Quarterly Financial Report

Containing:

- Independent auditor's review report
- Interim condensed consolidated financial statements
  as at and for the nine-month period ended September 30, 2007

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

1. We have reviewed the attached interim condensed consolidated balance sheet of NETIA S.A. ('the Company') as at September 30, 2007 and the related interim condensed consolidated income statement, interim condensed consolidated cash flow statement, interim condensed consolidated statement of changes in equity for the nine-month period then ended and the notes to the interim condensed consolidated financial statement ('the attached interim condensed consolidated financial statements').

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

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

4. 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 condensed 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 condensed consolidated financial statements, were reviewed by an auditor acting for another authorised audit firm who issued a review report dated November 9, 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 condensed consolidated financial statements. The convenience translation for the nine-month period ended September 30, 2007 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2007 of PLN 3.7775 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim condensed consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

Ernst & Young Audit Sp. z o.o.

Warsaw, Poland
November 13, 2007

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

Index to the interim condensed consolidated financial statements

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	September 30, 2007 (PLN)	Convenience Translation September 30, 2007 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	5	1,458,029	1,412,752	373,991
Intangible assets		239,597	256,838	67,992
Investments in associates	7	141,394	168,169	44,519
Deferred income tax assets		4,865	2,924	774
Available for sale financial assets		10	10	3
Long term receivables		484	310	82
Prepaid expenses		3,303	6,095	1,613
Total non-current assets		**1,847,682**	**1,847,098**	**488,974**
Current assets				
Inventories		1,584	2,890	765
Trade and other receivables		131,833	106,532	28,202
Prepaid expenses and accrued income		6,888	9,661	2,558
Derivative financial instruments		600	-	-
Financial assets at fair value through profit and loss		14,757	-	-
Restricted cash		6,100	-	-
Cash and cash equivalents		143,586	48,416	12,817
		305,348	**167,499**	**44,342**
Non-current assets classified as held for sale		2,329	2,137	566
Total current assets		**307,677**	**169,636**	**44,908**
Total assets		**2,155,359**	**2,016,734**	**533,882**

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

Piotr Buława
Member of the Management Board

Tom Ruhan
Member of the Management Board

Warsaw, Poland
November 13, 2007

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

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2006 (PLN)	September 30, 2007 (PLN)	Convenience Translation September 30, 2007 (EUR)
EQUITY				
Share capital		389,168	389,277	103,051
Supplementary capital		1,809,434	1,681,500	445,136
Other reserves		29,644	9,840	2,605
Retained earnings		(283,248)	(256,529)	(67,910)
Total capital and reserves attributable to the Company's equity holders		**1,944,998**	**1,824,088**	**482,882**
Minority interest		6,902	6,468	1,712
Total equity	8	**1,951,900**	**1,830,556**	**484,594**
LIABILITIES				
Non-current liabilities				
Borrowings	9	-	4,963	1,314
Provisions		630	236	62
Deferred income		8,760	8,391	2,221
Deferred income tax liabilities		990	1,327	351
Financial guarantee contract		558	-	-
Other long term liabilities		774	922	244
Total non-current liabilities		**11,712**	**15,839**	**4,192**
Current liabilities				
Derivative financial instruments		-	94	25
Trade and other payables		168,267	152,415	40,351
Current income tax liabilities		38	78	21
Provisions		4,166	4,001	1,059
Financial guarantee contract		8,847	1,609	426
Deferred income		10,429	12,142	3,214
Total current liabilities		**191,747**	**170,339**	**45,096**
Total liabilities		**203,459**	**186,178**	**49,288**
Total equity and liabilities		**2,155,359**	**2,016,734**	**533,882**

NETIA S.A.
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT
for the nine-month period ended September 30, 2007

(All amounts in thousands, except as otherwise stated)

	Note	Three-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2006 (PLN)	Three-month period ended September 30, 2007 (PLN)	Nine-month period ended September 30, 2007 (PLN)	Convenience Translation Nine-month period ended September 30, 2007 (EUR)
Telecommunication revenue		228,439	645,623	203,894	610,105	161,512
Radio communication services revenue		2,098	6,716	1,665	5,426	1,436
Total revenue		**230,537**	**652,339**	**205,559**	**615,531**	**162,948**
Cost of sales		(177,249)	(479,696)	(159,444)	(468,470)	(124,016)
Gross profit		**53,288**	**172,643**	**46,115**	**147,061**	**38,932**
Selling and distribution costs		(36,281)	(109,218)	(54,279)	(135,815)	(35,953)
General and administration costs		(36,010)	(101,063)	(35,629)	(106,826)	(28,281)
Other income		2,580	5,116	6,704	36,317	9,614
Other expenses		(87)	(9,664)	-	(4,764)	(1,261)
Other gains / (losses), net		41,640	51,982	1,375	5,154	1,364
Operating profit / (loss)		**25,130**	**9,796**	**(35,714)**	**(58,873)**	**(15,585)**
Finance income		1,425	6,826	339	3,349	887
Finance costs		(1,628)	(5,176)	(42)	(103)	(27)
Share of losses of associates	7	(7,262)	(14,989)	(43,733)	(112,345)	(29,741)
Loss before income tax		**17,665**	**(3,543)**	**(79,150)**	**(167,972)**	**(44,466)**
Income tax benefit / (charge)		129	(1,965)	(1,393)	(1,383)	(366)
Loss		**17,794**	**(5,508)**	**(80,543)**	**(169,355)**	**(44,832)**
Attributable to:						
Equity holders of the Company		17,651	(5,958)	(80,642)	(169,582)	(44,892)
Minority interest		143	450	99	227	60
		17,794	**(5,508)**	**(80,543)**	**(169,355)**	**(44,832)**
Basic earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)		**0.05**	**(0.02)**	**(0.21)**	**(0.44)**	**(0.12)**
Diluted earnings per share for loss attributable to the equity holders of the Company (expressed in PLN per share)		**0.05**	**(0.02)**	**(0.21)**	**(0.44)**	**(0.12)**

