NETIA S.A.
INTERIM CONSOLIDATED FINANCIAL STATEMENTS
As of and for the three-month and six-month periods ended June 30, 2005

REVIEW REPORT OF THE 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 at June 30, 2005, and the related interim consolidated statements of income, changes in shareholders' equity and cash flows for the six-month period ended June 30, 2005. 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 the International Standard on Review Engagements 2400. This standard requires that we plan and perform the review to obtain moderate assurance as to 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 have not been properly prepared, in all material respects, in accordance with applicable to interim financial reporting International Financial Reporting Standards, International Accounting Standards and the related interpretations announced in the form of regulations of the European Commission and with International Accounting Standard 34 "Interim Financial Reporting".

The convenience translations are disclosed as part of the interim consolidated financial statements. The convenience translations have been presented in Euros, as a matter of arithmetic computation using the official rate of the National Bank of Poland at June 30, 2005 of PLN 4.0401 to EUR 1.00. We have not audited these translations and accordingly we do not express an opinion 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 Euros at this rate or at any other rate.

PricewaterhouseCoopers Sp. z o.o.

Warsaw, Poland
August 10, 2005

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2004 (Restated)	June 30, 2005	Convenience Translation June 30, 2005
		(PLN)	(PLN)	(EUR)
ASSETS				
Current assets				
Cash and cash equivalents	5	301,863	371,157	91,868
Trade and other receivables	6	122,734	121,401	30,048
Current income tax receivables		29	-	-
Inventories		2,488	977	242
Prepaid expenses		10,432	32,354	8,008
Total current assets		**437,546**	**525,889**	**130,166**
Available for sale financial assets		51	51	13
Fixed assets, net	7, 10	1,817,156	1,756,981	434,886
Intangible assets				
Licenses, net	8	222,783	211,632	52,383
Computer software, net	9	84,690	76,105	18,837
Negative goodwill		(77,657)	-	-
Deferred income tax assets	4, 16	46,843	38,304	9,481
Other long term assets		1,149	1,450	359
Total non-current assets		**2,095,015**	**2,084,523**	**515,959**
Total assets		**2,532,561**	**2,610,412**	**646,125**

Wojciech Madalski
President of the Company

Kent Holding
Chief Financial Officer

Warsaw, Poland
August 10, 2005

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

NETIA S.A.
INTERIM CONSOLIDATED BALANCE SHEET
(All amounts in thousands, except as otherwise stated)

	Note	December 31, 2004 (Restated)	June 30, 2005	Convenience Translation June 30, 2005
		(PLN)	(PLN)	(EUR)
LIABILITIES				
Current liabilities				
Short term liabilities for licenses	8	4,049	-	-
Short term installment obligations	12	11,872	4,006	992
Trade and other payables	14	150,234	126,462	31,302
Current income tax liabilities		-	21	5
Provisions	13	7,758	3,212	795
Deferred income		10,589	11,436	2,830
Total current liabilities		**184,502**	**145,137**	**35,924**
Non-current liabilities				
Long term liabilities for licenses	4, 8	54,088	56,713	14,038
Provisions	13	2,137	1,529	378
Other long term liabilities		1,216	881	218
Total non-current liabilities		**57,441**	**59,123**	**14,634**
Total liabilities		**241,943**	**204,260**	**50,558**
Equity				
Share capital (nominal par value of PLN 1 per share)		366,956	393,929	97,505
Treasury shares		(2,812)	(33,325)	(8,249)
Supplementary capital		1,809,445	1,922,276	475,799
Other reserves		639	1,439	356
Retained earnings		111,204	116,233	28,770
Total capital and reserves attributable to the Company's equity holders	17	**2,285,432**	**2,400,552**	**594,181**
Minority interest	18	5,186	5,600	1,386
Total equity		**2,290,618**	**2,406,152**	**595,567**
Total liabilities and equity		**2,532,561**	**2,610,412**	**646,125**

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

NETIA S.A.
INTERIM CONSOLIDATED INCOME STATEMENT
(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2004 (Restated)	Six-month period ended June 30, 2004 (Restated)	Three-month period ended June 30, 2004 (Restated)	Six-month period ended June 30, 2005	Three-month period ended June 30, 2005	Convenience Translation Six-month period ended June 30, 2005
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(EUR)
Revenue							
Telecommunication services revenue	21	852,826	417,684	213,184	435,125	221,193	107,701
Radio communication services revenue.....		10,568	5,382	2,700	5,038	2,594	1,247
Total revenue..		**863,394**	**423,066**	**215,884**	**440,163**	**223,787**	**108,948**
Other operating income		4,634	3,066	2,783	1,711	1,415	424
Costs							
Interconnection charges		(158,733)	(76,212)	(39,636)	(84,549)	(43,029)	(20,927)
Salaries and benefits	20	(114,591)	(58,843)	(26,611)	(55,712)	(27,088)	(13,790)
Social security costs.....................................	20	(20,261)	(11,563)	(5,293)	(10,136)	(4,420)	(2,509)
Professional services....................................		(13,840)	(6,795)	(3,963)	(5,683)	(2,741)	(1,407)
Insurance..		(6,505)	(3,357)	(1,541)	(3,117)	(1,614)	(772)
Taxes and fees		(44,239)	(21,424)	(11,031)	(22,984)	(11,517)	(5,689)
Advertising and promotion expenses...........		(24,523)	(12,096)	(5,974)	(11,629)	(7,604)	(2,878)
Cost of rented lines and network maintenance		(73,618)	(34,876)	(19,010)	(35,111)	(18,928)	(8,691)
Depreciation of fixed assets..........................		(188,891)	(90,431)	(47,865)	(98,370)	(49,375)	(24,348)
Amortization of negative goodwill		21,420	12,706	5,051	-	-	-
Amortization of other intangible assets.........		(49,938)	(25,380)	(12,738)	(23,864)	(12,095)	(5,907)
Impairment and write-off charges for non-current assets		(21,705)	-	-	-	-	-
Other operating expenses.............................	22	(87,449)	(41,487)	(21,866)	(40,251)	(21,113)	(9,963)
Profit from operations...............................		**85,155**	**56,374**	**28,190**	**50,468**	**25,678**	**12,491**
Financial income, net....................................	23	27,874	12,690	3,968	6,836	3,771	1,692
Profit before income tax............................		**113,029**	**69,064**	**32,158**	**57,304**	**29,449**	**14,183**
Income tax benefit / (charge)	16	46,343	(243)	(156)	(8,862)	(4,312)	(2,194)
Profit for the period..................................		**159,372**	**68,821**	**32,002**	**48,442**	**25,137**	**11,989**
Attributable to:							
Equity holders of the Company		158,514	68,455	31,779	48,028	24,915	11,887
Minority interest		858	366	223	414	222	102
		159,372	68,821	32,002	48,442	25,137	11,989
Basic earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)....................		**0.44**	**0.19**	**0.08**	**0.13**	**0.06**	**0.03**
Diluted earnings per share for profit attributable to the equity holders of the Company (expressed in PLN per share)		**0.42**	**0.18**	**0.08**	**0.12**	**0.06**	**0.03**

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

NETIA S.A.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(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 supple-mentary capital	Other reserves	Retained earnings / (Accumulated deficit)		
		(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Balance as at December 31, 2003, as previously reported		**344,487**	**(2,812)**	**1,572,903**	**-**	**3,816,325**	**(3,659,547)**	**4,328**	**2,075,684**
Change in accounting policy for the employee share option scheme		-	-	-	-	523	(523)	-	-
Balance as at January 1, 2004 (Restated)		**344,487**	**(2,812)**	**1,572,903**	**-**	**3,816,848**	**(3,660,070)**	**4,328**	**2,075,684**
					-				
Issuance of series J shares		16,670	-	25,508	-	-	-	-	42,178
Issuance of series K shares		481	-	-	-	-	-	-	481
Cost of issuance*...............................		-	-	(522)	-	-	-	-	(522)
Employee share option scheme:					-				
- value of services provided		-	-	-	-	276	-	-	276
Appropriation of Netia's net profit:									
- transfer to other supplementary capital...		-	-	-	203,565	-	(203,565)	-	-
Transfers..	17	-	-	-	-	(3,816,325)	3,816,325	-	-
Net profit..		-	-	-	-	-	68,455	366	68,821
Balance as at June 30, 2004 (Restated)		**361,638**	**(2,812)**	**1,597,889**	**203,565**	**799**	**21,145**	**4,694**	**2,186,918**

