Semi-annual Financial Report

Containing:

- Independent auditor's review report
- Interim consolidated financial statements
  as at and for the six-month period ended June 30, 2008

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REPORT ON REVIEW OF INTERIM CONSOLIDATED FINANCIAL STATEMENTS TO THE SUPERVISORY BOARD OF NETIA S.A.

1. We have reviewed the attached interim consolidated balance sheet of Netia S.A. Group ('the Group') as at June 30, 2008 and the related interim consolidated income statement, interim consolidated cash flow statement, interim consolidated statement of changes in equity for the six-month period then ended and the notes to the interim consolidated financial statement ('the attached interim consolidated financial statements').

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

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

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

5. The convenience translations are disclosed as part of the interim consolidated financial statements. The convenience translation for the six-month period ended June 30, 2008 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2008 of PLN 3,3542 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim 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
August 11, 2008

NETIA S.A.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at and for the six-month period ended June 30, 2008

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NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
as at June 30, 2008

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2007 (PLN)	June 30, 2008 (PLN)	Convenience Translation June 30, 2008 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	1,408,597	1,365,414	407,076
Intangible assets	8, 9	267,946	273,956	81,676
Investments in associates	13	150,435	-	-
Deferred income tax assets	22	2,162	428	128
Available for sale financial assets		10	10	3
Long term receivables	11	250	125	37
Other financial assets	6	-	1,591	474
Prepaid expenses and accrued income	12	5,667	14,092	4,202
Total non-current assets		**1,835,067**	**1,655,616**	**493,596**
Current assets				
Inventories	10	2,903	2,478	739
Trade and other receivables	11	127,339	133,867	39,910
Current income tax receivables		22	2	1
Prepaid expenses and accrued income	12	10,899	15,506	4,623
Restricted cash		-	761	227
Cash and cash equivalents	15	57,700	324,041	96,608
		198,863	**476,655**	**142,108**
Assets classified as held for sale	14	36,721	36,943	11,014
Total current assets		**235,584**	**513,598**	**153,122**
Total assets		**2,070,651**	**2,169,214**	**646,718**

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
August 11, 2008

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

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET (CONT'D)
as at June 30, 2008

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2007 (PLN)	June 30, 2008 (PLN)	Convenience Translation June 30, 2008 (EUR)
EQUITY				
Share capital		389,277	389,277	116,057
Share premium		1,641,398	1,556,489	464,042
Other supplementary capital associated with former associate		40,102	-	-
Other reserves		14,251	21,423	6,387
Retained earnings		(356,759)	(12,563)	(3,745)
Total equity	16	**1,728,269**	**1,954,626**	**582,741**
LIABILITIES				
Non-current liabilities				
Borrowings	19	87,344	-	-
Provisions	17	97	-	-
Deferred income		8,567	8,024	2,392
Deferred income tax liabilities	22	1,954	2,608	778
Other financial liabilities	6	-	259	77
Other long term liabilities	20	3,454	3,294	982
Total non-current liabilities		**101,416**	**14,185**	**4,229**
Current liabilities				
Trade and other payables	20	219,486	183,944	54,841
Borrowings	19	7,397	214	64
Current income tax liabilities		154	29	9
Provisions	17	562	2,259	673
Financial guarantee contract	18	435	-	-
Deferred income		12,932	13,957	4,161
Total current liabilities		**240,966**	**200,403**	**59,748**
Total liabilities		**342,382**	**214,588**	**63,977**
Total equity and liabilities		**2,070,651**	**2,169,214**	**646,718**

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

NETIA S.A.
INTERIM CONSOLIDATED INCOME STATEMENT
for the six-month period ended June 30, 2008

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)	Convenience Translation Six-month period ended June 30, 2008 (EUR)
Revenue	23	190,505	378,260	243,483	472,179	140,773
Revenue generated by group of assets held for sale		15,075	31,712	-	8,774	2,616
Total revenue		**205,580**	**409,972**	**243,483**	**480,953**	**143,389**
Cost of sales	24	(153,985)	(309,026)	(191,557)	(373,351)	(111,309)
Gross profit		**51,595**	**100,946**	**51,926**	**107,602**	**32,080**
Selling and distribution costs	25	(43,579)	(81,536)	(60,562)	(117,617)	(35,065)
General and administration costs	26	(35,899)	(71,197)	(32,662)	(67,218)	(20,038)
Other income	28	18,566	29,613	1,207	3,570	1,064
Other expenses	29	-	(4,764)	(31)	(51)	(15)
Other gains / (losses), net	30	1,068	3,779	6,892	11,405	3,400
Operating loss		**(8,249)**	**(23,159)**	**(33,230)**	**(62,309)**	**(18,574)**
Finance income	31	1,194	3,010	4,085	4,718	1,407
Finance costs	31	(33)	(61)	(9,707)	(12,041)	(3,509)
Gain on sale of an associate	13	-	-	353,427	353,427	105,368
Share of losses of former associates	13	(42,994)	(68,612)	-	(22,625)	(6,745)
Profit / (Loss) before income tax		**(50,082)**	**(88,822)**	**314,575**	**261,170**	**77,866**
Income tax benefit / (charge)	22	(928)	10	6	(1,883)	(561)
Profit / (Loss)		**(51,010)**	**(88,812)**	**314,581**	**259,287**	**77,305**
Attributable to:						
Equity holders of the Company		(51,085)	(88,940)	314,581	259,287	77,305
Minority interest		75	128	-	-	-
		(51,010)	**(88,812)**	**314,581**	**259,287**	**77,305**
Earnings per share for profit / (loss) attributable to the equity holders of the Company (expressed in PLN per share)						
- basic	33	(0.13)	(0.23)	0.81	0.67	0.20
- diluted	33	(0.13)	(0.23)	0.81	0.67	0.20

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

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders					Minority interest	Total equity
			Supplementary capital					
		Share capital	Share premium	Other supplementary capital associated with former associate	Other reserves	Retained earnings		
		(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	16	-	-	-	(945)	-	-	(945)
Dilution gain in associate	6	-	-	40,102	-	-	-	40,102
Difference between purchase price and book value of minority		-	-	-	-	(39)	-	(39)
Net income / (expense) recognised directly in equity		-	-	40,102	(945)	(39)	-	39,118
Profit / (Loss)		-	-	-	-	(88,940)	128	(88,812)
Total recognised income / (expense) for the period		**-**	**-**	**40,102**	**(945)**	**(88,979)**	**128**	**(49,694)**
Employee share option scheme:								
- value of services provided	16	-	-	-	4,232	-	-	4,232
Transactions with minorities		-	-	-	-	-	(661)	(661)
Coverage of Netia's 2006 loss		-	(24,960)	(143,218)	(28,162)	196,340	-	-
Balance as at June 30, 2007		**389,168**	**1,641,256**	**40,102**	**4,769**	**(175,887)**	**6,369**	**1,905,777**

	Note	Attributable to the Company's equity holders					Minority interest	Total equity
			Supplementary capital					
		Share capital	Share premium	Other supplementary capital associated with former associate	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2008		**389,277**	**1,641,398**	**40,102**	**14,251**	**(356,759)**	**-**	**1,728,269**
Cash flow hedges, net of tax	16	-	-	-	(476)	-		(476)
Dilution gain in associate	6	-	-	9,530	-	-	-	9,530
Net income / (expense) recognised directly in equity		-	-	9,530	(476)	-	-	9,054
Profit		-	-	-	-	259,287	-	259,287
Total recognised income / (expense) for the period		**-**	**-**	**9,530**	(476)	**259,287**	**-**	**268,341**
Employee share option scheme:								
- value of services provided	16	-	-	-	7,223	-	-	7,223
Sale of investment in associate	13, 16	-	-	(49,632)	425	-	-	(49,207)
Coverage of Netia's 2007 loss	16	-	(84,909)	-	-	84,909	-	-
Balance as at June 30, 2008		**389,277**	**1,556,489**	**-**	**21,423**	**(12,563)**	**-**	**1,954,626**

NETIA S.A.
INTERIM CONSOLIDATED CASH FLOW STATEMENT
for the six-month period ended June 30, 2008

(All amounts in thousands, except as otherwise stated)

