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, 2007

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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. ('the Company') as at June 30, 2007 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. The consolidated financial statements for the financial year ended 31 December 2006 were subject to an audit by an auditor acting for another authorised audit firm who issued a unqualified opinion, on these consolidated financial statements, dated 1 March 2007.

5. 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.

6. Without qualifying our review report we draw attention to the fact that the interim condensed consolidated financial statements of an associate P4 Sp. z o.o. Group which provide a basis for the preparation of the attached interim consolidated financial statements, were reviewed by an auditor acting for another authorised audit firm who issued a review report dated 9 August 2007, drawing the attention to the fact that the interim condensed consolidated financial statements of P4 Sp. z o.o. Group have been prepared on a basis which assumes that the P4 Sp. z o.o. Group will continue as a going concern and which contemplates the recoverability of assets and the satisfaction of liabilities and commitments in the normal course of business. The interim condensed consolidated financial statements of P4 Sp. z o.o. Group do not include any adjustments that might have been necessary if the above assumptions are not appropriate.

7. The convenience translations are disclosed as part of the interim consolidated financial statements. The convenience translation for the six-month period ended June 30, 2007 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2007 of PLN 3.7658 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, 2007

NETIA S.A.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at and for the six-month period ended June 30, 2007

Index to the interim consolidated financial statements

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
as at June 30, 2007

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	June 30, 2007 (PLN)	Convenience Translation June 30, 2007 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	1,458,029	1,419,449	376,932
Intangible assets	8, 9	239,597	257,644	68,417
Investments in associates	10	141,394	155,601	41,320
Deferred income tax assets	25	4,865	4,285	1,138
Available for sale financial assets		10	10	3
Long term receivables	12	484	369	98
Loan origination fees	22	-	2,438	647
Prepaid expenses		3,303	3,137	833
Total non-current assets		**1,847,682**	**1,842,933**	**489,388**
Current assets				
Inventories	11	1,584	2,692	715
Trade and other receivables	12	131,833	132,082	35,073
Prepaid expenses		6,888	8,073	2,144
Derivative financial instruments	14	600	-	-
Financial assets at fair value through profit and loss	15	14,757	-	-
Restricted cash	16	6,100	-	-
Cash and cash equivalents	17	143,586	103,954	27,605
		305,348	**246,801**	**65,537**
Non-current assets classified as held for sale	13	2,329	2,329	618
Total current assets		**307,677**	**249,130**	**66,155**
Total assets		**2,155,359**	**2,092,063**	**555,543**

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, 2007

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	June 30, 2007 (PLN)	Convenience Translation June 30, 2007 (EUR)
EQUITY				
Share capital		389,168	389,168	103,343
Supplementary capital		1,809,434	1,681,358	446,481
Other reserves		29,644	4,769	1,266
Retained earnings		(283,248)	(175,887)	(46,706)
Total capital and reserves attributable to the Company's equity holders	18	**1,944,998**	**1,899,408**	**504,384**
Minority interest	19	6,902	6,369	1,691
Total equity		**1,951,900**	**1,905,777**	**506,075**
LIABILITIES				
Non-current liabilities				
Borrowings	22	-	4,959	1,317
Provisions	20	630	368	98
Deferred income		8,760	8,514	2,261
Deferred income tax liabilities	25	990	1,366	363
Financial guarantee contract	21	558	-	-
Other long term liabilities	23	774	987	262
Total non-current liabilities		**11,712**	**16,194**	**4,301**
Current liabilities				
Derivative financial instruments	14	-	567	151
Borrowings		-	93	25
Trade and other payables	23	168,267	147,986	39,296
Current income tax liabilities		38	85	23
Provisions	20	4,166	4,151	1,102
Financial guarantee contract	21	8,847	4,687	1,245
Deferred income		10,429	12,523	3,325
Total current liabilities		**191,747**	**170,092**	**45,167**
Total liabilities		**203,459**	**186,286**	**49,468**
Total equity and liabilities		**2,155,359**	**2,092,063**	**555,543**

NETIA S.A.
INTERIM CONSOLIDATED INCOME STATEMENT
for the six-month period ended June 30, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)	Convenience Translation Six-month period ended June 30, 2007 (EUR)
Telecommunication revenue	26	201,103	417,184	203,625	406,211	107,868
Radio communication services revenue		2,319	4,618	1,955	3,761	999
Total revenue		**203,422**	**421,802**	**205,580**	**409,972**	**108,867**
Cost of sales	27	(149,863)	(302,447)	(153,985)	(309,026)	(82,060)
Gross profit		**53,559**	**119,355**	**51,595**	**100,946**	**26,807**
Selling and distribution costs	28	(43,017)	(72,937)	(43,579)	(81,536)	(21,652)
General and administration costs	29	(31,990)	(65,053)	(35,899)	(71,197)	(18,906)
Other income	31	1,395	2,536	18,566	29,613	7,864
Other expenses	32	46	(9,577)	-	(4,764)	(1,265)
Other gains / (losses), net	33	10,516	10,342	1,068	3,779	1,004
Operating loss		**(9,491)**	**(15,334)**	**(8,249)**	**(23,159)**	**(6,148)**
Finance income	34	2,324	5,401	1,194	3,010	799
Finance costs	34	(1,835)	(3,548)	(33)	(61)	(16)
Share of losses of associates	10	(4,650)	(7,727)	(42,994)	(68,612)	(18,220)
Loss before income tax		**(13,652)**	**(21,208)**	**(50,082)**	**(88,822)**	**(23,585)**
Income tax benefit / (charge)	25	988	(2,094)	(928)	10	3
Loss		**(12,664)**	**(23,302)**	**(51,010)**	**(88,812)**	**(23,582)**
Attributable to:						
Equity holders of the Company		(12,828)	(23,609)	(51,085)	(88,940)	(23,616)
Minority interest		164	307	75	128	34
		(12,644)	**(23,302)**	**(51,010)**	**(88,812)**	**(23,582)**
Basic earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)	36	**(0.03)**	**(0.06)**	**(0.13)**	**(0.23)**	**(0.06)**
Diluted earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)	36	**(0.03)**	**(0.06)**	**(0.13)**	**(0.23)**	**(0.06)**

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	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2006		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Issuance of series J shares		7,662	-	11,723	-	-	-	-	19,385
Cost of issuance *		-	-	(175)	-	-	-	-	(175)
Employee share option scheme:									
- value of services provided		-	-	-	-	355	-	-	355
- issuance of series K shares		1,053	-	601	-	(1,483)	-	-	171
Coverage of negative difference in retained earnings related to adoption of International Financial Reporting Standards by Netia S.A.		-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend		-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital................		-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital		-	-	-	20,312	-	(20,312)	-	-
Transfer related to repurchase of series C and E shares		-	-	2,343	469	(2,812)	-	-	-
Decrease of share capital		(28,162)	122,806	(2,343)	(120,463)	28,162	-	-	-
Profit / (Loss)		-	-	-	-	-	(23,609)	307	(23,302)
Balance as at June 30, 2006		**389,168**	**-**	**1,666,216**	**143,218**	**28,792**	**72,051**	**6,656**	**2,306,101**

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2007		**389,168**	**-**	**1,666,216**	**143,218**	**29,644**	**(283,248)**	**6,902**	**1,951,900**
Cash flow hedges, net of tax	18	-	-	-	-	(945)	-	-	(945)
Dilution gain in associate	10	-	-	-	40,102	-	-	-	40,102
Difference between purchase price and book value of minority	8	-	-	-	-	-	(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	18	-	-	-	-	4,232	-	-	4,232
Transactions with minorities.................	8	-	-	-	-	-	-	(661)	(661)
Coverage of Netia's 2006 loss.............	18	-	-	(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**

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

The total income and expense for the six-month period ended June 30, 2006 recognized in the equity are equal to the profit / (loss) for the period.

NETIA S.A.
INTERIM CONSOLIDATED CASH FLOW STATEMENT
for the six-month period ended June 30, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Six-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2007 (PLN)	Convenience Translation Six-month period ended June 30, 2007 (EUR)
Cash flows from operating activities:				
Loss		**(23,302)**	**(88,812)**	**(23,582)**
Adjustments for:				
Depreciation and amortization	7, 9	132,539	140,004	37,178
Impairment charges for specific individual assets		5,687	-	-
Reversal of impairment charges		(390)	-	-
Share of losses of associates	10	7,727	68,612	18,220
Deferred income tax charge / (benefit)	25	1,906	(195)	(52)
Reassessment of the carrying value of license fee liabilities		(10,437)	-	-
Interest expense accrued on license liabilities		3,395	-	-
Financial guarantee contract	21	-	(2,630)	(698)
Interest accrued on loans		-	(24)	(6)
Share-based compensation	18	526	4,232	1,124
Fair value gains on financial assets at fair value through profit and loss	15, 34	(1,135)	(21)	(6)
Decrease / (increase) in other long term assets		323	-	-
Foreign exchange (gains) / losses		2,462	(325)	(91)
Gain on sale of fixed assets	33	(2,205)	(1,234)	(328)
Decrease of purchase consideration	8	-	(1,940)	(515)
Gain on sale of subsidiaries	33	(20)	-	-
Changes in working capital	38	15,284	(406)	(107)
Net cash provided by operating activities		**132,360**	**117,261**	**31,137**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(83,102)	(110,161)	(29,253)
Proceeds from sale of fixed assets		896	4,169	1,107
Investment in associate	10	(27,000)	(44,805)	(11,898)
Purchase of subsidiary, net of cash received	8	(51)	(26,362)	(7,000)
Other long term investments (including restricted cash)	16	(61,538)	-	-
Sale of subsidiaries, net of cash in subsidiaries		25	-	-
Sale of financial assets at fair value through profit and loss	15	8,411	14,777	3,924
Loan repayments		-	139	37
Net cash used in investing activities		**(162,359)**	**(162,243)**	**(43,083)**
Cash flows from financing activities:				
Proceeds from share issuance		19,385	-	-
Cost of share issuance		(175)	-	-
Dividend paid to the Company's shareholders	37	(50,323)	-	-
Finance lease payments		(99)	(68)	(18)
Proceedes from borrowings	22	-	5,000	1,328
Redemption of notes for warrants		(334)	(1)	(0)
Net cash used in / provided by financing activities		**(31,546)**	**4,931**	**1,310**
Exchange gains on cash and cash equivalents		**166**	**326**	**87**
Net change in cash and cash equivalents		**(61,379)**	**(39,725)**	**(10,549)**
Cash and cash equivalents at beginning of period		197,387	143,586	38,129
Cash and cash equivalents at end of period		**136,008**	**103,861**	**27,580**

(All amounts in thousands, except as otherwise stated)

1. The Company and the Netia Group

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

The interim consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2007 comprise the Company and its subsidiaries. A list of the Company's subsidiaries is set out in Note 2.

