.

(All amounts in thousands, except as otherwise stated)

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

Changes in the value of the financial guarantee contract during the year ended December 31, 20007 are presented below:

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

Fair value of the financial guarantee contract as at December 31, 2007 amounted to PLN 3,775.

21. Borrowings

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Bank loan	-	94,738
Bank overdraft	-	3
	-	**94,741**
Of which:		
Current	-	7,397
Non-current	-	87,344

Bank loan

On May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement with Rabobank Polska SA (the “Bank”) as arranger, credit facility agent, security agent and lender (the “Facility”). The Facility is to be repaid by November 15, 2011. The proceeds from the Facility will be used to finance Netia’s capital expenditures and current operations and may be drawn down until November 15, 2008. As at December 31, 2007 the total draw downs under this Facility amounted to PLN 95,000.

The Facility bears interest at a variable interest rate of WIBOR plus a margin dependant on financial ratios. Moreover, the Company must pay a commitment fee on the undrawn, uncancelled amount of the Facility commitment. The borrowing is measured at amortized cost using an effective interest rate of 7.40%. As at December 31, 2007 total transaction costs amounted to PLN 3,711, out of wich PLN 1,015 related to the drawn downs made in 2007 and were included in the calculation of the effective interest rate.

The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

The repayment of the Facility is secured by the following: two capped mortgages on the right of perpetual usufruct of the Company’s real estate at ul. Poleczki 13 in Warsaw, a registered pledge on a set of movables and rights constituting an organised part of the enterprise of Świat Internet, registered pledges and financial pledges on the shares of Świat Internet, UNI-Net, InterNetia Sp. z o.o, Netia WiMax, Premium Internet S.A. and assignment as collateral security of Netia’s receivables under certain agreements. The financial pledges on shares were in place until registration of the registered pledges was completed. Moreover, the Company’s subsidiaries (Świat Internet, Netia WiMax, Premium Internet S.A, InterNetia Sp. z o.o,) 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 375,000.

Bank overdraft

Following the acquisition of Lanet, Netis and Verizone (see Note 7) the Netia Group acquired overdrafts in the amounts of PLN 93, PLN 31 and PLN 3, respectively. The loans were repaid in July and December 2007 and January 2008.

Undrawn borrowing facilities

On November 6, 2006, Netia entered into two one-year financing agreements with Bank Handlowy w Warszawie SA. Netia secured an overdraft facility in the amount of PLN 40,000 and a term loan facility of PLN 160,000. On December 29, 2006 the PLN 160,000 loan facility was reduced to PLN 60,000. During the year ended December 31, 2007 the facility agreements were terminated. There were no drawdowns under these facilities.

(All amounts in thousands, except as otherwise stated)

22. Trade and other payables

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Trade payables	56,030	64,383
Investment payables	62,128	75,743
Trade payables to the associate	-	3,060
Accrued expenses (see Note 23)	41,489	61,636
VAT and other taxes	4,445	7,659
Retirement severance payments	530	680
Finance lease payments	-	4,278
Other payables	4,419	5,501
	169,041	**222,940**
Of which,		
Current	168,267	219,486
Non-current	774	3,454

Retirement severance payments

The provision for retirement severance payments was calculated by an independent actuary using the projected unit credit method. It represents the present value of the future obligation of the Company to make severance payments on its employee's retirement, required by the Polish Labour Code. A valuation was performed using a discount rate of 5.5% (5.0% in 2006) and a salary increase rate of 3,5% (2.0% in 2006) above inflation of 2,5%. A related cost recognized during the years ended December 31, 2007 and 2006 amounted to PLN 150 and PLN 530, respectively. Retirement severance payments will be paid on the Netia Group's employees' retirement.

23. Accrued expenses

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Construction costs	7,636	3,149
Uninvoiced services	14,263	20,800
Interconnection charges	942	13,307
Holidays accrual	4,003	3,765
Employees bonuses and accrued salaries	10,309	16,773
Other	4,336	3,842
	41,489	**61,636**

24. Corporate income tax

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Current income tax	(420)	(617)
Deferred income tax charge, net	(6,802)	(1,664)
Income tax charge	**(7,222)**	**(2,281)**

(All amounts in thousands, except as otherwise stated)

Current income tax

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

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Loss before tax	(371,133)	(270,067)
Tax calculated at tax rates applicable to profit	70,515	51,313
Income not subject to tax	12,915	12,774
Expenses not deductible for tax purposes	(30,547)	(34,901)
Expenses deductible for tax purposes in previous periods	(739)	-
Deductible temporary differences arising during the year for which no deferred tax asset were recognized	(55,239)	(15,387)
Tax effect on in-kind contribution of telecommunication infrastructure	-	77,429
Utilization of previously unrecognized tax losses	1,771	191
Tax losses for which no deferred income tax asset was recognized	(4,893)	(90,776)
Reassessment of tax bases of assets and liabilities	879	-
Recognition of previously unrecognized deferred income tax asset	418	-
Derecognition of previously recognized tax asset	(2,302)	(2,924)
Income tax charge	**(7,222)**	**(2,281)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2006 and onwards is 19%.

