NETIA S.A.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As at and for the three-month and six-month periods ended June 30, 2006

REVIEW REPORT OF INDEPENDENT AUDITORS

To the Supervisory Board and Shareholders
of Netia S.A.

We have reviewed the accompanying interim consolidated balance sheet of Netia S.A. (the "Company") and its subsidiaries (the "Netia Group") as of June 30, 2006, and the related interim consolidated statements of income for the three-month and six-month periods ended June 30, 2006 and the related interim consolidated statements of changes in shareholders' equity and cash flows for the six-month period ended June 30, 2006, all of them expressed in Polish Złoty ("PLN"). These interim consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these interim consolidated financial statements based on our review.

We conducted our review in accordance with International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance about whether the interim consolidated financial statements are free of material misstatement. A review is limited primarily to inquiries of company personnel and analytical procedures applied to financial data and thus provides less assurance than an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly, in all material respects, the financial position of the Netia Group as of June 30, 2006, and of the results of its operations for the three-month and six-month periods then ended and its cash flows for the six-month period then ended, in accordance with International Accounting Standard 34 "Interim Financial Reporting".

The convenience translations are disclosed as part of the interim consolidated financial statements. The convenience translation for the six-month period ended June 30, 2006 has been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2006 of PLN 4.0434 to EUR 1.00. We have not reviewed these translations and accordingly we do not report thereon. The Euro amounts presented in these interim consolidated financial statements should not be construed as a representation that the PLN amounts have been or could have been converted to Euro at this rate or at any other rate.

PricewaterhouseCoopers Sp. z o.o.

Warsaw, Poland
August 9, 2006

Index to the interim consolidated financial statements

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
as at June 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	June 30, 2006 (PLN)	Convenience Translation June 30, 2006 (EUR)
ASSETS				
Non-current assets				
Property, plant and equipment, net	7	1,766,911	1,688,952	417,706
Intangible assets				
Goodwill	9	13,843	13,843	3,424
Licenses, net	10	220,736	209,511	51,816
Computer software, net	11	74,851	70,116	17,341
Investments in associates	12	105,633	124,898	30,889
Other long term investments	13	-	32,787	8,109
Restricted cash	13	-	28,751	7,110
Deferred income tax assets	26	14,182	12,276	3,036
Available for sale financial assets		10	10	2
Other long term assets		323	-	-
Total non-current assets		**2,196,489**	**2,181,144**	**539,433**
Current assets				
Inventories	15	2,262	1,731	428
Trade and other receivables	16	156,924	115,538	28,574
Current income tax receivables		38	12	3
Prepaid expenses		10,876	32,073	7,932
Financial assets at fair value through profit and loss	18	63,059	54,611	13,507
Restricted cash	19	-	3,600	890
Cash and cash equivalents	20	197,387	136,008	33,637
		430,546	**343,573**	**84,971**
Non-current assets classified as held for sale	17	-	2,329	576
Total current assets		**430,546**	**345,902**	**85,547**
Total assets		**2,627,035**	**2,527,046**	**624,980**

Wojciech Madalski
President of the Company
Chief Executive Officer

Jonathan Eastick
Member of the Management Board
Chief Financial Officer

Piotr Czapski
Member of the Management Board

Paul Kearney
Member of the Management Board

Paweł Karłowski
Member of the Management Board

Tom Ruhan
Member of the Management Board

Warsaw, Poland
August 9, 2006

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

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
as at June 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2005 (PLN)	June 30, 2006 (PLN)	Convenience Translation June 30, 2006 (EUR)
EQUITY				
Share capital		408,615	389,168	96,248
Treasury shares		(122,806)	-	-
Supplementary capital		1,939,572	1,809,434	447,503
Other reserves		1,758	28,792	7,121
Retained earnings		126,502	72,051	17,819
Total capital and reserves attributable to the Company's equity holders	21	**2,353,641**	**2,299,445**	**568,691**
Minority interest	22	6,349	6,656	1,646
Total equity		**2,359,990**	**2,306,101**	**570,337**
LIABILITIES				
Non-current liabilities				
Liabilities for licenses	6, 10	14,000	13,840	3,423
Provisions	23	1,231	937	232
Deferred income		-	8,339	2,062
Other long term liabilities		741	297	73
Total non-current liabilities		**15,972**	**23,413**	**5,790**
Current liabilities				
Liabilities for licenses	6, 10	43,413	39,615	9,797
Trade and other payables	24	193,957	144,065	35,631
Current income tax liabilities		-	54	13
Provisions	23	2,969	2,112	522
Deferred income		10,734	11,686	2,890
Total current liabilities		**251,073**	**197,532**	**48,853**
Total liabilities		**267,045**	**220,945**	**54,643**
Total equity and liabilities		**2,627,035**	**2,527,046**	**624,980**

NETIA S.A.
INTERIM CONSOLIDATED INCOME STATEMENT
for the three-month and six-month periods ended June 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)	Convenience Translation Six-month period ended June 30, 2006 (EUR)
Telecommunication services revenue	27	898,694	221,555	435,805	200,997	417,070	103,148
Radio communication services revenue		9,931	2,594	5,038	2,319	4,618	1,142
Total revenue		**908,625**	**224,149**	**440,843**	**203,316**	**421,688**	**104,290**
Interconnection charges		(191,322)	(43,029)	(84,549)	(49,124)	(105,243)	(26,028)
Services purchased	28	(177,973)	(44,117)	(80,829)	(50,638)	(96,288)	(23,814)
Salaries and benefits	29	(132,664)	(31,508)	(65,848)	(34,623)	(68,960)	(17,055)
Depreciation of fixed assets	7	(199,985)	(49,375)	(98,370)	(55,327)	(107,690)	(26,634)
Amortization of intangible assets	10, 11	(48,472)	(12,095)	(23,864)	(12,610)	(24,849)	(6,146)
Impairment charges for non-current assets	7, 17	-	-	-	46	(5,687)	(1,406)
Reversal of impairment charges	7	2,289	-	-	61	390	96
Other gains/(losses), net	30	3,125	611	365	10,516	10,342	2,558
Other income	31	11,102	1,301	1,632	1,440	2,260	559
Other expenses	32	(84,416)	(19,400)	(37,946)	(22,548)	(41,297)	(10,213)
Operating profit / (loss)		**90,309**	**26,537**	**51,434**	**(9,491)**	**(15,334)**	**(3,793)**
Finance income	33	15,453	4,731	9,393	2,324	5,401	1,336
Finance costs	33	(7,205)	(1,819)	(3,523)	(1,835)	(3,548)	(877)
Share of losses of associates	12	(3,073)	-	-	(4,650)	(7,727)	(1,911)
Profit / (Loss) before income tax		**95,484**	**29,449**	**57,304**	**(13,652)**	**(21,208)**	**(5,245)**
Income tax benefit / (charge)	26	(35,294)	(4,312)	(8,862)	988	(2,094)	(518)
Profit / (Loss)		**60,190**	**25,137**	**48,442**	**(12,664)**	**(23,302)**	**(5,763)**
Attributable to:							
Equity holders of the Company		59,027	24,915	48,028	(12,828)	(23,609)	(5,839)
Minority interest	22	1,163	222	414	164	307	76
		60,190	**25,137**	**48,442**	**(12,664)**	**(23,302)**	**(5,763)**
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	35	**0.16**	**0.06**	**0.13**	**(0.03)**	**(0.06)**	**(0.02)**
Diluted earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)	35	**0.15**	**0.06**	**0.12**	**(0.03)**	**(0.06)**	**(0.02)**

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

NETIA S.A.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the six-month period ended June 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	Attributable to the Company's equity holders						Minority interest	Total equity
				Supplementary capital					
		Share capital	Treasury shares	Share premium	Other supplementary capital	Other reserves	Retained earnings		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at January 1, 2005		**366,956**	**(2,812)**	**1,605,357**	**203,565**	**1,892**	**188,131**	**5,186**	**2,368,275**
Issuance of series J shares		20,934	-	32,028	-	-	-	-	52,962
Cost of issuance of series J shares		-	-	(288)	-	-	-	-	(288)
Issuance of series I shares		5,876	-	485	-	-	-	-	6,361
Cost of issuance of series I shares		-	-	(1,334)	-	-	-	-	(1,334)
Employee share option scheme:									
- value of services provided		-	-	-	-	800	-	-	800
- issuance of series K shares		163	-	-	-	-	-	-	163
Appropriation of Netia's 2004 net profit:									
- dividend		-	-	-	-	-	(38,710)	-	(38,710)
- transfer to other supplementary capital		-	-	-	81,946	-	(81,946)	-	-
Repurchase of shares and warrants		-	(30,513)	-	(6)	-	-	-	(30,519)
Profit		-	-	-	-	-	48,028	414	48,442
Balance as at June 30, 2005		**393,929**	**(33,325)**	**1,636,248**	**285,505**	**2,692**	**115,503**	**5,600**	**2,406,152**

	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 December 31, 2005		**408,615**	**(122,806)**	**1,654,067**	**285,505**	**1,758**	**126,502**	**6,349**	**2,359,990**
Issuance of series J shares	21	7,662	-	11,723	-	-	-	-	19,385
Cost of issuance*		-	-	(175)	-	-	-	-	(175)
Employee share option scheme:									
- value of services provided	21	-	-	-	-	355	-	-	355
- issuance of series K shares	21	1,053	-	601	-	(1,483)	-	-	171
Coverage of negative difference in retained earnings related to adoption of new accounting standards by Netia S.A.	21	-	-	-	(42,605)	-	42,605	-	-
Appropriation of Netia's 2005 net profit:									
- dividend	21, 36	-	-	-	-	-	(50,323)	-	(50,323)
- transfer to reserve capital	21	-	-	-	-	2,812	(2,812)	-	-
- transfer to other supplementary capital	21	-	-	-	20,312	-	(20,312)	-	-
Transfer related to repurchase of series C and E shares	21	-	-	2,343	469	(2,812)	-	-	-
Decrease of share capital	21	(28,162)	122,806	(2,343)	(120,463)	28,162	-	-	-
Profit / (Loss)		-	-	-	-	-	(23,609)	307	(23,302)
Balance as at June 30, 2006		**389,168**	**-**	**1,666,216**	**143,218**	**28,792**	**72,051**	**6,656**	**2,306,101**

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

The total income and expense for the six month periods ended June 30, 2006 and 2005 recognized in the equity are equal to the profit / (loss) for the period.

NETIA S.A.
INTERIM CONSOLIDATED CASH FLOW STATEMENT
for the six-month period ended June 30, 2006

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2005	Six-month period ended June 30, 2005	Six-month period ended June 30, 2006	Convenience Translation Six-month period ended June 30, 2006
		(PLN)	(PLN)	(PLN)	(EUR)
Cash flows from operating activities:					
Profit / (loss)		**60,190**	**48,442**	**(23,302)**	**(5,763)**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation and amortization	7, 10, 11	248,457	122,234	132,539	32,779
Impairment charges for non-current assets	7, 17	-	-	5,687	1,406
Reversal of impairment charges	7	(2,289)	-	(390)	(96)
Share of losses of associates	12	3,073	-	7,727	1,911
Deferred income tax charge	26	34,720	8,539	1,906	471
Reassessment of the carrying value of license fee liabilities	6, 10	-	-	(10,437)	(2,581)
Interest expense accrued on license liabilities	10	6,495	3,174	3,395	840
Interest accrued on loans		(351)	-	-	-
Share-based compensation	21	3,395	963	526	130
Fair value gains on financial assets at fair value through profit and loss	33	(2,631)	(1,634)	(1,135)	(281)
Other provisions		-	161	-	-
Decrease/(increase) in long term assets		(573)	(301)	323	80
Foreign exchange (gains) / losses		(3,946)	(2,228)	2,462	609
Profit on sale of fixed assets	30	(345)	(156)	(2,205)	(545)
Gain on sale of subsidiaries and other investments	14	(11)	-	(20)	(5)
Changes in working capital	37	(7,847)	(16,287)	15,284	3,781
Net cash provided by operating activities		**338,337**	**162,907**	**132,360**	**32,736**
Cash flows used in investing activities:					
Purchase of fixed assets and computer software		(146,102)	(71,153)	(83,102)	(20,553)
Proceeds from sale of fixed assets		2,077	637	896	222
Investment in associate	12	(109,465)	-	(27,000)	(6,678)
Purchase of subsidiary, net of received cash		5,051	-	(51)	(13)
Other long term investments (including restricted cash)	13	-	-	(61,538)	(15,219)
Sale of subsidiaries, net of cash in subsidiaries		260	-	25	6
Sale of financial assets at fair value through profit and loss		4,953	4,953	8,411	2,080
Loans granted		(24,899)	-	-	-
Loans repaid		1,002	-	-	-
Interest repaid		32	-	-	-
Payments for licenses		(24,250)	(4,050)	-	-
Net cash used in investing activities		**(291,341)**	**(69,613)**	**(162,359)**	**(40,155)**
Net cash used in financing activities:					
Proceeds from share issuance		82,364	52,962	19,385	4,794
Cost of share issuance		(1,916)	(1,622)	(175)	(43)
Dividend paid to the Company's shareholders		(38,710)	(38,710)	(50,323)	(12,446)
Repurchase of shares and warrants		(123,052)	(33,331)	-	-
Repayment of installment obligations		(5,511)	(1,505)	-	-
Finance lease payments		-	-	(99)	(24)
Redemption of notes for warrants		(31)	(1)	(334)	(83)
Net cash provided by financing activities		**(86,856)**	**(22,207)**	**(31,546)**	**(7,802)**
Effect of exchange rate change on cash and cash equivalents		**1,310**	**1,579**	**166**	**41**
Net change in cash and cash equivalents		**(38,550)**	**72,666**	**(61,379)**	**(15,180)**
Cash and cash equivalents at beginning of period		235,937	235,937	197,387	48,817
Cash and cash equivalents at end of period		**197,387**	**308,603**	**136,008**	**33,637**

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

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 (collectively, the "Netia Group") is the largest alternative fixed-line telecommunication operator in Poland.