These interim consolidated financial statements were approved for issuance by the Company's Management Board on August 11, 2007.

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

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

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

To further broaden Netia's product offer, including convergent services, Netia intends to offer mobile services. On May 9, 2005 the Company's current associate, P4 Sp. z o.o. ("P4") (until August 23, 2005 the Company's subsidiary, see also Note 10 and 41), was announced the winner of the UMTS tender, organized by the Polish regulator. In March 2007 P4 began commercial service offering a range of mobile telephony services under the brand name "Play".

On October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (currently operating under the name "Netia WiMax S.A.", "Netia WiMax"), received the reservation of the 3.6-3.8 GHz frequencies. Since 2006, the Netia Group has been using these frequencies to provide broadband data and voice transmission services based on WiMAX technology.

Taking advantage of the new opportunities arising from changes in the regulatory environment, the Company concluded a bitstream agreement with Telekomunikacja Polska S.A. ("TP SA") and commercially launched its broadband Internet access services over TP SA's network in January 2007. On June 30, 2007 the Company concluded an interconnect agreement with TP SA that introduces new rules of cooperation with regard to both operators networks' connection and mutual exchange of telecommunications traffic, and sets the new rules of interconnection settlements. This agreement will become binding as of September 30, 2007.

The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its 62.2% owned subsidiary (see Note 8), UNI-Net Sp. z o.o.

In June 2007 the Netia Group acquired three internet service providers: KOM-Net Systemy Komputerowe Sp. z o.o., Lanet Sp. z o.o. and Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o. (see Note 8).

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, 2007, the Company's equity amounted to PLN 1,905,777 and the Netia Group had working capital of PLN 79,038. In 2006 the Company performed an impairment test for the telecommunications segment. The test resulted in an impairment charge of PLN 354,672, which was recognized in the consolidated statement of operations for the year ended December 31, 2006. Since 2004 the Netia Group has been generating positive cash flows from operating activities and as at June 30, 2007 it had net cash available of PLN 98,861. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. Significant subsidiaries and associates of the Company

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

Subsidiary	Ownership Percentage December 31, 2006	Ownership Percentage June 30, 2007
Subsidiaries held directly:		
UNI-Net Sp. z o.o.	58	62
Netia WiMax S.A. (previously Netia WiMax II S.A.)	100	100
Świat Internet S.A.	100	100
Netia Mobile Sp. z o.o.	100	100
InterNetia Sp. z o.o.	100	100
Pro Futuro S.A.*	100	N/A
KOM-NET Systemy Komputerowe Sp. z o.o.**	-	100
Lanet Sp. z o.o.**	-	100
Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o**	-	100
Subsidiaries held indirectly:		
Premium Internet S.A.	100	100

* *merged with Netia*
** *see Note 8*

The Company has one associate company, P4 Sp. z o.o. Group, in which it held an indirect 23.4% interest (see Notes 10 and 41) via its 100% subsidiary Netia Mobile Sp. z o.o.

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

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

3. Summary of significant accounting policies

Basis of preparation

Following the 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, 2007 there are no differences as regards policies adopted by the Netia Group between these standards and International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board.

These 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 condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2006, except for new accounting standards adopted as of January 1, 2007.

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.

Certain Group entities (KOM-Net Systemy Komputerowe Sp. z o.o., Lanet Sp. z o.o., Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.) 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 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 amounts in thousands, except as otherwise stated)

All Euro amounts shown as supplementary information in the interim 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, 2007 of PLN 3.7658 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.

Reclassifications of comparatives

The interim consolidated income statement for the six-month period ended June 30, 2007 is presented in a new format, using the function of expense method. Expenses are classified according to their function as part of either cost of sales, cost of selling and distribution or as cost of administrative activities. Management considers that formatting according to the function of expense method provides more pertinent information about the Company.

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

	Cost of sales	Selling and distribution costs	General and administration costs	Other expenses
	(PLN)	(PLN)	(PLN)	(PLN)
Interconnection charges	(105,243)	-	-	-
Services purchased				
Professional services	(25)	(4,134)	(5,479)	(3,890)
Advertising and promotion expenses	(17)	(14,462)	(847)	-
Cost of rented lines and network maintenance	(36,278)	(270)	(981)	-
Information technology services	-	(2,710)	(4,823)	-
Office and car maintenance	(723)	(271)	(3,790)	-
Insurance	(977)	(197)	(1,976)	-
Mailing services	(27)	(2,833)	(217)	-
Travel and accommodation	(717)	(781)	(890)	-
Other services	(1,497)	(4,938)	(2,538)	-
Salaries and benefits	(12,700)	(24,398)	(30,094)	-
Depreciation of fixed assets	(102,091)	(1,713)	(3,886)	-
Amortization of intangible assets	(12,758)	(9,025)	(3,066)	-
Other expenses				-
Taxes and fees	(23,747)	(101)	(2,204)	-
Provision for impaired receivables	-	(6,621)	-	-
Materials and energy	(3,034)	(270)	(1,212)	-
Other operating costs	(2,613)	(213)	(3,050)	-
Impairment charges for non-current assets	-	-	-	(5,687)
Total	**(302,447)**	**(72,937)**	**(65,053)**	**(9,577)**

Furthermore, the Netia Group's deferred income includes government's grants relating to certain fixed telecommunications network, which are recognized as income over the useful life of the related assets. As at June 30, 2007, government's grants of PLN 618 were recognized as long term deferred income. The comparative amount of PLN 644 presented in these interim consolidated financial statements has been reclassified to conform to the current presentation.

Changes in estimates

In the six-month period ended June 30, 2007 the Netia Group reassessed the useful lives of its property, plant and equipment and intangible assets, and in consequence, for certain subcategories of buildings, fixed telecommunications network, telecommunications equipment, machinery and equipment, office furniture and equipment, and computer software the remaining period over which they will be depreciated or amortized was shortened (in most cases) and depreciation rates were changed accordingly.

(All amounts in thousands, except as otherwise stated)

The following table summarizes main changes in these estimates:

Non-current assets	Main changes in the period of depreciation / amortization	Additional charge recognized in current period	Relevant increase in the depreciation / amortization charge for the remaining period in 2007
		(PLN)	(PLN)
Buildings	- certain leasehold improvements - until the end of 2007	231	(5)
Fixed telecommunications network	- until the end of June 2007	21	(2)
Telecommunications equipment (mainly narrowband radio equipment)	- narrowband radio equipment - until the end of September 2007 - certain switches - until the end of 2007 - certain radiolinks - until the end of 2010 - certain other transmission equipment - depreciation period was shortened from 15 years to 8 or 5 years	22,823	11,319
Machinery and equipment	- certain machinery - depreciation period was shortened from 12 to 8 years	166	166
Office furniture and equipment	- certain computers - until the end of March 2007 - other office equipment - until January 2009	222	(43)
Total property, plant and equipment		**23,463**	**11,435**
Computer software	- certain software - until the end of 2007	503	40
Total non-current assets		**23,966**	**11,475**

New standards, interpretations and amendments to existing standards

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

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

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

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

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

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

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

- IFRIC 11, 'IFRS 2: Group and Treasury Share Transactions', effective for annual periods beginning on or after March 1, 2007. IFRIC 11 provides guidance on applying IFRS 2 in share-based payment involving an entity's own equity instruments in which the entity chooses or is required to buy its own equity instruments (treasury shares) to settle the share-based payment obligation, a parent grants rights to its equity instruments to employees of its subsidiary and when a subsidiary grants rights to equity instruments of its parent to its employees. Management is currently assessing the impact of IFRIC 11 on the Netia Group's operations;

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

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

- IFRIC 14, 'IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction', effective for annual periods beginning on or after January 1, 2008. IFRIC 14 addresses the interaction between a minimum funding requirement and the limit placed by paragraph 58 of IAS 19 "Employee Benefits' on the measurement of the defined benefit asset or liability. Management is currently assessing the impact of IFRIC 14 on the Netia Group's operations;

- 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.

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.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Property, plant and equipment

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

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

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

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

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

Land and fixed assets under construction are not depreciated.

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

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

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

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

Non-current assets classified as held for sale

Non-current assets are classified as held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is recovered principally through a sale transaction rather than through continuing use.

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 June 30,2007 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. The Netia Group allocates goodwill to the entire Netia Group.

(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 the fair value of the employee services received in exchange for the grant of options is recognized as an employee benefit expense with a corresponding increase in other reserves. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, with a corresponding adjustment to other reserves.

Retirement benefits

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

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

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

Provisions

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

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

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

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

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

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

Trade payables

Trade payables are recognized initially at fair value and subsequently measured at amortised cost using 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 classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs

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

Revenue

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

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

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

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

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

Deferred income

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

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

Interconnection charges

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

Interest income

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

Deferred income taxes

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

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

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

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

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

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

Dividend distribution

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

4. Financial risk management

Financial risk factors

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

Market risk

- Currency risk:

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

At June 30 2007, if the Polish Zloty 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 343 lower (higher).