(All amounts in thousands, except as otherwise stated)

	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	-	-	-	-	454	-	-	454
- 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)	-	-	-	-	-	(5,958)	450	(5,508)
Balance as at September 30, 2006	**389,168**	**-**	**1,666,216**	**143,218**	**28,891**	**89,702**	**6,799**	**2,323,994**

	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		-	-	-	-	(563)	-	-	(563)
Dilution gain in associate	3	-	-	-	40,102	-	-	-	40,102
Difference between purchase price and book value of minority	6	-	-	-	-	-	(39)	-	(39)
Net income / (expense) recognised directly in equity		-	-	-	40,102	(563)	(39)	-	39.500
Profit / (Loss)		-	-	-	-	-	(169,582)	227	(169,355)
Total recognised income / (expense) for the period		**-**	**-**	**-**	**40,102**	**(563)**	**(169,621)**	**227**	**(129,855)**
Employee share option scheme:									
- value of services provided	8	-	-	-	-	9,245	-	-	9,245
- issuance of series K shares	8	109	-	215	-	(324)	-	-	-
Cost of issuance		-	-	(73)	-	-	-	-	(73)
Transactions with minorities	6	-	-	-	-	-	-	(661)	(661)
Coverage of Netia's 2006 loss	8	-	-	(24,960)	(143,218)	(28,162)	196,340	-	-
Balance as at September 30, 2007		**389,277**	**-**	**1,641,398**	**40,102**	**9,840**	**(256,529)**	**6,468**	**1,830,556**

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

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

(All amounts in thousands, except as otherwise stated)

	Note	Nine-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2007 (PLN)	Convenience Translation Nine-month period ended September 30, 2007 (EUR)
Cash flows from operating activities:				
Loss		**(5,508)**	**(169,355)**	**(44,832)**
Adjustments for:				
Depreciation and amortization		202,116	211,878	56,089
Impairment charges for specific individual assets		5,774	-	-
Reversal of impairment charges		(1,315)	-	-
Share of losses of associates	7	14,989	112,345	29,741
Deferred income tax charge		1,684	999	264
Reassessment of the carrying value of license fee liabilities		(51,150)	-	-
Interest expense accrued on license liabilities		4,933	-	-
Financial guarantee contract		-	(5,707)	(1,511)
Interest accrued on loans		5	(34)	(9)
Share-based compensation	8	625	9,245	2,447
Fair value gains on financial assets at fair value through profit and loss		(1,722)	(21)	(6)
Decrease / (increase) in other long term assets		323	-	-
Foreign exchange (gains) / losses		1,961	52	14
Gain on sale of fixed assets		(2,677)	(1,585)	(420)
Decrease of purchase consideration	6	-	(1,940)	(514)
Gain on sale of subsidiaries		(20)	-	-
Changes in working capital		6,770	30,520	8,080
Net cash provided by operating activities		**176,788**	**186,397**	**49,343**
Cash flows from investing activities:				
Purchase of fixed assets and computer software		(127,999)	(177,576)	(47,009)
Proceeds from sale of fixed assets		2,902	4,778	1,265
Investment in associate	7	(49,500)	(101,106)	(26,765)
Purchase of subsidiaries, net of cash received	6	(68,227)	(27,238)	(7,211)
Sale of subsidiaries, net of cash in subsidiaries		25	-	-
Sale of financial assets at fair value through profit and loss		12,161	14,777	3,912
Loans granted		(1,533)	-	-
Loan repayments		23	208	55
Net cash used in investing activities		**(232,148)**	**(286,157)**	**(75,753)**
Cash flows from financing activities:				
Proceeds from share issuance		19,385	-	-
Cost of share issuance		(175)	(73)	(19)
Dividend paid to the Company's shareholders		(50,323)	-	-
Finance lease payments		(150)	(284)	(75)
Loan repayments		(2,500)	-	-
Interest repayments		(167)	-	-
Proceedes from borrowings		-	5,000	1,324
Redemption of notes for warrants		(334)	(1)	(0)
Net cash used in / provided by financing activities		**(34,264)**	**4,642**	**1,230**
Exchange gains on cash and cash equivalents		**20**	**(52)**	**(14)**
Net change in cash and cash equivalents		**(89,604)**	**(95,170)**	**(25,194)**
Cash and cash equivalents at beginning of period		197,387	143,586	38,011
Cash and cash equivalents at end of period		**107,783**	**48,416**	**12,817**

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 condensed consolidated financial statements of Netia S.A. for the nine-month period ended September 30, 2007 comprise the Company and its subsidiaries.