	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, 2004 (Restated)		**366,956**	**(2,812)**	**1,605,880**	**203,565**	**639**	**111,204**	**5,186**	**2,290,618**
Change in accounting policy for negative goodwill............................		-	-	-	-	-	77,657	-	**77,657**
Balance as at January 1, 2005 (Restated)		**366,956**	**(2,812)**	**1,605,880**	**203,565**	**639**	**188,861**	**5,186**	**2,368,275**
Issuance of series J shares..................	17	20,934	-	32,028	-	-	-	-	52,962
Issuance of series K shares.................	17	163	-	-	-	-	-	-	163
Cost of issuance*................................		-	-	(288)	-	-	-	-	(288)
Issuance of series I shares	17	5,876	-	485	-	-	-	-	6,361
Cost of issuance of series I shares.......		-	-	(1,334)	-	-	-	-	(1,334)
Employee share option scheme:									
- value of services provided	17	-	-	-	-	800	-	-	800
Appropriation of Netia's 2004 net profit:									
- dividend	17	-	-	-	-	-	(38,710)	-	(38,710)
- transfer to other supplementary capital...	17	-	-	-	81,946	-	(81,946)	-	-
Repurchase of shares and warrants.....	17	-	(30,513)	-	(6)	-	-	-	(30,519)
Net profit...		-	-	-	-	-	48,028	414	48,442
Balance as at June 30, 2005		**393,929**	**(33,325)**	**1,636,771**	**285,505**	**1,439**	**116,233**	**5,600**	**2,406,152**

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

(All amounts in thousands, except as otherwise stated)

	Note	Year ended December 31, 2004 (Restated)	Six-month period ended June 30, 2004 (Restated)	Six-month period ended June 30, 2005	Convenience Translation Six-month period ended June 30, 2005
		(PLN)	(PLN)	(PLN)	(EUR)
Cash flows from operating activities:					
Net profit		**159,372**	**68,821**	**48,442**	**11,989**
Adjustments to reconcile net profit to net cash provided by operating activities:					
Depreciation of fixed assets and amortization of licenses and other intangible assets		238,829	115,811	122,234	30,255
Amortization of negative goodwill		(21,420)	(12,706)	-	-
Amortization of discount on notes and installment obligations		6,165	306	-	-
Impairment and write-off charges for non-current assets	10	21,705	-	-	-
Deferred income tax (benefit) / charge	16	(46,843)	-	8,539	2,114
Deferral of license fee obligations	8	(13,363)	-	-	-
Interest expense accrued on license liabilities		4,056	678	3,174	786
Non-cash employee benefits		639	276	963	238
Other provisions		(149)	33	161	40
Decrease/(increase) in long term assets		457	(732)	(301)	(75)
Foreign exchange gains		(6,118)	(2,953)	(2,435)	(603)
Profit on sale of fixed assets		-	-	(156)	(39)
Gain on sale of subsidiaries		(426)	(426)	-	-
Changes in working capital	26	(27,213)	(28,477)	(16,287)	(4,030)
Net cash provided by operating activities		**315,691**	**140,631**	**164,334**	**40,675**
Cash flows used in investing activities:					
Purchase of fixed assets and computer software		(191,397)	(91,906)	(71,153)	(17,613)
Proceeds from sale of fixed assets		-	-	637	158
Net cash paid on acquisition of subsidiary		(95,608)	(95,608)	-	-
Sale of subsidiaries		(504)	(504)	-	-
Payments for licenses		(4,790)	(4,790)	(4,050)	(1,002)
Net cash used in investing activities		**(292,299)**	**(192,808)**	**(74,566)**	**(18,457)**
Net cash used in financing activities:					
Proceeds from share issuance		55,667	42,659	52,962	13,109
Cost of share issuance		(744)	(522)	(1,622)	(401)
Dividend paid to the Company's shareholders		-	-	(38,710)	(9,581)
Repurchase of shares and warrants		-	-	(33,331)	(8,250)
Repayment of installment obligations		-	-	(1,505)	(373)
Redemption of notes for warrants		(8)	(5)	(1)	
Net cash provided by financing activities		**54,915**	**42,132**	**(22,207)**	**(5,496)**
Effect of exchange rate change on cash and cash equivalents		**(4,445)**	**(784)**	**1,733**	**429**
Net change in cash and cash equivalents		**73,862**	**(10,829)**	**69,294**	**17,151**
Cash and cash equivalents at beginning of period		228,001	228,001	301,863	74,717
Cash and cash equivalents at end of period		**301,863**	**217,172**	**371,157**	**91,868**

Index to the notes to the 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 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 independent fixed-line telecommunication operator in Poland. 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. ("UNI-Net").

The average number of persons employed by the Company was 1,216, 1,307 and 1,254 during the six-month period ended June 30, 2005, the six-month period ended June 30, 2004 and year ended December 31, 2004, respectively.

The interim consolidated financial statements of Netia S.A. for the six-month period ended June 30, 2005 comprise the Company and its subsidiaries. A list of the Company's undertakings as at June 30, 2005 is set out in Note 19.

These interim consolidated financial statements were approved for issuance by the Company's Management Board on August 10, 2005.

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), and services based upon the intelligent network (free phone, split charge and premium rate services). In April 2004 the Netia Group introduced a new service - "Net24" - a broadband Internet access in ADSL technology, addressed to Netia's subscribers using either analogue or ISDN lines.

On May 9, 2005, the Company's subsidiary, Netia Mobile Sp. z o.o. ("Netia Mobile"), was announced a winner of the UMTS tender, provided by the Polish regulator ("URTiP"). The UMTS project creates significant new strategic opportunities to broaden Netia's product offer, including convergent services, and to increase the number of accessible business customers. In addition, on May 9, 2005 Netia Mobile re-applied for the reservation of GSM 1800 MHz channels (the earlier tender for acquiring GSM 1800 MHz spectrum, in which Netia participated in parallel, remained unresolved) and the tender should be completed by URTiP by January 9, 2006.

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. Basis of presentation and summary of significant accounting policies

Basis of preparation

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 ("IFRS"), International Accounting Standards ("IAS") and the related interpretations announced in the form of regulations of the European Commission (all defined as the "accounting standards adopted for use in the EU"). As of June 30, 2005 there are no differences as regards policies adopted by the Netia Group between these standards and IFRS, as promulgated by the International Accounting Standards Board.

The Netia Group is not a first-time adopter of IFRS in respect of its consolidated financial statements as defined by IFRS 1 "First-time Adoption of IFRS".

These interim consolidated financial statements are prepared in accordance with the accounting standards applicable to interim financial reporting and adopted for use in the EU, issued and effective as at the time of preparing these interim consolidated financial statements and IAS 34 "Interim Financial Reporting". 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, 2004, except for new accounting standards adopted as of January 1, 2005. These interim consolidated financial statements do not constitute the statutory financial statements, which are prepared by Netia in Polish and filed with the Warsaw Stock Exchange according to the relevant reporting regulations.

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 presented in Polish Złoty ("PLN"), which is the Company's functional and presentation currency.

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

The preparation of financial statements in conformity with accounting standards adopted for use in the EU 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 4.

All Euro amounts shown as supplementary information in the accompanying interim consolidated financial statements have been translated from PLN only as a matter of arithmetic computation at the PLN exchange rate of PLN 4.0401 = EUR 1.00, the average rate announced by the National Bank of Poland on June 30, 2005. These amounts have not been subject to review or audit procedures and 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.

Significant accounting policies

Group accounting

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 and are no longer consolidated from the date that control ceases.

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 (see "*Negative goodwill*" below). Intercompany transactions, balances and unrealized gains on transactions between group companies are eliminated; unrealized losses are also eliminated unless cost cannot be recovered. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the Netia Group.

Separate disclosure is made of minority interest. Negative minority interest resulting from negative net assets of subsidiaries is not recognized unless there is a contractual commitment by the minority shareholders to cover the losses.