At June 30 2006, if the Polish Zloty had weakened (strengthened) by 1% against Euro with all other variables held constant, consolidated loss for the six-month period ended June 30, 2006 would have been PLN 168 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. Additionally, consolidated loss for the six-month period ended June 30, 2006 would have been PLN 486 higher (lower) as a result of foreign exchange gains (losses) on translation of Euro denominated licence liabilities (cancelled in December 2006).

(All amounts in thousands, except as otherwise stated)

At June 30 2007, if the Polish Zloty had weakened (strengthened) by 1% against the U.S. Dollar with all other variables held constant, consolidated loss for the six-month period ended June 30, 2007 would have been PLN 48 (PLN 197 for the corresponding period in 2006) lower (higher), mainly as a result of foreign exchange gains (losses) on translation of U.S. Dollar denominated cash deposits and trade receivables, partially offset by U.S. Dollar denominated trade and investment payables.

- Interest rate risk:

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

In May 2007, the Company entered into a credit facility agreement, 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 dynamic basis. Various scenarios are simulated taking into consideration refinancing and hedging. Based on these scenarios, the Group calculates the impact on borrowing costs of a defined interest rate shift. If the market interest rates had been 100 basis points higher (lower) at June 30, 2007, borrowing costs would have been PLN 6 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 2007. Cash transactions are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history. For wholesale (in particular international carriers) and large business customers credit rating and scoring tools are used. For these customers transactions are only concluded with recognised, creditworthy counterparties or credit collaterals are established. In addition receivables from the bulk business are managed separately. Retail customers verification and dunning processes are more automatic and base on CRM and billing systems functionalities. Utilisation of the usage limits, sales limits and receivables balances are monitored on an ongoing basis and if necessary further business with customer that exceeds its limit is ceased.

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

Liquidity risk

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

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

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

	Less than 1 year (PLN)	Between 1 and 2 years (PLN)	Between 2 and 5 years (PLN)	Over 5 years (PLN)
As at June 30, 2007				
Bank borrowings	93	1,248	3,752	-
Derivative financial instruments	720	-	-	-
Trade and other payables	147,986	213	144	630
As at December 31, 2006				
Trade and other payables	168,267	37	106	631

(All amounts in thousands, except as otherwise stated)

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet date 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, 2007				
Forward foreign exchange contracts – cash flow hedges:				
- inflow	49,533	-	-	-
- outflow	(50,253)	-	-	-
As at December 31, 2006				
Forward foreign exchange contracts – cash flow hedges:				
- inflow	87,066	-	-	-
- outflow	(86,466)	-	-	-

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.

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, 2007, including tax projections, the recognized deferred income tax assets as at June 30, 2007 amounted to PLN 2,919.

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

(b) Impairment of investments in associates

As at June 30, 2007 the Netia Group assessed whether there are any indications that investments in associates may be impaired. The Netia Group's only investment in an associate is P4, the holder of a UMTS license. After assessing both the external and internal sources of information, the Management concluded that no such indication exists.

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

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

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

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

As at June 30, 2007 the Netia Group assessed whether there was any indication that the impairment loss recognized for non-current assets in the prior year 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 the impairment loss recorded in 2006.

(d) Useful lives of non-current assets

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

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

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

(e) Financial guarantee

The valuation of fair value of the financial guarantee contract (see Note 21) requires the Netia Group to make estimates about expected future cash flows, discount rates and probability of default, and hence they are subject to uncertainty.

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

(f) Customer relationships

In 2006 and 2007 the Netia Group acquired Pro Futuro and three internet service providers (see Note 8). In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset. The fair value of customer relationships was estimated using the excess earnings method. This method considers the present value of the future economic benefits that will flow to an owner of an intangible asset. This analysis requires certain assumptions including: the expected annual cash flows, the period in which the economic benefits will flow to the owner and the risk-adjusted discount rate.

(g) Dilution gain in the associate

Following the provisions of the investment agreement and the amended shareholders agreement (see Note 41), P4, the Netia Group's associate, increased its share capital in exchange for an in-kind contribution made by a new shareholder. A dilution gain of PLN 40,102, arising on that transaction was based on P4's provisional fair valuation of the issued shares. However, if any of the key assumptions used for the estimation were to change, P4 might have recognized total purchase consideration in a different amount. Then the dilution gain recognized by the Netia Group would change accordingly. If the rate of perpetuity growth of free cash flows after 2015, used by P4 in determining the fair value of shares issued, was reduced by 2 p.p., the dilution gain would amount to PLN 22,409. If the rate of perpetuity growth of free cash flows after 2015 was increased by 2 p.p., the dilution gain would amount to PLN 63,894. If additional risk premium for P4 was reduced by 1 p.p., the dilution gain would amount to PLN 72,279. If additional risk premium for P4 was increased by 1 p.p., the dilution gain would amount to PLN 14,868.

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

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 in the interim consolidated income statement for the six-month period ended June 30, 2007. 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.

As a result of the settlement of interconnection related disputes between Netia and TP SA, signed on December 22, 2006, and interconnection agreement signed on June 30, 2007, PLN 24,239 was recorded as other income in the interim consolidated income statement for the six-month period ended June 30, 2007.

Due the accession of a new shareholder to P4 and its contribution to P4's capital (see Note 41) during the six-month period ended June 30, 2007, the Netia Group recognized a dilution gain of PLN 40,102 and recorded it directly in equity.

(All amounts in thousands, except as otherwise stated)

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 December 31, 2006	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 and other movements	(307)	-	554	(2,736)	2,341	(879)	(415)	(405)	(1,847)
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 December 31, 2006	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 and other movements	(263)	-	145	(1,111)	1,106	(798)	(281)	-	(1,202)
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 December 31, 2006	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 and other movements	(47)	-	186	(663)	524	(79)	(18)	(1,412)	(1,509)
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 December 31, 2006	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**

(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 December 31, 2005	73,272	17,684	1,855,368	1,488,393	82,439	138,948	17,369	72,855	3,746,328
Additions	-	-	2	403	191	811	2,294	36,071	39,772
Transfers	98	-	9,570	23,818	1,219	4,344	44	(39,093)	-
Transfers to non-current assets held for sale	(1,079)	(1,363)	(2,464)	-	-	-	-	-	(4,906)
Disposals and other movements	117	-	(937)	(5,849)	(2,853)	(18,863)	(5,877)	(109)	(34,371)
Gross book value as at June 30, 2006	72,408	16,321	1,861,539	1,506,765	80,996	125,240	13,830	69,724	3,746,823
Accumulated depreciation as at December 31, 2005	17,645	-	511,946	473,690	49,268	110,087	8,420	-	1,171,056
Depreciation expense	1,508	-	37,816	59,260	2,603	5,612	891	-	107,690
Transfers to non-current assets held for sale	(141)	-	(583)	-	-	-	-	-	(724)
Disposals and other movements	12	-	(6)	(1,704)	(5,492)	(17,692)	(5,187)	-	(30,069)
Accumulated depreciation as at June 30, 2006	19,024	-	549,173	531,246	46,379	98,007	4,124	-	1,247,953
Accumulated impairment as at December 31, 2005	14,481	4,821	491,023	274,558	9,898	10,667	874	2,039	808,361
Impairment charge for specific assets	-	-	1	4,703	10	-	-	-	4,714
Reversal of impairment charge	-	-	-	-	-	-	-	(317)	(317)
Transfers	-	-	-	-	10	-	-	(10)	-
Transfers to non-current assets held for sale	-	(379)	(501)	-	-	-	-	-	(880)
Disposals and other movements	2	-	(247)	(1,180)	575	(555)	(509)	(46)	(1,960)
Accumulated impairment as at June 30, 2006	14,483	4,442	490,276	278,081	10,493	10,112	365	1,666	809,918
Net book value as at December 31, 2005	41,146	12,863	852,399	740,145	23,273	18,194	8,075	70,816	1,766,911
Net book value as at June 30, 2006	**38,901**	**11,879**	**822,090**	**697,438**	**24,124**	**17,121**	**9,341**	**68,058**	**1,688,952**

(All amounts in thousands, except as otherwise stated)

The transfers recorded in the six-month period ended June 30, 2007 mainly relate to transfers from fixed assets under construction to fixed assets due to the completion of construction.

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management amounting to PLN 5,608, and PLN 4,992 were capitalized to network under construction during the six-month period ended June 30, 2007 and June 30, 2006, respectively. Furthermore, during the six-month period ended June 30, 2007 the Company capitalized PLN 34 of borrowing costs.

The net carrying value of assets held under finance lease as at June 30, 2006 and June 30, 2007 is presented below:

	June 30, 2006 (PLN)	June 30, 2007 (PLN)
Fixed telecommunications network	427	-
Telecommunications equipment	-	861
Vehicles	-	14
	427	**875**

8. Acquisitions

KOM-Net Systemy Komputerowe Sp. z o.o.

On June 6, 2007, the Company purchased 100% of the share capital of KOM-Net Systemy Komputerowe Sp. z o.o. (“KOM-Net”), an internet service provider, for a total of PLN 9,418.

The Netia Group accounted for the acquisition of KOM-Net using the purchase method and started consolidating the financial statements of KOM-Net as of June 1, 2007 adjusting the consolidated statements of operations and the consolidated balance sheet for material transactions, which took place between June 1, 2007 and June 6, 2007. The acquired business contributed revenue of PLN 363 and profit of PLN 109 in the one-month period ended June 30, 2007, after taking into account intercompany eliminations. If the acquisition had occurred on January 1, 2007, the Netia Group’s telecommunication revenue would have amounted to PLN 408,044, and loss would have been PLN 88,496.

In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset and recorded related deferred income tax. The fair value of customer relationships was estimated using excess earnings method. The provisional fair values of other assets, liabilities and contingent liabilities acquired are based on amounts from KOM-Net historical accounting records and will therefore be subject to adjustments as additional information is obtained. Such additional information may include reports from valuation specialists, information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review of these assets, liabilities and contingent liabilities will be performed during the course of the period ending December 31, 2007, which may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date.