These interim condensed consolidated financial statements were approved for issuance by the Company's Management Board on November 13, 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 7 and 14), 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 became binding as of September 30, 2007. During the third quarter of 2007 the Company began offering Netia voice services to TP SA customers including the arrangement whereby the customer pays a monthly fee to Netia as well as the hitherto call by call charges. Netia in turn has to pay a line rental fee to TP SA under the Wholesale Line Rental (WLR) administrative decision issued by the UKE.

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 6), UNI-Net Sp. z o.o.

In June and September 2007 the Netia Group acquired four internet service providers: KOM-Net Systemy Komputerowe Sp. z o.o., Lanet Sp. z o.o., Magma Systemy Komputerowe Schmidt i S-ka Sp. z o.o. and Akron Sp. z o.o. (see Note 6).

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 September 30, 2007, the Company's equity amounted to PLN 1,830,556 and the Netia Group had working capital deficit of PLN 703. In 2006 the Company performed an impairment test for the telecommunications segment. The test resulted in an impairment charge of PLN 354,672, which was recognized in the consolidated statement of operations for the year ended December 31, 2006. The Netia Group has been generating positive free cash flows between 2004 and 2006 but, following its new strategy announcement in April 2007, intends to invest in broadband and other services such that free cash flows are expected to be negative between 2007 and 2009. As at September 30, 2007 the Netia Group had net cash available of PLN 43,416 and undrawn borrowing facilities of PLN 295,000. Based on this position, the Management does not believe that events or conditions exist which may cast significant doubt on the Company's ability to continue as a going concern.

(All amounts in thousands, except as otherwise stated)

2. 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 September 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 condensed consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2006, except for new accounting standards adopted as of January 1, 2007. These interim condensed consolidated financial statements do not include all the information and disclosures required in complete sets of financial statements and should be read in conjunction with the audited December 31, 2006 consolidated financial statements and the related notes.

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., Akron 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 Company makes estimates and assumptions concerning the future. The areas where assumptions and estimates are significant to the interim condensed consolidated financial statements include property, plant and equipment, customer relationships, deferred income tax and financial guarantee contract.

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

The Netia Group has only one business segment – telecommunications and operates in one geographical area, which is the territory of Poland.

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

The interim condensed 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.

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

All Euro amounts shown as supplementary information in the interim condensed consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at September 30, 2007 of PLN 3.7775 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 condensed consolidated income statement for the nine-month period ended September 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.

(All amounts in thousands, except as otherwise stated)

The comparative data in the interim condensed 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:

	Nine-month period ended September 30, 2006			
	Cost of sales	**Selling and distribution costs**	**General and administration costs**	**Other expenses**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Interconnection charges	(172,180)	-	-	-
Services purchased				
Professional services	(53)	(6,747)	(8,343)	(3,890)
Advertising and promotion expenses	(20)	(19,010)	(1,088)	-
Cost of rented lines and network maintenance	(65,441)	(415)	(1,485)	-
Information technology services	-	(4,160)	(7,233)	-
Office and car maintenance	(903)	(394)	(6,361)	-
Insurance	(1,316)	(321)	(3,063)	-
Mailing services	(44)	(4,222)	(371)	-
Travel and accommodation	(823)	(1,135)	(1,468)	-
Other services	(2,366)	(8,019)	(3,702)	-
Salaries and benefits	(16,279)	(37,198)	(46,382)	-
Restructuring costs	(498)	(422)	(184)	-
Depreciation of fixed assets	(154,649)	(3,145)	(5,880)	-
Amortization of intangible assets	(19,221)	(14,489)	(4,732)	-
Other expenses				-
Taxes and fees	(36,497)	(197)	(3,664)	-
Provision for impaired receivables	-	(8,585)	-	-
Materials and energy	(4,597)	(456)	(1,797)	-
Other operating costs	(4,809)	(303)	(5,310)	-
Impairment charges for non-current assets	-	-	-	(5,774)
Total	**(479,696)**	**(109,218)**	**(101,063)**	**(9,664)**