Reclassifications

Certain prior periods' amounts have been reclassified to conform to the presentation for the six-month period ended June 30, 2005. The major reclassification relates to costs of traffic termination (including intelligent network revenue sharing) following the best IFRS practices in the telecommunication sector were netted with related categories of telecommunication revenue (local termination and "0-708" premium rate services).

In addition, a reclassification of equity items have been made in comparison with the interim condensed consolidated financial statements as of and for the three-month period ended March 31, 2005. These reclassifications have been made to better reflect the structure of statutory equity in the interim consolidated financial statements. The reclassifications relate to share premium and other supplementary capital, which are now combined and presented as supplementary capital. Futhermore, the amounts arising on the adoption of IFRS 2 "Share-based Payments" ("IFRS 2") are presented as an increase in other reserves, instead of share premium.

Segment reporting

Through December 31, 2003 the radiocommunication activities of the Netia Group were designated as a separate segment. In 2004 the Management decided to discontinue this division mostly due to the fact that those activities are not significant to the Netia Group's operations and they are not considered different in nature to other operations of the Netia Group. In consequence, the Netia Group had only one business segment – telecommunications – as at June 30, 2005. The Group operates in one geographical area, which is the territory of Poland.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, cash at bank and short-term deposits with an original maturity of three months or less.

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.

Investments

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

(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 investment 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. 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

Loans 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. These are classified as non-current assets. Loans are included in trade and other receivables in the balance sheet.

Purchase and sales of investments are recognized on trade-date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments 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 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.

(All amounts in thousands, except as otherwise stated)

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 as other operating expense. 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 imputed interest rate of interest for similar borrowers. Any amounts reversed during the period are presented net with the impairment provisions.

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.

Impairment and write-offs of non-current assets

Tangible fixed assets and intangible assets, including goodwill, 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 net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there is separately identifiable cash flows.

Individual items of tangible fixed assets and intangible assets are also periodically reviewed for their further use to the business. If they are no longer to be used due to technological, market or similar changes or decisions made by Management to discontinue investments in specific locations, their carrying value is decreased to reflect those changes.

Fixed assets and network under construction

Fixed assets are stated at cost less accumulated depreciation, plus related inflation through December 31, 1996. Network under construction represents 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 administration and other overhead costs directly attributable to the acquisition or construction of assets before operations commence. Costs relating to the network under construction are transferred to the related fixed asset account and depreciation begins when they are placed into operational use.

The costs of repairs and maintenance are charged to the income statement during the financial period in which they are incurred. Until January 1, 2005 the costs of renovations were included in the carrying amount of the asset when it was probable that future economic benefits in excess of the originally assessed standard of performance of the existing asset would flow to the Netia Group. Due to the adoption of revised IAS 16, since January 1, 2005 the costs of renovations are included in the carrying amount of the asset when it is probable that future economic benefits relating to the renovations will flow to the Netia Group and the cost of renovations can be measured reliably. The renovations are depreciated over the remaining useful life of the related asset.

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
Base stations (UNI-Net)	7 to 13 years
Transmission network	8 to 22 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.

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 statements on a straight-line basis over the period of the lease.

Licenses and license fee liabilities

Licenses are stated at cost less accumulated amortization. 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 net present value are treated as interest costs. Interest costs are capitalized up until the time when the network in that license territory becomes operational and are then recognized as interest expense over the period of the obligation. Amortization of the license also commences once the related network is operational and is recorded on a straight-line basis until the end of the grant period. The amortization period is 12 to 15 years.

Computer software costs

Costs that are directly associated with identifiable and unique software products controlled by the Netia Group and which have probable economic benefits, exceeding the cost, 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.

Until January 1, 2005, expenditure, which enhanced or extended the performance of computer software programs beyond their original specifications, was recognized as a capital improvement and added to the original cost of the software. Due to the adoption of revised IAS 38, since January 1, 2005 such expenditure is recognized as a capital improvement only if it satisfies the criteria for recognizing it as an intangible asset. Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives, not exceeding a period of 5 years.

Negative goodwill

Until December 31, 2004, negative goodwill was recognized as income in the income statement as follows:

(a) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets was recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets; and
(b) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets was recognized as income immediately.

In accordance with the provisions of IFRS 3, the Netia Group ceased amortization of negative goodwill from January 1, 2005. Pursuant to the application of IFRS 3 as at January 1, 2005 PLN 77,657 representing the unamortized part of the negative goodwill as of that date was transferred to retained earnings.

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 headcount restructuring and termination benefits, loss on rental contracts (onerous contracts) and legal claims. Costs related to the ongoing activities of Netia Group are not provided in advance. Provisions are not recognized for future operating losses.

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

Provisions 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 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 restructuring and legal claims are recorded at 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.

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.

Equity compensation benefits

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.

Until January 1, 2005 the Company did not recognize the employee share options until the date of exercise, when the nominal value of shares increased by the costs of exercise was charged to the income statement. As of January 1, 2005 the Company has implemented IFRS 2. Under the new standard the Company recognizes the cost of share-based awards to employees (including share options) as an employee benefits expense with a corresponding increase in other reserve capital, over the vesting period. The cost is assessed on a fair value basis with measurement at the grant date.

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.

Revenue

Revenue is stated net of discounts and value added tax.

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. Service revenues are recorded when the service is provided. Revenue from the sale of equipment is recorded when the customer takes delivery.

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.

Foreign exchange gains and losses

Foreign currency transactions are accounted for at the exchange rates prevailing at the date of the transactions. Gains and losses resulting from the settlement of such transactions and from the translations of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

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. 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.

The Company offsets deferred tax assets and deferred tax liabilities if, and only if, it has 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.

For interim purposes the method of calculation of the tax charge is based on the best estimate of the weighted average annual income tax rate (current and deferred tax) expected for the full financial year.

Dividend distribution

Dividend distributions to the Company's shareholders are recognized as 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.

Adoption of new accounting standards

In 2005, the Netia Group adopted the accounting standards adopted for use in the EU below, which are relevant to its operations. The 2004 accounts have been amended as required, in accordance with the relevant requirements of:

IAS 1 (revised 2003) Presentation of Financial Statements
IAS 2 (revised 2003) Inventories
IAS 8 (revised 2003) Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (revised 2003) Events after the Balance Sheet Date
IAS 16 (revised 2003) Property, Plants and Equipment
IAS 17 (revised 2003) Leases
IAS 21 (revised 2003) The Effects of Changes in Foreign Exchanges Rates
IAS 24 (revised 2003) Related Party Disclosures
IAS 27 (revised 2003) Consolidated and Separate Financial Statements
IAS 32 (revised 2003) Financial Instruments: Disclosure and Presentation
IAS 33 (revised 2003) Earnings per Share
IAS 39 (revised 2003) Financial Instruments: Recognition and Measurement
IAS 36 (revised 2004) Impairment of Assets
IAS 38 (revised 2004) Intangible Assets

Since January 1, 2005, the Netia Group has also adopted new accounting standards presented below:

IFRS 2 (issued 2004) Share-based Payments
IFRS 3 (issued 2004) Business Combinations
IFRS 5 (revised 2004) Non-current Assets Held for Sale and Discontinued Operations

The adoption of IAS 1,2,8,10,16,17,21,24,27, 32 and 33 (all revised 2003) did not result in substantial changes to the Group's accounting policies. In summary:

- IAS 1 (revised 2003) has affected the presentation of minority interest and other disclosures.
- IAS 2, 8, 10, 17, 21, 27, 32 and 33 had no material effects in the Netia Group's policies.
- IAS 24 (revised 2003) has affected the identification of related parties and some other related-party disclosures.

The adoption of IAS 39 (revised 2004) has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss.

(All amounts in thousands, except as otherwise stated)

The adoption of IFRS 2 has resulted in change in the accounting policy for share-based payments. Until December 31, 2004, the provision of share options to employees did not result in a charge in the income statement. Subsequent to that date, the Netia Group charges the cost of share options to the income statement.

The adoption of IFRS 3, IAS 36 (revised 2004) and IAS 38 (revised 2004) resulted in a change in the accounting policy for negative goodwill. Until December 31, 2004, negative goodwill was recognized as income in the income statement as follows:

(a) the amount of negative goodwill not exceeding the fair values of acquired identifiable non-monetary assets was recognized as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortizable assets; and
(b) the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets was recognized as income immediately.