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

	(PLN)
Purchase consideration, including transaction costs of PLN 191	9,609
Provisional fair value of net assets acquired	(3,420)
Goodwill	**6,189**

The goodwill is based on provisional fair value of net assets acquired and is attributable to the significant synergies expected to arise after the Netia Group’s acquisition of KOM-Net.

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

	(PLN)
Property, plant and equipment	793
Customer relationships	2,955
Deferred income tax asset	4
Inventories	71
Receivables	163
Prepayments	47
Cash and cash equivalents	377
Trade liabilities	(63)
Other liabilities and accruals	(366)
Deferred income tax liabilities	(561)
Provisional fair value of net assets acquired	**3,420**

(All amounts in thousands, except as otherwise stated)

	(PLN)
Total purchase consideration settled in cash	(9,609)
Cash and cash equivalents in the subsidiary acquired	377
Cash outflow on acquisition	**(9,232)**

The provisional fair values of assets, liabilities and contingent liabilities are equal to the carrying amounts of these assets, liabilities and contingent liabilities immediately before the acquisition.

The investment in KOM-Net shares is of a long-term nature.

Lanet Sp. z o.o.

On June 6, 2007, the Company purchased 100% of the share capital of Lanet Sp. z o.o. ("Lanet"), an internet service provider, for a total of PLN 10,076.

The Netia Group accounted for the acquisition of Lanet using the purchase method and started consolidating the financial statements of Lanet as of June 1, 2007 adjusting the consolidated statements of operations and the consolidated balance sheet for material transactions, which took place between June 1, 2007 and June 6, 2007. The acquired business contributed revenue of PLN 394 and loss of PLN 41 in the one-month period ended June 30, 2007, after taking into account intercompany eliminations. If the acquisition had occurred on January 1, 2007, the Netia Group's telecommunication revenue would have amounted to PLN 408,613, and loss would have been PLN 88,868.

In the purchase price allocation process the Netia Group identified customer relationships as an intangible asset and recorded related deferred income tax. The fair value of customer relationships was estimated using excess earnings method. The provisional fair values of other assets, liabilities and contingent liabilities acquired are based on amounts from Lanet historical accounting records and will therefore be subject to adjustments as additional information is obtained. Such additional information may include reports from valuation specialists, information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review of these assets, liabilities and contingent liabilities will be performed during the course of the period ending December 31, 2007, which may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date.

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

	(PLN)
Purchase consideration, including transaction costs of PLN 197	10,273
Provisional fair value of net assets acquired	(1,664)
Goodwill	**8,609**

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

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

	(PLN)
Property, plant and equipment	1,826
Customer relationships	1,884
Deferred income tax asset	5
Inventories	178
Receivables	260
Prepayments	77
Cash and cash equivalents	114
Bank overdraft	(93)
Trade liabilities	(706)
Other liabilities and accruals	(1,304)
Deferred income	(219)
Deferred income tax liabilities	(358)
Provisional fair value of net assets acquired	**1,664**

	(PLN)
Total purchase consideration settled in cash	(10,273)
Cash and cash equivalents in the subsidiary acquired	114
Bank overdraft	(93)
Cash outflow on acquisition	**(10,252)**

The provisional fair values of assets, liabilities and contingent liabilities are equal to the carrying amounts of these assets, liabilities and contingent liabilities immediately before the acquisition.

The investment in Lanet shares is of a long-term nature.

(All amounts in thousands, except as otherwise stated)

Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o.

On June 21, 2007, the Company purchased 100% of the share capital of Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o. ("Magma"), an internet service provider, for a total of PLN 7,941.

The Netia Group accounted for the acquisition of Magma using the purchase method and started consolidating the financial statements of Magma as of June 30, 2007 adjusting the consolidated statements of operations and the consolidated balance sheet for material transactions, which took place between June 21, 2007 and June 30, 2007. If the acquisition had occurred on January 1, 2007, the Netia Group's telecommunication revenue would have amounted to PLN 407,913, and loss would have been PLN 88,682.

The provisional fair values of assets, liabilities and contingent liabilities acquired are based on amounts from Magma historical accounting records and will therefore be subject to adjustments as additional information is obtained. Such additional information may include reports from valuation specialists, information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review of these assets, liabilities and contingent liabilities will be performed during the course of the period ending December 31, 2007, which may result in further adjustments to the carrying amounts of identifiable net assets as at the acquisition date. 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 excess earnings method.

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

	(PLN)
Purchase consideration, including transaction costs of PLN 219	8,160
Provisional fair value of net assets acquired	(2,831)
Goodwill	**5,329**

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

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

	(PLN)
Property, plant and equipment	1,014
Customer relationships	2,429
Other intangible assets	4
Inventories	64
Receivables	74
Prepayments	3
Cash and cash equivalents	42
Trade liabilities	(62)
Other liabilities and accruals	(275)
Deferred income tax liabilities	(462)
Provisional fair value of net assets acquired	**2,831**

	(PLN)
Total purchase consideration settled in cash	(8,160)
Cash and cash equivalents in the subsidiary acquired	42
Cash outflow on acquisition	**(8,118)**

The provisional fair values of assets, liabilities and contingent liabilities are equal to the carrying amounts of these assets, liabilities and contingent liabilities immediately before the acquisition.

The investment in Magma shares is of a long-term nature.

UNI-Net Sp. z o.o.

On January 9, 2007, the Company purchased from the minority shareholders 4% of the share capital of the Company's subsidiary UNI-Net Sp. z o.o. ("UNI-Net"), for a total of PLN 700. As a result of these transactions, the Netia Group holds 62,2% 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 39 was deducted directly from equity.

Pro Futuro S.A.

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

(All amounts in thousands, except as otherwise stated)

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

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

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

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

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

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

Based on the preliminary valuation performed during the year ended December 31, 2006, the Netia Group recognized goodwill of PLN 956, which was fully impaired in 2006. Therefore the decrease in the total purchase price of PLN 1,940 was recognized as a gain in the interim income statement for the six-month period ended June 30, 2007.

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

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

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

	(PLN)
Total purchase consideration settled in cash	(68,926)
Cash and cash equivalents in the subsidiary acquired	638
Cash outflow on acquisition	**(68,288)**

(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 December 31, 2006	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)	-	-
Disposals and 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 December 31, 2006	-	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 December 31, 2006	14,799	159,788	5,878	28,511	3,408	41,054	1,472	207	255,117
Transfers	-	-	-	-	-	1,535	(1,535)	-	-
Disposals and 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 December 31, 2006	-	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**

(All amounts in thousands, except as otherwise stated)

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)	Total (PLN)
Gross book value as at December 31, 2005	13,843	432,823	7,417	107,354	20,329	191,089	11,648	784,503
Additions	-	-	-	-	-	1,648	7,330	8,978
Transfers	-	-	-	-	-	12,181	(12,181)	-
Disposals and other movements	-	-	-	-	-	(103)	-	(103)
Gross book value as at June 30, 2006	13,843	432,823	7,417	107,354	20,329	204,815	6,797	793,378
Accumulated amortization as at December 31, 2005	-	146,661	1,539	35,465	-	97,576	-	281,241
Amortization expense	-	8,756	-	2,469	-	13,624	-	24,849
Disposals and other movements	-	-	-	-	-	(12)	-	(12)
Accumulated amortization as at June 30, 2006	-	155,417	1,539	37,934	-	111,188	-	306,078
Accumulated impairment as at December 31, 2005	-	137,127	5,878	20,517	-	30,310	-	193,832
Disposals and other movements	-	-	-	-	-	(2)	-	(2)
Accumulated impairment as at June 30, 2006	-	137,127	5,878	20,517	-	30,308	-	193,830
Net book value as at December 31, 2005	13,843	149,035	-	51,372	20,329	63,203	11,648	309,430
Net book value as at June 30, 2006	**13,843**	**140,279**	**-**	**48,903**	**20,329**	**63,319**	**6,797**	**293,470**

(All amounts in thousands, except as otherwise stated)

Telecommunication licenses / permits

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

Domestic long distance licenses / permits

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

Data communications and internet licenses / permits

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

WiMAX licenses

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

10. Investments in associates

As of December 31, 2006, the Netia Group had a 30% interest in P4, which was announced as the winner of the mobile telephony UMTS frequency tender in May 2005. On May 24, 2007, upon the accession of a new shareholder, the Netia Group interest in P4 decreased to 23.4% (see Note 41).

P4 controls the following wholly owned subsidiaries: 3G Network Services Sp. z o.o., Germanos Polska Sp. z o.o., Telecommunication Center Mobile Sp z o.o. and Mobile Phone Telecom Sp. z o.o.

The following table summarizes financial information of the associate:

	December 31, 2006 (PLN)	**June 30, 2007 (PLN)**
Assets	567,652	1,040,351
Liabilities	131,342	391,029

	Six-month period ended June 30, 2006 (PLN)	**Six-month period ended June 30, 2007 (PLN)**
Revenue	-	54,713
Loss for the period	(25,755)	(244,099)

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

	Six-month period ended June 30, 2006 (PLN)	**Six-month period ended June 30, 2007 (PLN)**
At the beginning of the period	105,633	141,394
Investment in the associate	27,000	45,000
Dilution gain in associate (see also Note 5)	-	40,102
Financial guarantee contract (see Note 21)	-	(2,088)
Unrealized profits on transaction with associate	(8)	-
Settlement of hedge transaction	-	(195)
Share of loss	(7,727)	(68,612)
At the end of the period	**124,898**	**155,601**

Following the provisions of P4's Shareholders' Agreement (see Note 41), during the six-month period ended June 30, 2007 the Company contributed share capital of PLN 45,000. As a result, the Company is the holder of 11,349 (not in thousands) P4's shares constituting 23.4% of the shares in P4's share capital.

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

The distribution of P4's dividend may occur when certain conditions specified in the facility agreement (described in Note 42) are met.