	Note	Six-month period ended June 30, 2007	Six-month period ended June 30, 2008	Convenience Translation Six-month period ended June 30, 2008
		(PLN)	(PLN)	(EUR)
Cash flows from operating activities:				
Profit / (Loss)		**(88,812)**	**259,287**	**77,305**
Adjustments for:				
Depreciation and amortization	7, 9	140,004	131,545	39,218
Impairment charges for specific individual assets		-	51	15
Share of losses of former associates	13	68,612	22,625	6,745
Deferred income tax charge	22	(195)	1,626	485
Interest expense accrued on credit facility	19	-	7,040	2,099
Other interest accrued		-	197	59
Financial guarantee contract	18	(2,630)	(435)	(130)
Interest accrued on loans granted		(24)	(14)	(4)
Share-based compensation	16	4,232	7,223	2,153
Fair value gains / (losses) on financial assets / liabilities		(21)	(113)	(34)
Fair value adjustments on other receivables		-	(184)	(55)
Foreign exchange (gains) / losses		(325)	3,663	1,088
Gain on sale of an associate	13	-	(353,427)	(105,368)
Gain on disposal of group of assets	6, 30	-	(5,093)	(1,518)
Gain on disposal of fixed assets		(1,234)	(5,990)	(1,786)
Decrease of purchase consideration	39	(1,940)	-	-
Changes in working capital		(406)	(21,704)	(6,470)
Net cash provided by operating activities		**117,261**	**46,297**	**13,802**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(110,161)	(117,301)	(34,971)
Proceeds from sale of fixed assets		4,169	9,687	2,888
Proceeds from sale of group of assets		-	4,000	1,193
Investment in former associate	13	(44,805)	(8,124)	(2,422)
Proceeds from sale of an associate	13	-	453,770	135,284
Purchase of subsidiaries, net of cash received	8, 35	(26,362)	(16,070)	(4,791)
Sale of financial assets at fair value through profit and loss		14,777	-	-
Loan and interest repayments		139	323	96
Net cash used in / provided by investing activities		**(162,243)**	**326,285**	**97,277**
Cash flows from financing activities:				
Finance lease payments		(68)	(1,191)	(355)
Proceeds from borrowings	19	5,000	85,000	25,341
Loan repayments	19	-	(180,006)	(53,666)
Interest repayments	19	-	(5,814)	(1,733)
Redemption of notes for warrants		(1)	-	-
Net cash used in / provided by financing activities		**4,931**	**(102,011)**	**(30,413)**
Net change in cash and cash equivalents		**(40,051)**	**270,571**	**80,666**
Exchange gains on cash and cash equivalents		**326**	**(4,251)**	**(1,267)**
Cash and cash equivalents at beginning of period		143,586	57,697	17,201
Cash and cash equivalents at end of period		**103,861**	**324,017**	**96,600**

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 interim consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2008 comprise the Company and its subsidiaries. A list of the Company’s subsidiaries is set out in Note 2.

These interim condensed consolidated financial statements were approved for issuance by the Company’s Management Board on August 11, 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.

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. 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.

The Netia Group is also expanding the footprint of its own network and broadband customer base by acquiring local fast ethernet operators. During 2007, the Netia Group acquired 12 such operators with a total of 35,294 (not in thousands) active customers and further 3 operators (see Note 8) were acquired during the first half of 2008.

To further broaden Netia’s product offer, including convergent services, Netia intends to offer mobile services. On December 7, 2007, Netia signed a Mobile Service Provider Agreement with P4 Sp. z o.o. (“P4”), enabling Netia to buy mobile services wholesale from P4 and resell them as Netia branded mobile services. Commercial service is scheduled to begin during 2008.

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.

In April 2008 Netia sold its minority stake in mobile operator P4. Furthermore, in March 2008 the Company also disposed of its activities providing international voice termination services to foreign telecommunications operators.

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 June 30, 2008, the Company’s equity amounted to PLN 1,954,626 and the Netia Group had a working capital of PLN 313,195. The Netia Group’s strategy to expand its customer base primarily through provision of broadband services is expected to consume cash resources until 2010. As at June 30, 2008 the Netia Group had net cash available of PLN 324,017 of cash and undrawn borrowing facilities of PLN 275,000. Furthermore, the Company has entered into an agreement to purchase Tele2 Polska Sp. z o.o. (“Tele2”) for up to EUR 33,900, net of cash to be acquired, in a transaction expected to close before the end of 2008. An additional PLN 100,000 borrowing facility has been secured to fund the majority of this acquisition. 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.

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, 2007	June 30, 2008
Subsidiaries held directly:		
UNI-Net Sp. z o.o.	100	100
Netia WiMax S.A.	100	100
Świat Internet S.A.	100	100
Netia Spółka Akcyjna UMTS a limited joint stock partnership (transferred from Netia Mobile Sp. z o.o.)	100	100
InterNetia Sp. z o.o.	100	100
Lanet Sp. z o.o.	100	100
KOM-NET Systemy Komputerowe Sp. z o.o.*	100	N/A
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o*.	100	N/A
Subsidiaries held indirectly:		
Premium Internet S.A.	100	100
Netis Sp. z o.o.	100	100
Interbit Sp. z o.o.	100	100
Przedsiębiorstwo Informatyczne Punkt Sp. z o.o.	-	100
Kom-Net Systemy Komputerowe Piotr Szulc i Henryka Szulc Sp. z o.o.	-	100
Connect Systemy Komputerowe Sp. z o.o.	-	100
Cybertech Sp. z o.o.	-	100
Akron Sp. z o.o.*	100	N/A
3Vnet Sp. z o.o.*	100	N/A
Ikatel Telekom Sp. z o.o.*	100	N/A
Inet Sp. z o.o. *	100	N/A
Ozimek Net Sp. z o.o.*	100	N/A
Verizone Sp. z o.o.*	100	N/A
Zielona Burza Sp. z o.o.*	100	N/A

* *merged with Lanet Sp. z o.o.*

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

As at December 31, 2007 the Company had one associate company, P4 Sp. z o.o. Group, in which it held an indirect interest via its 100% subsidiary Netia Spółka Akcyjna UMTS a limited joint stock partnership (see Note 13).

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 June 30, 2008 there are no differences regarding policies adopted by the Netia Group and applicable to its operations, between these standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2007, except for new accounting standards adopted as of January 1, 2008.

Certain Group entities (acquired in 2008) 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 interim 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.

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

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

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 June 30, 2008 of PLN 3.3542 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.

Changes in estimates

In the six-month period ended June 30, 2008 the Netia Group reassessed the useful lives of its property, plant and equipment and in consequence, for certain non-current assets the remaining period over which they will be depreciated was extended (in most cases) and depreciation rates were changed accordingly.

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Increase / (Decrease) in the depreciation charge recognized in current period	Relevant decrease in the depreciation charge for the remaining period in 2008
		(PLN)	(PLN)
Fixed telecommunications network	- useful lives of certain assets were extended until the end of 2009	(4)	(1)
Telecommunications equipment	- useful lives of certain assets were extended until the end of 2009,	(2.343)	(160)
	- useful lives of certain assets were shortened until June 2008,	3.946	(725)
Machinery and equipment	- useful lives of certain assets were extended until the end of 2009	(115)	(28)
Total non-current assets		**1.484**	**(914)**

New standards, interpretations and amendments to existing standards

The following new standards and interpretations are mandatory for the financial year ended December 31, 2008:

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions', effective for annual periods beginning on or after March 1, 2007. The interpretation had no impact on the financial position of the the Netia Group's operations;

- IFRIC 12, 'Service Concession Arrangements', effective for annual periods beginning on or after January 1, 2008. The interpretation had no impact on the financial position of the the Netia Group's operations. 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. The interpretation had no impact on the financial position of the the Netia Group's operations. This interpretation has not yet been endorsed by the EU;

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2008 and have not been early adopted:

- 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;

- 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. This standard has not yet been endorsed by the EU;

- 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;

- IFRIC 15, "Agreements for the Construction of Real Estate", effective for annual periods beginning on or after January 1, 2009. IFRIC 15 clarifies when and how revenue and related expenses from the sale of a real estate unit should be recognised if an agreement between a developer and a buyer is reached before the construction of the real estate is completed. Furthermore, the interpretation provides guidance on how to determine whether an agreement is within the scope of IAS 11 or IAS 18. Management does not expect the interpretation to be relevant for the Netia Group. This interpretation has not yet been endorsed by the EU;

- IFRIC 16, "Hedges of a Net Investment in a Foreign Operation", effective for annual periods beginning on or after October 1, 2008. IFRIC 16 provides guidance on: (i) indentifying the foreign currency risks that qualify for hedge accounting in the hedge of a net investment; (ii) where within the group the hedging instrument(s) can be held in the hedge of a net investment; and (iii) how an entity should determine the amount of foreign currency gain or loss, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment. Management is currently assessing the impact of IFRIC 16 on the Netia Group’s operations. This interpretation has not yet been endorsed by the EU;

- Amendments to IFRS resulting from the annual improvements project, effective for annual periods beginning on or after January 1, 2009. Management is currently assessing the impact of the amendments on the Netia Group’s operations. The amendments have not yet been endorsed by the EU;

- Amendment to IAS 39 ”Financial Instruments: Recognition and Measurement” - ”Eligible Hedged Items”, effective for annual periods beginning on or after July 1, 2009. Amendment to IAS 39 clarifies how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation should be applied in particular situations. Management is currently assessing the impact of the amendment 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.

(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 and to which a separate useful life can be allocated.

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.

(All amounts in thousands, except as otherwise stated)

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.

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, a contract related to voice termination services (onerous contracts) and legal claims. 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) 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 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.

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.

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 derecognized when the obligation under the liability is discharged or cancelled or expires. Where existing borrowings are replaced by others from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in income statement.

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 the services relate to.

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.

Subscriber acquisition costs

Subscriber acquisition costs are recognized as an expense of the period in which they are incurred.

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 Złoty, other than some payments made under the equipment and construction contracts, which are linked to Euro and U.S. Dollars. In order to mitigate the currency risk the Netia Group holds deposits in Euro and U.S. Dollars for servicing those payments. Furthermore, during the six-month period ended June 30, 2008, the Netia Group concluded two agreements: to sell its interest in P4 and to buy a 100% interest in Tele2 (see Note 13 and 38), both denominated in Euro. To manage the foreign exchange risk arising from future payments related to the planned acquisition the Netia Group holds certain part of the Euros received from the disposal of P4 as deposits. During 2007, the Netia Group had 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 June 30, 2008, if the Polish Złoty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated profit for the six-month period ended June 30, 2008 would have been PLN 56 higher (lower), mainly as a result of foreign exchange gains (losses) on translation of Euro denominated cash deposits and trade receivables. Furthermore, at June 30, 2008, the hedging reserve in shareholders' equity would have been PLN 1,051 higher (lower).