In accordance with the provisions of IFRS 3, the Netia Group ceased amortization of negative goodwill from January 1, 2005. Pursuant to the application of IFRS 3 as at January 1, 2005 PLN 77,657 representing the unamortized part of the negative goodwill as of that date was transferred to retained earnings.

The Netia Group has reassessed the useful lives of certain of its fixed assets classified as transmission network in accordance with the provisions of IAS 16. The depreciation rates of these assets were changed from 6.7% to 12.5%.

The adoption of IFRS 5 has resulted in a change in accounting policy for assets held for sale and the presentation and disclosure of discontinued operations. At June 30, 2005 the Company did not have assets held for sale and the application of IFRS 5 did not have any impact on retained earnings upon its adoption.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Netia Group require retrospective application other than:

- IAS 16 – the exchange of property, plant and equipment is accounted at fair value prospectively;
- IAS 39 – does not require the classification of financial assets as at `fair value through profit or loss` of previously recognized financial assets;
- IFRS 2 – retrospective application for all equity instruments granted after November 7, 2002 and not vested at January 1, 2005; and
- IFRS 3 – prospectively after March 31, 2004.

The adoption of IFRS 2 resulted in:

	Year ended December 31, 2004 (PLN)	**Six-month period ended June 30, 2004 (PLN)**	**Six-month period ended June 30, 2005 (PLN)**
Increase in other reserves	639	276	800
Decrease in retained earnings	(639)	(276)	(800)
Increase in cost of salaries and benefits	639	276	800

The recognition of the above cost of benefits does not result in material changes to the basic and diluted earnings per share.

New accounting standards and IFRIC interpretations

Certain new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after January 1, 2006. The new interpretation relevant to the Company's operations is IFRIC 4 "Determining whether an Arrangement Contains a Lease" that is applicable to annual periods beginning on or after January 1, 2006. The Company has not elected to adopt IFRIC 4 early and is currently assessing its potential effect on the Netia Group's consolidated financial statements.

Current financial condition

As at June 30, 2005, the equity amounted to PLN 2,406,152 and the Netia Group had working capital of PLN 383,964. In 2003 the financial restructuring and the cancellation of local license fee obligations of Netia were completed. Management of the Company believes that the outstanding local license fee obligations of Regionalne Sieci Telekomunikacyjne El-Net S.A. ("El-Net"), measured at fair value as at acquisition date and subsequently at amortized cost of PLN 56,713 (PLN 459,207 in nominal terms, including prolongation fees) will also 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 8. In 2004 and the six-month period ended June 30, 2005 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.

3. 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 of those payments. The Netia Group's outstanding license liabilities are also denominated in Euro.

- 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 invested in either bank deposits or treasury bills.

Fair value estimation

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year are assumed to approximate their fair values.

The fair value of financial assets at fair value through profit or loss is based on dealer quotes obtained at each balance sheet date. Gains or losses are recognized in the income statements.

4. 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 discussed 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 has been 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.

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, 2005:

	(EUR)	(PLN)
Nominal value of outstanding license fee obligations		
Overdue installments (excluding prolongation fees)	75,690	360,388
Prolongation fees (in PLN only)		37,733
Installments payable later than 5 years	28,934	137,766
	104,624	**535,887**
Less fair value adjustment to opening balances	(87,172)	(446,973)
Nominal value of probable future payments as at January 29, 2004	**17,452**	**88,914**
Less imputed interest on license fee liabilities	(3,192)	(15,202)
Fair value as at January 29, 2004,	**14,260**	**73,712**
of which:		
Short term license fee liabilities (including prolongation fees)	11,666	61,361
Long term license fee liabilities	2,594	12,351
Fair value as at January 29, 2004,	**14,260**	**73,712**
Effect of deferral of future payments (including translation of prolongation fees into EUR)	(1,725)	(13,363)
Interest accrued in the period ended December 31, 2004	725	3,647
Foreign exchange gains on the translation of EUR balances		(9,908)
Carrying value as at December 31, 2004	**13,260**	**54,088**
Interest accrued in the period ended June 30, 2005	777	3,174
Foreign exchange gains on the translation of EUR balances	-	(549)
Carrying value as at June 30, 2005	**14,037**	**56,713**

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, 2005 should be decreased by PLN 26,621.

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, 2005 should be increased by PLN 27,833.

(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 the Netia Group expects that future taxable profits will be generated based on the 2005 budget and 2005-2008 business plan. 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, 2005 amounted to PLN 38,304.

If the Company does not limit the period, which was the base for the income tax projections, as of June 30, 2005 the Netia Group would need to increase the deferred tax asset by PLN 29,671. Further, if the projected future earnings were 10% higher (every year), as of June 30, 2005 the Netia Group would need to increase the deferred tax asset by an additional PLN 500.

(All amounts in thousands, except as otherwise stated)

5. Cash and cash equivalents

	December 31, 2004	June 30, 2005
	(PLN)	(PLN)
Cash at bank and in hand	203,938	308,603
Short term deposits	97,925	62,554
	301,863	**371,157**

The short term deposits consist primarily of funds deposited in treasury bills as well as money market investment funds and asset management institutions, which are invested in various short term, low risk debt instruments.

As at June 30, 2005 and December 31, 2004 the amounts of PLN 1,607 and PLN 1,297, respectively were restricted as they were placed as collateral securing payments to vendors. In addition, as at June 30, 2005 and December 31, 2004 the amounts of PLN 875 and PLN 512, respectively were legally reserved for spending on social purposes.

6. Trade and other receivables

	December 31, 2004	June 30, 2005
	(PLN)	(PLN)
Trade receivables	182,584	185,669
Less provision for impairment of trade receivables	(65,852)	(72,201)
Trade receivables, net	116,732	113,468
VAT and other government receivables	2,980	1,290
Other receivables	3.855	7,377
Less provision for impairment of other receivables	(833)	(734)
Other receivables, net	3,022	6,643
Short-term loans (see also Note 27)	12,950	13,107
Accrued interest	27,960	38,706
Less provision for impairment of short-term loans and accrued interest	(40,910)	(51,813)
Short-term loans, net	-	-
	122,734	**121,401**

7. Fixed assets and network under construction

Current period:

Assets at adjusted cost	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 and write-off provisions	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
Fixed assets under construction	78,501	55,927
	1,817,156	**1,756,981**

Comparative period:

Assets at adjusted cost	December 31, 2003	Additions	Purchase of subsidiary	Transfers	Disposals	June 30, 2004
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Buildings	62,056	-	2,691	8,086	(25)	72,808
Land	17,303	116	2	-	-	17,421
Transmission network	1,615,844	-	160,253	16,435	(10)	1,792,522
Switching system	1,198,522	-	108,883	23,444	(1,225)	1,329,624
Base stations	8,252	-	-	-	-	8,252
Machinery and equipment	63,003	2,030	3,181	-	(526)	67,688
Office furniture and equipment	107,469	1,869	6,768	11,381	(2,107)	125,380
Vehicles	14,120	23	1,035	-	(2,206)	12,972
	3,086,569	4,038	282,813	59,346	(6,099)	3,426,667
Fixed assets under construction	111,184	49,757	1,067	(59,346)	(11,580)	91,082
	3,197,753	**53,795**	**283,880**	**-**	**(17,679)**	**3,517,749**

(All amounts in thousands, except as otherwise stated)

Accumulated depreciation	**December 31, 2003**	**Depreciation Expense**	**Transfers**	**Disposals**	**June 30, 2004**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	11,811	1,676	-	(5)	13,482
Transmission network	362,282	36,101	-	(3)	398,380
Switching system	296,611	39,219	(3,155)	(676)	331,999
Base stations	8,252	-	-	-	8,252
Machinery and equipment	29,688	2,858	-	(146)	32,400
Office furniture and equipment	76,633	10,412	3,155	(1,051)	89,149
Vehicles	10,520	165	-	(2,025)	8,660
	795,797	**90,431**	**-**	**(3,906)**	**882,322**

Accumulated impairment	**December 31, 2003**	**Transfers**	**Disposals**	**June 30, 2004**
	(PLN)	**(PLN)**	**(PLN)**	**(PLN)**
Buildings	13,875	756	(20)	14,611
Land	4,814	7	-	4,821
Transmission network	485,409	1,733	(3)	487,139
Switching system	266,689	824	(41)	267,472
Machinery and equipment	9,081	291	(93)	9,279
Office furniture and equipment	9,358	2,408	(252)	11,514
Vehicles	1,302	-	(177)	1,125
	790,528	6,019	(586)	795,961
Fixed assets under construction	28,151	(6,232)	(11,580)	10,339
	818,679	**(213)**	**(12,166)**	**806,300**

Net book value	**December 31, 2003**	**June 30, 2004**
	(PLN)	**(PLN)**
Buildings	36,370	44,715
Land	12,489	12,600
Transmission network	768,153	907,003
Switching system	635,222	730,153
Base stations	-	-
Machinery and equipment	24,234	26,009
Office furniture and equipment	21,478	24,717
Vehicles	2,298	3,187
	1,500,244	1,748,384
Fixed assets under construction	83,033	80,743
	1,583,277	**1,829,127**

Overhead costs directly attributable to the acquisition or construction of assets amounting to PLN 8,069, PLN 5,311 and PLN 4,858 were capitalized to network under construction during the year ended December 31, 2004, the six-month period ended June 30, 2004 and the six-month period ended June 30, 2005, respectively.