The interim consolidated financial statements of Netia S.A. for the three-month and six-month periods ended June 30, 2006 comprise the Company and its subsidiaries. A list of the Company's subsidiaries as at June 30, 2006 is set out in Note 2.

These consolidated financial statements were approved for issuance by the Company's Management Board on August 9, 2006.

The Netia Group provides various voice telephone 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 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 the intelligent network (free phone, split charge and premium rate services) and provides a broadband Internet access in 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 Notes 12 and 41), was announced the winner of the UMTS tender, organized by the Polish regulator.

In addition, on October 27, 2005 the Company's subsidiaries, Netia WiMax S.A. ("Netia WiMax") and Netia WiMax II S.A. ("Netia WiMax II"), received the reservation of the 3.6-3.8 GHz frequencies. The Company plans to use the frequencies to provide telecommunication services based on WiMAX technology. The WiMAX based access network will be used to provide high quality data and voice transmission. The new WiMAX network will interconnect with Netia's fiber-optic backbone infrastructure and integrate seamlessly with its existing access network.

The Netia Group is also engaged in the installation and supply of specialized mobile radio services (public trunking) in Poland through its 58.2% owned subsidiary, UNI-Net Sp. z o.o.

In March 2006 the Company sold 100 (not in thousands) shares of Netia Ventures Sp. z o.o., representing 100% of its share capital (see Note 14).

In May 2006 the Company's subsidiary, InterNetia Sp. z o.o., with its seat in Warsaw ("InterNetia"), was registered by the relevant Polish court. The shares in InterNetia were taken up solely by Netia. As at June 30, 2006 InterNetia has not started any business activities.

In June 2006 the Netia Group acquired Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o. (for further details see Note 8).

The Company's ordinary shares have been listed on the Warsaw Stock Exchange since July 2000 and are part of the WIG-20 index. The Company is subject to periodic reporting requirements under the Polish regulations regarding reporting requirements for companies listed on the Warsaw Stock Exchange.

2. Significant subsidiaries and associates of the Company

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

Subsidiary	Ownership Percentage December 31, 2005	Ownership Percentage June 30, 2006
Subsidiaries held directly:		
UNI-Net Sp. z o.o.	58	58
Netia WiMax S.A.	100	100
Polbox Sp. z o.o.	100	100
Netia WiMax II S.A.	100	100
Netia Mobile Sp. z o.o.	100	100
Netia Ventures Sp. z o.o.	100	-
RST El-Net S.A.	100	100
InterNetia Sp. z o.o.	-	100

(All amounts in thousands, except as otherwise stated)

Subsidiary	Ownership Percentage December 31, 2005	June 30, 2006
Subsidiaries held indirectly:		
Świat Internet S.A.	100	100
Premium Internet S.A.	100	100
HFC Internet Sp. z o.o.	100	100
Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o.	-	100

The Company has one associate company, P4 Sp. z o.o., in which it holds an indirect 30% interest via its 100% subsidiary Netia Mobile Sp. z o.o.

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

3. Summary of significant accounting policies

Basis of preparation

Following the European Union regulations, commencing January 1, 2005 Netia as a public company in Poland prepares consolidated financial statements, as required by the Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694 with later amendments) in accordance with International Financial Reporting Standards as adopted by the European Union (the "accounting standards as adopted by the EU"). As of June 30, 2006 there are no differences as regards policies adopted by the Netia Group between these standards and International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board.

These interim consolidated financial statements have been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34"). These interim consolidated financial statements have been prepared in accordance with those accounting standards as adopted by the EU issued and effective as at the time of preparing these statements. The accounting policies used in the preparation of the interim consolidated financial statements are consistent with those used in the annual consolidated financial statements for the year ended December 31, 2005, except for new accounting standards adopted as of January 1, 2006.

The preparation of financial statements in conformity with IAS 34 requires the use of certain critical accounting estimates. The areas where assumptions and estimates are significant to the interim consolidated financial statements are disclosed in Note 6.

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

The Company's or the Netia Group's activities are not subject to any significant seasonal or cyclical trends of operations.

The interim consolidated financial statements are prepared under the historic cost convention as modified by the revaluation of financial assets at fair value through profit and loss. However, until December 31, 1996, Poland was considered to be a hyperinflationary economy. The consolidated financial statements for the periods through that date were prepared under the historical cost convention as adjusted for the effects of inflation in accordance with IAS 29, "Financial Reporting in Hyperinflationary Economies". The inflated values in PLN at December 31, 1996 for balance sheet items became the new historical basis for subsequent periods.

All Euro amounts shown as supplementary information in the accompanying consolidated financial statements have been translated from PLN only as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2006 of PLN 4.0434 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

As at June 30, 2006 the Netia Group had funds of PLN 54,611 deposited in money market investment funds. Following detailed analysis of liquidity and risks connected with these financial assets, performed in the three-month period ended March 31, 2006, the Company's management decided to no longer classify these financial assets as cash equivalents. From March 31, 2006 these financial assets are presented as a separate balance sheet item – financial assets at fair value through profit and loss. The comparative amount of PLN 63,059 presented in these interim consolidated financial statements has been reclassified to conform to the presentation for the three-month and six-month periods ended June 30, 2006. The relevant changes have also been made to the consolidated cash flow statement.

New standards, interpretations and amendments to existing standards

The following new standards, amendments to standards and interpretations are mandatory for financial year ending December 31, 2006:

- Amendment to IAS 19, 'Actuarial gains and losses, group plans and disclosures', effective for annual periods beginning on or after January 1, 2006. The adoption of the amendment did not have a significant impact on these interim consolidated financial statements;

- Amendment to IAS 39, Amendment to 'The fair value option', effective for annual periods beginning on or after January 1, 2006. The adoption of the amendment did not have a significant impact on these interim consolidated financial statements;

- Amendment to IAS 21, Amendment 'Net investment in a foreign operation', effective for annual periods beginning on or after January 1, 2006. This amendment is not relevant for the Netia Group;

- Amendment to IAS 39, Amendment 'Cash flow hedge accounting of forecast intragroup transactions', effective for annual periods beginning on or after January 1, 2006. The adoption of the amendment did not have a significant impact on these interim consolidated financial statements;

- Amendment to IAS 39 and IFRS 4, Amendment 'Financial guarantee contracts', effective for annual periods beginning on or after January 1, 2006. The adoption of the amendment did not have a significant impact on these interim consolidated financial statements;

- IFRS 6, 'Exploration for and evaluation of mineral resources', effective for annual periods beginning on or after January 1, 2006. This standard is not relevant for the Netia Group;

- IFRIC 4, 'Determining whether an arrangement contains a lease', effective for annual periods beginning on or after January 1, 2006. The adoption of the interpretation did not have a significant impact on these interim consolidated financial statements;

- IFRIC 5, 'Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds', effective for annual periods beginning on or after January 1, 2006. This interpretation is not relevant for the Netia Group; and

- IFRIC 6, 'Liabilities arising from participating in a specific market – waste electrical and electronic equipment', effective for annual periods beginning on or after 1 December 2005. The adoption of the interpretation did not have a significant impact on these interim consolidated financial statements;

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC 7, 'Applying the Restatement Approach under IAS 29', effective for annual periods beginning on or after March 1, 2006. Management do not expect the interpretation to be relevant for the Netia Group;

- IFRIC 8, 'Scope of IFRS 2', effective for annual periods beginning on or after May 1, 2006. Management is currently assessing the impact of IFRIC 8 on the Netia Group's operations;

- IFRIC 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after June 1, 2006. Management do not expect the interpretation to have significant impact on the Netia Group's operations;and

- IFRIC 10, 'Interim Financial Reporting and Impairment', effective for annual periods beginning on or after November 1, 2006. Management is currently assessing the impact of IFRIC 10 on the Netia Group's operations; and

- IFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after January 1, 2007. IAS 1, 'Amendments to capital disclosures', effective for annual periods beginning on or after January 1, 2007. IFRS 7 introduces new requirements to improve the information on financial instruments that is given in entities' financial statements. The amendment to IAS 1 complements the release of IFRS 7 "Financial Instruments: Disclosures" and introduces requirements for all entities to disclose: the entity's objectives, policies and processes for managing capital, quantitative data about what the entity regards as capital, whether the entity has complied with any capital requirements, and if it has not complied, the consequences of such non-compliance.

Consolidation

(a) Subsidiaries

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

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

The purchase method of accounting is used to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given up, shares issued or liabilities undertaken at the date of acquisition plus costs directly attributable to the acquisition. The excess of the cost of acquisition over the fair value of the assets, liabilities and contingent liabilities of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the assets, liabilities and contingent liabilities of the subsidiary acquired, the difference is recognized directly in the income statement. Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Netia Group.

(b) Transactions and minority interests

The Netia Group applies a policy of treating transactions with minority interests as transactions with parties external to the Netia Group. Disposals to minority interests result in gains and losses for the Netia Group that are recorded in the income statement. Purchases from minority interest result in goodwill, being the difference between any considerations paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(c) Associates

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

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

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

Segment reporting

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

(All amounts in thousands, except as otherwise stated)

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the date of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

Property, plant and equipment

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

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

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

	Term
Buildings	10 to 40 years
Transmission network	8 to 25 years
Switching system	10 to 15 years
Machinery and equipment	5 to 12 years
Office machinery and equipment	3 to 10 years
Vehicles	5 to 8 years

Land and fixed assets under construction are not depreciated.

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

The Netia Group has reassessed the useful lives of certain of its fixed assets (narrowband radio equipment) in accordance with the provisions of IAS 16. These fixed assets will be fully depreciated until the end of 2008. The depreciation rates were changed accordingly (see also Note 7).

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

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

Non-current assets classified as held for sale

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

Leases

Leases where a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

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

Intangible assets

(a) Licenses and license fee liabilities

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

(b) Goodwill

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

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

(c) Computer software costs

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

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

Impairment of non-financial assets

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

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

Financial assets

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

(a) Available-for-sale financial assets

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

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

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

(c) Loans and receivables

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

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

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

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

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

Share capital

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

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

Share-based compensation

The Netia Group operates an equity-settled, share-based compensation plan. Share options are granted to employees and board members of the managing bodies of the Company. Upon exercise of the options, the Company will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options. The vesting period for the options ranges up to three years from the date of grant or upon achieving certain specified conditions.

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

Retirement benefits

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

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

The Netia Group has no other employee retirement plans.

Provisions

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

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

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

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

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

Deferred income

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

Revenue

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

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

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

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

Interconnection charges

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

Interest income

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

Deferred income taxes

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

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

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

Dividend distribution

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

Current financial condition

As at June 30, 2006, the equity amounted to PLN 2,306,101 and the Netia Group had working capital of PLN 148,370. In 2003 the financial restructuring and the cancellation of local license fee obligations of Netia were completed. The Management of the Company has an expectation that the outstanding local license fee obligations of Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net") may be cancelled in accordance with the applicable law. For further details on the current situation and the Company's plans in this respect, see Note 10. In 2004, 2005 and the six-month period ended June 30, 2006 the Netia Group generated positive cash flows from operating activities. 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.