11. Inventories

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Materials	1,053	759
Less provision for impairment charge	(865)	(342)
Materials, net	188	418
Goods for resale	1,572	2,450
Less provision for impairment charge	(176)	(176)
Goods for resale, net	1,396	2,274
Inventories, net	**1,584**	**2,692**

During the six-month periods ended June 30, 2007 and 2006 the Netia Group recognized PLN 2,661 and PLN 2,317, respectively as the cost of inventories included in "cost of sales". Moreover, the amount of PLN 523 of a previous inventory provision was utilized during the six-month period ended June 30, 2007.

12. Trade and other receivables

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Trade receivables	163,639	140,927
Less provision for impairment of trade receivables	(68,597)	(47,093)
Trade receivables, net	95,042	93,834
Trade receivables from the associate	1,658	2,174
VAT and other government receivables	12,152	12,007
Other receivables	23,311	24,469
Less provision for impairment of other receivables	(608)	(680)
Other receivables, net	22,703	23,789
Loans*	13,421	13,242
Accrued interest *	51,267	53,875
Less provision for impairment of loans and accrued interest*	(63,926)	(66,470)
Loans, net	762	647
	132,317	**132,451**
Of which,		
Current	131,833	132,082
Non-current	484	369

* Loans include a short term loan of PLN 11,500 granted to Millennium Communications S.A. (described in Note 42). As at June 30, 2007 and December 31, 2006 an interest accrued on that loan amounted to PLN 53,791 and PLN 51,214, respectively. The loan and accrued interest were fully provided for.

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

The provision for impairment of the Netia Group's receivables recognized during the six-month periods ended June 30, 2007 and 2006 amounted to PLN 1,185 and PLN 6,621, respectively and was included in "selling and distribution costs" in the consolidated income statement.

(All amounts in thousands, except as otherwise stated)

13. Non-current assets classified as held for sale

	Six-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2007 (PLN)
At the beginning of the period	-	2,329
Net book value of reclassified land	984	752
Net book value of reclassified buildings	2,318	-
Impairment charge (buildings)	(973)	-
Disposal of reclassified land	-	(752)
At the end of the period	**2,329**	**2,329**

Due to the Management decision relating to the disposal of certain non-current assets (land and buildings), as at March 31, 2007 and 2006, the Netia Group reclassified those assets to non-current assets held for sale.

An active program to locate potential buyers was initiated in the first quarter of 2006 and in most cases the interested parties have been found and negotiations are being finalized.

14. Derivative financial instruments

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Forward currency contracts (cash flow hedges) - asset	600	-
Forward currency contracts (cash flow hedges) - liability	-	567
	600	**567**

In December 2006 the Netia Group entered into several forward currency contracts designated as hedges of expected future contributions to P4's capital (see Note 41). Following changes in the Shareholders Agreement and the decrease of the committed amount of future contributions to P4's capital, in the six-month period ended June 30, 2007, the Company closed some of the opened positions of the forward currency contracts and the hedged amount was decreased accordingly. The hedged highly probable forecast transactions denominated in foreign currency are expected to occur at various dates in 2007. The notional principal amount of the outstanding forward currency contracts at June 30, 2007 and December 31, 2006 was EUR 13,175 and EUR 22,700, respectively.

As at June 30, 2007, the outstanding cash flow hedges were assessed to be effective and an unrealised loss of PLN 584, net of tax, was included in hedging reserve in equity.

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets in the balance sheet.

15. Financial assets at fair value through profit and loss

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Financial assets at fair value through profit and loss	14,757	-
	14,757	**-**

The above financial assets were classified as at fair value through profit or loss on initial recognition and were disposed during the six-month period ended June 30, 2007.

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

Changes in fair values of financial assets at fair value through profit and loss were recorded in "Finance income" in the income statement (Note 34).

16. Restricted cash

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

Furthermore, to secure the payment obligations arising pursuant to the provisions of the agreement relating to the acquisition of Pro Futuro (see Note 8), on May 19, 2006 the Company established an escrow account in the amount of PLN 60,967. During the year 2006, payments of PLN 58,467 in total were made from this account. On April 27, 2007, PLN 1,940 out of the total amount of the retention (PLN 2,500) was repaid to the Company and the escrow account was closed.

17. Cash and cash equivalents

	December 31, 2006	June 30, 2007
	(PLN)	(PLN)
Cash at bank and in hand	143,586	103,954
	143,586	**103,954**

The effective interest rate on short-term bank deposits was 3,83% and 3.78%, respectively for the six-month period ended June 30, 2007 and the year ended December 31, 2006.

As at June 30, 2007 and December 31, 2006 the amounts of PLN 1,001 and PLN 1,349, respectively were restricted as they were placed as collateral securing payments to vendors.

In addition, as at June 30, 2007 and December 31, 2006 the amounts of PLN 987 and PLN 397, respectively were excluded from cash and cash equivalents as they were legally reserved for spending on social purposes.

Cash, cash equivalents and bank overdrafts include the following for the purposes of the consolidated cash flow statement:

	December 31, 2006	June 30, 2007
	(PLN)	(PLN)
Cash at bank and in hand	143,586	103,954
Bank overdraft	-	(93)
	143,586	**103,861**

18. Shareholders' equity

Share capital (not in thousands)

At June 30, 2007, the Company's share capital consisted of 389,166,839 ordinary shares and of 1,000 series A1 shares with a par value of PLN 1 per share. Each ordinary share had one vote at shareholders' meetings. The holder of 1,000 series A1 shares had the right to nominate one member of the Supervisory Board. The majority of votes of the Supervisory Board elect the Management Board. The Company's share capital has not changed since December 31, 2006.

All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these interim consolidated financial statements.

	Number of shares authorized and issued (not in thousands)	Share capital
		(PLN)
At January 1, 2006	**408,614,873**	**408,615**
Exchange of warrants for series J shares	7,662,385	7,662
Issuance of series K shares	1,052,691	1,053
Redemption of shares	(28,162,110)	(28,162)
At June 30, 2006	**389,167,839**	**389,168**
At June 30, 2007	**389,167,839**	**389,168**

According to the information provided to the Company by its shareholders, as at June 30, 2007 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	Number of shares (not in thousands)	% of share capital
Novator Telecom Poland II S.a.r.l.	106,047,505	27.25
Third Avenue Management LLC	71,660,517	18.41
SISU Capital Limited and related entities	39,043,006	10.03
Shares held by public and other shareholders	172,416,811	44.31
	389,167,839	**100.00**

Share premium, other supplementary capital and other reserves

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

	Employee share option scheme (PLN)	Separate reserve capital (PLN)	Hedging reserve (PLN)	Total (PLN)
Balance as at January 1, 2006	1,758	-	-	1,758
Employee share option scheme:				
- value of services provided	355	-	-	355
- issuance of series K shares	(1,483)	-	-	(1,483)
Appropriation of Netia's 2005 net profit:				
- transfer to reserve capital	-	2,812	-	2,812
Transfer related to repurchase of series C and E shares	-	(2,812)	-	(2,812)
Decrease of share capital	-	28,162	-	28,162
Balance as at June 30, 2006	**630**	**28,162**	**-**	**28,792**
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**

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, 2007 of PLN 5,651, the distributable reserve, as at June 30, 2007, amounted to PLN nil.

Stock options (number of options not in thousands)

In the six-month period ended June 30, 2007 the following changes took place in the number of options granted under the Plan:

	Six-month period ended June 30, 2006		Six-month period ended June 30, 2007	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	3.06	2,776,650	4.44	1,935,149
Granted	-	-	6.64	42,075,000
Exercised	2.59	(1,817,188)	-	-
At the end of the period	**3.94**	**959,462**	**6.54**	**44,010,149**

(All amounts in thousands, except as otherwise stated)

As at June 30, 2007 the total number of options approved for issue by the Supervisory Board was 57,346,220 as compared to 15,271,220 as at December 31, 2006. Out of these approved options 44,010,149 options were outstanding as at June 30, 2007 and 2,206,963 options were outstanding as at December 31, 2006. As at June 30, 2007 and December 31, 2006, the total number of vested options was 687,648. The vesting period for the options is up to three years from the date of grant. As at June 30, 2007, the weighted average remaining contractual life of the outstanding options was 5 years. All the outstanding options are exercisable until December 20, 2012 (exept for 687,648 vested options and 543,628 unvested options, issued prior to the date when the Supervisory Board extended the period when options may be exercised. That will expire on December 20, 2007). 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, representing the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.12 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 (2 - 7 years), time to vest, expected volatility of the share price returns (21.32% - 47.14%), employee exit rate, exercise multiple (1.5) and the risk free interest rate at the date of the grant (ranging from 4.13% to 5.93%). The expected volatility is based on historical volatility. The cost of options recorded in the six-month periods ended June 30, 2007 and 2006 amounted to PLN 4,232 and PLN 355, respectively.

19. Minority interest

	Six-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2007 (PLN)
At the beginning of the period	6,349	6,902
Share of net profit of subsidiaries	307	128
Transactions with minorities (see Note 8)	-	(661)
At the end of the period	**6,656**	**6,369**

20. Provisions

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Loss on rental contract	1,099	866
Claims and tax assessments	3,189	3,489
Restructuring	508	164
	4,796	**4,519**
Of which,		
Current	4,166	4,151
Non-current	630	368
	4,796	**4,519**

	Loss on rental contracts (PLN)	Claims and tax assessments (PLN)	Restructuring (PLN)	Total (PLN)
As at January 1, 2007	1,099	3,189	508	4,796
Charged/(Credited) to the income statement	-	300	(70)	230
Used during the period	(288)	-	(274)	(562)
Discount unwinding (charged to the income statement)	55	-	-	55
As at June 30, 2007	**866**	**3,489**	**164**	**4,519**

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.

(All amounts in thousands, except as otherwise stated)

Claims and tax assessments

The amounts represent a provision for a contractual penalty due to delays in the performance of a contract and a provision for a potential income tax liability. 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 is unable to determine the timing of cash outflows related to the tax liability with reasonable accuracy.