	Three-month period ended September 30, 2006			
	Cost of sales	**Selling and distribution costs**	**General and administration costs**	**Other expenses**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Interconnection charges	(66,937)	-	-	-
Services purchased				
Professional services	(28)	(2,613)	(2,864)	-
Advertising and promotion expenses	(3)	(4,548)	(241)	-
Cost of rented lines and network maintenance	(29,163)	(145)	(504)	-
Information technology services	-	(1,450)	(2,410)	-
Office and car maintenance	(180)	(123)	(2,571)	-
Insurance	(339)	(124)	(1,087)	-
Mailing services	(17)	(1,389)	(154)	-
Travel and accommodation	(106)	(354)	(578)	-
Other services	(869)	(3,081)	(1,164)	-
Salaries and benefits	(3,579)	(12,800)	(16,288)	-
Restructuring costs	(498)	(422)	(184)	-
Depreciation of fixed assets	(52,558)	(1,432)	(1,994)	-
Amortization of intangible assets	(6,463)	(5,464)	(1,666)	-
Other expenses				-
Taxes and fees	(12,750)	(96)	(1,460)	-
Provision for impaired receivables	-	(1,964)	-	-
Materials and energy	(1,563)	(186)	(585)	-
Other operating costs	(2,196)	(90)	(2,260)	-
Impairment charges for non-current assets	-	-	-	(87)
Total	**(177,249)**	**(36,281)**	**(36,010)**	**(87)**

Furthermore, the Netia Group's deferred income includes government's grants relating to certain fixed telecommunications networks, which are recognized as income over the useful life of the related assets. As at September 30, 2007, government's grants of PLN 611 were recognized as long term deferred income. The comparative amount of PLN 644 presented in these interim condensed consolidated financial statements has been reclassified from short term to long term deferred income to conform to the current presentation.

(All amounts in thousands, except as otherwise stated)

Changes in estimates

In the nine-month period ended September 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.

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	228	(2)
Fixed telecommunications network	- until the end of June 2007	20	(1)
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	33,956	185
Machinery and equipment	- certain machinery - depreciation period was shortened from 12 to 8 years	250	83
Office furniture and equipment	- certain computers - until the end of March 2007 - other office equipment - until January 2009	200	(21)
Total property, plant and equipment		**34,654**	**244**
Computer software	- certain software - until the end of 2007	522	20
Total non-current assets		**35,176**	**264**

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. This standard does not have any impact on the classification and valuation of the Group's financial instruments.

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. This interpretation has not yet been endorsed by the EU;

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

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

- IFRS 8, 'Operating Segments', effective for annual periods beginning on or after January 1, 2009. IFRS 8 replaces IAS 14 'Segment Reporting' and adopts a management approach to segment reporting. Management is currently assessing the impact of IFRS 8 on the Netia Group's operations. This standard has not yet been endorsed by the EU;

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

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

3. 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 condensed consolidated income statement for the nine-month period ended September 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 the interconnection agreement signed on June 30, 2007, PLN 24,239 was recorded as other income in the interim condensed consolidated income statement for the nine-month period ended September 30, 2007.

Due to the accession of a new shareholder to P4 and its contribution to P4's capital (see Note 14) during the nine-month period ended September 30, 2007, the Netia Group recognized a dilution gain of PLN 40,102 and recorded it directly in equity.

4. Impairment of non-current assets

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 September 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.

(All amounts in thousands, except as otherwise stated)

5. Property, plant and equipment

Current period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2007	73,157	17,308	1,888,100	1,557,141	85,782	127,302	12,918	134,111	3,895,819
Additions	102	-	13	1,009	631	1,507	2	125,522	128,786
Purchase of subsidiary	47	-	-	2,809	-	115	54	848	3,873
Transfers	1,844	51	21,210	105,406	4,985	1,110	-	(134,606)	-
Transfers to non-current assets held for sale	(10)	(987)	298	-	(120)	-	-	(5)	(824)
Disposals and other movements	(1,790)	-	560	(3,273)	1,966	(2,024)	(415)	(2,159)	(7,135)
Gross book value as at September 30, 2007	73,350	16,372	1,910,181	1,663,092	93,244	128,010	12,559	123,711	4,020,519
Accumulated depreciation as at January 1, 2007	20,478	-	587,898	582,734	50,180	101,649	4,082	-	1,347,021
Depreciation expense	2,346	-	49,097	114,787	3,695	4,885	1,429	-	176,239
Transfers to non-current assets held for sale	(2)	-	-	-	(21)	-	-	-	(23)
Disposals and other movements	(842)	-	153	(1,373)	474	(1,854)	(281)	-	(3,723)
Accumulated depreciation as at September 30, 2007	21,980	-	637,148	696,148	54,328	104,680	5,230	-	1,519,514
Accumulated impairment as at January 1, 2007	16,477	5,108	629,552	388,517	15,080	12,736	305	22,994	1,090,769
Transfers	266	19	1,591	11,780	705	72	-	(14,433)	-
Transfers to non-current assets held for sale	(2)	(235)	-	-	(20)	-	-	-	(257)
Disposals and other movements	(365)	-	192	(812)	652	(158)	(18)	(1,750)	(2,259)
Accumulated impairment as at September 30, 2007	16,376	4,892	631,335	399,485	16,417	12,650	287	6,811	1,088,253
Net book value as at January 1, 2007	36,202	12,200	670,650	585,890	20,522	12,917	8,531	111,117	1,458,029
Net book value as at September 30, 2007	**34,994**	**11,480**	**641,698**	**567,459**	**22,499**	**10,680**	**7,042**	**116,900**	**1,412,752**