(All amounts in thousands, except as otherwise stated)

8. Licenses

License assets

Current period:

Gross book value	**December 31, 2004**	**June 30, 2005**
	(PLN)	**(PLN)**
Local telecommunication licenses/permits	432,823	432,823
Datacom 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**	**Amortization expense**	**June 30, 2005**
	(PLN)	**(PLN)**	**(PLN)**
Local telecommunication licenses/permits	129,237	8,682	137,919
Datacom 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**	**June 30, 2005**
	(PLN)	**(PLN)**
Local telecommunication licenses/permits	137,127	137,127
Datacom 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**	**June 30, 2005**
	(PLN)	**(PLN)**
Local telecommunication licenses/permits	166,459	157,777
Domestic long distance licenses/permits	56,324	53,855
	222,783	**211,632**

Comparative period:

Gross book value	**December 31, 2003**	**Fair value adjustment**	**June 30, 2004**
	(PLN)	**(PLN)**	**(PLN)**
Local telecommunication licenses/permits	432,823	-	432,823
Datacom and internet licenses/permits	7,417	-	7,417
Domestic long distance licenses/permits	114,854	(7,500)	107,354
	555,094	**(7,500)**	**547,594**

(All amounts in thousands, except as otherwise stated)

Accumulated amortization	**December 31, 2003**	**Amortization expense**	**June 30, 2004**
	(PLN)	**(PLN)**	**(PLN)**
Local telecommunication licenses/permits	111,725	8,743	120,468
Datacom and internet licenses/permits	1,539	-	1,539
Domestic long distance licenses/permits	25,576	2,702	28,278
	138,840	**11,445**	**150,285**

Accumulated impairment	**December 31, 2003**	**June 30, 2004**
	(PLN)	**(PLN)**
Local telecommunication licenses/permits	137,127	137,127
Datacom 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, 2003**	**June 30, 2004**
	(PLN)	**(PLN)**
Local telecommunication licenses/permits	183,971	175,228
Domestic long distance licenses/permits	68,761	58,559
	252,732	**233,787**

License fee liabilities

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. On June 30, 2005 the total nominal value of outstanding license fee obligations of El-Net was EUR 113,662 (PLN 459,207 at the exchange rate prevailing on June 30, 2005).

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 305,795 at the exchange rate prevailing on June 30, 2005) and related prolongation fees of PLN 37,733, based on capital expenditure incurred between 2001 and 2003 as well as future investments to be incurred until the end of 2006 within the Netia Group. Consequently, on October 29, 2004, El-Net has also filed an application for cancellation of remaining license fee installments payable in 2010 and 2011 amounting to nominal value of EUR 28,934 (PLN 116,896 at the exchange rate prevailing on June 30, 2005). El-Net declared to cover these obligations by investments to be incurred in 2007-2008. El-Net is currently waiting for the decision referring to this issue. 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 EUR 9,039 (equivalent of PLN 37,733 translated using the exchange rate prevailing on November 29, 2002 and October 22, 2003). 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 El-Net's capital expenditure can be 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. On May 30, 2005, El-Net received a decision of the Minister of Infrastructure dated May 16, 2005 suspending, till the receipt of the opinion in the notification proceedings before the European Commission, the proceedings commenced with the application dated December 30, 2002 referring to licence obligations prolonged by the decision of the Minister of Infrastructure dated July 12, 2004. El-Net appealed the decision dated May 16, 2005. The Company's Management is of the opinion that there are no formal impediments for the cancellation of the license fee obligations.

(All amounts in thousands, except as otherwise stated)

As at June 30, 2005 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 (see Note 4). The only change in the value of those liabilities as compared to December 31, 2004 relates to interest accrued in the amount of PLN 3,174 and foreign exchange differences in the amount of PLN 549.

Long distance license fee liabilities

The long distance license fee liabilities were not the subject of the new law regarding the cancellation of outstanding local license fee liabilities. As at December 31, 2004 the total nominal value of the long distance license fee liabilities was EUR 1.000. On January 31, 2005 the Company paid that last installment in the amount of PLN 4,050 (at the exchange rate prevailing on that date).

The total license fee liability as at June 30, 2005 comprises only PLN 56,713 of El-Net's liabilities, which is long term.

9. Computer software costs

Current period:

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

	December 31, 2004	Write-off charge	Transfers and reclassifications	Disposals and other movements	June 30, 2005
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Accumulated impairment and write-off provision	34,280	-	59	49	34,388

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

Comparative period:

	December 31, 2003	Purchase of Subsidiary	Transfers and reclassifications	Disposals and other movements	June 30, 2004
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Assets at adjusted cost					
Gross book value	188,017	746	1,443	(983)	189,223
Capital work in progress	4,462	-	(1,443)	5,960	8,979
	192,479	**746**	**-**	**4,977**	**198,202**

(All amounts in thousands, except as otherwise stated)

	December 31, 2003 (PLN)	Amortization expense (PLN)	Transfers and reclassifications (PLN)	Disposals and other movements (PLN)	June 30, 2004 (PLN)
Accumulated amortization	70,396	13,935	-	(1,978)	82,353

	December 31, 2003 (PLN)	Write-off charge (PLN)	Transfers and reclassifications (PLN)	Disposals and other movements (PLN)	June 30, 2004 (PLN)
Accumulated impairment and write-off provision	30,654	-	213	1,019	31,886

	December 31, 2003 (PLN)	June 30, 2004 (PLN)
Net book value	**91,429**	**83,963**

10. Impairment of non current assets

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, 2005 the Netia Group assessed whether there was any indication that the impairment loss recognized for non-current assets in the prior year may no longer exist or may have reversed. After assessing both the external and internal sources of information, no indications were identified which could result in a new assessment of the impairment loss recorded in 2003.

11. Operating leases

As at June 30, 2005 and December 31, 2004 the future minimum payments payable under non-cancelable operating leases were as follows:

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
Not later than 1 year	24,147	30,336
Later than 1 year and not later than 5 years	41,805	46,134
Later than 5 years	56,144	51,052
	122,096	**127,522**

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 12 years and vehicles are leased for almost 4 years. Rental costs recognized in the income statement for the six-month period ended June 30, 2005 and the year ended December 31, 2004 amounted to PLN 26,051 and PLN 51,714, respectively. These rental costs are partially offset by income from sub-contractors (see also Note 13) in the amounts of PLN 1,557 and PLN 2,521, respectively.

12. Installment obligations (number of shares and share price not in thousands)

The outstanding installment obligations comprise those claims reduced in the Polish arrangement proceedings (including guarantees given by Netia S.A. to the holders of 1997 Notes, 1999 Notes and 2000 Notes and to swap counterparties), which were not exchanged into series H shares during the restructuring process commenced in 2002. These obligations were originally scheduled for payment, according to court decisions, at their nominal reduced values between 2007 and 2012 and bear no interest.