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

Deferred income tax

The deferred income tax calculation is based upon the probability that future taxable profit will be available against which temporary differences, the unused tax losses and unused tax credits can be utilized. That calculation is based upon Management's estimates, which contain a considerable amount of uncertainty and the actual outcome may differ. These estimates may be altered to reflect changes in the economic, technological and competitive environment in which the Netia Group operates.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	6,606	464
- Deferred income tax assets to be recovered within 12 months	10,716	15,668
	17,322	16,132
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	2,637	2,604
- Deferred income tax liabilities to be recovered within 12 months	10,810	13,320
	13,447	15,924
Deferred income tax assets, net	**3,875**	**208**
out of which:		
Deferred income tax assets	4,865	2,162
Deferred income tax liabilities	(990)	(1,954)

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

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

Current period:

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

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

Deferred income tax liabilities	**Deferred revenue**	**Interest income and foreign exchange differences**	**Depreciation and impairment**	**Other receivables**	**Other**	**Total**
As at January 1, 2006	15,472	2,439	7,324	-	134	25,369
- Charged / (credited) to the income statement	(9,583)	(2,312)	(7,898)	3,781	(134)	(16,146)
- Deferred income tax on acquisition	-	-	4,110	-	-	4,110
- Credited / (charged) to the equity	-	-	-	-	114	114
As at December 31, 2006	**5,889**	**127**	**3,536**	**3,781**	**114**	**13,447**

Deferred income tax assets	**Depreciation and impairment**	**Impairment provisions for receivables**	**Tax losses**	**Accrued expenses**	**Other**	**Total**
As at January 1, 2006	14,323	7,576	11,011	6,036	605	39,551
- Credited / (charged) to the income statement	(11,264)	(2,982)	(6,902)	(2,098)	298	(22,948)
- Deferred income tax on acquisition	-	113	-	544	62	719
As at December 31, 2006	**3,059**	**4,707**	**4,109**	**4,482**	**965**	**17,322**

The deferred income tax recognized in equity in an amount of PLN 114 regards movements in hedging reserve and PLN 2,117 of deferred income tax resulted from acquisition of newly acquired subsidiaries.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of December 31, 2007, the Netia Group had total deductible temporary differences of PLN 368,836 and unutilised tax loss carry-forwards of PLN 596,799 (total potential deferred income tax asset of PLN 183,470).

The Netia Group did not recognize deferred income tax assets of PLN 112,190 relating to tax losses of PLN 590,473 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses. These unrecognized tax losses of the Netia Group available for use as at December 31, 2007 will expire in the following years: PLN 85,120 in 2008, PLN 15,659 in 2009, PLN 14,486 in 2010, PLN 238,601 in 2011, and PLN 236,607 in 2012.

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 70,079, relating to deductible temporary differences of PLN 368,836 as follow:

	Timing differences (PLN)	**Deferred income tax asset (PLN)**
Depreciation and impairment	139,016	26,413
Accrued expenses	50,232	9,544
Investment in P4	151,563	28,797
Impairment provisions for receivables	347	66
Deferred revenue	9,584	1,821
Provisions	1,105	210
Other	16,989	3,228
	368,836	**70,079**

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

(All amounts in thousands, except as otherwise stated)

25. Revenue

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Direct voice services	411,986	369,499
Monthly fees	133,954	122,348
Calling charges	278,032	247,151
Local calls	*80,760*	*65,250*
Domestic long distance calls	*49,121*	*38,994*
International long distance calls	*28,373*	*27,457*
Fixed-to-mobile	*105,337*	*100,149*
Other	*14,441*	*15,301*
Indirect voice	50,528	54,203
Data	171,486	242,242
Interconnection revenue	43,445	28,517
Wholesale services	150,327	110,977
Intelligent network services	15,349	14,374
Other telecommunication service revenue	7,492	8,757
Telecommunication services revenue	**850,613**	**828,569**
Sales of goods	2,735	2,120
Telecommunication revenue	**853,348**	**830,689**
Radio communication services revenue	8,709	7,336
Total revenue	**862,057**	**838,025**

26. Cost of sales

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Interconnection charges	(213,330)	(159,866)
Network maintenance	(95,524)	(173,015)
Cost of goods sold	(4,999)	(7,306)
Depreciation of fixed assets	(208,318)	(217,360)
Amortization of intangible assets	(26,267)	(23,499)
Salaries and benefits	(17,868)	(9,971)
Other costs	(63,569)	(46,535)
	(629,875)	**(637,552)**

27. Selling and distribution costs

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Advertising and promotion	(26,633)	(41,255)
Mailing services	(5,644)	(10,664)
Information technology services	(5,599)	(5,027)
Other services	(26,020)	(39,703)
Provision for impaired receivables	(7,662)	(2,028)
Depreciation of fixed assets	(4,634)	(4,416)
Amortization of intangible assets	(19,264)	(17,987)
Salaries and benefits	(50,464)	(77,126)
Other costs	(2,129)	(2,964)
	(148,049)	**(201,170)**

(All amounts in thousands, except as otherwise stated)

28. General and administration costs

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Professional services	(11,734)	(10,615)
Information technology services	(9,386)	(8,201)
Office and car maintenance	(8,945)	(7,259)
Insurance	(4,086)	(2,291)
Other services	(12,892)	(15,160)
Depreciation of fixed assets	(7,556)	(4,695)
Amortization of intangible assets	(6,426)	(6,565)
Salaries and benefits	(62,657)	(78,429)
Other costs	(15,220)	(11,536)
	(138,902)	**(144,751)**

29. Salaries and benefits

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Wages and salaries	(111,516)	(131,297)
Social security costs	(9,527)	(12,152)
Defined contribution plan (the State Plan)	(7,147)	(7,923)
Provision for retirement severance payment	(530)	(150)
Share-based compensation	(892)	(14,004)
Restructuring costs	(1,377)	-
	(130,989)	**(165,526)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme. During the years ended December 31, 2007 and 2006 the Group paid contributions at a rate of 9.76% of gross salaries up to certain limits. The Netia Group is not required to make any contributions in excess of this statutory rate.