At June 30, 2007, if the Polish Złoty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated loss for the six-month period ended June 30, 2007 would have been PLN 76 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 June 30, 2007, the hedging reserve in shareholders' equity and the fair value of the hedging instruments would have been PLN 278 lower (higher).

At June 30, 2008, if the Polish Złoty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated loss for the six-month period ended June 30, 2008 would have been PLN 27 (PLN 48 for the corresponding period in 2007) 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 long-term 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) during the six-month period ended June 30, 2008, borrowing costs would have been PLN 677 (PLN 6 for the corresponding period in 2007) higher (lower).

- 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 first half of 2008. 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 a guarantee partially securing the repayment of the credit facility. The Netia Group's maximum exposure to a credit risk was limited to EUR 21,060 (reduced by 50% in June 2008) and may arise from a payment default by P4, that is covered by this guarantee. Under the sale agreement of the shares in P4 (see Note 13), Novator Telecom Poland S.a.r.l. ("Novator") and Tollerton Investments Limited ("Tollerton") (the buyers) have counter-guaranteed Netia's exposure to China Development Bank ("CDB") until such a time as CDB recognizes the transfer of Netia's obligations to the buyers.

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 June 30, 2008				
Bank borrowings	214	-	-	-
Trade and other payables	183,944	1,768	731	795
Other financial liabilities	-	259	-	-
As at December 31, 2007				
Bank borrowings	7,904	31,616	55,480	-
Trade and other payables	219,486	1,430	1,228	796

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 ratio at June 30, 2007 was 2.6%. Due to the sale of P4's shares (see Note 13), as at June 30, 2008, the Netia Group had net cash available of PLN 324,017.

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 June 30, 2008, including tax projections, the recognized deferred income tax assets as at June 30, 2008 amounted to PLN 428.

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 goodwill and other non-current assets

The Netia 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.

As a result of previous annual impairment tests the Netia Group recorded impairment charges of PLN 354,672 and PLN 799,695 in 2006 and 2003, respectively.

The impairment test performed in 2007 showed that no additional impairment is to be recognized.

As at June 30, 2008 the Netia Group assessed whether there was any indication that the impairment loss recognized for non-current assets in the prior years may no longer exist or may have reversed. After assessing both the external and internal sources of information, no indications were identified which could result in a new assessment of impairment losses recorded in 2006 and 2003.

(c) 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.

(d) Customer relationships

In 2006 the Netia Group acquired Pro Futuro and in 2007 and 2008 the Netia Group acquired fifteen internet service providers. 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.

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

Sale of investment in associate

On April 30, 2008 the Company closed the transaction to sell its interest in P4 to Tollerton and Novator (see Note 13), for the total price of EUR 131,795. The gain on this transaction recognized in the consolidated income statement for the six-month period ended June 30, 2008 amounted to PLN 353,427.

Dilution gain in former associate

On February 1, 2008 the Company executed an annex (the "Annex") to the Shareholders' Agreement of P4 (see Note 13) 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 300,000 and applies to amounts of up to EUR 150,000 that may be contributed to P4 during 2008. Netia agreed to accept such share capital increases and not to subscribe for new equity itself before July 1, 2008.

As a result of Novator and Tollerton's equity contributions to P4's capital on February 5, 2008, the Netia Group's interest in P4 decreased from 23.4% to 22.7%. A dilution gain of PLN 9,530 arising on these transactions was recorded directly in equity, during the six-month period ended June 30, 2008.

During the six-month period ended June 30, 2007, following the provisions of the investment agreement and the amended shareholders agreement (see Note 13), P4 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.

Sale of group of assets comprising Premium Internet S.A.'s IVT activities

On March 19, 2008 the Netia Group sold its wholesale international voice traffic termination (IVT) activities to Mediatel S.A. ("Mediatel") for PLN 13,619, of which PLN 8,000 shall be settled in cash and PLN 5,619 is the estimated fair value of shares to be issued by Mediatel and related "put" and "call" options. Mediatel acquired the IVT specific business assets, principally customer contracts, employees and telecommunications switching equipment, of the Company's subsidiary Premium Internet S.A. whilst Netia retained the Premium Internet S.A. ("Premium Internet") legal entity and its interconnection infrastructure, used both for IVT and for the provision of wholesale line rental voice and indirect access services to Netia's retail customers.

The revenues and costs associated with the IVT activities recognized in this interim consolidated income statement were as follows:

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Data	3	7	-	5
Wholesale services	15,072	31,705	-	8,769
Total revenue	**15,075**	**31,712**	**-**	**8,774**
Cost of sales	(10,809)	(23,101)	-	(9,474)
Gross profit/ (loss)	**4,266**	**8,611**	**-**	**(700)**
Operating costs	(823)	(1,353)	-	(197)
Other gains / (losses), net	(168)	(38)	-	(50)
Profit/ (loss)	**3,275**	**7,220**	**-**	**(947)**

The gain on disposal of the IVT activities recognized in this interim consolidated income statement was as follows:

	Six-month period ended June 30, 2008 (PLN)
Fair value of the sale transaction	13,619
Net book value of disposed property, plant and equipment	(5,327)
Net book value of disposed software	(24)
Net book value of disposed inventory	(304)
Provision for expected losses	(2,621)
Other transaction costs	(250)
Gain on disposal of a group of assets comprising Premium Internet's IVT activities	**5,093**
Income tax charge	(783)
Total gain	**4,310**

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

(All amounts in thousands, except as otherwise stated)

7. 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, 2007	73,157	17,308	1,888,100	1,557,141	85,782	127,302	12,918	134,111	3,895,819
Additions	70	-	7	143	124	767	3	73,395	74,509
Purchase of subsidiary	47	-	-	2,597	-	115	38	835	3,632
Transfers	1,674	53	12,546	70,287	4,002	1,033	-	(89,595)	-
Transfers to non-current assets held for sale	-	(987)	-	-	-	-	-	-	(987)
Disposals	(307)	-	-	(59)	(29)	(635)	(415)	(392)	(1,837)
Other movements	-	-	554	(2,677)	2,370	(244)	-	(13)	(10)
Gross book value as at June 30, 2007	74,641	16,374	1,901,207	1,627,432	92,249	128,338	12,544	118,341	3,971,126
Accumulated depreciation as at January 1, 2007	20,478	-	587,898	582,734	50,180	101,649	4,082	-	1,347,021
Depreciation expense	1,601	-	32,648	75,819	2,391	3,380	994	-	116,833
Disposals	(263)	-	-	(26)	(24)	(608)	(281)	-	(1,202)
Other movements	-	-	145	(1,085)	1,130	(190)	-	-	-
Accumulated depreciation as at June 30, 2007	21,816	-	620,691	657,442	53,677	104,231	4,795	-	1,462,652
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
Transfers	226	40	1,449	9,252	613	70	-	(11,650)	-
Transfers to non-current assets held for sale	-	(235)	-	-	-	-	-	-	(235)
Disposals	(47)	-	-	(6)	(1)	(25)	(18)	(122)	(219)
Other movements	-	-	186	(657)	525	(54)	-	(1,290)	(1,290)
Accumulated impairment as at June 30, 2007	16,656	4,913	631,187	397,106	16,217	12,727	287	9,932	1,089,025
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 June 30, 2007	**36,169**	**11,461**	**649,329**	**572,884**	**22,355**	**11,380**	**7,462**	**108,409**	**1,419,449**

The transfers recorded in the six-month period ended June 30, 2008 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 7,643, and PLN 5,608 were capitalized to network under construction during the six-month period ended June 30, 2008 and June 30, 2007, respectively. Furthermore, during the corresponding periods the Company capitalized PLN 610 and PLN 34 of borrowing costs.

The net carrying value of assets held under finance lease as at June 30, 2008 and June 30, 2007 is presented below:

	June 30, 2007 (PLN)	June 30, 2008 (PLN)
Fixed telecommunications network	-	98
Telecommunications equipment	861	3,638
Vehicles	14	260
Fixed assets under construction	-	751
	875	**4,747**

8. Acquisitions

Current period:

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

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

* *The total price of all Punkt's 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 related share purchase agreement and related to execution of certain transactions by Punkt's business partners.*

Punkt is a service provider offering broadband Internet access to residential clients in the town of Opole in the Silesian region of Southern Poland. Connect and Cybertech are service providers offering broadband Internet access to residential clients in the towns of Białystok and Suwałki in North-Eastern Poland. Kom-Net SK owns the rights of access to the telecommunications infrastructure in the city of Wrocław in the Southern Poland.

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

- February 29, 2008 – Punkt,
- June 1, 2008 – Connect,
- June 30, 2008 – Cybertech,
- April 30, 2008 – Kom-Net SK.