In connection with the decision made by the Netia Group in November 2004 on the early repayment of the outstanding installment obligations, the Netia Group reclassified them to current liabilities and as at December 31, 2004 recorded them at nominal value of installment obligations of PLN 11,872. The restructuring creditors have been entitled to exchange their restructuring claim for the ordinary series I shares at the price of PLN 1.0826241 per share. The subscription for series I shares was closed on February 16, 2005 and 5,875,610 (not in thousands) shares were allocated out of a total of 18,373,785 series I shares offered (see also Note 17). The value of installment obligations, which was settled through exchange with subscribed shares, is equal to PLN 6,361. Out of the remaining PLN 5,511, PLN 1,511 was repaid in cash (until August 2005), while PLN 4,000 will be deposited with the Polish court depository (creditors who did not submit information required for the cash repayment by April 29, 2005 will be entitled to apply for the repayment to the depository court). Depositing the above amonut with the court depository will have the same effect as the actual repayment of installement obligations by the Company. The repayment of all installment obligations will allow Netia to apply for the formal completion of the Netia Holdings S.A. and Netia Telekom S.A. arrangement proceedings in advance of the scheduled maturity of the installment obligations, set originally for years 2007-2012.

On April 26, 2005 the Regional Court in Warsaw issued an order on completion of the arrangement proceedings of Netia South Sp. z o.o. (“Netia South”), of which Netia is the legal successor, further to full repayment of installment obligations of Netia South. Arrangement proceedings of Netia South constituted a part of the court arrangement proceedings performed in connection with the financial restructuring of Netia Group.

13. Provisions

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
Headcount restructuring and termination benefits	2,622	767
Loss on rental contract	3,569	2,960
Legal claims	3,704	1,014
	9,895	**4,741**
Of which,		
Short term	7,758	3,212
Long term	2,137	1,529
	9,895	**4,741**

	Headcount restructuring and termination benefits (PLN)	Loss on rental contracts (PLN)	Legal claims (PLN)	Total (PLN)
As at January 1, 2005	2,622	3,569	3,704	9,895
Charged / (credited) to the income statements	-	178	(1,300)	(1,122)
Used during the period	(1,855)	(787)	(1,390)	(4,032)
As at June 30, 2005	**767**	**2,960**	**1,014**	**4,741**

Headcount restructuring and termination benefits

The provision, which was created in 2003, related to the headcount reduction program announced by the Netia Group, which assumed a decrease of the number of employees by the end of first quarter 2004. Furthermore a provision of PLN 138 was recorded in 2004 in connection with the restructuring of headcount of El-Net acquired in January 2004. The remaining balance as at June 30, 2005 comprises the provision created for those committed redundancies where the employment contract has not been yet terminated. The Netia Group expects that the cash outflows relating to this provision will be incurred through 2005.

(All amounts in thousands, except as otherwise stated)

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) for which no sub-contractor has been found. 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

The amounts represent a provision for certain legal cases brought against the Netia Group entities. In the opinion of the Management the outcome of those cases 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 with reasonable accuracy.

14. Trade and other payables

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
Trade and investment	90,269	43,098
VAT and other taxes	10,955	33,830
Accruals and other	49,010	49,534
	150,234	**126,462**

15. Accruals and other

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
Construction costs	2,811	-
Uninvoiced services	7,207	7,369
Interconnection charges	12,489	21,359
Holidays accrual	4,727	5,773
Employees bonuses and accrued salaries	12,539	7,207
Other	9,237	7,826
	49,010	**49,534**

16. Corporate income tax

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)
Current tax	(500)	(323)
Deferred income tax benefit / (charge), net	46,843	(8,539)
Income tax benefit / (charge)	**46,343**	**(8,862)**

(All amounts in thousands, except as otherwise stated)

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, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)
Profit before tax	113,668	57,304
Tax calculated at tax rates applicable to profit	21,597	10,888
Income not subject to tax	(21,512)	(2,137)
Expenses not deductible for tax purposes	50,279	2,787
Utilization of previously unrecognized tax losses	(54,277)	(10,098)
Tax losses for which no deferred income tax asset was recognized	4,193	2,133
Write down of deferred tax assets relating to change in tax bases of assets and liabilities	-	12,459
Recognition of deferred tax assets relating to change in probability of availability of future taxable profits	-	(7,170)
Recognition of previously unrecognized deferred tax asset (opening balances)	(46,623)	-
Income tax charge / (benefit)	**(46,343)**	**8,862**

The corporate income tax rate applicable to the Company and its subsidiaries for 2004 and onwards – 19%.

Deferred tax

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, 2004 (PLN)	June 30, 2005 (PLN)
Deferred tax assets:		
- Deferred tax asset to be recovered after more than 12 months	(33,161)	(26,281)
- Deferred tax asset to be recovered within 12 months	(37,575)	(37,791)
	(70,736)	(64,072)
Deferred tax liabilities:		
- Deferred tax liabilities to be recovered after more than 12 months	16,264	9,943
- Deferred tax liabilities to be recovered within 12 months	7,629	15,825
	23,893	25,768
	(46,843)	**(38,304)**

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

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)
- Charged / (credited) 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)**

The method of calculation of the tax charge at June 30, 2005 was based on the best estimate of the weighted average annual income tax rate (current and deferred tax) expected for the full financial year ending December 31, 2005.

Deferred income tax assets are recognized for deductible temporary differences and tax loss carry-forwards to the extent that the realization of the related tax benefit through the future taxable profits is probable. As of June 30, 2005, the Netia Group had total deductible temporary differences of PLN 642,299 and unutilized tax loss carry-forwards of PLN 547,289 (total potential deferred tax asset of PLN 226,022).

The Netia Group did not recognize deferred tax assets of PLN 29,965 relating to tax losses of PLN 157,713 of the Company and did not recognize deferred tax assets of PLN 61,119 relating to tax losses of PLN 321,677 of the Company's subsidiaries, due to insufficient future taxable profits to realize these tax losses. These unrecognized tax losses of the Netia Group available for use as at June 30, 2005 will expire in the following years: PLN 158,056 in 2005, PLN 178,799 in 2006, PLN 75,477 in 2007, PLN 38,516 in 2008, PLN 22,928 in 2009, and PLN 5,614 in 2010. Furthermore, due to the lack of evidence of future taxable profits, which may be generated beyond 2008, the Netia Group did not recognize the deferred income tax asset of PLN 96,634, relating to deductible temporary differences of PLN 508,600.

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.

17. Shareholders' equity

Shareholders' Rights (number of shares not in thousands)

At December 31, 2004, the Company's share capital consisted of 366,955,325 ordinary shares and of 1,000 of 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, 1,361,947 two-year subscription warrants expired. In the six-month period ended June 30, 2005 20,933,495 of the warrants were exercised and the Company's share capital was accordingly increased by 20,933,495 series J shares. The total number of series J shares issued at the exercise of warrants through June 30, 2005 was 43,073,597.

The Company also plans to 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, 2005 the Company issued 163,088 ordinary series K shares due to the exercise by certain persons authorized thereto of their rights arising from the Plan. The total nominal value of series K shares issued through June 30, 2005 was PLN 934.

Furthermore pursuant to the early repayment of the outstanding installment obligations (described in Note 12), in the six-month period ended June 30, 2005 the Company issued 5,875,610 ordinary series I shares. On March 16, 2005 the Polish Regional Court in Warsaw registered the increase of the Company's share capital resulting from the issuance of series I shares. The series I shares began trading on the Warsaw Stock Exchange as of April 13, 2005, following their assimilation with Netia's remaining shares.

As a result at June 30, 2005 the Company's share capital consisted of 393,927,518 ordinary shares and of 1,000 of 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 of this interim consolidated financial statements.

Share Capital

	Number of shares authorized and issued (not in thousands)	Share capital (PLN)
At December 31, 2003	**344,486,821**	**344,487**
Exchange of warrants for series J shares	21,698,493	21,698
Issuance of series K shares	771,011	771
At December 31, 2004	**366,956,325**	**366,956**
Exchange of warrants for series J shares	20,933,495	20,934
Issuance of series K shares	163,088	163
Issuance of series I shares	5,875,610	5,876
At June 30, 2005	**393,928,518**	**393,929**

Distributable reserves

Until December 31, 2004, the Company and its subsidiaries prepared their financial statements for statutory purposes according to the Polish Accounting Act of 29 September 1994 (uniform text, Journal of Laws of 2002, No. 76, item 694 with further adjustments). 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, 2005 the distributable reserve amounted to PLN 261,277.