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

During the six-month period ended June 30, 2006 the Company recorded professional fees of PLN 3,890 relating to investment bank advisory services obtained during the public tender offer to purchase Netia shares carried out by Novator Telecom Poland II S.a.r.l. in December 2005 and January 2006.

Furthermore, the Company recorded an impairment charge for non-current assets of PLN 5,687 in total, resulting from the replacement of telecommunications equipment and switching systems (see Note 7) and valuation of certain fixed assets classified as held for sale (see Note 17).

Following the receipt of the decisions regarding cancellation of part of outstanding local license fee obligations and the prolongation fees in exchange for expenditure on the telecommunications infrastructure incurred in years 2001 – 2005 and having analysed the risk of crystallization with respect to the remaining part of the liabilities, the Management reassessed the carrying value of license fee liabilities, resulting in reduction of the liability by PLN 10,437 and, accordingly, reflecting the same amount as a gain in the income statements (for further details see Notes 6 and 10).

On June 30, 2006, pursuant to the managed services contract with Ericsson Sp. z o.o. ("Ericsson ") signed on April 28, 2006, the Company transferred to Ericsson certain fixed assets of the Netia Group (mainly cars, computers and technical equipment). The profit on sales of these assets amounted to PLN 1,732. On the same date approximately 300 (not in thousands) of the Netia Group's employees were transferred to Ericsson under the scope of this contract.

Furthermore, as TP S.A. has not paid significant amounts resulting from invoices for incoming local traffic issued by El-Net since October 1, 2005 the Netia Group decided to sell a certain part of the unpaid receivables. However, as at June 30, 2006, the receivable in the nominal amount of PLN 4,715 remained unpaid and had been fully provided for. The related impairment charge recorded in the six-month period ended June 30, 2006 amounted to PLN 3,565, of which PLN 2,357 related to the three-month period ended June 30, 2006.

5. Financial risk management

Financial risk factors

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

Market risk

- Currency risk:

The Netia Group's revenues and costs are predominately denominated in Polish Zloty, other than some payments made under the equipment and construction contracts, which are linked to the U.S. Dollar and Euro. To mitigate the currency risk Netia Group holds deposits in Euro and U.S. Dollars for servicing those payments.

- Interest rate risk:

The Netia Group's income and operating cash flows are substantially independent of changes in market interest rates.

- Price risk:

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

Credit risk

The Netia Group has no significant concentrations of credit risk. Cash transactions are limited to high credit quality financial institutions. The Netia Group has a large number of customers, nationally dispersed, and there are policies in place to ensure that sales of services to significant customers are preceded by appropriate verification of their credit history.

Liquidity risk

The Netia Group policy assumes maintaining sufficient cash and marketable securities to service the current payments. Surpluses are deposited in either bank deposits or treasury bills or low risk investment funds.

Fair value estimation

The fair value of financial instruments traded in active markets (such as financial assets at fair value through profit or loss) is based on dealer quotes obtained at the balance sheet date.

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

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

6. Critical accounting estimates and judgments

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

(a) License liabilities

The total outstanding license fee obligations of El-Net have been subject to review as regards their fair value upon purchase of El-Net by Netia. The fair value has been established based on the Management's best estimate of the probability of future payments in connection with the cancellation process commenced as at the acquisition date. Management has estimated that there is a 100% probability of cancellation in relation to the capital expenditure already incurred and 80% probability of cancellation in relation to future capital expenditure. Based on these percentages as well as the estimation of capital expenditures planned beyond 2004, the nominal value of probable future payments as at January 29, 2004 was established at EUR 17,452 increased by PLN 5,816 of prolongation fees.

(All amounts in thousands, except as otherwise stated)

This nominal value has been further adjusted to reflect the present value of the probable future payments. As result of the above, the fair value allocated to license fee liabilities of El-Net as at January 29, 2004 was equal to EUR 14,260 (PLN 67,896) increased by PLN 5,816 of prolongation fees.

Pursuant to the decision on the deferral of payments extending them to December 30, 2006, the adjustment to the discounted fair value of future payments has been recorded as a gain in the income statements amounting to PLN 13,363.

Pursuant to the decisions obtained in March and June 2006 (see Note 10), canceling part of outstanding local license fee obligations and the prolongation fees in exchange for expenditure on the telecommunications infrastructure incurred in years 2001 – 2005 and having analysed the progress of cancellation process of the remaining liabilities, Management has updated its assessment and estimated that there is an 80% probability of cancellation in relation to the remaining licence fee liabilities and prolongation fees.

The following table presents the fair value of the outstanding local license fee obligations of El-Net as at January 29, 2004 as well as subsequent changes to the value of liabilities through June 30, 2006:

	(PLN)
Nominal value of outstanding license fee obligations	
Overdue installments (excluding prolongation fees)	360,388
Prolongation fees	37,733
Installments payable later than 5 years	137,766
	535,887
Less fair value adjustment to opening balances	(446,973)
Nominal value of probable future payments as at January 29, 2004	**88,914**
Less imputed interest on license fee liabilities	(15,202)
Fair value as at January 29, 2004,	**73,712**
of which:	
Short term license fee liabilities (including prolongation fees)	61,361
Long term license fee liabilities	12,351
Fair value as at January 29, 2004,	**73,712**
Effect of deferral of future payments	(13,363)
Interest accrued in the period ended December 31, 2004	3,647
Foreign exchange gains on the translation of EUR balances	(9,908)
Carrying value as at December 31, 2004	**54,088**
Interest accrued in the period ended December 31, 2005	6,494
Foreign exchange gains on the translation of EUR balances	(3,169)
Carrying value as at December 31, 2005	**57,413**
Interest accrued in the period ended June 30, 2006	3,395
Foreign exchange gains on the translation of EUR balances	3,084
Reassessment of the carrying value of license fee liabilities	(10,437)
Carrying value as at June 30, 2006	**53,455**

License fee liabilities of PLN 39,615 were reclassified to short-term liabilities as at June 30, 2006 (see also Note 10).

If the probability of cancellation of the outstanding license fee obligations in relation to future capital expenditure increased by 10 p.p. and if the discount rate applied for reflecting the present value of the probable future payments increased by 1 p.p., the total carrying value of license fee liabilities as of June 30, 2006 should be decreased by PLN 27,096.

If the probability of cancellation of the outstanding license fee obligations in relation to future capital expenditure decreased by 10 p.p. and if the discount rate applied for reflecting the present value of the probable future payments decreased by 1 p.p., the total carrying value of license fee liabilities as of June 30, 2006 should be increased by PLN 27,881.

(b) Deferred tax

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

The Management assessment considered that entities in the Netia Group expect that future taxable profits will be generated based on the 2006 budget and business plan covering the period up to 2008. For temporary differences, which reverse beyond 2008, no deferred tax asset was recognized. Management's assessment also considered factors such as: the stability and trend of past earnings; the nature of the business and industry; the economic environment in which the Netia Group is located; and the stability of the legislation to which the companies in the Netia Group are subject. Based on the above assumptions, the recognized deferred tax asset as at June 30, 2006 amounted to PLN 12,276.

If the Company did not limit the period, which was the base for the income tax projections, as of June 30, 2006 the Netia Group would need to increase the deferred tax asset by PLN 109,430. Further, if the projected future earnings were 10% higher (every year), as of June 30, 2006 the Netia Group would need to increase the deferred tax asset by an additional PLN 245.

(c) Impairment of investments in associates

As at June 30, 2006 the Netia Group assessed whether there are any indications that investments in associates may be impaired. The only Netia Group's investment in associates is P4, the holder of an UMTS license. After assessing both the external and internal sources of information, the Management concluded that no such indication exists.

However, there is considerable uncertainty as to the recoverable amount of the investments in P4, which depends on the future success of the P4's business model based on its UMTS license. P4's business results will depend significantly on the competitive landscape, take up and charge rate of data and voice services and the timing of the available, functioning, technological UMTS infrastructure to support their roll-out. The actual outcome is uncertain and P4's business estimates may change over time as a result of subsequent changes in the mobile telecommunications industry, including advances in technology or changes in the performance of P4's business, as a result of competitive pressure or otherwise, or potential difficulty in the implementation of the UMTS network.

(d) Impairment of assets of the Netia Group

In 2005 the Netia Group tested whether goodwill suffered any impairment. The goodwill was allocated to the Netia Group's cash-generating unit ("CGU") identified as the entire Netia Group.

The WiMAX licenses obtained in October 2005 were not yet available for use as at December 31, 2005. In accordance with provisions of IAS 36, the Netia Group tested the WiMAX licenses for impairment in 2005. The WiMAX licenses were allocated to the CGU identified as the entire Netia Group.

In 2003 the Netia Group performed an impairment test in accordance with IAS 36 "Impairment of Assets". The test resulted in an impairment charge of PLN 799,695, which was recorded in the consolidated income statement for the year ended December 31, 2003 and was allocated to the non-current assets in the telecommunications segment on a pro rata basis.

As at June 30, 2006 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 resulted in additional impairment charge.

The analysis, based on Management's judgments, of both the external and internal sources of information did not identify any indications which could result in a new assessment of the impairment loss recorded in 2003 or in an additional impairment charge. However, as the financial long-term projections are being updated, this assessment may change upon adoption of a new business plan.

(All amounts in thousands, except as otherwise stated)

7. Property, plant and equipment

Current period:

Gross book value	December 31, 2005	Additions	Transfers	Transfers to non-current assets held for sale	Disposals and other movements	June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Buildings	73,272	-	98	(1,079)	117	72,408
Land	17,684	-	-	(1,363)	-	16,321
Transmission network	1,855,368	2	9,570	(2,464)	(937)	1,861,539
Switching system	1,488,393	403	23,818	-	(5,849)	1,506,765
Machinery and equipment	82,439	191	1,219	-	(2,853)	80,996
Office furniture and equipment	138,948	811	4,344	-	(18,863)	125,240
Vehicles	17,369	2,294	44	-	(5,877)	13,830
	3,673,473	3,701	39,093	(4,906)	(34,262)	3,677,099
Fixed assets under construction	72,855	36,071	(39,093)	-	(109)	69,724
	3,746,328	**39,772**	**-**	**(4,906)**	**(34,371)**	**3,746,823**

Accumulated depreciation	December 31, 2005	Depreciation expense	Transfers to non-current assets held for sale	Disposals and other movements	June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Buildings	17,645	1,508	(141)	12	19,024
Transmission network	511,946	37,816	(583)	(6)	549,173
Switching system	473,690	59,260	-	(1,704)	531,246
Machinery and equipment	49,268	2,603	-	(5,492)	46,379
Office furniture and equipment	110,087	5,612	-	(17,692)	98,007
Vehicles	8,420	891	-	(5,187)	4,124
	1,171,056	**107,690**	**(724)**	**(30,069)**	**1,247,953**

Accumulated impairment	December 31, 2005	Impairment charge	Reversal of impairment	Transfers	Transfers to non-current assets held for sale	Disposals and other movements	June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)		(PLN)	(PLN)
Buildings	14,481	-	-	-	-	2	14,483
Land	4,821	-	-	-	(379)	-	4,442
Transmission network	491,023	1	-	-	(501)	(247)	490,276
Switching system	274,558	4,703	-	-	-	(1,180)	278,081
Machinery and equipment	9,898	10	-	10	-	575	10,493
Office furniture and equipment	10,667	-	-	-	-	(555)	10,112
Vehicles	874	-	-	-	-	(509)	365
	806,322	4,714	-	10	(880)	(1,914)	808,252
Fixed assets under construction	2,039	-	(317)	(10)	-	(46)	1,666
	808,361	**4,714**	**(317)**	**-**	**(880)**	**(1,960)**	**809,918**

(All amounts in thousands, except as otherwise stated)

Net book value	**December 31, 2005**	**June 30, 2006**
	(PLN)	**(PLN)**
Buildings	41,146	38,901
Land	12,863	11,879
Transmission network	852,399	822,090
Switching system	740,145	697,438
Machinery and equipment	23,273	24,124
Office furniture and equipment	18,194	17,121
Vehicles	8,075	9,341
	1,696,095	1,620,894
Fixed assets under construction	70,816	68,058
	1,766,911	**1,688,952**

The impairment charge for specific assets recorded in the six-month period ended June 30, 2006 amounting to PLN 4,714 relates to telecommunication equipment and switching systems due to their replacement.

The reversal of impairment of fixed assets under construction in the amount of PLN 317 (net of VAT) recorded in the six-month period ended June 30, 2006, relates to those fixed assets, which the Company began to use in its operations.