(All amounts in thousands, except as otherwise stated)

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

Comparative period:

	Buildings (PLN)	Land (PLN)	Fixed telecommunications network (PLN)	Telecommunications equipment (PLN)	Machinery and equipment (PLN)	Office furniture and equipment (PLN)	Vehicles (PLN)	Fixed assets under construction (PLN)	Total (PLN)
Gross book value as at January 1, 2006	73,272	17,684	1,855,368	1,488,393	82,439	138,948	17,369	72,855	3,746,328
Additions	6	-	157	471	326	1,171	3,036	82,927	88,094
Purchase of subsidiary	449	987	12,437	43,287	327	745	867	3,712	62,812
Transfers	137	-	16,411	34,547	1,558	5,502	44	(58,199)	-
Transfers to non-current assets held for sale	(1,079)	(1,363)	(2,464)	-	-	-	-	-	(4,906)
Disposals and other movements	113	-	(1,658)	(10,478)	(2,047)	(19,634)	(7,249)	(1,185)	(42,138)
Gross book value as at September 30, 2006	**72,898**	**17,308**	**1,880,251**	**1,556,220**	**82,603**	**126,732**	**14,067**	**100,110**	**3,850,189**
Accumulated depreciation as at January 1, 2006	17,645	-	511,946	473,690	49,268	110,087	8,420	-	1,171,056
Depreciation expense	2,285	-	57,339	90,509	3,836	8,202	1,504	-	163,675
Transfers to non-current assets held for sale	(141)	-	(583)	-	-	-	-	-	(724)
Disposals and other movements	10	-	(166)	(3,118)	(5,246)	(18,404)	(5,470)	-	(32,394)
Accumulated depreciation as at September 30, 2006	**19,799**	**-**	**568,536**	**561,081**	**47,858**	**99,885**	**4,454**	**-**	**1,301,613**
Accumulated impairment as at January 1, 2006	14,481	4,821	491,023	274,558	9,898	10,667	874	2,039	808,361
Impairment charge for specific assets	-	-	1	4,703	10	-	87	-	4,801
Reversal of impairment charge	-	-	-	(876)	-	-	-	(359)	(1,235)
Transfers	-	-	-	-	10	18	-	(28)	-
Transfers to non-current assets held for sale	-	(379)	(501)	-	-	-	-	-	(880)
Disposals and other movements	2	-	(448)	(4,138)	760	(610)	(597)	(731)	(5,762)
Accumulated impairment as at September 30, 2006	**14,483**	**4,442**	**490,075**	**274,247**	**10,678**	**10,075**	**364**	**921**	**805,285**
Net book value as at January 1, 2006	41,146	12,863	852,399	740,145	23,273	18,194	8,075	70,816	1,766,911
Net book value as at September 30, 2006	**38,616**	**12,866**	**821,640**	**720,892**	**24,067**	**16,772**	**9,249**	**99,189**	**1,743,291**

(All amounts in thousands, except as otherwise stated)

6. 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 1,433 and profit of PLN 353 in the four-months period ended September 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 611,938, and loss would have been PLN 168,796.

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 the 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 information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review 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 215	9,633
Provisional fair value of net assets acquired	(3,420)
Goodwill	**6,213**

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:

	Acquiree's carrying amount (PLN)	**Provisional fair value (PLN)**
Property, plant and equipment	640	806
Customer relationships	-	2,955
Deferred income tax asset	3	3
Inventories	71	71
Receivables	163	163
Prepayments	22	35
Cash and cash equivalents	377	377
Trade liabilities	(63)	(63)
Other liabilities and accruals	(191)	(366)
Deferred income tax liabilities	-	(561)
Provisional fair value of net assets acquired	**1,022**	**3,420**

	(PLN)
Total purchase consideration settled in cash	(9,633)
Cash and cash equivalents in the subsidiary acquired	377
Cash outflow on acquisition	**(9,256)**

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

(All amounts in thousands, except as otherwise stated)

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 1,624 and loss of PLN 113 in the four-months period ended September 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 612,497, and loss would have been PLN 169,485.

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 the 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 information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review 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 222	10,298
Provisional fair value of net assets acquired	(1,668)
Goodwill	**8,630**

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:

	Acquiree's carrying amount (PLN)	**Provisional fair value (PLN)**
Property, plant and equipment	1,048	1,826
Customer relationships	-	1,884
Investments	7	7
Inventories	178	178
Receivables	257	257
Prepayments	13	77
Cash and cash equivalents	114	114
Bank overdraft	(93)	(93)
Trade liabilities	(706)	(706)
Other liabilities and accruals	(437)	(1,304)
Deferred income	(219)	(219)
Deferred income tax liabilities	-	(353)
Provisional fair value of net assets acquired	**162**	**1,668**

	(PLN)
Total purchase consideration settled in cash	(10,298)
Cash and cash equivalents in the subsidiary acquired	114
Bank overdraft	(93)
Cash outflow on acquisition	**(10,277)**

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. The acquired business contributed revenue of PLN 774 and profit of PLN 189 in the three-months period ended September 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 611,807, and loss would have been PLN 168,976.