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 six-month period ended June 30, 2008 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)

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	Provisional fair values of net assets acquired	Goodwill
	(PLN)	(PLN)	(PLN)	(PLN)
Punkt	6,701	411	(3,495)	3,617
Connect	4,503	64	(2,146)	2,421
Cybertech	3,975	-	(2,408)	1,567
Kom-Net SK	129	-	(50)	79
Total	**15,308**	**475**	**(8,099)**	**7,684**

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 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	Punkt	Connect	Cybertech	Kom-Net SK	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	448	808	765	-	2,021
Other intangible assets	-	41	-	-	41
Inventories	38	3	36	-	77
Receivables	29	42	237	2	310
Prepayments	24	2	44	-	70
Cash and cash equivalents	2,311	8	616	48	2,983
Borrowings	-	(196)	(140)		(336)
Trade liabilities	(139)	(52)	(94)	-	(285)
Other liabilities and accruals	(243)	(66)	(262)	-	(571)
Defferred income	(17)	-	-	-	(17)
Net assets acquired	**2,451**	**590**	**1,202**	**50**	**4,293**

Provisional fair value	Punkt	Connect	Cybertech	Kom-Net SK	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	448	808	765	-	2,021
Customer relationships	1,270	1,921	1,489	-	4,680
Other intangible assets	-	41	-	-	41
Deferred income tax asset	15			-	15
Inventories	38	3	36	-	77
Receivables	29	42	237	2	310
Prepayments	24	2	44	-	70
Cash and cash equivalents	2,311	8	616	48	2,983
Borrowings	-	(196)	(140)		(336)
Trade liabilities	(139)	(52)	(94)	-	(285)
Other liabilities and accruals	(243)	(66)	(262)	-	(571)
Deferred income	(17)	-	-	-	(17)
Deferred income tax liabilities	(241)	(365)	(283)	-	(889)
Provisional fair value of net assets acquired	**3,495**	**2,146**	**2,408**	**50**	**8,099**

Cash outflow	Punkt	Connect	Cybertech	Kom-Net SK	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(7,112)	(4,567)	(3,975)	(129)	(15,783)
Cash and cash equivalents in the subsidiary acquired	2,311	8	616	48	2,983
Bank overdraft	-	(117)	(24)	-	(141)
Cash outflow on acquisition (see Note 35)	**(4,801)**	**(4,676)**	**(3,383)**	**(81)**	**(12,941)**

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, 2008.

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

The above investments are of a long-term nature.

Comparative period:

During the the six-month period ended June 30, 2007 the Company purchased three internet service providers. Details of those transactions are specified below:

Company	Date	Share capital acquired	Purchase price
			(PLN)
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
Total			**27,435**

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.

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.

Details of 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	Fair values of net assets acquired	Goodwill
	(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
Total	**27,435**	**681**	**(7,948)**	**20,168**

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

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	**Total**
	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	640	1,048	1,014	2,702
Other intangible assets	-	-	4	4
Deferred income tax asset	5	-	-	5
Investment	-	7	-	7
Inventories	71	178	64	313
Receivables	163	257	74	494
Prepayments	22	13	3	38
Cash and cash equivalents	377	114	42	533
Bank overdraft/Loan	-	(93)	-	(93)
Trade liabilities	(63)	(706)	(62)	(831)
Other liabilities and accruals	(191)	(437)	(275)	(903)
Defferred income	-	(219)	-	(219)
Net assets acquired	**1,024**	**162**	**864**	**2,050**

Fair value	KOM-NET	Lanet	Magma	Total
	(PLN)	(PLN)	(PLN)	(PLN)
Property, plant and equipment	806	1,811	1,014	3,631
Customer relationships	2,955	1,884	2,429	7,268
Other intangible assets	-	-	4	4
Deferred income tax asset	5	-	-	5
Investments	-	7	-	7
Inventories	71	178	64	313
Receivables	163	257	74	494
Prepayments	22	13	3	38
Cash and cash equivalents	377	114	42	533
Bank overdraft	-	(93)	-	(93)
Trade liabilities	(63)	(706)	(62)	(831)
Other liabilities and accruals	(353)	(1,192)	(274)	(1,819)
Deferred income	-	(219)	-	(219)
Deferred income tax liabilities	(562)	(359)	(462)	(1,383)
Fair value of net assets acquired	**3,421**	**1,695**	**2,832**	**7,948**

Cash outflow	KOM-NET	Lanet	Magma	Total
	(PLN)	(PLN)	(PLN)	(PLN)
Total purchase consideration settled in cash	(9,633)	(10,298)	(8,185)	(28,116)
Cash and cash equivalents in the subsidiary acquired	377	114	42	533
Bank overdraft	-	(93)	-	(93)
Cash outflow on acquisition	**(9,256)**	**(10,277)**	**(8,143)**	**(27,676)**
Including cash outflow in the six-month period ended June 30, 2007	*(9,232)*	*(10,252)*	*(8,118)*	*(25,662)*

The following table presents contributed in 2007 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 for 2007 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)
Total	**7,120**	**22**	**843,952**	**(268,477)**

The above investments are of a long-term nature.

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 (out of which PLN 700 was paid during the six-month period ended June 30, 2007). 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 (PLN 39 during the six-month period ended June 30, 2007) was deducted directly from equity.

(All amounts in thousands, except as otherwise stated)

9. 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, 2008	44,175	432,823	7,417	107,354	20,329	245,350	11,894	32,096	901,438
Additions	-	-	-	-	-	240	17,339	-	17,579
Subsidiaries purchased in current period	7,684	-	-	-	-	41	-	4,680	12,405
Subsidiaries purchased in previous periods	516	-	-	-	-	-	-	-	516
Transfers	-	-	-	-	-	19,111	(19,111)	-	-
Transfers to assets held for sale	(13,843)	-	-	-	-	(54)	-	-	(13,897)
Other movements	-	-	-	-	-	551	-	-	551
Gross book value as at June 30, 2008	38,532	432,823	7,417	107,354	20,329	265,239	10,122	36,776	918,592
Accumulated amortization as at January 1, 2008	-	179,052	1,539	44,104	1,717	144,708	-	6,889	378,009
Amortization expense	-	7,455	-	1,837	585	11,632	-	3,331	24,840
Transfers to assets held for sale	-	-	-	-	-	(28)	-	-	(28)
Other movements	-	-	-	-	-	63	-	-	63
Accumulated amortization as at June 30, 2008	-	186,507	1,539	45,941	2,302	156,375	-	10,220	402,884
Accumulated impairment as at January 1, 2008	13,843	159,788	5,878	28,511	3,408	43,676	172	207	255,483
Transfers	-	-	-	-	-	177	(177)	-	-
Transfers to assets held for sale	(13,843)	-	-	-	-	(2)	-	-	(13,845)
Other movements	-	-	-	-	-	95	19	-	114
Accumulated impairment as at June 30, 2008	-	159,788	5,878	28,511	3,409	43,946	14	207	241,752
Net book value as at January 1, 2008	30,332	93,983	-	34,739	15,204	56,966	11,722	25,000	267,946
Net book value as at June 30, 2008	**38,532**	**86,528**	**-**	**32,902**	**14,619**	**64,918**	**10,108**	**26,349**	**273,956**

9. 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, 2007	14,799	432,823	7,417	107,354	20,329	217,360	7,723	20,048	827,853
Additions	-	-	-	-	-	461	13,437	935	14,833
Purchase of subsidiary	20,127	-	-	-	-	4	-	7,268	27,399
Transfers	-	-	-	-	-	12,735	(12,735)	-	-
Other movements	(956)	-	-	-	-	-	13	-	(943)
Gross book value as at June 30, 2007	33,970	432,823	7,417	107,354	20,329	230,560	8,438	28,251	869,142
Accumulated amortization as at January 1, 2007	-	164,143	1,539	40,432	547	124,577	-	1,901	333,139
Amortization expense	-	7,454	-	1,837	585	11,171	-	2,124	23,171
Accumulated amortization as at June 30, 2007	-	171,597	1,539	42,269	1,132	135,748	-	4,025	356,310
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	-	-	-	-	-	1,535	(1,535)	-	-
Other movements	(956)	-	-	-	-	-	1,027	-	71
Accumulated impairment as at June 30, 2007	13,843	159,788	5,878	28,511	3,408	42,589	964	207	255,188
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 June 30, 2007	**20,127**	**101,438**	**-**	**36,574**	**15,789**	**52,223**	**7,474**	**24,019**	**257,644**

Transfers to assets held for sale recorded in the six-month period ended June 30, 2008 relate to the disposal of group of assets comprising Premium Internet's IVT activities (see Note 6).

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 4 and 7 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 intercity telecommunication services. The remaining amortization period of the permit is 7 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 12 years.

10. Inventories

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Materials	326	113
Less provision for impairment charge	(4)	(4)
Materials, net	322	109
Goods for resale	2,760	2,536
Less provision for impairment charge	(179)	(167)
Goods for resale, net	2,581	2,369
Inventories, net	**2,903**	**2,478**

During the six-month periods ended June 30, 2008 and 2007 the Netia Group recognized PLN 4,070 and PLN 2,661, respectively as the cost of inventories included in "cost of goods sold". Moreover, the amount of PLN 12 and PLN 523 of a previous inventory provision was utilized during the six-month periods ended June 30, 2008 and 2007.

11. Trade and other receivables

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Trade receivables	142,397	141,653
Less provision for impairment of trade receivables	(39,216)	(31,735)
Trade receivables, net	103,181	109,918
Trade receivables from the former associate	4,023	-
VAT and other government receivables	16,799	2,760
Other receivables	3,681	21,487
Less provision for impairment of other receivables	(623)	(576)
Other receivables, net	3,058	20,911
Loans*	66,003	65,694
Less provision for impairment of loans*	(65,475)	(65,291)
Loans, net	528	403
	127,589	**133,992**
Of which,		
Current	127,339	133,867
Non-current	250	125

* Loans include a short term loan of PLN 11,500 granted to Millennium Communications S.A. (described in Note 39). As at June 30, 2008 and December 31, 2007 interest accrued on that loan amounted to PLN 53,791. 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 six-month periods ended June 30, 2008 and 2007 amounted to PLN 1,574 and PLN 1,185, respectively and was included in "selling and distribution costs" in the consolidated income statement.