Restructuring

As at June 30, 2007, the provision for restructuring amounted to PLN 164. It was recorded in connection with the restructuring of headcount of Pro Futuro acquired in July 2006. The provision was created for those committed redundancies where the employment contract has not been yet terminated. The Netia Group expects that the cash outflows relating to this provision will be incurred during 2007.

21. Financial guarantee contract

On October 31, 2006 the Company concluded a number of agreements partially securing the repayment of the credit facility of EUR 150,000 granted to P4 by China Development Bank (see Note 42). 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 41) the agreement was amended and the guaranteed amount decreased to EUR 21,060. The guarantee covers the repayment of 23.4% (previously 30%) of the outstanding amounts under one of the tranches of the credit facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). The amount of guarantee will be reduced gradually as the network assets are put into commercial service.

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 be granted to P4, had P4 requested such a credit rating. The discount rate (of 10%) was based on the estimated risk adjusted cost of capital. The time horizon used in this analysis is directly related to the planned network build out (with the result that the guarantee is assumed to expire in 2008).

Changes in the value of the financial guarantee contract during the six-month period ended June 30, 20007 are presented below:

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

Fair value of the financial guarantee contract as at June 30, 2007 amounted to PLN 5,247.

22. Borrowings

	December 31, 2006	**June 30, 2007**
	(PLN)	**(PLN)**
Non-current		
Bank loan	-	4,959
	-	**4,959**
Current		
Bank overdraft	-	93
Unpaid interest on bank loan	-	34
	-	**5,086**

Bank loan

On May 15, 2007 the Company entered into a PLN 300,000 credit facility agreement with Rabobank Polska SA (the "Bank") as arranger, credit facility agent, security agent and lender (the "Facility"). The Facility is to be repaid by November 15, 2011. The proceeds from the Facility will be used to finance Netia's capital expenditures and current operations and may be drawn down until November 15, 2008. As at June 30, 2007 there was one draw down of PLN 5,000 under this Facility.

The Facility bears interest at a variable interest rate of WIBOR plus a margin dependant on financial ratios. Moreover, the Company must pay a commitment fee computed at the rate of 0.75% per annum on the undrawn, uncancelled amount of the Facility commitment. The borrowing is measured at amortized cost using an effective interest rate. As at June 30, 2007 total transaction costs amounted to PLN 2,482, out of wich PLN 41 releted to the first drawn down and were included in the calculation of the effective interest rate. In the six-month period ended June 30, 2007 the effective interest rate was 6,06%. The carrying amount of the borrowings approximates their fair value and the discount rate for the fair value calculation approximates the effective interest rate.

(All amounts in thousands, except as otherwise stated)

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

Bank overdraft

Following the acquisition of Lanet (see Note 8) the Netia Group acquired an overdraft from Raiffeisen Bank Polska S.A. in the amount of PLN 93. The loan was repaid in July 2007. The fair value of current borrowings equals their carrying amount, as the impact of discounting is not significant. The fair value is based on cash flows discounted using a rate based on the borrowing rate of 1W WIBOR plus 4.5%.

Undrawn borrowing facilities

On November 6, 2006, Netia entered into two one-year financing agreements with Bank Handlowy w Warszawie SA. Netia has secured an overdraft facility in the amount of PLN 40,000 and a term loan facility of PLN 160,000. On December 29, 2006 the PLN 160,000 loan facility was reduced to PLN 60,000. During the six-month period ended June 30, 2007 the facility agreements were terminated. There were no drawdowns under these facilities.

23. Trade and other payables

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Trade payables	56,030	33,035
Investment payables	62,128	44,254
Accrued expenses (see Note 24)	41,489	51,051
VAT and other taxes	4,445	16,427
Retirement severance payments	530	530
Finance lease payments	-	974
Other payables	4,419	2,702
	169,041	**148,973**
Of which,		
Current	168,267	147,986
Non-current	774	987

Retirement severance payments

The provision for retirement severance payments was calculated by an independent actuary as at December 31, 2006, 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% and a salary increase rate of 2%. Retirement severance payments will be paid on the Netia Group's employees' retirement.

24. Accrued expenses

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Construction costs	7,636	979
Uninvoiced services	14,263	22,833
Interconnection charges	942	12,183
Holidays accrual	4,003	5,153
Employees bonuses and accrued salaries	10,309	7,725
Unpaid interest on bank loan	-	34
Other	4,336	2,144
	41,489	**51,051**

(All amounts in thousands, except as otherwise stated)

25. Corporate income tax

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Current income tax	(109)	(188)	(80)	(185)
Deferred income tax benefit / (charge), net	1,097	(1,906)	(848)	195
Income tax benefit / (charge)	**988**	**(2,094)**	**(928)**	**10**

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, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Loss before tax	(13,652)	(21,208)	(50,082)	(88,822)
Tax calculated at tax rates applicable to profit	2,594	4,030	9,515	16,876
Income not subject to tax	3,969	10,583	1,642	11,832
Expenses not deductible for tax purposes	(6,909)	(17,321)	(4,066)	(17,376)
Expenses deductible for tax purposes in previous periods	-	(739)	-	-
Deductible temporary differences arising during the year for each no deferred tax asset were recognized	-	-	(2,858)	(13,178)
Tax effect on in-kind contribution of telecommunication infrastructure	-	-	-	77,429
Utilization of previously unrecognized tax losses	2,472	5,233	(743)	832
Tax losses for which no deferred income tax asset was recognized	(2,017)	(3,420)	(4,418)	(76,405)
Reassessment of tax bases of assets and liabilities	879	(460)	-	-
Income tax benefit / (charge)	**988**	**(2,094)**	**(928)**	**10**

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

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

Deferred income tax

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

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

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Deferred income tax assets:		
- Deferred income tax assets to be recovered after more than 12 months	6,606	2,163
- Deferred income tax assets to be recovered within 12 months	10,716	8,178
	17,322	10,341
Deferred income tax liabilities:		
- Deferred income tax liabilities to be recovered after more than 12 months	2,637	3,162
- Deferred income tax liabilities to be recovered within 12 months	10,810	4,260
	13,447	7,422
Deferred income tax assets, net	**3,875**	**2,919**
out of which:		
Deferred income tax assets	4,865	4,285
Deferred income tax liabilities	(990)	(1,366)

(All amounts in thousands, except as otherwise stated)

At June 30, 2007 the deferred income tax liabilities relate to timing differences recognized on tax and accounting value of customer relationships in KOM-Net, Lanet and Magma.

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**	**Interest income and foreign exchange differences**	**Depreciation and impairment**	**Other receivables**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(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**	**Impairment provisions for receivables**	**Tax losses**	**Accrued expenses**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(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**

Comparative period:

Deferred income tax liabilities	**Deferred revenue**	**Interest income and foreign exchange differences**	**Depreciation and impairment**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2006	15,472	2,439	7,324	134	25,369
- Charged / (credited) to the income statement	(3,679)	(689)	(2,181)	-	(6,549)
As at June 30, 2006	**11,793**	**1,750**	**5,143**	**134**	**18,820**

Deferred income tax assets	**Depreciation and impairment**	**Impairment provisions for receivables**	**Tax losses**	**Accrued expenses**	**Other**	**Total**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
As at January 1, 2006	14,323	7,576	11,011	6,036	605	39,551
- Credited / (charged) to the income statement	(3,030)	(2,484)	(4,566)	1,568	57	(8,455)
As at June 30, 2006	**11,293**	**5,092**	**6,445**	**7,604**	**662**	**31,096**

The deferred income tax charged to equity in an amount of PLN 1,151 regards movements in hedging reserve and deferred income tax resulted from acquisition of KOM-Net, Lanet and Magma.

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, 2007, the Netia Group had total deductible temporary differences of PLN 322,461 and unutilised tax loss carry-forwards of PLN 594,413 (total potential deferred income tax asset of PLN 174,207).

The Netia Group did not recognize deferred income tax assets of PLN 109,662 relating to tax losses of PLN 577,166 of Netia and the Company's subsidiaries, due to the likelihood of insufficient future taxable profits to realize these tax losses. These unrecognized tax losses of the Netia Group available for use as at December 31, 2006 will expire in the following years: PLN 60,258 in 2007, PLN 38,402 in 2008, PLN 36,563 in 2009, PLN 35,024 in 2010, PLN 205,887 in 2011, and PLN 201,032 in 2012.

(All amounts in thousands, except as otherwise stated)

Furthermore, due to the lack of conclusive evidence of future taxable profits, the Netia Group did not recognize deferred income tax assets of PLN 61,626, relating to deductible temporary differences of PLN 324,345 as follow:

	Timing differences (PLN)	Deferred income tax asset (PLN)
Depreciation and impairment	192,367	36,550
Accrued expenses	45,973	8,735
Investment in P4	55,131	10,475
Impairment provisions for receivables	18,700	3,553
Deferred revenue	9,332	1,773
Provisions	1,516	288
Other	1,326	252
	324,345	**61,626**

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.