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 the excess earnings method. The provisional fair values of other 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 information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review 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 244	8,185
Provisional fair value of net assets acquired	(2,832)
Goodwill	**5,353**

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:

	Acquiree's carrying amount (PLN)	Provisional fair value (PLN)
Property, plant and equipment	1,014	1,014
Customer relationships	-	2,429
Other intangible assets	4	4
Inventories	64	64
Receivables	74	74
Prepayments	3	3
Cash and cash equivalents	42	42
Trade liabilities	(62)	(62)
Other liabilities and accruals	(274)	(274)
Deferred income tax liabilities	-	(462)
Provisional fair value of net assets acquired	**865**	**2,832**

	(PLN)
Total purchase consideration settled in cash	(8,185)
Cash and cash equivalents in the subsidiary acquired	42
Cash outflow on acquisition	**(8,143)**

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

Akron Sp. z o.o.

On September 26, 2007, Lanet, the Company's subsidiary, purchased 99.9% of the share capital of Akron Sp. z o.o. ("Akron"), an internet service provider, for a total of PLN 800. Prior to this transaction, Lanet owned Akron's shares representing 0.1% of Akron's share capital.

The Netia Group accounted for the acquisition of Akron using the purchase method and started consolidating the financial statements of Akron as of September 30, 2007 adjusting the consolidated statements of operations and the consolidated balance sheet for material transactions, which took place between September 26, 2007 and September 30, 2007. If the acquisition had occurred on January 1, 2007, the Netia Group's telecommunication revenue would have remained unchanged (Akron was created through an in-kind contribution of a unincorporated business activity, whose telecommunication revenues prior to incorporation cannot be reliably estimated by Netia. Since Akron's creation its revenues comprise only transactions within the Netia Group), and loss would have been PLN 169,455.

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 the excess earnings method. The provisional fair values of other assets, liabilities and contingent liabilities acquired are based on amounts from Akron 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 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 254	1,054
Provisional fair value of net assets acquired	(411)
Goodwill	**643**

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 Akron.

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

	Acquiree's carrying amount (PLN)	Provisional fair value (PLN)
Property, plant and equipment	220	228
Customer relationships	-	203
Other intangible assets	858	-
Receivables	35	35
Prepayments	-	2
Cash and cash equivalents	6	6
Trade liabilities	(3)	(3)
Other liabilities and accruals	(2)	(21)
Deferred income tax liabilities	-	(39)
Provisional fair value of net assets acquired	**1,114**	**411**

	(PLN)
Total purchase consideration settled in cash	(808)
Cash and cash equivalents in the subsidiary acquired	6
Cash outflow on acquisition	**(802)**

The investment in Akron 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 (see also Note 15).

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.

(All amounts in thousands, except as otherwise stated)

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

	Year ended December 31, 2006	**Nine-month period ended September 30, 2007**
	(PLN)	**(PLN)**
Total purchase consideration settled in cash	(68,926)	1,940
Cash and cash equivalents in the subsidiary acquired	638	-
Cash outflow on acquisition	**(68,288)**	**1,940**

7. 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 14).

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.

(All amounts in thousands, except as otherwise stated)

The following table summarizes financial information of the associate:

	December 31, 2006 (PLN)	September 30, 2007 (PLN)
Assets	567,652	1,152,715
Liabilities	131,342	469,764

	Nine-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2007 (PLN)
Revenue	-	147,882
Loss for the period	(25,755)	(430,990)

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

	Nine-month period ended September 30, 2006 (PLN)	Nine-month period ended September 30, 2007 (PLN)
At the beginning of the period	105,633	141,394
Investment in the associate	49,500	101,160
Dilution gain in associate	-	40,102
Financial guarantee contract	-	(2,088)
Unrealized profits on transaction with associate	(8)	-
Settlement of hedge transaction	-	(54)
Share of loss	(14,989)	(112,345)
At the end of the period	**140,136**	**168,169**

Following the provisions of P4's Shareholders' Agreement (see Note 14), during the nine-month period ended September 30, 2007 the Company contributed share capital of PLN 101,160. As a result, the Company is the holder of 12,285 (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 15) are met.

Impairment of investments in associates

As at September 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.

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

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

8. Shareholders' equity

Share capital (not in thousands)

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

In the nine-month period ended September 30, 2007 the Company issued 109,455 ordinary series K shares due to the exercise by certain persons of their rights arising from the key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"). The total number of series K shares issued through September 30, 2007 was 5,054,520 and their nominal value was PLN 5,055 thousands.