Furthermore, the Netia Group reassessed the useful lives of certain of its fixed assets (narrowband radio equipment) and in consequence, the remaining period over which they would be depreciated was shortened until the end of 2008. The depreciation rates were changed accordingly resulting in an additional charge of PLN 2,619 recognized in the income statement during the six-month period ended June 30, 2006. The relevant increase in the depreciation charge for the next six-month period ended December 31, 2006 will amount to approximately PLN 5,238.

The transfers recorded in the six-month period ended June 30, 2006 mainly relate to transfers from fixed assets under construction to fixed assets due to the completion of construction. Additionally, transfers between switching system and machinery and equipment were made due to reclassifications of selected computer based equipment.

In addition, during the six-month period ended June 30, 2006 the Company reclassified certain non-current assets (land and buildings) at the total net book value of PLN 3,302, to assets held for sale (see Note 17).

Subsequent costs directly attributable to the acquisition or bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management amounting to PLN 4,992, and PLN 9,740 were capitalized to network under construction during the six-month period ended June 30, 2006 and the year ended December 31, respectively.

Transmission network includes the net carrying amount of PLN 427 and PLN 460 relating to assets held under finance leases as at June 30, 2006 and December 31, 2005, respectively.

<u>*Comparative period:*</u>

Gross book value	**December 31, 2004**	**Additions**	**Transfers**	**Disposals and other movements**	**June 30, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	74,116	-	53	(499)	73,670
Land	17,422	-	96	-	17,518
Transmission network	1,825,950	-	18,041	(805)	1,843,186
Switching system	1,398,748	-	39,371	(1,296)	1,436,823
Machinery and equipment	77,362	237	509	(85)	78,023
Office furniture and equipment	129,186	-	5,601	323	135,110
Vehicles	12,181	14	-	(550)	11,645
	3,534,965	251	63,671	(2,912)	3,595,975
Fixed assets under construction	86,222	44,185	(67,876)	47	62,578
	3,621,187	**44,436**	**(4,205)**	**(2,865)**	**3,658,553**

(All amounts in thousands, except as otherwise stated)

Accumulated depreciation	**December 31, 2004**	**Depreciation expense**	**Disposals and other movements**	**June 30, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	15,006	1,516	(125)	16,397
Transmission network	437,711	37,322	(809)	474,224
Switching system	378,345	49,195	489	428,029
Machinery and equipment	43,498	2,703	(37)	46,164
Office furniture and equipment	97,401	6,919	1,183	105,503
Vehicles	8,834	715	(407)	9,142
	980,795	**98,370**	**294**	**1,079,459**

Accumulated impairment	**December 31, 2004**	**Transfers**	**Disposals and other movements**	**June 30, 2005**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	14,633	-	75	14,708
Land	4,821	-	-	4,821
Transmission network	490,220	458	290	490,968
Switching system	283,680	39	61	283,780
Machinery and equipment	9,445	4	(8)	9,441
Office furniture and equipment	11,621	-	(868)	10,753
Vehicles	1,095	-	(104)	991
	815,515	501	(554)	815,462
Fixed assets under construction	7,721	(578)	(492)	6,651
	823,236	**(77)**	**(1,046)**	**822,113**

Net book value	**December 31, 2004**	**June 30, 2005**
	(PLN)	**(PLN)**
Buildings	44,477	42,565
Land	12,601	12,697
Transmission network	898,019	877,994
Switching system	736,723	725,014
Machinery and equipment	24,419	22,418
Office furniture and equipment	20,164	18,854
Vehicles	2,252	1,512
	1,738,655	1,701,054
Network under construction	78,501	55,927
	1,817,156	**1,756,981**

8. Acquisitions

On June 30, 2006 Premium Internet S.A. ("Premium Internet"), the Company's subsidiary, acquired 100% of the share capital of Zachodni – Inwestycje Telekomunikacyjne Sp. z o.o. ("ZIT"). The purchase price of ZIT's shares will be ultimately set on January 22, 2007, based on the value of ZIT's net assets as at 2006 year-end, and will be paid by January 31, 2007. The sellers have received an advance payment in the total amount of PLN 5,324.

ZIT has been rendering managerial services for Premium Internet since July 2005. As the purchase price of ZIT's shares will equal the amount due for those managerial services (and consequently the fair value of ZIT's net assets will equal the same amount), the Netia Group decided to reflect the economic substance of this transaction and not apply IFRS 3 "Business Combinations" for this acquisition. Therefore, during the six-month period ended June 30, 2006 and the year ended December 31, 2005, the Netia Group recognized the cost of managerial services in the amount of PLN 4,082 and PLN 2,650, respectively and included it in "Professional services" in the consolidated income statement. The advance payment of PLN 5,324 was netted with the related accrual, which as at June 30, 2006 and December 31, 2005 amounted to PLN 4,058 and PLN 5,300, respectively.

(All amounts in thousands, except as otherwise stated)

9. Goodwill

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Gross carrying amount	13,843	13,843
Accumulated impairment	-	-
Net carrying amount	**13,843**	**13,843**

The goodwill of PLN 13,843 was recognized on the acquisition of HFC Internet Sp. z o.o. Group, which took place in September 2005.

10. Licenses

License assets

Current period:

Gross book value	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Local telecommunication licenses/permits	432,823	432,823
Data communications and internet licenses/permits	7,417	7,417
Domestic long distance licenses/permits	107,354	107,354
WiMAX licenses	20,329	20,329
	567,923	**567,923**

Accumulated amortization	December 31, 2005 (PLN)	Amortization expense (PLN)	June 30, 2006 (PLN)
Local telecommunication licenses/permits	146,661	8,756	155,417
Data communications and internet licenses/permits	1,539	-	1,539
Domestic long distance licenses/permits	35,465	2,469	37,934
WiMAX licenses	-	-	-
	183,665	**11,225**	**194,890**

Accumulated impairment	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Local telecommunication licenses/permits	137,127	137,127
Data communications and internet licenses/permits	5,878	5,878
Domestic long distance licenses/permits	20,517	20,517
	163,522	**163,522**

Net book value	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Local telecommunication licenses/permits	149,035	140,279
Domestic long distance licenses/permits	51,372	48,903
WiMAX licenses	20,329	20,329
	220,736	**209,511**

(All amounts in thousands, except as otherwise stated)

<u>*Comparative period:*</u>

Gross book value	**December 31, 2004 (PLN)**	**June 30, 2005 (PLN)**
Local telecommunication licenses/permits	432,823	432,823
Data communications and internet licenses/permits	7,417	7,417
Domestic long distance licenses/permits	107,354	107,354
	547,594	**547,594**

Accumulated amortization	**December 31, 2004 (PLN)**	**Amortization expense (PLN)**	**June 30, 2005 (PLN)**
Local telecommunication licenses/permits	129,237	8,682	137,919
Data communications and internet licenses/permits	1,539	-	1,539
Domestic long distance licenses/permits	30,513	2,469	32,982
	161,289	**11,151**	**172,440**

Accumulated impairment	**December 31, 2004 (PLN)**	**June 30, 2005 (PLN)**
Local telecommunication licenses/permits	137,127	137,127
Data communications and internet licenses/permits	5,878	5,878
Domestic long distance licenses/permits	20,517	20,517
	163,522	**163,522**

Net book value	**December 31, 2004 (PLN)**	**June 30, 2005 (PLN)**
Local telecommunication licenses/permits	166,459	157,777
Domestic long distance licenses/permits	56,324	53,855
	222,783	**211,632**

Telecommunication licenses/permits

Prior to the completion of the merger of the Company with its operating subsidiaries on December 31, 2003 its subsidiaries held fixed term permits for the operation of local telecommunication networks on a non-exclusive basis in specified areas throughout Poland. Those permits were obtained through their conversion from telecommunication licenses issued under the regulations of the previous Telecommunication Act. The conversion took place by virtue of the 2001 Act on January 1, 2001. Licenses for telecommunications services in Poland were issued for 15-year periods. The remaining amortization period of the permit ranges between 6 and 9 years.

Due to decisions issued by the Ministry of Infrastructure on December 23, 2003, the total local license fee liability was reduced to nil. At the same time the reduction of the gross book value of the license asset was recorded (being the historical cost of the obligations forgiven) and the accumulated amortization was decreased accordingly.

Domestic long distance licenses/permits

In May 2000, one of operating subsidiaries currently merged into Netia, was granted a domestic long distance license. The license, currently converted into a permit, covers the entire territory of Poland and enables the Company to provide inter-city telecommunication services. The remaining amortization period of the permit is 9 years.

The long distance license fee liabilities were not subject to the cancellation of local license fee liabilities. On January 31, 2005 the Company paid that last installment of the liability.

Data communications and internet licenses/permits

In April 1999, one of operating subsidiaries currently merged into Netia, obtained a data communications license covering the entire territory of Poland. The license fee liability was paid for during 1999.

WiMAX licenses

On October 27, 2005 the Company's subsidiaries, Netia WiMax and Netia WiMax II, received the reservation of the 3.6-3.8 GHz frequencies, which will be used to provide telecommunication services based on the WiMAX technology. The new WiMAX network will interconnect with Netia's fiber-optic backbone infrastructure and integrate with its existing access network. The license covers the entire territory of Poland and is valid for 15 years. The nominal value of the license was PLN 20,200 and total additions to the value of the license amounted to PLN 129. The whole license fee liability was paid by November 11, 2005.

El-Net license fee liabilities

El-Net, the subsidiary acquired in 2004, obtained licenses from the Ministry of Communications for the provision of local telephone services in areas including Warsaw, Bydgoszcz and smaller cities in the northern part of Poland. As of January 1, 2001, pursuant to the 2001 Act, all telephone licenses were converted by virtue of law into telecommunication permits. At that date the total nominal value of outstanding license fee obligations of El-Net was EUR 104,624 (PLN 423,035 at the exchange rate prevailing on June 30, 2006) increased by prolongation fees of PLN 37,733.

On December 30, 2002, El-Net submitted applications for cancellation of certain outstanding local license fee obligations in accordance with the applicable law enacted in 2002. Following its purchase by the Netia Group, El-Net filed an amendment to the previous application asking for cancellation of license fee obligations of EUR 75,690 (PLN 306,043 at the exchange rate prevailing June 30, 2006) and related prolongation fees of PLN 37,733, based on capital expenditure incurred between 2001 and 2003 as well as future capital expenditure to be incurred until the end of 2006 within the Netia Group. On August 16, 2004 El-Net received a decision of the Minister of Infrastructure dated July 12, 2004 granting the promise to cancel the outstanding license fees obligations, amounting to EUR 75,690 and prolongation fees amounting to PLN 37,733. The above cancellation shall occur upon the verification of capital expenditure incurred in accordance with the applicable law. The Minister of Infrastructure also decided that this cancellation could apply to El-Net's capital expenditure incurred from January 1, 2001 until December 30, 2006, upon the assumption that capital expenditure already incurred by El-Net in 2001-2003 amounted to PLN 85,459. Pursuant to this decision all license fee payments and prolongation fees subject to the decision have been deferred until December 30, 2006.

Furthermore, on October 29, 2004, El-Net filed an application for cancellation of the remaining license fee installments payable in 2010 and 2011 amounting to a nominal value of EUR 28,934 (PLN 116,992 at the exchange rate prevailing on June 30, 2006). El-Net declared that it would cover these obligations by capital expenditure to be incurred in 2007-2008. On April 3, 2006 El-Net, received a decision of the Minister of Transport and Construction (a successor of the Minister of Infrastructure), dated March 28, 2006, granting the promise to cancel these obligations.

On March 22, 2006, El-Net received the decision of the Polish Minister of Transportation and Construction, dated March 21, 2006, canceling part of outstanding local license fee obligations and the prolongation fees owed in connection with the prior deferrals of the license fee installments, in exchange for expenditure on the telecommunications infrastructure incurred in years 2001, 2002 and 2003. The total nominal value of the local license fees cancelled was EUR 20,940 (PLN 81,597 at the exchange rate prevailing on March 21, 2006) and the total nominal value of prolongation fees cancelled was PLN 8,566.

On June 27, 2006, El-Net received the decision of the Polish Minister of Transportation, dated June 26, 2006, canceling part of outstanding local license fee obligations along with the prolongation fees owed in connection with the prior deferrals of the license fee installments, in exchange for expenditure on the telecommunications infrastructure incurred in years 2004 and 2005. The total nominal value of the local license fees cancelled was EUR 9,174 (PLN 37,675 at the exchange rate prevailing on June 26, 2006) and the total nominal value of prolongation fees cancelled was PLN 3,561.

As at June 30, 2006 the total nominal value of El-Net's outstanding license fee obligations was EUR 74,509 (PLN 301,270 at the exchange rate prevailing on June 30, 2006) increased by prolongation fees of PLN 25,606.