As of June 30, 2008 and December 31, 2007 trade receivables of PLN 25,873 and PLN 30,255, 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 June 30, 2008	23,971	1,262	640	25,873
As at December 31, 2007	28,415	1,066	774	30,255

12. Prepaid expenses and accrued income

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Accrued income and prepaid expenses relating to promotional offers	4,665	14,818
Transaction costs related to the credit facility (see Note 19)	2,696	4,188
Other prepaid expenses.	9,205	10,592
	16,566	**29,598**
Of which,		
Current	10,899	15,506
Non-current	5,667	14,092

13. Sale of investment in associate

Investment in P4 (number of shares 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", currently transferred into Netia Spółka Akcyjna UMTS a limited joint stock partnership), 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 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 its 100% shareholdings 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") and a cash contribution of EUR 9,000.

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.

The following became parties to the amended Shareholders Agreement dated May 24, 2007: 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 300,000 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 185,797, including Netia's contributions of EUR 52,835 (out of total committed cash contributions of EUR 79,500); Novator's contributions of EUR 123,087 (out of total committed cash contributions of EUR 185,500) and Tollerton's contributions of EUR 9,875. Post closing of the transaction further shareholders' committed cash contributions amounted to EUR 114,202 in the aggregate, including Netia's committed contribution of EUR 26.665; Novator's committed contribution of EUR 62,413 and Tollerton's committed contribution of EUR 25,124.

Following the contributions of EUR 2,040 made in January 2008, the total cash contributions made by Netia Mobile in connection with the above agreements amounted to EUR 79,500 and the obligation to contribute to P4's share capital has been settled. As a result, the Company held 12,519 P4's shares constituting 23.4% of P4's share capital.

The following table summarizes changes in the investment in P4:

	Six-month period ended June 30, 2007	Until February 21, 2008
	(PLN)	(PLN)
At January 1	141,394	150,435
Investment in associate	45,000	8,124
Dilution gain in associate (see Note 6)	40,102	9,530
Financial guarantee contract	(2,088)	-
Settlement of hedge transaction	(195)	-
Share of loss recognized until reclassification to assets held for sale	(68,612)	(22,625)
At the end of the period	**155,601**	**145,464**

Following the consent of the Supervisory Board of the Company to sign the agreement to sell P4's shares, received on February 21, 2008, the Netia Group reclassified the investment in P4 of PLN 145,464 to non-current assets held for sale.

On February 22, 2008 the Company concluded an agreement to sell its interest in P4 held by Netia Mobile to Tollerton and Novator, on the following terms:
(i) the price of EUR 130,000, 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 transaction was closed on April 30, 2008 for a final price of EUR 131,795. The gain on this transaction recognized in the consolidated income statement for the six-month period ended June 30, 2008 amounted to PLN 353,427.

The gain on disposal of the investment in P4 recognized in this interim consolidated income statement was as follows:

	Six-month period ended June 30, 2008
	(PLN)
Proceeds from sale of an associate	453,770
Carrying value of the investment in associate	(145,464)
Dilution gain in associate	49,632
Settlement of hedge transaction	(425)
Other transaction costs	(4,086)
	353,427

Simultaneously, on April 30, 2008 the Shareholders Agreement of P4 dated May 24, 2007 was terminated with respect to the Company and Netia Mobile. Upon the termination of the Shareholders Agreement the Company and Netia Mobile were released from the obligation to finance P4. The commercial agreements between the Company and P4 (service provider, transmission and distribution agreements) remain in force.

14. Assets classified as held for sale

	December 31, 2007	June 30, 2008
	(PLN)	(PLN)
Non-current assets classified as held for sale	36,721	36,943
	36,721	**36,943**

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.

15. Cash and cash equivalents

	December 31, 2007	June 30, 2008
	(PLN)	(PLN)
Cash at bank and in hand	57,700	324,041
	57,700	**324,041**

The effective interest rate on short-term bank deposits was 5.3% and 4.09%, respectively for the six-month period ended June 30, 2008 and the year ended December 31, 2007.

As at December 31, 2007 the amount of PLN 1,477 was restricted as it was placed as collateral securing payments to vendors.

In addition, as at June 30, 2008 and December 31, 2007 the amounts of PLN 1,523 and PLN 540, 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 June 30, 2008 and December 31, 2007 include PLN 24 and PLN 3, respectively of bank overdrafts (see Note 19).

16. Shareholders' equity

Share capital (not in thousands)

At June 30, 2008, the Company's share capital consisted of 389,276,294 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at 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. The Company's share capital has not changed since December 31, 2007.

	Number of shares authorized and issued (not in thousands)	Share capital (PLN)
At January 1, 2007	**389,167,839**	**389,168**
At June 30, 2007	**389,167,839**	**389,168**
Issuance of series K shares	109,455	109
At June 30, 2008	**389,277,294**	**389,277**

According to the information provided to the Company by its shareholders, as at June 30, 2008 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

The Shareholders' Meeting held on May 7, 2008, resolved to cover PLN 73,217 of Netia S.A.'s loss incurred in 2007 and PLN 11,692 of uncovered losses from previous years resulting from a merger of a subsidiary with the Company during the financial year of 2007, by transfer of: PLN 84,909 from share premium.

Other reserves

Changes in other reserves are presented in the table below:

	Employee share option scheme (PLN)	Separate reserve capital (PLN)	Hedging reserve (PLN)	Total (PLN)
Balance as at January 1, 2007	996	28,162	486	29,644
Employee share option scheme:				
- value of services provided	4,232	-	-	4,232
Coverage of Netia's 2006 loss	-	(28,162)	-	(28,162)
Cash flow hedges:				
- fair value losses	-	-	(935)	(935)
- tax on fair value losses	-	-	186	186
- transfers to investments in associates	-	-	(195)	(195)
- tax on transfers to investments in associates	-	-	37	37
- transfers to consolidated income statement	-	-	(38)	(38)
Balance as at June 30, 2007	**5,228**	**-**	**(459)**	**4,769**
Balance as at January 1, 2008	14,676	-	(425)	14,251
Employee share option scheme:				
- value of services provided	7,223	-	-	7,223
Cash flow hedges:				
- fair value losses *	-	-	(588)	(588)
- tax on fair value losses *	-	-	112	112
- transfers to consolidated income statement (see Note 13)	-	-	425	425
Balance as at June 30, 2008	**21,899**	**-**	**(476)**	**21,423**

** On April 30, 2008 the Netia Group received EUR 131,795 as a result of the sale of its interest in P4 (see Note 13) and on June 29, 2008, the Company concluded an agreement to buy a 100% interest in Tele2 (see Note 38). To hedge the foreign exchange risk arising from future payments related to the planned acquisition the Netia Group decided to hold a deposit of EUR 38,685.*

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. Due to Netia S.A.'s loss for the six-month period ended June 30, 2008 of PLN 65,889, the distributable reserve, as at June 30, 2008, amounted to PLN nil.

Stock options (not in thousands)

In the six-month period ended June 30, 2008 the following changes took place in the number of options granted under the Plan:

	Six-month period ended June 30, 2007		Six-month period ended June 30, 2008	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	4.44	1,935,149	6.61	43,128,873
Granted	6.64	42,075,000	6.14	1,000,000
Forfeited / expired	-	-	6.14	(1,359,000)
At the end of the period	**6.54**	**44,010,149**	**6.60**	**42,769,873**

As at June 30, 2008 the total number of options approved by the Supervisory Board and issued was 64,696,220 as compared to 63,696,220 as at December 31, 2007. Out of these approved options 42,769,873 options were outstanding as at June 30, 2008 and 43,128,873 options were outstanding as at December 31, 2007. As at June 30, 2008 and December 31, 2007 the total number of vested options was 8,814,229 and 325,229, respectively. The vesting period for the options is up to three years from the date of grant. As at June 30, 2008, the weighted average remaining contractual life of the outstanding options was 4 years. The outstanding options are exercisable until December 20, 2012. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 4.71 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. 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 six-month periods ended June 30, 2008 and 2007 amounted to PLN 7,223 thousands and PLN 4,232 thousands, respectively.

17. Provisions

	December 31, 2007	June 30, 2008
	(PLN)	(PLN)
Expected loss on a contract related to voice termination services	-	1,966
Loss on rental contract	470	283
Claims	189	10
	659	**2,259**
Of which,		
Current	562	293
Non-current	97	-
	659	**293**

	Expected loss on a contract related to voice termination services	Loss on rental contracts	Claims	Total
	(PLN)	(PLN)	(PLN)	(PLN)
As at January 1, 2008	-	470	189	**659**
Reclassification from iiabilities directly associated with assets held for sale	2,621	-	-	2,621
Used during the period	(655)	(210)	(179)	(1,044)
Discount unwinding (charged to the income statement)	-	23	-	23
As at June 30, 2008	**1,966**	**283**	**10**	**2,259**

Expected loss on a contract related to voice termination services

The provision was created for an expected loss on a contract, which was a part of the transaction to sell a group of assets comprising Premium Internet S.A.'s IVT activities (see Note 6). Following the provisions of this contract the Netia Group shall render voice termination services to Mediatel for a one-year period, with estimated revenues significantly lower than costs. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2009.

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

The amounts represent provisions for a contractual penalty due to delays in the performance of a contract. 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.