As a result at September 30, 2007 the Company's share capital consisted of 389,276,294 ordinary shares and of 1,000 series A1 shares (par value of PLN 1 per share). All shares issued by the Company were fully paid and registered in the National Court Registry by the date of signing these interim condensed consolidated financial statements.

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.

Stock options (number of options not in thousands)

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

	Nine-month period ended September 30, 2006		Nine-month period ended September 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	5.30	271,814	6.64	48,075,000
Forfeited / expired	-	-	6.14	(1,000,000)
Exercised	2.59	(1,817,188)	3.12	(362,419)
At the end of the period	**4.24**	**1,231,276**	**6.59**	**48,647,730**

As at September 30, 2007 the total number of options approved for issue by the Supervisory Board was 63,346,220 as compared to 15,271,220 as at December 31, 2006. Out of these approved options 48,647,730 options were outstanding as at September 30, 2007 and 2,206,963 options were outstanding as at December 31, 2006. As at September 30, 2007 and December 31, 2006, the total number of vested options was 922,272 and 687,648, respectively. The vesting period for the options is up to three years from the date of grant. As at September 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 597,043 vested options and 271,814 unvested options, issued prior to the date when the Supervisory Board extended the period when options may be exercised, which 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, being the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 4.44 to PLN 8.25.

The Company recognizes the cost of share-based awards to employees (including share options) over the vesting period and the fair value of options is determined using a binomial pricing model. The cost of options recorded in the nine-month periods ended September 30, 2007 and 2006 amounted to PLN 9,245 and PLN 454, respectively.

9. Borrowings

	December 31, 2006	September 30, 2007
	(PLN)	**(PLN)**
Non-current		
Bank loan	-	4,963
	-	**4,963**
Current		
Unpaid interest on bank loan	-	10
	-	**10**

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 September 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 on the undrawn, uncancelled amount of the Facility commitment. The borrowing is measured at amortized cost using an effective interest rate. As at September 30, 2007 total transaction costs amounted to PLN 3,082, out of wich PLN 41 related to the first drawn down and were included in the calculation of the effective interest rate. In the nine-month period ended September 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.

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 6) 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.

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 nine-month period ended September 30, 2007 the facility agreements were terminated. There were no drawdowns under these facilities.

10. 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.

11. Supplemental disclosures to consolidated cash flow statement

Supplemental disclosures to operating activities:

	Nine-month period ended September 30, 2006	**Nine-month period ended September 30, 2007**
	(PLN)	**(PLN)**
Income taxes paid	302	390
Interest received	(4,916)	(5,031)

12. Changes in the Management Board and Supervisory Board

Changes in the Management Board

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

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

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

Effective September 6, 2007 Mr. Piotr Buława, Sales Director, was appointed as a Member of the Management Board.

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.

13. Related party transactions

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

As at September 30, 2007, the total number of options granted to members of the Company's Management Board under the Plan, was 39,087,256 of which 543,628 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 September 30, 2007 was PLN 3,85 per share.

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

Options	Nine-month period ended September 30, 2006	Nine-month period ended September 30, 2007
At the beginning of the period	1,812,094	1,721,489
Granted	271,814	38,000,000
Status changed due to resignation from Management Board	-	(634,233)
Exercised	(906,047)	-
At the end of the period	**1,177,861**	**39,087,256**

As at December 31, 2006 Mr. Paul Kearney and Mr. Paweł Karłowski – the former members of the Company's Management Board (see Note 12) – 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 September 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 September 30, 2007 Mr. Jonathan Eastick – a member of the Company's Management Board – held 543,628 and 9,543,628 options, respectively.

As at September 30, 2007 Mr. Mirosław Godlewski – the Company's President of the Management Board (see Note 12) – held 10,000,000 options.

As at September 30, 2007 Mr. Bertrand Le Guern – a member of the Company's Management Board (see Note 12) – held 5,000,000 options.

As at September 30, 2007 Mr. Piotr Buława – a member of the Company's Management Board (see Note 12) – held 5,000,000 options.

As at September 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 September 30, 2007 and December 31, 2006.

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

As at September 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.

(All amounts in thousands, except as otherwise stated)

As at September 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.

As at September 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 September 30, 2007, Mr. Tadeusz Radzimiński – a member of the Company's Supervisory Board (see Note 12) – 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 nine-month periods ended September 30, 2007 and September 30, 2006 amounted to PLN 5,039 and PLN 5,501, respectively. In addition, the cost of share-based payments in the amounts of PLN 7,781 and PLN 437 was recognized in the respective periods. Additional to the above, in the nine-month periods ended September 30, 2007 and September 30, 2006, termination benefits for the former members of the Management Board of PLN 1,116 and PLN 1,750, respectively, were recognized as a cost.

Compensation and related costs associated with members of the Management Boards of the Company's subsidiaries during the nine-month periods ended September 30, 2007 and September 30, 2006 amounted to PLN 644 and PLN 233, 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 nine-month periods ended September 30, 2007 and September 30, 2006 amounted to PLN 443 and PLN 315, 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 nine-month period ended September 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 September 2006. The amount due for those managerial services equalled the purchase price of ZIT's shares. In accordance with the terms of the transaction, the purchase price of the above shares was ultimately set at PLN 15,541, based on the value of ZIT's net assets as at 2006 year-end. An advance payment of PLN 5,324 was made in 2006 and the remaining PLN 10,217 was paid in January 2007.