As at June 30, 2006 the outstanding liabilities continued to be recorded at amortized cost. At the acquisition of El-Net they were recorded at fair value based on the assessment performed in 2004 by the Management, which took into account the probability of future payments of license fee liabilities. Pursuant to the decisions obtained in March and June 2006, described above, regarding cancellation of part of outstanding local license fee obligations and the prolongation fees in exchange for expenditure on the telecommunications infrastructure incurred in years 2001 – 2005 and having analysed the progress of cancellation process of the remaining liabilities, the Management has updated its assessment and estimated that there is an 80% probability of cancellation in relation to the remaining licence fee liabilities and prolongation fees (see Note 6). The relevant adjustment has been recorded as a gain in the income statements amounting to PLN 10,437. Further changes in the value of licence fee liabilities as compared to December 31, 2005 relate to interest accrued and foreign exchange differences as presented below:

(All amounts in thousands, except as otherwise stated)

	(PLN)
Carrying value as at December 31, 2005	**57,413**
Interest accrued in the period ended June 30, 2006	3,395
Foreign exchange losses on the translation of EUR balances	3,084
Reassessment of the carrying value of license fee liabilities	(10,437)
Carrying value as at June 30, 2006	**53,455**
out of which:	
Non-current liabilities	13,840
Current liabilities (including prolongation fees)	39,615

11. Computer software costs

Current period:

	December 31, 2005 (PLN)	Additions (PLN)	Transfers and reclassifications (PLN)	Disposals and other movements (PLN)	June 30, 2006 (PLN)
Gross book value					
Computer software	191,089	1,648	12,181	(103)	204,815
Capital work in progress	11,648	7,330	(12,181)	-	6,797
	202,737	**8,978**	**-**	**(103)**	**211,612**

	December 31, 2005 (PLN)	Amortization expense (PLN)	Disposals and other movements (PLN)	June 30, 2006 (PLN)
Accumulated amortization	97,576	13,624	(12)	111,188

	December 31, 2005 (PLN)	Transfers and reclassifications (PLN)	Disposals and other movements (PLN)	June 30, 2006 (PLN)
Accumulated impairment	30,310	-	(2)	30,308

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Net book value	**74,851**	**70,116**

Comparative period:

	December 31, 2004 (PLN)	Transfers and reclassifications (PLN)	June 30, 2005 (PLN)
Assets at adjusted cost			
Gross book value	200,410	15,565	215,975
Capital work in progress	15,128	(11,378)	3,750
	215,538	**4,187**	**219,725**

	December 31, 2004 (PLN)	Amortization expense (PLN)	Disposals and other movements (PLN)	June 30, 2005 (PLN)
Accumulated amortization	96,568	12,713	(49)	109,232

	December 31, 2004 (PLN)	Disposals and other movements (PLN)	Transfers and reclassifications (PLN)	June 30, 2005 (PLN)
Accumulated impairment	34,280	49	59	34,388

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
Net book value	**84,690**	**76,105**

12. Investments in associates

The Netia Group has a 30% interest in P4 (until August 23, 2005 the Company's subsidiary), which was announced as the winner of the mobile telephony UMTS frequency tender in May 2005.

The following table summarizes financial information of the associate:

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Assets	354,337	474,627
Liabilities	5,618	61,663

	Year ended December 31, 2005 (PLN)	Six-month period ended June 30, 2006 (PLN)
Revenue	-	-
Loss for the period	(10,326)	(25,755)

The following table summarizes changes in the investment in the associate (since the Netia Group started accounting for the investment in P4 using the equity method):

	Four-month period ended December 31, 2005 (PLN)	Six-month period ended June 30, 2006 (PLN)
At the beginning of the period	-	105,633
Investment in the associate	108,706	27,000
Unrealized profits on transaction with associate (see Note 14)	-	(8)
Share of loss	(3,073)	(7,727)
At the end of the period	**105,633**	**124,898**

Following the provisions of the P4's Shareholders' Agreement (see Note 41), during the six-month period ended June 30, 2006 the Company and Novator Telecom Poland S.a.r.l. ("Novator") contributed share capital of PLN 27,000 and PLN 63,000, respectively. The increases of share capital were registered on April 4, 2006 (in relation to PLN 6,000 and PLN 14,000 of the Company and Novator's contributions) and July 25, 2006 (in relation to PLN 21,000 and PLN 49,000 of the Company and Novator's contributions). As a result, the Company is the holder of 10,530 (not in thousands) P4's shares constituting 30% of the shares in the P4's share capital. Novator is the holder of 24,570 (not in thousands) P4's shares constituting 70% of the shares in the 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.

13. Other long term investments

Pursuant to an agreement concluded by the Company and Jupiter Narodowy Fundusz Inwestycyjny S.A. on May 22, 2006 Netia purchased Pro Futuro S.A.'s ("Pro Futuro") convertible bonds with a total nominal value of PLN 32,107 and obliged itself to buy Pro Futuro's shares constituting jointly 75.87% of Pro Futuro's share capital (see Note 42). The shares were to be purchased subject to the satisfaction of the condition precedent of Netia obtaining the consent of the Chairman of the Polish Office for the Protection of Competition and Consumers.

To secure the payment obligations arising pursuant to the provisions of the above agreement, on May 19, 2006 the Company established an escrow account in the amount of PLN 60,967. As of June 30, 2006, two payments of PLN 32,107 (to cover the nominal value of convertible bonds) and PLN 109 (transaction costs) were made from this account. Those payments, as well as the remaining cash deposited in the escrow account of PLN 28,751 (as of June 30, 2006) will constitute a part of the purchase consideration made by the Company in exchange for control over Pro Futuro. The escrow account will be closed in 2007, when the retention of PLN 2,500 (subject to all conditions being met by the seller) will be paid.

14. Sale of investments

On March 30, 2006 Netia transferred to P4 ownership of 100 (not in thousands) shares of Netia Ventures Sp. z o.o. (currently operating under the name "3GNS Sp. z o.o.", "3GNS"), with a total nominal value of PLN 50, representing 100% of its share capital, for a total price of PLN 75 paid in cash. The profit on the disposal of 3GNS' shares, recognized in the interim consolidated financial statements, amounted to PLN 20.

15. Inventories

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Materials	1,752	1,651
Goods for resale	1,750	1,320
Less provision for impairment charge	(1,240)	(1,240)
Inventories, net	**2,262**	**1,731**

16. Trade and other receivables

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Trade receivables	227,639	171,822
Less provision for impairment of trade receivables	(82,582)	(73,174)
Trade receivables, net	145,057	98,648
Trade receivables from an associate	2,051	441
VAT and other government receivables	7,226	10,683
Other receivables	3,260	6,463
Less provision for impairment of other receivables	(670)	(697)
Other receivables, net	2,590	5,766
Short-term loans	13,070	13,035
Accrued interest	42,909	47,044
Less provision for impairment of short-term loans and accrued interest	(55,979)	(60,079)
Short-term loans, net	-	-
	156,924	**115,538**

(All amounts in thousands, except as otherwise stated)

The provision for impairment of the Netia Group's receivables recognized during the six-month period ended June 30, 2006 and the year ended December 31, 2005 amounted to PLN 6,621 and PLN 17,514, respectively and was included in "other expenses" in the consolidated income statement.

17. Non-current assets classified as held for sale

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

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

An active program to locate potential buyers was initiated in the first quarter of 2006 and in most cases the interested parties have been found and negotiations are in progress. Sales transactions are expected to be completed within 12 months from the date of the reclassification and will be settled in cash.

18. Financial assets at fair value through profit and loss

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Financial assets at fair value through profit and loss	63,059	54,611
	63,059	**54,611**

The financial assets at fair value through profit or loss consist of funds deposited in money market investment funds, which are invested in various short term, low risk debt instruments.

19. Restricted cash

During the six-month period ended June 30, 2006 the Netia Group established an escrow account in the amount of PLN 3,600 to secure contractual obligations in favor of another telecommunication operator. The agreement was concluded for an undefined period of time. Funds deposited on the escrow account will be released within 2 months from the termination of the agreement.

20. Cash and cash equivalents

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Cash at bank and in hand	120,146	136,008
Financial assets at fair value through profit and loss	77,241	-
	197,387	**136,008**

The financial assets at fair value through profit or loss consist of funds deposited in treasury bills.

The effective interest rate on short-term bank deposits was 3.95% and 4.85%, respectively for the six-month period ended June 30, 2006 and the year ended December 31, 2005. The effective interest rate of treasury bills was 4.06% and 4.88% for the respective periods.

As at June 30, 2006 and December 31, 2005 the amounts of PLN 2,256 and PLN 1,581, respectively were restricted as they were placed as collateral securing payments to vendors. In addition December 31, 2005 the amount of PLN 276 was legally reserved for spending on social purposes.

21. Shareholders' equity

Shareholders' Rights (number of shares not in thousands)

At December 31, 2005, the Company's share capital consisted of 408,613,873 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 May 2003, the Company issued 64,848,442 warrants to the pre-restructuring shareholders of the Company. On April 29, 2005, and April 29, 2006 1,361,947 two-year subscription warrants and 1,022,433 three-year subscription warrants, respectively, expired. In the six-month period ended June 30, 2006 7,662,385 of the warrants were exercised and the Company's share capital was accordingly increased by 7,662,385 series J shares. The issue price was PLN 2.53 (not in thousands) per share. From the issuance date of warrants until their expiration dates, the total number of series J shares issued at the exercise of warrants was 62,464,062.

The Company also may issue up to 18,373,785 ordinary series K shares under a key employee share option plan (employee share option scheme) adopted by Netia's Supervisory Board in 2002 (the "Plan"). In the six-month period ended June 30, 2006 the Company issued 1,052,691 ordinary series K shares due to the exercise by certain persons of their rights arising from the Plan. The total nominal value of series K shares issued through June 30, 2006 was PLN 4,945.

In accordance with resolutions of the Company's General Shareholders' meeting (the "Shareholders Meeting") held on March 29, 2006 the Netia Group has redeemed 28,162,110 own treasury shares. The redemption was effective as of the day of the registration of the share capital decrease, i.e. as of April 19, 2006.

As a result at June 30, 2006 the Company's share capital consisted of 389,166,839 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 consolidated financial statements.

Share Capital

	Number of shares authorized and issued (not in thousands)	**Share capital (PLN)**
At December 31, 2004	**366,956,325**	**366,956**
Exchange of warrants for series J shares	32,661,575	32,662
Issuance of series K shares	3,121,363	3,121
Issuance of series I shares	5,875,610	5,876
At December 31, 2005	**408,614,873**	**408,615**
Exchange of warrants for series J shares	7,662,385	7,662
Issuance of series K shares	1,052,691	1,053
Redemption of shares	(28,162,110)	(28,162)
At June 30, 2006	**389,167,839**	**389,168**

According to the information provided to the Company by its shareholders, as at June 30, 2006 the following shareholders held more than 5% of the votes in the General Shareholders Meeting:

	No. of shares (not in thousands)	**% of share capital**
Novator Telecom Poland II S.a.r.l.	98,243,602	25.24
SISU Capital Limited and related entities	23,743,225	6.10
Third Avenue Management LLC	23,491,762	6.04
Shares held by public and other shareholders	243,689,250	62.62
	389,167,839	**100.00**

Distributable reserves

In accordance with the Polish Code of Commercial Companies of 15 September 2000 (Journal of Laws of 2000, No. 94, item 1037 as amended) only those reserves, which relate to net profits of individual companies shown in their statutory financial statements, are available for distribution to shareholders. As at June 30, 2006 the distributable reserve amounted to PLN 155,371 and encompassed other supplementary capital of PLN 143,218 and the profit of Netia S.A. in the amount of PLN 12,153.

Other supplementary capital

As at December 31, 2005 other supplementary capital amounted to PLN 285,505. The Shareholders Meeting held on March 29, 2006, resolved to transfer from other supplementary capital the amount of PLN 42,605 to cover the accumulated deficit of Netia S.A., which resulted from the adoption of accounting standards as adopted by the EU, as of January 1, 2005. Furthermore, the Shareholders Meeting resolved to distribute the net profit of Netia S.A. for the year ended December 31, 2005 amounting to PLN 73,447 as follows: transfer the amount of PLN 2,812 to the Company's special reserve capital (in connection with the purchase of own shares series C and E), approved the dividend of PLN 0.13 (not in thousands) per share and transfer the remaining 2005 profit, in the amount of PLN 20,312, to other supplementary capital. Additionally, in relation to the Shareholders Meeting's resolution regarding the decrease of share capital, the Company deducted from other supplementary capital the amount of PLN 120,463, representing the consideration paid for shares redeemed within the buy-back program and nominal value of redeemed shares, which were issued by the Company for the purpose of the previous stock option plan.