30. Other income

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Forgiveness of liabilities	621	1,024
Sale of services to associate	1,951	3,404
Reversal of accrued other income on sale of services to associate (see Note 39)	(303)	-
Settlement of interconnection related disputes	-	24,239
Fair value adjustments on other receivables	4,613	-
Financial guarantee	88	6,882
Reversal of impairment charges	2,968	509
Other operating income	3,068	5,257
	13,006	**41,315**

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

31. Other expenses

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Impairment charges for non-current assets	(354,672)	-
Impairment charges for specific individual assets	(6,371)	(304)
Professional fees	(3,890)	-
The tax on civil law transactions	-	(4,764)
	(364,933)	**(5,068)**

(All amounts in thousands, except as otherwise stated)

On January 22, 2007, Netia concluded an agreement with its subsidiary Świat Internet S.A. ("Świat Internet"), whereupon Netia made an in-kind contribution of telecommunications network elements in exchange for new shares in its subsidiary. The related assets were valued by a property appraisal expert at the amount of PLN 950,703. The tax on civil law transactions levied on this capital contribution in the amount of PLN 4,764 was recognized as other expense. Subsequently, Netia concluded an agreement with Świat Internet to enable Netia to lease the network elements in order to provide service to its customers. This reorganization of the Netia Group's activities is expected to deliver various operating efficiencies in the future.

32. Other gains / (losses), net

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Gain on sale of subsidiaries	20	-
Decrease of purchase consideration	-	1,940
Gain on sale of impaired receivables	1,280	2,040
Reassessment of the carrying value of license fee liabilities	64,469	-
Gain on sale of fixed assets	2,574	1,747
Net foreign exchange gains / (losses)	(3,031)	(366)
	65,312	**5,361**

33. Finance income and finance costs

Finance income

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Interest income	5,983	3,973
Gain on fair value adjustment of financial assets	2,251	21
	8,234	**3,994**

Finance costs

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Interest expense	(5,532)	(885)
Net foreign exchange losses	(1,727)	(573)
Ineffectiveness of cash flow hedges	-	(59)
	(7,259)	**(1,517)**

34. Net foreign exchange gains / (losses)

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

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Other gains / (losses), net	(3,031)	(366)
Finance costs	(1,727)	(573)
	(4,758)	**(939)**

35. Earnings per share

Basic

Basic earnings per share have been calculated based on the net profit attributable to the equity holders of the Company for each period divided by the weighted average number of shares in issue during the year. The weighted average number of ordinary shares in issue excludes the weighted average number of treasury shares and own shares repurchased within the share and subscription warrant buy-back program completed in 2005, as presented below:

	Year ended December 31, 2006	Year ended December 31, 2007
Weighted average number of treasury shares (not in thousands)	139,952	-
Weighted average number of own shares repurchased within the program (not in thousands)	8,270,102	-

(All amounts in thousands, except as otherwise stated)

	Year ended December 31, 2006	Year ended December 31, 2007
Loss attributable to the equity holders of the Company	(378,908)	(269,484)
Weighted average number of ordinary shares in issue (not in thousands)	387,809,730	389,220,018
Basic earnings per share (not in thousands)	(0.98)	(0.69)

Diluted

Diluted earnings per share for loss attributable to the equity holders of the Company is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had two categories of potentially dilutive ordinary shares: warrants (which expired in April 2006 and which upon their exercise triggered the issue of the series J shares) and the employees' share options (which upon their exercise trigger the issue of the series K shares). For the share options and warrants a calculation was done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares) based on the monetary value of the subscription rights attached to the outstanding share options and warrants. The number of shares calculated as above was compared with the number of shares that would have been issued assuming the exercise of the share options and warrants.

	Year ended December 31, 2006	Year ended December 31, 2007
Loss attributable to the equity holders of the Company	(378,908)	(269,484)
Weighted average number of ordinary shares in issue (not in thousands)	387,809,730	389,220,018
Adjustments for:		
- Share options	338,886	109,455
- Warrants	737,456	-
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	388,886,072	389,329,473
Diluted earnings per share (not in thousands)	(0.97)	(0.69)

36. Dividends per share

No dividend has been proposed or paid in respect to the financial years ended December 31, 2007 and 2006.

37. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Trade receivables	39,289	(11,914)
Tax receivables	(4,889)	(4,563)
Other receivables	1,203	19,763
Inventories	678	(964)
Prepaid expenses	1,010	(7,347)
Restricted cash	(3,600)	6,100
Trade creditors	(10,381)	14,534
Provisions, accruals and other payables	(21,643)	21,364
Deferred income	8,131	1,946
	9,798	**38,919**

Supplemental disclosures to operating activities:

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Income taxes paid	327	624
Interest received	(6,324)	(6.066)

Non-cash transactions (not in thousands):

The principal non-cash transaction was a decrease of the Netia Group's stake in P4 discussed in Notes 5 and 40.

During the years ended December 31, 2007 and 2006 the Company issued 109,455 and 1,052,691, respectively, ordinary series K shares due to exercise of options granted under the Plan.

In 2007 the Company entered into finance lease agreements for telecommunication equipment. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 3,631.

38. Changes in the Management Board and Supervisory Board

Changes in the Management Board

Effective February 15, 2007 Mr. Mirosław Godlewski was appointed as Netia's President of the Management Board and Chief Executive Officer.

Effective March 20, 2007 Mr. Paweł Karłowski, Member of the Management Board, resigned from his position.
Effective March 20, 2007 Mr. Paul Kearney, Member of the Management Board, resigned from his position.

Effective April 1, 2007 Mr. Bertrand Le Guern was appointed as a Member of the Management Board and Chief Operations Officer.

Effective September 6, 2007 Mr. Piotr Buława, Sales Director, was appointed as a Member of the Management Board and on December 22, 2007 resigned from his position.

Due to the above changes as at December 31, 2007 the Company's Management Board consisted of the following members:

- Mirosław Godlewski – President,
- Piotr Czapski,
- Jonathan Eastick,
- Bertrand Le Guern,
- Tom Ruhan.

Changes in the Supervisory Board

Effective March 21, 2007 Ms. Alicja Kornasiewicz, Chairman of the Company's Supervisory Board, resigned from the position of Member and Chairman of the Company's Supervisory Board.

On March 21, 2007, the Company's Shareholder's Meeting appointed Mr. Wojciech Sobieraj to Netia's Supervisory Board.

Effective April 30, 2007 Mr. Andrzej Radzimiński resigned from the position of Member of the Company's Supervisory Board. In parallel, exercising his right to appoint one member of Netia's Supervisory Board that results from the ownership of 1,000 (not in thousands) preferred registered series A1 shares of the Company, Mr. Andrzej Radzimiński appointed Mr. Tadeusz Radzimiński as Netia's Supervisory Board member, effective April 30, 2007.

Appointment of Chairperson of Netia's Supervisory Board

On April 13, 2007 the Company's Supervisory Board appointed Mr. Wojciech Sobieraj as the Chairman of the Supervisory Board and Mr. Constantine Gonticas as the Deputy Chairman of the Supervisory Board.

Due to the above changes as at December 31, 2007 the Company's Supervisory Board consisted of the following members:

- Wojciech Sobieraj – Chairman,
- Constantine Gonticas – Deputy Chairman,
- Raimondo Eggink,
- Bruce McInroy,
- Bogusław Kasprzyk,
- Tadeusz Radzimiński,
- Pantelis Tzortzakis.

39. Related party transactions

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

As at December 31, 2007, the total number of options granted to members of the Company's Management Board under the Plan, was 33,271,814 of which none had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 4.80 to 8.25 per share. The market price of the Company's shares at December 31, 2007 was PLN 3,80 per share.

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

Options	**Year ended December 31, 2006**	**Year ended December 31, 2007**
At the beginning of the period	1,812,094	1,721,489
Granted	815,442	38,000,000
Status changed due to resignation from Management Board	-	(5,634,233)
Expired	-	(815,442)
Exercised	(906,047)	-
At the end of the period	**1,721.489**	**33,271,814**

As at December 31, 2006 Mr. Paul Kearney and Mr. Paweł Karłowski – the former members of the Company's Management Board (see Note 38) – held 362,419 and 271,814 options, respectively. Due to their resignations from their positions, these options are no longer treated as options held by members of the Management Board.

As at December 31, 2006 and December 31, 2007 Mr. Piotr Czapski – a member of the Company's Management Board – held 543,628 and 5,000,000 options, respectively.

As at December 31, 2006 and December 31, 2007 Mr. Jonathan Eastick – a member of the Company's Management Board – held 543,628 and 9,271,814 options, respectively.

As at December 31, 2007 Mr. Mirosław Godlewski – the Company's President of the Management Board (see Note 38) – held 10,000,000 options.

As at December 31, 2007 Mr. Bertrand Le Guern – a member of the Company's Management Board (see Note 38) – held 5,000,000 options.

Mr. Piotr Buława – a former member of the Company's Management Board (see Note 38) held 5,000,000 options. Due to his resignation from his position, these options are no longer treated as options held by members of the Management Board. Upon Mr. Piotr Buława's leaving the Company these options expired unvested.

As at December 31, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 4,000,000 options.

Members of the Supervisory Board did not hold any options as at December 31, 2007 and December 31, 2006.

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

As at December 31, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 series K shares of the Company. The number of shares held has not changed since December 31, 2006.

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

As at December 31, 2006, Mr. Andrzej Radzimiński – the former member of the Company's Supervisory Board – held 10,000 ordinary shares and 1,000 series A1 shares. Due to his resignation from his position, these shares are no longer treated as shares held by members of the Supervisory Board.