Other supplementary capital

As at December 31, 2004 other supplementary capital comprised stand alone net profit of PLN 42,517 of Netia S.A. for the year ended December 31, 2003 and the surplus relating to merger of Netia S.A with its operating subsidiaries of PLN 161,048 recorded in Netia's S.A. 2003 standalone financial statements. In the six-month period ended June 30, 2005, following the resolution of the Company's General Shareholder's meeting held in March 2005 (the "Shareholders Meeting"), the Company allocated 2004 net profit as follows: PLN 38,710 was paid as dividend and PLN 81,946 was transferred to other supplementary capital. Furthermore, the Shareholders Meeting approved that other supplementary capital amounting to up to PLN 120,000, will be used to execute the share and subscription warrant buy-back program (the "Program"). The Company started the Program on May 9, 2005. The Program shall be executed up to the earlier of June 30, 2006, or until the funds allocated for its execution by the Shareholders Meeting are consumed. During the Program the Company can purchase shares in the total amount not exceeding 10% of the Company's share capital in the amount determined on the last day of the Program's execution. Since the commencement day of the Program, until June 30, 2005, the Company acquired in total 7,758,361 of own shares and 3,569 subscription warrants.

Other reserves

In the year ended December 31, 2004 the Company reclassified the reserves resulting from the financial restructuring, to the accumulated deficit from other reserves in the consolidated financial statements. The reclassification followed resolution no. 2, of the Annual Shareholders' Meeting of Netia S.A. dated June 12, 2003.

Stock options (number of shares not in thousands)

In the six-month period ended June 30, 2005 the following changes took place in the number of options granted under the Plan:

	Year ended December 31, 2004		Six-month period ended June 30, 2005	
Options	**Average strike price**	**Options**	**Average strike price**	**Options**
At the beginning of period	2.56	7,936,975	2.65	7,206,097
Granted	2.81	2,228,877	4.01	2,154,497
Forfeited/ expired	2.53	(1,087,257)	2.53	(362,419)
Exercised	2.53	(1,872,498)	2.53	(302,016)
At the end of period	**2.65**	**7,206,097**	**2.83**	**8,696,159**

(All amounts in thousands, except as otherwise stated)

Furthermore, as at June 30, 2005 the total number of options approved for issue by the Supervisory Board was 14,023,719 compared to 13,373,261 as at December 31, 2004. The total number of vested options was 4,820,173 as at June 30, 2005 compared to 4,759,770 as at December 31, 2004. The vesting period for the options is up to three years from the date of grant or upon achieving certain specified market conditions (i.e. some options may vest when the market price exceeds 175% or 200% of the strike price). The options are exercisable until December 20, 2007. 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 2.53 to PLN 4.48. The purchase prices of the series K shares (equal to their nominal value of PLN 1 per share) are paid from cash bonuses, which are granted to the exercising option holders by the Company.

Due to the exercise of 302,016 options, in the six-month period ended June 30, 2005, the Company issued 163,088 series K shares, at the nominal value of PLN 1 each. The share price at the date of exercise was PLN 4.48 per share.

As of January 1, 2005 the Company has implemented IFRS 2. Under the new standard, the Company recognizes the cost of share-based awards to employees (including share options) over the vesting period. The option 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 (15.40%), and the risk free interest rate at the date of the grant (ranging from 5.36% to 7.36%). The expected volatility was based on historical volatility. The Company has performed the valuation of the options in accordance with the requirements of IFRS 2 and the total cost of options recognized as at January 1, 2005 as an adjustment to retained earnings amounted to PLN 1,162, of which PLN 639 related to the year ended December 31, 2004. The cost of option valuation recorded in the six-month period ended June 30, 2005 amounted to PLN 800.

18. Minority interest

	December 31, 2004 (PLN)	June 30, 2005 (PLN)
At beginning of the period	4,328	5,186
Share of net profit of subsidiaries	858	414
At end of the period	**5,186**	**5,600**

19. Significant subsidiaries of the Company

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

Subsidiary	Ownership Percentage	
	December 31, 2004	June 30, 2005
Subsidiaries held directly:		
UNI-Net Sp. z o.o.	58	58
Netia Świat S.A.	100	100
Polbox Sp. z o.o.*	100	100
Netia Globe S.A.	100	100
Netia Ventures Sp. z o.o.	100	100
RST El-Net S.A.	100	100
Subsidiaries held indirectly:		
Netia Mobile Sp. z o.o.	100	100
Świat Internet S.A.	100	100

* Polbox was sold by Świat Internet to Netia on May 31, 2004.

All subsidiaries are incorporated in Poland.

(All amounts in thousands, except as otherwise stated)

20. Telecommunication services revenue

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Three-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)
Direct voice services	546,349	275,860	138,394	254,331	124,886
Monthly fees	144,248	71,619	36,980	71,110	35,374
Calling charges	402,101	204,241	101,414	183,221	89,512
Local calls	*134,842*	*69,643*	*33,816*	*59,303*	*28,615*
Domestic long distance calls	*82,223*	*41,397*	*20,423*	*35,431*	*17,346*
International long distance calls	*35,685*	*18,267*	*9,043*	*19,595*	*8,760*
Fixed-to-mobile	*121,506*	*59,604*	*29,969*	*58,112*	*29,731*
Other	*27,845*	*15,330*	*8,163*	*10,780*	*5,060*
Indirect voice	103,445	50,647	27,852	43,200	20,917
Data	90,288	42,224	21,683	59,615	30,998
Interconnection revenue*	42,343	14,997	9,545	32,093	20,741
Wholesale services	41,921	19,292	8,498	32,447	17,148
Intelligent network services*	20,014	10,130	4,859	9,984	4,832
Other telecommunication revenue	8,466	4,534	2,353	3,455	1,671
	852,826	**417,684**	**213,184**	**435,125**	**221,193**

* netted with related costs as explained under Note 2 (“Reclassifications”)

21. Salaries and benefits

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Three-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)
Wages and salaries	109,925	56,396	25,373	53,183	25,809
Social security costs	13,444	7,243	3,177	5,468	2,111
Defined contribution plan (the State Plan)	6,817	4,320	2,116	4,668	2,309
Non-cash employee benefits	639	276	164	963	412
Other employee benefits	4,027	2,171	1,074	1,566	867
	134,852	**70,406**	**31,904**	**65,848**	**31,508**

The Netia Group is legally required to make contributions to the Government’s retirement benefit scheme. During the six-month period ended June 30, 2005 and the year ended December 31, 2004 the Group paid contributions at a rate of 9.76% of gross salaries and is not required to make any contributions in excess of this statutory rate.

22. Other operating expenses

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Three-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)	Three-month period ended June 30, 2005 (PLN)
Information technology services	16,411	7,569	3,888	7,185	3,670
External services	17,014	5,896	3,250	7,535	4,081
Bad debt expense	10,251	6,467	2,951	6,465	3,881
Office and car maintenance	9,138	6,238	2,929	4,867	2,530
Materials and energy	9,092	3,919	2,025	4,041	2,141
Mailing services	7,069	3,434	1,773	3,426	1,751
Travel and accommodation	4,822	2,144	1,216	2,276	1,198
Other operating costs	13,652	5,820	3,834	4,456	1,861
	87,449	**41,487**	**21,866**	**40,251**	**21,113**

23. Financial income, net

	Year ended December 31, 2004	Six-month period ended June 30, 2004	Three-month period ended June 30, 2004	Six-month period ended June 30, 2005	Three-month period ended June 30, 2005
	(PLN)	(PLN)	(PLN)	(PLN)	(PLN)
Interest income	9,516	3,649	2,152	6,818	3,083
Gain on deferral of license fee payments	13,363	-	-	-	-
Gain on sale of subsidiaries	340	396	248	-	-
Gain on fair value adjustment of financial assets	3,278	1,184	486	1,359	669
Foreign exchange gains, net	4,805	3,299	1,783	1,378	1,113
Interest expense	(4,448)	(1,007)	(374)	(3,391)	(1,749)
Amortization of discount on installment obligations	(6,165)	(306)	(155)	-	-
Other	7,185	5,475	(172)	672	655
	27,874	**12,690**	**3,968**	**6,836**	**3,771**

24. 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 (not in thousands) excludes 468,648 treasury shares in each of the periods presented. Additionally, in the six-month period ended June 30, 2005, the weighted average number of ordinary shares excludes 7,758,361 of own shares repurchased within the Program.