Other reserves

Pursuant to the resolution of the Shareholders' Meeting held on March 29, 2006 and in relation to the decrease of share capital, the Company has established separate reserve capital and presented in other reserves, where the nominal value of 28,162,110 (not in thousands) own shares has been transferred. This reserve capital does not constitute a distributable reserve, but may be used to cover future losses. Furthermore, as at June 30, 2006 and December 31, 2005 other reserves included the amounts of PLN 630 and PLN 1,758 representing the fair value of granted options.

Stock options (number of options not in thousands)

In the six-month period ended June 30, 2006 the following changes took place in the number of options granted under the Plan:

	Year ended December 31, 2005		**Six-month period ended June 30, 2006**	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of the period	2.65	7,206,097	3.06	2,776,650
Granted	3.56	2,698,125	-	-
Forfeited / expired	3.77	(1,389,272)	-	-
Exercised	2.60	(5,738,300)	2.59	(1,817,188)
At the end of the period	**3.06**	**2,776,650**	**3.94**	**959,462**

As at June 30, 2006 the total number of options approved for issue by the Supervisory Board was 15,110,975, out of which 2,046,718 options were outstanding as of that date. The total number of vested options was 362,419 as at June 30, 2006. The vesting period for the options is up to three years from the date of grant. The options are exercisable until December 20, 2007 or December 20, 2012 (due to the change of Netia's statute in relation to the extention of the period during which series K shares may be offered to members of the Management Board and key employees to execute their rights resulting from the Plan, the Supervisory Board extended the period when options may be exercised). If an option holder ceases to be employed during the exercise period, options may be exercised only if they are granted and vested on the date of termination or expiration of the engagement with the Netia Group. If any of such engagements terminate during the course of any calendar year, the relevant proportion of the options which have not been vested, shall vest at the end of that calendar year. Upon exercise of the options, Netia will issue to each exercising participant the number of shares representing such participant's gain resulting from the exercise of the options, representing the difference between the exercise price of the Company's shares and strike price of the options. The participant will not be required to pay the strike price ranging from PLN 3.12 to PLN 5.30.

Due to the exercise of 1,817,188 options, in the six-month period ended June 30, 2006, the Company issued 1,052,691 series K shares, at the nominal value of PLN 1 each. The share price at the date of exercise was PLN 6.15 per share.

(All amounts in thousands, except as otherwise stated)

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 valuation model takes into account such factors as market conditions (described above), strike price (shown above), total expected life of the options, time to vest, expected volatility of the share price returns (21.32% - 54.98%), employee exit rate (5%), exercise multiple (1.5) and the risk free interest rate at the date of the grant (ranging from 4.75% to 7.36%). The expected volatility is based on historical volatility. The cost of options recorded in the three and six-month periods ended June 30, 2006 amounted to PLN 169 and PLN 355, respectively.

22. Minority interest

	Year ended December 31, 2005 (PLN)	Six-month period ended June 30, 2006 (PLN)
At beginning of the period	5,186	6,349
Share of net profit of subsidiaries	1,163	307
At end of the period	**6,349**	**6,656**

23. Provisions

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Loss on rental contract	2,564	1,750
Legal claims and tax assessments	1,636	1,299
	4,200	**3,049**
Of which,		
Current	2,969	2,112
Non-current	1,231	937
	4,200	**3,049**

	Loss on rental contracts (PLN)	Legal claims and tax assessments (PLN)	Total (PLN)
As at January 1, 2006	2,564	1,636	4,200
Charged to the income statements (discount unwinding)	143	-	143
Credited to the income statements	-	(43)	(43)
Used during the period	(957)	(294)	(1,251)
As at June 30, 2006	**1,750**	**1,299**	**3,049**

Loss on rental contracts

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

Legal claims and tax assessments

The amounts represent a provision for certain legal cases brought against the Netia Group entities and a provision for contingent income tax liability of the HFC Internet Group acquired in September 2005. The provision of PLN 337 was released as a result of withdrawal of the claim from the court. In the opinion of the Management the outcome of the outstanding cases and tax liability will not give rise to any significant losses beyond the amounts provided. The Netia Group is unable to determine the timing of cash outflows related to those claims and tax liability with reasonable accuracy.

(All amounts in thousands, except as otherwise stated)

24. Trade and other payables

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Trade payables	56,662	29,537
Investment payables	74,477	32,924
VAT and other taxes	10,408	32,673
Accruals and other	52,410	48,931
	193,957	**144,065**

25. Accruals and other

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Construction costs	4,625	4,020
Uninvoiced services	11,968	12,925
Interconnection charges	12,674	14,421
Holidays accrual	4,780	4,830
Employees bonuses and accrued salaries	12,872	7,283
Other	5,491	5,452
	52,410	**48,931**

26. Corporate income tax

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Current tax	(574)	(168)	(323)	(109)	(188)
Deferred income tax charge, net	(34,720)	(4,144)	(8,539)	1,097	(1,906)
Income tax benefit / (charge)	**(35,294)**	**(4,312)**	**(8,862)**	**988**	**(2,094)**

Current tax

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

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Profit / (loss) before tax	95,484	(13,652)	(21,208)
Tax calculated at tax rates applicable to profit	(18,142)	2,594	4,030
Income not subject to tax	4,669	3,969	10,583
Expenses not deductible for tax purposes	(17,871)	(6,909)	(17,321)
Expenses deductible for tax purposes in previous periods	-	-	(739)
Utilization of previously unrecognized tax losses	24,879	2,472	5,233
Tax losses for which no deferred income tax asset was recognized	(4,334)	(2,017)	(3,420)
Reassessment of tax bases of assets and liabilities	(28,009)	879	(460)
Recognition of previously unrecognized deferred tax asset (opening balances)	3,514	-	-
Income tax benefit / (charge)	**(35,294)**	**988**	**(2,094)**

The corporate income tax rate applicable to the Company and its subsidiaries for 2005 and onwards – 19%.

(All amounts in thousands, except as otherwise stated)

The reassessment of tax bases of assets and liabilities is related to de-recognition of deferred tax assets previously recognized in connection with deductible temporary differences in the Company's subsidiary Świat Internet S.A. This was caused by a change of plans in relation to the internal merger of Netia Group companies including Świat Internet.

The main titles of income not subject to tax and expenses not deductible for tax purposes are share of losses of an associate, amortization of license assets and interest and foreign exchange differences related to license fee liabilities.

Deferred tax

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

The Management assessment considered that entities in the Netia Group expect that future taxable profits will be generated based on the 2006 budget and business plan covering the period up to 2008. For temporary differences, which reverse beyond 2008, no deferred tax asset was recognized. Management's assessment also considered factors such as: the stability and trend of past earnings; the nature of the business and industry; the economic environment in which the Netia Group is located; and the stability of the legislation to which the companies in the Netia Group are subject. Based on the above assumptions, the recognized deferred tax assets as at June 30, 2006 amounted to PLN 12,276.

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

	December 31, 2005 (PLN)	**June 30, 2006 (PLN)**
Deferred tax assets:		
- Deferred tax assets to be recovered after more than 12 months	20,098	15,701
- Deferred tax assets to be recovered within 12 months	19,453	15,395
	39,551	31,096
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months................................	5,478	3,292
- Deferred tax liabilities to be recovered within 12 months...	19,891	15,528
	25,369	18,820
	14,182	**12,276**

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

<u>*Current period:*</u>

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

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

(All amounts in thousands, except as otherwise stated)

Comparative period:

Deferred tax liabilities	**Deferred revenue**	**Interest income and foreign exchange differences**	**Depreciation and impairment**	**Total**
As at January 1, 2005	12,655	2,919	8,319	23,893
- Charged / (credited) to the income statement	353	1,913	(391)	1,875
As at June 30, 2005	**13,008**	**4,832**	**7,928**	**25,768**

Deferred tax assets	**Depreciation and impairment**	**Provisions for assets**	**Tax losses**	**Accrued expenses**	**Other**	**Total**
As at January 1, 2005	41,879	10,184	5,044	11,486	2,143	70,736
- Credited / (charged) to the income statement	(11,448)	(1,396)	7,857	(1,025)	(652)	(6,664)
As at June 30, 2005	**30,431**	**8,788**	**12,901**	**10,461**	**1,491**	**64,072**

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable, based on the Netia Group business plan covering the period to December 31, 2008. As of June 30, 2006, the Netia Group had total deductible temporary differences of PLN 592,154 and unutilized tax loss carry-forwards of PLN 319,988 (total potential deferred tax asset of PLN 173,307).

The Netia Group did not recognize deferred tax assets of PLN 54,353 relating to tax losses of PLN 286,067 of the Company's subsidiaries, due to the likehood of insufficient future taxable profits to realize these tax losses. These unrecognized tax losses of the Netia Group available for use as at June 30, 2006 will expire in the following years: PLN 146,643 in 2006, PLN 51,641 in 2007, PLN 33,308 in 2008, PLN 23,680 in 2009, and PLN 27,534 in 2010 and PLN 3,260 in 2011. Furthermore, due to the lack of conclusive evidence of future taxable profits, which may be generated beyond 2008, the Netia Group did not recognize a deferred income tax asset of PLN 106,678, relating to deductible temporary differences of PLN 561,465.

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

27. Telecommunication services revenue

	Year ended December 31, 2005	**Three-month period ended June 30, 2005**	**Six-month period ended June 30, 2005**	**Three-month period ended June 30, 2006**	**Six-month period ended June 30, 2006**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Direct voice services	485,482	124,886	254,331	102,230	211,257
Monthly fees	142,824	35,374	71,110	33,864	69,334
Calling charges	342,658	89,512	183,221	68,366	141,923
Local calls	*108,548*	*28,615*	*59,303*	*20,129*	*42,566*
Domestic long distance calls	*65,658*	*17,346*	*35,431*	*12,150*	*26,116*
International long distance calls	*34,693*	*8,760*	*19,595*	*6,920*	*14,164*
Fixed-to-mobile	*114,692*	*29,731*	*58,112*	*25,999*	*52,233*
Other	*19,067*	*5,060*	*10,780*	*3,168*	*6,844*
Indirect voice	78,919	20,917	43,200	11,943	25,809
Data	128,258	30,998	59,615	36,151	71,350
Interconnection revenue	80,264	20,741	32,093	9,257	20,116
Wholesale services	97,867	17,148	32,447	35,098	76,088
Intelligent network services	19,960	4,832	9,984	3,524	7,781
Other telecommunication revenue	7,944	2,033	4,135	2,794	4,669
	898,694	**221,555**	**435,805**	**200,997**	**417,070**

(All amounts in thousands, except as otherwise stated)

28. Services purchased

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Professional services	14,244	2,741	5,683	5,491	13,528
Advertising and promotion expenses	27,422	7,604	11,629	11,103	15,326
Cost of rented lines and network maintenance	75,632	18,928	35,111	19,686	37,529
Information technology services	15,975	3,670	7,185	3,343	7,533
Office and car maintenance	10,929	2,530	4,867	2,435	4,784
Insurance	6,382	1,614	3,117	1,424	3,150
Mailing services	6,709	1,751	3,426	1,546	3,077
Travel and accommodation	4,977	1,198	2,276	1,270	2,388
Other services	15,703	4,081	7,535	4,340	8,973
	177,973	**44,117**	**80,829**	**50,638**	**96,288**

29. Salaries and benefits

	Year ended December 31, 2004	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Wages and salaries	107,296	25,809	53,183	28,115	56,076
Social security costs	10,400	2,111	5,468	3,215	5,929
Defined contribution plan (the State Plan)	7,054	2,309	4,668	2,012	4,832
Share-based compensation	3,395	412	963	169	355
Other employee benefits	4,519	867	1,566	1,112	1,768
	132,664	**31,508**	**65,848**	**34,623**	**68,960**

The Netia Group is legally required to make contributions to the Government's retirement benefit scheme. During the six-month period ended June 30, 2006 and the year ended December 31, 2005 the Group paid contributions at a rate of 9.76% of gross salaries up to certain limits and is not required to make any contributions in excess of this statutory rate.