18. 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 (the “CDB Facility”). 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 13) the agreement was amended and the guaranteed amount decreased to EUR 21,060. The guarantee covered 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 is reduced gradually as the network assets are put into commercial service.

On April 30, 2008, the Netia Group completed the sale of its investment in the shares of P4 (see Note 13). Upon completion of the sale, the buyers confirmed to the Company expiry of certain future obligations originally undertaken by Netia in order to partially secure the repayment of the CDB Facility. Moreover, under the sale agreement of the shares in P4, Novator and Tollerton have counter-guaranteed Netia’s exposure to CDB until such a time as CDB recognizes the transfer of Netia’s obligations to the buyers. Therefore the Company’s Management believes that all remaining exposure to the CDB Facility has been effectively offset to Tollerton and Novator.

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 was directly related to the planned network build out (with the result that the guarantee was assumed to expire in 2008).

Changes in the value of the financial guarantee contract are presented below:

	Six-month period ended June 30, 2007	Six-month period ended June 30, 2008
	(PLN)	(PLN)
At the beginning of the period	9,405	435
Derecognition of a part of initially recognized guarantee	(2,088)	-
Amortization (credited to other income)	(2,630)	(435)
Carrying value at the end of the period	**4,687**	**-**

19. Borrowings

	December 31, 2007	June 30, 2008
	(PLN)	(PLN)
Credit facility	94,738	-
Bank loans	-	214
Bank overdraft	3	-
	94,741	**214**
Of which:		
Current	7,397	214
Non-current	87,344	-

Credit facility

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”). As at June 30, 2008 the total draw downs under this Facility amounted to PLN 180,000 and were repaid in full.

The Facility bore interest at a variable interest rate of WIBOR plus a margin dependant on financial ratios. During the six-month period ended June 30, 2008, the Company paid PLN 5,814 (PLN 477 in 2007) of interest under this Facility. As at June 30, 2008 total transaction costs amounted to PLN 6,778, out of which PLN 1,015 and PLN 1,359 related to the draw downs made in 2007 and 2008, respectively, and were included in the calculation of the effective interest rate.

On June 27, 2008, the Company entered into an Accession, Amendment and Restatement Agreement (the "Amendment Agreement") with the Bank (as the arranger), Bank Millennium S.A., Bank Gospodarki Żywnościowej S.A. and Raiffeisen Bank Polska S.A. (the "Banks"), relating to the Facility (the "Facility Agreement"). The Facility Agreement has, among others, extended a draw-dawn availability period to December 31, 2010 from November 15, 2008 (with respect to the term loan), and reduced the Facility amount from PLN 300,000 to PLN 275,000, available to Netia in the form of a term loan and a revolving loan of up to PLN 225,000 and PLN 50,000, respectively. The Facility is to be repaid by December 31, 2012 instead of November 15, 2011. The Facility continues to bear interest at a variable interest rate of WIBOR plus a margin dependent on financial ratios and the Company must pay a commitment fee on the undrawn, uncancelled amount of the Facility commitment. The proceeds from the Facility will be used to finance the Netia Group's capital expenditures, its general corporate purposes and the acquisition of companies whose business activities are substantially similar to the business activities of the Group.

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 S.A., UNI-Net, InterNetia Sp. z o.o, Netia WiMax S.A., Premium Internet S.A., Netia Spółka Akcyjna UMTS s.k.a and assignment as collateral security of Netia's receivables under certain agreements. Moreover, the Company's subsidiaries (Świat Internet S.A., Netia WiMax S.A., Premium Internet S.A, InterNetia Sp. z o.o, UNI-Net, Netia Spółka Akcyjna UMTS s.k.a) jointly, severally, irrevocably and unconditionally guaranteed punctual performance by the Company of all its obligations under the Facility up to the maximum amount of PLN 343,750 (the Amendment Agreement has reduced this guarantee from PLN 375,000).

Furthermore, pursuant to the Amendment Agreement the Company is entitled to increase the Facility granted by the consortium of the banks in the amount of PLN 100,000 (to PLN 375,000), for the acquisition of Tele2 (see Note 38). In this case the Facility shall be repaid by June 30, 2013. The additional facility is conditional upon the satisfaction of certain conditions precedent, including, pledging Netia's enterprise, which itself requires a Shareholders' Approval, and the closing of the acquisition of Tele2.

Bank loans

Following the acquisition of Connect and Cybertech (see Note 8) the Netia Group acquired bank loans in the total amount of PLN 195. The loans were repaid in June and July 2008. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant.

Bank overdraft

Following the acquisition of Connect and Cybertech in June 2008 and an internet service provider in December 2007, the Netia Group acquired overdrafts in the total amounts of PLN 141 and PLN 3, respectively. The loans were repaid in January and June 2008.

20. Trade and other payables

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Trade payables	64,383	52,315
Investment payables	75,743	37,528
Trade payables to former associate	3,060	-
Accrued expenses (see Note 21)	61,636	75,553
VAT and other taxes	7,659	11,491
Retirement severance payments	680	680
Finance lease payments	4,278	4,198
Other payables	5,501	5,473
	222,940	**187,238**
Of which,		
Current	219,486	183,944
Non-current	3,454	3,294

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% and a salary increase rate of 3,5% above inflation of 2,5%. A related cost recognized during the year ended December 31, 2007 amounted to PLN 150. Retirement severance payments will be paid on the Netia Group's employees' retirement.

21. Accrued expenses

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Construction costs	3,149	2,879
Uninvoiced services	20,800	32,024
Interconnection charges	13,307	20,646
Holidays accrual	3,765	4,984
Employees bonuses and accrued salaries	16,773	8,654
Other	3,842	6,366
	61,636	**75,553**

22. Corporate income tax

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Current income tax	(80)	(185)	(130)	(257)
Deferred income tax benefit / (charge), net	(848)	195	136	(1,626)
Income tax benefit / (charge)	**(928)**	**10**	**6**	**(1,883)**

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:

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Profit / (Loss) before tax	(50,082)	(88,822)	314,575	261,170
Tax calculated at tax rates applicable to profit	9,515	16,876	(59,769)	(49,622)
Income not subject to tax	1,642	11,832	1,445	3,443
Expenses not deductible for tax purposes	(4,066)	(17,376)	(22,682)	(26,414)
Deductible temporary differences arising during the year for which no deferred tax assets were recognized	(2,858)	(13,178)	(171)	(3,084)
Derecognition of previously recognized tax asset	-	-	(373)	(1,225)
Tax effect on sale of investment in P4			67,151	67,151
Tax effect on in-kind contribution of telecommunication infrastructure	-	77,429	-	-
Utilization of previously unrecognized tax losses	(743)	832	8,743	8,885
Tax losses for which no deferred income tax asset was recognized	(4,418)	(76,405)	5,662	(1,017)
Income tax benefit / (charge)	**(928)**	**10**	**6**	**(1,883)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2007 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.

(All amounts in thousands, except as otherwise stated)

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, 2007 (PLN)	June 30, 2008 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	464	18
- Deferred income tax assets to be recovered within 12 months	15,668	14,599
	16,132	14,617
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	2,604	8,448
- Deferred income tax liabilities to be recovered within 12 months	13,320	8,349
	15,924	16,797
Deferred income tax assets / (liabilities), net	**208**	**(2,180)**
out of which:		
Deferred income tax assets	2,162	428
Deferred income tax liabilities	(1,954)	(2,608)

At June 30, 2008 and 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, 2008	4,120	17	9,290	2,343	154	15,924
- Charged / (credited) to the income statement	2,461	9	(170)	(2,343)	27	(16)
- Deferred income tax on acquisition	-	-	889	-	-	889
As at June 30, 2008	**6,581**	**26**	**10,009**	**-**	**181**	**16,797**

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, 2008	11,403	2,519	1,202	789	219	16,132
- Credited / (charged) to the income statement	(61)	(719)	(1,052)	108	82	(1,642)
- Deferred income tax on acquisition	-	15	-	-	-	15
- Credited / (charged) to the equity	-	-	-	-	112	112
As at June 30, 2008	**11,342**	**1,815**	**150**	**897**	**413**	**14,617**

Comparative 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	(2,818)	(95)	(777)	(3,781)	-	(7,471)
- Deferred income tax on acquisition	-	-	1,560	-	-	1,560
- Credited / (charged) to the equity	-	-	-	-	(114)	(114)
As at June 30, 2007	**3,071**	**32**	**4,319**	**-**	**-**	**7,422**

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	2,959	(4,525)	(832)	(3,907)	(971)	(7,276)
- Deferred income tax on acquisition	-	-	-	-	187	187
- Charged / (credited) to the equity	-	-	-	-	108	108
As at June 30, 2007	**6,018**	**182**	**3,277**	**575**	**289**	**10,341**

The deferred income tax recognized in equity in an amount of PLN 762 resulted from the acquisition of new subsidiaries and movements in hedging reserve.

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 June 30, 2008, the Netia Group had total deductible temporary differences of PLN 449,843 and unutilised tax loss carry-forwards of PLN 599,535 (total potential deferred income tax asset of PLN 199,382).

The Netia Group did not recognize deferred income tax assets of PLN 113,912 relating to tax losses of PLN 599,535 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 June 30, 2008 will expire in the following years: PLN 123,506 in 2008, PLN 6 in 2010, PLN 244,219 in 2011, and PLN 231,804 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 85,470, relating to deductible temporary differences of PLN 449,843 as follow:

	Timing differences (PLN)	Deferred income tax asset (PLN)
Depreciation and impairment	366,491	69,633
Accrued expenses	69,593	13,223
Impairment provisions for receivables	645	123
Deferred revenue	10,161	1,931
Provisions	283	54
Others	2,670	506
	449,843	**85,470**

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.