26. Telecommunication revenue

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Direct voice services	102,230	211,257	92,652	190,163
Monthly fees	33,864	69,334	31,020	61,934
Calling charges	68,366	141,923	61,632	128,229
Local calls	*20,129*	*42,566*	*16,257*	*34,949*
Domestic long distance calls	*12,150*	*26,116*	*9,631*	*20,819*
International long distance calls	*6,920*	*14,164*	*7,287*	*14,082*
Fixed-to-mobile	*25,999*	*52,233*	*25,333*	*51,071*
Other	*3,168*	*6,844*	*3,124*	*7,308*
Indirect voice	11,943	25,809	13,280	26,872
Data	36,151	71,350	58,159	109,509
Interconnection revenue	9,257	20,116	4,691	9,622
Wholesale services	35,098	76,088	29,137	58,454
Intelligent network services	3,524	7,781	3,652	7,432
Other telecommunication service revenue	1,725	3,587	2,024	4,031
Telecommunication services revenue	199,928	415,988	203,595	406,083
Sales of goods	1,175	1,196	30	128
Telecommunication revenue	**201,103**	**417,184**	**203,625**	**406,211**

27. Cost of sales

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Interconnection charges	(49,124)	(105,243)	(38,531)	(77,871)
Network maintenance	(19,158)	(36,278)	(39,996)	(77,471)
Cost of goods sold	(1,589)	(2,317)	(947)	(2,661)
Depreciation of fixed assets	(52,416)	(102,091)	(56,548)	(112,082)
Amortization of intangible assets	(6,549)	(12,758)	(5,779)	(11,507)
Salaries and benefits	(5,424)	(12,700)	(2,153)	(4,830)
Other costs	(15,603)	(31,060)	(10,031)	(22,604)
	(149,863)	**(302,447)**	**(153,985)**	**(309,026)**

(All amounts in thousands, except as otherwise stated)

28. Selling and distribution costs

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Advertising and promotion	(10,775)	(14,462)	(8,927)	(12,446)
Mailing services	(1,423)	(2,833)	(2,054)	(4,468)
Information technology services	(1,010)	(2,710)	(1,299)	(2,446)
Other services	(5,645)	(10,395)	(7,216)	(16,195)
Provision for impaired receivables	(4,691)	(6,621)	(1,169)	(1,185)
Depreciation of fixed assets	(1,066)	(1,713)	(1,177)	(2,379)
Amortization of intangible assets	(4,608)	(9,025)	(4,445)	(8,776)
Salaries and benefits	(13,375)	(24,398)	(16,434)	(32,169)
Other costs	(424)	(780)	(858)	(1,472)
	(43,017)	**(72,937)**	**(43,579)**	**(81,536)**

29. General and administration costs

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Professional services	(3,006)	(5,479)	(2,860)	(5,847)
Information technology services	(2,333)	(4,823)	(1,831)	(3,608)
Office and car maintenance	(1,836)	(3,790)	(2,263)	(4,052)
Insurance	(958)	(1,976)	(361)	(1,365)
Other services	(2,341)	(5,472)	(3,720)	(6,610)
Depreciation of fixed assets	(1,845)	(3,886)	(1,095)	(2,372)
Amortization of intangible assets	(1,453)	(3,066)	(1,441)	(2,888)
Salaries and benefits	(14,712)	(30,094)	(19,292)	(38,992)
Other costs	(3,506)	(6,467)	(3,036)	(5,463)
	(31,990)	**(65,053)**	**(35,899)**	**(71,197)**

30. Salaries and benefits

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Wages and salaries	(28,115)	(56,076)	(29,708)	(60,508)
Social security costs	(3,215)	(5,929)	(2,458)	(6,402)
Defined contribution plan (the State Plan)	(2,012)	(4,832)	(2,392)	(4,849)
Share-based compensation	(169)	(355)	(3,321)	(4,232)
	(33,511)	**(67,192)**	**(37,879)**	**(75,991)**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme. During the six-month period ended June 30, 2007 and June 30, 2006 the Group paid contributions at a rate of 9.76% of gross salaries up to certain limits. The Netia Group is not required to make any contributions in excess of this statutory rate.

(All amounts in thousands, except as otherwise stated)

31. Other income

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Sale of services to associate	747	929	651	1,212
Reversal of accrued other income on sale of services to associate (see Note 40)	-	(303)	-	-
Settlement of interconnection related disputes (see Note 6)	-	-	15,100	24,239
Financial guarantee	-	-	1,832	2,630
Reversal of impairment charges	61	390	-	-
Other operating income	587	1,520	983	1,532
	1,395	**2,536**	**18,566**	**29,613**

32. Other expenses

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Impairment charges for specific individual assets	46	(5,687)	-	-
Professional fees	-	(3,890)	-	-
The tax on civil law transactions (see Note 6)	-	-	-	(4,764)
	46	**(9,577)**	**-**	**(4,764)**

33. Other gains / (losses), net

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Gain on sale of subsidiaries	-	20	-	-
Decrease of purchase consideration	-	-	-	1,940
Gain on sale of impaired receivables	169	845	-	1,108
Reassessment of the carrying value of license fee liabilities	10,437	10,437	-	-
Gain on sale of fixed assets	1,781	2,205	1,291	1,234
Net foreign exchange gains / (losses)	(1,871)	(3,165)	(223)	(503)
	10,516	**10,342**	**1,068**	**3,779**

34. Finance income and finance costs

Finance income

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Interest income	1,811	3,829	1,209	2,663
Gain / (loss) on fair value adjustment of financial assets	465	1,135	-	21
Net foreign exchange gains / (losses)	48	437	(15)	288
Ineffectiveness of cash flow hedges	-	-	-	38
	2,324	**5,401**	**1,194**	**3,010**

(All amounts in thousands, except as otherwise stated)

Finance costs

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Interest expense	(1,835)	(3,548)	(28)	(56)
Other finance costs	-	-	(5)	(5)
	(1,835)	**(3,548)**	**(33)**	**(61)**

35. 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, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Other gains / (losses), net	(1,871)	(3,165)	(223)	(503)
Finance income	48	437	(15)	288
	(1,823)	**(2,728)**	**(253)**	**(215)**

36. Earnings per share

Basic

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

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Weighted average number of treasury shares (not in thousands)	97,850	282,224	-	-
Weighted average number of own shares repurchased within the program (not in thousands)	5,782,151	16,677,278	-	-

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Loss attributable to the equity holders of the Company	(12,828)	(23,609)	(51,085)	(88,940)
Weighted average number of ordinary shares in issue (not in thousands)	388,313,746	386,429,110	389,167,839	389,167,839
Basic earnings per share (not in thousands)	(0.03)	(0.06)	(0.13)	(0.23)

Diluted

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

(All amounts in thousands, except as otherwise stated)

	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Three-month period ended June 30, 2007 (PLN)	Six-month period ended June 30, 2007 (PLN)
Loss attributable to the equity holders of the Company	(12,828)	(23,609)	(51,085)	(88,940)
Weighted average number of ordinary shares in issue (not in thousands)	388,313,746	386,429,110	389,167,839	389,167,839
Adjustments for:				
- Share options	171,952	493,353	109,455	109,667
- Warrants	577,610	1,555,534	-	-
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	389,063,308	388,477,997	389,277,294	389,277,506
Diluted earnings per share (not in thousands)	(0.03)	(0.06)	(0.13)	(0.23)

37. Dividends per share

The Company's Shareholder's Meeting held on March 29, 2006, approved a dividend of PLN 0.13 (not in thousands) per share to be paid out of the net profit of Netia S.A. for the year ended December 31, 2005. Due to that resolution, PLN 50,323 of dividend was paid on May 16, 2006 to shareholders of record as at April 20, 2006.

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

38. Supplemental disclosures to consolidated cash flow statement

Changes in working capital components:

	Six-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2007 (PLN)
Trade receivables	51,447	(911)
Tax receivables	(3,432)	177
Other receivables	(1,549)	1,003
Inventories	531	(794)
Prepaid expenses	(21,197)	(3,371)
Restricted cash	(3,600)	6,100
Trade creditors	(34,599)	(27,885)
Provisions, accruals and other payables	18,392	25,652
Deferred income	9,291	1,629
	15,284	**(406)**

Supplemental disclosures to operating activities:

	Six-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2007 (PLN)
Income taxes paid	139	193
Interest received	(3,473)	(3,733)

39. Changes in the Management Board and Supervisory Board

Changes in the Management Board

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

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

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

Changes in the Supervisory Board

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

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

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

Appointment of Chairperson of Netia's Supervisory Board

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

40. Related party transactions

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

As at June 30, 2007, the total number of options granted to members of the Company's Management Board under the Plan, was 34,087,256 of which 271,814 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 4.44 to 8.25 per share. The market price of the Company's shares at June 30, 2007 was PLN 4.45 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, 2006**	**Six-month period ended June 30, 2007**
At the beginning of the period	1,812,094	1,721,489
Granted	-	33,000,000
Status changed due to resignation from Management Board	-	(634,233)
Exercised	(906,047)	-
At the end of the period	**906,047**	**34,087,256**

As at December 31, 2006 Mr. Paul Kearney and Mr. Paweł Karłowski – the former members of the Company's Management Board (see Note 39) – held 362,419 and 271,814 options, respectively. Due to their resignations from their positions, these options are no longer treated as options held by members of the Management Board.

As at December 31, 2006 and June 30, 2007 Mr. Piotr Czapski – a member of the Company's Management Board – held 543,628 and 5,543,628 options, respectively.

As at December 31, 2006 and June 30, 2007 Mr. Jonathan Eastick – a member of the Company's Management Board – held 543,628 and 9,543,628 options, respectively.

As at June 30, 2007 Mr. Mirosław Godlewski – the Company's President of the Management Board (see Note 39) – held 10,000,000 options.

As at June 30, 2007 Mr. Bertrand Le Guern – a member of the Company's Management Board (see Note 39) – held 5,000,000 options.

As at June 30, 2007 Mr. Tom Ruhan – a member of the Company's Management Board– held 4,000,000 options.

Members of the Supervisory Board did not hold any options as at June 30, 2007 and December 31, 2006.

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

As at June 30, 2007 Mr. Tom Ruhan – a member of the Company's Management Board – held 253,593 series K shares of the Company. The number of shares held has not changed since December 31, 2006.

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

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

As at June 30, 2007, Mr. Raimondo Eggink – a member of the Company's Supervisory Board– held 20,000 shares of the Company. The number of shares held has not changed since December 31, 2006.

(All amounts in thousands, except as otherwise stated)

As at June 30, 2007, Mr. Constantine Gonticas – a member of the Company's Supervisory Board – held 43,000 shares of the Company. The number of shares held has not changed since December 31, 2006.