30. Other gains/(losses), net

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Gain on sale of subsidiaries and other investments	11	-	-	-	20
Gain on sale of impaired receivables	-	-	-	169	845
Reassessment of the carrying value of license fee liabilities	-	-	-	10,437	10,437
Profit on sale of fixed assets	345	156	156	1,781	2,205
Net foreign exchange gains / (losses)	2,769	455	209	(1,871)	(3,165)
	3,125	**611**	**365**	**10,516**	**10,342**

(All amounts in thousands, except as otherwise stated)

31. Other income

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Forgiveness of liabilities	4,357	-	-	-	-
Sale of services to associate	1,696	-	-	747	929
Reversal of accrued other income on sale of services to associate (see Note 39)	-	-	-	-	(303)
Other operating income	5,049	1,301	1,632	693	1,634
	11,102	**1,301**	**1,632**	**1,440**	**2,260**

32. Other expenses

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Taxes and fees	47,727	11,517	22,984	12,907	26,052
Provision for impaired receivables	17,514	3,881	6,465	4,691	6,621
Materials and energy	8,699	2,141	4,041	2,276	4,516
Other operating costs	10,476	1,861	4,456	2,674	4,108
	84,416	**19,400**	**37,946**	**22,548**	**41,297**

33. Finance income and finance costs

Finance income

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Interest income	12,527	3,309	6,626	1,811	3,829
Gain / (loss) on fair value adjustment of financial assets	2,436	830	1,520	405	1,020
Net foreign exchange gains	295	538	1,133	48	437
Other finance income	195	54	114	60	115
	15,453	**4,731**	**9,393**	**2,324**	**5,401**

Finance costs

	Year ended December 31, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Interest expense	(6,851)	(1,732)	(3,352)	(1,835)	(3,548)
Net foreign exchange losses	(354)	(87)	(171)	-	-
	(7,205)	**(1,819)**	**(3,523)**	**(1,835)**	**(3,548)**

34. Net foreign exchange gains/(losses)

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

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Other gains/(losses), net	2,769	455	209	(1,871)	(3,165)
Finance income..................................	295	538	1,133	48	437
Finance costs	(354)	(87)	(171)	-	-
	2,710	**906**	**1,171**	**(1,823)**	**(2,728)**

35. Earnings per share

Basic

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

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
Weighted average number of treasury shares (not in thousands)	468,648	468,648	468,648	97,850	282,224
Weighted average number of own shares repurchased within the program (not in thousands)	12,889,141	2,446,355	1,229,936	5,782,151	16,677,278

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
Profit / (loss) attributable to the equity holders of the Company.......	59,027	24,915	48,028	(12,828)	(23,609)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	388,655,545	380,418,106	388,313,746	386,429,110
Basic earnings per share (not in thousands)...........................	0.16	0.06	0.13	(0.03)	(0.06)

Diluted

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

(All amounts in thousands, except as otherwise stated)

	Year ended December 31, 2005	Three-month period ended June 30, 2005	Six-month period ended June 30, 2005	Three-month period ended June 30, 2006	Six-month period ended June 30, 2006
Profit / (loss) attributable to the equity holders of the Company	59,027	24,915	48,028	(12,828)	(23,609)
Weighted average number of ordinary shares in issue (not in thousands)	377,405,104	388,655,545	380,418,106	388,313,746	386,429,110
Adjustments for:					
- Share options	3,401,532	2,370,754	2,589,713	171,952	493,353
- Warrants	10,283,419	8,409,227	11,974,671	577,610	1,555,534
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	391,090,055	399,435,526	394,982,490	389,063,308	388,477,997
Diluted earnings per share (not in thousands)	0.15	0.06	0.12	(0.03)	(0.06)

36. Dividends per share

The Company's Shareholder's Meeting held on March 29, 2006, approved the 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.

The Company's Shareholder's Meeting held on March 17, 2005, approved the dividend of PLN 0.10 (not in thousands) per share to be paid out of the net profit of Netia S.A. for the year ended December 31, 2004. Due to that resolution, PLN 38,710 of dividend was paid on April 22, 2005 to shareholders of record as at April 7, 2005.

37. Supplemental disclosures to consolidated statement of cash flows

Changes in working capital components:

	Year ended December 31, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2006 (PLN)
Trade receivables	(23,700)	3,264	51,447
Tax receivables	12	1,719	(3,432)
Other receivables	413	(3,627)	(1,549)
Inventories	290	177	531
Prepaid expenses	1,331	(19,643)	(21,197)
Restricted cash	-	-	(3,600)
Trade creditors	23,425	(20,103)	(34,599)
Provisions, accruals and other payables	(9,763)	21,079	18,392
Deferred income	145	847	9,291
	(7,847)	**(16,287)**	**15,284**

Supplemental disclosures to operating activities:

	Year ended December 31, 2005 (PLN)	Six-month period ended June 30, 2005 (PLN)	Six-month period ended June 30, 2006 (PLN)
Income taxes paid	592	274	139
Interest received	(12,503)	(6,764)	(3,473)

Non-cash transactions:

During the six-month period ended June 30, 2006 the principal non-cash transactions were issuances of 1,052,691 (not in thousands) ordinary series K shares due to exercise of options granted under the Plan.

38. Changes in the Management Board and Supervisory Board

Changes in the Management Board

Effective March 1, 2006 Mr. Paweł Karłowski was appointed as Member of the Management Board and Chief Commercial Officer.

Effective April 5, 2006 Mr. Jonathan Eastick was appointed as Member of the Management Board and Chief Financial Officer. Effective March 1, 2006 Mr. Jonathan Eastick was also appointed as Member of the Management Board and Chief Financial Officer of P4, the Netia's associate. Based on the Resolution of the Supervisory Board of Netia S.A. dated April 5, 2006 concerning issues connected with the appointment of a member of the Company's Management Board, in all business relations between the Company and P4, Mr. Jonathan Eastick will; (i) not act on behalf of the Company and (ii) abstain from participation in any way, directly or indirectly, in conducting the respective businesses of the Company or P4.

Effective April 5, 2006 Mr. Tom Ruhan was appointed as Member of the Management Board and Chief Legal Officer.

Changes in the Supervisory Board

Effective January 5, 2006 Mr. Nicholas Cournoyer, Chairman of the Company’s Supervisory Board, resigned from the position of Member and Chairman of the Company’s Supervisory Board.

On January 9, 2006 the Supervisory Board appointed Mr. Hubert Janiszewski, Netia’s Supervisory Board member, for the position of Chairman of the Company’s Supervisory Board. On March 29, 2006, the Company’s Shareholder’s Meeting dismissed Mr. Hubert Janiszewski as Chairman and member of Netia's Supervisory Board.

Effective January 15, 2006 Mr. Richard Moon, a Member of Netia’s Supervisory Board, resigned from his position.

Effective March 29, 2006 Mr. Mark Holdsworth, a Member of Netia’s Supervisory Board, resigned from his position.

On March 29, 2006, the Company’s Shareholder’s Meeting appointed Mr. Raimondo Eggink, Mr. Bruce McInroy, Mr. Constantine Gonticas and Mr. Pantelis Tzortzakis to Netia's Supervisory Board.

Appointment of Chairperson of Netia’s Supervisory Board

On April 5, 2006 the Company’s Supervisory Board unanimously appointed Ms. Alicja Kornasiewicz, Netia’s Supervisory Board member, for the position of Chairperson of the Company’s Supervisory Board, with immediate effect.

39. Related party transactions

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

As at June 30, 2006, the total number of options granted to members of the Company's Management Board under the Plan, was 906,047 of which 362,419 had vested as of that date. Strike prices for the options granted to the Management Board range between PLN 3.12 to 4.44 per share. The market price of the Company’s shares at June 30, 2006 was PLN 4.47 per share.

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

Options	**Year ended December 31, 2005**	**Six-month period ended June 30, 2006**
At the beginning of the period	5,526,888	1,812,094
Granted	1,721,489	-
Status changed due to resignation from Management Board	(1,087,256)	-
Exercised	(4,349,027)	(906,047)
At the end of the period	**1,812,094**	**906,047**

As at December 31, 2005 Mr. Wojciech Mądalski – the Company's President – held 906,047 options, which were exercised during the six-month period ended June 30, 2006.

As at June 30, 2006 and December 31, 2005 Mr. Paul Kearney – a member of the Company's Management Board – held 362,419 options.

As at June 30, 2006 and December 31, 2005 Mr. Piotr Czapski – a member of the Company's Management Board – held 543,628 options.

The members of Supervisory Board did not hold any options as at December 31, 2005 and June 30, 2006.

Management Board remuneration

Compensation and related costs associated with current members of the Company's Management Boards during the six-month periods ended June 30, 2006 and June 30, 2005 amounted to PLN 4,242 and PLN 3,886, respectively. These amounts include PLN 342 and PLN 434, respectively of share-based payments.

Compensation and related costs associated with current members of the Company's Management Boards during the three-month periods ended June 30, 2006 and June 30, 2005 amounted to PLN 2,019 and PLN 2,141, respectively. These amounts include PLN 162 and PLN 289, respectively of share-based payments.

Supervisory Board remuneration

Compensation and related costs associated with current members of the Company's Supervisory Boards during the six-month periods ended June 30, 2006 and June 30, 2005 amounted to PLN 184 and PLN 246, respectively. Furthermore, the compensation and related costs for the former members of the Supervisory Board of PLN 44 were recognized as a cost in the six-month period ended June 30, 2006.

Compensation and related costs associated with current members of the Company's Supervisory Boards during the three-month periods ended June 30, 2006 and June 30, 2005 amounted to PLN 133 and PLN 126, respectively.

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

As at June 30, 2006 and December 31, 2005 Mr. Wojciech Mądalski – the Company's President and Chief Executive Officer – held 2,576,607 and 2,043,292, respectively, series K shares of the Company.

As at June 30, 2006 Mr. Tom Ruhan – a member of the Company's Management Board and Chief Legal Officer (see Note 38) – held 253,593 series K shares of the Company.

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

As at June 30, 2006, Mr. Andrzej Radzimiński – a member of the Company's Supervisory Board – held 10,000 ordinary shares and 1,000 series A1 shares. The number of the Company's shares has not changed since December 31, 2005.

As at June 30, 2006, Mr. Raimondo Eggink – a member of the Company's Supervisory Board (see Note 38) – held 20,000 shares of the Company.

As at June 30, 2006, Mr. Constantine Gonticas – a member of the Company's Supervisory Board (see Note 38) – held 43,000 shares of the Company.

As at December 31, 2005, Mr. Nicholas Cournoyer – the-then Chairman of the Supervisory Board – held 3,000 series A shares of the Company and 6,000 series J shares of the Company. Due to his resignation from the position of the member of the Supervisory Board his shares are no longer recognized as shares held by members of the Company's Supervisory Board.

(All amounts in thousands, except as otherwise stated)

Transactions with an associate

The following transactions were carried out with P4 and 3GNS, P4's subsidiary (see also Note 12, 14 and 41):

	Four-month period ended December 31, 2005 (PLN)	Three-month period ended June 30, 2006 (PLN)	Six-month period ended June 30, 2006 (PLN)
Sale of services	1,696	747	929
Reversal of accrued other income on sale of services*	-	-	(303)
Other sales transactions	211	209	272
	1,907	**956**	**898**

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Trade receivables	2,051	441
	2,051	**441**

* 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 six-month period ended June 30, 2006, but also applicable retrospectively to 2005.

40. Commitments

Capital commitments

Capital expenditures contracted for at the balance sheet date but not recognized in the interim consolidated financial statements amounted to PLN 25,636 as at June 30, 2006 and PLN 27,366 as at December 31, 2005 of which, PLN 4,785 and PLN 2,327, respectively, related to the planned acquisition of intangible assets.

Operating lease commitments – where the Netia Group is the lessee

As at December 31, 2005 and June 30, 2006 the future minimum payments payable under non-cancelable operating leases were as follows:

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Not later than 1 year	31,969	29,711
Later than 1 year and not later than 5 years	45,756	40,239
Later than 5 years	45,371	42,260
	123,096	**112,210**

Operating lease arrangements mainly relate to the rental of buildings, land, network and vehicles. The periods of administrative building and land rentals do not exceed 30 years, network rentals range up to 20 years and vehicles are leased for almost 4 years. Rental costs recognized in the income statement for the six-month period ended June 30, 2006 and the year ended December 31, 2005 amounted to PLN 25,106 and PLN 54,534, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 23) in the amounts of PLN 1,805 and PLN 3,409, respectively.

Operating lease commitments – where the Netia Group is the lessor

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

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Not later than 1 year	13,928	15,460
Later than 1 year and not later than 5 years	23,834	28,599
Later than 5 years	10,760	13,174
	48,522	**57,233**

The Netia Group has entered into several commercial leases on certain parts of transmission network. The periods of network rentals range up to 20 years. The relevant rents recognized in the income statement for the six-month period ended June 30, 2006 and the year ended December 31, 2005 amounted to PLN 8,213 and PLN 19,381, respectively.