23. Revenue

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Direct voice services	92,652	190,163	93,567	185,679
Monthly fees	31,020	61,934	35,396	67,366
Calling charges	61,632	128,229	58,171	118,313
Local calls	*16,257*	*34,949*	*12,817*	*27,362*
Domestic long-distance calls	*9,631*	*20,819*	*7,861*	*16,692*
International long-distance calls	*7,287*	*14,082*	*6,561*	*13,493*
Fixed-to-mobile	*25,333*	*51,071*	*23,119*	*46,875*
Other	*3,124*	*7,308*	*7,807*	*13,891*
Indirect voice	13,280	26,872	11,756	24,487
Data	58,156	109,502	86,701	166,962
Interconnection revenue	4,691	9,622	26,058	40,062
Wholesale services	14,065	26,749	16,594	35,694
Intelligent network services	3,652	7,432	3,559	7,983
Other telecommunication service revenue	2,024	4,031	2,458	5,768
Telecommunication services revenue	**188,520**	**374,371**	**240,693**	**466,635**
Sales of goods	30	128	720	1,398
Telecommunication revenue	**188,550**	**374,499**	**241,413**	**468,033**
Radio communication services revenue	1,955	3,761	2,070	4,146
Revenue	**190,505**	**378,260**	**243,483**	**472,179**
Revenue generated by group of assets held for sale	15,075	31,712	-	8,774
Total revenue	**205,580**	**409,972**	**243,483**	**480,953**

24. Cost of sales

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Interconnection charges	(38,531)	(77,871)	(55,687)	(108,333)
Network maintenance	(39,996)	(77,471)	(54,856)	(105,037)
Cost of goods sold	(947)	(2,661)	(1,676)	(4,070)
Depreciation of fixed assets	(56,548)	(112,082)	(54,105)	(102,631)
Amortization of intangible assets	(5,779)	(11,507)	(6,361)	(12,589)
Salaries and benefits	(2,153)	(4,830)	(5,055)	(9,961)
Other costs	(10,031)	(22,604)	(13,817)	(30,730)
	(153,985)	**(309,026)**	**(191,557)**	**(373,351)**

25. Selling and distribution costs

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Advertising and promotion	(8,927)	(12,446)	(15,162)	(28,689)
Mailing services	(2,054)	(4,468)	(3,065)	(6,113)
Information technology services	(1,299)	(2,446)	(1,219)	(2,759)
Other services	(7,216)	(16,195)	(12,020)	(23,358)
Provision for impaired receivables	(1,169)	(1,185)	(1, 043)	(1,574)
Depreciation of fixed assets	(1,177)	(2,379)	(1,130)	(2,080)
Amortization of intangible assets	(4,445)	(8,776)	(4,433)	(8,812)
Salaries and benefits	(16,434)	(32,169)	(21,479)	(42,865)
Other costs	(858)	(1,472)	(1,011)	(1,367)
	(43,579)	**(81,536)**	**(60,562)**	**(117,617)**

26. General and administration costs

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Professional services	(2,860)	(5,847)	(1,306)	(3,854)
Information technology services	(1,831)	(3,608)	(2,194)	(4,102)
Office and car maintenance	(2,263)	(4,052)	(1,551)	(3,237)
Insurance	(361)	(1,365)	(260)	(698)
Other services	(3,720)	(6,610)	(3,167)	(6,402)
Depreciation of fixed assets	(1,095)	(2,372)	(923)	(1,994)
Amortization of intangible assets	(1,441)	(2,888)	(1,714)	(3,439)
Salaries and benefits	(19,292)	(38,992)	(19,196)	(38,618)
Other costs	(3,036)	(5,463)	(2,351)	(4,874)
	(35,899)	**(71,197)**	**(32,662)**	**(67,218)**

27. Salaries and benefits

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Three-month period ended June 30, 2008 (PLN)	Six-month period ended June 30, 2008 (PLN)
Wages and salaries	(29,708)	(60,508)	(37,626)	(72,527)
Social security costs	(2,458)	(6,402)	(2,880)	(5,248)
Defined contribution plan (the State Plan)	(2,392)	(4,849)	(2,625)	(6,446)
Share-based compensation	(3,321)	(4,232)	(2,599)	(7,223)
	(37,879)	**(75,991)**	**(45,730)**	**(91,444)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme. During the six-month period ended June 30, 2008 and June 30, 2007 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.

28. Other income

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Sale of services to former associate	651	1,212	255	662
Settlement of interconnection related disputes	15,100	24,239	-	-
Financial guarantee	1,832	2,630	-	435
Other operating income	983	1,532	952	2,473
	18,566	**29,613**	**1,207**	**3,570**

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, during the six-month period ended June 30, 2007, PLN 24,239 was recorded as other income.

29. Other expenses

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Impairment charges for specific individual assets	-		(31)	(51)
The tax on civil law transactions	-	(4,764)	-	-
	-	**(4,764)**	**(31)**	**(51)**

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.

30. Other gains / (losses), net

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Decrease of purchase consideration	-	1,940	-	-
Gain on sale of impaired receivables	-	1,108	701	701
Gain on sale of fixed assets	1,291	1,234	6,434	6,214
Gain on disposal of a group of assets comprising Premium Internet's IVT activities	-	-	-	5,093
Net foreign exchange gains / (losses)	(223)	(503)	(243)	(603)
	1,068	**3,779**	**6,892**	**11,405**

31. Finance income and finance costs

Finance income

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Interest income	1,209	2,663	4,161	4,718
Gain / (loss) on fair value adjustment of financial assets	-	21	-	-
Net foreign exchange gains / (losses)	(15)	288	(76)	-
Ineffectiveness of cash flow hedges	-	38	-	-
	1,194	**3,010**	**4,085**	**4,718**

Finance costs

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Interest expense	(28)	(56)	(5,016)	(7,244)
Fair value gains / (losses) on financial assets / liabilities	-	-	(1,027)	(1,133)
Net foreign exchange gains / (losses)	-	-	(3,664)	(3,664)
Other finance costs	(5)	(5)	-	-
	(33)	**(61)**	**(9,707)**	**(12,041)**

32. Net foreign exchange gains / (losses)

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

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Other gains / (losses), net	(223)	(503)	(243)	(603)
Finance income	(15)	288	(76)	-
Finance costs	-	-	(3,664)	(3,664)
	(238)	**(215)**	**(3,983)**	**(4,267)**

33. 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.

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Profit / (loss) attributable to the equity holders of the Company	(51,085)	(88,940)	314,581	259,287
Weighted average number of ordinary shares in issue (not in thousands)	389,167,839	389,167,839	389,277,294	389,277,294
Basic earnings per share (not in thousands)	(0.13)	(0.23)	0.81	0.67

Diluted

Diluted earnings per share for loss attributable to the equity holders of the Company are calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all potentially dilutive ordinary shares. The Company had one category of potentially dilutive ordinary shares - the employees' share options (which upon their exercise trigger the issue of the series K shares). For the share options 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. 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.

	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007	Three-month period ended June 30, 2008	Six-month period ended June 30, 2008
	(PLN)	(PLN)	(PLN)	(PLN)
Profit / (loss) attributable to the equity holders of the Company	(51,085)	(88,940)	314,581	259,287
Weighted average number of ordinary shares in issue (not in thousands)	389,167,839	389,167,839	389,277,294	389,274,303
Adjustments for:				
- Share options	109,455	109,667	-	109,667
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	389,277,294	389,277,506	389,277,294	389,383,758
Diluted earnings per share (not in thousands)	(0.13)	(0.23)	0.81	0.67

34. Dividends per share

No dividends were proposed or paid in respect to the financial years ended December 31, 2007 and 2006.

35. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Six-month period ended June 30, 2007	Six-month period ended June 30, 2008
	(PLN)	(PLN)
Receivables	(1,737)	182
Inventories	(794)	502
Prepaid expenses	(3,371)	(14,536)
Restricted cash	6,100	(761)
Provisions, accruals and other payables	(2,233)	(7,556)
Deferred income	1,629	465
	(406)	**(21,704)**

Supplemental disclosures to operating activities:

	Six-month period ended June 30, 2007	Six-month period ended June 30, 2008
	(PLN)	(PLN)
Income taxes paid	193	293
Interest received	(3,733)	(5,425)

Supplemental disclosures to investing activities:

	Six-month period ended June 30, 2007	Six-month period ended June 30, 2008
	(PLN)	(PLN)
Increase of interest in subsidiary	(700)	-
Subsidiary purchased in current interim period	-	(12,941)
Subsidiaries purchased in 2007	-	(3,129)
Purchase of subsidiaries, net of cash received	**(700)**	**(16,070)**

Non-cash transactions (not in thousands):

The principal non-cash transactions were a decrease of the Netia Group's stake in P4 and sale of group of assets which shall be settled in shares to be issued by Mediatel, described in Note 6.

During the six-month periods ended June 30, 2008 the Netia Group entered into finance lease agreements for telecommunication equipment and a vehicle. The carrying value of assets and liabilities recognized due to these transactions amounted to PLN 786.

36. The Management Board and Supervisory Board

Management Board

As at June 30, 2008 and 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.

On June 5, 2008 Mr. Piotr Czapski, Strategy and Business Development Director, has resigned from the position of member of the Company's Management Board with effect on August 22, 2008.