As at December 31, 2007, Mr. Raimondo Eggink – a member of the Company's Supervisory Board– held 20,000 shares of the Company. The number of shares held has not changed since December 31, 2006.

As at December 31, 2006 and December 31, 2007, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held respectively 43,000 and 93,000 shares of the Company.

As at December 31, 2006 and December 31, 2007, Mr. Bruce McInroy – a member of the Company's Supervisory Board – held respectively nil and 50,000 shares of the Company.

As at December 31, 2007, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board (see Note 38) – held 2,000 shares of the Company.

Management Board remuneration

Compensation and related costs associated with members of the Company's Management Board during the years ended December 31, 2007 and December 31, 2006 amounted to PLN 5,874 and PLN 6,656, respectively. In addition, the cost of share-based payments in the amounts of PLN 11,062 and PLN 638 was recognized in the respective periods. Additional to the above, in the years ended December 31, 2007 and December 31, 2006, termination benefits for the former members of the Management Board of PLN 1,251 and PLN 1,755, respectively, were recognized as a cost.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the years ended December 31, 2007 and December 31, 2006 amounted to PLN 830 and PLN 696, respectively. These amounts were paid to certain employees of the Netia Group who are not past or present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the years ended December 31, 2007 and December 31, 2006 amounted to PLN 599 and PLN 440, respectively. Furthermore, the compensation and related costs for the former members of the Supervisory Board of PLN 44 were recognized as a cost in the year ended December 31, 2006.

Transactions with former members of the Supervisory Board and Management Board of the Company's subsidiary

Former members of the Supervisory Board and Management Board of one of the Company's subsidiaries were related parties to Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o. ("ZIT"), a company, which rendered managerial services for Premium Internet S.A. and was acquired by the Netia Group in September 2006. The amount due for those managerial services equalled the purchase price of ZIT's shares. In accordance with the terms of the transaction, the purchase price of the above shares was ultimately set at PLN 15,541, based on the value of ZIT's net assets as at 2006 year-end. An advance payment of PLN 5,324 was made in 2006 and the remaining PLN 10,217 was paid in January 2007.

(All amounts in thousands, except as otherwise stated)

Transactions with the associate

The following transactions were carried out with P4 Group (see also Note 9, 40 and 42):

	Year ended December 31, 2006 (PLN)	Year ended December 31, 2007 (PLN)
Telecommunication revenue	1,981	9,867
Sale of services	1,951	3,404
Reversal of accrued other income on sale of services*	(303)	-
Other sales transactions	117	442
	3,746	**13,713**
Interconnection charges	-	(731)
Telecommunication fees	-	(1,778)
Other costs	-	(15)
	-	**(2,524)**
	3,746	**11,189**

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Trade receivables	1,658	4,023
Trade payables	-	(3,060)
	1,658	**963**

** Reversal of accrued other income on sale of services resulted from the adjustment of estimated prices for services provided to P4 during 2005 to contractual prices negotiated with P4 during the year ended December 31, 2006, but also applicable retrospectively to 2005.*

Transactions with minority interests

Transactions with minority interests are described in Note 7.

Other transactions with related parties

During the year ended December 31, 2007 and December 31, 2006, 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.

40. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 62,262 as at December 31, 2007 and PLN 27,317 as at December 31, 2006 of which, PLN 4,934 and PLN 1,945, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2007 and December 31, 2006 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Not later than 1 year	34,348	58,963
Later than 1 year and not later than 5 years	41,275	45,256
Later than 5 years	37,636	41,831
	113,259	**146,050**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for almost 4 years. Rental costs recognized in the income statement for the years ended December 31, 2007 and December 31, 2006 amounted to PLN 116,530 and PLN 68,069, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 19) in the amounts of PLN 1,459 and PLN 3,105, respectively.

Operating lease commitments – where the Netia Group is the lessor

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

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Not later than 1 year	16,149	17,277
Later than 1 year and not later than 5 years	26,730	19,032
Later than 5 years	9,208	3,118
	52,087	**39,427**

The Netia Group has entered into several commercial leases on certain parts of the fixed telecommunications network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the years ended December 31, 2007 and December 31, 2006 amounted to PLN 23,946 and PLN 20,793, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

In October and December, 2007 Netia entered in new finance lease agreements for telecommunication equipment. Moreover, with the acquisition of Lanet, KOM-Net, Akron, Netis and Interbit (see Note 7), the Netia Group has acquired finance leases for certain telecommunication equipment as well as for some vehicles. As at December 31, 2007 and December 31, 2006 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2006 (PLN)	December 31, 2007 (PLN)
Not later than 1 year	-	2,003
Later than 1 year and not later than 5 years	-	2,744
Later than 5 years	-	-
Total minimum lease payments	**-**	**4,747**
Less amount representing finance charges	-	(469)
Present value of minimum lease payments	**-**	**4,278**

P4 related commitments (not in thousands)

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

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

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

On May 24, 2007, Tollerton became a new shareholder of P4, and subscribed for a 22% equity stake in the increased share capital of P4 in exchange for 100% shareholding in the share capital of Germanos Polska Sp. z o.o., Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o. (the "Distribution Companies"), which have been contributed to P4 to pay for the new shares subscribed for by Tollerton. Tollerton additionally contributed EUR 9 million pursuant to the Investment Agreement.