Transactions with the associate

The following transactions were carried out with P4 Group (see also Note 7 and 14):

	Three-month period ended September 30, 2006	Nine-month period ended September 30, 2006	Three-month period ended September 30, 2007	Nine-month period ended September 30, 2007
	(PLN)	(PLN)	(PLN)	(PLN)
Telecommunication revenue	285	480	3,119	5,759
Sale of services	725	1,654	925	2,137
Reversal of accrued other income on sale of services*	-	(303)	-	-
Other sales transactions	39	116	-	181
	1,049	**1,947**	**4,044**	**8,077**

	December 31, 2006	September 30, 2007
	(PLN)	(PLN)
Trade receivables	1,658	2,549
	1,658	**2,549**

** 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.*

Other transactions with related parties

During the nine-month period ended September 30, 2007 and September 30, 2006, the Netia Group has not been a party to any other material transactions, or proposed transactions, apart from transactions mentioned above, in which any member of the key management personnel or close members of their families, had or was to have a direct or indirect material interest.

(All amounts in thousands, except as otherwise stated)

14. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the consolidated financial statements amounted to PLN 53,519 as at September 30, 2007 and PLN 27,317 as at December 31, 2006 of which, PLN 4,795 and PLN 1,945, respectively, related to the planned acquisition of intangible assets.

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.

Following the above transactions Netia Mobile held 11,349 shares constituting 23.4% of the share capital of P4, and Novator held shares constituting a total of 54.6% of the share capital (see also Note 7).

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 further shareholders' committed cash contributions amounted to EUR 114.2 million in the aggregate, including Netia's committed contribution of EUR 26.7 million; Novator's committed contribution of EUR 62.4 million and Tollerton's committed contribution of EUR 25.1 million.

As at September 30, 2007, the total cash contributions made by Netia Mobile in connection with the above agreements amounted to EUR 67.7 million (of which EUR 26.6 million was made in the nine-month period ended September 30, 2007) and the total outstanding amount of committed contributions still to be made by Netia Mobile amounted to EUR 11.6 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 all Shareholders have a transparent and equitable share in the decision-making process. Netia Mobile will retain the right to suspend and dismiss specific Management Board members if their appointment is inconsistent with the above-mentioned procedures.

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

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

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

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

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

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

15. Contingencies

Contingent assets

TP SA

As a result of TP SA failing to meet certain obligations under the bitstream access agreement, on September 24, 2007 the Company demanded payment from TP SA for contractual penalties totaling PLN 4,364, following the expiration of an initial grace period. Netia's management intends to use all legal means to enforce the penalties and will recognize income when TP SA either pays or settles the liability in a manner acceptable to Netia.

Contingent liabilities

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 11.0 million at the September 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. On April 24, 2007 Millennium was declared bankrupt, and on July 31, 2007 the Court of Appeal in Warsaw quashed the judgment issued by the Regional Court with respect to Millennium's repayment of the loan and discontinued the proceedings. The loan has been claimed by the Company in the bankruptcy proceedings relating to Millennium. The matter with respect to counter claim 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. The matter is still pending.

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

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

Minority shareholders

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

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

Jupiter

Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") has sued the Company for payment of PLN 2,084 on account of the improper performance of a Share and Bonds Purchase Agreement dated May 22, 2006 (the "Agreement") relating to the Company's purchase of Pro Futuro (see Note 6).

Due to the established irregularities the Company applied the price reduction mechanism provided for in the Agreement. Consequently, the Company requested the escrow agent (maintaining the escrow account) to reimburse part of the price paid for the Pro Futuro shares. The escrow agent reimbursed the Company in the amount of PLN 1,940 on account of the breach of the Agreement. The fact that the Agreement was breached has been confirmed by an independent auditor.

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

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

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge of 10,260 (not in thousands) shares in P4. The pledge was established for the benefit of Novator Poland Pledge Sp. z o.o. in order to secure the performance by Netia Mobile of the claims that may arise due to failure by Netia Mobile to perform certain obligations under the Agreement. The maximum amount of collateral equals to EUR 25,000. 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 14), 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 11,632 as at September 30, 2007 (see also Note 14).

- **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 September 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. Considering recent changes in the telecommunications market and, in particular, the advent of regulated access to the fixed line network of the incumbent fixed line operator, TP SA, the Company submited applications to change future territorial and population coverage commitments for WiMax and on October 31, 2007 the Polish regulator issued a decision appropriately amending the initial milestones.

Tax contingent liability

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

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

16. Subsequent events

Credit facility

On October 1, 2007 and November 12, 2007 the Company made the draw downs of PLN 35,000 and PLN 40,000, respectively, under the Facility described in Note 9.