	Year ended December 31, 2004	Six-month period ended June 30, 2004	Three-month period ended June 30, 2004	Six-month period ended June 30, 2005	Three-month period ended June 30, 2005
Net profit attributable to the equity holders of the Company	158,514	68,455	31,779	48,028	24,915
Weighted average number of ordinary shares in issue (not in thousands)	358,096,167	353,978,841	359,211,414	380,418,106	388,655,545
Basic earnings per share (not in thousands)	0.44	0.19	0.08	0.13	0.06

Diluted

Diluted earnings per share (for profit 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.

	Year ended December 31, 2004	Six-month period ended June 30, 2004	Three-month period ended June 30, 2004	Six-month period ended June 30, 2005	Three-month period ended June 30, 2005
Net profit attributable to the equity holders of the Company	158,514	68,455	31,779	48,028	24,915
Weighted average number of ordinary shares in issue (not in thousands)	358,096,167	353,978,841	359,211,414	380,418,106	388.655.545
Adjustments for:					
- Share options	3,252,657	3,336,599	2,964,749	2,589,713	2.370.754
- Warrants	20,127,978	21,725,859	19,085,453	11,974,671	8.409.227
Weighted average number of ordinary shares for diluted earnings per share (not in thousands)	381,476,802	379,041,299	381,261,616	394,982,490	399.435.526
Diluted earnings per share (not in thousands)	0.42	0.18	0.08	0.12	0.06

25. Dividend per share

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.

26. Cash generated from operations

Changes in working capital components:

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)
Trade receivables	(10,867)	(11,688)	3,264
Tax receivables	1,220	2,712	1,719
Other receivables	(63)	(1,254)	(3,627)
Inventories	(360)	(530)	177
Prepaid expenses	217	(19,430)	(19,643)
Trade creditors	25,256	20,250	(20,103)
Provisions, accruals and other payables	(42,349)	(18,075)	21,079
Deferred income	(267)	(462)	847
	(27,213)	**(28,477)**	**(16,287)**

Supplemental disclosures to operating activities:

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)
Income taxes paid	529	257	274
Interest received	(8,186)	(3,056)	(6,764)

Non-cash investing activities:

The Netia Group incurred the following liabilities at the end of each period that were related to fixed assets or construction in progress additions:

	Year ended December 31, 2004 (PLN)	Six-month period ended June 30, 2004 (PLN)	Six-month period ended June 30, 2005 (PLN)
Investment liabilities	70,975	34,871	29,321

27. Related party transactions

Changes in the Management Board

Effective March 1, 2005 Mr. Piotr Czapski was appointed as the Member of the Management Board responsible for strategy and business development.

Options granted to members of the Management Board

As at June 30, 2005, the total number of options granted to members of the Company's Management Board under the Plan, was 6,704,749, of which 3,442,980 vested as of that date. Strike prices for the options granted to the Management Board range between PLN 2.53 to 4.18 per share. The market price of the Company’s shares at June 30, 2005 was PLN 4.08 per share.

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

Options	December 31, 2004	June 30, 2005
At beginning of year	6,342,331	5,526,888
Granted	1,359,071	1,177,861
Forfeited/ expired	(664,435)	-
Status changed due to resignation from Management Board	(362,419)	-
Exercised	(1,147,660)	-
At end of year	**5,526,888**	**6,704,749**

Management Board remuneration and Supervisory Board remuneration

Compensation and related costs associated with current members of the Company’s Management Boards and Supervisory Boards during the six-month periods ended June 30, 2005 and June 30, 2004 amounted to PLN 3,698 and PLN 3,292, respectively. Furthermore, the termination benefits for the former members of the Management Board pursuant to their resignation of PLN 2,906 were recognized as a cost in the six-month period ended June 30, 2004.

28. Commitments and contingencies

Capital expenditures contracted for at the balance sheet date but not recognized in the interim consolidated financial statements amount to PLN 38,990 as at June 30, 2005 and PLN 24,743 as at December 31, 2004. As at June 30, 2005, PLN 1,836 of capital expenditures related to the planned acquisition of intangible assets.

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, 2005 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.

On February 11, 2003, the District Court ruled in the Company's favor for the return of the principal amount of the loan and the related interest. That judgment was appealed by Millennium. Following a question on the matter of law to the Supreme Court, the Court of Appeal announced judgment on October 6, 2004 stating that the District Court made a procedural mistake, which caused the case to be returned for re-examination.

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 EUR 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 Court determined that Newman neither proved the damage occurrence nor its magnitude. The ruling is not yet final and binding.

On November 7, 2003 Millennium and Genesis Sp. z o.o. ("Genesis"), two shareholders of the Company, filed claims with the Regional Court in Warsaw for the suspension of the registration in the relevant registry of the Company's merger with certain of its subsidiaries pursuant to a resolution adopted by the Company's Extraordinary General Shareholders' Meeting on October 30, 2003. The Regional Court registered the merger in the register of entrepreneurs on December 31, 2003. Also, the court refused to allow Millennium and Genesis to participate in the registration proceedings, which Millennium and Genesis appealed with the District Court in Warsaw on January 12, 2004. On September 7, 2004 the District Court in Warsaw allowed Millennium and Genesis to participate in the registration proceedings. Separate claims were brought by Millennium and Genesis with the District Court in Warsaw requesting the invalidation of the resolution on the Company's merger adopted by the Company's Extraordinary General Shareholders' Meeting on October 30, 2003. The Company received the claims on June 3, 2004 and petitioned the court to dismiss them both as wholly unfounded and also requested that the shareholders make a payment equaling ten times the amount of Netia's court costs. On April 27, 2005 the District Court dismissed both claims on merits, however the judgment can be appealed.

Millennium and Newman filed motions for the declaration of bankruptcy of the Company on July 16, 2004 and July 21, 2004 (both motions were combined for joint review). On December 14, 2004 the District Court for the Capital City of Warsaw, XVII Bankruptcy and Restructuring - Commercial Department in Warsaw (the "Court") dismissed both motions. The decision is final and not appealable.

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. At the court hearing held on February 4, 2004, the District Court in Warsaw decided to forward the claim to the Regional Court for the capital city of Warsaw for its determination. At the hearing held on April 21, 2005 the Regional Court returned the claim due to the plaintiff's failure to comply with the legal claim requirements. The decision is not final and can be appealed. In a second similar matter, a minority shareholder's claim was dismissed on merits by the Regional Court in Warsaw however the judgment is not final and can be appealed.

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.

Tax contingent liability

Regulations relating to value-added tax, corporate income tax, and payroll (social) taxes have been 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 regulations and the relatively short period in which these new tax regulations have been in place results in there being 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 (e.g., customs or foreign exchange law) 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 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 give rise to a potential material liability in this respect.

29. Subsequent events

Upcoming resignation of Netia's Management Board member

On July 1, 2005 Mrs. Irene Cackett, a member of Netia's Management Board announced that she plans to leave the Company at the end of August 2005. Until that time Mrs. Irene Cackett will continue to hold her current position of Chief Commercial Officer.

Applications for the frequency reservations in the 3.6 – 3.8 GHz band (WiMax)

On August 1, 2005 the Company's subsidiaries, Netia Globe S.A. and Netia Świat S.A., filed applications with URTiP for the reservation of the 3.6-3.8 GHz frequencies, which were awarded to these companies in the tender proceeding completed by the URTiP on July 25, 2005.

Exercise of warrants (not in thousands)

As at August 10, 2005 43,522,723 of warrants have been exercised and the Company's share capital was accordingly increased by 43,522,723 series J shares. As a result at August 10, 2005 the Company's share capital consisted of 394,376,644 ordinary shares and of 1,000 of series A1 shares.

Execution of the buy-back program of Netia's own shares and subscription warrants (not in thousands)

As at August 10, 2005 the Company acquired in total 17,095,423 of own shares and 3,569 of subscription warrants for the total amount of PLN 70,941 thousands. The Company's shares purchased from the day of the Programme commencement constitute 4,33% of the Company's share capital, status as on August 10, 2005.