Following the above transactions Netia Mobile held 11,349 shares constituting 23.4% of the share capital of P4, and Novator held shares constituting a total of 54.6% of the share capital (see also Note 9).

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

The Shareholders reiterated their earlier commitments to make contributions to P4, pro rata to their respective changed shareholdings in P4's share capital. From EUR 300 million of the aggregate cash contributions committed by the shareholders in the Shareholders Agreement, the cash contributions made and agreed to be made prior to and in connection with the closing of the transaction, amounted to EUR 185.8 million, including Netia's contributions of EUR 52.8 million (out of total committed cash contributions of EUR 79.5 million); Novator's contributions of EUR 123.1 million (out of total committed cash contributions of EUR 185.5 million) and Tollerton's contributions of EUR 9.9 million. Post closing of the transaction further shareholders' committed cash contributions amounted to EUR 114.2 million in the aggregate, including Netia's committed contribution of EUR 26.7 million; Novator's committed contribution of EUR 62.4 million and Tollerton's committed contribution of EUR 25.1 million.

As at December 31, 2007, the total cash contributions made by Netia Mobile in connection with the above agreements amounted to EUR 77.5 million (of which EUR 36.6 million was made in the year ended December 31, 2007) and the total outstanding amount of committed contributions amounted to EUR 2.0 million (see Note 42).

P4's Supervisory Board (the "Supervisory Board") shall consist of nine members appointed for a five-year term of office. As long as Netia Mobile continues to hold: (i) at least 20% of the Shares – Netia Mobile shall be entitled to appoint, suspend and dismiss two members of the Supervisory Board, and (ii) 10% – 20% of the Shares – Netia Mobile shall be entitled to appoint, suspend and dismiss one Supervisory Board member, and to appoint the Chairman of the Supervisory Board. The remaining members of the Supervisory Board shall be appointed by Novator and Tollerton and/or the shareholders' meeting of P4.

The Management Board of P4 (the "Management Board') shall be composed of up to six members appointed by the Supervisory Board in accordance with specific procedures ensuring that all Shareholders have a transparent and equitable share in the decision-making process. Netia Mobile will retain the right to suspend and dismiss specific Management Board members if their appointment is inconsistent with the above-mentioned procedures.

No P4 shareholder may transfer its Shares before August 23, 2008 without the consent of the other Shareholders, except for certain permitted transfers within their respective capital groups. If a change of control event affects any Shareholder, the other Shareholders will be entitled to purchase the Shares of such affected Shareholder pro rata to their respective shareholdings in P4.

The amended Shareholders Agreement includes standard procedures governing the sale of the Shares by the Shareholders following the lock-up period until August 23, 2008. If the Shareholder affected by the change-of-control event wishes to dispose of its Shares, the other Shareholders will be entitled to require the prospective third-party buyer to purchase their Shares on the same terms and pro-rata to the Shares sold by such Shareholder. Furthermore, should Novator select to sell its entire shareholding in P4, it will be entitled to require the other Shareholders to sell all of their shares on the same terms. The observance of these provisions is secured with contractual penalties of EUR 25 million. The payment of such contractual penalties does not exclude the rights of the parties to the amended Shareholders Agreement to claim damages in an amount exceeding the amount of such penalties. Any transfers of the Shares in breach of the Share transferability restrictions will be ineffective vis-à-vis P4.

The Agreement contains a list of specific matters requiring unanimous approvals from the Shareholders regarding potential alterations to the share capital structure, issuing securities, disposals and acquisitions of assets, certain business, commercial and accounting matters, indebtedness levels and dividend payouts. If, at any time, any P4 Shareholder which is a member of the Novator or Tollerton group transfers any P4 shares to a person who is not a party to the amended Shareholders Agreement, all resolutions of the shareholders' meeting will require the consent of Netia Mobile, and all resolutions of the Supervisory Board will require the consent of all Supervisory Board members appointed by Netia Mobile.

If, after the lapse of the lock-up period until August 23, 2008, certain key issues regarding the management of P4's affairs have not been successfully agreed upon, the amended Shareholders Agreement includes an option for Novator to purchase the Shares held by Netia Mobile and Tollerton at market price plus 10%, and an option for Netia Mobile and Tollerton to sell such Shares to Novator at market price with a 10% discount.

The Shareholders Agreement specifies the key principles of commercial cooperation of Netia and the Distribution Companies based on which the Issuer and P4 have concluded and will conclude commercial contract providing for Netia's access to the Distribution Companies' sales network.

The amended Shareholders Agreement shall expire following the sale of all Shares by the Shareholders in accordance with its provisions. The amended Shareholders Agreement provides for restrictions on competitive activity, a confidentiality undertaking, and a ban on employee recruitment during an agreed period following the expiration of the Shareholders Agreement. The Shareholders accept an option of P4's conversion into a joint stock company, however, not earlier than after August 23, 2007, and an option to introduce P4's shares to public trading after August 23, 2008.

41. Contingencies

Contingent assets

TP SA

As a result of TP SA failing to meet certain obligations under the bitstream access agreement, in September 2007, December 2007 and January 2008 the Company demanded payment from TP SA for contractual penalties totalling PLN 21,776, 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.