Supervisory Board

Effective May 7, 2008 Mr. Wojciech Sobieraj, Chairman of the Company's Supervisory Board, resigned from the position of Member and Chairman of the Company's Supervisory Board.

Effective May 7, 2008 Mr. Bogusław Kasprzyk resigned from his position as Member of the Company's Supervisory Board.

On May 7, 2008, the Company's Shareholder's Meeting appointed Messrs. Jerome de Vitry and Marek Gul to Netia's Supervisory Board.

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

Due to the above changes as at June 30, 2008 the Company's Supervisory Board consisted of the following members:
- Marek Gul – Chairman,
- Constantine Gonticas – Deputy Chairman,
- Raimondo Eggink,
- Bruce McInroy,
- Tadeusz Radzimiński,
- Pantelis Tzortzakis,
- Jerome de Vitry.

37. Related party transactions

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

As at June 30, 2008, the total number of options granted to members of the Company's Management Board under the Plan, was 33,271,814 of which 6,600,000 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 June 30, 2008 was PLN 3.02 per share.

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

Options	**Six-month period ended June 30, 2007**	**Six-month period ended June 30, 2008**
At the beginning of the period	1,721,489	33,271,814
Granted	33,000,000	-
Status changed due to resignation from Management Board	(634,233)	-
At the end of the period	**34,087,256**	**33,271,814**

As at June 30, 2008 and December 31, 2007 Mr. Piotr Czapski – a member of the Company's Management Board – held 5,000,000 options, out of which 1,000,000 had vested as at June 30, 2008.

As at June 30, 2008 and December 31, 2007 Mr. Jonathan Eastick – a member of the Company's Management Board – held 9,271,814 options, out of which 1,800,000 had vested as at June 30, 2008.

As at June 30, 2008 and December 31, 2007 Mr. Mirosław Godlewski – the Company's President of the Management Board – held 10,000,000 options, out of which 2,000,000 had vested as at June 30, 2008.

As at June 30, 2008 and December 31, 2007 Mr. Bertrand Le Guern – a member of the Company's Management Board – held 5,000,000 options, out of which 1,000,000 had vested as at June 30, 2008.

As at June 30, 2008 and December 31, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 4,000,000 options, out of which 800,000 had vested as at June 30, 2008.

Members of the Supervisory Board did not hold any options as at June 30, 2008 and December 31, 2007.

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

As at June 30, 2008 and December 31, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 series K shares of the Company.

As at June 30, 2008 and December 31, 2007, Mr. Jonathan Eastick – a member of the Company's Management Board – held respectively 15,000 and nil shares of the Company.

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

As at June 30, 2008 and December 31, 2007, Mr. Raimondo Eggink – a member of the Company's Supervisory Board– held 20,000 shares of the Company.

As at June 30, 2008 and December 31, 2007, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held 143,000 and 93,000 shares of the Company.

As at June 30, 2008 and December 31, 2007, Mr. Bruce McInroy – a member of the Company's Supervisory Board – held respectively 150,000 and 50,000 shares of the Company.

As at June 30, 2008 and December 31, 2007, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board – 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 six-month periods ended June 30, 2008 and June 30, 2007 amounted to PLN 3,883 and PLN 3,334, respectively. In addition, the cost of share-based payments in the amounts of PLN 5,449 and PLN 4,120 was recognized in the respective periods. Additional to the above, termination benefits for the former members of the Management Board of PLN 1,116 were recognized as a cost in the six-month period ended June 30, 2007.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the the six-month periods ended June 30, 2008 and June 30, 2007 amounted to PLN 287 and PLN 177, respectively. These amounts were paid to certain employees of the Netia Group who are not past or present members of the Management Board of Netia S.A.

Supervisory Board remuneration

Compensation and related costs associated with members of the Company's Supervisory Board during the six-month periods ended June 30, 2008 and June 30, 2007 amounted to PLN 306 and PLN 287, respectively.

Transactions with former associate

The following transactions were carried out with P4 Group until P4 ceased being an associate of the Netia Group on April 30, 2008 (see also Note 13):

	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	One-month period ended April 30, 2008 (PLN)	Four-month period ended April 30, 2008 (PLN)
Telecommunication revenue				
Sale of services	652	1,212	2,511	8,868
Other sales transactions	2,145	2,821	75	482
	2,797	**4,033**	**2,586**	**9,350**
Interconnection charges	-	-	(410)	(1,651)
Other costs	-	-	(4)	(22)
	-	**-**	**(414)**	**(1,673)**

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Trade receivables	4,023	-
Trade payables	(3,060)	-
	963	**-**

Other transactions with related parties

During the six-month periods ended June 30, 2008 and June 30, 2007, 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.

38. Commitments

Agreement to buy an interest in Tele2

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

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

The completion of the transaction is dependant, among others, on the satisfaction of the following conditions precedent:
(i) the Company obtains a decision from the President of the UOKiK granting consent for the acquisition of Tele2;
(ii) the take over by the Company of obligations under the guarantee issued by the Seller for the benefit of Polkomtel SA; and
(iii) there is no material adverse change.

Pursuant to the Amendment Agreement of June 27, 2008 (see Note 19) the Company is entitled to the increased financing facility granted by the consortium of the banks in the amount of PLN 100,000 for the acquisition of Tele2. The additional facility is conditional upon the satisfaction of certain conditions precedent, including, pledging Netia's enterprise, which itself requires a Shareholders' Approval and the closing of the acquisition of Tele2.

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 77,545 as at June 30, 2008 and PLN 62,262 as at December 31, 2007 of which, PLN 9,824 and PLN 4,934, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at June 30, 2008 and December 31, 2007 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Not later than 1 year	58,963	64,840
Later than 1 year and not later than 5 years	45,256	91,367
Later than 5 years	41,831	59,176
	146,050	**215,383**

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 six-month periods ended June 30, 2008 and June 30, 2007 amounted to PLN 72,305 and PLN 48,644, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 17) in the amounts of PLN 791 and PLN 557, 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, 2007 (PLN)	June 30, 2008 (PLN)
Not later than 1 year	17,277	15,164
Later than 1 year and not later than 5 years	19,032	18,893
Later than 5 years	3,118	4,595
	39,427	**38,652**

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 six-month periods ended June 30, 2008 and June 30, 2007 amounted to PLN 10,014 and PLN 10,447, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

In 2007 and 2008 Netia entered in new finance lease agreements for telecommunication equipment. Moreover, with the acquisition of certain internet providers, the Netia Group has acquired finance leases for certain telecommunication equipment as well as for some vehicles. As at June 30, 2008 and December 31, 2007 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2007 (PLN)	June 30, 2008 (PLN)
Not later than 1 year	1,730	1,803
Later than 1 year and not later than 5 years	2,548	2,395
Later than 5 years	-	-
Present value of minimum lease payments	**4,278**	**4,198**
Plus amount representing finance charges	469	452
Total minimum lease payments	**4,747**	**4,650**

39. Contingencies

Contingent assets

TP SA

As a result of TP SA failing to meet certain obligations under the bitstream access agreement, in 2007 and 2008 the Company demanded payment from TP SA for contractual penalties totaling PLN 23,323, following the expiration of an initial grace period. Netia's management intends to use all legal means to enforce the penalties and will recognize income when TP SA either pays or settles the liability in a manner acceptable to Netia. After the Company's demand for TP SA to pay contractual penalties delivered in 2007, Netia filed a claim in court against TP SA for payment of PLN 19,542 of penalties. Despite the fact that the Management Board is convinced of the legitimacy of the claim the Management Board cannot ensure that the Court will decide fully in accordance with the claim.

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 9.7 million at the June 30, 2008 exchange rate) increased by the applicable interest is outstanding from Millennium. As on April 24, 2007 Millennium was declared bankrupt. The loan has been claimed by the Company in the bankruptcy proceedings relating to Millennium. The bankruptcy trustee of Millennium accepted Netia's claim against Millennium and registered it on the list of claims in the amount of PLN 65.5 million. The bankruptcy proceeding of Millennium is still pending.

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 May 27, 2008, the Appellate Court rejected Millennium's appeal against the decision of the District Court issued on December 22, 2006 dismissing Millennium's claim. The decision of the District Court is therefore final and non-appealable.

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 April 16, 2008, the District Court dismissed Millennium's claim. The decision of the District Court is final and non-appealable. As a result of the decision, the injunction described above, was cancelled by operation of law.

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 alleging improper performance of the Share and Bonds Purchase Agreement dated May 22, 2006 (the "Agreement") relating to the Company's purchase of Pro Futuro S.A. ("Pro Futuro").

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

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

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

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

On April 30, 2008, Netia completed the sale of its investment in the shares of P4. Upon completion of the sale, the buyers confirmed to Netia expiry of certain future obligations originally undertaken by Netia in order to partially secure the repayment of the credit facility of EUR 150,000 (the "CDB Facility") granted to P4 by China Development Bank under the Facility Agreement dated October 31, 2006. In particular, these obligations included a payment guarantee to CDB of up to EUR 21,060. The Company's Management is not aware of any payment default by P4 prior to receipt of the release confirmation, and believes that all other obligations have effectively expired. Moreover, under the sale agreement of the shares in P4, Novator and Tollerton have counter-guaranteed Netia's exposure to CDB until such a time as CDB recognizes the transfer of Netia's obligations to the buyers. Therefore the Company's Management believes that all remaining exposure to the CDB Facility has been effectively offset to Tollerton and Novator.

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. The amended milestones alloted for the year 2007 were met.

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.