As at June 30, 2007, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board (see Note 39) – 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, 2007 and June 30, 2006 amounted to PLN 3,334 and PLN 3,746, respectively. In addition, the cost of share-based payments in the amounts of PLN 4,120 and PLN 342 was recognized in the respective periods. In addition, 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 six-month periods ended June 30, 2007 and June 30, 2006 amounted to PLN 177 and PLN 154, 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, 2007 and June 30, 2006 amounted to PLN 287 and PLN 184, respectively. Furthermore, the compensation and related costs for the former members of the Supervisory Board of PLN 44 were recognized as a cost in the six-month period ended June 30, 2006.

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

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

Transactions with the associate

The following transactions were carried out with P4 Group (see also Note 10, 41 and 42):

	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006	Three-month period ended June 30, 2007	Six-month period ended June 30, 2007
	(PLN)	(PLN)	(PLN)	(PLN)
Sale of services	747	929	652	1,212
Reversal of accrued other income on sale of services*	-	(303)	-	-
Other sales transactions	209	272	2,145	2,821
	956	**898**	**2,797**	**4,033**

	December 31, 2006	June 30, 2007
	(PLN)	(PLN)
Trade receivables	1,658	2,174
	1,658	**2,174**

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

41. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 61,011 as at June 30, 2007 and PLN 27,317 as at December 31, 2006 of which, PLN 6,461 and PLN 1,945, respectively, related to the planned acquisition of intangible assets.

(All amounts in thousands, except as otherwise stated)

Operating lease commitments – where the Netia Group is the lessee

As at June 30, 2007 and December 31, 2006 the future minimum payments payable under non-cancellable operating leases were as follows:

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Not later than 1 year	34,348	45,403
Later than 1 year and not later than 5 years	41,275	43,127
Later than 5 years	37,636	41,359
	113,259	**129,889**

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 period ended June 30, 2007 and the year ended December 31, 2006 amounted to PLN 48,644 and PLN 68,069, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 20) in the amounts of PLN 557 and PLN 3,105, respectively.

Operating lease commitments – where the Netia Group is the lessor

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

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Not later than 1 year	16,149	20,545
Later than 1 year and not later than 5 years	26,730	22,217
Later than 5 years	9,208	5,604
	52,087	**48,366**

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 period ended June 30, 2007 and the year ended December 31, 2006 amounted to PLN 10,447 and PLN 20,793, respectively. The operating lease agreements do not relate to specific separate assets.

Finance lease commitments

Due to the acquisition of Lanet and KOM-Net on June 6, 2007 (see Note 8), the Netia Group has finance leases for certain telecommunication equipment as well as for some vehicles. As at June 30, 2007 and December 31, 2006 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2006 (PLN)	June 30, 2007 (PLN)
Not later than 1 year	-	741
Later than 1 year and not later than 5 years	-	233
Later than 5 years	-	-
Total minimum lease payments	**-**	**974**
Less amount representing finance charges	-	(72)
Present value of minimum lease payments	**-**	**902**

P4 related commitments (not in thousands)

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

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

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

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

In result of P4's share capital increase and after registration of the increase by the court, Netia Mobile holds 11,349 shares constituting 23.4% of the share capital of P4, and Novator holds shares constituting a total of 54.6% of the share capital.

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

The Shareholders reiterated their earlier commitments to make contributions to P4, pro rata to their respective changed shareholdings in P4's share capital. From EUR 300 million of the aggregate cash contributions committed by the shareholders in the Shareholders Agreement, the cash contributions made and agreed to be made prior to and in connection with the closing of the transaction, amounted to EUR 185.8 million, including Netia's contributions of EUR 52.8 million (out of total committed cash contributions of EUR 79.5 million); Novator's contributions of EUR 123.1 million (out of total committed cash contributions of EUR 185.5 million) and Tollerton's contributions of EUR 9.9 million (out of total committed cash contributions of EUR 35 million); Tollerton additionally contributed EUR 9 million pursuant to the Investment Agreement. Post closing of the transaction and as at June 30, 2007, further shareholders' committed cash contributions amounted to EUR 114.2 million in the aggregate, including Netia's committed contribution of EUR 26.7 million; Novator's committed contribution of EUR 62.4 million and Tollerton's committed contribution of EUR 25.1 million.

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

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

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

The amended Shareholders Agreement includes standard procedures governing the sale of the Shares by the Shareholders following the lock-up period until August 23, 2008. If the Shareholder affected by the change-of-control event wishes to dispose of its Shares, the other Shareholders will be entitled to require the prospective third-party buyer to purchase their Shares on the same terms and pro-rata to the Shares sold by such Shareholder. Furthermore, should Novator select to sell its entire shareholding in P4, it will be entitled to require the other Shareholders to sell all of their shares on the same terms. The observance of these provisions is secured with contractual penalties of EUR 25,000. The payment of such contractual penalties does not exclude the rights of the parties to the amended Shareholders Agreement to claim damages in an amount exceeding the amount of such penalties. Any transfers of the Shares in breach of the Share transferability restrictions will be ineffective vis-à-vis P4.

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

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

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

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

42. Contingencies

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. (“Millennium”), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 10.9 million at the June 30, 2007 exchange rate) increased by the applicable interest is outstanding from Millennium. In December 2000, the Company brought a claim for the repayment of the loan against Millennium in the District Court in Warsaw. On October 16, 2006, the Regional Court granted the Company's claim and ordered Millennium to pay PLN 11.5 million with interest. The Court has also dismissed Millennium’s counterclaim. Millennium filed an appeal. The matter 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 December 23, 2006, the Court dismissed Millennium's claim in its entirety. Millennium filed an appeal. The matter is still pending.

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

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

Minority shareholders

On August 1, 2002, the Company received a copy of a claim filed with the District Court in Warsaw by an individual shareholder demanding the cancellation of sections 10, 11 and 13 of Resolution No. 2 adopted by the Company’s General Meeting on April 4, 2002. The individual shareholder claimed that the distribution of the Company’s warrants under the financial restructuring was harmful to the minority shareholders and violated good custom. On August 14, 2002, the Company responded requesting the District Court to dismiss the claim as unsubstantiated. The matter is still pending.

In a second similar matter, a minority shareholder's claim was dismissed on merits by the District Court in Warsaw. On March 25, 2005, the minority shareholder filed an appeal. On December 8, 2005 the Regional Court examining the appeal overruled the judgment of the District Court and decided that the case has to be re-examined due to the fact that it should be the Regional Court not the District Court where the case should have been examined in the first resort. The matter is still pending.

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

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge of 10,260 (not in thousands) shares in P4. The pledge was established for the benefit of Novator Poland Pledge Sp. z o.o. in order to secure the performance by Netia Mobile of the claims that may arise due to failure by Netia Mobile to perform certain obligations under the Agreement. The maximum amount of collateral equals to EUR 25,000. Pursuant to the Shareholders Agreement on October 26, 2005 Novator has also pledged all its shares in P4 to Netia Mobile on the same terms as indicated above in order to secure the performance by Novator of the claims that may arise if Novator fails to perform certain obligations under the Agreement. On October 31, 2006, under the Agreement for the Registered and Financial Pledges on Shares (described below) the pledges were subordinated to pledges on the entire equity stake in P4, established in favour of BPH SA (currently 10,920 (not in thousands) of P4’s shares are pledged).

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

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

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

- **Share Retention Agreement**. Under the Share Retention Agreement (as amended on May 24, 2007, see also Note 41), Netia provided a guarantee to a maximum amount of EUR 21,060. The guarantee covers the repayment of 23.4% of the outstanding amounts under one of the tranches of the Facility (limited to a total of EUR 75,000) to be applied towards the acquisition of transmitter and core network construction sites, and the costs of related civil works investments in P4's UMTS network, increased by interest and costs (with a cap at EUR 90,000). Furthermore, Netia is obliged to ensure that the P4 equity stake currently held by the Netia Group shall not be disposed of before August 23, 2008. Thereafter, the current shareholders of P4 may not reduce their combined holdings below 50% of P4's share capital without the prior consent of China Development Bank.

- **Equity Contribution Agreement**. Under the Equity Contribution Agreement, Netia and Novator One L.P. agreed to ensure that during the scheduled Facility repayment period, P4's share capital will be increased or the shareholders will grant subordinated loans to P4 pro rata to their respective shareholdings in P4 to ensure that P4 can meet its obligations up to a maximum committed amount of EUR 300,000. The total outstanding amount of committed contributions still to be made by Netia will not exceed EUR 27,000 as at June 30, 2007 (see also Note 41).

- **The Subordination Agreement**. Under the Subordination Agreement, Netia agreed to subordinate all of its, and the Netia Group's, financial receivables due from P4, including any subordinated shareholders loans, by giving priority to the receivables due under the Facility granted to P4. The subordination does not affect commercial agreements concluded with P4 and other agreements, once accepted by the creditors on a case-by-case basis. Netia had no such receivables subject to subordination as at June 30, 2007.

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

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

WiMAX license requirements

On October 27, 2005 Netia WiMax S.A. (merged with Netia in 2006) and Netia WiMax II S.A. (currently Netia WiMax) received the reservations of the 3.6-3.8 GHz frequencies, which are to be used to provide telecommunication services based on the WiMAX technology. The terms of licenses issued to the Company's subsidiaries require them to meet annual connected capacity milestones in the future, as measured at the end of each year, subject to demand in the territory and population of Poland. The Company overperformed the milestones regarding population coverage, allotted for the year 2006. However, the Company has considered 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, and submited applications to change future territorial and population coverage commitments for WiMax.

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.

43. Subsequent events

Issuance of Netia's series K shares (not in thousands)

On July 10, 2007 the Company issued 109,455 ordinary bearer series K shares with a nominal value of PLN 1 each ("Series K Shares"), which give the right to 109,455 votes at Netia's general meeting of shareholders. The Series K shares were issued due to the exercise by a person authorized thereto of his rights arising from the Plan.