Contingent liabilities

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 10.4 million at the December 31, 2007 exchange rate) increased by the applicable interest is outstanding from Millennium. In December 2000, the Company brought a claim for the repayment of the loan against Millennium in the District Court in Warsaw. On October 16, 2006, the Regional Court granted the Company's claim and ordered Millennium to pay PLN 11.5 million with interest. The Court has also dismissed Millennium's counterclaim. On April 24, 2007 Millennium was declared bankrupt, and on July 31, 2007 the Court of Appeal in Warsaw quashed the judgment issued by the Regional Court with respect to Millennium's repayment of the loan and discontinued the proceedings. The loan has been claimed by the Company in the bankruptcy proceedings relating to Millennium. On December 11, 2007 the bankruptcy trustee of Millennium withdrew the appeal in the matter regarding the counter claim. On December 19, 2007 the Court of Appeal issued a decision on discontinuation of the proceedings. The counter claim case is now finally closed.

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

On April 5, 2005, Millennium filed a claim against Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net"), the subsidiary merged with Netia in July 2006, in connection with the alleged acts of unfair competition of El-Net against Millennium. El-Net filed an answer to the claim on June 6, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On December 23, 2006, the Court dismissed Millennium's claim in its entirety. The matter is still pending.

In July 2005, Millennium filed a motion to secure the claim against El-Net for determination that an agreement between El-Net and Millennium concerning provisions of telephone services and the use of 30,000 telephone numbers by Millennium was not effectively terminated by El-Net. On August 21, 2005, Millennium filed a motion against El-Net in connection with the claim to which the injunction pertained to. El-Net filed an answer to the claim on October 19, 2005 in which it requested the District Court to dismiss the claim as wholly unsubstantiated. On October 11, 2006, the Court dismissed Millennium's claim in its entirety. The matter is still pending.

Management, having obtained legal advice, does not believe that the settlement of the matters described above will have a material adverse effect on the Netia Group's financial condition. Accordingly no liability has been recorded for the claims.

Minority shareholders

On August 1, 2002, the Company received a copy of a claim filed with the District Court in Warsaw by an individual shareholder demanding the cancellation of sections 10, 11 and 13 of Resolution No. 2 adopted by the Company's General Meeting on April 4, 2002. The individual shareholder claimed that the distribution of the Company's warrants under the financial restructuring was harmful to the minority shareholders and violated good custom. On August 14, 2002, the Company responded requesting the District Court to dismiss the claim as unsubstantiated. In a second similar matter, a minority shareholder's claim was dismissed on merits by the District Court in Warsaw. On March 25, 2005, the minority shareholder filed an appeal. On December 8, 2005 the Regional Court examining the appeal overruled the judgment of the District Court and decided that the case has to be re-examined due to the fact that it should be the Regional Court not the District Court where the case should have been examined in the first resort. The Regional Court combined the suits filed by the minority shareholders for joint review. On September 24, 2007, both claims were dismissed on merits. Since the minority shareholders did not file an appeal, the judgement of the District Court became final. The matter is now closed

Management, having obtained legal advice, does not believe that the settlement of the matters described above will have a material adverse effect on the Netia Group's financial condition. Accordingly no liability has been recorded for the claims.

Jupiter

Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") has sued the Company for payment of PLN 2,084 on account of the improper performance of a Share and Bonds Purchase Agreement dated May 22, 2006 (the "Agreement") relating to the Company's purchase of Pro Futuro (see Note 7).

Due to the established irregularities the Company applied the price reduction mechanism provided for in the Agreement. Consequently, the Company requested the escrow agent (maintaining the escrow account) 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 fact that the Agreement was breached has been 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 includes 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.

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

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge of 10,260 (not in thousands) shares in P4. The pledge was established for the benefit of Novator Poland Pledge Sp. z o.o. in order to secure the performance by Netia Mobile of the claims that may arise due to failure by Netia Mobile to perform certain obligations under the Agreement. The maximum amount of collateral equals to EUR 25,000. On October 31, 2006 the pledges were subordinated to pledges on the entire equity stake in P4, established in favour of BPH SA (currently 12,519 (not in thousands) of P4's shares are pledged).

The Company's Management is not aware of any circumstances, which may currently give rise to a utilization of the pledge.

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

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 (the "CDB Facility") granted to P4 by China Development Bank, acting as the Mandated Lead Arranger, and BPH SA (currently PeKaO S.A.), as the Facility Agent and Security Agent, under the Facility Agreement dated October 31, 2006. The CDB Facility agreement provides for a ten year amortising term CDB Facility with a three year availability period. The funds will be used by P4 for the purchase of equipment for its UMTS network from Huawei Polska Sp. z o.o., including the acquisition of transmitter construction sites and related network construction costs. In order to facilitate the conclusion of part of the vendor financing package assumed in P4's original business plans, the Netia Group and Novator provided certain undertakings and separate guarantees in direct proportion to their shareholdings in P4. Accordingly, Netia concluded the following agreements:

- **Share Retention Agreement**. Under the Share Retention Agreement (as amended on May 24, 2007, see also Note 40), Netia provided a guarantee to a maximum amount of EUR 21,060. The guarantee covers the repayment of 23.4% of the outstanding amounts under one of the tranches of the CDB Facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). Furthermore, Netia is obliged to ensure that the P4 equity stake currently held by the Netia Group shall not be disposed of before August 23, 2008. Thereafter, the current shareholders of P4 may not reduce their combined holdings below 50% of P4's share capital without the prior consent of China Development Bank.