Finance lease commitments

Due to the acquisition of the HFC Internet Group on September 30, 2005, the Netia Group has finance leases for certain telecommunication equipment. As at June 30, 2006 and December 31, 2005 future minimum lease payments under finance leases together with the present value of net minimum lease payments were as follows:

	December 31, 2005 (PLN)	June 30, 2006 (PLN)
Not later than 1 year	180	86
Later than 1 year and not later than 5 years	-	-
Later than 5 years	-	-
Total minimum lease payments	**180**	**86**
Less amount representing finance charges	(15)	(9)
Present value of minimum lease payments	**165**	**77**

41. Contingencies

Millennium (not in thousands)

In August and September 2000, the Company entered into certain agreements to acquire all of the outstanding equity of Millennium Communications S.A. ("Millennium"), a provider of telecommunications services in Warsaw. Certain advances were made to Millennium following the execution of the agreements, and currently a loan of EUR 2.9 million (PLN 11.7 million at the June 30, 2006 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. The matter is still pending. In 2001, a valuation allowance of PLN 17.0 million was recorded as other operating expense against the outstanding amount receivable from Millennium as a result of the events described above.

In September 2003, Newman Finance Corp. ("Newman"), Millennium's sole shareholder, filed a claim against the Company for damages of PLN 45.4 million, which is the equivalent of USD 11.5 million plus interest accrued since the date of filing the claim until the date of payment. This claim was filed for damages incurred when a security was placed over Millennium's shares between January 4, 2000 and November 1, 2002 in connection with litigation concerning Millennium's failure to perform the agreements entered in August and September 2002. On June 8, 2005 the District Court dismissed the claim. The District Court determined that Newman neither proved the damage occurrence nor its magnitude. On July 20, 2005, Newman filed an appeal. The matter is still pending.

On April 5, 2005, Millennium filed a claim against El-Net 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. The matter is still pending.

On August 21, 2005 Millennium filed a motion against Netia in connection with the alleged acts of unfair competition of Netia against Millennium. Netia filed an answer to the claim on September 7, 2005 in which it rejected the claim as wholly groundless and unsubstantiated. 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 the 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. The matter is still pending.

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

Minority shareholders

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

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

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

P4 related commitments

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 ("Agreement") was concluded by the following entities: the Company, Netia Mobile Sp. z o.o. ("Netia Mobile", previously operating under the name "Netia Ventures Sp. z o.o."), P4, Novator One L.P., Novator and Novator Poland Pledge Sp. z o.o. (Novator and Netia Mobile both called "Shareholders"). 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 (not in thousands) of P4's shares ("Shares") constituting 70% of the Shares in P4's share capital and Netia Mobile was the holder of 10,290 (not in thousands) Shares constituting 30% of the Shares in P4's share capital. In total, based on the Agreement, the Shareholders are obligated to make contributions of up to the amount of EUR 300,000 in proportion to their share of P4's share capital. As a result, Netia Mobile is obligated to make contributions of up to EUR 90,000. Due to that obligation, as of June 30, 2006, Netia Mobile has made contributions to P4's equity in the amount of PLN 134,700 (of which PLN 27,000 was made in the six-month period ended June 30, 2006) in order to cover the UMTS frequency reservation fee and initial operational expenses.

Furthermore, during a 3-year period of time following execution of the Agreement (i.e. until August 23, 2008), the Shareholders may not dispose of their Shares without the consent of the other Shareholder, except for permitted transfers within their respective capital groups (the "3-year lock-up period"). In the event of a change of control of any Shareholder, the other Shareholder has the right to repurchase Shares held by the Shareholder which underwent the change of control.

Additionally, the Agreement includes standard procedures which regulate the sale of Shares by the Shareholders following the 3-year lock up period. If a Shareholder wishes to dispose of its Shares, the other Shareholder is entitled to require the potential third party buyer to purchase its Shares on the same terms in the amounts commensurate with the percentages of Shares held by each Shareholder. Moreover, if Novator decides to sell all of its Shares, it is entitled to require the other Shareholder to sell all of its Shares on the same terms. These provisions are secured by contractual penalties in the maximum amount of EUR 25,000. The payment of the contractual penalties does not exclude the right of the parties to the Agreement to claim damages in an amount exceeding the amount of such penalties. Any transfer of shares in violation of these transfer restrictions will be ineffective against P4.

The Agreement includes a list of specific matters requiring unanimous approvals from both Shareholders regarding potential alterations to the share capital or articles of association, issuing securities, disposals and acquisitions of assets, certain business, trading and accounting matters, indebtedness and dividend levels. In the event at any time any shareholder who is a member of the Novator group transfers any shares in P4 to a person who is not a party to the 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 members of the supervisory board appointed by Netia Mobile.

If key issues regarding running P4's business cannot be agreed following the expiration of the 3-year lock up period, the Agreement includes an option for Novator to purchase Netia Mobile's Shares at market price plus 10% and an option for Netia Mobile to sell such Shares to Novator at market price with a 10% discount.

The Agreement includes material terms and conditions for commercial cooperation based on which the Company and P4 shall conclude the following commercial agreements: (i) framework commercial agreement, (ii) distribution agreement, (iii) co-development agreement, (iv) IT sharing agreement, (v) fixed telephony supply agreement, (vi) WiMax supply agreement, (vii) interconnection agreement, and (viii) intellectual property sharing agreement. The parties' obligations under the framework commercial agreement and the distribution agreement are secured by the contractual penalties in the maximum amount of EUR 50,000.

The Agreement shall expire following a valid sale of all Shares by the Shareholders in accordance with its provisions. The Agreement includes limitations of competing activities, a non-disclosure clause and a ban on employee recruitment during an agreed period following the expiration of the Agreement. The Shareholders accept an option of P4's conversion into a joint stock company no earlier than after the 2-year period following the date of the Agreement, and an option to introduce P4's Shares to public trading following three years from the date of the Agreement.

Pledge on shares in P4

On October 26, 2005 Netia Mobile entered into an agreement on registered pledge on shares regarding 10,260 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 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.

WiMAX license requirements

On October 27, 2005 Netia WiMax and Netia WiMax II received the reservations of the 3.6-3.8 GHz frequencies, which will 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 (beginning 2006), subject to demand in the territory and population of Poland.

Tax contingent liability

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

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

42. Subsequent events

Pro Futuro

On July 4, 2006, the Company purchased from Jupiter Narodowy Fundusz Inwestycyjny S.A. ("Jupiter") 75.87% of the share capital of Pro Futuro for a total of PLN 28,751.

On July 4, 2006, the Company purchased from Polskie Towarzystwo Ubezpieczeń S.A. ("PTU") 8.13% of the share capital of Pro Futuro for a total of PLN 3,079.

On July 5, 2006, the Company purchased from dataCOM S.A. ("dataCOM") 16.00% of the share capital of Pro Futuro for a total of PLN 6,063.

Following the above purchases of Pro Futuro's shares from Jupiter, dataCOM and PTU, Netia holds currently shares constituting 100% of Pro Futuro's share capital and the corresponding number of votes at its shareholders' meeting.

Pro Futuro is an independent telecommunications operator providing data transmission, internet access, hosting and VoIP transmission services. It provides the services based on its own broadband telecommunications network (Infostrada Futuro) created based on modern LMDS technologies. The Company provides 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 statements of operations and the consolidated balance sheet for material transactions, which took place between July 1, 2006 and July 4, 2006. The provisional fair values of assets, liabilities and contingent liabilities acquired are based on amounts from Pro Futuro historical accounting records and will therefore be subject to adjustments as additional information is obtained. Such additional information may include reports from valuation specialists, information related to pre-acquisition contingencies and calculation of the related deferred income taxes. A detailed review of these assets, liabilities and contingent liabilities will be performed during the course of the period ending December 31, 2006, 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 680	70,680
Provisional fair value of net assets acquired	(59,035)
Goodwill	**11,645**

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 Pro Futuro.

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 37,893 (including a retention of PLN 2,500 to be paid in 2007 subject to all conditions being met by the seller), the amounts paid for Pro Futuro's convertible bonds issued to its previous shareholder of PLN 32,107 and transaction costs of PLN 680.

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

	(PLN)
Fixed assets	65,189
Intangible assets	2,681
Investments	2,002
Receivables	3,341
Prepayments	325
Cash and cash equivalents	638
Short-term loans	(2,500)
Trade liabilities	(4,028)
Other liabilities and accruals	(7,843)
Deferred income tax liabilities	(770)
Provisional fair value of net assets acquired	**59,035**

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

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

The acquired business reported revenue of PLN 23,052 and a loss of PLN 2,725 in the six-month period ended June 30, 2006. If the acquisition had occurred on January 1, 2006, the Netia Group's telecommunication revenue would have amounted to PLN 440,122, and loss would have been PLN 26,742.

Framework agreement on delivering transmission solutions for P4's UMTS network

On July 3, 2006 the Company and P4 concluded a framework agreement on delivering by Netia to P4 the transmission solutions for P4's UMTS network ("Agreement"). The Agreement was concluded for the five-year term following which the Agreement shall be automatically extended for an unlimited period of time, unless the parties to the Agreement decide otherwise. The Agreement may be terminated prior to the term indicated above in case of violation of its provisions. The remuneration of Netia for providing services referred to in the Agreement shall be calculated based on the parameters and the number of circuits delivered to P4.

The liability of the parties with respect to the Agreement is limited to the actual damage amount, unless the damage is caused by the intentional fraud or gross negligence. Liability of Netia for the interruptions in signal transmission or for the deterioration of quality of services provided is limited to the level of the fee for the circuits leased, unless those irregularities are caused by the intentional fraud or gross negligence of Netia. In case the parameters of services are not met, the remuneration of Netia shall be reduced.

Acquisition of Netia's shares (not in thousands)

On August 3, 2006 the Company received a notification filed on behalf of Third Avenue Management LLC (the "Third Avenue Management") that ownership of Netia's shares, held by Third Avenue Management on behalf of its clients, has increased above the threshold of 12% of the total number of votes at Netia's General Meeting of Shareholders.

According to the notification, as a result of the settlement on July 31, 2006 of a purchase of Netia shares effected on the Warsaw Stock Exchange, Third Avenue Management holds 47,034,707 Netia shares, representing 12.09% of Netia's share capital and entitling the holder thereof to exercise 47,034,707 votes, which represents 12.09% of the total number of votes at Netia's General Meeting of Shareholders.

Third Avenue Management does not exclude the possibility of further purchases of Netia shares during the period of the 12 months from the date of the notification. The decisions on further purchases of Netia shares by Third Avenue Management LLC, acting as a financial adviser of its clients, will be made on the basis of economical and profit maximizing aspects. The possibility of further purchases of Netia shares by Third Avenue Management, acting on behalf of its clients, will depend on the market price of Netia shares.

Furthermore, on July 28, 2006 the Company received a notification filed on behalf of Third Avenue International Value Fund (the "Fund"), one of the funds managed by Third Avenue Management, that ownership of Netia's shares held by the Fund has increased above the threshold of 5% of the total number of votes at Netia's General Meeting of Shareholders.

According to the notification, as a result of the settlement on July 24, 2006 of a purchase of Netia shares effected on the Warsaw Stock Exchange, the Fund holds 19,594,034 Netia shares, representing 5.03% of Netia's share capital and entitling the holder thereof to exercise 19,594,034 votes, which represents 5.03% of the total number of votes at Netia's General Meeting of Shareholders.

Netia's merger with its three wholly-owned subsidiaries

On July 31, 2006 the District Court for the Capital City of Warsaw entered in the register of entrepreneurs the merger between Netia and its three wholly-owned subsidiaries, which operated previously under the following names: El-Net, Netia WiMax S.A. and Polbox Sp. z o.o. (the "Acquired Companies"). Except for El-Net, the Acquired Companies do not conduct telecommunications activities.

The merger was carried out pursuant to Article 492, §1, subsection 1 of the Polish Commercial Companies Code (the "CCC") in relation to Article 515, §1 of the CCC through the transfer of the Acquired Companies' assets to Netia (merger by acquisition) without any increase in Netia's share capital, without any share exchanges and without amending Netia's statute. According to Article 493, § 2 of the CCC, Netia's merger with the Acquired Companies occurred as of July 31, 2006. As of that date, pursuant to Article 494 of the CCC, Netia assumed all the rights and liabilities of the Acquired Companies that were dissolved. The merger completed the procedure of internal consolidation of the Acquired Companies within the Netia Group.