- **Equity Contribution Agreement**. Under the Equity Contribution Agreement, Netia and Novator One L.P. agreed to ensure that during the scheduled CDB Facility repayment period, P4's share capital will be increased or the shareholders will grant subordinated loans to P4 pro rata to their respective shareholdings in P4 to ensure that P4 can meet its obligations up to a maximum committed amount of EUR 300,000. The total outstanding amount of committed contributions was EUR 2,040 as at December 31, 2007 (see also Note 42).

- **The Subordination Agreement**. Under the Subordination Agreement, Netia agreed to subordinate all of its, and the Netia Group's, financial receivables due from P4, including any subordinated shareholders loans, by giving priority to the receivables due under the CDB Facility granted to P4. The subordination does not affect commercial agreements concluded with P4 and other agreements, once accepted by the creditors on a case-by-case basis. Netia had no such receivables subject to subordination as at December 31, 2007.

- **The Agreement for the Registered and Financial Pledges on Shares** and the Agreement on Change of Priority of the Pledges. Under the Agreement for the Registered and Financial Pledges on Shares, Netia Mobile (P4's shareholder), established a registered and a financial pledge in favour of the Security Agent on its entire equity stake in P4 to secure P4's obligations under the CDB Facility. At the same time, under a separate Agreement on Change of Priority of the Pledges, Netia Mobile agreed that the registered pledge established in its favour by Telecom Poland S.a.r.l. on P4's shares in connection with the conclusion of P4's Shareholders' Agreement be subordinated to the registered and financial pledges established by Telecom Poland S.a.r.l. on the same date in favour of the Security Agent to secure P4's obligations under the CDB Facility.

The Company's Management is not aware of any payment default by P4. Should P4 default on its payment obligations in the future, Netia may be required to pay up to EUR 21,060 in respect to guarantees and may lose its shares in P4.

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (currently Netia WiMax) 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 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. The Company overperformed the milestones regarding population coverage, allotted for the year 2006. Considering recent changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submited applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 the Polish regulator issued a decision appropriately amending the initial milestones.

Tax contingent liability

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

The Company's Management is not aware of any circumstances, which may currently give rise to a potential material liability in this respect.

42. Subsequent events

Payment to P4

Following the provisions of the P4's Shareholders' Agreement (see Note 40), in January 2008, Netia Mobile, the Company's subsidiary, contributed to P4's share capital PLN 8,124 and increased its holdings by 234 newly issued shares. As a result, Netia's obligation to contribute EUR 79.500 of share capital to P4 has been paid in full.

Annex to Shareholders' Agreement (not in thousands)

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

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

Acqusitionof another Internet service provider

On February 18, 2008 Internetia Sp. z o.o., the Company's subsidiary, purchased 200 shares (not in thousands) in the share capital of a company operating under the business name Przedsiębiorstwo Informatyczne Punkt Sp. z o.o. ("Punkt") with the total nominal value of PLN 100 for all these shares, which represent 100% of the share capital and confer the right to 100% of the votes at the general meeting of shareholders of Punkt (the "Shares"). The total price of all the Shares has been set at PLN 5,126. This represents an equivalent of the value of Punkt's active customers as agreed with the sellers of PLN 4,173, increased by balances of the cash and cash equivalents held by Punkt, and decreased by Punkt's debt and overdue liabilities as at February 13, 2008. The purchase price may be increased up to PLN 6,701 in case of the fulfillment of certain conditions included in the Shares purchase agreement and related to execution of certain transactions by Punkt's business partners.

The acquisition of Shares was effected following the payment of PLN 5,126 of the price specified in the Shares purchase agreement concluded by Internetia and Punkt on February 13, 2008.

Punkt is a service provider offering broadband Internet access to residential clients in the town of Opole in the Silesian region of Southern Poland. The company is using FastEthernet technology, which allows for transmission speed of up to 100 Mb/s. As of February 13, 2008, Punkt's network provided broadband access to 4,367 (not in thousands) clients, with approximately 14,000 (not in thousands) households passed.

The Netia Group is going to account for the acquisition of Punkt using the purchase method and will start to consolidate the financial statements of Punkt as of March 1, 2008. Given the close proximity of the acquisition date to the date of signing these consolidated financial statements, the Management of the Company considers that it is impracticable to disclose information about the fair value of net assets acquired since the valuation of Punkt's assets has not been completed yet.

Transformation of Netia's subsidiary (not in thousands)

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

Netia will will hold 99.99% of the share capital and 99.99% of the votes at the meetings of the shareholders of the company and be the general partner in the transformed company, i.e. the partner liable without limitation for the obligations of the transformed company. InterNetia Sp. z o.o., the Company's subsidiary, will hold 1 share, which will amount to 0.01% of the share capital and 0.01% of the votes at the meetings of the shareholders of the company.

The goal of this transformation is the restructuring of some of the companies of Netia Group.

The execution of an agreement to sell the investment in P4 (not in thousands)

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

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

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

The completion of the transaction is dependant on the satisfaction or waiver of the following conditions precedent:

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

The sale agreement does not contain clauses regarding contractual penalties.